

# **The impact of Broad-Based Black Economic Empowerment (BBBEE) on small enterprises**

SH MOYO

Mini-dissertation submitted in partial fulfillment of the requirements for the degree  
Master in Business Administration at the North-West University, Potchefstroom  
Campus

Supervisor: Prof SP van der Merwe

November 2009

Potchefstroom

# ABSTRACT

Since 1994 the South African Government introduced legislation to provide new economic opportunities to all people in South Africa, particularly those who were previously disadvantaged.

In 2004 the Broad-Based Economic Empowerment Act (53/2003) was promulgated, which led to some robust debates in different sections of the population. The purpose of this Act is to substantially increase the number of black people having ownership and control in enterprises and especially in the priority sectors identified by the Government.

Promotion of small and medium-sized enterprises is a key element in the Government's strategy of addressing the imbalances of the past and to create employment and income generation. It is estimated that there are 2.5 million small and medium-sized enterprises in South Africa and that these enterprises contribute between 52% and 57% to the country's Gross Domestic Product.

The Metal and Engineering industry constitutes 29.3% percent of formal manufacturing employment and employs over 300 000 people. The small and medium-sized enterprises in this sector are mainly owned by artisans, very few have employees and a relatively high annual turnover.

The primary objective of this study is two fold; firstly to investigate the impact of Broad-Based Black Economic Empowerment (BBBEE) on white-owned small and medium-sized businesses in the Metals and Engineering sector, secondly, to make practical recommendations to these small and medium-sized businesses on the management of these issues.

The research was conducted by means of a literature and empirical study. The literature study was divided into two sections. The first section studied Broad-Based Black Economic Empowerment and highlighted aspects such as: the history, policy objectives and the policy instruments used to achieve Broad-Based Black Economic

Empowerment. A major focus of the section on Broad-Based Black Economic Empowerment was the codes governing qualifying small enterprises. The second part of the literature study dealt with the Metals and Engineering industry and highlighted aspects such as: the structure of the industry, employment levels, the structure of employment and employment by small and medium-sized enterprises.

The literature study formed the basis for the assessment of the impact of Broad-Based Black Economic Empowerment on qualifying small enterprises in the Metals and Engineering sector. Specific indicators were empirically tested in practice by means of a developed questionnaire where-after the results were assessed.

Based on the findings of the study, it was concluded that the majority of owner-managers of small and medium-sized enterprises in the Metals and Engineering industry do not believe that there are substantial advantages in the implementation of Broad-Based Black Economic Empowerment.

Practical recommendations were also made to guide and support owner-managers through this highly emotional, but critical important, issue that can ultimately ensure the future continuity of the white-owned small businesses.

# ACKNOWLEDGEMENTS

Now to him who is able to do immeasurably more than all we ask or imagine, according to his power that is at work in us, to him be the glory. Firstly, I would like to thank the Lord for giving me the strength, courage and unmerited favour during my MBA studies.

A special word of thanks belongs to my wife, Thabang for all the sacrifices she made during my studies. Thank you for understanding. I love you, you are my life.

To my daughter, Obakeng thank you for making me smile.

To my mother, Ntombi, my brother Jabulani and the rest of my family thank you for all the support.

I would like to thank Prof. Stephan van der Merwe for his guidance, wisdom and patience. Thank you for pushing me and getting the best out of me; you are a model study leader.

I would also like to thank my spiritual father, Dr. E.M.K. Mathole for inspiring me to register for an MBA.

Thank you to all my study group members and my fellow MBA students for all the knowledge we shared.

To all my friends, colleagues, leaders and church mates thank you for all the support.

To all the willing participants who took part in this study, for their support and information.

Thank you to a young academic and friend, Danisile Msimango for the good work she did when proof-reading this dissertation.

# TABLE OF CONTENTS

	Page
ABSTRACT.....	i
ACKNOWLEDGEMENTS.....	iii
TABLE OF CONTENTS.....	iv
LIST OF FIGURES.....	ix
LIST OF TABLES.....	xi
<b>1. NATURE AND SCOPE OF THE 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 THE STUDY.....</b>	<b>4</b>
1.3.1 PRIMARY OBJECTIVES.....	4
1.3.2 SECONDARY OBJECTIVES.....	4
<b>1.4 SCOPE OF THE STUDY.....</b>	<b>5</b>
1.4.1 FIELD OF STUDY.....	5
1.4.2 GEOGRAPHICAL DEMARCATION.....	5
<b>1.5 RESEARCH METHODOLOGY.....</b>	<b>7</b>
1.5.1 LITERATURE REVIEW.....	7
1.5.2 EMPIRICAL STUDY.....	8
<b>1.6 LIMITATIONS OF THE STUDY.....</b>	<b>10</b>

<b>1.7</b>	<b>LAYOUT OF THE STUDY</b> .....	10
<b>2.</b>	<b>LITERATURE REVIEW</b> .....	13
<b>2.1</b>	<b>INTRODUCTION</b> .....	14
<b>2.2</b>	<b>DEFINITION OF TERMS</b> .....	14
	2.2.1 BLACK ECONOMIC EMPOWERMENT.....	14
	2.2.2 BROAD-BASED BLACK ECONOMIC EMPOWERMENT.....	14
	2.2.3 QUALIFYING SMALL ENTERPRISE.....	15
	2.2.4 BLACK PEOPLE.....	15
<b>2.3</b>	<b>HISTORY OF BEE</b> .....	15
<b>2.4</b>	<b>POLICY OBJECTIVES OF BEE</b> .....	17
<b>2.5</b>	<b>POLICY INSTRUMENTS TO ACHIEVE BBEE</b> .....	18
<b>2.6</b>	<b>QUALIFYING SMALL ENTERPRISES</b> .....	19
	2.6.1 ELIGIBILITY AS A QSE.....	19
	2.6.2 THE QSE SCORECARD.....	19
	2.6.3 THE QSE BEE STATUS.....	20
	2.6.4 THE QSE OWNERSHIP SCORECARD.....	21
	2.6.5 THE QSE MANAGEMENT CONTROL SCORECARD.....	22
	2.6.6 THE QSE EMPLOYMENT EQUITY SCORECARD.....	23
	2.6.7 THE QSE SKILLS DEVELOPMENT SCORECARD.....	24
	2.6.8 THE QSE PREFERENTIAL PROCUREMENT SCORECARD.....	25
	2.6.9 THE QSE ENTERPRISE DEVELOPMENT SCORECARD.....	26
	2.6.10 THE QSE SOCIO-ECONOMIC DEVELOPMENT SCORECARD....	26
<b>2.7</b>	<b>THE METALS AND ENGINEERING SECTOR</b> .....	27
	2.7.1 THE METALS AND ENGINEERING SECTOR STRUCTURE.....	27
	2.7.2 GEOGRAPHICAL LOCATION.....	31

2.7.3	EMPLOYMENT LEVELS.....	31
2.7.4	STRUCTURE OF EMPLOYMENT.....	32
2.7.5	EMPLOYMENT BY SMALL AND MEDIUM ENTERPRISES.....	33
<b>2.8</b>	<b>SUMMARY.....</b>	<b>34</b>
 <b>CHAPTER 3: RESULTS AND DISCUSSION.....</b>		<b>37</b>
<b>3.1</b>	<b>INTRODUCTION.....</b>	<b>37</b>
<b>3.2</b>	<b>QUESTIONNAIRE DESIGN.....</b>	<b>37</b>
<b>3.3</b>	<b>STUDY POPULATION AND SAMPLE.....</b>	<b>37</b>
<b>3.4</b>	<b>DEMOGRAPHIC INFORMATION.....</b>	<b>39</b>
	3.4.1 AGE GROUPS OF THE RESPONDENTS.....	40
	3.4.2 GENDER OF THE RESPONDENTS.....	41
	3.4.3 ARTISAN STATUS.....	42
	3.4.4 RACE OF THE RESPONDENTS.....	43
<b>3.5</b>	<b>BUSINESS INFORMATION.....</b>	<b>43</b>
	3.5.1 NUMBER OF EMPLOYEES EMPLOYED IN THE BUSINESS.....	44
	3.5.2 ANNUAL TURNOVER.....	45
	3.5.3 LEGAL STATUS.....	46
	3.5.4 BUSINESS ASSOCIATION.....	47
<b>3.6</b>	<b>AWARENESS OF BBBEE.....</b>	<b>48</b>
<b>3.7</b>	<b>THE IMPACT OF BBBEE ON SMALL AND MEDIUM ENTERPRISES... </b>	<b>49</b>
	3.7.1 ADVANTAGES OF BBBEE.....	51
	3.7.2 DISADVANTAGES OF BBBEE.....	54
	3.7.3 GOVERNMENT SUPPORT.....	57
	3.7.4 SUGGESTIONS.....	58

<b>3.8</b>	<b>SUMMARY.....</b>	<b>59</b>
<b>4.</b>	<b>CONCLUSIONS AND RECOMMENDATIONS.....</b>	<b>61</b>
<b>4.1</b>	<b>INTRODUCTION.....</b>	<b>61</b>
<b>4.2</b>	<b>CONCLUSIONS ON THE EMPIRICAL STUDY.....</b>	<b>61</b>
	4.2.1 CONCLUSIONS ON BIOGRAPHICAL DATA.....	62
	4.2.2 CONCLUSIONS ON BUSINESS INFORMATION.....	62
	4.2.3 CONCLUSIONS ON THE AWARENESS OF BBBEE.....	63
	4.2.4 CONCLUSIONS ON THE IMPACT OF BBBEE.....	64
<b>4.3</b>	<b>RECOMMENDATIONS.....</b>	<b>65</b>
	4.3.1 RECOMMENDATIONS TO THE SMALL AND MEDIUM-SIZED BUSINESSES.....	65
	4.3.2 RECOMMENDATIONS TO GOVERNMENT.....	66
<b>4.4</b>	<b>EVALUATION OF THE STUDY.....</b>	<b>67</b>
	4.4.1 PRIMARY OBJECTIVE.....	67
	4.4.2 SECONDARY OBJECTIVE.....	68
<b>4.5</b>	<b>SUGGESTIONS FOR FUTURE RESEARCH.....</b>	<b>69</b>
<b>4.6</b>	<b>SUMMARY.....</b>	<b>69</b>
	<b>REFERENCES.....</b>	<b>72</b>
	<b>ANNEXURE 1.....</b>	<b>76</b>



# LIST OF FIGURES

<b>FIGURE 1.1:</b> Map illustrating the geographical demarcation of the study.....	6
<b>FIGURE 1.2:</b> Layout of the study.....	11
<b>FIGURE 2.1:</b> Metal value matrix.....	30
<b>FIGURE 2.2:</b> Metal and Engineering businesses by geographical clusters.....	31
<b>FIGURE 2.3:</b> Contribution of each sub-sector to total employment.....	32
<b>FIGURE 2.4:</b> Structure of employment in the Metals and Engineering sector.....	33
<b>FIGURE 2.5:</b> Percentage of employment accounted for by small, medium And large companies in the Metals and Engineering sector.....	34
<b>FIGURE 3.1:</b> The outcome of qualifying small and medium-sized Enterprises contacted.....	39
<b>FIGURE 3.2:</b> Age distribution of the owners of small and medium-sized Enterprises in the sector who participated in this study.....	40
<b>FIGURE 3.3:</b> Gender distribution of the owners of small and medium-sized enterprises in the sector who participated in this study.....	41
<b>FIGURE 3.4:</b> Artisan status of the owners of small and medium-sized Enterprises in the sector who participated in this study.....	42
<b>FIGURE 3.5:</b> Employees employed by the small and medium-sized business.....	44
<b>FIGURE 3.6:</b> Annual turnover of the businesses.....	45

**FIGURE 3.7:** Legal status of the participating businesses.....46

**FIGURE 3.8:** Business association.....47

## LIST OF TABLES

<b>TABLE 2.1:</b> The qualifying small enterprise scorecard.....	20
<b>TABLE 2.2:</b> The contribution levels of qualifying small enterprises.....	21
<b>TABLE 2.3:</b> Calculating a score for ownership.....	22
<b>TABLE 2.4:</b> Calculating a score for employment equity.....	23
<b>TABLE 2.5:</b> Calculating a score for skills development.....	24
<b>TABLE 2.6:</b> Calculating a score for preferential procurement.....	25
<b>TABLE 2.7:</b> Calculating a score for enterprise development .....	26
<b>TABLE 2.8:</b> Calculating a score for socio-economic development scorecard.....	27
<b>TABLE 2.9:</b> Metal and Engineering SIC Codes.....	29
<b>TABLE 3.1:</b> Questionnaire sections and purpose.....	38
<b>TABLE 3.2:</b> Awareness of Broad-Based Black Economic Empowerment.....	48
<b>TABLE 3.3:</b> Statistical descriptive measures.....	50
<b>TABLE 3.4:</b> The results of the evaluation of the advantages of Broad-Based Black Economic Empowerment.....	52
<b>TABLE 3.5:</b> The results of the evaluation of the disadvantages of Broad-Based Black Economic Empowerment.....	55
<b>TABLE 3.6:</b> The results of government .....	57

**TABLE 3.7:** Results of the evaluation of suggestions made.....58

# CHAPTER 1

## NATURE AND SCOPE OF THE STUDY

### 1.1 INTRODUCTION

There are usually two parties involved in transformation: companies, which in most instances still represent white people, and black people who are trying to participate in mainstream economic activities (Jack, 2007: 1). The imperative for Black Economic Empowerment as a means of transforming the South African economy is not controversial in concept; however the means of achieving black economic empowerment is a subject of ongoing controversy and debate (Benjamin, Raditapole & Taylor, 2005: 3).

According to Biekpe (2008), about 95% of businesses in Australia are from the small and medium-sized enterprises sector. Currently, the United States of America has the largest small and medium-sized enterprises in the world. After the Second World War the growth of both Japan and Germany were small and medium-sized enterprises led. Furthermore, more tax revenue is generated from small and medium-sized enterprises in the developed countries compared to tax from big businesses. Small and medium-sized enterprises create more employment compared to big businesses. The above implies that small and medium-sized enterprises are, truly, the engine of economic growth. This is what South Africa strives to do, namely to increase the growth of the economy by utilising small and medium-sized enterprises.

Biekpe (2008) further states that it is estimated that there are more than 2.5 million small and medium-sized enterprises in South Africa. These small and medium-sized enterprises have a major role to play in the South African economy in terms of employment creation, income generation and output growth. It is estimated that 91% of the formal business entities are small and medium-sized enterprises and that they also contribute between 52 to 57% to the Gross Domestic Product and provide about 61% of employment. Promotion of the small and medium-sized enterprises should therefore be a key element in the Government's strategy for employment creation and income generation.

In its quest to redress the economic imbalance of the past, the South African government has introduced the Broad-Based Black Economic Empowerment Act (53/2003) that came into effect on 9 January 2004. According to this Act all businesses with an annual turnover of R5 million or more have to implement Broad-Based Black Economic Empowerment into their businesses. The specific criteria will be discussed briefly in this study.

In the majority of cases small and medium-sized enterprises in the Metals and Engineering sector are owned by a single entrepreneur and employs largely Black people who are the intended beneficiaries of the Broad-Based Black Economic Empowerment initiative.

This study focuses on whether the implementation of Broad-Based Black Economic Empowerment in the small and medium-sized enterprises is not in conflict with the goal of promoting the small and medium-sized enterprises in order to create employment and generate income for many families. The study will further investigate whether the implementation of Broad-Based Economic Empowerment has had an impact on white-owned small and medium-sized enterprises and consequently on the employment of Black people who are the intended beneficiaries of the initiative.

The chapter includes the problem statement, objectives and scope of the study, research methodology, the limitations of the study and lastly, the layout of the study.

## **1.2 PROBLEM STATEMENT**

Broad-Based Black Economic Empowerment refers to a small business as a qualifying small enterprise (QSE) and to micro-business as an exempted micro-enterprise (EME) (Jack, 2007: 91). An exempted micro enterprise is an entity with an annual turnover of less than R5 million and a qualifying small enterprise is an entity with an annual turnover between R5 million and R35 million (Jack, 2007:73). According to the Manufacturing, Engineering and Related Services Sector Education and Training Authority (Merseta) website, there are 24, 475 businesses in the Metals

and Engineering sector. A total of 96% of these businesses are small and medium-sized enterprises; of those, 53% are regarded as “very small”. The question therefore is what happens to the 47% who are not very small but are still small and medium-sized enterprises; should they also be exempted from Broad-Based Black Economic Empowerment or shouldn't they?

Qualifying small enterprises in the Metals and Engineering sector, even though they have a turnover of between R5 million and R35 million, are typically owned by one person who is an artisan with one person doing the administration. These business owners have neither the time nor the expertise to comply with the incredibly complicated and time-consuming Broad-Based Economic Empowerment compliance issues. A burden on these entrepreneurs to comply with this legislation and codes may distract them from sourcing business and actually conducting their core business.

As already noted in this chapter small and medium-sized enterprises in South Africa provide for 61% of employment. This issue raises a number of questions, namely: What happens when a small engineering firm loses business because of the lack of compliance with the Broad-Based Black Economic Empowerment legislation? What happens to all the people employed in that factory? Are white-owned small and medium-sized enterprises in the Metals and Engineering sector disadvantaged by Broad-Based Black Economic Empowerment or they are still doing as well as they did before the introduction of this legislation? Are they retrenching people due to a decrease in the contracts they get due to being non-compliant?

This study focuses on these questions and whether the burden of complying with Broad-Based Black Economic Empowerment legislation has an impact on the survival of white-owned small and medium-sized enterprises. Secondly the study will make recommendations based on the analysis of the results from the questionnaire completed by owners of small and medium-sized enterprises; these recommendations will aim to ease the impact and implementation of Broad-Based Black Economic Empowerment for these business owners.

## **1.3 OBJECTIVES OF THE STUDY**

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

### **1.3.1 Primary objective**

The primary objective of this study is two fold; firstly to investigate the impact of Broad-Based Black Economic Empowerment (BBBEE) on white-owned small and medium-sized businesses in the Metals and Engineering sector and secondly to make recommendations to these small and medium-sized businesses on the management of this issue.

### **1.3.2 Secondary objectives**

In order to achieve the primary objective, the following secondary objectives will be pursued:

- To define Broad-Based Black Economic Empowerment (BBBEE).
- To obtain insight into the dynamics of BBBEE by means of a literature study.
- To gain insight into the dynamics of small and medium-sized companies operating in the Metals and Engineering sector.
- To assess the impact of Broad-Based Black Economic Empowerment on small and medium-sized companies in the Metals and Engineering sector on the Southern region of Ekurhuleni and the Sedibeng region in Gauteng.
- To make conclusions and recommendations based on the literature study and empirical study.



