universität wien

MASTERARBEIT / MASTER'S THESIS

Titel der Masterarbeit / Title of the Master's Thesis

"South Africa: the Implementation of Government Acts and the socio-economic Environment

-

a land of good hope or already a broken country?"

verfasst von / submitted by

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angestrebter akademischer Grad /in partial fulfilment of the requirements for the degree of

Master of Science (MSc)

Wien, 2016 / Vienna, 2016

Studienkennzahl laut Studienblatt / degree programme code as it appears on the student record sheet:	A 066 914
Studienrichtung lt. Studienblatt / degree programme as it appears on the student record sheet:	Masterstudium Internationale Betriebswirtschaft
Betreut von / Supervisor:	Univ.-Prof. Dr. Oliver Fabel, M.A.

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Wien, am 1. September 2016

Maximilian Berg

Summary

No other legislation of the business area in South Africa has stimulated as much debate and controversy as the introduction of different Equality Acts, such as the Employment Equity Act and the Broad Based Black Economic Empowerment Act (BBBEE). The goal of these acts was to create an artificial social equality within the different ethnic groups of Caucasian, Black, Asian and Indian. Although it sounds easy and convincing in theory, difficulties frequently arise in practice with the implementation of BBBEE and the related Codes of Good Practice, which provide the framework of the Broad-Based Black Economic Empowerment Act (in short: BBBEE Act).

As a result, the South African government should follow different steps: the first priority should be the financial support of education, in particular for “black” schools. The birth rate in South Africa is expected to increase in the next decades. Therefore, medium to long- term unemployment and apartheid are ever-present problems in the South African society, which have to be combatted. Hence, BBBEE should be the second step and should be evaluated as a long-term target. A continuous and critical question is the importance of “ownership” in the Codes of Good Practice (a part of the BBBEE Act): to achieve a good score, companies should be at least partially owned by black people or mergers and acquisitions should only take place with black-owned companies which is a discrimination of other groups with a deterrent effect. South Africa still is a land of good hope with an enormous potential. This potential should be used systematically and capitalized upon, while key concerns should be evaluated before wrong directions could destroy the economy.

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1. Introduction

"I hate race discrimination most intensely and in all its manifestations. I have fought it all during my life; I fight it now, and will do so until the end of my days." said Nelson Mandela in 1962 – 32 years before the end of the apartheid in South Africa.

Nowadays, South Africa is a country with a population of approximately 55 million and an onward access to another 900 million people within the Sub-Saharan Africa area. This potential gateway is not undetected, especially after the end of the apartheid in 1994 and the beginning of the democracy. The World Bank rated South Africa on rank 34 out of 183 countries in 2011 due to the political and economic stability in the country (KPMG, 2011, p. 3). But is this the truth? South African businesses are struggling with a lot of legal and race discrimination problems. Hence, Acts such as the Broad-Based Black Economic Empowerment Act are introduced to rebalance the inequality between Blacks and Whites.

The research question in this particular master thesis is "South Africa: land of good hope or already a broken country? - The implementation of Government Acts and the socio-economic environment". The paper is structured as follows: Starting with a historical overview about the time periods before and after 1994 (Chapter II), this thesis continues with literature review about different Acts and Reports, namely Affirmative Action, Employment Equity and Black Economic Empowerment (Chapter III). The rest of the paper unfolds as follows: Chapter IV contains a summary of the economic and political problems of the Broad-Based Black Economic Empowerment Act (BBBEE). In the same section, the BBBEE Act will be analysed by its Strengths, Weaknesses, Opportunities and Threats (SWOT – Analysis), before future possibilities will be discussed by the author. Chapter 5 is analysing the future of South Africa from a Foreign Direct Investment (FDI) point of view, as FDI should be pointed out as one of the key success factors of an emerging country. Chapter 6, which is the last one before the conclusion, deals with the general impact of economic variables on the economic wealth.

1.1. Limitations

During the research, it has become apparent that it is very hard to conduct a study that aims to explore the issue of BBBEE, based on quantitative data. The original idea of the master thesis was to explore the effect of the BBBEE Act since 2003 until today: what is the impact on international companies? What is the impact on the revised BBBEE generic scorecard in 2013? On account of the fact that the BBBEE Verification Certificates are assigned by third party agencies, such as Grant Thornton, agencies are not interested in a publication of any certificates which is one reason for ongoing criticism.

2. Economic development in South Africa

The economic development in South Africa can be primarily distinguished into two parts: the apartheid, which has lasted until 1994, and consequently the time starting from 1994 after the elections. The first part is characterized by oppression and isolation of the country, whereas the second part is the beginning of democracy in South Africa.

2.1. Apartheid in South Africa

Between 1948 and 1994, there was a racial categorisation and exclusion between coloured persons and the white minority. Coloured South Africans had no chance to receive the same high standard of education as their white counterparts (Coetzee, Daniel, & Woolfrey, 2012, p. 14). Different legislations were published, stating how the different "races" could live, travel, work, be educated and get married. Even the communication between whites and the rest of the population was anchored in several legislative texts (Archibong & Adejumo, 2013). From an economic point of view, South Africa was isolated from other countries and was fully responsible for all the needs in the country (Denton & Vloeberghs, 2003, p. 84). Because of the abuse of power by the state, South Africa was an inward looking country with no international relations. A main reason for isolation were the sanctions from the rest of the world, as a response to the increasing political repression in the course of the years. The peak of sanctions was reached in the early 1990s. This includes an embargo by the United States, which became mandatory in 1997, a loan prohibition in 1978 and an oil embargo by the Organisation of the Petroleum Exporting Countries (OPEC) in 1973. One of the more serious sanctions against South Africa was the elimination of short-term credits in 1985, which was implemented by a group of international banks (OECD-South Africa investment policy dialogue, 2014, p. 15).

As a result of the introduced sanctions against South Africa, the first conflict among the population came up between 1979 and 1980, which resulted in bloody clashes and a mass mobilisation of the darker-skinned African population. During this period of time, it was still almost impossible to work in the business world as a darker skinned African person due to different reasons. One example is loans, which were higher for black-skinned people than for white-skinned people, and business zones, that were only accessible for white persons (Denton & Vloeberghs, 2003, pp. 84-85).

At the end of the 1980s, and especially during the reign of Frederik Willem de Klerk, who was president from September 1989 to May 1994 and the last head of the state under the apartheid, the revolution reached the peak (Denton & Vloeberghs, 2003, p. 85). After five years of negotiation between the apartheid government and African National Congress (ANC), the first free elections in 1994 were revolutionary and represented the beginning of a political U-turn (OECD-South Africa investment policy dialogue, 2014, p. 16).

2.2. Post elections since 1994

Historically, apartheid was responsible for the inequality of access to education, which resulted in an ongoing imbalance in the distribution of work. White people continued to remain in the position of professional and managerial work, whereas blacks (including for Coloured and Indian people), only had a chance for low-level jobs. This situation was set to change after the vote of the first democratically elected government, where the African national congress party (ANC) was the clear winner. This was the end of the apartheid in South Africa and the inauguration of Nelson Mandela in 1994. Entrepreneurs had to react quickly, and were forced to employ oppressed minorities and had to change their entire structure. In the famous speech (better known as the "two nations" speech) by Thabo Mbeki, the second post-apartheid president of South Africa from 14 June 1999 to 24 September 2008, he points out the current imbalance of "*national unity and reconciliation between black and white*" (Ponte, Roberts, & van Sittert, 2007, p. 934). Some historians say that this was the foundation stone of the upcoming Broad-Based Black Economic Empowerment Act in 2003.

This post-election period after 1994, was also a challenge for Foreign Direct Investments (FDI) from other countries in South Africa. The new government created new outward looking policies to attract foreign investors. This includes the reduction of different import tariffs, subsidies and a lowering of the corporate tax rate (Mebratie & Bedi, 2013, p. 109). Already in the years 1994 and 1995, many companies from the United States that had sold their shares during the apartheid, returned to do business in South Africa (OECD-South Africa investment policy dialogue, 2014, p. 16). This was the beginning of a land of good hope: a new type of competition was created, which resulted in a high level of Foreign Direct Investment within months. Furthermore, labour rights were introduced, which had to be fulfilled by all companies. The open market situation leads to a general optimism. For example, Munor mentioned these “major opportunities” in his article "Riding the fourth wave of change” – South Africa re-entered the global marketplace again (Munro, 1997, pp. 35-7). All in all, after the end of the apartheid, South Africa represented an attractive investment destination for entrepreneurs and investors. Furthermore, South Africa can be proud of its constantly growing market with a high further growth potential, if government regulations are accepted by the industry (OECD-South Africa investment policy dialogue, 2014, p. 16). However, one of the biggest challenges is to change the “inward-looking” policies within a country towards an “outward-looking” policy. Globalisation and the integration of equal working conditions for all employees in South Africa are the key challenges in this change. In addition to that, the low level of productivity, the lack of international business experience, the low research and development activity and the high crime rate have to be fought and improved in order to survive in a competitive international market environment (Denton & Vloeberghs, 2003, p. 86). From a labour perspective, the post-apartheid since 1994 is split into two phases: the first one is from 1994 to 2000, which is described in an article of Ponte, Roberts, & van Sittert (2007) as a process of self-discovery or the time of black ownership deals. This phase was highly criticised due to the fact, that only preferred black people, who already enjoyed prosperity (often politicians) could benefit from the ownership deals (Ponte, Roberts, & van Sittert, 2007, p. 941). Worth mentioning is the lack of a framework in this first phase.

The second phase, starting from 2000, includes several Acts and especially the introduction of the equal treatment Act, namely the BBBEE Act, which comprises codes and legislation, to support all oppressed groups (Archibong & Adejumo, 2013, p. 15).

The target was to create the right balance between the different races and genders. The Employment Equity Act in 1998, and the Broad Based Black Economic Empowerment Act in 2003 provided a framework for the implementation of affirmative action plans (Archibong & Adejumo, 2013, p. 15). A detailed discussion of both Acts and their impacts on the South African economy will follow in the next chapter.

All in all, the government of South Africa has a unique and challenging role: On the one hand, companies should be supported to achieve higher levels of competitiveness and profitability. On the other hand, the expansion of companies has to be controlled to secure a planned development of economy, which is aimed by the "*transformation of economies*" – a part of the Employment Equity Act 55 of 1998 (Kleynhans & Kruger, 2014, p. 1). As a response to the lack of success of the Employment Equity Act, the government introduced the Broad-Based Black Economic Empowerment Act in 2003, which is a more detailed Act to create equal opportunities.

