"THE INVISIBLE HAND": THE ROOTS OF BLACK ECONOMIC EMPOWERMENT, SANKORP AND SOCIETAL CHANGE IN SOUTH AFRICA, 1985-2000

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The political changes in South Africa following the decision by the ruling National Party of former President FW de Klerk, to unban political organisations such as the African National Congress (ANC) and Pan African Congress (PAC) as well as their leaders, had been preceded by efforts of business to adapt to the changing global environment. Negotiations with respect to political transformation and the facilitation of a new black majority government, cannot solely be interpreted as a political process. The business community was instrumental in negotiating with government the re-entry of the South African economy into the global economy. A prerequisite to such involvement was a stable political and social environment, which in the South African context, implied political transformation and an end to a racially divided political dispensation. The international economic developments since the mid-1980s displayed stronger competition than in the past. For the South African domestic economy it became imperative to utilise all resources, human, natural and capital, optimally. The global environment was characterised by competitiveness in niche markets. Niche markets, domestically as well as globally, offered opportunities expressed in economies of scale. Those gains were associated with cost efficiencies of increased output at reduced costs.

These global developments impacted on the political environment in South Africa. Effective participation in the global economy was essential for the country. In South Africa evolutionary processes were manifesting themselves across all aspects of the society. This article explores the central agency of essential Afrikaner business interests in Sankorp/SANLAM in devising a strategy towards the enhanced utilisation of human and capital resources in the South African economy.[1]

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1 SANLAM is the "Suid-Afrikaanse Nasionale Lewens Assuransie Maatskappy" (a life assurance company established in the Cape in 1918 by capital from Afrikaans business men). In 1985 SANLAM established Sankorp (SANLAM Investment Corporation) as an investment company to manage non-life assurance strategic investments of SANLAM in a separate vehicle.

One aspect of optimal resource utilisation, was the restructuring of control over resources and access to participation in the mainstream South African economy. This paper will not assess the black economic empowerment (BEE), but will focus on the pioneering role of Sankorp representing Afrikaans business. The paper will assess the empowerment strategy introduced by Sankorp as a model for subsequent initiatives in South Africa.

1. THE CHANGING GLOBAL AND DOMESTIC ENVIRONMENT

In 1985 South Africa was caught in the spiral of domestic violence and a state of emergency was declared. In March 1985 SANLAM established Sankorp as an investment management company for its strategic investments. Sankorp aimed at optimising its own strategic investment performance in order to contribute to macroeconomic development in South Africa. Sankorp was intended to be a Strategic Planning Company (SPC) to develop business unit strategies centrally, but decentralised operations to underlying management companies along market lines. The SPC would provide longer term strategy and direct the short term implementation decisions to operational management of underlying companies; "The philosophy at STC was stated to be to 'centralize strategy and decentralize operations to a number of management companies...'"[2] Strategic investments to the value of R913 million were transferred from SANLAM to Sankorp. The Sankorp portfolio was spread over the total range of economic sectors of the South African economy, i.e. 41% in mining, 18% in the financial sector, 8% in transport, 8% in electronics, 8% in engineering, 8% in the retail sector and 15% in industrial holdings. The performance of Sankorp, which would feed into the benefits for policy-holders in SANLAM depended fully on the performance of the underlying concerns in Sankorp - those underlying concerns were relatively representative of the South African economy as such. Optimal performance in the South African economy was increasingly pressurised following the refusal in 1985 by international banks to roll over debt. Sanctions were impacting negatively on unemployment, business confidence and foreign direct investment.[3] In that climate Dr. Fred du Plessis, chief executive officer of SANLAM, viewed it the responsibility of the life assurance business in any country to contribute to economic growth and development. He argued that the capital generated by life assurers (and pension funds) would make a more fundamental contribution to economic growth and employment creation by investing in operating companies, rather than simply investing in the stock market. Especially in the mid-1980s when foreign banks

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2 The Sankorp mission statement was based on M Goold and A Campbell, **Strategies and styles. The role of the centre in managing diversified corporations** (Basil Blackwell, Oxford, 1987), p. 47.

3 Sankorp Strategic Meeting, 4 August 1986.

refused loans to South African companies and foreign investment was being withheld, Du Plessis expressed his preference for investment "in growth industries, ... rather ply the stock market".[4] Investment in growth industries would promote expansion, create employment and prevent retrenchment. Sankorp was sensitive to the perception of the South African government that conglomerates limited job creation.[5]By 1987 SANLAM's investments in some troublesome industries had protected 110 000 employment opportunities while the economy suffered from severe recession.[6]

As a strategic planning company Sankorp was not only directing SANLAM's strategic investments, but it was also targeting strategic planning for businesses in South Africa in general in the emerging global economy. In order for domestic business to compete effectively in international markets, two conditions had to be met: investment capital was needed and human capital had to be utilised optimally. SANLAM accepted these challenges by capitalising Sankorp and thus addressing the empowerment of human capital both in underlying companies and in the broader South African society directly.[7]

The capitalisation of Sankorp directly injected investment capital into the South African economy. International capital flows changed in the volatile post-1973 oil price international environment: the fixed gold price was abandoned, the major industrial countries agreed to a managed floating exchange rate system and the balance of payments adjustment mechanism disappeared. The latter changed effectively from one which relied heavily on income changes while exchange rates were fixed but adjustable with International Monetary Fund (IMF) approval, to a system which relied on price changes through flexible exchange rates. Foreign exchange markets also experienced volatility, with the result that international capital markets reacted to these uncertainties by switching to short-term capital. Moreover, because of the unstable foreign exchange markets and volatile interest rates, suppliers of short-term capital concentrated on debt rather than financial assets. These circumstances led to the accumulation of debt by developing countries often beyond their debt-servicing abilities.[8] Foreign debt as a percentage of GDP in Africa rose from 27,2% in 1980 to 66,6% in 1994.[9] In the case of South Africa, foreign debt as a percentage of GDP rose from 21,3% in 1980 to 42,9% in 1985, after which it declined to 13,8% by 1994.[10] That foreign debt was in-

