

# The perception of broad-based Black economic empowerment (BBBEE) in Small and Medium enterprises

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## ABSTRACT

Since the end of apartheid the democratically elected ruling party of South Africa, the African National Congress (ANC) implemented legislation as a measure of correcting historical injustices and enabling equity that includes equal access to education, training, and other opportunities formerly restricted to the white minority population.

One of these measures is the policy broad-based black economic empowerment (BBEEE), also commonly referred to as black economic empowerment (BEE). The overall mandate of BEE is to increase the number of black people who own, manage and control businesses and black employment in the South African economy. The BEE Act was introduced with accompanying codes of good practice that provide clear and practical guidelines on how Employment Equity should be planned, implemented, monitored and reported on.

The primary objective of the study is to investigate whether BEE is perceived, by employees of Small and Medium Enterprises (SME), to have a positive or negative effect on SMEs when measured against the proposed outcomes and goals set out by the South African Government and to make recommendations for both SMEs and Government.

Research was conducted by means of a literature and empirical study. The literature study focused on BEE and emphasized aspects such as: the history, policies, objectives and the policy instruments used to achieve participation of BEE by the South African economy. Data was collected from employees of SMEs by means of an anonymous online survey and analysed by means of statistical software.

The study showed that employees of SMEs have a mostly neutral perception about several factors of BEE that can be viewed as negative for the BEE policy, because not only was the policy created to right the wrongs of the past, but to reduce unemployment and increase economic growth and inclusivity for black entrepreneurs.

Based on the results of the survey recommendations were also made to guide and support owner-managers through this highly emotional, but critical important issue that can ultimately ensure the future of the Small- and Medium-Sized businesses in South Africa.

**Keywords:** Broad-based Black Economic Empowerment, BEE, employee perception, Small and Medium Enterprise, SME, South African economy

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## LIST OF ABBREVIATIONS

ANC	African National Congress
BBEEE	Broad-based black economic empowerment
BEE	Black economic empowerment
CSI	Corporate social investment
CSR	Corporate social responsibility
DTI	The Department of Trade and Industry
EE	Employment Equity
EME	Exempt micro enterprises
GDP	Gross Domestic Product
GE	Generic enterprise
GEAR	Growth, Employment and Redistribution
GEM	Global Entrepreneurship Monitor
HR	Human recourse
NDP	National Development Plan
QSE	Qualifying small enterprises
SARS	The South African Revenue Service
SED	Socio-economic development
SEDA	Small Enterprise Development Agency
SME	Small and Medium Enterprises
TEA	Total early-stage entrepreneurial activity

# Chapter 1: Introduction and background

## 1.1 Introduction

It has been more than two decades since the end of apartheid in South Africa and the first democratic election in 1994. The democratically elected ruling party of South Africa, the African National Congress (ANC) implemented legislation as a measure of correcting historical injustices and enabling equity that includes equal access to education, training, and other opportunities formerly restricted to the white minority population (Herman, 2017).

One of these measures is the policy broad-based black economic empowerment (BBEEE), also commonly referred to as black economic empowerment (BEE). The overall mandate of BEE is to increase the number of black people who own, manage and control businesses and black employment in the South African economy (The Investment House, 2016).

These policies are under scrutiny for various aspects, and several opinions exist about whether these policies will positively or negatively influence businesses in South Africa.

One of the central questions asked is whether policies like BEE will ever end and whether it was implemented as originally intended. An article by David Gleason (2013) gives a short negative answer as follows:

*“Never, well not as long as this racially obsessed group who run the ANC remain in control. It is going to take a few generational changes within the party before common sense prevails and by then, of course, it may be too late for the party itself. In the process, what worries me most is that the domestic economy will suffer, perhaps irremediably. It will be overtaken by other African countries that have the courage and will to confront the genuine economic and social challenges, of which there are many.”*

Another article by Hoffman (2008) concludes that the first step to equality in South Africa is to restructure the BEE system. He explains that even though the current system has created an opportunity for black empowerment, the country's financial system cannot accommodate the process and thus the real benefit still ends up in the hands of the privileged (Hoffman, 2008).