In the following chapter, these Acts and approaches will be explained and elaborated upon in more detail.

3. Legal Framework for Equal Treatment

Creating jobs thus reducing unemployment and thereby inequality are the key economic and social challenges in South Africa. The following chapter deals with the key principles and Acts in South Africa after the elimination of the apartheid and the vote of the African National Congress in 1994 with the first (and without question) most famous president: Nelson Mandela, the first black head of state and the first president who was elected in a fully representative democratic election. The purpose of the literature review in the following chapter is to provide the historical background of the research topic in chronological order.

3.1. Affirmative Action

Affirmative Action was first mentioned in 1994 during the African National Congress, right after the elimination of apartheid and the first democratic elections in 1994. The target of Affirmative Action is to create an artificial equal treatment with the aim to create a representative and fair working environment for both, black and white people (Mathur-Helm, 2005). The reason behind this initiative was to adjust the imbalances of the past, especially in terms of race, gender and disability (Denton & Vloeberghs, 2003, p. 89). In the literature, affirmative action is defined as "*a set of procedures aimed at proactively addressing the disadvantages experienced by sections of the community in the past*" (Duncan, Kentridge, & Perold, 1993, p. 4).

As a reaction to the repression, the South African government introduced the Employment Equity Act in 1998, which was the first formalisation of Affirmative Action (Burger & Jafta, 2010, p. 5).

3.2. Employment Equity Act

The Employment Equity Act No. 55 of 1998, is the second step of the Affirmative Action plan which provides a framework to implement Affirmative Action successfully. Before the introduction of the Employment Equity Act, Affirmative Action was only based on voluntary actions in the private sector. Due to the fact that there was no Act until 1998, Affirmative Action was not nearly of the magnitude to fulfil a successful implementation of equal treatment (Burger & Jafta, 2010). As a consequence, the Employment Equity Act was the first Act which explicitly promoted affirmative action (Sydney de Klerk, 2008, p. 23).

In chapter two (2), Section 2.2 of the Employment Equity Act, the general purpose is mentioned. In detail, the substance of the Act is the following:

> *"[...] to achieve equity in the workplace by –*
> *(a) promoting equal opportunity and fair treatment in employment through the elimination of unfair discrimination; and*
> *(b) implementing affirmative action measures to redress the disadvantages in employment experienced by designated groups, in order to ensure their equitable representation in all occupational categories and levels in the workforce"* (Republic of South Africa, 1998, p. 12).

The expression "designated group" is described as a group of Africans, Coloureds and Indians, but also women are included in this group. Worth mentioning is, that it took another four years following the publication of the Affirmative Action plan that a gazette was published with instructions on how to proceed (Republic of South Africa, 1998).

The background of the Employment Equity Act was:

> *" [...] to ensure that suitably qualified people from designated groups have equal employment opportunities and are equitably represented in all occupational categories and levels in the workforce of a designated employer* (Republic of South Africa, 1998, p.18).

In other words, companies are forced to fulfil different duties under the Act. Employers have to start with an audit in which employment policies and practices in the workplace must be undertaken. The target of these audits is to develop demographic profiles of the workforce (Burger & Jafta, 2010, p. 6). For example, if a company has 50 members in the board of directors, the company's' aim is to have approximately 35 black, five coloured, four Indian and five white directors. Furthermore, half of it (which are 25 members) have to be women but also two disabled persons should be part of the board of directors (Israelstam, 1999).

To point out the distinction between Affirmative Action and the Black Economic Empowerment, Neville has described the difference as following: Affirmative Action "*refers in the first instance to the working people of the country, the BEE aspect of redress is, at least in practice, very much about the upper and middle classes*" (Neville, 2007, p. 97).

3.3. Black Economic Empowerment

As a reaction to the weak response of the Equity Empowerment Act and increasing political pressure, the South African Department of Trade and Industry (DTI) introduced the Broad Based Black Economic Empowerment Act (in the following BBBEE Act) in 2003 (Alessandri, Black, & Jackson, 2011, p. 233). Before that, the BEE Commission, which was nominated by the DTI in 1998 published a so called "BEE Commission report" in 2001 which describes the basic idea of the BBBEE Act. In short, the main idea of the new act is a proactive integration of the state, to promote black empowerment with the support of new legislation: "*The government should point out key sectors, finance specific investment projects and formalize procedures, indicators, targets, etc., with which economic agents could be much more informed about BEE achievements*" (Acemogluy, Gelb, & Robinson, 2007, p. 7). In some literature, it is mentioned that the government act is not just a stepping stone towards equality – it is a new way to "*think the unthinkable"* (Butler, 2006, p. 6).

Furthermore, the BEE Commission report was the first official paper to include several measurable numbers. Worth mentioning is the measurement of the degree of black ownership which is still considered as a milestone (Acemogluy, Gelb, & Robinson, 2007, p. 8).

The following figure illustrates the historical development of Black Economic Empowerment.

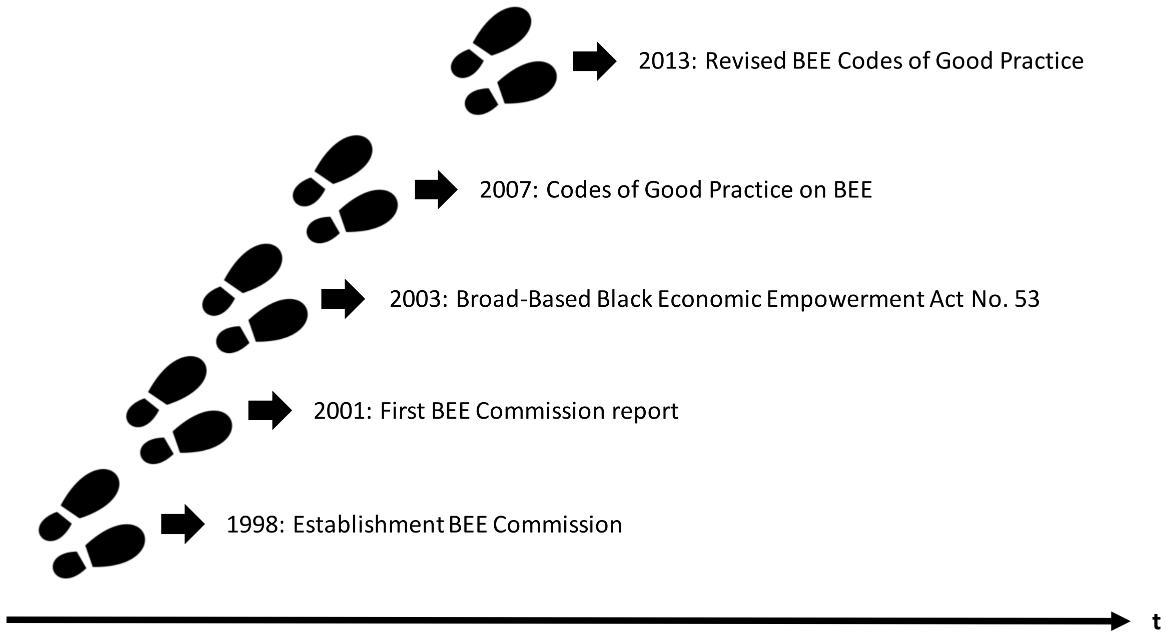

Figure 1: Development of the BEE Act
Source: own representation

It should be clear, that the BBBEE Act is not just a supplementary law to the Employment Equity Act. Instead of focusing on the "*employment opportunity redress in workplace practices*" (Horwitz, 2011, p. 302), the BBBEE Act is about to "*manage, own and increase financial and managerial control in the South African economy, as well as attain significant decreases in income inequalities"* (DTI, 2004). An important aspect is that BBBEE should not be an affirmative action program, but it is seen more as an "all-inclusive policy" that guarantees that all South Africans gain profit from this growth strategy by the African National Congress (OECD-South Africa investment policy dialogue, 2014, p. 37). The BEE Commission already mentioned the target of the BBBEE Act (published in 2003) in the report in 2001:

> *"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 increasing the number of black people that manage, own and control enterprises and productive assets; facilitating ownership and management of enterprises and productive assets by communities, workers, cooperatives and other collective enterprises; human resource and skills development; achieving equitable representation in all occupational categories and levels*

in the workforce; preferential procurement; and investment in enterprises that are owned or managed by black people" (Black Economic Empowerment Commission, 2001, p. 2).

To sum it all up, the purpose of BEE is highly diversified: regulations exist from the top of a company hierarchy (51% ownership by black people including a significant influence on management control of the business) to the lower positions (including internships and apprenticeships) and the environment of a company (to increase the access for black people to economic activities, infrastructure and professional skills) (Department: Trade and Industry, 2013, p. 7). Even if the BEE Commission already mentioned most topics in the report in 2001, it took another two (2) years until the BBBEE Act was published in 2003. The Act provides a legal framework of BBBEE, which includes not only a regulation of ownership, but also aims for control and other social economic factors (Ponte, Roberts, & van Sittert, 2007, p. 942). Generally speaking, the policy of the BBBEE Act is primarily anchored in two key documents:

1. the BBBEE strategy (which was published in 2003 and provides the first legal framework of BBBEE) and
2. the Codes of Good Practice (which was first published in 2007 including a balance scorecard for comparable results between companies).

Both documents will be discussed in the following sections and provide the theoretical framework for the following discussion in Chapter 4.

3.3.1. The BBBEE strategy

The first key document– namely the BEE strategy (official name: Broad-Based Black Economic Empowerment Act. No. 53) - was introduced in 2003, because "*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 to achieve sustainable development and prosperity*" (Black Economic Empowerment

Commission, 2001, p. 2). “Black people” is a general term for all “*women, workers, youth, people with disabilities and people living in rural areas*” (Burger & Jafta, 2010, p. 7). After the announcement of a new Act in the BEE Commission report, the Broad-Based Black Economic Empowerment Act (BBBEE Act) was the first

> *“legislative framework for the promotion of black economic empowerment; to empower the Minister to issue codes of good practice and to publish transformation charters; to establish the Black Economic Empowerment Advisory Council; and to provide for matters connected therewith”* (Republic of South Africa, 2004, p. 2).