4 **Business Day**, 25 October 1985.
5 **Sankorp Management**, 25 February 1986.
6 **Sunday Times**, 6 September 1987.
7 **Sankorp Management**, 10 February 1986.
8 See CLM Hermes, **De internationale schuldencrisis** (Wolters-Noordhoff, Groningen, 1992).
9 IMF, **World economic outlook** (Washington D.C., October 1994).
10 South African Reserve Bank, **Quarterly Statistical Bulletin**, Pretoria, 1994.

creasingly short-term: non-monetary private sector short-term foreign liabilities in South Africa rose from 21,3% of total liabilities in 1980 to a high of 48,6% in 1984, after which it decreased to 27,4% in 1994.[11] The importance of the escalation of short-term foreign debt as opposed to long-term capital flows, was that the importance of foreign equity capital declined simultaneously. In the domestic economy of South Africa the declining share of foreign equity capital in non-monetary private sector equity as a percentage of total long-term liabilities, can be seen from the following table:

Table 1
Foreign equity investment in the non-monetary private sector in South Africa % of total long-term foreign liabilities

1960	75,4
1965	79,8
1970	78,2
1975	53,7
1980	59,7
1985	39,7
1990	41,7
1991	41,8
1992	42,2
1993	41,7

South African Reserve Bank: **Quarterly Statistical Bulletin, 1963-1994**.

Substantial long-term capital flows to South Africa after the Second World War were reversed since the early 1970s and remained low during the early 1980s. As foreign capital flows fell, domestic investment processes became more domestically driven. In the case of South Africa foreign direct investment flows showed a negative trend since the mid-1980s, as reflected in Table 2 below.

11 **Ibid**.

Table 2
Foreign direct investment, 1976-1993. (US $1000m)

	Total outflow	Total inflow	Net
1976-1980 (average)	3,0	10,8	6,2
1981-1985 (average)	8,5	12,3	3,8
1986-1990 (average)	12,3	9,3	-3,0
1990	14,3	9,9	-4,4
1991	15,4	9,8	-5,6
1992	17,8	11,5	-6,3
1993	17,2	10,3	-6,9

(Bank for International Settlement: **Sixty Fourth Annual Report** Basle, 1994.
South African Reserve Bank: **Quarterly Statistical Bulletin**, 1975-1994).

These developments were complemented by negative GDP growth in the South African economy. GDP growth steadily declined from an average of 1,4% between 1983-1988, to -0,3% in 1990; -1,0% in 1991; -2,2% in 1992 and then slightly recovering to 1,1% in 1993.[12]

SANLAM responded to these developments by placing R2 billion at the disposal of Sankorp to "create new enterprises and help existing, viable undertakings in need of financial aid, to expand".[13] This initiative was a direct response to the lack of foreign direct investment in equity in the non-monetary sector of South Africa.

2. DEMANDS FOR DOMESTIC ECONOMIC GROWTH

The demand for long-term investment capital was accompanied by the need of optimal factor of production utilisation, especially human capital. Sankorp realised that urbanisation and the rapidly changing political environment in South Africa demanded pro-active strategies to make black people their partners in the future of South Africa. As a strategic planning company in South Africa, Sankorp would aim to influence government on sound macroeconomic policies imperative to attract capital flows and to avoid undesirable effects from short-term unstable capital flows. Such policies would contribute towards stable macroeconomic conditions and would be sanctioned by international capital flows to stimulate domestic business development. Another prerequisite to sustained macroeconomic stability, would be the elimination of anxiety and uncertainty about the political and economic future of South Africa amongst business leaders, of which a substantial

[12] South African Reserve Bank, **Quarterly Statistical Bulletin**, 1985-1993.
[13] **The Argus**, 16 February 1989; **The Star**, 16 February 1989.

number were executives and managers of Sankorp conglomerates and underlying companies. Sankorp's second priority was to establish closer links with black leaders in business and community affairs, especially those anticipated to control the direction of South Africa in the near future.[14] Sankorp acknowledged that the size of its portfolio would justify cognisance of its opinion on the future of the country.

The changing environment observed by Sankorp showed that black people were increasingly demanding effective political participation, the improvement of the quality of life and training towards employment mobility. Unless large numbers of blacks would enter higher employment categories within the following decade, the South African economy would be forced to a standstill as a result of a managerial shortage.[15] There had been structural imbalances in the South African labour market with a relatively low proportion of black people in professional and semi-professional employment categories by 1985. Only 4,8% of black employees were employed as professionals or semi-professionals, while South Africa was experiencing a serious shortage of skilled labour.[16] The rational strategy for Sankorp would thus be to develop specific directives for the rapid and deliberate preparation of blacks for managerial and administrative positions. Sankorp had taken note of the changes in South Africa, but could not predict or guarantee the nature or timing of political changes in the country. Sankorp would use its position as one of the largest emloyers in the country to seek contact with black leaders, while simultaneously improving working conditions and employment expectations for blacks via its underlying companies.[17] Sankorp had already identified a considerable number of prima facie black candidates for such occupants in its underlying companies,[18] but intended to achieve its goals with black employment not simply by redistributing income without limits, but to place black people in a position in the long run, to exploit employment opportunities in the market.[19]

Sankorp then developed a strategy for the promotion of equal employment opportunities (EO strategy) for all employees in the Group, based on the assumption that certain limitations and deprivations of certain employees, had to be taken into account to promote equal employment. EO practices were thus defined as "conscious deliberate attempts by an employer to employ and develop members or

14 **Sankorp Management**, 20 May 1985.

