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**A Gentler Capitalism:  
Black Business  
Leadership in the New  
South Africa**

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**A GENTLER CAPITALISM: BLACK BUSINESS LEADERSHIP IN THE NEW SOUTH AFRICA<sup>1</sup>**

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**Abstract:**

Through her efforts to recruit, hire and develop minority executives at MTN, a South African telecommunications company, Charnley attempts to bring a gentler capitalism to post-apartheid South Africa. Like her other colleagues on the Black Economic Empowerment (BEE) Commission, Charnley believed that each black business executive had a responsibility to effect positive change in their particular company, and that through their collective efforts they could have a powerful collective impact on the country. By the time of the BEE Commission Charnley found herself at the top of the pyramid, but she had come from the bottom, growing up in Elsies River – an Afrikaans-speaking, Colored area outside of Cape Town. This paper begins with a description of the economic conditions in apartheid and post-apartheid South Africa, then details the BEE Commission, and finally narrates Charnley’s story.

*The long walk is not yet over. The prize of a better life has yet to be won.*

*-President Nelson Mandela's remarks at his final state of the union address*

If we want business to become a tool for alleviating poverty in a sustainable way, we must develop business leaders who are willing to ask normative questions about the means and ends of capitalism. The practice of capitalism and beliefs about the appropriate role of business vary across nations.<sup>2</sup> With this variation come different perceptions and strategies of how to address the tension between political equality and economic inequality inherent in capitalist democracies. These perceptions and strategies are largely unexamined in the more stable economies.<sup>3</sup> They are more likely to be raised in transitional economies in which, by definition, new institutions are being designed and new policies and practices established.

In the new South Africa, the influx of blacks into business has brought into sharp relief the fundamental tenets of capitalism. In constructing a new social order, government, the private sector, and civil society are embroiled in a debate about the appropriate role of business in addressing social ills.<sup>4</sup> Many new black business people were activists during the struggle against apartheid holding leadership positions in organizations such as the African National Congress (ANC) or the union movement.<sup>5</sup>

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<sup>2</sup> For examples of the illustrative power of comparative work see for example, C. Handy, "What's a Business For?" *Harvard Business Review*, 80(12) (2002): 49-55. Handy contrasts the Anglo-American notion of companies as profit-maximizing agents for their shareholders with the European notion of companies as communities and how that impacts how executives in each region think about outsourcing and layoffs, for instance. Much of the comparative work on the role of business has been done in emerging markets. See for example, V. Kasturi Rangan, "Lofty Missions, Down-to-Earth Plans," *Harvard Business Review*, 82(3) (2004): 112-119.; V. Kasturi Rangan, K. Sohel, and S. K. Sandberg, "Do Better at Doing Good," *Harvard Business Review*, 74(3) (1996): 42-51.; and V. Kasturi Rangan and J. Quelch, "Profit Globally, Give Globally," *Harvard Business Review*, 81(12) (2003): 16-17; and Lynn Sharp Paine, *Value Shift: Why Companies Must Merge Social and Financial Imperatives to Achieve Superior Performance*. New York: McGraw-Hill, 2003.

<sup>3</sup> Milton Friedman's argument that the sole concern of business should be shareholder maximization is alive and well. See for example, C. Crook, "The Good Company," *The Economist* (Special Edition: "The Good Company: A skeptical look at corporate social responsibility"), 374 (8410) (2005): 9; M. Friedman, *Capitalism and Freedom*. Chicago: University of Chicago Press, 1962; and M. Friedman, "The Social Responsibility of Business is to Increase Its Profits," *New York Times Magazine*, Sept. 13, 1970: 17-21. For readings which make the counterargument, see for example, A. Cadbury, "Ethical Managers Make their Own Rules," *Harvard Business Review*, 65(9) (1987): 69-73; M. Csikszentmihalyi, *Good Business*. New York: The Penguin Group, 2003; M. Csikszentmihalyi, W. Damon, and H. Gardner, *Good Work: When Excellence and Ethics Meet*. New York: Basic Books, 2001; W. Damon, *The Moral Advantage: How to Succeed in Business by Doing the Right Thing*. San Francisco: Berrett-Koehler Publishers, 2004; J.K. Galbraith, *The Affluent Society*. Boston: Houghton Mifflin Company, Third Edition, Revised, 1976; W. George, *Authentic Leadership: Rediscovering the Secrets to Creating Lasting Value*. San Francisco: Jossey-Bass, 2003; W. Greider, *The Soul of Capitalism: Opening Paths to a Moral Economy*. New York: Simon & Schuster, 2003; C. Handy, "What's a Business For?" *Harvard Business Review*, 80(12) (2002): 49-55; A. Sen, "Does Business Ethics Make Economic Sense?" *Business Ethics Quarterly*, 3 (1993): 46-48; and N. M. Tichy, and A. R. McGill, *The Ethical Challenge: How to Lead with Unyielding Integrity*. San Francisco: Jossey-Bass, 2003.

<sup>4</sup> Certainly, many white businesspeople were very engaged in the anti-apartheid movement and are now quite committed to improving the lives of the previously disadvantaged. In fact, initially we intended to profile one or two in our book; we have interviewed a number of them. However, in the end we elected to focus on the transition experience into business so we will not profile white businesspeople. However, these data will be included in the general background information in the book.

<sup>5</sup> Drawing on the traditions of oral history and ethnography, this paper is adapted from a larger research effort to profile and examine South African black business leaders' formative experiences and leadership. In conducting this research, we initially interviewed more than two hundred black and white South African leaders in the business, government, and not-for-profit sectors over five years. Based on these interviews, we choose four black business leaders whose paths to business were representative of those followed by the majority of their peers (and representative of the race/ethnicity of Africans, coloreds, and Indians in South African). We conducted an additional series of in-depth interviews and field-based observations with our four protagonists, their colleagues, mentors, friends and sometimes families.

Following the end of apartheid, some joined corporate South Africa and the small handful of blacks who had worked as managers in predominately white corporations during apartheid. Others became entrepreneurs, forming both investment holding companies and operating companies.<sup>6</sup> Like their first black president, many of these new black business executives see business as a catalyst for social change. Nelson Mandela made the following remarks at an ANC conference:

The wider, and critical struggle of our era, [is] to secure an acceptance and actualisation of the proposition that while capital might be owned privately, there must be an institutionalised system of social accountability for the owners of capital. In this context, it may very well be that the success of our strategy for Black Economic Empowerment [efforts to increase the participation of the previously disadvantaged in the mainstream economy] will address not only the objective of the creation of a non-racial South Africa. It might also be relevant to the creation of the system according to which the owners of capital would, willingly, understand and accept the idea that business success can no longer be measured solely by reference to profit. According to this thesis to which we must subscribe, success must also be measured with reference to a system of social accountability for capital, which reflects its impact both on human existence and the quality of that existence.<sup>7</sup>

In this paper, we examine this trend through the lens of the experiences of an individual business person, Irene Charnley. She is a member of this emerging class of black businesspeople who aspire to be architects of new South Africa that embraces Mandela's vision. She has become a champion of black economic empowerment (BEE), a movement aimed at integrating blacks into the mainstream economy. She believes that business should play a proactive role in creating economic opportunity for those at the bottom of the economic and social pyramid.

Charnley started life at the bottom of that pyramid and now finds herself at the top. She represents a distinct minority in her country, a black woman director and business executive. But Charnley is not alone. The number of emerging black business people is growing, albeit too slowly for her liking.<sup>8</sup> She and others in her cohort are

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<sup>6</sup> For a discussion of the experiences of black businesspeople, see W. Luhabe, *Defining Moments: Experiences of Black Executives in South Africa's Workplace*. Pietermaritzburg: University of Natal Press, 2002.

<sup>7</sup> N. Mandela, 1997 ANC National Conference, Mafikent, Northwest.

<sup>8</sup> In South Africa, there were four general race group categorizations: White, African, Indian, and Colored—the latter three were collectively referred to as Black. Charnley was classified as colored because her ancestors came from more than one race group. We have included a racial identifier of individuals in this case as they are introduced. We find that it is difficult to think through the complexities facing the workforce in South Africa without having that information.

attempting to establish a “gentler capitalism”<sup>9</sup> in their young democracy, one committed to improving the lives and livelihood of the poor and marginalized in South Africa.<sup>10</sup>

This paper will describe the socio-economic context of post-apartheid South Africa in which Charnley finds herself. Attention is given to the BEE movement, in particular the work of the Black Economic Empowerment Commission (BEECom), an umbrella body representing eleven black business organizations of which Charnley was a commissioner. The BEECom was formed as a vehicle for black people to craft their own vision for BEE, a process that these black business leaders believed had been conceptualized and controlled principally by what was referred to as “established business” (i.e., white businesspeople who headed the major corporations). Irene Charnley and her colleagues who served on the Commission did not believe that market forces alone could rectify the structural inequality found in South Africa. Instead, they contended that each sector of society had a role to play, including the new aspirants, black business leaders.

Of course, theory is one thing, implementation is another. Thus, we portray in some depth Charnley’s efforts (e.g., tactics, sequencing) to fulfill the mandate of the BEECom in transforming a multinational telecommunications company. The cornerstone of her leadership approach is the advancement of marginalized groups through employment, skills transference and leadership development. We conclude by identifying some of the key questions raised by the natural experiment underway in South Africa of using business as a tool for ameliorating societal inequalities. While this paper attempts to highlight and frame key issues worthy of contemplation, we warn the reader in advance that we provide no definitive answers to these quandaries.