To be short, BBBEE was introduced in South Africa as a response to the apartheid's oppressive effects on different classes of the population of South Africa and to improve opportunities for black individuals via affirmative action (Ponte, Roberts, & van Sittert, 2007, p. 934). The purpose of BBBEE is easy to answer at some level, nevertheless every Act has its negative consequences, which will be described below.

3.3.2. The Codes of Good Practice

The Codes of Good Practice, which measure the degree of fulfilment of the BBBEE Act, were introduced in 2007 to provide a standardized framework to all companies to measure the compliance of BBBEE. For the first time in South African history, the Department of Trade and Industry (DTI) published a time frame for the application of the Codes of Good Practice. The compliance is essential when companies want to do business with any government enterprise (KPMG, 2011, p. 37). Furthermore, companies who are not dealing with government enterprises are also encouraged to fulfill Codes of Good Practice, which is the second key document to ensure a consistent interpretation to BBBEE across all sectors (Dunnigan, Fazaeli, & Spies, 2009, p. 4). Due to the “preferential procurement” which is embedded in the generic scorecard (please find the definition below) BBBEE will affect most private companies due to the supply chain within the open market (OECD-South Africa investment policy dialogue, 2014, p. 34). Hence, in theory, no private company can escape the Codes of Good Practice, due to the fact that the procurement component will cascade down the whole public sector supply chain (Butler, 2006, p. 7). It was mentioned by the DTI, that the codes will be valid for the following ten (10) years. After the expiration of this period of time, the Codes of Good Practice will be reviewed with reservation by the Department of Trade and Industry (Burger & Jafta, 2010, p. 8).

Elements of the generic scorecard

As mentioned earlier, the Codes of Good Practice were introduced in a second step (following the BBBEE strategy), to act as a guideline, on February 9th 2007. The basis of the Codes of Good Practice was the "3-4-5-6" plan, which was presented by the NAFCOC (National African Chambers of Commerce) in the mid 1990s. This plan was relevant for all companies listed in the JSE (Johannesburg Stock Exchange). Every corporation listed on the JSE "*should have 30% black directors; 40% black share ownership; 50% black suppliers for production inputs; and 60% black management"* (Acemogluy, Gelb, & Robinson, 2007, p. 7).

The department of Trade and Industry (DTI) published a first draft of the Codes of Good Practice in December 2004, nevertheless it took another four years until the draft was finalised and was published in 2007 (Sydney de Klerk, 2008, p. 29). The result was a standardized balance scorecard to compare the compliance by BEE companies and to measure the empowerment status between different companies (Kleynhans & Kruger, 2014, p. 2). It is worth mentioning that the balance scorecard is relevant for all companies with an annual turnover exceeding Rand 35 million (approx. € 2,3 million), while there is a reduced generic scorecard for companies between Rand 5 million and Rand 35 million (approx. between € 300.000 and € 2,3 million). All smaller companies are excluded from the regulation. From a mathematical point of view, the generic scorecard is relevant for approximately 88% of the total number of companies in South Africa (Burger & Jafta, 2010, p. 8).

The reason for the introduction of the scorecard mentioned above, was to ensure that private organisations fulfill the BBBEE compliance which is relevant for public tendering (Burger & Jafta, 2010, p. 8). The structure and the content of the Codes of good practice includes seven sub-elements of Broad Based Black Economic

Empowerment. The DTI published a cluster where the seven sub elements are grouped into three categories, such as Direct Empowerment (Ownership and Management Control), Human Resource Development (Employment Equity and Skills Development) and Indirect Empowerment (Procurement, Enterprise development and Socio-economic development) (Horwitz, 2011, p. 302). The seven sub elements are described below:

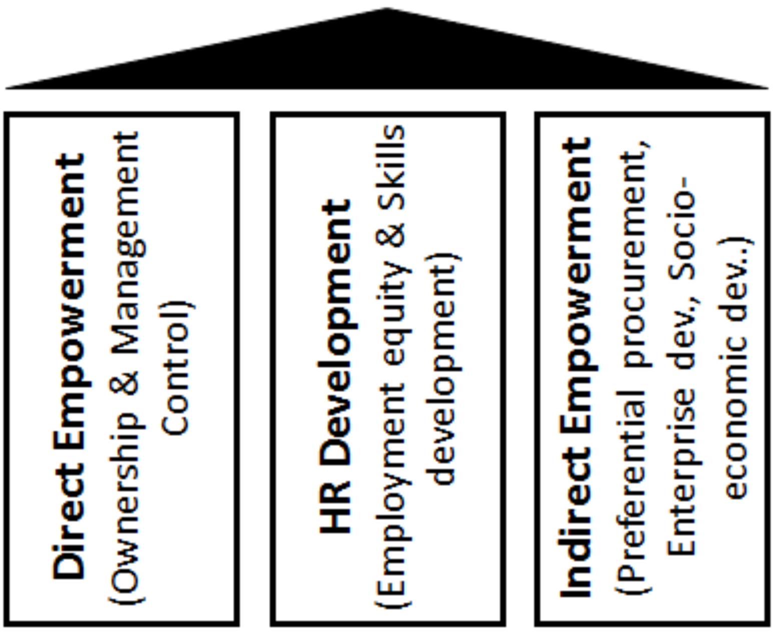

Figure 2: Components and elements of the scorecard
Source: own representation

Ownership

The Codes of Good Practice (in the following "Codes") are valid from the highest hierarchy level to the lowest. Starting with the highest, the codes mention the ownership. The purpose is to support the effective ownership by black people (Kleynhans & Kruger, 2014, p. 3). Thabo Mbeki, who was the second president in South Africa after the end of the apartheid, mentioned the problem of ownership in the well-known two-nations speech. In his speech, he mentioned that the national unity and reconciliation between blacks and whites is impossible as long as the black people do not have the right to act as a white entrepreneur (Ponte, Roberts, & van Sittert, 2007, p. 934).

Management Control

The next hierarchy level is the board of directors, which is described in the codes as management control. It points out the ideal percentage of managerial efficiency by black leaders in an enterprise, in positions such as executive management, the board of directors or in the board committees (Burger & Jafta, 2010, p. 9).

Employment Equity

The third part – the Employment Equity is a repetition of the Employment Equity Act from 1998. It includes the definition of a non-racial and gender-sensitive workplace, which is weighting the percentage of black people in the company – regardless of the position of the employee (Kleynhans & Kruger, 2014, p. 3).

Skills Development

According to Kleynhans & Kruger (2014) there is not enough attention paid to the investment of skill development. To address the problem of a low-skilled vs. a high-skilled labour force, companies have to react. Therefore, it states in the Codes, that it is mandatory that companies must portray their actions in this field in the annual report (Kleynhans & Kruger, 2014, p. 3).

Procurement

This part is not only relevant for companies that deal the the public sector, but also for all companies who are interested in B2B-businesses. It is all about “preferential procurement”: companies get a better score on procurement, when they have trade relationships with companies that have a high BBBEE-score. The result is, that companies having a high BBBEE compliance are better off in the B2B area (Kleynhans & Kruger, 2014, p. 4).

Enterprise development

This part of the Codes is about the support amongst smaller and medium companies. Basically, there are two ways to support enterprise development: the first one is investment, which includes the financial support of black-owned companies. The second way is to start a joint venture with a black-owned company (Kleynhans & Kruger, 2014, p. 4). It can, however, be questioned whether such an incentive is supporting the general economic welfare. Especially white-owned companies can suffer under this regulation and may be forced to close their business in a medium term.

Socio-economic development

The last part is not about the structure within a company – it is more about the environment of an organisation and their stakeholders. Socio-economic development (or sometimes mentioned as "Corporate Social Investment") describes the effectiveness of projects which are described in certain guidelines. The so called General Corporate Social Investment (CSI) projects include the development of a community (including school training), the environment protection (including clean-up initiatives), the educational work on the risk of HIV and AIDS, sport and health programmes and many other more (Kleynhans & Kruger, 2014, p. 4).

In recent years, the DTI introduced the Revised BBBEE Codes of Good Practice taking into account the achievements and recent developments of the previous Codes. The publication took place in October 2013. Instead of the seven elements of the generic scorecard, the new Codes of Good Practice provide five elements, namely (Department: Trade and Industry, 2013, p. 20):

- Ownership
- Management Control (Employment Equity is partly included)
- Skills Development
- Enterprise and Supplier Development
- Socio-Economic Development

The following figure provides an overview about the development of the Codes of Good Practice:

Codes of Good Practice 2007	
Ownership	20 points
Management Control	10 points
Employment Equity	15 points
Skills development	15 points
Preferential procurement	20 points
Enterprise development	15 points
Socio-economic development	5 points

Revised Codes of Good Practice 2013		Target
Ownership	20 points	25% black owned companies
Management Control	15 points	50% of executive management
~~Employment Equity~~	~~15 points~~	*Comment: deleted*
Skills development	20 points	3% of payroll on skill development
Enterprise and Supplier Development (ESD)	40 points	Preferential procurement, Supplier development and Enterprise development is summarized in one group
Socio-economic development	5 points	At least 40% of Net Value

Figure 3: Development of the BEE scorecard

Source: own presentation

In addition to the general Codes of Good Practice, worth mentioning are the sector scorecards, which are published by the DTI in the same time. Especially smaller Enterprises have no target to fulfil all categories without having a disadvantage. Very small Enterprises (with a total turnover between Rand 0 and Rand 10 Million) are treated as exception, and excluded from the codes (OECD-South Africa investment policy dialogue, 2014, p. 34).

The last chapter gave the reader a leading insight into the history of Broad-Based Black Economic Empowerment and the related key documents. Without question, the BBBEE Act did not only receive praise – quite the contrary: Affirmative action and the following Acts are one of the most sensitive issues in South Africa. According to the opinion of Neville, the consequences of the Acts are unintended (Neville, 2007). In the following chapter, the potential of BBBEE and the Strengths, Weaknesses, Opportunities and Threats are discussed.

