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CO-EVOLUTION BETWEEN THE SOUTH AFRICAN VENTURE CAPITAL INDUSTRY AND THE SOUTH GOVERNMENT

By

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Thesis submitted to the University of Nottingham for the degree of Doctor of Philosophy.

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GLOSSARY

ANC - African National Congress

BB-BEE - Broad Based Black Economic Empowerment

BEE - Black Economic Empowerment

CODESA - Convention for a Democratic South Africa

COSATU - Congress of African Trade Unions

GEAR - Growth Employment and Redistribution

IFP - Inkatha Freedom Party

NP - National Party

OAU - Organisation of African Unity

PAC - Pan African Congress

RDP - Reconstruction and Development Programme
ABSTRACT

This thesis contributes to the current discourse around co-evolution, this study investigates co-evolution between the South African venture capital industry and the South African government. Using a qualitative method which involved gathering data from archival sources and contemporary interviews, this study extends the growing literature on the co-evolution of organizations and their institutional environment in three ways. First, the study shows that the co-evolution that occurs between organizations and the institutional environment, is facilitated by both entities' respective need for legitimate status with different audiences. Second, the study furthers our understanding of co-evolution at the meso level (i.e. the organizational field) by illustrating the place of subject positions of organizations and power in the co-evolution that occurs at that level. Third, from the narrative presented in the study on the emergence of a venture capital industry in South Africa, the study explicates the importance of a free market system in a transition economy as it engenders the growth and development of a venture capital industry in such economies.
1. INTRODUCTION

1.1 INTRODUCTION

Issues that surround how organizations co-evolve with their institutional environment have been topical in the literature, especially around the discourse on the strategies employed by organizations to adapt to their changing environment and how the environment chooses organizations with the best 'fitness' for survival. This dialogue on organizational adaptation and environment selection has been built on two main theoretical lenses (Volberda and Lewin, 2003; Lewin and Volberda, 1999; Lewin et al., 1999): the population ecology perspective and the strategic management theoretical perspective.

On the one hand, population ecologists (e.g. Aldrich and Pfeffer, 1976; Campell, 1969; Baum and Singh, 1994) have paid attention to how the environments select organizations for survival through the processes of selection, variation and retention. Through these processes, only organizations that best align themselves to their institutional environments are chosen for survival by the institutional environment (Hannan and Freeman, 1977). This theory places great emphasis on the managerial strategies employed by organizations for their survival (Ashley and Van de Ven, 1983).

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1 For a review of the selection and adaptation debate see Lewin and Volberda (1999)
On the other hand, strategic management scholars (e.g. Child, 1972) argued that organizations can by themselves protect and redefine their institutional environment (Hrebinak and Joyce, 1985). Strategic management theory assumes that the institutional environment of organizations should not be viewed as a set of constraints on organizations; since it can be influenced by organizations’ negotiations with their institutional environment (Pfeffer and Salancik, 1978). Unlike population ecology, strategic management perspective places emphasis on how individual organizations construct their institutional environment through interactions (Ashley and Van de Ven, 1983; Lewin et al., 1999) for their survival.

Both theoretical constructs have provided great insights on how organizations’ institutional environments influence changes in organizations and the strategies they have employed to survive. However, this debate around environmental selection and organizational adaptation still remains inconclusive (Volberda and Lewin, 2003; Dieleman and Sachs, 2008). This is arguably due to the fact that both theories are often regarded as opposing theories that do not intersect. What are yet to be considered in the literature are the interrelationship processes that occur between organizational-level adaptation and the institutional environment selection processes (Volberda and Lewin, 2003). By relying on organizational survival as an important element of understanding organizations (Suhomlinova, 2006), scholars have neglected the role of managerial intentionality in the adaptation-selection phenomenon (Lewin and Volberda, 1999).
A co-evolutionary framework has been proposed as an alternative theoretical perspective that can help in the understanding of the joint evolutionary process between organizational adaptation and environmental selection (Lewin and Volberda, 1999; Baum and Singh, 1994, McKelvey, 1999). This framework “considers organizations, their populations and their [institutional] environment as the interdependent outcome of managerial outcomes, institutional influences and extra-institutional change” (Lewin et al., 1999: 535). Co-evolution defines the mutual causal relationships that occur between organizations and their environment (Roughgarden, 1976). It assumes that organizations possess some degree of control over their institutional environments (Huygen et al., 2001) and that the feedback organizations receive from their institutional environments have significant adaptive responses on organizations (McKelvey, 1999). Co-evolution posits that changes in organizational forms are made in the context of changes in organizations’ environments, that is, changes in organizations’ competitors, market and governmental policies (McKelvey, 1999). The interdependency of organizations and their environment is co-evolution (Millar et al., 2009). Co-evolution can help integrate the discordance between the organizational adaptation-environmental selection debates. Findings from this discourse can help provide more insights on the emergence of a population of organizations (Koza and Lewin, 1998; Jones, 2001) and the emergence of new organizational forms (Lewin et al., 1999).

The co-evolution theoretical construct, though relatively new in the organization and strategy literature, has attracted much interest (Porter, 2006) and is gathering scholarly momentum (Millar et al., 2009). Investigating the co-evolutionary process
between organizations and their environment allows for a longitudinal assessment of such relationships, thereby tilting co-evolution research towards historical methods (Jones, 2001). This study investigates such processes between a population of organizations (the venture capital industry in South Africa) and their institutional environment (The South African government) under four themes described in the next section.

1.2 THE THEMES OF THE RESEARCH

The joint evolutionary process that occurs between organizations and their institutional environmental follows a complex process, which allows for changes in organizational forms, changes in organizations' institutional environment and the emergence of new organizational populations. The first theme of this thesis examines the current literature on co-evolution. This is aimed at understanding the drivers of a co-evolutionary relationship between organizations and their institutional environments. In addition, the review of the co-evolution literature contributes to the present understanding of institutions and institutional change. Co-evolution posits that institutions are not static; rather they are subject to change. In addition, co-evolution suggests that organizations play a key role in bringing about changes in institutions.

The second theme of this study centres on how co-evolution between organizations and the institutional environment occurs in volatile environments such as an emerging economy like South Africa. The present thesis builds on the existing
literature on co-evolution in volatile environments to investigate how the interdependence between organizations and their institutional environment creates a co-evolutionary relationship between them. In particular, this study investigates a country with a unique, a political transformation. This political transition held economic implications especially for the continued existence and survival of private organizations in the country.

Third, what role does human agency plays in the co-evolution between organizations and their institutional environment? This study further investigates the role of the power of organizational agents (Carney and Gedjlovic, 2002) in the emergence of a population of organizations. Organizational agents employ various strategies to trigger changes in their institutional environment. The study investigates the strategies that are employed by organizational agents and how these strategies facilitate the emergence of an industry.

Fourth, the study considers how legitimacy facilitates a joint evolutionary relationship between organizations and their institutional environment. It is anticipated that the need for a legitimate conferment by organizations from its institutional environment would create a situation in which negotiation will be engendered between organizations and their environment. A legitimate status is crucial for organizational survival as it can provide access to vital organizational resources.
These themes are investigated under the broad research question of: *How does co-evolution occur between organizations and their institutional environment?*

1.3 KEY RESEARCH CONTRIBUTION

Using the co-evolution theoretical perspective, this thesis seeks to improve our knowledge on the co-evolution that occurs between organizations and their institutional environment by making the following contributions:

First, the thesis provides a review of the relevant literature on co-evolution and organizational ecology theory. This review allows for an examination of the current positions of these theories, thus exposing their limitations. The study argues that institutions do change and the change follows a complex evolutionary process between institutions and organizations.

In addition to the theoretical contribution, the thesis presents novel empirical contributions. This is achieved through the use of South Africa, a political transformation economy and the South African venture capital industry as the research context. South Africa’s political transformation highlights the extent to which non-economic political transition can influence the existence of private organizations. In particular, the venture capital industry was suitable because the argument that surrounded capital flights in South Africa was central to the industry’s emergence and survival. With the use of archival data and 25 interviews, the thesis
examined the evolution of a democratic South Africa and the venture capital industry in South Africa, and the co-evolutionary relationship that occurred between them. Findings show how the mutual need for legitimacy by the venture capital industry and the South African government created a situation in which an interdependent relationship emerged between them. Also, at the meso level, the industry level, the thesis shows how organizations act as human agents who bring about change to their emerging industry.

1.4 THE STRUCTURE OF THE THESIS

The structure of the thesis is as follows:

Chapter two presents a review of the co-evolution literature. It studies the emergence of co-evolution in the organizations' literature. In addition, the chapter synthesizes co-evolution and organizational ecology theory, as it introduces co-evolution as the theoretical construct that can help scholars understand how organizations and environment change in an uncertain environment, such as the emerging political environments. The change phenomenon helps us understand better the adaptation-selection debate.

Chapter three presents the research method of the study. Building on Langley's (1999) temporal bracketing strategy, the study follows a qualitative research methodology in which the historical events that occurred within the South African state and the venture capital/private equity industry were divided into two epochs. Archival data was gathered and analysed in order to present a narrative of the historical developments of the South African state and to decipher the co-evolution
between that occurring between the South African state and the South African venture capital industry. In addition, face-to-face interviews with selected venture capital managers were also gathered and analysed. The chapter also outlined the potential bias of this methodology and the respective measures taken to reduce such bias. A timeline of key institutional events is presented in the chapter.

In chapter four, South Africa is presented as a unique politically transitioning economy. A historical account of the political transition in South Africa is presented. The chapter narrates South Africa's political transition from the apartheid years to democracy. It presents the events that led to the transition as the platform that facilitated co-evolution.

Chapter five present a venture capital industry in transition, it presents the venture capital industry in South Africa focusing on its evolution to its current state. In line with current research, the chapter posits that the difference between the micro level behaviour of venture capital firms in South Africa and developed economies can be attributed to their different institutional arrangement.

Chapter six presents a narrative based on the analysis from the archival and interview data. The chapter presents the importance of legitimacy in the co-evolutionary process that occurred between the venture capital industry in South Africa and the South African government. The chapter clearly show how the different legitimacy needs of the South African state and the South African venture capital industry facilitated a joint evolutionary relationship between them.
Bringing it all together, chapter seven reviews the objective of the study and the research method employed for investigating the research question of the study. It then synthesises the findings of this study, drawing implications from these findings, and presents potential avenue for future research.
2. ORGANIZATIONAL ECOLOGY AND CO-EVOLUTION

2.1 INTRODUCTION

Organizational ecology has provided great insights into how the institutional environments in which organizations are embedded bring about the emergence of new organizational forms. The theory has also provided useful insights into how environmental conditions bring about: the rates of creation of new organizational forms and new organizations, the rates of demise of organizational forms and organizations, and the rate of change of organizational forms. Organizations ecology argues that organizations' adhere to institutionalised rules, norms, beliefs and other institutional requirements of their environments for legitimacy, resource allocation and survival reasons.

Despite the great impact organizational ecology has made in the field of organizations and strategy of organizations, the theory does not adequately address the issue of 'change' in the environment (Freeman and Hannan, 1989). It treats the environment as a static exogenous variable that bring about changes in organizational forms. However, little is known about how the institutional environment of organizations change and what brings about changes in environment.

Co-evolution has been employed by scholars to investigate the change that occurs within institutions and what role organizations play to bring about changes in their institutional environment. Furthermore, co-evolution addresses the issue of how
organizations and their institutional environment mutually evolve. Co-evolution therefore helps our understanding of the adaptation-selection debate.

The objectives of this chapter are twofold. The first objective is to provide a brief overview of the organizational ecology literature. Predominately, the chapter reviews the current literature on population ecology as this is the main tenet of the thesis. The second objective is to present co-evolution theory as a useful theoretical construct for investigating how institutions and organizations undergo a process of simultaneous change together, especially in a unique institutional environment like South Africa. The chapter also places emphasis on the importance of a longitudinal study during co-evolutionary research.

The remainder of the chapter is structured as follows: Section 2.2 provides a discussion on organizational ecology and population ecology. Section 2.3 presents the co-evolution theoretical perspective as an appropriate perspective, that can be used to understand better the simultaneous change that occurs between organizations and their institutional environment. Section 2.4 reviews the emerging literature of co-evolution between organizations and their environment, while Section 2.5 highlights the issue of exchange, exchange and power between co-evolving organizations and their institutional environment. A conclusion for the chapter is drawn in section 2.6.
2.2 ORGANIZATIONAL ECOLOGY

Organizational ecology focuses on the study of growth and decline of organizations over time, such studies centre on how social conditions within the environment influence the evolution of organizations (Singh and Lumsden, 1990) and the emergence of organizational forms. Scholars who have investigated organizations using the organizational ecology approach are interested in the strategic outcomes of organizations and how new organizational forms are formed (Barnett and Burgelman, 1996).

Carroll (1984) highlights three levels of analysis used by scholars to approach the evolution of organizations. First, the organizational level, this level involves the study of events and life-cycle processes across organizations. Second, population ecology, this involves the study of population growth and decline of organizations as well as the interactions between organizational populations and their environment. Third, community ecology centre on studying populations of organizations that live together and interact within the same environmental niche. Since the interest of this thesis lies within the emergence of a peculiar population of firms in a unique environment, this chapter will focus more on Carroll’s second level analysis, population ecology.

Population ecology explains the relationship between organizations and organizational forms to their niches and environment (McKelvey and Aldrich, 1983). It explains how environmental factors influence the population of organizations, as the environment select organizations with organizational forms that best fit the
environment (Hannan and Freeman, 1974; Aldrich, 1971). Organizations that possess the appropriate social structure are selected over organizations that do not possess the essential structures (Aldrich and Pfeffer, 1976).

Organizations' process of achieving fitness with their environment involves three stages (Campbell, 1969): variation, selection and retention. Variation involves the departure from current organizational routines and traditions. It involves changes in current routines, competencies and changes in organizational forms (Aldrich, 1999; McKelvey and Aldrich 1983). Organizational variation may be purposeful or blind (Campbell, 1969; Aldrich, 1979; 1999). Purposeful variations occur when there is an intentional act by organizational managers to actively seek alternative means to solve organizational problems (Aldrich, 1979). Blind variation occurs as an independent event, not as a result of an intentional response to environmental changes. Blind variation occur by accidents and/or chance (McKelvey and Aldrich, 1983). Variation can also be introduced into an organizational field by new organizations. However, the population ecology approach is indifferent as to the source of variation; the population ecology approach posits that variations provides the necessary ingredient for environmental selection.

Organizational variation provides the bedrock for which the environment selects organizations for survival. The selection of organizations involves the elimination of organizations and organizational forms. Elimination of organizations and organizational forms can occur through activities of organizational mortality such as: dissolution, absorption by merger or radical transformation (Carroll, 1984). Selection
of new organizational forms occurs as a result of environmental constraints. An organization forms that fit with environmental specifications are positively selected and survive, while organisational forms that to change match environmental requirements are selected out. For selection to occur two conditions must be present. First, there must be a high rate of variation. Second, there must be at least a moderate rate of mortality (Campbell, 1969). Variation provides the raw materials for the selection process, while a high rate of morality for organizations increases the possibility of environment relevant selection (Aldrich, 1979).

The retention stage is thought to be the stabilisation stage, in which organizations preserve organizational forms that have been selected by the environment. Retention of organizational forms depends upon the retention and transmission of knowledge from one organization to another (Aldrich, 1999). Organizational managers make conscious effort to transfer forms organizational forms through education and training from one generation to the other (Barnett and Burgeleman, 1996). However, the continuing existence of certain organizational forms should not be interpreted as retention of original organizational forms. Retained organizational forms evolve with the environment.

The idea of change critics the notion that environment are static and are not subject to change. The environments do experience change which many have consequential impacts on organizations. Sources of environmental change vary; it may originate from organizations (e.g. changes brought about by large organizations) or extra institutional events (such as disruptive events). However, from the population
ecology account, the environment is as an exogenous variable that bring about
strategic changes in organizational forms. Population ecology does not consider
changes in the environment and what brings about such changes. Nevertheless, we
do know that organizations through the strategic choices they make can influence
changes in their environment (Child, 1972). Co-evolution has been suggested as a
construct that can best be used to understand this relationship. The following
sections outline the literature on co-evolution and explain how the construct serve
as an appropriate theoretical perspective for understanding the mutual relationship
between organizations and their institutional environment.

### 2.3 ORGANIZATIONAL ECOLOGY AND CO-EVOLUTION

The organizational ecology literature suggest that although organizations regularly
change their forms in order to conform to their institutional environments, however,
the institutional environment that induce changes in organizations are static over
time, only influencing the emergence of new organizational forms. Although the
environment define and determine the way and manner organizations’ operate, they
are not static, as they themselves are subject to change which may originate from
organizations. By institutional environment, this study follows North (1990) to define
it as “humanly devised constraints that shape human interactions”. They may consist
of formal rules – such as rules devised by humans, and informal constraints – such as
conventions and codes of behaviour – and their enforcement characteristics.
Institutions reduce uncertainty within an environment by providing guidelines for organizational practices and interactions (North, 1990).

Changes in institutional environment (i.e. the rule of the game, North 1990) can be brought about by: changes in the legal framework; changes in the political framework of a country; and changes brought about by organizations. Institutional changes that are due to the legal framework occur as a result of the passage of new laws or statutes that stem from judicial decisions and/or changes enacted by regulatory bodies (North, 1990). This form of institutional change is sporadic in nature as full compliance is required almost immediately from affected parties, as the state makes provision to sanction non-compliance. Institutional changes that occur from changes in the political frameworks occur via changes in political elites of a state, which could come from elections. Since different political parties have different socio-economic ideologies, it is expected to see changes in institutional environment when a new political regime comes into power, as respective regimes try to pass and implement legislation that reflects their political ideologies. Finally, changes in institutional environment can be brought about by the organizations that the institutions influence. Organizations' possess the ability to enact and socially construct their institutional environment; however, they do this with a continuous interaction between them and the state. North (1990) identified four aspects of institutional environmental change: the agents of institutional changes; sources of change; the process of change; and the path process of such change. The agents of institutional changes are the institutional entrepreneurs (North, 1990; DiMaggio, 1991) who lead the efforts in “identifying opportunities, frame issues and problems
and mobilise constituencies and spearhead attempts to infuse new beliefs, norms and values into social structures” (Rao et al., 2000:240; Maguire et al., 2004). The source of institutional environmental changes involves the potential opportunities perceived by the agents of change (North, 1990). The process of change is associated with the speed of change. The speed of change could follow a punctuated discontinuous change model (Tushman and Romanelli, 1985) or it could follow an incremental change process (Wieck and Quinn, 1999). For instance, on the one hand, a legal institutional change may follow an episodic change process as full compliance may be required almost immediately by the state. On the other hand, a political change and the institutional changes that come with that may follow an incremental process, as the process would involve learning and bargaining between power and diverse interested parties (North, 1990). The direction of institutional change follows a path-dependent trajectory.

Focusing on change, this thesis centres on how organizations initiate change within their institutional environment and vice versa. Organizations are not always passive recipients of their institutional influence, but also have the opportunity and the power to reshape their environment (Lewin and Volberda, 1999). The emerging literature on institutional change tends to focus extensively on the exogenous environmental pressures that influence changes in organizational practices, thus bringing a notion of a cause and effect relationship between institutions and organizations. However, the feedback relationship between institutions and organizations creates a co-evolutionary relationship between them. The continuous interaction between organizations and their institutional is a principal element of
change between them. This notion of interaction refutes the argument of a cause and effect relationship between the two entities; rather it supports the idea of a joint evolutionary process between both the institutions and the organizations.

Co-evolutionary processes between organizations and the environment (Baum and Singh, 1994), are less frequently examined in the literature. However, it is that organizations do not merely evolve, they co-evolve with their environment. In such a co-evolutionary process, institutional patterns are altered as organizations make their own adaptive moves (Baum, 1996). For example, using Scott’s (1995) typology of the forms of institutions, regulative, normative and cognitive institutions, as institutions exert regulatory and normative influences on organizations, the cognition of organizations and their actors (i.e. organizational managers) through a feedback response to the changing institutions, makes the change a two-way process (Johnson et al., 2000). Organizations adhere to institutional practices through a process of socialisation and formation; nonetheless, they in turn attempt to influence these practices through an interpretation of their institutional environment (Johnson et al., 2000) to their own organizational advantage (Dieleman and Sachs, 2008).

To investigate this research gap on how organizations and their environment jointly evolve, I employ a joint evolutionary framework, as suggested by co-evolution theorists. Co-evolution can help highlight how institutional definitions, rules and expectations unfold in relation with organizational structures and processes (Haveman and Rao, 1997). Moreover, since it is difficult to separate institutions from
organizations analytically and empirically, studying co-evolution between organizations and the institutional environment can help reveal the exploitation of organizational forms by agents of change, and how institutional entrepreneurs destabilise existing arrangements that lead to new conventions. Furthermore, by departing from the traditional assumption that institutions are a static element influencing the emergence of a new population of organizations and new organizational forms. Co-evolution overcomes the shortcoming of organizational ecology, to offer a fuller and more accurate account of organizations. Scholars envision co-evolution as a promising alternative theoretical construct to classical views of organizational adaptation to institutional environmental changes. McKelvey (1997) describes the perspective of co-evolution theory as "having the power to end the paradigm war" (p.352) in organization science as it recognises objectivism and subjectivism (p.374) it acknowledges that organizational outcomes are caused by both intention and naturally occurring phenomena. Nevertheless, it is important to note at this juncture that co-evolution does not in any way discredit or render the existing insights from organizational ecology; rather, the theory goes a step further while remaining a complement to institutional theory and institutional change. In the next section, a review of the extant literature on co-evolution is carried out. In addition, the review highlights the current research gap in the co-evolution literature.
Co-evolution in organization research takes its roots from the biological science literature. Ehrlich and Raven's (1964) seminal paper, 'Butterflies and Plants: A study in Co-evolution', which examines the co-evolutionary relationship that exists between two organisms, butterflies and plants, the study show that there is a joint co-evolutionary process between species and that a notion of interdependence exists between them. Ehrlich and Raven (1964) posit that 'terrestrial diversity' of organisms can be explained by the pattern of interaction between butterflies and their food plants. They suggest a process of selective responses to organisms and their environment. A formal biological definition of co-evolution addresses the reciprocal evolutionary change in interacting species (Thompson, 1994). Although, this framework is highly established in the bioscience literature, it has only begun to emerge as a theoretical construct amongst organization researchers (Porter, 2006).

Co-evolution in organizations breaks the organization's selection and adaptation dichotomy by suggesting that the relationship between organizations and their institutional environment is one which involves managerial strategic intent and the dynamics of institutional systems (Lewin et al., 1999; Porter, 2006). The theory incorporates human meanings into how organizations attempt to fit with their changing environment (Porter, 2006). Co-evolution is defined in a number of ways in the literature (Millar et al., 2009). Co-evolution is also defined as a two-way interaction where both entities have an effect on each other's success potential, which may induce change in a certain direction. Merry (1999) defines co-evolution to
be when changes in fitness of one system changes the fitness of another system and vice versa, this interdependence is co-evolution. Roughgarden (1976) defines this as the mutual changes between organizations and elements from their niche (such as competitors) that have significant adaptive response on organizations (McKelvey, 1999). Lewin et al., (1999) consider co-evolution to occur between organizations, their populations (i.e. organizational field) and their institutional environment as an interdependent outcome of managerial actions, institutional influences and extra institutional changes – technological, socio-political and other environmental phenomena (Lewin et al., 1999).

Central to the co-evolution that occurs between organizations and their institutional environment is the issue of interdependence and change. It examines change that occurs between organizations and their institutional environment. Co-evolutionary changes only occur when both entities have significant causal impact on each other’s ability to exist (Murmann, 2003). The change process of a co-evolutionary inquiry allows organizations’ scholars to unpack the complex processes of organizational and institutional change (Jones, 2001). However, co-evolution notes that the pace, rate and pattern of change between organizations and their environment are distinct and are not necessarily unidirectional (Lewin et al., 1999).

This independency and multidirectional elements of co-evolution allow for a feedback notion between organizations and their environment. A co-evolutionary relationship between organizations and their institutional environment posit that organizations evolve with pressures from their institutional environment while at the
same time the institutional environment changes as a result of the pressures exerted on institutions by organizations. Co-evolution between organizations and their environment effectively involves an open-system perspective of organizations, which assumes that different interdependent systems co-evolve over time, reciprocally influencing each other’s development (Zettinig and Benson-Rea, 2008) through actions and counter actions through feedback. The idea of feedback challenges the cause and effect relationship between organizations and their environment.

Although co-evolution is arguably a new construct in the organization science literature, research work applying this construct has been garnering much attention (e.g. Lewin et al., 1999; Djelic and Ainamo, 1999; Koza and Lewin, 1999; Inkpen and Currall, 2004; Suhomlinova, 2006, Dieleman and Sachs, 2008). The goal of a co-evolutionary inquiry is to help understand how structures of direct interactions and feedback between systems give rise to dynamic organizational systems (Sorge and Brussig, 2003; Baum and Singh, 1994) and new organizational forms. As mentioned earlier, co-evolution makes an attempt to integrate the interplays between the adaptation of individual organizations, their competitive dynamics, and the dynamics of institutional systems within which firms and industries are embedded (Lewin et al., 1999). It renders the rationale behind the research works on environmental selection as an incomplete perspective of organizations, because conscious decisions taken by firms may lead to further developments and outcomes (Zetting and Benson-Rea, 2008). Rather, the co-evolution considers organizations’ adaptive and strategic efforts to bring about changes to their institutional environment (Dieleman and Sachs, 2008).
Furthermore, a co-evolutionary approach has the capability to give new insights as to how organizational forms emerge and how these new forms underlie changes in organizations' institutional environment (Dijksterhuis et al., 1999). For example, in Rodrigues and Child (2003), the co-evolution theoretical framework was used to demonstrate the extent to which simultaneous evolution occurs within a regulated environment and how changes in the degree of institutionalisation create opportunities for organizations to exercise their strategic choices.

Lewin and Volberda (1999) identified five properties of any co-evolutionary inquiry: multi-levelness, multidirectional causalities, nonlinearity, feedback and path dependency. The multi-levelness of co-evolution theory posits that any co-evolutionary investigation must consider co-evolution at the different levels: the macro, meso and micro levels (McKelvey, 1997). A number of empirical researches have examined co-evolution at these levels; for example, macro-meso level (Djelic and Ainamo, 1999; Flier et al., 2003); macro-micro (Rodrigues and Child 2003; Dieleman and Sachs, 2008). Co-evolution at the micro level considers itself with the evolution that occurs between organizational resources and capabilities at the firm level (Lewin and Volberda, 1999; Madhok and Liu, 2006). By contrast, meso and macro level co-evolution investigates co-evolution in a competitive context, between organizations and their environments (McKelvey, 1997, 1999).

The multi-causality property of the co-evolution construct posits that changes in and between organizations produce counter intuitive changes within their institutional environment (Baum and Singh, 1994) and vice versa. Co-evolution ascribes little
meanings to a causal dependent-independent variable relationship between organizations and institutions. Rather, the theory argues that organization-institution relationship during a co-evolutionary process is complex, involving a number of events that may lead to changes between the two entities. Thus, the simple use of a cause and effect logic in a co-evolutionary enquiry, where organizations' institutional environment is seen as the major cause of change in organizations' forms, could omit potential insights about organizations and institutions and the relationship between them.

Building on the multi-causality property, the feedback element of co-evolution posits that although the institutional environment of organizations can initiate the process of change within organizations, however, organizations, through a motion of activities, feed their adaptation activities back to their institutional environment (Baum and Singh, 1994), which may bring about further changes in institutions. For example, a price war started by an organization might induce other organizations within the institutional environment to lower their prices, which in turn induces the original organization to lower its prices further, which induces the other organizations to lower their lowered prices and so forth.

Feedback between the environment and organizations can either be positive (Lewin and Volberba, 1999) or negative (Baum and Singh, 1994). Positive feedback between organizations and their institutional environment occur when an action taken by either entity causes an incremental change in the other entity. By contrast, negative feedback occur when the individual entities take on divergent positions as a result of
the responses they receive from one another. While positive feedbacks may encourage institutions and organizations to retain and modify their present forms, negative feedback questions the legitimacy of an institutionalised form (Jones, 2001), which may lead organizations and institutions to search for new patterns.

