

**THE IMPACT OF BLACK EMPOWERMENT ON FAMILY  
BUSINESSES IN THE VAAL TRIANGLE:  
AN EXPLORATORY STUDY**

**Z. OOSTHUIZEN BA HONOURS**

Dissertation submitted in partial fulfillment of the requirements for the degree  
Master in Business Administration at the North-West University

Supervisor: Dr. S.P. Van der Merwe

November 2004  
Potchefstroom

**IN MEMORY OF MY FATHER, LIONEL, WHO DIED JULY 2004**

## **ACKNOWLEDGEMENTS TO:**

- **my husband, Nico and sons Andre and Francois, for their support and belief in me throughout the whole MBA course;**
- **for my employees at work for their interest and encouragement;**
- **my friends and studygroup for their continuous support ;**
- **Dr. S.P. Van der Merwe for his efficient guidance;**
- **the respondents for their willingness to take part in the study; and**
- **above all to God for strength, wisdom and energy.**

## **ABSTRACT**

South Africa requires an economy that can meet the needs of all its citizens in a sustainable manner. This will only be possible if the economy builds on the potential of all persons and communities across the country. Government's objective is to achieve this vision of an adaptive economy characterised by growth, employment and equity by 2014.

Black economic empowerment (BEE) emerged as a central objective of the Reconstruction and Development Plan, the original blueprint for transformation in South Africa. The BEE Commission was established and in 2001 released its report which contained important recommendations on the adoption of a broad based BEE strategy, designed to co-ordinate measures to achieve meaningful participation by black people.

The government attempts to work in partnership with the private sector and BEE will become evaluation criteria for business allocation, thus bearing a high degree of significance for any business, especially the family business.

The family business plays an integral and important role in the South African economy and also that of the Vaal Triangle. It is an important instrument in job creation, reversing unemployment and sustainable growth for the economy.

As planning and succession planning is crucial for the family business in the turbulent business environment, this study attempts to provide a positive contribution to the continued existence of such businesses and the creation of new job opportunities. It seems likely that black economic empowerment will disrupt the traditions, norms and values of the typical family-owned business.

The objective of the study is to investigate the impact that black empowerment will have on the unique characteristics and culture of the family business as well as succession and the future of the family business.

The information was compiled by way of a literature and empirical study. In the empirical study the information was obtained through a questionnaire delivered by hand and collected within 48 hours. A total of 20 respondents returned the questionnaires. The data was processed and conclusions and recommendations made.

It appears that many family businesses still remain uncertain about the implications of BEE and the value it can add to their businesses. Family business owners must understand the essence of the policy of BEE, and must realize that the initiative is not to discourage any business, but instead that they must seize the opportunity for growth.

It is essential that family businesses realise the impact of BEE. Ultimately it will still be the choice of the family business owner to conform and adapt to the strategy of BEE. It should, however, be a business and economically viable decision, and not an emotional one. It is difficult to separate emotions from business decisions for the family business owner, but he/she must realise that the decision about BEE will have far reaching consequences for the whole family.

# CONTENTS

## CHAPTER 1

<b>NATURE AND SCOPE OF STUDY</b>	<b>1</b>
<b>1.1 Introduction</b>	<b>1</b>
<b>1.2 Problem statement</b>	<b>2</b>
<b>1.3 Objectives of study</b>	<b>4</b>
1.3.1 Main objective	4
1.3.2 Sub-objective	4
<b>1.4 Scope of the study</b>	<b>4</b>
<b>1.5 Research methodology</b>	<b>5</b>
1.5.1 Literature study	6
1.5.2 Empirical study	6
<b>1.6 Research process</b>	<b>6</b>
1.6.1 Selection of a researchable topic	7
1.6.2 Formal formulations	7
1.6.3 Planning	8
1.6.4 Implementation	8
1.6.5 Interpretation and presentation	8
<b>1.7 Limitations of the study</b>	<b>9</b>
<b>1.8 Terminology</b>	<b>9</b>
1.8.1 A family business	9
1.8.2 BEE	10
<b>1.9 Layout of the study</b>	<b>10</b>

## **CONTENTS (CONTINUED)**

### **CHAPTER 2**

#### **LITERATURE OVERVIEW OF THE FAMILY**

<b>BUSINESSES</b>	<b>13</b>
<b>2.1 Introduction</b>	<b>13</b>
<b>2.2 Defining family businesses</b>	<b>13</b>
<b>2.3 The importance of family businesses globally</b>	<b>15</b>
<b>2.4 The importance of family businesses in South Africa</b>	<b>16</b>
<b>2.5 Characteristics of a family business</b>	<b>17</b>
<b>2.6 Advantages of a family business</b>	<b>20</b>
<b>2.7 Disadvantages of a family business</b>	<b>21</b>
<b>2.8 Culture of the family business</b>	<b>21</b>
2.8.1 Culture from a race perspective	22
<b>2.9 Employment and/or entry rules of the family business</b>	<b>23</b>
<b>2.10 Ownership succession</b>	<b>24</b>
<b>2.11 Summary</b>	<b>26</b>

### **CHAPTER 3**

<b>BLACK ECONOMIC EMPOWERMENT</b>	<b>27</b>
<b>3.1 Introduction</b>	<b>27</b>
<b>3.2 Defining black economic empowerment</b>	<b>28</b>
<b>3.3 History of BEE: laying the foundation</b>	<b>30</b>
<b>3.4 Policy objectives and principles of BEE</b>	<b>31</b>

## CONTENTS (CONTINUED)

<b>3.5</b>	<b>Policy instruments to achieve BEE</b>	<b>32</b>
<b>3.6</b>	<b>BEE and family businesses</b>	<b>34</b>
<b>3.7</b>	<b>Summary</b>	<b>35</b>

## CHAPTER 4

<b>EMPIRICAL STUDY: RESEARCH FINDINGS</b>	<b>37</b>	
<b>4.1</b>	<b>Introduction</b>	<b>37</b>
<b>4.2</b>	<b>Data collection and sample method</b>	<b>37</b>
4.2.1	Purpose of the questionnaire	38
4.2.2	Compilation and structure of questionnaire	38
4.2.3	Sample	39
4.2.4	Ethical aspects	39
<b>4.3</b>	<b>Results and analysis of empirical research</b>	<b>39</b>
4.3.1	Information of the business	39
4.3.1.1	<i>Industry of the business</i>	40
4.3.1.2	<i>Legal status of businesses</i>	40
4.3.1.3	<i>Age of the business</i>	41
4.3.1.4	<i>Number of permanent employees</i>	42
4.3.2	Biographical data on owners	43
4.3.2.1	<i>Age group</i>	44
4.3.2.2	<i>Sex group</i>	45
4.3.2.3	<i>Marital status</i>	46
4.3.2.4	<i>Highest academic qualification</i>	46

## CONTENTS (CONTINUED)

4.3.2.5 <i>Executive position</i>	47
4.3.2.6 <i>Years as owner of business</i>	48
4.3.2.7 <i>Race group</i>	49
<b>4.3.3. Structure of the family business</b>	<b>50</b>
4.3.3.1 <i>Number of family members employed and family relationships</i>	50
4.3.3.2 <i>Percentage of ownership</i>	51
4.3.3.3 <i>Interpersonal relationships</i>	52
4.3.3.4 <i>Unique culture in the family business</i>	52
4.3.3.5 <i>Vision of the future of the family business</i>	53
4.3.3.6 <i>Indication if a successor have been identified</i>	54
4.3.3.7 <i>External factors influencing succession</i>	55
4.3.3.8 <i>Entry rules</i>	56
4.3.3.9 <i>Succession planning</i>	57
<b>4.3.4 Black economic empowerment</b>	<b>58</b>
4.3.4.1 <i>Policy of BEE</i>	58
4.3.4.2 <i>Importance of implications of BEE</i>	59
4.3.4.3 <i>BEE - threat or opportunity</i>	60
4.3.4.4 <i>Implementation of BEE</i>	61
4.3.4.5 <i>BEE: to be applied to all businesses?</i>	63
4.3.4.6 <i>Influence of BEE on succession</i>	64
<b>4.4 Summary</b>	<b>65</b>

## CONTENTS (CONTINUED)

### CHAPTER 5

<b>CONCLUSIONS AND RECOMMENDATIONS</b>	<b>66</b>
<b>5.1 Introduction</b>	<b>66</b>
<b>5.2 Conclusions</b>	<b>66</b>
5.2.1 Conclusions based on the information of the family business	67
5.2.2 Conclusions on the biographical data of the owners	67
5.2.3 Conclusions based on the structure of the family business	68
5.2.4 Conclusions on BEE	68
<b>5.3 Recommendations</b>	<b>69</b>
5.3.1 Implementation plan	72
5.3.1.1 <i>Phase one: empowerment of owner</i>	72
5.3.1.2 <i>Phase two: strategies</i>	72
5.3.1.3 <i>Phase three: involve the people</i>	72
5.3.1.4 <i>Phase four: role out</i>	72
<b>5.4 Achievement of objectives</b>	<b>73</b>
<b>5.5 Further studies to be considered</b>	<b>73</b>
<b>5.6 Summary</b>	<b>73</b>
<b>REFERENCES</b>	<b>75</b>
<b>APPENDIX A: QUESTIONNAIRE</b>	<b>79</b>
<b>APPENDIX B: BEE SCORECARD</b>	<b>88</b>

## **CONTENTS (CONTINUED)**

**LIST OF FIGURES**

**LIST OF TABLES**

**LIST OF ABBREVIATIONS**

## **CONTENTS (CONTINUED)**

### **LIST OF FIGURES**

Figure 1.1	Research process model	7
Figure 1.2	Layout of the study	11
Figure 2.1	Overlap of family, ownership and business	18
Figure 3.1	The BEE scorecard	33
Figure 4.1	Industry of the businesses	40
Figure 4.2	Legal status of businesses	41
Figure 4.3	Age of the businesses	42
Figure 4.4	Number of permanent employees	43
Figure 4.5	Age group of owner	44
Figure 4.6	Sex group	45
Figure 4.7	Highest academic qualification	47
Figure 4.8	Position of the owner	48
Figure 4.9	Years as owner	49
Figure 4.10	Ownership shares	51
Figure 4.11	Relationships in the family business among family members	52
Figure 4.12	The importance of the unique culture	53
Figure 4.13	Vision of the future of the business	54
Figure 4.14	Has a successor been identified in the future vision	55
Figure 4.15	Entry rules	56

## **CONTENTS (CONTINUED)**

Figure 4.16	Importance of succession planning	57
Figure 4.17	Policy of BEE	58
Figure 4.18	BEE importance	59
Figure 4.19	BEE: threat or opportunity	60
Figure 4.20	Implementation of BEE	62
Figure 4.21	The influence of BEE on succession	64

### **LIST OF TABLES**

Table 4.1	Family members in business	50
-----------	----------------------------	----

### **LIST OF ABBREVIATIONS**

BEE	Black Economic Empowerment
SA	South Africa
US / USA	United States (of America)
BEECOM	Black Economic Empowerment Commission
SMMe	Small, Medium and Macro enterprises
DIT	Department of Trade and Industry
JSE	Johannesburg Stock Exchange

# **CHAPTER ONE**

## **Nature and scope of study**

### **1.1 Introduction**

Family businesses are making a positive contribution towards the South African economy and its role cannot be underestimated when it comes to the realities of unemployment and job creation.

The family business develops its own unique culture, climate and priorities and specific ways of doing things. Emotionally the whole family is involved. The founders' core values become an integral part of the culture of the business – “the things we believe in as a family” become the norms and values of the business. The process of passing the leadership from generation to generation is also part of the culture. Providing and creating job opportunities are important for the nature of the family business. (Van der Merwe, 2004:72)

The importance of a family business also lies in the fact that it presents a marvelous opportunity for family members. It permits the character, energies and resources of a family to be focused over the long term on building a profitable business and to provide and facilitate family growth. It also provides an outlet for family members' talents and creativity.

To start a family business and “be your own boss” has always been a dream of many people and creates motivation to start with one's entrepreneurial dream. The successful transition of this ideal to one's children seems to be the long-term perspective and vision.

April 1994 saw a newly elected, black majority government come into power in South Africa. In an effort to transform and address imbalances of the past, black economic empowerment (BEE) policies followed with the hope that sustainable development and prosperity for all would be achieved through the participation of previously disadvantaged people in the country.

The BEE Commission was established in 1998 aiming to ensure broader and more meaningful participation in the economy by black people. Legislation was put into place that established broad parameters and guidelines implementing the BEE policy.

The government works in partnership with the private sector and BEE will increasingly become an evaluation criterium for business allocation, thus bearing a high degree of significance for any business, especially the family business.

- It seems likely that black economic empowerment will disrupt the traditions, norms and values of a family owned business with its unique culture and entry/employment rules. Will the family business be able to comply with the ruling of 26% of ownership to BEE, which was to be transferred to the next generation?

## **1.2 Problem statement**

The family business plays an integral and important role in the South-African economy and also in the Vaal Triangle's economy. It is an important instrument in job creation, addressing unemployment and providing sustainable growth for the economy.

The Broad-Based Black Economic Empowerment Act, 2003 (SA, 2004) regulates that organs of state and public entities, in exercising their discretion to award licenses, concessions or other authorisations, are required to review an applicant's BEE compliances. The definitions of "organ of state" and "public entity" are wide, and include various government departments, Icasa, the Development Bank of South Africa, the Accounting Standards Board, the Compensation Commission, the Financial Service Board, the SA Tourism Board and the National Electricity Regulator. The high degree of significance lies in the fact that if a business is not able to demonstrate BEE credentials and an acceptable BEE scorecard, new business, tenders, contracts, etc. will not be awarded to them. This is of critical interest for the family business because it addresses the heart of the family business.

This study wants to attempt to get conclusions and recommendations for the family business, staying in the mainstream of their business industry amid BEE policies.

The following questions will be addressed:

- What will the impact of BEE be?
- Will the family business be able to comply with the ruling of 26% of ownership to BEE, which was to be transferred to the next generation?
- Where will the family business find black entrepreneurs with the same values, norms and beliefs that gave the family business its unique qualities and that are willing to buy into such a business?
- Should the family business empower its own black personnel to gain the 26% ownership by 2014?
- Will the family business survive and adapt to BEE?
- What are the alternatives, if any?

There has been little or no research on the impact of BEE on family-owned businesses in South Africa. This research report will contribute to the body of knowledge and provide a better understanding of the unique nature of family-owned businesses and thus allow other researchers to better understand the problem facing this unique kind of business and the impact of BEE on such businesses.

### **1.3 Objectives of the study**

The objectives of the study have been set out as follows:

#### **1.3.1 Main objective**

The main objective of the study is to establish what the impact of Black Economic Empowerment will have on the future of the family business and to establish conclusions and recommendations.

#### **1.3.2 Sub-objectives**

The following sub-objectives will be met in the study:

- to define the family business and its unique characteristics and culture;
- to identify the importance of family businesses;
- to emphasize the importance of succession in the family business;
- to identify the objectives of Black Economic Empowerment.

In order to achieve the above objectives, relevant literature on family businesses and Black Economic Empowerment was researched and an empirical study was undertaken.

### **1.4 Scope of the study**

The empirical research was limited to the geographical area of the Vaal Triangle. This area was identified because the researcher lives here and owns a family business in this area. Family businesses were demarcated into small and medium size businesses in this area.

According to Prinsloo (1994:1) the Vaal Triangle represents the area from the Kliprivier in the north, to Sasolburg in the south, from Loch Vaal in the west, to Villiers in the east. It occupies 3300 km<sup>2</sup> land-area and is between the 26°30' and 26°49' South latitude, and 27°40' and 28°5' Eastern longitude.

Small and medium size businesses are defined in the *National Small Business Enabling Act* (SA, 1995:9,10) as: “Small businesses employ between six and fifty employees and are usually managed and/or controlled by the owner. Classification in terms of assets and turnover is difficult because of the different types of industries. Medium size businesses are usually managed by the owner/s, but can be more complex because there can be more than one shareholder. The maximum number of employees is 200 and assets (excluding properties) of R5 million is seen as the upper limit”.

The study was limited to the study fields of Entrepreneurship and Labour Relations.

## **1.5 Research methodology**

Research in any field seeks to generate new information or knowledge that in turn, can be applied to solve problems, improve the quality of live and provide a better understanding of a research problem. Research methodology applies a systematic approach to problem solving and data collection, to ensure that one has useful data and results that can be understood by others. (Adams & Schvaneveldt, 1985:12)

It is argued by Leedy and Ormrad (2001:8) that research originates with a problem and ends with that problem resolved. De Vos *et al.* (2002:78) continue by detailing the underlying principles of the modern research methodology and confirms that conclusion resolves the research problem.

The following aspects will be required, given the objectives of the study:

#### 1.5.1 Literature study

A literature study was done on the family business, and BEE. The purpose was to define the family business and also BEE, and the importance of both to the South African economy. Based on this information, the questionnaire was also compiled. Reference material used for the purpose of the literature study included reference books, journals, publications and also the Internet.

#### 1.5.2 Empirical study

Questionnaires based on the information obtained from the literature study were compiled. These questionnaires were distributed to the appropriate family businesses.

The results of the questionnaires were analysed, summarised and documented. With this study it is hoped to achieve final conclusions and recommendations in such a way that it will lead to achieving the objectives of the study.