4. Potential of BEE and the growing economic and political problems

As illustrated in Figure 4 below with data from the World Bank Group, it is obvious, that there is no constant GDP growth rate (annual %). The economic growth in South Africa, is characterized by good times and significant recessions. With an average growth rate of 3,1% since 1994 and a variance of 2,7% it can be said, that there is a wide dispersion from year to year (for comparison: the average economic growth in emerging countries ranges from 4,5% up to 5% - depending on the source of data). One reason for the below-average Economic growth rate is the uncertain future, so that the question can be asked, what the relationship between the low economic growth and the BBBEE development is. In the following chapter the author ascertains the reason for this development.

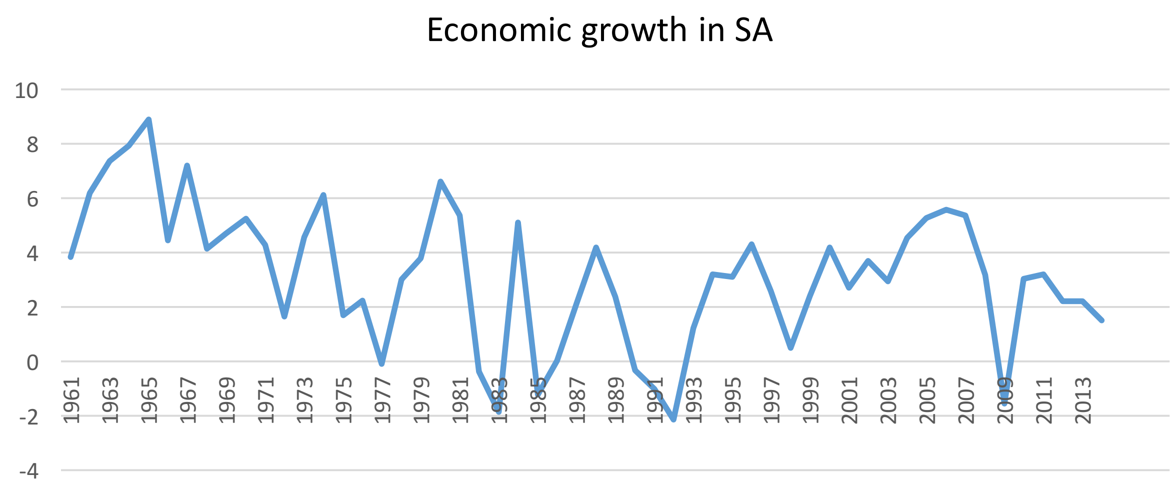

Figure 4: GDP economic growth rate (annual %)
Source: Global Economy / World Bank Group

"*Black Economic empowerment is an initiative requiring that white-owned companies offer training, education, shares and ownership in their business to someone of colour*" is a title in a magazine (Campbell & Hackett, 2006, p. 4). This title could be interpreted in a positive way, but also as an indirect accusation towards the government. The authors mention, that BEE "*was not the transfer of equity, but was instead the development of skills*" (Campbell & Hackett, 2006, p. 4). In other words, BEE is only supporting the well-educated black population, whereas there is still no advantage for the lower-educated black population, which is the majority.

"Corruption, bureaucracy, racism: the development towards a crisis state" was another heading of an article in a German newspaper in 2013 (Drechsler, 2013). In some literature, the BBBEE Act is described as a "*Big Push*" – the political and economic misdirection can be pushed by the government interaction, nevertheless, it is not the solution (Acemogluy, Gelb, & Robinson, 2007, p. 10). Now it should be clear that the question that is frequently asked by economists is whether the Broad-Based Black Economic Empowerment is a medium to stimulate growth and equal opportunities or not (Kleynhans & Kruger, 2014, p. 2). The truth supposedly lies somewhere in the middle.

4.1. The problem of implementation of BEE

BBBEE has not been without criticism. Supporters of the BBBEE Act share the idea of an economic development and social uplift. Actually, in the course of the discussion it gets obvious that BEE is often seen as a redistribution of capital at the consumer expense. Even if, BEE is a great example to show the importance of the elimination of apartheid, the outcome is often a confusing blend of interests and mechanism including unpredictable consequences (Ponte, Roberts, & van Sittert, 2007, p. 936). In a statement about BEE, the Trade and Industry Minister and supporter of BBBEE, Rob Davies (since 2009) mentioned the following: "*Black economic empowerment is not just a social and political imperative. We need to make sure that in the country's economy, control, ownership and leadership are reflective of the demographics of the society in the same way the political space does. That's why we are saying Black Economic Empowerment remains an economic imperative"* (le Roux, 2013, p. 1). On the contrary negative headlines were published in the last decade: "*Though BEE is well conceived in theory, implementation has been plagued with difficulty*", is a title of an article by Dunnigan, Fazaeli, & Spies (2009). This title reflects the truth of BBBEE: one reason of the defective implementation is the widespread misperception of BBBEE. Investors do not recognize the advantage of BBBEE. The reason for BBBEE, and how BBBEE works should be considered. Furthermore, based on a long-term perspective, BBBEE promotes the skill development and increases the economic participation within all ethnic groups (OECD-South Africa investment policy dialogue, 2014, p. 39).

The lack of willingness of white employers to employ coloured or disabled persons leads to the large number of different acts (Kemp, 1994, p. 27). White managers do not see the program of affirmative action and the Employment Equity Act as an Act to create an artificial equal treatment between whites and nonwhites. It is rather seen as a "*racist policy*" against whites (Denton & Vloeberghs, 2003, p. 89). The most common question that probably arises among economists is, if or if not Black Economic Empowerment is an economic growth medium for the South African economy (Kleynhans & Kruger, 2014, p. 2).

In his article Black Economic Empowerment by Anthony Butler (2006), the author mentioned five key concerns about BEE policy:

- **Overall feasibility**

  The targets of BEE are very ambitious. Worth mentioning is the aim that a quarter of the private companies should be owned by black people. Nevertheless, there is a lack of "*black capital*", which means that black business people have to get loans, which cause high cost and constitute a risk inherent with the investment into a new business (Butler, 2006, p. 8). So in theory, mergers and acquisitions are possible for black people, nevertheless it is linked to high-risk equity.

- **Economic costs**

  Nowadays it is widely accepted, that BBBEE is an essential topic. However, it is repeatedly discussed as an approach of equal treatment, which is far too costly. One reason for the related economic costs is the often-criticized aspect of "ownership" in the scorecard, which is mentioned in the codes of good practice. As described in the article by Butler (2006, p. 9), due to the political influence, „influential partners“ is the most common partnership nowadays due to BBBEE activities. „Influential partners“ is described as an operation through „*diversified investment holding companies*“ (Butler, 2006, p. 9), which is expensive due to the necessary basis of contractual safeguarding. Furthermore, the cost of manipulation is worth mentioning: It is well known, that black managers are employed in primarily international companies without having any right for participating in the operations of the business. Nevertheless, the target “Management” in the generic scorecard is reached, as the company officially employs black managers. This “solution” is a popular way of working of big businesses, to distract from the poor performance of ownership, skills and employment equity (Butler, 2006, p. 10). Another economic cost is the issuance of the certificates. Certificates are prepared by BEE Verification Agencies (Abva) which are normally third party agencies. In practice, third party agencies are easy to manipulate. No state authority guarantees for the correctness of the certificates.

In addition, international companies are afraid of the BBBEE time frame. It is impossible to predict what will happen in 10 or more years. BBBEE Acts could be renewed or even dramatically intensified.

- **Empowerment state**

In the paper by Butler (2006, p. 10), the author is concerned about the influence of the state. The established and emerging capital could cause an even greater break-up than it already has in the past. “*The state might become the slave of narrow interests, rather than government’s hoped-for “developmental state” forging transparent and economically productive relations with business*” is mentioned by Butler (2006, p.11).

- **Implication for ANC unity**

The following key concern deals with the *“empowerment for the integrity and stability of the ANC*” (Butler, 2006, p. 11). Business empowerment went so far, that it can change the structure and the power of the ANC. There is a high risk of general economic interest into government matters. This risk is not caused by BEE but it can influence the future political development and the development of employment equity (Butler, 2006, p. 12).

- **Costs of uncertainty**

  Last but not least, the costs of uncertainty are worth mentioning. South Africa is still living the hope of employment equity for all races. The government has introduced different Acts to support this idea. Nevertheless, the power of the government is limited. Local and international companies are worried about the future development. It could be said that the first phase of a successful implementation of BBBEE failed with creating a sustainable increase in control and black ownership (Butler, 2006, p. 13). The uncertainty about the BBBEE and upcoming new acts is damaging the development of the country and slowing down Foreign Direct Investment (FDI) and developmental goals (Butler, 2006, p. 13).

According to the author's opinion it is also a misdirection to hand over the “control” of the codes and charters. Instead of being under state-control, the BEE certificates are outsourced to consultants and auditors of partly international companies such as Grant Thornton. The process of empowerment is consequently in a third hand, which is easier to manipulate. Horwitz (2011, p. 302) describes this as action as a political franchise system.

In the future, in accordance with the opinion of Dunnigan, Fazaeli, & Spies (2009) the government should regain the full control of BEE. This includes „*to establish credible enforcement of deadlines, shift focus away from ownership, combat BEE related corruption, minimize BEE impact on FDI and encourage ‘bottom up’ empowerment*“ (Dunnigan, Fazaeli, & Spies, 2009, p. 2). Nevertheless, this is a balancing act between too much power and too little power. In the author’s opinion, too much control is also harmful: due to the regulations and the preferential procurement, more capital lands in the hands of politically favoured entrepreneurs instead of entrepreneurs who could create the highest wealth. Recent studies by Mebratie & Bedi (2013, p. 120) have come to the conclusion that compliance with the BEE Preferential Procurement Code has a negative impact on the foreign firm productivity.

4.2. SWOT – Analysis of BBBEE

As already mentioned by Acemogluy, Gelb, & Robinson, 2007 (p. 19), the simplest way of measuring positive impact of an Act is by focusing on its costs and benefits to firms. To provide an overview of the Strengths, Weaknesses, Opportunities and Threats the authors created a summary of the opinion of other authors and the own opinion.

4.2.1. Definition: SWOT - Analysis

Following, an overview of possible strengths, weaknesses, opportunities and threats (SWOT – analysis) is provided. The basics of a SWOT – analysis is the following:

> "*The intention of SWOT, or strength, weakness, opportunity, and threat, analysis, is to identify those internal strengths and external opportunities that an organization can leverage to accomplish its objectives, while also seeking to mitigate internal weaknesses and external threats*" (Pershing, 2006, p. 1089).

