UNIVERSITY OF SWAZILAND

FACULTY OF COMMERCE

DEPARTMENT OF BUSINESS ADMINISTRATION

MAIN EXAMINATION

ACADEMIC YEAR 2015/2016

TITLE OF PAPER: Strategic Management II

DEGREE AND YEAR: Bachelor of Commerce IV

COURSE NUMBER: BA 441

TIME ALLOWED: Three (3) hours

INSTRUCTIONS:
You have three (3) hours to write a complete strategic analysis concerning the Pamodzi Investment Holdings (PIH). There are 60 questions and 6 exhibits. Some questions are to be in paragraph form, while others are to be in bullet points. Please label the questions, and use the bold subheadings to separate sections as an outline. In addition, to these 60 questions and 6 exhibits, you will be assessed on the following criteria in regards to the Contents of the Report:

a. Situation Definition
   i. Considered current performance, mission, objectives, etc.
   ii. Considered corporate governance
   iii. Stated strategic factors clearly and concisely
   iv. Considered both immediate and long term problems
   v. Dealt with societal trends
   vi. Dealt with industry opportunities and threats
   vii. Identified internal strengths
   viii. Identified internal weaknesses
b. Situation Analysis
   i. Distinguished between symptoms and underlying problems or causes
   ii. Distinguished between fact, opinion, and own inferences
   iii. Recognized all important factors
   iv. Avoided excessive rehash of facts
   v. Reflected good understanding of material
   vi. Brought in outside information as appropriate
   vii. Utilized relevant strategy concepts to aid understanding
c. Alternative Assessment
   i. Identified all feasible alternatives
   ii. Alternatives consistent with situation assessment

  iii. Evaluated each alternative in terms of risk, cost, timing, etc., as pros and cons

d. Recommendation
  i. Clearly presented the recommendation
  ii. Recommendation followed logically from the previous analysis
  iii. Provided for implementation of recommended solution, including control procedures

e. Maintained proper balance among situation definition and analysis, alternative assessment, and recommendation

NOTE: You are reminded that in assessing your work, account will be given of the accuracy of language and the general quality of expression, together with the layout and presentation of your final answer.

THIS PAPER MUST NOT BE OPENED UNTIL THE INVIGILATOR HAS GRANTED PERMISSION.

GOOD LUCK (Inhlanhla Lenhle)!!!

Strategic Management II (BA 441)
Main Examination (Total: 100 marks)
Questions 1-60 are Compulsory (Total: 60 Questions, 6 Exhibits)
Each Question is 1 mark, Each Exhibit is 5 marks, and Proper Balance among Situation Definition and Analysis, Alternative Assessment, and Recommendation is 10 marks

Read the case "Ndaba Ntsele: Entrepreneurial vision" and use it to write a complete strategic analysis.

Introduction

1. Give a short account of the history of the company, and trace the evolution of its strategy. Try to determine whether the strategic evolution of the company is the product of intended strategies, emergent strategies, or some combination of the two, as well as what type of mode the strategic decision is made.

<u>*Considered current performance, mission, objectives, etc.*</u>

Current Situation

2. Discuss the **current performance** of the company, whereby, how did the corporation perform the past year overall in terms of return on investment, market share, and profitability, as well as Z-Value and R&D intensity.

3. Discuss the **strategic posture**, whereby, identify the mission (analyze it according to the criteria below), vision, objectives, major goals, current business and corporate strategies [to include the propitious niche, BCG, strategic type, type of industry (fragmented or consolidated), business model, product life cycle, timing tactic, market location tactics, and Organizational Life Cycle], and policies of the company. In addition, explain if the current mission and objectives are appropriate in light of the key strategic factors and problems, as well as if the mission and objectives should be changed, and how would this change affect the firm.

<u>*Considered corporate governance*</u>

Corporate Governance

4. Indicate the Board of Directors, Top Management, and the Management Philosphy. In addition, try to establish whether the governance mechanisms that operate in the company do a good job of aligning the interests of top managers with those of stockholders. Evaluate the Board of Directors and Top Management, as well as determining whether it uses agency or stewardship theory and the degree of involvement

5. Who is the CEO of the company? Evaluate the CEO's leadership capabilities. Is the CEO a transformational leader?

<u>Stated strategic factors clearly and concisely</u>

Analysis of Strategic Factors (SWOT)

6. Do a preliminary analysis of the internal strengths and weaknesses of the company and the opportunities and threats that it faces in its environment (SWOT Summary/Overall Assessment). Calculate the Total Weighted Score, and described whether you would invest in this company. In addition, based on this analysis, identify the strategies that you think the company should pursue.

<u>Considered both immediate and long term problems</u>

7. **Major Issues.** Identify the **major issues** the company is facing based upon question 6.

Analysis and Diagnosis of the Issues

External Environment: Opportunities and Threats

8. Identify any **strategic groups** that might exist in the industry. How does the intensity of competition differ across these strategic groups?

9. How dynamic is the industry in which the company is based? Is there any evidence that innovation is reshaping competition or has done so in the recent past?

10. In what stage of its life cycle is the industry in which the company is based? What are the implications of this for the intensity of competition, both now and in the future?

<u>Dealt with societal trends</u>

11. **Macro-Environment/Societal Environment.** Are any changes taking place in the Macro-Environment/Societal Environment that might have an impact, positive or negative, on the industry in which the company is based (Sociocultural, Technological, Economic, Ecological, Political-legal)? If so, what are these changes, how might they affect the industry, and which are the opportunities and threats?

<u>Dealt with industry opportunities and threats</u>

12. **Task Environment.** Apply the five forces model for the industry in which the company is based (Bargaining Power-Buyers, Bargaining Power-Suppliers, Threat of New Entrants, Threat of Substitutes, Rivalry), as well as the sixth force – Stakeholders. Indicate the intensity, whether High, Medium, or Low, as well as bullet point at least three factors to substantiate the intensity level. What does this model of the **Task Environment** tell you about the nature of competition in the industry?

Internal Environment: Strengths and Weaknesses

13. **Corporate Structure and Stage.** Draw an organizational chart showing the main way in which the company groups its activities. Based on this chart, decide what

kind of **structure** (functional, product, or divisional) and **stage** the company is using.

14. How large is the company as measured by the number of its employees? How many levels in the hierarchy does it have from the top to the bottom? Based on these two measures and any other information you may have, does the company operates with a relatively tall or flat structure? Does the company have a centralized or decentralized approach to decision making?

15. What changes (if any) would you make to the way the company allocates authority and responsibility?

16. Why did the company choose this structure? In what ways is it appropriate for its business model? In what ways is it not?

17. How does it design its structure and control systems to strengthen its business model? For example, what steps does it take to further cross-functional integration? Does it have a functional, product, or matrix structure?

