7 Black empowerment and present limits to a more democratic capitalism in South Africa

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In 2002, in the wake of the Enron and other corporate scandals in the US, African National Congress (ANC) Member of Parliament Ben Turok questioned the direction of South African capitalism. Resulting from executive greed, fraudulent accounting, deliberate deception of investors and the misuse of the savings of ordinary American investors, the outrages in the US had demonstrated that an unregulated capitalism, based upon individual greed and which was disregarding of the public realm, was fundamentally flawed. Yet there was an alternative model, for as outlined by Will Hutton (1996), the 'social market capitalism' which evolved in post-Second World War Western Europe, whereby corporations had been constrained by governments and popular pressures to transcend the crude maximisation of shareholders' profits, had evolved into a more democratic system whereby the rights of property were balanced by the pursuit of equality, social solidarity and the public interest. This was clearly a more desirable pattern for South African capitalism, whose development was a product of an apartheid past of brutal racial inequality and the impoverishment of the mass of its citizens, to pursue. In contrast, however, South African capitalism seemed to be 'in the grip of a new drive for greed and unbridled acquisitiveness' (Turok 2002: 6), to which – worryingly – the present policy and practice of black economic empowerment (BEE) appeared to be contributing. Yet, as Turok was to elaborate subsequently, writing in the *Sunday Times* (17.11.04), this need not be inevitable, for while South Africa's new black capitalists cannot be expected to build socialism, they could spearhead a drive towards a more humane capitalism. Even though they may be restrained by resistance to transformation from established white capital and by pressures upon their companies to be globally competitive, they are not without options whereby they can assist the mass of poorer, black South Africans. Eschewing wasteful conspicuous consumption, they may rather choose to promote investment in townships and rural areas, and ensure that their firms establish skills and build black capacity in partnership with government.

Turok's views were echoed by Cyril Ramaphosa, the former trade unionist, ANC secretary-general and now one of the foremost black moguls. Much of the debate about BEE, he maintained, represents:

> a deep yearning for capitalism with a human face. People are saying they expect capitalism which is more responsive to the needs of the people – a human face with compassion not underpinned by greed. It is possible to achieve compassionate ends from a capitalist system. (*Sunday Times* 28.11.04)

The idea of a 'compassionate' capitalism – one contributing to greater equality, social solidarity and the public interest – implies a more democratic capitalism which is more accountable to society as a whole, rather than just to shareholders, and is clearly critical to corporations' legitimacy in post-apartheid South Africa. Equally clearly, the promotion of BEE is central to this enterprise. Yet is the present practice of BEE serving to render South African capitalism more 'democratic'?

Elite or broad-based empowerment?

Turok and Ramaphosa were contributing to a vigorous debate about BEE which, most recently, had been provoked by a number of (completed or mooted) transactions which various outraged critics argued would promote elite enrichment at the cost of broad-based empowerment. Most particularly, criticism had been evoked by two deals constructed around four of the nation's most prominent black businessmen. These were, first, an agreement by Standard Bank whereby it would sell a ten per cent stake in its South African operations to black partners in what would be one of the largest BEE deals concluded so far. Of this ten per cent, 40 per cent would go to black management and staff, and 20 per cent to regional business, community and educational groupings. However, what attracted most attention was that the remaining 40 per cent would go to a consortium led by Saki Macozoma and Cyril Ramaphosa, 'tycoons' already deemed to have been sufficiently 'empowered' (*Sowetan* 15.09.04; *Business Day* 15.09.04). The second deal, following hard upon Standard's announcement, was the proposal by Britain's Barclays Bank to make a R20 billion purchase

of 50.1 per cent of shares in Absa which would directly involve the Batho Bonke consortium, led by Tokyo Sexwale, and indirectly, the Ubuntu-Batho consortium, led by Patrice Motsepe (*Business Day* 27.09.04).[1] Although both deals were promoted as providing a model of broad-based empowerment, unions feared that they would reinforce a decade-long trend job shedding throughout the banking sector whilst unduly favouring a few individuals, all of whom enjoyed strong political connections.

Far more significant than the accusations of 'plunder' and 'crony capitalism' which emanated from the opposition Democratic Alliance (DA) (*Business Day* 22.11.04) were the echoing cries emitted by influential commentators both close to and actually within the government. Most notably, ANC Secretary-General Kgalema Motlanthe protested to the Black Management Forum that a small elite of black businessmen were the beneficiaries of one deal after another and proposed that once an individual had been empowered, he or she should no longer be regarded as historically disadvantaged (*Business Day* 01.10.04); and Finance Minister Trevor Manuel and Zwelinzima Vavi, General Secretary of the Congress of Trade Unions of South Africa (Cosatu), both criticised the greed of what Jeremy Cronin, Deputy General Secretary of the South African Communist Party (SACP), labelled the 'BEE-llionaires' (*Business Report* 03.10.04). Although the ANC was later to disparage Archbishop Desmond Tutu for lamenting BEE as simply recycling an elite (*ANC Today* 14–20.1.05), there could be little doubt that it was concerned that such screaming headlines in the popular press as 'Fat cats take loot' (*Sowetan* 13.12.04 – in reference to a deal whereby a handful of ANC luminaries sealed a R1.55 billion deal to purchase assets from Randgold and JCI) were potentially severely damaging to the party's reputation amongst its own constituency.

Although couched in terms of the familiar 'empowerment versus enrichment' debate (Motlanthe, *Business Day* 04.10.04), the issues raised were indicative of deepening frustrations about both the progress and direction of BEE. To be sure, increased government assertiveness with regard to BEE since 2000, notably by pressures upon a wide array of industrial sectors to adopt 'transformation charters' which establish long-term targets aimed at overcoming historical disadvantage, has propelled an increasing number of companies, large and small, into scrambling to find black partners (Southall 2004, 2005a). Hence Ernst & Young, for instance, record that compared with 132 black empowerment deals valued at R23.1 billion in 1999, 126 valued at R28 billion were made in 2000, 101 at R25 billion in 2001, 104 at R12 billion in 2002, and 189 at R42 billion in 2003 (*Business Day* 29.10.04), whilst BusinessMap Director Reg Rumney has promised that the value of transactions struck in 2004 will surpass that of 2003 (*Mail & Guardian* 28.1–3.2.05). However, although these figures are not unimpressive, black control on the Johannesburg Securities Exchange (JSE) amounted to not more than four per cent at the end of 2004, even though the stock market had boomed with a 50 per cent increase in market capitalisation to R2.500 billion (BusinessMap Update 14.01.05). Unless more black-controlled companies apart from MTN (which accounts for around 70 per cent of black-controlled market capitalisation on the stock market) could climb into the JSE's top 40, concluded BusinessMap (2004a), there was little hope of black control becoming significant (*Business Day* 27.10.04).