## **Legacy of Apartheid**

In 1948 the Afrikaners (descendants of Dutch and French immigrants who had fled their country in the face of religious persecution) created “apartheid” (or “apartness” in Afrikaans) by passing legislation that formalized the segregation in South Africa that had begun with the British in the late nineteenth century. The Afrikaners carefully defined the physical attributes of each non-white racial group, and delineated the rights and privileges accorded to each group. They divided the population into four groups – one white and three “black” groups: Indians, coloreds (mixed race and Malays), and indigenous peoples (generally referred to as “Africans”). Whites were accorded the most rights, followed by Indians, coloreds, and finally Africans. Political representation, property ownership, freedom of movement, and employment were restricted for all black groups, resulting in limited meaningful participation in the formal economy. Hendrik Verwoerd, the prime minister from 1958 to 1966, articulated the underlying philosophy of apartheid:

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<sup>9</sup> As George Lodge has reminded us, the term “gentler capitalism” can be misleading. As readers will see, Charnley and other of her ilk engage in tough tactics to produce a capitalism whose effects are gentler. See G. Lodge & C. Wilson, *A Corporate Solution to Global Poverty: How Multinationals Can Help the Poor and Invigorate Their Own Legitimacy*. Princeton: Princeton University Press, 2006.

<sup>10</sup> Dr. Iqbal Survé, one of the individuals we are profiling in our research, coined the phrase “gentler capitalism” in our first interview with him.

This segregation policy, which also means protection and care for the Native in the land of the Afrikaner, but decisively rejects any attempts at equality, gives the Native an opportunity to develop what is his own, so that he can have pride and self-respect as a Native, instead of being continually humiliated as a failed and imitation white.<sup>11</sup>

The oppression of blacks under apartheid was “politically, economically, and ideologically” brutal. Anti-apartheid groups mounted vigorous political resistance, and over time, armed struggle. After decades of oppression and unrest and growing international sanctions, South Africa finally emerged from apartheid in 1990 when Afrikaner President F.W. de Klerk repealed the major laws that legislated almost every aspect of the lives of black people and released Nelson Mandela, the literal and symbolic leader of the resistance movement, from prison after 27 years of incarceration. President de Klerk’s actions set the stage for a new and radical transition of power in South Africa.

Mandela was elected President in 1994 with 63% of the vote in the country’s first free elections on a campaign slogan of “A Better Life for All.” Under Mandela’s leadership, South Africa achieved what many viewed as a political miracle: averting civil war and uniting a divided nation of people and cultures. South Africa adopted a constitutional democracy in which equal access and treatment for all South Africans were guaranteed and human and property rights were protected. After decades of white-only rule in which a minority (11%) of the population controlled virtually all of the country’s wealth came the promise of economic opportunity for all (see **Exhibit 1** for key South Africa demographics).

President Mandela and the ANC were elected as part of a fragile coalition government in a post-Cold War environment. Although a violent revolution was averted, the new ANC government recognized that the liberation movement, which succeeded with aid from COSATU and SACP, the trade unions and the communist party, would not remain patient in the face of one of the most inequitable distributions of income in the world. The ANC promised free education for all, a million new homes over five years to help combat the country’s acute homeless problem, and the extension of electric and water service to millions of homes. Once in power, however, the ANC found itself in a quandary. Many hoped the ANC, with its socialist roots, would favor nationalization and the radical redistribution of wealth. After consulting with their traditional constituencies and international financiers, however, Mandela’s government adopted a tight fiscal policy intended to stimulate long-term growth through debt reduction and decreased inflation. Their macroeconomic strategy was characterized by privatization, deregulation, fiscal austerity and trade liberalization to encourage domestic and foreign investment.<sup>12</sup> This decision was not without controversy; some accused the government of abandoning its social agenda. Even more, these measures left the government with limited funds for social programs.<sup>13</sup>

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<sup>11</sup> See [www.cchr.org/racism/pasa1.htm](http://www.cchr.org/racism/pasa1.htm) (Citizen’s Commission on Human Rights).

<sup>12</sup> R. Vietor, “South Africa: Getting in GEAR.” Harvard Business School No. 9-798-012.

<sup>13</sup> A. Sampson, *Mandela*. New York: Alfred A. Knopf, 1999, p. 471.



## Black Economic Empowerment

The South African economy was once again opened to the outside world, but with the end of apartheid and the associated trade embargos and sanctions<sup>14</sup>, many companies were ill-prepared to compete in a global economy with its demand for efficiency and innovation. The economy had suffered years of serious decline towards the end of apartheid (real GDP per capita was negative between 1984 and 1996).

The government understood that the damage done to the non-white communities under apartheid would not be easily repaired. The majority of the population was uneducated (60% of adults had not attended school), owned no property, and held extremely low-wage jobs. The new government adopted policies to broaden the economic participation of blacks within the constraints of a free market economy. An analogous transformation occurred fifty years earlier in 1948 when the Afrikaner-speaking National Party took control of the government from the English-speaking<sup>15</sup> United Party. As in that previous transformation, the new ruling party quickly perceived that a transfer of political power did not result in a transfer of economic wealth. As one Afrikaner executive remarked, “The process the country is going through now – other than the fact that different people are involved – is not much different from what happened here in 1948. There was a change in the controlling elite, but very little else had changed. My father lived in a house that looked like a squatter shack – no different from the house that Irene grew up in.” To improve the economic conditions of Afrikaners and integrate them into the mainstream business community, the Afrikaner government instituted, in the early 1950s, what in contemporary times would be considered an affirmative action program for Afrikaners. By the time apartheid collapsed, the South African government controlled a larger share of national economic activity than any other country outside the Communist bloc. They used this control of the country’s assets to advantage whites.<sup>16</sup>

In 1994, whites owned virtually all businesses and held all but a handful of management positions in South Africa. To avoid government intervention, English-owned<sup>17</sup> and Afrikaner-owned corporations responded to the new political climate by participating proactively in what was termed Black Economic Empowerment (BEE). BEE consisted of a number of initiatives to increase the participation of previously disadvantaged individuals (including blacks, women, and the disabled) in the formal economy through company ownership and management. The national government believed historical inequalities in the economic arena needed to be addressed for South Africa to achieve sustainable development and prosperity. Incentives were introduced to

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<sup>14</sup> For example, in 1986, the U.S. extended its trade sanctions to ban the import of coal, steel, uranium, aluminum, iron, agricultural products, and textiles. The U.S. also banned the export of oil, arms, and munitions with a prohibition on “new investments in and credits for South Africa.”

<sup>15</sup> South African whites were commonly categorized into two groups – English-speaking and Afrikaner-speaking. Afrikaner-speaking whites were descended from the original Dutch settlers of the Cape. English-speaking whites, who on average were wealthier and better educated, were descended from the English businessmen and bureaucrats that came to South Africa.

<sup>16</sup> R. Abdelal, D. Spar, and K. E. Cousins, “Remaking the Rainbow Nation: South Africa 2002,” Harvard Business School Case No. 9-702-035.

<sup>17</sup> In apartheid South Africa, businesses tended to be owned by either Afrikaner-speakers or English-speakers, but not both.

reward those businesses that voluntarily participated in BEE. Most notably, several agencies altered their procurement and licensing requirements to favor companies with blacks in ownership or management positions.

The government also provided affirmative action guidelines. In a pivotal development, the Employment Equity Act, passed by Parliament on October 12, 1998, required South African companies with more than fifty employees to take concrete measures to increase previously disadvantaged group (PDG) representation. Companies had to make information available about the PDG profiles of their workforce within each occupational category and level. Where the profiles revealed PDG under-representation, companies were required to state in an Employment Equity Plan, “the numerical goals to achieve the equitable representation of suitably qualified people from designated groups within each occupational category and level in the workforce, the timetable within which this is to be achieved, and the strategies intended to achieve those goals.”<sup>18</sup> Since the growth of the South African economy was just keeping pace with the growth in population, many white workers worried that the workforce could not become more representative of the general population without whites being forced out of jobs.

The wave of black business people who began to enter corporate South Africa or found their own businesses had virtually no capital and no business experience. They were entering a racist business world where wealth had been generated by using blacks as extraordinarily cheap labor. To aid in the BEE process, the government facilitated the creation of special investment vehicles to enable black entrepreneurs to acquire divested assets. The country’s first BEE equity deal occurred in 1993 when one of South Africa’s largest companies sold 10% of a subsidiary to New African Investment Limited (NAIL), a consortium of black businessmen. The deal was funded using NAIL’s new shares of the subsidiary as collateral. Other deals followed in the wake, creating a new black business class. Individuals with strong “struggle credentials” and political connections were sought to participate in these deals and serve on boards and as management as a sign of the corporations’ cooperation with the new era.

These new black business people planned to deploy the leadership, negotiation, and organizing skills learned in the anti-apartheid movement to complete successfully deals and mobilize employees. But they encountered a steep learning curve about the financial and cultural aspects of business. Still, this was a period of optimism as new black companies began to list on the Johannesburg Stock Exchange. Within three years, fifty-three listed companies had black influence and twenty-eight were black controlled. South Africa had its first black millionaires. However, success was short-lived. Some of the most important black companies were soon embroiled in governance scandals, while others found themselves in financial ruin after the Asian market crash of 1998. Most of the increase in black ownership had been in the form of passive investments financed by the big conglomerates that controlled 75% of the market capitalization of the Johannesburg Stock Exchange. Very few of these first black empowerment groups took active operational control of the businesses underlying their investments. Few built their economic strength on a foundation of organic growth.

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<sup>18</sup> Employment Equity Act, 1998.

In 2001, the World Bank ranked South Africa's income distribution as one of the most inequitable in the world.<sup>19</sup> Inequality levels in the country have remained relatively unchanged since the days of apartheid. A notable decline in inter-racial inequality was matched by rising intra-racial inequality, especially within the majority African population.<sup>20</sup> Some of the country's blacks prospered through participation in the formal economy, while many others fell farther behind.