18. Does the company use a multidivisional structure? Why or why not? What crucial implementation problems must the company manage to implement its strategy effectively? For example, what kind of integration mechanisms does it employ?

19. **Corporate Culture.** What role does the top management team play in creating the **culture** of the organization? Which attribute does it have (intensity or integration)? Can you identify the characteristic norms and values that describe the way people behave in the organization in terms of moral relativism, Kohlberg's level of moral development, and the guidelines for ethical behaviour? How does the design of the organization's structure affect its culture?

20. How does the company's culture support its business model? Can you determine any ways in which its top management team influences its culture?

21. Based on this analysis, would you say the company is coordinating and motivating its people and subunits effectively? Why or why not? What changes (if any) would you make to the way the company's structure operates? What use could it make of restructuring or reengineering?

Identified internal strengths
Identified internal weaknesses

22. **Value Chain Resources.** Evaluate the structure, culture, and **value chain resources** (Marketing, Finance, R&D, Operations, Human Resource Management, and Information Systems) of the company. What is the Centre of Gravity of the

company? What are the core and distinctive competencies of the company, as well as its strengths and weaknesses?

23. What are the sources of the company's distinctive competencies? Which functions are most important to it? How does the company design its structure, control, and culture to enhance its (a) efficiency, (b) quality, (c) innovativeness, and (d) responsiveness to customers?

24. What role have prior strategies played in shaping the distinctive competencies of the company? What has been the role of luck?

25. What are the barriers to imitating the distinctive competencies of the company?

26. Do the strategies the company is pursuing now build on its distinctive competencies? Are they an attempt to build new competencies?

27. Identify whether the company has a competitive advantage or disadvantage in its primary industry. Its primary industry is the one in which it has the most sales.

28. Is there any evidence that the company finds it difficult to adapt to changing industry conditions? If so, why do you think this is the case?

Evaluation of Alternative Strategies

Distinguished between symptoms and underlying problems or causes
Distinguished between fact, opinion, and own inferences
Recognized all important factors
Avoided excessive rehash of facts
Reflected good understanding of material
Brought in outside information as appropriate
Utilized relevant strategy concepts to aid understanding

Functional- Level Strategies

29. What are the attributes of the majority of customers purchasing the product of the company (for example, are they early adopters, early majority members, or late majority members)? What does this tell you about the strategic issues that the company is likely to face in the future?

30. What is the dominant product technology used in the industry in which the company is based?

31. Did the dominant technology in the company's industry diffuse rapidly or slowly? What drove the speed of diffusion?

32. Where is the dominant technology in the company's industry on its S-curve? Are alternative competing technologies being developed that might give rise to a paradigm shift in the company's industry?

33. Evaluate the competitive position of the company in the light of your answer to questions 23. Explain what, if anything, the company needs to do to improve its competitive position.

Business-Level Strategies

34. In what kind of industry environment (for example, embryonic, mature) does the company operate? Use the information from questions 8-12 to answer this question.

35. How differentiated are the products or services of the company? What is the basis of its differentiated appeal?

36. What is the company's strategy toward market segmentation? If it segments its market, on what basis does it do so?

37. What generic business model is the company pursuing? How has it formulated and implemented a set of business-level strategies to pursue this business model?

38. What are the advantages and disadvantages associated with the company's choice of business model and strategies?

39. How could you improve the company's business model and strategies to strengthen its competitive advantage?

40. Discuss how the company has attempted to develop strategies to protect and strengthen its business model. For example, if the company is operating in an embryonic industry, how has it attempted to increase its competitive advantage over time? If it operates in a mature industry, discuss how it has tried to manage industry competition.

41. What new strategies would you advise the company to pursue and thus its competitive advantage? For example, how should it attempt to differentiate its products in the future or lower its cost structure? In addition, evaluate the current business-level strategy.

42. Based on this analysis, do you think the company will be able to maintain its competitive advantage in the future? Why or why not?

Corporate-Level Strategies

43. On the international level, what are the cost pressures and pressures for local responsiveness in the industry in which the company is based? What implications

do these pressures have for the strategy that the company might pursue if it chose to expand globally?

44. Has the company ever pursued a horizontal integration strategy? What was the strategic reason for pursuing this strategy?

45. How vertically integrated is the company? In reaching your assessment, also consider the bureaucratic costs of managing vertical integration. If the company does have vertically integrated operations, is it pursuing a strategy of taper of full vertical integration?

46. Based on your assessment in question 45, do you think the company should (a) outsource some operations that are currently performed in-house or (b) bring some operations in-house that are currently outsourced? Justify your recommendations.

47. Is the company involved in any long-term cooperative relationships with suppliers or buyers? If so, how are these relationships structured? Do you think that these relationships add value to the company? Why?

48. Is there any potential for the company to enter into (additional) long-term cooperative relationships with suppliers or buyers? If so, how might these relationships are structured?

49. Pick one new industry that the company has recently entered. Identify and evaluate its rationale for entering this industry and the company's strategy for entering this industry. Do you think that this was the best entry strategy to use? Justify your answer.

50. Do you think that the addition of this business unit to the company has added or dissipated value? Again, justify your answer.

51. Pick one industry that the company has recently existed. Identify the company's rationale for pursuing a restructuring strategy and the company's strategy for exiting this particular industry. Do you think that this was the best exit strategy to use? Justify your answer.

52. In general, do you think that exiting from this industry has been in the company's best interest?

Recommendations

53. **Recommendations.** What are the company's corporate-level strategies? How do they affect the way it uses organizational structure, control, and culture?

54. What kind of international strategy does the company pursue? How does it control its global activities? What kind of structure does it use? Why?

Identified all feasible alternatives
Alternatives consistent with situation assessment
Evaluated each alternative in terms of risk, cost, timing, etc., as pros and cons.

55. Based on questions 29-52, clearly present 3 mutually strategic alternatives and discussed the pros and cons of each alternative. In addition, generate a TOWS Matrix and outline the SO, ST, WO, and WT Strategies.

Clearly presented the recommendation
Recommendation followed logically from the previous analysis

56. Make a detailed recommendations based upon questions 29-52, as well as how these recommendations will be implemented, evaluated, and controlled based upon questions 57-60. Provide rationale.

Provided for implementation of recommended solution, including control procedures

57. **Implementation.** Does the company have a particular entry mode that it has used to implement its strategy?

58. Assess how well the company has implemented its multi-business (or business) model. Deal with each strategic factor and priority system.

59. **Evaluation and Control.** What are the main kinds of control systems the company is using? What kinds of behaviors is the organization trying to (a) shape and (b) motivate using these control systems?

60. Can you suggest ways of altering the company's structure or control systems to strengthen its business model? Would these changes increase or decrease bureaucratic costs? In addition, who sets up the evaluation and control? Who reviews? How often? What is reviewed (e.g., ROI, EPS, Turnover)?