## **1.4 SCOPE OF THE STUDY**

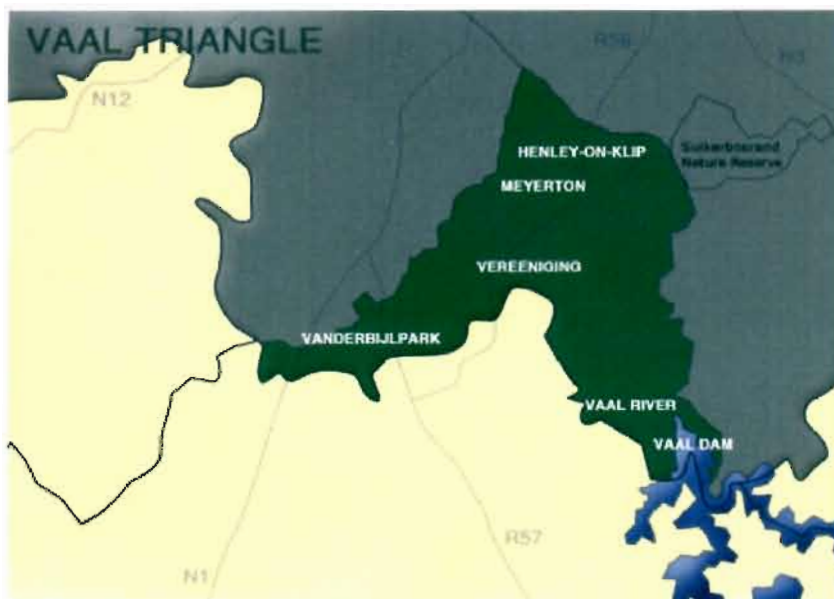
### **1.4.1 Field of study**

This study will focus on the field of entrepreneurship with specific reference to the objectives, key principles and elements of Broad-Based Black Economic Empowerment.

### **1.4.2 Geographical demarcation**

The study will focus on the qualifying small enterprises that are in the Metals and Engineering sector on the Southern region of Ekurhuleni and the Sedibeng region. Refer to figure 1.1 for a map illustrating the geographical demarcation of the study. The Southern region of Ekurhuleni includes Alberton, Germiston and Boksburg. The Sedibeng region includes Sasolburg, Vanderbijlpark, Vereeniging and Meyerton. This region has many small and medium-sized enterprises in the Metals and Engineering sector and therefore can be seen as a good example of an average company in South Africa.

Figure 1.1: Map illustrating the geographical demarcation of the study



Source: Sleeping Out

## 1.5 RESEARCH METHODOLOGY

This study will be performed in two phases. The first phase will entail a literature review based on qualifying small enterprises in the Metals and Engineering sector and Broad-Based Black Economic Empowerment, and the second phase will deal with an empirical study on these two topics.

### 1.5.1 Literature review

To ensure a literature review that reflects a broad spectrum of insights a wide range of sources were consulted. These sources include textbooks on the subjects, published articles, scientific journals and numerous electronic references including sources from websites and search engines.

The literature review will be divided into two different topics. The first topic will deal with Broad-Based Black Economic Empowerment and will include the following sub-topics:

- History of Black Economic Empowerment.
- Policy objectives of Black Economic Empowerment.
- Policy instruments to achieve Broad-Based Black Economic Empowerment.
- Qualifying small enterprises.

The second topic will deal with the literature review on the Metals and Engineering sector and will include the following sub-topics:

- The structure of the sector.
- The sub-sectors that are in the Metals and Engineering sector.
- The geographic location of the businesses in the sector.
- Employment levels in the sector.
- The structure of employment.
- Employment by small and medium-sized enterprises.

## **1.5.2 Empirical study**

The empirical study will be conducted by means of a self-developed questionnaire that will be distributed to qualifying small enterprises in the Metals and Engineering sector that need to comply with Broad-Based Black Economic Empowerment. Businesses that are exempted by virtue of having an annual turnover that is less than R5 million will be excluded by the study.

The results of the questionnaire will be statistically analyzed and will be used to reach conclusions on the different perceptions of owners of qualifying small enterprises on the impact of Broad-Based Black Economic Empowerment on their businesses.

### **1.5.2.1 Constructing the questionnaire**

The questionnaire was designed to ensure the gathering of information in five sections. The first section dealt with demographic information. Questions in this section included owner's age, gender, whether they were qualified artisans and whether the business was white owned. This section also provided information regarding the business in terms of number of employees, annual turnover and the legal status of the enterprise.

The second section of the questionnaire was constructed to ascertain the business owner's awareness of Broad-Based Black Economic Empowerment: This section focused on the knowledge of each business owner about Broad-Based Black Economic Empowerment.

The third section focused on the degree to which the business owner believes that Broad-Based Black Economic Empowerment has any advantage to their business. The fourth section focused on the degree to which the business owner believes that Broad-Based Black Economic Empowerment has any disadvantage to their business.

The final section focused on aspects like Government support, the implementation process and financing.

#### **1.5.2.2 The study population**

The study population of this study was qualifying small enterprises in the Metals and Engineering sector in the Southern region of Ekurhuleni and the Sedibeng region. The owner-manager of the selected qualifying small enterprises will complete the questionnaires. A convenience sample, by means of the snowball sampling technique as interpreted by Page and Meyer (2000:100) was used to identify the qualifying small enterprises in the Metals and Engineering industry that participated in the study.

Generating a list of potential qualifying small enterprises, involved the contacting of the owners directly. The final list consisted of 50 qualifying small enterprises, which were willing to participate in the study.

#### **1.5.2.3 Data collection**

The questionnaire was taken in person to the identified qualifying small enterprises, ensuring effective lead times and portraying an image of appreciation for their participating in the study. Each questionnaire was accompanied with a covering letter that guaranteed the confidentiality of their responses and by offering to personally collect the completed forms participants were further encouraged to participate.

#### **1.5.2.4 Statistical analysis**

The Statistical Consultation Services at the North-West University used Statistica (Statsoft, 2008) and SPSS (2008) to do the analysis of the questionnaires. The main focus of the statistical analysis was based on the consistency between the different indicators of the questionnaire.

## **1.6 LIMITATIONS OF THE STUDY**

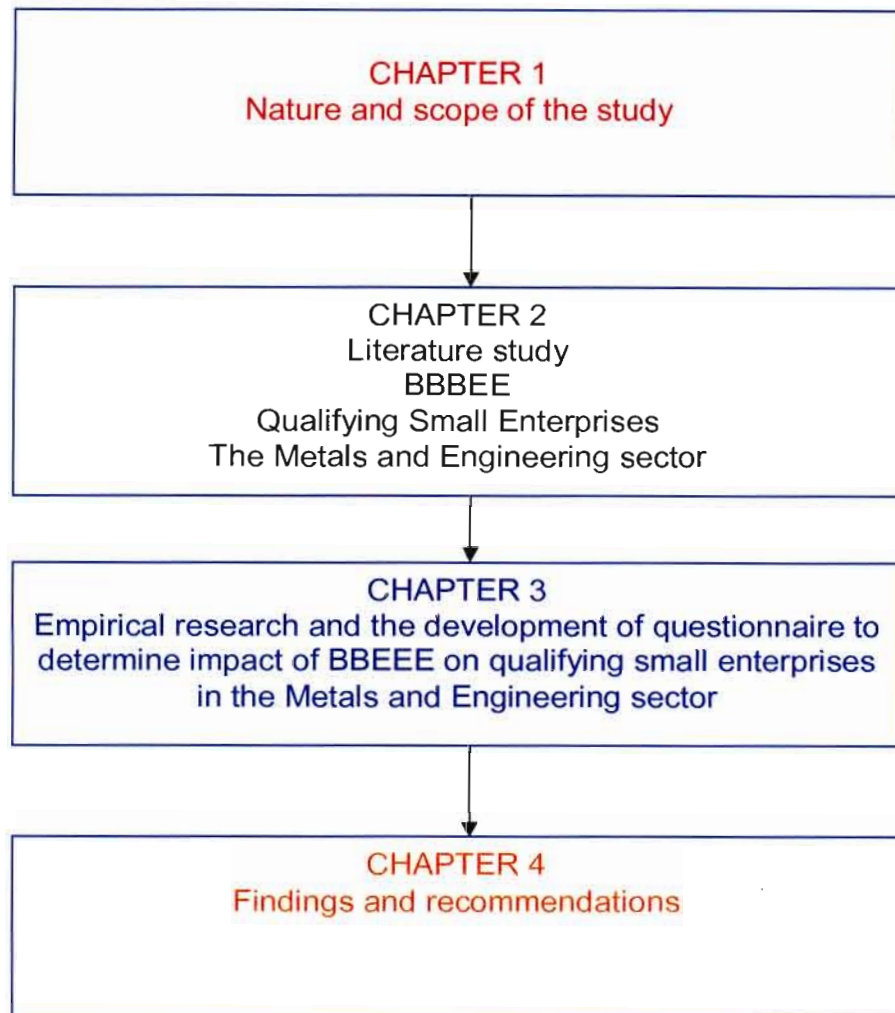
The study aimed at making a contribution towards the knowledge of small and medium-sized enterprises in the Metals and Engineering sector in South Africa and particularly the impact of Broad-Based Black Economic Empowerment legislation on these businesses. However the geographical area on which the study focused is restricted to the Sedibeng and the Ekurhuleni South regions and therefore the sample cannot be considered representative of all small and medium-sized enterprises in the Metals and Engineering sector in South Africa.

Broad-Based Black Economic Empowerment is a vast field and for the purpose of this study only certain aspects which influence small and medium-sized enterprises were studied. The interpretation of results and outcomes of this study should be dealt with in the context of the limitations highlighted in the previous paragraphs.

## **1.7 LAYOUT OF THE STUDY**

The study is divided into four chapters. Refer to figure 1.2 for a layout of the study.

**Figure 1.2: Layout of the study**



The chapter's contents can be summarised as follows:

Chapter one dealt with the introduction, problem statement, objectives, scope of the study, the research methodology, and limitations of the study.

Chapter two dealt with a literature review that contains the definition and comprehensive look at Broad-Based Black Economic Empowerment, small and medium enterprises particularly qualifying small enterprises and the background to

the Metals and Engineering sector. This chapter also outlines the policy objectives, key principles, components and elements of BBBEE.

In chapter three the constructing of the questionnaire and the process to gather the data will be discussed. The empirical study will then be conducted which includes the gathering of data from qualifying small enterprises in the Metals and Engineering sector.

In chapter four the conclusion and recommendations based on the literature study and the results of the empirical research will be discussed. Recommendations will be made to qualifying small enterprises on how best to manage and implement Broad-Based Black Economic Empowerment in their businesses. The achievement of the objectives and suggestions for future research will also be discussed.



# **CHAPTER 2**

## **LITERATURE REVIEW OF BROAD-BASED BLACK ECONOMIC EMPOWERMENT AND THE METALS AND ENGINEERING SECTOR**

### **2.1 INTRODUCTION**

It is accepted across the world that small and medium-sized enterprises are very important to the development of any economy. According to Biekpe (2008), small and medium-sized enterprises create more employment than big businesses. This implies that small and medium-sized enterprises are truly the engine of economic growth. However, as much as the importance of small and medium-sized enterprises are acknowledged in South Africa, there is another topic that remains the subject of widespread and lively debate, namely Broad-Based Black Economic Empowerment (BBBEE).

In the post-apartheid era the new government that came to power in 1994 has gone on a mission to address the inequalities of the past, combat poverty and reduce unemployment in South Africa. The Metals and Engineering sector makes up a sizeable portion of manufacturing activities in the South African economy. Large firms, including multinational engineering and motor manufacturing firms, dominate the economic landscape in terms of ownership, market power and employment (FRIDGE, 2003).

In this chapter, a literature study is undertaken which will focus on the definition of key concepts being small and medium-sized enterprises, Broad-Based Black Economic Empowerment, the BBBEE Scorecard and a background to the Metals and Engineering sector. The history of Black Economic Empowerment and Broad-Based Economic Empowerment, its policy objectives, key principles and elements will also be discussed. The chapter will progress by looking at the small and medium-sized enterprises in the Metals and Engineering sector particularly those classified by the BBBEE Act as qualifying small enterprises.

## **2.2 DEFINITION OF TERMS**

It is vital that the concepts that are used in the study are defined to ensure clarity as they can mean different things to different readers.

### **2.2.1 Black Economic Empowerment (BEE)**

Government defines BEE as an integrated and coherent socio-economic process that directly contributes to the economic transformation of South Africa and 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). According to Conger and Kanungo (1998: 23), empowerment can be defined as a process of enhancing feelings for self-efficacy among organizational members by identifying conditions that foster powerlessness and removing them through formal organizational practices.

### **2.2.2 Broad-Based Black Economic Empowerment (BBBEE)**

Broad-Based Black Economic Empowerment means the economic empowerment of all black people including women, workers, youth, and people with disabilities and people living in rural areas through diverse but integrated socio-economic strategies that include, but are not limited to:

- Increasing the number of black people that manage, own and control enterprises and productive assets.
- Facilitating ownership and management of enterprises and productive assets by communities, workers, cooperatives and other collective enterprises.
- Human resource and skills development.
- Achieving equitable representation in all occupational categories and levels in the workforce.
- Preferential procurement.
- Investment in enterprises that are owned or managed by black people (Department of Trade and Industry, 2004a:6).

### **2.2.3 Qualifying Small Enterprise**

Qualifying small enterprise means a business that qualifies for measurement under the qualifying small enterprise scorecard with a turnover of between R5 million and R35 million (Jack, 2007: 73).

### **2.2.4 Black people**

Black people mean a generic term which includes Africans, Coloureds, Indians and Chinese who are natural persons and:

- Are citizens of the Republic of South Africa by birth or descent; or
- Are citizens of the Republic of South Africa by naturalisation:
  - Occurring before the commencement date of the Constitution of the Republic of South Africa Act of 1993; or
  - Occurring after the commencement date of the Constitution of the Republic of South Africa Act of 1993, but who, without apartheid policy, would have qualified for naturalisation before then (Jack, 2007: 46).

## **2.3 HISTORY OF BEE**

The Black Economic Empowerment strategy document was released in 2003 (Jack (2006: 7-8). This however was not the beginning of Black Economic Empowerment; the beginning according to the Department of Trade and Industry (2003: 8-10) can be traced to the 1990s, when the following occurred:

- Since 1994 the South African 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 (Department of Trade and Industry, 2003: 8-10).

- 1994: The narrow-based approach to Black Economic Empowerment came into existence in 1994, when South Africa elected its first democratic government. (Booyesen, 2007: 10).
- 1995: The Black Business Council was established as it became evident that a need for a black voice in the economy was necessary, its main purpose was shaping the economic policies raging in the country (Van der Nest, 2004: 27).
- 1997: A Green Paper on public sector procurement was published by Government to introduce mechanisms to give effect to preferential procurement. The Black Management Forum proposed the establishment of the Black Economic Empowerment Commission (BEECom, 2001: 2). It is around this time that the second phase or second wave of BEE started (Janssens, Sefoko & Van Rooyen, 2006: 9). The broad-based or the second phase of BEE was introduced because the narrow-based or the first-phase approach was found to limit the set objectives (Kovacevic, 2007: 9).
- 1998: The BEE Commission was established (Jack & Harris, 2006: 37). The lack of common definitions, benchmarks and standards for BEE had spurred the formation of the commission (Jack, 2007: 10).
- 1998: The National Empowerment Fund was created to hold equity stakes in state-owned and private enterprises on behalf of historically disadvantaged persons (Department of Trade and Industry, 2003: 8-10). Though the National Empowerment Fund was created for financing BEE deals, the single most complex and scarce element of any empowerment transaction is related to financing. (Goldwyer, 2007).
- 2000: The BEECom released its report affirming the broad-based approach to BEE, which included a change from the focus on ownership to other elements like skills development and enterprise development (Havenga, 2005).
- 2003: The BEE strategy was released and the draft codes of good practice on Broad-Based Black Economic Empowerment was released (Jack, 2006: 9-10).
- 2003: Big, front page deals started to appear. According to Ntshabele (2008), it was during 2003 that the financial services group Sanlam sold its controlling interest in Metropolitan Life (Metlife) to Black shareholders of Metlife Investment Holdings (Methold), a consortium formed by prominent Black business people and community leaders. The consortium eventually became New Africa

Investments Limited (Nail), chaired by Dr. Nthato Motlana. Nail was later joined by Cyril Ramaphosa (Butler, 2007: 333).

- 2004: The Broad-Based Economic Empowerment Act was promulgated and the drafting and release of phase one of the codes of good practice was done (Jack & Harris, 2006: 37). There was growing concerns that even though BEE professes to promote the meaningful participation of black people in the economy, it actually fosters a political cronyism that benefits only a few elites (Kovacevic 2007: 10). This is what led to the realisation that BEE must be made to be broad-based.
- In February 2007 the Codes of Good Practice were gazetted (Jack & Harris, 2006: 37). The BBEE expectations from the Department of Trade and Industry's perspective were based on business leaders buying into the national agenda, across the seven elements (Balshaw & Goldberg, 2005: 23).

## **2.4 POLICY OBJECTIVES OF BEE**

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 underdeveloped 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). Many have argued though that BEE is not inclusive at all (Kovacevic 2007, 10). Similarly, Du Toit, Krugar and Ponte (2008: 13), in their study on BEE in South Africa's wine industry, indicate that BEE favours individuals rather than workers collectively or their communities.
- BEE is associated with good governance (improving quality and transparency of all economic activity).
- BEE is part of the growth strategy (economic growth, development and BEE are complementary).

## 2.5 POLICY INSTRUMENTS TO ACHIEVE BROAD-BASED BEE

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 pillars of BEE (Department of Trade and Industry, 2003:29):

- Direct empowerment through ownership and control of enterprise and assets.
- Human resource development and employment equity.
- Indirect empowerment through preferential procurement and enterprise development.

According to Jack (2007: 72), the seven elements are:

- **Skills development:** measures the extent to which employers carry out initiatives designed to develop the competencies of black employees.
- **Management control:** measures the effective control of enterprise by black people.

