THE DEVELOPMENT OF DIVERSIFIED CONGLOMERATES: FEDERALE VOLKS-BELEGGINGS - A CASE STUDY

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Leaders of the Afrikaner community, from church leaders, cultural leaders through to the few emerging business leaders, met in Bloemfontein in 1939 for an "Ekonomiese Volkskongres" (an economic conference for the nation). The main driving force was persistent poverty and powerlessness of Afrikaners in the country. Despite attempts by the National Party government since 1924 to address the question of the "poor whites" by means of labour legislation,[2] poverty had not been eradicated completely and the question of economic power remained unaddressed. Afrikaner leaders at the Volkskongres emphasised that poor and subjected or powerless people could never realise their full potential. While an element of political control had been achieved in South African politics, the need arose for formal and focused strategies to ensure effective Afrikaner participation in and control over a substantial part of the South African economy. Dr MS Louw, the Managing Director of SANLAM then proposed in his address to the congress, that Afrikaner capital should venture into the establishment of an industrial investment house. This concept was the first of its kind in the history of business in South Africa, when excluding those linked directly to mining finance houses. By that time business in South Africa was familiar with the involvement of large foreign corporations operating both in overseas markets as well as in the countries of origin. Examples of such multinational enterprises operating in South Africa were Lever Brothers and Pilkington Glass, operating as prototypes of business imperialism in South Africa during the early years of the twentieth century.[3] Afrikaners were concerned about the fact that most of the big business in South Africa was

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2 See e.g. D Hobart Houghton, **The South African economy** (Cape Town, 1976), pp. 153-7; J Nattrass, **The South African economy, its growth and change** (Cape Town, 1982), pp. 71-3.

3 See in the special issue on business imperialism in South Africa, **South African Journal of Economic History**, vol. 11(2), September 1996 a contribution by DK Fieldhouse on Lever Brothers and by Theo Barker on Pilkington Glass.

either part of foreign "business imperialism" or non-Afrikaner capital. The lack of effective Afrikaner participation outside the agricultural economy, precipitated Louw's proposal, which was aimed at the empowerment of Afrikaners, who had succeeded in politics, but not in business.

The need to act without delay lay in the open admission by English-speaking business of their dominance. In 1946 Professor Hutt from the University of Cape Town, commented to a meeting of the Sons of England that "Afrikaners experienced difficulties not as a result of deliberate discrimination, but amongst others because of their participation on small and medium level and not having the right contacts".[4] This observation commented on the progress of Afrikaner capital six years after Federale Volksbeleggings (FVB) had been established. In its formative years FVB operated at a clearly discernible emotional pitch - there was something impalpably messianic about it, for, like SANLAM and SANTAM, which preceded FVB, it had to be all things to all Afrikaners, a kind of economic Moses which had to lead its followers out of penury. This inclination would in future contribute to enormous difficulties for FVB and eventually led to a redirection of strategy.

This article aims at identifying the response of Afrikaners to growing business imperialism in South Africa. It focuses in the first place on FVB, but the role of Federale Mynbou and SANLAM cannot be ignored. It is argued here that the growth of diversified corporations, the so-called obligopolistic corporations so familiar in the American industrial environment during the last quarter of the 19th and early 20th century, presented powerless Afrikaners with a model for empowerment in the 1940s, as it is currently doing for black capital. The history of FVB is a business history, focusing on the initially nationalistically motivated acquisition drive of Afrikaner business, to the transformation of an unco-ordinated conglomerate into focused business concerns - in line with the international trends. An explanation will then be given as to how new management strategies from the mid-1980s resulted in a planned unbundling of corporate power, finally removing FVB completely from Afrikaner business. At the same time Afrikaner capital embarked on a systematic program of assistance to black capital to facilitate black economic empowerment (BEE).[5] This article does not attempt a comprehensive review of BEE, but links it with the rise and

4 FVB Archives, CH Brink Archive, The Cape Argus, 15 August 1946.

5 BEE refers to a systematic process, commencing in the early 1990s, of providing means and structures to black South Africans, to participate effectively in and control a substantial part of the South African economy

demise of the Afrikaner conglomerate in order to suggest a comparison between Afrikaner and black economic empowerment. It is thereby suggested that extensive further investigation into the evolution of BEE in South Africa, awaits researchers.

Federale Volksbeleggings: 1940-1970

The effects of the Great Depression were global, therefore also severe for South Africa[6] and especially for Afrikaners who were dependent on the sale of agricultural produce. The crash of primary commodity prices thus hit agriculture severely, contributing to the mass urbanisation of impoverished Afrikaners. The South African economy fortunately could recover fairly rapidly on the strength of the gold mining industry. By 1936 the Gross National Income had surpassed pre-depression levels with the most impressive growth visible in the manufacturing industry.[7] The economic role of the state began to become increasingly important, especially to its Afrikaner constituency. State incentives to the manufacturing industry were aimed at providing employment for unskilled impoverished Afrikaners in urban centres.[8] The Second World War provided increased incentives for economic growth and by 1945 South Africa's Gross National Product of £66,3 million, was almost treble that of 1933.[9]

With world-wide economic recovery well under way, Afrikaners commemorated the centenary of the Great Trek in 1938, arousing the power of Afrikaner nationalism like seldom before. Political and cultural leaders called on Afrikaners to unite. JG Strijdom called on Afrikaners to take up the challenge of their new "Great Trek", now not away from civilisation, but towards cities where their "new Blood River" lay.[10] These country-wide centenary celebrations provided a powerful impetus to the drive to secure Afrikaners a stronger position in the South African economy. A dynamic strategy therefore had to be developed to facilitate coherent Afrikaner participation in the South African economy. Prof. GCW Schumann, prophetically, described the economic plight of Afrikaners at the economic congress as a predicament that could never be understood or solved in isolation. To him the economic and social welfare of Afrikaners were inextricably intertwined with that of all the other population

6 See D Rothermiund, **The global impact of the Great Depression** (London, 1996).
7 FS Jones and A Muller, **The South African Economy, 1910-1990** (London, 1992), p. 129; Nattrass, pp. 25-7.
8 Houghton, pp. 153-5; Nattrass, p. 64.
9 Jones and Muller, p. 129.
10 See TR Davenport, **South Africa. A modern history** (London, 1987), p. 322.

groups in South Africa. Afrikaners' biggest problem, Schumann said, was the establishment of peaceful and constructive co-operation amongst all population groups, that had been so tragically divided by language differences, traditions and race divisions in this country.[11]

The Volkskongres decided to mobilise Afrikaner capital with the exclusive aim to promote Afrikaner businesses, great and small, and to concentrate Afrikaner economic power in large investment corporations. Federale Volksbeleggings (FVB) was the most impressive achievement of the congress.[12] Three main aims were to direct the performance of FVB:

* To fill the need for an industrial investment house, especially at a time when South Africa was expected to experience substantial industrial expansion (with the war of 1939 being an additional impetus).
* To tap for share investment people who had up to then shown little appetite for equities - especially the people of the rural areas.
* To create a vehicle through an industrial management company for Afrikaners who felt that they should participate more actively in industry and commerce.