Such fears fuelled ANC and allied commentators' deep-seated concerns. Motlanthe (*Business Day* 04.10.04) argued that the empowerment elite was largely mired in debt owed to the banks, so the transfer of formal share ownership did little to alter the economic structure. The real problem was not so much that there were four black billionaires out of a population of over 40 million, argued Christine Qunta in *Business Day* (29.10.04), but that so few had been empowered, and by the time debt repayments and fees made over to merchant banks, lawyers and other professionals are accounted for, the major beneficiaries of BEE deals are likely to turn out to be white. Similarly, Essop Pahad, Minister in the Presidency, proclaimed to the fortieth conference of the National African Federated Chambers of Commerce that efforts to build a black business class were blocked by the domination of the South African economy by a handful of conglomerates (*Business Day* 23.11.04), a theme echoed by Mashudu Ramano, Chair of Johnnic Communications, who complained that established business was a 'reluctant player' in transformation (*Business Day* 01.12.04).

That the ANC was indicating its worries about the trajectory of BEE was widely welcomed, yet critics such as DA leader Tony Leon worried that its debate would be the wrong one, concerned principally with placing restrictions upon the emergent 'patriotic bourgeoisie' rather than rethinking BEE more fundamentally. Many of his worries were shared by *Business Day*, which editorialised on 4 October 2004 that the answer to the ANC's worries lay in changing 'the way South African capitalism functions as a whole, and…

(making) it more efficient for the greater good'. More blacks needed to secure a slice of corporate profits, and for that to happen, it would be necessary for South African corporations to become more democratic, notably by including labour in the ownership structures.

> The only way to do that is to make the transfer of equity to labour attractive for the current owners and the only way to do that is to incentivise, through the tax regime, both the ownership of shares by workers and the transfer of shares by owners, [a strategy which should be followed through by the state itself, which as the largest property and equity owner in South Africa should find a way of putting a value on its wealth], then giv[ing] every poor person a share in it that can be traded and mortgaged. (*Business Day* 04.10.04)

The same theme was pursued by Bobby Godsell of AngloGold Ashanti:

> We would like our employees to be meaningful owners and we think it is a very good way of bringing employee interests in line with long-term ownership interests', adding that he saw an opportunity 'to bury Karl Marx's labour theory of value and to develop a twenty-first century model of capitalism, a teamwork model, which eliminates the class conflict of either the shareholders benefiting from the creation of wealth or the workers benefiting, with nothing in between'. (*Engineering News* 25.01.05)

The ANC, DA and influential media and corporate voices, it seems, are all in agreement that South Africa must move towards a more democratic capitalism. Yet it is equally clear that there are immense difficulties in progressing towards such an outcome.

Obstacles to the democratisation of South African capitalism

In the present era, the most widespread model proposed for rendering advanced industrial economies more socially responsible is that of 'stakeholder capitalism', which purportedly represents a third and more humane stage of capitalism. From this perspective, during the first stage of capitalism, that of the industrial revolution, all resources including workers' rights were routinely sacrificed for profit. In the second stage, which extends to the present period and is characterised by the domination of large-scale corporations whose power often exceeds that of the states in which they are based, the interests of workers, customers, communities, the nation and the environment are subordinated to pursuit of 'bottom line' profits, with corporate performance being measured solely in terms of private benefit to the shareholders. The typical response by states to such corporate exploitation is regulation. However, large corporations equally typically manage to find ways to evade regulation, which in any case is often introduced only after an Exxon Valdex oil spill, a Union Carbide disaster in Bhopal, or a Boeing overcharge on defence contracts. In contrast, in the third stage of capitalism, a business exists to earn a fair return for 'stakeholders', that is, all those who commit their resources or labour to the enterprise. Managers in this new stage of capitalism are evaluated by how well they balance the legitimate interests of the several stakeholder groups, whose interests as consumers, workers, local communities, governments or financial investors can be represented upon supervisory boards or councils. Managers, in a word, are rendered accountable (Estes n.d.).

The notion of stakeholder capitalism faces numerous difficulties. Key amongst these is that it does not accurately describe a reality where the world economy is increasingly dominated by a relatively small number of massive corporate conglomerates which appear less rather than more accountable to external interests by virtue of governments' scramble to compete with each other for multinational investment funds. Nor is it clear how the theory of stakeholders tackles the practicality of the pyramid shape of conglomerates, where those who have 'stakes' in subsidiaries (perhaps in impoverished Third World countries) are unlikely to be regarded as stakeholders in the multinational companies (usually based in rich countries) which ultimately control them. Nor again is it clear how ownership rights and privileges are measured against, or even constrained by, those of consumers, workers or communities. Furthermore, in Britain, attempts under Margaret Thatcher to use privatisation of nationalised industries to promote a popular capitalism by selling shares to ordinary people were to become largely discredited as shares were subsequently largely gobbled up by institutional investors, while employee ownership schemes were rarely found to translate into significant worker influence and power. Even so, notwithstanding such difficulties, stakeholder capitalism has become attractive not only to corporate ideologues who are keen to legitimate and stabilise capitalism by making it fairer, but also to social democrats, who see in it a way of taming capital whilst simultaneously harnessing its proven productivity. As elaborated

by Hutton (1996), European (notably German) 'social market capitalism' has provided for worker representation upon boards of management and facilitated labour's involvement in corporate decision-making and profit-sharing.