- **Preferential procurement:** measures the extent to which enterprises buy goods and services from suppliers with strong BBBEE procurement recognition levels.
- **Enterprise development:** measures the extent to which enterprises carry out initiatives intended to assist and accelerate the development and sustainability of other enterprises.
- **Equity ownership:** measures the effective ownership of enterprise by black people.
- **Employment equity:** measures initiatives intended to achieve employment equity in the workplace under the Employment Equity Act.
- **Socio Economic Development and Sector Specific Contributions:** measures the extent to which enterprises carry out initiatives that contribute towards socio-economic development or sector specific initiatives that promote access to the economy for black people.

## 2.6 QUALIFYING SMALL ENTERPRISES

### 2.6.1 Eligibility as a qualifying small enterprise (QSE)

Any enterprise with a total annual revenue of between R5 million and R35 million qualifies as a qualifying small enterprise (Department of Trade and Industry, 2007: 2).

### 2.6.2 The qualifying small enterprise Scorecard

The following table represents the qualifying small enterprise scorecard and contains the elements of the scorecard and the weightings:

**Table 2.1: The qualifying small enterprise scorecard**

<b>Element</b>	<b>Weighting</b>	<b>Code Series 800</b>
Ownership	25 points	801
Management control	25 points	802
Employment equity	25 points	803
Skills development	25 points	804
Preferential procurement	25 points	805
Enterprise development	25 points	806
Socio economic development contributions	25 points	807

**Source:** Department of Trade and Industry (2007: 79)

A qualifying small enterprise must select any four of the seven elements of BBBEE for the purposes of measurement under the qualifying small enterprise scorecard. If a qualifying small enterprise does not make a selection, its four best element scores will be used for the purposes of measurement (Department of Trade and Industry, 2007: 79).

### **2.6.3 The qualifying small enterprise BEE Status**

A qualifying small enterprises' overall score is used to determine its BEE Status. Generally the higher the BEE Score, the higher the recognition to any person/enterprise interacting with that qualifying small enterprise. Customers (public and private sector) generally prefer to interact and procure from entities with higher BEE status since this bolsters their own BBBEE recognition. (Empowerdex, 2007: 2).

Table 2.2 illustrate the contribution levels needed by qualifying small enterprises to be BBBEE compliant:



**Table 2.2: The contribution levels of qualifying small enterprises**

<b>BBBEE Status</b>	<b>Qualification</b>	<b>BBBEE Recognition Level</b>
Level one contributor	≥100 points on the generic scorecard	135%
Level two contributor	≥85 but < 100 on the generic scorecard	125%
Level three contributor	≥75 but <85 on the generic scorecard	110%
Level four contributor	≥65 but < 75 on the generic scorecard	100%
Level five contributor	≥55 but < 65 on the generic scorecard	80%
Level six contributor	≥45 but < 55 on the generic scorecard	60%
Level seven contributor	≥40 but < 45 on the generic scorecard	50%
Level eight contributor	≥30 but < 40 on the generic scorecard	10%
Non-compliant contributor	< 30 on the generic scorecard	0%

**Source:** Empowerdex (2007: 2)

The calculation of the recognition levels is not an easy matter particularly for a small and medium-sized business. A qualifying small enterprise sometimes has 10 employees and tracking these spends in order to be at least a level four contributor can be very difficult. The complexity of trying to comply with the codes is reflected in the following explanations.

#### **2.6.4 The qualifying small enterprise ownership scorecard**

Table 2.3 represents the indicators and method for calculating a score for ownership under this statement:

**Table 2.3: Calculating a score for ownership**

Category ownership indicator	Weighting points	Compliance target
<b>Voting right</b>		
<ul style="list-style-type: none"> <li>Exercisable voting rights in the enterprise in the hands of black people</li> </ul>	6	25% + 1 vote
<b>Economic Interest</b>		
<ul style="list-style-type: none"> <li>Economic interest of black people in the enterprise</li> </ul>	9	25%
<b>Realisation point</b>		
<ul style="list-style-type: none"> <li>Ownership fulfillment</li> </ul>	1	
<ul style="list-style-type: none"> <li>Net Value</li> </ul>	9	
<b>Bonus points</b>		
<ul style="list-style-type: none"> <li>Involvement in the ownership of the enterprise by black women</li> </ul>	2	10%
<ul style="list-style-type: none"> <li>Involvement in the ownership of the enterprise by black participants in employee ownership schemes, co-operatives or Broad-Based Ownership Schemes</li> </ul>	1	10%

**Source:** Department of Trade and Industry (2007: 80)

Table 2.3 indicates that there are four aspects to the ownership scorecard for qualifying small enterprises in which businesses can claim points. These are voting rights, economic interest, realisation point (net value) and bonus points. Setting targets for Black people and Black women separately in a qualifying small enterprise is unrealistic in terms of opportunity (Jack, 2007: 202).

### **2.6.5 The qualifying small enterprise management control scorecard**

The qualifying small enterprise's Management Control Scorecard allocates points for percentage of black top management and bonus points for representation of black women as Top Management (Empowerdex, 2007: 6).

## 2.6.6 The qualifying small enterprise employment equity scorecard

Table 2.4 represents the criteria used for deriving a score for employment equity:

**Table 2.4: Calculating a score for employment equity**

Criteria	Weighting points	Compliance targets	
		Years 0-5	Years 6-10
Black employees of the measured entity who are management as a percentage of all management adjusted using the Adjusted Recognition for Gender	15	40%	60%
Black employees of the measured entity as a percentage of all management adjusted using the Adjusted Recognition for Gender	10	60%	70%
Bonus point for meeting or exceeding the EAP targets in each category above	2		

**Source:** Department of Trade and Industry (2007: 82)

### Calculation of the adjusted recognition for gender

- The following calculation is applied when working out the adjusted recognition for gender:  $A = B/2 + C$ . C is limited to a maximum of 50% of the target, where:
  - A: is the adjusted recognition for gender.
  - B: is the percentage of employees in the measured category that are black people.
  - C: is the percentage of employees in the measurement category that are black women (Empowerdex, 2007: 23).

## 2.6.7 The qualifying small enterprise skills development scorecard

Table 2.5 represents the criteria used for deriving a score for skills development:

**Table 2.5: Calculating a score for skills development**

Skills Development Element	Weighting points	Compliance Target
Adjusted skills development spend on learning programmes for black employees as a percentage of leviabile amount	25	2%

**Source:** Jack (2007: 294)

These key measurement principles apply for understanding the skills development element:

- Any skills development spend by a measured entity that is an Adult Basic Education and Training (ABET) program is recognisable at a multiple of 1.25 to the actual value of such skills development spend.
- The skills development spend include any legitimate expenses incurred for any learning program, offered by a measured entity to its employees evidenced by an invoice or appropriate internal accounting record.
- Legitimate training expenses include:
  - Costs of training materials;
  - Costs of trainers including, where appropriate, the opportunity cost of internal trainers;
  - Costs of training facilities including costs of catering;
  - Scholarships and bursaries;
  - Course fees;
  - Accommodation and travel; and
  - Administration costs such as organisation of training including, where appropriate, the cost to the measured entity of employing a skills development facilitator or a training manager.

- No portion of any salary or wage paid to any employee participating as a learner in any learning program constitutes skills development spend unless the learning program is an in-service training program (Jack, 2007: 56).

### 2.6.8 The qualifying small enterprise preferential procurement scorecard

Table 2.6 represents the criteria used for deriving a score for preferential procurement under this statement:

**Table 2.6: Calculating a score for preferential procurement**

Criteria	Weighting points	Compliance targets	
		Years 0-5	Years 6-10
BEE Procurement spend from all suppliers based on the BEE procurement recognition levels as a percentage of total measured procurement spend	25	40%	50%

**Source:** Empowerdex (2007: 23)

The following key measurement principles apply for understanding the preferential procurement element:

- All procurement of goods and services by the measured entity, other than such portion specifically excluded in the statement, is measurable in calculating total measured procurement spend of the measured entity (Jack, 2007: 30).
- Where a measured entity can show that it procures goods and services from a supplier that is also:
  - A recipient of enterprise development contributions from the measured entity, the BEE procurement spend attributable to that supplier multiplied by a factor of 1.2 is recognisable; and
  - A value-adding supplier, the BEE procurement spend attributable to that supplier multiplied by a factor of 1.25 is recognisable.

- Measured entities are expected to pursue compliance with the statement in respect of all areas of procurement (Department of Trade and Industry, 2007: 84).

### 2.6.9 The qualifying small enterprise's enterprise development scorecard

Table 2.7 represents the criteria used for deriving a score for enterprise development under this statement:

**Table 2.7: Calculating a score for enterprise development**

Criteria	Weighting points	Compliance Target
Average annual value of all qualifying contributions made by the measured entity as a percentage of the target	25	2% of net profit after tax

**Source:** Jack (2007: 341)

Table 2.7 indicates that a qualifying small enterprise may be able to claim points for all qualifying contributions it makes for purposes of enterprise development. Qualifying contributions include grants, loans, equity investments and contributions made in the form of human resource capacity to exempted micro enterprises, qualifying small enterprises that are 50% Black owned or 25% Black owned with a BEE status level between level one and level six (Jack, 2007: 328).

### 2.6.10 The qualifying small enterprise's socio-economic development (SED) scorecard

Table 2.8 represents the criteria used for deriving a score for socio-economic development under this statement:

**Table 2.8: Calculating a score for socio-economic development scorecard**

<b>Criteria</b>	<b>Weighting points</b>	<b>Compliance Target</b>
Average annual value of socio-economic development contributions and approved socio-economic development contributions made by the measured entity as a percentage of the target	25	1% of net profit after tax

**Source:** Jack (2007: 352)

The following measurement principles apply for understanding the socio-economic development element:

- Measured entities receive recognition for any qualifying contributions that are quantifiable as a monetary value using a standard valuation method.
- Qualifying contributions of any measured entity are recognisable:
  - From the commencement date of the statement or the inception date;
  - Until the date of measurement; and
  - No portion of the value of any qualifying contribution that is payable to the beneficiary after the date of measurement can form part of any calculation.
- Payments made by the measured entity to third parties to perform social development on the measured entity's behalf may constitute a SED contribution.
- Sector specific contributions are recognised on the basis set forth in the sector code governing them (Department of Trade and Industry, 2007: 86).

## **2.7 THE METALS AND ENGINEERING SECTOR**

### **2.7.1 The Metals and Engineering sector structure**

The Metals and Engineering sector covers both the manufacturing of basic and precious metals and the production of metal products (Department of Trade and Industry, 2006:23). According to the Manufacturing, Engineering and Related Services Sector Education and Training Authority (Merseta), the Metal and Engineering sector includes primary and secondary metal production and the

engineering and fabrication of metal (Merseta, 2007: 23). The machinery and equipment sector plays an extremely important role in almost all primary and manufacturing sectors by providing and servicing capital equipment, while the manufacture of transport equipment ensures efficient distribution of goods.

Globally, the sector is becoming increasingly linked with the electronics sector and is placing more emphasis on innovation and globalisation of production (Department of Trade and Industry, 2006:23). The Metals and Engineering sector includes the following subsectors, as defined by the Standard Industrial Classification (SIC) codes in table 2.9:



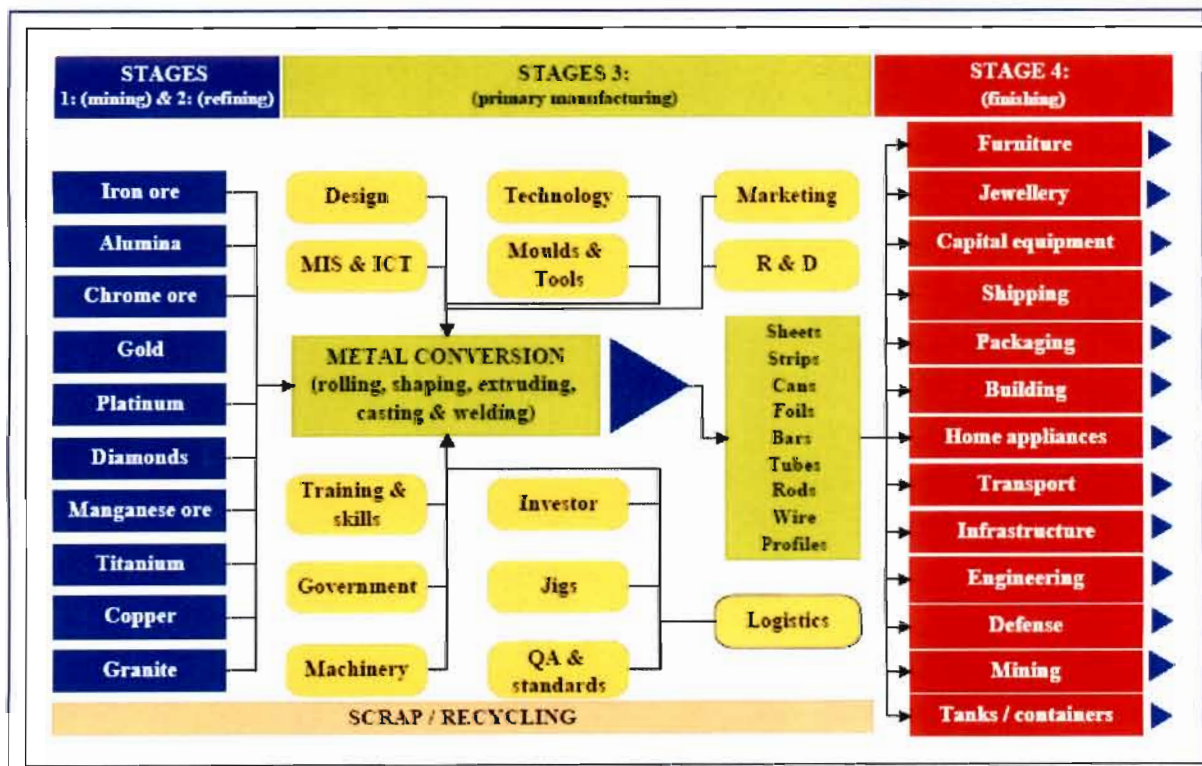
**Table 2.9: Metal and Engineering SIC Codes**

Code	Item	Code	Item
35101	Basic iron and steel industries, except steel pipe and tube mills	35740	Manufacture of machinery for mining, quarrying and construction
35102	Steel pipe and tube mills	35750	Manufacture of machinery for food, beverage and tobacco processing
35201	Refining of precious metals, e.g. gold, silver, platinum	35760	Manufacture of machinery for textile, apparel and leather production
35202	Manufacture of primary non-ferrous metal products, excluding precious metals	35770	Manufacture of weapons and ammunition
35310	Casting of iron and steel	35780	Manufacture and installation of pneumatic and hydraulic systems
35320	Casting of non-ferrous metals	35800	Manufacture of household appliances i.e. (not elsewhere classified)
35411	Manufacture of metal structures or parts thereof	35900	Manufacture of office, accounting and computing machinery
35419	Other structural metal products, e.g. metal doors, windows and gates	36100	Manufacture of electric motors, generators and transformers
35420	Manufacture of tanks, reservoirs and similar containers of metal	36200	Manufacture of electricity distribution and control apparatus
35430	Manufacture of steam generators, except central heating hot boilers	36300	Manufacture of insulated wire cable
35510	Forging, pressing, stamping and roll-forming of metal: powder metallurgy	36501	Manufacture of electric bulbs and fluorescent tubes

**Source:** Merseta (2007: 24)

Figure 2.1 below shows not only the value chain for metal overall, but also the various kinds of activities linked laterally to the value chain without which metal cannot be effectively processed. In each category there are specific skills required. Employment opportunities tend to vary from high (semi skilled) at the mining (primary) level to low at the refining (intermediate) stages, to very high at the mass semi-manufacturing and final production stages (Department of Trade and Industry, 2006: 41). In addition to increased revenues and employment levels, improving the level of mineral beneficiation in South Africa contributes to Gross Domestic Product, reduces exposure to fluctuating world primary commodity prices, and is part of a sustainable and vibrant economy (Merseta, 2007: 26).