### 1.6 Research process

Since research is a detailed process the researcher must decide to adapt a research model to breakdown the procedures in smaller components. The following model is used in this research study:

Figure 1.1 Research process model

<b>Phase 1: Selection of a researchable topic</b>
Step 1: Identify a researchable problem
<b>Phase 2: Formal formulations</b>
Step 2: Assess the suitability of the research approach
Step 3: Formulate the problem
<b>Phase 3: Planning</b>
Step 4: Undertake a literature review
Step 5: Select a method of data collection and analysing
Step 6: Select a sampling method
<b>Phase 4: Implementation</b>
Step 7: Conduct the research
<b>Phase 5: Interpretation and presentation</b>
Step 8: Analyse data and interpret results
Step 9: Write the research report

Source: De Vos *et al.* (2002:85)

#### 1.6.1 Selection of a researchable topic

In phase 1, a researchable topic, based on the relevance of the topic was identified. The topic, "The impact of Black Economic Empowerment on family businesses in the Vaal Triangle" was identified because of its importance and relevance to the economy of South Africa and the Vaal Triangle.

#### 1.6.2 Formal formulation

In phase 2 the quantitative research approach was identified. According to De Vos *et al.* (2002:79) a quantitative approach is defined as an inquiry into a social or human problem, based on testing a theory composed of variables, measured with numbers and analysed in

order to determine whether the theory hold true. The final research problem was formulated, the impact of black empowerment on family businesses in the Vaal Triangle.

### 1.6.3 Planning

Phase 3 consists of a literature study on the research problem. In this study a literature study was done on family businesses and BEE. A data collection method was selected (a questionnaire delivered by hand). According to De Vos *et al.* (2002:174) by using this method much time is normally saved. Questionnaires were delivered by hand and were collected within 48 hours.

A sampling plan was selected by using the convenient or accidental sampling method. As viewed by De Vos *et al.* (2002:207) the convenient sampling method is the oldest and perhaps most frequently used sampling technique. As the name implies, a person gathers data from anyone who is convenient in the field of study. Main features are availability, convenience and accessibility (Adams & Schvaneveldt, 1985:182).

### 1.6.4 Implementation

Phase 4 consists of conducting the research, implementing all the decisions taken with regard to data collection method and sampling method. Questionnaires were handed out to family businesses in the Vaal Triangle and after 48 hours the questionnaires were collected.

### 1.6.5 Interpretation and presentation

In phase 5 processing, analysing and interpreting of the data takes place. Conclusions and recommendations are drawn up.

## **1.7 Limitations of the study**

It is important to notice that the following aspects have a limitation on the study:

- Although the literature study was universal of nature, the empirical research was limited to the Vaal Triangle and thus the results and recommendations of the research are representative for circumstances in the Vaal Triangle only. It cannot be extrapolated to the rest of South Africa.
- The study was limited to small and medium size family businesses and therefore not representative of all family businesses.
- In view of limited research on South African family businesses available in South Africa, there is a shortage of literature developed in South Africa for its unique circumstances.
- Research on BEE is also limited in South Africa at the time of the study and little scientific data is available on the topic.
- The sample consists of twenty white respondents holding in limited extrapolation.

## **1.8 Terminology**

For the purpose of this study the following definitions were adopted:

### **1.8.1 A family business**

A family business is defined by Ibrahim & Ellis (1994:4) as when at least 51% of the business belongs to a single family, at least two members of the family are involved in the business and ownership is envisioned to pass to the next generation.

For the purpose of this study a family business is defined as a business, owned by members of the same family and influenced by family ties, in order to achieve the vision of the family. Two or more family members are actively involved in the business and the intention is to continue with the business into the next generation.

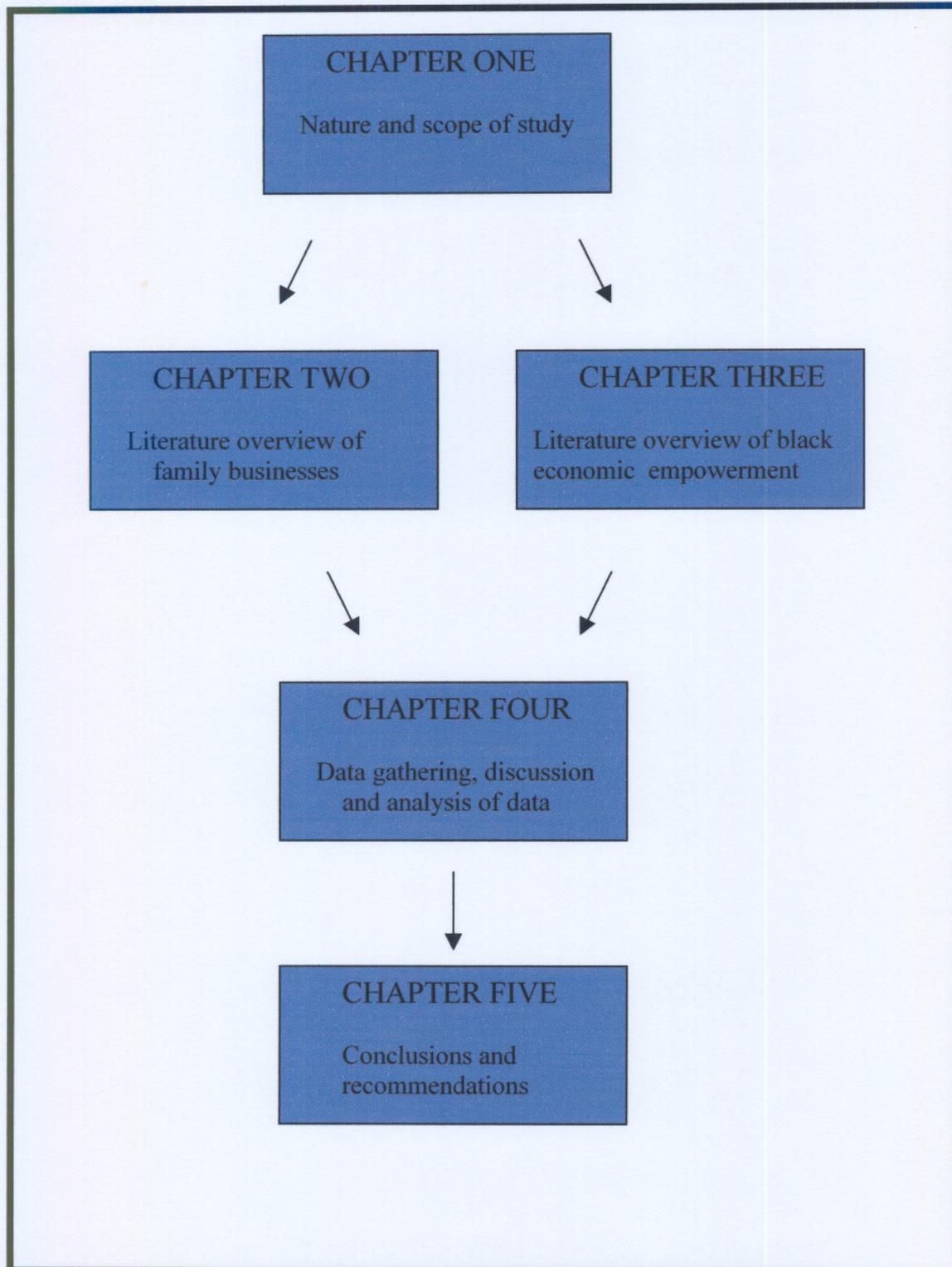
### 1.8.2 BEE

The definition adopted for Black Economic Empowerment is that it is an incentive programme by the government to address imbalances of the past, and by which black people are enabled to participate in the economic mainstream of South Africa. It is a broad-based strategy intended to stimulate economic growth, achieve prosperity for all and sustain economic growth and advancement for all people of South Africa.

## 1.9 Layout of the study

The layout of the study is presented in figure 1.2 below.

Figure 1.2 Layout of the study



**A brief overview of the study:**

- **Chapter 1 forms the introduction, problem statement, objectives, scope of the study, research methodology, limitations and terminology of the study.**
- **Chapter 2 encompasses a literature study of the family business. This includes:**
  - **defining the family business;**
  - **discussion of the importance thereof;**
  - **discussion of the characteristics, the advantages and disadvantages of the family business; and**
  - **what the culture encompasses, entry rules and succession.**
- **Chapter 3 consists of a literature study of Black Economic Empowerment, including:**
  - **defining BEE;**
  - **history of BEE**
  - **discussion of the policy objectives, principles and instruments of BEE; and**
  - **BEE and family businesses.**
- **Chapter 4 deals with the analyses and discussion of the findings of the empirical research.**
- **Chapter 5 concludes the study with conclusions and recommendations on the problem statement.**

# **CHAPTER TWO**

## **Literature overview of family businesses**

### **2.1 Introduction**

It is accepted all over the world that family businesses fulfil an important role in all economies of the world. It is a unique institution with its own characteristics and way of doing business.

The family business is a vibrant and growing area of interest in the economy. The advantages of family businesses are recognised as a real competitive advantage, but the family business is not just economics.

Family businesses are precious not just because for economic reasons, but also for social reasons, and for blending these two realms of humanity (Shanker, 2000:6).

In this chapter a literature study is undertaken and the following aspects are discussed:

- defining the family business;
- discussion of the importance thereof;
- discussion of the characteristics, the advantages and disadvantages of the family business; and
- what the culture encompasses, entry rules and succession.

### **2.2 Defining family businesses**

According to Lea (1991:5) a family business is a business that is owned either wholly, or in the majority, by one person or by members of one family. It may be headed by its entrepreneur founder and employ a spouse or other relatives, or it may be owned and operated by the founder's children, grandchildren, or other family members. Lea (1991:5)

states that the distinguishing characteristic is that one family owns and operates it, directs management, or exercises some form of control.

Ibrahim and Ellis (1994:4) argue that there is no one generally accepted definition of a family business due to a lack of conceptual clarity. It may range from small, informal “Mom and Pop” organisations to large, publicly traded conglomerates. There is anticipation that a younger family member will assume control of the business from an elder member. According to the authors, it is managed by the founder or his family and majority ownership or control lies within a single family. This holds true regardless of whether or not other family members are directly involved, and whether or not family members consider it as a family business (Ibrahim & Ellis, 1994:4).

Hilburt-Davis and Dyer (2003:5) defines a family business as an organisation where ownership and/or management decisions are influenced by a family. Fleming (2000:11) continues by using a simple definition of a family business as any instance where two or more people from the same family work together in a business that at least one of them owns. It may be a combination of husband and wife, father and son(s), brothers, dad and his cousins, and so on.

Through the review of a number of definitions Bornheim (2000:14) made a final choice for a definition of a family business. His academic definition is that a family business is a company in which a given family controls the voting equity. Handler (1990:37) is also of the opinion that a family business is a business where one family controls the business. This control is seen by Ibrahim and Ellis (1994:212) as at least 51% of the shares of the business. Leach and Bogod (1999:3) reckon that criteria that are too rigid should be avoided, defining a family business quite simply as a business influenced by a family or by a family relationship and that perceives itself to be a family business.

Most simply stated a family firm is one that includes two or more members of a family that has financial control of the company. Sometimes, all family members are in the same generation: siblings, husband-wife teams, and cousins. More often, businesses recognise themselves as family businesses when at least two generations are involved: an entrepreneur-

parent and his/her children or niece/nephew. By this definition, family members could be included in ownership, management, or employee roles (Aronoff *et al.*, 2002:2).

Litz (1995:71) emphasises the importance of family ties in the business, especially with succession of the business to the next generation. The owner must have the vision that the family business should stay in the hands of the family.

For the purpose of this study a family business is defined as a business owned by members of the same family and influenced by family ties in order to achieve the vision of the family. Two or more family members are actively involved in the business and the intention is to continue with the business into the next generation.

### **2.3 The importance of family businesses globally**

According to Maas *et al.* (2004:2-3) the family business plays a crucial role both socially and economically throughout the world. The complex processes of the economy, politics and globalisation have created more challenges and dilemmas for the continuous growth and evolution of family businesses. The importance of a family business also lies in the fact that it presents a marvelous opportunity for family members. Maas *et al.* (2004:2-3) pose that it permits the character, energies and resources of a family to be focused over the long term on building a profitable business, providing and facilitating family growth. It also provides an outlet for family members' talents and creativity.

Even the most conservative estimates put the proportion of all business globally, owned and/or managed by families at between 65% and 90% (Van der Merwe, 1999:2).

Bornheim (2000:14-15) provides the following statistics of family businesses globally:

- 90% of Chilean firms are family controlled;
- Mexico has a 80% family business rate;
- in the USA 95% of all businesses are family controlled;
- in Italy 99% of all firms are considered family firms;

- in the Netherlands the family business rate is about 52%;
- Austrian and Spanish rates exceed 80%; and
- almost 75% of firms in Switzerland are family firms.

Aronoff *et al.* (2002:3) believe that, according to various estimates, from 75 percent to 95 percent of U.S. companies are family firms and they generate from 40 to 60 percent of the gross national product of the U.S. Their research shows that about 40% of all mid-sized private companies in the U.S. already have two generations of family members involved.

Ibrahim and Ellis (1994:4) conclude the importance of a family business in the U.S. as follows:

- it is estimated that 90 percent of all the businesses in the U.S. and Canada are family owned and operated businesses;
- family business employs approximately 48 percent of the work force and produces nearly 50 percent of the gross national product; and
- more than one-third of the FORTUNE 500 list are family businesses.

From the literature study it is evident that the family business contributes considerably to the global economy and cannot be underestimated as such. It is therefore very important to keep the family business alive and well.

## **2.4 The importance of family businesses in South Africa**

The family business is seen as the predominant way of doing business in South Africa today and comprises about 80% of South African businesses and 60% of listed companies on the JSE (Ackerman, 2001:325).

Maas *et al.* (2004:6) is of the opinion that family businesses have come to play a major role in South Africa, socially and economically. The influence and number of family businesses can be expected to increase substantially in the future due to the increased support that this sector is receiving. Van der Merwe (1999:4) also emphasized the importance of family

businesses in South Africa and is of the opinion that it is important that a family business get the necessary recognition that it deserves in South Africa.

Erwin (2002) suggests that small and medium size businesses account for 97.5% of all establishments in the formal and private sectors in South Africa. At a time when the public sector and big business have been shedding jobs these businesses have maintained real employment growth. Family businesses are a big component in this sector of the economy. Maas *et al.* (2004:9) mention that not all family businesses in South Africa are small or medium. Powerful South African family businesses include Anglo American, Anglovaal, Rembrandt, Altron, Pick & Pay, Sage Life and Liberty Life.

Maas *et al.* (2004:12) further emphasize the continued profitability and growth of the small and medium size enterprises sector as of vital to the growth of the South African economy. Many family businesses fall into this business sector.

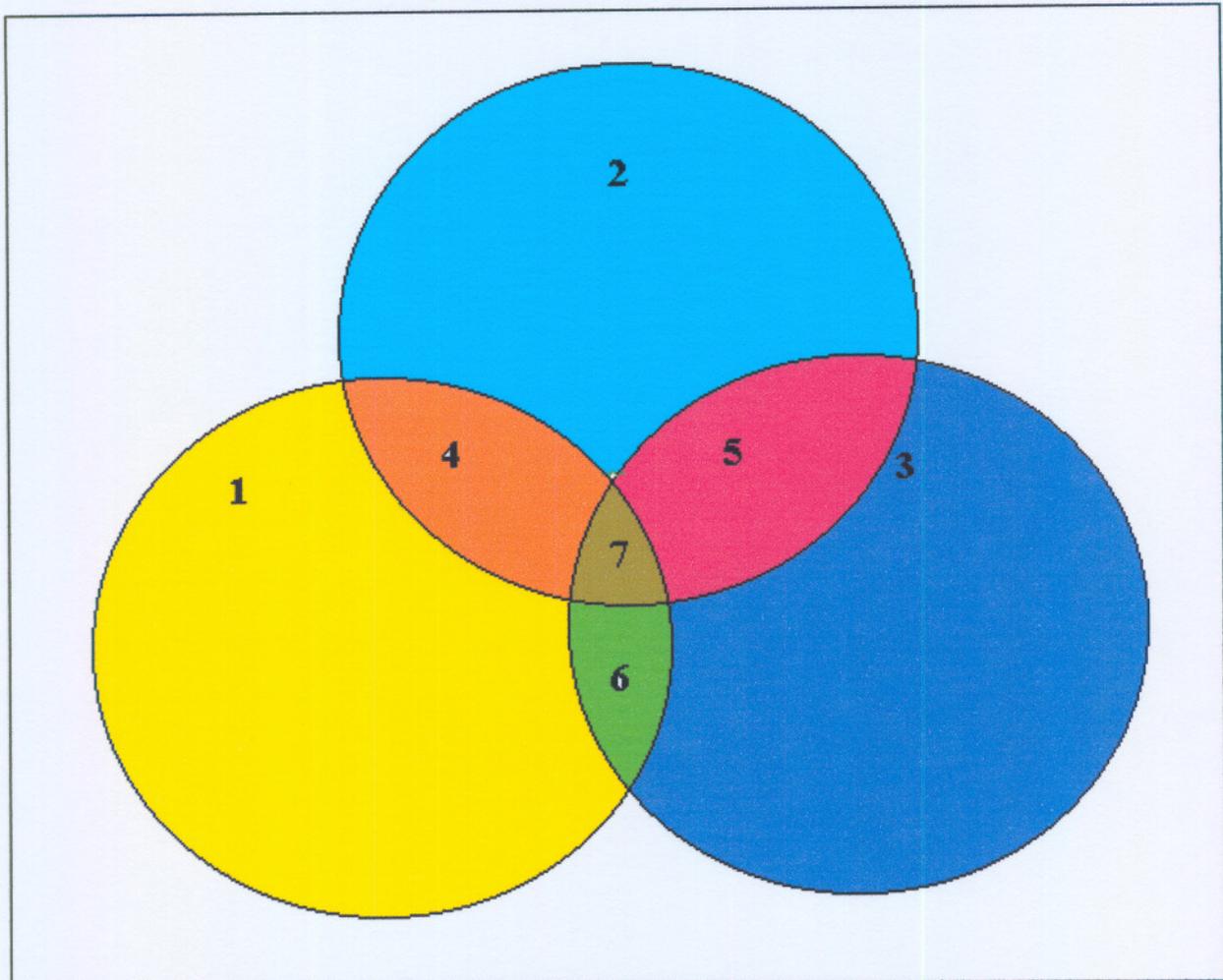
## **2.5 Characteristics of a family business**

The following figure portrays the unique situations in the family business:

- 1 is members of the family;
- 2 is the ownership of the business;
- 3 is employees of the business - neither family nor ownership interest;
- 4 is the combination of ownership and member of the family - this individual may not necessarily work at the business;
- 5 is the combination of ownership and an employee of the business;
- 6 is a family member working in the firm having no ownership; and
- 7 is a combination of all the roles.