The ideals of FVB were purely economic. The aim was to form, build and develop a group of companies which would play a leading and dynamic role in the economic development of the country. The primary objective would remain the best interest of the company's shareholders. The management philosophy was to utilise FVB as entrepreneur and investor through the acquisition, rationalisation and development of companies and investments which fitted the pattern of the group. This approach determined that management would invest in and dispose of companies and investments according to the overall group strategy. Management aimed at achieving satisfactory levels of efficiency and profitability in all group companies in order to yield the best benefits to all shareholders. These ideals were impersonated by the first group of FVB managers and directors. The first employee of FVB was Dr CH Brink, who later became the executive chairman. He did more to shape the group than any other man, being a man for quick decisions and driven by inspiration, rather than through the elaborate groundwork that more modern builders of industrial

11 **Federale Volksbeleggings, 1940-1990: From vision to reality**, p. 1.
12 See e.g. FA van Jaarsveld, **Van Riebeeck tot Vorster** (Johannesburg, 1976), p. 367; Davenport, p. 323.

empires put in.[13] The first Board of Directors of FVB consisted of Dr CR Louw, the first chairman (he was the Managing Director of Bonuskor), Dr TE Dönges, Senator APJ Fourie, Mr DJM Jordaan, Professor CGW Schumann and Mr CM van der Merwe. The board was actively involved in the initial management activities of FVB. Dr Louw emphasised that the nationalistic sentiment to enhance Afrikaner economic independence, had to be balanced by sound business principles. The first loan was made to retailers Kriel and Co. of Riviersonderend, representing the first step towards helping Afrikaner business. In 1941 FVB opened an office in Johannesburg. Mr William Bedford Coetzer was the manager. He would later venture FVB into mining activities by initiating the establishment of Federale Mynbou Beperk. The later Managing Director of Trust Bank, Jan S Marais, was also one of the early employees. Dr Pierre Ettienne Rousseau acted as the industrial advisor to FVB, together with Mr Gerrie van Zyl, the builder of fishing boats from Salt River. Gerrie van Zyl and Mr FC Jameson of Jameson Welding Works, laid the foundation for the later FVB fishing enterprise, Marine Products. Those early entrepreneurs were inspired by the desire to bring Afrikaners into commerce and industry, but soon their vision broadened to an effort to develop the economy of the country as a whole.

The early years were not without differences of opinion. In striving for excellence, FVB's management had to walk the fine line of assisting all ailing Afrikaner businesses requesting the FVB's helping hand, and maintaining maximum returns on investments. These two sometimes opposing considerations resulted in differences between two pioneer managers, Charlie Brink and William Coetzer. In 1944 Brink was appointed Managing Director of the new established Federal Investment Corporation and Coetzer became the Managing Director of FVB, until he ventured into Federale Mynbou in 1953. In 1947 Dr CJF Human joined FVB and subsequently took over the responsibilities for the Transvaal from Coetzer. In 1950 Dr Rousseau left FVB to start SASOL, only to return as chairman of FVB later on. Dr Louw remained the chairman of FVB until 1966, when he retired at the age of 91 years. Dr Brink succeeded him as chairman, but when he passed away in 1969, Dr Rousseau moved into the chair. In 1966 Dr Kerneels Human was appointed Managing Director of FVB until he was succeeded by Mr IJ Moolman in 1982. Dr Human was appointed the new chairman. Right through the 1940s to 1970s relatively young Afrikaner businessmen filled the head office managerial ranks, from where they were sent

13 FVB Archives, **CH Brink Archives, FVB Annual Report, 1943; Financial Mail,** June 1970, p. 37.

out to specific industrial jobs, e.g. Jan Marais who was later on drawn from FVB's staff to run Trust Bank.

FVB started out with capital of £20 000 (R40 000), which it found extremely difficult to raise, since most subscribers only subscribed to 10 or 20 shares at a time. When subscription closed in August 1940, £20 910 had been received, belonging to just over 900 shareholders. This meant that each shareholder owned an average of 23,2 shares - illustrating the typical small shareholder of the company. SANLAM was a major shareholder and remained so throughout the history of FVB. By 1970 FVB's paid up capital consisted of R14 650 000 in R1 shares. The increase in share capital of FVB represented a 23 % annual compound growth. FVB's share capital was still mainly made up of relatively small shareholders. The composition of the shareholders changed from almost exclusively Afrikaners in 1940, to a ratio of Afrikaans to English shareholders of 60/40 in 1970.[14]

This capital base was soon insufficient to service the needs of the company. FVB established FLAM - Federale Lenings- en Assuransiemaatskappy (Federal Loan and Assurance company). FLAM's main function was to create and sell debentures as a means of raising working capital. This avenue proved the FVB's original distrust of the share market, but it served FVB well. By 1970 this was the only wholly owned FVB subsidiary, with assets of R15,2 million, mainly comprising of loans it had made to group companies, as well as part of the group's holding of equities. FLAM's liabilities were the debentures it sold to the public - standing at R12 million in 1970.[15]

FVB's management philosophy initially was to build up a large portfolio of minority interests in a wide spectrum of companies. The limits of its financial resources determined the extent of its activities. The first investment was in SAFIM (South African Farm Implement Manufacturers) a Vereeniging manufacturer of farm implements. In 1961 FVB's participation in the farm implement industry increased substantially when it bought a 28 % share in Massey Ferguson, South Africa, for approximately R50 000, leaving a 51 % controlling interest to the Canadian parent company. SAFIM became a wholly-owned subsidiary of Massey Ferguson, with SAFIM manufacturing the implements and Massey Ferguson handling distribution. In the late seventies the Canadian