**Figure 2.1: Metal Value Matrix**

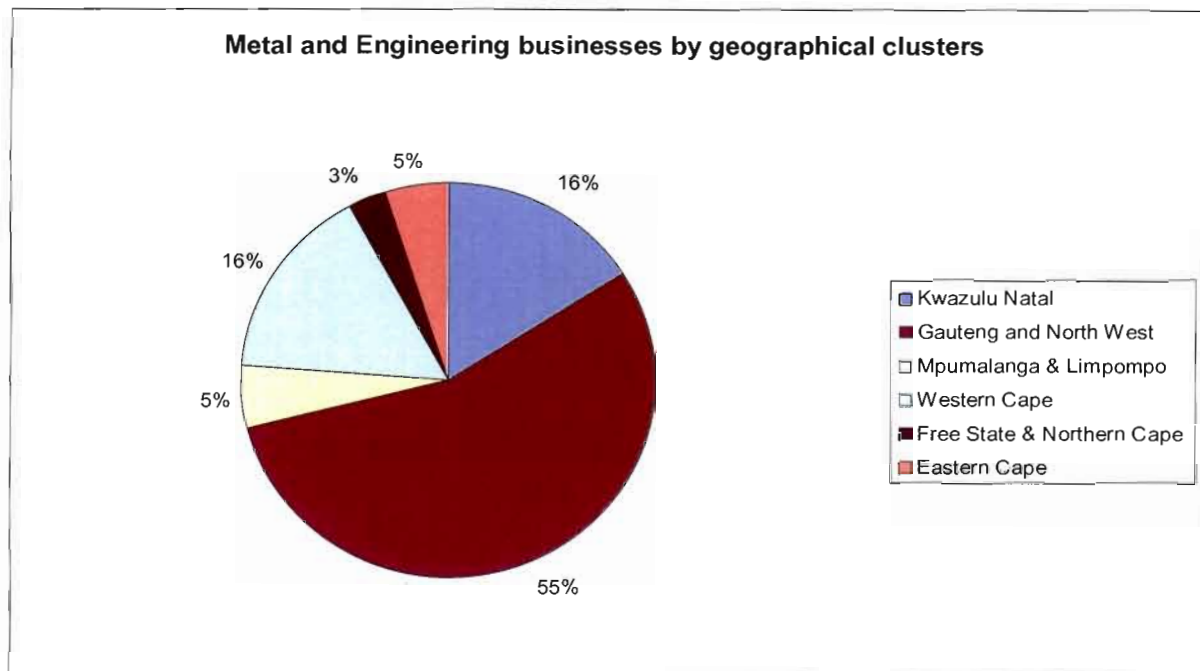


**Source:** Department of Trade and Industry (2006: 13)

### 2.7.2 Geographical location

Figure 2.2 shows the Metal and Engineering businesses according to geographically distribution, these are divided in clusters:

**.Figure 2.2: Metal and Engineering businesses by geographical clusters**



**Source:** Merseta (2007: 33)

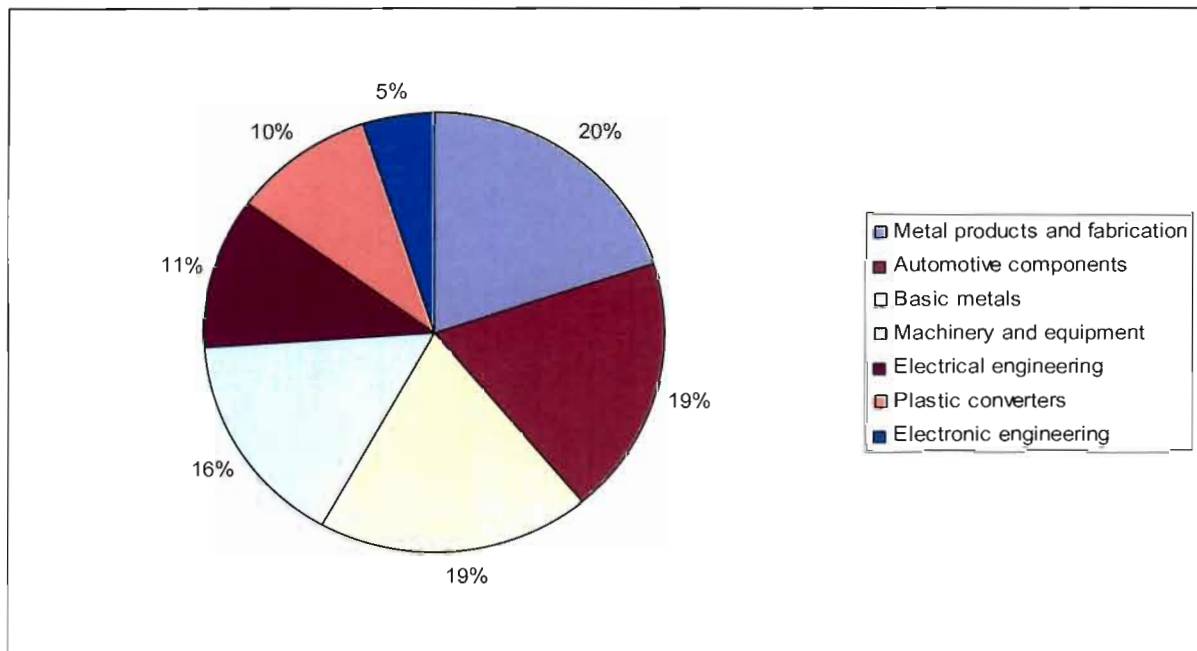
Figure 2.2 indicates that the highest numbers – 55 percent – of Metal and Engineering businesses are located in the Gauteng/North West region.

### 2.7.3 Employment levels

The Metals and Engineering sector is a major employer in the South African economy and employs over 300 000 people (Merseta, 2007: 55). The workforce in this sector is aging, and comprises mostly males (Merseta, 2007: 55). The Metals and Engineering sector constitutes 29.3% of formal manufacturing employment (FRIDGE, 2003: 1).

Figure 2.3 shows the contribution of each sub-sector to the industry's employment.

**Figure 2.3: Contribution of each sub-sector to total Metals and Engineering employment**



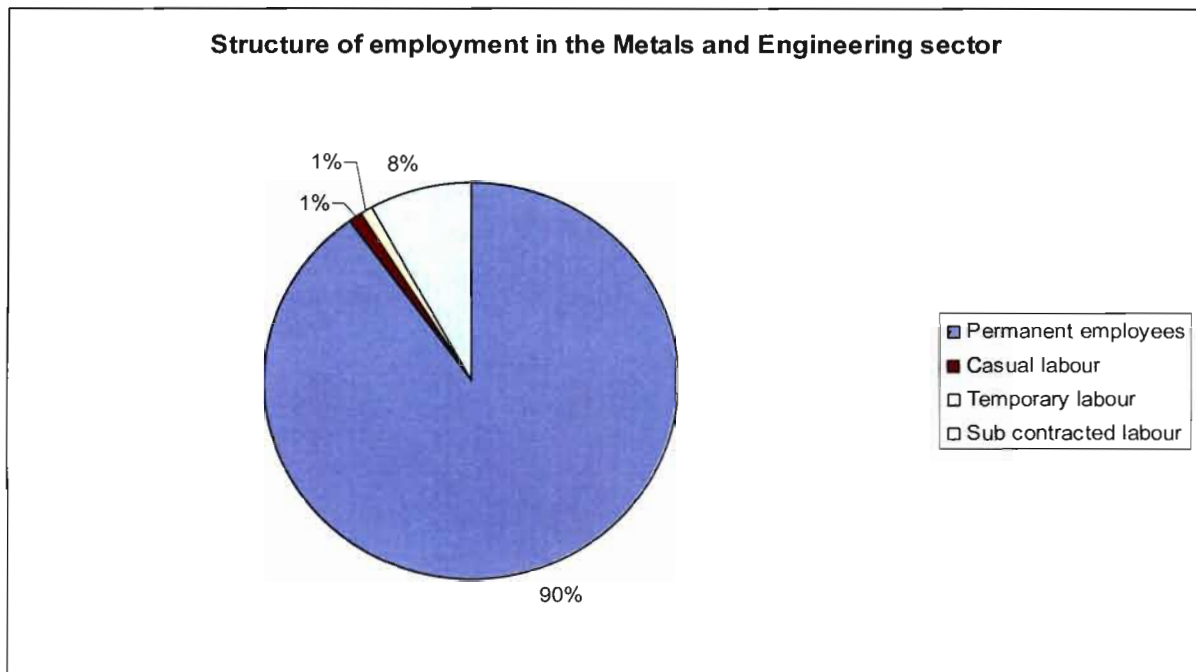
**Source:** FRIDGE (2005: 20)

Figure 2.3 indicates that within the Metals and Engineering sector the three most important sub-sectors in terms of the absolute number of people employed, are metal products and fabrication, automotive components and basic metals.

#### **2.7.4 Structure of employment**

Figure 2.4 presents the structure of employment in the Metals and Engineering sector.

**Figure 2.4: Structure of employment in the Metals and Engineering sector**



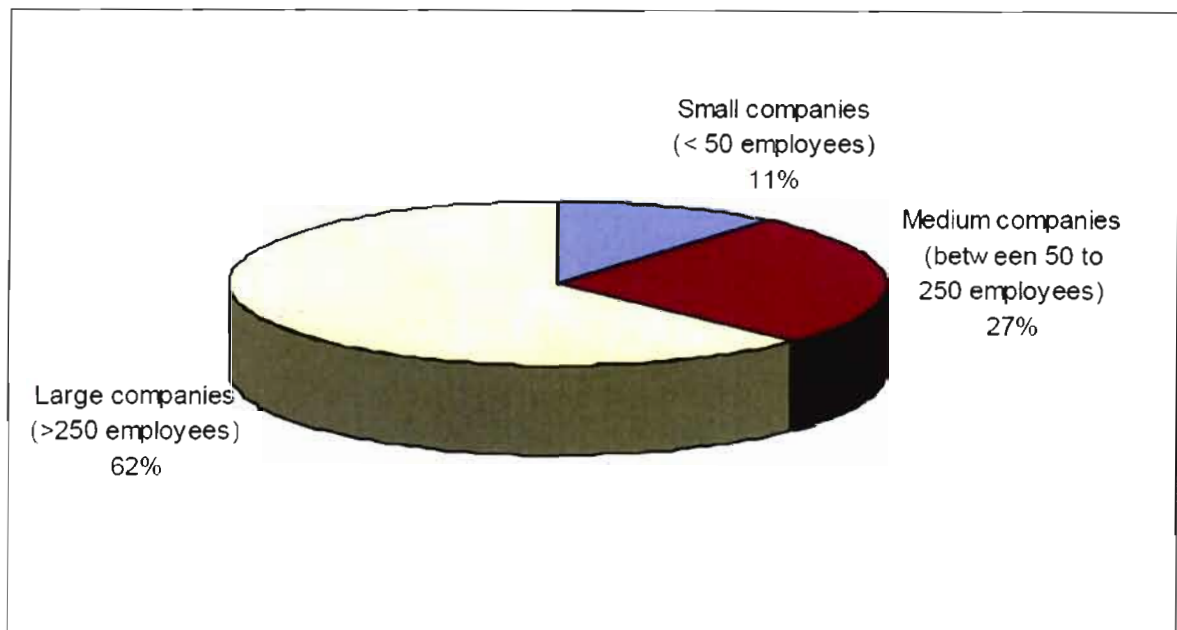
**Source:** FRIDGE (2005: 23)

Figure 2.4 indicates that permanent employment constitutes 90% of total employment in the industry. Atypical employment, including casual labour, temporary labour and sub-contracted labour constituted 10% of total employment in the industry compared with 3% of total employment in 1999 (FRIDGE, 2005: 2). The attendant unemployment has led to an explosion in so-called atypical employment practices as firms seek to introduce labour and wage flexibility through the back door (Bardien, Mohamed & Roberts, 2006: 2).

### **2.7.5 Employment by small and medium-sized enterprises**

Figure 2.5 shows the percentage of employment accounted for by small, medium and large businesses in the Metals and Engineering sector:

**Figure 2.5: Percentage of employment accounted for by small, medium and large companies in the Metals and Engineering**



**Source:** FRIDGE (2005: 27)

As can be seen in figure 2.5 small and medium-sized enterprises constitute 38% of the employment in the Metal and Engineering sector. This is a substantial number and a focus of this study.

## **2.8 SUMMARY**

A literature study was conducted to find out more about Broad-Based Black Economic Empowerment and its impact on the small and medium-sized enterprises in the Metals and Engineering Sector.

It was noted that the history of Black Economic Empowerment dates back to 1995 when the Black Business Council was formulated but it was only in 2003 that the BEE strategy was released and the draft Codes of Good Practice on Broad-Based Black Economic Empowerment were also released.

The literature study indicated that Broad-Based Economic Empowerment means the economic empowerment of all black people including women, workers, youth, and people with disabilities and people living in rural areas.

Some of the strategies to achieve Broad-Based Black Economic Empowerment include increasing the number of black people that manage, own and control enterprises and productive assets, facilitating ownership and management of enterprises and productive assets by communities, workers, cooperatives and other collective enterprises and achieving equitable representation in all occupational categories and levels in the workforce.

The seven elements measured by the Broad-Based Black Economic Empowerment codes are skills development, management control, preferential procurement, enterprise development, equity ownership, employment equity and socio-economic development.

The literature study further revealed that any enterprise with an annual total revenue of between R5 million and R35 million qualifies as a qualifying small enterprise.

A qualifying small enterprise must select any four of the seven elements for the purposes of measurement for BBBEE compliance under the qualifying small enterprise scorecard. If a qualifying small enterprise does not make a selection, its four best element scores will be used for the purposes of measurement.

The literature study on the Metals and Engineering sector revealed that the sector covers both the manufacturing of basic and precious metals and the production of metal. A large number (55%) of Metal and Engineering businesses are located in the Gauteng/North West region.

The literature study further revealed that the Metals and Engineering sector is a major employer in the South African economy and employs over 300 000 people. The workforce in this sector is aging, comprises mostly males and the sector constitutes 29.3% of formal manufacturing employment.

The study revealed that permanent employment constitutes 90% of total employment in the sector with atypical employment constituting almost 10%. Small and medium-sized enterprises constitute 38% of the employment in the Metal and Engineering sector.



# **CHAPTER 3**

## **RESULTS AND DISCUSSION**

### **3.1 INTRODUCTION**

The empirical study focuses on Broad-Based Black Economic Empowerment and the small and medium-sized enterprises in the Metals and Engineering sector. In this chapter the questionnaire design, the study population and the process followed to gather the data will be discussed. The results of the empirical study will also be presented and discussed.

### **3.2 QUESTIONNAIRE DESIGN**

The questionnaire was designed to address specific indicators relating to Broad-Based Black Economic Empowerment and its impact on the small and medium-sized enterprises in the Metals and Engineering sector. The questionnaire was divided into five sections with each section addressing different aspects. The outlay of the different sections of the questionnaire is presented in table 3.1.

**Table 3.1: Questionnaire sections and purpose**

<b>Section</b>	<b>Purpose of section</b>
Section A	<b>Demographic information:</b> Section A concentrated on the demographic information. Questions in this section included owner's age, gender, whether they were qualified artisans and whether the business was white owned. This section also provided information regarding the business in terms of number of employees, annual turnover and the legal status of the enterprises.
Section B	<b>Awareness of Broad-Based Black Economic Empowerment:</b> This section focused on the knowledge of each business owner about Broad-Based Black Economic Empowerment.
Section C	<b>Advantages to the business:</b> This section focused on the degree to which the business owner believes that Broad-Based Black Economic Empowerment has any advantages to their business.
Section D	<b>Disadvantages to the business:</b> this section focused on the degree to which the business owner believes that Broad-Based Black Economic Empowerment has any disadvantage to their business.
Section E	<b>General:</b> This section of the questionnaire focused on aspects like Government support, the implementation process and financing.

### **3.3 STUDY POPULATION AND SAMPLE**

The target study population of this study was small and medium-sized enterprises in the Metals and Engineering sector in the Sedibeng and Ekurhuleni South regions of the Gauteng province in South Africa. Attempts were made to secure a database of all small and medium-sized enterprises in the area but to no avail. It was therefore decided to use a convenience sample, by means of the snowball sampling technique, to identify the small and medium-sized enterprises in the sector that will participate in the study (Page & Meyer, 2000:100). Statistical inference is therefore not relevant as the data is collected from a small study population. A list of 78 small and medium-sized businesses was identified and all these were contacted to gauge their willingness to participate in the study. The outcome of the initial 78 small and medium-sized businesses identified is graphically presented in figure 3.1.

**Figure 3.1: The outcome of qualifying small and medium-sized enterprises contacted**

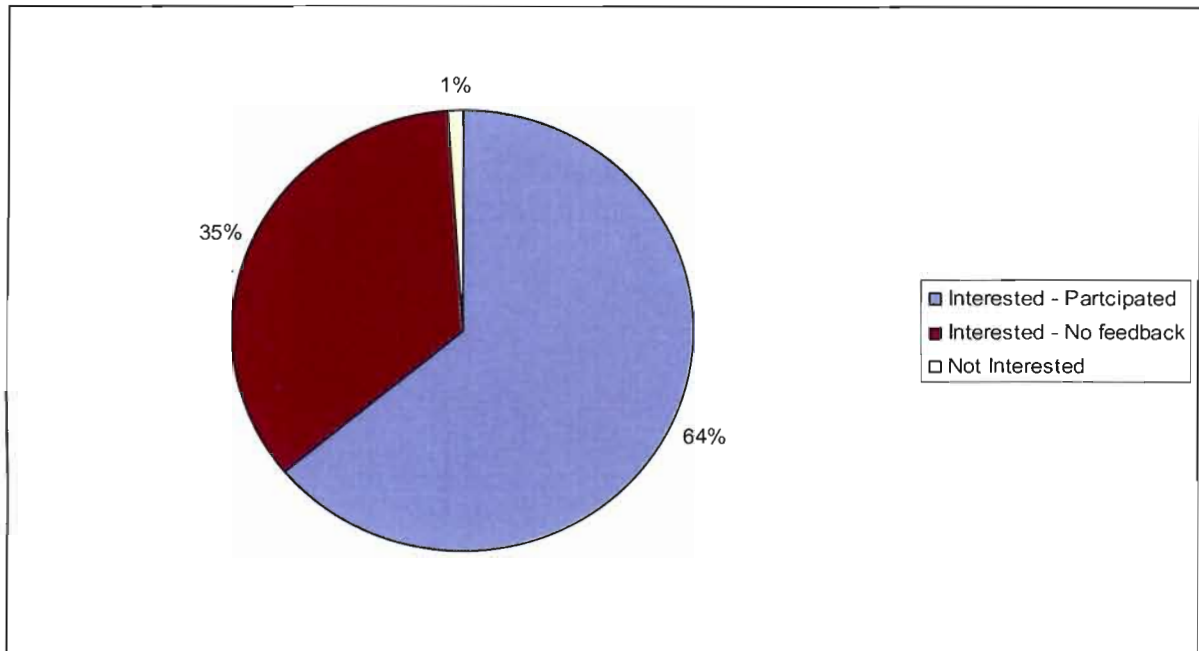


Figure 3.1 indicate that of the 78 potential businesses, 50 (64%) participated in the study. A total of 28 (35%) indicated that they were interested but never participated and only 7 (1%) indicated that they were not interested. All the businesses that were approached were deliberately from the Metals and Engineering sector.

In spite of the fact that 50 businesses indicated their willingness to participate in the study, only a total of 38 (49%) completed questionnaires were received by the cut-off date. Convenience sampling is a non-probability sampling technique; inferences to the broader population are therefore not the objective of this study (Page & Meyer, 2000:102).

### **3.4 DEMOGRAPHIC INFORMATION**

The results are based on the responses obtained from the questionnaires given to the owners of the small and medium-sized enterprises.

This section presents the age, gender, artisan status and whether the business is white-owned.

### 3.4.1 Age groups of the respondents

- **Purpose of the question**

To investigate the age group of the people who own businesses in the sector and to determine if a relationship exists between the general perceptions of certain age groups on the impact of Broad-Based Black Economic Empowerment.

- **Results**

The age distribution of the owners of the small and medium-sized in the Metals and Engineering sector who participated in this study as per the pre-determined age groups is displayed in figure 3.1.

