



**The influence of BBBEE on access to funding for SMEs  
in South Africa**

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## **ABSTRACT**

Since 1994, the South African government has introduced legislation to redress the ills of apartheid. Broad-Based Black Economic Empowerment (BBBEE) and its antecedent Black Economic Empowerment (BEE) was promulgated to break the poverty cycle of the black masses by providing a platform for the black population to participate in the mainstream economy by owning and managing businesses in South Africa.

The promotion of Small and Medium-sized Enterprises (SMEs) is the focal point in the government's strategy of redressing the imbalances of the past. This emphasis is to overcome the current challenges that the economy faces with regard to unemployment, poverty and inequality.

Access to finance is widely accepted as a common challenge that SMEs face. There is a magnitude of funding opportunities available for SMEs, yet there is a disconnect between SMEs and funders. This study aimed to determine the influence that BBBEE has on SMEs with regard to accessing funding.

Fifteen participants from SMEs were interviewed to assess their perspectives on BBBEE and the funding process, as well as, their opinions on the challenges that they faced when accessing funding.

The research results affirmed that the amended BBBEE codes are an inhibitor for SMEs when accessing funding due to many reasons. Therefore, the study posed some recommendations to improve SMEs in their endeavor to access funding.

## **KEYWORDS**

Small and Medium-sized Enterprises (SMEs), Broad-Based Black Economic Empowerment (BBBEE), access, funding

# DECLARATION

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorization and consent to carry out this research.

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# TABLE OF CONTENTS

<b>ABSTRACT</b> .....	<b>i</b>
<b>DECLARATION</b> .....	<b>ii</b>
<b>LIST OF TABLES</b> .....	<b>vii</b>
<b>LIST OF FIGURES</b> .....	<b>vii</b>
<b>CHAPTER 1:</b> .....	<b>1</b>
<b>INTRODUCTION TO THE RESEARCH PROBLEM</b> .....	<b>1</b>
1.1 Introduction .....	1
1.2 Background and Context of the Study .....	1
1.2.1 Current state of the South African economy.....	1
1.2.2 Small and Medium Enterprises (SMEs) access to funding.....	2
1.2.3 Broad-Based Black Economic Empowerment.....	3
1.3 Problem Statement.....	4
1.4 Research Objectives.....	4
1.5 Scope of the Research .....	4
1.6 Motivation for Study .....	5
1.7 Contents of the Research Report.....	6
<b>CHAPTER 2:</b> .....	<b>7</b>
<b>LITERATURE REVIEW</b> .....	<b>7</b>
2.1 Introduction .....	7
2.2 Theoretical Perspectives .....	7
2.2.1 Pecking Order Theory .....	7
2.2.2 Asymmetric Information.....	8
2.3 Origins of Black Economic Empowerment.....	9
2.4 Amended Codes of Good Practice .....	12
2.4.1 Ownership .....	12
2.4.2 Management control.....	13
2.4.3 Skills Development.....	13
2.4.4 Enterprise and Supplier Development.....	14
2.4.5 Socio-Economic Development .....	15
2.5 Summary the Major Changes in the Codes of Good Practice.....	16
2.6 Unintended Consequences of BBBEE .....	18
2.7 SMEs' access to funding .....	20
2.8 Interventions to improve access to funding .....	23
2.8.1 Awareness.....	23
2.8.2 Government Intervention.....	23

2.8.3	SME Support .....	23
2.9	Conclusion .....	24
<b>CHAPTER 3: .....</b>		<b>25</b>
<b>RESEARCH QUESTIONS .....</b>		<b>25</b>
3.1	Introduction .....	25
3.2	Research Questions .....	25
3.2.1	Research Question 1 .....	25
3.2.2	Research Question 2 .....	25
3.2.3	Research Question 3 .....	25
<b>CHAPTER 4: .....</b>		<b>26</b>
4.1	Introduction .....	26
4.2	Research Philosophy .....	26
4.3	Research Approach .....	26
4.4	Methodological Choices .....	27
4.5	Purpose of Research Design .....	27
4.6	Time Horizon .....	27
4.7	Techniques and Procedures .....	27
4.8	Population .....	28
4.9	Unit of Analysis .....	28
4.10	Sampling Method and Size .....	28
4.11	Measurement Instrument .....	29
4.12	Data Gathering Process .....	29
4.13	Analysis Approach .....	29
4.14	Validity and Reliability .....	30
4.15	Limitations .....	31
<b>CHAPTER 5: .....</b>		<b>32</b>
<b>PRESENTATION OF FINDINGS .....</b>		<b>32</b>
5.1	Introduction .....	32
5.2	Profiles of the Participants .....	32
5.3	Research Question 1: BBBEE Amendments and its influence on accessing finance33	
5.3.1	Practicality of the amended BBBEE codes .....	33
5.3.2	Beneficiaries of the policy .....	34
5.3.3	The effects of the amended code on the company's BBBEE rating .....	35
5.3.4	Impact of BBBEE on accessing finance .....	37
5.3.5	Limiting factors in accessing finance .....	38
5.3.6	Research Question 1: Summary of findings .....	41

5.4	Research Question 2: The unintended consequences of BBBEE.....	42
5.4.1	Cost of compliance.....	42
5.4.2	Potential opportunities.....	43
5.4.3	Most challenging element to implement.....	43
5.4.4	Research Question 2: Summary of findings.....	46
5.5	Research Question 3: Interventions to assist SMEs.....	46
5.5.1	Nature of the codes of good practice.....	46
5.5.2	Requirements for financiers.....	47
5.5.3	Awareness.....	47
5.5.4	Governmental Intervention.....	48
5.5.5	Rewards-Based View.....	48
5.5.6	Affordability.....	49
5.5.7	Research Question 3: Summary of findings.....	49
5.6	Conclusion.....	49
	<b>CHAPTER 6:.....</b>	<b>51</b>
	<b>DISCUSSION OF RESULTS.....</b>	<b>51</b>
6.1	Introduction.....	51
6.2	Research Question 1: BBBEE Amendments and its influence on accessing finance52	
6.2.1	Practicality of the amended BBBEE codes.....	52
6.2.2	Beneficiaries of the policy.....	53
6.2.3	The effects of the amended code on the company's BBBEE rating.....	53
6.2.4	Impact of BBBEE on accessing finance.....	54
6.2.5	Requirements.....	56
6.3	Research Question 2: The unintended consequences of BBBEE.....	57
6.3.1	Cost of Compliance.....	57
6.3.2	Potential Opportunities.....	57
6.3.3	Most challenging element to implement.....	58
6.4	Research Question 3: Interventions.....	60
6.4.1	Requirements for financiers.....	60
6.4.2	Awareness.....	60
6.4.3	Government Intervention.....	60
6.4.4	Reward Based View.....	61
6.4.5	Affordability.....	61
6.5	Conclusion.....	61
	<b>CHAPTER 7:.....</b>	<b>63</b>
	<b>CONCLUSION.....</b>	<b>63</b>
7.1	Introduction.....	63

7.2	Summary of Findings.....	63
7.2.1	The influence of the amended BBBEE codes on SMEs when accessing finance .....	63
7.2.2	The unintended consequences of BBBEE .....	64
7.2.3	Interventions .....	64
7.3	Contribution of the Study .....	64
7.4	Recommendations.....	65
7.5	Research Limitations .....	66
7.6	Recommendations for Future Research.....	66
7.7	Conclusion.....	67
	<b>APPENDICES .....</b>	<b>77</b>
	APPENDIX A: INTERVIEW SCHEDULE .....	77
	APPENDIX B: CODE LIST:.....	78
	APPENDIX C: ETHICAL CLEARANCE REPORT .....	82
	APPENDIX D: SUPPORTING DOCUMENTS.....	83

## LIST OF TABLES

Table 2-4: Funding Mechanisms and Requirements for SMEs.....	22
Table 5-1: Participants' Profiles.....	32
Table 5-2: The most challenging element of the amended BBBEE codes for participants to implement .....	44

## LIST OF FIGURES

Figure 2-1: The comparison between the 2007 Codes of Good Practice and the Amended 2013 Codes of Good Practice .....	17
Figure 2-2: Recognition Levels between the 2007 Codes and the 2013 Codes .....	18
Figure 2-3: Types and Phases of SMEs.....	21
Figure 5-1: The comparison between SMEs BBBEE ratings on the new code versus the old code.....	36
Figure 6-1: Funding of SMEs .....	51

# **CHAPTER 1:**

## **INTRODUCTION TO THE RESEARCH PROBLEM**

### **1.1 Introduction**

This chapter presents the background of the study and articulates the problem statement. The research objectives of the study are presented in this chapter, together with the scope and motivation for the research. The main aim of the study was to determine the influence that Broad-Based Black Economic Empowerment (BBBEE) has on Small and Medium-sized Enterprises (SMEs) concerning accessing funding in South Africa. This chapter explains the context and background of the study, which includes a description of the current state of the South African economy and the role of SMEs. The chapter further analyses sources of funding for SMEs and the BBBEE policy. The chapter concludes with a brief outline of the rest of the document.

### **1.2 Background and Context of the Study**

#### **1.2.1 Current state of the South African economy**

The advent of democracy in South Africa in 1994 created many opportunities for new policies and laws to be enacted to bring about socio-economic equity, which the nation needed. The African National Congress (ANC) was faced with the mammoth task of redressing the inequalities and social injustices that were created by apartheid (Ramlall, 2012). Programmes and policies have since been developed and implemented to aid in the quest for socio-economic transformation. Examples of such programmes include the Redistribution and Development Programme (RDP) and Black Economic Empowerment (BEE).

The country has come a long way since 1994. However, in recent years there has been a steady decline in South Africa's Gross Domestic Product's (GDP) growth rate. In the first quarter of 2018, a negative growth of 2.2% was realised, followed by a further contraction of 0.7% in the second quarter. This meant that the country was in a technical recession. The unemployment rate stood at a staggering 26.7% in the first

quarter of 2018; it further soured to an increased rate of 27.2% at the end of the second quarter (StatsSA, 2018).

Although it is widely agreed that “jobs are the cornerstone of economic and social development” (World Bank, 2017), since the apartheid era unemployment has been an escalating concern for South Africa. The official unemployment rate has increased from 17% in 1994 to a current rate of 27.2% (StatsSA, 2018). In 2017, South Africa had the fourth highest unemployment rate in the world (WorldBank, 2017). The discernible solution to unemployment according to Katua (2014) and in accordance with the National Development Plan (NDP) is job creation. The government plans to achieve more job creation through economic policy and the promotion of investment into labour-intensive economic sectors. The aim of the NDP is to create eleven million jobs by 2030, and it is expected that 90% of these jobs will be created by Small and Medium-sized Enterprises (SMEs) (National Planning Commission, 2013).

With that much reliance placed on SMEs, it is imperative to determine the factors that prevents SMEs from expanding and creating these much-needed jobs. Access to finance amongst other challenges faced by SMEs has been stressed as a major growth constraint (Beck, Demirgüç-Kunt, & Maksimovic, 2008).

### **1.2.2 Small and Medium Enterprises (SMEs) access to funding**

Globally, there is an increasing amount of attention being placed on SMEs due to their economic growth capabilities. However, there is still no absolute definition of what an SME is (Berisha and Pula, 2015). With that said, there seems to be a consensus regarding the qualifying criteria for SMEs. The criteria include: the number of employees, net asset value and gross turnover of the company (Buculescu and Anamaria, 2016; Berisha and Pula, 2015). This also holds true in South Africa, as SMEs are classified into subgroups based on their size, as guided by the National Small Business Amendment Act of 1996, which has been amended by the National Small Business Act of 2003.

According to Lopez-Salido, Stein and Zakrajšek (2017), financial obstacles faced by entrepreneurs were found to be country specific, due to institutional development. Minimal challenges relating to access to finance were encountered by SMEs in countries with developed institutions. As the institutional environment in South Africa is still developing, South African SMEs continue encounter challenges when accessing business finance. Hence, the author of this study hoped to provide better insight into

the obstacles faced by SMEs when seeking funding. This research study explored whether the amended BBBEE codes are one of those said challenges.

There are various funding mechanisms that exist in South Africa. Those funding mechanisms come in the form of loans, equity, grants and incentives. The nature of funding and support varies in accordance with the growth phase of the SME and each enterprise's funding requirements.

According to the literature, the challenges faced by SMEs are due to the criteria financiers apply when making decisions about selecting the businesses to finance. Mazanai and Fatoki, (2011) emphasized that collateral is the single most inhibiting factor that businesses face in accessing finance. Moro, Fink and Kautonen (2014) added that further inhibiting factors faced by SMEs when accessing funding include the age, size, bankable contracts and relationship lending of the business. In addition to the traditional criteria applied by financiers, South African SMEs are evaluated according to their BBBEE rating. It is interesting to note that a governmental study concluded that from all SMEs in South Africa, only 19.7% have a BBBEE rating. From that 19.7% only 40.6% of these have a level 4 rating or higher (DTI, 2017). That means that a mere 8% of SMEs in South Africa meet the criteria of funders that stipulate that SMEs need a BBBEE rating of level 4 or higher.

### **1.2.3 Broad-Based Black Economic Empowerment**

In early 2003, the Codes of Good Practice were gazetted under the Broad Based Black Economic Empowerment Act 53 of 2003 (Southall, 2014). The purpose of the Act is not simply an initiative to redress the ills of apartheid, it is a pragmatic growth strategy that wishes to realise the nation's full economic potential, whilst assisting with the inclusion of the black majority into the mainstream economic environment.

The aim of BBBEE is to reach a broad beneficiary base, thereby uplifting all classes of black individuals. This can be achieved through skills development and improved opportunities. The process of this upliftment was to tackle poverty, unemployment and inequality, which are problems faced by the majority of the country. These challenges are ideally overcome when black individuals overcome barriers and find employment, become entrepreneurs and create sustainable businesses.

### **1.3 Problem Statement**

The Global Entrepreneur Monitor (GEM) revealed that South Africa is no worse off than any other developing nation with regard to the availability of capital (Singer, Amorós and Moska, 2015). The South African government has created a magnitude of funding opportunities that are available to businesses. These opportunities were created with the underlying objectives of reducing unemployment, alleviating poverty and eradicating inequality.

However, there is a general perception amongst entrepreneurs and SME owners, that access to finance in South Africa is a major inhibitor to the growth and success of their businesses (Padiaychee, 2016). Therefore, there appears to be a disconnect that exists between financiers and SMEs.

The purpose of this research study was to explore the disconnect that exists with particular reference to the extent to which BBBEE influences SMEs with regard to accessing funding.

### **1.4 Research Objectives**

The exploratory study answered the following research questions and in turn determined the influence that BBBEE has on SMEs in terms of accessing finance in South Africa.

Research Question 1: Are the amended BBBEE codes a limiting or enabling factor to SMEs when accessing finance?

Research Question 2: What are the unintended consequences of the amended BBBEE codes to SMEs?

Research Question 3: What are the interventions that could enhance the opportunities or alleviate the challenges faced by SMEs with regard to BBBEE?

### **1.5 Scope of the Research**

The scope of this research study was limited to Small and Medium Enterprises (SMEs) in Durban and Johannesburg whom complied with all five elements of the amended

scorecard. Essentially, that included any SME with a turnover of more than R10 million per annum (Werksmans, 2014).

