

Practicalities around Black Economic Empowerment and Small and Medium Enterprises in South Africa

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**Practicalities around Black Economic
Empowerment and Small and Medium
Enterprises in South Africa**

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ABSTRACT

Broad-based black economic empowerment (BBBEE) and its antecedent black economic empowerment (BEE) remain highly emotive terms in South Africa today. There is a school that firmly believes that BEE is a tax placed upon businesses and that its only effect is to reduce competitiveness. This form of institutionalised racism points to the ANC wanting to “take over everything whites have built up” (de Lange, 2002).

On the other hand, the economic and social transformation of South Africa is seen as key for the future of our country and remains a fundamental goal of the democratic government, as the majority of black South Africans continue to operate outside the parameters of the mainstream economy. For this part of the population, BEE has not been implemented nearly as steadfastly as possible.

Add to this the acknowledgement that “SMEs will play a prominent role in the second decade of our democracy and beyond as we seek to accelerate economic growth, reduce unemployment and bridge the gap between the first and second economies,” (Mpahlwa, 2005) and we have a hodge-podge of popular opinion.

This paper aims to enrich this debate by providing empirical evidence of how the various elements of BEE legislation are experienced by SMEs and whether or not BEE is perceived to be value-adding.

DECLARATION

I declare that this research project is my own, unaided work. It is submitted in partial fulfillment of the requirements of the degree of Master of Business Administration for the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other university.

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Jayesh Nair

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Date



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ABBREVIATIONS

AMPS	:	All Media Products Survey
ANC	:	African National Congress
ASGISA	:	Accelerated and Shared Growth Initiative of South Africa
BBBEE	:	Broad-Based Black Economic Empowerment
BEE	:	Black Economic Empowerment
Cosatu	:	Congress of South African Trade Unions
CSI	:	Corporate Social Investment
DTI	:	Department of Trade and Industry
ESOP	:	Employee Share Ownership Programme
GDP	:	Gross Domestic Product
GDS	:	Growth and Development Summit
HDI	:	Historically Disadvantaged Individuals
PPP	:	Public Private Partnerships
RDP	:	Reconstruction and Development Programme
SED	:	Socio-Economic Development
SME	:	Small and Medium Enterprise
SMME	:	Small, Micro and Medium Enterprise
SPVs	:	Special Purpose Vehicles

CHAPTER 1 - INTRODUCTION

1.1. BACKGROUND

“The most unfair, damaging and destabilising feature of the South African economy is that a very small proportion of skilled workers, professionals and proprietors are black,” (International Development Research Centre: Reaching for the Economic Kingdom, p1 <http://www.idrc.ca/en/ev.html>).

Since 1994 South Africa’s first democratically elected government has sought to reverse the social, political and economic marginalisation of the black majority of this country (Meintjies, 2004). Black Economic Empowerment (BEE) is a specific government policy that was envisaged to advance economic transformation specifically by boosting the participation of blacks within the economy. There has also been a focus from government on small and medium enterprises (SMEs) as these are seen as having huge potential to drive economic growth and job creation. As such, the DTI made small business its initial BEE focus (<http://www.idrc.ca/en/ev.html>).

In his February 2003 State of the Nation address, President Thabo Mbeki emphasised that the development and support of small and medium business remains a priority for government and that more financial and other resources would be committed to the development of this sector (Enterprise, 2003:120).

While the concept of BEE was conceived with good and noble intentions, experience of its implementation has proven less than desirable. Baldauf (2006) refers to a situation where many blacks in South Africa say they live in a 'cappuccino' society, with a lot of black coffee at the bottom, a layer of white foam on top of that, and a sprinkling of cocoa on the very top for show. Government responded by passing the Broad-Based Black Economic Empowerment (BBBEE) Act of 2003 realising that narrow based principles could not possibly benefit the majority of the population.

1.2. THE RESEARCH PROBLEM

Government is serious about BEE and has made a substantial commitment of people and resources to small business development (<http://www.idrc.ca/en/ev.html>). It is, therefore, reasonable to assume that government has every desire to see BEE policy succeed at the SME level. However, the reality of rolling out and implementing BEE legislation within the SME sector has proven more challenging than was anticipated (Cargill, 1999) and the advent of the Broad-Based Black Economic Empowerment (BBBEE) Act of 2003, followed by further changes to the legislation in February 2007 has served only to exacerbate the problem.

This paper examines the interplay between SMEs in South Africa and their ability to act in accordance with government's drive to implement Broad-Based Black

Economic Empowerment by investigating which elements of the Department of Trade and Industry's (DTI) BBBEE scorecard SMEs are managing to comply with and which elements present real challenges.

1.3. RESEARCH AIM

The principal aim of this research is to determine the ease with which South African SMEs are able to comply with each of the seven elements of the Department of Trade and Industry's (DTI) BBBEE Codes of Good Practice scorecard. The research also investigates the underlying reasons for why some elements prove simpler to comply with than others. Hence, the research will:

- Determine the ease with which South African SMEs have either already complied with, or believe they will be able to comply with, each of the following seven elements of the scorecard:
 - Ownership
 - Management
 - Employment Equity
 - Skills Development
 - Preferential Procurement
 - Enterprise Development
 - Socio-economic Development

- Understand reasons for the possible differences in the ability of SMEs to comply with the different components of the scorecard

- Establish whether SMEs believe there is value to be had from compliance with the scorecard.

CHAPTER 2 - THEORY & LITERATURE REVIEW

2.1. INTRODUCTION

Wide-spread literature on Black Economic Empowerment in South Africa exists, although not much of it is to be found in peer reviewed academic journals. This is probably due to the fact that BEE in South Africa is still a relatively young topic. Notwithstanding this limitation, the literature review for this study is extensive with much reference being made to newspaper articles, articles appearing in financial publications such as The Economist, and information obtained from numerous informative websites such as that of the Department of Trade and Industry (DTI), which contains the relevant BEE policy documents, bills and acts.

The literature review commences with definitions of BEE as expressed by various players ranging from government to trade unions to private enterprise. This leads into a short dialogue around the concept of Broad-Based BEE and how and why it emerged. Some views on the origins of BEE as well as on similar initiatives in other countries (particularly the Malaysian experience) are also touched upon. Following this is a discussion on the challenges surrounding BEE implementation in South Africa.

Literature outlining the importance of SMEs to the economy of South Africa and reasons for government's focus on this sector is then presented. Finally each of the

seven elements of the Department of Trade and Industry's (DTI) BBBEE Codes of Good Practice scorecard ranging from Ownership to Socio-Economic Development are examined.

2.2. DEFINITIONS OF BLACK ECONOMIC EMPOWERMENT (BEE)

The literature suggests that there is not one single, universally accepted definition for the term Black Economic Empowerment (BEE). BEE is seen as different things to different people (Hirsch, 2005) and a selection of definitions is presented below.

2.2.1. WHAT IS BEE?

a) Views of Government and the ANC

Government suggests that the challenge in defining black economic empowerment is to find the appropriate balance between a very broad definition and an overly narrow one. In addition, they say that to define BEE too broadly equates BEE with economic development and transformation in general and that the strategy is then commensurate with the totality of government's programme of reconstruction and development. On the other hand, to define BEE too narrowly limits it to a set of transactions transferring corporate assets from white to black ownership (DTI, 2004). With this as a backdrop, government defines BEE as "an integrated and coherent socioeconomic process that directly contributes to the economic transformation of South Africa and brings about significant increases in the numbers of black people that manage, own and control the country's economy, as

well as significant decreases in economic inequalities” (DTI, South Africa’s Economic Transformation, 3.2.2, p 12).

In December 2002, the ANC’s 51st National Conference resolved that, in its broadest sense, BEE may be defined as an integrated and coherent socio-economic process located in the context of the RDP. They further agreed that its benefits must be shared across society and impact as widely as possible. At this time, the indicators for success were seen as overall equity in incomes, wealth, increasing levels of black participation – including black women and youth - in ownership, the extent to which there is operational participation and control of the economy and the extent to which there has been transfer and possession of skills and a retention of assets by the BEE beneficiaries (ANC, 2002).

The BEE Commission that was formally established in May 1998 by the Black Business Council to investigate the success of BEE to that point (Enterprise, 2003) had its own definition of BEE. The commission felt that there was a tendency in South Africa to define BEE narrowly and to equate it with the development of a black capitalist class. The commission further suggested that the narrow definition of BEE focused too heavily on the entry and transaction activities of black people in business, especially what is commonly referred to as BEE investment companies. The commission therefore proposed a broader definition of BEE against which a workable and sustainable BEE programme could be designed and implemented as

part of a new growth plan for the economy. The BEECom thus submitted the following as a definition for BEE:

- It is an integrated and coherent socio-economic process
- It is located within the context of the country's national transformation programme, namely the RDP
- It is aimed at redressing the imbalances of the past by seeking to substantially and equitably transfer and confer the ownership, management and control of South Africa's financial and economic resources to the majority of its citizens
- It seeks to ensure broader and meaningful participation in the economy by black people to achieve sustainable development and prosperity.

b) Views of Trade Unions

As a trade union, Cosatu holds a slightly different view of BEE. As part of Cosatu's "Submission on the Broad-based Black economic Empowerment bill and comments on the Department of Trade and Industry's Broad-based BEE Strategy Document, 25 June 2003", Cosatu suggested that a defining characteristic of South African society is the historically accumulated and worsening race, gender and geographic inequalities. These are concretely expressed in the extreme levels of chronic poverty and underdevelopment in the areas where the majority of the population reside.

Cosatu says that the eradication of extreme forms of poverty and entrenched inequality is a precondition for a successful BEE strategy. On the one hand, there is an inseparable link between a BEE initiative geared towards engendering different forms of economic assets and activities, whilst on the other; there is an active interventionist state role in addressing the prevalent poor socio-economic infrastructure (Cosatu, 2003).

Cosatu's view is that there is hence an invariably disproportionate emphasis on big business, particularly in the formulation of policy instruments and monitoring mechanisms through which it is envisaged that BEE is to be implemented. The definition of BEE adopted at the Growth and Development Summit (GDS), is one that COSATU supports (Cosatu, 2003). The definition of BEE adopted at the Growth and Development Summit (GDS) includes strategies to:

- ensure the broadest ownership of productive assets and resources;
- increase levels of employment in the formal economy;
- increase household incomes;
- expand literacy and skills development; and
- extend basic services to those who do not currently have them.

c) Views of Private Enterprise

The views of private enterprise, on BEE, also take on a different slant and this is evidenced by the following definitions. In 2004, Emex, an organisation involved in

implementing BEE management systems defined black economic empowerment as a process of assisting and educating black people to enable them to contribute to the economy.

Alexander (2006) states that black economic empowerment is a strategy aimed at increasing black participation at all levels in South Africa's economy. She continues that BEE aims to redress imbalances of the past by seeking substantially and equitably to transfer ownership, management, industry and operational expertise, as well as proportionate control of South Africa's financial and economic resources, to the majority of its citizens. BEE also aims to ensure sustainable, broader and meaningful participation in the economy by black South Africans. In addition, she says that BEE is a mitigation strategy against South Africa's social, political and economic risks. It addresses the legitimacy of a mixed market economy and dramatically increases the size of any potential market.

As a final word on the definition, Ndlovu (2006) stated that BEE and transformation are interlinked. He continued that BEE is part of transformation, which is about the creation of a new value system and the restructuring of our socio-economic order. It is about the elimination of apartheid-caused disparities and the deracialisation of our economy. "BEE is both an instrument for and the measure of transformation", (Lot Ndlovu, Financial Mail, 25 August 2006).



2.2.2. THE ORIGINS OF BEE

The origins of BEE are about as tricky to trace as finding a definition for the term. A website set up specifically to give information to foreigners about South Africa claims that BEE was pioneered by a transaction between Sanlam and New Africa Investments Limited (Nail) under the leadership of Dr Nthato Motlana and Judge Dikgang Moseneke, among others, in 1993. This, claims the website, led to the first wave of BEE proposals on legislation

(http://www.southafrica.info/public_services/citizens/travelkit-bee.htm).

a) The Malaysian Experience

It might be argued that South Africa's BEE and Employment Equity Laws are based roughly on the Bumiputra Laws of Malaysia. Bumiputra privileges and quotas are based on Article 153 of the constitution which states that: "It shall be the responsibility of the Yang di Pertuan Agong to safeguard the special position of the Malays and the legitimate interests of other communities in accordance with the provisions of this Article" (<http://www.malaysia-today.net/MMblues/2005/09/article-153-of-malaysias-federal.htm>).

Many hold the view that the Bumiputra laws stand out as an unusual public policy where preferential actions benefit the majority race of a country, while some state that the advantages afforded to Bumiputras border on outright racism. Others argue that the Malaysian situation at the time the policy was introduced – where a

minority ethnic group widely regarded as non-native controlled most of the locally owned sector of the economy – was a deeply unstable situation (<http://www.malaysia-today.net>).

The parallels between the Malaysian situation of the 1960s and those of South Africa just over a decade ago are indeed uncanny. While Bumiputra laws still exist in Malaysia, the jury is out on whether or not it has truly benefited the Malays and if these laws have on balance done more bad than good.

b) The South African Experience

In South Africa, the vision of an economy that addresses the needs of the majority of the people in a fair and equitable manner is by no means something new and novel. This vision dates as far back as 1955 to the Freedom Charter. The declaration, “The People shall share in the Country’s Wealth” was elaborated as:

- The national wealth of our country, the heritage of all South Africans, shall be restored to the people;
- The mineral wealth beneath the soil, the banks, and monopoly industry shall be transferred to the ownership of the people as a whole;
- All other industries and trade shall be controlled to assist the well-being of the people;
- All people shall have equal rights to trade where they choose, to manufacture, and to enter all crafts and professions (ANC, 1955).

However the concept has been significantly refined and developed to fit the context of our new political situation. The first attempt to introduce the model of BEE was in the form of the Reconstruction and Development Programme (RDP) of 1994. Since then numerous acts have been passed, with the most significant being the Employment Equity Act 55 of 1998 and the Broad-Based Black Economic Empowerment Act 53 of 2003 (http://bee.sabinet.co.za/bee_legislation.html).

Although the concept of BEE has been around for so long, the truth is that there is still confusion and a lack of clarity around exactly what it means. Edigheji (2000) suggested that part of the goal of BEE was to create a small influential black business class. He continued that blacks were to gain access to the formal economy while at the same time the underlying structures of the economy were to be left unaffected. Batchelor and Dunne (1999) felt that BEE was largely a function of white businesses' efforts to change themselves. This view was driven by their observation that financial institutions at the time provided funding to what was referred to as Special Purpose Vehicles (SPVs) which enabled black people to go into business although they did not have the capital. The result of this financing process was that new black owners were left highly indebted and were extremely vulnerable to volatility in financial and equity markets. As a result fewer and fewer of these type transactions are occurring. Meintjies (2004) suggests that BEE refers to measures, actions or programmatic steps geared to enable meaningful participation of black people in the economic mainstream. He continues to say that

BEE is a response to our particular reality born of racial capitalism, the fusion of apartheid with the capitalist system.

Despite the wide range of interpretations and definitions, government is committed to making BEE in South Africa work. "Our country requires an economy that can meet the needs of all our economic citizens - our people and their enterprises - in a sustainable manner. This will only be possible if our economy builds on the full potential of all persons and communities across the length and breadth of this country" (DTI, 2004).

c) Some Alternate Views

There is also a school of thought that says that the implementation of practical measures to involve blacks in leading positions in business came from business itself (Shubane, 2006 – Business Report, 3 April, 2006). Shubane went on to say that black business associations, especially the Black Management Forum, had for a while called for radical changes to be implemented to ensure the representation of black people in management and as shareholders of companies. He continued that there was a growing recognition among a few people at the time that the new political environment was moving ahead and leaving economic arrangements far behind. According to Shubane (2006), this had a great influence in giving BEE impetus.

Perhaps a somewhat more cynical view of the origin of BEE was presented by Krige (2006) in her 'Life Back Home' column featured on the 'Home Coming Revolution' website (<http://www.homecomingrevolution.co.za>). Here she proposes that BEE was invented by South Africa's white controlled huge mining and finance corporations in the early 1990s as a way to placate Mandela and his radical associates at a time when it looked like the recently released Mandela was looking to nationalise the mines, the banks and the other commanding heights of the South African economy. She continued that BEE is a magic wand that can turn previously disadvantaged black politicians into instant millionaires (Krige, 2006).

Despite the uncertainty around the origins of BEE, there can be little argument against the change in political leadership in 1994 having resulted in widespread economic change in South Africa. In addition, BEE forms an important part of government's plan to redress the economic disparities between black and white South Africans (DTI, 2004) and appears to be a policy that is here to stay.

2.2.3. BROAD-BASED BLACK ECONOMIC EMPOWERMENT (BBBEE)

"Apartheid systematically and purposefully restricted the majority of South Africans from meaningful participation in the economy. The assets of millions of people were directly and indirectly destroyed and access to skills and to self-employment was racially restricted. The accumulation process under Apartheid confined the

creation of wealth to a racial minority and imposed underdevelopment on black communities. The result is an economic structure that today, in essence, still excludes the vast majority of South Africans. It is crucial to understand the magnitude of what took place in our past in order to understand why we need to act together as a nation to bring about an economic transformation in the interest of all” (DTI, South Africa’s Economic Transformation, 2004, p3).

It would be difficult to argue against the notion that South Africa’s history of apartheid ensured that black economic participation was both suppressed and impeded in every possible way. The deprivation of blacks historically has resulted in blacks occupying a marginal position in the South African formal economy (Meintjies, 2004).

Since 1994, South Africa’s first democratically elected government has sought to reverse the social, political and economic marginalisation of the black majority of this country. Black Economic Empowerment (BEE) is a specific government policy that was envisaged to advance economic transformation specifically by boosting the participation of blacks within the economy (Banda, 2003).

Broad-based black economic empowerment seeks to encompass more than just the ownership aspect and management make-up of businesses, which is what the original BEE legislation focused on. Instead, BBBEE is aimed at being more holistic in its approach and deals not only with ownership and management, but also

employment equity (EE), skills development, preferential procurement, enterprise development and corporate social investment.

2.3. PROBLEMS SURROUNDING THE IMPLEMENTATION OF BEE

Before entering into discussion on the problems associated with the implementation of BEE, it might be prudent to first obtain a view of the objectives of BEE as laid out by government, through the Department of Trade and Industry (DTI).

a) The objectives of BEE

In the document, “South Africa’s Economic Transformation: A Strategy for Broad-Based Black Economic Empowerment” (DTI, 2004) the objectives of BEE are given as follows:

- To promote economic transformation in order to enable meaningful participation of black people in the economy
- To increase the extent to which communities, workers, co-operatives and other collective enterprises own and manage existing and new enterprises, as well as increase their access to economic activities, infrastructure and skills training
- To increase the extent to which black women own and manage existing and new enterprises, and to increase their access to economic activities, infrastructure and skills training

- To empower rural and local communities by enabling access to economic activities, land, infrastructure, ownership and skills
- To increase the number of black people that create, manage, own and control enterprises and productive assets
- To facilitate ownership and management of enterprises and productive assets by communities, workers, co-operatives and other collective enterprises
- To develop appropriate human resources and skills

Further, the Department of Trade and Industry (DTI) says that no economy can grow by excluding any part of its people, and an economy that is not growing cannot integrate all of its citizens in a meaningful way. In a nutshell, therefore, the principal aim of South Africa's BEE legislation is, "To establish a legislative framework for the promotion of black economic empowerment; to empower the Minister to issue codes of good practice and to publish transformation charters; to establish the Black Economic Advisory Council; and to provide for matters connected therewith" (Broad-Based Black Economic Empowerment Act 53 of 2003). However, experience has shown that these noble objectives have not always been met. Presented below is a selection of problems associated with the implementation of BEE in South Africa.

b) A transfer of shares from white to black hands has occurred

In an article appearing in The Economist on 23 December 2006, it was put forth that few South Africans disagree with BEE's aims, and the country's largely white

businesses broadly embrace the idea that the economy should fully include the non-white majority of the population. It continues to say that there has, however, been much grumbling over the shape BEE has taken. So far, it says, empowerment has mostly meant bringing black shareholders into white-dominated companies.

c) BEE has had a limited and narrow reach

Schlemmer (2005) believes that the success, or otherwise, of BEE remains a hugely emotive as well as controversial topic. Fuelling this belief is the All Media Products Survey (AMPS) study in 2004 that found that no less than 65% of black people and 70% of other population groups believed that the main beneficiaries of government policy such as BEE are “crony capitalists”, politically well-connected, and rich, businessmen as well as officials and politicians. In other words, says Schlemmer, there is no overall consensus on whether Thabo Mbeki’s policies are genuinely serving to create a new affluent black middle class.

d) BEE has created a handful of ‘oligarchs’

An unfortunate and unintended consequence of the BEE Act has been that massive wealth has accrued to a limited number of black individuals, referred to by many as ‘oligarchs’ (Spindle, 2005). Government responded by passing the Broad-Based Black Economic Empowerment (BBBEE) Act of 2003 realising that narrow based principles could not possibly benefit the majority of the population.

Baldauf (2006) refers to a situation where many blacks in South Africa now say they live in a 'cappuccino' society, with a lot of black coffee at the bottom, a layer of white foam on top of that, and a sprinkling of cocoa on the very top for show. In addition, he goes on to say that blacks also use BEE as an adjective, as in – he drives a BEE car, wears a BEE suit, lives in a BEE house – almost equivalent to the American term 'bling'.

The essence of the argument being presented is that for a lot of blacks, their lives haven't changed much since the post-apartheid government has come into power. In its first few years, the bulk of BEE business deals have gone to the hands of very few. According to government surveys in 2004, 68 percent of BEE deals went to just 6 black-owned businesses, all of which were owned by top members of the ANC party (Baldauf, 2006).

This view was supported by Archbishop Emeritus Desmond Tutu when he gave the 2004 Nelson Mandela Lecture. He issued a stern warning that black economic empowerment is benefiting only a small elite while South Africa is "sitting on a powder keg" of poverty (<http://africanhistory.about.com/b/a/128441.htm>).

e) BEE as a form of reparation

The counter argument to both government and the ANC is that in reality, to many, BEE looks deceptively like a form of reparation. Krige (2006) suggests that by putting some ownership of companies into the hands of previously disadvantaged

groups, BEE appears as a way for South Africa's rich whites to atone for their sins of exploiting cheap black labour to dig for the fabulous diamonds and gold that South Africa is world famous for. She also says that BEE is a formula for co-opting, and perhaps even for corrupting, ANC leaders by enriching them as private individuals. "You will be hard pressed to find a current or former ANC minister or senior civil servant who is not in, or working on, a BEE deal" (Krige, 2006 quoted at www.homecomingrevolution.co.za).

This view is further supported by an article appearing in the Economist (23 December 2006, Volume 381, Issue 8509) where it was put forth that BEE barons are more versed in deal-making, often collecting a string of unrelated minority interests, than in operational know-how or entrepreneurship. The article summarises that BEE helps slice up the economic cake, but has done little to expand it.