**Figure 3.2: Age distribution of the owners of small and medium-sized enterprises in the sector who participated in the study**

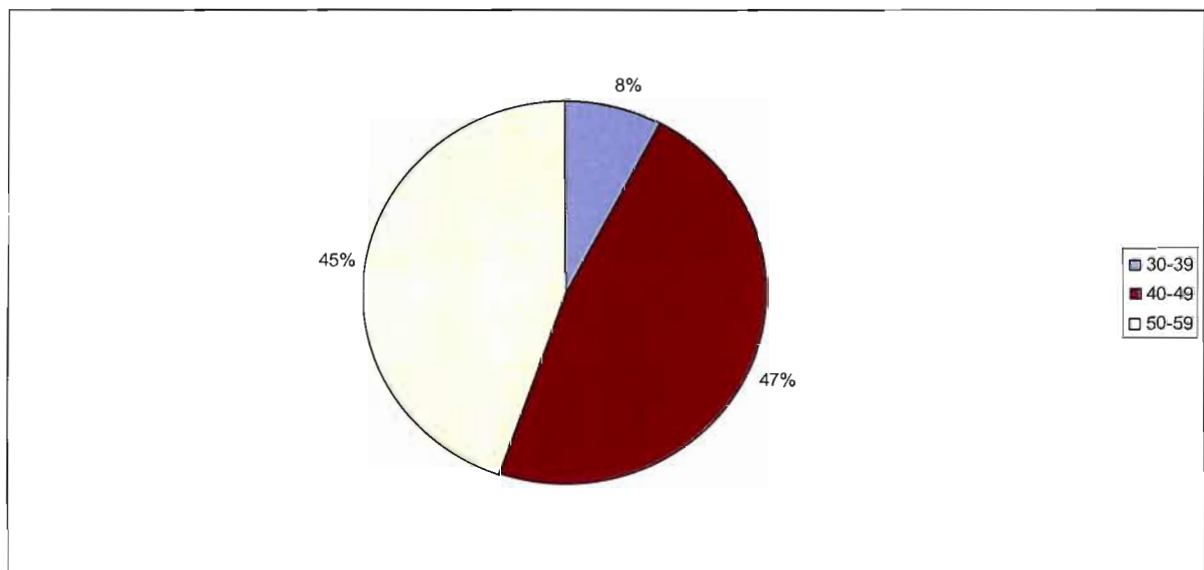


Figure 3.2 indicates that eight percent of the owners of small and medium-sized enterprises that participated in the study are between 30 and 39 years old, 45% are between 50 and 59 years old and 47% are between 40 to 49 years old.

### 3.4.2 Gender of the respondents

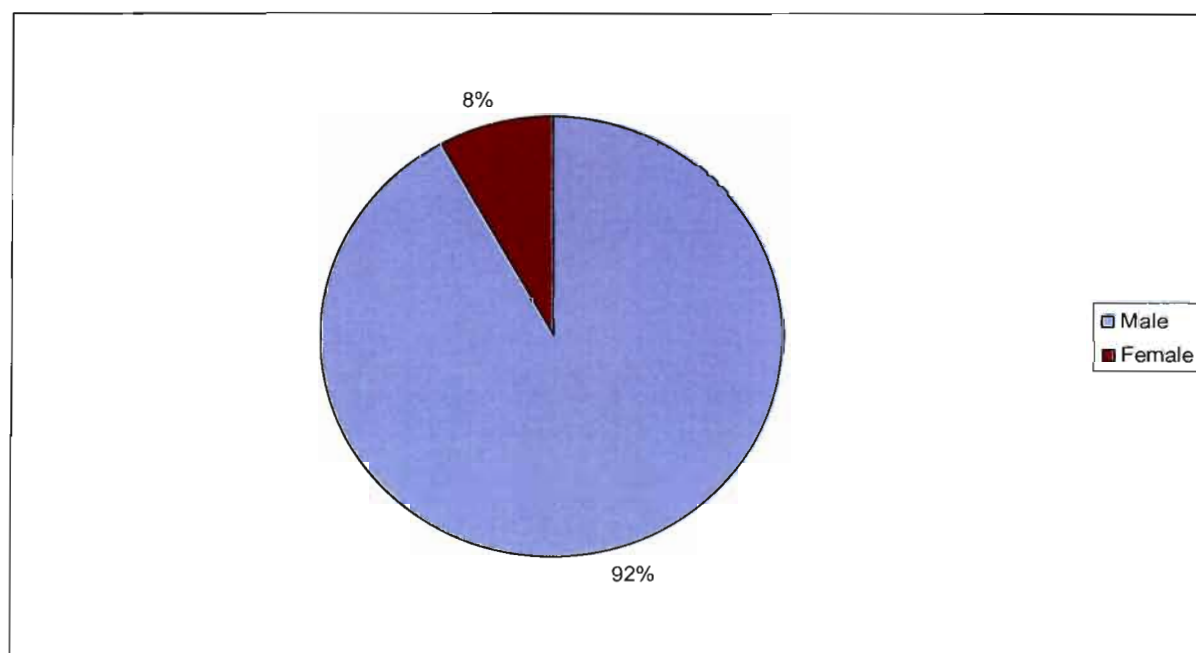
- **Purpose of the question**

The purpose of the question was to determine the gender distribution of the respondents of this study.

- **Results**

The results obtained are presented in figure 3.3.

**Figure 3.3: Gender distribution of the owners of small and medium-sized enterprises in the sector who participated in this study**



It is evident from figure 3.3 that the owners of small and medium-sized enterprises who participated in this study are predominantly owned and managed by males. A total of 92% of the respondents are male and only 8% are female.

### 3.4.3 Artisan status

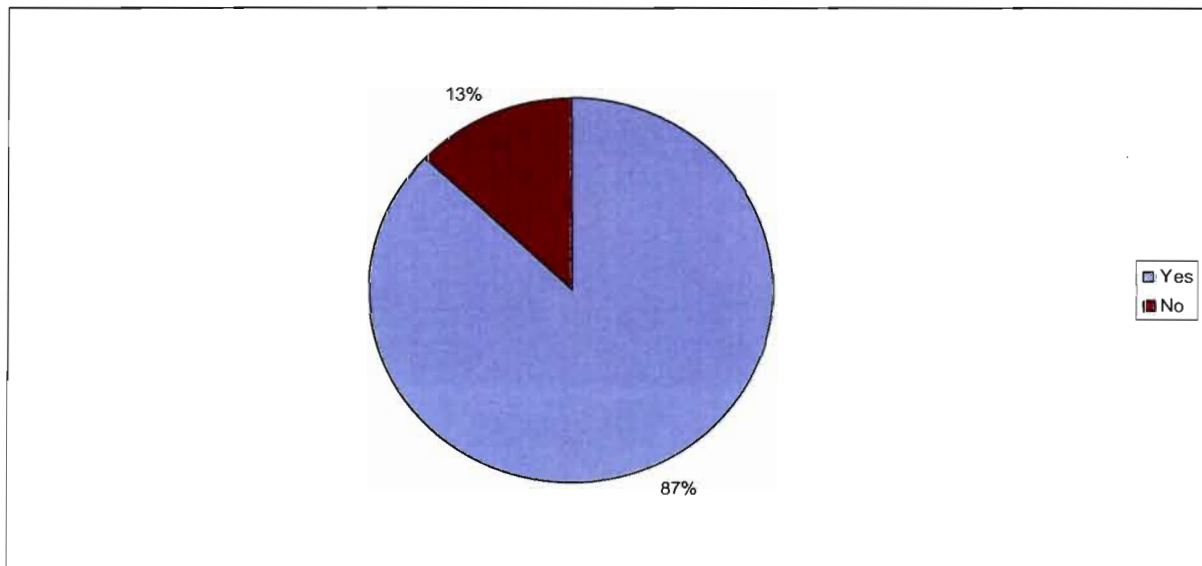
- **Purpose of the question**

The purpose of the question was to determine the number of small and medium-sized enterprises business owners which are qualified artisans.

- **Results**

The results obtained are presented in figure 3.4. The respondents simply had to mark yes or no to the question asking them whether they are qualified artisans.

**Figure 3.4: Artisan status of the owners of small and medium-sized enterprises in the sector who participated in this study**



The pie-chart indicates that 87% of the owners of small and medium-sized enterprises who participated in this study are qualified artisans and only 13% are not artisans.

#### **3.4.4 The race of the respondents**

- **Purpose of the question**

The purpose of this question was to determine the race classification according to the South African race classification among the respondents.

- **Results**

A total of 100% of the small and medium-sized enterprises that participated in the study were white-owned as a result of the convenience sample. It must be noted that this should not be interpreted as 100% of small and medium enterprises in the Metals and Engineering sector are white-owned. The questionnaire was deliberately administered to only white-owned enterprises.

### **3.5 BUSINESS INFORMATION**

The business information of the participating small and medium-sized businesses formed part of section A in the questionnaire. The variables included the number of employees employed by the business, the annual turnover of the business, the legal status of the business as well as the length of time the business has been in operation. Business information from the 38 participating small and medium-sized enterprises is presented in the following paragraphs.

### 3.5.1 Number of employees employed in the business

- **Purpose of the question**

The purpose of the question was to ascertain that the business was indeed a small and medium-sized enterprise and to prove or disprove the assumption that businesses in the Metals and Engineering can have a high turnover with a very small number of employees.

- **Results**

The results obtained for each pre-determined employee number range are presented in figure 3.5.

**Figure 3.5: Employees employed by the small and medium-sized business**

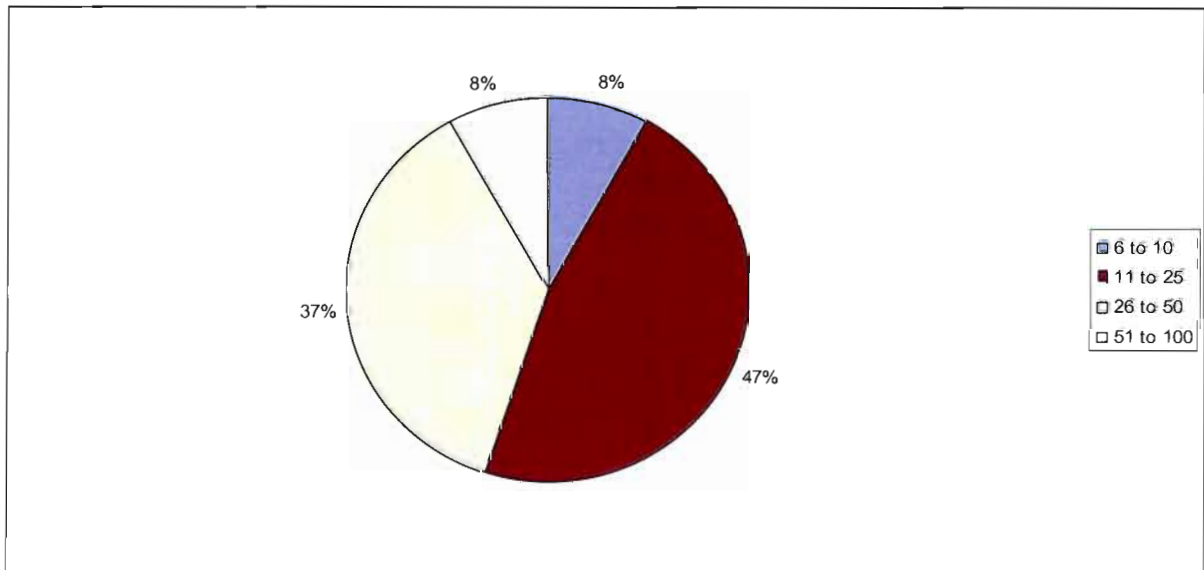


Figure 3.5 indicates that a total of 8 percent of the small and medium-sized businesses who participated in this study can be classified as very small businesses (up to 10 employees). A total of 84 percent can be classified as small businesses (between 11 and 50 employees) and a total of 8 percent can be classified as medium-sized businesses (between 51 and 100 employees).



### 3.5.2 Annual turnover

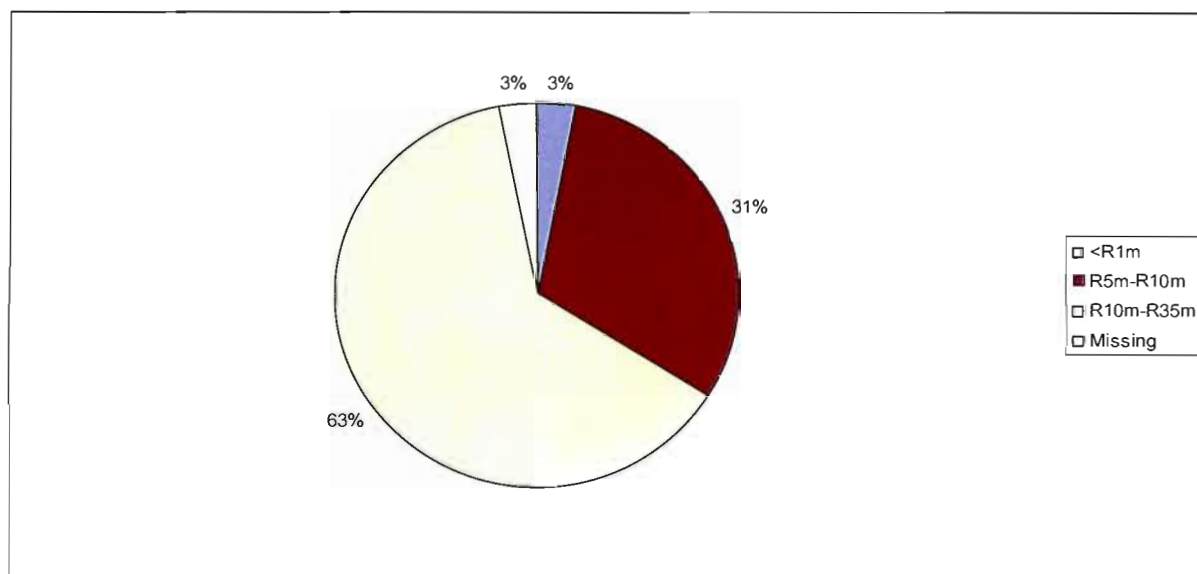
- **Purpose of the question**

The purpose of the question was to ascertain whether the small and medium-sized business is a Qualifying Small Enterprises in terms of the Broad-Based Black Economic Empowerment Act.

- **Results**

The results obtained for each pre-determined category are presented in figure 3.6.

**Figure 3.6: Annual turnover of the businesses**



A total of 3 percent of the businesses have an annual turnover of less than R1 million and therefore are not qualifying small enterprises. A total of 3 percent of the business had not provided their annual turnover. The majority of the businesses (63%) have an annual turnover of between R10 million and R35 million, followed by 31 percent of the businesses with an annual turnover of between R5 million and R10 million. This

means that 94 percent of the participating businesses are qualifying small enterprises in terms of the Broad-Based Black Economic Empowerment Act.

### 3.5.3 Legal status

- **Purpose of the question**

The purpose of the question was to determine the legal status of the small and medium-sized business that participated in the study.

- **Results**

The results obtained for each pre-determined status are presented in figure 3.7.

**Figure 3.7: Legal status of the participating businesses**

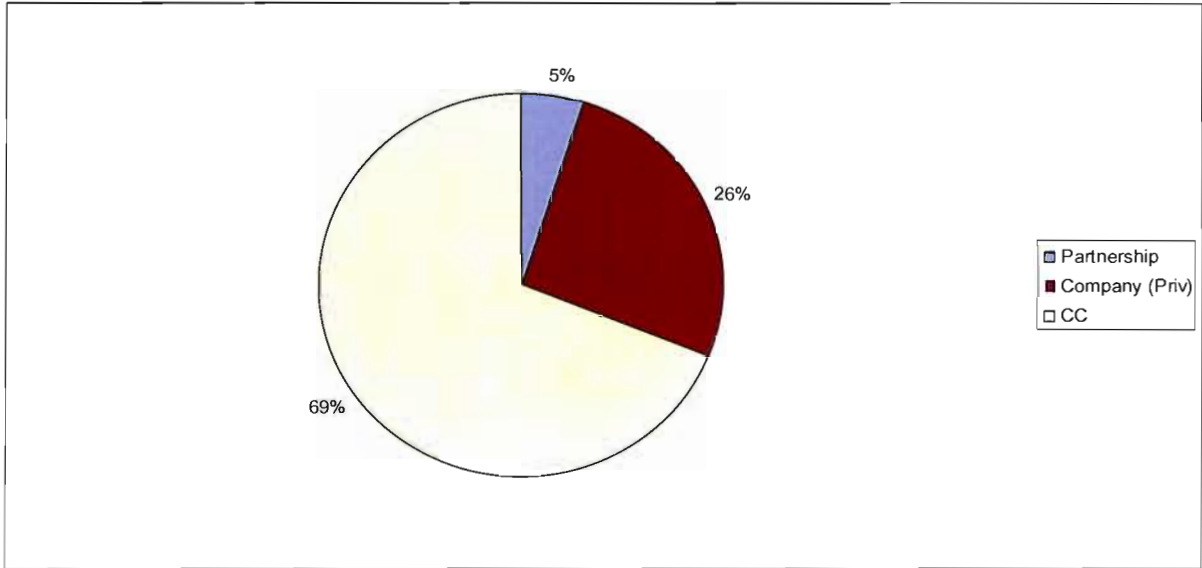


Figure 3.7 shows that 69 percent of the small and medium-sized businesses that participated in the study operate as close corporations, 26 percent operate as private companies and 5 percent operate as partnerships.

### 3.5.4 Business association

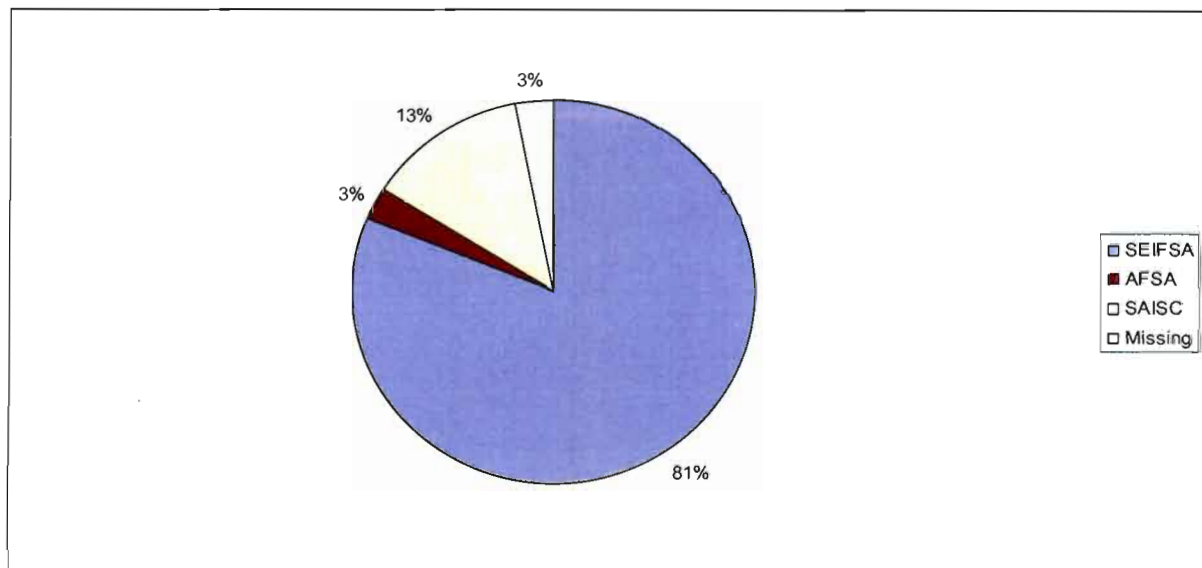
- **Purpose of the question**

The purpose of the question was to determine the business association to which the small and medium-sized business belongs to.