15 **Sankorp Management**, Confidential. Preliminary action plan for effective linking with black leaders, 18 August 1986.

16 **Sankorp Management**, Confidential report, blacks in the market place, 30 July 1986, p. 7.

17 **Sankorp Management**, Confidential. Preliminary action plan for effective linking with black leaders, 18 August 1986.

18 **Sankorp Management**, Report by DJ Gouws on the demographic situation in South Africa, 30 July 1986, p. 4.

19 **Sankorp Management**, Confidential report on blacks in the market place, 14 April 1987.

groupings of people who have historically competed at a disadvantage in the labour market".[20] The EO strategy was primarily perceived as a human resource strategy to address the human resource environment factors threatening to affect a smooth transition to an overall new political, social and economic dispensation in South Africa. Sankorp's EO strategy was an attempt to influence stability in the socio-economic environment, which would ensure an environment in which business leaders could take risks, serve their clients and make profit.[21]

The following were Sankorp's goals with the EO strategy:

- Freedom to management to establish and operate profitable businesses, promote the free enterprise system and enhance its acceptability to the working masses.
- Elimination of critical skills shortages to promote economic growth, productivity and employment.
- Enabling employers to recruit and develop those skills essential for successful businesses.
- Removing discrimination to enable worker satisfaction of aspirations for equality, equity and justice.
- Contributing to the security, quality of life and higher standard of living to the low-income worker.[22]

Sankorp rejected the concept of "affirmative action", because of the negative connotations of compulsion, legal prescription and the potential for tokenism. In contrast, Sankorp decided on the **alliance model** for the implementation of the EO strategy. In that respect Sankorp pioneered an EO strategy towards performance driven social involvement. The alliance model depended on the alliance between the organisation, which had to display a distinct willingness to adapt to accommodate the developed partner, as well as the party to be integrated, who on the other side had to display similar willingness to adapt to a changing environment. Such a two-way adaptive model complemented the Sankorp EO-strategy: it appreciated the need for a negotiated approach towards the solution of the key human resources issues in the South African economy.[23]

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20 **Sankorp Management**, Confidential discussion document. Equal employment opportunity, 5 May 1987, p. 1.
21 **Sankorp Management**, 18 August 1987.
22 **Sankorp Management**, 5 May 1987.
23 **Sankorp Management**, 5 May 1987.

The essential new element introduced to EO strategies was that of mutuality and constructive negotiations. Sankorp appreciated that meaningful communication with black business leaders would only be established on the basis of a two-way approach towards human resources environment issues. While a strategy of negotiation had not yet been accepted by politicians, Sankorp decided early in 1987 to seek meaningful contact with black business leaders, not via cocktail parties, but via mutually beneficial projects in the black communities. As a business strategy Sankorp refused to engage itself in donations or handouts, but directed its initiatives towards the social environment of its stakeholders.[24]

Sankorp identified effective participation by blacks in the mainstream South African economy as an especially emotional area of frustration. Sankorp understood this frustration, comparing it to Afrikaner economic marginalisation during the first half of the twentieth century. Black people were frustrated by their limited access to effective economic power as owners and co-owners of factors of production, i.e. land, capital, entrepreneurship and natural resources. Sankorp argued that it could make a unique contribution to facilitate effective black participation in the South African economy by forming alliances with black people and utilise their purchasing power to enhance black participation and ownership in the economy. Sankorp was primarily interested in business alliances from which both Sankorp and its partners could benefit. Such a strategy would fully comply with the Sankorp condition of dynamic performance driven social involvement, as opposed to the benefactor type of "social responsibility" or "affirmative action". Business alliances to Sankorp meant economic participation. In the black community this was called "Black Economic Empowerment" (BEE).[25]

The implementation of the Sankorp EO strategy and the social involvement strategy as part of the performance targets of the underlying companies in the Sankorp group, would first of all target alliance building in those areas of business where black people displayed strong purchasing power and Sankorp had undisputed expertise. Research undertaken by the Bureau for Market Research at the University of South Africa, showed that food and clothing remained major expenditure items, but pronounced diversification was identified towards expenditure on housing, insurance and transport. Sankorp sought the empowerment of people where they could benefit directly and simultaneously strengthen the free enterprise capitalist economic system as the only strategy towards sustained economic growth in the country.[26] Sankorp would thus not consider any empowerment strategy containing

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24 **Sankorp Management**, 7 January 1987.
25 **Sankorp Management**, 1 April 1989: Confidential report on Sankorp social involvement, p. 8.
26 **Sankorp Management**, Report of FJ du Plessis on a visit to Washington, 29 December 1988-2 January 1989.

an element of socialism to pacify a potential new government in South Africa. BEE was a strategic decision in the interest of stronger economic growth in South Africa, as well as enhanced performance by companies in the Sankorp group.

3. BLACK ECONOMIC EMPOWERMENT (BEE): THE PIONEERING SANKORP STRATEGY

3.1 What is BEE?

The United States' so-called "Affirmative Action" programme was introduced in South Africa via the Sullivan Code of Principles, which were applied to American multi-national corporations operating in South Africa. The strategy of affirmative action was accelerated during the latter half of the 1980s to restore historic imbalances in the South African economy.[27] Sankorp rejected affirmative action as a strategy for sustained economic growth in South Africa. By the late 1980s the terms of the debate about the future of South Africa shifted increasingly towards the concept of strengthening society by capacity building, skills development and equal opportunities for all its people. Aggrey Klaaste, the black editor of the newspaper **The Sowetan**, referred to this rebuilding process as "nation building",[28] while the South African Institute of Race Relations referred to BEE as a process of both natural self-empowerment and organised initiatives to promote black empowerment.[29] The emphasis shifted towards the facilitation of effective acquisition and exercise of power in their own right.