The non-linearity property of co-evolution subsumes a non-linear pattern among interacting populations (Lewin and Volberda, 1999), among institutions and organizations. The idea behind this element is that changes in one element are caused by a series of events. The element reiterates the argument against a simple linear relationship paradigm, as this would not be appropriate in examining and explaining the joint evolutionary phenomena between organizations and institutions.

In effect, co-evolution refutes the argument that the environment brings about changes in organizations', whilst it remains static. Co-evolution suggests that the relationship between these two entities is rather complex and such treatment might not fully represent the relationship that occurs between organizations and their environment. Finally, the path-dependency element of the co-evolution construct posits that, although organizations and their environment co-evolve over a long period of time, they co-evolve along their path-dependent trajectories (Lewin and Volberda, 1999; Djelic and Ainamo, 1999), maintaining some traditional institutional legacies. As such, organizations reflect the environmental conditions in which they initially emerged (Carney and Gedajlovic, 2002). For example, Djelic and Ainamo's (1999) multiple country study on co-evolution between organizations in the fashion industry and the individual environments, showed the co-evolution that occurs
between organizations and their institutional environment reflects the historical legacies of such organizations and environment.

Furthermore, Murmann, (2003) proposed four prerequisites before co-evolution between organizations and their institutional environment can occur. These prerequisites are: scarcity of resources, conscious choice by evolving actors, interconnectedness between the actors, and feedback between them. Uncertainty is created when organizations are faced with limited resources within their institutional environment. As a result of this uncertainty, and the environmental selection process, organizational adaptation strategies and a co-evolutionary process between organizations and their environment is engendered. The conscious choice prerequisite argues that organizations and their environment consciously engage in actions to bring about change in one another. The interconnectedness element involves organizations and environment influencing each other due to their interdependent relationship. The feedback element posits that a feedback relationship exists between organizations and their institutional environment and the actions of one entity may have future repercussions on that entity. The co-evolution process is complex; it occurs at multiple levels: macro, meso and micro levels. The next section examines the various levels of a co-evolutionary enquiry.

2.4.1 Levels of Co-Evolution

Co-evolution between organizations and their environment occurs at multiple levels (McKelvey, 1997; Lewin and Volberda, 1999; Volberda and Lewin, 2003): the macro co-evolution level, meso co-evolution level and the micro co-evolution level. The
joint evolution that occurs at the macro evolution level involves a simultaneous evolution that takes place between organizations and their institutional environment in which the organizations are embedded. Meso co-evolution involves the joint evolutionary process that takes place at the industry level (McKelvey, 1999). That is, it is the evolution that occurs with organizations within their respective organizational field, while a micro co-evolution process is the joint evolution that takes place at the firm level. For example, a firm level co-evolution is the co-evolution that occurs between subsidiaries of a multinational firm (Madhok and Phene, 2001; Koza and Lewin, 1999). This section introduces these three levels as important elements of any co-evolutionary inquiry.

2.4.1.1 Macro Co-evolution

Macro co-evolution involves a joint evolutionary process that occurs between organizations and their institutional environment (McKelvey, 1997). At this level, co-evolutionary inquiry focuses its attention on individual organizations (Dieleman and Sachs, 2008), or a population of organizations and how they function as a collective actor within a large environmental system of relations that involves other organizational population, inter-community and organizational fields (Suhomlinova, 2006).

Macro level co-evolution involves the relationship between organizations and institutions at the state level, and how both entities bring about changes in one another as a result of the feedback process that occurs between them. National institutions represent organizations' institutional environment as they use their legal
mechanisms to effect and enforce changes in organizations. Mechanisms such as laws, regulations and sanctions for delays or non-compliance are some of the methods the institutional environments of organizations use to alter organizational patterns. Furthermore, the state is able to induce changes in organizational forms since it determines the political and legal institutions, social impacts, and other institutional structures, and corporate systems (Lewin et al., 1999) which invariably define how organizations operate.

Government policies that bring about changes in organizations can be classified into two: government economic policies and government social policies (Wholey and Sanchez, 1991). Government economic policies involve industry specific policies, such as policies on entry, exit and mergers within a particular industry. Such policies have the potential to bring about imminent changes, however, only within specific organizational fields. By contrast, state social regulations are a set of laws that are not restricted to one industry; rather it centres on the betterment of lives and property of the people of the state. Examples of such laws are laws that centre on employment opportunities, laws on environmental protection and laws on occupational safety (Wholey and Sanchez, 1991). Nonetheless, irrespective of the form of state policy, these policies are capable of initiating new practices within organizations.

The state is also able to influence changes in organizational patterns through regulations and through the threat of an industrial sanction (Haveman et al., 2001) when there seems to be delayed or non-compliance with government legislations.
Furthermore, the state influences organizational forms since it defines and enforces property rights laws (Suhomlinova, 2006); it sets and/or eliminates price controls which may influence the profitability levels of organizations (Haveman et al., 2001). In addition, through market deregulation, privatisation, or the provision of tax holidays, the state is able to regulate the level of participation of non-institutional forces within an organizational field (Rodrigues and Child, 2003; Suhomlinova 2006). These actions by the government create coercive isomorphic forces (DiMaggio and Powell, 1983) for organizations to conform to the cultural expectations of the state. The state’s coercive pressures cause organizations to adjust their structures, pressures and patterns.

However, organizations are not a passive audience of the institutions; they too can bring about changes in their institutional environment, either as an individual organization (Dieleman and Sachs, 2008, Rodrigues and Child, 2003) or as an organizational field (Carney and Gedajlovic, 2002). Organizations influence changes in their environment in various ways. Organizations bring about changes in their environment with mechanisms such as threats of divestment from the country, mass retrenchment of the government citizens, lobbying and negotiating with state agencies which may stimulate institutional changes.

For example, Carney and Gedajlovic (2002) described how family business groups used some form of relational contracting to influence the development of institutions in the Association of South East Asian Nations (ASEAN). Furthermore, Dieleman and Sachs (2008) showed how a single firm, which was controlled by a
single family group, the Salim group, was able to influence changes proactively in its institutional environment by aligning with influential, politically-linked individuals in Indonesia. With a macro co-evolutionary enquiry one can examine the role of human agents that act as agents of change between institutions and organizations. A growing amount of research work has focused on the co-evolution that occurs at the macro level (e.g. Dieleman and Sachs, 2008; Flier et al., 2003). Findings from macro level co-evolutionary inquiries suggest a two-way relationship between organizations and their institutional environment. The government influences the organizational behaviour and pattern by setting rules, monitoring the compliance to the rules set and manipulation sanctions; by contributing to the evolution of norms and social expectations; and by shaping the shared conception through culture-producing networks (Suhomlinova, 2006). Consequently, the state has a significant impact on organizational structures, and organizational procedures, founding and mortality rates of organizations. Although the state remains a major contributing element that facilitates changes in organizations, the state as an institution is also subject to influences emanating from organizations. Organizational pressures can shape and structure governmental polices (Meyer et al., 1997); and resource dependencies make government agencies open to manipulation by organizations that hold those resources (Pfeffer and Salancik, 1978). Organizations, both independently and collectively, engage in a variety of activities to influence the state in order to curtail threats to their activities emanating from the state, and to exploit perceived organizational opportunities within the institutional environment.
2.5.1.2 Meso Co-evolution

Meso level co-evolution is associated with the joint evolutionary process that takes place between organizations within an organizational field (McKelvey, 1999). Scott (1995:6) defines an organizational field to mean “the existence of a community of organizations that partakes of a common meaning system and whose participants interact more frequently and fatefully with one another than with actors outside the field”. The organizational field is usually represented by an association (e.g. an association of accountants or lawyers) or an institutional body. Widespread organizational conformity is shared among organizations within an organizational field (Zucker, 1987) because of the normative institutional pressures (DiMaggio and Powell, 1983) the members of the organizational field exert on organizations. Organizations within the organizational field may include: suppliers, resource and product consumers, regulatory agencies and other organizations that produce similar services and products (DiMaggio and Powell, 1983).

The co-evolutionary process at the meso level involves institutional changes being brought about by organizations within the organizational field, which disrupt shared norms, beliefs and practices within the field. Organizations knowingly challenge institutional practices of an organizational field, while others unknowingly deviate from institutional norms; others simply follow changes as institutional norms within an organizational field change (Zondra and Hinings, 1998). Organizations initiate changes within the organizational field for a number of reasons: to transform the nature of the organizational field; to improve performance; to respond to external...
jolts etc. (Zondra and Hinings, 1998). In all these situations, the institutional norms of the organizational field are disrupted and institutional diversity is introduced.

Organizational fields react to disruptions brought by organizations via two means: 1) through the use of a coercive force – which is used to enforce compliance with shared beliefs and systems within the organizational field. Coercive force can be particularly strong where deviations from institutional norms have legal, moral or economic implications (Zondra and Hinings, 1998). The benefits of enforcing compliance within the organizational field include increasing the legitimacy of an organizational field by increasing the number of adhering organizations (Zondra and Hinings, 1998); and 2) through a mimetic cognitive response (DiMaggio and Powell, 1983) an organizational field may promote learning that facilitates the transfer of knowledge within the organizations through a networking relationship (Van den Bosch et al., 1999).

2.4.1.1 Micro Co-evolution

A micro co-evolutionary process involves the joint evolutionary process that occurs at the firm level (McKelvey, 1997; Madhok and Phene, 2001; Koza and Lewin, 1999). Specifically, this co-evolutionary process concerns itself with the emergence of new organizational forms through organizations’ exploitation and exploration activities (Lewin et al., 1999; Dijkstehuis et al., 1999). Exploitation activities of organizations are associated with organizations’ systematic reasoning, efficiency-seeking performance measuring of organizations (Zetting and Benson-Rea, 2008) as they involve organizational actions such as refinement, choice, production,
implementation and execution (March, 1991). Conversely, organizations’ exploration activities involve all activities employed by organizations to learn more about how to adapt to their changing institutional environmental conditions and how to enhance their capability to cope with high levels of environmental disorder (Lewin et al., 1999). Organizations’ exploration strategies involve activities such as search, risk taking, experimentation, play, flexibility, discovery, innovation (March, 1991).

Organizations’ exploitation and exploration activities compete for resources and capabilities. However, organizations cannot afford to maintain one strategy at the expense of another (Koza and Lewin, 1998). This is because organizations that solely pursue their exploration activities are likely to suffer a high cost of experimentation without gaining commensurate benefits. Organizations that focus principally on their exploitation activities run the risk of being trapped in sub-optimal stable equilibria (March, 1991:71). Hence, organizations combine their exploitation and exploration strategies, which invariably lead to a co-evolutionary pattern between organizations’ exploration and exploitation strategies, in order to enjoy the benefits that accrue from combining both strategies. Organizations try to maintain a balance between the two strategies for performance and survival reasons. Exploration activities of organizations increase the likelihood of organizations achieving performance levels high above the industry average (Lewin et al., 1999), although if this exploration activity is subject to easy imitation by other organizations, such high performance might be short-lived (Levintal and March, 1999). Exploitation activities of organizations help prevent them from being selected out by their institutional environment as they maintain a performance level similar to the industry average.
The extent to which organizations employ exploitation and exploration strategies is dependent on the expected return of the strategy, the managerial cognition of the environment and organizations' strategic intent (Koza and Lewin, 1998).

Co-evolution at the micro level thus involves how organizations' exploration and exploitation strategies evolve simultaneously over time. The extent to which this level of co-evolution occurs is influenced by the level of change within organizations' institutional environments. In cases of turbulent environments, organizations tend to focus more on their exploitative activities for their survival, while in non-chaotic environments, it is expected that organizations would place more emphasis on their exploration activities (Dijksterhuis et al., 1999; Lewin et al., 1999).

The co-evolution that occurs between organizations' exploration and exploitation activities can be used to explain the emergence of new organizational forms, managerial characteristics such as educational background, career experience and the socio-economic roots of organizations that play crucial roles in the emergence of new organizational forms (Dijksterhuis, et al., 1999).

The co-evolutionary process between organizations and their institutional environment highlights three important themes: exchange, dependency and power. Organizations employ exchange strategies to gain fitness with their environment. The share their resources (such as profit via taxation) with their environment in order to access resources provided by the environment. The exchange of resources between organizations and their environment lead to a situation in which
dependency and power is engendered. Existing empirical account on co-evolution between organizations and their environment which investigates this issue on exchange, dependency and power is rare. No known study has investigated these three themes concurrently with the co-evolution of organizations and their institutional environment. A review of these themes in relation to co-evolution is discussed in the next section.

2.5 EXCHANGE, DEPENDENCY AND POWER

Since organizations are not able to generate all the resources they require for their survival; hence they establish relationship with their environment to access these resources. These resources may include (but not limited to) raw materials, customers, capital etc. The relationship create between organizations and their environment as a result for their need for resources can be viewed in terms of an 'exchange' (Aldrich, 1979). Exchange 'is any voluntary activity between two organizations which has consequences, actual or anticipated, for the realisation of their respective goals or objectives (Levine and White, 1961:588).

Exchange can be used as a label for the processes through which resources and services flow between organizations and between organizations and their environments. Organizations depend on their environment has it defines the rules of the game under which organizations operate. The institutional environment depends on organizations for taxation reasons, innovation etc., hence the interaction with each other. Their interaction follows a model of exchange in which organizations
Proposition 1: Interactions between organizations and their environment facilitates an exchange of resources.

The exchange relationship between organizations and their environment potentially create a dependency relationship between them. Exchange interaction allow for a mutual dependence interaction. One consequence of sharing resources between organizations and the environment is the development of a dependency between them (Mindlin and Aldrich, 1975). In a similar manner, Aldrich (1979) points out that dependency is a characteristic of the relation between two exchanging parties. Emerson (1962:425) defines dependence of an actor A on another actor B as ‘directly proportional to A’s motivational investment in goals mediated by B and inversely proportional to the availability of those goals to A outside of the A-B relationship’.

It is envisaged that the interactions between organizations and their environment will involve exchange of resources. Organizations may exchange their need for capital, convenient regulatory institutions for mechanisms that may encourage growth.

Proposition 2: Exchange of resources creates a situation in which organizations and the environment are dependent on each other.

By supplying resources to each other, organizations and the environment establish power over themselves. The regular supply of resources to organizations by the environment (and vice versa), the environment obliges organizations to comply with
its rules and regulations. In sum, power resides implicitly on dependency (Emerson, 1962). Power is defined "as the ability or potential to influence" (Fiol et al., 2001:224).

The parties in a power relationship are tied to each other by the dependence of one another (Provan and Gassenheimer, 1994). The environment power to control or influence others resides in the resources organizations value (Aldrich, 1979). Power can be based on their superior resources, superior knowledge position or their social networks (Fligstein, 1997). The environment uses power as a resourceful means to destroy existing norms and substituting them with their own institutional arrangements (Beckert, 1999). With power the environment is able to bring about changes in organizations, through sanctions for non-compliance.

Proposition 3: Resource dependency creates a situation in which private organizations and their environment can influence each other.

2.6 CONCLUSION

The analysis presented above suggests that the co-evolution that occurs between organizations and their institutional environment follow an interaction relation and they are important to the adaptation and selection debate. In addition, the chapter shows how co-evolution resolves the issue of change, by suggesting that institutions are not static but are subject to change; these changes may come from organizations. Propositions are developed from our review on the literature on co-evolution.
This chapter forms the theoretical foundation on which this thesis is developed. To better understand co-evolution between organizations and their institutional environment, this thesis investigates co-evolution in a unique economy, South Africa. The uncertainty that surrounded South Africa’s political transformation engendered organizations to take adaptive initiatives for environmental selection. The next chapter presents the research method used to investigate the research questions of this thesis.
3. RESEARCH METHOD AND DATA COLLECTION

3.1 INTRODUCTION

In this chapter, I outline the research design employed in investigating the research question of this thesis. Given that this study is inductive in nature, it was necessary to apply a longitudinal qualitative method involving archival data and contemporary interviews to understand the drivers of the co-evolutionary relationship that occurred between the South African venture capital industry and the evolving South African state.

The research design involved two data collection stages. The initial stage involved the collection of archival data on the history of South Africa and the South African political transformation. This research activity was important for two reasons. First, data gathered from archival sources was used to present South Africa’s political evolution. It was used to develop a time-line of events (see Figure 3.2) that might have had important implications to the growth and development of individual venture capital firms and the industry as a whole. Second, since archival data has the potential of confirming, supplementing and elaborating upon primary sources of data (Lee et al., 1999), the archival data gathered were used to increase the validity and reliability of the data gathered from the retrospective accounts collected from the second data source. The archival data on South Africa’s transition were gathered from published sources, such as the South African government’s archival records, the African National Congress archival database, textbooks on the historical development of South Africa and the country’s migration to democracy, and the
South African government's websites. In addition, data were gathered from biographies and autobiographies and documents issued by the South African government.

The second data collection stage involved semi-structured face-to-face interviews with executives of venture capital firms in South Africa. Data collection through this medium is important for understanding how the changing political and institutional environment in South Africa might have influenced the venture capital industry in South Africa and how the industry itself has been able to bring about changes within its institutional environment. The face-to-face interviews provided insights into the specific roles major players within the industry took.

Furthermore, this chapter also explains the design of the semi-structured questions that were used for the interviews. In addition, it outlines the measures taken to reduce the possible risks and biases associated with the employed qualitative research method, the single informant retrospective research method. Additionally, the chapter presents the single informant retrospective research method as an important tool for learning about the past, especially the organizational changes.

The remainder of this chapter is structured as follows. The subsequent section, section 3.2, introduces qualitative research as a research tool that is best suited for describing a social phenomenon such as a joint evolution between organizations and their environment. This is followed by a detailed description of and justification for the research instrument (i.e. face to face interviews) in Section 3.3. Section 3.4
presents the research design employed while Section 3.5 and 3.6 present the data collection and analysis process respectively. Concluding comments are presented in section 3.7.

3.2 QUALITATIVE RESEARCH METHODS & INSTRUMENTS

In this section, the qualitative research method is introduced as the research method to be employed for this research enquiry. The qualitative research method is the most suitable method for learning about research questions that centre on “how” and “what”; as it seeks to describe, interpret or explain a certain phenomenon (Lee, 1999; Yin, 2003) within our social environment. In particular, a longitudinal qualitative research method is important for this study on co-evolution theory because the theory requires the description of multidirectional events between organizations and their institutional environments (Lewin and Volberda, 1999). Therefore, most empirical research that employs the co-evolution construct employs a longitudinal qualitative research method (e.g. Flier et al., 2003; Jones, 2001; Rodrigues and Child, 2003; Dieleman and Sachs 2008). The qualitative research method seeks to understand the meaning of naturally occurring events and actions through the interpretation given by participants (Henwood, 1996). This section introduces qualitative research as a suitable research method for describing, interpreting and explaining the co-evolution phenomena between organizations and their environment.
3.2.1 Qualitative Research: An Introduction

Though there is no clear cut textbook definition of qualitative research, Van Maanen (1979) argues that qualitative research is “an umbrella term used for an array of interpretative techniques that seeks to describe, decode and translate or otherwise come to terms with the meaning of a naturally occurring phenomena in the social world” (p. 521). In a similar manner, Denzin and Lincoln (1998) identify qualitative enquiries with research enquiries that place great emphasis on processes and meanings. They noted further that for qualitative investigators, the socially constructed nature of reality through thick description of events remains a main tenet of the research field. Qualitative researchers seek to find answer to questions that stress how social experience is being created and given interpretations.

Given that there is no generally prescribed definition of qualitative research, Lee et al. (1999) identified qualitative research enquiries with four distinctive features. First, qualitative research occurs in a natural setting. Qualitative research is committed to the naturalistic setting of a given matter. Qualitative researchers study how natural phenomena occur, by building an intimate relationship between themselves and their object of study (Denzin and Lincoln, 1998). Second, social meanings from qualitative research are derived from participants’ comments and perspectives. Since it is the intention of qualitative investigators to capture naturally occurring social settings, they consciously avoid influencing data gathered from their naturally occurring social settings. The reflexivity of the researcher is the third attribute of a qualitative research investigation. Since qualitative research methods involve procedures that result in a rich, highly descriptive contextually situated data,
which is based on spoken or written words and observational behaviour (King, 1996),
it becomes difficult to disregard the researcher’s reflections on their actions and
observations in the research field such as impressions and feelings, as these actions
constitute a fundamental part of qualitative data (Flick, 1992). Thus, researchers
should recognise that reflexivity is an inevitable consequence of engaging in research
with people, and should try to harness it as a valuable part of the research exercise.

Fourth, qualitative research methodological procedures are not standardised (Pratt,
2009). Unlike conventional quantitative research methods, there are few common
methodological conventions within the qualitative research communities (Kvale,
1996). Furthermore, qualitative research methodology may sometimes run counter
to prevailing notions of control, reliability and validity (Lee et al., 1999).

Nonetheless, qualitative research is multi-method in focus, involving the use of a set
of interpretive practices, however, privileging no method over the other (Denzin and
Lincoln, 1998). Qualitative researchers apply multiple methods or multiple sources of
information to tackle their research questions. The resulting answer from these
multiple sources is likely to be more accurate. Flick (1992:194) notes that “this
combination of multiple methods in a qualitative study depicts the researcher’s
intention to add rigor, breadth and depth to their investigation”. Qualitative
researchers utilised a variety of interconnected methods such as case study,
interview, participant observation to get a better understanding of the subject
matter (Flick, 1992). Nonetheless, the choice of the research tools and instruments
to use is dependent on the research questions that are asked, while the questions
depend on the research context.
Qualitative research is well suited for the purposes of description, interpretation, and explanation (Lee, 1999) as it addresses questions that centre on issues about "what is occurring?" and/or "how is it occurring?" (Lee et al., 1999:164). It was therefore decided to employ this research method in order to investigate how co-evolution occurs between the venture capital industry in South Africa and the emerging South African government.

3.2.2 Research Methods

As mentioned earlier, the research design employed involved two stages. During the first stage, data was gathered extensively on the history of South Africa and the South African political transition. The second stage involved collecting retrospective reports on the emergence of the venture capital industry in South Africa. This research follows an inductive research pattern due to the emerging nature of the South African state and the South African venture capital industry. Inductive research is a way of thinking; "inductive researchers approach their research sites with an open mind; they immerse themselves in data; watch for emergence of patterns and processes, identify core variables and then gradually develop hypotheses, typologies and or detailed descriptions of their observations" (Gilgun, 2001:351). With an inductive stance, theory is the outcome of the research. The inductive qualitative research approach involves weaving back and forth between data and theory. Figure 3.1 below illustrates the relationship between theory and qualitative research within an inductive enquiry.
The method allows for a close correspondence between the theory and data, a process whereby the emergent theory is grounded in the data (Eisenhardt, 1989; Glaser and Straus, 1967). Inductive research is particularly suitable for grounded theory (Bryman, 2004; Gilgun, 2001). The use of the inductive research approach is employed as it allows the emergence of new elements from the data that would be beneficial to the further development of the co-evolution phenomenon between organizations and their environment.

3.2.3 Retrospective Accounts

In line with research that has employed retrospective research methods (e.g. Hambrick and Mason, 1984; Huber and Power, 1985; Miller et al., 1997), the retrospective accounts of how venture capital firms reacted and enacted changes in their environment were gathered via interviews from upper echelon venture capital managers, that is, senior venture capital executives. Retrospective accounts from upper echelon executives are usually from chief executives of organizations (Golden, 1992) or other members of the top management team (Glick et al., 1990; Chen et al.,
1993) who have important information about past organizational events and strategies. Scholars have supported the selection of upper echelon managers for research on past events with a number of arguments. For instance, Golden (1992) argued that since the formulation and implementation of organizational strategies are initiated and carried out by the top management, they remain the best possible informant on such related issues. In addition, Golden (1992) further noted that top management are usually reminded of their strategic decisions and what might have induced such decisions because of the long-term effect these decisions have on their organizations. Glick et al. (1990) noted that since top management are usually preoccupied with the issue of change, they remain the most suitable informant on issues that centre on change between themselves and their institutional environments. Therefore, it was decided that executive members of venture capital firms in South Africa would be selected as the informant to give retrospective account of their organizational past strategies when faced with a changing political environment. In addition, I also interviewed other stakeholders from the industry such as a member of the South African venture capital association.

However, some scholars (e.g. Schwenk, 1985; Golden, 1992) have criticised the generalisability of findings from research that employs a retrospective account. They argue that data gathered through retrospective accounts suffer from a number of reliability and validity issues. Nonetheless, as Miller et al. (1997) show, the issue of low reliability from retrospective accounts usually stems from problems associated with measurement instruments (e.g. questionnaires) used rather than the retrospective account itself.
Retrospective accounts remain an important tool for learning about the past (Miller et al., 1997). They provide information that may not be available through other research methods (Huber and Power, 1985). For venture capitalists firms in a dynamic institutional environment like South Africa, the precise recollection of past institutional environmental changes and the strategies taken by organizations would be of crucial importance for activities that surround the industry's micro level behaviour such as financing or exiting.

Retrospective accounts have been employed across various research fields within the social science and natural science literatures. For example, within the social science literature, Morell and Arnold (2007), arguing for an alternative method, employed a retrospective reporting method to investigate employee turnover within the National Health Service (NHS) in the United Kingdom. Rather than filling out research questionnaires, actual leavers were asked to recount the reasons why they quit their positions at the NHS, thus providing more detailed information about what motivated them to leave the NHS. In a similar manner, Elfring and Hulsink (2007) used elements of retrospective research methods to investigate the issue of network development among founding entrepreneurs.

Nonetheless, it is important to note that researchers' findings from this type of research method can be called into question, especially if necessary steps are not taken to reduce the biases associated with the use of a retrospective account. The next section reviews the likely sources of informant bias when employing a
retrospective account. Furthermore, the steps taken to improve the validity and reliability of the retrospective data gathered were also outlined.

3.2.3.1 Biases Associated with Retrospective Accounts

When conducting any enquiry, especially qualitative research enquiries, it is imperative to identify up front the particular biases associated with the chosen qualitative research methodology (Lee et al., 1999). A number of biases give researchers concern about the use of a retrospective account as a research method. This section reviews those biases. Furthermore, a detailed report is given on the steps I took to reduce the biases associated with a retrospective account, thereby increasing the accuracy, reliability and validity of the research findings from the retrospective data.

3.2.3.1.1 Position Bias

This type of retrospective bias occurs when informants' under or over report past organizational events and/or strategies. This bias also involves the likelihood of informants presenting themselves and their organizations in socially desirable image (Miller et al., 1997). The functional position of the informant is usually the major cause of this type of retrospective bias (Glick et al., 1990). The organizational position of the informant exerts a high influence on the informants' perception of organizational activities (Ernst and Teichert, 1998). For example, top organizational officers (such as CEOs) would usually present their organizations in a positive and promising light irrespective of the economic stability of their organizations. In contrast, for fear of reprisal or in an attempt to seek recognition from organizational
superiors, middle level and first level managers may either assign different meanings to organizational reality or decline to give out organizational information (Hughes and Preski, 1997). Thus, organizational hierarchy can influence the amount and quality of information that informants are willing to provide (Phillips, 1981; Seidler, 1974).

The measures taken to control the likelihood of the position bias, as Hughes and Preski (1997) suggest, was to select organizational informants who satisfy the purposive sampling requirement of competence. By doing this, some sources of organizational position bias can be controlled (Hughes and Preski, 1997). Therefore, only executives of venture capital firms were selected for interview. These individuals who were in top management positions of firms were selected because they are able to describe the organizational environment more than other organizational members (Payne and Mansfield, 1973). Furthermore, with respect to presenting their firms in a socially desirable image, this was not envisaged as the questions asked related to strategic issues their firms faced as a result of a changing political environment rather than issues that centre on the profitability or the financial viability of the venture capital firm, which could induce such bias.

3.2.3.1.2 Bias Due to Inaccuracies in Informants’ Recall

Informants’ task of giving an unbiased retrospective account of past events and past organizational strategies is influenced by their ability to cognitively process and recall information (Hughes and Preski, 1997). Inaccurate recall by informants may result from the inappropriate rationalisation of events, informants’ tendency to over
simplify actions and simple lapses of memory (Miller et al., 1997; Wolfe and Jackson, 1987). In addition, informants usually rationalise events in ways that would present events in a cause and effect sequential manner. However, naturally occurring events do not usually follow a rational sequential pattern, especially the events that involve the co-evolution of entities. Informants also sometimes tend to simplify occurrences to which they were exposed by inventing untrue information (Wolfe and Jackson, 1987).