Maintained proper balance among situation definition and analysis, alternative assessment, and recommendation

Required Exhibits:
EFAS, IFAS, SFAS, TOWS, Strategic Groups, and Organizational Chart

Criteria for Rating Mission Statement

The mission statement is the one statement that is the most important statement for any organization, which should last the lifetime of the organization. It is the cornerstone of that organization, and under no circumstances, should it ever be changed. The mission statement needs to be one compound, complex sentence that answers the following questions:

1. Does the statement describe an inspiring purpose?
2. Does the statement describe the company's responsibility to its stakeholders?
3. Does the statement define a business domain and explain why it is attractive?
4. Does the statement describe the strategic positioning that the company prefers in a way that helps to identify the sort of competitive advantage it will look for?
5. Does the statement identify values that link with the organization's purpose and act as beliefs with which it can feel proud?
6. Do the values resonate with and reinforce the organization's strategy?
7. Does the statement describe important behavior standards that serve as beacons of the strategy and the values?
8. Are the behavior standards describing in a way that enables one to judge whether one is behaving correctly?
9. Does the statement give a portrait of the company, capturing the culture of the organization?
10. Is the statement easy to read?

To rate a mission statement with each question rate 0=if it does not comply; 1=if it somewhat complies; 2=if it completely complies. Add up the score and if it is less than 15, the mission statement needs to be rewritten.

CASE 2

Ndaba Ntsele: Entrepreneurial vision

By Claire Beswick, Mthuli Ncube

On 19 May 2010, Ndaba Ntsele – Ernst & Young World Best Entrepreneur (SA, 2007) and CEO of Pamodzi Investment Holdings (PIH), a diversified investment company – was preparing for the launch of Pamodzi Aviation the next day. The company had secured a licence from the Ukraine-based, government-owned Antonov Aeronautical Scientific Complex to service and sell Antonov planes in Africa. However, he still had to negotiate the terms of the relationship that Pamodzi Aviation would have with Denel Aviation, the organisation providing the necessary technical expertise and infrastructure for the venture. His gut told him that Pamodzi Aviation could make millions – if not billions – of rands, but he was aware that real-world realities might get in the way and he wondered if he had missed anything.

Ntsele's background

I started to fall in love with money. You can't make money unless you love it

– Ntsele[1]

Ntsele was born in Kliptown, Soweto (west of Johannesburg) into a family with a history of entrepreneurial activity: his grandfather was a businessman, his father ran a dry-cleaning business and his aunt sold tea and apples to make a living. He defined an entrepreneur as someone who took risks, thought out of the box, believed in himself and in the team around him, and had the foresight to see opportunities that would work in the real world.[2] These characteristics were evident in the way Ntsele had lived his life.

It started when, as a six-year-old schoolboy, Ntsele would buy apples from his aunt and then sell them himself for a profit. This gave him confidence that he could sell products at a mark-up. The money he earned also gave him a certain amount of independence. When he turned 13, he started pushing trolleys for tips outside a supermarket in Yeoville [just east of the Johannesburg central business district (CBD)]. While doing this, he saw an opportunity to charge a fee for pushing trolleys to the flats of those customers who came on foot. He would charge the fee upfront, to ensure that he actually received the money, and he developed confidence in dealing with white people, who were his predominant customer base.[3]

"I started to fall in love with money," Ntsele explained, adding, "South Africans hate to say that they love money. We think it's an ugly thing to say. But I love money and if you don't love it, you won't have it. Funnily enough, when you have it, they all want some of it! As you accumulate it, they say that you are selfish. But the irony is that you can't be a philanthropist without money."[4] He started to dream big. He decided that, when he grew up, he wanted to be a millionaire.

In his mid-teens, Ntsele started to sell newspapers in Hillbrow, and again saw an opportunity to do things differently and to make more money. "I acquired corners that were doing well and started employing youngsters to sell the papers. Then, when it became too much for me to collect the money from the paper sellers myself, I employed people on scooters to go and collect the money for me," he recounted.[5]

"At that stage, I felt that my world was far bigger than the world others had tried to define for me. The problem was that I am black, and banks were as far from black people as the moon is from the earth. Blacks had

The original case was prepared by research associate Claire Beswick with Professor Mthuli Ncube. It is intended for classroom use only. It is not intended to demonstrate effective or ineffective handling of a business situation.

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[1] Interview with Ndaba Ntsele, 16 September 2008.
[2] Presentation by Ndaba Ntsele at Wits Business School, 12 August 2008.
[3] Interview with Ndaba Ntsele, 13 October 2008.
[4] Interview with Ndaba Ntsele, 16 September 2008.
[5] Presentation by Ndaba Ntsele at Wits Business School, 12 August 2008.

low self-esteem and it was difficult to find partners to go into business with. We had all been told that money is a root of all evil, so blacks thought that capitalism was not for them; that it was meant for whites."[6]

However, there was another young man in Soweto who had equally big ambitions – Solly Sithole. As a boy, he did not have much time to play soccer with the other children, because over weekends and during school holidays he had gone door-to-door with his grandmother, selling a variety of products. Although his peers had scoffed at him, he found that he was good at sales, and there was the tangible benefit of earning his own money, which he could use to pay for school fees or a new pair of shoes. It was this experience that developed Sithole's spirit of entrepreneurship.[7] After school, Sithole went on to work as a sales representative for Nola, a food company that wanted to establish its products in the townships.

Sithole and Ntsele met through one of Ntsele's cousins, who was impressed by the fact that Sithole had a company car. The meeting spawned a friendship and a highly successful business relationship that was still thriving 30 years later.

Beginning of an empire

I had a goal. I wanted to be a millionaire. If anything got in my way, I found a way around it.
I knew that because of the way blacks and whites were conditioned, I would have to fight for it

– Ntsele[8]

In 1979, with lofty business goals in mind, Ntsele, Sithole and third partner Ncedi Manyoni saw an opportunity to make money – initially by building what became commonly known in the township as 'a two room and a garage'[a] and then by buying serviced stands in Soweto from the Urban Foundation[b] after it partnered with the government to create 99-year lease arrangements for black people. The concept of building and selling houses appealed to Ntsele, because he knew that, if he wanted to be a millionaire, there was no point in starting small. "In my mind, I had already jumped from being the owner of an SMME," he explained. "I knew that if I looked for small businesses, it would take me my whole life to achieve that dream, so I had to start big. It wouldn't happen just by running a shop."[9] The maths told him that, if a two-room house could fetch R12 000, the company would get to a turnover of R1 million by selling just 100 houses. "You have to think big," he said. "When you hunt, hunt the Big Five. It feeds a lot of people."[10] For his part, Sithole wanted to be involved in something that would outlive him and be around for 100 years or more. Construction met that criterion.