(Tagiuri & Davis, as quoted by Van der Merwe, 2004:68 )

Figure 2.1 Overlap of family, ownership and business



Source: Tagiuri and Davis (as quoted by Van der Merwe, 2004:69)

These unique situations give the family business a definite set of characteristics as discussed below.

Shanker (2000:4) defines some of the characteristics that set the family business apart from other businesses as:

- Family businesses are a living paradox: balancing the family interests and business interests requires compromise between family and business perspectives.

- Differences in perspective are rampant: some members of this business system think more as family members, others as managers and others as owners. These differences in perspectives cause conflict and stress.
- Continuity planning is multidimensional: the business plans must be integrated with leadership and ownership succession plans, as well as with the family's estate and personal financial plans.
- Family systems are powerful with tremendous inertia: change and leading change is usually difficult because of the comfort zone of the family members.
- Support of inactive owners is critical to continuity: gaining the long-term commitment of all shareholders is essential for stability and security.
- Inherited wealth and privilege can be overwhelming.
- The business has a social purpose and responsibility: owners must seek their higher purpose in creating job opportunities for other family members and be of financial assistance if necessary.
- The time horizon is indefinite: owners often think beyond cash flow and preserving the business can appear more important than economic rationality. Long-term results shape decisions more than near-term results.

It is important to realise that professional management is replacing entrepreneurial management in the family business. In second-generation family businesses, leadership rests with a team; thus management and ownership is becoming a team effort. Strategic management and financial sophistication is becoming a necessity and family business education a reality in order to stay competitive globally (Mukadam, 1995:16).

Fleming (2000:15) identifies another crucial characteristic of a family business as the multiplicity of roles and perspectives for each family member involved in this kind of business. He wonders how many hats a single person can wear. He is of the opinion that the family and business overlapping of roles can create confusion, conflict and tension. Van der Merwe (2004:68) also mentions that any family business is composed of both family and business, overlapping each other. The overlapping of family concerns and business interests complicate the management process in the family business. The health and survival of this

kind of business require attention to both business and family interests in order to be balanced.

## **2.6 Advantages of a family business**

Leach and Bogod (1999:5-11) summarise the unique advantages of the family business:

- **Commitment:** The entrepreneur becomes passionate about his venture and this affection translates naturally into dedication and commitment.
- **Knowledge:** Family businesses often have particular ways of doing things - special technological and/or commercial know-how not possessed by their competitors. This knowledge gives the family business a strong competitive advantage over rivalry.
- **Flexibility:** Flexibility in time, work and money leads to a competitive advantage for a family business. One can adapt quickly and easily to changing circumstances.
- **Long-range thinking:** Strategic planning seems to be a characteristic of the family business. It reduces risk, enables a business to cope more effectively with unforeseen events, and creates new ventures.
- **Stable culture:** Family businesses tend to be stable structures. Usually the managing director or/and key management personnel are around for a couple of years and all seem to be committed.
- **Speedy decisions:** In a family business responsibilities are usually clearly defined and the decision-making process restricted to one or two key individuals. This means you can quickly get a “yes” or a “no”, giving this kind of business the time edge.
- **Reliability and pride:** Commitment and the stable culture lie behind the fact that family businesses are generally very solid and reliable structures- and are perceived as such.

Ibrahim and Ellis (1994:5-6) also acknowledges the shared values, a common goal and mission for the business, the family name and spirit as important advantages for the family business. Muson (2002:14) expands the list by including more advantages, such as a family business must develop a competitive advantage by tracking rivals; specific needs of customers must be addressed; family businesses have to think outside the box; and they have to seize all opportunities.

## **2.7 Disadvantages of a family business**

Leach and Bogod (1999:11) list the following disadvantages:

- **Rigidity:** Behaviour patterns can become ingrained and family businesses become tradition-bound and unwilling to change.
- **Outdated skills:** Skills can become obsolete and can catch unresponsive family off balance.
- **Managing transitions and change.**
- **Raising capital:** limited options for the family business.
- **Succession:** The passage of a family business from one generation to the next and the change of leadership is a difficult process for the family business.
- **Leadership:** The disadvantage arises when there is no one within the business empowered to take over the leadership.

Ibrahim and Ellis (1994:7) identify problems such as family infighting, boundary problems due to the inability to separate family and business life, lack of objectivity, nepotism, succession, and supervising relatives as disadvantages having a negative effect on the family business. Aronoff *et al.* (2002:5) agree with the above and indicate the following as most prevalent: conflicts between the interests of the family and those of the business, a lack of discipline over profits and performance of the business, and a failure to rise quickly to meet new marketing challenges.

## **2.8 Culture of the family business**

The family spirit usually determines the attitudes, norms, values and perspectives in the company. The values that family members express create a common purpose for employees and help to establish a sense of identification and commitment. In well-run family firms, the atmosphere is positive and the employees feel part of the business. It seems, as if bureaucracy is less and all communication levels more open (Kets De Vries, 1996:17).

It is important to realise that a family's goals grow out of its traditions and values. Articulating these goals are achieved through an effort to incorporate the feelings of all

family members into one mission and one vision statement (Shanker, 2000:72). According to Hollander and Bukowitz (1990:140) the culture of the family business is influenced by the personality, values and beliefs of the founder. The founder plays a very dominant role in the establishment and maintaining of the culture.

Muson (2002:10) states that research suggests that family-controlled businesses do so well because of their long-term orientation. They do care deeply about the quality of their products, about the general welfare of employees and job satisfaction of everybody involved. They also benefit from leadership that developed an excellence. Muson (2002:11) emphasises that the culture of a family business should embrace the culture of change and also involves creating a competitive culture that encourages experimentation and new ideas.

### 2.8.1 Culture from a race perspective

From a racial perspective, the organisational culture of any business, also the family business, can be reinforced if racism, discrimination and stereotyping continue in the business (De Coning *et al.*, 1997:8). Qunta (1995) maintains that most of the problems that black people face in the business environment emanate from racism, which means that one group of people perceive themselves as superior to another.

It is concluded by De Coning *et al* (1997:9) that the culture in a business will play a major role in allowing black employees suitable access to entrepreneurial power.

## 2.9 Employment and/or entry rules of the family business

It is important that the entry rules to employment are clearly defined by the family business.

According to Harris (1994:245) the following should be addressed:

- Which family member will be allowed, or not allowed, to work in the business?
- What about school children and holiday work?

- What about divorces and second marriages?
- Is training necessary and what kind of training is important?
- Should family members attain experience before entering the family business?
- How old should family members be before entering is allowed?
- What should job descriptions, authority and remuneration scales be?
- How will family members be evaluated?
- How will problems such as drugs, alcohol abuse and under performance be addressed?

It is important to lay entry down rules in order to prevent conflict later in the business as well as to prevent any uncertainties (Aronoff & Ward, 1992:10).

Anderson (2003:1) mentions that when asking Bill Venter, founder of the Altron group, about entry rules and succession into the family business, he said that the biggest mistake is to place children in high positions immediately. They must earn respect by doing ordinary jobs, start at the bottom and gain experience. Then their commitment would be a lot greater by earning their positions with blood and sweat.

## **2.10 Ownership succession**

Venter (quoted by Maas *et al*, 2004:82) broadly defines succession as the replacement of the leader of a family business by a successor, who must be a member of the same family. Maas *et al*. (2004:20) emphasises the importance that succession entails more than simply unplugging the retiring leader and plugging in a new one.

Change is not an easy process, but necessary for growth and profitability. The best way to avoid a fall in the family business is to keep pedaling forward and keep a line of sight to where you are headed. Members of the next generation are among those most likely to seek change, but may be among the least likely to be heard (Muson, 2002:24).

Leach and Bogod (1999: 97) summarise succession and the management thereof as follows:

- It is a process, not an event.
- A well-structured approach to succession planning is important.
- Leaders should take advantage of help available from advisors.
- Owners should make it clear to the children that they and management are supportive inside and outside the family business.
- Planning and training of family members are very important in succession.
- The owner should choose the successor as soon as possible, and then establish a retirement date.

Balshaw (2004a: 1) suggests that succession is critical to the future of family businesses. It is the ultimate challenge and test of the founding family's ability to ensure continuity of the business into the next generation, and also achieving the goal of collaborative harmonious relationships. It is a process and a journey and means the transfer of both business ownership and management continuity. Balshaw (2004a: 1) says that business leadership transition affords the company the opportunity to refocus and reformulate its direction, and renew its resources. Social nuances in a country can affect how the equity is held in a family. It is very important for the family to determine future policies on equity in the business (Balshaw, 2004a: 1).

The most important factors that may lead to resistance to succession and succession planning are defined by Maas *et al.* (2004:21-25) as follows:

- **Founder/Owner-manager:** Throughout the development of the family business, the founder tends to be the only person who is a dominant player in the family, management and ownership systems of the family business. However, many family business owners typically fail to consider the future needs of their businesses as they emerge themselves and become entrenched in managing their businesses.
- **Successors:** For the successors, too, succession is a time of stress and adjustment, as they have to adapt to the multiple demands of the adult world, including a challenging career in the family business, marriage (and, for many, divorce), and parenthood. In addition, at

this stage of their lives, the emerging generations are usually eager to establish their own financial independence and autonomy. However, the successors, too, may avoid the issue of succession planning, because it arouses strong fears of parental death, separation and abandonment.

- **Other family members:** Succession can create a complex set of challenges and uncertainties in the family where sibling resentment and jealousy can surface. Spouses can also be either supportive or negative towards succession.
- **Managers and employees:** Managers (who are not also owners) within the family business may feel threatened by the changes brought on by succession, because it may mean a shift from a personal relationship with the founder to a more aloof, professional relationship with the successor.
- **Organisational and environmental forces:** At organisational level, factors relating to organisational culture, structure and stability can be related to problematic successions. Environmental forces, such as licensing, tax considerations and prerequisites for entry into the industry, could also create barriers to succession planning. According to Venter (quoted by Maas *et al*, 2004: 26) the ongoing health of the business, quality of life and family dynamics are critical to the success of the succession process.

According to Balshaw (2004b: 4) the most single strategic issue facing succession in a family business in South Africa is broad-based Black Economic Empowerment. The cascade effect of empowerment will be felt up and down the supplier chain and any business ignoring it would be ill-advised. Balshaw (2004b: 5) continues by saying in order to stay competitive, family businesses need to change their profile. If they wish to continue to supply goods or services to the public sector, state and public entities bidders for public procurement, family businesses will be required to demonstrate their empowerment credentials in relationship to ownership, governance, management, human resource development and affirmative procurement – in line with government policies and legislation.

## **2.11 Summary**

It is impossible to capture all the relevant dimensions and information of a family business in this literature study. It is however of extreme importance to realise the uniqueness of this institution, and the crucial role it plays in the South African and global economy. It is indeed part of an economic sector that provides jobs and lasting legacies to lots of people.

The family business is unique and complicated. The future leader of the family business must be able to both lead and follow, to be individualistic as well as a team player. Succession is therefor of critical importance to the family business.

In this chapter an attempt was made to discuss relevant and critical issues to family business in the context of the problem statement of the study.

# CHAPTER THREE

## Black economic empowerment

### 3.1 Introduction

The legacy of Apartheid, the dispossession and disempowerment of black people that has defined South Africa for so long, urged the new government since 1994 to take many steps to transform the economy of South Africa. They set a foundation for a focused strategy of upliftment of the previously disadvantaged people of South Africa. One of these measures is broad-based Black Economic Empowerment.

BEE has been identified as one strategy to ensure that black people, all women and the disabled are afforded opportunities to participate in the mainstream of the economy.

The concept of BEE has occupied the centre stage of political and economic debate in South Africa. Economic inequities have compelled the government to ensure that black people, women and the disabled are empowered through processes of privatisation and procurement. Black people are a disempowered group as a result of the history of Apartheid. Even today black people still constitute the largest impoverished group and the largest component of informal traders in the economy.

In this chapter the following aspects of BEE are discussed:

- defining BEE;
- history of BEE
- discussion of the policy objectives, principles and instruments of BEE; and
- BEE and family businesses.

### **3.2 Defining black economic empowerment**

The BEE Commission (BEECOM, 1998:4) believes that BEE is a strategy aimed at substantially increasing black participation at all levels in the economy. It is therefore defined in a broad manner as:

- aimed at redressing the imbalances of the past by seeking to, substantially and equitably, transfer ownership, management and proportionate control of South Africa's financial and economic resources to the majority of its citizens; and
- to ensure broader and meaningful participation in the economy by black people.

The BEE Commission (BEECOM, 1998:4) therefore view empowerment processes that include, amongst others; job creation, rural development, poverty alleviation, specific measures to empower black women, skills transfer and management development, education, meaningful ownership and access to finance to conduct business.

Government defines BEE as an integrated and coherent socio-economic process that directly contributes to the economic transformation of South Africa that should bring about significant increases in the numbers of black people that manage, own and control the economy of the country, and decreases income inequalities (Department of Trade and Industry, 2003:12).

In an effort to transform and address the intolerances of the past, BEE hopes that sustainable development and prosperity would be achieved through the participation of previously disadvantaged people in the history of South Africa. Striving for equality and freedom, BEE was set to chart a new path to economic development (Lew & Whiteford, 2004:29).

While South Africa experienced a peaceful political transition from apartheid to democracy, economic inequities continue to characterise the country, and occurs largely along racial lines. Political freedom without economic freedom is meaningless to all people. The

reconciliatory political process that South Africa undertook can be translated into an economic concept, thereby affording the black majority an opportunity to participate in the mainstream economics. This will mean a peaceful, non-violent redistribution of wealth with the explicit aim of benefiting the black poor (Montsho, 2000:1).

Godsell (1994:2-3) explains BEE as a generic term embracing a broad inventory of relevant elements which help to define the process:

- control of JSE listed companies;
- effective representation in all business, industrial and professional associations;
- access to business finance for own venture and for equity participation;
- participation by blacks in franchise operations;
- opportunities for share ownership;
- scope for profit sharing, employee share ownership and/or employee (management) buy-outs;
- access to appropriate business, managerial and entrepreneurial training;
- affirmative action in corporate employment, management and control; and
- access to business apprenticeships or trainee-ships and mentor-support programs.

BEE is an integral element in black political empowerment. Economic empowerment is a process by which people are enabled to participate in the economic mainstream of the land and it is important to remove the obstacles prohibiting the economic advancement of all people (Joubert, 1990:2).

According to the Economic and Foreign Affairs Select Committee (Tolo, 2003:1) the need for a clear definition of BEE is highlighted. The committee adopted the definition that the Department of Trade and Industry has supplied and that was created by a group of black business people. BEE is seen as a process that directly contributes to the economic transformation of South Africa and brings about significant increases in the numbers of black people who manage, own and control the company's economy, as well as significant decreases in income inequalities. It is not simply a transferal of ownership from one person to another. Key principles were pointed out by the committee: BEE is an inclusive process,

BEE is part of the growth strategy of South Africa and economic growth, development and BEE are complementary (Tolo 2003:2).

### **3.3 History of BEE : laying the foundation**

The Department of Trade and Industry (2003:8-10) identifies the foundation of Black Economic Empowerment since 1990 as:

- Since 1990 the Industrial Development Corporation, Ntsika and Khula has financed 690 empowerment deals.
- Since 1994 government introduced legislation to provide new economic opportunities to all people in South Africa. It included The Promotion of Equality and Prevention of Unfair Discrimination Act; Extension of Security of Tenure Act; Restitution of Land Rights Act; Employment Equity Act; National Empowerment Fund Act; Competition Act; Telecommunications Act; Preferential Procurement Policy Framework Act; and the Minerals and Petroleum Development Act.
- Government also implemented various policies, strategies and programmes to overcome inequalities of the past; i.e. Integrated Human Resources Strategy; Urban Renewal Program; Integrated Sustainable Rural Development Program; Tourism Transformation Strategy; Strategy Sector Plan for Agriculture; The National Small Business Development Program.
- 1994: Newly elected government embarking on a programme to dismantle Apartheid and tackle transformation.
- 1995: A strategy for the development and promotion of small business in South Africa was tabled in Parliament.
- 1996: The National Small Business Act was introduced to ensure an enabling environment for SMMEs.
- 1997: A Green Paper on public sector procurement was published by government to introduce mechanisms to give effect to preferential procurement.
- 1998: The Competition Act was introduced to increase the number of historically disadvantaged persons with an ownership stake in the economy. The Employment Equity

Act was established to outlaw unfair discrimination at work. The National Empowerment Fund was created to hold equity stakes in state-owned and private enterprises on behalf of historically disadvantaged persons.