The research design and the choice of participant are able to address informants' ability to recall important events (Gruhagen et al., 2008). In these situations, researchers have recommended the use of procedures that have the potential of increasing informants' recall abilities. For instance, Bagozzi and Phillips (1982) and Kumar et al., (1993) proposed the use of a multiple informant data collection process as this allows for a cross-comparison of data, thus enabling the researcher to detect discrepancies that may have been caused by recall bias. Similarly, Huber and Power (1985) and Schwenk (1985) posit that the use of "aided questions" helps improve informants recall ability. For example, Bernard et al., (1997) and Wolfe and Jackson (1987) suggested the use of aided recall questions, in which informants would be presented with fixed alternatives questions, e.g. Have there been changes in your organization pre- and post-apartheid? Any changes in how you managed your entrepreneurs? They posited that fixed alternative questions supplies a focus and reduces the possibility of recall discrepancies. Furthermore, with aided recall questions, informants are encouraged to give information on issues that might not be considered important by informants (Wolfe and Jackson, 1987). Also, Schwenk
note that to improve informants’ recall ability, researchers should: order their questions in a logical and sequential manner, include cues and landmark events in their questions, centre their questions on salient or noteworthy events and should keep the research task as simple as possible. They further cautioned against the use of dates of events in their questions as informants found this to be the most difficult to remember, rather they suggested that questions follow a sequential pattern. Furthermore, Miller et al. (1997) argue for a free report question model. This type of question reduces the ability of the informant to generate untrue information. Under the free report option, informants are encouraged to say that they do not remember a particular event if that is the case.

For this study, it was not possible to apply the multiple informant approach as only the founding manager of the venture capital firm could give accurate details of the emergence of the firm. Nonetheless, due to South Africa’s unique transition and the many events that occurred afterwards, these managers gave accurate accounts of the development of the South African state and how it affected/affects them. Also venture capitalist firms are generally small in size, therefore only a few people can be interviewed.

3.2.3.1.3 Hindsight Bias

Hindsight bias which is also known as the “knew-it-all-along effect” (Louie, 1999) is defined as the tendency for informants considering past events to overestimate the likelihood of having predicted its occurrences (Arkes et al., 1998). Hindsight bias is one expression of the overconfidence that has been demonstrated across a broad
range of judgements and tasks. Overconfidence may lead to premature conclusions and insufficient consideration of alternative possibilities thus decreasing judgment accuracy (Arkes et al., 1988). The knowledge of a particular event in hindsight causes difficulties in establishing the actual basis for events and decisions (Sligo and Stirton, 1998). Individuals see an event to be inevitable regardless of their predictions before the event (Huber and Power, 1985), thereby distorting the revaluation of the initial event (Bukszar and Connolly, 1988). This bias constitutes an underestimation of how surprising the report of what had happened was and what one has to learn from it. Underestimating what one learns from reported facts about past events may be a special case of understanding what one learns from factual information in general (Fischhoff, 1977). In hindsight, there is a tendency for individuals to exaggerate what could have been anticipated with foresight (Huber and Power, 1985).

Hindsight bias has been demonstrated in a number of retrospective research accounts across diverse research fields: for example, in strategy (Bukszar and Connolly, 1998); organizational behaviour (Louie, 2005); historical judgment (Fischhoff, 1980). For instance, in their experiment on hindsight bias, Bukszar and Connolly asked MBA students to read and analyse a business case study. Some students were asked to estimate the probability of the venture’s success and failure in the initial start-up year without any outcome information. The other groups of students were assigned a similar task, however this time the company’s profitability outcome for the first year was provided (although they were asked to ignore these outcomes). As expected, in relation to the outcome estimate provided, students who had been provided with the company’s outcome after the initial year assigned higher
probabilities to the company survival chances. This, therefore, shows as Fischhoff (1975) argued, that outcome information influences what participants thought they would have known. The measure used to reduce the potential of hindsight bias, as suggested by Fischhoff (1977), was telling venture capitalists about the potential of having a hindsight bias in their account.

3.3 RESEARCH DESIGN

This section outlines the design and development of the research instrument employed in this research. The research design sections are divided into three: data saturation, obtrusiveness, interview structure.

3.3.1 Data Saturation

For qualitative enquiries, especially ones that involve the use of interviews, the appropriate sample size of the study is always an issue to consider before the data collection stage. Among others, Guest et al. (2006) suggest that data saturation should be the criteria by which researchers adequately justify their sample size. Data saturation, as defined by Glaser and Strauss (1967:65), is “the point at which no additional data are being found whereby (the) researcher can develop properties of the category”. Simply put, this is where no additional learning occurs as more additional data are gathered (Lee et al., 1999). Although a number of scholars have suggested an ideal minimum number for data saturation to occur (e.g. Guest et al., 2006), the judgment of this point can be difficult since every qualitative research is unique in its own respect. Nonetheless, because of the nature of the research question which centres on evolution and change, the population size was restricted
to CEOs who have spent a number of years in the venture capital industry in South Africa. This thus reduced the sample size.

3.3.2 Obtrusiveness

Data collection efforts are always obtrusive (Lee et al., 1999). That is, informants are always aware that they are being monitored. In turn, this awareness slightly alters informants’ natural cognitions, emotions and natural behaviours. Obtrusiveness can be reduced by the informants trust in the researcher (Harrington, 2002). Typically, this trust develops through long-term relationships between the researcher and the researched. Given the political sensitivity of this research it was envisaged that informants would be cautious of information they divulge. However, because of the access the researcher got to the industry's association, informants talked freely as they saw the research as another survey being taken by Southern African Venture Capital Association (SAVCA) rather than an independent researcher.

3.3.3 Interview Structure

It was decided to conduct a face-to-face semi-structured interview with the venture capital executives. The goal of the semi-structured interview was to allow informants to express their perception on the issue of a joint evolutionary change that occurred between organizations and the environment in their own words. Informants were initially approached to participate in the research through an email, and then later followed-up with another email to arrange a convenient time and place for the meeting. The duration of the interviews averaged 1 hour per participant and all interviews were conducted by the researcher in English.
An outline interview schedule was used, based on the review of the literature and the research questions posed in chapter one of this thesis. However, the schedule was modified on the basis of previous interviews. As informants provided further interesting insights due to their deviations from the initial questions asked, I as the researcher usually intervened to probe further on grey areas or to introduce new research themes. The interview guide consisted of five structured demographically oriented questions with fifteen open-ended questions. The guide was divided into the following five domains of enquiry: background of informant; venture capital process in South Africa; the role of the South African government in the growth and development of the venture capital industry in South Africa; the role of SAVCA in the growth and development of the venture capital industry in South Africa.

3.4 DATA COLLECTION

The data collection process was conducted between September-November 2008. This entailed personal interviews with venture capital executives in South Africa. The following section describes the unit of analysis and the issue of access.

3.4.1 Unit of Analysis

The SAVCA graciously provided a list of the venture capital firms in South Africa who are registered with them. From this membership list, venture capital and private equity firms were identified. This small size of the population did not offer much scope for selecting the sample along any chosen criteria. Furthermore, due to the nature of the research questions, it became important to select research participants with a number of years' experience in the venture capital industry in South Africa.
Therefore, it was decided to approach company’s venture capital executives who had at least 5 years’ experience in the venture capital industry in South Africa.

In total 33 informants were identified and selected for interview (however, only 25 accepted the invitation). This set of participants was not selected through a non-probability sampling method. Rather, informants were selected based on their ability to provide insights into the co-evolution phenomenon between the industry and the changing institutional environment. Furthermore, data access and geographic proximity were also considered in selecting informants for interviews (Yin, 2003) as only venture capital firms in Cape Town and Johannesburg were approached. Prior contact and familiarity with these respondents enabled easy access while at the same time allowing a less structured and more prolonged relationship to develop with interviewees. Many of these executives served as key informants for this research. Their educational background was across many disciplines, e.g. accounting, bio-scientists, economists, etc.

A key informant is someone who is an expert source of information; they are able to provide more information and a deeper insight into what is going on around them (Marshall, 1996). Key informants are researchers’ link to the subject of study (Gilchrist, 1992). In an attempt to depict social reality as s/he sees it, the key informant teaches the researcher. A major advantage of the key informant technique is that it allows for a large amount to data to be collected in a relatively short period of time at reduced costs (Marshall, 1996) especially when compared
with the multiple informant approach. The key informant technique provides the information needed by researchers in a cost-effective manner (Gilchrist, 1992).

Marshall (1996) identified key informants with five characteristics: role in the community; knowledge; willingness; communicability and impartiality. Key informants' role in their environment exposes them to the information that is sought by researchers. John and Reve (1982) suggested that such informants should occupy roles that make them knowledgeable about the issues in question such as leadership roles and responsibility. In addition to having access to the information required by researchers, key informants should be able to absorb information in a meaningful manner. Also, the informant should be willing to communicate their knowledge in an intelligible manner to the researcher. Equally important is the impartiality of the informant; they should be objective and unbiased. However, as Marshall (1996) noted, only the first attribute of the informant's role in the community can be determined in advance. Marshall recommends that once the researcher identifies individuals who perform key roles in the research community, the other four criteria should be considered before these individuals are interviewed. Therefore, it was decided to employ the qualitative face-to-face interview using the single informant method. Under this type of research method, one informant would be interviewed per organization.

Several issues have been raised about the reliability and validity of single informants' retrospective accounts (e.g. Seidler, 1974: Phillips, 1980). Scholars argue that single informants' data are sometimes inadequate, particularly when complex social
judgments are being made by these informants (John and Reve, 1982). Scholars such as Bagozzi and Phillips (1982) have suggested the use of multiple informants per organization to increase the reliability and validity of retrospective accounts.

However, despite the apparent advantage, the use of a multiple informant organization account was not thought feasible for this research because of the high probability of participation decline by venture capital firms and their executives if the researcher requested more than one executive of the venture capitalist firm to be interviewed for the study. In addition, informants tend to decline their participation when they realise that they are part of a group of other informants rather than the key or sole informant (Glick et al., 1990). Furthermore, non-key informants usually withhold vital information for fear of confidentiality breaches. Therefore, it was decided to use the single informant approaches in gathering the required data.

Thus, selecting the appropriate informant became a crucial task with a single informant approach. As Chen et al. (1993) put it, if researchers do not carefully select informants who will faithfully give accurate information, the possibility of a generalization of such findings would be reduced as the research design would be fundamentally flawed. Therefore, adequate attention was taken in selecting the key informant for this research. Practical suggestions have been offered about the necessary procedures to be carried out before an informant is selected. For example, Glick et al. (1990) argue that the informant selected should be someone with the widest possible knowledge of the important changes that occurred in an
organization. Kumar et al. (1993) associate the tenure of the informant with the
knowledge of the informant, thus they argued that the informant should be
someone who has been in the organization and has occupied an organizational
position of interest for a long period of time. Huber and Power (1985) advised that
researchers should carry out a preliminary study on possible informants. Information
should be gathered about the key informant position, whether the person holding
the title carries out the duties envisioned by the researcher and whether the
individual held that position at the time of the event of interest, they suggested.

It was therefore decided to use the firms’ venture capital executives as the key
informants. Given that the research question focuses on change and the
simultaneous change that occurs between the state and the venture capital industry
at multiple levels, it was decided to interview venture capital executives who among
other things represented their organizations at SAVCA, a non-governmental
organization that promotes the growth and the development of the venture capital
private equity industry in South Africa. The names of these executives were gathered
from SAVCA’s directory, which is available on their website and also provided by the
association as a paper copy. Furthermore, the researcher cross-checked the names
with the individual venture capitalist firms to make sure that these executives were
still members of the firm and that they still held their positions with their respective
venture capital firms.
3.4.2 Access

The question of how to gain access to the research field under study is a very crucial issue in qualitative research. Access refers to the ability of the researcher to get close to the object of study. Gaining access could also mean establishing initial and continued contact with a research site (Gummerson, 2000:32). The problem of access to a research site is often increased because different levels of access are involved during a qualitative enquiry (Flick, 2002). Qualitative researchers are faced with the challenge of securing the initial participation of potential participants (Flick, 2002).

Gaining access to research sites involves two phases: gaining physical access and gaining mental access (Soulsby, 2004). Gaining physical access involves being allowed as a researcher to visit and stay within the research environment (Gummerson, 2000). Gaining physical access can be quite a challenge as organizations' procedures on providing access to researchers vary. Moreover, researchers face various hurdles during their authorisation stages within the prospective research field. For instance, a number of individuals from organizations might have to give their approval before the researcher is given permission to access the research site. In gaining physical access, Flick (2002) notes that researchers are also identified as clients who have to go through the normal procedure of filling request forms, getting approval before the research can commence. In cases of access through interviews, researchers face a difficult task of not only scouting for willing organizations but also willing participants within the organizations as some decline to participate due to personal reasons on issues that centre on the past, this
occurs especially in transition economies (Soulsby, 2004). Furthermore, gaining physical access in transitional economies could also be challenging, especially if the researcher is seen as a 'foreigner' from another country. Unlike organizations in developed countries, where established procedures exist for researchers who require physical access, gaining access in organizations in transitional economies involves a bit of networking and lobbying, building interpersonal relationships and trust with the involved companies (Nojonen, 2004).

To address the issue of gaining physical access to organizations, Hutchings suggests the use of “third party informants” who act as gatekeepers with responsibility of opening and closing the gate for researchers. Third party informants such as research colleagues (e.g. Clark and Soulsby, 1995) who have important industry links help overcome the problem associated with gaining physical access. These informants possess the ability to provide valuable information and smooth the way (Gummerson, 2000:32) with meeting prospective informants.

Once the researcher has gained physical access to the research site, s/he then faces the problem of mental access. Gaining mental access involves the ability to understand the happenings (Gummerson, 2000) in the naturally occurring setting. With regard to access to persons in organizations the researcher faces the problem of openness and willingness. Stebbins (2001:6) argues that “to explore effectively researchers should approach their research setting with a flexibility in looking for data and open-mindedness about where to find them”.
With this research, an initial email to prospective venture capital interviewees did not bear much fruit, as only one venture capitalist (from Biotech Venture Partners) replied with a positive response. It was decided to approach an academic of a well-known graduate school of a top South African university, the University of Cape Town Graduate School of Business and an executive member of the SAVCA who acted as the researcher's third-party informant. This proved useful in two ways. First, because the recommendation for interview came from an executive from SAVCA, venture capital firms in South Africa saw the research as local research from one of their own rather than from an outsider and they were interested in the research findings as it would shed more light on their industry. Second, the academic's contacts proved invaluable because some of informants were his MBA students, so they saw it as an obligation to honour a past professor.

3.4.3 Data Collection through Interviews & Archival Data

Due to the nature of the research, I sought data that would provide insights into the historical process of development of the venture capital/private equity industry in the context of changes in the macro-economic context. As mentioned earlier, my two main data sources were contemporary interviews and archival information. Since this research focuses on co-evolution in the South African venture capital/private equity industry, I needed to gather data at the macro, meso and micro levels. At the macro level it was not possible to access individual government ministers as many of them turned down the possibility of talking on 'sensitive' issues that centre around the emergence of a democratic South African state. Therefore,
the researcher compiled data from a range of archival sources including: African National Congress (ANC) government reports, government legislations and press briefings, autobiographies and biographies of prominent government figures, etc. Also, secondary data from articles in refereed academic journals was used to build up a narrative story about South Africa's political transition. Information at the micro and meso levels was gathered through a mixture of archival and contemporary interviews. In addition to the interviews, data was gathered from past industry publications. Archival data gathered was used to present a timeline of events that occurred between the transitioning South African state and the emerging venture capital industry (see Figure 3.2). The timeline of events form a major theme of this thesis as it shows how the emergence of the venture capital industry and the South Africa state influence each other.

In total, 25 interviews were conducted, see Table 3.1 for a profile of respondents. I took notes and tape recorded all interviews with the exception of one informant who became uncomfortable with the tape recording. All transcriptions were done by the researcher. My interview questions explored issues that centred on organizations' motivations to enter into partnership with some companies which were seen to be carrying out the South African government goal of wealth redistribution and how that partnership led to a joint co-evolution between organizations and their environment. By combining data from archival and contemporary interview sources, the researcher was able to triangulate evidence (Deshpande, 1983) from the two findings. It also provided me with an opportunity of
having information on sensitive areas which we noticed respondents were not comfortable in shedding more light on.

Figure 3.2 – Timeline of Events

3.5 DATA ANALYSIS

I analysed the data (i.e. interviews transcripts and the interview data) drawing on methods suggested by Langley (1999) for longitudinal research. First, a narrative process of events was developed around the fall of apartheid, the emergence of a new South African government under President Mandela, and the emergence of a new South African state under President Mbeki. A narrative approach is well suited to “organizing data when time plays an important role and where a single case provides rich and varied incidents” (Chiles et al., 2004:505). Furthermore, narrative approaches which are based on longitudinal historical data help scholars to identify sequences of events and examine how these sequences relate to antecedents and
shape consequences (Jones, 2001; Pentland, 1999). In particular, I focus on key institutional events at the macro level that led to changes in the private equity/venture capital industry.
<table>
<thead>
<tr>
<th>Respondents</th>
<th>Venture Capital Firm</th>
<th>Fund Size</th>
<th>Type of Firm</th>
<th>Type of Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr. AB</td>
<td>Firm 1</td>
<td>R 5.9 million</td>
<td>Captive VC</td>
<td>Later-Stage Investment</td>
</tr>
<tr>
<td>Mr. BC</td>
<td>Firm 2</td>
<td>R 75 million</td>
<td>Independent VC</td>
<td>Later-Stage Investment</td>
</tr>
<tr>
<td>Mr. CD</td>
<td>Firm 3</td>
<td>R 8.75 million</td>
<td>Government Owned VC</td>
<td>Early Stage Investment</td>
</tr>
<tr>
<td>Ms. DE</td>
<td>Firm 4</td>
<td>R 80 million</td>
<td>Independent VC</td>
<td>Later-Stage Investment</td>
</tr>
<tr>
<td>Mr. EF</td>
<td>Firm 5</td>
<td>R 3.5 billion</td>
<td>Independent VC</td>
<td>Later-Stage Investment</td>
</tr>
<tr>
<td>Mr. FG</td>
<td>Firm 6</td>
<td>R 250 million</td>
<td>Independent VC</td>
<td>Later-Stage Investment</td>
</tr>
<tr>
<td>Mr. GH</td>
<td>Firm 7</td>
<td>R 170 million</td>
<td>Independent VC</td>
<td>Later-Stage Investment</td>
</tr>
<tr>
<td>Mr. HI</td>
<td>Firm 8</td>
<td>R 4 billion</td>
<td>Government Owned VC</td>
<td>Early Stage Investment</td>
</tr>
<tr>
<td>Mr. JU</td>
<td>Firm 9</td>
<td>Not Available</td>
<td>Independent VC</td>
<td>Early Stage Investment</td>
</tr>
<tr>
<td>Mr. JK</td>
<td>Firm 10</td>
<td>Not Available</td>
<td>Captive VC</td>
<td>Later-Stage Investment</td>
</tr>
<tr>
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<td>Firm 11</td>
<td>R 1.040 billion</td>
<td>Government Owned VC</td>
<td>Early Stage Investment</td>
</tr>
<tr>
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<td>R 550 million</td>
<td>Independent VC</td>
<td>Early and Later Stage Investment</td>
</tr>
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</tr>
<tr>
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<td>Independent VC</td>
<td>Early Stage Investment</td>
</tr>
<tr>
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<td>Independent VC</td>
<td>Later-Stage Investment</td>
</tr>
<tr>
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<td>Independent VC</td>
<td>Early Stage Investment</td>
</tr>
<tr>
<td>Mr. PQ</td>
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<td>Independent VC</td>
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</tr>
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</tr>
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</tr>
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<td>Later-Stage Investment</td>
</tr>
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<td>Mr. UV</td>
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<td>R 32 million</td>
<td>Independent VC</td>
<td>Early Stage Investment</td>
</tr>
<tr>
<td>Mr. VW</td>
<td>Firm 24</td>
<td>R 120 million</td>
<td>Independent VC</td>
<td>Early Stage Investment</td>
</tr>
<tr>
<td>Mr. Z</td>
<td>Firm 25</td>
<td>R 1.5 million</td>
<td>Independent VC</td>
<td>Early Stage Investment</td>
</tr>
</tbody>
</table>

Table 3.1 – Interviews

Second, I employed Langley's (1999) temporal bracketing strategy, distinguishing between two different periods in this research. A temporal bracketing strategy involves the decomposition of events into successive eras separated by discontinuities (Chiles et al., 2005). The strategy is particularly suitable for analysing non-linear qualitative data (Langley, 1999). Consequently, with this research I
decompose South Africa's transition process and the emergence of the South African venture capital industry into two epochs. I established these periods based on an exhaustive chronology of events based on South Africa's political transition process. I distinguished the two periods, each separated by a major break (Langley, 1999), hence permitting "the construction of comparative units of analysis for the exploration and replication of theoretical ideas" (Langley, 1999:703). The first period, from 1994–1999, I labelled 'The Mandela government'. The period began with the election of the ANC government and election of Nelson Mandela as the first black president of South Africa. Mandela was elected with the mandate of reconciliation, to bring black and white South Africa together, and to instil business confidence that was lost as a result of the advent of the African National Congress (ANC) party. The second period, from 1999–2003, I labelled 'The Mbeki Government'. The period began with the election of President Thabo Mbeki, whose mandate differed from that of President Mandela. President Mbeki was to redress the economic gap that had occurred during the apartheid years, whilst maintaining business confidence. For each period the research accounted for how co-evolutionary patterns occurred between the government and the venture capital/private equity industry and how actions of one period led to changes in the context that affected action in the following period. At the macro and meso levels, based in my contextual knowledge of co-evolution and the historical development of the South African institutional environment, I assign meanings to the archival data and interviews. In addition, further meanings were given to data through several discussions with my doctoral supervisors had a good research knowledge of issues in transition economies and of co-evolution.
3.6 CONCLUSION

To sum up, the chapter documents the research method employed for this research. The chapter discusses the potential biases that this research could suffer from and the measures taken to limit such biases.
4. SOUTH AFRICA: A POLITICAL TRANSITION ECONOMY

4.1 INTRODUCTION

The release of Nelson Mandela on 11th February, 1990, marked the beginning of a new history for South Africa and the South African economy. This event and many other series of events changed the political landscape of South Africa. It triggered increased international attention towards South Africa and an increased condemnation of the South African state as an apartheid state, which had allowed discrimination against South African citizens along racial lines (Worden, 1994).

Mandela’s release unleashed a torrent emotion. “The atmosphere was combined with feelings of hope, excitement and fear: hope for progressive action on the part of the government, excitement over the event itself and fear over the varied responses to this new beginning and over Mandela’s long hidden persona and ability” (Eades, 1999:3). With the release of Mandela and other prisoners of the apartheid struggle, the South African government showed willingness for a pattern of social and political change away from the apartheid system of white domination and racial segregation.

This historic event was later responsible for the demise of apartheid and the birth of democracy in South Africa; it also brought about a change in the ruling government and changes in the political elites, as the African National Congress (ANC) defeated the ruling National Party (NP) at the 1994 general elections. With this election, the
first black South African\textsuperscript{2} president, President Nelson Mandela, was elected into power. However, unlike the NP government which had maintained a free market institutional environment in which institutions defined the rules of the game in the business community, there were initial fears that the ANC party upon assumption of governmental power would nationalise the South African economy, even as the ANC party throughout the apartheid struggle had canvassed for a socialist South African state.

President Mandela, on the eve of his liberation from prison had insisted that the ANC would nationalise companies from the mining, banking and other monopolistic industries if elected (Bond, 2000). Furthermore, upon his release from prison in Cape Town in 1990, he stated that "I am a loyal and disciplined member of the African National Congress. I am therefore in full agreement with all its objectives, strategies and tactics" (South Africa Government Information, 1990). With statements such as this, Mandela restated his commitment to his party's socialist ideas. However, and rather surprisingly, the ANC's government adopted and implemented a significantly different economic ideology from its party's manifesto. It had embraced a similar economic policy and an institutional environment to that of its predecessors, the NP. This was not so from the beginning as the ANC government attempted to implement its socialist ideas in the early part of its government. However, due to pressures, mainly from the private sector, the ANC dropped its socialist ideas and adopted a capitalist system. This chapter therefore attempts to investigate the reasons behind

\textsuperscript{2} Black was the general name given to every non-white South African citizen, whether Black, Indian or Coloured
the ANC’s adoption of a rather different economic policy through a historical narrative of the emergence of democracy in South Africa.

The debate around the economic policies of transitional economies has become central among organizational scholars. This has become necessary because the economic policies that countries adopt contribute to the flow of capital and the growth of entrepreneurial activities within that country. Therefore, to make sense of how South Africa’s political transition affected its economic policies, especially the private sector, a brief but thorough examination of South Africa’s historical background becomes necessary.

This chapter is in two parts. The first part maps out briefly the socio-political history of the South African state. It presents an historical analysis of modern South Africa from the beginning of the apartheid days to the early part of the twenty-first century. An attempt is also made to capture significant events, legislation and changes in political personnel that signify the change from racial division of economic resources, through segregation, to a democratic government. These events were used to develop the timeline of events presented. The second part of this chapter presents an economic historical analysis of the new South African government. This analysis helps map out the adoption, implementation and elimination of the Reconstruction and Development Programme (RDP) economic policy which represented the socialist policy of the ANC government and the adoption of the Growth, employment and Redistribution (GEAR) economic policy, a market type economic policy.
This chapter is thus structured as follows: Section 4.2 investigates the South African political and economic structure during apartheid. Subsequently, section 4.3 investigates the South African state during the transition and post-transition, while a conclusion is drawn in section 4.4.

4.2 SOUTH AFRICA AS THE APARTHEID STATE

After its initial victory in the 1948 general elections in South Africa, the NP consolidated its political power. The party gradually eliminated every form of black participation in the central political system that had been created hitherto by its predecessor, the United Party. The government gained much support from white South Africans, as they were pleased with the new government’s effort to control the state in the face of increasing African unrest and criticism from the international community. The NP used its governmental powers to accomplish two political goals. First, the party used its position as the government to ‘Afrikanerise’ all governmental institutions, appointing Afrikaners (white South Africans with Dutch and/or British origins) to senior positions within every department in the civil service. The government also directed all state businesses to Afrikaner banks and allotted contracts to Afrikaners (Iheduru, 2004). By late 1970s, Afrikaner entrepreneurs had obtained a firm hold in the major sectors of the South African economy. Secondly, the government used its control to fulfil its racial goals.

The foundation of apartheid was based on four goals (Thompson, 2001). First, the population of South Africa was to be divided into four racial groups: the Whites, the
Coloreds [sic], the Indians and the Africans. Second, the white South Africans who were the most educated race were to be regarded as the only race that is entitled to have absolute control over the state. Third, the interests of white South Africans would prevail at all times over other racial interests. Finally, the individual racial groups represented distinct nations. For instance, the Africans were separated into ten distinct nations or “Homelands”. Individual homelands were seen as distinct nations ruled by hereditary chiefs, as they were allowed to develop economically and politically. However, their economic and political development was not without the supervision of the apartheid government. The NP government implemented its apartheid ideology of white hegemony with a plethora of laws and executive actions (see Table 4.1 for a comprehensive list of key apartheid legislations). For instance, the Population Registration Act (1950) categorised South Africans into races. The Prohibition of Mixed Marriages and Immorality Act (1950) outlawed marriages and sexual relationship across racial lines. The Bantu Education Act (1953) brought black South African missionary schools under the control of the government with a new curriculum that arguably prepared black South African students for only semi-skilled jobs (Worden, 1994).