## **1.6 Motivation for Study**

Job creation and economic growth through private sector development have been significant focal areas for policy makers in many developing nations. Copious research conducted affirmed that small and medium enterprises (SMEs) have the dexterity to incite economic growth through job creation (Katua, 2014). Even so, SMEs face many day-to-day hurdles, and one of the most pertinent challenges is the access to finance (Quartey, Turkson, Abor, & Iddrisu, 2010).

The government has numerous initiatives to support SMEs. These initiatives include grants, developmental funding, loans with preferential interest rates and industry specific incubators. However, access to finance remains one of the most integral constraints for SME development and success. However, the majority of the government funding and support is only available to SMEs who achieve a BBBEE rating of level 4 and higher. With the new amendments, attaining a level 4 rating is no mean feat. Therefore, the BBBEE codes, which aim in part to improve the opportunities available to SMEs, appear to have had the effect of *reducing* SME access to finance, even though this was not the intention of this legislation (Uppal, 2014).

From a business perspective, there is a need for a thorough comprehension of the unintended consequences of BBBEE and the consequences of it for SMEs in South Africa with regard to accessing finance. Identifying the inhibiting factors towards SMEs when accessing finance is vital to improving SME growth, which has a reciprocal effect on the growth of the South African economy. Such growth will assist in alleviating the unemployment, poverty and inequality that exists in South Africa.

Theoretically, there is an understanding that exists in the literature which conforms to the notion that accessing funding is amongst the most significant challenge that businesses face (Claessens, 2006). Regardless of the agreement, there is limited literature that exists regarding the reasons for the disconnect between businesses and financiers (Padiayachee, 2016). Studies done in developed markets identify information asymmetry between the applicant and their financier as being a challenge when accessing finance (Aabi, 2014). Information asymmetry is believed to affect the relationship between the borrower and lender by creating a degree of mistrust between

them. However, this research study was focused on an emerging market context, specifically related to South Africa.

## **1.7 Contents of the Research Report**

Chapter 1 introduces the background of the research problem, objectives, scope and motivation of the study. Chapter 2 presents the information asymmetry between SMEs and financiers with emphasis placed on the influence that BBBEE has on SMEs with regard to accessing funding. Chapter 3 presents the research questions that the research study answered. Chapter 4 describes the research design and methodology that was followed. Chapter 5 presents the findings from the data that was collected. Chapter 6 discusses the findings of the study with reference made to the literature. Chapter 7 concludes the study by summarising the findings and emphasising the opportunity for future research in the field.

# **CHAPTER 2:**

## **LITERATURE REVIEW**

### **2.1 Introduction**

This chapter provides an overview of Broad Based Black Economic Empowerment (BBBEE) and the effect of the amendments on SMEs with regard to accessing finance. The origins of BEE and its evolution to BBBEE is discussed. To fully understand BBBEE, it must be placed within the historical context of South Africa, which is also discussed. This chapter provides some insight into SMEs and the challenges they face in accessing funding and the influence BBBEE has on the process. The chapter commences by discussing the theoretical perspectives related to access to funding and BBBEE.

### **2.2 Theoretical Perspectives**

#### **2.2.1 Pecking Order Theory**

In 1984, Myers (1984) introduced the Pecking Order Theory (POT). The theory argued that a well-defined capital structure is non-existent. Myers (1984) introduced the debt ratio as a derivative of hierarchical financing and found that business management had the propensity to acquire for internal funding rather than external funding. It was based on the premise that if a business exhausts internal sources of funding, they seek the least risky and least demanding external source of funding. Thus, the term pecking order was used, as management prefer external debt as opposed to external equity. Cassar and Holmes (2003) summarised their findings in the same manner by advocating that businesses prefer internal equity to external debt, short-term debt to long-term debt and external debt to external equity.

In a study conducted by Gregory, Rutherford, Oswald and Gardiner (2005), it was suggested that older businesses are less reliant on external sources of funding than younger businesses. This is due to older firms possessing retained earnings that have accumulated over the years, hence the availability of internal funds to finance their operational and expansion needs.

Berger and Udell, (1998) argued that funding options and applicability for SMEs change throughout the various phases of a business life cycle. This follows the notion that different funding strategies are required.

The life cycle paradigm emphasises the unique characteristics such as information opacity, lack of credit history and high failure rates, which is applicable to start-ups, however, as a business progresses, the characteristics change (La Rocca, LA Rocca and Cariole, 2011). The life cycle paradigm advocates that as SMEs grow, their ability to provide collateral increases, which signals the creditworthiness of the business to potential funders and investors. At the latter stages of the business growth cycle, SMEs tend to become informationally transparent, hence their ability to access securitised debt (Berger & Udell, 1988).

Serrasqueiro and Caetano (2015) argued that in developing countries, the POT had been found to be relevant for SMEs when making capital decisions. A policy such as BBBEE, with the effects of the amendments on SMEs, could distort the POT if it is found to influence the capital decisions of SMEs when they access funding.

## **2.2.2 Asymmetric Information**

Asymmetric information or information asymmetry is the lack of equal available information between two parties in a transaction (Rao, 2003). Financiers who provide loans are very weary of the risk related to the borrower's ability to repay the loan, and this affects the risk profile of the application (Stiglitz & Weiss, 1981). Due to the information asymmetry between the financiers and the SME, who has potential for growth, it often leads to credit rationing (Huang, When & Lin ,2014). Financiers in developing economies have challenges in identifying credit-worthy applicants mainly due to asymmetrical information challenges (Ocran, 2012). Foxcroft, Wood, Ken, Herrington and Segal (2002) found in a study done in South Africa, that 75% of SMEs applications for additional credit were rejected and this was attributed primarily to information asymmetry amongst other factors.

Financial intermediation is a challenge on its own. However, it is furthered hampered by the principal-agent problem, which is known as the agency-dilemma. The theory is based on studies conducted by Ross (1973) and Jensen and Meckling (1976). The underlying problem occurs due to the asymmetric information whereby the principle and agent enter into a contract to perform, which then leads to a delegation of authority to make decisions by the principle to the agent.

Financiers experience the principal-agency problem as being the main challenge when SMEs look to them as a funding source. The agency problem results in agency costs which are directly dependent on the degree of information asymmetry and the related costs to accessing relevant information (Ocran, 2012).

The agency costs could be exorbitant for the principal, who has provided funding to the SME due to the need of ensuring the funds are used in accordance to the agreed contractual conditions. In start-up funding cases, there are high agency costs due to the lack of available enterprise history information (Ocran, 2012).

Moros, Fink and Maresch (2015) discovered in their study that information asymmetry poses a challenge during the funding application process for both financier and applicant. They found that funding approval rates increased by 12% when information asymmetry was marginally reduced. The extent to which securitisation is flawed by asymmetric information has not been determined. However, in a study done in Italy, it was deduced that financiers overcame the challenges of asymmetric information via signaling and commitment devices (Albertazzi, Bottero, Gambacorta, & Ongena, 2016).

In a study conducted by Dlovo (2017), it was established that the BBBEE requirement does not feature in any of the financiers' lending documents and protocols, thus, implies that there is information asymmetry between the financier and the SME with regard to the BBBEE requirement. The SMEs' lack of knowledge of the BBBEE worsens the information asymmetry in the application, the extent of which was uncovered in the study.

## **2.3 Origins of Black Economic Empowerment**

The first democratic elections in South Africa were held in 1994. The African National Congress (ANC) won the elections and were elected into power as the ruling party. These elections were deemed a turning point for the nation politically, socially and economically (Southall, 2014). This led to many changes in the corporate sector of South Africa, as black individuals were now allowed to participate in the economy. Financial institutions such as banks and government funding organisations responded to these changes by providing funding to Special Purpose Vehicles (SPVs) which allowed black individuals to go into business with limited capital (Kleinhans, 2017). Political correctness became a focal point in corporate South Africa, which was one of

the main drivers for the inception of Black Economic Empowerment (BEE) (Littlewood & Holt, 2015).

Innes (2007) advocated that the period of colonialism in South Africa provided the first example of BEE. The development of the Kimberley diamond field in the 1870s saw that black entrepreneurs circumscribed their claims alongside white entrepreneurs in the diamond fields to benefit from the global diamond market. Innes (2007) affirmed that this type of BEE was motivating as black individuals spontaneously took advantage of opportunities for wealth creation and competed on equal terms with their white counterparts. Not long after that, unfortunately, the government abruptly discontinued black entrepreneurial initiatives.

The apartheid regime in South Africa restricted black individuals from economic participation. This led to the underdevelopment of black communities and restricted wealth creation. Post-1994, the ANC-led government focused on reconstruction of the social fabric of the nation. Economic inclusivity was the aim whereby the government directed their efforts towards expanding the economic base of South Africa. This was achieved by assisting SMEs through the Reconstruction and Development Programme (RDP) (Southall, 2014).

In 1995 Black Economic Empowerment (BEE) became a formalized point on the government's agenda with the intention to achieve the initiatives the government had previously set out (Tangri & Southall, 2008). In 1995, the Black Business Council (BBC) was established to provide a united front for black businesses in South Africa. The council comprised of black business organisations that shared the common goal of shaping economic policy to encourage the participation of previously disadvantaged individuals (Southall, 2014).

In 1997, following the Asian economic collapse, there was a ripple effect felt by the international economy. Established businesses in South Africa found themselves in financial difficulties which led to many of black enterprises listed on the Johannesburg Stock Exchange (JSE) failing, mainly due to the inability to honor their debt (Uppal, 2014).

In 1998, the BBC formed the Black Economic Empowerment Commission (BEECOM). BEECOM had a directive to redefine the state of empowerment in South Africa and recommended a policy to the government. The broad definition of BEE by the

BEECOM (2001) argued the “the fundamental crisis in our economy is that black people remain excluded from financial and economic resources” (BEECOM, 2001).

Over time, the South African government expanded the objectives of BEE in businesses to incorporate skills development, affirmative action, employment equity, preferential procurement and equity ownership. To calculate and quantify the BEE status the government introduced the BEE scorecard. The scorecard comprised of seven elements of transformation, with each element allocated a weighting of one hundred (Sartorius & Botha, 2008).

In early 2003, the Codes of Good Practice were gazetted under the Broad Based Black Economic Empowerment Act 53 of 2003 (Southall, 2004). The objectives of the act is closely linked to that of the definition. BBBEE is therefore defined as:

*The viable economic empowerment of all black people, including, in particular women, workers, youth, people with disabilities and people living in rural areas through diverse but integrated socio-economic strategies that include, but are not limited to-*

- a) increasing the number of black people that manage, own and control enterprises and productive assets;*
- b) facilitating ownership and management of enterprises and productive assets by communities, workers, co-operatives and other collective enterprises;*
- c) human resource and skills development;*
- d) achieving equitable representation in all occupational categories and levels in the workforce;*
- e) preferential procurement from enterprises that are owned or managed by black people; and*
- f) investment in enterprises that are owned or managed by black people.*

*(Broad Based Economic Empowerment Act, 2003).*

BBBEE is measured based on seven elements, namely ownership, management, control, employment equity, preferential procurement, skills development, enterprise development and socio-economic development (DTI, 2007). The amended codes have condensed the seven elements into five elements namely management control, skills development, enterprise and supplier development, ownership and socio-economic development (DTI, 2013).

## **2.4 Amended Codes of Good Practice**

### **2.4.1 Ownership**

Under the old codes the ownership element was the highest scoring element. Under the new codes the ownership element increased by five points to 25 points, however, it is no longer the highest scoring element. Emphasis has been given to the supplier and enterprise development element, which accounts for 40 points. Acemoglu, Gelb and Robinson (2007) advocated that the weighting of the old codes needed to be reviewed and the ownership element needed to be de-emphasized with emphasis being shifted to other elements, such as enterprise development and skills development. Although the ownership element has been downgraded, it remains one of the three priority elements. The repercussions of any of the three elements not being met is an automatic discounting of one level on the enterprise's scorecard (Pooe, 2013).

Benefit schemes, Employee Stock Ownership Plans (ESOPs) and trusts have been capped concerning 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 met by obtaining an independent competent person's certificate of legitimate purpose – by implication this allows family trusts and tax-structures to avoid the 10% cap (Republic of South Africa, 2014).

However, for those companies that have used trusts to isolate and control new black shareholders without an otherwise legitimate purpose, the challenge of the 10% cap may prove fatal to these 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. In this instance, they can exclude up to 40% of their ownership if it 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 the enterprise's equity to black people. This 15% will have to be 100% undiluted by non-black minorities (Jeffery, 2014).

## **2.4.2 Management control**

Management control compromises employment equity and board participation, which relates to the representation of black individuals at management level (Kruger and Kleynhans, 2014). This pillar of the BBBEE framework encourages black individuals, with emphasis on black females, to possess management roles in organisations. Under the new codes, management control compromises both management control and employment equity. The points allocated remained the same at 25 points cumulatively (Pooe, 2013).

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 accounts for less than 17.2%, no score may be awarded. This has a significant impact on those companies that have achieved some level of employment equity but have not employed black women. This could result in some companies choosing to ignore this element, rather than put energy into something they deem to be unachievable (Nair, 2008).

## **2.4.3 Skills Development**

During apartheid, the education system in South Africa was deliberately underfunded (Van Wyk, 2010). Due to apartheid, the shaping of the education system is known to have been skewed with uneven development across racial lines. This has led to a dysfunctional skills development system. The consequence of this is the entrenched cycle of poverty that still exists amongst the black community in South Africa. This has inevitably contributed towards the high unemployment rate, as most of the population, who are black, were denied the right to education and skills development. Due to this, skills development has become a focal point in many government policies (Chingwaru, 2015).

The initiatives to accelerate skills development were implemented to assist South Africa in achieving the pledges made by the ANC during the 2004 elections. These pledges were namely halving unemployment, halving poverty, accelerating Employment Equity and improving BEE (ANC, 2004). Education was emphasised as being vital to achieving the objectives of the Accelerated and Shared Growth Initiative for South Africa (AsgiSA).

Skills development includes a legitimate expense (in addition to the skills development levy), incurred for any learning programme offered to employees and evidenced by an invoice or appropriate accounting record. Spending on workplace learnerships or uncertified learnerships may only contribute a maximum of 15% of the total skills development spend claimed. There continues to be an emphasis on accredited training. Six of the fifteen 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 targeted 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 (Pooe, 2013).

Under the old BBBEE codes skills development accounted for 15 points, which was based on the spend of skills development towards black employees. The targeted spend was pegged at three percent of the payroll (Wehmhoerner, 2015). Since the amendment to the codes, skills development now accounts for 20 points. There is a further five bonus points given for providing unemployed individuals employment. Under the amended codes, the targeted spend also increased to six percent of the total payroll (Uppal, 2014). The increase in the targeted spend resulted in the increase of the cost of compliance. Due to skills development being identified as a priority element, a subminimum of 40 percent must be met in this element. Failure to meet the subminimum results in a company's BBBEE rating being discounted by a level. Not only has the absolute spend on skills development increased, but for the training to be recognised, it must be rendered by an accredited institution (Pooe, 2013). Employees chosen by the company for skills development must be in accordance to the Economically Active Population (EAP) statistics, this is in accordance with race and gender. Balshaw and Goldberg (2014) advocated that the practicalities around training have diminished. This is due to companies now training individuals in accordance with the EAP targets to achieve maximum points on their scorecard, which may not be in the best interests of the business (Kleinhans & Kruger, 2014).