Even if undeveloped, the notion of stakeholder capitalism is becoming increasingly influential in South Africa. This can be ascertained not only by even the briefest of visits to business school websites, but even by reference to key Cosatu documents such as the September Commission (Cosatu 1997), which views the institutionalisation of stakeholder rights as amounting to a 'partial socialisation of capital'. Furthermore, of course, the government has openly committed itself, via such measures as its minerals policy and its recent guidelines for industrial charters to employee share ownership participation, whose thrust is to promote the interests of workers as both co-owners of enterprises and stakeholders alongside other proposals for promoting the black ownership and control of industry and enterprise (DME 1998, DTI 2004). Meanwhile, South African corporations are also becoming subject to demands from a small but increasingly vocal 'corporate social responsibility' lobby (Trialogue 2004).

The notion of stakeholder capitalism undoubtedly has a cosy ring to it, even if it may mean different things to stakeholders as different as Bobby Godsell, who wants to bury Marx, and Cosatu, which continues to cling to collectivist aspirations. Nonetheless, for all that it also provides a convenient framework for the government's pursuit of BEE, it may be that the corporate foundations upon which stakeholder capitalism is supposedly being constructed are already crumbling.

The changing shape of capitalism in South Africa

The structure of capitalism in South Africa remains heavily monopolised, that is, it is dominated by a relatively small group of banks, other financial institutions, mining houses and holding groups which are able to exert massive market influence. This tendency towards the concentration and centralisation of economic power in the hands of a few conglomerates was significantly accelerated by the withdrawals of foreign multinationals from direct investment during the terminal crisis of apartheid, which expanded the asset base of domestic companies, which were restricted in their ability to invest overseas by rigid exchange controls. Hence, as noted previously (Southall 2005a), whereas the top eight South African corporations controlled 61.7 per cent of the total assets of non-state corporations in 1981, the top six controlled 71.3 per cent by 1985. However, since 1994, and especially since 2000, there has been a shift towards the growing influence over the economy of large financial institutions, this accompanied by increasing foreign ownership (the large part of which is also institutional). This trend was facilitated, notably, by the decision by the authorities to relax foreign exchange controls with, for instance, pension funds, life companies and unit trusts being allowed to invest five per cent of their assets overseas, a proportion which was later increased to 20 per cent for pension funds and life companies (*Business Day* 14.01.04). In addition, five major corporations (Billiton, South African Breweries, Anglo American, Old Mutual and Dimension Data) have been allowed to move their primary listings from the JSE to the London Stock Exchange since 1997 (South African Reserve Bank 2002), in preparation for which these companies 'unbundled', sold off and/or delisted various subsidiaries, or bought out minority shareholders.[2] These developments can be illustrated by reference to the changing market capitalisation of the JSE.

Table 7.1 *Share ownership on the JSE by percentage of market capitalisation*

Group and Type	1983	1994	1996	2000	2004
Conglomerate					
Anglo American	52.5	43.3	27.5	23.6	18.7
Rembrandt	2.1	13.0	10.6	11.0	7.9
Sasol	-	1.7	2.1	2.2	4.2
Anglovaal	1.7	3.6	3.0	-	-
SAB Miller (foreign)	-	-	-	2.8	5.1
Subtotal	56.3	61.6	43.2	39.6	35.9
Institutional					
Sanlam	9.4	10.5	11.4	13.2	2.7
Old Mutual	0.6	9.7	10.2	11.0	4.5
Standard/Liberty	1.1	7.2	11.1	5.2	4.7
Absa	-	-	-	-	2.2
Other	18.1	0.9	0.8	6.7	10.3
RMB Firstrand	-	0.5	1.7	2.9	4.9
Investec/Fedsure	-	0.4	1.1	1.9	0.8
Bidvest	-	-	-	1.0	1.2
Subtotal	29.2	29.2	36.3	41.9	31.3
Other					
Foreign groups	5.4	2.2	4.1	3.9	18.5
Black groups*	-	-	6.3	5.7	6.3
Company Directors	9.1	7.0	10.0	8.9	5.8
State	-	-	-	-	2.2
Subtotal	14.5	9.2	20.4	18.5	32.8

Source: McGregor 2004: 69
Note: *Includes all companies that have significant black influence

Anthony Sampson has recorded how after the 'Big Bang' of October 1986, which demolished the closed cartel of British banks and stockholders, European and American bankers gobbled up their British counterparts, the most formidable of whom was Goldman Sachs, a 'tireless advocate of unrestricted free enterprise' (Sampson 2004: 251). Whereas some 80 per cent of shares in Britain were held by private individuals in 1939, by 1998 53 per cent were owned by domestic institutional investors, and another 28 per cent by overseas investors, also mostly institutions (Sampson 2004: 267). The accompanying development has been the rise in influence and power of company directors and managers, whose earnings have grown spectacularly in recent years and whose leading names regularly recur on different boards. Although their actions are supposedly constrained by the presence of non-executive directors who are meant to represent the interests of shareholders, many are chosen by corporate chairs and few have the expertise or inclination to rock the boat (Sampson 2004).

McGregor argues that corporate South Africa is following a similar path (*Financial Mail* 05.11.04). Corporate unbundling and the shift to institutional investment has seen managers become the key decision-makers, often bypassing shareholders' interests. There are now few controlling shareholders, with most large companies having a raft of institutions holding between 10 and 15 per cent of equity. Such institutions cannot be said to 'control' the companies in which they invest, for their task is to judge current and potential performance, and they have an obligation to sell their investment if it does not meet their expectations. Given also a culture of shareholder apathy in South Africa, top managers are increasingly a law unto themselves,[3] their actions only monitored by the financial press and the vicissitudes of the share price, both with a time lag. Such judgements are reinforced by what former Corpcapital director Nic Frangos has opined to be the widespread sentiment within the South African corporate world that corporate criminals will not be brought to book by the authorities. In modern business, he argued, the level of deception is of such complexity and sophistication that it is beyond the ability of the police and specialised agencies such as the Scorpions to decipher it. Such authorities are ill-equipped to understand fraudulent financial engineering, and constrained by the ever present fear that high profile businessmen will act against them. The inevitable result is that whilst corporate magnates may be arrested, few end up behind bars. Eighty-three per cent of fraud cases reported to the police do not make it to court, and only five per cent result in guilty verdicts (*Business Day* 13.09.04).