### *Black Economic Empowerment Commission*

As the BEE process unfolded, critics questioned whether the measures adopted were simply making a handful of black people very rich while creating the illusion of black participation. Cynical critics, including President Thabo Mbeki's own brother Moeletsi Mbeki, contended that a kind of "window-dressing" empowerment was the real goal of white-sponsored empowerment and the blacks who facilitated the deals were co-opted. Less critical observers pointed out that neither the black nor white business people involved in these early deals had figured out how best to transfer assets quickly and effectively across racial groups.

As high levels of unemployment<sup>21</sup> and poverty persisted in the black communities, the efficacy of voluntary BEE programs was hotly debated and the call for more aggressive government action gained strength. In May 1998, The Black Economic Empowerment Commission (BEECom) was created under the auspices of the Black Business Council (BBC), an umbrella body representing eleven black business organizations. The ambition of the BEECom's work was to develop an integrated socio-economic program 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."

The Commission, of which Charnley was a member, conducted extensive research and consultations with the government, unions, and "established business." After two years of work, the BEECom held a conference in which over 1000 people were in attendance to receive their preliminary report.<sup>22</sup> In its final report, the Commission stated that unless black people participated in the economy more broadly and substantively, the South African economy could never achieve sustained rates of growth. In short, the Commission asserted that meeting the needs of the poor and marginalized

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<sup>19</sup> This ranking uses Gini coefficients to order inequality. South Africa ranks 5<sup>th</sup> lowest among the 88 countries with recorded Gini coefficients (The World Bank, *World Development Report 2000/2001: Attacking Poverty*, Oxford University Press, Oxford, 2001).

<sup>20</sup> C. Jenkins and L. Thomas, "The Changing Nature of Inequality in South Africa," UNU World Institute for Development Economics Research, 2002, p. 17. In addition, J. Seekings and N. Nattrass note that the gap between better-off African people and poorer African people continued to grow after 2000, and that it was largely caused by trends in the labor market. Upward mobility among a minority continued to be driven by movement into higher paying occupations. For people in formal employment, wages and hence incomes rose in real terms. But rising unemployment meant that poverty persisted and even deepened. See J. Seekings and N. Nattrass, *Class, Race and Inequality in South Africa*, New Haven: Yale University Press, 2005, p. 45.

<sup>21</sup> Unemployment rates among African blacks hovered around forty percent.

<sup>22</sup> Virtually ninety-percent of the attendees were black—including most of the black business elite. Despite being invited to the conference, the white business leaders chose not to attend.

was not only the right thing to do from an ethical basis<sup>23</sup>, but also from an economic one. They argued that the country's prospects were directly linked to the prospects of those at the bottom of the pyramid—a rather radical thought for businesspeople. Government, unions, established business, and black business, argued the Commission, each had a role to play in transforming the economy and possessed collective responsibility for human capacity building and supporting entrepreneurship.<sup>24</sup> The conference chair, Cyril Ramaphosa<sup>25</sup>, asserted:

The challenge facing black business is to become a dynamic force, to become an agent for change, to establish a new patriotism in business. Black business must champion transformation within their businesses. Black business has a personal responsibility to ensure those people within business are empowered to engage their white counterparts on equal terms.<sup>26</sup>

The BEECom understood that it was embarking on a long and arduous journey. It was no accident that one of the early speakers at the conference described the Malaysian experience. From its inception as an independent country, Malaysia was a country riddled with ethnic tension between the Malays, Indians and Chinese. These tensions were largely attributed to the economic inequality across these groups. In 1963, the bumiputras, a group composed of Malays and other indigenous peoples, comprised 52% of the population, yet they owned just one percent of the country's publicly available corporate equity.<sup>27</sup> Most lived in rural areas, and were engaged in subsistence farming and fishing. The Chinese were the most financially secure ethnic group and owned 27% of the corporate equity, with the balance in the hands of foreign investors.<sup>28</sup> When modern Malaysia formed as a parliamentary democracy between 1957 and 1963, the Malay majority insisted that the constitution establish a protected status for them as economically disadvantaged natives of the country.<sup>29</sup> Still, violent ethnic riots broke out

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<sup>23</sup> They also recognized that to maintain legitimacy, the government and the black business community had to attend to improving the lot of those still at the bottom of the pyramid for they too had fought and made sacrifices in the anti-apartheid struggle. It is interesting to note the following observation on pages 10-11 of R. Abdelal and D. Spar, "Remaking the Rainbow Nation: South Africa 2002." No. 703-017, "Indeed, for many South Africans, democracy was understood less as a political process than an economic one, a way of ensuring substantive improvement in their daily lives. According to survey data, for example, nearly a third of the South African electorate believed that democracy was equivalent to material improvement, while only 45 percent viewed democracy as a set of procedures."

<sup>24</sup> Both Amartya Sen and Tarun Khanna note the importance of human capacity building in emerging economies. See A. Sen, *Development as Freedom*. New York: Oxford University Press, 1999 and T. Khanna and K. Palepu, "The Future of Business Groups in Emerging Markets: Long-Run Evidence from Chile." *Academy of Management Journal* 43 (3), June 2000.

<sup>25</sup> Following nine years as the Secretary-General of the National Union of Mineworkers (NUM), Ramaphosa had been elected Secretary General off the ANC in 1991. In the next years, he played a crucial role in drafting South Africa's new constitution. After leaving government, Ramaphosa had joined the business sector and quickly became one of the most prominent black businesspeople in the country.

<sup>26</sup> Black Economic Empowerment Commission Conference, October 2000.

<sup>27</sup> L. Comber, *13 May 1969: A historical Survey of Sino-Malay Relations*. Kuala Lumpur: Heinemann Asia, 1983. p. 57.

<sup>28</sup> J. Drabble, *An Economic History of Malaysia 1880-1990: The Transition to Modern Economic Growth*. UK: McMillan Press, 2000.

<sup>29</sup> See the Malaysian Constitution as well as L. Comber, *13 May 1969: A historical Survey of Sino-Malay Relations*. Kuala Lumpur: Heinemann Asia, 1983. p. 49.

in 1969 as the bumiputras became impatient with the government's efforts to improve their economic lot.<sup>30</sup> In 1971, the government adopted the National Economic Plan (NEP). The ambition of the NEP was to "re-structure society so as to erase the identification of race with economic function and geographic location."<sup>31</sup> The plan reserved four out of every five positions in government for bumiputras, set aside bumiputra positions at the University in areas where they were not well-represented, required that, by 1990, 30% of all public, domestically-owned companies belong to bumiputras, and that an "equal share" of positions be held for them in corporations.<sup>32</sup> The NEP also called for strong economic growth. The NEP was followed by the Industrial Coordination Act in 1975 which instituted a licensing system for businesses and allowed the government to "insist that firms meet NEP requirements in terms of share ownership and employment structure."<sup>33</sup> The government also made funds available to help bumiputras start entrepreneurial ventures. While all of the goals of the NEP have not been achieved, and the implementation of some of the policies has been quite controversial, redistribution has begun to happen. By 1990, about 23% of domestic, publicly owned companies were in the hands of the bumiputras.<sup>34</sup> In addition, the growth of the Malaysian economy is considered one of the region's great success stories. In 1982, 35% of Malaysians were living below the poverty line; in 2003 only 5% were.<sup>35</sup> Similar improvements occurred in education. In 1970, the secondary school rate was 52% and the "upper secondary" school enrollment rate was 20%. In 2003, the rates were 84% and 73% respectively.<sup>36</sup> But inequality, as measured by the Gini coefficient, has not changed substantially. In the 1960s, Malaysia had a Gini coefficient of 0.42;<sup>37</sup> in 1997, it was 0.492.<sup>38</sup>

With such historical lessons in mind, a BEECom document that was created at the conference suggested that black business should:

- Encourage investments in areas of national priority and job creation by mobilizing support for this objective within the boards of pensions and provident funds.
- Invest in skills development and growing companies.

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<sup>30</sup> L. Comber, *13 May 1969: A historical Survey of Sino-Malay Relations*. Kuala Lumpur: Heinemann Asia, 1983. p. 56.

<sup>31</sup> C.T. Goh, *Integration in a Plural Society: The Chinese in Malaysia*. The Straits Echo Press, 1978. p. 28.

<sup>32</sup> C.T. Goh, *Integration in a Plural Society: The Chinese in Malaysia*. The Straits Echo Press, 1978. p. 28.

<sup>33</sup> A. Kaur, "Economy and Society: The Formation of a National Economy," *The Shaping of Malaysia*, A. Kaur and I. Metcalfe, Eds. New York: St. Martin's Press, Inc., 1999, pp. 160.

<sup>34</sup> "The Slaughter of Sacred Cows," *The Economist*, April 3, 2003.

<sup>35</sup> "The Exotic Doctor Calls it a Day," *The Economist*, October 31, 2003, p. 1.

<sup>36</sup> L. Lopez, "Hidden Weakness," *Far Eastern Economic Review*, Vol. 166 (46), November 20, 2003, p. 51.

<sup>37</sup> Alesina, A. & D. Rodrik, "Distributive Politics and Economic Growth," *The Quarterly Journal of Economics*, Vol. 109, 1994, pp. 465-489.

<sup>38</sup> *The World Factbook: Malaysia*, CIA Publications, [www.cia.gov/cia/publications/factbook/print/my.html](http://www.cia.gov/cia/publications/factbook/print/my.html), updated on August 1, 2003, accessed on June 1, 2006.