#### **2.4.4 Enterprise and Supplier Development**

Under the old BBBEE codes, this element was referred to as Preferential Procurement, and it was introduced to encourage companies to utilise the services of black-owned

businesses which translated to a higher BEE score based on the percentage of the procurement from black-owned entities. The challenges that emerged from this included a lack of quality from small enterprises, lack of capacity to fulfill the demands and overpriced goods and services due to poor economies of scale, which inevitably affected the buyer's ability to remain competitive in their respective industries (Jeffery, 2014).

Enterprise Development under the old codes had the objective to encourage companies to fund the growth of small enterprises by investing 3% of their net profit after tax into them. Small enterprises that qualified for this funding needed to be at least 51% black-owned. This requirement was due to a high percentage of start-ups failing in the first year of commercialisation, thus the need for assistance from big organisations (Pike, Puchert, & Chinyamurindi, 2018).

The new codes combined Enterprise Development and Supplier Development to form Enterprise Supplier Development which has 40 points allocated to it. Under the amended codes, this element is the largest pillar, and like skills development, there is a 40% subminimum that needs to be achieved. If the subminimum for this not met, it results in the BBBEE score being discounted by a level (Brink & Nel, 2014).

#### **2.4.5 Socio-Economic Development**

From the inception of the King Reports, there has been a promotion of the triple bottom line, sustainability and the emergence of good corporate citizens. This element of the BBBEE scorecard is said to be the Corporate Social Responsibility (CSR) element. Arya, Bassi and Phiyega (2008) pointed out that BBBEE is a vehicle for wealth redistribution from the CSR viewpoint. Under the old codes the targeted spend for Socio-Economic Development was one percent of net profit after tax going towards initiatives that benefit black individuals. The new codes have kept this element unchanged, as it is being one of the easiest elements with which to comply. There is a maximum of five points available for this element. Jeffery (2014) found in his study that meeting the targeted spend is a simple feat, as many South African businesses voluntarily choose to support CSR initiatives.

## **2.5 Summary the Major Changes in the Codes of Good Practice**

The table below represents the changes in the generic BBBEE scorecard from the old codes to the new codes:

Element	Codes of Good Practice 2007		Amended Codes of Good Practice 2013	
	Weighting points	Target	Weighting points	Target
Ownership	20	25% + 1 Vote	25	25% + 1 Vote
Management & Control	10	50%	19	50%
Employment Equity	15	80%		
Skills Development	15	3% of Payroll	20	6% of Payroll
Preferential Procurement	20	70%	-	-
Enterprise Development	15	3%		
Enterprise & Supplier Development	-	-	40	80%
Socio-Economic Development	5	1%	5	1%
Total	100		109	

**Figure 0-1: The comparison between the 2007 Codes of Good Practice and the Amended 2013 Codes of Good Practice**

*(BEE Online, 2016)*

The amended Codes of Good Practice became effective from 1 May 2015. Essentially, all BBEE accreditations performed after that date were measured in accordance with the new generic scorecard. Hareeparsad (2015) emphasised that the common perception amongst companies with regard to the changes to the codes, were that the codes were more onerous and difficult to achieve. It is evidenced below that achieving the same level as before entails achieving more points.

B-BBEE Status	Current Qualification	Revised Qualification	B-BBEE Recognition Level
Level 1	≥100 points	≥100 points	135%
Level 2	≥85 but <100 points	≥95 but <100 points	125%
Level 3	≥75 but <85 points	≥90 but <95 points	110%
Level 4	≥65 but <75 points	≥80 but <90 points	100%
Level 5	≥55 but <65 points	≥75 but <80 points	80%
Level 6	≥45 but <55points	≥70 but <75 points	60%
Level 7	≥40 but <45 points	≥55 but <70points	50%
Level 8	≥30 but <40 points	≥40but <55points	10%
Non-Compliant	<30 points	<40 points	0%

**Figure 0-2: Recognition Levels between the 2007 Codes and the 2013 Codes**

*(BEE Online, 2016)*

Empowerdex (2014) provided evidence based on several companies, that found that if a company did not change their strategy and policies in terms of their budgeted spend and EAP ratio, they would realise a drop by at least three levels when they were measured against the new codes.

According to Pike, Puchert and Chinyamurindi (2018) it was affirmed that the ANC is determined to implement this policy, even though it has evolved into a punitive policy, without considering the best interests of SMEs in South Africa. Research conducted by Nair (2008) echoed the same sentiment by revealing the practicality surrounding the implementation of BBEE in SMEs as being questionable, his research emphasised that the procurement element is the most onerous and difficult to fulfill due to the inability to find accredited BBEE suppliers that could meet the required quality standards and demand capacity. Based on this it was found that many SMEs perceived the BBEE scorecard and targeted spends as being unrealistic and challenging in terms of compliance.

## **2.6 Unintended Consequences of BBEE**

BBEE was introduced to address inequality amongst other socio-economic issues that exist in South Africa (Arya, Bassi, & Phiyega, 2008). In 2013, the BBEE codes, termed the “Codes of Good Practice”, were amended to address further issues that had surfaced as an account of inequality.

These amendments, although good in nature, have come at a hefty cost to businesses in South Africa, especially those aiming for a BBBEE level 4 rating or higher (IDC, 2018). An example of this is the Skills Development element of the generic scorecard. The amount that companies have to spend on upskilling employees has doubled from 3% to 6% of their aggregate payroll costs (Balshaw & Goldberg, 2014).

Another ramification of the amendments is the points allocation regarding specific race groups within the elements of management control, employment equity, skills development and socio-economic development. For example, a company that is aiming to achieve maximum points under management control, would need to have senior and middle management consisting of mostly black individuals to achieve the points recognition on their scorecard (Steyn, 2015). The consequence of this is that individuals are put into positions for which they are not qualified, and this is not effective for the business's productivity. This is also true for skills development and employment equity (Wermhoerner, 2015).

With such a game-changing policy, there is bound to be challenges and criticisms. One of the main criticisms is the notion towards the creation of the BBBEE policy benefitting a select group of wealthy black elitists, without any benefit being filtered down to the poor (Sartorius & Botha, 2008). Sartorius and Botha (2008) advocated that BBBEE only benefits politically connected black elite. Tangri and Southall (2008) shared this view and highlighted that the majority of previously disadvantaged black people, who are the masses, have not yet benefitted from the BEE policies. Kim (2010) commented that since its inception BBBEE has only benefitted the politically connected few; the notion of BBBEE redressing the inequality of the masses has not yet happened. This results in exacerbating the problems created by apartheid like poverty, unemployment and inequality (Krüger, 2011).

The black elite who are benefitting from BBBEE are not the ordinary men on the street. They are the politically connected individuals who were exiled or imprisoned during the apartheid regime (Chabano, Goldstein & Roberts, 2006).

During its first few years, the majority of BEE business deals benefited very few individuals. A survey conducted in 2004 revealed that 68% of BEE deals benefited merely six black-owned businesses, which belonged to the top members of the African National Congress party (Baldauf, 2006).

Uppal (2014) recognised that there has been slow progress of the BBBEE legislation since the apartheid era. Southall (2014) concluded in a study that the BBBEE policy is necessary for the betterment of the nation, however, in its current state, it is not yet the ideal version for the economic upliftment so many desperately need. Uppal (2004) further advocated that policymakers need to be mindful of the previously disadvantaged masses that should be reaping the reward of the transformation policy, not only the select few black elites who are well-connected to the ANC.

## **2.7 SMEs' access to funding**

Due to developing economies having higher poverty levels and individuals having lower disposable income, entrepreneurs do not often have adequate financial resources, neither can they seek to readily borrow from their impoverished family and friends as they are in the same position (Brau, Cardell, & Woodworth, 2015). These ambitious entrepreneurs are often left with no alternative but to approach external funders to assist with their financing needs.

Start-up business require funding at the initial inception, as well as at various junctures of growth. Commercial banking institutions are not the best option for entrepreneurs embarking on a new start-up venture, as the commercial banks require a magnitude of securities from the lender, mostly in the form of meeting collateral, which the entrepreneur seldom has (Katua, 2014). The Global Entrepreneurship Monitor (GEM) report in 2014 presented a multitude of recommendations with regard to ways in which small businesses could be supported financially (Khan, 2015). A recommendation was made for new funding models to be introduced by funders that enable small businesses to obtain seed capital without enforcing collateral requirements. The approach advocated that a state-supported micro-funding model was required, and included an incubation unit for business support during the inception period.

Mahembe (2011) offered a unique view with regard to accessing funding by advocating that the type of SME was the determining factor for the funding they required. The model described the three SME business types as small traditional, high potential and highly technological.

	Start-up Phase	Growth Phase	Stable/ Consolidation	Exit
Type of SME	Source of Finance			
Traditional small business. Provides employment for individual, family and friends	Family, friends, savings, <b>equity in residential property, loans underwritten by government</b>	<b>Asset-backed finance, bank debt, factoring, trade credit</b>	<b>Bank debt</b> if required	N/a
High Potential. Possibly export business	Angel finance, <b>Team's equity</b> , some venture capital	Venture capital, private equity, <b>asset-backed finance, some bank debt</b>	Venture capital high-yield debt market, <b>bank debt</b>	Exit via capital markets or direct access to stock market
High-tech, information and life sciences intellectual Property	Angel finance, venture capital, corporates	Venture capital, corporates, <b>Asset-backed finance</b>	Corporates, <b>bank debt</b>	Exit typically through trade sale

**Figure 0-3: Types and Phases of SMEs**

Source: (Mahembe, 2011)

The model further defined the three phases in the business lifecycle as also being a crucial factor when accessing external funding. Mahembe (2011) suggested that the source of funds was a joint function between the phase of the business lifecycle and the SME-type.

There are many government institutions that provide funding in the form of loans and grants to SMEs. However due to the risks associated with debt repayments stringent criteria must be met. This includes collateral, bankable contracts, regulatory requirements, such as tax compliance and a minimum level 4 BBBEE accreditation (Padiayachee, 2016). Balogun, Agumba and Asari (2018) found that despite the existence of many sources of debt, access to finance is limited for SMEs in South Africa due to their inability to fulfil the financiers' criteria. This is termed as the "funding gap". It represents the problematic flow of funding from financiers to SMEs (Oseifuah & Manda, 2017).

Lending models of financiers and funders require financial statements, projections and forecasts that provide affordability to repay the loans. There is a magnitude of further requirements that often leave the applicants despondent due to their inability to fulfil all the lenders' criteria (Katua, 2014). Abor and Biekpe (2006) highlight in their research

that the funders ineffectual staff adds to the nature of despondency that the applicant is faced with.

**Table 0-1: Funding Mechanisms and Requirements for SMEs**

<b>Funding Mechanism</b>	<b>Funding Available per Transaction</b>	<b>Required BBBEE Rating</b>
Gro-E Youth Scheme	R 1 million – R 50 million	Level 4 or higher
Manufacturing Competitiveness Enhancement Programme	Maximum R 50 million	Level 4 or higher
Clothing and Textiles Competitiveness Programme	Maximum R 30 million	Level 4 or higher
Technology Venture Capital Fund	R 1 million – R 5 million	Level 4 or higher
Green Tourism Incentive Programme	R 1 million	Level 2 or higher
Black Industrialists Scheme	Minimum R30 million	Level 4 or higher
Critical Infrastructure Programme	Maximum R50 million	Level 4 or higher
Manufacturing Investment Programme	Maximum R 5 million	Level 8 or higher
Support Programme for Industrial Innovation	Maximum R 5 million	Level 4 or higher
Imbewu Fund	Maximum R 10 million	Level 4 or higher

*(DTI, 2018)*

The IDC allocated 75% of available funds towards the funding of SMEs (IDC, 2018). These numbers substantiate the premise that funding for SMEs was available in South

Africa. Based on the challenges faced by SMEs when accessing funding information asymmetry is likely to influence the funding gap that exists (Ocran, 2012).

In terms of BBBEE, one of the objectives is to improve SMEs' access to finance (DTI, 2007). According to the availability of funding mechanisms that are available, it is evident that the majority of the funding that is available is specifically for BBBEE accredited companies, hence in terms of accessing finance, BBBEE creates provisions for SMEs to access finance (Juggernath, 2013). However, achieving the required minimum BBBEE rating to access the above-mentioned finance on the new codes is no simple feat (Jeffery, 2014).

## **2.8 Interventions to improve access to funding**

### **2.8.1 Awareness**

The lack of awareness in the qualifying criteria for funding is a major stumbling block for SMEs. Awareness campaigns regarding funding availability and criteria need to be initiated by government agencies and the banking sector (Mazanai & Fatoki, 2011).

There is a need for awareness regarding the BBBEE amendments and how SMEs can implement these codes successfully (Matiwane, 2008). These codes were implemented with little to no consultation with SMEs, there is scant information regarding how these codes would influence SMEs and what the amendments would relate to in terms of cost implications and the compliance burden it has created (Juggernath, Rampersad & Reddy, 2013).

### **2.8.2 Government Intervention**

Government has a paramount role to play in introducing policies and initiatives that assist businesses in accessing finance. These initiatives can be used to improve the availability of information regarding the available sources of funding that SMEs can access (Beck & Demirguc-Kunt, 2006).

### **2.8.3 SME Support**

For a country to develop the SME sector, access to finance coupled with technical and business support were often needed (Singer et al., 2015). Whilst funding initiatives are

available, non-financial support initiatives are also needed to assist SMEs to develop, grow and succeed (Oseifuah & Manda, 2017).

## **2.9 Conclusion**

The literature review was presented in line with the research study's research problem and research objectives. The theoretical perspectives provided insight into the capital decisions of SMEs and how these perspectives were influenced by BBBEE and the influence it had on accessing funding. The literature emphasised the state of the South African economy and the objectives of BBBEE in terms of redressing the economic inequality of the previously disadvantaged groups in South Africa. The focal point of the literature was the influence that the amended BBBEE codes had on SMEs, specifically how SMEs access finance and what interventions could be implemented to enhance opportunities or alleviate any compliance burdens that affect SMEs when accessing funding.

# **CHAPTER 3:**

## **RESEARCH QUESTIONS**

### **3.1 Introduction**

From the literature review, it is evident that assisting SMEs in overcoming the challenges that they face is of paramount importance, as SMEs are the key to unlocking economic growth. Based on the literature regarding the unintended consequences of BBBEE, it is imperative to delve deeper into the influence that BBBEE has on SMEs with regard to accessing funding.

### **3.2 Research Questions**

The following questions sought to identify the influence that BBBEE has on SMEs with regard to accessing funding.

#### **3.2.1 Research Question 1**

Are the amended BBBEE codes an enabling or limiting factor to SMEs when accessing finance?

#### **3.2.2 Research Question 2**

What are the unintended consequences of the amended BBBEE codes to SMEs?

#### **3.2.3 Research Question 3**

What are the interventions that could enhance the opportunities or alleviate the challenges faced by SMEs with regard to BBBEE?