- A total of R2,2 billion was allocated to fund BEE in the 2002-2003 financial year by government and the DTI. Over the previous 5 years up to December 2002 there was an increase in empowerment funding from 14% in 1998 to 39% in the first six months of 2002/2003. (Department of Trade and Industry, 2003:10)

According to Lew and Whiteford (2004:29) in 1996 black controlled companies listed on the JSE was 6.3% (R4.6 billion or 1% of the JSE market capitalisation), from zero percent in 1995. By March 2000, figures had dropped to 2.9%. Reasons are many for this drop: newly formed black companies were largely investment vehicles - created with massive loans. They were over-g geared with heavy debt firms. Lew & Whiteford (2004:29) assume that BEE will only survive should black business assume some of the financial risk themselves. According to them BEE will only survive should black business assume some of the financial risk themselves. In almost all of the failures recorded, no risk was taken by parties concerned; priority was given to entitlement upfront. BEE means creating space and opportunities for historical disadvantaged individuals to play a significant role and add value to the economy - not simply being rewarded for being black.

Thackwray (1998:5) identifies some of the development challenges of BEE as a grossly undereducated black populous, a scarcity of black capital resources, a lack of adequate managerial, technical and administrative skills among black managers and major corporations still under white control who are perceived as unwilling to relinquish power.

### **3.4 Policy objectives and principles of Black Economic Empowerment**

According to the Department of Trade and Industry (2003:12-13) BEE will be evaluated according to the following:

- a substantial increase in the number of black people having ownership and control in enterprises and especially in the priority sectors identified by government;

- a significant increase in the number of new black enterprises, black empowered enterprises and black engendered enterprises;
- a significant increase in the number of new black executives and senior management in enterprises;
- an increasing proportion of the ownership and management of economic activities vested in community and broad-based enterprises;
- increased ownership in land and other assets, access to infrastructure, increased acquisition of skills, and increased participation in productive activities in under-developed areas;
- accelerated and shared economic growth;
- increased income levels and reduction in income inequalities;
- BEE is broad-based (seeks the deracialisation of the South African economy);
- BEE is an inclusive process (will benefit all South Africans);
- BEE is associated with good governance (improving quality and transparency of all economic activity); and
- BEE is part of the growth strategy (economic growth, development and BEE are complementary).

( Department of Trade and Industry, 2003:12-13)

### **3.5 Policy instruments to achieve Black Economic Empowerment**

According to the Department of Trade and Industry (2003:15) government will utilise several instruments to achieve its objectives in respect of BEE. Government will use a “balanced scorecard” to measure progress made in achieving BEE by enterprises and all the sectors. The use of a common scorecard by different stakeholders provides a basic framework for benchmarking BEE. It will align and facilitate measurable targets for BEE (Department of Trade and Industry, 2003:29).

The scorecard will measure three core elements of BEE: (see Appendix B)

- direct empowerment through ownership and control of enterprise and assets;

- human resource development and employment equity; and
- indirect empowerment through preferential procurement and enterprise development.

(Department of Trade and Industry, 2003:29)

**Table 3.1 The BEE scorecard.**

<b>Core component of BEE</b>	<b>Indicators</b>	<b>Conversion factor</b>	<b>Raw score</b>	<b>Weighting</b>	<b>Total score</b>
<b>Direct empowerment score</b>					
<b>Equity ownership</b>	<b>Percentage share of economic benefits</b>	<b>2</b>		<b>20%</b>	
<b>Management</b>	<b>Percentage of black persons in executive management</b>	<b>2</b>		<b>10%</b>	
<b>HR resource development and employment equity score</b>					
<b>Employment equity</b>	<b>Employment analysis</b>	<b>2</b>		<b>10%</b>	
<b>Skills development</b>	<b>Expenditure as a proportion of payroll</b>	<b>2</b>		<b>20%</b>	
<b>Indirect empowerment score</b>					
<b>Preferential procurement</b>	<b>Procurement from BEE enterprise</b>	<b>20</b>		<b>20%</b>	
<b>Enterprise development</b>	<b>Investment in BEE enterprise</b>	<b>20</b>		<b>10%</b>	
<b>Residual 10% (social responsibility)</b>					
<b>To be determined by sector</b>					
<b>Total score out of 100%</b>					

**Source: Department of Trade and Industry (2003:32)**

According to Monsho (2000:32-37) in ensuring that BEE takes its rightful place in the economy, the public and private sectors have envisaged various strategies.

Some of the strategies are:

- joint ventures;
- share / equity ownership;
- employee share ownership schemes;
- government projects;
- active support for small enterprise;
- franchising; and
- access to traditionally dominated white markets.

### **3.6 BEE and family businesses**

Altron group founder and chairman Bill Venter says that for the benefits of Black Economic Empowerment to be sustained, it needs to be driven by black entrepreneurs and family businesses. Venter believes that South Africa would not have been the same without the commitment of several big family businesses in the country. Family businesses involve behavioural characteristics such as loyalty, desire for sustainability and wealth creation over generations. According to him family businesses outperform non-family businesses in financial and non-financial terms, they thrive in uncertain and volatile environments and they outlive non-family businesses (Anderson, 2003:1).

Lennox (2004:1) believes that Black Economic Empowerment is just one of the new realities facing family businesses today in South Africa. The concept of equity is becoming a very sensitive issue. The problem family-owned businesses face is that they tend to have sentiment towards the businesses; the owners regard the assets and the pension funds as an extension of themselves. To meet the criteria of black empowerment policies, such businesses tend to feel they have to give away a part of themselves.

However, Lennox (2004:1) continues by emphasizing the several elements on the black empowerment score card, including management, employment equity, skills development, preferential procurement and enterprise development. Government will use the total score card to rank family businesses. Family businesses feel they would rather sell out than to lose

the expertise. He says empowerment should be incentive-driven and not driven by legislation. He concludes the article by saying that family-owned businesses need to construct their strategies around such realities.

Wadula (2003:2) is of the opinion that family-owned businesses have limited options when it comes to attaining percentages of black ownership. Most of these businesses do not issue shares and some only have one or two shareholders. Most do not have boards and cannot score under the management and control component of the scorecard. He wonders if these kinds of businesses should be measured against the same scorecard as listed companies.

### **3.7 Summary**

BEE is one of the most important strategic issues facing all businesses in South Africa. All businesses, including family businesses will need to demonstrate their empowerment credentials in relation to ownership, governance, management, human resource development and affirmative procurement – in line with policy instruments, the BEE scorecard and applicable legislation.

It is important to take note of the policy of BEE and to recognise the importance of reinventing business. This will be the difference between those who will survive and thrive in the 21<sup>st</sup> century and those who become footnotes in history books. The cascade effect of BEE will be felt up and down the supply chain, so any business that ignores it would be ill-advised. The future strategic management planning of any business clearly needs to be focused around BEE.

BEE is just one of several new realities facing the family business. The family business cannot afford to operate in isolation. The family business tends to have sentiment in that they have grown their own entity, and regard their assets as a pension fund and as an extension of themselves.

To meet the criteria of BEE such businesses tend to think they have to give away a part of this entity, a part of themselves. Thus BEE addresses the heart of the family business.

# CHAPTER FOUR

## Empirical study: research findings

### 4.1 Introduction

The empirical part of the study focuses on two interwoven topics: the future succession in the family business and Black Economic Empowerment. When approaching the subject of BEE, the researcher was aware of the controversial nature of the subject. For this reason it is important to point out that BEE is a sensitive and thorny subject with political undertones, and tends to generate discomfort with the respondents. The researcher thus strives to acquire relevant information about this topic in the sphere of the family business and strive to avoid perceptions of bias.

Chapter 4 will set out the empirical research of the study. Aspects covered in Chapter 4 include:

- the data collection method;
- the sampling method;
- analysis of the gathered data;
- conclusions; and
- recommendations.

### 4.2 Data collection and sample method

The gathering of data was done through the compilation and distribution of questionnaires. The questionnaire was compiled based on the literature study in Chapters 2 and 3. The questionnaires were delivered by hand and collected within forty-eight hours. According to De Vos *et al.* (2002:174) by using this method much time is normally saved.

The purpose, assembly and structure of the questionnaire can be summarised as follows:

#### 4.2.1 Purpose of the questionnaire

The purpose of the questionnaire is to determine the owners' of family businesses awareness, knowledge and attitudes towards BEE, and to determine the impact it will have on the family business.

#### 4.2.2 Compilation and structure of questionnaire

The questionnaire used for this research project is Appendix A .The questionnaire consists of forty-three questions divided into four sections. There is a combination of open-ended and close-ended questions. Seven questions offer the respondents to provide additional comments. By doing this it allowed for a better understanding of the respondents' answers.

The sub-sections are:

- Section A: Information of the business;
- Section B: Biographical information of the executive owner of the family business;
- Section C: Structure of the business; and
- Section D: Black economic empowerment

Thirty questionnaires were handed out to family businesses. Only twenty-three responded and three were damaged and could not be used. Therefore a total of twenty questionnaires were used for the analyses of the results.

It seems that because of the sensitivity and controversial nature of the issue, some of the respondents tend to be uncomfortable with the study and after agreeing at first, did not complete the questionnaires.

### 4.2.3 Sample

The convenient or accidental sampling method was selected. As viewed by De Vos *et al.* (2002:207) the convenient sampling method is the oldest and perhaps most frequently used sampling technique. As the name implies, a person gathers data from anyone who is convenient in the field of study. Main features are availability, convenience and accessibility (Adams & Schvaneveldt, 1985:182).

### 4.2.4 Ethical aspects

- ◆ The confidentiality of the participants is assured. There is also no other way of identifying individuals given the structure of the questionnaire.
- ◆ The individual findings of questionnaires will be treated confidentially and issues raised by individual respondents will only be discussed with that particular respondent, should a need for further discussion exist.
- ◆ Respondents were informed as to the purpose of the study.
- ◆ The respondents' participation was voluntary.

## 4.3 Results and analysis of empirical research

The results can be divided into the abovementioned four sections in 4.2.2. Questions will be discussed based on its purpose, results and findings.

### 4.3.1 Information of the business

(Questionnaire section A)

The profile of the business consists of the type of industry, legal status of the business, age of the business and number of permanent employees.

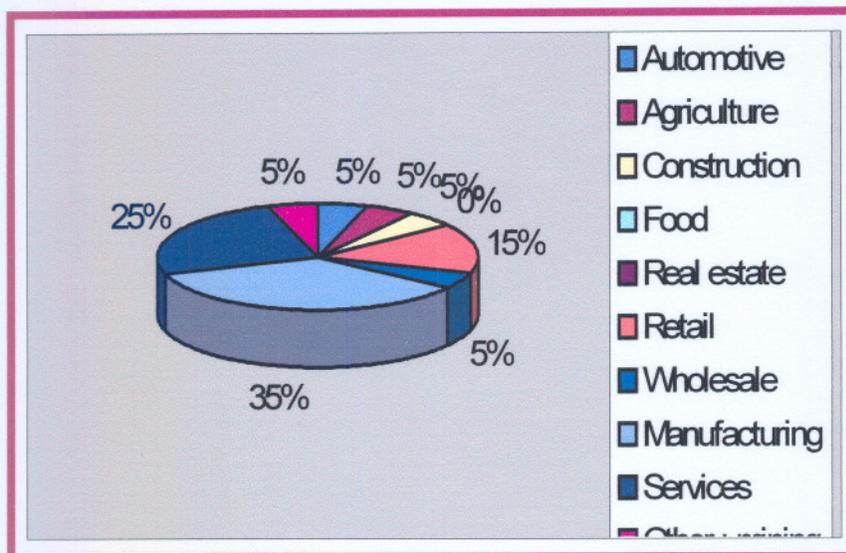
#### 4.3.1.1 Industry of the business

##### ◆ Purpose

The purpose of this question is to establish in which industry the different family businesses operate.

##### ◆ Results

Figure 4.1 Industry of the businesses



##### ◆ Findings

In terms of participating businesses the majority are in the manufacturing (35%) and services industry (25%) as indicated in the figure.

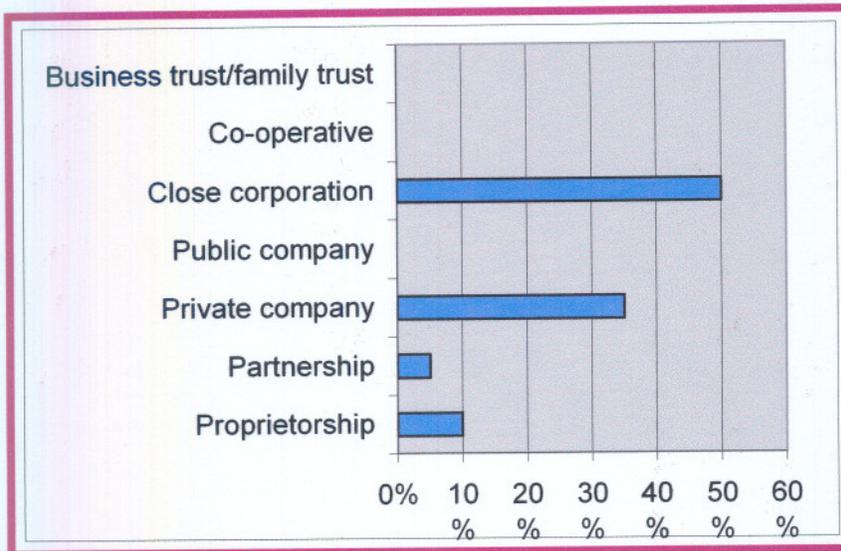
#### 4.3.1.2 Legal status of businesses

##### ◆ Purpose

The legal status of the business has an influence on the firm, especially in succession.

◆ **Results**

**Figure 4.2 Legal status of businesses**



◆ **Findings**

It seems that the dominant legal type is close corporations (50%), followed by private companies (35%), proprietorship (10%) and partnership (5%).

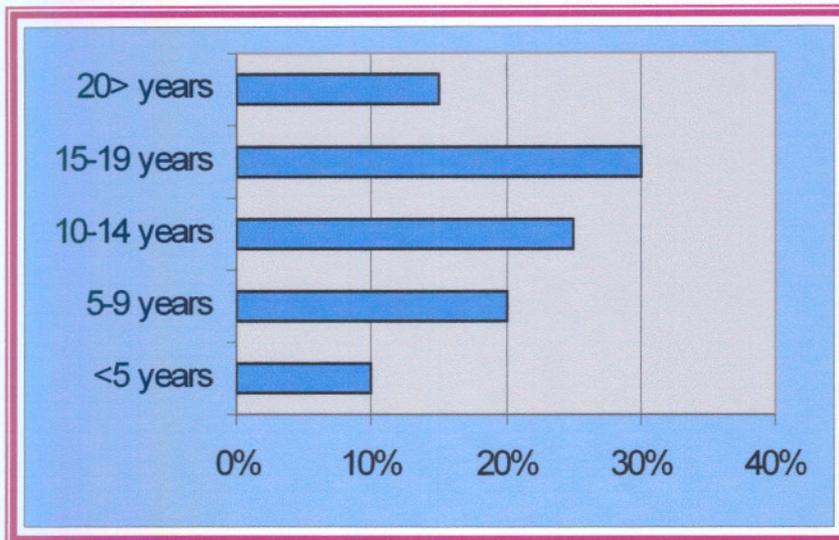
*4.3.1.3 Age of the business*

◆ **Purpose**

The purpose of this question is to establish the life cycle of the business.

◆ **Results**

**Figure 4.3 Age of businesses**



◆ **Findings**

In terms of the age, 10% of the respondents indicated that their businesses are still young and upcoming (0-5 years). The results that 70% of the businesses are mature businesses and could need succession strategies.

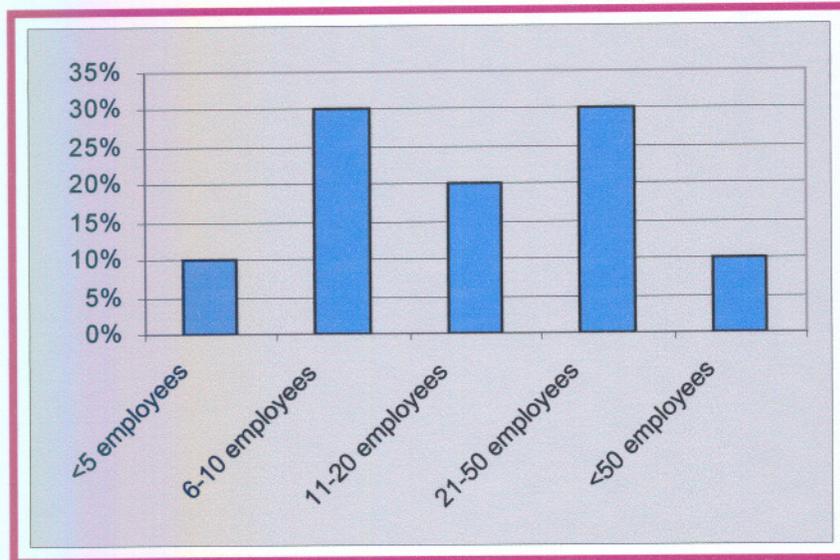
*4.3.1.4 Number of permanent employees*

◆ **Purpose**

To determine the size of the business.