- Business organizations should work towards unified business structures provided there is a measurement commitment to implement BEE and to deliver services to members.
- Provide services to members (of business organizations) such as: management training, small business support and the marketing of Government programs and incentives.
- Promote compliance with the full spectrum of labor relations policies and legislation and encourage members to go beyond the minimum requirements of the law.
- Promote compliance with principles of corporate governance and encourage members to go beyond the minimum requirements of the law.
- Promote the development of new forms of ownership, including ESOPS and retail schemes, affirmative procurement practices and support for small businesses (including community and worker-owned businesses).
- Always include women and women-owned businesses in the economy.
- Empower local communities through procurement and programs in communities, focused on infrastructure provision and job creation, and as far as possible, encourage the use of local content.<sup>39</sup>

The BEECom report highlighted emerging black business leaders thinking deeply about the dynamics and goals of democratic capitalism. Most black business leaders with whom we spoke voiced some commitment to improving the lives and livelihoods of the poor and marginalized. But although the black business leaders agreed on the ends, they did not agree on the means. Some argued that “business is simply about making profits” and the obligation of black business leaders is first and foremost to build profitable businesses and thereby create jobs and have the resources to engage in large scale philanthropy. Others suggested that South Africa had an opportunity to redefine how business is done—to provide a model of a “gentler capitalism” for the rest of the world. Irene Charnley clearly fell into the latter camp. But of course, actions speak louder than words.

### **A Gentler Capitalist in Action<sup>40</sup>**

Like her other colleagues on the BEE Commission, Charnley believed that each black business executive had a responsibility to effect positive change in their particular company, and that through their collective efforts they could have a powerful collective impact on the country. By the time of the BEE Commission Charnley found herself at the top of the pyramid, but she had come from the bottom. Irene Charnley grew up in Elsies

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<sup>39</sup> Black Economic Empowerment Commission Report, 2001. p. 7.

<sup>40</sup> This narrative is based on data collected principally between 1997 and 2003. Much of it is also included in a series of Harvard Business School cases, Irene Charnley at Johnnic Group (A), 9-405-059, (B) 9-403-171, and (C) 9-405-061.

River – an Afrikaans-speaking, Colored area<sup>41</sup> outside of Cape Town (see **Exhibit 2** for a photograph of Charnley). Her father was murdered when she was young, and her mother, a domestic worker, raised Charnley and her two siblings. Like most blacks in South Africa, Charnley and her family lived in poverty. Charnley recalled:

We never had any money. We didn't have a ceiling in the house, so the rain would come through. In the summer, the same leaks would sweat. Sometimes you would be embarrassed about where you lived, a place where people were killed every day and stuff like that. But, you learned to survive, and how to keep your head above water. And finally, you learned how to achieve the things you wanted to achieve.

In 1982, Charnley was one of a select group of black South Africans to receive a scholarship to attend university in the UK. After earning a diploma in graphic arts and reproduction from the London College of Printing, she returned to South Africa. When Charnley discovered she was being paid a quarter of her white counterparts in her first graphic arts position, she quit and accepted an offer to work for the National Union of Mineworkers (NUM) in South Africa. She had met the President, James Motlatsi, and its General Secretary, Cyril Ramaphosa, while studying in London at a fundraiser for the anti-apartheid movement and the British mineworkers strike. Charnley recalled her enthusiasm for the opportunity, “I really wanted to give the energies and the passion that I had back to the people who were most oppressed in society.”

In 1985, Charnley started as a graphic designer for the NUM's fledgling newspaper, and soon became a key negotiator with Ramaphosa's encouragement. Over time, Charnley came to serve as a trustee on several of the NUM's pensions and provident fund boards. The assets of the NUM were substantial and Charnley and her colleagues pressured those fund managers that serviced the funds to adopt more liberal policies, such as hiring and providing training for black professionals. Like many of her activist comrades this was a dangerous time for Charnley; on more than one occasion she was detained and interrogated by the police.

Charnley's unexpected introduction to a business career came through the NUM. In 1996, the NUM joined with other black investors in the National Empowerment Consortium (NEC) to purchase from Anglo American Corporation of South Africa (Anglo)<sup>42</sup> a 34.9% interest in Johnnic, a passive holding company with varying stakes in breweries, pharmaceuticals, foods, media, entertainment and telecommunications. Consequently, this BEE deal was one of the most important in the first wave of Black Economic Empowerment due to Anglo's prominence (it was South Africa's largest company employing 130,000 people) and the lucrative assets it divested. After leading the negotiations with Anglo for the NUM, Charnley was asked to serve as one of the NEC's ten non-executive directors on the fifteen-member board at Johnnic. Her mandate

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<sup>41</sup> In 1950, the South African government mandated that individuals live only with people who were the same race. Charnley's mother and father's parents were Xhosa, White, Malay, and Italian respectively. However, Charnley's parents were classified as Colored.

<sup>42</sup>In the mid-1990s, the company disposed of 'non-core' assets including those represented by Johnnic. Its core activities were in mining gold, diamonds, platinum, ferrous metals, industrial minerals, and base metals.

was to protect the NUM's investment, in large measure made up of mineworkers' pensions, in Johnnic. Along with her mentor, Cyril Ramaphosa who was the chairperson of the board, Charnley found herself sitting on the same side of the table as management. Charnley was familiar with some of her fellow board members. For example, she knew Anglo American's Head of Corporate Affairs, Clem Sunter, from the Vaalreefs Disaster Trust. One hundred and fourteen men had died in a terrible mining incident in 1995 and Charnley had been one of the NUM negotiators to secure the welfare of the widows and their children.

### *Gaining Control*

During her tenure at Johnnic, Charnley played a key role in transforming the passive holding company into an active corporate center with lucrative interests in media and telecommunications. From her first meetings on the Johnnic board, Charnley grew increasingly concerned about what she saw as a Johnnic's lack of strategic direction and limited involvement with its investments:

The way boards were often run –they were all friends, and had a cozy relationship, but I could never understand what Johnnic was really doing. I would ask, “What’s your strategy? How does that budget link to that strategy?” But I was never answered. With BEE I had been asked to sit on the boards of many important companies. But having an empowerment presence on a board does little good for black South Africans. You don’t have much influence on strategy, hiring practices, or company culture.

Charnley decided that if she wanted to have impact, she needed to focus her efforts. To the surprise of many of her peers, she resigned from the boards of most of the union retirement funds on which she sat and concentrated her efforts on Johnnic. In August 1997, she was appointed by Ramaphosa and the NEC as an executive in charge of strategy and new business development. She hoped that, as a member of executive management, she would be in a position to protect the NUM's investment by helping the company develop and execute a robust strategic plan. Charnley observed:

When I joined Johnnic, the first black person and the first women, they expected me to occupy an office, attend board meetings, and just be happy because I got a good paycheck. But, in our society, there was no way I was going to do that because you just don't earn money if you don't deliver. It's unethical. We were the first generation of black people who had been successful. It was important for us to ensure that while we were forming a black middle class, we still had a social conscience. I knew that I was in Johnnic for a purpose.

One of Charnley's first tasks was to recruit a new financial director to replace the incumbent director who was taking early retirement. Determined to find a black candidate, Charnley consulted with friends and colleagues. Many were not optimistic for Charnley since only 5% of all the chartered accountants (CA) in South Africa were black.



Ever persistent, Charnley learned of Jacob Modise, a 31 year old, black CA working at Eskom—South Africa’s energy parastatal. Many board members were unenthusiastic about his youth and relative inexperience given the challenges facing the company. However, Charnley insisted that Modise was the right person for the job, arguing, “There’s no black person who will have all the experience because we never had the opportunity before. Look what he has accomplished at Eskom. We must give him a chance.” Charnley persisted and convinced first Ramaphosa, her mentor, then the rest of the board. Hiring Modise was not simply moving a coveted black professional from one company to another; it was offering an opportunity for professional development to a young black professional who had shown promise.

Over time, Charnley transitioned from her position as a non-executive board member to an executive in charge of strategy and new business development. Her biggest move was divesting profitable, but mature assets, to purchase telecommunications firm MTN. By January 1999, Johnnic effectively controlled just under fifty percent of MTN making it the majority shareholder. Given Johnnic’s significant stake in MTN, the Johnnic board decided that Charnley would assume a new position, executive director of telecommunications charged with ensuring the health of MTN. But before Charnley moved into her new role, she had a personal matter to which she had to attend. Charnley went on maternity leave in February to have her third child. A white co-worker recounted an exchange the two had at the time, which she felt epitomized the dramatic career transition Charnley had made in her short time at Johnnic:

I asked her, “Irene how long are you going to be gone?” And she said, “Oh you know, maybe six weeks, maybe a bit less.” Having recently had my third child as well, I said, “Irene, that’s not very sensible.” She said, “Maybe so, but my real concern is that the labor movement doesn’t hear what I am doing. I’m the one who negotiated six months statutory leave out there in the market. And here I am taking only six weeks.”

### *The Transformation of MTN*

MTN was founded in 1992 by two white South African entrepreneurs. From the moment the first cellular network went live in 1994, South Africans eagerly adopted the new technology. Initial projections estimated a subscriber base of 225,000 after five years; MTN alone had 2.5 million subscribers after that time period. By the time Johnnic consolidated its position as the majority shareholder in January 1999, MTN was a company at a cross-roads. While its revenues continued to grow, the sustainability of its strategy was in question. MTN’s core market, which consisted mainly of white consumers and businesses, was almost saturated. The company had begun to pursue alternative avenues of growth including international expansion. In addition, like many high-growth entrepreneurial ventures, the company’s structures, systems and processes were in need of rationalization and upgrading.