14 **FVB Annual Report, 1970.**
15 **Ibid.**

parent ran into difficulties and FVB increased its interest to outright control.[16]

The first move of FVB towards the food industry, was its involvement in 1941 in Jameson Welding Works, a small fishing company in Salt River. This concern was soon merged with Marine Products Limited, initially known as Laaiplek Visserye at Walvis Bay. Marine Products pioneered the reduction of fishmeal and oil from shoal fish, not knowing what to do with the pilchard and mackerel offal at Laaiplek. The inshore fishing alone became a R100 million annual industry. This fish industry brought new-found wealth to the West Coast community of Walvis Bay, through job creation. By the end of the 1950s Marine Products and Nola provided valuable income to FVB. When the Cape West Coast fishing industry gradually declined, the outside interests of Marine Products increased to 37,4 % of its business by 1970. The outside interests included copper mining (Klein Aub Copper), Nola Industries (producing malt powder for the beer industry, sunflower and castor oil and allied products) and Insulation Products (producing insolation wool from slag as well as other insulation materials). In 1970 the **Financial Mail** wrote: "It is probably FVB's most important money-spinner, and certainly one of its main pillars of prosperity since its inception.[17]

From fish FVB expanded rapidly into a holding company managing the business of thirty companies - not all in the capacity as majority shareholder. In the years between establishment and 1970, FVB's management deliberately avoided acquiring controlling interests in too many companies. Extensive control would require consolidation, and FVB was not at all in a consolidation phase - it was still expanding, albeit with capital restraints.

The two most impressive developments within FVB before 1970 were the establishment of Federale Mynbou in 1953 and the formation of Trust Bank in 1954.[18] Trust Bank alone had assets of more than R593 million in 1970 and Fedmyn's assets were in excess of R116 million. FVB held only 25 % of the Trust Bank equity, as had been permitted by law, with the result that it could not count on automatic access to the enormous cash flow the bank was

16 **Financial Mail**, 19 June 1970; 31 July 1981.

17 **Financial Mail**, June 1970, p. 17; FVB, **From Vision to Reality, p. 4.**

18 On the establishment of Fedmyn, see G Verhoef, "Nationalism and free enterprise in south African mining: The case of Federale Mynbou 1952-1965", **South African Journal of Economic History**, vol. 10(1), March 1995; on the establishment of Trust Bank, see G Verhoef, "Afrikaner Nationalism in South African banking: The cases of Volkskas and Trust Bank" in S Jones, **Financial Enterprise in South Africa since 1950** (London, 1992).

generating. There were other shareholders like SANLAM, SANTAM, Old Mutual (via Common Fund Investment) and ISCOR Pension Fund with equally legitimate claims to funds. What FVB did obtain, was a valuable investment with a strong growth potential. Similar growth opportunities were extended via Fedmyn, especially after the 1963 effective take-over of General Mining. General Mining became a subsidiary of Fedmyn, with a substantial minority interest held by Anglo American Corporation - another business relationship outside Afrikaner capital. The politics of this deal enabled Afrikaner capital to gain a foothold in gold mining - a long frustrated ideal that could at last come true. Together with General Mining came industrial interests and management expanded it further. Unexpected new industrial concerns within General Mining were Transvaal Sugar Corporation Ltd., Hall Longmore Ltd., which became the vehicle for further acquisitions of a host of engineering companies, Union Wagon and Carriage Co. Ltd. and National General Industries Ltd., manufacturing lawn mowers, motor car spares and agricultural equipment. Genmin was also involved in the manufacturing of concrete pipes and cardboard packaging. By 1970 more than 25 % of Fedmyn's business was industrial.[19] The financial press did not look upon this development with too much admiration: the **Financial Mail** noted that Genmin, like the other mining houses, had extended its investment into industry, but that it sometimes rushed in where most intrepid conglomerates feared to tread. Between 1963 and 1970 the percentage funds invested in industry rose from 13 % to 36 %. "General Mining appears to have seen the light towards the end of 1970, but has subsequently suffered from the hangover acquired from injudicious investment and poor management." Genmin wrote off losses to a total of R26 million between 1965 and 1972 - of which the largest part went to the disinvestment from unsuccessful enterprises.[20]

The FVB structure by 1970 rested on a number of specialist holding companies. The holding company at the top was FVB, with total assets of R47,8 million and a shareholders' interest of R26,1 million. On the next level were the specialist holding companies:

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19 See G Verhoef, **The History of Federale Mynbou Beperk** (Unpublished manuscript, 1993); D Yudelman, **The emergence of modern South Africa. State, capital and the incorporation of organised labor on the South African Gold Fields**, 1902-1939 (Greenwood Press, 1983), p. 280; M Lipton: Capitalism and Apartheid, pp. 309-11.

20 **Financial Mail**, 5 May 1973, p. 31.

- **Federale Beleggings Korporasie** (Federal Investment Corporation): FBK was a close-end investment trust with a substantial part of its portfolio in group companies, under the management of Dr CH Brink. FBK held assets in excess of R18,4 million in 1970. The shareholding of FVB in Trust Bank, Fedmyn, General Mining, Sentrust and Klein Aub was placed here.
- **FLAM**: This was the debenture financing wholly-owned subsidiary of FVB, which held assets of R15,2 million by 1970, initially headed by Dr JS Marais.
- **Federale Nywerhede Beperk** (Federal Industries Limited): FNB was a listed holding company, holding most of FVB's fish interests. FNB's assets were R8,7 million in 1970. This company was the one FVB most wanted to expand, since it held the industries in which FVB wanted to grow.
- **Fedchem**: This was the FVB holding company for its chemical interests. FVB had merged its interests in Klipfontein Organic Products (KOP) with the chemical interests of BP Chemicals, National Chemical Products (NCP) and IDC's Synthetic Rubber company in 1967 to form Sentrachem. Sentrachem was controlled by the three major shareholders, as explained above, and showed FVB's willingness to participate with non-Afrikaner business interests. Apart from Sentrachem, FVB also had a 49 % interest in Federale Kunsmis (Federale Fertiliser) and minority shareholdings in SA Druggists (SAD) and Aerochem. FVB held minority interests in two pharmaceutical companies, Sana and Petersens. Under the management of Mr Francis le Riche the activities of these companies were rationalised. In 1968 both these companies had been turned around from loss to profit. On FVB initiative they were merged with SAD in exchange for a stake in SAD. FVB saw these chemical interests as exciting, but by 1970 they were still capital intensive. Fedchem was not an FVB subsidiary, but Old Mutual was one of the substantial shareholders in the company, which provided another opportunity for co-operation with non-Afrikaner business. Fedchem's assets totalled R19,9 million in 1970, making it one of the strongest FVB holding companies.
- **Transmar**: This was die FVB holding company for trade, tourism and services concerns. FVB's interests in retail trade (Morkels and Uniewinkels), petrol (Trek Investments), hotels and car rental (Avis), were situated here. Transmar's assets exceeded R6,3 million in 1970.
- **Champions**: This was the vehicle for FVB's property interests and its minority interest in Massey Ferguson. Champions' assets were in excess of R7,7 million in 1970.