The saving grace is, in part, that changing ownership patterns and tougher corporate governance regulations have meant a decrease in ownership of multiple directorships. Hence, whereas in 1980, 68 directors served on the boards of seven or more listed companies, that number was down to three by 2004 (*Financial Mail* 21.01.05). This has facilitated an increase in the number of non-executive directors, who now on average make up 67 per cent of company boards. However, these latter remain overwhelmingly composed of white men, with only ten per cent of companies reporting that they have women on their boards, and with 'previously disadvantaged representation' amounting to no more than 23 per cent. Although supposedly assuming greater responsibilities, experience hitherto is far from comforting, with pension fund trustees, for instance, being reported as remaining largely passive whilst simultaneously being blamed by asset managers for tying their hands (*Business Report* 13.05.03).

This unwelcoming corporate culture is undoubtedly an important reason why many black professionals are leaving the corporate world for entrepreneurial, consulting and empowerment opportunities of their own (*Financial Mail* 24.09.04). An outcome is that companies are now having to draw board members from what is described as a shrinking pool of eligible and suitably qualified candidates, resulting in a dramatic increase in non-executive directors' earnings, which reportedly went up by 60 per cent in 2004 (*Business Day* 04.11.04). It is scarcely surprising in this circumstance that black business-people have been accused by one of their own, Nedcor deputy chair Lot Ndlovu, of a 'frightening level of greed' (*Business Day* 26.07.04), although

this would seem to reflect a considerably wider (and whiter) phenomenon of high level, managerial rapacity which is supposedly justified by South African companies' need to compete for high level executive skills globally. During 2003/04, South Africa's top executives received pay increases averaging well in excess of 15 per cent, more than double the rate of inflation, widening further the gap between their income and that of skilled and semi-skilled workers. Prominent beneficiaries of corporate largesse were Gold Field's Ian Cockerill, whose package increased by 63 per cent, and AngloGold Ashanti's Bobby Godsell, whose increase of 27.7 per cent appears at odds with his contemporary espousal of stakeholder capitalism. Some packages were downright obscene, topped by that of Steve Ross of Edgars, who earned R42.6 million in 2004, while more and more executives are protected by 'golden parachutes' in the event of their losing their jobs as a result of a takeover. Overall, the differential between executive pay and minimum wages rose from 37 in 1994 to 48 in 2004, and rather than forced disclosure (since 2002) of top executives' pay having contained increases, it has prompted a race to the top (*Financial Mail* 03.09.04; *Business Report* 18.02.05). It was scarcely surprising that Trevor Manuel should condemn salary distortions in South Africa as unsustainable, and should worry that the corporate world was following the example of the US, where the differential between the earnings of executives of large US companies and average workers had recently been reported by *Business Week* as increasing from 42 times in 1980 to 419 times in 1998 (*ThisDay* 17.9.04).

The growing domination of finance capital, combined with managers' increasing control over companies, provides an unlikely background to the development of a more democratic capitalism. Yet the government, for whom BEE represents a key strategy for transforming the advanced sectors of the economy, may dispute this.

Government policy and corporate response

The thrust of government policy concerning BEE is the promotion of black ownership and control of an economy whose commanding heights continue to be dominated by the private sector alongside state-owned enterprises (SOEs) (responsible for around 15 per cent of gross fixed investment). As demonstrated previously, early setbacks to BEE after 1994, notably in the ability of key black companies to withstand the volatility of the market (notably the crash of the stock market in 1998), alongside acute difficulties experienced by the state in utilising privatisation of SOEs to promote BEE, resulted after 2000 in the government resorting to a more assertive and regulatory stance. This was embodied alongside its launch or renovation of various state agencies designed to promote empowerment in its commitment to the promotion of transformation charters, which would establish mid to long-term goals for an increase in ownership, participation and training of the historically disadvantaged for the different sectors of industry (Southall 2004, 2005a). Against the background of the adoption of charters for the petroleum and liquid fuels and the mining industries in 2002, and the financial services industry in 2004, the Department of Trade and Industry (DTI) launched a draft broad-based black economic empowerment code of good practice in December 2004 to assist and guide those 'priority' sectors of industry (agriculture, transport services, automobiles, information and communications technology, engineering and construction) which had yet to complete them, simultaneously announcing a date for their final adoption of June 2005.

The code defines broad-based BEE as 'the economic empowerment of all black people including women, workers, youth, people with disabilities and people living in rural areas, through diverse but integrated socio-economic strategies that include, but are not limited to: (a) increasing the number of black people that manage, own and control enterprises and productive assets; (b) facilitating ownership and management of enterprises and productive assets by communities, workers, co-operatives and other collective enterprises; (c) human resources and skills development; (d) achieving equitable representation in all occupational categories and levels in the workforce; (e) preferential procurement; and (f) investment in enterprises that are owned or managed by black people' (DTI 2004: 11).

The code recommends that companies should seek to achieve clear targets for ownership, management, skills and enterprise development as follows: BEE equity or 'economic interest'[4] levels of 25.1 per cent (such equity to entitle black people to voting rights); black management 40 per cent; employment equity 50 per cent; skills development six per cent; equity procurement 50 per cent; enterprise development (monetary investment in small or medium enterprises with good BEE credentials) eight to ten per cent; and residual elements (such as corporate social investment) three per cent, although deviation from these targets may be tolerated if demonstrably based on a sound

economic rationale. Within the broad target of 25 per cent ownership plus one vote by 2014, there is also a set of subordinate and overlapping targets which attempt to ensure that black ownership is relatively broad-based, with specific provision being provided for entitlements for women and designated groups (such as community organisations), as well as for investment trusts, which will qualify as juristic persons representing black economic interests to the extent that voting rights or economic benefits accrue to blacks within them. The date for attainment of these targets, if not specified as earlier, is to be 2014 – in line with the government's overall long-run strategy. Accompanied by detailed weightings for measuring attainment of targets for scorecards, it is further laid down that charters should be the product of 'comprehensive' consultation and 'balanced' negotiation between all major stakeholders. These might include industry bodies, government, trade unions, industry watchdogs and other relevant interests in the participating sector as well as the key enterprises and companies involved. Charters should also provide for establishment of charter councils, equitably composed of stakeholders, whose mandate and powers (whose final approval will be granted by the Cabinet) will provide for the supplying of guidance on sector-specific matters, compiling reports on the progress of BEE within the sector, and sharing information with a national monitoring mechanism, although not having the authority to change targets or weightings. The different charter councils will, in turn, report to the DTI and a Business Black Empowerment Advisory Council (DTI 2004).