Or, in other words: the SWOT analysis defines the inhibitors and enhancers of a specific subject, project, company or any other content. To limit the scope of this topic, the following Figure provides an overview of examples of every dimension.

Internal Factors	
Strengths - Market dominance - Core skills - Economies of scale - Leadership and management - Reputation - Product and service quality - …	**Weaknesses** - Few core strengths and low key skills - Weak finances - Poor record of innovation - Dependent on few products - …
External Factors	
Opportunities - New markets and segments - Market growth - Demographic and social change - New takeover or partnership - Economic upturn	**Threats** - Technological Threat - Change in political or economic environment - Demographic change - New international barriers to trade - …

Figure 5: Examples of SWOT

Source: Pershing, 2006, p. 1090 (own presentation)

For a successful evaluation of SWOT, focus group data is necessary. For a satisfactory result, Pershing (2006, p. 1095) recommends a four step approach which will be discussed briefly in the next section.

The first step is the identification of stakeholders. A separation between key players (those with high power and interest) and stakeholders with low interest is necessary. Key players are important for both – an internal and external point of view. In a second step, the SWOT analysis should be generated (Pershing, 2006, p. 1096). A helpful template are the definitions of SWOT, which are mentioned below:

- Strength: is an internal competence, which could be interpreted as a competitive advantage compared to the external environment.
- Weakness: is an internal shortage of competence, which could be exploited by competitors to damage the company.
- Opportunity: is an external factor which the company can use to create value or / and growth.
- Threat: is an external factor that constitutes a danger for the company and could reduce the value of a company (Capon, 2004, p. 397).

All findings should be categorized by the definitions mentioned above. According to the author’s opinion, brainstorming activities are recommended. In a third step, Pershing (2006) recommends the classification and the ranking of all points mentioned in the SWOT analysis. Stakeholders should concentrate on the main points, instead of mixing important aspects with less important ones. Step four (4) is the future direction of the company. Stakeholders should discuss the main points and react. A discussion about the importance of different aspects often leads to a conclusion concerning the urgency of different aspects and how these aspects should be addressed (Pershing, 2006, p. 1099).

4.2.2. Result: SWOT – Analysis

The following figure provides an overview of a SWOT-Analysis of BBBEE. It includes the opinion of other authors mentioned above and the own opinion of the author.

Internal Factors	
Strengths - Legal framework for equal treatment - Quantitative evaluation due to the Codes - Codes include internal and external components	**Weaknesses** – High risk of corruption – Strongly criticized – weighting in the scorecard (→ high weighting of ownership)
External Factors	
Opportunities - Higher acceptance by exchange of employees in companies and the state (→ improved understanding)	**Threats** - Risk of loss of control - Uncertainty causes displeasure towards BBBEE - Risk of political new orientation (→ collapse of the ANC)

Figure 6: SWOT of the BBBEE Act

Source: own interpretation

4.3. Next step: Future Possibilities rather than Limitations

At present, the future of BBBEE is still very unclear (Acemogluy, Gelb, & Robinson, 2007, p. 10). The participation of blacks (including women, workers, youth, people with disabilities and people living in rural areas) is still very limited due to the lasting low level of well-trained and skilled workers since the end of the apartheid in 1994 (Ponte, Roberts, & van Sittert, 2007, p. 945). The problem is obvious: employment creation is still far behind the target and consequently it has failed to be in line with the target of growth of the labour force. Furthermore, it is very difficult to separate the different effects of the BBBEE Act because the Act is linked to many different other legislations (Acemogluy, Gelb, & Robinson, 2007, p. 24). Is BBBEE for example responsible for high interest rates and a poor stock performance, which leads to the risk of insolvency? Consequently, the following question arises: How can different sorts of policies regulate the failures in the past or is it already too late? Unfortunately, economic theory does not provide a simple answer to solve this issue. However, the common sense could provide an answer: more resources should be invested in the spending for education and schools (Acemogluy, Gelb, & Robinson, 2007, p. 13), which will be discussed in detail in Chapter 6. BBBEE should be seen as a long-term step stone instead as a target within five (5) to ten (10) years. A successful implementation of BBBEE includes the encouragement of interaction between black-owned businesses, the established capital and the state, which is supporting the actions directly with clear rules (Butler, 2006, p. 13).

On the one hand, due to the opinion of Alessandri, Black, & Jackson (2011) more attention should be drawn to employment equity instead of BEE. The cumulative effect of BEE is in total zero (0). The reason are the benefits on BBBEE on the one hand, and on the other hand the costs of BBBEE (Acemogluy, Gelb, & Robinson, 2007, p. 1). In total, the share of black workers in the lowest income category is still the highest and at the same level as before 1994. In addition, the authors have discovered that it is easier for firms to start a joint venture project with a „*black empowered*“ group instead of changing the structure of the company (Ponte, Roberts, & van Sittert, 2007, p. 949). . However, the Employment Equity Act creates an artificial inequality due to fact, that less skilled and less experienced people from the “designated group” get jobs, even though more educated people also applied but were rejected, not being part of the “designated group” (Neville, 2007, p. 97). The trick is to find a solution, which is neither the way back to the apartheid nor to the discrimination of non- “designated groups”.

Discrimination in any sense is absolutely the wrong approach: The situation has been exacerbated within the last decade. The “Commission for Employment Equity (CEE)” has published a report in 2014, that cites that Whites in South Africa occupy 62,7% of top management positions; black people account for 19,8% of top management; Indians 8,4%; and Coloureds 5,1% (Department of Labour, 2014, p. 27), which is not in line with the BBBEE Act and especially the Employment Equity Act, published in 1998. As already mentioned above, the primarily focus of the BEE was to ensure equal opportunities for all South African inhabitants but especially for “*previously-disadvantaged or -designated groups*” (Kleynhans & Kruger, 2014, p. 2).

The main result of a study by Acemogluy, Gelb, & Robinson (2007) is that BBBEE only has a very limited impact on the firm’s behaviour. Nevertheless, some recommendations should be considered to achieve a long-term satisfactory outcome of BBBEE:

- The weighting of the generic balance scorecard should be adjusted: particular noteworthy is the aspect of “ownership”. There is not much international evidence that a reorganization of ownership has a large positive or negative impact on a firm’s productivity, which raises the question of an economic meaningfulness (Acemogluy, Gelb, & Robinson, 2007, p. 20). To avoid a lack of firm productivity and to decrease the pressure on owners, the weights of “Ownership” should be downgraded and the importance of skills and enterprise development should be increased.

- International companies avoid large investments due to the insecure future. Hence, to avoid any uncertainty, a new Commission Report (Number 2) should be published. While industry charters set various targets for future dates, they do not say what happens after this. This creates uncertainly in the minds of businessmen and investors (Acemogluy, Gelb, & Robinson, 2007, p. 2). In the latest BBBEE Amendment Bill, the minister of the DTI announced a penalty which includes a 10% company turnover penalty payment. Nevertheless, a detailed structure has not been published yet (Department: Trade and Industry, 2013, p. 12).

- Legal arrangements should also be reviewed: to evaluate the results of the generic scorecard, one must have good and reliable information about that. At the moment, this information is not seen without scepticism. The certificates are issued by third party agencies and not by the government, which can be defined as a huge potential of manipulation. The easiest way and the takeover of power by the government would be a link between the BBBEE verification with financial auditing by the government (Acemogluy, Gelb, & Robinson, 2007, p. 3).

- Tax Breaks for black industrialist could solve the issue of a low participation in black ownership in the medium term (Department: Trade and Industry, 2013, p. 37).

- Trainings for all employees, which enable to identify high performers and high potentials, should be established by law in the BBBEE Act. At the moment there is only one general financing pool regulated by the government.

It should be recalled that BBBEE is a new Act compared to other countries where legal requirements are existing in this area since decades. General speaking, there is a weak evidence that BBEE has a negative impact on investment and labour productivity – especially from an international company point of view (Acemogluy, Gelb, & Robinson, 2007, p. 34). Nevertheless, since the BEE Act is a relatively new activity in South Africa, the following analysis is mainly exploratory in nature.

To sum up, there are several good arguments that all components have either positive or negative effects on the total result of BEE and the codes of good practice. Which one of these components is an empirical question which is not easy to solve due to the short period of time since the introduction of BEE (Acemogluy, Gelb, & Robinson, 2007, p. 1).

4.4. Recent development in South Africa

In the last weeks in Summer 2016, there were significant changes in the South African government. Recently, during the South African municipal elections on August 3, 2016 the ANC[1] lost a considerable number of voters:

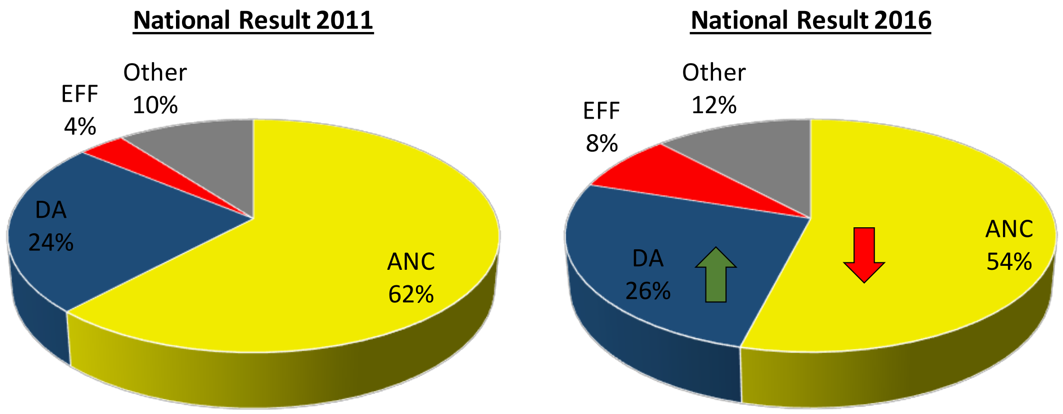

Figure 7:Local Government Elections 2011 vs. 2016

For comparison: in the last South African general election in 2014, the ANC had 65,90% of all votes, the DA had 16,66% and other parties had 17,44%. Even though this result is only represented in the latest local government elections, it is obvious that the influence of the ANC is fading. This could be also relevant for the further

[1] South Africa is a democracy with multi parties with thirteen (13) different parties which are represented in the National Assembly of Parliament. The three main parties are the following:

- African National Congress (ANC): is the biggest party in South Africa. The party is in power since the end of the apartheid in 1994. The first and most famous president of South Africa who was a member of the ANC was Nelson Mandela. Since 2009, Jacob Zuma is the president of South Africa who is also a member of the ANC. The political position can be described as “Centre-left”.
- Democratic Alliance (DA): the DA is South Africa’s official opposition party. The party enjoys a continuous growth rate since the first election from 1,7% in 1994 up to 22,23% in 2014. Nevertheless, the party was never in power of the president. The political position can be described as “Centre-Right”.
- Economic Freedom Fighters (EFF): this is the youngest party, nevertheless they received 6,35% in their first general election in 2014. The political position can be described as “Far-Left”.