- **Results**

The results obtained for each pre-determined statuses are presented in figure 3.8.

**Figure 3.8: Business association**



A total of 81 percent of the small and medium-sized business affiliates to the Steel and Engineering Industries Federation of South Africa (SEIFSA), 13 percent of the businesses affiliates to the South African Institute of Steel Construction (SAISC) and 3 percent affiliates to the Aluminium Federation of South Africa (AFSA). A total of 3 percent of the participants did not indicate which business associations they belong to.

### 3.6 AWARENESS OF BROAD-BASED BLACK ECONOMIC EMPOWERMENT

The aim of section B of the questionnaire was to determine the varying levels of awareness among small and medium-sized business owners on Broad-Based Black Economic Empowerment. The section was divided into seven questions to which the respondents had to answer yes or no. Table 3.2 shows the results of section B.

**Table 3.2: Awareness of Broad-Based Black Economic Empowerment**

No	Question	Number Yes	% Yes	Number No	% No
B1	I am familiar with the legislation pertaining to BBBEE.	36	95%	2	5%
B2	I know about all the seven elements of the codes of good practice.	28	74%	10	26%
B3	I am aware of the fact that qualifying small enterprises consists of businesses with an annual turnover of between R5 million and R35 million.	31	82%	7	18%
B4	The fact that qualifying small enterprises only have to adhere to four of the seven elements of the codes of good practise is known to me.	19	50%	19	50%
B5	I am aware of the Contribution levels of the BBBEE.	14	36%	24	64%
B6	The turnover of the enterprise falls within the R5 million to R35 million bracket.	38	100%	0	0%
B7	I am aware that businesses with less than R5 million turnover are exempted from complying with the codes	28	74%	10	26%

A total of 95% of the small and medium-sized businesses surveyed indicated that they are familiar with the legislation pertaining to Broad-Based Black Economic Empowerment. While 95% is familiar with the legislation, 74% know about the seven

elements of the codes of good practice. The results furthermore show that 82% of the respondents are aware what qualifying small enterprises are, but curiously only 50% of them know that as a qualifying small enterprise they only have to comply with four of the seven elements.

The contribution levels of the Broad-Based Black Economic Empowerment legislation seems to be the factor with which participants are least familiar with, only 36% of them indicated their familiarity with these levels. The 100% yes in the question asking whether the turnover of the enterprises was between R5 million and R35 million must be viewed in the context that only businesses with the turnover in this bracket were targeted for the study. This was done to limit the study to only the qualifying small enterprise in terms of the Broad-Based Black Economic Empowerment legislation. A total of 74% of the participants indicated that they knew that a business with less than R5 million annual turnover is exempted from complying with the codes.

### **3.7 THE IMPACT OF BROAD-BASED BLACK ECONOMIC EMPOWERMENT ON SMALL AND MEDIUM-SIZED ENTERPRISES**

The impact of Broad-Based Black Economic Empowerment on the small and medium-sized businesses in the Metals and Engineering sector was measured by using perceptions of the business owners about statements that were built into the questionnaire. The statements were separated into the advantages and the disadvantages to the business as perceived by the owner.

The data collected were statistically analysed, using Statistica (Statsoft 2008) and SPSS (2008). An arithmetic mean is used to interpret the results.

The questionnaire is based on a 7-point (Likert-style) scale (1= strongly disagree; 7 = strongly agree). The relatively high numbers represent agreement with the statement and relatively low numbers represent disagreement with the statement. This means that a lower number representing disagreement with the statement suggests that the statement is perceived to be untrue, not applicable or not relevant to the business.

Likewise, a high number representing agreement with the statement suggests that the statement is perceived to be true, applicable or relevant to the business.

**Table 3.3: Statistical descriptive measures**

<b>Statistical Term</b>	<b>Description</b>
Population	A population refers to the entire set of data or the complete set of measurements in a particular problem (Wiesniewski, 2002: 100).
Probability Sampling	Probability sampling involves the selection of a random sample from a list, containing all the names of the members in the population to be studied (Wiesniewski, 2002: 100).
Non-probability sampling	Non-probability sampling simply means sampling without using random selection methods (Wiesniewski, 2002: 100). Convenience sampling, which is used in this study, is a non-probability sampling technique.
Arithmetic Mean	An arithmetic mean is a mathematical representation of the typical value of a series of numbers, computed as the sum of all the numbers in the series divided by the count of all numbers in the series; arithmetic mean is commonly known and referred to as average or mean (Welman, 2004: 33).
Standard Deviation	The standard deviation is an indication of how much the items in the data set differ from the mean value. The standard deviation can be defined as a square root of the variance, where the variance is the average of the squared differences between each observation and the sample mean, divided by the number of observations minus one (Wiesniewski, 2002: 100).

For the purpose of the interpretation of the results of this study, an arithmetic mean value of lower than 3.0 indicates a disagreement to the statement by participants, while a value between 3.0 and 4.0 indicate that participants slightly disagree with the statement made. A value between 4.0 and 5.0 indicate that the participants are neutral with the statement made. A value of 5.0 indicates a slight agreement. A result between 5.0 and 6.0 is viewed as an indication that the participants agree with the statement and results exceeding 6.0 indicates that participants strongly agree with the statement made.

Strongly disagree	Disagree	Slightly disagree	Neutral view	Slightly agree	Agree	Strongly agree
1	2	3	4	5	6	7

### 3.7.1 Advantages of Broad-Based Black Economic Empowerment

Section C of the questionnaire focused on the advantages of Broad-Based Black Economic Empowerment to the business as perceived by the participating business owners. The results are presented in table 3.4 with arithmetic mean =  $\bar{x}$  and standard deviation = s.

An average score of ( $\bar{x} = 3.01$ ), for the construct **advantages of Broad-Based Black Economic Empowerment**, shows that the owners of the small and medium-sized businesses who participated in this study do not view Broad-Based Black Economic Empowerment to be advantageous to their businesses.

All the statements in the questionnaire scored a score of less than ( $\bar{x} = 4.0$ ), which indicate that none of the respondents thought that there are advantages to the implementation of Broad-Based Black Economic Empowerment.

The statement, **BBBEE can lead to new innovative ideas with the input of the empowering partner** ( $\bar{x} = 2.37$ ), has the lowest average score. This indicates that participants disagree that there are advantages with the implementation of Broad-Based Black Economic Empowerment.

The statement, **implementing BBBEE is a relatively easy process** ( $\bar{x} = 2.42$ ), also indicates that the participants disagree with this statement. The statement, **BBBEE can lead to more effective management styles within the business** ( $\bar{x} = 2.58$ ), also scored low which indicates a disagreement with the statement.

**Table 3.4: The results of the evaluation of the advantages of Broad-Based Black Economic Empowerment**

No.	Statement	$\bar{x}$	s
	<b>Average of all sub-indicators in this section</b>	<b>3.01</b>	<b>1.99</b>
C1	BBBEE creates new possibilities for the business in terms of business networks and new associates.	2.97	2.19
C2	We have been rated by an accreditation agency in this business and were found to be between a level one and level four contributor.	3.11	2.25
C3	Implementing BBBEE is a relatively easy process.	2.42	1.65
C4	We have been more successful in this business after complying with the BBBEE legislation.	2.68	1.75
C5	Black employees are better off in terms of skills and seniority in the business since we implemented BBBEE.	3.03	2.09
C6	Our turnover has increased since the implementation of BBBEE.	2.74	1.75
C7	BBBEE can result in the acquiring of new customers for the business.	2.95	1.67
C8	BBBEE has already been implemented in this business.	3.86	2.38
C9	BBBEE makes it possible for the business to invest in affordable skills development for employees.	3.53	2.23
C10	BBBEE can lead to new innovative ideas with the input of the empowering partner.	2.37	1.63
C11	BBBEE can help the business to achieve its social responsibility towards the community.	3.79	2.35
C12	BBBEE makes it possible for the business to be more competitive.	2.74	1.72
C13	BBBEE makes it possible for the business to compete in new unexplored markets.	3.05	2.10
C14	BBBEE makes it possible for the business to get access to contracts.	3.58	2.15
C15	Compliance to BBBEE makes it possible for the business to expand its business operations (higher growth).	3.24	2.01
C16	BBBEE can give the business the opportunity to acquire materials cheaper as part of the preferential procurement process.	2.71	1.92
C17	BBBEE can lead to more effective management styles within the business.	2.58	1.81
C18	Access to finance would be easier once the business comply with BBBEE requirements.	3.08	1.91
C19	BBBEE creates new jobs.	2.76	2.22



Furthermore the statement, **we have been more successful in this business after complying with the BBBEE legislation** ( $\bar{x} = 2.68$ ), also scored low which indicates a disagreement with the statement.

Six more statements, **BBBEE can give the business the opportunity to acquire materials cheaper as part of the preferential procurement process** ( $\bar{x} = 2.71$ ), **BBBEE makes it possible for the business to be more competitive** ( $\bar{x} = 2.74$ ), **our annual turnover has increased since the implementation of BBBEE** ( $\bar{x} = 2.74$ ), **BBBEE creates new jobs** ( $\bar{x} = 2.76$ ), and **BBBEE creates new possibilities for the business in terms of business networks and new associates** ( $\bar{x} = 2.97$ ) scored equally low indicating an experienced disagreement with the statements.

Five of the statements, **black employees are better off in terms of skills and seniority in the business since we implemented BBBEE** ( $\bar{x} = 3.03$ ), **BBBEE makes it possible for the business to compete in new unexplored markets** ( $\bar{x} = 3.05$ ), **access to finance would be easier once the business comply with BBBEE requirements** ( $\bar{x} = 3.08$ ), **we have been rated by an accreditation agency in this business and were found to be between a level one and level four contributor** ( $\bar{x} = 3.11$ ), and **compliance to BBBEE makes it possible for the business to expand its business operations** ( $\bar{x} = 3.24$ ) scored between 3.0 and 4.0 which indicate that the participants slightly disagreed with the statements.

Four of the statements, **BBBEE make it possible for the business to invest in affordable skills development for employees** ( $\bar{x} = 3.53$ ), **BBBEE makes it possible for the business to get access to contracts** ( $\bar{x} = 3.58$ ), **BBBEE can help the business to achieve its social responsibility towards the community** ( $\bar{x} = 3.79$ ), and **BBBEE has already been implemented in this business** ( $\bar{x} = 3.86$ ), scored relatively high scores, however they also just indicate that the participants slightly disagreed with the statements.

The variance in the different scores indicates that participants have widely different perceptions of the advantages that Broad-Based Black Economic Empowerment holds. **What is clear is that in general all the participants disagreed that there are any specific experienced advantages with the implementation of Broad-Based Black Economic Empowerment.**

### 3.7.2 Disadvantages of Broad-Based Black Economic Empowerment

Section D of the questionnaire focused on the disadvantages of Broad-Based Black Economic Empowerment to the business as perceived by the participating business owners. The results are presented in table 3.5. In this section a high mean score indicates that a statement indicates a disadvantage.

Strongly disagree	Disagree	Slightly disagree	Neutral view	Slightly agree	Agree	Strongly agree
1	2	3	4	5	6	7

Five of the statements, **we can't comply fully because there are very few women in this industry** ( $\bar{x} = 5.63$ ), **adhering to the BBBEE Act and codes of conduct put an administrative burden on the business** ( $\bar{x} = 5.47$ ), **implementing the codes of good conduct on BBBEE could result in the loss of focus on business matters and therefore could have a hampering effect on our business** ( $\bar{x} = 5.39$ ), **implementing BBBEE will be time consuming and can result in the neglect of existing customers** ( $\bar{x} = 5.34$ ) and **the ownership requirements of BBBEE will lead to the owner losing control over the business** ( $\bar{x} = 5.45$ ) have score between 5.0 and 6.0 and indicate that the participants slightly agree with the statements and see the implementation of Broad-Based Black Economic Empowerment as a disadvantage to the business.

**Table 3.5: The results of the evaluation of the disadvantages of Broad-Based Black Economic Empowerment**

No.	Statement	$\bar{x}$	s
	<b>Average of all sub-indicators in this section</b>	<b>4.84</b>	<b>2.15</b>
D1	Complying with BBBEE is not a priority of this business.	3.79	2.48
D2	BBBEE has caused us to loose a lot of contracts.	4.21	2.20
D3	BBBEE has caused job losses of black people in this business.	3.49	2.05
D4	Implementing the codes of good conduct on BBBEE could result in the loss of focus on business matters and therefore could have a hampering effect on our business.	5.39	1.92
D5	Adhering to the BBBEE Act and codes of conduct put an administrative burden on the business.	5.45	1.80
D6	The BBBEE codes of good conduct are vague and complicated.	4.97	1.94
D7	Implementing BBBEE will be time consuming and can result in the neglect of existing customers.	5.34	2.07
D8	The ownership requirements of BBBEE will lead to the owner loosing control over the business.	5.45	2.05
D9	The skills development aspect of BBBEE will lead to a loss in productivity as workers will need to attend courses.	4.55	2.38
D10	An empowering partner will change the culture of the business, resulting in conflict.	5.21	2.02
D11	BBBEE will result in the business employing incompetent people just for the sake of empowerment.	4.86	2.42
D12	BBBEE might lead to the deterioration of quality due to higher levels of authority being given to people that does not possess the necessary skills.	4.84	2.34
D13	Preferential procurement might force the business to buy from new suppliers, resulting in potential risks in terms of reliability.	4.58	2.32
D14	Established relationships with current suppliers will be at risk once the business has to buy from empowered suppliers.	4.97	2.28
D15	Quality control might deteriorate as new materials from new suppliers have to be used as part of the preferential procurement requirements.	5.08	2.28
D16	BBBEE has caused job losses in this business.	4.45	2.26
D17	We can't comply fully because there are very few women in this industry.	5.63	1.70

The statements, **an empowering partner will change the culture of the business, resulting in conflict** ( $\bar{x} = 5.21$ ), and **quality control might deteriorate as new materials from new suppliers have to be used as part of the preferential procurement requirements** ( $\bar{x} = 5.08$ ), indicate that the participants also slightly agree with the statements indicating that they see the implementation of Broad-Based Black Economic Empowerment as a disadvantage.

Four of the statements, **established relationships with current suppliers will be at risk once the business has to buy from empowered suppliers** ( $\bar{x} = 4.97$ ), **the BBBEE codes of good conduct are vague and complicated** ( $\bar{x} = 4.97$ ), **BBBEE will result in the business employing incompetent people just for the sake of empowerment** ( $\bar{x} = 4.86$ ), and **BBBEE might lead to the deterioration of quality due to higher levels of authority being given to people that does not possess the necessary skills** ( $\bar{x} = 4.84$ ), have mean scores of between 4.0 and 5.0 indicating that the participants see these issues in a neutral light.

The statements, **preferential procurement might force the business to buy from new suppliers, resulting in potential risks in terms of reliability** ( $\bar{x} = 4.58$ ), **the skills development aspect of BBBEE will lead to a loss in productivity as workers will need to attend courses** ( $\bar{x} = 4.55$ ), **BBBEE has caused job losses in this business** ( $\bar{x} = 4.45$ ), and **BBBEE has caused us to loose a lot of contracts** ( $\bar{x} = 4.21$ ), also have mean scores of between 4.0 and 5.0 indicating that the participants see these issues in a neutral light.

The statements, **BBBEE is not a priority of this business** ( $\bar{x} = 3.79$ ), and **BBBEE has caused job losses of black people in this business** ( $\bar{x} = 3.49$ ), have mean scores of between 3.0 and 4.0 and indicate that the participants slightly disagree with the statement.

The “high” scores in all but two of the statements indicate that the owners of small and medium-sized businesses that participated in the study have similar and unfavourable views towards the implementation of Broad-Based Black Economic

Empowerment. One must keep in mind that this group does not necessarily represent the views of the sector as a whole.

A high mean for the construct **disadvantages of Broad-Based Black Economic Empowerment** indicates that the owners of the small and medium-sized business that participated in the study perceived BBBEE as a disadvantage to their business.

### 3.7.3 Government support

Section E of the questionnaire contained general elements including government support and suggestions. The results for government support are presented in table 3.6.

**Table 3.6: The results of the evaluation of government support given to small and medium-sized businesses about Broad-Based Black Economic Empowerment**

No.	Statement	$\bar{x}$	s
	<b>Average of all sub-indicators in this section</b>	<b>3.28</b>	<b>2.13</b>
E1	Adequate information on the issue of BBBEE is available from Government and its departments.	3.37	2.06
E2	Adequate assistance on the issue of BBBEE is available from Government and its departments.	3.32	2.23
E3	Government has taken small and medium-sized businesses in consideration with the development of BBBEE legislation.	3.16	2.09

The average government score of ( $\bar{x} = 3.28$ ), is low and indicate that owners of the small and medium-sized enterprises that participated in the study view the support from Government as inadequate.

All the statements, **Government has taken small and medium-sized businesses in consideration with the development of BBBEE legislation** ( $\bar{x} = 3.16$ ), **adequate assistance on the issue of BBBEE is available from Government and**

its departments ( $\bar{x} = 3.32$ ), and adequate information on the issue of BBBEE is available from Government and its departments ( $\bar{x} = 3.37$ ) have mean scores of between 3.0 and 4.0 indicating that participants slightly disagreed with the statements made.

### 3.7.4 Suggestions

The suggestions contained in section E of the questionnaire were either made by the author or a few business owners in the sector who spoke to the author prior to designing the questionnaire. The results of these questions are presented in table 3.7.