The code was welcomed as clarifying the government's objectives and as providing a renewed emphasis upon broad-based empowerment. Industry was also assured by the stress which was laid upon BEE as a process associated with economic growth and not merely with redistribution. However, there were also a number of concerns, the chief of which was that the code was unexpectedly prescriptive in a number of areas, notably regarding ownership, with regard to which the insistence that black equity holdings should entail voting rights was thought likely to inhibit financing structures (including many deals already concluded) which involved share options, preference shares or debt, whilst small business worried that family concerns would be forced to give away equity to non-family members. Mbabane (*Business Day* 10.02.04) similarly objected that the code encourages the 'ridiculous notion' that broad-based empowerment 'should mean that the poor and unemployed should be bused in to buy equity stakes in every enterprise', an 'extreme view' which will require the proposed Advisory Council to distinguish between empowerment and poverty alleviation and job creation. More widely, commentators argued that too much stress had been placed upon ownership at the expense of skills development, enterprise development and employment equity, and that this would make it harder to finance BEE transactions, although some sectors – notably agriculture – were decidedly more negative than others. There were also worries that the code could serve as a deterrent to foreign investment, notably in such areas as information technology, where multinational companies had already been complaining that that sector's draft charter was too demanding (*Financial Mail* 05.11.04, 17.12.04; *Business Day* 20.12.04; *Business Report* 16.01.05). However, the code failed to respond to an earlier demand by Blade Nzimande, who had demanded that all industry charters should be processed through the National Economic Development and Labour Council before they were approved by government (*Business Day* 27.10.04), raising worries in trade union circles that labour's voice as a 'stakeholder' stood in danger of being marginalised.

Towards more broad-based empowerment?

For all that the government regards the draft code as a work in progress, the points system it has devised and the demands it intends to impose upon the corporate sector suggest that it has some potential to change the face of South African capitalism over the medium to longer term. Yet what is likely to be the extent, shape and limits to such a transformation? In this context it is instructive to examine, first, BEE's impact upon the composition of the corporate elite, and second, the extent to which the black corporate elite is underlain by a developing black business class more generally.

BEE and South Africa's power elite

As observed earlier, the broad thrust of much political and media criticism is that BEE is serving to create an unjustifiably enriched black elite. In many ways, this is not surprising, for the wealth amassed by some of the leading black players in a short span of around a decade has been spectacular, and unlike leading white corporate moguls who mostly retain a low profile, they often act out their business lives in the public eye. In a word, such leading figures as Saki Macozoma, Cyril Ramaphosa, Tokyo Sexwale, and Patrice

Motsepe are 'celebrities', not merely businessmen but icons of African success, lauded for their fashionable clothes and lifestyle as much as for the power they wield in a still white dominated corporate world. Take, for instance, Caroline Southey's breathless description of Cyril Ramaphosa, for his entry in the *Financial Mail's* 2003 'power elite'. After the collapse of the Molope Group, which he had founded in 2001, she writes:

> He has since built a substantial corporate presence spanning mining, financial services, the media, advertising and newsprint. He is the largest shareholder in Millenium Consolidated Investments and chairs the boards of Johnnic Holdings, MTN, Sasria, TBWA/Hunt/Lascaris and Rebhold. But Ramaphosa's power lies elsewhere. He has gravitas, charm and exceptional powers of persuasion. He is viewed as a natural leader, a man capable of changing the course of history… Wielding ambition and moral suasion, Ramaphosa has already written himself into SA's history books. But he is associated with power not only because of what he had done but because of the enticing possibility that the main action is to come. (*Financial Mail* 19.12.03)

With credentials like this, Ramaphosa could hardly fail to win an Impumelelo Award as a 'Top Empowerment Business Personality' in 2004 (*ThisDay* 07.05.04). Like Midas, he and his fellow moguls are expected to have the touch of gold. As owner and chairman of Mamelodi Sundowns, Patrice Motsepe is expected to translate his success in the boardroom into triumphs on the soccer field, while the South African Broadcasting Association (SABC) announced that 'charismatic freedom fighter-turned-businessman Tokyo Sexwale' would assume the role of chairman, 'made famous by US property magnate Donald Trump', in a local version of the TV entrepreneurial quiz game *The Apprentice* (*Sunday Times* 13.02.05). Their wealth may be envied, but it is also hugely admired. Yet such adulation, alongside the brickbats, only increases our need to understand the basis of their prominence and power.

According to Mills (1956), the power elite in America is defined by a broad community of interest between those who occupy the 'command positions' in the polity, economy and military. An immediate difference in post-apartheid South Africa is that whereas 'securocrats' undoubtedly occupied key positions of power under the Presidency of PW Botha, democratisation has seen a remarkable reduction of the influence of the military – dramatically illustrated by the notorious 1996 arms deal in which a combination of European government and business interests secured backing from the ANC-led government for the purchase of exorbitantly expensive military equipment which the armed services deemed inappropriate to South Africa's needs (Crawford-Brown 2004). Meanwhile, there is no doubt that with the arrival of an ANC government, there is a major disjunction between the wielding of political and economic power, with the state now controlled by new black incumbents and the corporate world still dominated by whites. Increasingly, however, this situation is changing. On the one hand, SOEs have now fallen largely under black control, while on the other, black executives are assuming top positions in industry.