Source: SouthAfrica.info

development of BBBEE. With the power of the ANC – the party is declining, the willingness of implementation of BBBEE is decreasing.

Furthermore, it is worth mentioning that the access to electricity is an increasing issue for South Africa. Since 2008, South Africa repeatedly experienced widespread electricity blackouts which are still on-going (Coetzee, Daniel, & Woolfrey, 2012, p. 7). After many years of under-investment, the South African population and especially the economy are suffering from the problem of blackouts and power cuts – campaigns are running ("Switch Off") to animate the population to save energy. A notable aspect is the construction of two new coal-fired power stations – in disregard of the government announcement in 2009 in Copenhagen to reduce CO_2 production (Coetzee, Daniel, & Woolfrey, 2012, p. 5). It is obvious that this was an act of desperation, as the risk of an economic breakdown is highly correlated with the availability of energy.

Lastly, it is important to stress the future of South Africa. Notwithstanding recent trends, the productivity of South Africa is quite low, compared to other emerging countries such as China and Brazil. One reason for the low productivity is the faltering growth rate of FDI (Asafo-Adjei, 2007, p. 92). In the last year the average of Foreign Direct Investment (FDI) was approximately 2% of the total Gross domestic product (GDP). In the next chapter, the author highlights the significant impact of FDI on the economic growth based.

5. The impact of FDI on Government regulations

In the last decade, South Africa has implemented a number of incentives to encourage Foreign Direct Investment (FDI), which is an indicator of the attractiveness of a country. FDI is defined as follows by the OECD:

> *"Foreign direct investment refers to direct investment equity flows in the reporting economy. It is the sum of equity capital, reinvestment of earnings, and other capital. Direct investment is a category of cross-border investment associated with a resident in one economy having control or a significant degree of influence on the management of an enterprise that is resident in another economy. Ownership of 10 percent or more of the ordinary shares of voting stock is the criterion for determining the existence of a direct investment relationship"* (OECD, 2008).

In recent decades, FDI is gaining in importance since multinational companies started to spread globally during the 1950's and 1960's. Market size is one significant variable, which is widely known as one key success factor for FDI (Jadhav, 2012, p. 7). With a population of nearly 53 million people, South Africa has a high potential for Multinational corporations (MNCs). Furthermore, South Africa's low wages represent a benefit for foreign countries. It has been scientifically proven, that lower wages correspond to a higher level of FDI due to lower production costs (Jadhav, 2012, p. 7).

Overall, South Africa's policy concerning Foreign Direct Investment is cosmopolitan in an internal comparison by the OECD and worth mentioning in the comparison with other Emerging Market Economies (EME) which is measured by the OECD FDI Regulatory Restrictiveness Index (FDI RRI) in 2010 and reconfirmed in 2013 (OECD-South Africa investment policy dialogue, 2014, p. 16.). Consequently, Foreign Direct Investment is growing since 1994. As already mentioned at the beginning of the paper, the government in South Africa has introduced different incentives such as Research and Development (R&D) Tax Incentive Programme or

Industrial Development Zones (IDZs), which provide a full infrastructure for factories and many more (OECD-South Africa investment policy dialogue, 2014, p. 94).
An advantage of FDI is only raising the level of capital stock or investment within a country. In addition, employment is increasing by creating new production capacity and jobs. Furthermore, worth mentioning are the benefits within a country due to the increasing number of intangible assets such as a software, technologies or the knowledge of foreign employees (Jadhav, 2012, p. 6).

Generally speaking, Foreign Direct Investments have increased rapidly within the last decade worldwide. A trend, which is also obvious within South Africa is: starting with US$ 380 million in 1994, the country could benefit from the continuous growing FDIs, which reached the US$ 10 billion mark at the end of 2009, driven by a resource boom (Mebratie & Bedi, 2013, p. 106). For comparison: before the end of the apartheid FDI was nearly zero (0) or even negative as for example in 1979 with -$0,5 million.

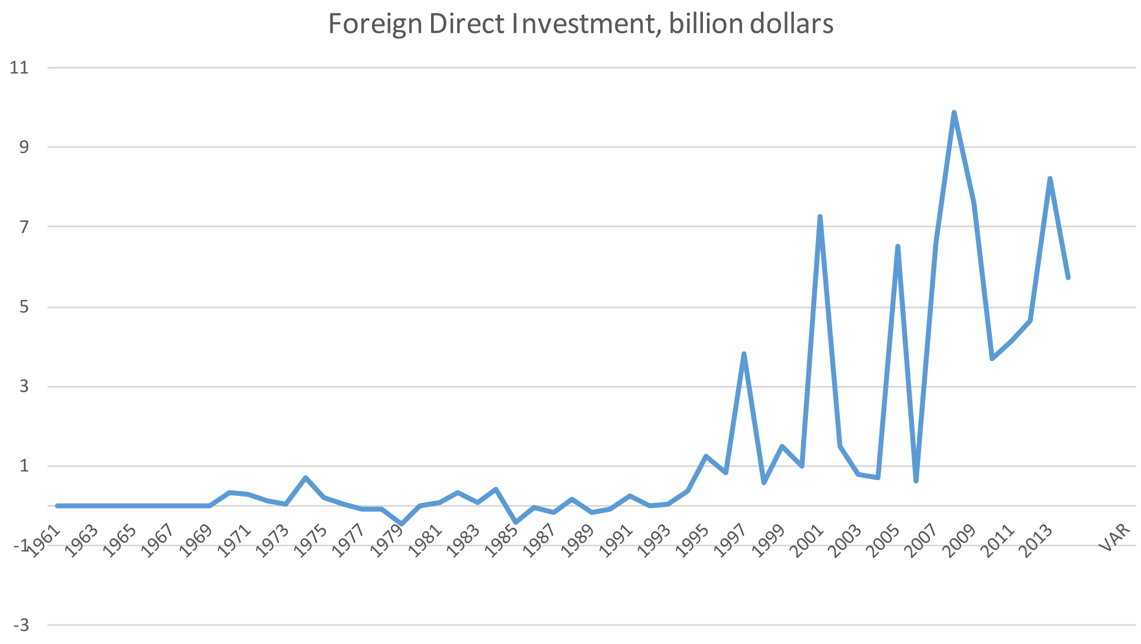

Figure 8: Foreign direct investment, net inflows (BoP, current US$)
Source: International Monetary Fund

As shown in Figure 8 above, FDI inflows to South Africa have traditionally been volatile. Several reasons could be the explanation: huge deals in the area of mergers and acquisitions, which can be interpreted as outliers, as well as uncertainty or other factors as negative outliers.

In order to follow this question of the success factors of FDI, different authors discussed independently the impact of different variables on FDI. A detailed discussion follows in the next sections.

5.1. Mathematical model: FDI and the Growth Factors

Even though a lot of literature is available about the determinants of FDI as whole, there is a lack in literature about the institutional and political variables on FDI. Two articles are worth mentioning about political influence on FDI, which represent a model independently of one another: “The impact of governance on FDI flows to African countries” by Yagoub Ali Gangi and Rafid S. Abdulrazak and “Determinants of foreign direct investment in BRICS economies: Analysis of economic, institutional and political factor” by Pravin Jadhav. Both articles deal with significant variables on FDI in emerging countries.

The first paper by Gangi & Abdulrazak (2012) deals with the question: *„Does state of governance in hosting countries matter for foreign investors?“* (Gangi & Abdulrazak, 2012, p. 163). For the empircal model, the authors have filtered six (6) governance indicators which are described below.

$$FDI = \propto + x_1 VA + x_2 PSAV + x_3 GE + x_4 RQ + x_5 RL + x_6 CC$$

where:
VA: Voice and Accountability index
PSAV: Political Stability and Absence of Violence index
GE: Government Effectiveness index
RQ: Regulatory Quality index
RL: Rule of Law index
CC: Control of corruption index

Gangi & Abdulrazak (2012) came to the result that Voice and Accountability, Government Effectiveness and Rule of Law are statistically significant variables that affect the flows of FDI. It is obvious, that the South African government has to strengthen its position to achieve a sufficient index in these three (3) significant categories. The improvement of the state of governance could be considered as the main purpose in future (Gangi & Abdulrazak, 2012, p. 168).

Another model by Jadhav (2012), which is published in the same year as the one by Yagoub Ali Gangi and Rafid S. Abdulrazak also deals with political variables and the influence on FDI:

$$FDI = \propto \; + x_1 MS + \; x_2 NRA + f(institutional\ variables) + f(policy\ variables) + f(political\ risk\ variables)$$

where:
MS: Market Size
NRA: Natural Resource Availability
Institutional Variables; Corruption, Rule of Law, Voice and Accountability
Policy Variables: Inflation Rate, Trade openness (Trade to GDP ratio)
Political Risk Variables: Political Stability No Violence, Government Effectiveness, Regulatory Quality

The results in the second study by Jadhav (2012) are the following: Market Size, Trade openness, Voice and accountability, Natural Resource availability and Inflation Rate are statistically significant, whereby there is a difference between positive and negative effects: Market Size, Inflation rate and Trade openness are positive which means that there is a positive impact on FDI. On the contrary, Voice and accountability and Natural Resource availability variables have a negative effect on FDI (Jadhav, 2012, p. 10).

What conclusions can we draw with regard to the results? Voice and Accountability is significant – but negatively. Corrupt environments are preferable due to the lower cost of operation (less bureaucracy, less formal requirements, etc.). Nevertheless, international companies prefer a better Government Effectiveness index and in theory a higher rule of law index. Market size has a positive impact without question (the bigger the market the bigger the target groups). Furthermore, Trade openness is self-explanatory. A higher inflation is correlated with depreciation of the currency, which means that exports are cheaper which can increase the economic growth. It remains questionable whether Natural resources have a negative impact on FDI. Further research is required.