After 1994 Black economic empowerment was defined as the process by means of which historically disadvantaged people obtained ownership and control of the country's productive assets (land, labour, capital, entrepreneurship and management) in order to participate effectively in the mainstream economy.[30] The conceptualisation of BEE was formalised when the Black Economic Empowerment Council was established in May 1998 (BEEC). The Commission adopted the following definition of BEE:

27 A Thomas, **Beyond affirmative action: Managing diversity for competitive advantage in South Africa**, (Knowledge Resource, Randburg, 1996), pp. 6-8.
28 **The Sowetan**, Black Economic Empowerment, 24 February 1999, pp. 22-8.
29 E Sidiropoulos: Black Economic Empowerment, **SAIRR Spotlight**, No. 2, September 1993, p. 1.
30 D Mkhwanazi, Financial institutions and Black Economic Empowerment (**Human Resource Management**, 7 April 1994), pp. 7-8.

- "It is an integrated and coherent socio-economic process.
- It is located within the context of the country's national transformation programme, namely the RDP.
- It is aimed at redressing the imbalances of the past by seeking to substantially and equitably transfer and confer the ownership, management and control of South Africa's financial and economic resources to the majority of its citizens.
- It seeks to ensure broader and meaningful participation in the economy by black people in order to achieve sustainable development and prosperity."[31]

The general trend in BEE since the late 1990s followed the model introduced by Sankorp: empowerment through skills building social involvement on the basis of an alliance, which was perceived as a process, a transition to be completed over a relatively extended period of time. Sankorp appreciated that BEE would be time-consuming, but that a change of a political system alone would not automatically ensure the participation of the previously excluded parts of the population in the political and economic system. At the Sankorp Group Conference in 1993 Sankorp emphasised that special inputs and institutional support via the alliance model were prerequisites for control over factors of production, which eventually would manifest in economic empowerment. This approach formed the basis of the pioneering BEE initiative of Sankorp in 1992.

3.2 "Example moves the world more than doctrine": Sankorp pioneers BEE

The question concerning BEE was: how does a nation implant into a relatively sophisticated economy, in as short a time as possible, a population group that hitherto had been denied the means of access? Apart from the ideological and business strategy of Sankorp explained in 2 above, Sankorp largely relied on their business history - "how we did it" - to inform the practical steps towards BEE. The business history of the mobilisation of Afrikaner capital to establish SANLAM in 1918, provided the background to Sankorp's BEE initiatives. Slowly accumulating Afrikaner capital was invested in numerous small businesses and industries under the corporate holding company Federale Volksbeleggings (FVB). Afrikaner savings were mobilised in the newly established Volkskas Bank in 1923, and in 1953 FVB ventured into the mining industry with the establishment of Federale Mynbou Beperk (a mining house). Afrikaners were nevertheless not fully part of the mainstream South African economy while not actively participating in the gold mining industry. It was only in the early 1960s when Federale Mynbou was offered a controlling interest in the mining house, General Mining, that it could be argued

31 Black Economic Empowerment Council, **Executive Report 2001**. www.bmfonline.co.za/bee_rep.htm.

that Afrikaners had penetrated the mainstream South African economy.[32] These humble beginnings took more than four decades to manifest itself in effective Afrikaner economic power - though not a dominating force. It was generally accepted that the acquisition of General Mining had been a quantum leap in Afrikaner economic empowerment. A similar thrust would be required to empower blacks economically and integrate them unequivocally into the mainstream economy. The general perception was that the fall of socialism in Eastern Europe had not given any guarantee for the creation of wealth on the basis of free market economic systems. Similarly political changes in South Africa would not provide such guarantee: BEE needed a quantum leap from its humble beginnings into the heart of the South African economy if there was to be any hope of sustainable economic growth after the establishment of a new political dispensation.[33]

Sankorp conceptualised BEE to entail the following:

- When (and not if) embarking on a strategy of BEE, it must be swift and by means of highly successful companies;
- Sankorp needed to "create" a counter party with whom to negotiate such deals, since there were no identifiable black businesses with sufficient substance at that stage with whom to effect such negotiations;
- A unique financing model would have to be developed to facilitate such deals since conventional financing models were inadequate;
- Sankorp would have to be led in the implementation strategy of its BEE initiatives by the people from the black community who were familiar with the business environment in those communities;
- All transactions must be conducted along sound business principles, and the panel of black business leaders must advise Sankorp on the most appropriate strategy to achieve the goals set out above.

In 1991 Sankorp decided to initiate BEE in the Sankorp Group utilizing the life assurance company, Metropolitan Life (Metpol). Metpol was a blue chip company in the group and would comply with Sankorp's requirements for BEE. It was a listed company on the Johannesburg Stock Exchange, in which Sankorp/SANLAM controlled 81,8% of the issued share capital.[34] This would facilitate BEE where Sankorp had expertise. In the last instance Metpol provided an appropriate vehicle for skills building, skills transfer and involvement in the stakeholder community.

32 See G Verhoef, "The development of diversified conglomerates: Federale Volksbeleggings - a case study", in **Journal of Contemporary History**, Vol. 24, No. 2, p. 62.

33 **Sankorp Management**, 10 April 1991; 3 July 1991; **Sankorp Board Meeting**, 2 December 1992.