# **CHAPTER 4:**

## **RESEARCH DESIGN AND METHODOLOGY**

### **4.1 Introduction**

The purpose of this research was to explore the influence that BBBEE has on accessing finance for SMEs in South Africa. This chapter offers the research approach and methodology that was used to collect the data. The methodology includes the unit of analysis, the population, the sample size and sampling method, the research instrument and a detailed description on how the data was analysed.

### **4.2 Research Philosophy**

Saunders and Lewis (2012) stated that interpretivism is a research methodology that advocates the necessity of understanding the differences between humans in their role as social actors. This approach aims to understand people, while focusing on the complexity of the social phenomena. Inasmuch, there are different perceptions from different individuals experiencing the same phenomenon. This research study used SMEs as the lens with which to look through with regard to how the amended BBBEE codes affects them when accessing finance.

### **4.3 Research Approach**

In exploring the influence that BBBEE has on SMEs, the research approach was inductive.

Research utilising the inductive approach emphasises the close understanding of the research context. A small sample from the selected population may be sufficient to gain context to the problem. Moreover, an inductive approach is consistent with a qualitative research approach (Antwi & Hamza, 2016). With this study, the researcher attempted to gauge the influence that the amended BBBEE codes had on SMEs when accessing finance.

A deductive approach has not been chosen as there is a lack of theory available to test the influence of BBBEE on SMEs with regard to accessing finance. Instead, it is the experience that SMEs have encountered that this research aims to understand, hence an inductive approach has been chosen.

#### **4.4 Methodological Choices**

The study follows the constructivism paradigm (Creswell, 2003). This approach is one which is found in qualitative research. Constructivism is described as how individuals construct their own understanding through the experiences they endure and by reflecting on those experiences. In terms of the research questions, this methodology was best suited to gain insight into the experiences of SME owners with regard to the amended BBBEE codes and the influence it has on accessing finance.

#### **4.5 Purpose of Research Design**

An exploratory research design was chosen as the study aimed to find new insights and to assess the topic in a new light (Saunders et al., (2012). “Usually exploratory research is a first step, conducted with the expectation that additional research will be needed to provide more conclusive evidence” (Zigmund, Babin, Carr, & Griffin, 2013, p.54).

#### **4.6 Time Horizon**

In line with meeting the research objectives, data was collected from SMEs. The time frame was during a one month period, from July 2018 to August 2018. Due to the limited time frame, this study was cross-sectional in nature, as data was collected once-off and was not tracked (Saunders et al., 2012).

#### **4.7 Techniques and Procedures**

Semi-structured interviews were administrated by the researcher. These were conducted using face-to-face interviews with SME owners. Interview themes were established based on the literature review conducted. Interview questions were

developed based on the research questions set out, as well as the themes that have been identified (Saunders et al., 2009).

## **4.8 Population**

A population is a group of people that share relatable characteristics (Zigmund et al., 2013). The population for this study was SMEs in Durban and Johannesburg. The definition of an SME has been elucidated in the National Small Business Amendment Act (26 of 200), however the accurate number of SMEs within South Africa is unknown. Recent literature estimates are between two and four million, however the range is too large for there to be any meaning derived from this size.

## **4.9 Unit of Analysis**

“The unit of analysis for a study indicates what or who should provide the data and at what level of aggregation” (Zigmund et al., 2013, page 119). The data was collected by interviewing owners/senior managers of SMEs.

## **4.10 Sampling Method and Size**

A sample is defined as a sub-group of the whole population (Saunders et al., 2012). Due to the absence of a sampling frame, non-probability sampling was the best fit. Purposive sampling was used, as it allowed the researcher to use her judgment in selecting the best suited candidates to interview (Saunders et al., 2012). The sample was chosen based on the SME's annual turnover, since only QSEs were explored, the focus was on SMEs with an annual turnover of between R 10 million and R 50 million, who have been in business for at least three years and have a valid BBBEE certificate.

When utilising non-probability sampling, the sample size is dependent on the nature of the population (Saunders et al., 2012). Fifteen interviews were conducted, presented and analysed in this study.

## **4.11 Measurement Instrument**

“Interview is a measurement instrument otherwise known as oral questionnaire. It involves a process whereby a researcher solicits opinions on subject matter from respondents through verbal interaction” (Yaya, Achonna, & Osisanwo, 2014, p.26).

The measurement instrument used was semi-structured interviews. A semi-structured interview is a method of data collection whereby the interviewer asks about a set of themes using pre-determined questions. The three themes that were used were based on the business credit application. The theme was the process, obstacles and interventions. There is a high level of validity using this instrument as the interviewer and interviewee were able to discuss the topic in detail and depth.

## **4.12 Data Gathering Process**

In this study, semi-structured interviews were used according to the themes and research objectives, as the interviewee could probe for the answers provided to gain better insight depending on the context (Saunders et al., 2012).

SME owners were interviewed using face-to-face, semi-structured interviews. At the onset of the interview, the research was disclosed to the interviewee about all ethical issues such as the purpose of the study, voluntary participation and rights to withdrawal (Saunders et al., 2012). At this point the researcher sought permission to record the interview. All interviews were recorded using a voice recorder and thereafter, they were transcribed by a third-party transcriber. This eliminated any bias in the way the information was interpreted by the researcher (Saunders et al., 2012). Interviews were conducted until saturation was reached.

## **4.13 Analysis Approach**

Upon completion of the interview, the researcher transcribed the audio files. The transcripts were examined, compared and analysed to identify themes that are displayed in the data collected. Hsieh and Shannon (2005, p.1279) defined qualitative content analysis as “a research method for the subjective interpretation of the content of text data through the systematic classification process of coding and identifying themes or patterns”.

The content analysis should ideally begin during the early stages of data collection. This allows for early immersion of the content and it assists the researcher in moving back and forth between development of concepts and collection of data (Zhang & Wildermuth, 2015).

Audio recorded during the interview was transcribed in conjunction with jotted notes. The intention was to do this as soon after the interview as possible, as after a few days the jotted notes may be illegible (Saunders & Lewis, 2012). The resultant transcripts were analysed for correctness and as a means to correct any errors during transcription (Saunders & Lewis, 2012).

Thereafter, coding would be completed. The coding was used in developing themes and linking relationships that exist in the data that has been collected (Saunders & Lewis, 2012).

#### **4.14 Validity and Reliability**

Data reliability refers to the consistency of findings, should the research be carried out by someone else (Saunders & Lewis, 2012). Saunders, Lewis and Thornhill, (2009) suggested that the nature of qualitative research is that it is dynamic, and semi-structured interviews support this dynamic nature by permitting the researcher to diverge during the interview process. Due to this, the results of qualitative research may not necessarily be replicated easily. However, the robustness of the research must not be ignored, especially for those who wish to determine how conclusions were made – this is also an attribute that contributes to the reliability of data (Saunders & Lewis, 2012).

Data validity denotes whether the findings of the research answer the research questions and objectives that have been set out (Saunders & Lewis, 2012). Saunders, Lewis and Thornhill (2009) suggested that qualitative interviews can attain a high level of validity as long as interviews are conducted vigilantly such that “...questions being able to be clarified, meanings of responses probed and topics discussed from a variety of angles.” The use of pilot interviews also provides data validity, as pilot interviews assess whether the researcher is answering the research questions and objectives that have been defined.

## **4.15 Limitations**

When semi-structured interviews are utilised as measurement instruments, there are various limitations that are deemed as data quality issues.

First, interviewer bias exists in any interview. This is where the researcher uses a tone, comments or shares other non-verbal behaviors that could influence the manner in which the interviewee responds (Saunders et al., 2012). This was mitigated by the researcher remaining neutral in tone and non-verbal behaviors.

Second, participation bias, affects the quality of the data due to lack of willingness to participate due to time constraints, which have a bias on the data collected (Saunders et al., 2012). To ensure this is not a limiting factor, a pre-interview telephone conversation was utilised to eliminate participation bias.

Third the reliability of the data is a limitation due to the lack of standardisation in a semi-structured interview. The reliability of data is further compromised due to response bias. This could be due to the interviewee only being comfortable to share partial information, which could lead to a misinterpretation of the context (Saunders et al., 2012). This can be mitigated by reiterating the confidentiality of the interview.

## CHAPTER 5:

### PRESENTATION OF FINDINGS

#### 5.1 Introduction

The previous chapter provided the methodology that was used to understand the influence that BBEE has on SMEs with regard to accessing finance. This chapter presents the findings of the interviews conducted with SMEs in describing their experiences and insight on the topic.

#### 5.2 Profiles of the Participants

The fifteen participants were deliberately chosen based on them having knowledge of BBEE, as they were the incumbents responsible for implementing BBEE strategies in their respective companies. The participants were senior representatives in their respective companies and they had practical experience in dealing with the BBEE accreditation and accessing additional finance. The companies chosen were QSEs, as QSEs have to comply with all elements of the BBEE scorecard.

**Table 0-1: Participants' Profiles**

INTERVIEW	ETHNICITY	PARTICIPANT ALAIS	PARTICIPANT POSITION	SECTOR
1	White	Participant 1	Human Resources Manager	Manufacturing
2	Indian	Participant 2	Operations Manager	Manufacturing
3	Indian	Participant 3	Managing Director	Services
4	Black	Participant 4	Technical Manager	Services
5	Indian	Participant 5	Managing Director	Manufacturing
6	Indian	Participant 6	Administrative Manager	Services
7	Indian	Participant 7	Human Resources Manager	Retail

8	Indian	Participant 8	Operations Director	Manufacturing
9	Indian	Participant 9	Commercial Director	Manufacturing
10	Coloured	Participant 10	Managing Director	Manufacturing
11	White	Participant 11	Managing Director	Manufacturing
12	Indian	Participant 12	Operations Manager	Services
13	Indian	Participant 13	Human Resources Manager	Services
14	Indian	Participant 14	Managing Director	Manufacturing
15	Indian	Participant 15	Finance Manager	Services

### **5.3 Research Question 1: BBEE Amendments and its influence on accessing finance**

The first research question aimed to understand the holistic view of the 2013 amendments and whether these pose an enabling or limiting factor to SMEs when accessing finance. The emerging themes from the overall view of the amendments are the practicality of the code, beneficiaries of the policy and the effects of the amended codes on the respective company's BBEE rating. From the access to finance category, the emerging themes are based on the limiting factors when accessing finance, these are namely the application process and funding requirements.

#### **5.3.1 Practicality of the amended BBEE codes**

The practicality of the amended BBEE codes is based on the feasibility and viability of this code. This is determined by observing the policy's objectives and identifying whether it is accomplishing these objectives. From the feedback, there are indications that the objectives of the policy have not been met as yet, as the Interview participants believed that the policymakers created the code without giving much thought about how practical it is for SMEs to implement. Participants highlighted that they face many challenges due to the tough economic climate, one of the major challenges that they face is the availability of working capital to keep their businesses going. Comments

were made about BBBEE being short-sighted in the sense that it does not make business sense to implement and comply with a policy from which there are limited benefits that materialise. Many interview participants echoed the sentiment that BBBEE is not practical for an SME that might be counting every penny to pay 6% of their annual payroll to upskill staff, when they do not have available funds to pay their creditors.

*“BBBEE doesn’t make business sense for me anymore, hence I am looking at markets that don’t require a BBBEE certification. I know that being a black in this country is very challenging, but there are other mechanisms that we can use to lever this part of our economy.” (Participant 5)*

*“The people that put together the BEE codes were absolutely, not at all, day-to-day people owning a business; they were students sitting behind a desk, never worked a day in their life, so the practicality of it was virtually impossible to implement, such that I completely scrapped BEE in our company.” (Participant 9)*

### **5.3.2 Beneficiaries of the policy**

Participants believed that due to the lack of practicality and unintended consequences of the policy, the black majority are not benefitting from the policy. The main reason for this is due to SMEs having challenges with the implementation of the policy in their respective organisations. BBBEE is intended to be the basis of radical economic redistribution; however, fourteen of the fifteen participants advocated that the BBBEE policy is not assisting them in any way and they perceived it as being a mechanism that is only benefitting a small group of black elites and black political capitalists. One participant mentioned that this has a great similarity to the events that unfolded in the post-independence period in many African nations. Strategies and policies were implemented under the semblance of decolonisation and economic freedom; however, only a select few elites and leaders enriched their own pockets at the expense of the previously disadvantaged masses.

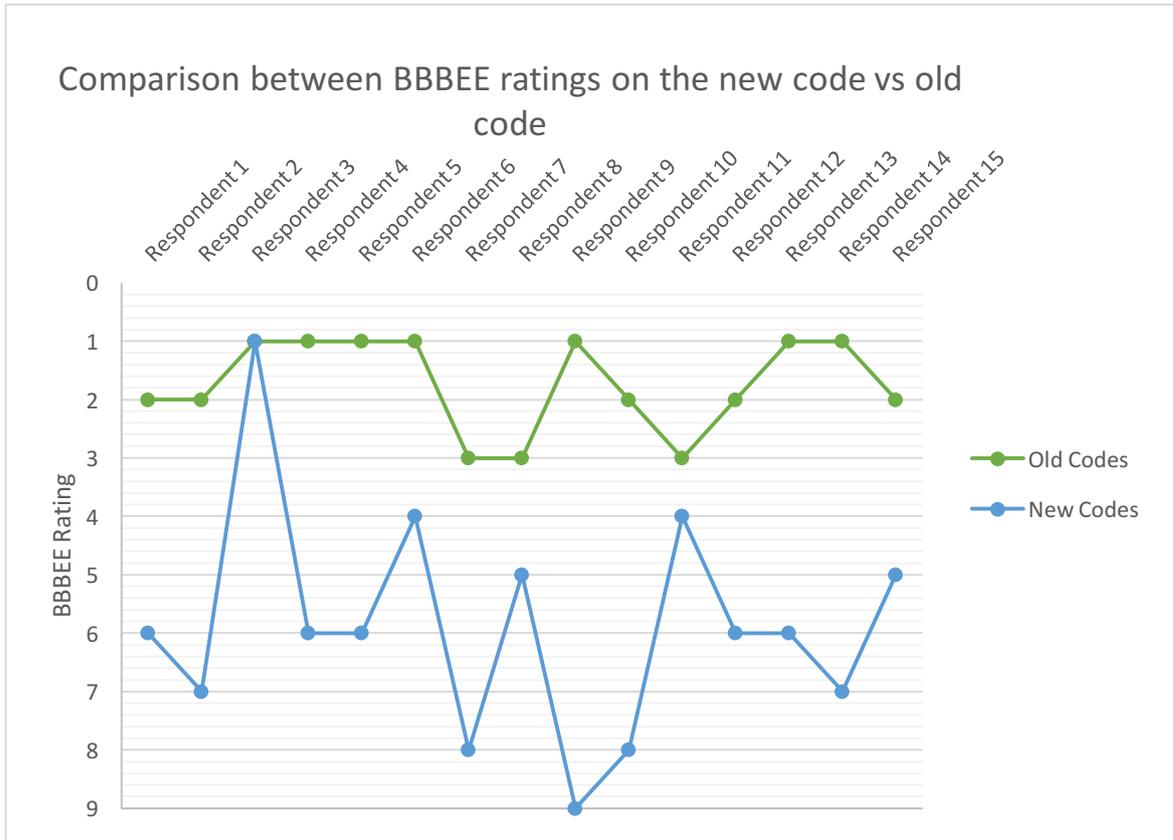
*“I do believe it needs to be relooked at. What are the objectives of the BBBEE? It is meant to assist the economy and people of this nation address the ills of apartheid, however it has now become a policy benefiting only a few black businesses.” (Participant 1)*

*“What is BEE meant to be? Is it meant to be about creating employment or about redistributing wealth? Because if it’s about redistributing wealth, well then they’ve done a good job because there’s lots of wealthy, not lots, there’s a few wealthy people that have benefited out of it.” (Participant 11)*

### **5.3.3 The effects of the amended code on the company’s BBBEE rating**

The amended BBBEE codes were gazetted in 2013 but only came into effect in May 2015. All companies had a maximum of one year to be certified against the new scorecard. Based on the interviews conducted, the majority of the companies believed that the amendments to the 2007 Codes of Good Practice were significantly different in terms of the criteria utilised to assess their BBBEE rating (DTI, 2017).