An analysis of the FVB company structure by 1970, reveals a diversified conglomerate of approximately 30 companies, of which 19 were listed on the JSE. As stated earlier, the financial structure of the FVB companies was highly pyramidical: mathematical control was avoided, but effective control was exercised, usually jointly with partners. There were two historical reasons for that. On the one hand it was to broaden the scope of its investments with the minimum cash outlay. The initial goal of FVB was to build up a large portfolio of minority interests in a wide variety of companies - to some extent forced upon FVB by the limited financial resources at its disposal. This materialised. The second reason for the structure of FVB investments, was the conviction of the FVB Board that it was prudent to rely on increasing dividend income for the growth of the group, rather than on operating profits, since the latter fluctuated more. FVB grew by a high rate of income retention in its holding operating and intermediate investment companies, and simultaneously injected loan and equity capital into its concerns. Evidence of this can be found in the strong growth in net profit after tax from a loss of R2 780 in 1941 to R2,5 million in 1970,[21] (representing approximately an annual compound growth of 81 %), but growth from just over R180 000 in total dividends paid in 1950 to total dividends of R1,2 million paid in 1970, representing only a 12 % annual compound growth per annum for that period.

The stronger growth in total assets (at book value) from nothing to just under R50 million in 1970, while ordinary shareholders' interest stood at less than R38 million in 1970, testified to the confidence the market had in FVB. This made it easier for FVB to hold back earnings for further growth. The impressive expansion of FVB was facilitated by the rapid growth in the South African economy since the end of the Second World War. The gross national product almost doubled between 1949 and 1957 - from R2 290 million to R4 583 million, and between 1960 and 1970 it rose by almost 140 per cent to R12 400 million.[22] Hand in hand with this growth performance, went the structural change in the economy. The relative contribution of agriculture and mining (the primary sector) to Gross National Product (GNP) dropped from 33,4 per cent in 1939 to 18,7 per cent in 1970. Simultaneously the contribution of secondary industry rose from 17,7 per cent to 24,7 per cent, and that of tertiary industry from 48,9 per cent in 1939 to 57,1 per cent in 1970.[23] The latter two sectors were

21 **FVB Annual Report, 1970.**

22 See Houghton, pp. 209, 202-6; also compare Jones and Muller, pp. 129-31; I Abedian and B Standish (eds.), **Economic growth in South Africa. Selected policy issues** (Cape Town, 1992), pp. 123, 129.

23 Jones and Muller, p. 130.

exactly where FVB focused its activities. Furthermore, the relative political stability in South Africa, except for the 1961 Sharpeville incident, made a valuable contribution towards the expansion of FVB. While riding the great boom of the period between 1961 and 1970, FVB was faced with a strategic decision in principle: would it proceed with more diversification and acquisitions or would it opt for consolidation?

FVB in both consolidation and expansion: 1970-1985

The time had come for FVB to reconsider its course. Serious management discussions early in 1970 resulted in a strategy to provide better co-ordination within the group. Management expressed concern at the high degree of autonomy exercised by managing directors or local managers of FVB's group companies, due to a lack of centralised control and consolidation of the activities of group companies. The newly devised strategy provided for increased decentralisation of functions, but increased control from the centre, as well as a simplified conglomerate structure. FVB would thus reorganise existing interests and improve control via more specialised holding companies. The typical ad hoc acquisition drive of the early years would have to make place for focused control. Superfluous concerns would be sold off and other switched to ensure that priorities receive prime attention. It was decided that FVB would go for control, i.e. 51 per cent shareholding, in its strategic investments. Those investments would then be restructured into five divisions: chemicals, food, electronics, services and industrials.[24] This would mean that time-consuming small investments would be sold, management in FVB and other holding companies would be strengthened, and provision would be made for improved information flows, budgetary and strategic supervision and forward planning systems. The hands-off approach of the early days would be shelved permanently.

The restructuring of FVB was decided upon in 1970, but it took the group the best part of a decade to put its plans into practice. The two most interesting rationalisations were the disposal of Trust Bank and Fedmyn. Trust Bank ran into serious liquidity problems by the late 1970s, demanding vast capital injections from its shareholders.[25] Trust Bank was then virtually taken over by SANLAM, leaving FVB an interest of just over 6 % in the bank. The problem for FVB was that it held a substantial interest in Trust Bank, but was not

24 **FVB Annual Report, 1990**; FVB, **From Vision to Reality**, pp. 5-6.
25 See G VErhoef, **Afrikaner Nationalism in South African Banking: The cases of Volkskas and Trust Bank**.

directly involved in its management. In terms of FVB's new management approach, FVB's management wanted direct control over most of its investments in order to ensure that developments would go according to its principles and policies. The SANLAM takeover provided SANLAM with the opportunity to manage Trust Bank along with its specific policies: Dr Fred du Plessis virtually managed the bank singlehandedly between 1977 until his death in 1992.

Similar considerations were put forward for the decision to withdraw from Fedmyn (operating as GENMIN). FVB's management argued that Fedmyn had become too big for it to control and serious concerns were expressed over the industrial components in Genmin (as quoted above). This decision came at a time when Fedmyn was also engaged in the bitter struggle with Gold Fields of South Africa for the acquisition of Union Corporation - a transaction demanding vast capital resources from shareholders. Furthermore FVB had decided that mining was not one of its strategic interests - nor was banking - and its stake in Fedmyn was sold to SANLAM in 1978 for over R20 million.[26] The principal shareholders in Fedmyn thereafter were SANLAM (45 %), Volkskas (10 %) and Rembrandt (25 %).