4.2.1 Struggles Against Apartheid

The apartheid government received much criticism from several groups locally; initially the US and the UK did not oppose the NP led government. Moreover, white South Africa industrialists were pleased with the political system as it helped them obtain African labour at cheap rates. They also enjoyed this system of government as it gave them generous subsidies.
Table 4.1 - Key Apartheid Legislation

<table>
<thead>
<tr>
<th>Year</th>
<th>Apartheid Legislation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1949</td>
<td>Prohibition of mixed marriages</td>
</tr>
<tr>
<td>1950</td>
<td>Immorality Act</td>
</tr>
<tr>
<td>1950</td>
<td>Group Area Act</td>
</tr>
<tr>
<td>1950</td>
<td>Suppression of Communism</td>
</tr>
<tr>
<td>1951</td>
<td>Bantu building act</td>
</tr>
<tr>
<td>1951</td>
<td>Prevention of illegal squatting</td>
</tr>
<tr>
<td>1951</td>
<td>Bantu authorities</td>
</tr>
<tr>
<td>1952</td>
<td>Natives laws</td>
</tr>
<tr>
<td>1952</td>
<td>Pass laws</td>
</tr>
<tr>
<td>1953</td>
<td>Native labour (Settlement of Disputes)</td>
</tr>
<tr>
<td>1953</td>
<td>Bantu education</td>
</tr>
<tr>
<td>1953</td>
<td>Reservation of separate amenities</td>
</tr>
<tr>
<td>1954</td>
<td>Natives resettlement</td>
</tr>
<tr>
<td>1955</td>
<td>Group area development</td>
</tr>
<tr>
<td>1959</td>
<td>Bantu Investment Corporation</td>
</tr>
<tr>
<td>1959</td>
<td>Extension of university education</td>
</tr>
<tr>
<td>1959</td>
<td>Promotion of Bantu self-government</td>
</tr>
<tr>
<td>1961</td>
<td>Coloured person communal reserves</td>
</tr>
<tr>
<td>1961</td>
<td>Preservation of Coloured areas</td>
</tr>
<tr>
<td>1961</td>
<td>Urban Bantu councils</td>
</tr>
<tr>
<td>1971</td>
<td>Terrorism Act</td>
</tr>
<tr>
<td>1970</td>
<td>Bantu homelands citizens</td>
</tr>
</tbody>
</table>

Source: Mixed, from textbooks, the ANC’s website and refereed journals

Black South Africans, who were in the majority, were experiencing poverty with an increased oppression of the South African state. With the increased brutality that came with the apartheid regime, black leaders gradually transcended their regional, ethnic and class divisions and devised more effective means of confronting the apartheid government with various resolutions. For instance, at their annual conference in December 1949, the ANC promoted a “Programme of Action”. This programme placed great emphasis on confrontation, demonstration, boycotts and passive resistance for the war against apartheid (Thompson, 2001).
The Programme of Action (1949) stated that: "The fundamental principles of the Program of Action of the African National Congress are inspired by the desire to achieve national freedom. By national freedom we mean freedom from White domination and the attainment of political independence. This implies the rejection of the conception of segregation, apartheid, trusteeship, or white leadership which are all, in one way or another, motivated by the idea of white domination or domination of the white over the Blacks. Like all other people, the African people claim the right of self-determination. With this object in view, in the light of these principles we claim and will continue to fight for the political rights ..." (ANC, 1949)

In 1955, the ANC with its allies (such as the Congress of South African Trade Union (COSATU) and the South African Communist Party (SACP) adopted the “Freedom Charter” resolution, which re-affirmed its commitment to non-racial democracy, equal opportunity for all people and redistribution of wealth. The freedom charter was established as a pillar of opposition, in which the ANC, COSATU and SACP challenged the principle of racial segregation. The charter, among other things, stated that:

"South Africa belongs to all who live in it, black and white, and no government can justly claim authority unless it is based on the will of all the people; that our people have been robbed of their birthright to land, liberty and peace by a form of government founded on injustice and inequality; that our country will never be prosperous or free until all our people live in brotherhood, enjoying equal rights and opportunities; And that only a democratic state, based on the will of all the people,
can secure to all their birthright without distinction of colour, race, sex, or belief; (ANC, 1955).

Also, with the Freedom Charter, the ANC projected its ideas for a socialist South Africa. From the Freedom Charter resolution, it was believed that the ANC would embark on wealth redistribution programmes, such as the nationalisation of business enterprises whenever it party took over political power. The charter made statements such as:

"The national wealth of our country, the heritage of South Africans, shall be restored to the people; The mineral wealth beneath the soil, the Banks and monopoly industry shall be transferred to the ownership of the people as a whole; All the other industry and trade shall be controlled to assist the wellbeing of the people; ..., Restrictions of land ownership on a racial basis shall be ended, and all the land re-divided amongst those who work it to banish famine and land hunger" (ANC, 1955).

4.2.3 The Fall of an Apartheid State

By the late 1970s, apartheid was in crisis. The economic boom that South Africa had experienced which was used to finance apartheid policies was over. Furthermore, the average white South African population had agitated for a relaxed legislation that would allow for an increased labour force from the black South African community (Lowenberg, 1997), thus bringing a notion of interdependency between races in South Africa.
Also, in the late 1970s, the increased pressure from the international community and the fear of economic sanctions made apartheid even less attractive and less practicable. Even though the NP began to experiment with several political and economic reforms, they still tried to maintain white supremacy with these reforms (Worden, 1994). The government embarked on strategies that helped to scrap apartheid symbols and practices that were not essential to the maintenance of white supremacy. This section therefore examines the prevailing issues that led to the demise of apartheid in South Africa, thus paving the way for the political transition, and the development of a new South Africa.

4.2.3.1 Interdependency between the Black and the White South Africans

The industrial boom that South Africa experienced brought about an interdependent relationship between white and black South Africans; white South Africans needed the manpower of the black community within the mining and manufacturing industries. However, the restriction via the apartheid laws such as pass laws, e.g. prevention of illegal squatting, created an artificial scarcity between the demand for black South African labour and the supply. As the South African economy grew, there became an increased demand for skilled labour which the population of the white South Africans could not meet. However, the educational system in the homelands did not provide the necessary skills and education for this (Lowenberg, 1997; Lipton 1985).
Consequently, the government looked for means to bring the South African races together for the economic benefit of all. For example, the ‘de Lange report’ (1981) recommended “compulsory primary education for all as well as black technical training at secondary and tertiary levels. This the government did with the abolition of the job colour bar in 1981. In addition, the government also increased the black community’s educational funding in response to the pressures from the black community for an improved national education for blacks. This interdependency between white and black South Africans can further be explained by the “white only” referendum that took place in 1992. The referendum allowed white South Africans to decide whether the government should continue with its political reforms and negotiations, and over 68% of the voters voted for a continuation of the reforms (ANC, 1994)

4.2.3.2 Economic and Trade Sanctions and Corporate Disinvestments

South Africa faced international condemnation arguably for two reasons: first, because of the government’s apartheid policies; second, because of the country’s hold on Namibia (then South West Africa). The government unwillingness to change its foreign policy towards Namibia, and its domestic apartheid policies attracted international criticism.

The call for trade and economic sanctions on South Africa further increased after the Sharpeville shootings of 1960 and the Soweto Crisis of 1976, and this led to capital flights from the business community in South Africa. For instance on 26th September
1986, the California State Governor of the US, George Deukmejian signed a divestment bill, which required that, the state pension funds and the University of California sell up to $12 billion of shares in firms doing business in South Africa (Lehman et al., 1987). In addition, Chase Manhattan Bank had declared that it would not renew its short-term loans with South Africa. Previously, because of its import-substitution industrialisation policy, South Africa had always maintained a current account deficit of the order of between 2-3 percent of its GDP (Jones and Muller, 1992). These deficits were then offset by its capital inflows, thus South Africa was heavily dependent on foreign capital. The dependence on capital left South Africa vulnerable to major shifts in lending (Levy, 1999). One such shift occurred between 1976 and 1980, when the net foreign capital outflow averaged 2.3 percent of GDP. By the mid-1980s, South Africa’s external debt was roughly $24 billion, (Waldmeir, 1997). Figure 4.1 below shows the real adjusted capital flight the country experienced from 1980 to 2000.

Figure 4.1 – Capital Flight From South Africa (1980–2000)
Source: Data sourced from Mohamed and Finnoff (2004) after adjusting for changes in debt, changes in reserves and misinvoicing
4.2.3.3 The Independence of Other African States and the fall of the Berlin Wall

The profound changes in other African states also contributed to the death of apartheid in South Africa. Many African nations had received independence from their colonial masters and they had established the Organization of African Unity (OAU) in 1963. The OAU (which is now the AU – the African Union) urged for economic sanctions to be imposed on South Africa, that her diplomatic links be severed and that South Africa should be denied over-flight rights and the US should make an overt choice between the emerging African states and the colonial powers (Simons, 1999). In 1989, in union with the non-aligned movement and the UN General Assembly, the OAU adopted a declaration which supported the war against apartheid regime in South Africa. The declaration stated "... that where colonial, racial and apartheid domination exists, there can be neither peace nor justice" (ANC, 1993). Finally, the organization expelled South Africa because of its apartheid policies. In addition, South African neighbours such as Namibia experienced a general election in 1989 and became an independent state by March 1990. Domestically, it meant that the South African government could not maintain white hegemony indefinitely.

Another key component of the demise of apartheid in South Africa was the fall of communism in Eastern Europe and Mikahil Gorbachev’s foreshowing of regional proxy wars (Levy, 1999). The collapse of the Soviet empire undermined the provision of major financial support and military aid to the ANC guerrillas, the ‘Umkhonto we Sizwe’. With the fall of communism, the apartheid-led government saw the ANC as a group who had lost their ‘political mentors’. Thus, a political deal with them became
conceivable, as their leadership appeared to be less menacing to the whites (Lowenberg, 1997; Levy, 1999).

4.2.3.4 The Administrative, Policing and Defence Costs of Apartheid

The administrative and enforcement costs of running the apartheid system in South Africa was a major contributor to the death of apartheid. This was because maintaining the apartheid system became financially difficult. Maintaining an apartheid state was very expensive, as the government had to maintain separate bureaucracies in order to regulate economic and social activities in White African, Indian and Coloured communities, which resulted in a duplication of functions. A huge percentage of the state’s budget went to the policing and defence of apartheid legislation. By 1983, the defence bill had reached fourteen percent of the national government’s budget or about four percent of the country’s Gross National Product (GNP) (Lipton 1985:247). The administrative and security requirements of apartheid exacerbated the scarcity of capital by ensuring that the state sector absorbed a huge proportion of the country’s investment.

These factors led to the change in policy by the NP government. They accepted to embrace a representative government that would be democratically elected. As with every transition negotiations between stakeholders occurred. The ruling government negotiated the terms and conditions before it could allow for a democratically elected government. The next section reviews this.
4.3 SOUTH AFRICA AND ITS POLITICAL TRANSITION

From the pressures that were exerted on South Africa from domestic organizations and the international community it was apparent that the apartheid era could not sustain itself any longer. Unfolding events such as the lifting of bans on political parties like the ANC PAC, SACP in February 1990 laid the foundation for a new South Africa. Furthermore, the release of Nelson Mandela, the symbol of the apartheid struggle from political detention after 27 years triggered the beginning of a new South Africa.

After his release, Mandela began to enter into secret negotiations with the ruling NP government, deliberating on the formation of a democratically elected South Africa. The two major parties, the NP and the ANC, took individual steps to build mutual trust among one another. For example, the NP cancelled the state of emergency it had declared in several homelands; it revoked its apartheid laws, released most of the political prisoners that were still in detention and provided immunity for returning self-exiled anti-apartheid politicians. In response; the ANC suspended the armed struggle — the organization that the ANC used to wage war against the apartheid government — was abolished. Furthermore, both parties, with other parties, agreed to convene an all-party conference that would begin the process of drafting a new constitution for South Africa.

On 20\textsuperscript{th} December 1991, the Convention for a Democratic South Africa (CODESA) began. CODESA was a forum that created a platform for negotiations for the end of apartheid within South Africa. The participants of CODESA included the government,
the two major parties, the ANC and the NP, and other parties such as the South African Communist Party (SACP); Inkatha Freedom Party (IFP); Democratic Party (DP); South African Indian Congress (SAIC); the Coloured Labour Party; the Solidarity Party and the traditional rulers of the homelands of Transkei, Ciskei, Bophuthatswana and Venda.

The ruling government came to the negotiation table with a special motive, as President De Klerk said in his opening speech that "we shall put our specific points of view with conviction. At the same time, we shall listen to all other points of view and endeavour to build bridges between the divergent needs of our various cultural communities and interest groups" (ANC, 1991). The ruling NP government had sought for a two-phase transition programme with an appointed transitional government and with a rotating presidency. The ANC opposed this and pushed for a transition in a single stage to majority rule. Key negotiators of the CODESA conferences were Cyril Ramaphosa of the ANC and Roelf Meyer of the NP (who later became the Provincial Affairs and Constitutional Development Minister of the national unity government of President Mandela).

These negotiations eventually led to general elections in 1994, in which the ANC won majority with over 60% of the vote. The NP and the IFP came second and third respectively. However, the CODESA negotiations had created room for a government of national unity irrespective of who won at the polls; parties that won parliamentary seats were to be part of the ruling government in terms of ministerial positions. Therefore, the new cabinet, after 1994, represented the three parties: the
ANC, NP and the IFP. Table 4.2 presents the ministerial positions of the new government of national unity, their respective duties, party affiliates and the prior responsibility before the formation of the new government. Arguably, the ANC government rewarded its prisoners of war with ministerial positions. However, the ANC government lacked experience in some cabinet positions such as Finance, Minerals and Energy, and Agriculture which were the mainstay of the South African economy. Thus, the ANC government offered these key ministerial positions to the parliamentarians from the NP. Another argument for this was that the ANC government needed to signal to the private sector that it had its support, and to reduce the possibility of disinvestment, so appointing experienced candidates to sensitive positions was essential.

Table 4.2 – South Africa’s Government of National Unity – Cabinet Ministers

<table>
<thead>
<tr>
<th>NAME</th>
<th>PORTFOLIO</th>
<th>POLITICAL PARTY</th>
<th>PRIOR POSITION</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Mr. NR Mandela</td>
<td>President</td>
<td>ANC</td>
<td>Deputy President of the ANC</td>
</tr>
<tr>
<td>2. Mr. TM Mbeki</td>
<td>Deputy President</td>
<td>ANC</td>
<td>Head of ANC International Department</td>
</tr>
<tr>
<td>3. Mr. FW de Klerk</td>
<td>Deputy President</td>
<td>NP</td>
<td>Former South African President</td>
</tr>
<tr>
<td>4. Dr. Al van Niekrk</td>
<td>Minister of Agriculture</td>
<td>NP</td>
<td>Former Agriculture Minister under the NP</td>
</tr>
<tr>
<td>5. Dr. BS Ngubane</td>
<td>Minister of Arts, Culture, Science and Technology</td>
<td>IFP</td>
<td>Chief Negotiator for the IFP</td>
</tr>
<tr>
<td>6. Mr. SE Mzimela</td>
<td>Correctional Services Minister</td>
<td>IFP</td>
<td>Anti-apartheid campaigner</td>
</tr>
<tr>
<td>7. Mr. J. Modise</td>
<td>Defence Minister</td>
<td>ANC</td>
<td>Former University Teacher at Fort Hare</td>
</tr>
<tr>
<td>8. Prof. SME Bengu</td>
<td>Education Minister</td>
<td>ANC</td>
<td>Former Public</td>
</tr>
<tr>
<td>9. Dr. DJ de</td>
<td>Environmental</td>
<td>NP</td>
<td></td>
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<tr>
<td>Villers Affairs and Tourism Minister</td>
<td>Enterprise Minister under the NP government</td>
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<tr>
<td>Mr. Derek Keys*</td>
<td>Previously Finance/Trade and Industry minister under the NP</td>
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<td></td>
</tr>
<tr>
<td>Mr. AB Nzo</td>
<td>Former Sec. Gen. of the ANC</td>
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<tr>
<td>Mr. CL Fismer</td>
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<tr>
<td>Dr. MG Buthelezi</td>
<td>Traditional Leader of the Bantu</td>
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<tr>
<td>Dr. NCD Zuma</td>
<td>Member of the Executive Committee of the ANC's Women League</td>
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<tr>
<td>Ms. SD Mtembi-Nkondo</td>
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<tr>
<td>Dr. AM Omar</td>
<td>Defence Lawyer for the ANC</td>
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<tr>
<td>Mr. TT Mboweni</td>
<td>Self Political Exile in Lesotho and UK</td>
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<tr>
<td>Mr. DA Hanekorn</td>
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<tr>
<td>Mr. RE Botha</td>
<td>Ex-Foreign Affairs Minister under the NP</td>
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<tr>
<td>Dr. ZP (Pallo) Jordan</td>
<td>Former Head of ANC's Research Unit</td>
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<tr>
<td>Mr. RP (Roelf) Meyer</td>
<td>Constitutional Development and Communications Minister</td>
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<tr>
<td>Dr. S Sigcau</td>
<td>Founding Member of the ANC Youth League</td>
<td></td>
<td></td>
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<tr>
<td>Dr. ZST Skweyiya</td>
<td>Member ANC National Executive Committee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mr. JT Radebe</td>
<td>Member ANC National Executive Committee</td>
<td></td>
<td></td>
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<tr>
<td>Mr. FS Nnfamadi</td>
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* Under the NP government

Previously Finance/Trade and Industry minister under the NP

Former Sec. Gen. of the ANC

Traditional Leader of the Bantu

Member of the Executive Committee of the ANC's Women League

Defence Lawyer for the ANC

Self Political Exile in Lesotho and UK

Ex-Foreign Affairs Minister under the NP

Former Head of ANC’s Research Unit

Constitutional Development and Communications Minister

Founding Member of the ANC Youth League

Member ANC National Executive Committee

Member ANC National Executive Committee
Economically, the new ANC government was faced with two major challenges: 1) to create economic growth; 2) to improve the quality of life of the majority of South Africans. The government was also faced with the responsibility of ‘de-racialising’ and redirecting governmental institutions in order to address the high levels of poverty and income inequality in South Africa (Habib and Padayachee, 2000). To achieve these objectives, the ANC government proposed a national economic strategy: ‘the Redistribution programmes to meet the basic needs of our people. A priority in this regard will be the provision of basic services, affordable housing and infrastructure. In addition, legal, practical and psychological barriers created by apartheid and patriarchy will be broken down, so as to open up the economy to give opportunities to those who have historically been excluded. “The restructuring of the South African economy on the basis of new, comprehensive and sustainable growth and development strategies in all sectors of the economy” (Ready to Govern, 1992).
The economic strategy that was to serve as a tool for implementing these goals was entrenched in the government’s Reconstruction and Development Programme (RDP). The RDP economy policy was principally based on the ANC’s Freedom Charter of 1955 and the party’s constitutional guidelines of 1989. The guidelines stipulated that:

"The Freedom Charter remains today unique as the only African document of its kind that adheres firmly to democratic principles as accepted throughout the world. Amongst South Africans it has become by far the most widely accepted programme for a post-apartheid country. The stage is now approaching where the Freedom Charter must be converted from a vision for the into a constitutional reality". (ANC, 1955)

Based on the Freedom Charter principles (which had statements such as the mineral wealth beneath the soil, the Banks and monopoly industry shall be transformed to the ownership of the people as a whole) and the ANC’s ideas of transforming it into ‘constitutional reality’, it was envisaged that the ANC would embark on socialist economic policies, and that the RDP was going to be the economic tool by which the ANC would implement its socialist economic policies. The role of the government was to change from a passive one in which it provided the enabling environment which allowed private businesses to thrive to a more active role by nationalising private firms.
The RDP stipulated that it: presents a vision of fundamental transformation of South Africa....The role of the government and the public sector in general within the broader economy has to be redefined so that reconstruction and development are facilitated....The government’s central goal for reconstruction and development is to meet the social and economic needs of the people and to create a strong, dynamic and balanced economy. (ANC, 1991)

Emphasising the government’s role in the business environment, the RDP stated that: The [South African] state has the right to determine the general context in which economic life takes place and to define and limit the rights and obligations attaching to the ownership and use of productive capacity. And that: the private sector of the economy shall be obliged to co-operate with the state in realising the objectives of the Freedom Charter in promoting social wellbeing. (ANC, 1991)

On land reforms the RDP economic policy stipulated that:

The state shall devise and implement a Land Reform Programme that will include and address the following issues: The abolition of all racial restrictions on ownership and use of Land. And the Implementation of land reforms [would be] in conformity with the principle of Affirmative Action, taking the status of victims of forced removals. (ANC, 1987).

In general, the RDP was an economic policy developed by the ANC government in order to achieve their economic goals of a socialist South Africa for which they had
clamoured for many years. The ANC government justified their economic position by arguing that:

The RDP is an integrated, coherent socio-economic policy framework. It seeks to mobilise all our people and our country's resources toward the final eradication of apartheid and building of a democratic, non-racial and non sexist future. Within the framework for policy represented by the RDP, the ANC will develop detailed positions and a legislative programme of government.

In real economic terms, RDP meant a 5% economic growth rate and annual creation of 300,000–500,000 non-agricultural jobs. The industrial strategy involved increasing national investment, especially in manufacturing, job creation, and the meeting of basic needs (Peet, 2002:70).

The Ministry of RDP was created as a cabinet position which was headed by the former COSATU secretary general, Mr. Jay Naidoo. However, the RDP ministry, which was established to effectively monitor the implementation of the government RDP policies, was able to achieve little. The ANC government faced immense pressure from the private sector and the international community to break away from socialist thinking. With the threat of further capital flights, including possible withdrawal of IMF/World Bank concessionary loan facilities, the ANC-led South African government could no longer sustain its RDP promises. And in June 1996, barely two years after the adoption of the RDP policy, it was abandoned. The ANC presented “Growth, Employment and Redistribution: A Macroeconomic Strategy (GEAR)” as the government’s new economic policy.
Several reasons were given for the suspension of the RDP and the adoption of the GEAR economic policy by the South African government. One motivation for the suspension was due to the fact that the RDP economic policy did not provide an economic role for the private business community; rather it laid great emphasis on wealth redistribution through nationalisation and land reforms. However, the ANC government argued that “from the outset, it was clear that the RDP would require the active participation of the private sector. But the RDP was never a simple market driven programme” (Growth Employment and Redistribution, 1996).

Further, the White Paper on the adoption of the GEAR economic policy stated that: “...Two [economic] alternatives for South Africa have been described as the ‘the Low Road’ [arguably the RDP road] and the ‘High Road’ [the GEAR economic policy road]”. The ‘Low Road’ suggests that if the new government maintained the old economic system (the RDP system) with a continuing trend of about 3% growth rate per year, the long-term outcome would be rising unemployment, limited scope of social spending and at the end of the day, increasing social discontent.

The ‘High Road’ suggests a strategy for economic growth and development which targets 6% economic growth rate and the creation of 400,000 new jobs per year. For the government to deliver on its promises to the people, it needed to implement a strategy that would take South Africa along the ‘High Road’ of economic growth and development.
The [High Road] strategy seeks to get the South African economy on a new path, one that will ensure:

A competitive and fast-growing economy which creates enough jobs for all work seekers; A redistribution of income and opportunities in favour of the poor; A society in which sound health and other services are available to all. An environment in which homes are secure and places of work are productive.

The main objective [of GEAR] is to create a new economic system that will ensure the rapid economic growth and development of the people of South Africa. The government is sure that GEAR will change the path the South African economy is on, from a slow growing and non-job creating economy, to a dynamic, fast growing, job creating and development oriented economy (ANC, 1997).

Central to the GEAR economic policy were two strategies: a framework for promoting growth through exports and investments and a redistribution of wealth by creating jobs and reallocating resources. On the one hand, the economic growth strategy strives to create the desired growth by changing the economy to increase the amount of goods and services that are exported, particularly in the non-gold sector. This involves the creation of a good and stable domestic environment to encourage domestic and foreign investment in South Africa. On the other hand, the redistribution through jobs and the budget involved a strategy striving to redistribute the wealth of South Africa by ensuring that more and more people have access to jobs and are able to participate in economic activity. This strategy also places an important responsibility on government to redistribute wealth by
reforming the budget, thereby making adequate provision for essential services like water, housing education, social services and health.

The two core strategies were dependent on one another. The country needs economic growth to increase the amount of resources available for the development of its human potential. The core strategies are interrelated because investment in South Africa will promote jobs, and jobs will mean that people have money to spend on goods and services which will in turn promote further investment.

The GEAR economy policy was an outward looking economic policy. Unlike the RDP economic policy, GEAR emphasised the creation of a market-type business environment that would engender the growth of private business. This was a major shift by the ANC party who had always had a socialist outlook. With the GEAR economic policy, the ANC government was more interested in factors that would promote an increase in the amount of goods and services produced by the South African private sector. Furthermore, on the issue on wealth redistribution, the ANC government argued that expanding the current business community to allow for more black South Africans to be employed was a better strategy than a nationalisation plan. The GEAR redistribution stressed the importance of providing a wealth redistribution scheme in terms of the social responsibilities of the government.

This major economic shift by the ANC government led to disagreements between them and their allies, such as the Congress of South African Trade Unions (COSATU).
Yet, the government maintained that the GEAR economic policy was the most suitable economic policy for modern day South Africa.

President Mandela, in his statement on 14th June 1996, stated that:

*Through this Act, we have established the foundation upon which the implementation of the Reconstruction and Development Programme can be speeded.*

*Together, we have taken yet another giant step towards realising, with expedition, the aims of job creation and income redistribution that the nation yearns for.*

*This Macroeconomic Strategy is the basic economic policy framework of the government until the beginning of the next century. The government has consulted and will continue to consult with all role players, and take their views into account, in carrying out the details of the programmes outlined in the Strategy.*

*We do not expect everyone to agree with everything contained in the document.* ....

*The Macroeconomic Strategy is for the benefit of the nation as a whole; the employed and unemployed, big and small business, professionals and other sectors. For it to work and produce the desired results, it requires the co-operation of the whole nation, in the spirit of our New Patriotism.*

From President Mandela’s statement (e.g. consultation with “role players”) it was evident that the private sector played an important role in the transformation of the ANC’s economic policy from RDP to GEAR. The business community in South Africa had always been active in the political environment of the South African state even prior to the advent of the ANC government. The ANC’s Special Truth and
Reconciliation Commission, which was set up in 1997, revealed the role the business community had played since the apartheid years. The commission stated that:

*Several of the core measures of segregation and apartheid were, however, critical in determining the growth path and patterns of accumulation of wealth in South Africa and were actively promoted by important business groups.*

One major aspect of the debates in South African historiography in recent decades has been over the relationship between capital [the private business community] and apartheid. While some writers argued that apartheid was an ideologically created system, imposed on business against its will, a number of well-researched and credible studies have shown that many of the basic laws of segregation and apartheid were introduced to create a cheap black labour force to benefit businesses drawn from the white minority.

Particular sections of business were, moreover, especially favoured by the apartheid regime. What are now powerful corporations like Sanlam, Rembrandt and Volkskas were closely associated with the National Party and benefitted directly from specific state support after the NP came to power in 1948. The history of Sanlam is, indeed, inextricably interlinked with that of the National Party. It was established in 1918 by the same individuals who founded the National Party in the Cape. Volkskas was founded by the Afrikaner Broederbond in 1934, and as the Broederbond’s official history, published in 1979, admitted all its directors were until that year at least appointed by the Bond (O’Meara, 1983, p 102).
These companies experienced spectacular economic growth after the National Party came to power in 1948. Sanlam's and Volkskas' assets were valued at R30 million each in 1948. By 1981, Sanlam's own declared total assets stood at R3.1 billion, while companies over which it exercised effective control had assets worth R19.3 billion. Volkskas' assets in the same year were R5.1 billion (Davies, O'Meara, Dlamini, 1985, pp.70-80).

The awarding of government contracts to, and placing of government and local authority bank accounts with these companies was critical to this rapid accumulation. But the relationship between these companies and the apartheid state went far beyond this. There was a close strategic partnership between the leaders of these corporations and the top decision-makers in the apartheid state. Management staff regularly passed to and fro between the corporations and government institutions.

The top leadership of Sanlam, Volkskas and Rembrandt were key players in both the National Party and the Afrikaner Broederbond. They were the close confidantes and advisers of political leaders of the apartheid state. Although both Sanlam and Rembrandt became associated with the so-called verligte wing of the National Party, the differences they had with verkramptes in the party were not over whether, but rather over how best, to maintain control by the apartheid regime and with it minority white economic privilege. The relationship between these corporations and the regime became particularly close during P.W. Botha's term as head of government. The corporations worked closely with the military in designing the
"total strategy". They were also prominently involved in developing the apartheid state’s military capacity. Less transparent, but of critical importance in establishing the truth about our past, is the role they may have played in the implementation of the “total strategy” – with the gross violations of human rights associated with this.