34 **Sankorp Board Meeting**, 20 November 1985; 13 August 1986.

By 1986 50% of all new business of Metpol originated from black people, 30% from coloured people and only 20% from whites. A total of 86% of the representatives of Metpol were people of colour, as well as 6 of the 12 regional managers. Between 1987 and 1990 Metpol maintained a dividend growth of 1,2 times the annual growth in the nominal Gross Domestic Product (GDP). This performance fully complied with the Sankorp performance targets for underlying concerns.[35] In July 1991 Sankorp performed a rights issue for Metpol to reduce the SANLAM/Sankorp shareholding in Metpol from 81,8% to 50,5%, following the strong performance of the Metpol share price on the Johannesburg Stock Exchange (JSE) during the first quarter of 1991. The Metpol share price outperformed the JSE assurance industry index.[36]

The Metpol company structure and performance provided Sankorp with the model for BEE: the company had a majority black stakeholder profile, the company was a blue chip performer on the JSE and it provided the perfect vehicle for alliance building through community involvement. By 1991 there was no precedent for BEE in South Africa. Sankorp developed the model for BEE. The strategy Sankorp decided upon, was the following: Sankorp sold 10% of its shareholding in Metpol to a trust comprising of black shareholders. That trust was the counter party Sankorp created to facilitate its BEE initiatives. For this purpose Sankorp put together an advisory panel of prominent black leaders[37] to consider the proposal and advise them on the mechanism of implementation. Sankorp then developed an innovative financing model for implementation, since it did not intend to finance the trust. Sankorp wanted to benefit as many black stakeholders as possible and attract black capital into a venture aimed at empowering black people in general, not a selected élite only. The transaction was expected to spread wealth beyond a handful of influential people and be concluded without complicated structures.[38] Sankorp did not want the transaction to be seen as Sankorp disinvestment, but as alliance building through joint shareholding, co-participation in management and board representation for both parties. It is important to note that Sankorp did not "hand over to black control"[39] its shareholding in Metpol: Sankorp facilitated the purchase of shares in

35 **Sankorp Management**, 20 October 1987; 7 February 1990.

36 **Sankorp Management**, 10 April 1991; 3 July 1991; **Sankorp Board Meeting**, 2 December 1992.

37 This panel consisted of the following people who had been invited to discuss a BEE initiative with Sankorp in December 1992: Drs. Ntatho Motlana, Oscar Dlomo, prof. Mohale Mahanyele and Messrs Don Makwanazi and Jabu Mabuza. After the first meeting the advisory panel was restructed on their own advice, to exclude Jabu Mabuza and to include Dr. Enos Mabuza, Adv. Dikgang Moseneke and Mr. Franklin Sonn. **Sankorp Board Meeting**, 11 February 1993; **Sankorp Communication**, Sankorp participation in the South African Foundation delegation to the USA, October 1996.

38 **Sankorp Board Meeting**, 2 December 1992.

39 See WC Kruger, **Black empowerment: An economic evaluation of future investor attractiveness** (Unpublished MBA dissertation, University of Cape Town, November 1998), p. 7.

Metpol by stakeholders in the company. Sankorp did not finance the purchase of shares, but provided R1,8m towards the marketing costs for the establishment of the new company. The Sankorp view was that empowerment would not be effected if debt was involved, therefore external funding would be the only viable option. The trust/new company would take full responsibility for the costs involved in establishing the new entity, transfer of shares after purchase (plus stamp duty) to the new entity, as well as finance costs.[40]

In March 1993 the first BEE transaction in South Africa was announced: a new company bought 10% of Sankorp's shares in Metropolitan Life (the name changed from Metpol to Metlife). The new company was Metlife Investment Holding company (Methold), which obtained R135 million financing from the Industrial Development Corporation (IDC) to buy the Metlife shares. A voting pool agreement (Sankorp 30%, Methold 10% = 40% in Metlife) was entered into to provide for transitional control over Metlife. The agreement provided for joint decision-making on the appointment of the chief executive and chairman of Metlife; the appointment of members of the Metlife Board of Directors; pre-emptive rights on the sale of Metlife shares in favour of Methold and Sankorp; issue of new shares in Metlife; the buying and selling of assets apart from normal business and finally the sale of Metlife shares to competitors of Sanlam.[41] It was envisaged that Methold could develop into a vehicle for future investments, thus transforming it into an investment company, similar to the Afrikaans business concern, Federale Volksbeleggings (FVB). Methold was finally established in May 1993, the marketing of shares in Mehold was announced on 13 May 1993 and the Methold prospectus was released on 29 July 1993. A total of 141 million Methold shares were offered to interested black parties at R1,00 per share. The Methold prospectus allowed three years for the successful sale of those shares, failing after which Sankorp would cancel the transaction and buy back the shares in Metlife at market value. The successful completion of the sale of Methold shares to the black public would then pave the way for Methold to exercise a call option for another 20% of Sankorp's Metlife shareholding. The sale of Methold shares was conducted under strict conditions; shares could only be sold to black people or black institutions; no single shareholder could hold more than 20% of Methold equity and no insurance company more than 10%. All shares had to be placed by July 1996.[42]

40 **Sankorp Board Meeting**, 11 February 1993.
41 **Sankorp Board Meeting**, 11 February 1993; 14 April 1993.
42 **Sankorp Board Meeting**, 11 July 1993; 9 February 1994.