Meintjies (2004) refers to BEE as a relevant and necessary process, but says that it has had mixed results with very little being achieved in terms of changing the structures of ownership and control within the economy. He added that to some extent BEE is about black people in business and about increased clout of black business and black businesspersons in the economy. Meintjies (2004) feels that the way BEE has been practised and pursued has resulted in a focus on the formal economy and on the large enterprises within the economy. A major shortcoming of this approach has been the actuality that scant attention has been paid to emerging small and medium enterprises.

A few key arguments seem to emerge from the literature in this area. The broad objectives of BEE as laid out by the DTI are admirable and generally acceptable across the political and business spectrums. Government and the ANC have been consistent in their drive to make BEE an important part of the economic transformation of South Africa and have, to this end, put in place the necessary bills and legislation. The implementation of BEE has however, proven to be far more challenging than was anticipated. This is evidenced by many companies and individuals benefiting, in ways unintended by government, through abiding by the letter of BEE law rather than by the spirit of the Act.

While BEE was conceived with the best intentions, it has not had the broad reach that was planned. Kgalema Motlanthe, secretary-general of the ANC, perhaps summed up the situation best when he said that BEE as currently practised in high profile deals was much more about transfer of economic power than about transformation of economic power (Cronin, 2004).

f) Government and the ANC's response to BEE implementation issues

A government statement issued by Joel Netshitenzhe, a day after Tutu's 2004 Nelson Mandela lecture asked the following questions: "Is it correct for the nation - and for government as policy-maker and actor in the economic arena - to seek to deracialise the economy? Are the BEE policies now in place adequate, and if not, how do we improve them? Should we differentiate in assessing trends in BEE

between on the one hand actions of government which include encouragement of BEE Charter processes, procurement, support for SMEs, training and so on, and the activities of private citizens who seek legitimately to take advantage of economic opportunities on the other hand? How do we deal with issues of conflict of interest and "cooling-off periods" without stifling individuals with initiative and expertise who, by law, were excluded from the commanding heights of the economy under apartheid?" (<http://www.info.gov.za/speeches/2004/.htm>)

Netshitenzhe (2004) went on to say that these are indeed some of the intriguing questions that would need to be debated freely and rationally among South Africans. For its part, he continued, government does have a view and, in most instances, policies on these matters. The point of public discourse should be to improve on what we are all seeking to achieve: to build a better life for all.

Netshitenzhe concluded that in the course of such debate, differences of view would emerge and that "government does not view those who disagree with it as sycophants of its interlocutors" (<http://www.info.gov.za/speeches/2004/.htm>).

The ANC, on its website (<http://www.anc.org.za>), states that BEE goes to the heart of the debate in South Africa about the fundamental tasks of transformation. They continue that BEE has been a consistent theme in ANC policy from at least the time of the Freedom Charter. Indeed, two of the Charter's main demands were: "The people shall share in the country's wealth!" and "The land shall be shared

among those who work it!” (Freedom Charter, 1955). The ANC concludes that the goal of BEE has therefore, been a central pillar of the democratic Government’s strategy for economic transformation.

2.4. THE SMALL AND MEDIUM ENTERPRISE (SME) SECTOR IN SOUTH AFRICA

Both the importance and the plight of SMEs in South Africa have been acknowledged by government and the private sector for many years. In 1994, the ANC-led government made a substantial commitment of people and resources to small business development. The ANC claims that the development of strategies for small business development was the first high-profile new programme of the Department of Trade and Industry (DTI) under ANC management (ANC, 1994). They went on to say that this programme was prominent because it fitted into the ANC’s view that the economy was unbalanced in favour of the giant conglomerates, and that small business development was a key strategy for the economic advancement of historically disadvantaged individuals and communities (ANC, 1994).

Cited in the Sowetan on 20 September 2005, Trade and Industry minister Mphahlele had the following to say: “SMEs will play a prominent role in the second decade of our democracy and beyond as we seek to accelerate economic growth, reduce unemployment and bridge the gap between the first and second economies”. A

year later in his 2006 State of the Nation address, President Mbeki again made specific reference to the importance of the small business sector for South Africa.

He pointed out that SMEs have an inevitable link with growth and the transformation process in the country. Mbeki also noted that the Accelerated and Shared Growth Initiative of South Africa (ASGISA) is to fast track economic development and confirmed the need to expand the SME sector (Mbeki, 2006).

Despite the attention and focus being placed on the small business sector, an ongoing challenge facing SMEs, and their development, in South Africa is the problem of finding an acknowledged definition of what a small or medium business is. Perhaps the most widely accepted definition is that provided by the National Small Business Act of 1996 that defines SMEs as “a separate and distinct entity that cannot be part of a group of companies” (Government Gazette 377, 1996). In addition, the Act states that such businesses are managed by its owners, and can be a sole proprietorship, partnership, a close-corporation, co-operative or a company. Five categories of business are outlined as follows:

- *Survivalist enterprises*

Income generated is less than the minimum income standard or the poverty line. Are considered pre-entrepreneurial and include hawkers, vendors and subsistence farmers. They are often categorised as part of the micro-enterprise sector.

- *Micro enterprises*

Turnover in this category is less than the VAT registration limit. These enterprises are usually not formally registered. They include spaza shops, minibus taxis and household industries. They employ no more than 5 people.

- *Very small enterprises*

Employ fewer than 10 paid employees, except in the mining, electricity, manufacturing and construction sectors, where the figure is 20 employees. Operate in the formal market and have some access to technology.

- *Small enterprises*

The upper limit in this category is 50 employees. Small enterprises are generally more established than very small enterprises and exhibit more complex business practices.

- *Medium enterprises*

Include enterprises with a maximum of 100 employees, or 200 for the mining, electricity, manufacturing and construction sectors. These enterprises are often characterised by an additional management layer.

According to Sanchez (2006) SMEs in South Africa share most of the general characteristics of the sector elsewhere, but also face some challenges which are specific to the South African context. These, says Sanchez, are related to the imbalances left by the legacy of apartheid, when the majority of blacks were prevented from running a business. A particular consequence is that the rate of black ownership in bigger enterprises is low. This and other characteristics are illustrated below in a brief overview of the SME sector in South Africa.

- In 1999-2000, Small and Medium enterprises represented 97.5% of all registered businesses in South Africa, employed 55% of the country's labour and generated approximately 42% of total remuneration (Registrar of Companies, 2000).
- The geographical distribution of Small and Medium enterprises mirrors the national distribution of GDP. This means that the larger the GDP of a province, the higher the number of SMEs (Development Bank of Southern Africa, 2005).
- The largest numbers of SMEs are in the agricultural sector, followed by retail trade, manufacturing, community services, social and personal services and the construction sector in that order (Development Bank of South Africa, 2005).
- According to estimates there were between 2m and 3m SMEs in South Africa in 2004, with the majority (about 60%) of these being survivalist (Financial Mail, 15 May 2004).
- According to Balshaw (2004), family businesses and close entities comprised over 84% of all registered businesses in South Africa in 2004.

- Small and Medium enterprises are largely white owned, while micro and survivalist enterprises are mainly black owned (Mail and Guardian, 11 September 2003).
- In 2005, 57% of SMEs did not have any black ownership and only 58% considered access to BEE status to be valuable (SME Survey, 2005)

Feinstein (cited in Business Day, 7 May 2007) believes that the issues faced by SMEs in South Africa have been made worse by historical imbalances, which have resulted in the exclusion of the majority of the population from accumulating wealth and assets, skills and experience and the ability to test business ideas and viability. He goes on to say that the most likely candidates for credit still remain those entrepreneurs with assets and capital, i.e. strong personal balance sheets or businesses with fixed property. In effect, this continues to position whites more favourably than blacks given that most blacks do not possess the required personal balance sheets and / or fixed property.

According to du Toit (cited in the Daily Independent, 13 May 2007) the need for the SME sector to be informed, empowered and appropriately educated to gain access to lucrative markets and relevant business opportunities could not be over-emphasised, as the alleviation of poverty and improved standards of living of the citizens are key to the government. Ayisi Makatiani, CEO of AMSCO (The African Management Services Company) says that South African SMEs face the challenge of increasing their skills base and productivity if they want to grow into sustainable

and globally competitive companies. He went on to say that the combination of a strong Rand and a shortage of technical and managerial skills are making it difficult for SMEs in the country to remain competitive with rivals from China, India and other parts of the world and that a lack of capital and skills restricts most small local business from expanding into the export market (Makatiani, 2006).

Makatiani (2006) also noted that SMEs in South Africa have a high mortality rate and usually fail to grow into larger businesses with up to 35% of new jobs created by SMEs being lost within two years. “South Africa will only be able to enjoy the sustainable growth in GDP and employment that it needs by growing its SME segment. While the large corporates are important to the country’s economy, they tend to be capital-intensive in nature. It is among SMEs, which are labour-intensive and owner-driven businesses, where trickledown economics can really make a difference” (Makatiani, 2006 <http://www.amsco.org>).

This overview of the SME sector highlights some important points. Firstly, it is a sector that the government has identified as having great growth potential and one that could hold the key to addressing issues around unemployment and poverty. Secondly, government commitment to helping this sector succeed is real. Thirdly, the sector is extremely diverse with enterprises ranging from informal survivalist to highly organised medium enterprises all with varying access to skills, resources and opportunities. Fourthly, little is known about the impact that BEE has had, or

will have, on the sector and what the consequences of the impact are likely to be. Trade and Industry minister Mphahlele (cited in the Daily Dispatch, Johannesburg, September, 2005) has however observed that the rapid expansion of black consumer spending and the black middle class has created incentives for business start-ups and that the unfolding process of black economic empowerment is triggering new black- owned and managed SMEs.

2.5. DTI CODES OF GOOD PRACTICE AND BBBEE SCORECARD

On 9 February 2007, the final broad-based BEE Codes of Good Practice (CoGP) were gazetted by the Department of Trade and Industry (DTI), as regulations in terms of the Broad-Based BEE Act, 2003. There are a number of key principles, which will impact on companies as they implement BEE. These include:

- The categorisation of mainly three types of companies, those with a turnover of over R35 million (subject to the generic scorecard in the CoGP); companies with a turnover between R5 million and R35 million, which are known as qualifying small enterprises (QSEs) and have a simplified scorecard with which to comply; and micro enterprises, those with a turnover of R5 million or less, which are exempt from BEE compliance and accorded an automatic B-BBEE compliant status.
- Provision is made for a scorecard for specialised enterprises including amongst others state owned entities, section 21's and universities.

- The CoGP allows companies to report at group level or at the level of each measured entity. If companies adopt this reporting method, there needs to be a consistent approach throughout the group, which cannot be amended without good reason.
- The scorecards for Management, Employment Equity and Skills Development apply a new concept called the “adjusted recognition for gender” in terms of which the full point allocation in that particular category is only possible if black women account for 50% (but no more than 50%) of black people in each measurement category.

The CoGP, in a very vague statement, “encourages” companies to obtain verification certificates from accredited verification agencies, missing out on the opportunity to simultaneously provide for self assessment. A culture of disclosure and independent assessment is essential to the success of BEE, in much the same way as triple-bottom line reporting is to good corporate citizenship. The rest of this chapter explores each of the seven components of the BBBEE scorecard.



2.5.1. OWNERSHIP

TABLE 1: Indicators and Method for Calculating Ownership Score (DTI, BBEE Codes of Good Practice, Statement 100, 2007)

Indicators		Weighting	Target
Voting Rights	Exercisable voting rights in the enterprise in the hands of black people	3	25%+1 vote
	Exercisable voting rights in the enterprise in the hands of black women	2	10%
Economic Interest	Economic interest of black people in the enterprise	4	25%
	Economic interest of black women in the enterprise	2	10%
	Economic interest of the following black natural people in the enterprise: <ul style="list-style-type: none"> • Black designated Groups; • Black participants of Employee Share Schemes; • Black participants of Broad based Ownership Schemes; • Black participants of Co-operatives 	1	2.50%
Realisation Points	Ownership Fulfillment	1	
	Net Value	7	
Bonus Points	Involvement in the ownership of the enterprise of black new entrants	2	10%
	Involvement in the ownership of the enterprise of black participants: <ul style="list-style-type: none"> • In Employee Share Schemes; • Broad based Ownership Schemes or; • Co-operatives 	1	10%

According to the DTI's BEE Strategy Document, economic empowerment must include increasing black people's ownership and control of the economy. A significant proportion of their ownership of assets and enterprises must be a

controlling interest, reflecting genuine participation in decision-making and the assumption of real risk (DTI, 2004).

The emphasis on control does not detract from the role that passive ownership of assets through pension and provident funds, unit trusts and other collective investment schemes can play in BEE. But, without active participation investors have little control over the direction of investment decisions. Passive ownership of enterprises can also lead to "fronting". The measurement of the ownership element is set out in Code 100 (DTI, BBBEE Codes of Good Practice, 2007).

The 1 point for ownership fulfillment is awarded if there are no encumbrances against the black shareholders and only if the 7 points for net value have been achieved. The 7 realisation points are linked to net value, which measures the extent to which black participants have paid off all the debt associated with their acquisition of shares.

Benefit schemes, employee stock ownership plans (ESOPs) and trusts have been slapped with a cumulative cap on recognition which may not exceed 10% of the total ownership of the measured company (40% of the total points), unless they are able to meet new compliance requirements. In the case of trusts, the new compliance requirement is quite simply met by obtaining an independent competent person's certificate of legitimate purpose – by implication allowing family trusts and tax-structures to avoid the 10% cap.

However, for those companies that have used trusts as a means to isolate and control new black shareholders without an otherwise legitimate purpose, the challenge of the 10% cap may prove fatal to existing structures. In the case of ESOPs and benefit schemes, the 10% cap can only be avoided if it can be demonstrated that those schemes enjoy full operational independence from the investee company, its management and directors. The new "exclusion principle" benefits larger companies. Here they can exclude (read, treat as non-existent) up to 40% of their ownership if this can be shown to emanate from so-called "mandated investments" which include pension funds, long-term insurers and banks. This effectively means that the beneficiaries of the exclusion principle may now achieve recognition of ownership compliance by selling 15% of their equity to black people. The 15% referred to will have to be 100% undiluted by non-black minorities (<http://www.esopshop.co.za/>).

Companies electing not to apply the exclusion principle will be permitted to recognise black beneficial interest through pension funds and long term insurance policy holders, if they can obtain independent confirmation of the extent thereof. Black managed private equity investments may be treated as black ownership if the fund can demonstrate that 50% of investment realisation value accrues to black people and that at least 50% of the value of all investments are made into companies which are in excess of 50% black owned that were at least 25% black owned before the investment. The latter criteria place many of the funds in a

position where they do not as yet qualify, their objective has been to facilitate black ownership and therefore few of the investments have been in at least 25% black owned from the start (<http://www.esopshop.co.za/>).

The "once empowered always empowered" provision allows investee companies from which black investors exit to carry forward the ownership points of the exiting black investors in the percentage that the black shareholder's net exit value holds to the value of the investee company, subject to an all-time maximum of 10%. In addition, the percentage of those points carried forward are linked to the overall score of the investee company, effectively allowing only investee companies which have achieved 65% compliance with the entire BEE scorecard (excluding ownership points – implying 82% compliance) to carry forward the 10%. Moreover, the exiting shareholders must have held ownership for at least 3 years (<http://www.esopshop.co.za/>).

The control principle in the measurement of voting rights has been replaced with the "modified flow-through principle" which previously only applied to measurement of economic interest. This "modified flow-through principle" has also now been defined as inapplicable to ESOPs, benefit schemes and trusts, which may cause considerable anxiety to many companies hoping to leverage benefit from using these schemes as the 51% shareholder in an SPV together with a non-black minority (<http://www.esopshop.co.za/>).

2.5.2. MANAGEMENT

TABLE 2: Indicators and Method for Calculating Management and Control Score (DTI, BBBEE Codes of Good Practice, Statement 200, 2007)

Indicators	Weighting	Target
Exercisable voting rights of black board members adjusted for gender	3	50%
Black executive directors adjusted for gender	2	50%
Black senior top management adjusted for gender	3	40%
Black other top management adjusted for gender	2	40%
Black independent non-executive board members	1	40%

Code 200 deals with determining management and control (DTI, BBBEE Codes of Good Practice, 2007). There is a distinction between voting rights, board participation (with respect to executive board members) and top management participation, as well as a distinction between senior top management and other top management.

Where a company does not make a distinction between Senior Top and Other Top, the weightings will be collapsed into one and scored against “Top management” (<http://www.esopshop.co.za/>). A bonus point is awarded for black independent non-executive board members as they are defined by the King II Report on Corporate Governance (DTI, BBBEE Codes of Good Practice, 2007).



2.5.3. EMPLOYMENT EQUITY

TABLE 3: Indicators and Method for Calculating Employment Equity Score (DTI, BBBEE Codes of Good Practice, Statement 300, 2007)

Indicators	Weightings	Targets	
		Yrs 0-5	Yrs 6-10
Disabled black employees as a percentage of all employees adjusted for gender	1	1.5%	2%
Black employees in senior management as a percentage of all employees adjusted for gender	5	43%	60%
Black employees in middle management as a percentage of all employees adjusted for gender	5	63%	75%
Black employees in junior management as a percentage of all employees adjusted for gender	4	68%	80%
Bonus Point: Meeting or exceeding the EAP targets for each of the above categories	3		

Given the apartheid legacy of systematic labour market discrimination and inferior education, accelerated skills and advanced professional skills development is important. The measurement of how well a company complies with employment equity

legislation is set out in Code 300 (DTI, BBBEE Codes of Good Practice, 2007).

Companies are unable to claim any points in this code unless they have achieved a minimum performance of 40% of the actual target at each level e.g. if black senior management account for less than 17.2%, no score may be awarded. This will

have a significant impact on those companies that have achieved some level of employment equity but have not employed black women and could result in some companies choosing to ignore this element, rather than put energy into something they deem to be unachievable (<http://www.esopshop.co.za/>).

2.5.4. SKILLS DEVELOPMENT

TABLE 4: Indicators and Method for Calculating Skills Development Score (DTI, BBBEE Codes of Good Practice, Statement 400, 2007)

Indicators		Weighting	Target
Skills development spend on learning programmes	Skills development spend on learning programmes for black employees as a percentage of leviabale amount adjusted for gender	6	3%
	Skills development spend on learning programmes for black employees with disabilities as a percentage of leviabale amount adjusted for gender	3	0.3%
Learnerships	Number of black employees participating in learnerships or Category B, C and D programmes as a percentage of total employees adjusted for gender	6	5%

The formula for determining the skills development portion is set out in Code 400 (DTI, BBBEE Codes of Good Practice, 2007). Skills development includes a legitimate expense (over and above the skills development levy), incurred for any

learning programme offered to employees and evidenced by an invoice or appropriate internal accounting record.

Spend on workplace learnerships or uncertified learnerships may only contribute a maximum of 15% of total skills development spend claimed. There continues to be an emphasis on accredited training. Six of the 15 skills development points are awarded for

learnerships for black people who must be employees on learning programmes that comply with three areas of the learning programme matrix.

The target for skills spend on disabled employees is an addition and has been heavily weighted at three points, considering that certain sectors of the economy find it far more challenging than others to employ disabled people. ABET programmes are recognisable at a multiple of 1.25 to the actual spend (<http://www.esopshop.co.za/>).

2.5.5. PREFERENTIAL PROCUREMENT

TABLE 5: Indicators and Method for Calculating Preferential Procurement Score (DTI, BBBEE Codes of Good Practice, Statement 500, 2007)

Indicators	Weighting	Targets	
		yrs 0-5	yrs 6-10
BEE procurement spend from all suppliers based on the BEE procurement recognition levels as a percentage of total measured procurement spend	12	50%	70%
BEE procurement spend from qualifying small enterprises or from exempted micro-enterprises based on the applicable BEE procurement recognition levels as a percentage of total measured procurement spend	3	10%	15%
BEE procurement spend from any of the following suppliers as a percentage of total measured procurement spend: <ul style="list-style-type: none"> • Suppliers that are more than 50% black owned regardless of their BEE procurement recognition level; or • Suppliers that are more than 30% black women owned regardless of their BEE procurement recognition level 	5	15%	20%

Preferential procurement by both the state and the private sector is an effective and efficient instrument to drive BEE, as it provides emerging black enterprises with opportunities to expand their output. The criteria for the preferential procurement score are set out in Code 500 (DTI, BBBEE Codes of Good Practice, 2007).

Enterprises must measure the BEE status of their suppliers using the broad-based approach and apply multipliers to that spend to determine progress against the target. The definition of total measured procurement allows enterprises to exclude

certain purchases from the total amount. Permitted exclusions are imports where there is no existing local production of such goods and the importation of such goods facilitates further value-added production within South Africa (<http://www.esopshop.co.za/>).

A recipient of both enterprise development contributions and procurement from the company qualifies for enhanced recognition of 120%. Spend on value adding suppliers is recognised at 125% (a value adding supplier is a company registered as a vendor under the Value Added Tax Act of 1991 and whose net profit when summed with its total labour cost exceeds 25% of its total revenue).

2.5.6. ENTERPRISE DEVELOPMENT

TABLE 6: Indicators and Method for Calculating Enterprise Development Score (DTI, BBBEE Codes of Good Practice, Statement 600, 2007)

Indicators	Weighting	Target
Average annual value of all Enterprise Development Contributions and Sector Specific Programmes made by the measured entity as a percentage of the target	15	3% of NPAT

Enterprise development can involve either investment in black-owned and black-empowered enterprises, or joint ventures with black-owned and black-empowered enterprises that result in significant skills transfer. Code 600 deals with enterprise development (DTI, BBBEE Codes of Good Practice, 2007).

Enterprise development must be initiated in favour of beneficiary entities with the specific objective of assisting or accelerating the development, sustainability and ultimate financial and operational independence of that beneficiary.

Cumulative contributions are averaged and set against the preceding year's NPAT or, if no profit was declared for that year, the average NPAT over the previous five years or a target based on an indicative profit margin. Companies are required to spend 3% of NPAT to achieve the 15 points, although this need not all be monetary (<http://www.esopshop.co.za/>).

Only companies which are emerging medium enterprises (EMEs) or qualifying small enterprises (QSEs) in excess of 50% black owned (or 30% black women owned) or companies which are in excess of 25% - 50% black owned, but with a scorecard of between level 1 and level 6 qualify to be enterprise development beneficiaries. If a company is an EME or QSE with 50% black or black women ownership, the spend is recognised at a multiple of 1.25. All qualifying contributions are subject to the benefit factor matrix, which specifies the weighting of recognition for each type of contribution (<http://www.esopshop.co.za/>).

2.5.7. SOCIO-ECONOMIC DEVELOPMENT

TABLE 7: Indicators and Method for Calculating Socio-Economic Development Score (DTI, BBBEE Codes of Good Practice, Statement 700, 2007)

Indicators	Weighting	Target
Average annual value of all qualifying contributions made by the measured entity measured from the commencement of this statement or the inception date to the date of measurement as a percentage of the target	5	1% of NPAT

Code 700 deals with socio-economic development (DTI, BBBEE Codes of Good Practice, 2007). Socio-economic development (SED) contributions means monetary or non-monetary contributions implemented for communities, natural persons and groups of natural persons where at least 75% of the beneficiaries are black people and promote sustainable access for the beneficiaries to the economy.