In Figure 5-1 below, it presents the impact of the changes in the codes by plotting the BBBEE rating of each company interviewed prior to the amendments and the new rating based on the 2013 codes. The green line depicts the respective companies BBBEE rating as of the 30 April 2015, as this was the last day that the company could be accredited against the old codes. The blue line depicts the respective companies BBBEE rating on or after 1 May 2015, as this was when the amended codes were formally implemented and all BBBEE accreditations were assessed against the “new codes”.



**Figure 0-1: The comparison between SMEs BBEE ratings on the new code versus the old code**

The X-axis in Figure 5-1 depicts each company by participant and the y-axis depicts each company’s BBEE accreditation rating. The rating is ranked from Level 1 to Level 8. Level 1 is the highest rating attainable and Level 8 is the lowest rating attainable. One company was non-compliant; this is due to them discontinuing their BBEE accreditation due to the unintended consequences of the amendments.

The results affirm that most of the companies faced a decline in their ratings since the amendments were implemented. Only Participant 4 stated that his rating remained the same. The overall view of the amendments can be deemed as being largely negative and has not been well received by SMEs.

*“You realise as an entrepreneur that the codes don’t make business sense to persevere, so you look for alternative ways, I wouldn’t say to beat the system, but to bypass the system, and one of this, is looking for markets that don’t require a BBEE certificate.” (Participant 5)*

*“I just think they haven't got it right yet and the reason they haven't got it right, is because they are still not benefiting the people that really need it.” (Participant 11)*

*“I was all for BEE and what it stood for. As a previously disadvantaged individual, I understand the objectives of this policy and it is a great empowerment tool. However, since the amendments, I have developed a great sense of dismay when it comes to BBBEE.” (Participant 14)*

### **5.3.4 Impact of BBBEE on accessing finance**

Based on the responses received, the objectives of BBBEE are not being met. Participants advocated that if anything, BBBEE has limited SMEs from accessing finance, as achieving a Level 4 rating on the amended codes is not a simple exercise. They emphasised that they need these investment platforms and initiatives to grow their businesses and commercialise new opportunities, however, the BBBEE policy inhibits access due to the unintended consequences of the amended code, as they cannot achieve the minimum required rating to qualify for the funding opportunities that are available. Participants stated that the reasons for not being able to achieve the desired minimum BBBEE rating was due to the cost of implementation being too high, priority shifting away from ownership, the code being too generic and the general difficulty in achieving a level 4 BBBEE rating.

*“The amendments seem to have diluted the objectives of what the black empowerment policies stands for. From the first element; the ownership element, it has lost its priority due to importance being shifted to other elements. Secondly, the cost of implementing the new codes is absurd. It is not benefitting my organisation in any way. If anything, it is harming us.” (Participant 2)*

*“I am aware that I don't qualify for many initiatives that could assist my business; however how do I comply with a code that is so generic and impractical to implement? I just can't do it, even if I tried to.” (Participant 7)*

*“I had to walk away from all those fundings at prime minus five percent, that are being offered to uplift BEE people, as they are no longer accessible to me. This is due to the requirement of a BEE level 4 certificate which is virtually impossible to attain.” (Participant 9)*

Due to the complexity of the new amended code many SMEs are having difficulties in achieving a level 4 rating or higher, hence they are forgoing their opportunity to access finance from government institutions and initiatives. From the participants' responses, it seems that achieving the minimum required BBEE accreditation is an impossible ask, as they do not have the resources to achieve it.

### **5.3.5 Limiting factors in accessing finance**

The limiting factors experienced by SMEs when accessing finance were identified as the application process, the requirements and criteria needed by financiers.

#### *5.3.5.1 Application process*

The application process associated with accessing finance is known to be a tedious and cumbersome exercise. Eleven of the fifteen participants explained that the application process is a challenge when attempting to access finance. The main challenges that were noted included the financier's ineffectual staff, lead times, asymmetric information between financier and SME, as well as the general process having too many delays.

*"Secondly, if you want funding from government resources or entities, the application process is very tedious. So, for SMEs in this country, I don't think that there is a platform where SMEs can expand or diversify their business. So, in terms of expansion I think there is a lot of challenges for SMEs in this country." (Participant 5)*

*"It's just too onerous and I understand that the banks and IDCs want to cover themselves and want to have the knowledge, but an ordinary guy starting up just is not capable of putting that together, so did I have difficulty? Yes! It's the process and the requirements, but the process is insane. They want you to put together so much documents. The IDC sends you three pages of information, with maybe 100 lines per page, and the putting together is insane." (Participant 9)*

*"I think with any funding or finance application there is a magnitude of difficulties. This is due to the banks wanting to mitigate the risks, hence the application process and requirements are cumbersome and extensive to comply with." (Participant 14)*

#### 5.3.5.2 *Ineffectual Staff*

Three participants explained that the representative handling the application, on the financier's side, did not have the required competency to handle the application. The concerning area was the lack of assistance given to the applicant during the application process. Furthermore, the lack of industry knowledge and technical knowledge was indeed concerning for the interview participants.

*"I think part of the challenge was on our side, but I think the bigger part of the challenge was on the side of the NEF. There is a capacity constraint; they didn't have the right people." (Participant 3)*

*"Secondly, I would say, would be the process, and the people sitting on the other end of the process. They aren't always helpful, and the information that we are given from them, isn't always correct." (Participant 10)*

#### 5.3.5.3 *Lead Time*

Another main concern that was stated by the participants was the extensive time taken to process the application, collect necessary documentation and disburse funds. The "back-and-forth" for documentation was highlighted as being a frustrating task, as it caused unnecessary delays.

*"That backward and forward process took a long time. Then just their slow decision-making processes, that they will get back to you in a week and a month later and you are still phoning to find out what's happening. It was such a frustrating experience." (Participant 3)*

*"It causes a lot of delays, the time spent often frustrates the entrepreneur, especially when they have an opportunity that is ready for commercialisation and all they need is the funding." (Participant 10)*

#### 5.3.5.4 *Asymmetric information*

A participant emphasised the lack of understanding their needs that existed between the financier and the SME. A limiting factor such as this can easily discourage the SME from completing the application.

*“I would call it “asymmetric information” between myself and the funding house, they didn’t understand my business and my needs and it took a while, I’d say a couple of months for them to fully grasp what it was that I was really asking for. They always ask you for information, but the information is generic. So, no matter what organisation you belong to, they ask you for the same information and they think can be a “plug and play” application system, when it’s not.”*  
(Participant 10)

#### 5.3.5.5 Requirements

The requirements that were needed to access finance was deemed by many participants as being an obstacle. These requirements include collateral compliance, and the bureaucratic nature of the application requirements in general.

*“First the requirements for the finance from the DTI were not clear.”* (Participant 2)

*“The requirements were so bad that I walked away from the application.”*  
(Participant 10)

#### 5.3.5.6 Collateral

Eight of the fifteen participants accentuated the collateral requirements as being a major inhibitor in accessing finance. The reason for this is due to the entrepreneur having invested all available capital in their business already, so meeting the collateral requirements is not a simple task.

*“They required 40% collateral which I didn’t have as I invested all my available capital to the business. Eventually I borrowed collateral from my family members and I met the collateral requirement.”* (Participant 2)

*“I think firstly any business that you look at if you got to a bank for money for expansion, you not going to get it if you don’t have matching collateral.”*  
(Participant 5)

*“I would firstly say the collateral requirement is a major drawback, I don’t have funds, hence I am going to the banks looking for funds.”* (Participant 10)

#### 5.3.5.7 Compliance requirements

Participants stated that the compliance requirements are not easily met, the main reason for this is due to the cost of compliance and the practicality of it. For most government initiatives, whether loans or grants, a minimum BBBEE level four accreditation is required. Since the amendments to the code, this requirement is a stretch to meet, due to the challenges that SMEs face with regards to BBBEE compliance.

*“And, it is sometimes 8 to 12 months down the line and you have already invested so much time and effort in getting this application on the road, that when you get to this point, you realise you not compliant in this and it is too late for you to redo this compliance, because even if you had to re-verify your BBBEE status, not much is going to change because the spends are going to be the same for the year.” (Participant 10)*

*“I would say, the compliance that is required. The new BBBEE code is virtually impossible to achieve a level 8 for us due to a magnitude of reasons. Hence, we automatically don’t qualify for funding.” (Participant 14)*

### 5.3.6 Research Question 1: Summary of findings

The overall view from the first research question regarding the BBBEE amendments and its influence on accessing finance can be noted as being largely negative. This is supported by the participants’ views, as well as the drastic decline in their BBBEE ratings. The average decline seen was between four and five levels. The main bone of contention regarding the amendments is the impracticality of the code and its limited beneficiary base. There is a large group of participants who believe the policy is only benefitting a few black elite individuals, as opposed to it being broad-based. From an access to finance perspective, the majority of the participants highlighted that some time or another, they had to raise additional finance and they had encountered a magnitude of challenges when attempting to access finance. These challenges included the tedious application processes, ineffectual staff, prolonged lead times and information asymmetry between the financier and SME. When analysing the challenges SMEs faced with regards to the financier’s requirements and criteria, collateral and compliance were deemed as being the most difficult to fulfill.

## 5.4 Research Question 2: The unintended consequences of BBBEE

Based on the interviews conducted it can be noted that BBBEE is still perceived as a cost rather than an advantage. Many have voiced their concerns over the new code, and many question the practicality of the code. Participants noted that being an SME often meant that they were not cash flush, hence, when tasked with spending 6% of their payroll on the upskilling of staff, it did not make financial sense to them as they did not have that kind of working capital readily available. Due to this, interview participants are assessing markets that do not require a BBBEE accreditation to do business. The generic nature of the BBBEE codes was also highlighted as being impractical, as it did not cater for industry practices which inhibited certain elements from being fully implemented and achieved.

*“BBBEE doesn’t make business sense for me anymore, hence I am looking at markets that don’t require a BBBEE certification. I know that being a black in this country is very challenging, but there are other mechanisms that we can use to lever this part of our economy.” (Participant 5)*

*“How do I comply with a code that is so generic and unpractical to implement?” (Participant 7)*

*“The people that put together the BEE codes were absolutely, not at all, day-to-day people owning a business; they were students sitting behind a desk, never worked a day in their life, so the practicality of it was virtually impossible to implement, such that I completely scrapped BEE in our company.” (Participant 9)*

### 5.4.1 Cost of compliance

A theme that was present through all the interviewees’ responses was the element of cost and that refers to the increased cost of compliance to the BBBEE codes due to the amendments. Many participants stated that due to the tough economic climate, the feasibility of implementing the amended codes and reaching a level four or higher is almost impossible to attain.

*“When the amendments were made, it made it difficult for us to retain our BEE rating as the cost of compliance increased; and as an SME it became difficult to*

*budget additional funds on something that was not necessarily going to affect our profitability.” (Participant 1)*

*“I think costs would be the biggest factor. I am all for Corporate Social Responsibility and skills development but as long as it benefits me in some way.” (Participant 7)*

*“The costs to achieve a Level 4 is insane. It’s not feasible for an SME to pursue, 6% of our payroll is a small fortune, and it is a small fortune which we don’t have readily available.” (Participant 14)*

#### **5.4.2 Potential opportunities**

Some interviewee participants mentioned that the amendments have caused them to move down the BBBEE rankings by two to three levels hence, they no longer qualify for governmental tenders due to their BBBEE level. This automatically resulted in them being disadvantaged.

*“It closed many doors for us, as with a Level 6 rating we weren’t considered as a preferred supplier anymore. We also forfeited any chances we had in getting government tenders.” (Participant 2)*

*“It has limited my tender opportunities, as I am no longer seen as being a “preferred supplier”. (Participant 14)*

#### **5.4.3 Most challenging element to implement**

When faced with the question regarding which element of the BBBEE scorecard was the most difficult and challenging to implement, participants highlighted only two elements, namely Skills Development and Enterprise and Supplier Development. The challenges faced were not only due to the cost of implementation, targeted spends and implementation criteria, but also towards them not making business sense to implement.

**Table 0-2: The most challenging element of the amended BBBEE codes for participants to implement**

<b>PARTICIPANT</b>	<b>MOST CHALLENGING ELEMENT TO IMPLEMENT</b>
Participant 1	Skills Development
Participant 2	Skills Development
Participant 3	Enterprise and Supplier Development
Participant 4	Skills Development
Participant 5	Skills Development
Participant 6	Skills Development
Participant 7	Enterprise and Supplier Development
Participant 8	Skills development
Participant 9	Skills development
Participant 10	Enterprise and Supplier Development
Participant 11	Enterprise and Supplier Development
Participant 12	Skills development
Participant 13	Enterprise and Supplier Development
Participant 14	Enterprise and Supplier Development
Participant 15	Enterprise and Supplier Development

From the responses, eight out of fifteen participants said that Skills Development was the most challenging element to implement and seven of the fifteen interviewees said that Enterprise and Supplier Development was the most challenging element to implement.

Under the amended codes, the Skills Development element had an increase in targeted spend which was not well received by the participants, as it has proven to be unaffordable and impractical to implement. Another challenge that was mentioned was the EAP targets that had to be met when upskilling employees. This led to the dilution

of the skills base which was a repercussion of upskilling employees in an attempt to fulfill EAP targets.

*“For an SME to succeed it needs to have a solid skills base, if you put them under pressure to fulfill the quotas required, it tends to dilute the skill base.” (Participant 8)*

*“Definitely Skills Development due to the above reason regarding costs and it is not making business sense as I don’t have many employees that are within the EAP targets.” (Participant 12)*

*“I would say Skills Development, purely due to the cost of the implementation and the EAP targets. So, the EAP target specifies one race as being the most disadvantaged, but what about the other races that were disadvantaged? Were Indians not a part of the struggle?” (Participant 14)*

From the ESD perspective, multiple challenges were highlighted. They ranged from imports not being taken into consideration to the difficulty in finding black-owned suppliers in specialised markets. It was noted that in certain industries, especially niche industries, there were no black suppliers, hence fulfilling the ESD requirements was an impossible ask. Some interview participants mentioned that due to the specialised nature of their products, raw materials were not readily available in South Africa, hence, they had to import their raw materials. The repercussion of this was that the allocated spend on imports could not be realised against the ESD element, as imports were excluded from the ESD spend criteria. Two participants mentioned that due to the nature of their business, supporting smaller black suppliers could jeopardise their credibility, hence they could not take the risk and fulfill the ESD scorecard criteria.