◆ **Results**

**Figure 4.4: Number of permanent employees**



◆ **Findings**

In terms of participating businesses' size, 30% of businesses have between 6 to 10 and between 21 to 50 employees, and only 10% have more than 50 employees. The majority are small and medium size businesses.

4.3.2 Biographical data on owners  
(Questionnaire Section B)

Participating owners were requested to respond to biographical questions pertaining to the following information:

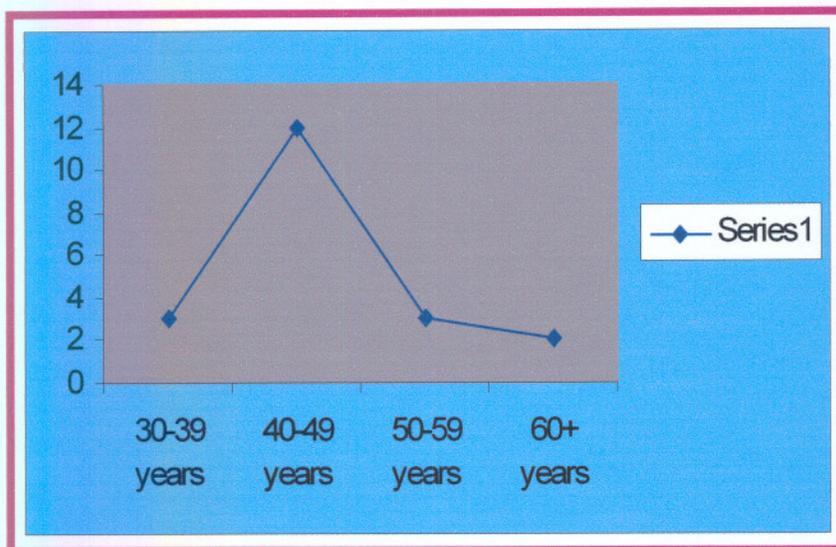
#### 4.3.2.1 Age group

##### ◆ Purpose

The age of the executive owner of a family business is of great importance since this influences succession planning and gives an indication of how long the owner will still be participating actively.

##### ◆ Results

**Figure 4.5 Age group of owner**



##### ◆ Findings

The highest concentration of owners is above the age of 40 years. Of the respondents 25% are older than 50 years, indicating that succession could be considered soon.

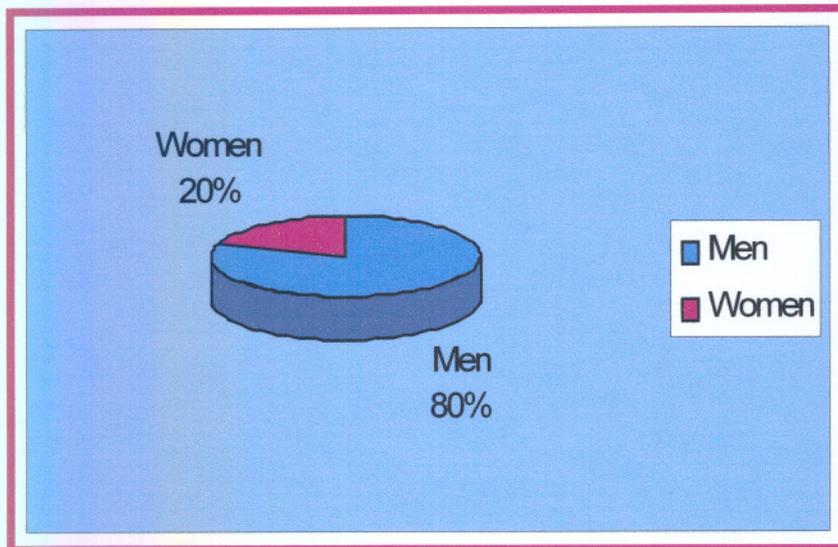
#### 4.3.2.2 Sex group

##### ◆ Purpose

The purpose of the question is to establish the sex group of the executive owner of the family business.

##### ◆ Results

**Figure 4.6 Sex group**



##### ◆ Findings

In this study 20% of the respondents are women and 80% are men. This analysis indicates that in the family businesses in the Vaal Triangle, men are the dominant owners of the family business.

#### *4.3.2.3 Marital status*

##### ◆ **Purpose**

The purpose of this question is to establish the marital status of the owners of the family businesses. It influences decision making and management style and have a definite influence on the complexity of succession.

##### ◆ **Results**

In this instance 100% of the respondents are married.

##### ◆ **Findings**

All the respondents are married.

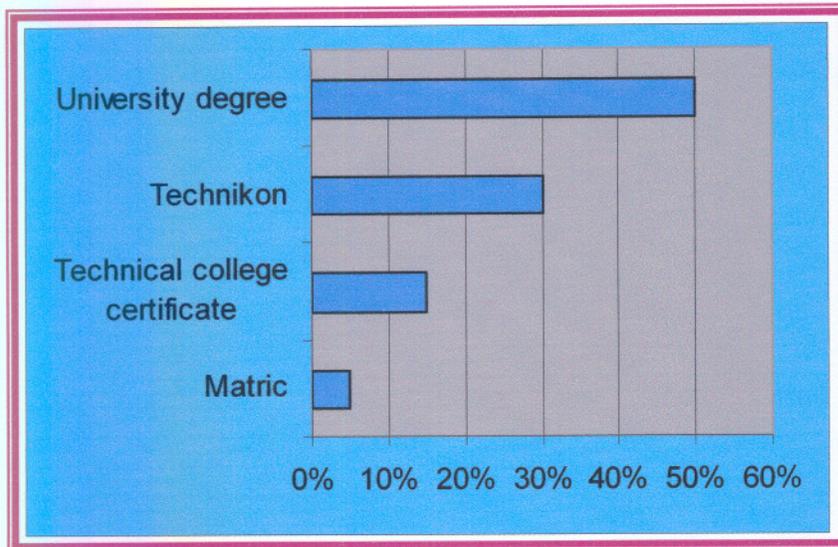
#### *4.3.2.4 Highest academic qualification*

##### ◆ **Purpose**

This analysis indicates the skills and knowledge of the owners. This determines their knowledge of the economy, social responsibility and attitude towards political change in South Africa.

◆ **Results**

**Figure 4.7 Highest academic qualification**



◆ **Findings**

In this study 50% of the respondents have a technikon diploma, 30% are university graduates and 15% have a technical college certificate This indicates that 95% of the respondents have some form of qualification, indicating that the owners should be informed people.

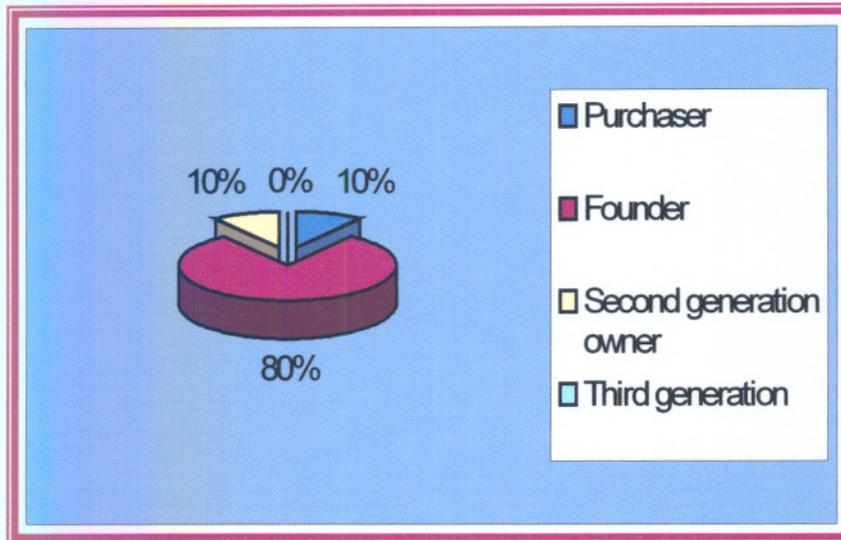
*4.3.2.5 Executive position*

◆ **Purpose**

This question addresses how the owners got involved in the family businesses and will have an influence on their sentiment towards the business and the change of ownership.

◆ **Results**

**Figure 4.8** Position of the owner



◆ **Findings**

The findings show that the majority of executive owners founded the family business and are still involved.

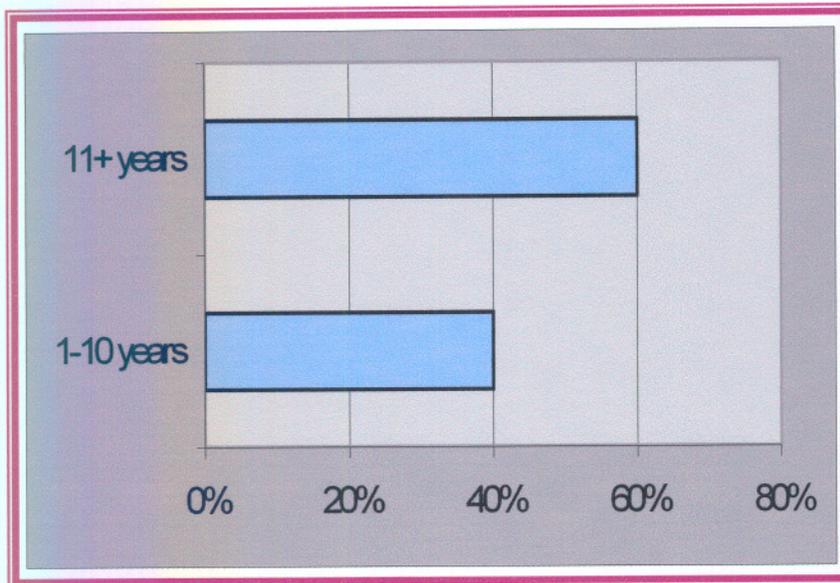
*4.3.2.6. Years as owner of business*

◆ **Purpose**

To determine the time period involved as owner of the business. This will influence their vision and sentiment towards the business and its culture.

◆ **Results**

**Figure 4.9 Years as owner**



◆ **Findings**

A percentage of 60% of the respondents are executive owners of the business for eleven years and more indicating that they will have an influence on succession, business culture and change.

*4.3.2.7 Race group*

◆ **Purpose**

To establish the race group of the executive owner.

◆ **Results**

All the respondents are white.

◆ **Findings**

The respondents are all white. It was deliberately done by the researcher to establish the impact of BEE on white family businesses.

4.3.3 Structure of the family business  
(Section C Questionnaire)

In this section the internal structure of the family businesses are analysed.

4.3.3.1 *Number of family members employed and family relationships*

◆ **Purpose**

The objective is to determine how many family members are involved in the family businesses and the family relationships of members employed. It has a definitive impact on the complexity of succession.

◆ **Results**

**Table 4.1 Family members in business**

<b>Composition of business</b>		
<b>Owner, spouse and children</b>	<b>18</b>	<b>90%</b>
<b>Owner and other family members</b>	<b>2</b>	<b>10%</b>

◆ **Findings**

The spouse and children are the most involved in the family business.

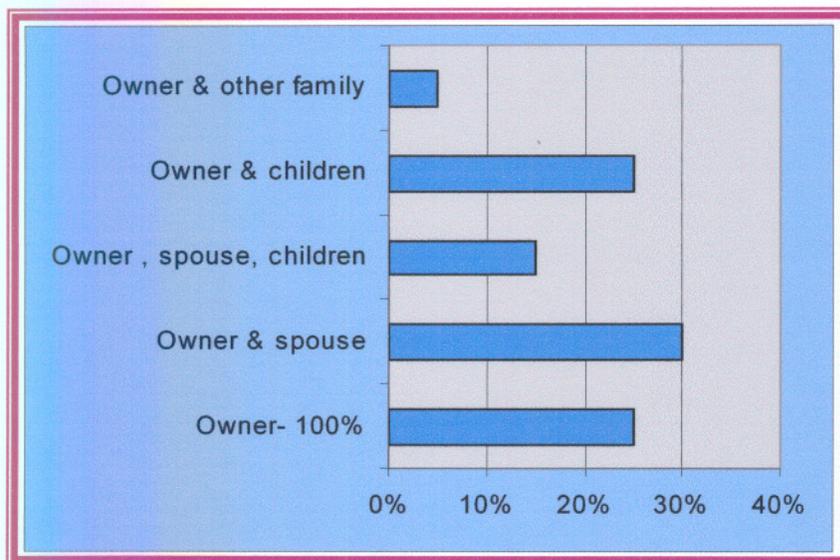
#### 4.3.3.2 Percentage of ownership

##### ◆ Purpose

To establish ownership interest and the intention of succession towards family members.

##### ◆ Results

**Figure 4.10 Ownership shares**



##### ◆ Findings

The distribution of shares of the family business will pose a specific problem when addressing succession. The owner and spouse have 30% ownership of the businesses, the owner alone 25%, the owner, spouse and children 15% and the owner and children 25%. Succession planning are taking place.

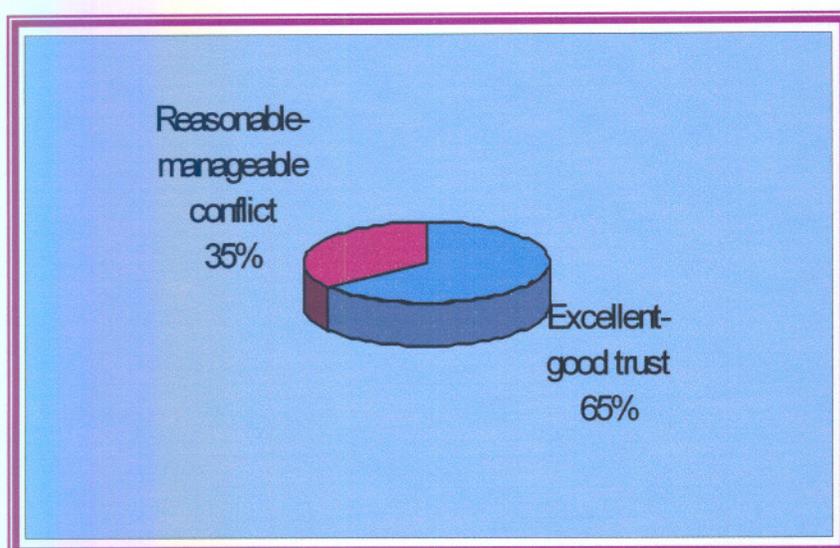
#### 4.3.3.3 Interpersonal relationship

##### ◆ Purpose

The purpose of this question is to establish the interpersonal relationships between family members employed.

##### ◆ Results

**Table 4.11: Relationships in the family businesses among family members**



##### ◆ Findings

It seems that overall the relations are reasonable to good. 65% of the respondents indicated excellent relationships and 35% manageable conflict.

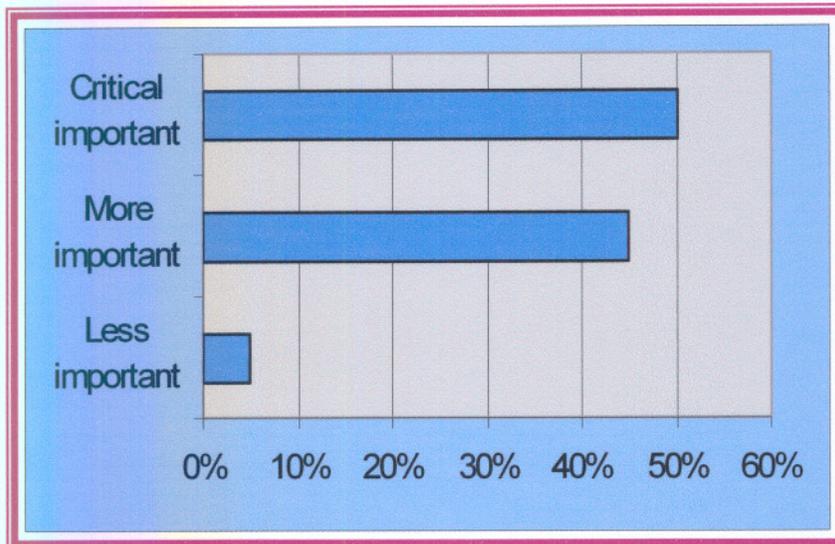
#### 4.3.3.4 Unique culture in the family business

##### ◆ Purpose

To establish if the family business has its own unique culture and way of doing things.

◆ **Results**

**Figure 4.12 The importance of the unique culture**



◆ **Findings**

The assumption is made that the unique culture of the family business is of importance for the future of the business.