Organizations like the Afrikaanse Handelsinstituut and white commercial farmers’ groupings also had close connections with successive apartheid regimes. White commercial farmers formed an important constituent base of the National Party. An extensive system of state support and subsidy was established and maintained under apartheid. There was often very little distinction between government institutions and organizations set up by farmers themselves. Cooperatives played the role of control boards and assets accumulated through the exercise of their public (control board) function were often used for private benefit by cooperatives.

Much more significant was the role of white commercial agriculture in soliciting state support and condolence of widespread and systematic abuses of black farm workers’ rights over many years. The “tot system”, use of prison labour, assaults and even murders that went unpunished are well known. As indicated earlier, historically privileged commercial farmers bear a large measure of responsibility for the large scale forced removals of “surplus people” that occurred in the 1960s and 1970s.

The commission’s statement revealed the close relationship between the business community and the NP, the apartheid party. This was not surprising given that the founders of the NP were also the founding members of major multinational
companies in the South African business environment. Thus, there was little or no difference between the business community and the state.

After the apartheid transition, there was evidence to suggest that the business community wished to continue to play a role in the decision making process of the new ANC government. For instance, the quasi economic policy released by the business community, Growth For All (1996), was arguably the platform on which the ANC built its GEAR economic policy.

Vice President Mbeki stressed the importance of the ANC’s new relationship with the private sector, when he mentioned that: *We have worked and are working on the national infrastructure investment framework together with our partners in the private sector.*

*For the first time in our history, both the public sector and the private sector have, within a structured and implementable framework, agreed to work together to plan, finance and undertake municipal and other infrastructure development in new ways.*

(Statement of Deputy President Thabo Mbeki at the National Assembly. Cape Town, 14th June 1996, South African Government Information).

With the advent of the GEAR economic policy, the ministry of the RDP was abolished. The change from the RDP to the GEAR economic policy represented the ANC government’s need to gain private sector confidence. Therefore, the ANC government created a new economic institutional environment that would be
suitable for a free market business operation which the business community in South Africa was used to.

However, this change in economic policy did not come without criticisms from some members of the party and the ANC allies that clamoured for a socialist South Africa. Nonetheless, Mandela maintained that "we do not expect everyone to agree with everything contained in the [GEAR] document". For instance, trade unions such as COSATU argued that the GEAR policy had been adopted "to please big business rather than the working class" (Peet, 2002:74). "Critical discussion around [the GEAR economic policy] the idea of privatisation of government institutions /parastatals/ to reduce state debt, was again interpreted as an attack on the government’s power to control the economy in the interests of poor people. The unions called the GEAR report a self-imposed structural adjustment policy. They argued that GEAR policies re-imposed social and economic conditions like those experienced under apartheid" (Peet 2002:75).

Andreasson (2007) labelled the ANC adoption of GEAR economic policy as the "business first" (pg.8) strategy. In which the new ANC government attempts to address the concerns of the business community first before it deals with the economic and social challenges that face the everyday South African citizen. Arguably, the government employed the business first approach because of the potential adverse effect if the business community in South Africa lost confidence in the ANC government.
Therefore, as a result of the business first strategy, a relationship ensued between the ANC government and the business community, which were also known as the old established economic group. These “old established economic groups” represented large corporations and major companies who have a significant presence in South Africa. On the relationship between the private sector and the government, the Business Leadership (formerly known as South Africa Foundation) an umbrella body for the private sector states that:

“South Africa is not a society in which Business Corporations can define their roles in purely economic terms and play a backstage role in public affairs. Throughout its modern history, but particularly over the last four decades, large corporations have found it impossible not to become enmeshed in the major political and development challenges facing our society” (Schlemmer, 2004, Andreasson, 2007:5).

Furthermore, the Executive Director Neil van Heerden states that: good relations with the government have been possible given the emergence of legitimacy of government stemming from its willing to break away from “old thinking” (RDP/Socialist thinking) and attracting “clever people in departments dealing with the economy (Andreasson, 2007:5).

The ‘Business Trust’ group was another platform used by the private sector to foster a good relationship with the ANC government in order to influence the ANC decision to create an institutional environment suitable for free market practices. This group created a platform in which organizations from the private sector met with
government officials periodically to discuss issues that border around the economy and how it affects them. The Business Trust group website declares that:

"The Business Trust was established in 1999 to help to create jobs and build capacity while enhancing trust and building co-operative relationships between business and government. This, the founding prospectus said, would be done while the economy is put on a growth path that will bring sustained improvements to the lives of all South Africans.

Through the Business Trust, companies have been given the opportunity to work with one another and in partnership with government in the crucial process of nation building. More than that, the Business Trust has through the 'Big Business Working Group' provided an influential cooperative forum where senior members of the private sector regularly meet with high-ranking government ministers and officials under the chairmanship of former president Thabo Mbeki. In this way, the Business Trust provides the wherewithal to individual companies to influence the South African state.

The ANC government had several meetings with the business community in South Africa. For instance, on 16th February 2001, President Mbeki met with the Big Business Working Group, on issues which focused on further elaboration of the economic programme. Table 4.3 shows the attendance composition of one the business community meetings with the South African government.
The ANC's argument for partnering with the South African business community was that the ANC "government recognise[d] the fact that it does not have all the resources it needs to meet its obligations to the people. Accordingly, it is interested to attract resources that are in the hands of the private sector, through mutually beneficial public-private partnership, to increase the capacity of the government to respond to the needs of the people."

At the same time, business respects the right and duty of the government to set clear and stable policy and regulatory frameworks that determine how our people and all their institutions, whatever they are, operate within the context of the rule of law, governed by the precepts contained in our Constitution." (Mbeki, 2002, see Appendix 1).

Table 4.3 - Business Group Members

<table>
<thead>
<tr>
<th>Government</th>
<th>Business Community</th>
</tr>
</thead>
<tbody>
<tr>
<td>President Mbeki South African President</td>
<td>Mr. Saki Macozoma Co-chair Business Trust; Non-Executive Director Standard Bank Group</td>
</tr>
<tr>
<td>Mr. Edwin Trade and Industry Minister</td>
<td>Mr. Dave Brink Deputy Chairman Absa Group Ltd.</td>
</tr>
<tr>
<td>Ms. Sigcau Public Works Minister</td>
<td>Mr. Laurie Dippenaar Managing Director Rand Merchant Bank</td>
</tr>
<tr>
<td>Ms. Didiza Agriculture and Land Affairs Minister</td>
<td>Mr. Reuel Khosa Chairman Nedbank; Eskom</td>
</tr>
<tr>
<td>Mr. Essop Pahad Minister in the Office of the President</td>
<td>Mr. Basil Hersov Chairman and CEO Anglovaal Group</td>
</tr>
<tr>
<td>Mr. Mlambo Minerals and Energy Minister</td>
<td>Mr. Johann Rupert Executive Chair Rand Merchant Bank</td>
</tr>
<tr>
<td>Mr. Sipho Mpahlwa Deputy Minister</td>
<td>Mr. Mike Spicer CEO Business</td>
</tr>
</tbody>
</table>
Given that the business community possessed capital resources that were needed to sustain the South African economy, it became inevitable for the ANC government not to change its economic policy and enter into partnership with the business community. Another argument for the change in the ANC's economic policy and its partnering with the business community in South Africa was that as a result of the withdrawal of international funding post-apartheid, the ANC party could no longer meet its huge annual running costs with state funding only. For instance, Sarakinsky (2007:113) documents that in 1999, "the ANC's operating budget was R300million".

In 2007, a non-election year, citing Paton (2007) in the Financial Mail report, Southall (2008) also claims that the operating cost per month was around R7million. However, the state funding could not meet this rising cost of the ANC party. Thus, the party had to seek external funding. They sourced these monies from the private sector, who gave party donations to the ANC led government for "political capital" (Southall, 2008).
Initially, the ANC tried to keep the names of donors and the amount donated a secret. The secrecy behind the names of donors and the amount donated raised criticisms from the South African public. The Institute for Democracy in Southern Africa instituted a litigation against all political parties in South Africa, arguing that “there is a causal connection between secret funding and corruption as well as the weakening of democratic practice” (Sarakinsky 2007:111). This argument is not farfetched, as Southall (2008) argues that the “desire of big business[es] to forge a collaborative relationship with the ANC has been underpinned by substantial corporate funding of political parties” (p.286). However, some private organizations did reveal the donations prior to the 2004 general elections (see Table. 4.4). Southall (2008) asserted that on the timing of the disclosure, organizations that disclosed to the public their donations to political parties, especially on the ANC disclosure, did so to “remind the government to re-think the draft of its mining charter for black empowerment, whose leak in 2003 had wiped million [of] rand off the stock exchange (pg.286)

Table 4.4 - Voluntary Disclosure of Private Donations to the ANC before the 2004 General Election

<table>
<thead>
<tr>
<th>Organization</th>
<th>Amount (Rand)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Kumba Resources</td>
<td>600,000</td>
</tr>
<tr>
<td>2. Anglo-Vaal Mining*</td>
<td>1,380,000</td>
</tr>
<tr>
<td>3. Sanlam</td>
<td>700,000</td>
</tr>
<tr>
<td>4. Anglo American</td>
<td>3,000,000</td>
</tr>
<tr>
<td>5 Anglo Gold</td>
<td>960,000</td>
</tr>
</tbody>
</table>

Source: Sarakinsky, 2007:121

* All are members if the business trust group with the exception of Anglo-Vaal Mining
Furthermore, the ANC took other initiatives to raise capital from the private sector. For instance, at the 2002 National Conference, it had introduced “The Network Lounge” (Southall, 2008; ANC, 2002) where 18 organizations from the private sector paid about 5 million rand “to associate with the ANC elites (Southall, 2008:286). In addition, in 2006, the ANC established the “Progressive Business Forum” (PBF), in which the party sold membership to organizations to enable business people “to network with ANC policymakers” (Southall, 2008: 286). The brochure for the PBF asserts that PBF members would get the following benefits: “As a participant you will be part of an informal mechanism for frank and open discussion between the business community and the ANC government leaders. In recognition of your subscription you will be invited to events organised specifically for the Progressive Business Forum. The events will be intimate and exclusive and will be structured in a way that maximises honest two-way discussion. PBF participation will provide you with an effective platform to get a clear understanding of government policy as it affects you, and an opportunity for you to express your views and explain the impact of government policy on your business. You will also receive information bulletins and documents from our policy teams.

At a PBF function meeting in 2007, the then ANC National Chairperson said that “the forum had a unique and special role as an instrument of communication and dialogue between the ANC and business sector.... The PBF currently has about 2,000 members in Gauteng, Cape Town and Durban. (ANC, 2007)
Critics objected that the Forum trampled upon ethical concerns. However, the ANC insisted [that] it was a legitimate scheme for fundraising and a platform for encouraging dialogue business and the party (Sunday Times, 18th February 2007; Independent, 25th February 2007 all in Southall 2008: 287). In addition, other reasons such for the sudden change in the ANC’s economic policy was the collapse of the Soviet Union, and the pressures from the International Monetary FUND (IMF).

4.4 CONCLUSION

This chapter presents a historical analysis of the South African socio-political economy. The chapter was divided into two parts. The first part reviewed South Africa, the growth of the South African economy during the apartheid years and the issues that led to the fall of apartheid in South Africa. The second part reviewed South Africa during and post-transition, presented evidence to suggest that the ANC-led government’s sudden change from its socialist RDP economic to embracing and neo-liberal economic policy, in the GEAR document, was as a result of immense pressure from the private sector. The chapter argues that the sudden change in the ANC economic outlook was as a result of the potential adverse effect the South African economy would have experienced if the ANC had carried out their socialist plans.

The change of economic plan fostered a relationship between the ANC government and the business community in South Africa. This was key to the maintenance of a market type institutional environment in South Africa and this was key to the co-evolution that occurred between the South African state and the private sector in
South Africa. The next chapter investigates the relationship between a specific business community and the venture capital industry. The chapter investigates the evolution of that industry and how such evolution facilitated a relationship between the South African state and venture firms and how this led to the co-evolutionary patterns between them.
5. THE VENTURE CAPITAL INDUSTRY IN SOUTH AFRICA

5.1 INTRODUCTION

This chapter explores the emergence of a venture capital industry in South Africa. The chapter investigates issues that centre on the emergence of such a unique industry in an emerging South Africa. It examines the venture capital firms' behaviour in South Africa at the micro level. Specifically, the chapter posits that the uniqueness of the venture capital industry in South Africa is as a result of the South African political transformation from an apartheid state to a democratic government. Also, the chapter presents the current trend of the industry, highlighting factors that might have influenced or mitigated the growth of the industry. Data for this chapter were gathered from information provided by annual reports of the industry's association, SAVCA.

The remainder of the chapter is structured as follows: Section 5.2 presents the background of the venture capital industry in South Africa. The section documents the emergence of the industry and the current state of the industry.

5.2 BACKGROUND OF VENTURE CAPITAL INDUSTRY IN SOUTH AFRICA

The venture capital industry in South Africa emerged due to the large number of leveraged buyouts and management buyouts resulting from a widespread disinvestments of multinationals away from South Africa in the 1980s (SAVCA/KPMG Report, 1999). The venture capital industry in South Africa has since experienced growth in the number of funds committed to the industry and the number of active venture capital firms in the industry has risen tremendously.

Activities of venture capital firms in South Africa are modelled after venture capital firms in the Western countries. Venture capital firms in South Africa can be categorised into four: captive-government venture capital firms, captive financial services venture capital firms, Independent venture capital firms and captive 'others'.
Captive-government venture capital firms include firms such as Umsobomvu and the Industrial Development Corporation (IDC), to mention but two. These firms form an integral part of the South African venture capital industry, it has raised over 90 billion South African Rand for investments over the last 10 years (SAVCA, 2005).

Venture capital under this category solely depends on the South African government and international developmental agencies for capital. Though these firms are important in the industry due to the sizeable amount of funds they raise, they however have a different mission statement. Unlike traditional venture capital firms, the captive-government venture capital firms in South Africa were established to provide capital to ‘disadvantaged’ South African entrepreneurs who had difficulties accessing capital because of their poor credit ratings and their lack of adequate collateral.

The mission statement of captive government venture capital firms’ in South Africa, allow for a different selection process. Unlike the conventional venture capital selection process for firms to invest in involve the use of financial and accounting information contained in entrepreneurs’ business plans (Wright et al., 1992; Bruton et al., 2003), funds are provided to disadvantaged South Africans based on current need for financial assistance. The South African captive-government venture capital firms were established solely to provide financial assistance to South African citizens who had been segregated during the apartheid era.

One major difference between this investment selection process and the selection process of venture capital firms in other emerging markets such as Asia is that, unlike the selection process of venture capital firms in Asia, where the difficulty in obtaining reliable financial accounting information influence venture capital firms ‘guanxi’ style of due diligence and investment selection process (Bruton et al., 2003), government captive firms in South Africa base their investment selection on fewer screening criteria because of the obligation to provide capital to South African citizens previously disenfranchised by the apartheid regime.
Captive financial services venture capital firms are subsidiaries of South African financial institutions especially commercial banks. Funds for these firms are from their parent companies. Independent venture capital firms are closed ended funds established by venture capital professionals. The South African venture capital association classifies any other venture capital firm outside the three mentioned as ‘others’.

5.2.1 Amount of Funds Raised by Venture Capital Firms in South Africa

The total amount of capital raised in South Africa has risen from 33.1 billion Rand in 2000 to over 106 billion Rand in 2009 (See 5.1). Independent venture capital firms have raised the largest amount of capital with a total of 249.3 billion Rand in 10 years. Government and aid agencies are the main sources of the industry's funding (SAVCA, 2006). A sizable of these funds comes from the government.
Geographically, the United States has been the main source of funds for the venture capital industry averaging about 32 per cent in the 10 year period. This is somehow unsurprising because of the strong relationship the South African state as maintained with the United States. A sizable these funds come from foreign venture capital firms that invest in local venture capital firms in South Africa. Funds raised in South Africa over the 10 year period represented 29% of the total funds raised, while funds raised from the UK represents 23%, others including Canada and the rest of Europe account for the rest.
With respect to the stages of investments, investments into seed start-ups and early stage investments remain at low levels in South Africa. The bulk of the amount raised is distributed to later stage investments such as expansion and buyouts. Like in most emerging countries where institutions that promote venture capital activities are only just emerging, the risk associated with early stage investments are quite high so venture capital firms prefer to invest in later stage businesses. Specifically, for South Africa, later stage investment seem to be more appealing to venture capital firms because they can easily cash in and/or disinvest from South Africa in the event of a political upheaval. Investing in early stage business takes some time, however with the uncertain nature of South Africa’s political transformation; South African venture capital firms are not willing to take such risk.

Arguably, early stage investments in the South African venture capital industry are carried out by captive-government venture capital firms. Table 5.3 shows a breakdown of venture capital investments in stages from 2000-2009.

![Figure 5.4](image)

**Figure 5.4**

*Venture Capital Exits From 2000-2009*

- Repayments of Preference Shares
- IPO
- Sale to another VC Firm
- Resale to Management
- Trade Sales

Source: SAVCA Reports 2000-2009

Venture capital firms are not long term investors; they add value to their investee firms and cash in their investments when the investee company is mature enough. The three principal medium of venture capital exits in South Africa are the Initial
Public Offer (IPO) and Sales to other venture capital firms and Resale back to management. Figure 5.4 which presents venture capital exits in South Africa in monetary terms suggest that venture capital exit via IPOs seem to be popular. Looking at the total amount of venture capital exits; see Figure, 5.5, like many venture capital firms in emerging countries, management buybacks seem to the most popular form of venture capital exit. However, exiting venture capital exit through the stock market proves to be the best form of exit (Black and Gilson, 1998; Jeng and Wells, 2000) even in an emerging market like South Africa.

![Figure 5.5: Venture Capital Exits From 2000 - 2009](source: SAVCA/Reports 2000-2009)

5.3 LEGISLATION THAT INFLUENCED THE VENTURE CAPITAL INDUSTRY IN SOUTH AFRICA

Favourable governmental legislation is important to providing the institutional framework for the emergence of any venture capital industry in any economy. A good institutional framework can provide the venture capital industry with incentives that may facilitate the growth and development of an emerging industry. For the emerging venture capital industry in South Africa, three items of generic government legislation have had an important influence on the growth of the industry: First, the Exchange Control legislation. Second, Regulation 28 of the Pension Act of 1991. Third, the Broad Based Economic Empowerment Act of 2003.
The South African state introduced exchange control regulation in 1961 during the years of apartheid in order to "check a deterioration of [the] capital account balance of payments" (South African Reserve Bank, 2001) which was caused by the huge amount of disinvestments the South African economy experienced. Among other things, the exchange control regulated the repatriation of capital away from South Africa as a parallel exchange rate system for the Rand was introduced. Companies were only allowed to repatriate funds at the "financial rand" rate which was a 40% discount to the commercial rate (Levy, 1990). However, although the South African government has since relaxed this regulation with the abolition of the financial rand rate, nonetheless the current exchange control regulation monitors the flow of funds in and out of the South African economy.

At present, outward investment for a South African individual outside the Southern African Common (CMA) (i.e. Lesotho, Namibia, South Africa, and Swaziland) is restricted to 2 million Rand, while for companies seeking outward investments which exceeds R50 million per calendar year must seek approval from the Department of Financial Surveillance. Other bureaucratic procedures for outward investments by South African firms include the submission of:

Full details of the longer-term monetary benefits to be derived by the Republic (i.e. South Africa) on a continuous basis, substantiated by cash flow forecasts. A pro forma balance sheet of the offshore entity reflecting the financial position immediately prior to and after the investment from the Republic. The proposed financial structure of the entity to be acquired or to be established. Where applicable, an estimate of the annual running expenses of the offshore entity (South African Reserve Bank, 2001).

The exchange control regulation affects South African venture capital firms in a number of ways. Venture capital firms are fund managers, they source funds globally, and monitoring the flow of funds in South Africa affects their investment patterns. The internationalisation of local venture capital firms investing outside the Southern Africa region is limited. Southern African venture capital firms cannot
invest in lucrative investment opportunities outside Southern Africa easily. The red tape that comes with investing aboard makes financing entrepreneurs outside the Southern African shores unappealing.

Current regulation also limits the possibility of an international exit as the government maintains that at least a 50% stake must be maintained with international subsidiaries at any point in time. In essence, if South African venture capital firms succeed to invest abroad, they must maintain a controlling stake in their investee firms. However, venture capital firms try to limit their risk of investments by holding minority control in firms. Mr. DE mentioned on the issue of exchange control and how it affects the industry that:

“In essence what it says is that exchange control doesn’t allow what they [the government] refer to as a loop structure. Where [a] South African Entity cannot hold shares in a company that is offshore that holds assets in South Africa. So what happens is that when a VC fund looks to exits or get into a global type of market which is where the bigger type of returns are made..., [the exchange control laws] leads to premature [international] exits by VC fund managers.

Another informant, Mr. NO, criticising the existence of the legislation and its effect on the venture capital industry, especially venture capital international exit mentioned that:

“... so exits are hugely affected by exchange control. We are not allowed to hold..., if we hold an offshore entity, it has to be more than 50%..., and the kind of exit we are talking about we would hold 5%-10% of the offshore entity and we are just not allowed to do that, you’ve got to repatriate [therefore] we are leaving much on the table.” Another respondent mentioned strongly: “You know South Africa is one of the very few countries in the world which has exchange control, it’s bizarre, everything else we’ve modernized, in some aspects we are ahead of the developed world but we still have exchange [control], and no one is giving me a good reason for it. No one has given me a good reason why we still have it.... It’s one of Trevor
Manuel's [the Finance Minister] big failings that he didn't get rid of it and don't ask me why he is keeping it, I've never heard a good reason for keeping it, never”.

Exchange control affects the investment of venture capital firms who could have been interested in investing outside the shores of the Southern African region. They want to cash in on other profitable investment opportunities but the exchange control regulation impedes this. The government established the exchange control regulation during the apartheid years to discourage capital flight. However, the post-apartheid South African government is yet to relax this regulation as it feared that private firms would easily move capital away in the event of a political unrest in South Africa.

The regulation 28 of the Pension of Act of 1991 is another legislation that has influenced the growth of the venture capital industry in South Africa. The Act limits the amounts of exposure pension fund managers have to “alternative business”. At the moment, “no more than 15% may be invested in a large capitalisation listed equity, and 10% in any single other equity.

This regulation affects the venture capital industry in that, with the present investment threshold, the amount that pension managers can be commit for venture capitalists investments is limited to only 10% of their pension funds. An increase in this threshold would increase the total amount of funds pension fund managers can commit to venture capital investing. As one venture capitalist from a government venture capital firm mentioned (Mr .ST):

“... I don’t know the precise numbers but I know that they are huge, that [the] pension fund industry has x billion/trillion under management. Take [an extra] 5% of that ..., so it’s even [an] impediment at the macro level.”

The third legislation that has influenced the growth and the development of the venture capital industry in South Africa has been the Black Economic Empowerment
(BEE) programme. The BEE scheme, which is aimed at fostering the emergence of a black capital class, requires that by 2014 organizations within the private sector should have handed between 25–50% of their ownership to black South Africans (Iheduru, 2008). The programme itself has promoted the passage of important measures such as the Employment Equity Act (1998) and the Promotion of Equality and Prevention of Unfair Discrimination Act (2000). This legislation has imposed important obligations on private organizations to make their workplace demographically representative of modern day South Africa (Southall, 2007). The implementation of the government’s BEE scheme started with the SOEs as it lacked the power to compel the private sector to embrace this legislation (Iheduru, 2008). In order not to bring about the issue of potential disinvestments in the private sector, the government made adherence to its BEE voluntary for private firms. However, the government gave incentives to private firms that embrace its BEE scheme. Under the BEE Act No. 53 of 2003, BEE is defined as:

increasing the number if black people that manage, own and control enterprises and productive assets; facilitating ownership and managing of enterprises and productive assets communities, workers, cooperatives and other collective enterprises; human resource and skills development; achieving equitable representation in all occupational categories and levels in the workplace; preferential procurement; and investments in enterprises that are owned or managed by black people (Department of Trade and Industry, South Africa, 2004)

To monitor the compliance with BEE by organizations, the government enacted a BEE Code of Good Practice and an Empowerment Scorecard in 2004 on which it allocates BEE points to organizations based on their ownership composition, skills development for black South Africans, preferential procurement, enterprise development and residual development (BEE Act, 2003). This is led to a “cascading effect” (Iheduru, 2008:343), in which all organizations with direct or indirect relations with the government have embraced the BEE programme as BEE beneficiaries from SOE activities also demand BEE compliance from their own customers as well. Iheduru (2008:343) noted that “having a good BEE score
becomes almost as necessary as having a business card.” However, initially the private sector did not embrace the idea of a BEE programme as they termed it as “sin tax” (Iheduru 2008) even though black South Africans lacked adequate capital to purchase equity from the private sector. Nonetheless, the South African government used state power to coerce organizational conformity with respect to the BEE agenda. For instance, the energy and mining sector were told to either embrace the BEE programme or face economic liberalisation and the removal of government protection and government subsidies.

The BEE programme influenced the amount of capital committed by the government for venture capital/private equity investments, as the government would not fund any company that is not BEE compliant. A respondent, Ms DE. (a partner of a biotech venture capital firm) noted:

*I’ll tell you the way it affects me or the way it affects our company. Because bioventures is the only source for funding for biotech, the only other source is government. There you’ve got small to people three people company who pre revenue and because you go to government for money they say you need a BEE partner and you need black partners. I mean it’s a lack of understanding again of the business, the nature of the business, and just where BEE plays a role. Even one of our companies that is now profitable, they say why hasn’t this company got a local partner because they are selling to the local hospitals need a BEE plan.

The way BEE deals are done is you come along, you like the company so you, we want to be part of this company you can add value, you are a genuine business person, you want to be part of it, you’re not just like an outside person. But you don’t have money, you don’t have that kind of money needed to buy a stake in the company. So you go to a bank and a bank lends you money to buy into the business, you pay the money back by the business paying dividends to you and then you pay the bank. Biotechs paying dividends? It doesn’t happen. So the only way to actually get black players in is to actually give up shareholding. But then you’ve built a
business, and we are investors, we’ve got to give our money back... it’s not even our money. So that’s the problem with trying to enforce BEE to a sector like ours.

Now the Act doesn’t do that, the Act says very clearly, if this is a small business that doesn’t fall within the Act or if it’s a business of this size it only needs to look at two or three components of the Act, it doesn’t need to look at all of it. So the Act itself is fine but it’s the people applying the Act, it’s these idiots in government, some of whom were there yesterday. You sit with these government funders, if you say you are applying for government funding therefore you have to do this. And I’m like look at the Act, this Act is fine you know it’s the application. And it’s because the people who work in these organizations have no business experience and don’t really understand what it’s like, they don’t know how big deals are done.

The BEE scheme shaped the nature of venture capital in South Africa. It affected the nature of the board of venture capital firms and their portfolio companies. For instance, the codes of good practice in relation to the venture capital industry contain four requirements before venture capital portfolio firms can be regarded as a black empowered firm. The conditions are:

More than 50% of any exercisable voting rights associated with the equity instruments through which the private equity fund manager holds rights of ownership must be held by black people; More than 50% of the profits made by the private equity fund manager after realising any investment made by it, must by written agreement, accrue to black people; The private equity fund manager must be a BEE-owned company, as defined in the BEE Codes; Over a 10-year period, the private equity fund must have more 50% of the value of funds invested, invested in black-owned enterprises that have at least 25% direct ownership

Private equity firms that have portfolio companies who meet these requirements enjoy some preferential treatment from the government. As one respondent, X commented:
"Specifically, in the private equity space, people say that because you, if you are a private equity fund that meets those four criteria, you might get some type of discount on concluding transactions and the like. Well, that's probably true, if you are a fund manager that doesn't meet those credentials, 9 out of 10 big transactions that are concluded have some type of BEE continuum into it anyway”.

5.4 Key Players Within the South African Venture Capital Industry

To identify the co-evolutionary activities that occurred between the South African venture capital industry and the South African government. It is important to present the key players of the South African venture capital industry that engendered a simultaneous evolution between venture capital firms in South Africa and the South African government. These key players facilitated a situation in which the venture industry entered into strategic alliances with the South African government via the government's Black Economic Empowerment scheme. Adopting the Black Economic Empowerment scheme was vital for the vital survival of venture capital firms.