By 1981 FVB had retreated from an extremely diversified conglomerate towards a more focused organisation. What remained of FVB after 1981 was structured around the following subsidiaries:

- **Federale Nywerhede**: Federal Industries was a wholly-owned subsidiary of FVB (in line with the policy of hands-on management of its concerns). Johan Moolman was hired from Boland Bank to rationalise the spaghetti-like industrial concerns of FVB. Minority interests that demanded a disproportionate amount of management time, were sold off, e.g. Fedmyn, Woods of Paarl, the FVB Centre in Bloemfontein, Trek Investments and Klein Aub Copper Mine. FVB obtained control of Massey Ferguson in 1980 and it was renamed Fedmech Holdings. The holding company of Federal Industries maintained its interests in Beau Investments (cabinet-making and chipboard manufacturing); Cape Lime, dealing in lime, with minority interests in Durban Cement and Natal Portland Cement; continental Clima, manufacturing crockery, a kaolin beneficiation plant and a feldspar plant; Fedmech, distributors of farm and construction equipment; and minority shares in Siemens (16 %), Veka Clothing (30 %), Isostar (60 %) (radiation processing facilities) and Firestone (75 %). Day to day

26 **Sunday Express**, 3 December 1978.

operational autonomy remained within the operating companies, but financial and information controls were directly exercised by the FVB holding company management.[27] This rationalised composition of industrial interests provided FVB with a base for strategic expansion opportunities.

- **Federal Chemical Investments**: FVB owned 67 % of the shares in Fedchem, which became the vehicle for FVB's chemical concerns, such as Sentrachem (50 % FVB interest), SA Druggists (51 %) and three smaller chemical concerns. Sentrachem and Federal Kunsmis merged in 1978, giving FVB a 50 % interest in Sentrachem and 67 % in Fedchem. This made FVB one of the two private sector giants in the chemical industry (the other being AECI). Sentrachem was the chemical and fertiliser manufacturer and SA Druggists the pharmaceutical manufacturer.
- **Federal Telectra**: FVB housed its electronics and furniture concerns here. These concerns were Morkels (100 %) - furniture and household retailing), Federal Electronics (96 % - consumer electronics), Piano Manufacturers (100 %) and a minority shareholding in Raylite Holdings (25 % - the battery manufacturers).
- **Fedfood**: This holding company brought together FVB's food concerns, i.e. Marine Products (100 % - the fishing company), Nola Industries (90 % - edible oil, grains, malt powder and maize milling), Industrial Oil Processors (100 % - industrial oils), Fedpro (100 % - maize milling), Ruto Holdings (51 % - edible oils, grains and maize milling), Simba Quix (100 % - snack foods), Table Top (100 % - frozen foods), and Fedmark (100 % - wholesale foods). Fedfood was restructured since 1976 when Johan Louw from Tiger Foods took over its management. Fedfood showed tremendous growth in total assets, from R50,6 million in 1976 to more than R222 million in 1981 (representing an annual compound growth of 45 % per annum). Its operating income rose from R10,5 million in 1976 to R34,3 million in 1981 (35 % annual compound growth), while net profit rose from R8 million in 1976 to R16,7 million in 1981 (representing a 21 % annual compound growth). These figures showed the gradual settling down of the different food concerns into a coherent unity under FVB's central management. Fedfood was only 69 % owned by FVB.
- **Fedservices**: All the service concerns within FVB were grouped together under Fedservices, including Zeda Holdings (75 %), housing the Avis car and truck rental, Fedics Food Services (50 %), the only division of Cape Hotels FVB kept, Price Forbes Volkskas (40 %) - insurance broking and risk management), Fedmar Ores and Metals (100 % - the import and

27 **FVB Annual Report, 1981.**

export company), Lambons (100 % - the Ford agency), and two property concerns. Fedservices was wholly owned.

Table 1: FVB Investment Structure, 1980-1981.

	Turnover		Total Assets		Pre-tax Profit	
	1980(%)	1981(%)	1980(%)	1981(%)	1980(%)	1981(%)
Industries	7,6	14,7	13,1	13,0	7,3	13,5
Chemicals	29,1	24,4	38,0	32,9	33,0	25,7
Electronics	11,1	12,9	11,0	14,2	5,2	20,3
Food	43,6	43,1	28,5	31,0	34,0	32,3
Services	5,7	4,4	3,4	4,9	5,4	4,8
Sundry	2,9	0,7	6,0	4,0	15,1	3,4

Source: **Financial Mail**, 31 July, 1981

Table 1 shows that the most important shift in turnover was in FVB's industrial concerns, from 7,6 % to 14,7 %. The restructuring was responsible for increased contributions to group profit especially by the industrial and electronics concerns. The consolidated figures for FVB as holding company reflected the following improvement between 1976, when most of the restructuring commenced, and 1981:

Table 2: FVB Consolidated Statistics, 1976 and 1981

	1976	**1981**
Gross assets Rm	233	716
Shareholders' funds Rm	120	318
Turnover Rm	175	1 028
Pre-tax profit Rm	20,4	81,6
Equity earnings Rm	8,6	31,9
Net worth (c/share)	403	854

Source: **Financial Mail**, 31 July 1981

The overall effect of restructuring on FVB earnings, was positive. The growth of gross assets was more than 207 %, which represented an annual compound growth of 33 %. The increase in shareholders' funds was 165 % or a 28 % annual compound growth for that period. This increase in shareholders' funds improved on the 23 % annual growth for the period before 1970. The increase in turnover was over 487 %; the pre-tax profit increased over 300 % or 42 % annually. This growth rate was considerably lower than the 81 % after-tax profit growth in the period before 1970. The net value of shares rose by more than 111 %, illustrating support for FVB in the market.

The same FVB group structure was basically maintained until 1985, when the winds of change blew through its corridors once again. By 1985 turnover had risen to R1 764,8 million, another 71,5 % increase. The growth of FVB's assets between 1981 and 1985 was 24 % annually, which was considerably lower than the 33 % growth in assets between 1976 and 1981. This situation was going to create difficulties for FVB. Total shareholders' interest had risen to R387,2 million in 1985, representing an increase of only 21,7 % since 1981. The problem was that FVB maintained an interest bearing debt of R651,8 million by 1985.