As required by the government, MTN established an employment equity plan in 1998. The government mandated that company's racial profiles were to ultimately mirror the racial profile of the "economically active population." To prepare the document, MTN developed targets for each racial group in each department and at each level of management. The company modified the targets where necessary to create space for whites to still be hired and promoted in an effort to ensure that the company was perceived as a good employer for all racial groups. There was a shortage of skilled information technology (IT) workers. In the late 1990s, developed economies around the world were importing IT professionals from countries such as India and South Africa. In South Africa, the end of apartheid and some of the attendant changes exacerbated the situation. To escape the violence in South Africa and earn salaries in a more stable currency, significant numbers of South Africans were electing to leave the country.<sup>43</sup> Foreign jobs were particularly attractive to young, white workers who, unsure of their prospects in their home country, often chose to establish their careers in countries where whites did not fear reverse discrimination.

Johnnic appointed Charnley to chair MTN's board. She sat on three of the board subcommittees, the Investment and Strategy Subcommittee (ISC), the Human Resources and Remuneration Subcommittee (HRRS), and the Regulatory Subcommittee. As one of the hoped for delivery channels of the content produced by the other Johnnic companies, MTN was to play a pivotal role in Johnnic's strategy to capitalize on the synergies between media, entertainment, and telecommunication. Charnley was charged with delivering MTN's cooperation. As a black woman with little experience in business and no experience in the telecommunications arena, Charnley assumed she would be challenged at every step. And as one MTN executive observed, she was coming into an organization in which many members of the top team had "three degrees behind their names."

In her first months in her new position, Charnley immersed herself in the MTN organization, freely contacting and talking with staff throughout the organization about a wide range of topics from the very tactical to the strategic. Many MTN executives were surprised by the depth and style of Charnley's engagement with the organization. Some took time to grow accustomed to Charnley's take charge, no-nonsense style while others immediately respected it. In particular, her frank criticism had the potential to create misunderstandings. One white colleague remarked, "Sometimes people take her criticisms personally instead of realizing it's an issue-driven thing." However, others appreciated this trait. Another white colleague noted, "I would consider her to be completely and utterly a woman of integrity, in the sense that there is no game playing and you always know where you stand." Still another noted that Charnley was in a difficult position because of the racial and gender "subtext." Many people acknowledged, even some of those uncomfortable with her hands-on style, contended that since Charnley wanted change to happen quickly, her approach was probably necessary. As one executive remarked, "With our structure, a lot of things didn't happen in this company without people putting their fingers in."

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<sup>43</sup> Although estimates of "white flight" range widely, trusted estimates suggest that 6.45% of South Africa's 4.4 million whites left the country between 1991-1995, 7.38% left between 1996-2000, and 3.15% migrated between 2001-2003. See *Mid-Year Population Estimates Report 2005*, Statistics South Africa, May 2005, p 6.

As Charnley developed a sense of how things worked at MTN and felt that progress was being made, she became less involved in operational issues and focused her attention on what she saw as four interrelated strategic priorities for MTN. First, the company's core South African market was maturing and new growth areas needed to be identified and developed. Second, MTN needed to accelerate its expansion into Africa. Third, MTN was key to Johnnic's synergy strategy. MTN needed to be convinced that cooperation with Johnnic's print and media companies would be good for them as well as for the rest of the Johnnic group. Fourth, MTN needed to embrace BEE and bring more black people into the company at all levels. Although approximately fifty percent of MTN's employees were black, less than a quarter of the managers and almost none of the senior team were black.

While for the purposes of this article, we will focus on Charnley's efforts with regard to the fourth priority, it is important to note that Charnley emphasized all four priorities. She understood that an empowered, but unprofitable MTN would be of no use to anyone. Furthermore, Charnley saw the priorities as interrelated. For example, when Charnley joined MTN there was a perception that the marketing strategy was not adequately addressing South Africa's black population which comprised 89% of the population (see **Exhibit 4** for country demographics). Charnley, and others in the organization, struggled to enlarge people's vision of "the possible." To Charnley, this issue was critical because the perception was that MTN's rival, Vodacom, was clearly marketing to the black market and had already captured a larger share of the black market than had MTN. Charnley felt that the company had a long way to go in developing the expertise and sensibilities necessary to attract and retain black consumers. She believed that having more black professionals and executives in the company could help accelerate the learning. Charnley provided an example of the debates within the company:

We had to decide whom we wanted to sponsor. Did we want to spend money on soccer, which targeted the majority of the population, or rugby, which targeted a smaller, predominately white, section of the population. Should we give money to a rural school, or give money to sponsor the rugby team of the most elite school in South Africa? People failed to recognize that the black market represented a huge potential future market. A lot of companies have begun to change—you can find more black people in advertisements—but we have not moved quickly enough in that direction.

She encouraged the executive team to develop products and services that would meet the needs of the underserved black community (for instance, billing procedures that did not require customers to have a bank account).

#### *Selecting, Retaining, and Developing Black Talent*<sup>44</sup>

MTN's approach to employment equity included three distinct, but not mutually exclusive policies and practices: Affirmative Action, Employment Equity, and Managing Diversity. Affirmative Action focused on increasing the representation of designated

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<sup>44</sup> For more detailed information, see MTN Group Employment Equity Plan, 1998.

groups, through targeted hiring, training and promotion. Employment Equity was designed to ameliorate systemic discrimination, such as the adverse or disproportionate effect of staffing policies, including credentials and experiences requirements unrelated to successful job performance. Managing diversity was an organizational developmental strategy primarily concerned with improving interpersonal and inter-group communications and relationships in the workplace.

To Charnley, the empowerment situation at MTN required swift and decisive action for both business and social reasons; “BEE was simply the right thing to do to address inequities of the past in addition to being a clear strategic and business imperative,” she explained. When Charnley became involved in MTN, the entire executive team, with the exception of one colored man, was white and more than eighty percent of all senior managers were white. Because the company was growing, there were opportunities to bring in black employees without removing incumbents, a circumstance that was not true at many South African companies faced with downsizing to meet the competitive pressures of an open economy and globalization.<sup>45</sup> However, skilled telecommunications professionals and managers were scarce, and turnover was costly.

With the endorsement of her fellow board members, Charnley insisted that black candidates be considered in the candidate pool whenever openings in professional and managerial positions arose. These moves were often met with resistance. There were various concerns expressed. Some contended that previously disadvantaged job candidates did not have as much experience as white candidates. In response, Charnley reminded the staff that 95% of them had not previously worked in the telecommunications industry. Another concern was that amongst the relatively small pool of skilled black professionals in South Africa, there were simply too few candidates to fuel the revolutionary change in staffing at the company that Charnley seemed to desire. Many proposed that MTN bring in black hires at lower levels and develop them. As they rose in the ranks, the racial profile of the company would be transformed. Charnley was skeptical of the efficacy of this suggestion. Before Johnnic had become MTN’s majority shareholder, she knew black management had been hired and rarely promoted. Most left because they saw no opportunity for advancement.

As one black executive explained, it was difficult to win support from some managers for even evolutionary change:

The employment equity act was an issue Irene had to push on. You don’t find senior black people. There are very few of us, and those of us that exist are circulated amongst companies. That’s a big problem for MTN. But Irene said, “Look, all of you started somewhere too. Bring them in and train them.” But, it was difficult for some in management to understand why they needed to waste time and money to train people when there were plenty of qualified people out there. But, you needed to convince them that if they didn’t deal with the equity issue, there would be no future for the company.

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<sup>45</sup> Due to a United Nations embargo to protest apartheid, the South African economy had been virtually closed. Now that it was open, many companies were struggling to restructure themselves to become competitive in a global marketplace. Many at MTN commented on the fact that they were in a “better position” to address affirmative action needs because they were growing and not retrenching like many other South African companies.

The limited supply of skilled empowerment professionals in South Africa, in the minds of some in the company, also put a strain on the company's resources. General Manager of New Business Development Johann Bezuidenhoudt, a white man, commented:

Irene has been pushing black economic empowerment very strongly in the organization, which she has got to do. But, it is difficult because there are not enough skilled resources. To replace my direct reports, I would need to pay them R400,000 to R600,000 a year. To get a previously disadvantaged replacement, I would be paying over R1,000,000 because the guys who develop business, if they want to do it, they will go and start their own businesses. That is one of the most complex dilemmas Irene has to manage. If she pushes it too hard, she is going to handicap the company. If she doesn't push hard enough, she's going to be under a great deal of pressure from her shareholders.

Charnley soon concluded she could not wait for everyone's buy-in to move ahead with the BEE agenda. She instructed executives to begin hiring the previously disadvantaged into senior positions. She believed that the only way to win over the MTN staff was to put the hires in place. Once they performed, they would build credibility with their peers. Charnley knew that it would not be enough to simply hire black employees into MTN. During the months she had been at the company, she had heard of too many examples of racism, both overt and subtle. For example, Felling Molusi, an African woman, lawyer, and former chair of the Independent Broadcasting Authority was hired to replace the group executive in charge of International Business Development who had chosen to head up a new venture within the company. Despite her experience in the telecommunications field, Molusi had difficulties when she first arrived at MTN in June 1999. She recalled, "I felt unwelcome when I first joined MTN. Thinking I was a political appointment, some of my colleagues questioned me explicitly and subtly. I went to a team building session where people wrote their views about each other on paper, and a lot of people wrote very negative things about me." Few of Molusi's co-workers had been informed of her qualifications and assumed she had been appointed based solely on her race. As that misperception was rectified, she began to gain acceptance from her colleagues.

Charnley resolved that she would do all she could to ensure that new black executives would not be isolated. To that end, she began meeting with them each week to learn how she could best support them. Molusi reflected:

It's one thing to recruit people, put them in a position and then sit at Johnnic. But, Irene was here every day and you knew you could rely on her support when things got tough. With all the political games, that was important. In a lot of South African organizations, black people were put in key positions and then not given the requisite support. With Irene's backing, at least one was able to operate effectively in an often hostile environment. There were many white people who were willing to support change, but there were an equal number who were resistant, and you never knew who was who.