A more recent study by Angela *et al.* (2018) reveals that perceptions of the BEE legislation included that implementing BEE legislation was increasing the number of unskilled companies and encouraging tender corruption by awarding tenders to BEE companies even though they did not fit the criteria or capabilities.

However, many positive opinions exist about the BEE legislation. An online publication by Juliet Pitman (2012) explains how smart entrepreneurs will find a way to use the BEE legislation to their advantage by using preferential procurement policies and government funding to grow their businesses. Another article by Entrepreneur Magazine (2012) lists the benefits of being BEE-compliant as follows:

- BEE provides companies with a competitive advantage;
- big corporate companies are encouraged to invest in smaller BEE-compliant companies;
- entities will be able to apply for government tenders;
- entities can use their BEE contribution levels as marketing tools.

Another author suggests that by increasingly including Small and Medium Enterprises (SME) with the BEE framework, BEE holds the promise of the most significant changes to the South African economy since the advent of democracy (van der Nest, 2004). In an empirical study on the effects of BEE on profit and competitiveness of South African firms, the results indicate that there is a positive relationship between the different BEE scores and operating profit, turnover, and investment (Kruger & Kleynhans, 2014).

The focus of this study, however, is not about the opinionated negatives and positives of the BEE legislation as seen by the advocates and critics. Rather the focus of this study is the perceptions of employees at SMEs. The owners of these SMEs will not be included in this study, as previous studies have been done solely on owners of SMEs; conclusions in these studies indicated in general that owners of SMEs perceived no benefit in implementing BEE legislation (Van Wyk, 2010).

BEE legislation has however been amended since its original implementation in 2003 (DTI, 2013), and there are indications that more changes will be under way (Janisch, 2018). As mentioned, while previous studies have focused on employers, they disregarded

employees of these institutions. The author believes that it is just as important to understand how employees perceive the mandate and implementation of BEE legislation and how it reflects on SMEs.

It is essential to understand how SMEs are influenced as well as how their employees perceive the BEE legislation, because SMEs have been identified as one of the most productive drivers of economic growth in South Africa. Some researchers have estimated that in South Africa SMEs make up 91% of formalised businesses, employ about 60% of the labour force, and their total economic output accounts for roughly 34% of Gross Domestic Product (GDP) (The Banking Association of South Africa, 2018). South Africa's long-plagued unemployment rate was the highest it had been in 13 years (Moya, 2017) at 27.7% in the third quarter of 2017. Considering that SMEs employ 60% of the South African labour force, employees of these enterprises are expected to be the ones who would benefit most from BEE, however would appear as though BEE is mostly helping the upperclass, a well connected few, and the system has only opened doors to more corruption (Whittles, 2017).

BEE legislation divides SMEs into two categories, the first being exempt micro enterprises (EMEs). EMEs represent entities with annual revenue of less than R10 million. Compliance with this category make the entity a level 4 contributor, regardless of black ownership or procurement. The second category is qualifying small enterprises (QSE). QSEs represent entities with annual revenue of between R10 million and R50 million. The new BEE codes dictate that QSEs must comply with all five elements of the BEE scorecard (Pieterse, 2015).

Dludlu (2017) suggests that the BEE system is failing for two apparent reasons. Firstly, despite the Employment Equity (EE) Commission having issued a report on the shocking state of affirmative action in South Africa each year, there are no consequences for non-complying entities, resulting in empowerment losing its importance in state procurement decisions. Secondly, the government's monitoring and enforcement mechanisms are weak. Only as recently as 2016 was a Black Economic Empowerment Commission created to enforce the act, but has since opened yet another door for corruption and dishonest practices of which fronting is one of the most prominent (B-BBEE Commission, 2018).