This reduced FVB's gearing ratio (interest bearing debt as a percentage of total shareholders' funds) to 1,68, which was regarded as too high by FVB's principal shareholder, SANLAM. (In 1985 SANLAM held 53,66 % of FVB's shares.) For the year ending 31 March, 1985, FVB realised an attributable loss of R64,8 million. An operating profit of R127,5 million was shown, but interest payments amounting to R75,8 million and the foreign exchange losses, eroded the profit to a pre-tax loss of R37,9 million. Earnings per share was R137,40. The other red light was that FVB had a negative cash flow of R21,2 million in 1985, which meant that SANLAM would once again be requested to assist FVB with capital. FVB was expanding, but was increasingly unable to sustain that growth from its own capital resources. To add insult to injury, FVB suffered foreign exchange losses of approximately R85 million in 1984 due to the drastic weakening of the Rand. FVB did not have sufficient capital resources to overcome this setback and had to approach the market (in effect thus SANLAM) for shareholders' funds. It was calculated that Avis needed R4,5 million, Fedfood R40 million, SA Druggists R25 million and TEK Corporation R25 million - an amount of R100 million to put FVB's business back on track. A R100 million rights issue was agreed upon, which was floated in February 1986. The impact on SANLAM would be approximately R25 million.

FVB was at the crossroads once again: focus in the group was dwindling and restructuring became imperative. The FVB management decided early in 1985 to restructure its business again. It would concentrate its investments mainly in the consumer market, and in enterprises that had already achieved dominance in their particular markets or could soon obtain such market dominance. The implication for FVB was that as a holding company, it would refrain from investment in enterprises servicing a limited and specialised segment of the market, or which dominated a limited geographical area.[28] This meant that FVB would focus on food, pharmaceuticals, services, durable and non-durable domestic goods and automobile components. The other side of this coin was that FVB would again be in the disposing business, wanting to sell off its interests in the chemical industry, building materials, electrical and electronics industries and furniture retailing. This was a similar exercise to the Fedmyn industrial sell off in the early 1970s under Dr Wim de Villiers. Should this program be successful, FVB would dispose of assets of R212 million, for which it was only expecting to receive R129 million - FVB had to prepare for another R82 million write-off.[29] This contributed to FVB's desperate capital position by 1985.

From FVB to SERVGRO: 1985-1992

The economic environment of the early 1980s changed dramatically. While the Gross Domestic Product (GDP) grew by approximately 8,8 per cent annually during the 1960s, that performance dropped to 3 per cent per annum between 1979 and 1988. A decrease in per capita GDP was experienced, as well as high inflation, low savings and increased international pressure. For the whole decade of the 1980s average annual growth of 1,1 per cent was achieved, while in some years growth was actually negative. Many domestic and international developments contributed to this negative growth, e.g. strikes in 1973, the uprising starting in Soweto in 1976, declines in foreign investment, disinvestment campaigns, sanctions and boycotts. South Africa was clearly caught up in a lengthy contraction period of the business cycle[30] and it was not expected to change soon. It was though observed that food, pharmaceutical and service

28 FVB Management, 6 November 1985.
29 Ibid.
30 Mohr and Rogers calculated that the average length of expansion and contraction periods in the business cycle, had changed from 32 months expansion and 12 months contraction during the 1960s, to expansions of only 28 months and contractions of 26 months between 1972 and 1985 respectively. Abedian and Standish, pp. 13-4.

industries were less sensitive to the fluctuations in the business cycles.[31]

These negative economic developments had serious implications for SANLAM. Certain strategic portfolio investments were underperforming, given the growth trend of the South African economy, and SANLAM recognised the need for more focused management expertise in those investments. At SANLAM the focus was still very much on assurance business, which lay increasingly distant from the nature of some strategic investments.

In 1985 SANLAM subsequently established SANKORP, a new holding company for its strategic investments and transferred its strategic investments to it. The **Sunday Times** interpreted this move as if Dr Du Plessis had said to Marinus Daling: "Take all these disasters, son, and fix them."[32] The market value of SANLAM strategic investments transferred to SANKORP was approximately R913 million. Within that portfolio, FVB, Malbak and Anchusa Holdings were all industrial holding companies. Other concerns within the SANKORP portfolio were mining (Fedmyn, Gencor), financial (Bankorp, Metropolitan Homes Trust, SANTAM), transport, electronics, engineering and retailing. In these investments lay industrial enterprises scattered over several holding companies, as did electronics concerns, retailing concerns, mining concerns, etc. As far as FVB was concerned, Fedmech, Continental China and Sentrachem were reporting enormous losses, while FVB was financing debt by means of preferential shares. FVB's bad profit performance made it increasingly difficult to issue preferential shares without guarantees from parent companies. SANKORP was not prepared to pursue a policy of providing guarantees to underlying companies, since it had been accepted as a principle objective that underlying companies would act independently in the market. FVB therefore had to be restructured. SANKORP was meant to manage and restructure the group of companies transferred to it by SANLAM so as to restore life to so-called lame ducks. Two factors were vital to perform this role, i.e. capital and management. SANKORP had access to both. SANKORP interpreted its management role seriously: it perceived itself to be a centre with a vital role in the development of business unit strategies, the centralisation of strategy and the decentralisation of operations to a number of management companies based along market lines. "The assumption is that operating managers look one or two

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31 **Ibid.**; Jones and Müller, pp. 232-3; see also S Jones, "Real growth in the South African economy since 1961", in **The South African Journal of Economic History**, Vol. 5, No. 2, September 1990, pp. 56-7.

32 **Sunday Times**, 5 March 1989.

years ahead. The centre must provide the longer-term perspective...It's a charade to pretend in this era of corporate democracy to decentralise this right and responsibility [i.e., to be involved in strategy decisions] widely onto the organisation. Down at the business level there are two or three decisions each decade that make or break business. Do you really want to leave the business manager to make these?"[33] This was the essence of the SANKORP management philosophy. It was not too far removed from what FVB also stated as its aims in the early 1970s, but of which little came to fruition. Dr Fred du Plessis, Executive Chairman of SANLAM, took the revitalising of inter alia FVB under his direct auspices.