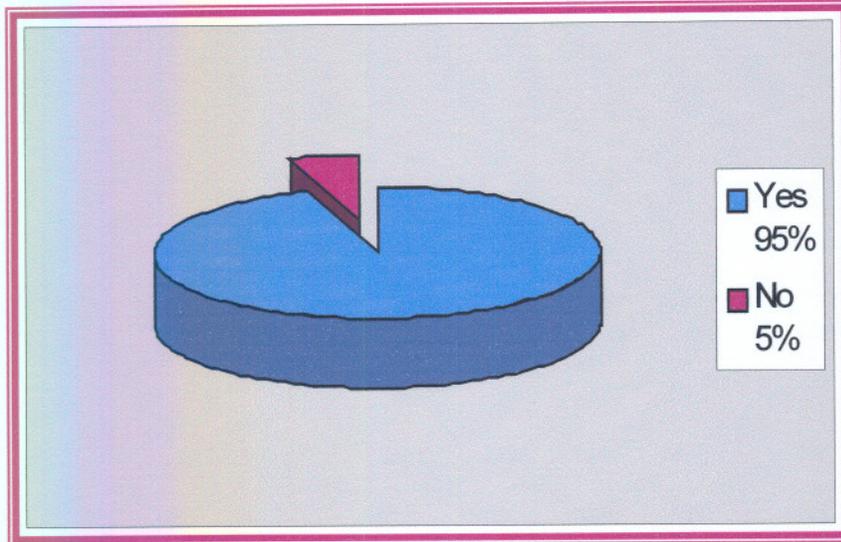
*4.3.3.5 Vision of the future of the family business*

◆ **Purpose**

To establish if the businesses have a clear vision for the future.

◆ **Results**

**Figure 4.13 Vision of the future of the business**



◆ **Findings**

95% of the respondents indicated that they have a clear vision of the future of the family business and 5% indicated they have no vision.

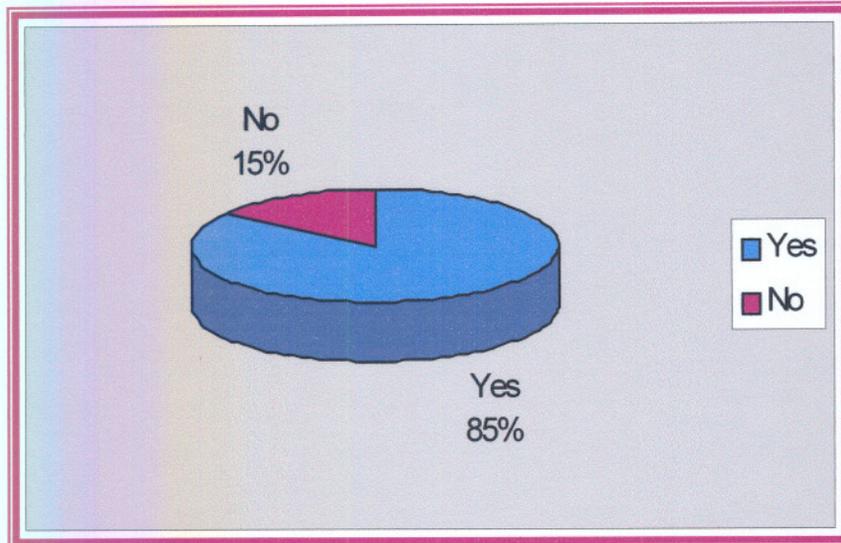
*4.3.3.6 Indication if a successor have been identified*

◆ **Purpose**

To establish if the family business in its vision, identified a successor.

◆ **Results**

**Figure 4.14 Has a successor been identified in the future vision**



◆ **Findings**

In asking if the vision includes whom the successor of the business will be 85% indicated yes and 15% indicated a no answer. The assumption is made that most family businesses have identified their future successors.

*4.3.3.7 External factors influencing succession*

◆ **Purpose**

To identify external factors having an influence on succession

◆ **Results**

100% of the respondents indicated that external factors have an influence on future succession in the family business.

◆ **Findings**

The respondents indicated that external factors such as BEE, the economy, company law and legislation, affirmative action, loss of technical skills, strikes and the petrol price have an influence on their vision of succession in the business.

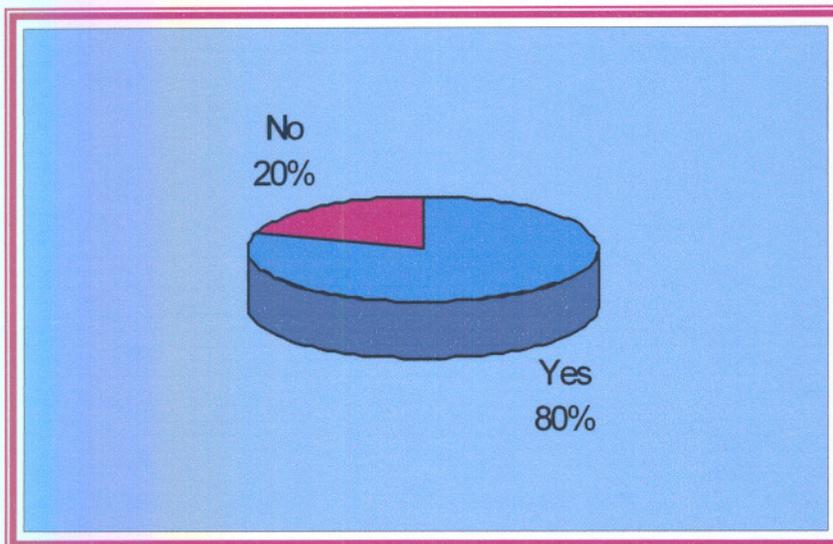
4.3.3.8 *Entry rules*

◆ **Purpose**

Entry rules are of specific importance to the participants of the study. It is important to lay down entry rules in order to prevent future conflict and uncertainties.

◆ **Results**

**Figure 4.15** Entry rules



◆ **Findings**

Entry rules are very important to the family business and 80% have them and apply it in their businesses.

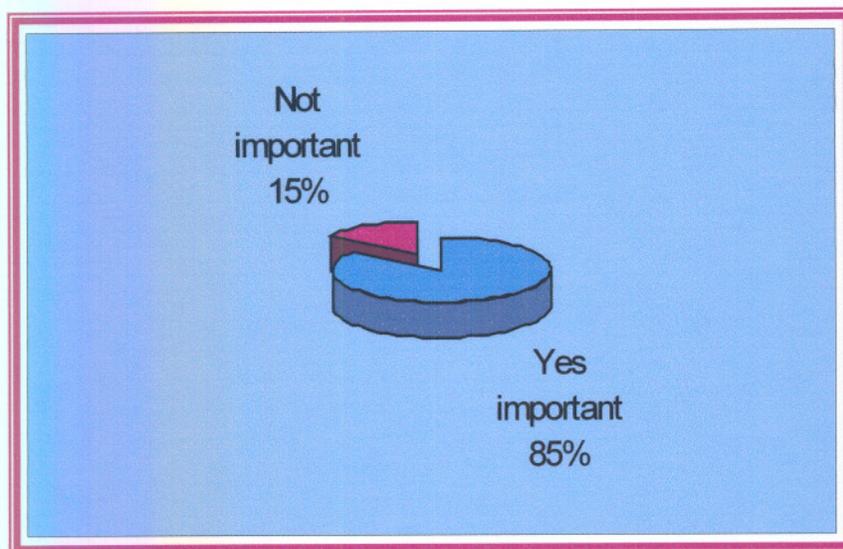
#### 4.3.3.9 Succession planning

##### ◆ Purpose

The purpose of this question is to establish if succession planning is important for the family business.

##### ◆ Results

**Figure 4.16 Importance of succession planning**



##### ◆ Findings

Of the respondents 85% acknowledged that succession planning is important to them, and all 85% also indicated that a successor has been identified. These successors would be family members. 15% of the respondents indicated that succession planning is of no importance to them and thus no one has been identified.

assumption is made that the majority of the business owners have taken note of BEE and its implications.

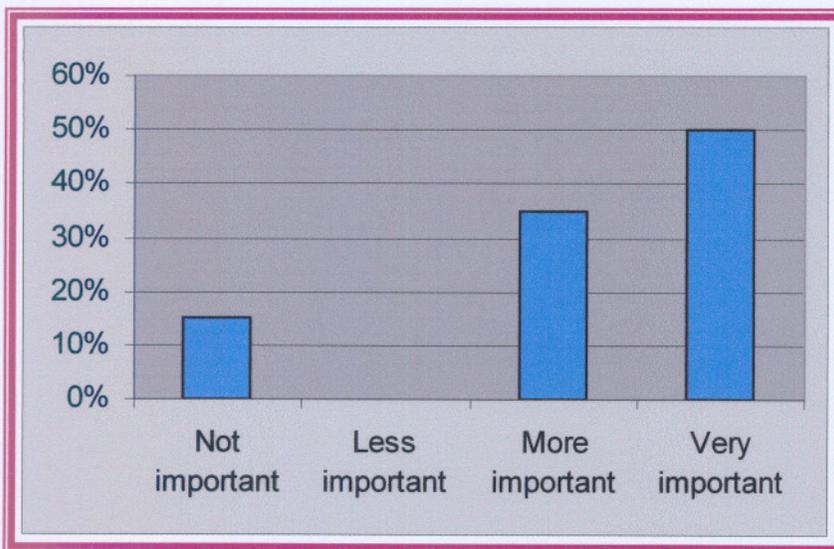
#### 4.3.4.2 Importance of the implications of BEE

##### ◆ Purpose

To establish how important BEE is to family businesses.

##### ◆ Results

**Figure 4.18 BEE importance**



##### ◆ Findings

The majority of family businesses agree that it is an important issue for their businesses. 50% indicated very important and 30% more important. Only 15% said that it is not important to their family business.

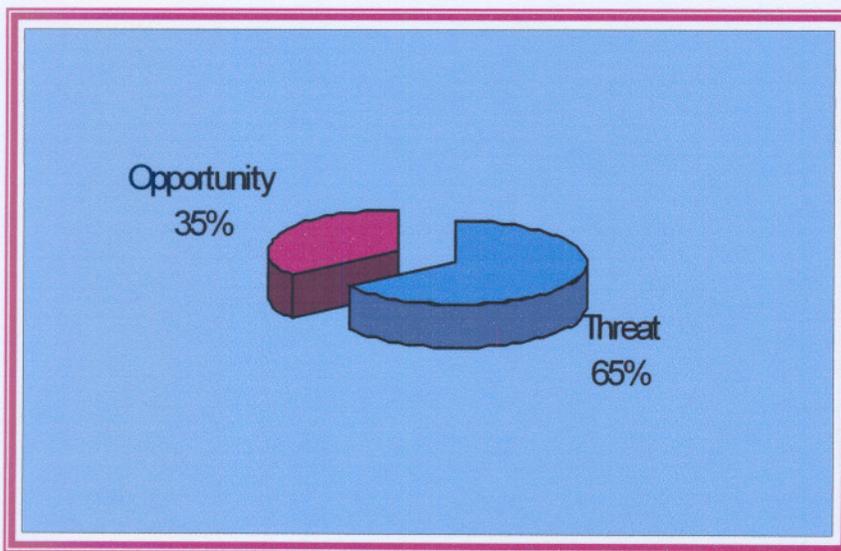
#### 4.3.4.3 BEE – threat or opportunity

##### ◆ Purpose

This question will indicate whether BEE is either a threat or an opportunity to family businesses.

##### ◆ Results

**Figure 4.19 BEE: threat or opportunity**



##### ◆ Findings

35% of the respondents identified BEE as an opportunity and 65% as a threat. However, 20% identified it as both.

Threats that were spelled out by the respondents:

- giving up of shares;
- losing the unique culture of the business;
- threat to succession;

- losing of ownership of business;
- profit loss;
- small businesses not viable;
- discrimination threats;
- BEE employees not having zeal for the business;
- unskilled people to be appointed;
- detrimental to private enterprise;
- diminishing of family businesses;
- BEE employees dictate high salaries; and
- increase in pressure on family businesses.

Opportunities spelled out were:

- open doors for new business opportunities;
- added value to business;
- challenging entrepreneurial skills; and
- tenders and new contracts only available for BEE firms.

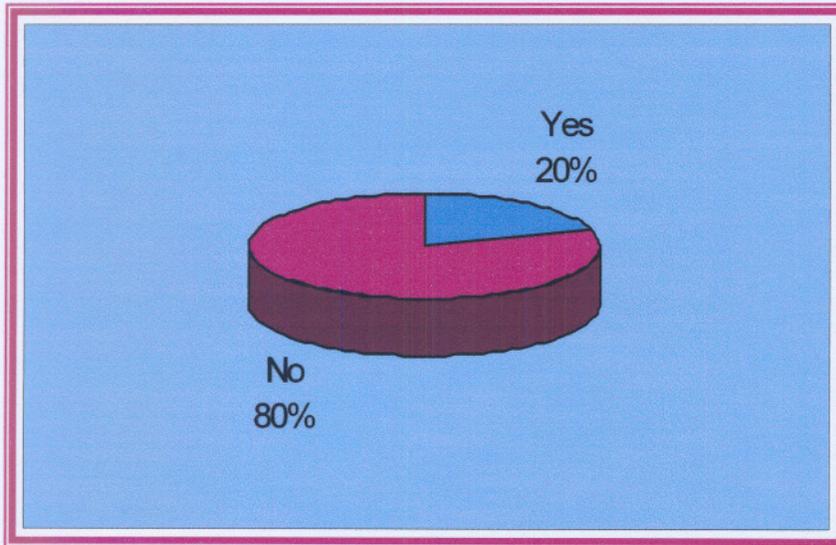
#### *4.3.4.4 Implementation of BEE*

##### ◆ **Purpose**

To establish if the participating respondents started implementing BEE.

◆ **Results**

**Figure 4.20 Implementation of BEE**



◆ **Findings**

Of the participating owners of family businesses, only 20% specified that they have started implementing BEE in their businesses. 80% have not yet started to implement BEE.

Methods used by the respondents to implement BEE:

BEE scorecard (Appendix B)

- introducing black managers;
- equity ownership;
- introducing a skills and social development policy;
- preferential procurement policy; and
- enterprise development.

Of the 4 respondents that started implementing the BEE scorecard, 3 put a skills and social development plan in place and one employed a black manager.

The elements of the BEE scorecard were addressed in some family businesses in order to start implementing BEE policy. It seems that when BEE is implemented, difficulties that are experienced are to find qualified, experienced workers, as well as funding for BEE partners (Refer to question D9).

#### *4.3.4.5 BEE: to be applied to all businesses?*

##### ◆ **Purpose**

The purpose of this question is to ascertain the responses if BEE should apply to all businesses.

##### ◆ **Results**

All respondents indicated that BEE should not apply to all businesses.

##### ◆ **Findings**

The respondents indicated the following reasons:

- not economically viable for small businesses;
- small and medium size businesses to be exempted;
- unconstitutional to white-owned businesses;
- discrimination towards white-owned businesses;
- starting up of a business to be a natural process - BEE entrepreneurs to start their own businesses; and
- what about the rights of the white-owned family businesses.

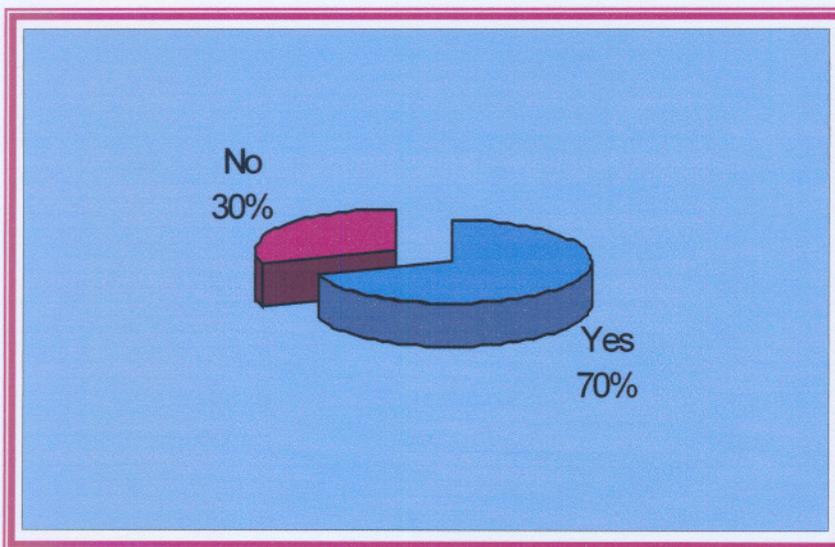
#### 4.3.4.6 Influence of BEE on succession

##### ◆ Purpose

To determine if BEE is considered as a threat to the succession in the family business.

##### ◆ Results

**Figure 4.21 The influence of BEE on succession**



##### ◆ Findings

Of the participating owners 70% felt that BEE will have an influence on their business, and 30% felt that it will have no influence. Participants being influenced by BEE, identified that it can cost them their business and diminish opportunities for their children. Participants indicating that it does not influence them said that they would continue the business without incorporating BEE. They believe their businesses will be able to continue doing business, because of their excellent service and niche markets that they are operating in.

#### **4.4 Summary**

The purpose and results of the questionnaire, which was obtained from the information obtained from the literature study completed in Chapters 2 and 3, were discussed in this chapter.

From the perceptions of the participants involved in the research, is it evident that BEE will have an impact on the majority of family businesses involved in this study. It confirms the problem statement that BEE has an impact on family businesses in the Vaal Triangle.

Based on the responses which were interpreted in this chapter, final conclusions and recommendations will be discussed in Chapter 5.

# **CHAPTER FIVE**

## **Conclusions and recommendations**

### **5.1 Introduction**

The importance of the family business in South Africa and in particular the Vaal Triangle cannot be underestimated. It is an important instrument in job creation, addressing unemployment and providing sustainable growth for the economy.