Where less than 75% of the value of SED contributions directly benefits black people, the percentage of the full value actually benefiting black people is recognisable.

All SED contributions are subject to the SED benefit factor matrix, which specifies the weighting of recognition for each type of contribution in much the same way as the enterprise development matrix (<http://www.esopshop.co.za/>).

2.6. LITERATURE CONCLUSION

The purpose of the literature review was essentially two-fold. The first objective was to sketch a picture of black economic empowerment (BEE) in South Africa. This was done by defining BEE and exploring its origins. What became clear was that there is no universally accepted definition of BEE and little consensus on the exact origins of BEE. The pros and cons of BEE were then investigated. A common criticism of BEE is that it has been narrow in its reach. As such, the concept of Broad-Based Black Economic Empowerment (BBBEE) has emerged.

Literature for this section, while often not to be found in peer reviewed academic journals, is current and abundant on various websites and in financial magazines and newspaper articles and many such sources are cited in the literature review.

The second objective was to understand both the importance of small and medium enterprises to the South African economy and the challenges they face. This was done by giving an overview of the sector and by capturing the opinions of a number of experts. A review of the literature however, revealed that there is little research on the impact of BEE on SMEs in South Africa. No doubt with government concern on whether the proposed BEE policy and pursuant legislation will generate jobs at the middle and lower ends of the economic spectrum where they are so sorely needed a lot more literature on this topic will be forthcoming.

CHAPTER 3 - RESEARCH HYPOTHESES

3.1 INTRODUCTION

The purpose of conducting this research was to establish two key things. Firstly, it was to identify which of the elements of the Department of Trade and Industry's BBBEE Codes of Good Practice scorecard, small and medium enterprises (SMEs) in South Africa are most easily able to comply with. By establishing this, the research would therefore also, by default, identify which elements are most difficult to comply with. Secondly, the research aimed to find out if South African companies believed that compliance with the BBBEE scorecard added any value to their businesses.

3.2 FORMULATING THE RESEARCH QUESTIONS

The review of the literature, as documented in Chapter 2, showed that much research has been conducted on various aspects of black economic empowerment and on SMEs in South Africa, but that compliance of SMEs with the BBBEE scorecard has yet to be investigated. Given that black economic empowerment is a policy that is unlikely to disappear anytime soon and that it is likely to have an increasing effect on how SMEs do business in South Africa, it seems pertinent to begin to understand the linkages between the two.

Welman & Kruger (2001) recommend that after the research areas have been identified they should be delineated to identify research propositions or hypotheses. Bearing this in mind, the researcher generated a number of hypotheses in order to:

- Provide the study with clear direction
- Inform the selection of a relevant research design
- Create a framework within which results could be presented in a logical and understandable manner

3.3 THE RESEARCH HYPOTHESES

According to Zikmund (2003) the best expression of a research objective is a well-formed, testable research hypothesis; a hypothesis being a statement that can be refuted or supported by empirical data. Learnings from the literature reviewed in chapter 2 formed the basis for each of the hypotheses presented below. A short paragraph provides the link back to the literature and a context for the formulation of each hypothesis.

Many examples of transactions involving black businessmen can be found in the literature. Spindle (2005) mentions oligarchs who are participating in massive deals, while Krige (2006) points to a number of examples where ownership of companies is being put into the hands of previously disadvantaged groups. Baldauf

(2006) also observes that a number of deals are being struck with black businessmen.

- **Hypothesis 1**

Null hypothesis: Finding black owners for South African SMEs is being easily achieved

Alternative hypothesis: Finding black owners for South African SMEs is not being easily achieved

Meintjies (2004) is very outspoken about how the deprivation of blacks historically has resulted in blacks occupying a marginal position in the South African formal economy and how this has resulted in a lack of appropriate business skills, particularly at the more senior levels. Banda (2003) holds similar views and refers to the social, political and economic marginalisation of blacks before 1994 and the resultant business expertise deficiencies in this segment of the population. These views have informed the following hypothesis.

- **Hypothesis 2**

Null hypothesis: More progress has been made towards achieving the targets for junior black management (as set out in the BBBEE scorecard) than has been made for middle and senior black management

Alternative hypothesis: Less progress has been made towards achieving the targets for junior black management (as set out in the BBBEE scorecard) than has been made for middle and senior black management

Batchelor and Dunne (1999) expressed a view that BEE was largely a function of white businesses' efforts to change themselves. As a result, in most instances white businessmen while wanting to appear as if they were doing the right thing, still wanted to maintain control as far as possible. Shubane (2006) concurs with the view of Batchelor and Dunne (1999) when he says that the implementation of practical measures to involve blacks in leading positions in business came from business itself. Further, an article appearing in The Economist on 23 December 2006 stated that empowerment has mostly meant bringing black shareholders into white-dominated companies. Hypotheses 3 and 4, which follow, are based on the above views.

- ***Hypothesis 3***

Null hypothesis: SMEs in South Africa struggle to implement the required level of black voting rights within their organisations

Alternative hypothesis: SMEs in South Africa do not struggle to implement the required level of black voting rights within their organisations

- ***Hypothesis 4***

Null hypothesis: SMEs in South Africa struggle to appoint the required number of black executive directors as stipulated in the BBBEE scorecard

Alternative hypothesis: SMEs in South Africa do not struggle to appoint the required number of black executive directors as stipulated in the BBBEE scorecard

In an article appearing in the Economist (23 December 2006, Volume 381, Issue 8509) it was put forth that BEE barons are more versed in deal-making, often collecting a string of unrelated minority interests, than in operational know-how or entrepreneurship. Adding to this is the view of Meintjies (2004) who suggests that the way BEE has been practised and pursued has resulted in a focus on the formal economy and on the large enterprises within the economy. A major shortcoming of this approach has been the actuality that scant attention has been paid to emerging small and medium enterprises. Should the above views be accurate, the implication is that there are a limited number of BEE suppliers in the market. This leads to hypothesis 5 below.

- ***Hypothesis 5***

Null hypothesis: SMEs in South Africa experience difficulty in procuring goods and services from BEE accredited suppliers

Alternative hypothesis: SMEs in South Africa do not experience difficulty in procuring goods and services from BEE accredited suppliers

Hypotheses 6 and 7 emerge less out of the literature reviewed, but more as a result of personal experience of the researcher as well as discussions held between the researcher and owners of businesses.

- ***Hypothesis 6***

Null hypothesis: CSI programmes are easier for companies to support than enterprise development

Alternative hypothesis: CSI programmes are not easier for companies to support than enterprise development

- ***Hypothesis 7***

Null hypothesis: More SMEs in South Africa spend money on skills development than on offering learnerships

Alternative hypothesis: Fewer SMEs in South Africa spend money on skills development than on offering learnerships

Alexander (2006) states that black economic empowerment is a strategy aimed at increasing black participation at all levels in South Africa's economy. She continues that BEE aims to redress imbalances of the past by seeking substantially and equitably to transfer ownership, management, industry and operational expertise, as well as proportionate control of South Africa's financial and economic resources, to the majority of its citizens. BEE also aims to ensure sustainable, broader and meaningful participation in the economy by black South Africans. In addition, she

says that BEE is a mitigation strategy against South Africa's social, political and economic risks. It addresses the legitimacy of a mixed market economy and dramatically increases the size of any potential market. Ndlovu (2006) adds that BEE and transformation are interlinked and that BEE is part of transformation, which is about the creation of a new value system and the restructuring of our socio-economic order. These views resulted in hypothesis 8 presented below.

- ***Hypothesis 8***

Null hypothesis: SMEs in South Africa see value in complying with the BBBEE scorecard

Alternative hypothesis: SMEs in South Africa do not see value in complying with the BBBEE scorecard

3.4 CONCLUSION

The aim of the study was to gather as much quantitative data about the topic as possible in order to either reject, or fail to reject, each of the null hypotheses. A questionnaire aimed specifically at capturing data that would make it possible to test each hypothesis was designed (and is included as Appendix 1). Hypotheses 1 through 8 as expressed in section 3.3 (above) therefore formed the basis for the questions posed in the questionnaire. Structured questions using a compiled electronic questionnaire were emailed to 250 potential respondents and their responses were captured and recorded.

Zikmund (2003) suggests that many respondents feel that they can be more candid in email than in person or on the telephone, but warns that this method relies heavily on the clarity of the written word, rather than on the skills of the interviewer.

CHAPTER 4 - RESEARCH METHODOLOGY

4.1 RESEARCH DESIGN

According to Penman (2006), research design is a plan for selecting the sources and types of information used to answer research questions, the results of which provide a framework for assessing results and presenting relationships between the variables being considered. Zikmund (2003) calls a research design a master plan that specifies the methods and procedures for collecting and analysing the needed information. He continues that it is a framework or blueprint that plans the action for the research project.

Welman & Kruger (2001) advise that a literature review be done to ensure the clear formulation of the research questions. The review of the literature, as documented in Chapter 2, demonstrated that there does not appear to be any research on the degree to which SMEs are managing to comply with the various elements of the BBBEE scorecard; or whether or not they perceive such compliance to have any value for them.

4.2 POPULATION, SAMPLING AND UNIT OF ANALYSIS

The study was originally conceived with the idea of investigating solely the SME sector. Strictly on this basis, the population of relevance would have consisted of the following groupings:

- All small enterprises in South Africa with a maximum of 50 employees
- All medium enterprises in South Africa with a maximum of 100 employees, or 200 for the mining, electricity, manufacturing and construction sectors.

However, due to difficulties in obtaining data bases containing strictly SMEs, surveys were inadvertently sent to some large enterprises as well. As a consequence of the relatively low response rate to the survey (33 responses from 250 emails – representing a response rate of 13%), it became necessary to include some large enterprises in the study in order to maintain an acceptable sample size. An observation in this regard is that some enterprises that were classified as SME at the time the lists were compiled had grown in number of employees and turnover by the time they were approached to participate in the study. The relevant splits regarding the size of enterprises included in the study are presented later in this chapter.

The sampling method used was simple random sampling. Business directories such as 'Gauteng Companies – A guide to Business and Investment in Gauteng Province' (as well as similar publications for other provinces) and 'Gaffney's Business Contacts – The Chambers of Commerce and Industries Yearbook' were used to obtain the names and contact details of businesses around South Africa.

Zikmund (2003) is clear that an important part of defining the research problem requires that the researcher determine the unit of analysis for study. The unit of analysis for this study was small and medium enterprises in South Africa.

It is noted that 33 respondents could be viewed as a small sample and that this might negatively impact the validity of the findings presented in this chapter. However, in close consultation with an experienced statistician, only tests that have statistical significance given the sample size were performed. While every effort was made to obtain a larger sample, the researcher would also like to note that the nature of the topic being researched might have ‘spooked’ many would-be respondents, but that the results obtained are likely an accurate representation of trends in the population.

4.3 DATA COLLECTION

The data collection process was straightforward in that an electronic version of the survey was emailed to selected companies and all responses were mailed directly back to the researcher. A pilot study was conducted using five volunteers, each of whom is known to the researcher and runs their own business. Based on feedback received from this process, and in consultation with the research supervisor, the final survey tool was compiled.

The survey was mailed with a message that introduced the researcher and outlined the purpose of the study and the academic institution with which the study was associated. The message assured respondents of their anonymity and that of their responses. The survey was mailed as an Excel attachment. Most responses required only a choice of the best answer from 'drop-down' menus provided, to be made by the person filling in the survey.

On receipt of completed surveys, the researcher captured each individual's responses into a composite spreadsheet. The raw data together with the 'cleaned data set' were forwarded to the statistician for completion of all statistical calculations.

4.4 DATA ANALYSIS

In-depth analysis was performed on the responses received. The analysis was split into two distinct areas – the first being descriptive statistics and frequency distribution, and the second being the Spearman correlation coefficient and normal distribution fitting algorithm.

Descriptive statistics are used to describe the basic features of the data in a study. They provide simple summaries about the sample and the measures. Together with simple graphics analysis, they form the basis of virtually every quantitative analysis of data (www.socialresearchmethods.net).

A frequency distribution shows the number of observations falling into each of several ranges of values. Frequency distributions can show either the actual number of observations falling in each range or the percentage of observations (www.statcan.ca). Both the descriptive statistics and the frequency distributions associated with the study are presented later in this chapter.

The Spearman correlation coefficient measures the monotonic association between two variables in terms of ranks. It measures whether one variable increases or decreases with another even when the relationship between the two variables is not linear or bivariate normal. Computationally, each of the two variables is ranked separately, and the ordinary Pearson correlation coefficient is computed on the ranks. This nonparametric correlation coefficient is a good measure of the association between two variables when outliers, non-normality, non-constant variance, and nonlinearity may exist between the two variables being investigated (Hintze, 2004).

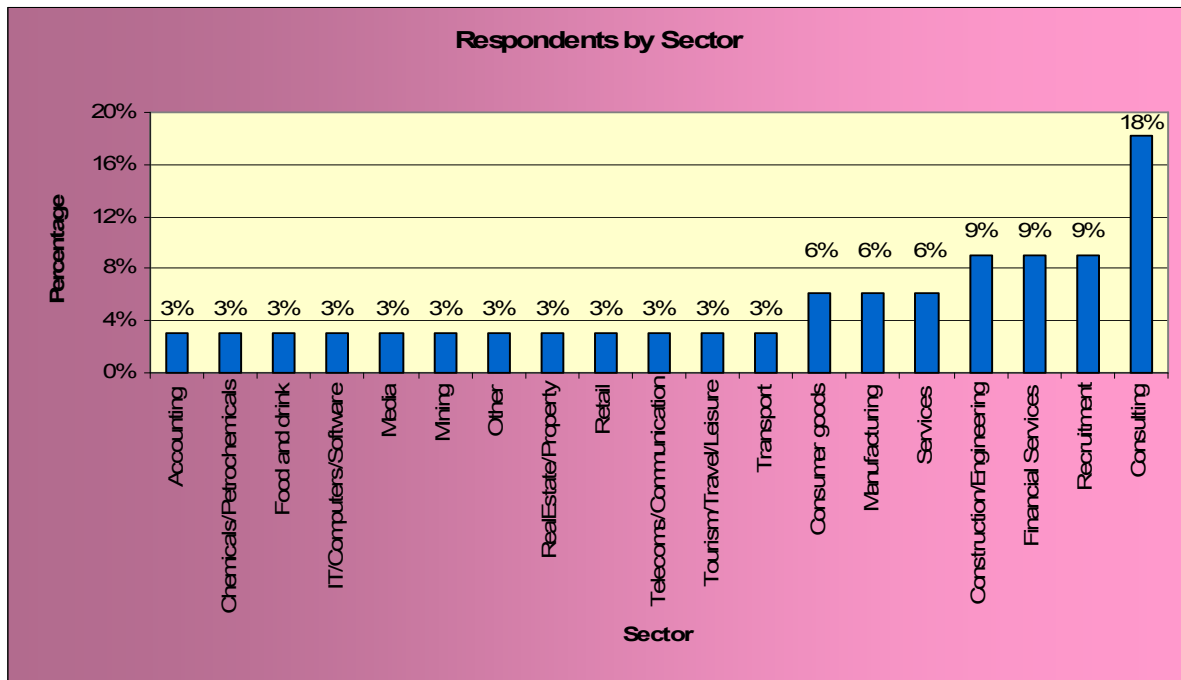
The normal distribution fitting algorithm was suggested by statistician, Anthony Stacey. According to Stacey (2005), the distribution-fitting approach is an algorithmic rather than an arithmetic approach that estimates the values of the parameters (typically means and standard deviations) of distributions of underlying attitudes (for example normal or log-normal distributions) together with the attitudinal thresholds that would result in the best fit with the observed categorical response frequencies.

The analysis relating to Spearman’s and the normal distribution fitting algorithm is discussed in detail in Chapter six.

The demographic details of the sample are presented below.

a) RESPONDENTS BY SECTOR

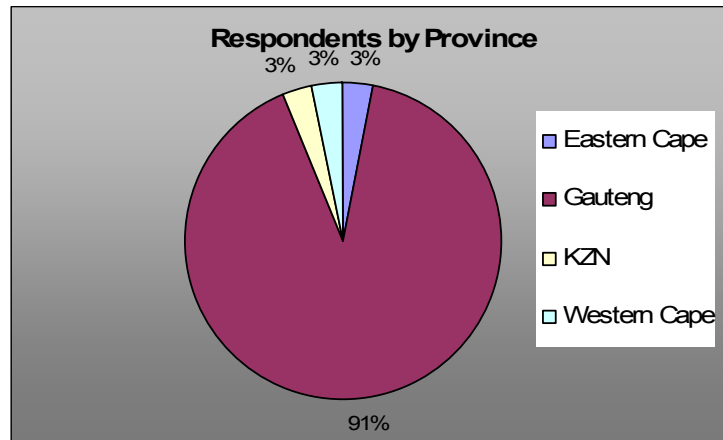
FIGURE 1: Respondents by Sector



In total, 19 sectors were represented in the study and this represents a wide range. It must be noted however, that with the small sample size it was not possible to drill down further into any one sector.

b) RESPONDENTS BY PROVINCE

FIGURE 2: Respondents by Province

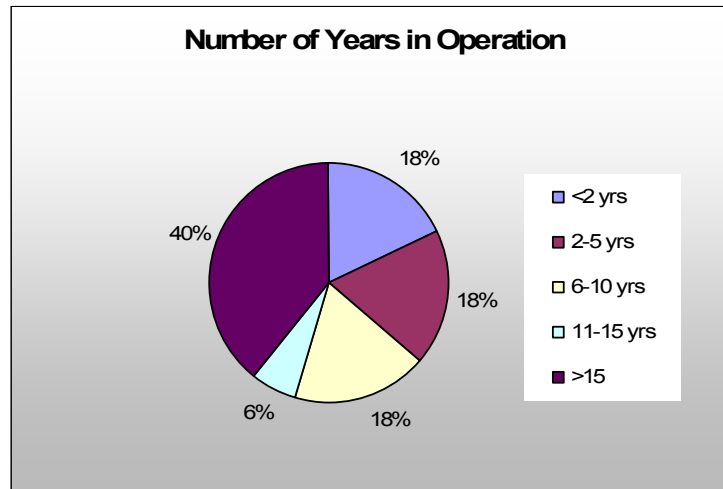


Gauteng province was best represented in the study with 91% of all respondents being from that province. The Eastern Cape, Kwa-Zulu Natal and the Western Cape each also enjoyed representation, albeit very limited, with the other 5 provinces returning no responses. Again, drilling down further into each of the provinces was not possible.

c) RESPONDENTS BY NUMBER OF YEARS IN OPERATION

The number of years that the respondents' respective companies have been in operation is presented in Figure 3.

FIGURE 3: Respondents by Number of Years in Operation



The largest part of the sample (40% of all respondents) belonged to organisations that have been in operation for more than 15 years. More than half (54%) of the sample was made up of companies that had been operating for 10 or less years, with a third of this figure (18%) being represented by companies that have existed for less than 2 years.

d) RESPONDENTS BY NUMBER OF EMPLOYEES

FIGURE 4: Respondents by Number of Employees

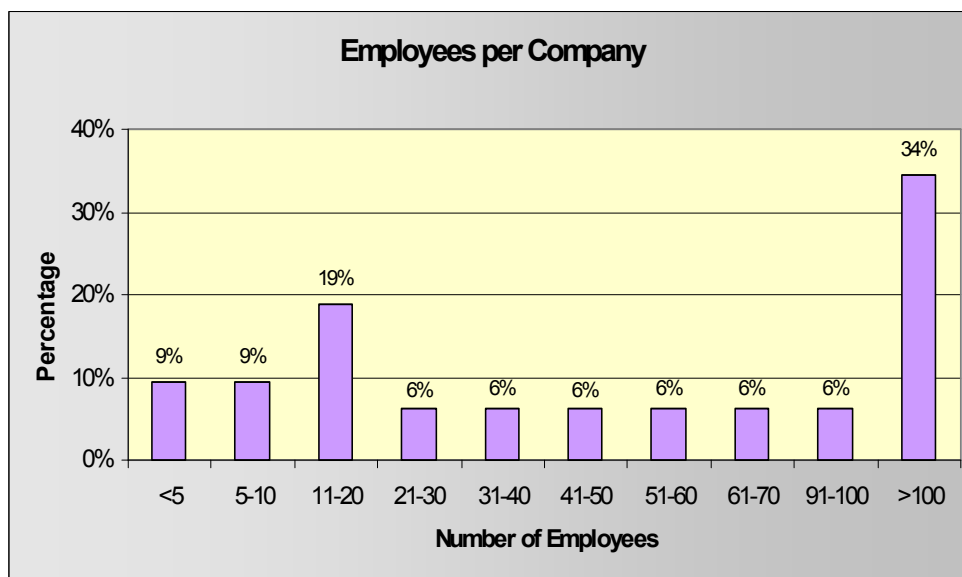
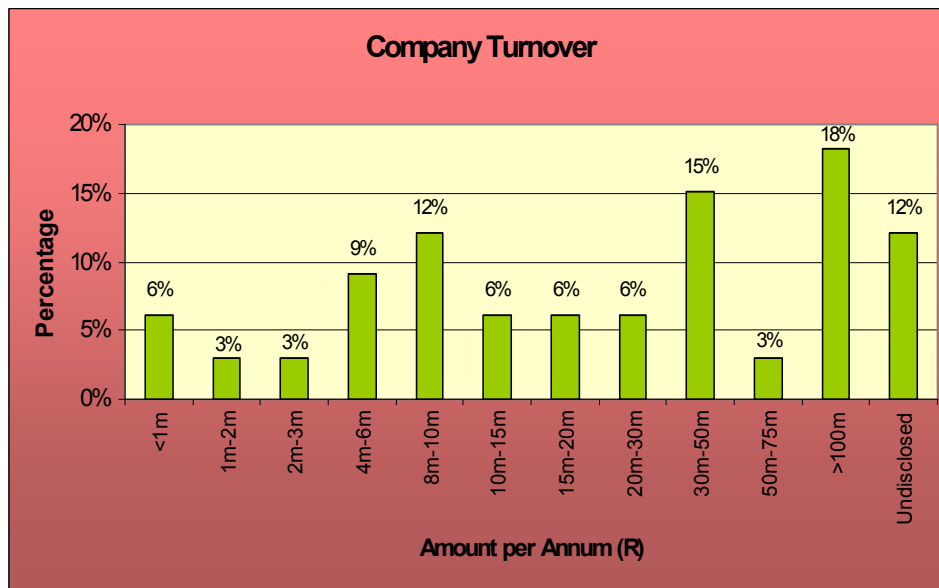


Figure 4 illustrates that the majority of the respondents (34%) work in companies with staff complements that are greater than 100 people. Just over one third (37%) of companies in the sample employ 20 or less people. 30% of companies that responded to the questionnaire employed between 21 and 100 people.

e) RESPONDENTS BY COMPANY TURNOVER

Figure 5, below shows the annual turnover in Rands for the last financial year of each of the companies surveyed.