*“We sell specialised products so our supplier base is limited as well. The challenge that we are facing is that our suppliers don’t need to be BEE compliant as they don’t stand to benefit from it. I had a meeting with one of our major suppliers and I explained to them that in order for me to gain a Level 4 BBBEE rating, it required me to support other Level 4 BBBEE companies. They merely responded that it is our problem and not theirs. Due to there being no black suppliers available, achieving the desired point for this element is nearly impossible.” (Participant 2)*

*“For me personally, I feel prejudiced in a way because I operate in a very specialised industry, and all my suppliers are international suppliers, there are no local manufacturers of these products, so that alone put me on the back foot in terms of procurement. So, basically, I fall out of the category, yet I must adhere to this category.” (Participant 5)*

*“In the construction industry, I think the Enterprise Supplier Development element would be the most challenging to implement. So, there are a lot of small black owned SMEs in this sector, however their credibility is questionable, and the last thing you want when you building a block of flats is to question the credibility of the person laying the foundation or the person that is putting the roofs on these houses. So, it makes it a little difficult for us.” (Participant 10)*

#### **5.4.4 Research Question 2: Summary of findings**

The unintended consequences of the new BBBEE code includes the notable increase in the cost of compliance and the limited potential opportunities that are now available, which includes access to government tenders. These were two elements that were pointed out by the participants as being the most onerous and challenging to implement and comply with, these were namely Skills Development and Enterprise and Supplier Development.

### **5.5 Research Question 3: Interventions to assist SMEs**

The interview discussions demonstrated the following required intervention measures: practicality of the code, requirements of financiers, awareness, government intervention, reward-based view and affordability.

#### **5.5.1 Nature of the codes of good practice**

The concern about whether the code makes business sense was voiced by a few interview participants. Hence an intervention would be for policy makers to review the practicality of the code and the criteria of each element.

*“We are trying our best to up skill the workforce and assist in the objectives of BBBEE however with the amended code, it doesn’t make business sense to remain compliant.” (Participant 2)*

*“I think the code itself needs to go back to the way it was prior to the amendments. The old code empowered small businesses and employees, with the new code, SMEs are no longer BBBEE compliant due to the related costs, so as a result, it is benefitting nobody.” (Participant 10)*

### **5.5.2 Requirements for financiers**

Due to the amendments in the code, fourteen of the participants experienced a decline in their BBBEE status. Out of the fifteen interviewee participants there are only three that qualify for governmental funding and incentives, as the other twelve participants are below the required level 4 rating that can access most initiatives, grants and government funds. Two participants highlighted the need for financiers to relook the requirements for SMEs as under the new codes a level four is not a simple feat.

*“I think that financiers especially the likes of DTI and IDC need to relook at the requirements for SMEs. We are trying our best to up skill the workforce and assist in the objectives of BBBEE, however with the amended code, it doesn’t make business sense to remain compliant.” (Participant 2)*

*“Secondly, government funding houses need to relook the BBBEE requirements for SMEs.” (Participant 7)*

### **5.5.3 Awareness**

An interview participant highlighted the need for awareness around the eligibility to access funding, grants and initiatives, as they were not aware of the BBBEE requirement upfront. There was a further requirement for them to maintain a minimum level 4 BBBEE rating upon receiving the funding.

*“I think that if you look at other SMEs, that awareness element, that awareness component of “do you know that you have to be a level 4 or higher?” is lacking. Because you only find that out during the due diligence phase when they request this from you. And, it is sometimes 8 to 12 months down the line and you have already invested so much time and effort into getting this application on the road. I wasn’t aware of it from the beginning. I was only made aware of it when we received the funding, that you had to maintain your Level 4 BBBEE status, and it is in very fine print.” (Participant 4)*

#### **5.5.4 Governmental Intervention**

Many participants believe that government needs to intervene for the objectives of BBBEE to be amended in such a way that it assists SMEs as opposed to the negative effects it currently has on SMEs. The main argument from participants was government and policymakers being mindful of the SME landscape and the challenges they face. They believed that the policies should be concentrated towards helping SMEs grow and prosper, as opposed to shifting the government's responsibility of educating and upskilling the nation onto SMEs.

*"The government don't have the vision or intellectual capacity to take into consideration what is happening out there so that they can bring in policies to help SMEs and businesses to expand their markets. The biggest thing here is education, which needs to start of first with the government, they need to change the whole curriculum to meet the requirements of the new world, and secondly in terms of BBBEE, I think what the government is doing now, is that they are using BBBEE as a scapegoat to take the responsibility of the government in terms of education and Skills Development. The other aspects are good, in terms of enterprise development, when it comes to specialised industries; there needs to be an exemption and also in terms of black ownership, I agree fully with it, that was the priority element and that has changed." (Participant 5)*

#### **5.5.5 Rewards-Based View**

A participant highlighted the need for a rewards-based policy as opposed to the current punitive basis of the BBBEE codes. One example that was mentioned was a tax-break, which meant that if a company achieved a specific BBBEE rating, they would be granted a tax concession. This would pose as an incentive to achieve the desired BBBEE rating.

*"I think that the overall principle of it is wrong, because it's a punitive principle, it's not a rewarding principle. So, if there was a rewarding principle in place, let us be frank, every business is in business to make money, so if there was a rewarding principle in place that offered a small reduction in the tax rate for meeting targets, you would get an attitude of buy-in from companies as opposed to an attitude of defensiveness." (Participant 11)*

### **5.5.6 Affordability**

One of the primary objectives of the BBBEE is to achieve inclusive economic growth. Based on the responses given, the participants have highlighted their concerns with BBEE mainly due to the cost of implementation and targeted spends that needs to be met.

*“In order for it to assist SMEs, the cost of compliance needs to be more reasonable and affordable.” (Participant 1)*

*“The percentage is a bit too high on skills development to comply with. It needs to be brought down to a more reasonable percentage.” (Participant 6)*

### **5.5.7 Research Question 3: Summary of findings**

The interventions that were mentioned by the participants were the impractical nature of the code that needed to be amended by the policymakers for SMEs to benefit from the policy as a whole. Secondly, the requirements of financiers were deemed too stringent for SMEs to fulfill, hence for SMEs to have better access to finance, the criteria needs to be amended. The need for awareness between financiers and SMEs was highlighted, due to SMEs being unaware of the eligibility requirements for finance from the initial steps of the application. The need for government intervention was emphasised by numerous interview participants, as they believed government needed to play their role for the BBBEE objectives to be achieved. Due to the current punitive nature of the code, the need for a reward-based view to BBBEE was offered as an intervention. Finally, an accentuated intervention that was echoed by almost every participant was the affordability of the expected spends that needed to be amended.

## **5.6 Conclusion**

This chapter presented the results of the data analysed on the influence that BBBEE has on SMEs with regard to accessing finance. The chapter clearly explained the challenges that SMEs face with regard to complying and implementing the amended BBBEE codes, as well as, the challenges SMEs face when accessing finance. Participants suggested various interventions that can be implemented by various stakeholders to overcome the challenges faced by BBBEE and accessing finance.



# CHAPTER 6:

## DISCUSSION OF RESULTS

### 6.1 Introduction

This chapter discusses the findings of the study with reference to the literature review for both similar and contradictory points of view. The diagram below is a summary of the findings of the study.

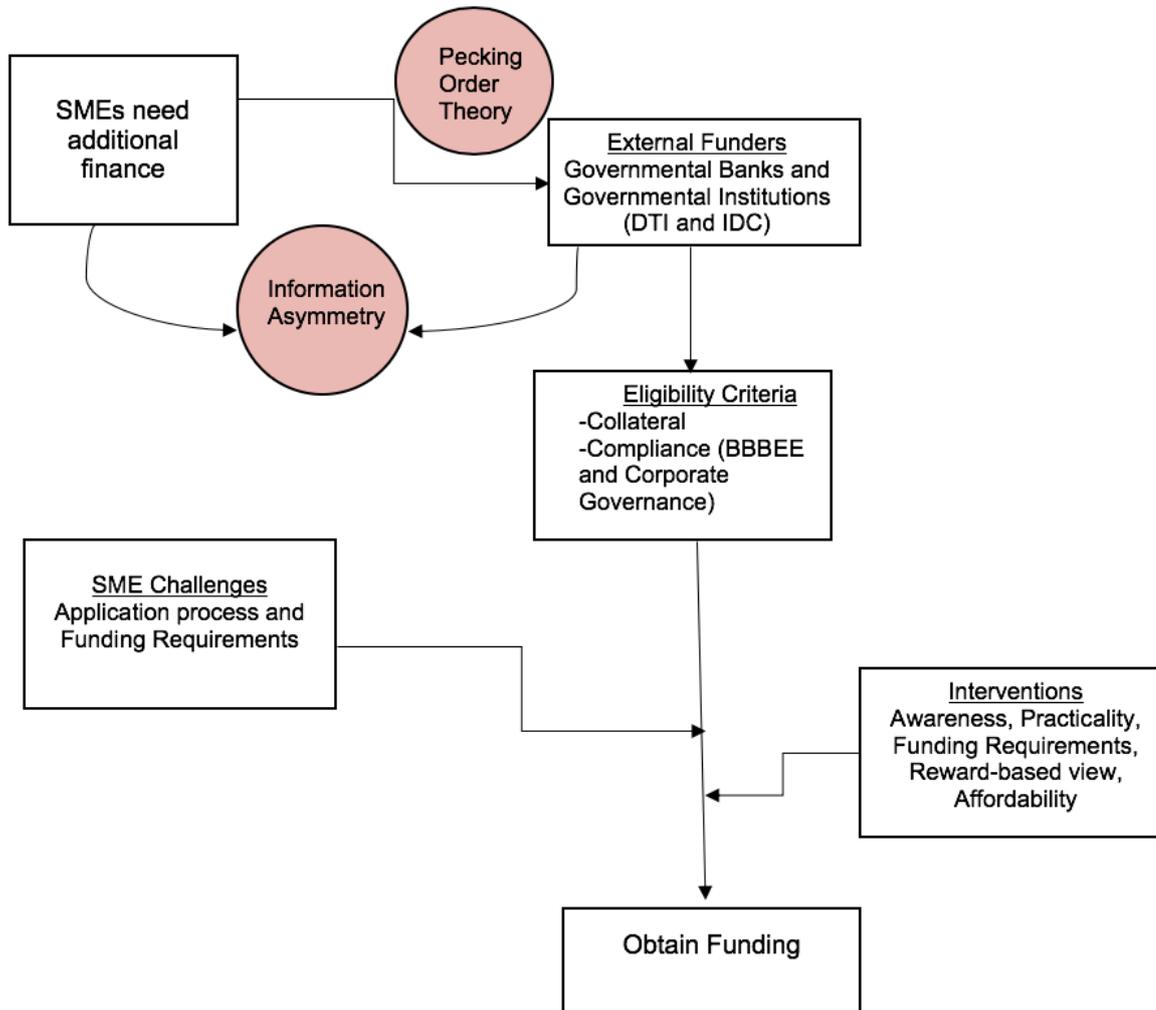


Figure 0-1: Funding of SMEs

It was argued in the literature that was reviewed that when there is a deficit of funds available from internal sources of funding, SMEs choose to approach external funding

providers, this is in accordance with the Pecking Order Theory (POT). Funding is awarded based on the fulfillment of eligibility criteria which includes bankable contracts, collateral and compliance with regulatory legislation, such as BBBEE and corporate governance. The process of applying for funding was also found to pose a challenge, due to the overall tedious nature of the process, the delays with the lead times and ineffectual staff.

From the BBBEE perspective, SMEs have voiced their concerns over the amendments to the BBBEE codes of good practice, as it has had an effect on their respective BBBEE ratings. Because of the decline in ratings, many SMEs cannot access the majority of funding initiatives available from government institutions, as they do not meet the eligibility criteria of the minimum level four BBBEE rating. The overall view of the amendments of the BBBEE code was largely negative due to the impractical nature of the code and its narrow beneficiary base.

The unintended consequence of the BBBEE policy, namely the unaffordable cost of compliance and the inhibiting of potential opportunities, were mentioned due to its further detrimental effect on SMEs with regard to achieving their desired BBBEE rating. Skills Development and Enterprise and Supplier Development were noted as being the most challenging and onerous elements to implement. This was predominantly due to the targeted spends being unachievable due to various reasons which are discussed.

To overcome these challenges, interventions such as government intervention, awareness surrounding eligibility criteria, the criteria itself and the practicality of the code were identified to assist SMEs with access and obtaining finance.

## **6.2 Research Question 1: BBBEE Amendments and its influence on accessing finance**

### **6.2.1 Practicality of the amended BBBEE codes**

The impractical nature of the BBBEE codes was highlighted in this research study as being a major challenge. This was due to many reasons. Firstly, the targeted spends increased in the amended codes, hence it became unaffordable for SMEs to fulfill the targeted spends. Besides the spend, elements such as Skills Development mandated that organisations upskill employees in accordance with EAP targets. For most SMEs,

this does not make business sense, due to the EAP targets being unrealistic to achieve within their organisation.

These findings are in accordance with those of Dlovo (2017) who explained the impractical nature of the implementation of BBBEE in SMEs. The main reason for this was said to be due to the procurement element, as it was onerous to achieve due to the unsuitability of BBBEE suppliers in certain industries. The research findings supported this view as many interview participants echoed the same sentiment regarding the ESD element.

### **6.2.2 Beneficiaries of the policy**

BBBEE is a policy that was created to address the malpractices of apartheid. The overarching objective of BBBEE was to bring about radical change through this legislation by empowering the previously disadvantaged races, socially and economically. Baldauf (2006) and Chabanu et al., (2006), emphasised that BBBEE was only benefitting a few black elites, as opposed to the objectives of the policy which aimed for broad-based emancipation of previously disadvantaged individuals.

Fourteen of the fifteen interview participants believed the policy only benefits a small group of black elites and black political capitalists. This is in accordance with the findings of the literature which supports the notion that BBBEE has yet to achieve its overarching objective, which is to benefit the masses of previously disadvantaged individuals.

Participant fourteen questioned the EAP targets and pointed out that the targeted spend is prioritised over the upskilling of only one race group. They questioned whether Indians were a part of the apartheid struggle or not, as focus has shifted away from other previously disadvantaged races. This is deemed as being reverse racism, as one race group is being favored, hence, again it does not support the notion of broad-based black economic empowerment.

### **6.2.3 The effects of the amended code on the company's BBBEE rating**

The literature presented was supported by the results of the study. Balshaw and Goldberg (2014) advocated that the amended BBBEE codes were considered onerous and punitive. This was further supported by the decline in BBBEE ratings, on average,

as companies experienced a decline in their rating by four levels. Empowerdex (2014) predicted that companies would be discounted by at least three levels on the new codes if they did not adopt a new BBEE strategy which was in accordance with the amended BBEE codes. The main reason for this was due to the introduction of a 40% sub-minimum score on the three priority elements on the scorecard. The three priority elements are namely Ownership, Skills development and Enterprise and Supplier Development. Ratings were discounted by a level if the company failed to meet the 40% sub-minimum score in the respective priority elements.