Charnley explained why she felt the weekly meetings were necessary:

There were black people in the organization whose confidence has been completely destroyed. People withheld information. People wanted them to fail. They were undermined around every corner. You had to be strong to put up with that stuff. And the black employees knew they could stand up and challenge things because they had the support of the board. They knew that I was there to monitor, police, and make sure that things happened. Because when you are out there, it's like being in the battlefield and you are absolutely alone, and there is nobody protecting your back. But, if you know you are out in the battlefield and there is somebody behind you who is able to spot that person who is going to kill you, then it is better. That's the way we had to operate until things warmed up. That is the situation we are still faced with.

In her meetings with black hires, Charnley did not simply affirm her support for them. She held high standards for them and made her expectations clear:

I said to people, "You have to work extra hard, and if you're a woman you have to work even harder. When people sleep, you work. You have to be the best. People must respect you. And they must be oblivious to color because of what you deliver. When you don't deliver, they say black people are incompetent. We've had good black people who have quit because they couldn't take the pressure."

While most companies in South Africa were not moving as quickly as MTN in changing the demographic composition of their workforce, Charnley concluded that management was not consistently delivering on empowerment promises:

When you want to do something with empowerment, generally people will say they will do something because they think you will never follow up. But, in time, they realized that doesn't work with me because I will close every loophole. Perhaps management would agree at a board meeting that fifty percent of the people working in our African operations must be black. We would ask what their target date was for achieving that goal, and they would say six months. Well, six months later I would check back and say, "What have you achieved in Cameroon, in Uganda?" And they have achieved nothing; they have hired only whites. You have to be prepared to take people head on because they will think of every trick in the book when it comes to empowerment.

I started managing and putting pressure to such an extent that people ended up saying I was racist, that I didn't want white people. I said, "This is not a black and white issue. It is an issue of giving opportunities to people to whom you have never given opportunities before. It is also a business imperative. If we don't do it, we will be out of business in five years. Because it is becoming more and more a requirement that black people be part and parcel of companies. If you

were concerned about opportunities, you would have given black people opportunities before. Instead, there were hardly any black people in senior positions.”

To speed up the process of black economic empowerment (BEE) at MTN decided to overhaul the company’s executive bonus system; historically bonuses were indexed principally to annual profit. In addition to incorporating stretch targets, and emphasizing the importance of key strategic objectives, the new bonus structure would index a portion of the bonuses of the senior managers at MTN to their employment equity targets. Charnley and the Human Resource director proposed that 45% of the bonus be based on achieving financial stretch targets, 35% on achieving ten strategic objectives, and 20% on achieving employment and procurement equity targets. Charnley did not think senior management would like any part of the bonus overhaul, but she knew there would be great consternation about the employment equity targets.

Whites were beginning to fear for the security of their jobs. One white manager shared his dilemma. “I had employees coming to me, begging me to tell them whether they had a future with the company now that it was an empowerment company. They had a right to know, and I wanted to tell them. But, the truth was that I didn’t know. A lot of it depended on whether or not we kept growing.” At any South African company, racial tensions of some magnitude were to be expected. But some white executives worried that Charnley’s approach may have exacerbated them. As one individual explained, some perceived that black employees had disproportionate access to Charnley:

Five or ten powerful black executives got together in a clique. Cliques happened all over the company, but it was easier to identify a black clique. I understood why these cliques were there. They made sense in some way, but eventually they were used to gain power. It was a challenge for someone like Irene to deal with. If she was not seen to be outside of both cliques, then there was a problem. And there was a perception in the company that the opposite was true. It’s dangerous to see that certain people, by virtue of their race, may have access to Irene that a white person may not. Because, as soon as you have one of the most powerful board members involved in a us against the rest of management situation, there is serious trouble for the company. I think Irene has real challenges because she was very powerful to MTN then.

White employees admitted that they were unaccustomed to negotiating racial politics at work. One white MTN executive explained:

A white person has sensitivity that, if he disagrees with Irene in a board meeting, he will be perceived as a white male racist. Even if this is not true, that is what he feels. A white person can’t be as vocal or risk saying as much as a black person. This is partially due to the sensitivity of the white person and partially due to mismanagement on Irene’s part. People pretend the racial dynamics don’t exist and then go away and talk about them in great detail amongst themselves.

Charnley realized the tensions her approach was creating:

The whites here thought we were moving much too quickly. We couldn't hire the black people we wanted because they thought we were doing "too little, too late." And I needed to constantly intervene to make sure the black people we had hired had the space to get their work done. And yet, the only way to keep growing was to keep moving on empowerment. It was difficult balancing all these competing claims.

I think sometimes you have to be cruel to be kind. One person literally had to be on the extreme so that we could end up in the middle. There was a perception that MTN was only a white company, and we needed to change that mindset. We needed to prove that this company was black-owned and black-managed. Because you couldn't just go to the regulator and say that the company was black-owned although not black-managed. It was important from a business point of view that we employ black people; if we didn't, we would have regulatory difficulties such as obtaining spectrum. The government might have just gone and auctioned it, and once they start auctioning spectrum, it's not in our favor. It would be too expensive.

The blacks in the company were applauding her aggressiveness. MTN's Assistant Company Secretary Matthew Moodley, when an Indian man sent her an e-mail congratulating her for winning South Africa's Business Woman of the Year Award, he wrote, "Your commitment to the group is reminiscent of a shepherd herding her flock, nurturing them from lambs, providing guidance and protection, to reach adulthood and ultimately success." Charnley believed the message indicated a positive change in MTN's culture. At the same time, she knew others felt that MTN had very far too go, a point of view emphasized by a young, African man with an excellent track record in a major multinational corporation. Charnley tried to recruit him, but he had declined her offer. He later explained:

Companies that were voluntarily willing to do something about BEE did so in 1994. Progressive companies, progressive CEOs moved when the government changed. They saw that bringing in black people grew opportunity and money for all. Those companies that are only reacting now are those that were resisting transformation, holding on to power, and hoping things would be delayed. And that is not an environment in which I want to work. I need white people in the company to train me. I need their buy-in that I represent an opportunity, not a negative.

### *Assessing Impact*

In December 2003, Charnley left her position as executive director at Johnnic Group to take the executive position of commercial director at MTN. During the three years of her appointment as executive director of telecommunications for Johnnic, Charnley had pressed MTN to think more strategically about its future growth. She



pushed MTN to pay attention to the black market in South Africa, to aggressively expand into foreign markets, and to capitalize on synergies with Johnnic's other subsidiaries. MTN was now providing eighty percent of Johnnic's revenues. By 2003, MTN was present in Nigeria, Cameroon, Uganda, Rwanda, and Swaziland, and those operations provided 36% of revenue and 46% of EBITDA.<sup>46</sup> Subscribers grew from 2.3 million in 2000 to 8.9 million in December 2003. MTN's share price climbed steadily from ~10 Rand per share in the autumn of 2002 to ~30 Rand per share in December 2003 (see **Exhibit 5 and 6** for MTN metrics). In addition, MTN introduced more stringent BEE requirements with regard to its procurement practices. If a supplier did not meet MTN's BEE standards, a BEE clause was included in the contract and monitored quarterly. standards were not met, a BEE clause was inserted in the contract and monitored quarterly.<sup>47</sup>

Charnley's insistence on MTN's senior management diversification had been successful as well. By 2000, there were five black executives in top management including the managing director for South African (SA) operations and the company was recruiting a black executive to head up MTN International. Furthermore, out of a total of five group-wide executive directors at MTN, two were black men, one was a black woman, one was a white woman, and one was a white man. Phuthuma Nhleko, an African man, was now CEO. As MTN's commercial director, Charnley led a management "buy-in" of an 18.7% stake of MTN Group. The shares were to be allocated to all employees with 57.2% of the shares going to 200 managers and the remaining 42.8% of the shares going to the staff of 2,153. Because 65% of the beneficiaries of the scheme would be black, MTN CEO Nhleko considered the deal to be a "milestone for black economic empowerment." In 2002 and 2003, Charnley was named to *Fortune's* "Global Most Powerful Women in Business" list. Upon leaving the Chairpersonship of MTN's board, Charnley was pleased with the progress the company had made, but worried about management resting on their laurels: "This is a high-growth company used to success. But their market is maturing, a third cellular license could be issued any day, and they are still runner-up in market share. They need to feel the wolves at their heels. And they still do not understand the urgency that the regulatory environment calls for in integrating the ranks of professionals and senior management."

The initial path that Charnley and Johnnic took was representative of the path taken by black business leaders in South African corporations. They started off the decade engaging in empowerment deals largely dictated to them by white business. While these deals allowed black business leaders a foot in the door and capital gains if the stock market cooperated, they did not offer real opportunities to demand or craft change in how corporate South Africa worked. Charnley soon recognized this reality and began to negotiate for a more active role in Johnnic. She moved from an advisory position on the board to an executive position within management while remaining accountable to the wishes of her shareholders in the union. This shift allowed Charnley to implement rather than just recommend. With this power of implementation, she played a pivotal role in reshaping Johnnic into an active company whose day-to-day operational activities had real consequences for South Africans, and, among many others,

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<sup>46</sup> MTN Sustainability Report 2004, pp. 2.

<sup>47</sup> MTN Sustainability Report 2004, pp. 26.

to create a context at MTN for the flourishing of black hires. Charnley's years in the unions in had taught her that control mattered and she had acted on that knowledge

Very few of the early empowerment companies established in the mid-1990s were able to exert the kind of control that resulted in change in corporate practices. Whatever the analysis, most observers agree that the NEC and Johnnic did not fall prey to as many of the problems others did (see **Exhibit 7**). Charnley and her company won many accolades for their efforts, including numerous BEE awards.<sup>48</sup> They created real change in one of South Africa's most prominent companies, something few have been able to do. Of course, a single company cannot on its own heal the historical inequalities in South Africa, but Charnley was determined that MTN would do its part. Like her fellow colleagues on the BEE Commission, Charnley's was a long-term vision. Determined, consistent and persistent strategic efforts had brought down apartheid, and now the same would surely be required to improve the economic prosperity of the formally disenfranchised.