The rights-issue in 1986 took place with the blessing of and under the watchful eye of SANKORP, increasing shareholder's interest in FVB to 49,1 %, reducing interest bearing debt to 24,8 % and interest free debt to 26,1 %. This was step one - recapitalising FVB. The next step was to rationalise the FVB group. In June 1986 SANKORP bought FVB's 25 % interest in Sentrachem, realising a R33,6 million capital flow to FVB. SANKORP would henceforth develop Sentrachem as a strategic investment. Later in 1986 FVB's interests in inter alia Teklogik, Siemens, Isostar and Interbank, were sold. These transactions secured R68 million for FVB. SANKORP then sold its stake in Firestone to FVB rendering FVB sole ownership. FVB succeeded in listing Morkels in 1987, then sold its 25 % stake and pocketed R9,5 million. By 1987 a much leaner FVB improved turnover by 11,5 % on the 1985 figure, while the operating margin improved from 6,8 % to 7,9 %. FVB nevertheless had problems with Fedmech and TEK. SANKORP's concern remained FVB's interest bearing debt, which still stood at 34 %, as compared to 30,5 % for Avis, 26,6 % for Barlows, 21,6 % for CG Smith and 17,8 % for Malhold - all industrial conglomerates comparable with FVB. Another rights-issue of R100 million was agreed upon for late 1988. This rights-issue was not excessively favourably received in the market - only 97 % of the rights were taken up and this meant further assistance of R10,6 million by SANKORP. The only great achievement was that this rights-issue reduced the ratio of FVB's interest bearing debt to shareholders' funds to 4 %. The message from SANKORP remained clear: no new investments or expansions, only recapitalisation of subsidiaries.

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33 M Goold and A Campbell, **Strategies and styles. The role of the centre in managing diversified corporations** (Oxford, 1990), p. 47.

Despite the fact that FVB's attributable earnings increased with a 61 % annual compound growth between 1986 and 1989, that earnings per share increased by a 49 % compound growth, that return on capital improved from 18 % in 1987 to 26,6 % in 1989, and that dividends per share were restored from none in 1985 and 1986 to 21 cents in 1989, FVB's shares were still trading at a discount of 47 % on the JSE. (FVB's share price in November 1989 was 345 cents compared to the disclosed net asset value per FVB share of 650 cents). SANKORP was cautious of the FVB recovery - there was little confidence that it would be a lasting one and the market reflected the same negative sentiments. The economic upswing expected by late 1988, early 1989, remained wanting and government introduced measures to curb consumer spending. TEK experienced serious export losses, with devastating consequences for FVB once again. In 1990 FVB reported a 30 % decline in earnings.[34]

Since 1988 SANKORP was discussing the possibility of buying out the FVB minorities, delisting FVB and then fundamentally restructuring the group. The disastrous 1990 results prompted action. FVB shares were trading at an all time high discount of 53 %, with the effect that FVB was unable to use its paper for acquisitions. SANLAM's portfolio managers were criticised for including FVB shares in various portfolio's, particularly those of pension funds. Lastly, underlying companies experienced difficulties in attracting top management due to what was seen to be an underperforming group. SANKORP subsequently approved of the de-listing of FVB. Minorities were bought out at 460 cents per share.[35] This step dampened the effect of the poor FVB image and cash flow problems on the growth of underlying companies and improved the SANKORP portfolio with R300 million.

SANKORP was now the sole owner of FVB. It planned a comprehensive new industrial strategy for all its industrial concerns, which was officially adopted in October 1991. This provided for the creation of three focused industrial conglomerates within SANKORP, namely a consumer orientated conglomerate, of which Malbak would be the vehicle; a gross domestic fixed investment orientated conglomerate, of which Murray and Roberts would be the vehicle; and the services orientated conglomerate, of which FVB would be the vehicle. This rationalisation was a package deal: it was an overall industrial strategy for the group and would not be implemented unless in a package. The transaction entailed the following: FVB sold its stakes in Fedfood and SA Drug-

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34 **FVB Annual Report**, 1990.

35 **SANKORP Board Minutes, 11 June 1990.**

gists to Malbak, which in turn issued shares that went to SANKORP. Malbak sold engineering concerns to Murray and Roberts (Darling and Hodgeson, containing Blue Circle, and Standard Engineering). The FVB sale earned FVB 46,9 million Malbak shares, which were transferred to SANKORP as partial realisation for its investment in FVB. FVB also sold Firestone, Trichamp and Gabriel to Murray and Roberts.[36] These deals finally rationalised FVB's food, pharmaceutical and automobile components. SANKORP was left only with service orientated companies in FVB. The last step in the protracted FVB rationalisation process, was the change of FVB's name to Fedservices in April 1992. Fedservices was the new holding company for SERVGRO, the services orientated conglomerate emerging from the industrial rationalisation transactions in 1991. Servgro was a wholly owned subsidiary of SANKORP with the following subsidiaries: Avis, Fedics, Interleisure, Price Forbes, Teljoy and Naspers. Servgro was listed on the JSE on August 7, 1992, in the Industrials - Beverages - Hotels and Recreation sector. At the time of listing 25 % of the shares of Fedservices were offered to the public and Rand Merchant Bank valued Servgro's assets at R640 million.[37] Servgro was the happy ending to a protracted suspense story. With FVB SANKORP's rationalisation of FVB it illustrated its expertise in the management of conglomerates to secure focused operating groups. SANKORP knew right from 1985 that FVB urgently required focus and stringent financial discipline. FVB resembled the nationalistically motivated acquisition drive that characterised Afrikaner business since the early 1940s. Such a group could not survive in the 1990s, when the international trend was away from diversified conglomerates, towards clearer focus and specialisation.

Servgro was finally positioned in the tertiary sector of the South Africa economy. Worldwide the services sector proved to be the fastest growing sector in modern economies. Services contributed 55 % to GDP in industrial countries in 1970, but by 1987 that proportion rose to 63 %. In developing countries the same trend was noticeable, although emerging more slowly - from a 45 % contribution to GDP in 1970 to 49 % in 1987. In South Africa the annual compound growth in the primary sector between 1985 and 1992 was 1,34 %, compared to 0,34 % in the secondary sector and 1,47 % in the services/tertiary sector.[38] That was where Servgro was positioned.

36 **SANKORP Management Minutes**, 8 April 1992.
37 **SANKORP Board Minutes**, 10 June 1992; 14 October 1992.
38 **SANKORP Board Minutes**, 13 October 1993; Jones and Müller, p. 232.

Ironically, the Afrikaner driven business in the 1940s, FVB, found the end of its journey in a group of which the business philosophy and mission was only available in English! Servgro succeeded in achieving a growth in earnings of 20 % and earnings per share of 14 % in its first operating year, which was the only criterion applied by SANKORP in evaluating the performance of its underlying concerns. The latter would in future be enhanced further by the unbundling operations within the SANKORP group's holding companies.