Thus, Pamodzi was born. The name, which means 'togetherness', was that of a hotel in Lusaka, Zambia, where the partners had stayed while visiting Sithole's brother in exile. (Sithole's brother was later jailed in the same trial as ANC heavyweight, Tokyo Sexwale, in 1977.) Sithole remembered thinking, "This is the kind of name we can build with for many years."[11]

Initially they started small, buying only a few stands at a time, financing the deposit for the stand out of their own funds, and then paying the remaining 90% when the purchaser paid for the house. In 1983/84, the Urban Foundation started looking for organisations with which it could partner in developing 2 500 stands from scratch in Dobsonville Extension 3 (Soweto): thus, the partner would service the stand and sell it, instead of just building on an already-serviced stand. This provided Ntsele with the chance to migrate from building the low-margin 'two rooms and a garage' to building houses for the black middle class. With the prices of the newly built houses ranging from R35 000 to R100 000, this model yielded high margins for the business. However, to finance the deal, Pamodzi needed R6 million upfront, which the partners could not provide themselves. They decided to approach a bank for a loan.

It was here that they encountered the first of many hurdles in trying to raise finance for their business ventures. "The problem was one of attitude," Ntsele related. "You are running a reasonable, small construction company, but you are black. In those days, the maximum you could borrow as a business like that

[6]Interview with Ndaba Ntsele, 13 October 2008.
[7]Interview with Solly Sithole, 19 November 2008.
[8]Interview with Ndaba Ntsele, 13 October 2008.
[a]This was an extension that was built onto an existing house and was designed to accommodate a growing family.
[b]The Urban Foundation was a privately funded NGO that aimed to use the power and influence of business to persuade the apartheid government to reform key aspects of its approach to black urbanisation.
[9]Interview with Ndaba Ntsele, 16 September 2008.
[10]*Ibid.*
[11]Interview with Solly Sithole, 19 November 2008.

was R200 000."[12] Pamodzi was banking with Standard Bank at the time but, although the bank provided finance for Pamodzi's next deal, it did not do so for this one. "Our local bank manager didn't even bother to process our application, because it was over the limit," said Ntsele. "He told his secretary to remind him to contact me two days before the deadline to say that we had not been successful." Fortunately, she called straight away to alert Ntsele to the situation, which then gave him enough time to try a different bank.[13]

Unwilling to accept defeat, the Pamodzi partners managed to get an appointment to see the CEO of Barclays Bank,[c] Chris Ball. Sithole remembered: "He asked, 'What are you going to do?' 'How are you going to pay it back?' and then he said, 'Done!'"[14] Pamodzi had its first big break. From there, the company went on to work with the Urban Foundation on a number of other housing development projects. The success evidenced in Soweto was replicated in Mamelodi Gardens and Sluma View in the East Rand.

One of the principles that guided Ntsele and his partners during this early phase and into the future was the belief that, to succeed, they would need to work with people who had the skills and expertise that they did not have. Ntsele saw doing this as a way of bringing together gut feel (his particular strength) and the more scientific information that he would need to run the business. Together, these would aid decision-making. "Great entrepreneurs have a lot of good professionals around them," he noted. "I've always had people around me who will give me information." And he looked to appoint people based on their skills and knowledge, rather than their skin colour. "I must have been the first black guy who appointed a chartered accountant who was white!" he joked.[15]

He was hungry for information that would equip him to succeed, attending numerous courses at Wits University and other institutions in pursuit of knowledge. One of the pieces of information that made a great impact related to the importance of image and personal packaging to securing success. The lecturer had stressed how important it was to present oneself and to dress in such a way as to inspire confidence. Thus, when seeking funding, it was important to look the part: to look like a serious professional who would be able to pay the bank back. Ntsele had found this to be true in his early days as a businessman, and had carried this philosophy with him since then. It was reflected, among other things, in the design of the PIH offices, where he had ensured that they projected the right image of confidence, reliability and success that he wanted to present to the world.[16]

Diversifying for growth

Having secured the work with the Urban Foundation in Mamelodi Gardens and Sluma View, Ntsele was not happy to stop there. He and his partners were hungry for success and open to any opportunity that came their way, even if it was in a sector in which they had little experience. "As an entrepreneur, you don't have to fear fear," he said. "A medical doctor can run a good truck company."[17] He believed that it was important to have big dreams and to act on them. "Acting on your dream is very, very, very important," he said, "and the size of the dream must not scare you. I like to quote Anton Rupert and say that 'a person who does not believe in miracles is not realistic'." He was also prepared to work very hard to achieve his dreams. "Working 24/7 must not scare you," he said.[18]

Thus, in the early to mid-1980s, Pamodzi started to diversify and expand its focus from just building houses. One activity in which the company became involved early on was that of dealing in Krugerrands. This venture became possible because Pamodzi had opened up an office in the Johannesburg CBD. At that stage, it was illegal for black people – other than doctors and lawyers – to have offices in the CBD, but Pamodzi's one-room office in Soweto was not the right location for the company. The partners decided that their competitors were in the CBD, so their company should be there as well. One of their white business associates was happy to sign a lease agreement for an office in the Carlton Centre on their behalf. So they decided to test the waters, rent the office for a year and see if anyone came to evict them. No-one did.[19]

[12] Interview with Ndaba Ntsele, 16 September 2008.
[13] *Ibid.*
[c] Later in the 1980s, Barclays Bank disinvested from South Africa as part of the movement for sanctions against South Africa. Its South African operations became First National Bank.
[14] Interview with Solly Sithole, 19 November 2008.
[15] Interview with Ndaba Ntsele, 24 March 2010.
[16] *Ibid.*
[17] *Ibid.*
[18] *Ibid.*
[19] Interview with Ndaba Ntsele, 13 October 2008.

"Once we were there," Ntsele recalled, "another guy dealing in Krugerrands introduced us to the Kruger coin business. At that stage, we were building lots of houses, so we had cash flow and were profitable. We bought coins and kept them as an investment."[20] Later, however, they discovered that they could purchase the coins for less themselves, and started to bypass the middleman and buy the coins directly. In the late 1980s, they also started dealing in jewellery and electronic equipment, which they purchased in Hong Kong and sold in South Africa.

In all his dealings, Ntsele recognised the importance of being able to deal well with people. "The most important thing as an entrepreneur is to create relationships, and to create relationships you need a love for people," he said. "You must be comfortable in the company of people from all over the world."[21] To do this, he pointed out, it was important to read and to be educated about what was happening in the world, and about the customs in different cultures. "When you are in the company of a Chinese person, you don't say something stupid about China. So you must be informed, and talk positively to people, because that attracts a positive response," he said.[22]

Ntsele decided early in his career that if he wanted to be rich, he had to be where the rich people were, and one of the things this entailed was to fly only first class. This decision was to stand him in good stead because, on one of his flights to Hong Kong, he met Dr Conrad Strauss, who was CEO of Standard Bank at the time. Strauss, said Ntsele, was fascinated and impressed by "these young black guys" who were flying first class to Hong Kong to do business during the height of apartheid. Ntsele made a contact that would help him with his next big building contract – a school in Fleurhof (a township adjacent to Soweto), being sponsored by the Anglo American Chairman's Fund through the Urban Foundation. This enabled Pamodzi to tender for further involvement in the building of schools and service stations in Soweto.