To sum up, FDI with regards to political behaviour can described as in the following formula:

$$FDI = \propto\ - x_1 VA + x_2 GE + x_3 RL + x_4 MS + x_5 TO - x_5 NR + x_7 IR$$

Where:
TO = Trade Openness
NR = Natural Resources
IR = Inflation Rate

To answer the question if South Africa should be seen as a broken country or not, the last chapter deals with the general idea of an economic growth. Instead of an economical consideration on BBBEE, the country of South Africa is considered as a whole.

6. South Africa: more than only BBBEE

In simple terms, economic growth is defined by making profits, by investigating and by increasing the profitability (Acemogluy, Gelb, & Robinson, 2007, p. 34). But what else is necessary to support economic growth? And what could be achieved by the governments? The following chapter deals with the general economic impacts (except the one of the BBBEE Act). This is relevant to come to a final conclusion to answer the question whether South Africa is already a broken country or not. So far, it can be said that South Africa is struggling with different problems; nevertheless, there is still a high chance of an increasing FDI. The right balance between FDI and new Acts could solve many problems.

6.1. Definition: Growth Factors

It became obvious that South Africa is struggling with different problems. Starting with the complex introduction of the BBBEE Act, the high unemployment level, the poor coordination and the structural issues in South Africa. Nevertheless, South Africa has unique growth opportunities, which should be identified and used in future to create economic welfare (OECD-South Africa investment policy dialogue, 2014, p. 53). From great attention is the fact that South Africa is one of the countries with the highest birth rate. The population between the ages of 12–24 years, living in Africa, is expected to rise from 18% in 2012 to 28% in 2040, which is an opportunity on the one hand but also a threat on the other hand. Gribble & Bremner (2012) came to the result that the dependent variable is the decision of good or poor governance and education spending and the political stability (Statistics South Africa, 2012, p. 40).

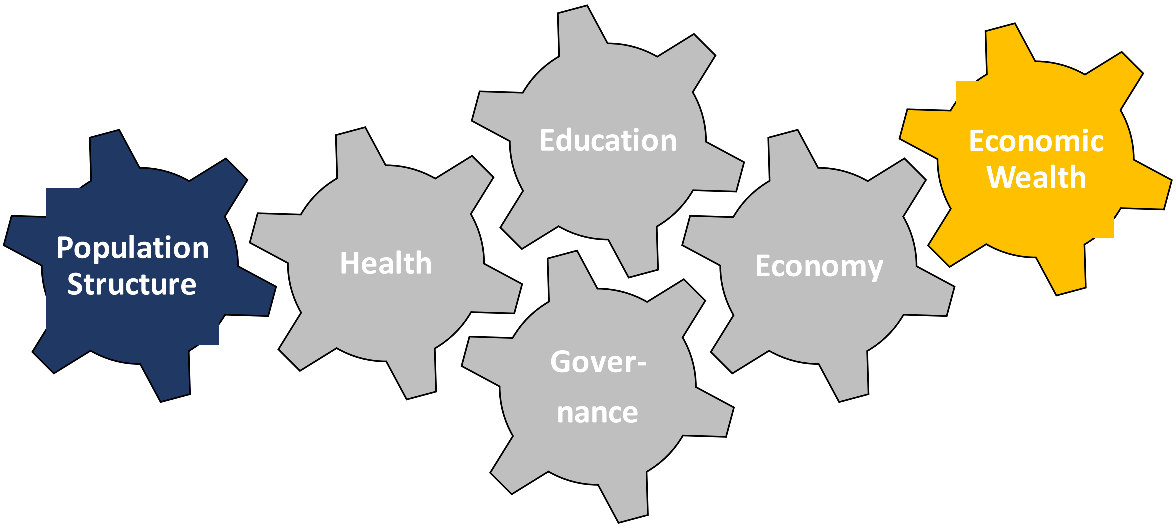

Figure 9: Policy wheels for creating and earning the demographic dividend
Source: in accordance with Gribble & Bremner, 2012

The upper Figure 9 provides an overview of the relationship of different variables. It is obvious, that every variable is dependent from another (Gribble & Bremner, 2012, p. 16). The biggest concern in South Africa is the uncertainty of the future development. A big part, which can be controlled by the government, is the spending in education. According to the opinion of the Institute of South African Statistics, the quantity and quality of education needs to be improved (Statistics South Africa, 2012, p. 47). Furthermore, the unemployment rate is a critical variable for a successful economic development of a country. Nevertheless, even though the South African rate of economic growth, which is measured by the real GDP, has been growing slowly in the last years, the rate of unemployment is consistently high – especially within the younger generation and the black population (see Figure 11). In a report by the OECD which was released in 2010, it was mentioned that South Africa had the worst rate of youth unemployment between the ages 15 and 24 among 36 countries which were included in the survey (Statistics South Africa, 2012, p. 53). A main reason which is pointed out by Statistics South Africa (2014) is the quality of education for black children and the issue of finding work experience (65% of college students are unable to find any professional experiences). A possible reason is the ongoing misperception towards “black schools”. This is all easily described in one sentence, but in practice, it is an entirely different matter, which builds a bridge to the economic variables of the cause-effect relationship.

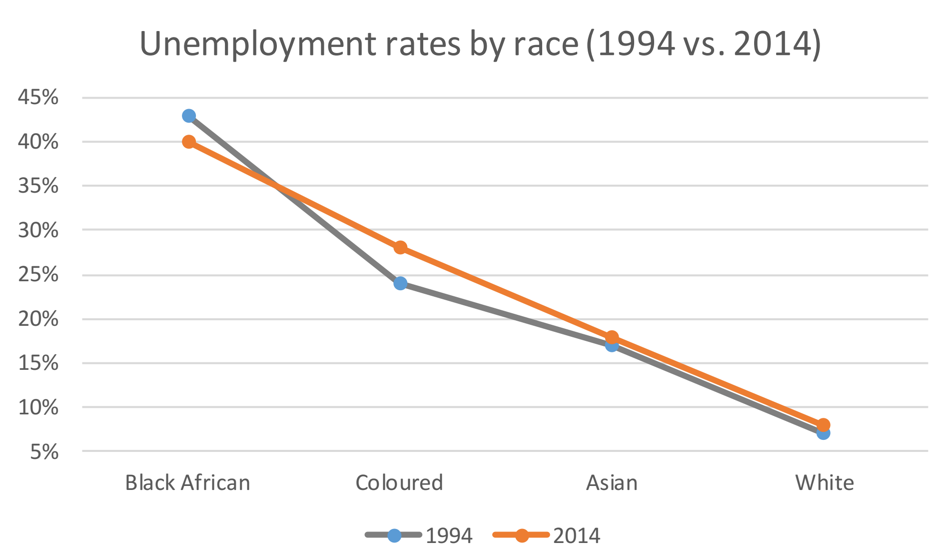

Figure 10: Unemployment rates by race

Source: Statistics South Africa

6.2. Policy Recommendations

In 2003 Nelson Mandela said during a speech: *“Education is the most powerful weapon which you can use to change the world”*. It is obvious that South Africa requires more, better trained and diverse managers (Denton & Vloeberghs, 2003, p. 93). Instead of endless regulations in the BBBEE Act, education is the key success to support a social transformation. Even eleven (11) years later, Omoniyi & Omoniyi (2014) published an article, namely: “*Unlocking Potentials in Developing Country through Education*”. The authors agreed to the statement by Mandela to provide basic needs and to create a medium to long-term economic prosperity. Consequently, education is a key element of the development of the country. As shown in Figure 7 below, the education spending is constantly increasing since 2008. In addition, there have been moves to increase the spending in especially historically black schools to bring them on the same level as historically white schools. As a result, the total number of skilled workers in South Africa increased from 1,8 million to 3,8 million since the end of the apartheid in 1994 (Statistics South Africa, 2014). Nevertheless, it is still problematic that teacher skills and training, textbook availability and the governance in schools is imbalanced (Ponte, Roberts, & van Sittert, 2007, p. 945).

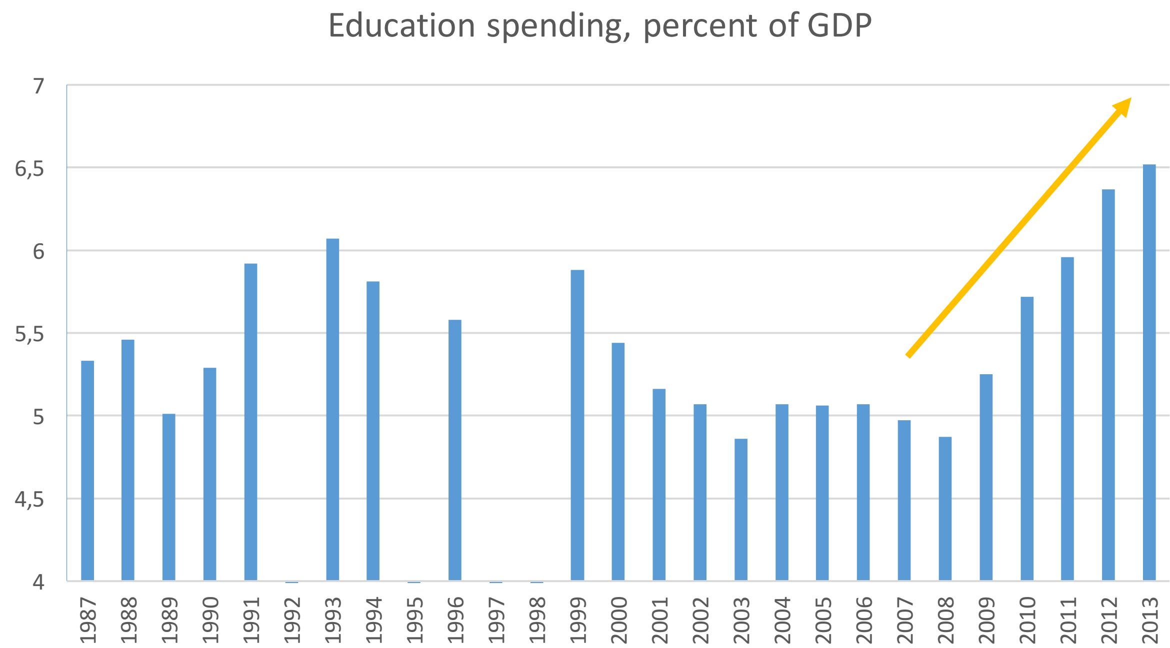

Figure 11: Education spending,

Source: Global Economy

Another effect of a low education is the high crime rate. In an article by Van der Bijl (1998), the author mentions the high crime rate as one of the main reasons for investments in this country being not as high as expected. Low job opportunities lead to a higher crime rate, which completes the vicious circle (Van der Bijl, 1998, p. 15). It should be obvious that a successful implementation of economic welfare is a mix of different issues. To come back to the education level, it is absolutely one of the first priorities. However, other variables should not be neglected such as poverty, health and the governance by the government, which can try to change the situation. For a more complete picture of transformation in South Africa, developments within the different race groups need to be discovered (Statistics South Africa, 2014). The following pie charts illustrates the development of the workforce by skill level of:

