

Towards better business

Rules for achieving big business deals that also happen to be BEE deals

by Heidi Tressel



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It is so obvious that it really should not have to be stated, but the rules that apply to doing great business deals also apply to doing great BEE deals. Somewhere along the way though, since South African businesses started installing prisms in their boardroom projectors in a bid to achieve the rainbow nation in a flash, some companies appear to have lost their way.

Witness the local equity market crash that dumped several listed companies’ BEE deals into the least favourable of the rainbow’s colours, due to ill-conceived funding arrangements. Risk is here to stay, that is a given. But precarious black empowerment funding structures and deals that are quickly cobbled together? There must be a better way.

Rushing can make smart business people do stupid things. The promise of a quick buck makes some people fuzzy

in the head and unable to properly assess the real risks inherent in a deal.

“Linking your shareholding to the equity market – anyone will tell you how risky that can be, particularly those guys who watched their shareholdings shrink when the markets headed south,” says Pumulani Ncube, founder and director of Jala Capital (an investment company) and Pro-Cap (a BEE consulting company). “That’s why we choose to structure deals in such a way that they depend on a company’s tangible assets and its proven cash generating potential.”

Structuring deals in this way demands that the company under consideration has a track record of good performance. The bottom line is that the bottom line speaks for itself, according to Salala Lesela, fellow director of Jala Capital and Pro-Cap. “Almost everything you need to know about the company and its potential performance can be read in the figures, and if the numbers are right, that’s when you know you could be onto a good thing.”

Investing in companies with a history of solid performance and tangible assets is always a better bet. And that is why sectors such as IT, media and financing, whose businesses rely heavily on intellectual capital, are somewhat lower on the list of hot picks than the likes of the manufacturing, industrial suppliers, property and automotive industries. Regarding particularly the automotive industry, where large multinational companies are dependent on using empowered suppliers to help them comply with the BEE scorecard, Lesela says there is enormous potential. “A market such as this offers one the opportunity of becoming a global player.”

Beyond the numbers, choosing the right people with whom to enter into a deal is of paramount importance. Naturally, warns Ncube, it is easy to become seduced by big names and big money, but, “If they’re not the correct fit for your company’s needs and your gut tells you something’s not quite right, you’d be a fool to ignore it even if it means walking away from a big deal.”

A classic mistake is made by companies who enter into empowerment deals with politicians or people from well-known families in the hope that they will be able to open doors for them. The reality, says Ncube, is that simply because people move in the 'right circles', does not mean that they themselves are influential enough or in the right position to actually open doors that will lead to deals. "A lot of people know senior politicians, but are they really known by those politicians? Also, are those politicians in a position to influence the decision-making process?" asks Ncube. And what happens when the political dispensation changes?

In any event, any businessman with good networking skills, charm and intelligence will find ways of opening those doors himself. "It's far more important that you enter into a deal with someone who has the right skills and experience to add value to your business. These are things that can't be faked or substituted, no matter what your surname is.

"The problem with BEE is that it assumes that everyone is a businessman, and that's simply not true," says Ncube. "Companies are rushing into empowerment deals with people with absolutely no experience in business, let alone appropriate skills – a sure recipe for disaster."

Whenever new people are brought into a business, you need to ask yourself what function it is that you want them to fulfil. "And if it's simply a name on a letterhead, you're the fool because in a few years' time when everyone's empowered, only those companies with great people with excellent skills and experience will have the competitive advantage."

But where does one find the right people? Companies such as Lesela and Ncube's Pro-Cap specialise in a type of BEE matchmaking. "In our dealings, we come across many skilled BEE candidates who have extensive experience in a field and desire to start a business, but who perhaps don't have experience as business people," says Lesela. "We attempt to introduce such candidates to firms looking to close empowerment deals with people who can add real value to their businesses."

Jala Capital, Lesela and Ncube's vision is to help build strong black businessmen who in turn will create jobs for others. This in their view is an example of true broad-based empowerment and the inspiration for the anchor partner/operational partner model. As anchor BEE partner, Lesela and Ncube are able to invest in a diverse range of

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industries, including those where they do not have operating skills. However, by actively participating in the strategic management of these companies an important skills transfer takes place in both directions.

"It makes sense to get involved in businesses in industries in which you have experience. That way your skills, knowledge of markets and networks can be leveraged to great advantage," says Lesela. "But if you don't have the necessary skills or experience, you absolutely have to make sure that you partner with people who do," says Ncube. "BEE is an opportunity to bring new blood into the business, new skills and perspectives that could be invaluable to a company's future growth and it's with this in mind that deals should be entered into."

The road to empowerment is a journey and the scorecards are simply maps that will need to be redrawn from time to time to reflect the current dynamics. "Rightly or wrongly, the focus at the moment is on ownership – at almost any cost – despite the fact that there are many other ways in which companies can show their commitment to transformation," says Lesela. "However, I believe that we're rapidly moving towards a landscape in which the emphasis will be on skills – that's why it's so important to attract the right people and ensure an adequate skills transfer."

Rushing empowerment deals that result in a quick tick in the black ownership box but add no real value to a business are short-sighted at best and essentially bad business – certainly no way to build South Africa's economy. **S**