

# BEE just not sustainable, says Gumede

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Robert Gumede, the charismatic businessman who owns struggling technology company Gijima AST, says the black empowerment of today "is not sustainable".



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Speaking to *Business Times* in the aftermath of Gijima's delisting from the JSE this week after a horror show of events saw his company lose 98% of its value over the past four years, Gumede slammed the structure of empowerment deals.

"If I was government, I would not finance any black man to take minority shareholdings," he says. "I would finance black people to become industrialists, where they have majority ownership; but more importantly, they must be hands-on involved in those businesses. You cannot be a general dealer - you need to be a specialist in one sector of the economy."

As it stands, he says, many aspiring black industrialists "do a deal in tourism for breakfast, for lunch they do a deal in steel and for dinner, they are doing business in a non-related sector".

President Jacob Zuma has publicly pledged to create 100 black industrialists in the next three years, evoking images of the Rupert and Oppenheimer families. But Gumede is cautious about this, saying that while it is a "fantastic idea to push for South African industrialists that also happen to be black", the structure needs to change.

As a 26% shareholder, he says, you don't have access to a company's cash flow and often most of your shares are pledged to the finance houses.

"That is why most black companies don't have more than five employees. They can be called multibillionaire companies, but because they are not involved in the running of the businesses, they are not majority shareholders, they are still reliant on the companies making massive profits, so that they can pay back the debt," he says.

While Gijima's tenure on the JSE was not successful, Gumede says the company is now the only 100% black-owned IT company of its size, still has 2600 employees and "it's my responsibility to make sure I manage the business correctly".

"Most of these big IT companies have a black chairman or directors who do not even own 1% of the company's shares."

Many executives, he adds, have a short-term mindset and "don't know how to use their money" to achieve growth.

"What I've learnt in life [is] you can't be in business, own a holiday home in Cape Town, in Durban, have a home in Joburg and have a home in your village in Nelspruit - or have numerous cars - because in business you must reinvest your money in the business. That is what I had done with Gijima. I've never taken money out - I reinvested it back into the business so I could achieve the growth that we achieved," he says.

But investors in Gijima who have witnessed its massive value destruction will question whether Gumede's own management was sound. A torrid series of crippled government contracts, management reshuffles and mounting financial losses put heavy strain on the company, leading to investors losing faith in Gijima's direction.

This is particularly disappointing for investors because the company seemed destined to be a long-term success after Gumede's Gijima took over the struggling AST in 2005.

Ernest Kaplan, an independent information and communications technology sector analyst, says Gumede initially did a great job, especially when it came to scoring government work.

"Robert is a person of unbelievable entrepreneurial mind and a very infectious and charismatic leader. He's got exceptionally good people skills and those kind of attributes filtered through the organisation and they had very good relationships with government entities and managed to win significant contracts," he says.

Within a few years of Gumede's taking over, "50% of the group's [revenue] was public-sector-related, the whole thing was very sweet".

But this also created controversy; Gumede's critics suggest that the large chunk of this government work was not unrelated to the public donations he made to Zuma and the ANC.

Two years ago, Gumede was claiming his relationship with Zuma had not helped him at all: "Presidents don't sit on tender boards . all that matters is whether you deliver the service on time and within budget."

However, Gijima ran into problems with a number of those contracts, including the R4.5-billion tender for the Department of Home Affairs to install the Who Am I Online identity verification technology in ports before the 2010 World Cup. Instead, the South African Revenue Service stepped in at the eleventh hour to install the technology and rescue the project.

Now Gumede blames his own managers, as well as a lack of expertise in government, for a number of these disasters, and says the problems began in 2008 when he stepped down as an executive at Gijima to focus on running his other businesses.

These other businesses are immense: his investment company Guma holds 51% of Tourvest, which operates in-flight duty-free services on 13 international airlines, including British Airways, Virgin Atlantic and SAA, and runs duty-free shops at

OR Tambo International Airport and elsewhere.

"I became disappointed from 2010 when I began to realise that we were having serious managerial problems . When I stepped down we had over R600million cash in the business and the business had grown substantially. Two years later, things had changed, when we had the problem with home affairs, then what followed was other undisclosed financial commitments that really hit the balance sheet," he says.

He says his decision to step back created "a cancer of nonaccountability, non-disclosure, of material issues".

But analysts say there were other problems that led to Gijima's nadir.

Keith McLachlan, a portfolio manager at AlphaWealth and long-time small-cap analyst, says the Who Am I Online contract was a big deal but it created a structural problem in the business.

"They had overexposure to a single client - government. The fallout from that had a significant drag not just on its financials, but also reputationally. Gijima at its core is a services company and service companies thrive on their reputation. That was the start and then you get the snowball effect."

What happens then, McLachlan says, is that the best staff begin questioning whether they should leave.

"The best individuals are also the most mobile, so you get a double whammy of lost revenue and lost human capital. It becomes harder to win contracts and retain contracts."

Kaplan agrees, saying that the industry closed ranks against Gijima. "The IT industry is not forgiving. It's such a small world and everyone knows everyone [so] if you get one thing wrong and it's big, then clients might say we don't want to do business with this company," he says.

Besides the home affairs contract, several other big contracts also ran into trouble or were cancelled - including a contract to provide equipment to the South African Police Service, and a contract to supply banking giant Absa.

Gumede says it remains a challenge doing business with government because of the "silo mentality" that means that departments often do not have the expertise to help those doing business with it do a proper job.

"If clients don't have the expertise internally, it becomes very difficult to implement projects," he says.

Gumede's decision in February to buy out the remaining shares in Gijima and delist it from the JSE follows a rights issue to raise R100-million last year that was supported by less than half its shareholders.

But, he says, a relisting of Gijima at some stage is not out of the question - provided it is done for the right reasons.

Kaplan supports this. "I think it's better for [Gumede] and the company and staff not to be listed for a while, to get it better. Gumede put in his own cash and has done what he thought was right. I think a delisting now makes a lot of sense. "

*Source: Business Times*