FIGURE 5: Respondents by Company Turnover



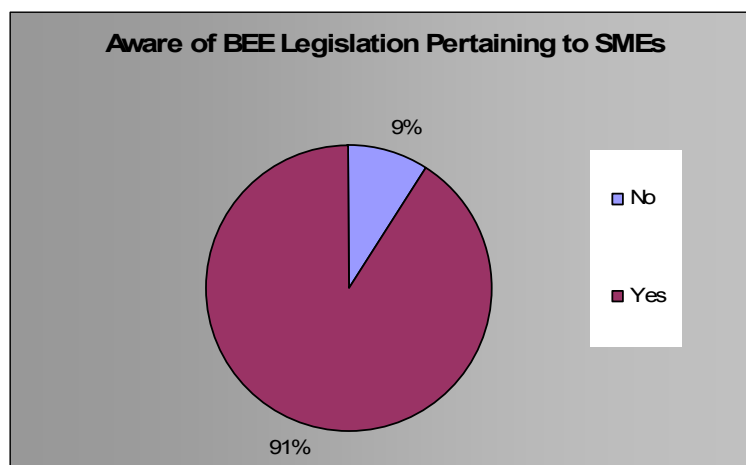
A third of all companies in the sample reported annual turnovers of R10 million or less. There was a fairly large representation of companies with turnovers in excess of R100 million per annum (18%).

The researcher was surprised that as few as 12% of all respondents did not want to disclose their turnover figures for the year. A higher number than this was anticipated.

f) RESPONDENTS BY AWARENESS OF BEE LEGISLATION PERTAINING TO SMEs

Figure 6, indicates the split between respondents who are aware of the legislation pertaining to SMEs in South Africa and those who are not.

FIGURE 6: Respondents by Awareness of BEE Legislation Pertaining to SMEs

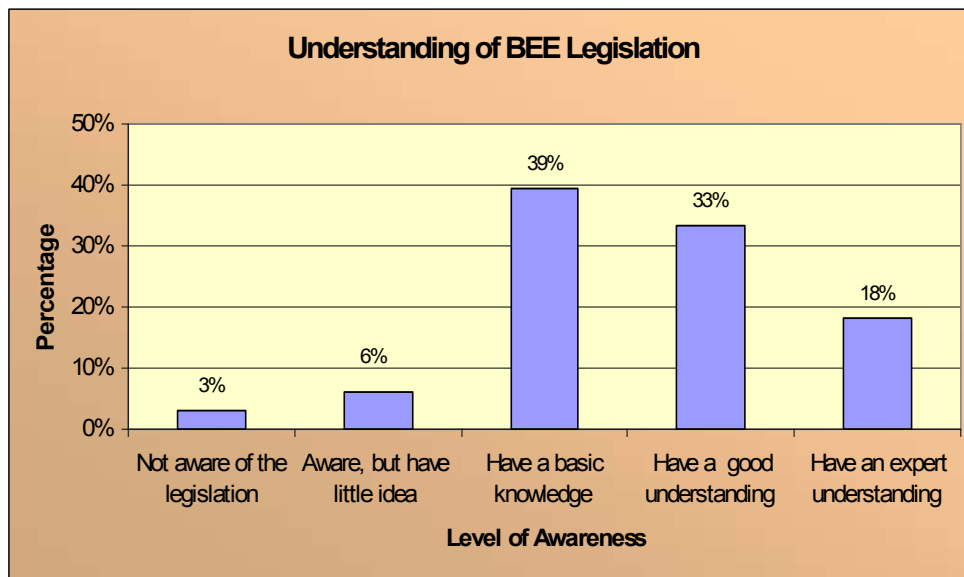


The overwhelming majority of respondents (91%) indicated that they are aware of the fact that there is BEE legislation that is specific to SMEs in South Africa.

g) RESPONDENTS BY UNDERSTANDING OF BEE LEGISLATION

Figure 7, represents the level of understanding of BEE legislation held by each of the respondents.

FIGURE 7: Respondents by Understanding of BEE Legislation

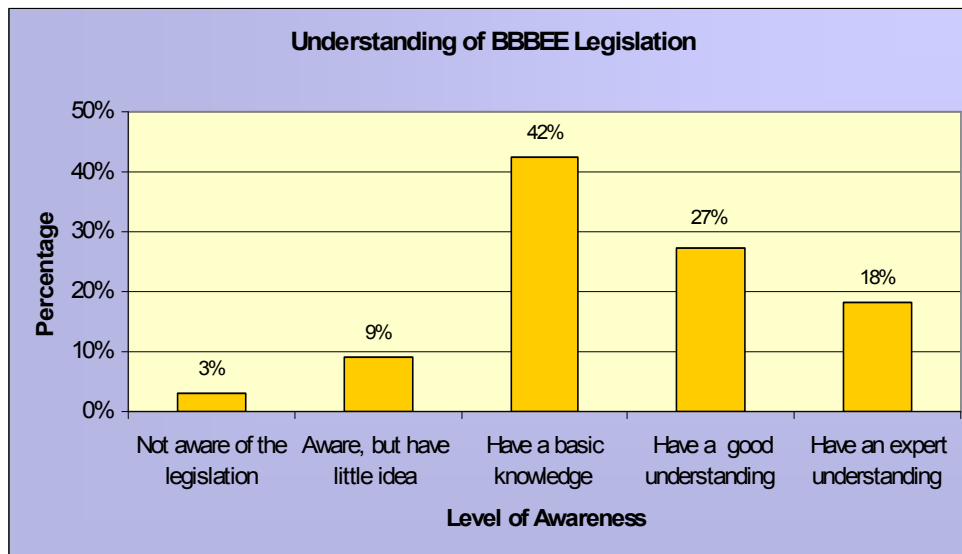


Very few respondents indicated that they had little or no understanding of BEE legislation. Over half (51%) of respondents claim to have either a 'very good' or 'expert' knowledge of BEE legislation, with a further 39% indicating a 'basic' knowledge.

h) RESPONDENTS BY UNDERSTANDING OF BBBEE LEGISLATION

Figure 8, builds on the findings of Figure 7 by moving beyond an enquiry of the understanding of BEE legislation to that of enquiring about an understanding of BBBEE legislation.

FIGURE 8: Respondents by Understanding of BBBEE Legislation

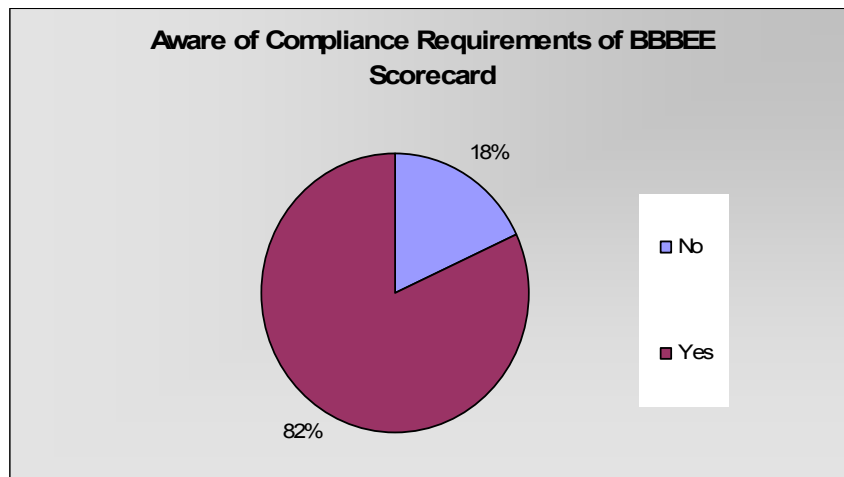


The researcher believes that inconsistencies exist between the findings around responses to questions regarding respondent understanding of BEE and BBBEE legislation. With BBBEE being more specific than BEE in terms of what the law prescribes, BBBEE should be less well understood than BEE. The data does not support this view.

i) RESPONDENTS BY AWARENESS OF COMPLIANCE REQUIREMENTS

Figure 9 below, shows the split between respondents who are familiar with the compliance requirements as stipulated in the BBBEE scorecard and those who are not.

FIGURE 9: Respondents by Awareness of Compliance Requirements of BBBEE Scorecard

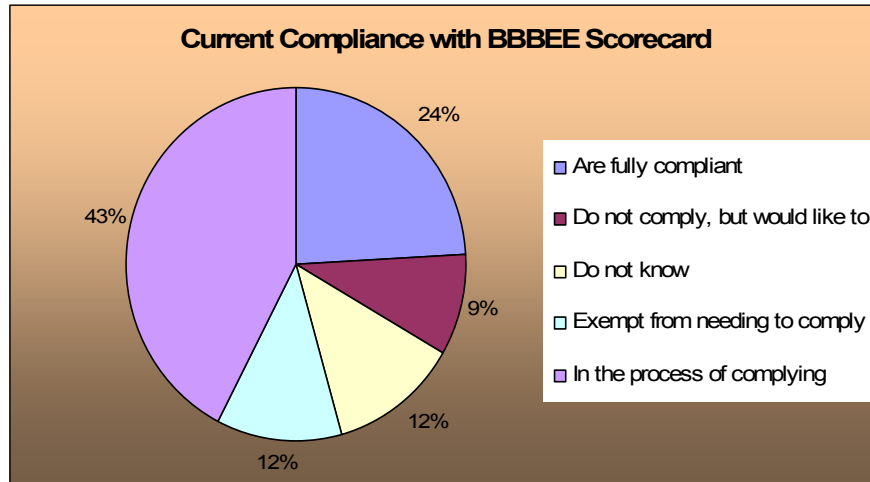


Although the majority of respondents surveyed indicated that they are aware of the compliance requirements set out in the BBBEE scorecard, about a fifth of respondents are not familiar with what compliance with the scorecard means. This finding further underlines the inconsistency around respondents' claims of understanding BBBEE legislation as pointed out in 5.3.7 above.

j) RESPONDENTS BY CURRENT COMPLIANCE WITH BBBEE SCORECARD

Figure 10 represents the state of compliance of the companies surveyed with the requirements of the BBBEE scorecard.

FIGURE 10: Respondents by Current Compliance with BBBEE Scorecard



Less than a quarter of companies surveyed are confident that they are fully compliant with the BBBEE scorecard. The majority of companies in the sample (43%) claim to be in the process of taking the necessary steps to fulfill the compliance requirements.

Interestingly, 12% of respondents are unaware of their company's current compliance status.

4.5 RESEARCH LIMITATIONS

As with any research of this nature, it is acknowledged that certain research limitations exist. Firstly, it is noted that the sample may not be a truly random sample as details of potential respondents were obtained from databases that may be biased in their listings.

Secondly, responses have been limited only to those who could be reached by email, thus again excluding a segment of the population that should possibly have had representation.

Thirdly, the majority of the responses are from Gauteng based businesses. While this is more a reflection of who made the effort to respond to the survey, rather than who was invited, this does introduce a geographic bias to the study.

Fourthly, the concern around the sample size has already been mentioned and is again noted.

Lastly, it is quite possible that it was not always the most appropriate person within the organisation who answered the survey, but perhaps the person most willing to. This could influence the findings from the perspective that through no fault of the interviewee, the information provided is not as accurate as it should be, but rather represents the best guess of the person filling the survey.

CHAPTER 5 - RESULTS

5.1 INTRODUCTION

This chapter consolidates all results relating to responses obtained from the questions set out in the questionnaire. The questionnaire comprised 4 sections and a total of 40 questions:

- Section 1: Demographic Information – 6 questions
- Section 2: General – 7 questions
- Section 3: Specific Elements of the BEE Scorecard – 25 questions
- Section 4: Conclusion – 2 questions

The majority of questions (24) required simply for respondents to choose their answers from drop-down menus provided. The remaining 16 questions required short answers to be provided, often not more than a single number or two or three word answers.

In total, 33 responses were obtained. This represented a response rate of 13,2% when measured against the 250 questionnaires that were emailed out. While it was a disappointment that more responses could not be obtained, it is noted that those who did respond to the questionnaire were thorough in their answering of questions. As such good quality data was obtained and the sample was large enough for statistical analysis to be performed on the data.

5.2 EXPLANATION OF THE CALCULATIONS

The raw data obtained from the questionnaires was analysed to produce the tables and figures presented in this chapter.

Section 5.3, which follows addresses those areas that help answer the research questions.

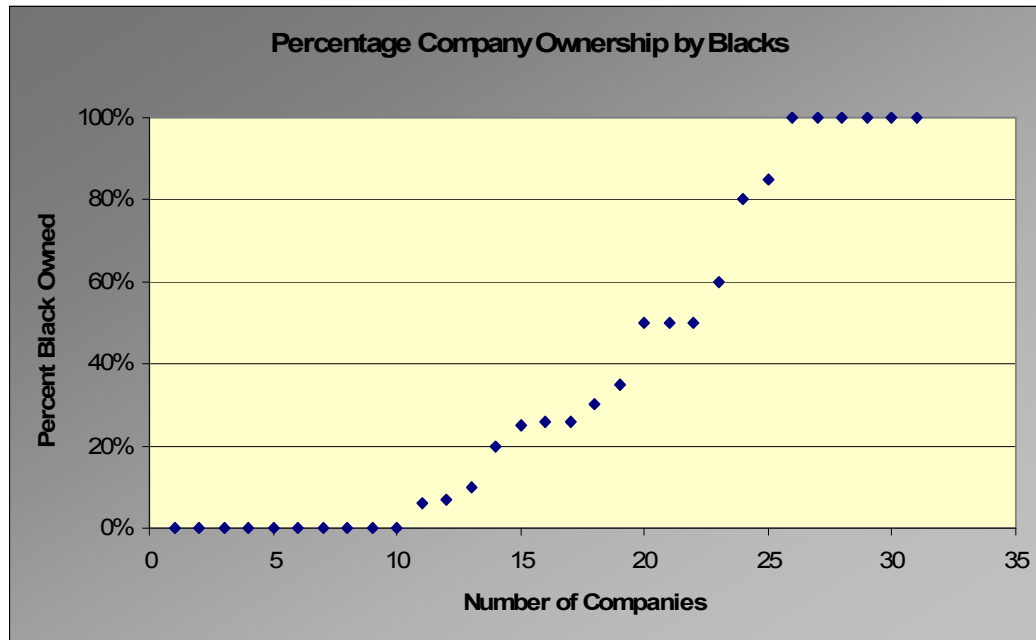
5.3 RESEARCH HYPOTHESES

The following section provides a high level general overview of the data that assisted in testing the research hypotheses. Each specific hypothesis and what the data revealed about it is discussed in detail in Chapter 6.

5.3.1 RESPONDENTS BY BLACK OWNERSHIP

Figure 11 represents the percentage of black ownership in each of the companies in the sample.

FIGURE 11: Respondents by Black Ownership

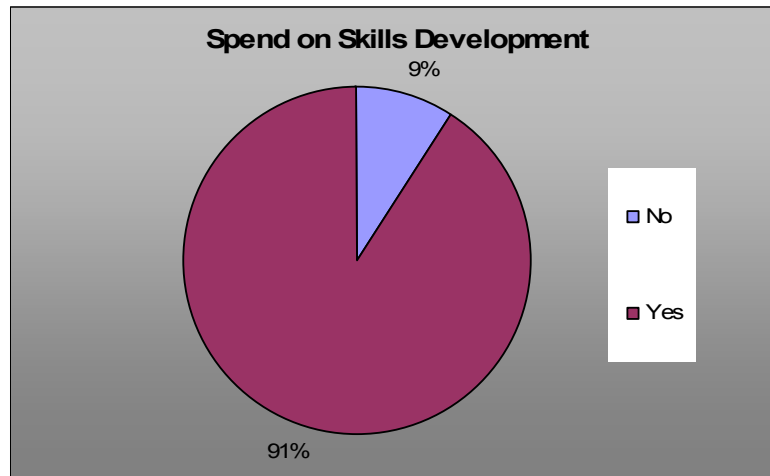


Of the 31 companies in the sample that responded to this question, 9 (or 29%) had no (0%) black ownership. A further 6 companies indicated black ownership of less than 25% - the minimum set out by the DTI in the Ownership section of the scorecard . This means that of the sample, more than half (52%) of companies are less than 25% black owned. On the other end of the scale, 6 companies (18%) were fully (100%) black owned.

5.3.2 RESPONDENTS BY SPEND ON SKILLS DEVELOPMENT

Figure 12 separates companies that spend money on skills development (of their staff) from those companies that do not.

FIGURE 12: Respondents by Spend on Skills Development

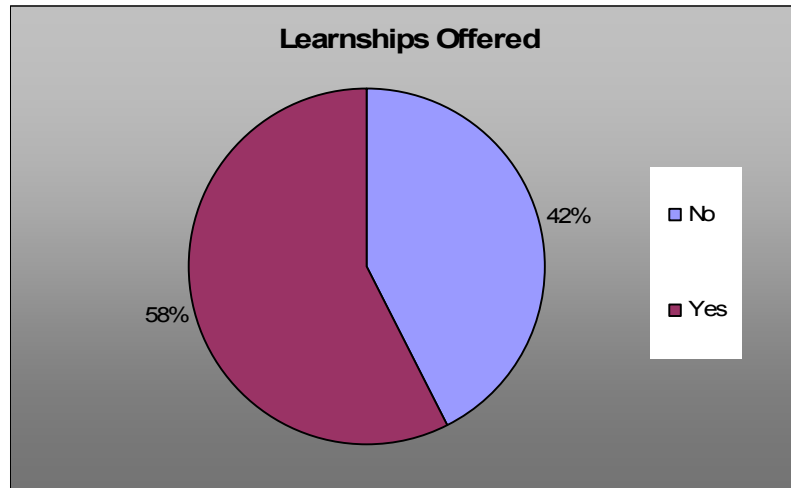


As anticipated, most companies (91%) indicated that they spend money on their staff for the purposes of skills development. Of the 91% that spends money on skills development, the range of spends was R5, 000 to R31, 000,000 per annum. Based on these responses, average spend per company in the sample was R2, 610,733 per annum. This figure is skewed by the R31m figure mentioned above and is clearly associated with a very large enterprise. For this reason, a better representation of spend on skills development by SMEs is the median spend of R50, 000 per annum.

5.3.3 RESPONDENTS BY LEARNERSHIPS OFFERED

Figure 13 illustrates those companies in the sample that offer learnerships versus those that do not.

FIGURE 13: Respondents by Learnerships Offered



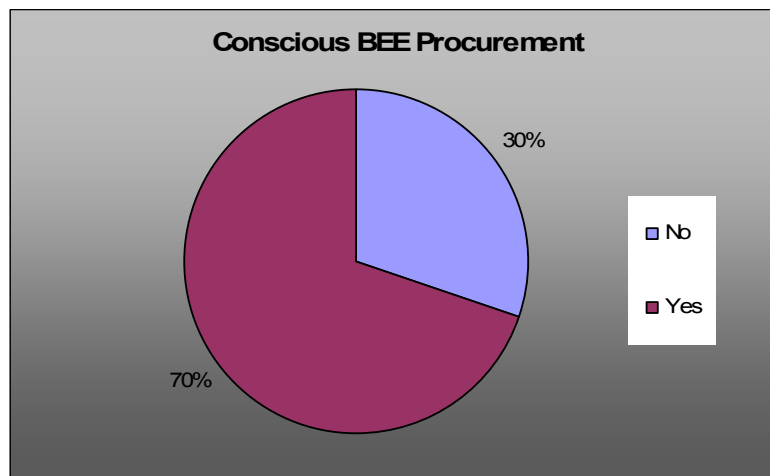
With 42% of companies surveyed not offering learnerships, it would appear that companies are still grappling with this concept. Unfortunately, the study did not investigate the reasons behind this.

Of the 58 % of respondents offering learnerships, the average number offered per annum was 45 (range of 2 to 499). As with the skills development spend, the learnership data is skewed by the upper limit of 499, which represents a large enterprise. Again, a more sensible view would be the median value of 10 learnerships offered per annum.

5.3.4 RESPONDENTS BY BEE PROCUREMENT

Figure 14 is an illustration of companies within the sample that actively pursue opportunities to procure goods and services from BEE suppliers and those who do not consciously make this effort.

FIGURE 14: Respondents by BEE Procurement

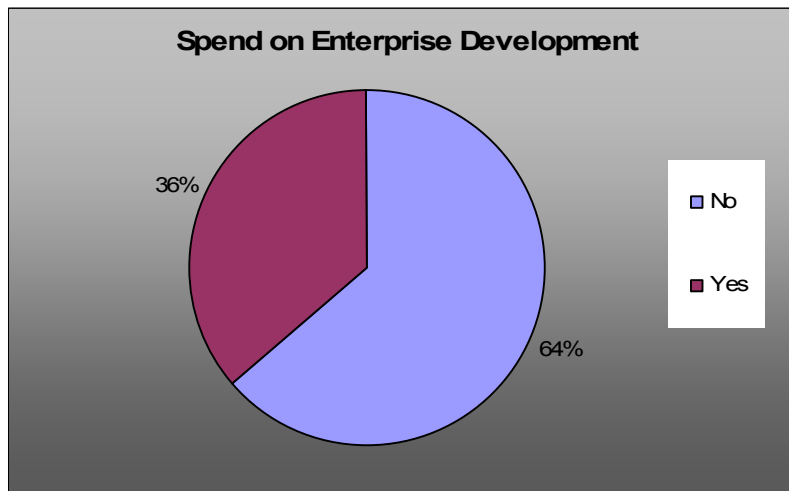


The majority of companies surveyed (70%) consciously try to obtain goods and services from BEE accredited suppliers. While the remaining 30% indicated that they did not consciously pursue such a strategy, it must be pointed out that this does not imply that such companies do not make use of BEE suppliers. The distinction, while somewhat subtle is nevertheless extremely important. In particular, many of the wholly owned black companies surveyed suggested that they did not consciously seek out BEE suppliers, but that their supplier base often 'automatically' ended up being black.

5.3.5 RESPONDENTS BY SPEND ON ENTERPRISE DEVELOPMENT

Figure 15 indicates the part of the sample that spends money on enterprise development versus the part that does not.