Fronting is an illegal practice that some SMEs have used in the past to obtain BEE recognition, and is a practice that persists (Ensor, 2017). A transaction or arrangement is considered fronting when it directly or indirectly undermines or disturbs the achievement of the objectives or implementation of any of the provisions of the BEE Act. Anyone found guilty of fronting practices can be held liable for a fine of up to 10% of their annual turnover, or a maximum prison sentence of 10 years (Werkmans, 2014).

According to acting commissioner of the BEE Commission, Zodwa Ntuli, in 2016 alone 22 of the 33 complaints the Commission received involved fronting practices (Ngoepe, 2016). Near the end of 2017, the BEE Commission was to issue a further 50 findings against companies for fronting practices (Ensor, 2017).

The question is why is it essential to understand employee perception on BBEE?

The majority of the South African workforce is black; therefore companies have to consider the perceptions of their employees with regards to their corporate social responsibility (CSR) practices. BEE makes up a large part of a South African company CSR efforts, not to mention the legislative requirements of doing business in South Africa (Alessandri *et al.*, 2011). CRS may influence the way a company is viewed in the public domain and therefore may impact how they do business (Kloppers, 2014). A study by Zhu *et al.* (2014) have shown that employee perceptions about CSR practices can affect their loyalty, including affective commitment and personal effort. In other words, generating a perception of confidence toward a company's BEE efforts as well as BEE in general could well result in improved employee loyalty and job satisfaction.

Another reason it is essential to understand employee perceptions of BEE is that companies wanting to do business in South Africa, especially with any organs of the state, are required to have a functional BEE status to conduct business successfully. However, if employees are not benefitting as intended, the resulting negative perception might have less than desirable effects on the entity (Janse van Rensburg & Roodt, 2005).

Lastly, awareness of employee perceptions of the BEE system might offer insight on how both government and businesses could improve and negate negative perceptions around the BEE system. It could also indicate the need for communication and creating awareness amongst employees, companies and government and identify the possible

necessary discussions and knowledge required about the subject (du Plessis & Grobler, 2014).

Additionally, understanding SME employees' perceptions of BEE will indicate whether the proposed benefits of the BEE system is reaching the people it was intended to reach or whether it has resulted in any of the intended transformation for the benefit of the working. This might also verify whether the statements, namely that only the well-connected benefit from BEE and that employees believe that corrupt practices are happening in their institutions, hold any ground.

According to the South African Government's National Development Plan (NDP), 11 million jobs need to be created by 2030, which means that for this to materialise over 49,000 SMEs must grow sustainably by 20% (BusinessTech, 2015). This raises the following questions:

- Is BEE contributing to SME growth and creation, or is it impeding SME growth and creation by placing smaller businesses that are not BEE compliant at a disadvantage?
- Is enough being done to educate and support small businesses about the benefits of being BEE compliant for them to obtain said benefits from the legislation?

## **1.2 Problem statement**

SMEs play an essential role in the South African economy in creating jobs, addressing unemployment, and providing sustainable growth for the South African economy. SMEs make up 91% of formalised businesses, employ about 60% of the labour force, and their total economic output accounts for roughly 34% of South Africa's GDP (The Banking Association of South Africa, 2018).

The Broad-Based Economic Empowerment Act, 2003 (DTI, 2003a) regulates that organs of state and public enterprises are required to review an applicant's BEE compliance level, in which case a business that is not able to provide BEE credentials and an acceptable BEE scorecard will not be awarded tenders and contracts. To improve the efficiency and



impact of the legislation the Act was amended in 2013 (DTI, 2013). These amendments are discussed in the literature review.

The problem statement was derived from the theory, namely whether the intended objectives and outcomes of the BEE legislation are perceived as being realised by employees of SMEs. The study includes the general sentiment or perception as well as the specific outcomes and objectives, including black ownership, enterprise growth and development, and job creation associated with the implementation of BEE legislation.