The sale of Methold Shares to the public proceeded slower than anticipated. By mid-December 1993 only 10 228 Methold shares were placed, and by 1 June 1994 32,5 million had been placed privately.[43] Very little interest came from the 600 000 Metlife policyholders. The following explanations were put forward: black people still found buying and owning shares an unfamiliar concept of value. The structure of the Methold transaction was relatively unknown to prospective buyers: the value of Methold shares was based on the value of the listed Metlife portfolio. Furthermore, Methold shares were unlisted and prospective buyers were not familiar with the rise in the Metlife share price to R32,00 per share by mid-1994. It was also argued that there existed a lack of financing in the target market to take up substantial volumes of Methold shares.[44] The view that the Methold Board of Directors was perhaps not yet settled in sufficiently, was rejected, since the Methold Board comprised of respected black leaders. The emerging problem for Sankorp was timing: it was not expected that close to 100 million Methold shares would be sold by mid-1996 and other BEE transactions were beginning to emerge.[45] The advantage upon which Sankorp could build, was the pioneering nature of the proposed transaction and the experience and standing of the black leaders involved in the Methold transaction. Sankorp at all times remained present in an advisory capacity, thus ensuring the market of its sincerity to complete the BEE transaction successfully. The human capital was present to take the BEE strategy forward.

43 **Sankorp Board Meeting**, 1 June 1994.

44 **Sankorp Board Meeting**, 9 February 1994.

45 **Sankorp Management**, 3 March 1994; **Sankorp Board Meeting**, 8 February 1995; **Sankorp Management**, 20 June 1996. Real Africa Holdings Limited. Real was an investment holding company representing black businessmen, trade unions (and provident funds they controlled), informal savings organizations and church groups. Real was established in February 1994 as an investment company with the sole purpose of buying 51% of the issued share capital of African Life from Southern Life. This was a very successful BEE transaction, which placed the then still drawn out Methold transaction, in some negative light. Real had obtained interests in food, financial services and telecommunications sectors. The company would list on the JSE on 15 March 1995 to raise R200 million to finance the above transactions. The chief executive, Don Ncube, approached Sankorp to take up 5% of the issued share capital of Real for R20 million. Sankorp decided to invest R20 million because of the opportunity to participate in a "rival" BEE concern from NAIL and thereby extend its participation in broader BEE. Anglo American Corporation (AAC) had also taken up a stake in Real. The criticism against the empowerment of the "élite" via NAIL, could effectively be countered by the investment in Real. New opportunities could arise for Sankorp through this venture. The investment in Real would be a portfolio investment, i.e. 0,3% of the Sankorp portfolio. Shares were bought at R2,00 per share, representing a 5% discount to net asset value. Although Sankorp would not hold onto portfolio investments, in the case of Real it was decided that the investment in Real was a strategic investment and would therefore remain with Sankorp. The most important assets in the Real portfolio were its 20% stake in New South African (NSA) Investments (that inter alia held 20% of the equity of Mercantile Bank Holdings), a 13% stake in Oceana, which held 60% in Commercial Cold Storage, and a 2% stake in MTN. Sankorp's investment in Real provided another opportunity for Sankorp to implement the long-term strategy of the company of smaller investments in new ventures. The determining condition was the growth prospects of those ventures. Real met that condition.

In June 1994 Sankorp proposed the following amendments to the transaction to speed up the process:

- That the Methold prospectus should be withdrawn from the market;
- That the condition that only black capital would be allowed to purchase shares, be waived to enable other institutions to participate in the Metlife share sale;
- That the condition that no institution would be allowed to own more than 20% of Methold shareholding, should be waived.
- That Methold should be allowed to take up a further 20% of Sankorp's shareholding in Metlife without delay. In exchange for that right, SANLAM/Sankorp would be allowed to purchase a 24% stake in Methold, plus that further preferential shares in Methold should be issued to SANLAM/Sankorp.
- Finally, that Methold should be listed on the JSE.

This new strategy would allow other black capital which had already been mobilised in Corporate Africa (CA), to buy into the BEE transaction immediately and thus silence the criticism in the market that Methold controlled Metlife with only a 10% direct interest in the company. A pyramid of holding structures controlled by Dr. NH Motlana and Sons (Pty) Ltd. had already mobilised black capital: 55% of Corporate Africa Holdings (CAH) was owned by NH Motlana and Sons (Pty) Ltd., 38% by various trusts representing prominent black people such as Sam Motsuenyane, Franklin Sonn, Enos Mabuza, Archie Nkonyeni, Paul Gama, Zwelake Sisulu and Godfrey Pitje and the remaining 7% by other shareholders. CAH controlled 80% of the shares in Corporate Africa Investments (CAI) and Standard Merchant Bank the remaining 20%. Finally CAI was the sole owner of CA, which held shares in **The Sowetan** and **MTN** cellular phones since mid-1993. The CA partners in **The Sowetan** were the Argus Group and Tony O'Reilly, while CA's partners in **MTN** were Cable & Wireless, M-Net Transnet, Fabcos, Argus, Standard Merchant Bank and the IDC. These mobilised business concerns were vital to Sankorp in finalising the Methold BEE transaction. The Methold prospectus was withdrawn from the market and a Methold rights issue was announced: one new Methold share was offered to every one existing Methold shareholder. Then Methold acquired CA's shareholding in **The Sowetan** and MTN in exchange for shares in Methold. At the same time Methold would exercise the call option to acquire another 20% of Sankorp's direct shareholding in Metlife.[46]

46 **Sankorp Management**, 1 June 1994.