To secure the tender, Pamodzi needed a guarantee of R600 000 and working capital of between R1.2 million and R1.3 million. Ntsele was still paying off the loan to Barclays, and therefore did not believe that he could go back to that bank for another loan. He decided, once again, to try Standard Bank – but this time he went directly to Strauss.

"These people are all booked up a year in advance," said Strauss's personal assistant, but Ntsele would not budge. He managed to secure an appointment on the day that the tender had to be submitted, half an hour before the deadline. He and his partners did what they always did: they dressed the part, arrived on time and were very well-prepared. "I told him [Strauss] that I owed Barclays R6 million and that I didn't have enough guts to go to them for another loan," said Ntsele. "Integrity is extremely important. If you lose it, you won't get anywhere." Fifteen minutes after the deadline, Strauss agreed to lend them the money and then phoned the Urban Foundation to explain the delay. Pamodzi won the contract.[23]

At that stage, political upheaval was rife in the townships, and the construction industry in those areas took a turn for the worse. Pamodzi's third partner bowed out of the business, but Ntsele and Sithole remained. They were very glad then that Pamodzi had diversified and was not solely dependent on construction. This solidified their belief that diversification was key to success and they continued with this strategy, winning licences to sell Plascon (paint and other coatings) and PG Bison (wood and chipboard) products in Soweto.[24] The construction side of the business was not wholly dormant, however, and they started to partner with construction company Murray & Roberts on projects, and also to develop petrol stations.[25]

They also built another school in Soweto, which unwittingly provided the impetus for their next big deal. "At that stage, there were sanctions against South Africa, but no sanctions against building schools," noted Ntsele. The Department of Education gave Pamodzi the contract to build the school, and Ntsele went to the United States of America (US) to source the necessary funding from a bank that had a reputation for providing funding to black American businesspeople. He reasoned that the bank might show similar favour to black South Africans. While there, Ntsele was blown away by the different businesses he saw in the US – Nike, McDonald's and Victoria's Secret, in particular. He thought then that, when

[20]*Ibid.*
[21]Interview with Ndaba Ntsele, 24 March 2010.
[22]*Ibid.*
[23]Presentation by Ndaba Ntsele at Wits Business School, 12 August 2008.
[24]Interview with Ndaba Ntsele, 13 October 2008.
[25]W Khuzwayo, 'Pamodzi on the Prowl for R1bn Companies', *Business Report*, 17 November 2008, available *www.busrep.co.za* (accessed 29 January 2009).

sanctions ended, he would bring at least one of them to South Africa.[26]

The Nike deal

He and Sithole got the chance to do this in 1992. They knew that the sanctions era was about to end, and they started to think that there would be opportunities to relaunch a strong international brand in South Africa.[27] In 1993, it became clear that Nike was looking to re-enter South Africa and to appoint a licenced agent in South Africa. Sanctions had not yet been lifted, but Ntsele and Sithole wanted to move early to get an advantage over other bidders. Sithole therefore spoke to his brother, explaining that Pamodzi did not want to break sanctions but needed to move quickly to have a chance of winning the licence, and received the ANC's blessing to pursue the deal.[28]

In the end, Pamodzi was one of more than 200 organisations – including established fashion and sports retail houses – that tendered for the licence. "We won because we were the only truly black-owned company," said Ntsele. "In all the other consortia, the black partners were a front."[29] The R10 million needed to secure the deal was eventually obtained from First National Bank, but no local bank was prepared to provide funding for further expansion as the business started to grow. Eventually, through the intervention of Nike, Pamodzi managed to secure R60 million from CitiBank in the US. Under Ntsele and Sithole's leadership, Nike became a top-selling brand in South Africa and, in 1998, Ntsele and Sithole sold the South African operation back to Nike International.

Pamodzi investment holdings: The empire takes shape

You must find solutions. Our minds must be solutions-oriented

– Ntsele[30]

In the late 1990s, the first wave of BEE deals had just taken place and Ntsele, Sithole and six others saw an opportunity to take advantage of the prospects presented by the BEE phenomenon. Thus, in 1996, Pamodzi Investment Holdings (PIH) was founded. Its eight founding partners – Ntsele, Sithole, Jan Roesch, Kobus du Plooy, Andrew Wheeler, Felicia Mabuza-Suttle, Sifiso Msibi and Peter Vundla – put R1.9 million into the company, with black shareholders owning 65% of the company. "We were starry-eyed, but with only R1.9 million, we were not going to go very far," commented Roesch, executive director of finance at PIH.

Ntsele's aim was to build PIH into a huge conglomerate like an Anglo American, BHP Billiton or Murray & Roberts. He wanted Pamodzi to change the way the world thought of black business. It concerned him that the status quo still remained, and that people still had a sceptical view of black business. "I fought tooth and nail to bring back the money that I borrowed, and I have developed a track record because of this," he noted. "Still, you can't forget that the status quo is still the same. I am still a black businessman. I have a huge track record, but I still can't crack some institutions. Some people still think that all I've achieved is through luck.

"There is a perception that black people can't run big businesses," he added. "Pamodzi proves that to be incorrect. Once we can do that, we will send a strong message globally. It is no longer just Warren Buffett who's the worldwide guru, South Africa can do it too."[31] He saw his as a very important message, because of what it would do for local entrepreneurship. "It will help improve young people and encourage young entrepreneurs," he said. "We must help to kick out the fear, because there's a lot of fear out there. People are scared to go into entrepreneurial ventures. They would prefer to be employed. They study for secure jobs. But you must always think beyond that."[32]

Over the years, PIH made a number of important investments that grew its assets at the end of 2009 to R683 million (down from R800 million in 2008 as a result of the revaluation of investments following the global economic meltdown), although the company registered a net loss to R139 million (down from R84

[26]Presentation by Ndaba Ntsele at Wits Business School, 12 August 2008.
[27]Interview with Ndaba Ntsele, 13 October 2008.
[28]Interview with Solly Sithole, 19 November 2008.
[29]Interview with Ndaba Ntsele, 13 October 2008.
[30]Interview with Ndaba Ntsele, 24 March 2010.
[31]Interview with Ndaba Ntsele, 16 September 2008.
[32]Interview with Ndaba Ntsele, 13 October 2008.

million profit in 2008).[33] By May 2010, PIH's portfolio of investments included:

- through **Pamodzi Ukuvikele**, a 26.3% stake in Indwe Risk Services, one of the largest, independent short-term insurance brokers in the country, formed in 2006 as a result of the merger between Thebe Risk Services (the country's oldest black empowered financial institution) and Prestasi Brokers;
- a 32% share in **Pamodzi Industrials** which, in turn, had investments in three operating divisions: Unique Engineering, which produced pantographs, filling and labelling equipment and blast barricades; Relyintracast, which produced investment castings; and Walro Flex, which manufactured automotive cables and had about 60% of the South African auto cable market. Pamodzi also owned 80% of BGG Cable Manufacturers SA (Pty) Ltd;
- a 74.5% share in **Pamodzi Resources**, which held various mining exploration rights;
- a 60% interest in **Rand Uranium** through Pamodzi Resources Fund 1, a private equity fund established to invest in resources and related projects in Africa;
- a 75% interest in **Boxmore (Pty) Ltd**, a company manufacturing PET bottles for the carbonated soft drinks and bottled water markets;
- a 45.5% stake in **Andre Dreyer Motors**, trading as Auto Bavaria Midrand, one of only 10 Mini Cooper and BMW dealerships in the country. Based on sales, this dealership had been one among the top five BMW dealerships in the country since PIH bought a stake in the company;
- a 25% interest in **AltechIT**, which housed the IT interests of the JSE-listed Altech group of companies. These interests included ISIS (which specialised in system integration software development for telecommunications network operators) and Altech Card Solutions (which operated in the secure electronic transactions industry); and
- an effective 4.54% interest in **Anglo Inyosi Coal**, through Pamodzi Coal's 33% stake in Inyosi, a broad-based empowerment consortium that had partnered with Anglo Coal to form Anglo Inyosi Coal. It operated key Anglo Coal projects, including the Kriel and Sondagsfontein Colliery.

Making and exiting investments

In approaching investment decisions, Ntsele was open to opportunities – even those that looked risky to his advisors. He gave an example of the investment PIH had made in Prestasi insurance brokers in 2001. He had looked at the business, seen that it had more than 200 000 people on its books and decided that it would a be a good business in which to invest. He still sent his executives to perform due diligence investigations, but when they came back reporting serious management flaws that made the company a risky investment in their view, Ntsele was not convinced. Bad management was not a serious enough flaw for him. He knew that if PIH bought the company, it could put in new management who would manage it properly.

His focus was solutions-oriented. "There are two issues in business," he said, "capex and management. If I am going to buy machines that are old and I'm going to have to spend a lot of money and it's going to be difficult to recover that money, then maybe I would not make the investment. But I might look for second-hand machines. Even if the skeletons in the closet at Prestasi were not management, I would have looked for solutions. You must find solutions. Our minds must be solutions-oriented. I would have found a way."[34] By 2010, he felt vindicated in this decision. Prestasi had been incorporated into Indwe Risk Services and had become a very successful company.

Ntsele explained that almost the only thing that would cause him to walk away from a deal was if it did not give PIH real management control and authority, and confined the company to the role of the BEE partner whose skin colour and contacts would bring in business. He had regularly turned his back on a deal in these circumstances. "I don't want to play in business where people play politics. I'm a real businessman. PIH has been around for 13 years and I've been in business for 30 years. I want to play in real business," he said.[35]

Likewise, PIH's philosophy right from the beginning was that traditional, vendor-financed, BEE deals were less than optimal, and to be avoided as far as possible. "BEE is not a normal way of doing business," said Ntsele. "Traditional BEE deals are structured by politicians who have no idea of business."[36] He drew an analogy between playing a game of marbles and making investments, saying that, unless PIH had its own funding ('marbles'), it would not be able

[33] *Ibid.*
[34] Interview with Ndaba Ntsele, 24 March 2010.
[35] *Ibid.*
[36] Presentation by Ndaba Ntsele at Wits Business School, 12 August 2008.

to play. It would merely be a spectator to someone else's game. He argued that traditional BEE deals did not give BEE partners control of their own destiny, and that they consequently did not take responsibility for their own success. Moreover, he did not see the sense in being shackled to a deal for a particular period of time. He wanted to be able to get out when it made financial sense. Likewise, he was scathing of the broad-based BEE transactions that started to take place in the early 2000s. He did not see any advantage to PIH of being bundled together with a range of other non-business, community and NGO partners, who had no business acumen and were not entering into the deal for business purposes.[37]

Having said that, PIH's first investment – into healthcare company Auckland Investments Ltd in 1997 – had a traditional BEE structure. PIH lost money on the Auckland deal, and got out of it in 1999. Fortunately, PIH also invested in two IT firms – Infracomm (Pty) Ltd and Tehnicare (Pty) Ltd – in 1997. Roesch described these as "our saving grace. Sometimes you just need some luck."[38] The company made the deals through the Public Investment Corporation (PIC) and its Isibaya Fund. "Our timing was perfect," said Roesch. "We bought at the beginning of the bubble and sold at the top, when these two companies themselves were sold. That gave us a kitty."

Foodcorp. In 1998, PIH tackled its biggest investment yet: the purchase of a stake in food group Foodcorp. Foodcorp manufactured a range of well-known household brands, including Ouma rusks, Glenryk pilchards and Blue Ribbon bread. To secure the deal, PIH needed a loan of R404 million. Ntsele approached raising the funds with the attitude that "every single game is a new game. You have to start afresh."[39] He knew that he could not rely on his track record, and this proved to be correct. No local banks were prepared to lend PIH the money. "Fortunately, because I had already raised funds internationally, I was liberated globally," said Ntsele.[40] So he and Sithole approached Dutch banking group, ABN AMRO, and managed to secure the necessary funding. Through the deal, PIH acquired a 50.1% stake in Foodcorp, with Ethos and Foodcorp management acquiring 39.9% and 10% respectively.

During this period, PIH also had to deal with financial dishonesty on the part of some of Foodcorp's managers. Although there was an approval process in place that should have ensured that hedge positions were approved by the board, some managers had been able to bypass this process. In total, R150 million had been lost. Ntsele informed ABN AMRO of the situation, assured them that the money would be recovered and said that the CEO and CFO would have to be fired. ABN AMRO objected, but Ntsele decided that he would fire them anyway.[41]

"You're sitting there with all these white guys," he remembered. "They are shocked to be fired by a black guy. It was no longer a business situation. Even the chairman was asking what we would do without them! "Fifteen months later, the business had recovered. ABN AMRO called me and said that, in future, I mustn't ask their permission."[42] For his part, Ntsele was very pleased that the deal that had allowed PIH to purchase its stake in Foodcorp had not been structured along more traditional BEE lines, and that PIH had a place on Foodcorp's board. "If they could deceive us and we were on the board, imagine what they could have done if we had not been!" he exclaimed.[43]