The co-evolution that existed between venture capital firms in South African and the South African government followed a mutual alliance. This alliance created a platform for a simultaneous evolution. Two key industry players were identified from an extensive review of firms within the venture capital industry. BRET, a pseudonym name for two pioneering venture capital firms in South Africa, and SAVCA, the industry's professional body were identified. This section provides empirical analysis provide specific details about these individuals and the role they played in promoting a simultaneous evolution within the South African government.
5.4.1 BRET

These are two venture capital/private equity firms founded during the apartheid struggle, their foundation years were between 1980 to 1990. Both firms have played instrumental roles in the development of a venture capital industry in South Africa, many partners of other venture South African venture capital firms worked previously with both firms. BRET introduced to the South African business community venture capital/private equity deals, they purchased many of the firms that disinvested from South Africa during South Africa’s political transition from apartheid to democracy. Many of BRET’s founding partners studied in the UK. However, they were all white South Africans.

The two pioneering venture capital firms introduced local and multinational syndication within the venture capital industry in South Africa. They also played an instrumental role the in industry’s adoption of the South African government Black Economic Empowerment Scheme (BEE). With the emergence of a new South Africa, a post- apartheid South Africa, both firms gave away substantial shareholding to BEE investors who had links with the ANC government. Some of these ‘investors’ were either serving with the ANC government or had strong links with the government. This resonates with the idea of the need for social capital with the emergence of venture capital in China (Bruton et al., 2003). However, one difference between the need for social capital between South African and transition economies such as China was that; venture capital firms in South Africa needed government access
because the South African government was involved with the fund raising activities of venture capital firms. Venture capital firms in transition economies on the other hand needed social capital as good substitute for the lack of institutions such as a legal framework.

BRET adopted the Broad Based Black Economic empowerment scheme. On the surface, BRET’s support for BEE could be seen as a support for black ownership and participation by previously disadvantaged South African. BRET support for the South African governments economic programme was to enhance is access to governmental network, and to maintain their position as front-runners within the venture capital industry in South Africa. Maintaining access to governmental network and a leadership position within the industry was key for BRET’s survival. Access to individuals from the South African provided access to capital during their fund raising activities. The South African government was keen to support firms that developed entrepreneurial spirits of the citizenry and BRET had to signal that they were in support of the South African government initiatives towards empowering disadvantaged South African entrepreneurs. The leadership position they held as founding members of the venture capital industry provided access to lobby governmental agencies and departments for favourable legislations. Specifically, BRET has played a significant role in the relaxation of exchange control laws by the South African government. A partner with one of the firms commented: I think exchange control in terms of further relaxation of exchange control in terms of investments into Africa. We have been influential in the reduction, the threshold I think to 25%, it came down from 50 to 25
They have lobbied to South African regulatory authorities to allow them raised funds outside South Africa and enter into syndication deals with foreign venture capital firms. Arguing that the proceeds of funds such investment would benefit the South African economy.

Though both firm were founding members of the SACVA, the venture capital association that was formed in 1999 to promote venture capital activities in South Africa, Both firms played passive roles in the emergence of SAVCA as an industry association. Until recently they held no executive board position in SAVCA. The emergence of SAVCA as association that would represent the venture capital firms in South Africa threatened the position of BRET as leaders of the industry.

SAVCA’s emergence would also affect their access to governmental networks as the government would be predispose to relating with a professional association that represents all firms within the industry.

5.4.2 SAVCA

The South African Venture Capital Association (SAVCA) was established in 1999, primarily to lobby the South African government in order to promote regulations that would enhance a further growth of the venture capital industry in South Africa. SAVCA was formed as the industry’s professional body and had 34 venture capital firms as registered members at inception. SAVCA’s objectives include:

1. To promote the venture capital and private equity profession in South Africa.
2. To represent the profession at the national and international level
3. To develop and stimulate professional and transactional venture capital and private equity investments throughout South Africa
4. To collect information from markets and from members
5. To circulate information to members and the outside world
6. To stimulate and maintain contacts within the membership
7. To contribute to the management development of investors and investees
8. To provide the relevant authorities with proposals for improvements in the corporate, fiscal and legal environment for venture capital and private equity in South Africa
9. To maintain ethical and professional standards (SAVCA, 2009)

On the establishment of SAVCA, the current CEO of SAVCA stated that:

SAVCA “was primarily built [out] of a need that this industry was starting to grow..., and it needed an industry body to represent its interest. The objectives all set up on our website is primarily to lobby, represent the industry, do research on the industry and try to think about the future of the industry and where should it be going and the like. [The industry has] grown to today around 65 full members, managing just on 86 billion Rand of capital and 30 associate members which are service providers, consultants etc. stakeholders such as incubators, lawyers accountants and the likes”.

This statement and the objectives that were culled from SAVCA’s website on the issue of ‘lobbying’ seems to be the association’s initiative of gaining legitimacy for the venture capital firms with the South African government in order to persuade the government to enact laws that would allow for a further growth and development of the industry. SAVCA was also established to reduce the influence of BRET. SAVCA was promoted by smaller venture capital firms who felt that BRET had too much influence on the industry and that BRET did not represent the interest of
the industry during its meetings with officials from the South African government. Hence, SAVCA was established as an alternate association that would limit BRET’s powers on the industry. The emergence of SAVCA did little to obstruct BRET’s influence as the CEO of SAVCA comments:

Yes, I think they (BRET) still have that sphere of influence and rightfully so there might be peculiarities to specific transactions and the likes. We can’t say that all lobbying that relates to venture capital private equity in South Africa is done by SAVCA, no. and is that a concern? No. because you never get to a 100%, why should you aspire to get to a 100%. What we do find sometimes is that is somebody (BRET) lobbies for a form, they (the South African government) would come back to us saying, there is an industry association give us the industry view, which is gratifying for us obviously.

The influence BRET still hold can been attributed to the legitimacy it has gained over the years from the South African government. Hence the establishment of a venture capital association does not restrict it contact with the South African government.

5.5 CONCLUSION

This chapter presented findings on the emergence of a venture capital industry in South Africa from a qualitative analysis of interviews and archival data. Findings from the chapter shows that the emergence of the venture capital industry in South Africa is somewhat different as the disinvestments the country experienced during the twilight years of apartheid was the event that triggered an emergence of the industry. Also, it was also argued from the chapter that in addition to a market type institutional environment, for a venture capital/private equity industry to thrive in
any country, the country should be seen as politically stable, only then would investors will be willing to commit funds for venture capital investing. Furthermore, the chapter has also shown how legislation has influenced the emergence and growth of the industry, and how this legislation brings about fundamental differences between the venture capital firms in South Africa and venture capital firms in the developed countries. The chapter also highlights the roles key players have played in the emergence of a venture capital firm in South Africa. Chapter 6 presents legitimacy as a key driver of a co-evolutionary relationship between the venture capital industry in South Africa and the South African government.
6. LEGITIMACY, POWER AND CO-EVOLUTION IN SOUTH AFRICA

6.1 INTRODUCTION

From the preceding chapter, we see that the evolutionary story of the South African venture capital industry is somewhat different when compared with the venture capital industry development of other countries, especially other emerging economies. This contrasts with many emerging economies, where specific government incentives have played an instrumental role in the growth and the development of their respective venture capital industries. With the South African case, the government did not encourage the venture capital industry with tax incentives or favourable legislations. However, the generic regulations that govern business post-apartheid South Africa activities influenced the emergence of the venture capital industry in South Africa.

The institutional environment created by South Africa’s political transition (i.e. an environment that experienced a political transition; many disinvestments by foreign companies; the privatisation of state assets; and the maintenance of a free-market environment) has allowed for the growth for a venture capital/private equity industry in South Africa. Also, the evolution of the venture capital industry in South Africa is quite unique as the industry emerged alongside an emerging state, the young ANC government.

This simultaneous emergence between these two entities (i.e. the South African state and the South African venture capital industry) created co-evolutionary
patterns between the South African government and the venture capital industry in South Africa at multiple levels. Although, the two entities evolved side-by-side because of their respective legitimacy requirements which helped reduce their respective liabilities' of newness (Stinchcombe, 1965). Their co-evolutionary patterns resonate the idea of a bargaining power (Henisz and Zelner, 2005) in which the resources controlled by one entity are needed by the other (Kobrin, 1987) for survival.

In this case, the emerging ANC South African government used its political power as the elected party in government to bargain a market type South African economy for a reduction in disinvestments away from the South African economy by private firms. However, they did this not without an affirmative action policy, in their Black Economic Empowerment (BEE) programme. This strategy of coupling a market type South African institutional environment with an affirmation scheme was important for the South African ANC government if it wanted to maintain its legitimacy not only with the majority of the voting South African citizens but also with the business community in South Africa.

In contrast, the South African venture capital industry, as with many industries from the private sector in South Africa, used its threat of disinvestment from South Africa to negotiate that the government abolishes its socialist agenda which was entrenched in its RDP economic policy and maintain a capitalist system of government. Nonetheless, the emerging venture capital industry achieved this by aligning itself with the government, as it needed government legitimacy, approval
and financial support for its survival. This support was crucial since the South African government was to become a major investor in the venture capital industry. In addition, at the meso level (that is, the industry level), this chapter shows how the three categories of venture capital/private equity firms employed different strategies in order to gain legitimacy and the resources attached with being legitimate.

The main contribution of this chapter to the co-evolution literature is that, faced with a potential liability of newness and the costs associated with such liability, the South African venture capital industry and the South African government in developing economies may jointly evolve, however, not for mutual interests but for divergent legitimacy benefits. In addition, the chapter presents the role of power in the co-evolution process at the macro-meso level. The chapter shows how institutional conflict is created by powerful organizational actors and how such conflict can enhance co-evolution between organizations and the environment.

This chapter thus highlights the role of legitimacy in the co-evolution of organizations and the environment (Lewin and Volberda, 1999). It presents the requirement for legitimacy as the facilitator/driver of co-evolutionary patterns that occur between organizations and their institutional environment allow for exchange of resources between organizations and the environment.

The chapter uses Langley's (1999) temporal bracketing data analysing strategy to structure the descriptions of events that led to acquiring legitimacy which bring
about co-evolution between the South African venture capital industry and the South African state; section 6.2 presents empirically evidence to suggest that emerging organizations (especially in emerging economies) and their institutional environment (i.e. the government) evolve along a ‘cooperative’ evolutionary pattern. A conclusion is drawn in section 6.3.

6.2 LEGITIMACY AND CO-EVOLUTION BETWEEN THE SOUTH AFRICAN VENTURE CAPITAL INDUSTRY AND THE SOUTH AFRICAN STATE

This section, using Langley’s (1999) temporal bracketing strategy, divides the co-evolutionary pattern that occurred between the venture capital/private equity industry in South Africa and the South African state into two epochs as described in chapter 3. The section also presents the need for legitimacy and power as major contributors to the joint evolutionary patterns that occur between organizations and their institutional environment.


During this period, a major political transformation had begun in South Africa. The ANC, the former terrorist group, was now in power as an elected political party, under the leadership of President Nelson Mandela. South Africa received a lot of commendation for its long awaited political transformation from the international community. Nonetheless, the young and inexperienced government suffered credibility and legitimacy issues. Though the party had won its fight against apartheid and for a “South Africa for all South Africans”, many of its party members
had little or no formal education and had no experience of what it meant to govern a state. Many of the party stalwarts grew up under the restrictive educational years of the apartheid regime.

The new ANC government faced legitimacy issues from many. First, the Freedom Charter of 1955 which the party’s economic manifesto was built upon, had asserted that South Africa “shall be restored to the people. The mineral wealth beneath the soil, the Banks and monopoly industry shall be transformed to the ownership of the people as a whole....” Many saw these statements as socialist claims and this was unwelcoming to the business community in South Africa, because the South African state had emerged over the years as a market type institutional environment.

It was envisaged that the ANC would at some point announce a re-nationalisation programme. It would transfer many corporations within the private community to state control. Arguably, as a result of the potential nationalisation strategy by the new government, many corporations such as De Beers and Anglo-American hurriedly relocated their headquarters from Johannesburg to London in order to keep their assets away from the ‘socialist’ ANC government. Although Mandela’s persona and charisma did help to allay some fears to the many audiences from which the ANC government required a legitimacy endorsement, it was not enough to provide that endorsement.

The ANC government needed legitimacy to be conferred by several key audiences: the IMF/World Bank, the business community (of which the venture capital industry
was a part) and the eligible South African voters. They needed the legitimacy of the World Bank because they needed to access the concessionary loans that the Bank could offer to the South African state, which was struggling with its economy. However, the Bank would not give loans to a socialist state. Second, they needed legitimacy from the corporate or business community in order to convince them against a further disinvestment strategy, because the business community feared for the nationalisation plan of the ANC government. Finally, the government needed the endorsement of eligible South African voters as Mandela had promised that he was only going to spend a term in office and not seek re-election. Therefore, for the ANC to win a re-election, Mandela's persona would not play a decisive role like it did in the 1994 general elections. Rather, voters would base their perception of the ANC government on its performance and the legitimacy it had gained during its first tenure in office.

Therefore, the ANC government employed a number of strategies to actively acquire the necessary legitimacy from its various audiences. First, in order to gain business confidence and credibility, the government did not embark on a socialist agenda, as Mandela changed his tone, with the Freedom Charter, claiming that “the Freedom Charter was not a blueprint for socialism but for an African-Style capitalism” (Mandela, 1994:642). In addition, due to its inexperience, the ANC government succumbed to the pressures by the NP to form a Government of National Unity. The influential cabinet positions of Agriculture, Environmental Affairs and Tourism, Minerals and Energy, which were the mainstay of the South African economy, were given to cabinet members from the NP (see Table 6.2). This reflected that the ANC
government lacked experience in these positions and they were willing to allow NP government members to fill these positions. This strategy was also to instil confidence in the business community to show that the institutional environment of the doing would remain unchanged post-transition. For the endorsement of the eligible voters, it introduced an affirmative action plan in the Black Economic Empowerment. Though not made compulsory initially, the BEE scheme was aimed at changing the demography of South Africans in the business world by allowing for an increase in the number of black South Africans employed. These were some of the strategies employed by the South African state in order to get a legitimate endorsement from its different audiences.

For the venture capital industry during this period, though the institutional environment (that is, a market type institutional environment) was in place, the industry was yet to emerge. Only two private equity firms were in existence during this period: BRET. The late emergence of a venture capital industry in South Africa was not unconnected to the fact that no specific governmental regulations (such as a tax breaks for venture capital firms) were available to the industry.

BRET acted as institutional entrepreneurs institutionalising the norms and professionalism that would be embedded in the industry. One informant from a small venture capital firm mentioned "we all came from the two"; he asserted that most venture capital executives in South Africa had at some point worked for either one of the two pioneering firms or both. So it is expected that they carried on with the practices they had learned from BRET.
Like any young industry, especially a young industry in an emerging economy, the South African venture capital industry lacked legitimacy; it lacked adequate access to industry resources and capabilities (Teece et al., 1997).

The South African government did not understand the nature of the industry. BRET needed the legitimacy of the government in order to get access to state funds, via state pension funds and the Industrial Development Corporation (IDC) and to promote favourable government legislation that would enhance the growth of the industry.

BRET had two audiences, its institutional investors, on behalf of whom it acted as fund managers, and the South African government. The more BRET received legitimacy from the South African government the more likely it was to get more capital from the government and its agencies. BRET took some strategies to get the necessary endorsement from the government; this is discussed in the preceding subsection.

Legitimacy and Co-evolution between BRET and the South African Government

The co-evolution that occurred between the BRET and the South African government followed a decoupling strategy of cooptation. Cooptation is one of the easiest and most cost effective ways for gaining legitimacy (Starr and Macmillan, 1990) as it involves sharing institutional power with their audiences. For organizations, cooptation strategies involve organizations partnering with their political actors
A decoupling strategy can potentially lead to co-evolution has both actors can that share power can bring about changes in one another.

BRET partnered with black South Africans who were politically linked with the ruling party. However, until recently they kept their black partners a secret. The profile of one of the venture capital firm's partner who acts as the chairman of the private equity firm reads:

Jabu Moleketi, 52, has served his country (that is, South Africa) since 1975, most recently as Deputy Minister of Finance, a position he held from April 29, 2004 to September 23, 2008. He was chairman the Public Investment Corporation and had an oversight role over the Financial Services Board. Mr Moleketi left South Africa to join the ANC (presumably in Harare – annex headquarters of the then banned ANC) soon after matriculating from Musi High School in the politically charged Soweto of the 1970s. He returned to South Africa in 1991 following the unbanning of the ANC. He is married to Geraldin Fraser Moleketi, the former Minister of Public Service and Administration. (BRET, 2009) (actual website concealed)

Partnering with politically linked black South Africans was the strategy used by BRET to gain legitimacy from the state government. This legitimacy brought about an increase in funds committed to them for venture capital investments by the South African government. This idea of partnering with black elites was facilitated by the government's BEE programme. Although, the initiative was to increase the number
of black South Africans in the businesses community, many ANC political stalwarts resigned their positions with the government to join the business community. Four notable persons that migrated to the business community included Cyril Ramaphosa, Tokyo Sexwale, Patrci Motsepe and Saki Macozoma. With the exception of Mr. Macozoma, all had held institutional positions with the ANC party or political positions with the ANC government (see Table 6.2). They have been called the “fantastic four or the Rand Lords”, phrases which depict the extent to which they possessed economic and political power. When asked about their migration to the business world, Mr Macozoma stated that “his work with the ANC helped transform the colour of South Africa’s government and he’s only doing the same for boardrooms” (Times Magazine, 2005). This findings is in line with current study of co-evolution between organizations and it institutional environment in transition economies, which posit that organizations increase their level of choice by immersing itself in political networks (Dieleman and Sachs 2008; Rodrigues and Child, 2003).

Table 6.1 - The ANC Influential Members

<table>
<thead>
<tr>
<th>Name</th>
<th>Positions</th>
</tr>
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<tbody>
<tr>
<td>Cyril Ramaphosa</td>
<td>Former ANC Secretary General</td>
</tr>
<tr>
<td>Tokyo Sexwale</td>
<td>Gauteng Provincial Premier</td>
</tr>
<tr>
<td></td>
<td>(also Robben Island Prisoner for 13 years)</td>
</tr>
<tr>
<td>Patrice Motsepe</td>
<td>Former Head Media Liaison for the ANC</td>
</tr>
<tr>
<td>Saki Macozoma</td>
<td></td>
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</tbody>
</table>
Aligning with political networks provides a platform in which co-evolution is engendered. On the one hand, the South African government influenced BRET to adopt its BEE strategy. Adopting the BEE strategy allowed venture capital firms in South Africa to be traditionally different from conventional venture capital firms common in the Western nations. BRET influence changes within the South African government. First, with other private industries BRET lobbied the government to change its economic policy from a socialist one to a free market economic. Second and specifically, BRET helped to reduce the South African government threshold of its exchange control regulations from 50% - 25%.

The rise of black elite in South Africa was celebrated by most South Africans as they saw it as a source of black South African pride. Companies including venture capital firms gave up some of their equity stakes to these black South Africans or brought in influential black South Africans as non-executive board members in order to be able to do business with the state, since the state expenditure amounted to 20% of South African GDP (Times Magazine, 2005). These black elites acted as the intermediaries between the venture capital industry and the South African government. To the government they acted as the ‘eye’ of the government as they ensured that venture capital firms maintained the government’s affirmative action. To the venture capital firms, black elites served as their social capital. Venture capital firms were able to maintain strong networks with the ANC government via these black elites.
This giving away of equity stakes to black South Africans acted as the strategy venture capital firms employed to get a legitimacy endorsement from the South African government. On this issue a Mr Y from BRET mentioned,

"let’s say you are a portfolio manager and we’ve acquired you in the catering business and you identify that there are a lot of government hospitals that you can get rewarding catering businesses, the government is not going to let you hand in tender unless you score very highly in those scores and have a certain shareholding that is black. So it’s [an] economic imperative in terms of doing business”. Also on this issue an informant mentioned “I think in respect of BEE, that has created a lot of opportunities ..., a fund manager buying into those businesses (that is, investee companies) has been able to restructure the business afresh and put in the ‘appropriate percentage’ of BEE to grow the business. So in most of our transactions over a really large number of years there is BEE”.

Influential black South Africans perform their legitimacy roles at two levels for venture capital firms in South Africa. At the macro level, venture capital would have influential black South Africans as board members, thus giving the venture capital firm legitimacy in the eyes of the state. In addition, they would also have a seat on the boards of venture capital portfolio firms to give them legitimacy as well.

What seems to be an ‘appropriate percentage’ of BEE or black economic partners is not in the total number of black partners that a firm can gather. Rather, it is in the competence of black South Africans that a venture capital firm can partner with. As
one partner from BRET mentioned "... for us doing [BEE] deals [has been creating opportunities] because we've been able to restructure companies and bring in the 'right shareholding'; so that hopefully if you have the 'right' participation, the 'right' black partner, who can bring skills that can then open avenues to the business that weren't opened". Therefore it is not enough to have a black South African on the board of venture capital firms as they might not be the 'right' persons to get access to resources venture capital must partner with the right individuals, and they are the ones that have political networks. Another informant mentioned that with the appropriate shareholding "you might get some type of discount on concluding transactions and the like".

Also on the issue of right participation, an Mr.GH statement suggests an unwritten contractual agreement between venture capitalist firms and the black partners, as one respondent mentioned that "Now that's the idea (commenting on the BEE idea), it works sometimes and sometimes it doesn't work. It depends on the capacity of your BEE shareholder, and how well connected they are and a whole bunch of issues and whether they can actually leverage what they've promised us".

There seems to be a contractual promise between venture capital firms and the black South Africans so that both parties gain. The influential black South Africans get free or discounted equity shares while the venture capital firms through their portfolio companies get access to state business, this is in addition to the increased funds the venture capital firms would get from the state. Randall (1996) calls this a 'political capital' strategy, in which the business corporate South Africa provides
influential black South Africans with board positions in their firms in order to secure
government contracts that carry a black empowerment proviso.

In explaining this unusual partnership between the corporate South Africa and
influential black South Africans, "Gary Magomola, who [had] spent six years as a
political prisoner explains that the white partner brings in capital in the form of
money, we bring in political capital, this is how we describe it ..., a lot of the people
that we served time with on Robben Island are now ministers, ..., and we have that
direct link. There is no way I can tell Tokyo Sexwale (Former Premier of Gauteng,
Johannesburg) and he will not respond to me, because we slept side by side in bed in
prison and the understands my views, and he has a moral obligation to ensure that
black business is empowered (Randall, 1996: 671).

This strategy of private firms aligning their organizations with influential politically
linked individuals to gain legitimacy is not unique to South Africa. Tsang (1996) posits
that private entrepreneurs in China enter into strategic alliances with state officials
in order to gain a legitimate status. Organizations can also enter into strategic
alliances with organizations that have a legitimate status. For example, Wright et al.
(2004) use a 'joint venture' typology to show how university spin-off companies
collaborate with an industrial partner in order to accrue the resources and legitimacy
that would accumulate as a result of the joint venture. Essentially, this strategy of
entering into alliance strategies is intended to neutralise institutional opposition and
enhance the legitimacy (Oliver, 1991:157) of young organizations.
Nonetheless, the venture capital case in South Africa is unique because a co-evolutionary pattern is facilitated as a result of the strategic alliances between venture capital firms and the South African state. In simple words, legitimacy drives co-evolution between venture capital firms in South Africa and the South African government. The politically linked individuals who took board positions in venture capital firms act as agents of co-evolution between venture capital firms and the South African government. The South African government is able to bring about change within the South African venture capital industry by changing the rules of the game through enacting new laws and legislations that South African venture capital firms must adhere to. Using the co-evolution construct, the South African venture capital industry is able to bring about changes within the South African government through its lobbying strategies with the help of black elites and through its treat of disinvestments from the South African economy. In addition to the legitimacy these individuals provide, they facilitate the flow of information between the venture capital firms and the South African government which allows for mutual feedback between the two entities.

The negotiated settlement of 1994 translated into a ‘black control of politics and a white control of the economy’ (Southall, 2007:70) as there were no fundamental changes between the economic policy of the new government and the economic policy of its predecessor. The Mandela government experienced intense pressure from the general public for a wealth redistribution programme, to lessen income inequality created by apartheid South Africa. The ANC government promoted its wealth redistribution scheme in the Black Economic Empowerment (BEE)
programme. The BEE scheme was aimed at integrating black South Africans into the private sector.

The ANC government lacked sufficient power to induce corporate South Africa to adopt BEE, thus it adopted a ‘purchase support’ for BEE by ‘a positive discrimination targeting protected sectors such as energy, mining, agriculture’ (Iherudu, 2008:340). However, Southall (2007) argues that the adoption of the BEE strategy by corporate South Africa was the bargain corporate South Africa used in securing the maintenance of the economic policy of the NP in the ANC regime.

The maintenance of the free market system in South Africa post-transition allowed for the development of a venture capital industry. During this epoch, the nascent industry experienced the establishment of BRET as the pioneer venture capital private equity firms in South Africa. These firms were involved in latter stage investments. The informant from one of the venture capital industry mentioned their investment activity: "Our business is predominantly in the mature buyouts as opposed to VCs. We do not do start-ups, we do not do early stages. We do mature businesses; our investments are predominantly large investments".

The South African state played a crucial role in the emergence of venture capital/private equity industry in South Africa as it was a major investor in industry in South Africa. The state invested indirectly in venture capital/private equity funds through its government organizations such as the Industrial Development Corporation (IDC) and through South Africa’s Department of Trade and Industry. On
the importance of government funding within the venture capital/private equity industry, the informant from BRET mentioned that:

"We have a technology fund which now fully invested and that was more early staged focus and we have some government institutions [that have invested in the fund], we have the Development Bank of South Africa investing in that, but that was a technology fund. In our fund 3, 4 & 5, we have quasi-government, and by saying quasi-government we have people like Eskom pension fund. You know Eskom is the electricity regulator, and we have Transnet which is the railways".

Funding from the government came as a result of Company Y and Company X's strategy of involving black South Africans with strong links to the ruling government in their management. The BRET informant mentioned that:

Our Private Equity 'prides itself on its ability to act creatively across industries and transaction types, while adhering to core investment disciplines. To achieve the objectives of all the relevant parties involved – from partnering effectively with entrepreneurs to executing complex non-standard acquisitions. These proven capabilities are combined with a 'comprehensive BEE strategy', which [our] Private Equity believes will ensure that it continues to build competitive and successful South African companies".

A 'Comprehensive BEE strategy' involves entering into strategic partnership with influential black South Africans. It involves bring[ing] in the right shareholding; so
that hopefully if you have the right participation, the right black partner, who can bring skills, that person can open avenues to the business that weren't previously opened.

BRET entrenched this strategy into the venture capital industry in South Africa. The BEE strategy of entering into alliances with black partners was an important strategy to the venture capital industry as the amount of funding venture capital/private equity firms got from the state was dependent on how 'empowered' they were. This situation created an institutional arrangement in which firms entered into strategic alliances with politically black South Africans because of the potential benefits this strategy held.

Since BRET were the first venture capital firms to adopt the strategy of aligning themselves with individuals who had strong political links, they became institutional actors that protected that strategy within the South African venture capital industry. New venture capital firms were expected to follow this strategy of having members from the ruling party on the board by giving away equity stakes. Young venture capital firms were against the strategy of aligning with the individuals from the ruling party as it was expensive for them to give away equity at little or no cost. For instance, an informant from a young venture capital firm mentioned:

I think occasionally we all fought out into political interference into the commercial fabric of how this country works. It's the nature of what we are dealing with in terms of our transition and as private equity practitioners we need to be able to forecast
what's coming down that path and navigate through and still be able to deliver return to our investors. It's a handed risk (aligning with political individuals) but also through that complication comes opportunities.