Conclusion: the economic empowerment experience

The history of FVB shows how a drive for economic power was translated into acquisitions and more acquisitions, until conglomerates emerged that placed immense pressure on the abilities of its managers. FVB knew up to 1970 that there was little method in their drive for ever more business concerns. The desire was simply to gather companies within the fold of Afrikaner capital by means whereof people who had little experience in business, would be empowered in business. The result was the emergence of a highly diverse conglomerate with a lack of business coherence and inner logic.

South Africa is currently experiencing such an empowerment drive again. The difference now is that existing business concerns have actively embarked on the promotion of economic empowerment of the black community as a definite survival strategy in the newly evolving South African environment since the early 1990s. SANKORP systematically analysed the changing business environment of South Africa since its inception. A vital aspect of the findings of that analysis was that future growth of the South Africa economy would depend on the development of the totality of the country's factors of production. To SANKORP this meant a structural adjustment of the South African economy. Translated into practice, this implied improved education, training, the development of experience and participation of black people in the economy. Numerous SANKORP documents dealt with the company's social involvement strategy, i.e. the systematic improvement of the interests of its stakeholders. This goal was translated into programs to improve the human quality of its stakeholders, e.g. to promote the supply of skilled labour and managers from the black communities. The way SANKORP approached this matter was to adopt the alliance model. The objective of this model was to promote economic empowerment by increased command over factors of production by the stakeholders using small businesses or large corporations. SANKORP's policy was that this empowerment had to be stakeholder driven, it had to pool skills and resources and be to the mutual benefit of all parties involved. SANKORP was not engaging in economic empowerment as a benevolent benefactor - it wanted to create opportunities for people to improve their own circumstances. In the end the deal entered into, had to be profitable for SANKORP and its business partners.[39]

SANKORP acknowledged that there existed many similarities between the Afrikaner economic empowerment process in South Africa and black economic empowerment. Both these groups had humble beginnings in business due to limited participation in the mainstream economy of the country. As discussed in this article, the dramatic growth in Afrikaner economic participation, came when Federale Mynbou obtained General Mining and when Trust Bank entered the financial sector. SANKORP argued that black economic empowerment could only succeed if blacks had such a dramatic opportunity of gaining significant shareholding in companies, access to capital and other factors of production and be directly involved in the management of companies they owned. The vehicle SANKORP sought for this strategy, was Metropolitan Life, a life assurance company in the SANKORP stable, with a strong balance sheet, strong cash flow, a largely black customer base and predominantly black staff component.

This article is not the place to fully explore the emergence of black economic empowerment. Suffice it to refer to two initial deals that SANKORP concluded. The first was to enter into discussions with a group of influential black individuals which resulted in an agreement early in 1993 in terms whereof Metlife Investment Holdings (METHOLD) was established. Several black investors held shares in Methold while SANKORP kept 20 %. Methold purchased 10 % of the ordinary share capital of Metlife, with a call option to buy another 20 % from SANKORP. In August 1994, shortly before Methold would be listed on the Johannesburg Stock Exchange, its name was changed to NAIL (New Africa Investments Limited). NAIL was listed in August 1994, representing more than 8 000 black shareholders.[40] NAIL became the vehicle for further acquisitions by black businesses.

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39 SANKORP Management Memorandum by PDF Strydom: **SANKORP Sosiale Betrokkenheid**, 1 April 1989.

40 **Overview of black economic empowerment, SANKORP**, October 1996.

Similar developments took place between SANKORP and other black economic empowerment companies, e.g. in January 1996 SANKORP sold approximately 5 % of its shareholding in Plessey Corporation to Worldwide African Investments Holdings (Worldwide), with an opportunity to acquire a further 4 % at a later stage. In August 1996 NAIL increased its shareholding in Plessey to 26 %, while at the same time SANKORP's shareholding in Plessey was reduced to 26 %. SANKORP sold portions of its shareholding in several companies to black economic empowerment companies at full value, i.e. not at any discount or providing any financing. This enabled SANKORP to reduce its exposure in certain concerns without losing control thereof, while simultaneously promoting black economic empowerment. SANKORP created the opportunity for black investment concerns to obtain substantial investments in strong profitable companies, while maintaining SANKORP as a business partner. Dr Ntatho Motlana said: "We cannot accept guilt offerings or handouts. At the same time, our goal is not a gradual bottom-up approach to economic empowerment. We cannot wait decades to participate fully and effectively in the economic future of South Africa. Through New Africa Investments Ltd we seek to gain a strong foothold in the economy."[41] SANKORP's strategy towards black economic empowerment provided black business with an opportunity to increase its share in the South African economy with a "quantum leap". This economic empowerment has now just manifested much faster than that of the Afrikaner via SANLAM and FVB. Black economic empowerment is currently showing a similar tendency towards a drive to acquire any possible business, when compared to those acquisitions by FVB, witnessed in the early years of its existence. It remains to be seen how new black business conglomerates will rationalise their business concerns once the drive for more and more control has subsided.

The FVB case study shows the vital role that strong, focused management from the centre has to play in order to direct operational management. The SANKORP phenomenon illustrated the point that the formulation of real overall strategies for conglomerates, are seldom successfully undertaken by the management structure being directly involved in day-to-day management. Only when SANKORP had positioned itself above and outside the emotional environment of FVB management, a logical overall industrial, services and investment strategy could be devised for the underlying companies. SANKORP was still seen to be part of the SANLAM stable, but serious shoulder rubbing took place between SANKORP and SANLAM about the question of managing

41 **Financial Mail**, 29 November 1994.

a diversified conglomerate. SANKORP's management strategy "from the centre", together with its improved information systems, succession planning systems for management and central financial controls backed its clearer vision of where sound business had to take FVB. These management qualities were unfortunately not displayed in FVB up to 1985. This might be the result of the emotional drive for greater control over ever more businesses. What was clear in the end, was that sound management and strategic planning principles eventually paved the way for the metamorphosis of FVB into SERVGRO. Black economic empowerment has not yet reached this stage of consolidation and conglomerate rationalisation. It remains to be seen to which extent black empowerment ventures will develop into mass diversified conglomerates, like FVB had been, or whether they will implement the lessons from the past, illustrated so well by FVB.