FIGURE 15: Respondents by Spend on Enterprise Development



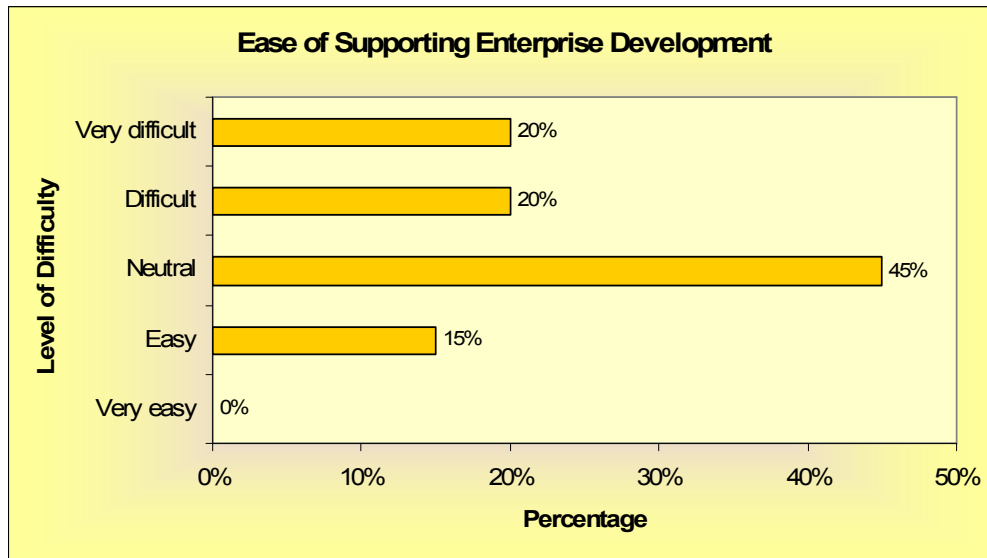
Given that enterprise development appears to be an ill-defined concept, it is not surprising that many companies have neither embraced this aspect of the scorecard, nor responded in such a manner as to fulfill the necessary requirements around it.

As such, it is not surprising that only about a third of companies surveyed spend money on enterprise development.

5.3.6 RESPONDENTS BY EASE OF SUPPORTING ENTERPRISE DEVELOPMENT

Figure 16 represents respondents' views on the level of difficulty involved in supporting Enterprise Development initiatives.

FIGURE 16: Respondents by Ease of Supporting Enterprise Development

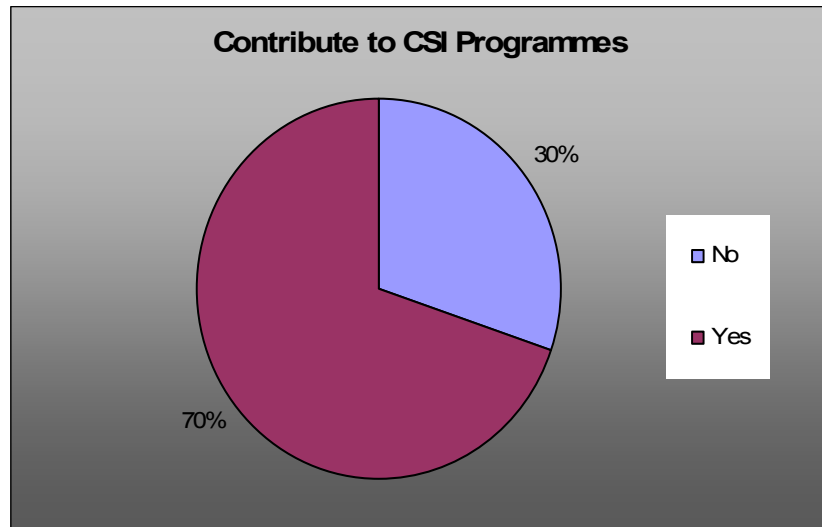


40% of all respondents indicated that it was either 'difficult' or 'very difficult' to support Enterprise Development. This finding appears to be consistent with the finding that Enterprise Development is not a widely supported (funded) company activity.

5.3.7 RESPONDENTS BY CONTRIBUTION TO CORPORATE SOCIAL INVESTMENT

Figure 17 illustrates the percentage of companies in the sample that contributes to Corporate Social Investment (CSI) programmes versus the percentage that does not.

FIGURE 17: Respondents by Contribution to CSI

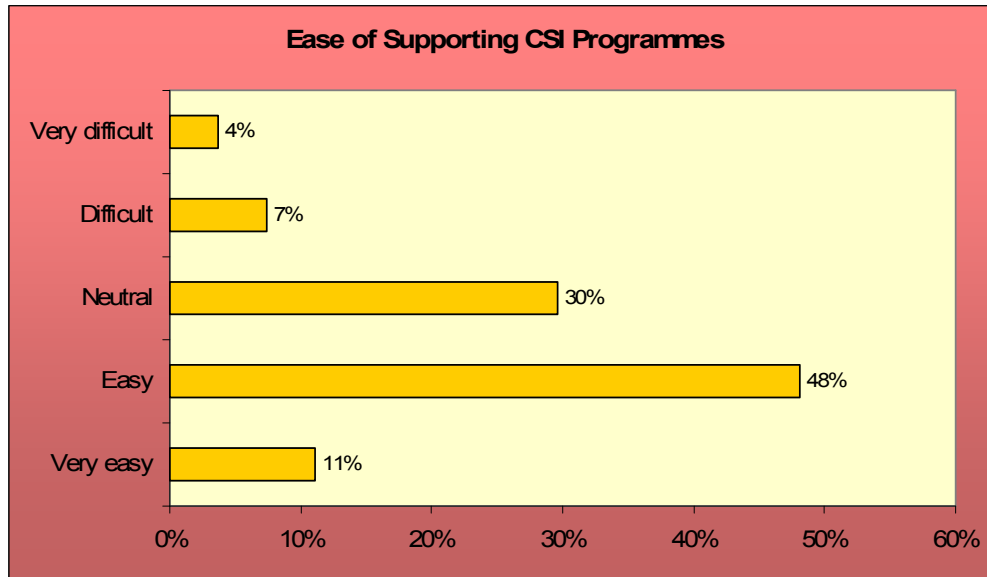


Seven out of every 10 companies surveyed indicated that they made some sort of contribution to CSI programmes or initiatives. This represents almost twice the number of companies that contribute to enterprise development.

5.3.8 RESPONDENTS BY EASE OF SUPPORTING CSI PROGRAMMES

Figure 18 is a graphic representation of the perceived ease with which the support of CSI programmes has been undertaken by companies in the sample.

FIGURE 18: Respondents by Ease of Supporting CSI Programmes

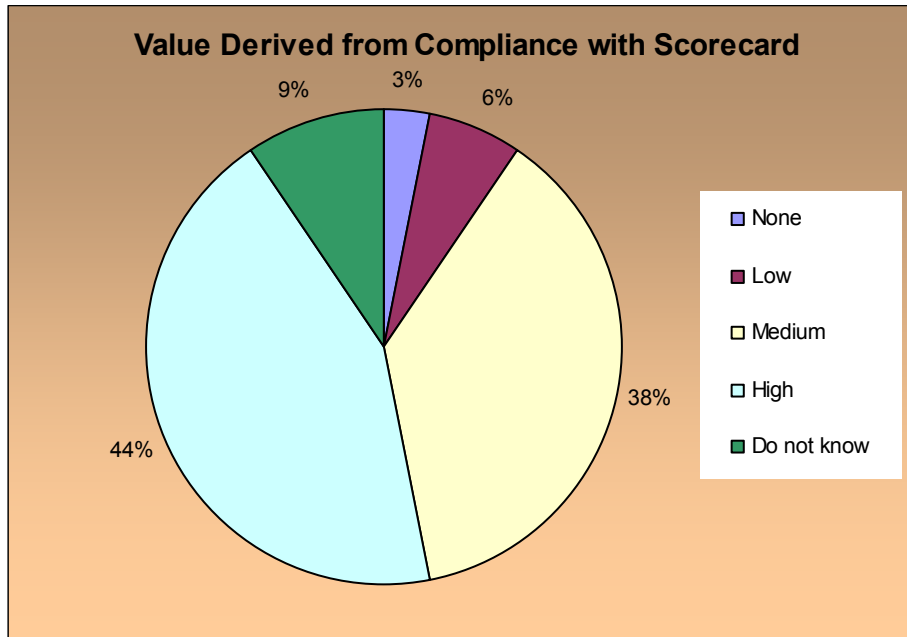


It appears that most companies surveyed find it either easy (almost half the sample at 48%) or very easy (a further 11%) to lend their support to CSI initiatives. Only about 1 in 10 (11%) of respondents indicated that supporting CSI programmes was a difficult task.

5.3.9 RESPONDENTS BY VALUE DERIVED FROM COMPLIANCE WITH BEE SCORECARD

Figure 19 shows the various levels of value respondents believe they get from complying with the BBBEE scorecard.

FIGURE 19: Respondents by Value Derived from Compliance with BEE Scorecard



While 44% of respondents claim they derive 'high' value from complying with the BEE scorecard, almost a fifth (18%) is not convinced by the value added from compliance. Additionally, close to one in ten respondents indicated that they do not know what value is added by complying with the scorecard.

CHAPTER 6 - DISCUSSION OF RESULTS

6.1 INTRODUCTION

Consolidation of the results was concluded and documented in chapter 5 in order to give an overall impression of the sample. This 'context' was created by simply reporting on the findings of the study with the aid of graphs and tables and by providing the general descriptive statistics associated with the study.

This chapter, however, was approached with an emphasis on extracting the 'so-whats' from the findings by performing in-depth analysis on the data set. For this purpose, the services of an experienced statistician were used to ensure the most appropriate statistical techniques were being employed.

This was followed by interpreting the findings with the intent to relate these back to the literature and to determine whether or not each of the research hypotheses set out in Chapter 3 had been sufficiently tested. In addition, where applicable, recommendations would be made based on what the data revealed.

6.2 FINDINGS ON THE RESEARCH HYPOTHESES

Eight research hypotheses were put forward. The section that follows examines each hypothesis individually to establish whether this research project has successfully investigated the hypotheses and whether the information obtained from the literature review is supported or challenged. The chapter is concluded by pulling the findings together into a summary that employs correlation analysis using the Spearman correlation coefficient (Hintze, 2004).

- **Hypothesis 1**

Finding black owners for South African SMEs is being easily achieved.

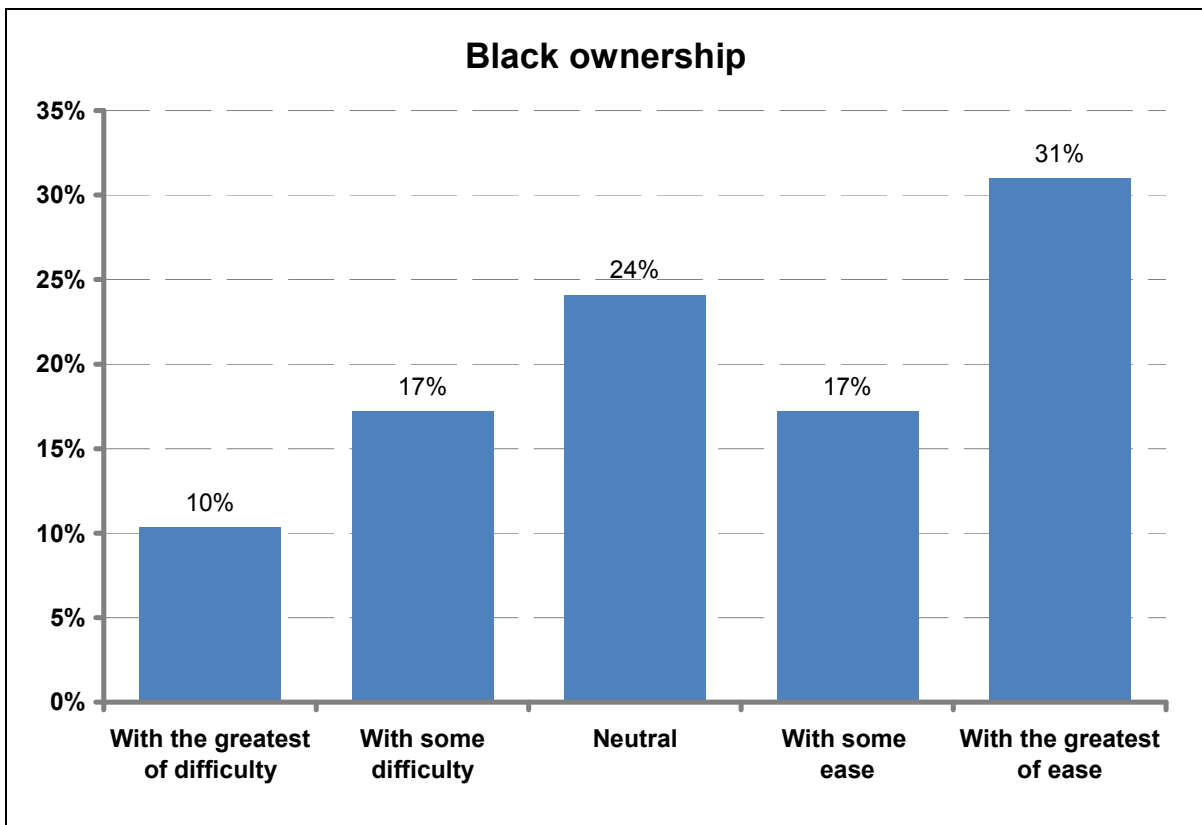
TABLE 8: Percentage Black Company Ownership by frequency and percentage

Black Ownership	Frequency	Percentage Respondents
0%	10	32.3%
6%	1	3.2%
7%	1	3.2%
10%	1	3.2%
20%	1	3.2%
25%	1	3.2%
26%	2	6.5%
30%	1	3.2%
35%	1	3.2%
50%	3	9.7%
60%	1	3.2%
80%	1	3.2%
85%	1	3.2%
100%	6	19.4%
TOTAL	31	100%

Ten of the companies surveyed revealed that they had no (0%) black ownership and this represented almost a third (32.3%) of the entire sample. At the other end of the spectrum, six companies (representing close to 20% of the sample) indicated that they were wholly (100%) black owned.

15 of the 31 (48.4%) respondents to this question fall short of the black ownership requirements of greater than 25% as set out in the BEE scorecard (highlighted in light yellow in Table 8). However Figures 20 & 21, suggest that achieving a degree of black ownership within a company is a less rather than more difficult task.

FIGURE 20: Degree of difficulty with which Black Ownership of the company was achieved



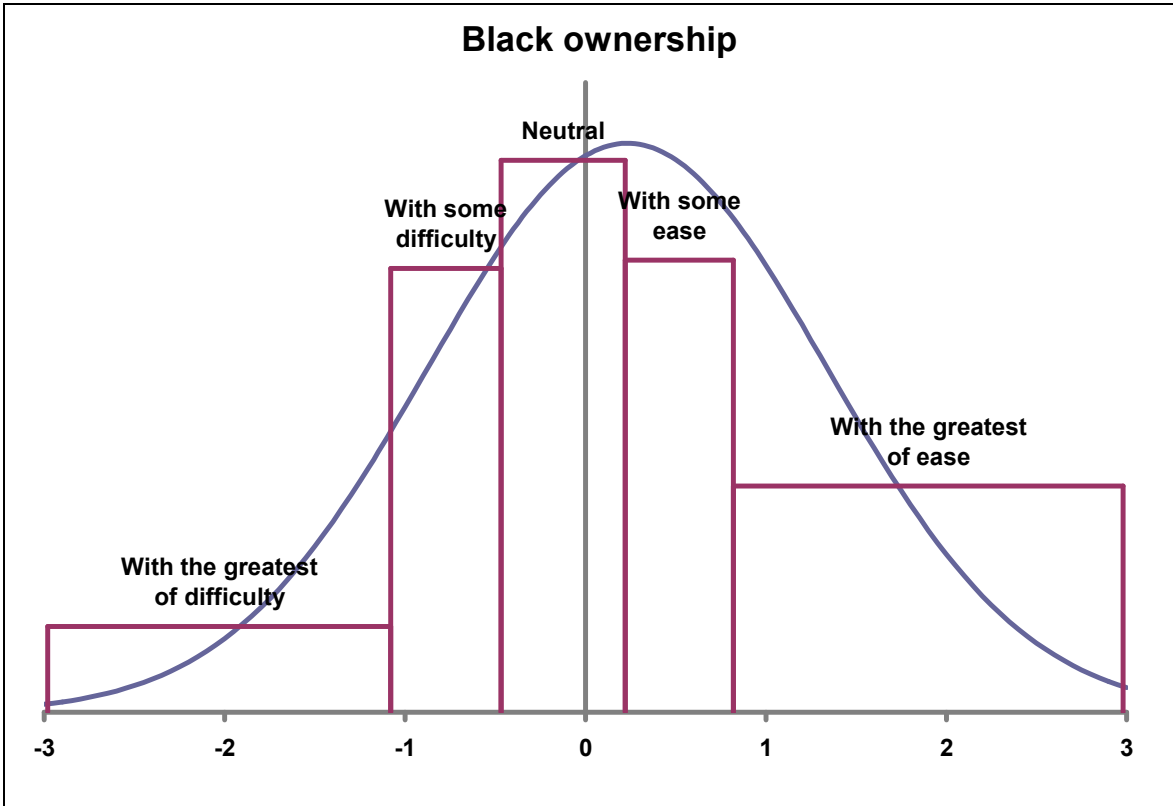
If one were to discount the 'neutral' responses on the basis that respondents who chose this option believed that achieving black ownership within their companies was neither an easy nor a difficult task, then only the responses on either side of the 'neutral' bar help in answering the question.

Given the above logic, 27% of respondents experienced difficulty (17% - 'some difficulty' and 10% - 'great difficulty') in finding black owners for their companies. However, almost half of the sample (48%) indicated that it was not problematic to obtain black ownership in the company. The most telling finding was that the greatest number of responses (31%) suggested that black ownership of companies was obtained 'with the greatest of ease'.

It should be borne in mind that the findings presented on the relative ease or difficulty, with which black ownership of companies is being achieved, must be viewed within the backdrop of the overall black ownership percentages achieved. Table 8, above, suggests that there is still a way to go before these targets, as set out in the BBBEE scorecard are achieved.

Figure 21, below, provides an alternate view of the data provided in Figure 20. It is a clear graphical representation of the spread of responses obtained and uses the normal distribution curve to show where the dominant sentiment resides.

FIGURE 21: Degree of difficulty with which Black Ownership of the company was achieved – represented by the Normal Distribution Fitting Algorithm



Conclusion:

Two important findings have emerged from the research regarding black ownership of companies. Firstly, there is a way to go to achieve the overall black ownership targets for South African companies as laid out in the BBBEE scorecard. While some companies surveyed far exceed the minimum requirements, almost half do not meet the minimum.

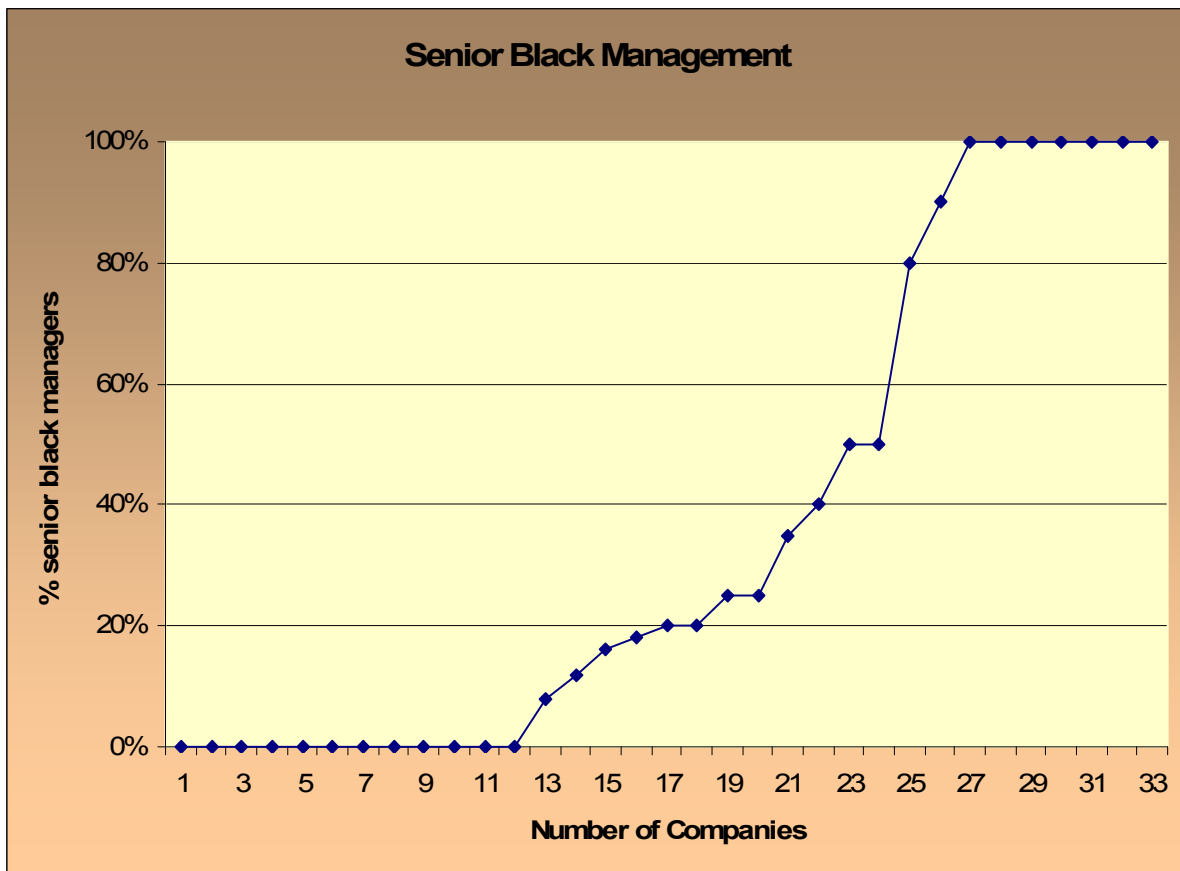
Secondly, it appears that where black ownership of companies has occurred, it has been achieved with relative ease. Hence, there is a failure to reject the null hypothesis: Finding black owners for South African SMEs is being easily achieved.

- **Hypothesis 2**

More progress has been made towards achieving the targets for junior black management (as set out in the BBBEE scorecard) than has been made for middle and senior black management.