The disempowerment mechanisms used under Apartheid and other economic imbalances of the past, excluded the majority of South Africa's citizens from the economic mainstream. BEE emerged as a central objective for transformation after 1994 to achieve the vision of an adaptive economy characterised by growth, employment and equity by 2014.

The policy of BEE is of critical interest to family businesses because it impacts the heart and future of the family business.

Based on the responses, which were interpreted in the preceding chapter, the final conclusions and recommendations are considered in this chapter.

### **5.2 Conclusions**

In essence, South Africa's economy is based on the economic freedom of the individual to run his or her own business or profession, to develop entrepreneurial skills and to be rewarded for that. The freedom of equal human rights is also an essential part of the constitution of South Africa and should be adhered to. By analysing the questionnaires completed by the respondents, the following conclusions were made.

### 5.2.1 Conclusions based on the information of the family business

- The age of the businesses indicate that 70% of them are mature businesses. It can therefor be accepted that business strategies are in place and that the requirements of change are not be underestimated.
- The various industries varies a lot, with 35% of the businesses in the manufacturing industry and 25% in the service industry. BEE will have an impact on all industries in South Africa. This conclusion also applies to the legal status of the business, the majority being close corporations.
- The majority of family businesses are small and medium size businesses, indicating the importance of small and medium size enterprises to the economy of South Africa and the Vaal Triangle.

### 5.2.2 Conclusions on the biographical data of the owners

- Eighty five percent of the respondents are 40 years and older and ninety-five percent have a qualification higher than matric. It can thus be assumed that the owners of family businesses should be informed people with experience and knowledge of business, succession planning and the social responsibility of all businesses.
- All the respondents are married and it is assumed that marriage and family relationships are important to the owner of the family business.
- Eighty percent of the respondents are the founders of the family businesses, indicating their entrepreneurial skills and commitment to the business. Sixty percent of the executive owners have been in this position eleven years and longer. The assumption can thus be made that they will have an influence on succession, the business culture, change management and BEE.

- All the respondents were white family businesses. It was deliberately done to establish the impact of BEE on the white family businesses in the Vaal Triangle.

### 5.2.3 Conclusions on the structure of the family business

- In ninety percent of the businesses the spouse and children are involved. This indicates the importance of job creation in the family and enhances the importance of the family relationships. Eighty-five percent of the respondents indicated that succession planning is important, and that a successor has been identified. The assumption is therefor made that the owner wants the children to succeed him/her, and although in some family businesses the children are still young, the owner has the vision of succession.
- The results of ownership shares indicate that the spouse and children have a forty percent share of the business, indicating the development of shares distribution and succession. It is clear that in some family businesses the process of succession has already started.
- Overall the relationships among employed family members are good, with manageable conflict. The assumption is therefor made that problems among family members within the business are manageable and can be solved.
- The unique culture of the family business is very important to ninety-five percent of the responding businesses, indicating that the family business has its own, unique culture and characteristics. Entry rules also apply in eighty percent of the businesses, indicating that the family business has specific ways of doing things. The assumption is therefor made that BEE will change these unique ways of the family business.

### 5.2.4 Conclusions on BEE

- Overall the respondents indicated they have taken note of the policy of BEE and 85% agree on the importance thereof. The conclusion is made that the owners of family businesses have taken note of BEE and realise the importance of the policy.

- Of the respondents 35% indicated that they consider BEE as an opportunity and 65% indicated it as a threat. Of the respondents 70% indicated that BEE will have a negative influence on succession. The conclusion is therefore made that BEE is still a threat to most of the family businesses, especially in succession of ownership.
- Only 20% of the respondents have started implementing BEE by introducing the elements of the BEE scorecard. The conclusion is that family businesses have not given the implementation of BEE a lot of thought. In implementing BEE, difficulties experienced by family businesses are to find qualified and experienced people. The funding of BEE partners also seems to be a problem.
- All the respondents indicated that BEE should not apply to all businesses. It is concluded that the owners of family businesses are of the opinion that BEE should not apply to the family business.

### **5.3 Recommendations**

- Family businesses must realise that BEE is a given fact, instituted by the government and will have an effect on all businesses throughout South Africa.
- It would appear that family businesses still remain uncertain about the implications of BEE and the value it can add to their businesses. Family business owners must understand the essence of the policy of BEE, and realize that the initiative is not to discourage any business, but instead that they must seize the opportunity for growth.
- The essence of the initiative is an attempt to encourage all businesses in South Africa to commit to the policy of BEE, while at the same time ensuring growth and continued investment in the economy. At the heart of the initiative is the agreement and adoption of the BEE scorecard, the creation of corporate tax incentives link to BEE compliance, and to create interventions for the closing of the funding gap. Family businesses must commit to the policy in order to become part of these incentives.

- Undoubtedly, there is no magic way for the initiative to be implemented and effective BEE transformation will require a range of creative and practical interventions. Failure to acknowledge the imperative of BEE is no longer an option and government's strategy, coupled with contributions from the private sector, must be embraced if the challenge of achieving broad-based BEE (and therefore a truly representative economy) is to be achieved. Family businesses should therefore acknowledge the reality of BEE and start to embrace it.
- It is essential that family businesses realise the impact of BEE. Ultimately it will still be the choice of the family business owner to conform and adapt to the strategy of BEE. It should however be a business and economically viable decision, and not an emotional one. It is difficult to separate emotions from business decisions for the family business owner, but he/she must realise that the decision about BEE will have far reaching consequences for the whole family. Family businesses should make an informed choice for the sole benefit of the business.
- The family business should make a decision that is business orientated and commercial. The objective should be to make profit and to increase turnover, not to lose work, contracts or tenders. The business concept of sustainable growth should always be the ultimate goal for the business owners, meaning they should start implementing BEE to win new contracts and tenders in order to stay competitive.
- Make a long-term strategic decision about BEE and commit to the decision. *Strategic planning is the process of reconciling the business's internal resources with threats and opportunities in the external environment such as BEE.*
- It is necessary that leadership set goals in implementing BEE and determine the structures necessary to productively reach the goals. Plan strategies towards implementing BEE and look towards the future. Set specific goals and time frames for the implementation process. It will eliminate crisis management and set the family business in alignment with government strategies.

- Implement change management interventions. Use human resource specialists to implement a new culture and structures in the business. The family business owner should realise that by implementing BEE principles, there will be changes. To stand still is to fall behind. Change is necessary and important. There will be a culture change, take note of it, and commit to it. The environment of management today holds lots of changes. Change triggers emotional reaction because of the uncertainty involved. Resistance to change must be managed by the family business and can be overcome by education and communication, participation and involvement of all parties, facilitation and support of new ideas and employees and negotiations.
- Address the diversity issues introduced through BEE in the business, and use professional outside advice if necessary. Understand the way in which culture influences the efficiency of the business.
- The owner and leader of the family business play a critical role in the successful management of the business and influences individuals and groups within the business. When implementing BEE the owner-manager must first empower himself by getting all the information on BEE. He must take up authority and power to influence others positively towards the change taking place. Motivation plays an important role. As the owner-leader, convince the team members to support BEE, meaning that it is acceptable to them. Get them involved and aligned and committed and get them to buy into the concept of BEE.
- When appointing BEE employees do it for the right reasons. When implementing BEE, start by uplifting internal employees through the skills development plan, and multi-skilling, giving them the opportunity to develop. This is ultimately what BEE is about - upliftment of those who need it.

### 5.3.1 Implementation plan

The following plan, discussed below, could assist family businesses with the implementation process.

#### *5.3.1.1 Phase one: empowerment of owner*

The owner-manager of a family business must empower himself/herself by obtaining as much information as possible on BEE. The Department of Trade and Industry has a policy document underlining all the relevant information needed by the family business. Read and understand the policy. Know exactly what it is about and examine the possibilities thereof.

#### *5.3.1.2 Phase two: strategies*

Inform the rest of the management team involved. Put strategies in place to implement BEE. Set time frames and goals in implementing BEE. Be professional and use interventions such as team-building, workgroups and seminars to involve the management team and to ensure their willingness and participation in creating strategies.

#### *5.3.1.3 Phase three: involve the people*

Once management has set strategies, it will be important to involve the people concerned in implementing BEE. This involves education, consulting and training. Start at the basics and implement a skills development plan. Involve as much employees as possible. Use facilitators and workshops.

#### *5.3.1.4 Phase four: role out*

Depending on the success of the skills development training, identify possible black employees for management positions. Introduce more advanced management training and assist these employees. Uplift internal employees. The culture of the family business can stay more in tact.

Seek BEE partners externally. In implementing BEE, outside partners buying in, is the ideal situation. This means financial benefit for the owner. However, this proves to be difficult. To find qualified people and funding for BEE deals seems to be a problem.

Alternative approaches can be to form alliances with BEE companies, or to sell off the family business to BEE companies, but to stay part of the management team.

#### **5.4 Achievement of objectives**

The objectives of this study were to determine the impact of BEE on family businesses in the Vaal Triangle. A literature study on family businesses (Chapter 2) and BEE (Chapter 3) was therefore required to compile a questionnaire to determine the impact of BEE on the family businesses. Based on the outcome of these results certain conclusions were made in this chapter, which confirm that BEE will have a definite impact on the family businesses in the Vaal Triangle.

Given the findings it is considered that the objectives and sub-objectives as set out in paragraph 1.3 of this study, have been achieved.

#### **5.5 Further studies to be considered**

The BEE policy and implementation is seen as a threat by most family businesses at this stage. It is therefore recommended that:

- ◆ further studies be considered in other areas of South Africa; and
- ◆ given a period of time, to assess the family businesses' commitment and implementation of BEE.

#### **5.6 Summary**

The responsibility of all businesses in South Africa lies in managing and channeling business and entrepreneurial energy effectively to generate capital, expertise and economic growth.

The reality of Black Economic Empowerment is facing everybody in the business world and cannot be swept under the carpet. Many family businesses still remain uncertain about the impact and implications of BEE and the value it can add to their businesses. Family business owners must understand the essence of the BEE policy, should face this reality and realize that it is not to discourage any business, but instead seize the opportunities posed by BEE.

Ultimately it will still be the choice of the family business owner to conform and adapt to the strategy of BEE. It should be an informed, economically viable decision made by the family business, separated from emotions. This decision will have far reaching consequences for the whole family.

## REFERENCES

ACKERMAN, R. 2001. Hearing grasshoppers jump: The story of Raymond Ackerman as told by Denise Prichard. Cape Town : David Philip.

ADAMS, G.R. & SCHVANEVELDT, J.D. 1985. Understanding research methods. New York : Longman Inc.

ANDERSON, B. 2003. Bottom-up model for BEE.  
<http://m1.mny.co.za/BBSt.../C2256A2A0053166642256D7F0041D4A8?OpenDocument>  
(Accessed 26 August 2004).

ARONOFF, C.E., ASTRACHAN, J.H., WARD, J.L. 2002. Family business sourcebook. 3<sup>rd</sup> edition. Georgia : Family Enterprise Publishers.

ARONOFF, C.E. & WARD, J.L. 1992. Family business succession: the final test of greatness. Marietta, GA: Business Owners Resources.

BALSHAW, T. 2004a. Surviving past the next generation. <http://www.realbusiness.co.za/cgi-bin/realc/rc-show.pl?1090310609> (Accessed 26 August 2004).

BALSHAW, T. 2004b. The business of family conflict. <http://www.realbusiness.co.za/cgi-bin/realc/rc-show.pl?1077014750> (Accessed 13 August 2004).

BEECOM. 1998. Key recommendations: Point of departure BEE.  
[http://www.bmfonline.co.za/bee\\_comm.htm](http://www.bmfonline.co.za/bee_comm.htm) (Accessed 13 August 2004).

BORNHEIM, S. 2000. The organizational form of family business. Massachusetts : Kluwer Academic Publishers.

DE CONING, T.J., KWINANA, L., LOTTER, S., MUNNIK, I., V.D.M.SMIT, E. 1997. Black people's access to Entrepreneurial Power in Corporate South Africa. Cape Town: Francolin Publishers.

DEPARTMENT OF TRADE AND INDUSTRY. 2003. South Africa's Economic Transformation : A strategy for Broad-based Black Economic Empowerment. Pretoria: DTI.

DE VOS, A.S., STRYDOM, H., FOUCHE, C.B., DELPORT, C.S.L. 2002. Research at grass roots. 2<sup>nd</sup> edition. Pretoria : Van Schaik.

ERWIN, A. 2002. Government thinks BIG on small enterprise.  
<http://www.sundaytimes.co.za/2002/02/17/business/news/news12.asp>. (Accessed 26 August 2004).

FLEMING, Q.J. 2000. Keep the family baggage out of the family business. Avoiding the seven deadly sins that destroy family businesses. New York : Simon & Schuster.

GODSELL, B. 1994. "Keynote Address". Black Economic Empowerment Conference. Sandton Holiday Inn, 17-18 March 1994.

HANDLER, W.C. 1990. Succession in family firms: a mutual role adjustment between entrepreneur and next-generation family members. *Entrepreneurship: theory and practice*, 15(1):37-51, Fall.

HARRIS, A.B. 1994. 10 Best moves for growing a family business. *Black enterprise*: 244-250, June.

HILBURT-DAVIS, J. & DYER, W.G. 2003. Consulting to family businesses. San Francisco : Jossey-Bass/Pfeiffer.

HOLLANDER, B.S. & BUKOWITZ, W.R. 1990. Women, family culture and family business. *Family business review*, 3(2):139-151, Summer.

IBRAHIM, A.B. & ELLIS, W.H. 1994. Family business management: Concepts and practice. Dubuque, Iowa : Kendall/Hunt Publishing Company.

JOUBERT, M.N. 1990. Black Economic Empowerment : with specific references to the role of the informal sector. Unpublished dissertation for completion of MBA. University of Stellenbosch.

KETS DE VRIES, M.F.R. 1996. Family business. Human dilemmas in the family firm. London: International Thomson Business Press.

LEA, J.W. 1991. Keeping it in the family. Successful succession of the family business. New York : Wiley.

LEACH, P. & BOGOD, T. 1999. Guide to the family business. 3<sup>rd</sup> edition. London: Biddles Ltd, Guilford and King's Lynn.

LEEDY, P.D & ORMRAD, J.E. 2001. Practical research-planning and design. 7<sup>th</sup> edition. New Jersey: Merrill Prentice Hall.

LENNOX, J. 2004. BEE Realities. <http://www.dailytenders.co.za/general/news/article.asp?id==568> (Accessed 26 August 2004)

LEW, C. & WHITEFORD, G. 2004. Succeeding in black economic empowerment. *Management Today*, 20(3):29-30. April.

LITZ, R.A. 1995. The family business: Toward definitional clarity. *Family business review*, 8(2): 71-81, Summer.

MAAS, J.P, VENTER, E., MAAS, B. 2004. Unpublished Old Mutual Document.

MABUZA, E. 1996. Black Economic Empowerment: The South African experience. Business Round Table Conference. Sun City: 2 May 1996.

MONTSHO, F.V. 2000. Black economic empowerment through small, medium and micro enterprises. Unpublished dissertation for completion of MBA. UWITS.

MUKADAM, A.Z. 1995. An exploratory study into family-owned businesses: the interaction between family and business. Unpublished dissertation for completion of MBA. University of Cape Town.

MUSON, H. 2002. The family business: Growth handbook. Philadelphia: Family Business Publishing.

PRINSLOO, P.J.J. 1994. 'n Historiese oorsig van die Vaaldriehoek industrialiseringsproses, 1880-1950. NIVG. PU vir CHO, Julie 1994

- QUNTA, C. 1995. *Who's afraid of Affirmative action: A survival guide for black professionals*. Roggebaai: Kwela Books.
- SHANKER, M. 2000. *Best of the family business advisor*. Georgia : Family Enterprise Publishers.
- SOUTH AFRICA. 1995. National small business enabling act. Government Gazette, 366:16876, December 15.
- THACKWRAY, T.G. 1998. Structures for black economic empowerment in South Africa. A research report in partial fulfillment for MCom. UWITS.
- THORNTON, G. 2003. *Family business: How directors can manage key issues in a family firm*. London: Director Publications.
- TOLO. 2003. *Black economic empowerment strategy: Briefing by the Economic and Foreign Affairs select committee*. <http://www.pmg.org.za/docs/2003/viewminute.php?id=2820> (Accessed 26 August 2004)
- VAN DER MERWE, S.P. 1999. *Formele beplanning in familie ondernemings in die Vaaldriehoek*. Unpublished doctoral thesis. Potchefstroom : PU vir CHO.
- VAN DER MERWE, S.P. 2004. *MBA III Entrepreneurship*. PBS : PU vir CHO. Studiegids 2004.
- WADULA, P. 2003. *Empowerment scorecard raises thorny equity issue*. <http://www.eskom.co.za/pressoffice/inthenews/vieweskomnews.asp?id=1921> (Accessed 13 August 2004)

## **APPENDIX A: QUESTIONNAIRE**

### **Questionnaire on the Impact of BEE on Family Businesses**

**CONFIDENTIAL**

**September 2004**

**Take note : to be completed by business owner**

**Dear Family Business Owner**

**Re: MBA mini-dissertation for completion of MBA Degree**

The family business plays an integral and important role in the South African economy and also in the Vaal Triangle's economy. It is an important instrument in job creation, addressing unemployment and providing sustainable growth for the economy.