The findings of this research study reflected that fourteen of the fifteen participants experienced a decline in their BBEE rating on the new codes. Participant 9 indicated that their company is no longer BBEE compliant due to the amended codes being impossible to implement. This was due to expected targeted spends being unaffordable and unrealistic. The findings here support the literature, as similarly, Southall (2014) emphasized the challenges that SMEs face are predominantly due to the cost of compliance. Pike et al., (2018) proposed that the amended codes were unrealistic hence SMEs were not motivated and inspired to comply.

#### **6.2.4 Impact of BBEE on accessing finance**

From the literature that was reviewed, it can be established that when companies require additional finance, they first try to fulfill the need from within using internal sources of finance, however, if this is not possible, they approach external funders. This is known as the Pecking Order Theory (Cassar & Holmes, 2003). Internal finance is preferred due to the low-risk associated with it (Myers, 1984). This research study supports the literature, as interview participants affirmed that when they required additional finance they approached traditional banks and government institutions, as they were unable to finance their expansions from internal sources of finance. Therefore external sources of funding were the only way to fulfill their funding needs.

Participants explained that they experienced a multitude of challenges when trying to access finance. Padiyachee (2016) advocated that the challenges SMEs face with regard to accessing finance included the age of the business, size of the business, collateral, relationship lending, entrepreneurial characteristics and bankable contracts. Fatoki and Asah (2011) found in the research they conducted that SMEs' most pertinent challenge is the stringent criteria that is required by financiers. This research

study supports both of these views, as participants explained the applications process and requirements as the largest challenges in accessing finance.

#### *6.2.4.1 Application Process*

In the study participants described the process of applying for finance as being “tedious” and “cumbersome”. The amount of information required by the financiers during this process was said to be the most frustrating part of accessing funding. Many participants have indicated that they have even abandoned the application due to the delays and inefficiency of the process. One participant, who was a chartered accountant, expressed frustration towards the process, as she could not fathom how entrepreneurs with no finance and accounting experience would be able to complete the application, as she struggled with the copious amounts of information required.

#### *6.2.4.2 Ineffectual Staff*

In accordance with Abhor and Biekpe (2006), the findings of this research study reflected incompetency on the part of the funder’s deal-makers. The reason behind this is primarily due to the dealmakers not having sufficient knowledge of the various industries and the necessary skills to understand the applicant’s business, hence they were perceived as being ineffectual. Delays arise from this, as the dealmakers take time to fully understand each applicant’s business model and business needs. One participant termed this phenomenon as being information asymmetry. The finding supported the literature, as Moros et al. (2015) highlighted that information asymmetry exists due to the financier and applicant not being able to share the same understanding of the applicant’s business model. Another challenge identified in this research study was the unaccommodating nature of the dealmakers. They were not helpful when approached with questions, and in many cases the participants were first time applicants, therefore they required clarification regarding the application process.

#### *6.2.4.3 Lead times*

Part of the frustration that SMEs face during the application process can be attributed to prolonged lead times. This research study indicated that entrepreneurs have opportunities that they need to commercialise before their competitors, hence the frustration when accessing finance takes as long as a year to materialise. The delays in the process of then leads to the same information being requested repeatedly due to its

validity; this is the case with the submission of bank statements and Financial Intelligence Centre Act (FICA) documents.

## **6.2.5 Requirements**

One of the most challenging factors that SMEs face when accessing finance is the eligibility requirements. From the findings of the literature that was reviewed in Chapter 2, Padiayachee (2016) highlighted that collateral was arguably one of the most challenging barriers that SMEs face when accessing finance and the findings of this research study is congruent with that. There was one new finding that was not covered in the literature and that was regarding BBBEE as a limiting factor when SMEs try to access finance.

### *6.2.5.1 Collateral*

Abdul, Saleh and Worthington (2013) found that SMEs with smaller tangible asset bases, are less likely to be successful in their loan applications, as they lack sufficient collateral. This research study concurs with the literature as SMEs require the funding to grow their business and part of that is to obtain assets, but to obtain assets they need to obtain finance. It is a vicious circle.

The second drawback is the matching collateral that is required as a security. Participant 5 noted that the matching collateral requirement from the shareholders that was required in their funding application was unrealistic, as they had already invested all their available assets into the business.

### *6.2.5.2 Compliance*

In the study, compliance was seen as a major inhibitor for SMEs when trying to access finance. In the reviewed literature Moyo (2009) pointed out that due to the unintended consequences of BBBEE, SMEs are unable to achieve their desired ratings which could influence their eligibility when trying to access finance from development banks and government initiatives. This research study confirmed that this is in fact the case. On the old codes, it was much easier to achieve the required rating of a level four or higher (Empowerdex, 2014), however, on the new codes, only two of the fifteen participants would be eligible for the funding offered by the development banks and government initiatives.

This brings in to question the objectives of the BBBEE policy, as one of the overarching targets of BBBEE was for it to promote access to finance for Broad-Based Black Economic Empowerment. If anything, according to the findings of the study, BBBEE is an inhibiting factor for SMEs when trying to access finance.

## **6.3 Research Question 2: The unintended consequences of BBBEE**

### **6.3.1 Cost of Compliance**

In the literature review, Balshaw and Goldberg (2014) pointed out that since the implementation of the amended 2013 BBBEE codes, there is increased targeted spend on various elements. Mention was made of Skills Development in particular, which saw the targeted spend double from 3% on the old codes to 6% on the amended codes. The cost of compliance due to the amendments, is said to negatively impact SMEs (Kleynhans & Kruger, 2014). The view is supported by the evidence collected in this research study. This theme resonated closely to every interview conducted with the respective participants, as the cost of compliance is deemed unrealistic and impractical.

Participant 7 explained that their profit for the year was less than the targeted spend of the 6% of payroll, hence, it did not make sense for them to outlay that amount of capital, as it would result in them making an operational loss.

In such a treacherous economic climate, the cost of compliance is not feasible for SMEs, many of which require additional finance for them to sustain their business, hence the costs related to BBBEE compliance is not a warranted spend. The findings support the literature, as Balshaw and Goldberg (2014) posited the concerns that SMEs had with regard to the cost of implementing the amended BBBEE codes within their businesses.

### **6.3.2 Potential Opportunities**

An analysis of the landscape of government procurement provides evidence that tender opportunities are prominently reserved for BBBEE level 1 and level 2 companies. The literature reviewed supports the notion that there are only a select few businesses that are benefiting from government tenders and BBBEE deals (Baldauf,

2006). This research study is in accordance with this notion, however there was also noted a further dimension.

Since the amendments to the BBBEE codes, SMEs have faced numerous challenges in reaching their desired BBBEE rating. Because of this, it was noted that interview participants faced a decline of four levels on average due to the amendments and criteria. This meant that if they were a level 1 on the old codes, they would now be a level 5 on the amended codes (Empowerdex, 2014). Two participants explained that due to the decline in their respective ratings, they were no longer considered as being “preferred suppliers”, hence they did not qualify for government tenders.

Therefore, the findings extend the literature in the sense that even the ‘select few’ businesses benefitting from BBBEE tenders are now shrinking in number, thereby further reducing the benefit of the BBBEE codes.

### **6.3.3 Most challenging element to implement**

The literature reviewed affirmed that it could be expected that companies would be most impacted by the Enterprise and Supplier Development element, as it was a combination of preferential procurement, enterprise development and supplier development. Being a priority element on the amended codes meant a 40% sub-minimum had to be reached, and failure to achieve that would result in the company’s rating being discounted by one level (Jeffery, 2014). From this research study, two elements were emphasised as being the most difficult to implement, these were namely Enterprise and Supplier Development and Skills Development.

Seven of the fifteen participants claimed that the Enterprise and Supplier Development element was the most difficult to implement. This was due to a few reasons. Firstly, on the amended codes, imported procurement was no longer exempt from the spend. That meant if a company imported most of their raw materials, it would be automatically disadvantaged, as they did not use preferred BBBEE suppliers. Participants explained that they felt prejudiced due to the fact that they operate in specialised industries and there are no BBBEE suppliers available.

Secondly, in line with research conducted by Nair (2008), this research study found that SMEs were unable to find accredited BBBEE suppliers that could meet the required quality standards and demand. A participant from the construction industry explained that the credibility and workmanship of BBBEE suppliers is questionable; this

was based on past experiences that they had encountered. Hence, the participant would rather forego the points to keep their own credibility intact, which supports the study conducted by Pike et al. (2018).

The Skills Development element was described as the most challenging element to implement by eight of the fifteen participants. The main reasoning behind this was due to the increased spend and amended scoring criteria which includes EAP targets.

The targeted spend increased from 3% to 6% of the company's annual payroll due to the amendments (Wehmhoerner, 2015). This alone was a huge issue for SMEs, as 6% of their annual payroll is an exorbitant amount, especially in labor intensive industries (Uppal, 2014). Secondly, the EAP targets were deemed as difficult to implement, as in many industries, due to the skills shortages, there is no available EAP candidates to upskill. A participant from the Information Technology (IT) sector affirmed that there is a majority of Indian and white IT specialists in the Durban region, hence, for them it was impossible to upskill in line with EAP targets. Many participants confirmed that the EAP targets created a notion of reverse discrimination, as one race was favored in terms of the spend recognition (Kleinhans and Kruger, 2014). That meant if two employees, one black and one Indian had to go on identical training programmes, only the black individual's spend would count 100% towards the targeted spend, whereas, the Indian individual's spend would count 17 % towards the targeted spend. Participants agreed that this did not make business sense, as it was not in the best interests for their respective companies.

Lastly, a participant noted, that due to them being in a specialised industry, there was limited external training applicable to them, and they found it difficult to reach the 6% target as the majority of their training was internal. Internal training did not count on the scorecard; hence they could not meet the sub-minimum in this element and they were discounted by a level. This mirrored the outcomes of Southall's research (2014). Therefore, the findings support the literature regarding the amended BBBEE codes being onerous and difficult to implement and comply with (Hareeparsad, 2015).

## **6.4 Research Question 3: Interventions**

### **6.4.1 Requirements for financiers**

The findings of the study were in line with that of the literature review, which stated that the requirements for finance from financiers is a major challenge in business (Fatoki & Asah, 2011).

The findings extend the literature because the challenge of BBBEE compliance has not been previously identified. Due to the amendments, SMEs have faced a plethora of challenges when implementing the amended codes of good practice. Only two of the fifteen participants met the eligibility criteria of a minimum level four BBBEE rating to qualify for funding and grants offered by governmental banks and government initiatives to black-owned SMMEs.

### **6.4.2 Awareness**

The study accentuated the need for more effort to be applied in creating awareness about funding opportunities and, specifically, the eligibility requirements (Padiyachee, 2016). SMEs in this research study highlighted that the requirements for funding are not clear from the outset, hence they are often misled into believing they qualify, only to find out after a few months into the application process, that they do not meet the minimum requirements. Hence, there is a need for awareness from the beginning (Abdul, Saleh & Worthington, 2013).

### **6.4.3 Government Intervention**

The government's role in ensuring a better future for its nation is vital. Participants made recommendations during the interview process that indicated a need for government to reassess existing policies, such as BBBEE, and examine whether it is achieving what it initially set out to achieve (Beck & Demirguc-Kunt, 2006).

In the literature review, the GEM report (Singer et al, 2015) was mentioned as it advocated that the government create policies aimed at facilitating access to finance for entrepreneurs. The findings of this research study confirm and support the literature, as SMEs have confirmed their need for additional finance for them to expand their business and in turn, create employment opportunities.

#### **6.4.4 Reward Based View**

Based on the literature by Pike et al, (2018) and the findings of this research study, the BBBEE policy is indeed punitive in nature. SMEs have stated that they are uninspired to comply. The findings support the literature, as if it was to be rewards-based, it would encourage more companies to implement the policy and comply with the code, as they would be rewarded for it.

#### **6.4.5 Affordability**

The cost of compliance was indeed a major challenge for SMEs when implementing the amended codes. This was also posited in the literature review by Balshaw and Goldberg (2014). All participants indicated that the cost of compliance was a challenge for their respective organisations. Hence, the recommendation for the cost of compliance to be revisited supports the literature, as policy makers assume that businesses that turnover an excess of R50 million have exorbitant profits, hence, they can afford to meet the targeted spends. As a respondent explained, 6% of their annual payroll is more than the profit that they make annually.

### **6.5 Conclusion**

This chapter presented the findings of study with reference made to the existing literature that was reviewed in Chapter 2. The BBBEE codes have generally been received by the SMEs in a largely negative manner. This is primarily due to the impractical nature of the policy and its narrow beneficiary base. These findings were found to be consistent with other researchers such as Pike, Puchart and Chinyamurindi (2018), Dlovo, (2017) and Hareepersad (2015).

The findings of the study indicated that due to the challenges SMEs faced with BBBEE and the resultant decline in their BBBEE ratings, it is evident that BBBEE is a limiting factor for SMEs when accessing funding. Another finding was that the said decline in ratings negatively affected SMEs with regard to tender opportunities. These findings support the literature by Kleynhans and Kruger (2014) and Baldauf (2006).

The challenges facing SMEs that were identified in the study were the application process, ineffectual staff, lead times and application requirements. The findings support

the empirical evidence provided by Padiayachee (2016), Fatoki and Asah (2011) and Moyo (2009).

However, there was a finding which extends the literature, and that was the BBBEE code being an inhibiting factor for SMEs when applying for funding. This was due to the amendments of the code and how it is now too onerous and challenging to implement. Hence, only two of the fifteen participants qualified for funding based on the minimum BBBEE requirement of a level 4 accreditation rating.

The interventions stated by the participants in the study included creating a more practical BBBEE code, revised requirements from financiers, creating awareness, the need for government intervention, BBBEE adopting a rewards-based view and better affordability with regards to the cost of BBBEE compliance. These were in line with the studies conducted by Pike et al, (2018) and Balshaw and Goldberg (2014).

# **CHAPTER 7:**

## **CONCLUSION**

### **7.1 Introduction**

The previous chapter discussed the findings of the study in relation to the influence that BBBEE has on SMEs when accessing funding. This chapter provides a summary of the principal findings of the results and offers recommendations for future research.

### **7.2 Summary of Findings**

The primary objective of this study was to determine the influence that BBBEE has on SMEs with regard to the enterprises accessing funding.

#### **7.2.1 The influence of the amended BBBEE codes on SMEs when accessing finance**

The overall view of the amendments was negative due to the damaging effects it had on SMEs. On average, SMEs saw a decline of four levels in their BBBEE rating. The targeted spends that increased in the amended codes and the 40% sub-minimum that had to be met in the three priority elements was the main reason for the decline in ratings. The practicality of the code was questioned, as the cost of compliance and criteria, such as EAP targets, did not make business sense for SMEs. Another finding was the narrow beneficiary base of the policy. It was accepted by the participants, and affirmed in the literature that only a few black elites were benefitting from BBBEE, as opposed to the masses of previously disadvantaged individuals.