Come 2004, Ethos decided that it wanted to sell its stake in Foodcorp.[44] This provided PIH with the opportunity to purchase the company entirely, but for this it would need about R2 billion: by far the biggest sum it had raised to date. This time, noted Roesch, PIH was in a position to do a proper leveraged buy-out, because it was able to obtain senior debt (debt secured by assets and repayable at a favourable, fixed rate over a fixed term). The deal was the largest-ever secondary leveraged buy-out in the history of South Africa.[45]

In March 2010, PIH sold its stake in Foodcorp to a consortium that included management, UK fund manager BlueBay Asset Management and a South African private equity investor, Capitaum, for R550 million.[46] Turnover in the company had increased

[37] *Ibid.*
[38] Interview with Jan Roesch, 27 October 2008.
[39] Interview with Ndaba Ntsele, 13 October 2008.
[40] *Ibid.*
[41] *Ibid.*
[42] *Ibid.*
[43] *Ibid.*
[44] Available *www.saflii.org.za/cases/ZACT/2004/22.html* (accessed 29 January 2009).
[45] I Mahabane, 'Step in the Right Direction', *Financial Mail,* available *www.financialmail.co.za* (accessed 29 January 2009).
[46] Author not cited, 'BEE', *Business Day,* 18 March 2010, available *www.businessday.co.za* (accessed 30 June 2010).

from R2.8 billion in 2004 to R6.2 billion at the end of 2009.

Pamodzi Gold. In October 2006, PIH made what turned out to be one of its less successful investments when, through is subsidiary Pamodzi Resources (in which it then had a 50.5% share – later increased to 74.5%), it purchased the gold mining assets of Impafa Resources and formed Pamodzi Gold. The aim was to create a black-owned junior gold mining company with a listing on the Johannesburg Stock Exchange Ltd (JSE), and Pamodzi Gold was listed on the JSE at the end of October that year. There were high hopes for the company and PIH believed that it was in a good position – by virtue of its ownership status, access to capital and the quality of its management team – to generate significant deal flow. PIH also saw the possibility of being able to take advantage of the opportunity to purchase other mining assets that might become available as a consequence of the promulgation of the Mineral and Petroleum Resources Development Act (no 28 of 2002), which aimed, among other things, to increase black ownership of the country's mines.[47]

Pamodzi Gold started running into financial difficulty in 2008, however, when it battled to raise the capital necessary to develop to mines that it had acquired early that year. The acquisition of these two mines had tripled the size of Pamodzi Gold and diluted Pamodzi Resources' shareholding in Pamodzi Gold to 38%. In July 2008, the JSE threatened to suspend trade of Pamodzi Gold shares unless it released its annual financial statements. These had been delayed because Pamodzi Gold wanted to raise the necessary funds before it released the report, so that the effect of the acquisitions could be factored into the financial results.[48]

Ntsele and his team fought for more than a year to try to save the Pamodzi Gold business. "I did not want to leave before the final whistle was blown," he said. "As an entrepreneur, you have to see things through to the end."[49] In the end, it was to no avail. Despite securing a loan of R200 million from the IDC, conditional on Pamodzi Gold being able secure the remaining R200 million from elsewhere, they did not manage to raise the necessary capital. Its main mines, with the exception of its operations on the West Rand (west of Johannesburg) were put into provisional liquidation in April 2009,[50] and a final liquidation order was granted in October 2009.[51]

Commenting on this experience, Ntsele said: "I'm glad to have gone though this, because if you don't go through something like this, you'll never be somebody in life." He continued: "These things happen. On paper it looked like a good investment, and when we bought it, gold was trading at about US$500 an ounce, so we bought it at a reasonable price and thought would break even with gold at US$750 an ounce. Since then, gold moved to US$1 000 an ounce. But, in life, you've got a nice spreadsheet – and then you've got the real world." He believed that his mistake had been to take over the new mines before Pamodzi Gold had the necessary money to invest in them. Almost more importantly, though, he had failed to listen to his "belly button". He had drawn a whole team of experts around him to evaluate the purchase of those mines, and their scientific answers had all shown that the deals were good. But instinct should have made him ask, "If this is so good, why is it so cheap? In the end, you can have the spreadsheets, but then you have to make a decision," he said. "I didn't make the right decision. You have to use all of your senses when you make a decision."[52]

He remembered another business venture that had failed, because he and his team had not used all their senses and had failed to take real-world circumstances into consideration. PIH had invested in a public private partnership with government in a paprika plantation and factory in Brits. They had decided to move the plantation and the factory to the Northern Cape in the interests of creating jobs in that area. The Brits factory had been very profitable, and Ntsele had seen no reason why it should not succeed in the Northern Cape too.

"What we failed to do," he said, "was to go and spend some time in the area to see how the people live. If we had, we would have seen that the area has a huge problem with alcoholism, and realised that this would

[47]Available *www.pamodzigold.co.za/profile_corporate.php* (accessed 30 June 2010).
[48]B Mpofu, 'JSE gives Pamodzi Gold a Month's Stay of Execution', *Business Day,* 4 July 2008, available *www.businessday.co.za* (accessed 30 June 2010).
[49]Interview with Ndaba Ntsele, 24 March 2010.
[50]C Mathews, 'New Attempt to Refinance Pamodzi', *Business Daya*, 7 May 2009, available *www.businessday.co.za* (accessed 30 June 2010).
[51]Author not cited, 'Pamodzi Gold Liquidation Order Granted', *Business Day,* 7 October 2009, available *www.businessday.co.za* (accessed 30 June 2010).
[52]Interview with Ndaba Ntsele, 24 March 2010.

have made the people unable to do the work we needed. You can't put people who are hungover into the hot sun to harvest paprika." So the venture had failed. The factory – a state-of-the-art one at that – was still there, but it was a ghost town.[53]

Pamodzi Resources Fund. In October 2007, PIH was involved in another first when it launched the Pamodzi Resources Fund (PRF1) with a commitment from a consortium of investors, including affiliates of American Metals and Coal International,[d] to make available US$1.3 billion (R9.2 billion at that stage) to invest in mining and resources organisations. This made PRF1 the largest private equity fund in South Africa at the time.[54] By May 2010, the fund had invested US$157 million by acquiring a 60% interest in Rand Uranium from Harmony Gold. In May 2010, Rand Uranium was producing and selling gold, but was in the process of establishing a uranium plant. Uranium would be extracted from the existing slime dams and above-ground dumps, with a 34-year life of reserve. Once in production, it was expected to be one of the top 10 uranium producers in the world, with the lowest production risk, given that the uranium did not have to be mined.