This changing situation is illuminated by Empowerdex, an empowerment rating organisation, which provides an assessment of black influence that goes beyond direct black ownership to include state and indirect ownership. From this perspective, in June 2002 'empowerment owners' owned R143.4 billion worth (or 9.5 per cent) of the largest JSE-listed companies. Of this, 53 per cent was owned by government agencies and pension funds (such as the Industrial Development Corporation and the Public Investment Commission), 26 per cent by SOE pension funds, eight per cent by municipality pension funds, as well as one per cent and three per cent respectively by historically disadvantaged educational institutions and trade unions. Meanwhile, the proportion of black ownership of the top 20 BEE-owned companies, which included a number of traditional companies, ranged from 58.53 per cent in Real Africa Holdings to 17.42 per cent in Transhex, while overall as many as 68 per cent of the JSE companies could be described as 'black influenced', a term which meant that empowerment wealth could be used to appoint black representation upon boards, and promote employment equity, skills development and social development (Wu & Ngcobo 2002).

Subsequently, Empowerdex (Wu, Ntombela, Ngcobo & Dlamini 2003) concluded that if directorships were equal to influence, then the 260 historically disadvantaged individuals who held 367 directorships in 387 South African-based companies wielded more influence than previously estimated: Ramaphosa headed the list with market influence of R137 billion, and overall, the 25 most influential directors wielded a total market influence of R1 229 billion. Meanwhile, the top ten black chief executives or executive chairs presided over companies with a market capitalisation of R41 634 million.

By its nature, this sort of data is problematic. As noted earlier, the proportion of direct ownership by black businesspeople of companies on the JSE remains extremely low, and less than a quarter of them boast black directors. Nor is the suggestion that indirect black ownership and individual company directorship translates directly into 'market influence' wholly convincing, whilst even direct black ownership has its problems. Although the personal shareholdings of leading black businesspeople (overwhelmingly men) are impressive, these are often held against high levels of debt: for instance, it will reportedly take Cyril Ramaphosa 20 years to pay off the 0.5 per cent of the R200 million worth of shares he has recently purchased under his own name from the Standard Bank (*Financial Mail* 23.07.04). Furthermore, as with all fortunes held in equity, these can fluctuate wildly according to the vagaries of the market: as a result of Gold Field's vigorous resistance to Harmony's US$7.5 billion hostile takeover bid in 2004, Patrice Motsepe was reputed to have lost between R730 million and R1.2 billion as both firms' share prices plummeted (*Financial Mail* 9/10.12.04). Nonetheless, the overall impact of even this fuzzy data is that black executives are undoubtedly beginning to penetrate the highest corridors of corporate power, this illustrated by the fact that South Africa's two largest companies, BHP Billiton and Anglo-American, are now headed by Vincent Maphai and Lazarus Zim respectively.

Similar assessments agree: nine black men were rated by the *Financial Mail* as amongst the 20 most influential people in South African business at the end of 2003 (see Table 7.2). In contrast, no blacks had made it into the top 20 when a comparable list was produced in 1993. Meanwhile, nine out of the ten persons tipped to climb into the top 20 within five years were also black, only one of them a woman.

Apart from omitting to note that it is (and is apparently destined to remain) overwhelmingly male, the *Financial Mail's* comments upon the changing power elite were apt. First, for the first time in South Africa's history, there is a convergence between the political and business elites, although it is probable that this link will become less overt as the black entrepreneurial and business class expands. Second, after proposing that power constitutes the ability to get things done (or stop things being done), the writer observed: 'These people have decisive influence beyond their sphere of business, on the way business is done in South Africa and the way it will be done. They have the ear of policy makers and they can move markets. Their calls are always taken' (*Financial*

Mail 19.12.03). In other words, black owners and managers constitute an increasing proportion of those corporate magnates who deploy the power of money and influence in a way that directly and indirectly determines the fates of millions of South Africans.

Table 7.2 Financial Mail's *top 20 businesspeople in South Africa, 2003*

Black	White
Patrice Motsepe, Chairman, Harmony/ARM. Avmin (2)	Johann Rupert, Chairman, Remgro/Richemont/ Venfin (1)
Tokyo Sexwale, Chairman, Mvelaphanda (3)	Tony Trahar, CEO, Anglo American (4)
Khaya Ngqula, CEO, Industrial Development Corporation (5)	Jacob Maree, CEO, Standard Bank (7)
Phuthuma Nhleko, CEO, MTN (6)	Laurie Dippenaar, CEO, First Rand (9)
Cyril Ramaphosa, Chairman, MCI/ Johnnic/MTN (8)	Nicky Oppenheimer, Chairman, De Beers (11)
Lazarus Zim, Deputy CEO, Anglo American (10)	Maria Ramos, CEO, Transnet (15)
Saki Macozoma, CEO, New Africa Investments (12)	Bobby Godsell, CEO, AngloGold (16)
Sizwe Nxasana, CEO, Telkom (13)	Brian Joffe, Executive Chairman, Bidvest (17)
Reuel Khoza, Chairman, Eskom (14)	Pieter Cox, Chief Executive, Sasol (18)
	Alan Knott-Craig, CEO, Vodacom Group (19)
	Mark Shuttleworth, Founder, HBD Venture Capital (20)

Source: *Financial Mail* 19.12.03

Beyond the elite: the wider extent of black business

It is important to stress that BEE is contributing to the growth of a black business class which extends considerably beyond those few figures constantly cited (and pilloried) as 'the elite'. Most certainly, it remains the case that the BEE heavyweight companies continue to dominate. In 2003, for instance, the DTI reported that 72 per cent of the total deal value involved at least one of six BEE heavyweights (ARM, Mvelaphanda, Shanduka [formerly Millenium Investment Corporation], Safika, Kagiso and Tiso), while R30 billion of the increase (from R43 to R73 billion) in black-controlled market capitalisation on the JSE in the nine months up to the end of September 2004 was largely driven by MTN, Armgold and Mvelaphanda. Against this, Deputy Minister

Mandisi Mpahlwa is cited as saying that 40 per cent of the transaction value of BEE deals completed in 2004 involved broad-based entities and at least 6.4 per cent involved employees (BusinessMap 2004a; Hassan 2005).