The process for accessing finance is cumbersome for SMEs. The most frustrating part is the collection of data, due to the magnitude of information that is required. The delays are a result of information asymmetry, between the dealmaker and the SME. The requirements and eligibility criteria are so vexatious, that it often leads to the SME abandoning the application. BBBEE compliance was identified as limiting factor when SMEs are accessing finance, as it forms part of the eligibility criteria. With the effects of

the amendments on SMEs, achieving a minimum required rating of a level four is nearly impossible, hence it limits SMEs from accessing finance.

### **7.2.2 The unintended consequences of BBBEE**

The intention of the BBBEE policy was to assist the broad-based black community to gain access into the economic mainstream. The study exposed that the BBBEE policy is inflicting economic strain on SMEs, as opposed to assisting them. The findings stressed that the policy was not assisting the masses of previously disadvantaged individuals. The unintended consequences are partly to blame for this divergent path that broad-based economic empowerment has taken. With the amendments, the cost of compliance increased to a level whereby it did not make business sense to comply with the legislation, as SMEs could not afford it. Tender opportunities were diminished for these SMEs, because of the decline in their BBBEE ratings. They were no longer considered preferred suppliers. This illustrates that the current BBBEE policy is restricting economic growth.

### **7.2.3 Interventions**

The results illustrated that BBBEE was indeed a limiting factor to SMEs when accessing finance. Hence the need for the BBBEE legislation to be restructured and the nature of the code to be changed from one which is punitive to one which is rewards-based. However, until that happens, funders need to be cognisant of the challenges SMEs face with regard to achieving desired BBBEE ratings, and in turn, they need to re-evaluate the eligibility criteria with regards to BBBEE compliance.

## **7.3 Contribution of the Study**

The study provided insight into how BBBEE influenced SMEs with regard to accessing funding, as well as, its overall effect on the company. With SMEs being the growth engine for the economy, it was vital to gain understanding into how such policies and legislation are affecting these enterprises.

The findings contributed towards the amount of data available on SME perceptions of BBBEE. It contributed to the data on the academic domain, and it validated current available research.

With regard to the theoretical perspectives, the Pecking Order Theory definitely hold true for South African SMEs, as the participants highlighted that they turned to external sources of funding once their internal sources were depleted. However, there has been further findings with regard to information asymmetry. Information asymmetry exists during the application process between the funder and the applicant. The literature affirmed that the reason for the asymmetry is due to the discrepancies found in documents provided to the funder by the applicant (Ocran, 2012). However, the findings of the study extended the literature by participants explaining that it is due to the lack of skills that the dealmakers possess. The scarcity of skills directly impacts the funding application, as the individual handling the application on the funder's end is not competent enough to understand the applicant's business, business models, industry etc. Thus, information asymmetry exists.

In terms of the challenges SMEs face when accessing funding, the findings support the literature in terms of the application process, ineffectual staff, lead times and requirements. However, a new finding is the funder's requirement for applicants to have a valid BBBEE level 4 rating (IDC, 2018). Participants advocated that on the old BBBEE codes a level 4 rating was attainable, however, with the implementation of the new codes, it is immensely challenging to achieve a minimum level 4 BBBEE rating, hence they do not qualify for the funding and initiatives. This highlights BBBEE as being a limiting factor to SMEs when accessing funding.

## **7.4 Recommendations**

The amended BBBEE codes has become overly complicated to implement and comply with. Elements such as Skills Development needs to assist businesses, as opposed to it being a punitive exercise. Enterprise and Supplier Development needs to be restructured and re-evaluated based on the fact that South Affric is an emerging nation, and the country does not possess the technology and resources to readily fulfil the needs of all industries. Furthermore, imports need to be excluded from the procurement spend in specialised industries.

The government and the DTI need to include the various chambers of commerce in their future discussions regarding legislation, such as BBBEE, that have far-reaching effects on businesses.

Financiers need to overcome the information asymmetry by training their employees to improve their level of understanding about different industries. This will also combat the issue of prolonged lead times, as the skills of the dealmakers are the cause of the information asymmetry.

The finance application process needs to be simplified to make it less menacing for SMEs.

## **7.5 Research Limitations**

The research encountered certain limitations. Due to the geographical location of the study being Durban and Johannesburg, the results cannot be generalised. Secondly, the selection of the sampling technique was a limitation as the participants chosen were a part of the researcher's business network; therefore, they may not be representative of the larger South African SME perspective. As such, generalisations cannot be made. Due to this the results are not quantifiable; hence it is not possible to measure the full extent of the problem.

## **7.6 Recommendations for Future Research**

Based on the findings of the research, Enterprise and Supplier Development emerged as being the most challenging and onerous element to implement. It would be beneficial for future research to be conducted on this element specifically to fully understand the challenges that businesses face.

Based on the finding that BBBEE is only benefitting a select few black elite businessmen, future research exploring this notion needs to be conducted to understand the dynamics of these businesses to understand and identify their success factors.

One respondent mentioned Corporate Governance as being a limiting factor for SMEs when trying to access finance. It would be beneficial to explore the impact that Corporate Governance and the King 4 Report has on SMEs.

## **7.7 Conclusion**

The study intended to determine the influence that legislation such as BBBEE has on SMEs when accessing funding. BBBEE needs to be recognised as a powerful tool and mechanism to bring about the needed economic transformation for South Africa; however, the policy is losing effectiveness due to the impractical nature of the amendments and the compliance criteria.

The study has shown that the BBBEE policy is not well received by SMEs due to its high cost, low benefit dynamics. Many SMEs have referred to the code as being punitive, hence they feel uninspired to fully comply and achieve high ratings. Numerous challenges with the implementing and compliance of the code have been pointed out, the main ones being the cost of compliance and impracticality of the code. The impracticality stems from two sides of the spectrum. Firstly, the cost of compliance does not make business sense for an SME that is struggling to make ends meet. In line with this, the targeted spend for some SMEs are in millions of rands, which they do not have readily available. Secondly, the code is generic, and due to that, it does not take into consideration the dynamics of specialised industries that do not have EAP candidates. As such, the practicality is questionable.

These challenges have a direct impact on SMEs, as it decreases their rating drastically, and in turn it makes them ineligible to qualify for funding offered by development banks and government institutions. Essentially, the BBBEE policy was found to be an inhibiting factor for SMEs when accessing funding. The BBBEE policy needs to be evaluated objectively by both the private sector and the government. By doing so, the challenges can be identified and addressed to create a policy that can benefit the greater good of the masses.

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# APPENDICES

## APPENDIX A: INTERVIEW SCHEDULE

1. How long has your business been in existence for?
2. Did you have to raise capital, be it seed capital or expansionary?
3. Did you have any difficulties in obtaining funding?
4. The amended BBBEE codes of Good Practice introduced in 2013 brought about significant changes to the existing 2007 codes. In this context, what is your company's overall view of the amendments?
5. Have the amended codes affected the company's existing rating?
6. In order to qualify for funding through most governmental initiatives, such as DTI and the IDC, a level 4 BBBEE rating or higher is required. Has the amendments to the BBBEE codes limit your ability to access these initiatives?
7. How has the introduction of the BBBEE codes of 2013 affected your Company's business taking into account costs, resources and other potential opportunities?
8. When comparing the old codes to the new codes, which element do you think are the most onerous or challenging to implement and why? if so, in which specific areas and how does the company plan to deal with them?
9. Have the amendments had a positive impact on your company?
10. What interventions do you believe would assist you in overcoming the challenges faced by the BBBEE codes?
11. Do the amendments to the code deter you in any way from being BBBEE compliant?

## **APPENDIX B: CODE LIST:**

Profiling - History of company

Profiling - Need for finance

Profiling - No need for finance - Cash flush from sale of division

Profiling - Years in existence

Challenges in accessing finance - After disbursement criteria

Challenges in accessing finance - Bankable contracts requirement

Challenges in accessing finance - Capacity constraint on financiers' side

Challenges in accessing finance - Collateral requirement

Challenges in accessing finance - Compliance not prioritised in industry

Challenges in accessing finance - Compliance requirement - BBBEE

Challenges in accessing finance - Compliance requirement - Corporate Governance

Challenges in accessing finance - Delays in application process

Challenges in accessing finance - Delays in legal due diligence

Challenges in accessing finance - Financiers slow decision-making

Challenges in accessing finance - Incapable employees on financiers' side

Challenges in accessing finance - Incorrect information given to clients

Challenges in accessing finance - Process

Challenges in accessing finance - Process - Asymmetric information

Challenges in accessing finance - Process - Lack of understanding of clients' needs

Challenges in accessing finance - Process in general - tedious

Challenges in accessing finance - Requirements - Cessions too much to keep up with

Challenges in accessing finance - Requirements - Too generic

Challenges in accessing finance - Requirements are not clear

Challenges in accessing finance - Start-up

Challenges in accessing finance - Too many requirements

Challenges in accessing finance - Unhelpful dealmakers

Challenges in accessing finance - unpractical

Challenges with amendments - Additional criteria to be met

Challenges with amendments - Affected access to finance

Challenges with amendments - Affected profitability

Challenges with amendments - Budgeting for additional spends

Challenges with amendments - Cannot access finance

Challenges with amendments - code is too generic

Challenges with amendments - Complexity

Challenges with amendments - Complexity in verification process

Challenges with amendments - Cost of compliance

Challenges with amendments - Cost of compliance - No budget

Challenges with amendments - Cost vs Benefit

Challenges with amendments - Decline in rating

Challenges with amendments - Discounting of levels

Challenges with amendments - Difficulty in retaining old rating

Challenges with amendments - EAP target - not in best interests of business

Challenges with amendments - EAP target - not practical

Challenges with amendments - EAP target cannot be met due to skills shortage

Challenges with amendments - Employment Equity

Challenges with amendments - ESD - Imports not included in targeted spend

Challenges with amendments - ESD - Minimal black suppliers in industry

Challenges with amendments - ESD - Risking my reputation

Challenges with amendments - ESD - Smaller suppliers not credible

Challenges with amendments - ESD - specialised industries not exempted

Challenges with amendments - ESD - Suppliers industry not BBBEE compliant

Challenges with amendments - ESD - Targeted spend not practical

Challenges with amendments - Level 6 - No longer preferred supplier

Challenges with amendments - Limited SMEs from accessing finance

Challenges with amendments - Lost opportunities

Challenges with amendments - Management control - EE target not met

Challenges with amendments - Preference not given to best candidates

Challenges with amendments - Skills Development

Challenges with amendments - Skills Development - Diluted the skills base

Challenges with amendments - Skills Development - Interns not re-employed

Challenges with amendments - Skills Development - No external training available for scarce skills

Challenges with amendments - Skills Development - Targeted spend

Challenges with amendments - Skills Development - Targeted spend not practical

Challenges with amendments - Skills Development - Targeted spend unaffordable

Challenges with amendments - Skills Development - Unable to upskill the right people due to EAP

Challenges with amendments - Skills Development - Upskilling the wrong people

Challenges with amendments - Skills Development- In-house training not recognised  
Challenges with amendments - Sub-minimums had to be met

Intervention - Affordability

Intervention - Awareness

Intervention - Government intervention

Intervention - Requirements from financiers for SMEs

Intervention - Rewards-Based view

Intervention- Practicality of the code

Intervention- Enduring benefits

New Theme - BBBEE was a tick-box exercise

New Theme - beat the system

New Theme - Bypass the system

New Theme - Capital intensive business

New Theme - Challenging markets

New Theme - country has no vision - eradicating unemployment

New Theme - Create a legacy

New Theme - Fourth Industrial Revolution

New Theme - Fronting

New Theme - Good corporate citizens

New Theme - ills of apartheid

New Theme - Impossible to self-fund

New Theme - Lack of working capital for day to day activities

New Theme - Lost out on government tenders

New Theme - Platform needed for SMEs to grow businesses

New Theme - Pressure to conform from customers

New Theme - Research and Development

New Theme - Schooling curriculums need to be changed

New Theme - Supply Chain

New Theme - Tough economic conditions

Overall view of amendments - Benefits EMEs

Overall view of amendments - Benefits QSEs

Overall view of amendments - Benefits wrong people

Overall view of amendments - Companies will still comply, but not to the extent the amendments prescribes

Overall view of amendments - Created opportunities for small black-owned companies

Overall view of amendments - Criteria is punitive

Overall view of amendments - Negative impact on company

Overall view of amendments - No benefit from compliance

Overall view of amendments - Not practical

Overall view of amendments - Not right yet

Overall view of amendments - Objectives of policy diluted

Overall view of amendments - Objectives of policy not met yet

Overall view of amendments - Polarised employees

Overall view of amendments - Policymakers do not understand SMEs

Overall view of amendments - Practicality of BBBEE

Overall view of amendments - Priority shifted to wrong elements

Overall view of amendments - Targeted Spends are not functional

Overall view of amendments - Too difficult to comply - Not compliant anymore

Overall view of amendments - Uninspired to comply

Unintended Consequences - Benefitting a few black elites

Unintended Consequences - Cost of compliance

Unintended Consequences - Indirect costs - Loss of production

## APPENDIX C: ETHICAL CLEARANCE REPORT

**Gordon  
Institute  
of Business  
Science**  
University  
of Pretoria

01 August 2018

Pillay Riasha

Dear Riasha

*Please be advised that your application for Ethical Clearance has been approved.*

*You are therefore allowed to continue collecting your data.*

*Please note that approval is granted based on the methodology and research instruments provided in the application. If there is any deviation change or addition to the research method or tools, a supplementary application for approval must be obtained*

*We wish you everything of the best for the rest of the project.*

*Kind Regards*

GIBS MBA Research Ethical Clearance Committee

## APPENDIX D: SUPPORTING DOCUMENTS

### 17. APPENDIX 5 CERTIFICATION OF ADDITIONAL SUPPORT

(Additional support retained or not - to be **completed by all students**)

**Please note that failure to comply and report on this honestly will result in disciplinary action**

I hereby certify that (please indicate which statement applies):

- ~~I DID NOT RECEIVE any additional/outside assistance (i.e. statistical, transcriptional, thematic, coding, and/or editorial services) on my research report: .....~~
- I RECEIVED additional/outside assistance (i.e. statistical, transcriptional, thematic, coding, and/or editorial services) on my research report  
The influence of BBBEE on access to funding to SMEs in South Africa

If any additional services were retained– **please indicate below which:**

- Statistician
- Coding (quantitative and qualitative)
- Transcriber
- Editor

**Please provide the name(s) and contact details of all retained:**

NAME: Claire Pienaar .....

EMAIL ADDRESS: completeclaire@gmail.com .....

CONTACT NUMBER: +61423323611 .....

TYPE OF SERVICE: Editor .....

NAME: .....

EMAIL ADDRESS: .....

CONTACT NUMBER: .....

TYPE OF SERVICE: .....

NAME: .....

EMAIL ADDRESS: .....

CONTACT NUMBER: .....

TYPE OF SERVICE: .....

**I hereby declare that all interpretations (statistical and/or thematic) arising from the analysis; and write-up of the results for my study was completed by myself without outside assistance**

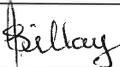
NAME OF STUDENT: RIASHA PILLAY .....

SIGNATURE:  .....

STUDENT NUMBER: 17367353 .....

STUDENT EMAIL ADDRESS: riasha@mweb.co.za .....

### 19.1 COPYRIGHT DECLARATION FORM

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