**Table 3.7: Results of the evaluation of suggestions made**

No.	Statement	$\bar{x}$	s
	<b>Average of all sub-indicators in this section</b>	<b>5.74</b>	<b>1.62</b>
<b>E4</b>	BBBEE should place more emphasis on job creation.	6.14	1.38
<b>E5</b>	BBBEE qualifying criteria should be based on net income not turnover.	5.53	1.57
<b>E6</b>	Tax incentives should be given to businesses based on job creation rather than preferential procurement.	5.95	1.54
<b>E7</b>	BBBEE should not be applicable to qualifying small enterprises (with an annual turnover of less than R35 million)	5.82	1.66
<b>E8</b>	The skills development aspect of BBBEE should weigh more on the score card than management participation.	5.87	1.36
<b>E9</b>	The ownership aspect of BBBEE should only be applicable to businesses where the empowerment partner can buy and pay for his own shares.	5.95	1.58
<b>E10</b>	In the quest for the right empowering partner it is more important to recruit someone with practical experience in the business as appose to someone with academic qualifications.	5.47	1.74
<b>E11</b>	The targets of 2 % skills development spend must be reduced for qualifying small enterprises.	5.21	2.11

The average mean score of ( $\bar{x} = 5.74$ ), indicate that the owners of small and medium-sized businesses generally agree with the suggestions made in this section.

The most popular suggestion with a mean score of ( $\bar{x} = 6.14$ ), is the suggestion **that BBEE should place more emphasis on job creation** and indicate that participants agree with the statement made.

The business owners indicated that they slightly agree with the following statements **BBEE qualifying criteria should be based on net income not turnover** ( $\bar{x} = 5.53$ ), **tax incentives should be given to businesses based on job creation rather than preferential procurement** ( $\bar{x} = 5.95$ ), **BBEE should not be applicable to businesses with an annual turnover of less than R35 million** ( $\bar{x} = 5.82$ ), **the skills development aspect of BBEE should weigh more on the score card than management participation** ( $\bar{x} = 5.87$ ), and that **the ownership aspect of BBEE should only be applicable to businesses where the empowerment partner can buy and pay for his own shares** ( $\bar{x} = 5.95$ ).

The statements, **in the quest for the right empowering partner it is more important to recruit someone with practical experience in the business as appose to someone with academic qualifications** ( $\bar{x} = 5.47$ ), and **the targets of 2 % skills development spend must be reduced for qualifying small enterprises** ( $\bar{x} = 5.21$ ), indicate that the owners of the small and medium-sized businesses who participated in the study also slightly agree with the statements made.

### 3.8 SUMMARY

This chapter reported the results obtained from the statistical analysis done on the data from the empirical research. The study population of this study was the small and medium-sized enterprises in the Metals and Engineering sector in the Sedibeng and Ekurhuleni South regions of the Gauteng province in South Africa. The demographic information indicated that that a total of 8% of the owners of small and medium-sized enterprises in the Metals and Engineering sector who participated in

this study are between the ages of 30 and 39, 45% are between 50 and 59 years and 47% are between the ages of 40-49 with 92 percent of them being male and only 8 percent being female.

The results revealed that 94 percent of the participating businesses are qualifying small enterprises in terms of the Broad-Based Black Economic Empowerment Act. A total of 8 percent of the small and medium-sized businesses who participated in the study can be classified as medium-sized businesses in the South African context (between 51 and 100 employees). A total of 8 percent is classified as very small businesses and 84 percent as small businesses (between 11 and 50 employees).

The evaluation of the questionnaires revealed that the owners of the small and medium-sized businesses in the Metals and Engineering sector that participated in the study do not see many specific experienced advantages with Broad-Based Black Economic Empowerment. All the owners of the small and medium-sized businesses in the Metals and Engineering sector who participated in the study disagreed that there is sufficient government support in the implementation of Broad-Based Black Economic Empowerment.

The most popular suggestions in the results were that BBBEE should place more emphasis on job creation and that tax incentives should be given to businesses based on job creation rather than preferential procurement.



# **CHAPTER 4**

## **CONCLUSIONS AND RECOMMENDATIONS**

### **4.1 INTRODUCTION**

South Africa is widely acknowledged to have a robust political democracy. Broad-Based Black Economic Empowerment was meant to be one of the tools to achieve equality in the South African economy. The evidence however, shows that there are still major challenges with the current way of the implementation of Broad-Based Black Economic Empowerment.

This chapter contains the conclusions and recommendations of the study based on the findings of the literature review and the empirical study.

### **4.2 CONCLUSIONS ON THE EMPIRICAL STUDY**

It is accepted across the world that small and medium-sized enterprises are very important to the development of any economy. According to Biekpe (2008) small and medium-sized enterprises create more employment than big businesses. These facts have necessitated an empirical study to ascertain the impact of the Broad-Based Black Economic Empowerment legislation on the very heart of the economy – small and medium-sized enterprises.

An empirical study was conducted and entailed participation of 38 small and medium-sized enterprises in the Metals and Engineering sector in the Sedibeng and Ekurhuleni South regions of the Gauteng province. The results of the empirical study are presented in chapter 3. The following conclusions were made after analyzing the questionnaires completed by the participants.

#### 4.2.1 Conclusions based on the biographical data

- **Age groups of the owners:** The results indicate that 92% of the respondents are older than 40 years with 45% being older than the age of 50. This may provide challenges for the sustainability of the industry, particularly because the apprenticeship intake has dropped drastically from 14, 000 a year in 1981 to just over 3, 000 in 2002 (FRIDGE, 2003). This can be attributed to the government's insistence in the early 2000s of promoting the less known Learnerships over apprenticeships in an industry that has been training artisans for many decades.
- **Gender of the business owners:** A total of 92% of the small and medium-sized business owners in the Metals and Engineering sector that participated in the study are male. This is not surprisingly considering that this industry has always been male dominated, and even the 8% female ownership is in itself an achievement.
- **Artisan status:** A total of 87% of the owners of small and medium-sized businesses in the Metals and Engineering sector are qualified artisans. This is an important finding because artisans in their nature are not very good with paperwork and therefore find it very cumbersome to comply with the Broad-Based Black Economic Empowerment legislation.
- **Race of business owners:** A total of 100% of the small and medium-sized enterprises that participated in the study were white-owned. It must be noted that this should not be interpreted as 100% of small and medium enterprises in the Metals and Engineering sector are white-owned. The questionnaire was deliberately administered to only white-owned enterprises in order to ascertain whether this group of employers have a coherent view on the issue of Broad-Based Black Economic Empowerment.

#### 4.2.2 Conclusions based on the business information

- **Number of employees:** A very high total of 92% of the businesses that participated in the study employ less than 50 employees in their businesses.

This finding makes a point that Metal and Engineering businesses can make a relatively high turnover with very few employees. The criteria for an enterprise to be a qualifying small enterprise, which is turnover based, can be misleading in this sector because a business can make a R10 million turnover with eight employees. This creates capacity problems because a business with only eight employees may not be able to have a person dedicated to ensure compliance with the very complicated codes of good practice.

- **Annual turnover:** A total of 63% of the businesses that participated in this study have an annual turnover of between R10 million and R35 million. It must be noted that only 8% of these businesses employ more than 50 employees. The high capital-intensity of businesses in the Metals and Engineering sector means they can have a relatively high turnover with relatively low levels of employees.
- **Legal status of business:** The study revealed that 69% of the businesses that participated in the study traded as closed corporations compared to only 26% that operated as private companies. This finding is not surprising as artisans generally prefer any structure that is simple and uncomplicated. Operating a business as a close corporation is relatively easier than as a private company.

#### **4.2.3 Conclusions based on the awareness of Broad-Based Black Economic Empowerment**

The owners of the small and medium-sized businesses in the Metals and Engineering sector that participated in this study were generally familiar with the legislation pertaining to BBBEE (95%), they know about all the seven elements of the codes of good practice (74%), are aware of the fact that qualifying small enterprises consists of businesses with an annual turnover of between R5 million and R35 million (82%) and they were also aware that businesses with less than R5 million turnover are exempted from complying with the codes (74%).

The elements which the small businesses were not very familiar with were the fact that qualifying small enterprises only have to adhere to four of the seven elements of the codes of good practise (50%) and the Contribution levels of Broad-Based Black

Economic Empowerment (36%). This is an important finding because it might mean that some owners have sold or wanted to sell shares to Black people in a desperate attempt to comply to Broad-Based Black Economic Empowerment when they did not want to. If these business owners understood that they needed to comply with four of the seven elements as a qualifying small enterprise, they could have chosen to comply with other elements like skills development and preferential procurement instead of selling shares in their businesses.

#### **4.2.4 Conclusions based on the impact of Broad-Based Black Economic Empowerment**

The owners of the small and medium-sized businesses in the Metals and Engineering sector that participated in this study do not see advantages with Broad-Based Black Economic Empowerment. Some of the findings include that the implementation of Broad-Based Black Economic Empowerment has not led to new opportunities, to an increase in turnover, new customers, innovative ideas by the new partner and does not help the business to acquire new contracts.

Participants agreed with the statements that they can't comply fully because there are very few women in this industry and that adhering to the BBBEE act and codes of conduct put an administrative burden on the business. The owners further agreed that implementing the codes of good conduct on BBBEE could result in the loss of focus on business matters and therefore could have a hampering effect on their businesses, implementing BBBEE will be time consuming and can result in the neglect of existing customers and the ownership requirements of BBBEE will lead to the owner losing control over the business.

These findings are very telling as business owners want to focus on their core business and not spend a lot of their time trying to comply with the legislation. The non-availability of females in the industry was a major concern cited by all the business owners. Furthermore, one of the major concerns that came through from a few discussions with the owners was selling shares to a stranger in a business that they have spent many years building from nothing. Some of the businesses are

family-owned which makes the owners more reluctant to loose a share in the business.

### **4.3 RECOMMENDATIONS**

The following recommendations are made with regard to the findings of the literature study, empirical study and conclusions. The recommendations are made to all the role players including the Government as represented by the Department of Trade and Industry and the small and medium-sized enterprises in the Metals and Engineering sector. One should keep in mind though that there cannot be any inferences made from the results of this study.

#### **4.3.1 Recommendations to the small and medium-sized businesses**

The following recommendations are made to the owner-managers of the small and medium-sized businesses in the Metals and Engineering sector.

- Small and medium-sized business owner-managers should familiarise themselves further with the Broad-Based Black Economic Empowerment requirements, particularly the codes that deal with qualifying small enterprises.
- Small and medium-sized enterprises should develop their own strategy around Broad-Based Black Economic Empowerment taking into account they only have to comply with four of the seven elements.
- As much as it is possible small and medium-sized businesses should make use of the services provided for by business associations with regard to Broad-Based Black Economic Empowerment. The Steel and Engineering Industries Federation of South Africa (SEIFSA) to which 81% of the respondents affiliate to has a comprehensive service to qualifying small enterprises in the Metal and Engineering sector.
- Small and medium-sized business owner-managers should not exclusively focus their energies on the ownership element of the scorecards; small and medium-sized businesses do not have to sell shares in their businesses to comply with Broad-Based Black Economic Empowerment.

- Elements of the scorecard like skills development, enterprise development, preferential procurements and socio-economic development are often ignored by small and medium-sized businesses, yet they have the same benefits as ownership and employment equity. Small and medium-sized enterprise must up-skill themselves in these elements.
- Transfer of skills is more important than transfer of ownership; if small and medium-sized business owners give shares without the necessary skill to Black people, all sides will eventually loose.

#### **4.3.2 Recommendations to Government**

The following recommendations are made to the Government as represented mainly by the Department of Trade and Industry.

- Government must investigate the possibility of defining a qualifying small enterprise by the number of employees or by net income. Turnover can be misleading because a business with four employees can have a R5 million turnover and therefore have no capacity to implement Broad-Based Black Economic Empowerment.
- Government must establish advisory services that will help small and medium-sized businesses to comply with Broad-Based Black Economic Empowerment. Consultants that are paid for by the Department of Trade and Industry can be appointed in every industry to help businesses to comply.
- An extensive drive must be implemented to educate small and medium-sized businesses about the other elements of the Broad-Based Black Economic Empowerment scorecard. The reason why some businesses are against Broad-Based Black Economic Empowerment is that they think it is just about giving away your business.
- The skills development element should weigh more than ownership and management control in the scorecard. In the final analysis Black people need skills far more than some promotions and share ownership that might be fronting.

- The obsession with ownership must be gradually discontinued as it is helping neither the aspirant Black business owners nor the white-owned businesses.
- The government through the Department of Trade and Industry must ask itself if Broad-Based Black Economic Empowerment is still meant to foster a culture of entrepreneurship. If this objective still exists, a complete overhaul of the Broad-Based Black Economic Empowerment is needed because white people are dissuaded from starting businesses because of the fear that they will have to sell shares. Black people are also not starting enough businesses because of the culture of waiting for a “BEE deal”.
- Government did well by introducing a code only for qualifying small enterprises; some acceleration is needed in ensuring that small and medium-sized enterprises know about it.

## **4.4 EVALUATION OF THE STUDY**

The measurement of this study is based upon the achievement of the primary and secondary objectives, as indicated in section 1.3 of this study.

### **4.4.1 Primary objective**

The primary objective of this study is two fold; firstly to investigate the impact of Broad-Based Black Economic Empowerment (BBBEE) on white-owned qualifying small and medium-sized businesses in the Metals and Engineering sector. The Second primary objective is to make recommendations to these small and medium-sized businesses on the management of this issue. This objective was achieved by means of the questionnaire that was developed and administered to the small and medium-sized enterprises in the sector. The results are presented in chapter 3 of this study; the recommendations made are in section 4.3 of this study.

#### 4.4.2 Secondary objective

Section 1.3.2 specified the following secondary objectives:

- To define Broad-Based Black Economic Empowerment (BBBEE);
- To obtain insight into the dynamics of BBBEE by means of a literature study;
- To gain insight into the dynamics of small and medium-sized companies operating in the Metals and Engineering sector;
- To assess the impact of Broad-Based Black Economic Empowerment on small and medium-sized companies in the Metals and Engineering sector on the Southern region of Ekurhuleni and the Sedibeng region in Gauteng.
- To make conclusions and recommendations based on the literature study and empirical study.

The first secondary objective was achieved through definitions of Broad-Based Black Economic Empowerment in section 2.2.2.

The second secondary objective of obtaining insight into the dynamics of Broad-Based Black Economic Empowerment was achieved by a literature study which is contained in section 2.3, 2.4 and 2.5 of this study focusing on aspects like the history, policy objectives and the policy instrument of Broad-Based Black Economic Empowerment.

The third secondary objective was to gain insight into the dynamics of small and medium-sized companies operating in the Metals and Engineering sector. This objective was achieved through a literature review contained in section 2.7 of this study. This sections presented information such as the Metals and Engineering sector structure, the geographical location of the businesses, employment levels in the sector, the structure of employment and the employment by small and medium-sized employers.

The fourth secondary objective was to assess the impact of Broad-Based Black Economic Empowerment on small and medium-sized companies in the Metals and



Engineering sector of the Southern region of Ekurhuleni and the Sedibeng region in Gauteng. This was done through the questions in the questionnaire and subsequently through analysing the responses given by the participants.

The fifth and final secondary objective was to make conclusions and recommendations based on the literature study and empirical study. This has been achieved through section 4.3 in this study.

## **4.5 SUGGESTIONS FOR FUTURE RESEARCH**

It is suggested that more research should be conducted on the following topics:

- The impact of Broad-Based Black Economic Empowerment on the employment levels and skill levels of Black people should be a subject for future research.
- Is there a correlation between the beneficiaries of Broad-Based Black Economic Empowerment and political connections? This question should be a subject for future research.
- The impact of Broad-Based Black Economic Empowerment on the culture of entrepreneurship.
- Factors preventing women from operating businesses in the Metals and Engineering sector.
- One of the policy objectives of Broad-Based Black Economic Empowerment is to ensure that Broad-Based Black Economic Empowerment is broad-based and that it is inclusive, benefiting all South Africans. An investigation into whether this process has been inclusive should be a subject for future research.

## **4.6 SUMMARY**

This chapter presented the conclusion and recommendations that were made based on the literature review and the empirical study.

The conclusions included that 92% of the respondents were older than 40 years with 45% being older than the age of 50. This can be attributed to the government's insistence in the early 2000s of promoting the less known Learnerships over apprenticeships in an industry that has been training artisans for many decades.

87% of the owners of small and medium-sized businesses in the Metals and Engineering sector that participated in the study are qualified artisans. This is an important finding because artisans in their nature are usually not very good with paperwork and therefore find it very cumbersome to comply with the Broad-Based Black Economic Empowerment legislation.

92% of the businesses that participated in the study employ less than 50 employees in their businesses. 63% of the businesses that participated in the study have an annual turnover of between R10 million and R35 million. The high capital-intensity of businesses in the Metals and Engineering sector means they can have a relatively high turnover with relatively low levels of employees.

The element which the small businesses were not very familiar with was the fact that qualifying small enterprises only have to adhere to four of the seven elements of the codes of good practise. The owners of the small and medium-sized businesses in the Metals and Engineering sector do not see advantages with the implementation of Broad-Based Black Economic Empowerment.

Recommendations were made to main role players which are the Government as represented by the Department of Trade and Industry and the owners of small and medium-sized businesses. It was recommended that Government must investigate the possibility of defining a qualifying small enterprise by number of employees or by net income. Government must also establish advisory services that will help small and medium-sized businesses to comply with Broad-Based Black Economic Empowerment

Furthermore, an extensive educational drive must be implemented to educate small and medium-sized businesses about the other elements of the Broad-Based Black Economic Empowerment scorecard. The reason some businesses are against

Broad-Based Black Economic Empowerment is that they think it is just about giving away their business.

Recommendations were furthermore made to the business owners regarding the impact of Broad-Based Black Economic Empowerment on their businesses. The most noteworthy recommendation was that small and medium-sized business owners must not be caught up in the ownership element of the scorecards; in more times than not small and medium-sized businesses do not have to sell shares in their businesses to comply with Broad-Based Black Economic Empowerment.

Elements of the scorecard like skills development, enterprise development, preferential procurements and socio-economic development are often ignored by small and medium-sized businesses yet they have the same benefits as ownership and employment equity. Small and medium-sized enterprise must up-skill themselves in these elements.