### **Key Questions**

Charnley's actions were not without controversy and indeed raise many questions. Few would question Charnley's commitment to a vision of business as a catalyst for social change *as well as* a value-creator for shareholders. Still, we must ask: who has benefited from Charnley's efforts? Will the actions of Charnley and her like-minded colleagues from the BEE Commission lead to broader more sustainable change in the economic prospects of the previously disadvantaged?<sup>49</sup>

In the MTN Employment Equity Plan<sup>50</sup>, the company establishes its own criteria for the success of its Employment Equity/Affirmative Action initiative—equality of opportunity that results in improved business performance:

It is important for the organization to understand that Employment Equity/Affirmative Action cannot be a vision in itself. Affirmative action is a vehicle, a means towards an end, and that end is Equity. The ultimate vision is that of an organization where employees from whatever background will have the opportunity to realize their full potential, thereby enhancing the business objectives of the organization. An Equity vision can only be a driving force for change if all stakeholders help define it.<sup>51</sup>

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<sup>48</sup> MTN and Johnnic have won multiple awards for BEE including *Businessmap's* "AngloAmerican Award" for Top BEE Market Performer 2004 and in 2000 Johnnic was 3<sup>rd</sup> place in *Empowerdex's* annual listing of most empowered boards.

<sup>49</sup> For detailed analyses of inequality and how difficult it has been to address in South Africa see for example, J. May, *Poverty and Inequality in South Africa: Meeting the Challenge*. Cape Town: David Philip Publishers, 2000; J. Seekings and N. Nattrass, *Class, Race and Inequality in South Africa*. New Haven: Yale University Press, 2005; and F. Wilson and M. Ramphela, *Uprooting Poverty: The South African Challenge*. New York: W. W. Norton and Company, 1989.

<sup>50</sup> MTN also publishes an annual economic and sustainability report to assess both their financial and social achievements.

<sup>51</sup> MTN Group Employment Equity Plan 1998. Additionally, R. Ely and D. Thomas provide a model of diversity practices that optimizes the contributions diversity makes to companies while managing the challenges. See D. Thomas and R. Ely, "Making Differences Matter: A New Paradigm for Managing Diversity," *Harvard Business Review*, 74(5) (1996): 79-90.

Charnley has concluded that she must help MTN find a way to operate in the space where ethical behavior meets profitable behavior. Defining this space, which Lynn Sharpe Paine calls the “zone of acceptability,” is a necessary first step in enabling business to act as a tool of poverty alleviation.<sup>52</sup>

As should be clear from Charnley’s example, locating the area where ethical and economic soundness overlap and operating within it is delicate work; a “gentler capitalism” is hard work. Did Charnley stray beyond the boundaries? Many believe BEE adds costs to corporations and compromises their competitive advantages.<sup>53</sup> Even Tokyo Sexwale, a leading businessman who served on Robben Island with Nelson Mandela has commented on just how expensive his fellow black business colleagues have become to hire. Many of Charnley’s business colleagues believe BEE adds costs to corporations and compromises their competitive advantages.<sup>54</sup> Surely, Charnley did find herself making tradeoffs at times—between competing priorities of the short term and long term well-being of the company, for instance, when hiring talent. But leadership is about making those judgments, weighing costs and benefits. In assessing the economic or ethical soundness of a leader’s decisions, we must consider the impact of his or her actions over time.

The debate about the role of business in South Africa is not only about the ends, but also the means of business. One prominent businessperson told us that he believed the South African economy would only prosper when black businesspeople unabashedly pursued business for what “business was meant to be about, making profits and making money.” In his mind, businesspeople concerned about “ethical soundness” over “economic soundness” were preventing the economic growth that would ultimately lead to fuller employment and lower rates of poverty in the South African economy. In contrast, another explained to us that he believed he had done more good for his fellow South Africans in five years in business than he had in his twenty years in the anti-apartheid struggle. It is hard to imagine how the black business community can achieve its social agenda unless they continue to engage in honest discourse and critical analysis of their actions.

During the anti-apartheid struggle, Charnley witnessed first-hand the power of leaders using ideals to capture the hearts and minds of diverse people, leading them to achieve seemingly impossible goals. This model of action is driving the unfolding story of black business leaders in South Africa as they try to inculcate an ethic of equity into business in the face of a global economy which operates under a different set of rules, maximizing shareholder value. The legacy of South Africa provided the opportunity for a reexamination of the appropriate role of business, for during apartheid business acted as an oppressor as much as government. It was hard to imagine a new social order that did

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<sup>52</sup> L. Paine, *Value Shift: Why Companies Must merge Social and Financial Imperatives to Achieve Superior Performance*. New York: McGraw Hill, 2003, p. 243.

<sup>53</sup> See for a discussion of the potential costs and benefits of targeting the poor as a market, C.K. Prahalad, *The Fortune at the Bottom of the Pyramid: Eradicating Poverty Through Profits*. Philadelphia: Wharton School Publishing, 2005. Clearly, there are profits to be made. But as Paine’s model suggests, the overlap can be less than perfect between making profits and engaging in social responsible behavior.

<sup>54</sup> See for a discussion of the potential costs and benefits of targeting the poor as a market, C.K. Prahalad, *The Fortune at the Bottom of the Pyramid: Eradicating Poverty Through Profits*. Philadelphia: Wharton School Publishing, 2005. Clearly, there are profits to be made. But as Paine’s model suggests, the overlap can be less than perfect between making profits and engaging in socially responsible behavior.

not affect how business operated. The ANC government, understanding that with political power, economic power would not necessarily follow, created an enabling environment through legislation and regulation.<sup>55</sup> The country had adopted similar policies in the early 1950s, when the Afrikaner-speaking government took control from the English-speaking government, and instituted “affirmative action policies” to improve the desperate economic conditions of many Afrikaners at that time. Organizations such as the BEE Commission defined a vision of what capitalism should be and identified the values to which the new generation of business leaders should aspire. Change agents such as Charnley accepted responsibility for implementing the vision and institutionalizing it in their organizations.<sup>56</sup>

South Africa’s black business class is in the seemingly impossible situation of running profitable businesses while having to justify to society that such success makes a meaningful difference in the lives of the poor and oppressed. It is an uncomfortable new standard of legitimacy faced by few other businesspeople in the world. And the risk remains that Charnley and her compatriots will turn into a new black oligarchy ruling over a democracy of haves and have-nots. For, even as Charnley has brought the ethics adopted from a childhood of poverty and a life of struggle to inform corporate practice, she, and others like her, have grown wealthy and powerful. This has not gone unnoticed. As inequality increases among the black population, the majority at the bottom of the pyramid are growing impatient with their more fortunate numbers. The unions and the public question the salaries black executives receive who have downsized their workforces to meet “market expectations or competitive realities.” Even the cars of the former revolutionaries, now wealthy business people, are fodder for public commentary.<sup>57</sup> Mamphela Ramphele,<sup>58</sup> a leading South African moral figure, warns against conflating black enrichment with black empowerment. She writes:

Personal enrichment should not be confused with black empowerment— one cannot be fabulously rich on behalf of others. An assertion to the contrary would be taking collective identity politics too far. The burden of proof falls on those asserting that their ownership of the means of production is part of black empowerment. In what way, for example, do black-owned enterprises differ from others in their management of employees, their investment in personal development of

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<sup>55</sup> Not surprisingly, governmental policies and practices with regard to BEE have evolved over time in the face of, among other things high levels of unemployment and poverty on the one hand and relatively low levels of foreign direct investment on the other.

<sup>56</sup> For a discussion of how to develop leaders of moral courage and capability see for example, L. Hill, “Exercising Moral Courage: A Developmental Agenda,” in D. Rhode (editor), *Leadership: The Theory and Practice of Power, Judgment, and Policy*. San Francisco: Jossey-Bass, 2006, p. 267-289.

<sup>57</sup> Media coverage of Mercedes and other luxury vehicles ownership among the black business elite has been extensive. These leaders are highly visible and their actions, rightly or wrongly, take on symbolic significance for the broader population. Generally, the black business elite attempts to downplay coverage of luxury item ownership. For example, see “The meteoric rise of South Africa’s black middle class” from the April 2, 1999 edition of *Mail & Guardian*.

<sup>58</sup> Dr. Mamphela Ramphele was an activist in the Black Consciousness Movement. A physician, she became the Vice-Chancellor of the University of Cape Town, becoming the first black woman to hold this position at a South African university. She also served as Managing Director of the World Bank. This quote is from M. Ramphele, *The Affirmative Action Book: Towards an Equity Environment*. Cape Town: Idasa’s Information Centre, 1995, p. 13.

staff, and how enabling is the institutional culture of such establishments?”

The story of emerging the black business leadership in South Africa encourages us to question our assumptions about business and capitalism. As corporations grow in size and influence, public pressure grows for business leaders to consider the impact of their actions on pressing societal concerns.<sup>59</sup> What role could and should business play in ameliorating poverty and addressing inequality? For Charnley’s generation, the crucible of apartheid has prepared them to engage some of the most intractable ethical challenges of our times.

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<sup>59</sup> See for example, J. Elkington, *Cannibals with Forks: The Triple Bottom Line of 21<sup>st</sup> Century Business*. Gabriola Island BC, Canada: New Society Publishers, 1998; J.D. Sachs, *The End of Poverty: Economic Possibilities for Our Time*. New York: The Penguin Press, 2005; and N. Tichy, A. McGill, and L. St. Clair (editors), *Corporate Global Citizenship: Doing Business in the Public Eye*. San Francisco: The New Lexington Press, 1997.