Support for Mpahlwa's claim is provided by specification of some of the individual deals completed in 2004 and recorded by BusinessMap (2004b):

Table 7.3 *Selected BEE deals, 2004*

Type	Sector	Stake %	Details
Equity	Defence	25.0	Motswedi Technology Group acquired 25% of IFS Defence SA.
Equity	Telecommunications & IT	30.0	Peter Vundla's New Seasons, which involves black investors, telecommunications professionals and an educational trust, agreed to buy 30% in Alcatel SADC operations.
Equity	Media	42.5	Hosken Consolidated Investments sold its 42.5% stake in 94.7 Highveld Stereo to Primedia and the Mineworkers' Investment Company. Primedia will pay R129m for 30% of the station, MIC R50m for 12.5%.
Acquisition	Cyclical services	25.1	J&J Group will acquire a R4.5m, 25.1% stake in communications software company, Striata.
Equity	Cyclical services	25.0	MIC purchase of 25% stake in Izazi.
Equity	Cyclical services	40.0	Spescom Telecommunications sold 40% stake to Momothekga Trading Company.
Equity	Financial	25.1	Kagiso Investment Trust agreed to buy 25% Holding in Battery Technology.
Equity	Financial	10.0	Makana Investment Corporation paid R4m up front and R37m through borrowing and a preference share scheme in Cadix Holdings.
Equity	Industrial	30.0	Izingwe consortium will buy 30% stake in Aberdare cables over 10 years.
Equity	IT	25.4	Vantage Capital Fund Managers purchased R20m worth of Spescom Telecommunications at a 40% discount.

Type	Sector	Stake %	Details
Acquisition	Consumer goods	49.9	Pamodzi Investment Holdings increased its holding in Foodcorp Ltd to 100% for R2.028 billion. 15% of shares will be allocated to Foodcorp managers, 20% to employees.
Equity	Media & photography	13.1	Naspers granted Johncom rights to acquire 39.1% of M-net/Supersport's shares for R287m.
Acquisition	General retail	65.0	Consortium of Metro Cash and Carry management and African Renaissance agreed to acquire Metro, excluding its Australian subsidiary, for R1 300m.
Acquisition	Mining	100.0	Ilanga Coal Mines (owned by Vela International) bought Spitzkop Colliery from Xstrata Coal for R70m.
Purchase	Food	100.0	Grand Bridge Consortium bought Glenhow Milling and surrounding land from Ilovo Sugar Milling for R335m (10% up front, balance to be paid through sale of coastal land for property development).
Joint Venture	Mining	44.0	Mampa Investment Holdings entered JV with Assore's African Mining and Trust Company to restore Assore's Rustenburg mine.
Equity	Transport	25.1	Orlyfunt Holdings, headed by Mafika Mkhwanazi, acquired stake in Mediterranean Shipping Company.
Equity	Food	54.0	Employees of Philiflora, producing flowers and foliage, acquired stake in company through Khula's Equity Fund programme.
Equity	Beverages	25.1	Phetogo Investments agreed to buy 25.1% of KWV Ltd, which owns 55% of KWV investments, for R200m.
Acquisition	Food	100.0	Investment company Global Makana Strategies purchased home and garden company Agroserve, and established a management share trust.
Equity	Building & construction	25.0	Qakazana will acquire 25% stake in Grinaker-LTA Trident Steel through issue of preference shares valued at R496m, as part of a BEE consortium headed by Tiso Group.

Type	Sector	Stake %	Details
Share buy-back	Computer services	35.0	CEO Nkosinathi Khumalo and his brother bought a 35% stake in Mthombo (M-IT), which they founded, from Dimension Data for R11m.
Equity	Health	25.0	Lengana Investments will purchase 25% in Mx Health, increasing its empowerment shareholding to more than 60%.
Equity	Leisure & entertainment	100.0	Akani Leisure Investments, led by Reuel Khoza, agreed to buy Halcyon Hotels Group for R35m.
Acquisition	Automobiles & parts	100.0	GB Bearings, consortium comprising Federal-Mogul employees, will buy Federal-Mogul. BEE partners will hold a 40% stake.
Acquisition	Mining	51.0	Luvhomba Mining will buy Mooiplats, Holfontein and Zaid mines through structured debt.
Acquisition	Software & computers	63.0	Lithalelanga Connections Holdings purchased Tecor Ltd. 70% was bank financed.
Equity	General retail	39.7	BEE group Ukhamba's subsidiary, Dream World Investments, acquired Imperilog's shareholding in Distribution & Warehousing Network for R147m, payment to be finalised over 5 years.
Partnership	Insurance	60.0	Basebenzi, the investment arm of the Food & Allied Workers' Union, will hold 60% of the share capital of Break-Thru Financial Services. The other 40% will be held by Sanlam.
Joint Venture	Real estate	N/A	Investec and two Indian businessmen will develop the Trade Route shopping mall in Lenasia.
Acquisition	Software & computers	85.2	Zamori 243 Ltd, owned by Bryant black employees, acquired Bryant Technology Ltd for R243 090.
Acquisition	Food	74.0	Eggbert Eggs sold its Boksburg farm to Maye Serobe, a consortium owned 49% by staff, and 25% by the farm's manager, Petrus Fanga.

Type	Sector	Stake %	Details
Buyout	Investment companies	N/A	African Harvest Capital managers bought out Mzi Khumalo, the major shareholder, for more than R200m.
Partnership	Finance	50.0	Leroko, owned by Valli Moosa and Popo Molefe, and private equity fund Metier, formed the R2 billion Lereko-Metier Capital Growth Fund.
Equity	Food	26.8	Agri Sizwe Empowerment Trust (including women's and emergent farmers trusts as beneficiaries) will secure a 25.1% shareholding in Afgri Ltd in 8 years' time, after repaying a loan from the Land Bank.
Acquisition	Clothing & textiles	100.0	A consortium led by SA Clothing & Textiles Workers' Union saved Towles Edgar Jacobs from being liquidated.