## REFERENCES

- BALSHAW, T. & GOLDBERG, J. 2005. Cracking broad-based black economic empowerment, codes and scorecard unpacked. Cape Town: Human & Rossouw.
- BARDIEN, G., MOHAMED, L.G. & ROBERTS, S. 2006. An investigation into BEE in the metals sector of the economy. Johannesburg: University of Witwatersrand.
- BENJAMIN, P.S, RADITAPOLE, T.N & TAYLOR, M. 2005. Black Economic Empowerment: Commentary, legislation and charters. Pretoria: Juta Publishers
- BIEKPE, N. 2008. South African SMME business confidence index.  
{Web} <http://www.thedti.gov.za/smme/2007/Plenary/AfricaGrowthResearch.pdf>  
{Date of access 13 May 2009}
- Black Economic Empowerment Commission. 2001a. A national integrated black economic empowerment strategy. Johannesburg: Skotaville Press.
- Black Economic Empowerment Commission. 2001b. Black Economic Empowerment Commission Report. Johannesburg: Skotaville Press.
- BUTLER, A. 2007. Cyril Ramaphosa: unauthorised biography. Johannesburg: Jacana Media.
- BOOYSEN, L & BOUCHE, J, C. 2005. Facing the unknown: introducing BEE into SMMEs. *Management Today*, 21(4):46-48, May.
- BOOYSEN, L. 2007. Barriers to employment equity implementation and retention of blacks in management in South Africa. *South African Journal of Labour Relations*, 31(1):47-69.

CONGER; J.A. & KANUNGO, R.N., 1998. The Empowerment Process: Integrating Theory and Practice. *The Academy of Management Review*, 13, (3):471-482, July.

DU TOIT, A., KRUGAR, A. & PONTE, S. 2008. Deracializing exploitation? Black Economic Empowerment' in the South African wine industry. *Journal of Agrarian Change*, 8(1):6-32.

Empowerdex, 2007. An empowerdex guide: the codes of good practice for qualifying small enterprises. Johannesburg: Empowerdex.

FRIDGE, 2003. Fund for research into industrial development growth and equity – study to facilitate the formulation of an integrated strategy for the retention and creation of employment in the South African Metals and Engineering Sector, Final Report.

GOLDWYER, N. 2007. South Africa moves towards empowerment equilibrium. *Mining Weekly Online*. {Web} <http://www.miningweekly.co.za>. {Date accessed: 2 May 2009}.

HAVENGA, R. 2005. BEE: The base must be as broad as possible. *Sabinet online: an electronic journal*, 21(10).  
{Web} <http://sabinet.co.za> {Date accessed: 20 August 2009}.

JACK, V. 2007. Broad-based BEE: The complete guide. Johannesburg: Frontrunner Publishing.

JACK, V. & HARRIS, K. 2006. Broad-Based BEE: the complete guide. Pretoria: Frontrunner Publishing.

JACK, V. 2006. Aligning different interests is a key for a code of conduct. *Business Report*, 23 April.

JANSSENS, W., SEFOKO, N., VAN ROOYEN, J. & BOSTYN, F. 2006. Measuring perceived black economic empowerment in the South African wine industry. *Agrekon*, 45 (4):381-405, Dec.

KOVACEVIC, N. 2007. Righting wrongs. Affirmative action in South Africa. *Harvard International Review*, 35 (6): 28-45, Spring.

MANUFACTURING, ENGINEERING AND RELATED SERVICES SETA. 2007. Sector skills plan review 2007 to 2010.

{Web} <http://www.mersetza.org.za/etqa/ssp2007,2010.pdf>

{Date of access: 11 August 2009}.

NTSHABELE, ZM. 2008. The impact of Broad-Based Black Economic Empowerment on the development of women entrepreneurs. Potchefstroom: North West University. (Unpublished MBA - dissertation).

ORTON, D. 2008. The impact of Broad-Based Black Economic Empowerment on family businesses. Potchefstroom: North West University. (Unpublished MBA - dissertation).

PAGE, C. & MEYER, D. 2000. Applied research design for business and management. Boston: McGraw-Hill.

SLEEPING OUT

{Web} <http://www.sleeping-out.co.za/Ekurhuleni-Map.asp>

{Date of access 21 May 2009}

South Africa, 2004. Broad-Based Black Economic Empowerment Act 53 of 2003, *Government Gazette*, 463 (25899)

South Africa. Department of Trade and Industry. 2007. Broad-based Black Economic Empowerment Act: The Codes of Good Practice. Pretoria: Department of Trade and Industry.

South Africa. Department of Trade and Industry. 2004. The Codes of Good Practice on Broad-based Black Economic Empowerment Act. Pretoria: Department of Trade and Industry.

South Africa. Department of Trade and Industry. 2005. South Africa's Economic Transformation: A strategy for Broad-Based BEE. Pretoria: Department of Trade and Industry.

South Africa. Department of Trade and Industry. 2007. Metal Sector Strategy: {Web} <http://www.thedti.org.za/customised> sector programs/metal sector strategy {Date of access 13 July 2009}

SPSS Inc. 2008. SPSS® 16.0 for Windows, Release 16.0, Copyright© by SPSS Inc., Chicago, IL: SPSS.

STATSOFT, Inc. (2008) Statistica (Data Analysis Software System). Release 8. {www.statsoft.com}

VAN DER NEST, D. 2004. The impact of black economic empowerment on the management of small companies in South Africa. Johannesburg: RAU. (Unpublished M.Sc. - dissertation.)

WELMAN, J.C. 2004. Research methodology for the business and administrative sciences. New York: Oxford University Press.

WISNIEWSKI, M. 2002. Quantitative methods for decision makers. 3<sup>rd</sup> ed. Harlow, Essex: Prentice Hall.

{Web} <http://www.merset.org.za/content-new.asp?cid=1/Aboutus/chambers> {Date of access 21 May 2009}.

# ANNEXURE 1

**QUESTIONNAIRE: IMPACT OF BROAD-BASED BLACK ECONOMIC EMPOWERMENT ON WHITE-OWNED QUALIFYING SMALL ENTERPRISES IN THE METALS AND ENGINEERING SECTOR**



Private Bag X6001  
Potchefstroom Campus  
North-West University  
Potchefstroom  
2520

Code number:

## **QUESTIONNAIRE: IMPACT OF BROAD-BASED BLACK ECONOMIC EMPOWERMENT ON WHITE-OWNED QUALIFYING SMALL ENTERPRISES IN THE METALS AND ENGINEERING SECTOR**

### **CONTACT DETAILS:**

Siphiwe Moyo  
Cell: 084 523 4029  
E-mail: [siphiwemo@nedbank.co.za](mailto:siphiwemo@nedbank.co.za)  
Fax: 011 667 2763



## BROAD-BASED BLACK ECONOMIC EMPOWERMENT QUESTIONNAIRE

All information will be treated as **STRICTLY CONFIDENTIAL** and will only be used for academic purposes.

### GENERAL INSTRUCTIONS

1. This questionnaire must be completed by the **Owner/Director/Member** of the business.
2. Please answer the questions as objectively and honestly as possible.
3. Please answer all the questions, as this will provide sufficient information to the researcher so that an accurate analysis and interpretation of data can be made.

All the questions may be answered by making a cross in the relevant block. Use the following key: **1 = Strongly disagree; 2 = Disagree; 3 = Slightly disagree; 4 = Neutral view; 5 = Slightly agree; 6 = Agree; 7 = Strongly agree.** **You must select the number which best describes how you feel about the item.** For example, should you be asked the extent to which you agree with the statement:

“BBBEE makes it possible for the business to be more competitive.”

and you feel that you slightly agree, you will mark the number 5 (**5 = Slightly agree**) as in the example:

		Strongly disagree	Disagree	Slightly disagree	Neutral view	Slightly agree	Agree	Strongly agree
<b>B7</b>	BBBEE makes it possible for the business to be more competitive.	1	2	3	4	<b>X</b>	6	7

It is essential you indicate your choice clearly with a **pen**.

## SECTION A: DEMOGRAPHIC INFORMATION

The following information is needed to help us with the statistical analysis of the data for comparisons among different businesses. All your responses will be treated confidentially. We appreciate your help in providing this important information.

**Mark the applicable block with a cross (X). Complete the applicable information.**

<b>A1</b>	<b>In which age group do you fall?</b>	$\leq 29$	30 - 39	40 - 49	50 - 59	60+
-----------	--	-----------	---------	---------	---------	-----

<b>A2</b>	<b>What is your gender?</b>	Male	Female
-----------	-----------------------------	------	--------

<b>A3</b>	<b>Are you a qualified Artisan?</b>	Yes	No
-----------	-------------------------------------	-----	----

If Yes; what is your trade:

<b>A4</b>	<b>Is your business white-owned?</b>	Yes	No
-----------	--------------------------------------	-----	----

<b>A5</b>	<b>Percentage shares that you own in the business?</b>	%
-----------	--	---

<b>A6</b>	<b>How many permanent employees are employed by the business?</b>							
	1-5	6-10	11-25	26-50	51-100	101-200	201-500	500+

<b>A7</b>	<b>What is the turnover of the business per year?</b>					
	< R 1 m	R 1 – R 5 m	R 5 – R 10 m	R 10 – R 35 m	R 35 – R 100 m	> R 100 m

<b>A8</b>	<b>What is the legal status of the business?</b>			
	Proprietorship	Partnership	Company (private)	Company (public)
	Close Corporation	Co-operative	Business Trust	Franchise
	Other or combination (specify):			

<b>A9</b>	<b>How long have you been running this business (years)?</b>
	Specify:

<b>A10</b>	<b>What does your business do?</b>				
	Basic iron and steel industries, except steel pipe and tube mills	Manufacture of machinery for mining, quarrying and construction	Steel pipe and tube mills	Refining of precious metals, e.g. gold, silver, platinum	Manufacture of primary non-ferrous metal products, excluding precious metals
	Manufacture and installation of pneumatic and hydraulic systems	Casting of non-ferrous metals	Manufacture of metal structures or parts thereof	Other structural metal products, e.g. metal doors, windows and gates	Manufacture of electric motors, generators and transformers
	Manufacture of tanks, reservoirs and similar containers of metal	Manufacture of steam generators, except central heating hot boilers	Manufacture of electricity distribution and control apparatus	Forging, pressing, stamping and roll-forming of metal: powder metallurgy	Precision Engineering
	Other: (Specify):				
<b>A11</b>	<b>Which association does your business belong to?</b>				
	Steel & Engineering Industries Federation of SA (SEIFSA)	National Association of Automotive Components and Allied Manufacturers (NAACAM)	Aluminium Federation of South Africa (AFSA)	South African Institute of Steel Construction (SAISC)	
	Other: Specify:				

## SECTION B: AWARENESS OF BBBEE

Indicate to what extent do you agree or disagree with the statements. Mark the applicable block with a cross (X).

<b>B1</b>	I am familiar with the legislation pertaining to BBBEE.	<b>Yes</b> (01)	<b>No</b> (02)
<b>B2</b>	I know about all the seven elements of the codes of good practice.	<b>Yes</b> (01)	<b>No</b> (02)
<b>B3</b>	I am aware of the fact that qualifying small enterprises consists of businesses with an annual turnover of R5 – R35 million.	<b>Yes</b> (01)	<b>No</b> (02)
<b>B4</b>	The fact that qualifying small enterprises only have to adhere to four of the seven elements of the codes of good practise is known to me.	<b>Yes</b> (01)	<b>No</b> (02)
<b>B5</b>	I am aware of the Contribution levels of the BBBEE.	<b>Yes</b> (01)	<b>No</b> (02)
<b>B6</b>	The turnover of the enterprise falls within the R5 million to R35 million bracket.	<b>Yes</b> (01)	<b>No</b> (02)
<b>B7</b>	I am aware that businesses with less than R5 million turnover are exempted from complying with the codes	<b>Yes</b> (01)	<b>No</b> (02)

## SECTION C: ADVANTAGES TO THE BUSINESS

Indicate to what extent do you agree or disagree with the statements. Mark the applicable block with a cross (X).

		Strongly disagree	Disagree	Slightly disagree	Neutral view	Slightly agree	Agree	Strongly agree
<b>ADVANTAGES TO THE BUSINESS</b>								
<b>C1</b>	BBBEE creates new possibilities for the business in terms of business networks and new associates.	1	2	3	4	5	6	7
<b>C2</b>	We have been rated by an accreditation agency in this business and were found to be between level one and level four contributor.	1	2	3	4	5	6	7
<b>C3</b>	Implementing BBBEE is a relatively easy process.	1	2	3	4	5	6	7
<b>C4</b>	We have been more successful in this business after complying with the BBBEE legislation.	1	2	3	4	5	6	7
<b>C5</b>	Black employees are better off in terms of skills and seniority in the business since we implemented BBBEE.	1	2	3	4	5	6	7
<b>C6</b>	Our annual turnover has increased since the implementation of BBBEE.	1	2	3	4	5	6	7
<b>C7</b>	BBBEE can result in the acquiring of new customers for the business.	1	2	3	4	5	6	7
<b>C8</b>	BBBEE has already been implemented in this business.	1	2	3	4	5	6	7
<b>C9</b>	BBBEE makes it possible for the business to invest in affordable skills development for employees.	1	2	3	4	5	6	7
<b>C10</b>	BBBEE can lead to new innovative ideas with the input of the empowering partner.	1	2	3	4	5	6	7
<b>C11</b>	BBBEE can help the business to achieve its social responsibility towards the community.	1	2	3	4	5	6	7
<b>C12</b>	BBBEE makes it possible for the business to be more competitive.	1	2	3	4	5	6	7
<b>C13</b>	BBBEE makes it possible for the business to compete in new unexplored markets.	1	2	3	4	5	6	7
<b>C14</b>	BBBEE makes it possible for the business to get access to contracts.	1	2	3	4	5	6	7
<b>C15</b>	Compliance to BBBEE makes it possible for the business to expand its business operations (higher growth).	1	2	3	4	5	6	7
<b>C16</b>	BBBEE can give the business the opportunity to acquire materials cheaper as part of the preferential procurement process.	1	2	3	4	5	6	7

		Strongly disagree	Disagree	Slightly disagree	Neutral view	Slightly agree	Agree	Strongly agree
C17	BBBEE can lead to more effective management styles within the business.	1	2	3	4	5	6	7
C18	Access to finance would be easier once the business comply with BBBEE requirements.	1	2	3	4	5	6	7
C19	BBBEE creates new jobs.	1	2	3	4	5	6	7

## SECTION D: DISADVANTAGES TO THE BUSINESS

Indicate to what extent do you agree or disagree with the statements. Mark the applicable block with a cross (X).

		Strongly disagree	Disagree	Slightly disagree	Neutral view	Slightly agree	Agree	Strongly agree
<b>DISADVANTAGES TO THE BUSINESS</b>								
D1	Complying with BBBEE is not a priority of this business.	1	2	3	4	5	6	7
D2	BBBEE has caused us to loose a lot of contracts.	1	2	3	4	5	6	7
D3	BBBEE has caused job losses of black people in this business.	1	2	3	4	5	6	7
D4	Implementing the codes of good conduct on BBBEE could result in the loss of focus on business matters and therefore could have a hampering effect on our businesses.	1	2	3	4	5	6	7
D5	Adhering to the BBBEE act and codes of conduct put an administrative burden on the business.	1	2	3	4	5	6	7
D6	The BBBEE codes of good conduct are vague and complicated.	1	2	3	4	5	6	7
D7	Implementing BBBEE will be time consuming and can result in the neglect of existing customers.	1	2	3	4	5	6	7
D8	The ownership requirements of BBBEE will lead to the owner loosing control over the business.	1	2	3	4	5	6	7
D9	The skills development aspect of BBBEE will lead to a loss in productivity as workers will need to attend courses.	1	2	3	4	5	6	7
D10	An empowering partner will change the culture of the business, resulting in conflict.	1	2	3	4	5	6	7

D11	BBBEE will result in the business employing incompetent people just for the sake of empowerment.	1	2	3	4	5	6	7
D12	BBBEE might lead to the deterioration of quality due to higher levels of authority being given to people that does not possess the necessary skills.	1	2	3	4	5	6	7
D13	Preferential procurement might force the business to buy from new suppliers, resulting in potential risks in terms of reliability.	1	2	3	4	5	6	7
D14	Established relationships with current suppliers will be at risk once the business has to buy from empowered suppliers.	1	2	3	4	5	6	7
D15	Quality control might deteriorate as new materials from new suppliers have to be used as part of the preferential procurement requirements.	1	2	3	4	5	6	7
D16	BBBEE has caused job losses in this business.	1	2	3	4	5	6	7
D17	We can't comply fully because there are very few women in this industry.	1	2	3	4	5	6	7

## SECTION E: GENERAL

		Strongly disagree	Disagree	Slightly disagree	Neutral view	Slightly agree	Agree	Strongly agree
<b>GOVERNMENT SUPPORT</b>								
<b>E1</b>	Adequate information on the issue of BBBEE is available from Government and its departments.	1	2	3	4	5	6	7
<b>E2</b>	Adequate assistance on the issue of BBBEE is available from Government and its departments.	1	2	3	4	5	6	7
<b>E3</b>	Government has taken small and medium-sized businesses in consideration with the development of BBBEE legislation.	1	2	3	4	5	6	7

<b>SUGGESTIONS</b>								
<b>E4</b>	BBBEE should place more emphasis on job creation.	1	2	3	4	5	6	7
<b>E5</b>	BBBEE qualifying criteria should be based on net income not turnover.	1	2	3	4	5	6	7
<b>E6</b>	Tax incentives should be given to businesses based on job creation rather than preferential procurement.	1	2	3	4	5	6	7
<b>E7</b>	BBBEE should not be applicable to qualifying small enterprises (with an annual turnover of less than R35 million)	1	2	3	4	5	6	7
<b>E8</b>	The skills development aspect of BBBEE should weigh more on the score card than management participation.	1	2	3	4	5	6	7
<b>E9</b>	The ownership aspect of BBBEE should only be applicable to businesses where the empowerment partner can buy and pay for his own shares.	1	2	3	4	5	6	7
<b>E10</b>	In the quest for the right empowering partner it is more important to recruit someone with practical experience in the business as appose to someone with academic qualifications.	1	2	3	4	5	6	7
<b>E11</b>	The targets of 2 % skills development spend must be reduced for qualifying small enterprises	1	2	3	4	5	6	7

**THANK YOU FOR YOUR TIME.**