**Exhibit 1 Shares of Households Living in Poverty, 1991 (%)<sup>60</sup>**

| Racial Group | Percentage |
|--------------|------------|
| African      | 67%        |
| White        | 7%         |
| Colored      | 38%        |
| Asian        | 18%        |
| Overall      | 49%        |

Source: Whiteford and McGrath (1999), compiled by Carolyn Jenkins and Lynne Thomas, "The Changing Nature of Inequality in South Africa," *UNU World Institute for Development Economics Research*, Working Papers No. 203, October 2000.

**Exhibit 2 Irene Charnley Photograph**



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<sup>60</sup> Poverty is defined here using the Minimum Living Level (MLL) for urban African household, which is calculated by the Bureau of Market Research. Some scholars believe the MLL is set too high, but even when the standard is set to half of the MLL, 25% of South Africa's population is still living in poverty.

**Exhibit 3 MTN Income Statement**

|  | Year Ended March 31, 1999<br>(Rand in millions) | Year Ended March 31, 2000<br>(Rand in millions) |
|--|---|---|
| Revenue                                  | 4,453.3   | 5929  |
| EBITDA (Rand in millions)                | 1170  | 2014  |
| Attributable Earnings (Rand in millions) | 363   | 813   |

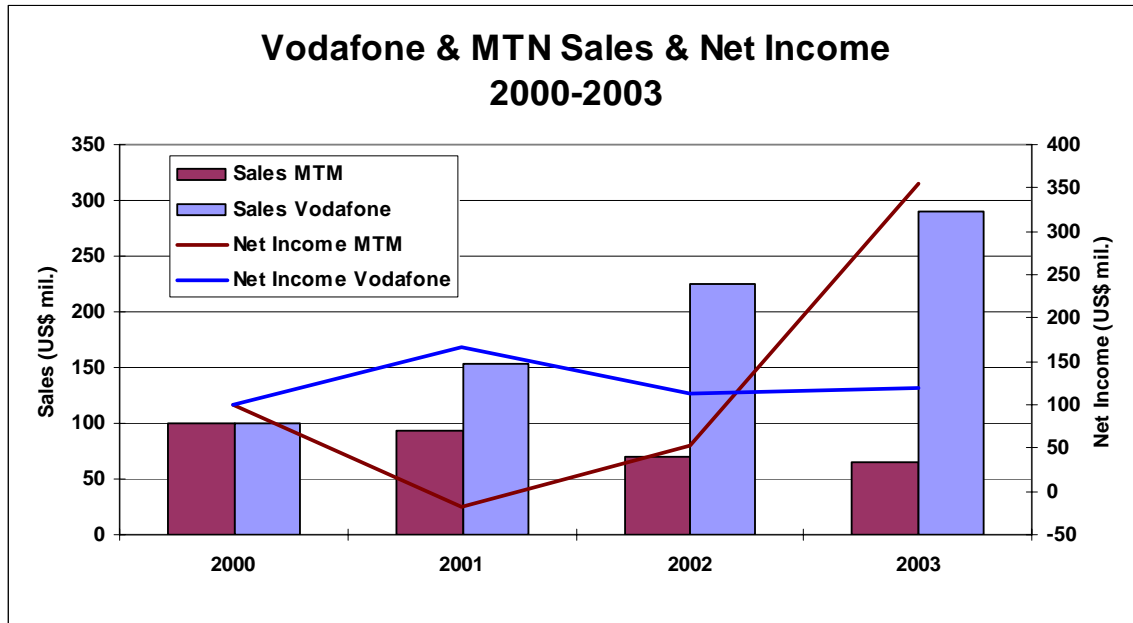
Source: Johnnic Telecommunications Annual Report, 2000.

**Exhibit 4 South African Demographics, 1996**

| Racial Group | Population Percentage |
|--------------|-----------------------|
| African      | 76.7%                 |
| White        | 10.9%                 |
| Colored      | 8.9%                  |
| Asian        | 2.6%                  |
| Other        | 0.9%                  |

Source: EIU Country Profile, 2001.

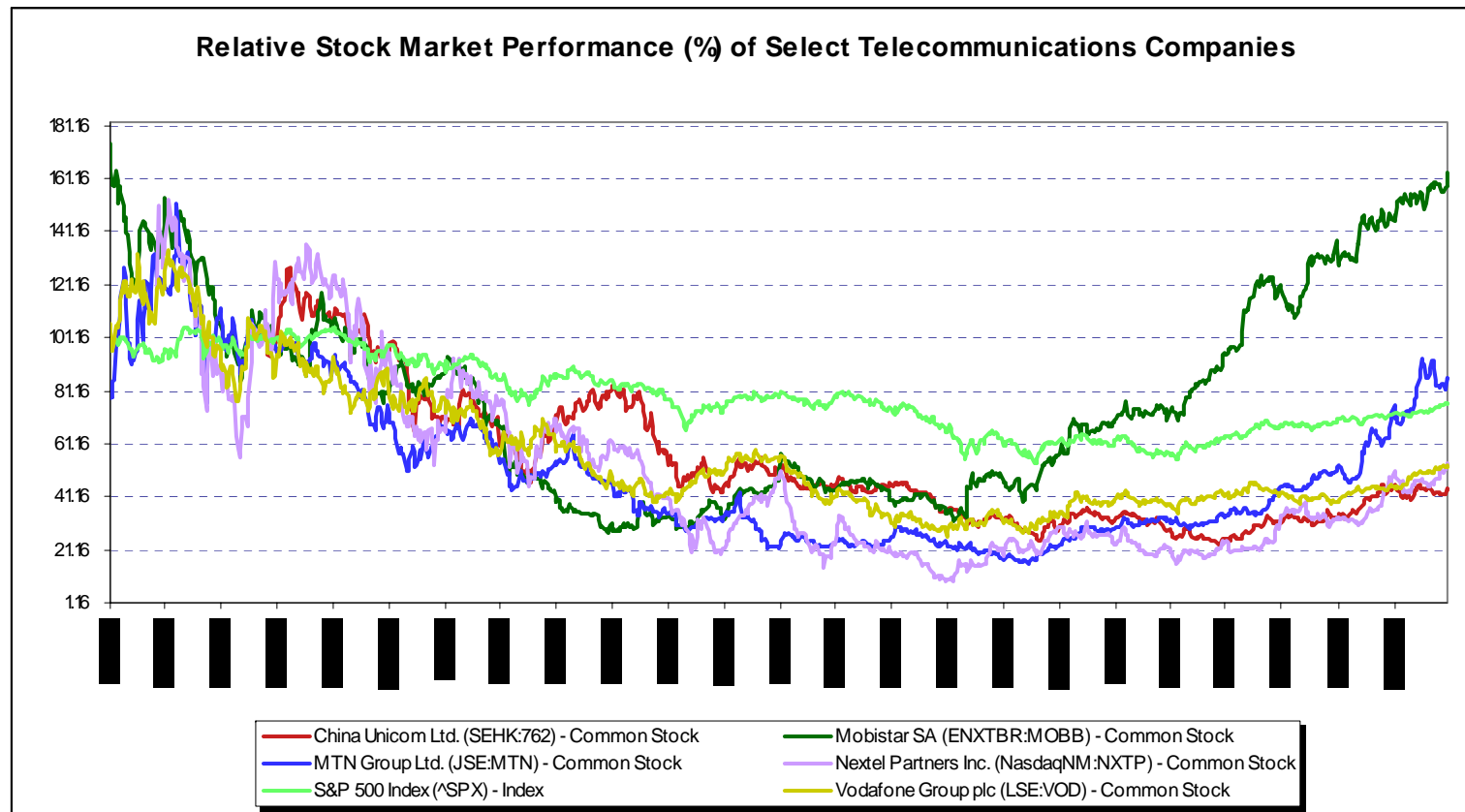
Exhibit 5 Vodafone & MTN Sales & Net Income 2000-2003



Source: Compustat.

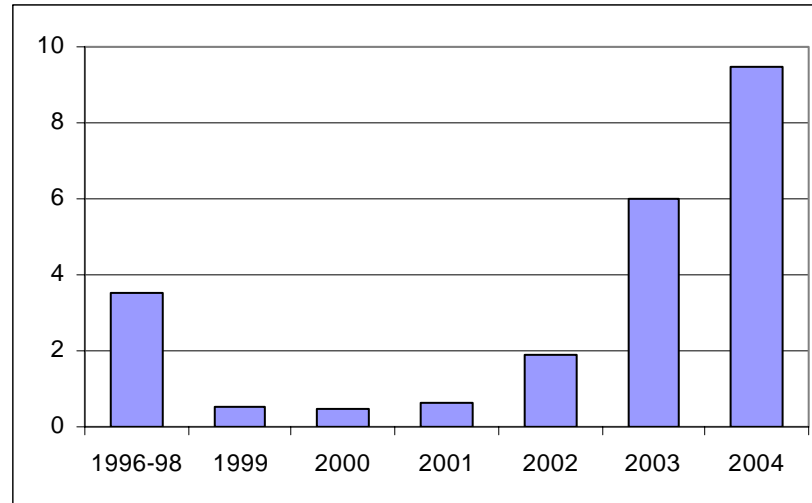


Exhibit 6 A Comparison of Stock Market Performance



Source: Compustat.

**Exhibit 7 Total Value of Deals Made under the Black Economic Empowerment Program since 1996, in billions of dollars**



Note: Converted from South African rand at current rate.

Source: BusinessMap, in *The Wall Street Journal*, Vol. CCXLVI, No. 108, Friday, November 18, 2005.