### **1.3 Research questions**

The following central research questions need to be answered in this study:

- Is there any perceived advantages or disadvantages for SMEs because of BEE?
- Is there any perceived advantage or disadvantage for employees of SMEs because of BEE?
- Do SME employees perceive BEE positively or negatively?
- Do employees of SMEs perceive the mandates and goals of BEE as being met?
- Has BEE opened the door for more corrupt practices as perceived by employees?
- Is it important for employees, that the SME that employ them, has a reasonable BEE-level?
- Has BEE had a positive or negative effect on SMEs as perceived by employees of these entities?

### **1.4 Research objectives**

This section outlines the primary and secondary research objectives of this study.

### **1.4.1 Primary objective**

The primary objective of the study is to investigate whether BEE is perceived to have a positive or negative effect on SMEs when measured against the proposed outcomes and goals set out by the South African Government.

### **1.4.2 Secondary objectives**

To achieve the primary objective, this study seeks to achieve the following secondary objectives:

- To clearly define BEE;
- To identify and describe the outcomes and goals of BEE;
- To gain greater insight on the aspects of BEE by conducting a literature study;
- To understand the role that SMEs play in the South African economy;
- To construct a questionnaire to assess what the perceived impact of BEE is on SMEs;
- To make conclusions and recommendations based on the literature study and empirical study.

## **1.5 The scope of the study**

This study focuses on the historical background and amendments to BEE legislation, its proposed outcomes, objectives, principles, components, and elements. It aims to determine the perceived impact of BEE on SMEs and make relevant recommendations and observations. The research sample was mainly from the Gauteng area, but did exclude participation from outside the region.

## **1.6 Research methodology**

The research commences with a literature review focused on the BEE legislative framework, its past, future, and its impact on SMEs in South Africa towards gaining a clear

understanding of what the implications are of BEE implementation for SMEs, the intended outcomes, and how the BEE legislation is put together. The literature review aims to establish whether similar research has been done in these areas to understand the limitations and suggestions of these studies. Lastly, empirical research is done to determine what the perceived opinions of employees of SMEs are about BEE, the perceived positive and negative outcomes, and how it is implemented.

A quantitative strategy was used to collect data in the form of a questionnaire that was distributed to South African SMEs. The primary approach was to use social media groups with communities of employees and employers within the SME environment. These groups are primarily based on Facebook. Managers and decision-makers were asked to distribute the questionnaires to employees and try to ensure that employees from all employment levels, races, genders and ages would participate. The researcher ensured that employers understood that the focus of the surveys and research is on feedback from the employees and not so much on the feedback from owners and employers. The minimum requirement was that the employees understand, read and speak English, as the questionnaire was only available in English. The survey was completely anonymous.

### **1.6.1 Literature review**

Literature is found from the following sources:

- Scientific databases made available by the NWU library;
- Google Scholar;
- The internet;
- The Department of Trade and Industry (DTI);
- Experts of BBBEE legislation;
- SMEs from South Africa;

The literature review focuses on the topic of BEE and SMEs and includes the following sub-themes:

- The history of BEE in South Africa;

- Policy objectives and outcomes of BEE legislation and its amendments;
- Policy instruments to achieve BEE targets; and
- SMEs and their place in the South African economy.

### **1.6.2 Empirical study**

An empirical study was conducted by using a questionnaire that was developed for this study. The questionnaire was distributed to possible respondents who use social media and direct communication with SME owners in South Africa.

The target audience includes SME employees of all races, ages and backgrounds. The results of the questionnaires were statistically analysed and used to draw conclusions on the different perceptions of employees about SMEs and the perceived impact of BEE on the enterprises they are employed at.

### **1.6.3 Constructing the questionnaire**

The questionnaire was designed to obtain information in the following three sections:

#### **Section 1**

The first section deals with the demographic information of respondents and the companies they are employed at. The questions in this section includes questions about the respondent's age, gender, position in the company, and information about the companies they are employed including BEE-level and number of employees. Some questions in this section have been designed to ensure that only data from qualifying respondents would be considered.