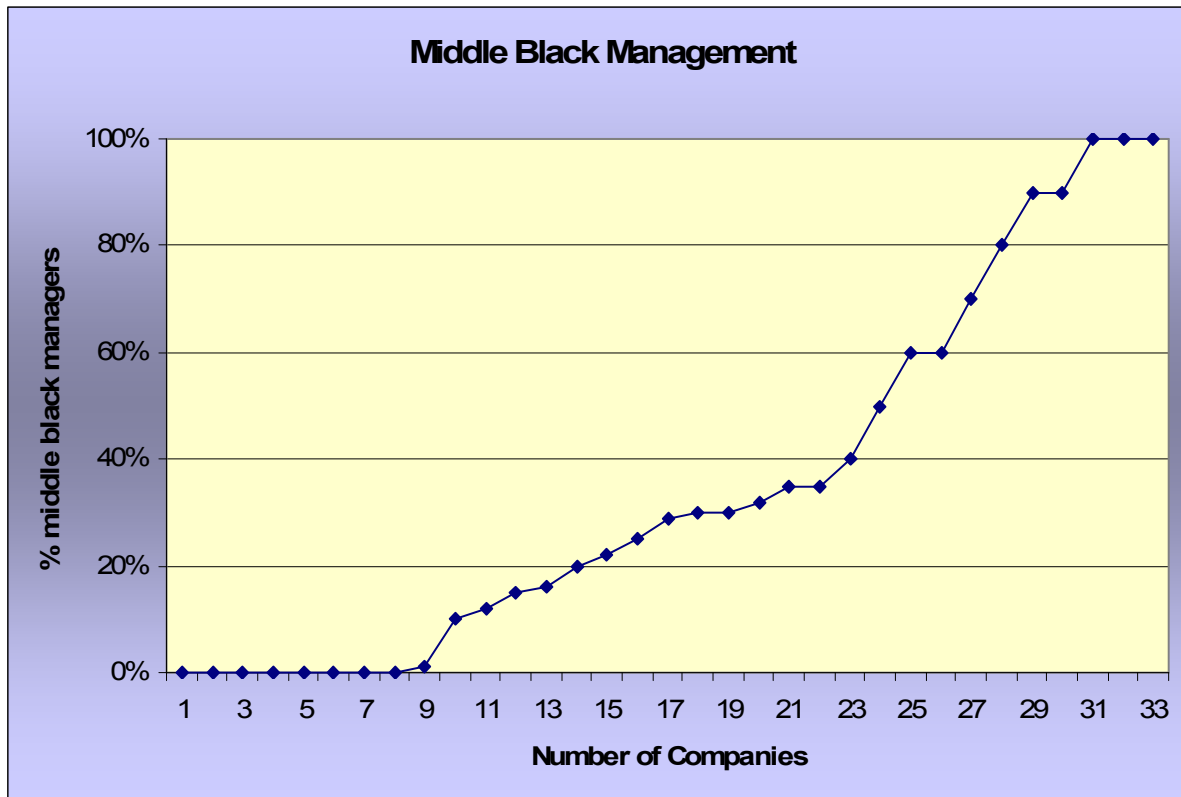
Figures 22, 23 and 24 illustrate the percentage of senior, middle and junior managers respectively in each of the companies in the sample.

FIGURE 22: Distribution of Senior Black Managers within Companies Surveyed



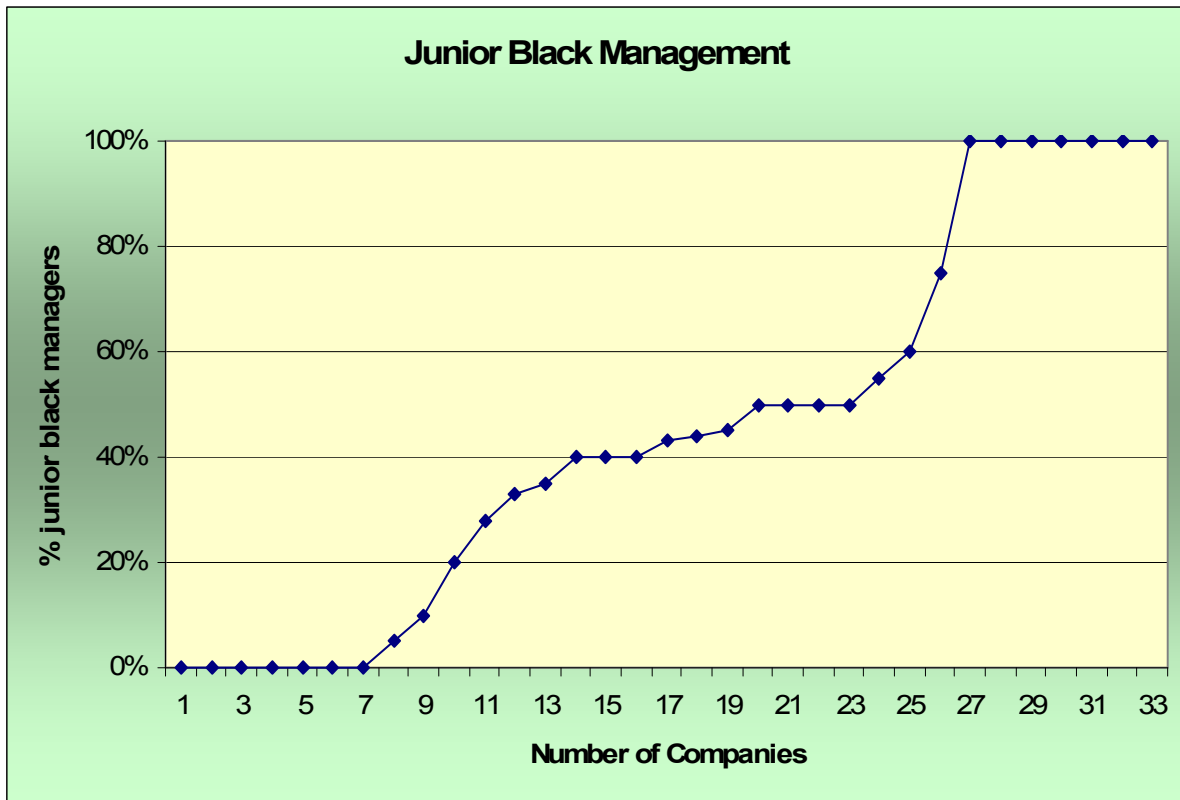
One third of companies surveyed exceeded the 43% senior black management requirement as set out in the BBBEE scorecard. On the other hand 36% of companies had no senior black managers in their organisations.

FIGURE 23: Distribution of Middle Black Managers within Companies Surveyed



Only a fifth (21%) of companies surveyed met or exceeded the target of 63% black middle managers. Eight companies recorded the existence of no black middle managers in their organisations.

FIGURE 24: Distribution of Junior Black Managers within Companies Surveyed



Less than a quarter (24%) of companies surveyed fulfilled the minimum requirement for junior black managers, set at 68% in the BBBEE scorecard. The majority of companies in the survey (36%) indicated that their junior black management complement is currently between 40% and 60%. Seven companies (21%) recorded no junior black managers within their ranks.

Table 9, below, is a summary of the results obtained from the research and examines the scorecard requirements against the sample mean and median scores calculated from the survey responses.

TABLE 9: Summary of Black Management Levels Achieved

Black Management Levels Across Companies			
	Senior	Middle	Junior
Scorecard Requirement	43%	63%	68%
Sample Median	20%	29%	43%
Sample Mean	36%	35%	45%
% variation - Median	-23%	-34%	-25%
% variation - Mean	-7%	-28%	-23%

Note: ‘% variation – Median’ equals the Sample Median less the Scorecard Requirement
‘% variation – Mean’ equals the Sample Mean less the Scorecard Requirement

Conclusion:

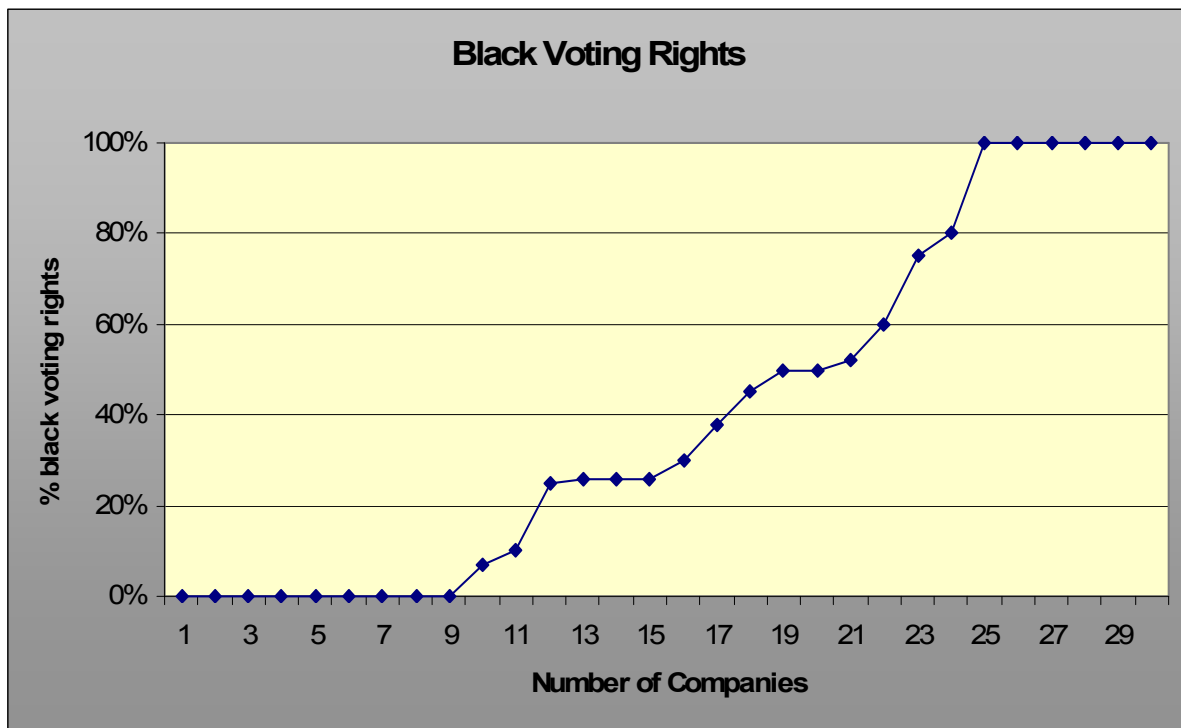
The research results suggest that companies are struggling most at the middle management level to meet the requirements set out in the BBBEE scorecard. While actual performance against the scorecard measures have been discussed in detail in the paragraphs above, the aggregated view as captured by the mean and median scores for each level of management shows that companies are failing to meet requirements at all levels of management. It is at the senior level, though that the most progress towards the attainment of targets has been made (highlighted in red).

Hence, the null hypothesis: ‘More progress has been made towards achieving the targets for junior black management (as set out in the BBBEE scorecard) than has been made for middle and senior black management,’ is rejected.

- **Hypothesis 3**

SMEs in South Africa struggle to implement the required level of black voting rights within their organisations.

FIGURE 25: Distribution of Black Voting Rights within Companies Surveyed

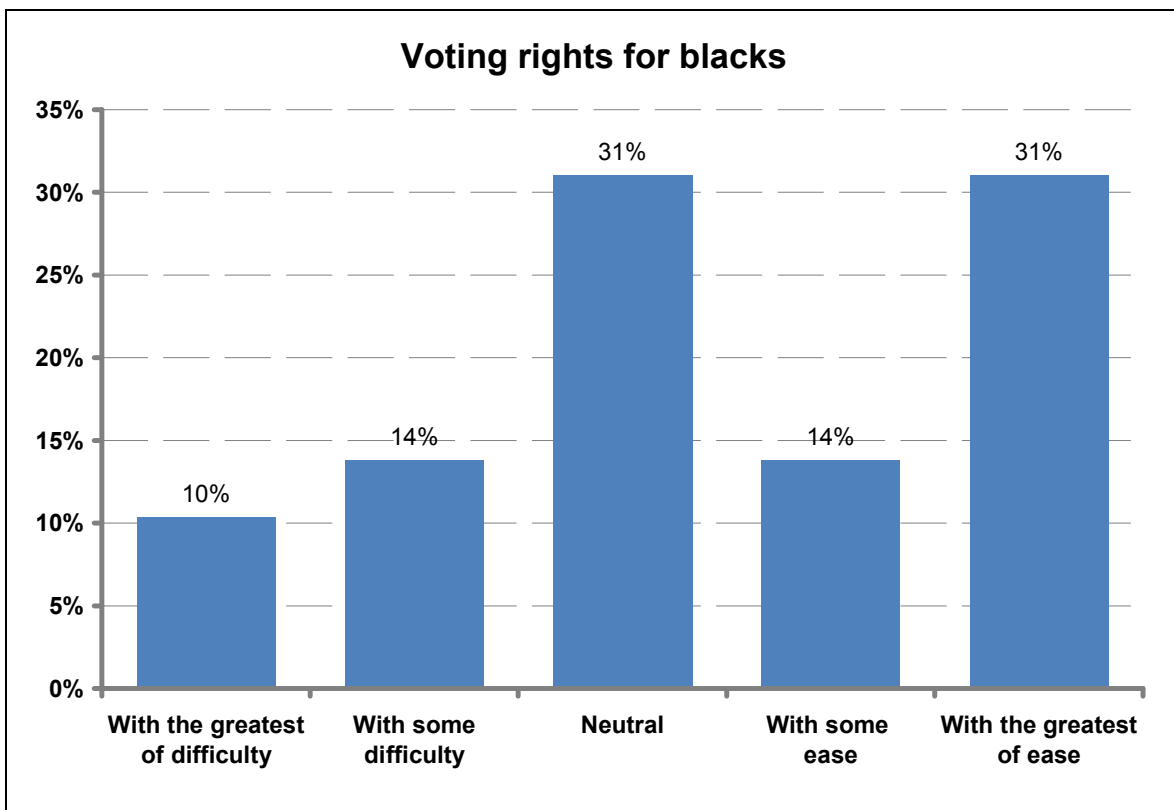


30 respondents answered the question pertaining to black voting rights within their organisation. Of the 30, 6 (20%) indicated that there was 100% black voting rights in their companies while 9 (30%) indicated that blacks had 0% voting rights in their companies.

In total 18 respondents (60% of the sample) recorded black voting rights of 50% or greater. The BBBEE scorecard requirement for black voting rights is 50%, thus implying that three fifths of the sample is compliant on this particular criterion.

Figure 26, below, graphically represents the difficulty with which each respondent believes the level of voting rights within their respective organisations was achieved.

FIGURE 26: Degree of difficulty with which Voting Rights for Blacks was achieved

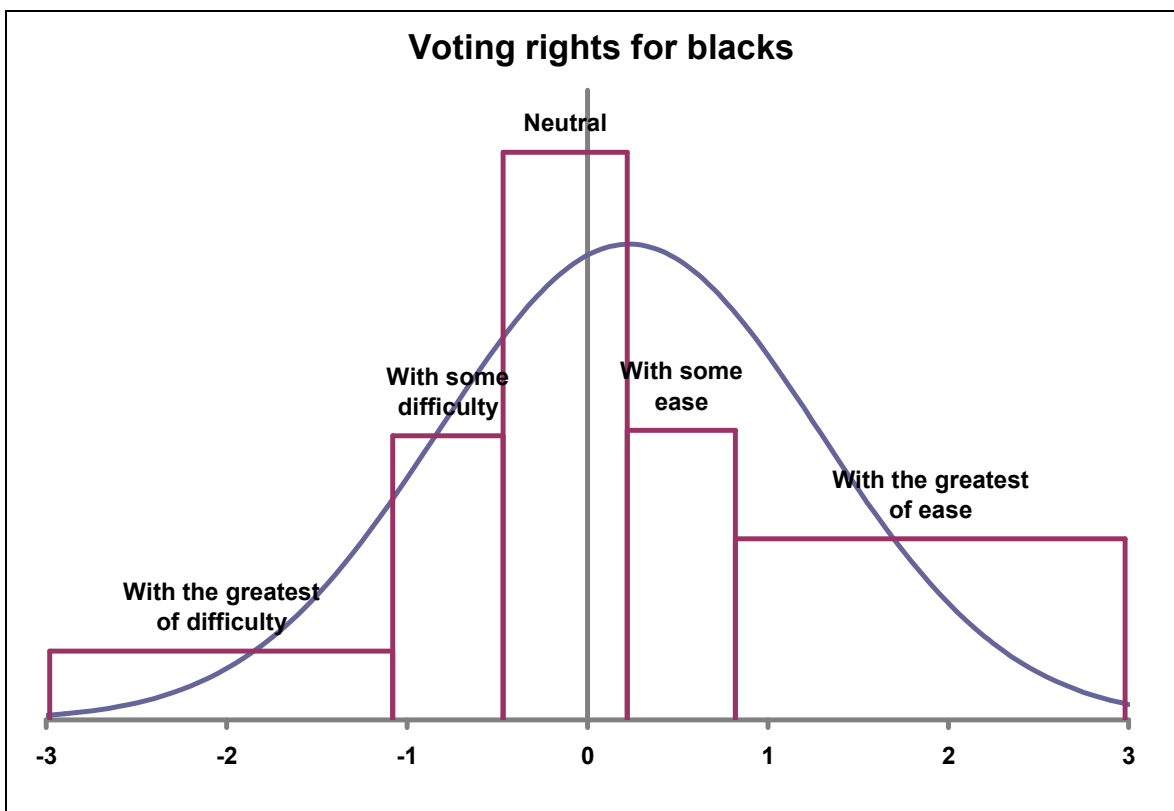


For this analysis the 'neutral' responses may be ignored on the basis that they reflect neither 'ease' nor 'difficulty' around the achievement of the desired outcome.

The ‘with some difficulty’ and ‘with some ease’ responses could be seen to cancel each other out as they both represent 14% of responses on opposite sides of the scale.

As a result, the overall perception of the sample with regards implementing voting rights for blacks is swayed in the direction of greater ease rather than greater difficulty. This may be attributed to the 31% of respondents that said that black voting rights was achieved with the greatest of ease versus only 10% that indicated that it happened with the greatest of difficulty. Figure 27, below, bears this out.

FIGURE 27: Degree of difficulty with which Voting Rights for Blacks was achieved – represented by the Normal Distribution Fitting Algorithm



Conclusion:

The data revealed that while approximately a quarter (24%) of respondents experienced some difficulty in ensuring voting rights for blacks, almost twice this number (45%) felt that black voting rights was achieved with ease. The remaining 31% of respondents were non-committal on the issue.

In addition, it was found that three out of every five companies in the sample had achieved at least the minimum requirement for black voting rights as stipulated in the BBBEE scorecard.

Hence, the null hypothesis: 'SMEs in South Africa struggle to implement the required level of black voting rights within their organisations,' is rejected.



- **Hypothesis 4**

SMEs in South Africa struggle to appoint the required number of black executive directors as stipulated in the BBBEE scorecard.

TABLE 10: Percentage Black Executive Directors by frequency and percentage

% Black Exec Directors	Frequency	Percentage Responses
0	13	39%
8	1	3%
10	1	3%
20	4	12%
25	1	3%
50	3	9%
60	1	3%
75	1	3%
100	8	24%
TOTAL	33	100%

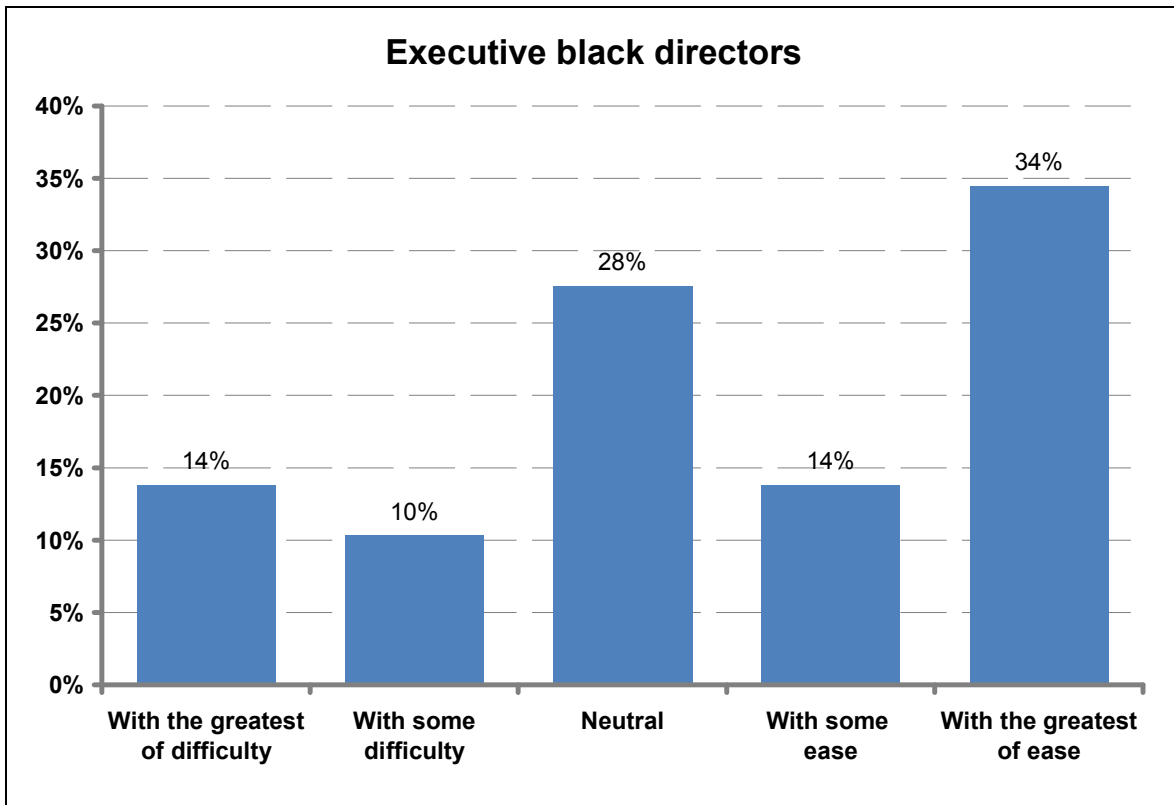
The target for black executive directors as set out in the BBBEE scorecard is 40%. Thirteen companies in the sample indicated that they had no black executive directors. This alone represents almost two fifths (39%) of all respondents and does not bode well for achieving the target mentioned above. The situation is further worsened when one examines the total number of respondents who recorded values of less than 40% (highlighted in light yellow in the table) for this part of the study.

In total, almost two out of every three companies in the sample fall short of the requirement for black executive directors. This picture might be further skewed if

one were to consider that of the eight companies claiming 100% black executive directorship, six are wholly black owned businesses and the other two are 80% black owned.