1. The total workforce in South Africa
2. The black workforce in South Africa

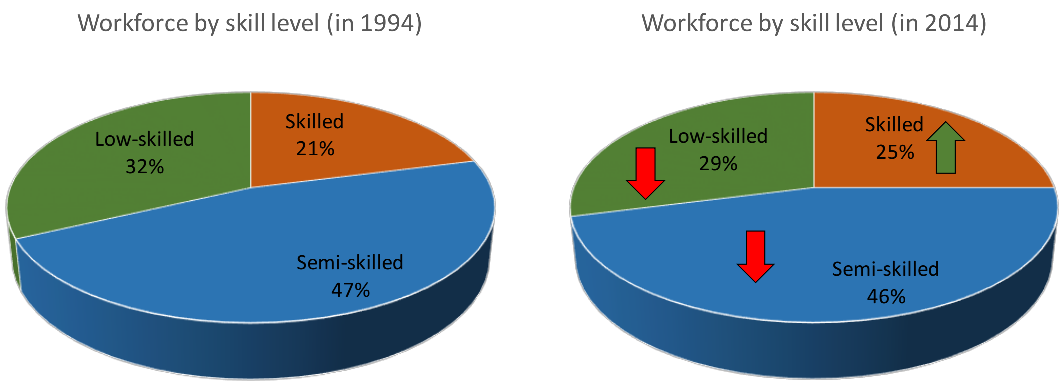

Figure 12: Total Workforce 1994 vs. 2014,
Source: Statistics South Africa, 2014

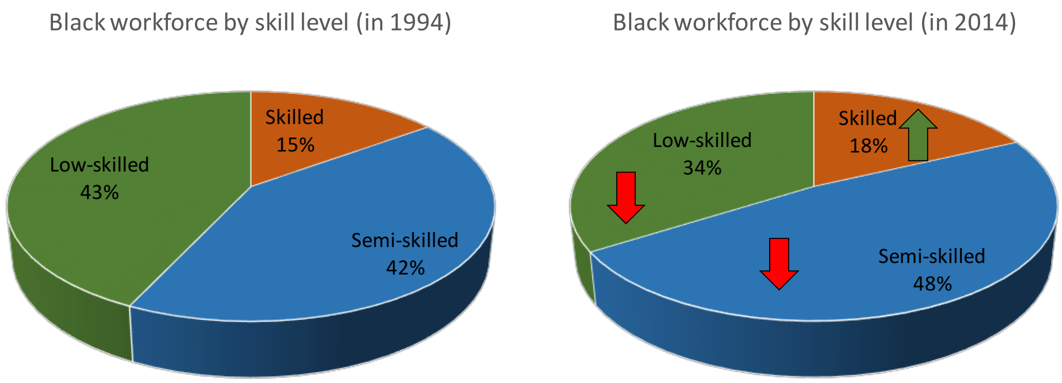

Figure 13: Black Workforce 1994 vs. 2014, Source
Source: Statistics South Africa, 2014

It is worth mentioning, that there is an unequal distribution. All groups can register an increase in the group of skilled employees. Nevertheless, within the black African population the growth in skills, as a proportion, was much lower than in the other population groups (Statistics South Africa, 2014).

It is particularly shocking to analyse the unemployment rate by age: the rate for youth is much higher than for adults (unemployment rate of 36,1% in 2014 for youth compared with 15,6% for adults in 2014) (Statistics South Africa, 2014).

The biggest labour market priority should in the first instance, be that of human resource development and education in skills and competencies needed in a society in transition (Horwitz, 2011, p. 310). In a nutshell, there is an oversupply of unskilled employees (largely black workers) and a shortage of intermediate or even high-skilled employees (Horwitz, 2011, p. 314). In a growing third world country such as South Africa, intermediate skilled artisans are absolutely necessary.

7. Conclusion

When asking the question whether South Africa is still a land of good hope or already a broken country, in political terms, the first question that should be answered is whether or not the BBBEE is good for growth or the opposite: is it bad for growth? As already mentioned by Acemogluy, Gelb, & Robinson (2007, p. 34), it is unlikely that the current BBBEE Act is „*socially optimal*“ neither regarding the positive impact on economic growth nor with regards to employment equity. The BBBEE is a problem due to the process of manipulation and corruption and tries to “transform” the economic structure (Ponte, Roberts, & van Sittert, 2007, p. 936). However, it is essential to have legal requirements concerning equal opportunities. Based on personal experiences of the author, the BBBEE is criticised by all groups – regardless of skin colour. Some say, that it is a restructuring of oppressed groups, others say, that it is only profitable for the black high society and others claim that the BBBEE stirs up hate. But is South Africa already a broken country? Definitely not. However, the government has to react and concentrate on the biggest labour market priority: the continuation of education and human resources. Skills and comprehension are needed in a societal transition (Horwitz, 2011, p. 310).

South Africa has an overall growing market (with its strengths and weaknesses) and a significant growth potential. With its unique development in the southern part of South Africa (including well-developed financial institutes and capital markets), the country is one with exceptional access to other markets in Africa. Lower labour costs and strong communication and transport links increase the country’s attractiveness from an international point of view (OECD-South Africa investment policy dialogue, 2014, p. 16). South Africa has to use its unique selling point and must turn it into an opportunity to create a balance between poverty, wealth, and the different colours of skin.

According to the author’s opinion, the first step is to continuously increase the spending for education. As already mentioned before, South Africa’s future is characterized by an increasing birth rate. The question of course remains, if this is a positive or a negative trend. On one hand, market size is increasing, which could attract Foreign Direct Investors. On the other hand, an increasing birth rate could increase the poverty and the crime rate in the country. The government can affect this development by increasing the total percentage of skilled (or even at least semi-skilled) workers. In the opinion of the author, the increase of education spending is the best way to increase the social wealth in the medium term. From a medium to long-term point of view, the further development of BBBEE is necessary. BBBEE has its Strengths, Weaknesses, Opportunities and Threats. Since all results are mentioned in the previous chapter ("Policy Recommendations"), the statements will not be repeated again.

Another obstacle relating to Foreign Direct Investment is the widespread misperception among investors about BBBEE and the economic environment. It must be emphasised to understand the Act and the historical background correctly. An implementation was absolutely necessary. Furthermore, South Africa should present its trade openness (OECD-South Africa investment policy dialogue, 2014, p. 39). Key influencer for FDI are, amongst others, Government Effectiveness and Rule of Law; Two aspects where the government can react. As an example, to ensure the successful implementation of BBBEE, the government should proactively support the development and the rectification of the Codes of Good Practice. This includes the *"enforcement of deadlines, (the) shift focus away from ownership, combat BEE related corruption, minimize BEE impact on FDI and encourage 'bottom up' empowerment"* (Dunnigan, Fazaeli, & Spies, 2009, p. 2).

What have we learned from this thesis? South Africa is still the land of the good hope, even though cultural problems are still part of the day-to-day business. Since the introduction of the BBBEE Act, the effect is so far slightly positive and it can be regarded as an adjustment phase where companies have to adapt the new requirements by the government with all of its advantages and disadvantages (Kleynhans & Kruger, 2014, p. 9). Nevertheless, education and all other surrounding factors should receive first priority. We can hope, that the statement by president Zuma is correct: *"South Africa should be an inclusive economy and the reference to black versus white should not exist"* (Department: Trade and Industry, 2013, p. 14).

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9. Appendix

9.1. Abstract (English)

No other legislation in the business area in South Africa has stimulated as much debate and controversy as the introduction of different Equality Acts, namely the Employment Equity Act and the Broad Based Black Economic Empowerment Act (BBBEE). The aim was to create an artificial social equality within the different ethnic groups of Whites, Blacks, Asians and Indians.

The master thesis deals with the impact of BBBEE on the economic situation. In a second step the attractiveness of Foreign Direct Investment will be evaluated in a mathematical model, before general influencing factors, which could be relevant for the future economic growth will be presented. To sum up, the further development of BBBEE should be the second step. Of primary importance for economic growth is the equal support of education for all races.

9.2. Abstract (German)

Keine andere Gesetzgebung als das “Broad-Based Black Economic Empowerment” (BBBEE) - Gesetz in 2003 und das “Employment Equity” – Gesetz in 1998 haben nur annähernd viel Gesprächsstoff geschaffen. Der Hintergedanke war die wirtschaftliche und soziale Chancengleichheit aller vormals unterdrückten Menschenrassen. Das Ergebnis dieser Masterarbeit ist das folgende: bevor ein neues Konzept von BBBEE erarbeitet werden sollte, ist es von höhere Bedeutung die Ausgaben für Bildung zu erhöhen. Südafrika wird sonst in wenigen Jahren mit der steigenden Geburtsrate und der sich ausbreitenden Armut zu kämpfen haben. Erst auf mittel-bis langfristige Sicht ist die Fortführung von BBBEE sinnvoll. Anstatt einer strikteren Gesetzgebung ist es besser, die allgemeine Entwicklung im Land zu unterstützen. Dazu gehört auch die Förderung von ausländischen Direktinvestitionen, bei denen Marktoffenheit eine signifikante Variable ist. Am Ende kann man jedoch sagen, dass Südafrika weiterhin ein Land voller Hoffnung und Wachstum ist.