Table 7.3 demonstrates that BEE deals, large and small, are being concluded over a wide array of sectors, by a wide array of BEE entities (owned variously by individuals, managers, employees, investment trusts and unions), and through a variety of devices (outright purchase, loan purchase, joint ventures with established firms, buyouts and partnerships). Furthermore, while many deals are funded by borrowing (from established corporates, banks and the state) and represent passive investment, they also suggest strongly that a black business class, even if it remains small, is moving rapidly into hands-on involvement in mining, manufacturing and services. This undoubtedly reflects the post-1994 growth of a black middle class and an increase in the (modest) proportion of blacks who can be described as affluent (Burger, Burger & van der Berg 2004; Southall 2005b). Nonetheless, although it is clear that BEE activity does extend some considerable way beyond the new elite, we should be cautious in rushing to agree with Iheduru that the BEE strategy is serving to establish 'community respect and groundswell legitimacy for capitalism and entrepreneurship among black South Africans' (2004: 19).

For sure, to some extent BEE may be propelling South Africa towards a deracialisation of capital, yet the extent of such a transformation would seem to be of limited benefit to the mass of the black population. Although a number of recent high-profile deals include an element of share purchase by black managers and employees, such share ownership schemes remain very much in the minority, and in any case South African law currently places major tax obstacles in the way of their implementation (BusinessMap 2004c), while Cosatu has recently criticised Old Mutual for using a proposed ten per cent empowerment transfer to employees to weaken their unions' bargaining power and expressed concern that employee ownership plans are rarely linked to effective worker representation upon boards (*Business Day* 18.02.05). Yes, some major deals draw in investments from broad-based trusts and the like, yet they mostly appear to 'tail end' larger players and offer little prospect of active involvement as stakeholders. Meanwhile, whereas the promotion of small enterprises is deemed by many to represent the surest path towards job creation, informed analysis suggests that the government's efforts to promote black enterprises at the ground level, where the need is greatest, constitute the weakest element in its overall strategy for BEE (Rogerson 2004). For the moment, BEE deals overwhelmingly constitute black investment into existing businesses rather than the creation of new ones, and there is little indication that they are altering the economy's path of 'jobless growth'. Alarmingly, the overall black share in South Africa's aggregate household income is said to have *declined* from 54.5 per cent in 1995 to 53.0 per cent in 2000. This, argues Simkins (2004), reflects the deteriorating conditions at the lower end of the labour market. In these circumstances, can BEE be said to be paving the way to a more democratic capitalism?

Conclusion: BEE and the limits to democratic capitalism

A confluence of interests and influences is arguing for capitalism in South Africa to become more democratic. The ANC government is determined that blacks must share in the wealth, ownership and management of the private sector; the new black moguls and white magnates alike are eager to legitimate a 'kinder' capitalism; and even organised labour, although ambivalent, is understandably keen to harness capitalism into providing improved benefits for workers and the wider poor while simultaneously shifting the economy in a more collectivist direction. In this context, widespread perceptions that the government's BEE strategy has done little more than to promote the good fortunes of a small black elite have caused great concern in the highest circles of both state and capital, resulting in the increasing espousal of notions associated with stakeholder capitalism: the popularisation of share ownership (involving notably black employee and broad-based empowerment); the harmony of interest between capitalists and workers; the responsiveness of firms to consumers and communities as well as to shareholders; and 'corporate social responsibility'. Yet this review has indicated that progress towards a more democratic capitalism in South Africa is strewn with obstacles.

Although the white-dominated corporate culture remains uncomfortable territory for many black managers and professionals, the black elite is making visible progress in scaling the walls of corporate power. Importantly, too, far from being isolated in their success, review of the extent of recent deals involving black interests indicates that the elite is merely the advance guard of a considerably larger black capitalist class which, backed by the impetus of the state-driven charter movement (which will link state contracts and procurements to empowerment credentials), is destined to grow in size, skills, weight and depth. Nonetheless, although this represents welcome progress towards a deracialisation of corporate structures, it offers little indication of serious movement towards a capitalism that is more democratic.

The problem for the advocates of stakeholder capitalism is that since 1994, South African capitalism has become more rather than less like the contemporary capitalism of the Western world: no longer contained and protected by state-imposed barriers, domestic conglomerates have increasingly 'unbundled' and internationalised; international and domestic finance capital is increasingly dominant over manufacturing; shareholding is concentrated in the hands of institutional investors, whose fates are determined by managers who are less and less accountable to shareholders and even the law; employee share ownership participation schemes are presently fashionable, yet there seems little guarantee that workers' share ownership will prove sustainable; few women are smashing through the 'glass ceiling' and corporations remain overwhelmingly male territory; and the gap between the financial rewards to top management and their workforces is widening alarmingly in a country where the patterns of inequality are already deeply entrenched. Although the 'broad-based' BEE strategy being pursued by the government will undoubtedly promote the growth of a black bourgeoisie, it appears at present as more likely to blur the boundaries of race and class than to propel South African capitalism in a more inclusive, accountable and equalising direction.

Notes

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1 Sexwale's Batho Bonke consortium owns ten per cent of ordinary shares in Absa, whilst Ubuntu-Batho holds ten per cent of shares in Sanlam, Absa's major shareholder (22 per cent).

2 For instance, Anglo American bought out minorities or delisted: Anglo American Coal, Anglo American Gold Investment Trust, Anglo American Industrial Corporation, Anglo American Investment Trust and Minorco, and disposed of its controlling interests in AECI, Chemical Services, JCI, First National Bank, Southern Life Association, the McCarthy Group, LTA, the Del Monte Group and other substantial holdings, as well as rationalising its crossholdings with De Beers, which was delisted from the JSE.

3 For instance, according to *Noseweek* (December 2004/January 2005) mining magnate Brett Kebble failed to submit tax returns between 1993 and 2000. Eventually, when pressed by the South African Revenue Service (SARS) to submit claims for those years, he admitted to declared income for those years of only R2.2 million, yet his increase in asset value approached R200 million. After further battles with the SARS, he was committed for trial on 8 October 2002, only for SARS to eventually call the prosecution off.

4 'Economic interest' refers to entitlement which black people or designated black groups may have in an enterprise. However, where there is no economic flow-through to black shareholders or beneficiaries from an enterprise, no points on a scorecard will be allocated.

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