The Antonov deal

Based in the Ukraine, Antonov was founded in 1946 by Oleg Antonov by decree of the government of the Union of Soviet Socialist Republics (USSR). It was a government-owned organisation and, since inception, the company had designed and manufactured more than 100 different types of aircraft – including freight planes, passenger planes, military planes, helicopters and special-purpose aircraft. Among its aircraft were the AN225 Mriya, the largest transport aircraft in the world (it had been used to transport oversized building vehicles to help with the clean-up operations after the earthquake in Haiti in January 2010), and the AN-70 heavy transport military aircraft, which competed against planes such as the Airbus A400M. Altogether, Antonov had built more than 20 000 aircraft and, although its planes were not sold in Europe, they were exported to 70 countries throughout the world.[55]

The *Financial Times* noted that, in the era of the Soviet Union, Antonov's design bureau had been one of the showpieces of the communist world. Since at least the late 1990s, Antonov had been trying to expand the international market for its aircraft. There was nevertheless a lingering perception that Antonov aircraft were not as safe as their European counterparts, which Antonov was working hard to combat – saying that these perceptions were, in fact, unfounded.[56] It marketed the advantages of its aircraft as being "structural reliability, flexibility of transport operations, ability to use unpaved airfields and ease of maintenance",[57] and pointed to the fact that they were far cheaper than the aircraft of their rivals.

Although Antonov aircraft were being widely used on the African continent for humanitarian and cargo operations, the company did not have official representation in Africa. As a consequence, technical and after-sales support had been limited, because they had been provided from the Ukraine.[58] Ntsele and his colleagues had become aware of the opportunity to become the Antonov agent in Africa when they were at the Ukraine embassy and overheard the ambassador talking about it. Further investigation had made Ntsele very interested in securing the deal. There were at least 800 Antonov aircraft in Africa, although the number had to be confirmed. Airlines would have to pay as much as US$2 million upfront for their aircraft to be serviced. This would make it a huge cash generator. The South African Department of Defence was looking to replace its fleet of Lockheed C-130s, and AN-70 could provide an ideal alternative. Ntsele's gut told him it was a really good deal. "Planes fly. They need to be safe. We are in the continent. The price point is good. We can service old planes and we can sell new planes. This could be a huge opportunity," he thought.[59]

Despite this, there were some relatively significant obstacles that Ntsele had to address in pursuing the deal. The first was that PIH would need to be able to provide the necessary infrastructure – hangars,

[53] *Ibid.*
[d] One of the largest privately-owned coal companies in the world.
[54] T Mafu, 'Pamodzi Launches US$1.3bn Fund', *Business Report*, 6 August 2007.
[55] Available *www.antonov.com* (accessed 8 May 2010).
[56] C Clover, 'Ukraine Looks to Extract Commercial Gain from Soviet Military Legacy', *Financial Times*, 12 August 1998.
[57] See *www.antonov.com*, about us link (accessed 8 April 2010).
[58] J Baumann, 'Pamodzi to be African Agent for Antonov', *Business Day*, 20 May 2010, available www.businessday.co.za (accessed 30 June 2010).
[59] Interview with Ndaba Ntsele, 6 April 2010.

technicians and runways, for example – to service the planes, and it would be far too expensive to build and provide this infrastructure from scratch. The second issue of was that of language and culture. The Ukraine was an ex-Soviet nation. As such, its language of business was Russian and its systems were still mired in communist bureaucracy. PIH would therefore need to do business through an interpreter, which was never ideal, and it would have to find a way to manage the bureaucracy. Added to this was the fact that Antonov was a government-owned entity, which would simply deepen the bureaucracy.[60] However, Ntsele reckoned that government bureaucracy was pretty similar to private sector bureaucracy, and he had been faced with his fair share of that in dealing with some of the largest corporations in the world. So this was not enough to put him off the deal.

The deal-breaker would have been the inability to find an infrastructure and technology partner. Ntsele had sought to address this by asking organisations which already had the necessary infrastructure in place to partner with PIH in the deal. He knew that going into partnership would mean that PIH would have to share the profits but, he said, "in a deal like this, if you don't share it with other people and try to do it by yourself, the answer is zero. It will never even get off the ground. In the end, 10% of eight billion is better than 0% of eight billion."[61] There were three organisations with the necessary infrastructure in South Africa: Mafikeng Airport in the North West Province, Denel Aviation [a division of the government-owned defence equipment manufacturer Denel (Pty) Ltd, which serviced military aircraft] and South African Airways (SAA) Technical, which serviced passenger planes for SAA and other international airlines. An initial approach to Mafikeng Airport did not solicit the enthusiasm that Ntsele had anticipated. "They did not see the opportunity as we saw it," he said, "but they did leave the door open, saying that if we did manage to secure the deal, we could come back to them."[62]

Ntsele then decided to go directly to the Department of Trade and Industry (DTI) and ask for its support in acquiring the licence by guaranteeing to Antonov that PIH would be able to secure the necessary infrastructure partner in either Mafikeng, Denel Aviation or SA Technical Services (both of the latter two being government-owned). High-level DTI representatives accompanied PIH to the negotiations with Antonov, and PIH secured the licence.

This then gave Ntsele greater leverage when he approached SA Technical Services and Denel Aviation, because he could tell them that he had a definite deal with potential to bring them huge business into the future. His timing was right with Denel Aviation, which was looking to expand its operations and was therefore interested in partnering with PIH to secure the Antonov business. From Ntsele's perspective, the deal was "made in heaven", because Denel Aviation was already servicing planes from all across Africa, it had the space, it had the technicians and engineers, and it had the necessary training facilities.[63]

Conclusion

As Ntsele prepared to announce the Antonov deal and the launch of Pamodzi Aviation the next day, he still had to formalise PIH's relationship with Denel Aviation. His plan was for PIH to take a stake of between 40% and 50% in Denel Aviation in return for the business that the Antonov licence would bring to Denel. He thought that the deal should take place in the form of a "reasonable share swap, because we are talking about values that are not tangible",[64] and knew that the Antonov licence had given him a way into Denel that would not have been possible otherwise. "If I had just wanted a stake in Denel, without Antonov, I would have paid a fortune. Antonov gives me leverage," he noted.[65]

So he was convinced that the deal made sound business sense, and he believed that Pamodzi Aviation could make billions of rands. There were planes that needed servicing, and there would be a market for new Antonov planes in Africa by virtue of their suitability for the environment. He had just discovered that the entire Angolan fleet of military planes needed to be

[60] *Ibid.*
[61] *Ibid.*
[62] *Ibid.*
[63] *Ibid.*
[64] *Ibid.*
[65] *Ibid.*

replaced. Now Antonov was also prepared to allow Pamodzi Aviation to service and sell its helicopters. For him, this was the "cherry on the top". It had been "mission impossible" when he started out, and now the deal had come to fruition.[66]

Still, he knew that there was no absolute certainty that it would work out, and wondered whether his belly button was correct this time, or whether there were any real-world issues that he had overlooked which could cause Pamodzi Aviation to fail.

[66] *Ibid.*