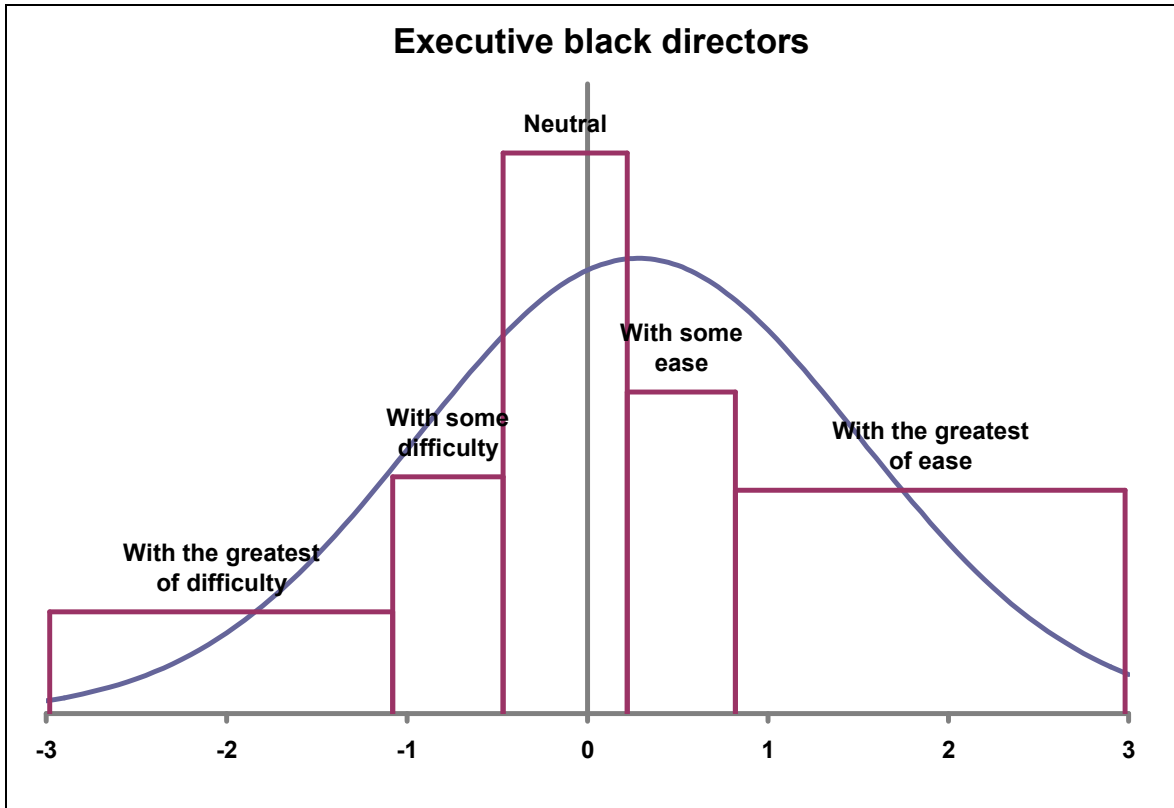
Figures 28 and 29 that follow make for interesting reading. From a first glance, on average, respondents perceive the appointment of Black Executive Directors to be more an easy than a difficult task. Again, ignoring the 'neutral' responses, 24% of the sample claims to have experienced some degree of difficulty appointing black executive directors while twice this number (48%) said that it was an easy task.

FIGURE 28: Degree of difficulty with which Black Executive Directors were appointed



The fit of the normal distribution curve in figure 29, below, confirms this finding.

FIGURE 29: Degree of difficulty with which Black Executive Directors were appointed – represented by the Normal Distribution Fitting Algorithm



Conclusion:

One should be careful not to confuse two very separate findings regarding the appointment of black executive directors in South African companies.

Firstly, the data as presented in Table 10 is clear in highlighting that most companies currently do not have the required number of black executive directors in place. Only 39% of companies surveyed meet or exceed the set target of 40% black executive directors.

Secondly, the data reveals that in instances where black executive directors have been placed, most respondents found this to be a generally easy process. It should be borne in mind that responses to this question might have been skewed by the wholly owned black companies, where executive black directorship was likely an 'automatic' process. This finding, however, does not detract from the first finding that says that the total number of placements is still too low.

As hypothesis 4 makes direct reference to the number of appointments of black executive directors there is a failure to reject the null hypothesis: 'SMEs in South Africa struggle to appoint the required number of black executive directors as stipulated in the BBBEE scorecard'.

- **Hypothesis 5**

SMEs in South Africa experience difficulty in procuring goods and services from BEE accredited suppliers

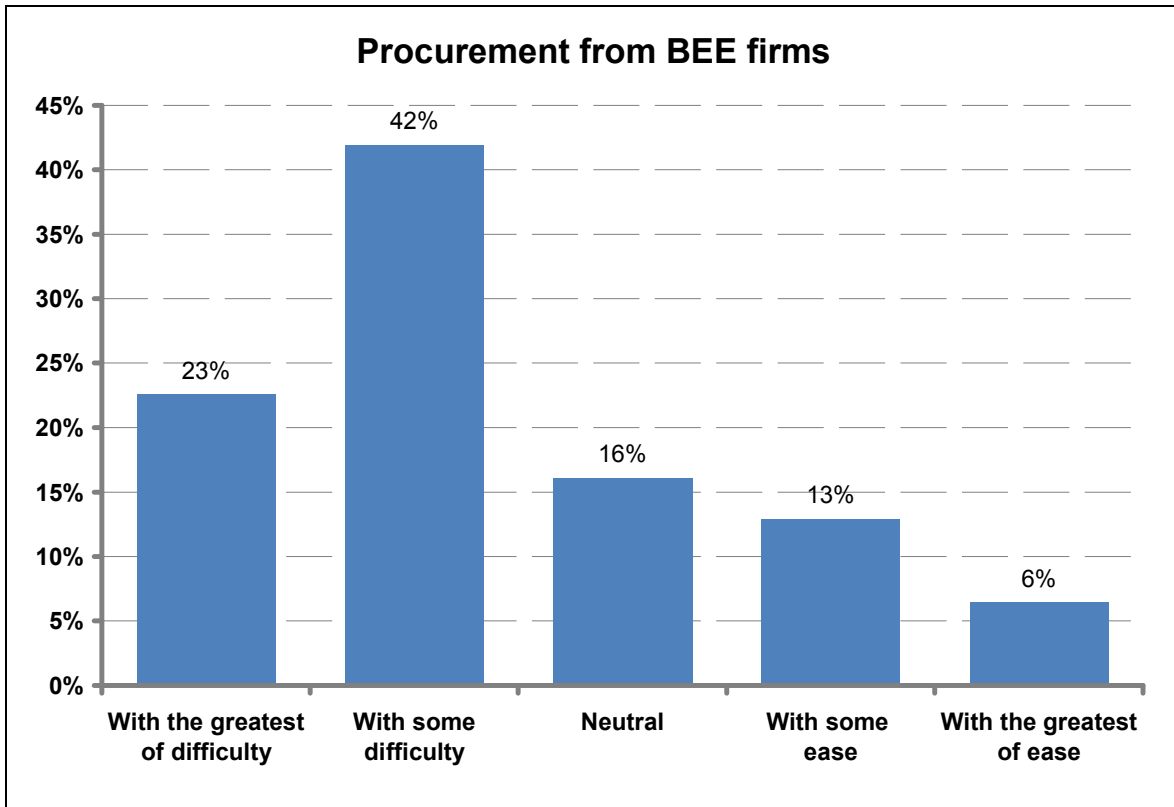
TABLE 11: Percentage Budget Spent on BEE Procurement by frequency and percentage

Percentage Budget Spent on BEE Procurement	Frequency	Percentage Responses
0	9	27%
2	1	3%
4	2	6%
10	1	3%
15	1	3%
20	4	12%
30	2	6%
33	1	3%
35	1	3%
40	5	15%
50	2	6%
60	1	3%
70	1	3%
80	2	6%
TOTAL	33	100%

The BBBEE scorecard proposes a stepped approach towards BEE procurement spend with the lower limit having been set at 50% (half of all procurement spend should be on BEE accredited suppliers). Table 11 shows that 82% of the sample does not meet the minimum requirement and that over a quarter (27%) of all respondents spend none of their procurement budget with BEE accredited suppliers.

In addition to the low spend recorded, Figures 30 and 31 clearly illustrate that procurement from BEE firms is a difficult task for the majority of companies surveyed.

FIGURE 30: Degree of difficulty with which Procurement from BEE firms occurs

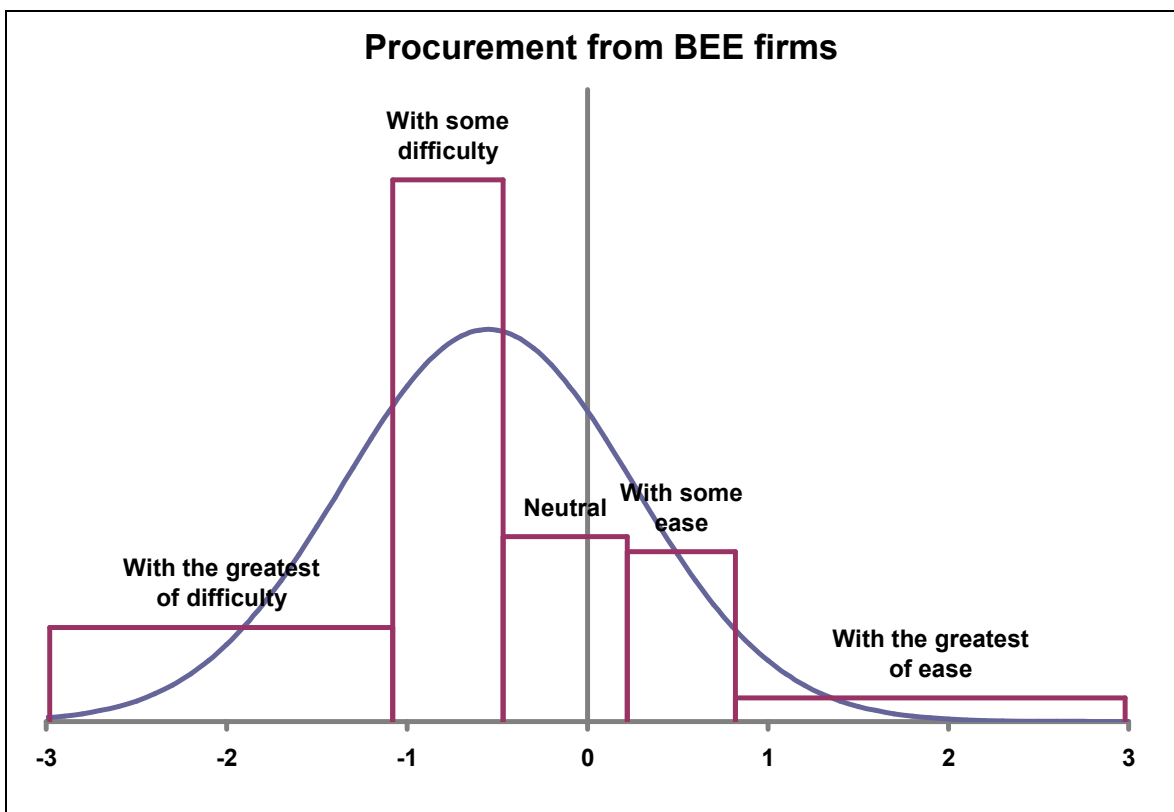


Almost two thirds of respondents (65%) indicated that procuring goods and services from BEE firms proved to be a challenge. A number of reasons were given, but can be summed up into two main categories. The first highlights the difficulty in finding appropriate suppliers, “finding BEE compliant providers is not always easy”.

The second lot of comments questioned the ability of BEE suppliers to provide the required products or services, “limited knowledge and skills of BEE vendors means that we can often not use them” and “many specialised products/services could not be obtained from BEE sources”.

The overall difficulty surrounding procurement from BEE firms is captured graphically in Figure 31, below.

FIGURE 31: Degree of difficulty with which Procurement from BEE firms occurs – represented by the Normal Distribution Fitting Algorithm



Conclusion:

The research points to two clear findings with regards preferential or BEE procurement. Firstly, the companies surveyed are spending much less of their procurement budget on BEE suppliers than the scorecard suggests they should be.

Secondly, spending on BEE accredited suppliers is severely hampered by a lack of ability to find such suppliers. But, perhaps more importantly there appears to be a perception that BEE suppliers often do not possess the requisite skills and / or products needed by many companies and that as a result they are overlooked as potential suppliers.

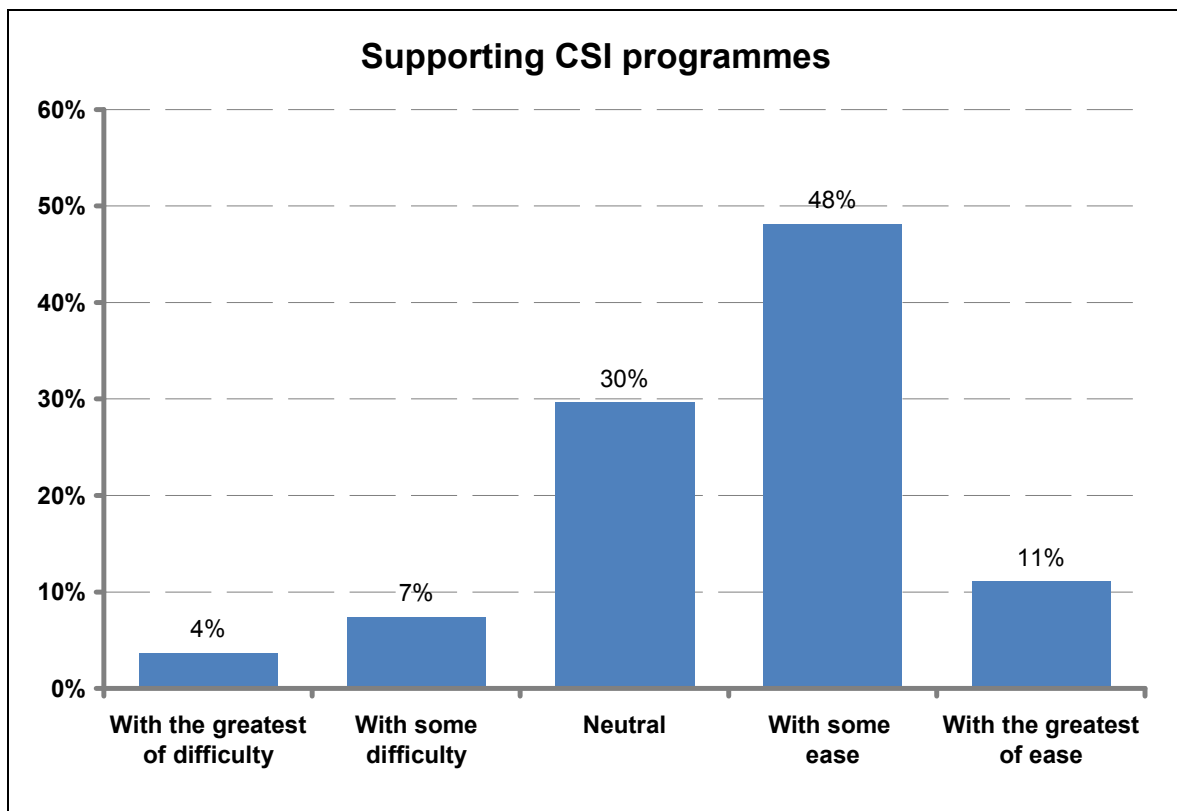
Hence, there is a failure to reject hypothesis 5, 'SMEs in South Africa experience difficulty in procuring goods and services from BEE accredited suppliers'.

- **Hypothesis 6**

CSI programmes are easier for companies to support than enterprise development.

Figures 32 and 33 are presented back to back in order to graphically display how differently respondents reacted to the questions relating to the support of CSI programmes and the support of enterprise development.

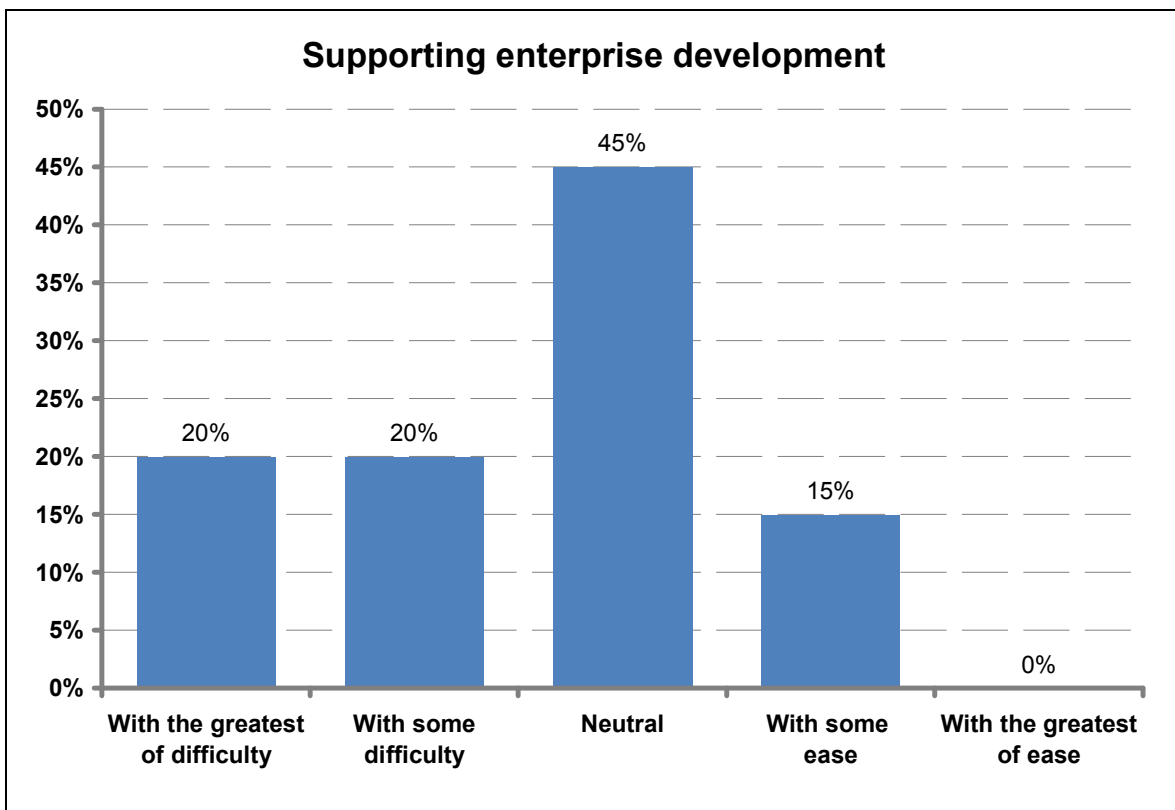
FIGURE 32: Degree of difficulty experienced in supporting Corporate Social Initiatives



By discounting 'neutral' responses it is clear that the majority of the remaining responses lie on that side of the scale representing ease of support for CSI programmes.

In stark contrast to the above, Figure 33 shows that most responses pertaining to the support of enterprise development are to be found on the side of the scale associated with a difficulty to support. The high number of ‘neutral’ responses is noted and a possible explanation is that many respondents were non-committal because of a lack of understanding of what enterprise development means. The problem of the lack of a clear definition of enterprise development was highlighted in the literature review in Chapter 2.

FIGURE 33: Degree of difficulty experienced in supporting Enterprise Development



The relative ease of supporting CSI programmes versus the relative difficulty of supporting enterprise development is further illustrated in Figures 34 and 35 below.

FIGURE 34: Degree of difficulty experienced in supporting Corporate Social Initiatives – represented by the Normal Distribution Fitting Algorithm

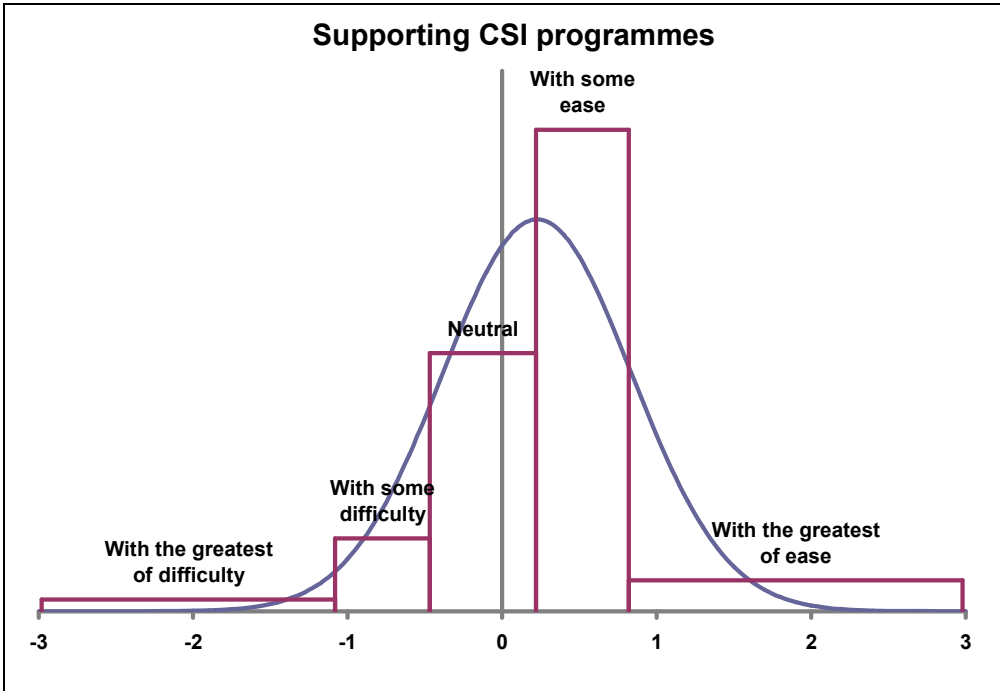
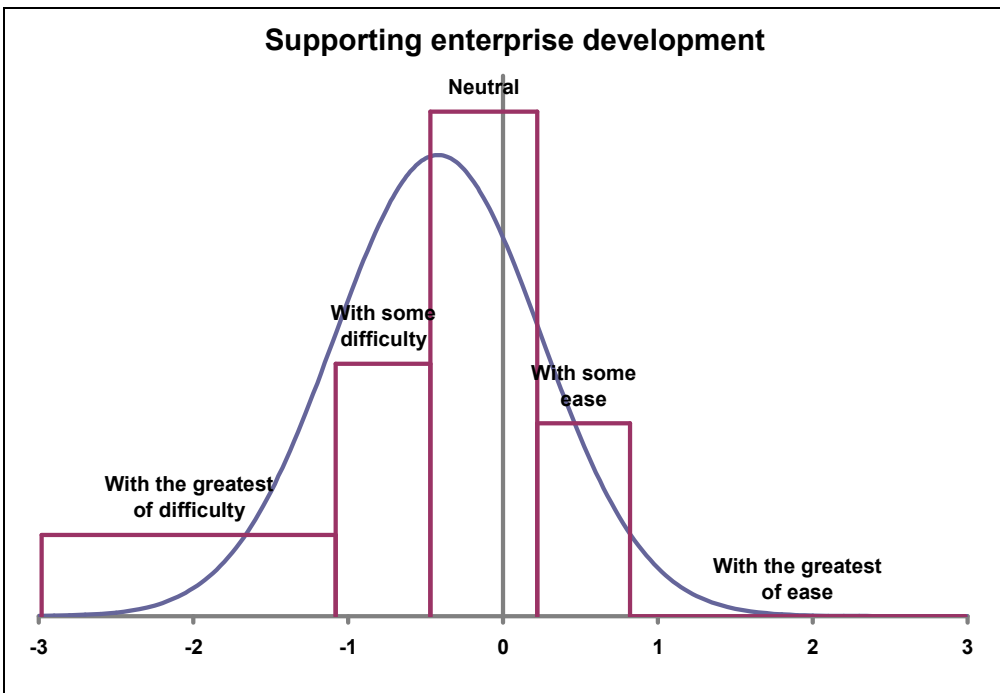


FIGURE 35: Degree of difficulty experienced in supporting Enterprise Development – represented by the Normal Distribution Fitting Algorithm



Conclusion:

Only 11% of respondents indicated difficulty in supporting CSI programmes, while close to four times this number (40%) indicated difficulty in supporting enterprise development. Some reasons cited by respondents for the difficulty around supporting enterprise development included complexity of identifying bona fide programmes and the high failure rate of such programmes in the past.