The public announcement was made on 17 July 1994: Methold's name was changed to New Africa Investments Limited (NAIL) and was listed on the JSE late August 1994. Shareholding in the listed NAIL was as follows:

Corporate Africa: 51%
Original black shareholders before conclusion of the revised phase two: 26%
Metlife staff: 1%
Financial institutions: 2%
SANLAM/Sankorp: 20%

In Metlife NAIL held 30% of the equity and SANLAM/Sankorp separately, but directly, 22%. The voting pool controlled 52% of the Metlife equity.[47] By the end of 1994 it became apparent that some problems had occurred with mailed applications for shares in NAIL. This involved black people. Sankorp then offered to dispose of some of its equity in NAIL - it sold 1,1 million shares in December 1994 and another 607 256 shares in January 1995 to accommodate the applicants involved in the problem. Sankorp's direct shareholding in NAIL was thus reduced to 19,6%.[48]

The restructuring of the Methold transaction and the listing of NAIL, was all about economic empowerment. The difference between that transaction and Afrikaner economic empowerment via SANLAM and FVB was that it was more rapid and immediate. In the media the transaction was positively received. The **Financial Mail** commented that the "beauty" of the transaction had been that Dr. Motlana maintained control over Corporate Africa without having to put in more capital.[49] By the end of August 1994 the listing of NAIL was completed. By November 1994 NAIL had a total market value of R785 million and controlled assets of R7 billion. Dr. Motlana, chairman of the NAIL Board of Directors said: "We cannot accept guilt offerings or handouts. At the same time, our goal is not a gradual bottom-up approach to economic advancement. We cannot wait decades to participate fully and effectively in the economic future of South Africa. Through New Africa Investments Limited (NAIL) we seek to gain a strong foothold in the economy."[50]

47 **Sankorp Management**, 3 August 1994.
48 **Sankorp Board Meeting**, 8 February 1995.
49 **Financial Mail**, 22 July 1994.
50 **Financial Mail**, 29 November 1994; Also see **Sankorp Management**: 7 September 1994.

The achievement of Sankorp with this BEE initiative was immense. When listing in August 1994, NAIL was the first black owned listed company on the JSE. The transaction gave full effect to the Sankorp alliance model of BEE, i.e. that in the process of working with people, Sankorp would pool expertise, skills and resources for the mutual benefit of all parties involved. While the Sankorp model was based on economic empowerment through command over factors of production, the Methold/NAIL case showed that although command could not necessarily mean ownership of all factors of production, it definitely implied access to those factors of production. The second phase of the NAIL transaction was a powerful example of the facilitation of access to capital to enable black business to obtain control over business interests. Sankorp facilitated the structured deal of access to finance, share transfers and direct control over a further 20% of Metlife via NAIL in order to create a vehicle for future black access to the market via the JSE. The Sankorp model aimed at increasing black command over the factors of production directly. Sankorp had no intention to be involved in Methold directly, but realised that the transfer of expertise from an alliance partner required closer involvement in the short term, hence the direct shareholding in NAIL and representation on the Board of Directors. By mid-1995 Sankorp's investment in NAIL represented 1,6% of the Sankorp portfolio at book value and 0,6% at market value.[51] Sankorp nevertheless remained involved on board level ensuring that good corporate governance was practised in Metropolitan Life. Sankorp was especially appreciative of the rapid appreciation in the value of the company within the scope of only three years. By the end of September 1995 Metlife was the third largest listed life assurer on the JSE, with assets totaling R8,7 billion and a total income of R2,2 billion. The Metlife actuarial surplus exceeded actuarial liabilities by 40% - that percentage was the highest of all life assurers in South Africa and exceeded R2 billion. The Metlife share price rose by 790% to R67,00 from 1991 to February 1996. This performance represented the best share performance of all the other listed life assurers between 1994 and August 1996.

In the running of Metlife, success was achieved by reducing cost by 1,1%, thus improving productivity by 7,7% by 1996. Metlife also launched two new services in 1996: Metlife Health Services and Metlife Unit Trust's new income fund. During 1996 Metlife was also listed on the Namibean Stock Exchange. The overall performance of Metlife over the five year period since 1991 proved to Sankorp that Metlife had been the right choice for a BEE vehicle: premium income rose by 36,8% in that period, total income rose by 31,8% and total expenditure by 22,8%.[52]

51 **Sankorp Management**, 7 June 1995.
52 **Sankorp Board Meeting**, 22 June 1996.

At NAIL eleven of the sixteen board members were blacks and Motlana was the executive chairman and Dikgang Moseneke the deputy executive chairman. By the end of 1995 the NAIL share price had risen by 65%. NAIL's shares traded at a discount of approximately 20% to the value of its underlying assets, but Sankorp was not too concerned about that. A 20% discount was a realistic discount, when the pyramid structure was kept in mind, as well as the fact that **The Sowetan** and the African Bank were unlisted companies. It also has to be acknowledged that a fair amount of scepticism about NAIL still loomed in the market. Metlife made up approximately 80% of NAIL's net asset value, MTN 17% and **The Sowetan**, **New Nation** and Mango Groove 3%. In 1995 NAIL sold half of its investments in MTN to Standard Bank Corporation (SBC), realising a profit of R20 million. That left NAIL with a 3,5% stake in MTN. NAIL also participated in the consortium that recapitalised the African Bank in 1995. Metlife and NAIL each put in R27,5 million (26,5% each) and the Natal Building Society (NBS) R49 million (47%) leaving the consortium with 80% of the equity in African Bank. Sankorp was satisfied that NBS, who signed a management contract with African Bank, would be able to steer the bank into a profitable future.[53]