However, by 2014 legislation commands that all businesses will have to comply with at least 26% ownership and equity in black hands. This is of critical interest for the family business because it impacts the heart of the family business.

This study wants to attempt to get conclusions and some recommendations on how to address this problem.

I am a third year MBA student at the Potchefstroom Business School at the North-West University, Potchefstroom.

Currently, I am doing research on the impact of the policy of Black Economic Empowerment (BEE) on a Family Business, as part of the final fulfillment of my MBA degree.

This topic is of special interest to me, because I am also involved in a family business and face the same situation as all the participants of this study.

I would like to include your company in my research and would appreciate it if you could set the time apart in your busy schedule to complete the structured questionnaire handed out to you. I will appreciate your participation very much.

I understand that some of the information may be confidential and the names of the companies participating will remain anonymous.

Thank you for your time.

Yours truly,

Zelda Oosthuizen

016 971 2591/2

Fax 016 971 2573

082 569 6397

## SECTION A

### BUSINESS INFORMATION

Mark the applicable block with a cross. Complete the applicable information.

<b>A1</b>	<b>Do you see the business as a family business?</b>	<b>Yes</b>	<b>No</b>
<b>Criteria:</b> <b>This means at least 51 percent of the business belongs to a single family and/or;</b> <b>At least two family members are actively involved in the management or operation of the business; and/or</b> <b>You intend transferring the business to the next generation.</b>			

<b>A2</b>	<b>What is the legal status of the family business?</b>		
	<b>Proprietorship</b>		
	<b>Partnership</b>		
	<b>Private company</b>		
	<b>Public company</b>		
	<b>Close corporation</b>		
	<b>Co-operative</b>		
	<b>Business trust /Family trust</b>		

<b>A3</b>	<b>Indicate the age of the business.</b>	
		<b>years</b>

<b>A4</b>	<b>Indicate the industry</b>		
	<b>Automotive</b>		
	<b>Agriculture</b>		
	<b>Construction</b>		
	<b>Food</b>		
	<b>Real estate</b>		
	<b>Retail</b>		
	<b>Wholesale</b>		
	<b>Manufacturing</b>		
	<b>Services</b>		
	<b>Other : specify</b>		

<b>A5</b>	<b>How many people are employed on a permanent basis in the business?</b>	
-----------	---	--

## SECTION B

### BIOGRAPHICAL INFORMATION OF THE EXECUTIVE OWNER OF THE FAMILY BUSINESS

This is the manager and owner of the family business and accountable for the successful running of the business.

Mark the applicable block with a cross. Complete the applicable information.

B1	In which age group do you fall?	-29	30-39	40-49	50-59	60+
----	---------------------------------	-----	-------	-------	-------	-----

B2	What is your sex?	Male	Female
----	-------------------	------	--------

B3	What is your marital status?	Single	Married	Divorced	Widower	Widow
----	------------------------------	--------	---------	----------	---------	-------

B4	State your highest academic qualifications.	
	Lower than matric	
	Matric	
	Certificate	
	Diploma (Technical college or Technikon)	
	University degree	
	Post Graduate degree	

B5	What is your position in the business?	
	Purchaser of business	
	Manager on behalf of owner	
	Founder of business	
	Second generation owner	
	Third generation owner	
	Other : Specify	

B6	How many years have you been in the above position?	
----	---	--

B7	Indicate your race group.	White	Asian	Coloured	Black
----	---------------------------	-------	-------	----------	-------

## SECTION C

### STRUCTURE OF THE BUSINESS.

Mark the applicable block with a cross. Complete the applicable information.

<b>C1</b>	<b>How many family members are currently employed fulltime in the business?</b>		
<b>C2</b>	<b>Indicate the family relationships of members employed.</b>		
	Spouse		
	Eldest son		
	Second eldest son		
	Third eldest son		
	Fourth eldest son		
	Eldest daughter		
	Second eldest daughter		
	Third eldest daughter		
	Brother(s): specify		
	Sister(s): specify		
	Children-in-law: specify		
	Parents-in-law: specify		
Other: specify			
<b>C3</b>	<b>Indicate the percentage of ownership of the business.</b>		
	Yourself		
	Spouse		
	Children		
	Other: specify		
<b>C4</b>	<b>Indicate the interpersonal relationship among family members employed.</b>		
	Excellent: good trust		
	Reasonable: manageable conflict		
	Not good: regular conflict		
	Poor: not getting along at all		
<b>C5</b>	<b>How important is the unique culture and way of doing things in the business?</b>		
	Not important		
	Less important		
	More important		
	Critical important		
<b>C6</b>	<b>Does the business have a clear vision of the future?</b>	<b>Yes</b>	<b>No</b>
<b>C7</b>	<b>If yes, does the vision include whom the successor or future owner will be?</b>	<b>Yes</b>	<b>No</b>

<b>C8</b>	<b>Does external factors (politics, economy, etc.) influence future succession?</b>	<b>Yes</b>	<b>No</b>
-----------	---	------------	-----------

**C9 If yes, specify:**

-----  
-----  
-----  
-----

<b>C10</b>	<b>Have you identified any of the following entry rules in the business?</b> <b>Criteria :</b> <b>-outside experience;</b> <b>-qualifications;</b> <b>-which family members will be allowed.</b>	<b>Yes</b>	<b>No</b>
------------	--	------------	-----------

<b>C11</b>	<b>If yes, are the rules applied in appointing new employees?</b>	<b>Yes</b>	<b>No</b>
------------	---	------------	-----------

<b>C12</b>	<b>Is succession planning important to the business?</b>	<b>Yes</b>	<b>No</b>
------------	--	------------	-----------

<b>C13</b>	<b>Have you identified a family member as a successor?</b>	<b>Yes</b>	<b>No</b>
------------	--	------------	-----------

<b>C14</b>	<b>If yes, who will it be?</b> <b>Specify:</b>		
------------	---	--	--

<b>C15</b>	<b>Are any of the family members eager to become a successor?</b>	<b>Yes</b>	<b>No</b>
------------	---	------------	-----------

<b>C16</b>	<b>If yes who is it?</b> <b>Specify:</b>		
------------	---	--	--

**SECTION D**

**BLACK ECONOMIC EMPOWERMENT**

Mark the applicable block with a cross. Complete the applicable information.

<b>D1</b>	<b>Have your business taken note of the policy of Black Economic Empowerment?</b>	<b>Yes</b>	<b>No</b>
-----------	---	------------	-----------

<b>D2</b>	<b>Do you understand the implications of the policy?</b>	<b>Yes</b>	<b>No</b>
-----------	--	------------	-----------

<b>D3</b>	<b>Indicate what you think about the implications of BEE</b>	
	<b>Not important</b>	
	<b>Less important</b>	
	<b>More important</b>	
	<b>Very important</b>	

<b>D4</b>	<b>Do you consider BEE as a:</b>	
	<b>Threat</b>	
	<b>Opportunity</b>	

**D5 Specify your answer in D4:**

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

<b>D6</b>	<b>Have your business started implementing BEE?</b>	<b>Yes</b>	<b>No</b>
-----------	---	------------	-----------

**D7 If yes, specify:**

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

<b>D8</b>	<b>Have you experienced any difficulties in implementing BEE?</b>	<b>Yes</b>	<b>No</b>
-----------	---	------------	-----------

**D9 If yes, specify:**

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

<b>D 10</b>	<b>Do you think BEE should apply to all businesses?</b>	<b>Yes</b>	<b>No</b>
-----------------	---	------------	-----------

**D11 Specify your answer:**

-----  
 -----  
 -----  
 -----

<b>D 12</b>	<b>Do you think BEE will influence succession in your business?</b>	<b>Yes</b>	<b>No</b>
-----------------	---	------------	-----------

**D13 If yes, specify:**

-----  
 -----  
 -----  
 -----

**D14 Do you have any recommendations on BEE and the family business situation?  
Specify:**

-----  
 -----  
 -----  
 -----

<b>D15</b>	<b>BEE scorecard. Indicate if your business complies with any of the following elements of the scorecard.</b>	
	<b>Equity ownership(percentage of black ownership)</b>	
	<b>Black management employees</b>	
	<b>Preferential procurement</b>	
	<b>Enterprise development</b>	
	<b>Skills and social development plan</b>	

**Thank you for your cooperation.**

# APPENDIX B: BEE SCORECARD

## A BALANCED SCORECARD FOR BROAD-BASED BLACK ECONOMIC EMPOWERMENT

### Introduction

To achieve our BEE objectives we need to have a consistency of approach, appropriate flexibility to respond to different economic and enterprise conditions and the ability to measure our progress. The negotiations around the Mining Charter developed a useful and pragmatic approach to these needs that will now be applied more generally.

Government will use a 'balanced scorecard' to measure progress made in achieving BEE by enterprises and sectors. The use of a common scorecard by different stakeholders provides a basic framework against which to benchmark the BEE process in different enterprises and sectors. The scorecard also allows government departments, state-owned enterprises, and other public agencies, to align their own procurement practices and individual BEE strategies. The scorecard further facilitates the process of setting measurable targets for BEE, for BEE ratings and other measurement purpose.

The scorecard allows for a measure of flexibility in order that it can be adapted to the particular circumstances of specific sectors or enterprises, while at the same time bring a measure of standardisation to the definition and measurement of BEE.

### Core components of BEE

This scorecard will measure three core elements of BEE:

- direct empowerment through ownership and control of enterprises and assets
- human resource development and employment equity
- indirect empowerment through preferential procurement and enterprise development

### Direct empowerment

The process of BEE must result in an increase in the ownership and control of the economy by black persons. This means that a significant proportion of black people's ownership of assets and

### Indirect empowerment

In order to grow our economy, more enterprises are needed to produce value-added goods and services, to attract investment, and to employ more of our people in productive activities. Thus, a core component of the BEE strategy is the creation and nurturing of new enterprises by black people. Preferential procurement by both the State and the private sector is an effective and efficient instrument to drive BEE as it provides emerging black enterprises with opportunities to expand their output. The scorecard, therefore, includes a preferential procurement element.

A second element of indirect empowerment is enterprise development. This can take two forms:

- investment in black-owned and –empowered enterprises
- joint ventures with black-owned and –empowered enterprises that result in substantive skills transfer

Investment in black-owned and –empowered enterprises is a crucial step in the provision of financial and intellectual capital to such enterprises. The key elements to be taken into account when making these types of investment are: there must be real economic benefit flowing to the recipient enterprise to enable it to be set up and run on a sustainable basis. Effectively there must be resultant operational capacity from the investment into the enterprise; and there must be active participation by black people in the recipient enterprise.

Joint ventures with black enterprises may involve processes such as outsourcing parts of the established enterprise's projects, or by jointly contracting for certain projects that will result in a transfer of skills to the black enterprise. The measure of the effectiveness of joint ventures is whether or not the black enterprise is able to perform the core elements of the joint projects on a stand-alone basis without compromising the competitive advantage contributed by either enterprise.

### The residual 10% in the scorecard

In order to allow sectors and enterprises to tailor the scorecard to the circumstances peculiar to that sector/ enterprise, a residual 10% of the scorecard is left to sectors and enterprises to determine. Government encourages sectors and enterprises to consider including some of the following in their scorecards:

enterprises must be a controlling interest, reflecting genuine participation in decision-making at board, executive management and operations levels, and the assumption of real risk.

In the scorecard, direct empowerment focuses on ownership of enterprises and assets through shares and other instruments that provide the holder thereof with voting rights and economic benefits such as dividends or interest payments

Control means:

- The right or the ability to direct or otherwise control the majority of the votes attaching to the shareholder's issued shares.
- The right or ability to appoint or remove directors holding a majority of voting rights at meetings of the board of directors of that shareholder.
- The right to control the management of that shareholder.

This emphasis on control does not detract from the important role that passive ownership of assets through pension and provident funds, unit trusts, and other collective investment schemes, can play in BEE. However, passive ownership by black people is in itself not sufficient to bring about a real transformation of our economy. Without active participation in managing worker-owned funds, and similar investment instruments, investors have very little control over the direction of investment decisions made by fund managers. Passive ownership of enterprises can also lead to a form of 'fronting' and this needs to be guarded against.

#### Human resource development and employment equity

This component of the scorecard focuses on the development of the employees of an enterprise or sector as well as employment equity. Enterprises are required to comply with the provisions of the Employment Equity Act to bring about an equitable representation of black persons in all occupations and at all levels of the organisation over a period of time. The involvement of black persons in operational, professional cadres and executive decision-making is a critical aspect of BEE. Given the legacy of systematic labour market discrimination and inferior education, accelerated skills and advanced professional skill development is also important.

- infrastructural support to suppliers and other enterprises in the same area or community
- labour-intensive production and construction methods
- beneficiation
- investment and support to enterprises operating in rural communities and the geographic areas identified in government's integrated sustainable rural development programme and urban renewal programme
- investment in the social wage of employees (for example, housing, transport, and health care)

**The BEE scorecard**

Core component of BEE	Indicators	Conversion Factor	Raw Score	Weighting	Total Score
<b>Direct empowerment score</b>					
Equity Ownership	% share of economic benefits	2		20%	
Management	% black persons in executive management and/ or executive board and board committees	2		10%	
<b>Human resource development and employment equity score</b>					
Employment equity	Weighted employment equity analysis	2		10%	
Skills development	Skills development expenditure as a proportion of total payroll	2		20%	
<b>Indirect empowerment score</b>					
Preferential procurement	Procurement from black-owned and empowered enterprises as a proportion of total procurement	20		20%	
Enterprise development	Investment in black-owned and empowered enterprises as a proportion of total assets	20		10%	
<b>Residual 10%</b>					
To be determined by sector/ enterprise				10%	
<b>Total Score out of 100%</b>					

- infrastructural support to suppliers and other enterprises in the same area or community
- labour-intensive production and construction methods
- beneficiation
- investment and support to enterprises operating in rural communities and the geographic areas identified in government's integrated sustainable rural development programme and urban renewal programme
- investment in the social wage of employees (for example, housing, transport, and health care)

#### The BEE scorecard

Core component of BEE	Indicators	Conversion Factor	Raw Score	Weighting	Total Score
<b>Direct empowerment score</b>					
Equity Ownership	% share of economic benefits	2		20%	
Management	% black persons in executive management and/ or executive board and board committees	2		10%	
<b>Human resource development and employment equity score</b>					
Employment equity	Weighted employment equity analysis	2		10%	
Skills development	Skills development expenditure as a proportion of total payroll	2		20%	
<b>Indirect empowerment score</b>					
Preferential procurement	Procurement from black-owned and empowered enterprises as a proportion of total procurement	20		20%	
Enterprise development	Investment in black-owned and empowered enterprises as a proportion of total assets	20		10%	
<b>Residual 10%</b>					
To be determined by sector/ enterprise				10%	
<b>Total Score out of 100%</b>					

## Indicators

The indicators outlined in the scorecard are provided as a guide. In practice, enterprises and sectors may use these ratios, analysis tables or mini-scorecards to provide the most accurate reflection of progress in each of the core components of BEE.

## Conversion factor

The conversion factor enables the scorecard to reflect progress made against the specific BEE targets that enterprises and sectors have established. Targets will be set at sectoral level where sector charters have been agreed. With regard to enterprises codes of good practice will be issued on appropriate benchmarks or targets. The targets set out in the Mining Charter will be used as guide

By way of illustration, the conversion factor in this scorecard is calculated as 100/target ratio. For example, if an enterprise established a target for procurement of 5%, i.e. black-owned and empowered enterprises will provide 5% of total procurement, then the component factor for preferential procurement will be 100/5, which is equal to 20. When that enterprise achieves this target it will receive a score of 5% times 20, 100%, for achieving its target. If the enterprise only procures 3% from black enterprises in the first year, it will receive a score of 3% times 20, or 60%.

Core component of BEE	Indicators	Conversion Factor	Raw Score	Weighting	Total Score
Preferential procurement	Procurement from black-owned and empowered enterprises as a proportion of total procurement	Target is 5% of procurement in 3 years		20%	
	Year 1- 3%	Conversion factor =	3% x 20 = 60%	60% x 20%	12%
	Year 2-5%	100/5 = 20	5% x 20 = 100%		

### **Weighting**

The weighting of each component reflects the relative importance that government places thereon. The six core components of BEE are weighted to bring the scorecard to a maximum of 100%. The weightings total 100 in order to bring the scorecard to a standardised maximum score.

### **Total score**

The total score will be calculated by the sum of the individual component scores and will be reflected as a score out of 100 percent.

### **Ranking enterprises using the scorecard**

Using the scorecard as a guide, government will rank and categorise enterprises for the purposes of preferential procurement, regulation and granting of licences, restructuring of state-owned enterprises, financing and other kinds of support. The precise weighting and score will depend on the actual transaction and will be adjusted according to the economic, commercial and financial situation.

Government will use the total score to rank enterprises according to their progress in achieving black economic empowerment:

- Total score of **91% and above** – **excellent** contributor to broad-based BEE
- Total score of **65% to 90.9%** - **good** contributor to broad-based BEE
- Total score of **40% to 64.9%** - **satisfactory** contributor to broad-based BEE
- Total score of **below 40%** - **limited** contributor to broad-based BEE

These rankings will be used to guide the direction of government support towards its BEE objectives. Preferential procurement policies and the qualifying criteria for government incentives and support schemes will be reviewed and, where appropriate amended, on a case-by-case basis, to reflect these rankings.

Government will also encourage the private sector to develop similar ranking systems in sector and enterprise charters and to use these rankings in their procurement systems.