Older venture capital firms like BRET favour the strategy of aligning themselves with individuals from the ruling party, as this provides them with further access to government capital. An informant from BRET who was in support of this strategy noted that:

I think [having BEE partners] is important because I think by doing that you create leaders within the community. Because whether we like it or not, when this country went through the struggle period, the struggle leaders became your leaders of reference and we move from a struggle period into a more democratic economic free environment, your leaders of choice are going to be politicians and business people and people would only respect [black] people in their mind that have made lots of money. So I think you need to have tycoons in the likes of Tokyo Sexwale, Pratrice Mosetpe and now the one I think that has taken all of them is ..., from MTN. but the reality is that you need those people so that people growing up in universities, people growing up in schools, can aspire to be someone. You know when I used to grow up I used to hear of all these business people and that's who you want to become when you're older, you need to have them to drive a capitalistic society. The question is how much must these people get? Because if it's too much then it would be seen as a bit gluttonous and as a consequence of that it can breed resentment.
Since older venture capital firms will align their businesses more with politically linked individuals than younger venture capital firms. Older venture capital firms have sufficient resources to align with politically linked South Africans, and they can change or maintain institutional arrangements through such alliances. Therefore, one can envisage that the co-evolutionary processes will be greater between older venture capital firms and their institutional environment than younger venture capital firms and their institutional environment.

6.2.3 Period 2: The Mbeki Regime (1999–2008)

During this period, the South African political transition had entered another phase, as there had been an election which ushered in new political personnel with the ANC government. President Nelson Mandela had kept his promise and did not contest re-election after his first term in office, thus allowing his vice president, Mr Thabo Mbeki, who had contested the election on the ANC’s platform, to become his successor.

The Mbeki-led government faced similar legitimacy issues that rocked the Mandela regime; also audiences that would endorse the legitimacy of the Mbeki government remained the same as those which endorsed legitimacy of Mandela’s ANC-led government. A major legitimacy issue that both governments faced was the issue of a free market economy versus a socialist South Africa.

The Mbeki government quickly embarked on many privatisation programmes to show to its respective audiences that it was still strongly committed to a market type
institutional environment. However, during the period, the government suffered credibility issues with black South African citizens who are tired of the BEE scheme as only a handful of well-connected South Africans living above the poverty line; they wanted an expansion of the South African middle class. Robert Guest, the African editor of the Wall Street Journal, puts it this way, "black empowerment has become such a naked carve-up that several of the ANC's traditional allies have started to complain. Labour unions are threatening to obstruct the most egregious deals and Archbishop Desmond Tutu has lamented that black empowerment was benefiting a small elite. Mr Mbeki responded with a furious rebuttal, in which he accused the archbishop of being ignorant and untruthful (pp. A10).

The response of Mr Macozoma (a member of the 'big four' or a Rand Lord) on the issue of BEE enriching only a few was: "I find it very strange that people who profess to believe in capitalism criticize people who embrace it ..., you need the same kind of person who was the bedrock of the ANC to be the bedrock of a society that is based on a middle class. There is no way I would support a free enterprise system that tolerates poverty. But with five or six of us spread through the economy, that can make a difference in a very fundamental way" (Time magazine, 2005).

Prior to 2000, the ANC government had given the business community a free hand to define and finance 'BEE in their own economic interest' (Iheduru, 2008:341). However, this strategy was no longer functional with the public protests, especially if the ANC wanted to maintain its strong grip on the political environment of the South African state. Therefore, the ANC government embarked upon its Broad Based-Black
Economic Empowerment (BB-BEE) programme which was aimed at spreading the criteria of what it means for an organization to be empowered. In addition, it also launched "Sector Empowerment Charters," in which the government encouraged organizations in different industries to give away 20-50 per cent of their ownership to previously disadvantaged South Africans (Iheredu, 2008). The BB-BEE Act measured organizations' compliance to the redistribution principles based on a point scoring system, in which firms obtained points based on the ratio of black ownership, ratio of blacks that have management control etc. Table 6.3 spells out the BB-BEE point scoring system. This BEE point scoring system was a kind of a gaining of legitimacy endorsement from the state. The more points venture capital firms score, the more credible they are with the government, and the more access they have to government resources, that is, funding from the government.

Table 6. 2 – Broad Based-Black Economic Empowerment Scorecard

<table>
<thead>
<tr>
<th>Elements</th>
<th>Weighting</th>
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<tbody>
<tr>
<td>Ownership</td>
<td>20 points</td>
</tr>
<tr>
<td>Management Control</td>
<td>10 points</td>
</tr>
<tr>
<td>Employment Equity</td>
<td>15 points</td>
</tr>
<tr>
<td>Skills Development</td>
<td>15 points</td>
</tr>
<tr>
<td>Preferential Procurement</td>
<td>20 points</td>
</tr>
<tr>
<td>Enterprise Development</td>
<td>15 points</td>
</tr>
<tr>
<td>Socio-Economic Development</td>
<td>5 points</td>
</tr>
</tbody>
</table>

Source: Framework, Generic Scorecard and Ownership; South Africa’s Department of Trade and Industry, 2007
Even though the financial sector charter was not made compulsory, venture capital firms embraced the charter as "firms that stay[ed] white cannot win government contracts and many assume[d] that if they do not yield now, they will end up being nationalized, Mugabe-style, in a decade or two" (Guest, 2004).

For the venture capital industry during this period, a number of events occurred which allowed for a co-evolutionary process at the meso level (that is, the industry level).

In addition, the evolutionary process that occurred at this level allowed for an institutional conflict around the venture capital industry in South Africa and the maintenance of key institutional practices as the industry co-evolved with its institutional environment in South Africa. These ideas are discussed further in the subsequent chapter.

Also, during this period, the South African Venture Capital Association (SAVCA) was established as an association that catered for the needs of the industry and to enhance professionalism among the members of the industry. The founding chairpersons of SAVCA were Jo' Schwenke (of Business Partners – a quasi-governmental venture capital firm) and Richard G. Carreira (who represented KPMG, the consulting firm carrying out annual research on the industry on behalf of SAVCA. The industry grew tremendously (in size and in the amount of capital committed, see Chapter 5), and this growth was not unconnected to the relative economic stability the South African business environment experienced. The audiences and the
Legitimacy requirements of firms in the industry remained unchanged as with period two.

Legitimacy and Co-Evolution in this Period

The co-evolution that occurred between the venture capital industry and the South African state during this period followed a ‘compliance’ strategy, as venture capital firms “raced to comply with [the] BEE” (Iheredu, 2008:334) requirements. The nature of compliance thus divided firms within this industry into three categories: the early venture capital firms (i.e. BRET), the captive venture capital firms and the ‘other limited partnership’ venture capital firms.

For the early venture capital firms, BB-BEE compliance was quite easy as they had the necessary political links, resources and capabilities to speedily comply with the new South African government regulation. They easily sold off their equity stakes to black empowerment firms as a decoupling strategy. These firms are separate from the venture capital firms and have no business identity other than to invest in ‘white’ owned firms. In 2004, X Private Equity (a member of BRET) gave away 24% of its ownership to Sitogo Holdings Limited, as the company’s empowerment partner. Y Private Equity (the other member of BRET), in November 2004, sold off their equity Sphere holding, another BEE company. These firms easily maintained legitimacy with the state by partnering with BEE firms who are not members of the venture capital industry. They also still maintained their relationship with influential individuals in South African society.
The captive venture capital firms are firms that have South African banks as their parent companies. The firms did not need to bother about BB-BEE compliance issues, as they 'borrowed' the BB-BEE identity of their parent company. Thus, they easily got a legitimate endorsement because they are subsidiaries of huge companies that complied with the South African state laws on wealth redistribution.

When I asked a venture capital manager of a captive venture capital firm who also acted as the compliance manager of the firm on the issue of the new BEE codes and their compliance, she said casually "I don’t really know what the new codes are, I’ll have to check, it keeps changing every time". This statement shows that captive venture capital firms do not bother themselves much on complying with BB-BEE. The Financial Sector Charter states that: If a financial institution is a member of a group it will be measured and reported as part of the South African group unless the financial institution is a listed company; or the financial institution opts in (South Africa Department of Trade and Industry, 2007).

Finally, the other limited partnerships are venture capital firms that do not have enough resources or enough capabilities to give away equity ownership due to their size. Neither are they subsidiaries of any financial institution in South Africa. To gain legitimacy, these firms strictly comply with the financial charter scorecard system. For instance, a venture capital firm on its website boldly asserts its employment ratio to be: 56% male professional white; 6% female professional black; 16% female professional white; 22% male professional black.
Arguably, the first two classes of venture capital firms would have more legitimacy status than the latter class as they have more means and resources, which allows them to comply with government regulations easily; and by doing so they can influence changes in their institutions with their political links. Thus, it is envisaged that the first two categories of firms would have more funds committed to it by the state and other governmental agencies than the ‘other’ limited partnership venture capital firms in South Africa.

However, some firms have chosen not to be BB-BEE empowered, as BEE compliance is dependent upon organizations’ perceptions of its relative gain from such compliance. One informant, Mr. PQ, from a small venture capital limited partnership firm mentioned “we are not empowered by choice, we [are] not empowered because we believe until we are of a substantial size we are not looking to gain empowerment credentials because we [are] still a small player in the market”. This suggests that venture capital firms embrace BEE because of its potential benefits. However, only a handful of venture capital firms (two) were not BEE empowered in the industry at the time of this research.

The adherence to the state new legislation – the BB-BEE – differentiated venture capital firms in the industry into three-early venture capital firms, captive venture capital firms and independent firms. The legitimacy needs of venture capital firms and the access to the resources of being BB-BEE compliant brings allowed firms to embrace this new government affirmation programme.
During this period, a venture capital industry had emerged in South Africa. The number of firms in the industry had grown allowing for some firms to focus on early stage investments while others concentrated on later stage investments. However, BRET still dominated the venture capital industry in South Africa. Many of the new venture capitalists had previously taken appointments at either BRET.

In addition, BRET had access to more funds compared to other firms in the industry. For instance, in 2008 alone, BRET managed over 35% of the total funds under management by the industry (SAVCA Report, 2008). Arguably, their political networks provided the ability to raise more funds from the South African state agencies. In addition, being ‘politically’ black empowered provided easy access for Company Y and Company X to the financial regulatory agencies, which allowed them to seek clarity on issues that affect them, such as exchange control, tax exemption, etc. My informant from BRET noted that “over the years, we have maintained a good relationship with government [regulatory] agencies”.

BRET had created an institutional arrangement within the venture capital/private equity space in South Africa whereby venture capital firms sought alliances with politically linked black South Africans so as to potentially increase their possibilities of getting state finance. Such alliance allowed from mutual changes between the venture capital firms and the South African government as both parties can influence one another.
However, the cost of alliance with top black politicians was high. New venture capital firms had to give away huge equity stakes to the black South Africans at little or no cost to them in order to be black empowered. Ms. DE, a partner at early stage biotechnology venture capitalist, commented on the issue:

"I’ll tell you the way [BEE] affects me or the way it affects our company. Because bioventures is the only source for funding for biotech, the only other source is government. There you go to government for money [and] they say you need a BEE partner and you need black partners. I mean it’s a lack of understanding again of the business, the nature of the business, and just where BEE plays a role. Even one of our [portfolio] companies that is now profitable, they say why hasn’t this company got a local partner? Because they are selling to the local hospitals they need a BEE plan.

The way BEE deals are done is you [you here refers to black partners] come along, you like the company so you, we want to be part of this company, you can add value, you are a genuine business person, you want to be part of it, you’re not just like an outside person. But you don’t have money, you don’t have that kind of money needed to buy a stake in the company. So you go to a bank and a bank lends you money to buy into the business, you pay the money back by the business paying dividends to you and then you pay the bank. Biotechs paying dividends? It doesn’t happen. So the only way to actually get black players in is to actually give up shareholding. But then you’ve built a business, and we are investors, we got to give our money back..., it’s not even our money. So that’s the problem with trying to enforce BEE to a sector like ours".
During this period, the Southern African Venture Capital Private Equity Association (SAVCA) as a professional body was established. The establishment of SAVCA created a social construction of a new subject position within the organizational field. This is because professional associations play an important role in the collective definition or redefinition of institutional logics in an organizational field (Greenwood et al., 2002).

The creation of SAVCA was important because it was would alter the subject position of BRET as organizational leaders in the venture capital/private equity industry in South Africa who sponsored the institutional practice of strategic alliances within political individuals. The association was formed in 1999 as a means of professionalising venture capital/private equity in South Africa. Membership of the industry was divided into full membership (persons/organizations that are actively involved in early or later stage investments) and associate membership (persons/organizations representing a special group that can influence the development of venture and private equity in Southern Africa). The association produced two annual reports and a directory of all registered members. The annual reports carried out surveys on the activities of firms in the industry.

A key aim of SAVCA was the construction of a new subject position – an association that would be central to the industry. SAVCA attempted to change the subject position in at least two ways. First, it inscribed 'Southern' into the name of the association; it changed the identity of the industry from a national industry to a
regional one, even though all members with the exception of one firm were from South Africa. Second, the goal of establishing SAVCA was to act as an important source of information and networking for members in the industry. The social production of SAVCA as the new subject leader was important both because it would connect lead to increased social networking activities between venture capitalists in South Africa.

"I think for me SAVCA has played a very good role in bringing the industry together, I think [prior to SAVCA] the industry is this country is very insular. And you’ve got such a handful of people who understand how to do private equity in this country. So it’s a very insular industry and as a consequence of that it’s a very competitive industry. Unlike America and the UK, there was actually no collision in our industry. People here didn’t work together, everybody was out to eat everybody else’s breakfast. Syndication in this country I believe was very very low. SAVCA created an avenue in which “Everyone is now interested in everyone”.

SAVCA promoted the adoption of the Broad Based-Black Economic Empowered (BB-BEE) programme of the South African government to the industry. The BB-BEE, which is based on the BEE Act 53 (2003), measures firms’ compliance to the South African state wealth redistribution programme via diverse elements such as the ownership element, the management control element, the employment equity element, the skills development element, the preferential procurement element, the enterprise development element, and the socio economic development and sector specific contributions element (South African Department of Trade and Industry
By promoting the BB-BEE strategy, SAVCA managed to alter the institutional arrangement of the industry. It was no longer necessary for venture capital firms to form alliances with connected individuals in South Africa. The BB-BEE created an alternative for young venture capital/private equity firms who could not afford to give away equity stakes at discounted prices to politically link black South Africans. The adoption of BB-BEE strategy by firms in the industry would make BRET lose their relevance with the South African government as leaders of the industry.

As a professional organization, SAVCA gained momentum as a legitimate body with the relevant regulatory body authorities of South Africa. For instance, SAVCA's regulation sub-committee (see timeline in chapter 3) met with the Financial Services Board (FSB) to seek clarification as to the application of the Financial Advisory and Intermediary Services Act (FAIS) to private equity and venture capital funds, as well as to apply for an exemption of private equity and venture capital advisors from compliance with the provisions of the FAIS Act and subordinate legislation.

However, initially, SAVCA legitimacy was undermined as BRET were not part of the association. As one informant said (only when I told him that I was going to stop recording to afford a better conversation) “I say 5 years ago you find that Company X and Y weren’t even part of SAVCA because they didn’t want to give each other’s information away.” One can argue that by not joining SAVCA they tried to undermine the legitimacy of the industry with the government, as the government might not grant the association full legitimacy status and recognition since the venture capital firms it had related with over the years were not members.
By 2004, both venture capital firms were active members of the association, taking board positions in SACVA. They had joined the association arguably because the South African government supported their goal of establishing the BB-BEE practice as an industry practice. The support from the government altered BRET position of power within the industry. However, BRET still maintained some form of power within the organizational field and with the regulatory institutions in South Africa. As the informant from SAVCA mentioned that:

*Yes, I think they [Company Y and Company X] still have that sphere of influence and rightfully so, there might be peculiarities to specific transactions and the like. We can’t say that all lobbying that relates to venture capital/private equity in South Africa is done by SAVCA, no. And is that a concern? No, because you never get to a 100%, why should you aspire to get to a 100%? What we do find is sometimes that is somebody lobbies for a firm, they [the state regulatory agency] would come back to us saying, there is an industry association give us the industry view, which is gratifying for us obviously.*

SAVCA acted in the capacity of an institutional entrepreneur during this period as it attempted to alter the existing institutional arrangement of venture capitalist/private equity firms entering into strategic alliances for political capital. SAVCA achieved its goal partially through the power of association. They changed the subject position of BRET from institutional leaders to mere players in the
industry. Also, as a professional association, SAVCA gained legitimacy with the South African state since the represented majority of the firms within industry.

The introduction of SAVCA brought about the changes in the venture capital/private equity industry in South Africa. Nonetheless, SAVCA only achieved partial success in changing the institutional convention of venture firms aligning their firms with influential black South Africans. Many firms had adopted the BRET strategy, and others hoped to imitate the strategy in the future. As one informant had mentioned:

"We are not empowered (although they meet the criteria for the BB-BEE) because we believe that until we are of a substantial size we are not looking to gain empowerment credentials because we are still a small player in the market".

BRET strategy of not joining SAVCA in the initial years had been successful to an extent as their institutional pattern was not eliminated. Rather, firms in the industry were encouraged to embrace the South African government's BB-BEE scheme, while the old pattern of entering into strategic alliances with influential persons in the community to gain political capital was maintained.
Table 6. 3 – Legitimacy and Co-evolution between the South African State and the South African Venture Capital Industry

<table>
<thead>
<tr>
<th>STATE</th>
<th>Period 1</th>
<th>Period 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legitimacy</td>
<td>Domestic Support; International</td>
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</tr>
<tr>
<td>requirements</td>
<td>recognition of the ANC and the South African government</td>
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</tr>
<tr>
<td>Resources that</td>
<td>Re-election of the ANC party; and all of period 1</td>
<td>Same as period 2</td>
</tr>
<tr>
<td>being</td>
<td></td>
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<tr>
<td>legitimate</td>
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<td>provides</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audiences</td>
<td>World Bank/IMF; Business Community; Media, Eligible Voters</td>
<td>Same as period 1</td>
</tr>
<tr>
<td>Decoupling</td>
<td>Negotiation</td>
<td>GEAR – A free market system economic model</td>
</tr>
<tr>
<td>strategies</td>
<td>Between the ANC government and the Venture capital industry</td>
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<table>
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<tr>
<th>VENTURE CAPITAL INDUSTRY</th>
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<tbody>
<tr>
<td>Legitimacy requirements</td>
</tr>
<tr>
<td>Resources that being</td>
</tr>
<tr>
<td>Legitimate provides</td>
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<tr>
<td>Audiences</td>
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<tr>
<td>Decoupling strategies</td>
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</table>
6.3 CONCLUSION

In summary, with this chapter I argue that organizations and their institutional environment in emerging economies such as South Africa co-evolve with each other due to their different needs for legitimacy. There co-evolution strategies follow co-optation, compliance and decoupling strategies. In this chapter, we saw how some venture capital firms used a decoupling strategy by giving board positions to some politically linked black South Africans in order to gain legitimacy. In addition, we also saw how the government changed its strategy at different periods in order to maintain its legitimacy with the international community and the South African citizenry. Table 6.4 shows how the legitimacy facilitates an interaction between the venture capital industry in South Africa and the South African state in two periods.

The next chapter, chapter 7, is about the conclusion of this thesis. The chapter integrates the research question, and the propositions that were drawn from an extensive literature review with the findings from my analysis.
7. CONCLUSIONS

7.1 INTRODUCTION

This concluding chapter synthesises the key findings of this study on co-evolution that occurred between the South African state and the South African venture capital industry. Specifically, the findings fill the gap in the literature on which the research question for this study was based upon. The research question was identified in chapter 1 as:

*How does co-evolution occur between organizations and their institutional environment?*

To address this question, the study of the joint evolution that occurred between the South African venture capital industry and the South African government was examined. By investigating the co-evolution construct, a unique economy, the study adds further insights to the current literature on emerging economies. Specifically, the study adds to the emerging literature on co-evolution in emerging economies by arguing that legitimacy facilitates such simultaneous evolution. The findings from the study also posit that for organizations to be able to bring about changes to their environment they must maintain certain subject positions of power in their environment.

The remainder of this chapter is thus structured as follows: Section 7.2 reiterates the key objective of this study, the research methods employed and the appropriateness of the study's research question. Section 7.3 then goes on to summarise the key findings from the study. The implications with respect to the co-evolution literature are discussed in section 7.4. Section 7.5 offers suggestions for areas of further research and a conclusion is drawn in section 7.7.
7.2 KEY OBJECTIVE OF THE STUDY

Using a co-evolution theoretical lens, this study investigated the interrelationship between the South African state and the venture capital industry. Chapter 1 highlights the importance of this study to the current literature on co-evolution. Although there is an increasing body of knowledge on how organizations co-evolve with their institutional environment (e.g. Dijsterhuis et al. 1999; Jones, 2001; Flier et al., 2003), the literature has been predominately focused on co-evolution in developed economies where the institutions that regulate the market are stable. However, there is little knowledge on how co-evolution occurs in emerging markets. Given that the weak institutions allow for uncertainty, it was expected that there would be modification between the co-evolutionary process of developed economies and the co-evolutionary process of emerging markets.

This study investigated how the political transformation that occurred in South Africa brought about co-evolution between the South African venture capital industry and the South African government. The venture capital industry in South Africa was appropriate because of the centrality of the industry to issues of capital flight and the industry’s ability to stimulate and revitalise the South African economy, therefore, highlighting the potential role the venture capital industry played in the rebuilding of the South African economy.

A qualitative research method was used to investigate this study’s research question. The qualitative method involved the use of face-to-face interviews of 25 respondents. In addition, data was gathered from archival accounts. A qualitative research approach was the most applicable to the nature of the research and the research question, as qualitative
methods best suit research questions that centre on “why and how” (Yin, 2003). This method provided insight on the issue of co-evolution in transition economies. The data collected were analysed using Langley’s (1999) suggested temporal bracketing strategy. Three time periods – the end of apartheid, the Mandela government and the Mbeki government – were used to create a narrative around the co-evolution that occurred between the South African state and the venture capital industry in South Africa. The following section summarises the key findings from the analyses.

7.3 KEY RESEARCH FINDINGS

The results from the archival data and interview were presented in chapters 4, 5 and 6. This section presents a synthesis of the findings. The findings are linked to a research question that drove this study.

7.1 Emergence of Venture Capital/Private Equity Industry

In chapter 5, the evolution of the venture capital/private equity industry in South Africa was presented. The analysis shows that government incentives play only a minute role in the emergence of a venture capital industry in a transition economy like South Africa. The industry emerged due to the political transition South Africa experienced and the capital flight that resulted from the transition. In addition, the venture capital industry in South Africa emerged because transition encouraged increased investment and entrepreneurship.

Though the literature on venture capital emergence stresses the importance of incentives (such as tax breaks) from governments (Murray, 1995; Karsai et al., 1997) in order to encourage the emergence of a venture capital industry, in transition economies cultural,
legal and institutional factors (Dosanni and Kennedy, 2002: Karsai et al., 1997) seem to play a more determining factor in the emergence of a venture capital industry. In the South African case, the venture capital industry still emerged in the absence of an investing incentive from government. This finding suggests that the maintenance of the market type environment in the South was fundamental to the emergence of the industry.

However, though there were no incentives from the South African government in terms of legislation, the industry's emergence still follows a co-evolutionary process, as the industry is heavily dependent on the South African state for capital. This suggests that the emergence of the venture capital/private equity industry in South Africa emerged within the context of the political transition in South Africa.

7.2 Legitimacy, Power and Co-evolution

Findings from the analysis in chapter 6 show that the legitimacy needs of organizations and their institutional environment can drive a co-evolutionary relationship between them, especially in transition economies. Legitimacy creates a situation in which interaction is engendered between private organizations and their environment.

From this study, we see how the need for legitimacy by the new South African government and the emerging venture capital/private equity industry created a situation in which both entities became mutually interdependent.
The political transition South Africa experienced had created a situation of mutual interdependence as both entities needed to gain legitimacy from each other for survival.

Firms in the venture capital industry entered into strategic alliances with politically linked black South Africans. The ANC government needed the legitimacy of the international community, the business community in South Africa and the eligible South African voters. Whereas the emerging venture capital community principally needed legitimacy from the government as the government was going to be a major financier of the industry.

Firms in the venture capital industry during the first period achieved legitimacy by giving away their equity stakes at discounted prices to influential black South African individuals. These individuals were the agents of co-evolution between the South African government and the venture capital industry. They offered feedback between both entities. And while the state could influence changes in the industry with its legislation, the firms in the industry could influence the state through their political networks. This position aligns with proposition 1 from the literature review chapter. It was proposed in proposition 1 that the interactions between organizations and their environment may facilitate an exchange of resources.

Therefore, the findings from this study concurs with current research on co-evolution in emerging economies by suggesting that firms are able to influence their institutional environment by immersing themselves with highly connected individuals (Rodrigues and Child, 2003; Dieleman and Sachs, 2008). However, the findings contribute to the literature by suggesting that the motivation for co-evolution between organizations and institutional
environments in emerging economies is legitimacy. From this case, it is seen that the venture capital industry entered into a strategic alliance with the South African government. This alliance was due to the legitimacy requirement needed by both parties. This alliance brought about interactions between the venture capital industry and the South African government. This interaction between the venture capital industry in South Africa and the South African government created is situation in which an exchange of resources was enabled.

The venture capital industry gave away equity stakes and embraced the South African government's affirmative action policy in order to maintain its network with the South African government officials. Network with the South African government officials provided venture capital firms to access to state funds during their fund raising activity. Such network also provides venture capital firms an opportunity to lobby government officials for favourable legislations. The South African government provided unrestricted governmental access to venture capital firms who embraced its BEE program.

The exchange of resources between the South African government and the South African venture capital industry created a situation in which both were dependent on each other. Venture capital firms needed the South government for the funds it provide; the South African government needed venture capital firms to finance more entrepreneurs and not disinvestment from the South African environment. This position aligns with proposition 2 of this thesis which states that exchange of resources creates a situation in which organizations and their environment depend on each other. Jones et al (1997) posit that organizations engage in exchange of resources which may bring about dependency when
environment uncertainty – i.e. state uncertainty – is great. Such alliance help reduce the bureaucratic structures of doing business in emerging markets.

Not all organizations co-evolve with their environment. For organizations to be able to simultaneously evolve with their environment, with both entities influencing one another, such organizations must maintain certain subject positions of power within their environment. With this case, we saw that BRET (the two pioneering venture capital firms) were able to bring about changes with the South African government more when compared with smaller venture capital firms.

Organizations must maintain positions of economic and political power within their institutional environment. They must maintain economic power in terms of the organizational resources. In this case, the venture capital firms’ economic power could be measured in the amount of capital they raised for venture capital investment. Political power represents the extent to which organizations in transition economies are connected to the state.

In the study, we saw how BRET could influence the South African state given that they maintained strong links with the South African government through their highly connected black South African executives. This political connection provided access to influence governmental decisions pertaining to the industry. In addition, the study shows that in the absence of such a subject position, organizations form professional associations, as the legitimacy they gain from such association can be used to bring about changes in their institutional environment.
The creation of the professional association in the venture capital/private equity industry in South Africa created a pattern of co-evolution at the industry level. The mutual evolution that occurred at this level between organizations created a case for conflicts between institutional entrepreneurs and the defenders of the previous institutional arrangements. An institutional conflict that occurred between organizations at this level allowed for the emergence of new institutional patterns (in this case the application of the BB-BEE scheme to the industry). However, the fundamental patterns of the previous institutional setup were still maintained.

7.3 Synthesis of the Findings

Sections 7.3.1, 7.3.2 and 7.3.3 have summarised the main results of the research in respect of the research questions that drove the study. This section presents a synthesis of the results to arrive at key findings on how co-evolution occurs between organizations and their environment in transition economies.

Findings from the study present legitimacy as an important construct in the co-evolution of organizations and their environment in emerging economies at the macro level. Both entities need each other in order to gain a legitimate status which is crucial for their survival. This need for legitimacy brings about a negotiated arrangement between organizations and their environment. These negotiated arrangements between organizations and their institutional environment as a result of the need for legitimacy drives a co-evolutionary pattern between them.
Nonetheless, not all organizations simultaneously evolve with their environment. For organizations to co-evolve with their environment, they must possess specific resources that are needed by their environments. These resources are needed by their environment for legitimacy reasons. Therefore, a legitimacy requirement creates a situation in which organizations and the environment can have influence over each other. This concurs with Proposition 3, which states that the resource dependency between organisations and their environments encourages a situation of mutual influence. With this case, we see how the South African government needed to use its resources from the venture capital industry and how the venture capital industry relaxed government regulations especially on exchange control via its threat of a capital flight.