59% of respondents indicated that they found it easy to support CSI programmes, with many saying that CSI programmes were abundant (“more beneficiaries than benefactors”) and readily identifiable. Contrarily, only 15% of respondents said that it was easy to support enterprise development.

The findings highlighted above are further borne out by the statistics on the number of companies that spend money on CSI programmes and enterprise development, 70% and 36% respectively.

Given the supporting data, there is a failure to reject hypothesis 6: ‘CSI programmes are easier for companies to support than enterprise development’.

- **Hypothesis 7**

More SMEs in South Africa spend money on skills development than on offering learnerships.

Table 12, below is a summary of companies in the sample that contribute to skills development and that offer learnerships.

TABLE 12: Comparison between company support for Skills Development versus Learnerships Offered

Company Support for Skills Development vs Learnerships Offered		
	Skills Development	Learnerships Offered
Yes	91%	58%
No	9%	42%

One third (or 33%) more companies contribute to skills development by allocating a budget to this each year than to offering learnerships. In addition, only 9% of respondents indicated that they did not spend money on skills development, while 42% recorded that they did not offer learnerships.

Conclusion:

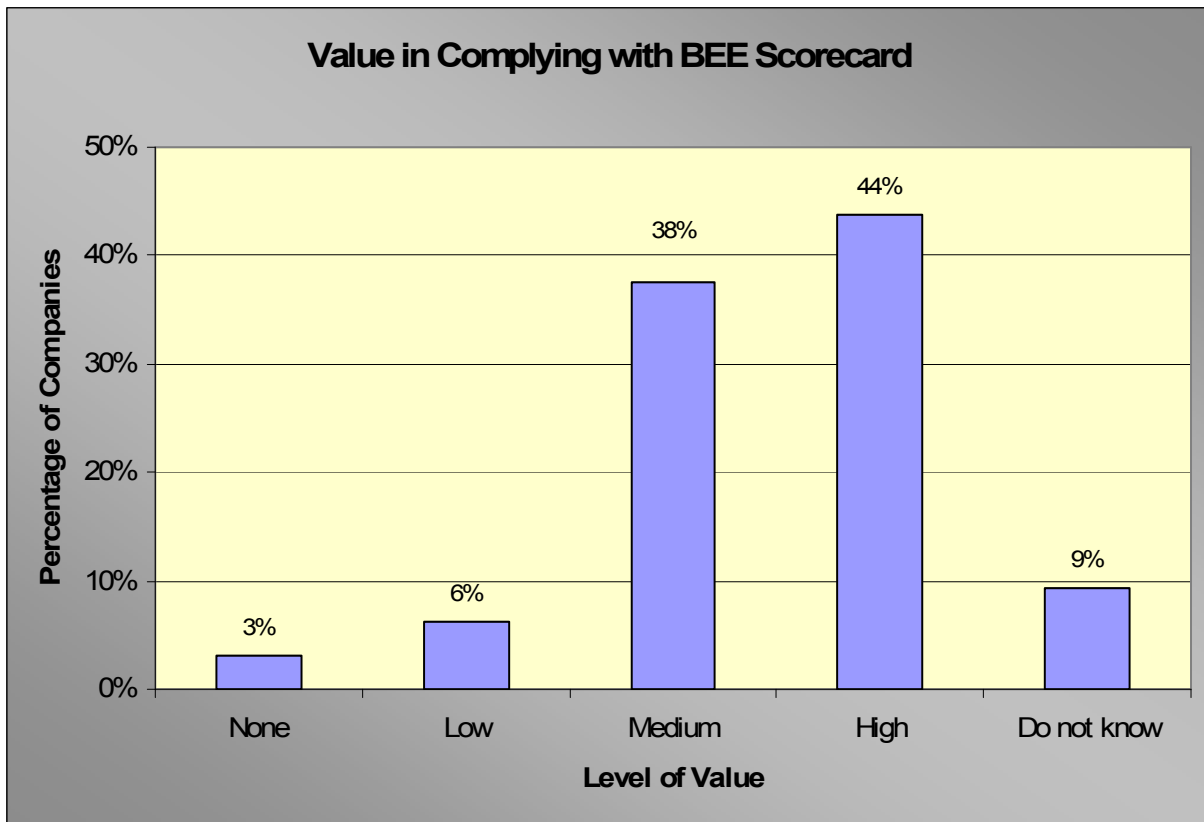
The research points to preference by companies to support skills development rather than learnership programmes. Hence, there is a failure to reject hypothesis 7: 'More SMEs in South Africa spend money on skills development than on offering learnerships'.

Hypothesis 8

SMEs in South Africa see value in complying with the BBBEE scorecard.

Figure 36, below shows responses to the question, “How would you classify the value that your organisation derives (or would derive) from complying with the BEE scorecard?”.

FIGURE 36: Value companies believe they obtain from complying with the BEE Scorecard



The majority of respondents (44%) believe they have ‘High’ value to gain from complying with the criteria set out in the BEE scorecard. An additional 38% of respondents see ‘Medium’ value in compliance, meaning that on aggregate 82%

(more than four out of every five respondents) deems compliance as a value-adding endeavour. Of the remaining 18%, half do not know what value they will get, while one respondent (3%) believes that complying with the BEE scorecard would result in absolutely no benefit for the company.

Conclusion:

The data strongly suggests that the majority of the sample believe that by complying with the BEE scorecard their companies will stand to gain. Therefore, there is a failure to reject hypothesis 8: 'SMEs in South Africa see value in complying with the BBBEE scorecard'.

6.3 SUMMARY OF THE FINDINGS

While each research hypothesis has been tested and discussed in detail in section 6.2 above, it is important to have an overall view of what the research has revealed and how each of the individual aspects of the scorecard rank relative to one another.

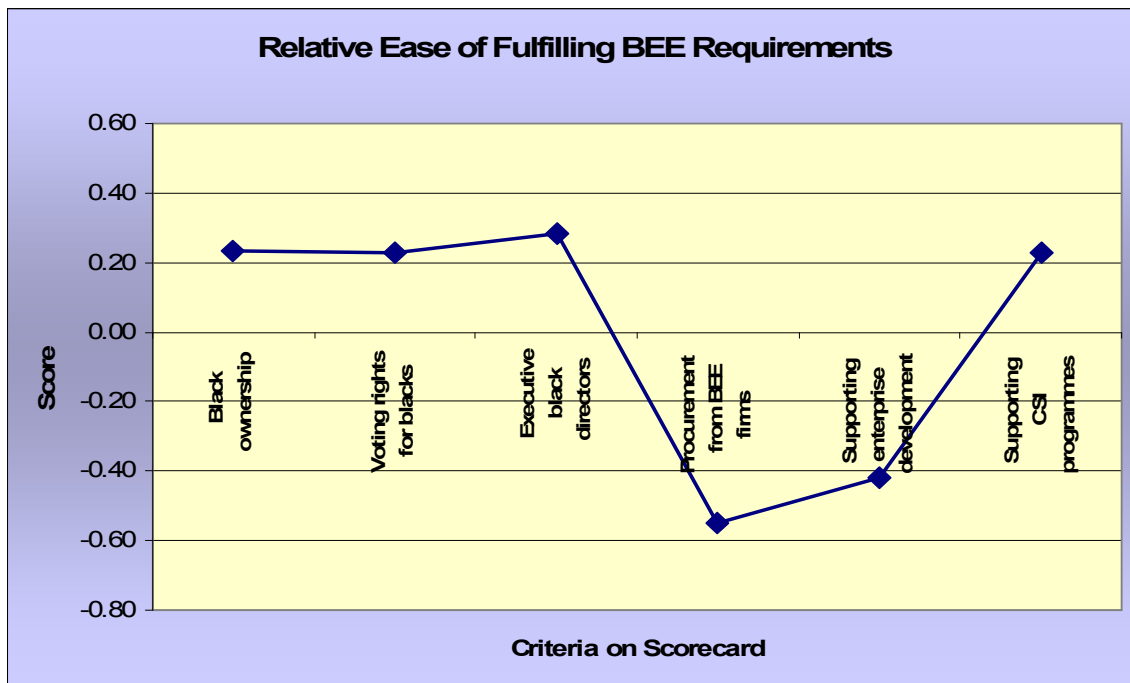
The study elicited responses using a 5-point scale, to determine how easy or how difficult it was for companies to comply with six of the requirements of the BBBEE scorecard, namely: black ownership, black voting rights, appointment of executive black directors, BEE procurement, support of enterprise development and support of CSI programmes.

A summary of these findings is represented in Figure 37.

The graph plots the different aspects of the scorecard on the X-axis and the corresponding mean score obtained from the study along the Y-axis. A score of zero indicates a neutral position; while positive scores (anything above zero) indicate a level of ease in fulfilling the criteria and negative scores (anything below zero) some level of difficulty in the achievement of the scorecard requirement.

The graph shows that two aspects of the BBBEE scorecard are particularly challenging for companies to comply with, while four aspects are fulfilled with less anxiety.

FIGURE 37: Summary of the relative ease of fulfilling different aspects of the scorecard



The data reveals that relative to all other scorecard requirements, the appointment of executive black directors is the most easily achieved element (score of +0.28). The other three scorecard requirements that are fulfilled with relative and equal ease (scores of +0.23 each) are black ownership, black voting rights and supporting CSI programmes.

On the opposite end of the scale, BEE procurement was identified as being the most difficult aspect of the scorecard to comply with scoring -0.55. Supporting enterprise development also proved to be difficult as illustrated by a score of -0.42.

The final part of the analysis uses the Spearman correlation coefficient (as described in Chapter 3) to establish correlations among four broad areas of the scorecard, namely: black ownership, appointment of black executive directors, the percentage black management at various levels within the organisation and BEE procurement.

Table 13 is a summary of the Spearman correlation coefficient analysis.



TABLE 13: Summary of the Spearman Correlation Coefficient Analysis

Spearman Correlation Coefficient Analysis							
		q19	q20	q21	q22	q28	q29
q15	Spearman r	0.9023	-0.6294	-0.5411	-0.4555	-0.1584	0.4227
	p-value	0.0000	0.0003	0.0024	0.0130	0.4397	0.0223
q19	Spearman r		-0.4459	-0.3438	-0.2977	0.0658	0.4683
	p-value		0.0135	0.0629	0.1101	0.7442	0.0104
q20	Spearman r			0.8378	0.6949	0.2719	-0.4486
	p-value			0.0000	0.0000	0.1700	0.0114
q21	Spearman r				0.7543	0.2622	-0.2902
	p-value				0.0000	0.1864	0.1133
q22	Spearman r					0.1929	-0.0821
	p-value					0.3350	0.6607
q28	Spearman r						-0.3080
	p-value						0.1258

The questions used in the analysis appear along the top and the left of the table. For example, values presented in the top left block of the table represent the correlation between questions 15 and 19, the block to the very right of that, the correlation between questions 15 and 20 and so on (Table 14 is a key to all questions used in this analysis).

TABLE 14: Key to Questions Used in Spearman Correlation Coefficient Analysis

Key to Questions used in Spearman's Analysis	
q15	Difficulty in achieving black ownership
q19	Difficulty in appointing black executive directors
q20	Percentage black senior management
q21	Percentage black middle management
q22	Percentage black junior management
q28	Percentage procurement budget spent on BEE firms
q29	Difficulty with which BEE procurement is achieved

All 'p-values' highlighted in pink indicate a significant correlation between the two questions being tested. A 'p-value' that is not highlighted means that no significant correlation exists. Question 28, for example, showed no significant correlation with any of the other questions. In each instance, the 'Spearman r' indicates the strength of the negative or positive correlation observed.

Some interesting insights were generated as a result of this analysis. Firstly, there is a strong positive relationship between black ownership of companies (q15) and the appointment of black executive directors (q19). This is not surprising as the implication is that the black owners either become the executive directors themselves or are empowered to appoint black directors as they see fit.

Secondly, it appears that black owned companies (q15) are well positioned to fulfill BEE procurement requirements (q29). This is of interest as it suggests that black owned businesses are able to access BEE suppliers whilst predominantly white-owned businesses claim that finding appropriate BEE accredited service providers is a huge challenge.

Thirdly, this analysis suggests that having black ownership in place by no means automatically translates into fulfilling black management requirements as set out in the scorecard. This is evidenced by the strong negative correlations between q15 (black ownership) and questions 20, 21 and 22 that address senior, middle and junior black management placements respectively.

Finally, it is noted that black managers irrespective of level within the organisation appear unable to facilitate BEE procurement. This is borne out by the negative correlations between questions 28 and 29 that refer to BEE procurement and questions 20, 21 and 22 that address senior, middle and junior black management placements respectively. The data from this study suggests strongly that it is black ownership and not black management within companies that influences BEE procurement.

CHAPTER 7 – CONCLUSION

7.1 CONCLUSION

Black owned and white owned companies in South Africa face similar challenges. Finding black junior and middle managers proves difficult for all companies. Contrary to what is suggested in the literature, senior black managers are easier to find and place than their junior and mid-level counterparts.

Businesses struggle to find black suppliers of products and services that meet required quality levels. A concern for many businesses is that few or no ‘appropriate’ BEE accredited suppliers exist for them to deal with. This results in great challenges around fulfilling BEE procurement requirements.

A clear understanding of what is encompassed in the term ‘enterprise development’ does not exist. This results in businesses shying away from supporting enterprise development and opting rather to support CSI programmes which are easier to identify.

Expecting a new government to simultaneously redress the inequalities of the past, ensure economic stability and yet not challenge or affront anyone in the process is perhaps an unrealistic expectation. The concept of black economic empowerment emerged soon after the elections of 1994. It is easy with the benefit of almost thirteen years of hindsight to be critical of the policy and to now suggest smarter

mechanisms and implementation strategies. The knowledge gained through our unique experiences over the last decade was not available to the thinkers and BEE policy makers of that time. It therefore, represents the best option for the time.

Black economic empowerment, and indeed the associated instruments such as sector charters and scorecards, needs to be seen as an evolving reality that demands continuous testing and concept and policy refinement. There is widespread criticism regarding legislation pertaining to black economic empowerment, but also open acknowledgement from various quarters, including government that BEE could benefit from a revamp.

This study has shown that not all companies have made an effort to comply with the BBBEE scorecard. It has also revealed that companies find certain aspects of the scorecard easier to comply with than others and that there is therefore gravitation towards the fulfillment of only those aspects.

Given the benefit of knowledge gained and data collected over the years, the BEE experience should be evaluated objectively by both the private sector and government and the challenges and possible shortcomings jointly identified and addressed. However, in the short to medium term it may well be to the benefit of all concerned if the idea of black economic empowerment was approached more from the perspective of the spirit of the Act rather than from the perspective of subscribing to the strict letter of the law.

7.2 RECOMMENDATIONS

The degree of success achieved by BEE policy and legislation has yet to be quantified. There are those who say that there can be little doubt that it has been beneficial to the country while others are adamant that BEE has succeeded only in making us less competitive as a nation. To date neither argument can be substantiated with well-researched, hard evidence.

A logical way forward in this debate may be to have a proper study commissioned to establish exactly what effect BEE implementation has had at the various levels of the economy over the past decade. This would allow for informed rather than anecdotal discussion in future. Such a quantitative study which attaches clear numbers to the value created or the value destroyed by BEE would also allow for a more scientific and less emotion-based evaluation of the success and impact of BEE on South African business and the broader economic environment.

Assuming that consensus could be reached by the relevant stakeholders on whether or not BEE has been 'good' or 'bad' for our country, a decision could follow on whether or not the policy has a future and indeed what form that would take.

This short, exploratory study has shown that companies believe that there is value to be had from being BEE compliant, but what it does not test is the much bigger

question of whether or not BEE is necessary in the first place. A study as proposed above may help to answer this important question.

This study has also found that BEE procurement proves to be a very serious challenge for many companies. If the policy of BEE was to remain in place for the foreseeable future, it might be pertinent for policy makers and other affected stakeholders to jointly figure out mechanisms to make BEE procurement more easily achievable. A similar approach might be necessary to address blockages in the area of enterprise development.

In 2001, the Black Economic Empowerment Commission (BEE Com.) comprising members of government, business and black professionals published the Black Economic Empowerment Commission Report. The purpose of the report was to define the collective role of the key players in the South African economy and investigate how they could develop a shared vision for the future of South Africa (Mosala, 2001). In addition the commission was tasked with developing a clear and coherent vision and strategy for BEE and examining ways in which black business could speak with a united voice.

Perhaps the time has come for the commission (or a similar body) to re-evaluate what has happened on this front between 2001 and present and build on the original report by tracking progress and successes or failures of BEE policy.

7.3 FUTURE RESEARCH

A number of potential areas for future research have emerged as a result of this study. Black ownership of South African companies remains low. Many companies in the sample indicated not just low, but no black ownership. It would be valuable to understand the reasons for this and possible mechanisms that could be put in place to accelerate black ownership.

The number of black managers at all levels (junior, middle and senior) within organisations fall short of the scorecard requirements. Interestingly, though, according to the findings of this study most progress has been made at the senior management level. Given South Africa's history this seems counter-intuitive. Do the findings of this study represent the population or has a sample bias skewed the results? In addition to this question, it might be useful to try and understand why it is proving so difficult to put in place management structures that are representative of the country's demographics.

Procurement from BEE accredited suppliers has emerged as the most difficult of all criteria in the scorecard for companies to comply with. Given that this finding was unearthed through an exploratory research approach, it might be beneficial to conduct exhaustive research on this particular aspect of the scorecard. An in-depth qualitative study could assist in revealing where the blockages lie and what might be done to overcome them.

As a result of the existence of BEE in the South African economic environment for a number of years certain studies that were not possible previously may now be possible. Two such studies come to mind, the purpose of both being to try and establish whether or not BEE has added any value to companies in South Africa. The first could involve a comparison of the financial performance of a chosen company prior to it being BEE compliant versus post BEE compliance with a view to establishing the effect (positive or negative) of BEE. This would be a time series study as the results of the company would be tracked over time.

The second study, while similar would involve separate companies (likely in the same sector) where one is fully BEE compliant and the other not. Comparisons could be drawn along a number of criteria (financial being just one) to establish whether or not the BEE compliant company has enjoyed any benefits from its BEE status.

The results of such studies could be the starting point in establishing whether or not and to what extent companies benefit from BEE.

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APPENDIX 1: INTERVIEW GUIDE

GIBS MBA - Compliance with the Black Economic Empowerment (BEE) Scorecard		
Please email your completed survey to Jayesh Nair jayesh@uniAfrica.co.za		
Section 1 - Demographic Information		
q1. Name of Company	Enter name	<input type="text"/>
q2. Sector	Drop down list	<input type="text"/>
q3. Province	Drop down list	<input type="text"/>
q4. Number of years in operation	Drop down list	<input type="text"/>
q5. Number of full-time employees	Drop down list	<input type="text"/>
q6. Annual turnover	Drop down list	<input type="text"/>
Section 2 - General		
q7. Is your company aware of BEE legislation pertaining to SMEs in South Africa?	Drop down list	<input type="text"/>
q8. How well does your company understand BEE legislation regarding SMEs?	Drop down list	<input type="text"/>
q9. Is your company aware of the changes to BEE legislation that occurred in February 2007?	Drop down list	<input type="text"/>
q10. How well does your company understand Broad-Based BEE (BBBEE)?	Drop down list	<input type="text"/>
q11. Is your company aware that the Department of Trade and Industry (DTI) has devised a BBBEE Codes of Good Practice scorecard?	Drop down list	<input type="text"/>
q12. Is your company aware of the compliance requirements of the BBBEE scorecard?	Drop down list	<input type="text"/>
q13. In terms of compliance with the BBBEE scorecard, what is your company's current status?	Drop down list	<input type="text"/>
Section 3 - Specific Elements of the Scorecard		
Ownership		
q14. Approximately what percentage of your organisation is owned by blacks?	Enter percentage	<input type="text"/>
q15. On a scale of 1-5, please rate how black ownership of your organisation was achieved	Drop down list	<input type="text"/>
q16. Approximately what percentage of voting rights are held by blacks in your organisation?	Enter percentage	<input type="text"/>
q17. On a scale of 1-5, please rate the level with which voting rights for blacks was achieved	Drop down list	<input type="text"/>
Management		
q18. Approximately what percentage of your organisation's executive directors is black?	Enter percentage	<input type="text"/>
q19. On a scale of 1-5, please rate the level with which executive black directors were appointed	Drop down list	<input type="text"/>
Employment Equity		
q20. Approximately what percentage of your organisation's senior management is black?	Enter percentage	<input type="text"/>
q21. Approximately what percentage of your organisation's middle management is black?	Enter percentage	<input type="text"/>
q22. Approximately what percentage of your organisation's junior management is black?	Enter percentage	<input type="text"/>
Skills Development		
q23. Does your organisation spend money on skills development for staff?	Drop down list	<input type="text"/>
q24. Approximately how much was spent on skills development in your last financial year?	Enter amount	<input type="text"/>
q25. Does your organisation offer learnerships?	Drop down list	<input type="text"/>
q26. Approximately how many learnerships were taken up by candidates at your organisation last year?	Enter number	<input type="text"/>
Preferential Procurement		
q27. Does your organisation make a conscious effort to procure services / products from BEE firms?	Drop down list	<input type="text"/>
q28. Approximately what percentage of your procurement budget is spent on BEE firms?	Enter percentage	<input type="text"/>
q29. On a scale of 1-5, please rate the level with which procurement from BEE firms is achieved	Drop down list	<input type="text"/>
q30. Please provide a reason(s) for your rating in Q.29 above	Enter reason(s)	<input type="text"/>
Enterprise Development		
q31. Does your organisation spend money on enterprise development?	Drop down list	<input type="text"/>
q32. What type(s) of enterprise development does your organisation support financially?	Enter type(s)	<input type="text"/>
q33. On a scale of 1-5, please rate how your organisation finds supporting enterprise development	Drop down list	<input type="text"/>
q34. Please provide a reason(s) for your rating in Q.33 above	Enter reason(s)	<input type="text"/>
Socio-economic Development		
q35. Does your organisation contribute to socio-economic or corporate social investment (CSI) programmes?	Drop down list	<input type="text"/>
q36. What type(s) of CSI programmes does your organisation support financially?	Enter type(s)	<input type="text"/>
q37. On a scale of 1-5, please rate how your organisation finds supporting CSI programmes	Drop down list	<input type="text"/>
q38. Please provide a reason(s) for your rating in Q.37 above	Enter reason(s)	<input type="text"/>
Section 4 - Conclusion		
q39. How would you classify the value that your organisation derives / would derive from complying with the BEE scorecard?	Drop down list	<input type="text"/>
q40. Please provide a brief explanation for the reason for your response to Q.39 above	Enter reason(s)	<input type="text"/>
Thank you for completing this survey. Please email your completed survey to Jayesh Nair by clicking on the email address		