The involvement of Sankorp in NAIL was the result of Sankorp's sense of responsibility in the wider South African economic environment. Metropolitan Life was no longer a strategic investment to Sankorp/SANLAM. The Sankorp investment strategy during the first half of the 1990s was that it wanted to reduce its controlling shareholding in underlying companies, to effective shareholding of approximately 30-35%. Sankorp wanted to reduce certain investments to purely portfolio investments. The overall revised Sankorp investment strategy in the case of NAIL implied no further board involvement. Sankorp perceived its role in promoting BEE in very much the same light as its management responsibility of other SANLAM strategic investments. Once the task of effecting BEE had been completed, Sankorp would revise the structure of its involvement in NAIL. Thus, in February 1995 the Sankorp board expressed the desire to revise its position regarding NAIL. Sankorp no longer controlled that investment in NAIL - Sanlam held 15% of the joint 19% stake. The process of BEE via Metlife and NAIL had been completed. Furthermore, in principle Metlife, was competing with Sanlam and that alone raised questions about Sankorp's involvement with Metlife. In the meantime new BEE propositions were put to Sankorp and the company wanted the freedom to consider them on merit.[54] The Sankorp long-term strategy provided for the reduction of its portfolio. In doing so the potential for further BEE transactions could arise and Sankorp

53 **Ibid**.
54 **Sankorp Board Meeting**, 8 February 1995.

would consider them carefully. BEE was not seen as the basis of the Sankorp long-term vision but made up an important part thereof.[55]

Early in 1995 Sankorp management decided to retreat from the relationship with Metlife and NAIL and the Board sanctioned the decision. Metlife and NAIL were treated as portfolio investments. The Sankorp position was that it had assisted NAIL in obtaining access to substantial business interests in the South African economy, and it had assisted with the establishment of management structures and corporate management principles, and the composition of well-functioning Boards of Directors and Board Committees. That concluded the alliance partner responsibility of Sankorp. Sankorp nevertheles was not terminating its involvement in NAIL - it would maintain a portfolio investment and assure that sufficient financing is obtained for NAIL to perform the early redemption of Sankorp's preference shares.[56] Sankorp carefully negotiated the sale of its preference shares so as not to dilute Corporate Africa's control of NAIL. Sankorp granted NAIL an option to redeem the Sankorp preference shares in NAIL on or before 14 May 1996. Sankorp's interest in NAIL consequently diluted from 20% to 16,4%.[57] NAIL was granted pre-emptive rights on the other 20% of Sankorp's shareholding in Metlife. It was agreed that as soon as Sankorp's shareholding dropped below 10% of the issued share capital of Metlife, the voting pool agreement would fall away entirely.[58]

Sankorp did not simply withdraw from NAIL, but moved forward on a new long-term strategy. It had ensured that NAIL observed good corporate governance, financial and management policies and was able to fulfill its role as an independent company in the mainstream South African economy. Once Sankorp's preference shares in NAIL had been disposed of, the 16,4% stake in NAIL was transferred to SANLAM with effect of 1 July 1996. A portfolio investment was compliable with the Sankorp investment strategy and as such the stake in NAIL was maintained - albeit via SANLAM. Sankorp nevertheless always played a constructive role as stakeholder in the companies in which it had an interest.

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55 **Sankorp Management**, 6 September 1995.
56 **Sankorp Management**, 18 April 1996.
57 **Sankorp Management**, 18 April 1996; **Sankorp Board Meeting**, 27 June 1996.
58 **Sankorp Communication to the USA**, Black Economic Empowerment in Sankorp, October 1996.

4. CONCLUSION

Sankorp was rightfully satisfied with the success it had achieved with establishing a particular philosophy regarding the involvement of blacks in the economy of a new South Africa. Apart from the intellectual foundation of BEE instead of social responsibilities in the general sense, Sankorp established the idea that handouts were unacceptable. Empowerment had to address the socio-environmental issues of the macro economy as a whole. The emergence and development of NAIL was testimony of that. To Sankorp the time had then arrived to give effect to that philosophy, in alliances with other black business within the environment of its own strengths and capacity. A decision to consider other empowerment initiatives had already been taken in 1995.

The pioneering action of SANLAM/Sankorp lay in the following:

First the overall assessment of the macroeconomic environment in South Africa which required skills building and equal opportunities for all South Africans to respond to the expected shortage of skilled and managerial manpower. Sankorp correctly evaluated the insufficient capacity building under circumstances of social and political change.

Secondly, the dramatic reverse in investment funds into the country demanded the mobilisation of domestic capital, to which SANLAM as the second largest assurer, had access. Rather than engaging in investment opportunities outside South Africa, the Sankorp approach was to invest in domestic growing industries where capacity building could be effected and a contribution be made to employment creation.

Then Sankorp introduced the model of empowerment based on the creation of opportunities to transfer responsibilities or effective participation in the mainstream South African economy, through alliances. The Sankorp model for BEE was based on the assumption that, from the perspective of an SPC, it could only promote real empowerment by transferring effective control over the factors of production via existing expertise. Sankorp was an investment company with expertise in strategic planning, investment management and performance driven operational control. Those were the areas in which BEE could be effected from the Sankorp side and it actively developed opportunities to facilitate the transfer of such skills and expertise to black people. The firm conviction in the basic rationality of the free market capitalist economic model resulted in the strategy to effect sound business transactions towards BEE. Sankorp realised R120,56 million through the sale of 10% in Metlife to Methold. On conclusion of the whole transaction, Sankorp not only pioneered BEE but also added R800 million value to its shareholders from the following:

- Remaining 20% direct shareholding in Metlife to the value of R400 million;
- Via Methold, indirect interest in Metlife, **The Sowetan** and MTN, R100 million;
- Preferential shares in Methold, backed by the Metlife share price, to the value of R300 million.

The contribution of Sankorp to BEE was the establishment of the principle of transferring control over factors of production through sound business transactions as the only justifiable mechanism of transferring investment and managerial skills to business partners.