Second, another finding from this study is the significant organizational subject positions of power play at the co-evolution that occurs at the meso level in a country in transition. With this case context, the venture capital/private equity industry in South Africa, we see how venture capital firms can bring about changes in their meso level institutional environment by maintaining subject positions of economic and political power.

The subject position of political power supports recent arguments on how organizations can use their political connections to change their environment (Dieleman and Sachs, 2008). Political connections raise the idea of the potential role social capital plays in the co-evolution that occurs in an uncertain environment. Organizations use their access to government to influence changes in their environment both at the macro and the meso levels.
For the venture capital firms in the South African industry, they were able to influence the South African state with the threat of capital flight away from South Africa. To gain their confidence, support and legitimacy the ANC-led South African government maintained a market type economy which is crucial for the emergence and the development of a venture capital industry in any country. The events that occurred at the industry level show how power and conflict between organizations can bring about co-evolution and the emergence of new patterns at the meso level.

These findings have important implications theoretically. First, the study contributes to the literature on co-evolution. Since the current literature is predominantly on environments where institutions are stable, the study adds to the emerging literature on co-evolution in unstable environments which increases uncertainty for organizations. The study shows that during environmental uncertainties which may have been created as a result of emerging state, private organizations enter into strategic alliances with the government. With such alliances a network relationship is created. The study also suggests that before a co-evolutionary relationship can occur between private organizations and their environment, there must be an exchange of resources. Dieleman and Sachs, (2008) show how the Salim Group, exchanged resources with the Indonesian government and how this brought about a co-evolutionary relationship.

Furthermore, the study presents South Africa as an exemplar of other possible variant countries in transformation which may still have economic implications, especially to organizations' strategy. On the emergence of a venture capital/private equity industry, the
study suggests that although government incentives play an important role in the emergence and the development of a venture capital industry, nonetheless, venture capital/private equity firms can still emerge in the absence of incentives from the government. However, for such emergence to occur, a market type institutional environment must be put in place.

Finally, by focusing on the subject of co-evolution, the study rejects old institutional theorists' treatment of institutions as exogenous to organizations. The study supports the notion that institutions do change and that the changes in institutions may be brought about by organizations. In addition, in relation to the issue of organizational adaptation and environmental selection, the study shows that both entities embark on their respective strategy in order to survive.

This study started with a broad research question of how co-evolution occurs between organizations and their institutional environment. Evidences from this study show that co-evolution may occur between private organizations and the government via exchange of resources. This exchange of resources may create a strategic alliance and a dependency relationship between organisations and the government.

7.4 IMPLICATIONS OF THE STUDY

The findings from this study add to the growing literature on co-evolution theory and co-evolution in transition economies. Recent findings from the literature on co-evolution in transition economies suggest that the mutual evolution between organizations and their
environment is engendered by organizations’ survival instinct (Suhomlinova, 2006). From the co-evolution enquiry in developed markets, organization scholars posit that organizations institute their network capabilities for a co-evolutionary relationship with their environment and that such joint evolution follows path dependent trajectories (Djelic and Ainamo, 1999) as many organizations maintain their institutional legacies.

Contributing to the literature, the study shows that the constructs of legitimacy and organizational subject position of power facilitates co-evolution between organizations and their environment in transition economies both at the macro and the meso level. The implication of this is that organizations must maintain legitimacy and power positions within their institutional environment, as being legitimate and powerful provides organizations with access to specific resources.

Similarly, the findings from the study suggest that although government incentives play an important role in the emergence of a venture capital industry, findings also suggest that the market type institutional environment plays a more important role in the emergence of a venture capital/private equity industry in South Africa.

7.5 LIMITATIONS OF THE STUDY

No study is without limitations. The limitations that are associated with this study provide further opportunities for future research. In spite of this study's contributions to the literature on co-evolution, the study suffered the following limitations.
The first limitation of the study was the extent to which its findings can be generalised to the literature on co-evolution. The study suffered from the issue of how generalisable the findings are for two reasons. First, because the study focused on a particular country context, since single case studies are idiosyncratic in nature, the study thus raises questions as to how the findings from the case country can be applied to all other transition economies. The second reason was that the case country context, South Africa, was a somewhat unique in terms of her political transformation. The South African transformation from apartheid to democracy was somewhat different and the only country that shares a similar transition account is Zimbabwe. Nonetheless, the study stresses that organization scholars have neglected other forms of transformation, such as the South African case which might provide further insights on the nature of co-evolution in emerging economies. However, for private organizations to survive in such economies they must be ready to give away some assets for access to governmental officials. These officials can provide unrestricted access to private organizations.

As mentioned in Chapter 3 of this study, the number of respondents interviewed was only 25. It is believed that an increased sample size would provide more insights on the nature of co-evolution between organizations and their environment. Also, the study suffered a limitation as politically linked South African individuals refused to be interviewed because of the sensitive nature of the research and the South African political environment. Nonetheless, archival data from government periodicals/biographies were used to map out the events that took place during South Africa's political transition.
7.6 DIRECTIONS FOR FUTURE RESEARCH

With respect to the categorisation of transition economies from this study, it is suggested that future research can further explore the nature of co-evolution in transition economies the in respective quadrants mentioned in chapter 3 of this study. Since national institutions in transition economies are idiosyncratic in many ways, it is expected that further insights can be provided from such individual studies. A cross-country case study on the issue of co-evolution between organizations and their environment in transition economies may also prove useful.

Empirical investigation on the growing literature on co-evolution has extensively employed longitudinal qualitative methods (e.g. Flier et al., 2003; Rodrigues and Child, 2003; Dieleman and Sachs, 2008; Djelic and Ainamo, 1999; Jones, 2001). Insights from this method have increased the body of knowledge on the nature of co-evolution. Future work on co-evolution should employ quantitative methods incorporating time series data. However, such a methodology must factor in elements of co-evolutionary enquiry such as nonlinearity effects between organizations and institutions, feedbacks and multidirectional causalities (Lewin and Volberda, 1999).

This study does not show co-evolution at the micro level. Therefore, future research work can seek to understand how co-evolution occurs at the firm level when organizations are embedded in uncertain environments such as the environments of South Africa. Studying co-evolution at this level will provide insights into how organizations develop explorative and exploitative strategies (March, 1991).
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28 February 2008

OLU ALUKO: RESEARCH PROJECT IN SOUTH AFRICA

This serves to confirm that we are quite willing to host Olu Aluko over the period 1st September to 28th November 2008 to enable him to conduct studies on the Venture Capital Market in South Africa. He will provide his own funds during that period. I will be acting as the designated academic supervisor assisting him wherever necessary.

Yours faithfully

M.D. HERRINGTON
The Freedom Charter

Adopted at the Congress of the People, Kliptown, on 26th June 1955

We, the People of South Africa, declare for all our country and the world to know:

that South Africa belongs to all who live in it, black and white, and that no government can justly claim authority unless it is based on the will of all the people;

that our people have been robbed of their birthright to land, liberty and peace by a form of government founded on injustice and inequality;

that our country will never be prosperous or free until all our people live in brotherhood, enjoying equal rights and opportunities;

that only a democratic state, based on the will of all the people, can secure to all their birthright without distinction of colour, race, sex or belief;

And therefore, we, the people of South Africa, black and white together equals, countrymen and brothers adopt this Freedom Charter;

And we pledge ourselves to strive together, sparing neither strength nor courage, until the democratic changes here set out have been won.

The People Shall Govern!

Every man and woman shall have the right to vote for and to stand as a candidate for all bodies which make laws;

All people shall be entitled to take part in the administration of the country;

The rights of the people shall be the same, regardless of race, colour or sex;

All bodies of minority rule, advisory boards, councils and authorities shall be replaced by democratic organs of self-government.
All National Groups Shall have Equal Rights!

There shall be equal status in the bodies of state, in the courts and in the schools for all national groups and races;

All people shall have equal right to use their own languages, and to develop their own folk culture and customs;

All national groups shall be protected by law against insults to their race and national pride;

The preaching and practice of national, race or colour discrimination and contempt shall be a punishable crime;

All apartheid laws and practices shall be set aside.

The People Shall Share in the Country's Wealth!

The national wealth of our country, the heritage of South Africans, shall be restored to the people;

The mineral wealth beneath the soil, the Banks and monopoly industry shall be transferred to the ownership of the people as a whole;

All other industry and trade shall be controlled to assist the wellbeing of the people;

All people shall have equal rights to trade where they choose, to manufacture and to enter all trades, crafts and professions.

The Land Shall be Shared Among Those Who Work It!

Restrictions of land ownership on a racial basis shall be ended, and all the land re-divided amongst those who work it to banish famine and land hunger;

The state shall help the peasants with implements, seed, tractors and dams to save the soil and assist the tillers;

Freedom of movement shall be guaranteed to all who work on the land;

All shall have the right to occupy land wherever they choose;
People shall not be robbed of their cattle, and forced labour and farm prisons shall be abolished.

All Shall be Equal Before the Law!

No-one shall be imprisoned, deported or restricted without a fair trial; No-one shall be condemned by the order of any Government official;

The courts shall be representative of all the people;

Imprisonment shall be only for serious crimes against the people, and shall aim at re-education, not vengeance;

The police force and army shall be open to all on an equal basis and shall be the helpers and protectors of the people;

All laws which discriminate on grounds of race, colour or belief shall be repealed.

All Shall Enjoy Equal Human Rights!

The law shall guarantee to all their right to speak, to organise, to meet together, to publish, to preach, to worship and to educate their children;

The privacy of the house from police raids shall be protected by law;

All shall be free to travel without restriction from countryside to town, from province to province, and from South Africa abroad;

Pass Laws, permits and all other laws restricting these freedoms shall be abolished.

There Shall be Work and Security!

All who work shall be free to form trade unions, to elect their officers and to make wage agreements with their employers;

The state shall recognise the right and duty of all to work, and to draw full unemployment benefits;
Men and women of all races shall receive equal pay for equal work;

There shall be a forty-hour working week, a national minimum wage, paid annual leave, and sick leave for all workers, and maternity leave on full pay for all working mothers;

Miners, domestic workers, farm workers and civil servants shall have the same rights as all others who work;

Child labour, compound labour, the tot system and contract labour shall be abolished.

The Doors of Learning and Culture Shall be Opened!

The government shall discover, develop and encourage national talent for the enhancement of our cultural life;

All the cultural treasures of mankind shall be open to all, by free exchange of books, ideas and contact with other lands;

The aim of education shall be to teach the youth to love their people and their culture, to honour human brotherhood, liberty and peace;

Education shall be free, compulsory, universal and equal for all children; Higher education and technical training shall be opened to all by means of state allowances and scholarships awarded on the basis of merit;

Adult illiteracy shall be ended by a mass state education plan;

Teachers shall have all the rights of other citizens;

The colour bar in cultural life, in sport and in education shall be abolished.

There Shall be Houses, Security and Comfort!

All people shall have the right to live where they choose, be decently housed, and to bring up their families in comfort and security;

Unused housing space to be made available to the people;

Rent and prices shall be lowered, food plentiful and no-one shall go hungry;
A preventive health scheme shall be run by the state;
Free medical care and hospitalisation shall be provided for all, with special care for mothers and young children;
Slums shall be demolished, and new suburbs built where all have transport, roads, lighting, playing fields, creches and social centres;
The aged, the orphans, the disabled and the sick shall be cared for by the state;
Rest, leisure and recreation shall be the right of all:
Fenced locations and ghettos shall be abolished, and laws which break up families shall be repealed.
There Shall be Peace and Friendship!
South Africa shall be a fully independent state which respects the rights and sovereignty of all nations;
South Africa shall strive to maintain world peace and the settlement of all international disputes by negotiation – not war;
Peace and friendship amongst all our people shall be secured by upholding the equal rights, opportunities and status of all;
The people of the protectorates Basutoland, Bechuanaland and Swaziland shall be free to decide for themselves their own future;
The right of all peoples of Africa to independence and self-government shall be recognised, and shall be the basis of close co-operation.
Let all people who love their people and their country now say, as we say here:
THESE FREEDOMS WE WILL FIGHT FOR, SIDE BY SIDE, THROUGHOUT OUR LIVES, UNTIL WE HAVE WON OUR LIBERTY
APPENDIX C
WHITE PAPER
ON RECONSTRUCTION AND DEVELOPMENT
GOVERNMENT’S STRATEGY FOR FUNDAMENTAL TRANSFORMATION
(ABRIDGED VERSION)
September, 1994

Preface

My Government’s commitment to create a people-centred society of liberty binds us to the pursuit of the goals of freedom from want, freedom from hunger, freedom from deprivation, freedom from ignorance, freedom from suppression and freedom from fear. These freedoms are fundamental to the guarantee of human dignity. They will therefore constitute part of the centrepiece of what this Government will seek to achieve, the focal point on which our attention will be continuously focused. The things we have said constitute the true meaning, the justification and the purpose of the Reconstruction and Development Programme, without which it would lose all legitimacy.

President Nelson Mandela in his Inaugural Address to a Joint Sitting of Parliament, 24 May 1994

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South African society is in need of transformation and renewal, the Government of National Unity (GNU) is preparing to give direction to this process by way of a new framework for governance. This new approach to the way we run the Government must set a shining example for the restructuring of the rest of our society. It will be a long and arduous process, but will accomplish a fundamental transformation nonetheless. Such renewal is a vital precondition for moving forward, following centuries of oppression and decades of formal apartheid.
The policy framework behind the renewal which transforms society is the Reconstruction and Development Programme (RDP). The RDP offers our country a unique opportunity to bring about renewal, peace, prosperity, reconciliation and stability. It is the product of ongoing consultation and it enjoys widespread support from all sections of our society. It has been adopted and supported by all political parties in the GNU and in Parliament, and by all sectors of our society. It is rare for a new government to have a coherent vision. It is even more unusual for that vision to be supported by a national consensus.

This White Paper on the RDP sets out a framework for the renewal of society through the Government's own RDP-related reforms. It explains not only how the Government is beginning to implement the RDP, but how in so doing it will expand the process of consultation and participation. To illustrate, in response to the invitation of the Minister without Portfolio, scores of submissions on the RDP White Paper were made in the weeks following the election. They came from different offices of the Government, parastatal agencies, multiparty forums, development institutions, organizations of civil society, business organizations and individuals. All were constructive and have been taken into consideration in the drafting of the RDP White Paper.

President Mandela defined the original RDP document as representing 'the end of one process and the beginning of another.' The original document is considered the basic starting point for the RDP White Paper; in the text it is referred to as the RDP 'Base Document'. The Base Document underpins the approach to reconstruction and development of the GNU.
0.5
However, the RDP must now be translated into an actual programme of the Government. The White Paper begins this task by setting out strategies for the implementation of the RDP. It also makes reference to a set of programmes adopted by Ministries, departments and all levels of government which begin to take the RDP forward.

0.6
The RDP White Paper establishes a policy-making methodology and outlines government implementation strategies within the framework provided by the Base Document. This allows for a coherent and considered process to unfold and through the proposed reporting and monitoring system provides for a meaningful evaluation of government performance, as well as of the performance of all of those agencies and organizations from civil society involved in RDP activities.

0.7
While the White Paper is a policy statement of the Government, it also indicates how businesses, unions, community groups and civic associations, non-governmental organizations (NGOs), women's and youth organizations, and other groups within civil society can participate and contribute to the realisation of the objectives of the RDP. Such participation is fundamental to the success of the RDP. To facilitate a common understanding, the Introduction to the RDP White Paper restates and updates the basic strategic and programmatic approach of the RDP.

0.8
This RDP White Paper is therefore a further contribution to the renewal of our society. It states forthrightly what our country's citizens can expect of their Government in the RDP's implementation. It gives directives to government officials and personnel to follow in a
variety of areas crucial to the RDP's successful realisation. It recommits the Government and indeed society as a whole to the task of improving the quality of life of all South Africans within the shortest possible time. It does so with a strong sense of fiscal responsibility, or a need to pare back the Government in many areas while redirecting resources into those basic services long neglected. In short, it recommits the Government to people-centred development.

0.9

It is through the RDP White Paper that the Government can now embrace and support so many of the other recent and forthcoming contributions to the RDP process, including official provincial government RDP documents, local authority RDP programmes and projects, and contributions of resources from across society. The general willingness of society to adopt the RDP is not in question. What is needed now and what the RDP White Paper establishes, is a set of strategies so that together, we, the Government and the citizens of South Africa can renew, reconstruct and develop our great country.

0.10

This White Paper will be followed by a second White Paper in March 1995 which evaluates progress with implementation

sets out detailed policies for economic growth and other areas of the RDP.

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This document is Government's White Paper and it reflects Government's policy. However, it has not yet been adopted by Parliament in order to allow further discussion and debate. Public hearings will take place during October and the finalised document will be tabled in Parliament for adoption.
APPENDIX D

UNDERSTANDING GEAR
Growth, Employment and Redistribution
The Government's new economic strategy
(ABRIDGED VERSION)
2nd Quarter, 1997

PREFACE

This workbook outlines the government's macro-economic strategy, as spelt out in the "Growth, Employment and Redistribution" (GEAR) document. It explains the strategy within the broad context of how South Africa's economy works, and the major problems and challenges facing the economy today.

The first chapter looks at the history of the South African economy and how the different parts of it fit together. Chapter two discusses the major problems, challenges and opportunities facing the South African economy at present. It explains the pressures placed on government to deal with our low growth and rapidly increasing population rates, our enormous debt, and the huge unemployment crisis. In chapter three the key elements and arguments of the GEAR strategy, as set out by government, are presented.

Whilst the document offers some critical insight, its main aim is to provide the reader with a clear understanding of the strategy and the context in which it was developed. This workbook should be used by branches as a tool to analyse, discuss and debate the economic strategy. The Department of Political Education and Training has made some of the critiques of GEAR available to ANC regional offices. They are useful papers to stimulate debate.

Chapter One
1. Understanding Basic Economics

1.1 People and the Economy

The economy is about how a country earns and spends its money. It is about what is produced, how natural resources are used, employment, the buying and selling of goods and services, importing and exporting goods, the value of our money compared to other countries, and much much more.

Every person living in a country affects the economy in some way, and in turn the economy affects everybody. However, this differs for different people. For example, the owner of a large company who employs workers and makes a lot of profit which s/he then invests or spends, is affected by the economy very differently from an unemployed person who earns no money and has no money to spend.

Whether we are the rich business person or the unemployed person we all have interests in the economy. But our interests are different:

The rich employer worries about things like, keeping production costs low, not being taxed too much and making profit.

The unemployed person is more concerned about getting a job that pays decent wages, housing, food and good health care or perhaps transforming the economy into something radically different.

1.2 Different Types of Economies

There are two main types of economies that exist in the world. These are capitalist economies and communist economies which both have different forms and have emerged in different ways.
Capitalism

There are three main types of capitalist economies in the world today. They are: social democracies, command capitalism and free market capitalism.

1. Free Market capitalism developed in countries like America under Reagan and Britain under Thatcher in the 1980s. Free market capitalism looks at deregulating the labour market which means that there would be very few laws protecting workers from exploitation. These economies look more towards casual labour than full-time employment. Unions were smashed through this process. This idea led to employment increasing, but wages were much lower and workers had few benefits if any at all. There was a shift in these economies to removing the welfare state through privatisation. The state sold off its assets (the things that it owned) to private businesses and cut social spending. These economies redefined the role of the state in the economy to allow for a situation in which business could grow.

2. Commandist capitalism exists mainly in the Pacific Rim countries like South Korea, Malaysia, Thailand and Hong Kong (also known as the “Asian Tigers”). In these economies, the state has policed both labour and capital. This has meant that basic labour rights have been removed. The state has tried to direct the process of industrialising the economy. These economies were helped in their industrialisation programme by the United States of America so that communism would not spread through Asia. Commandist capitalist economies are export-led which means that there is an emphasis put on developing goods and services for export purposes. Another feature of these economies is that the state nationalised the banks to redirect savings into developing industry.

3. Social democratic forms of capitalism emerged in countries in Western Europe after the Second World War. These economies had a large welfare state which spent a lot on education, health care and social security, particularly unemployment benefits. To do this,
there had to be high taxation. In these economies, there was an attempt to develop an agreement between organised labour and capitalists to ensure prices and wages did not make inflation go higher. There are debates about whether these systems are in fact capitalism or a form of socialism.

Communism

Communism also developed in different forms. There were three main forms of communist economies. There was the Soviet model, the Chinese model and the Yugoslavian model.

In the Soviet Union there was centralised planning of all parts of the economy like production, exchange and consumption. Centralised planning meant that the economy was planned at a state level. A bureaucracy of planners decided on these basic questions of investments. Workers could not choose where to work. What they earned was also decided by these planners. The state owned everything in this model.

Under Chinese communism, the state owns the majority of the economy, but there has been an attempt to include the market alongside state ownership. In some areas in China, the labour market has been deregulated. To some degree production has been decentralised to villages.

In Yugoslavia there was an attempt to find a balance between the ownership of the state and the market. We can refer to this type of economy as a kind of "market socialism". There was an attempt to put in place 'autonomous worker self-management' in companies. Workers, both skilled and unskilled, would manage the company, decide on how work would be divided and money spent. In other words, workers would equally share with each other the running of the company.

At the moment the South African economy is a capitalist economy with a few big companies (monopolies) controlling most of the wealth and resources of the country.
Because of the inequalities created by apartheid our government has to play a very important role in the economy. It is up to government to decide how the money which it has, is going to be used to meet the needs of all the people of this country. No government ever has enough money to satisfy everybody. The government has to make decisions and choices about the type of economy we want. This is what the macro economic strategy is all about.
PRESIDENT MANDELA STATEMENT ON THE ADOPTION OF GROWTH EMPLOYMENT AND REDISTRIBUTION POLICY

Today, the government launched the Macroeconomic Strategy for growth, employment and redistribution.

Through this act, we have established the foundation upon which the implementation of the Reconstruction and Development Programme can be speeded. Together, we have taken yet another giant step towards realising, with expedition, the aims of job creation and income redistribution that the nation yearns for.

The rapid economic growth that the macroeconomic framework envisages is critical if we must address, with better results, the poverty afflicting millions of South Africans, and render the quality of health, housing, education and other amenities they deserve. The framework is crucial for us to take full advantage of the opportunities deriving from the recent depreciation of the Rand.

This Macroeconomic Strategy is the basic economic policy framework of the government until the beginning of the next century. The government has consulted and will continue to consult with all role players, and take their views into account, in carrying out the details of the programmes outlined in the Strategy.

We are convinced that, by creating emphasis the necessary conditions for the rapid implementation of socio-economic programmes, and the environment for increased private
and public investment, the strategy will redound to the benefit of society as a whole. Within government, I will help give context to the policy and practical work of various departments; and ensure that the fiscal and monetary authorities are even better able to focus their work towards clear common goals.

Details on such elements as labour market policy and restructuring of state assets will be announced by the relevant ministers in due course.

We do not expect everyone to agree with everything contained in the document. And there are instances where role players in the economy at all levels may be called upon to make minimal sacrifices for the common good and for greater social benefit. In this regard, we are heartened by the consensus across the board, including within business and labour, on the broad policy positions contained in the document.

The Macroeconomic Strategy is for the benefit of the nation as a whole; the employed and unemployed, big and small business, professionals and other sectors. For it to work and produce the desired results, it requires the co-operation of the whole nation, in the spirit of our New Patriotism.

Together, let us reach for the Stars!

(14 June 1996, South African Government Information)
APPENDIX F

ADDRESS BY THE PRESIDENT OF SOUTH AFRICA, THABO MBeki, AT THE BUSINESS TRUST

DINNER, Hilton Hotel, Johannesburg, 1 September 2002

I would like to thank the Business Trust for the opportunity to interact with the leadership of the business community. I would also like to use this occasion to welcome our friends from outside South Africa.

I have been asked to speak about ‘Building a productive business/government relationship for sustainable development.

Again, let me use this occasion to thank members of the Business Trust and those representatives of the business that are participating in the Big Business Working Group with government for the work and invaluable input that you bring to the important partnership between government and business in our country.

We salute the Business Trust for the progress that has been achieved so far, because this is a clear, practical and working programme that demonstrates that partnership between business, civil society and government can and must produce results for the benefit of our people and assist all of us to move our country forward, faster.

The work that we are doing through the Trust indicates that it is possible for South Africans to work together for sustainable development. It proves that we need more and more
focused partnerships, with implementable programmes that will produce concrete and visible outcomes.

The matters, on which the Business Trust concentrates, with joint public and private funding, address precisely the central focus of the World Summit, which is to reduce and eradicate poverty and build a prosperous future for all South Africans.

I believe that at the base of this relationship is a common commitment to eradicate the legacy of apartheid and therefore to build a new South Africa that is democratic, peaceful, non-racial, non-sexist and prosperous. At the same time, this is a South Africa that should play its role as an integral part of Africa and the world community of nations, consistent with its national objectives.

I am convinced that without this common understanding among ourselves as South Africans, it would not be possible for us to build any meaningful partnership between government and the private sector.

This common understanding is buttressed by an institutional framework and established practice, which enable us to address matters of common concern. At this point, let me apologise to my fellow South Africans for repeating things they know.

The institutional framework to which I referred includes a set of government/business working groups, which enable regular discussion between the President, especially the economic ministers and business, on the basis of a negotiated and agreed agenda. These groups cover big business, black business and commercial agriculture.
We must also mention the national information and communication government/private sector council that has been established to facilitate discussion and common action in this leading sector of the modern economy and society.

The institutional framework also refers to a statutory body called the National Economic and Development Labour Council (NEDLAC). This body makes it possible for the government, business, labour and civil society to negotiate socio-economic matters intended for legislation or significant government policy. The philosophical base of this Council is, of course, acceptance of the concept of a social partnership precisely the broad national goals we have already indicated.

We have already spoken of the place and role of our host tonight, the Business Trust which works to translate the partnership into actual economic activity, including working to meet the challenge of job creation.

We must also make the point that fundamental to the co-operation between government and business is the mutual recognition by both of their separate, independent and important roles. Accordingly, there is no presumption of a necessarily hostile and antagonistic relationship between them.

Rather, there is an acceptance of the fact that it is both necessary and possible for them to work together, and to try their best to resolve any disputes that may arise among them through discussion and negotiations.
In this context, government recognises the fact that it does not have all the resources it needs to meet its obligations to the people. Accordingly, it is interested to attract resources that are in the hands of the private sector, through mutually beneficial public – private partnership, to increase the capacity of the government to respond to the needs of the people.

At the same time, business respects the right and duty of the government to set clear and stable policy and regulatory frameworks that determine how our people and all their institutions, whatever they are, operate within the context of the rule of law, governed by the precepts contained in our Constitution.

In many respects the processes and practices I have spoken of are new to all of us, both government and business. Undoubtedly, all of us will make mistakes as we work to translate the government/business partnership into a meaningful instrument in the struggle to meet the goals of sustainable development that the World Summit for Sustainable Development has been convened to address.

The point however is that, since we have been condemned to live in exciting times, we must learn from whatever mistakes we make to improve our performance. It seems clear to me that one of the issues that both government and business must take firmly on board is the imperative for transparency, public accountability and continuous engagement both each other and civil society.
Many of us who manage complex organizations and processes, both in government and the private sector, may view these obligations as a nuisance that we should either ignore or minimise. I believe that such a response would be fundamentally wrong.

Many of us in this room are aware that in recent weeks there have been divergent views about some of the issues that government has put on the table for discussion as part of our process of ensuring that South Africa, in reality, belongs to all who live in it, black and white.

Amongst the issues that sparked heated debates are those around the Mining Bill, the Mining Charter and issues related to black economic empowerment. As has happened in the past, there will be intense and rigours engagements so that the views of all South Africans are brought on board before final decisions are taken.

When we collaborate through programmes and actions and bravely confront the problems that our painful past has imposed on us, then we will be able to build productive business and government relations, this will be a good example to other sectors of our society and will accordingly make it easier to deal with wider socio-economic and political matters that face all of us.

Clearly, once we agree that there is an urgent need to transform our society and that access to resources, wealth and other opportunities cannot continue to mirror divisions and distortions of the past, it then becomes easier to negotiate the means and ways towards the common goal.
Undoubtedly, when we negotiate the best way forward, we have to be alive to the fact that, the most powerful voices are often those of the better – placed people in our society....

(South African Government Information, 2002)