#### **Section 2**

The second section of the questionnaire was designed to determine the awareness of BEE under respondents. This section ensures that data from respondents with no knowledge of BEE are removed from the data pool as it could influence results. Opinions formed without knowledge of BEE were considered invalid.

#### **Section 3**

The third section focuses on the degree of the impact which respondents perceive BEE to have on their respective companies with the proposed outcomes and objectives of BEE legislation as a guide. The questions have been designed to portray both positive and negative aspects that would guide the respondents' thinking before answering. The previous two sections ensure that the data retained for evaluation in this section is accurate and that only qualifying respondents were included.

#### **1.6.4 Data collection and ethical aspects**

A survey was created with Google Forms. The Google Forms application stores all respondent data on cloud-based servers, and therefore only the researcher has access to the data. The application was configured to collect no personal information like e-mail addresses or IP-addresses. The data was backed up weekly on a local hard drive for redundancy and will be kept for three years before being discarded.

The Google Forms platform ensures that anyone with internet access and a link to the form can participate in the study. The anonymity of the platform allows respondents to be entirely truthful with their answers without threat of intimidation of any sort. The anonymity of the platform also ensures no adverse impacts with regards to this study to both employers and employees or businesses, as there is no traceability between responses given and those who give them.

Three primary methods for obtaining respondent data were used:

- A social media campaign was launched to reach as many employees of SMEs as possible, reaching out to existing Facebook groups that are focused on SMEs in South Africa.
- The study also directly contacted members of the groups mentioned above and requested their willingness to participate in the study by asking them to distribute the questionnaire between colleagues and employees.
- The study directly contacted SMEs and request willingness to participate.

No limits were placed on the number of respondents that could participate, but a minimum of 150 respondents were set for the study.

### **1.6.5 Statistical analysis**

Before analysing the data, the raw data was processed and “cleaned”. This process tested for outliers and zero data points; only respondent data in which respondents answered all the questions was accepted. Secondly, a small frequency analysis was done to determine whether the target audience was reached. The data then underwent a statistical analysis to verify information including: mean, variance and standard deviation. The statistical analysis was necessary to validate perceptions from the data and determine what weight those perceptions carried. The opinions were then compared with the intended outcomes and mandates of the BBBEE legislation.

The North-West University provides a statistical consultation service that was used to verify and analyse the data collected as mentioned above. The consultation service department uses analytical software called SAS (SAS Institute Inc, 2017) to analyse the questionnaires. The arithmetic means and Cronbach’s alpha values were used to interpret the results, validity and reliability.

## **1.7 Contributions of the study**

This section describes the individual and organisational contributions of the study.

### **1.7.1 Individual contributions**

This study provides valuable feedback on whether BEE affects employees in SMEs and if so, to which extent? The research also contributes to developing understanding on whether employees regard BEE as essential and contributing positively to their wellbeing.

### **1.7.2 Organisational contributions**

This study provides valuable feedback on how BEE affects SMEs in South Africa and whether its impact is perceived as positive or negative. Not only can this study assist organisations in positively reacting to BEE legislation but it can also assist the government in refining BEE legislation to obtain the desired outcomes or even to educate employees about what benefits BEE holds for SMEs in South Africa.

## 1.8 Limitations of the study

The following aspects have been identified as limitations to this study:

- As mentioned, SMEs is a massive contributor to the South African economy, and therefore a review of this magnitude will not be able to meet a representative sample size of all SMEs in South Africa.
- This study does not encapsulate all aspects of the BEE legislation, but only the most relevant factors directly impacting employee perceptions.
- Willingness to participate by respondents may be limited because of the sensitive nature of the study's contents.

## 1.9 The layout of the study

The study is laid out in the following chapters:

**Chapter 1** provides an introduction, problem statement, objectives, scope, research methodology and limitations of the study.

**Chapter 2** consists of a literature review on BEE. This chapter outlines the history, policy objectives, fundamental principles, components, elements and amendments to the BEE legislation.

**Chapter 3** comprises the results of the empirical study, during which the information is analysed, and the findings will be discussed.

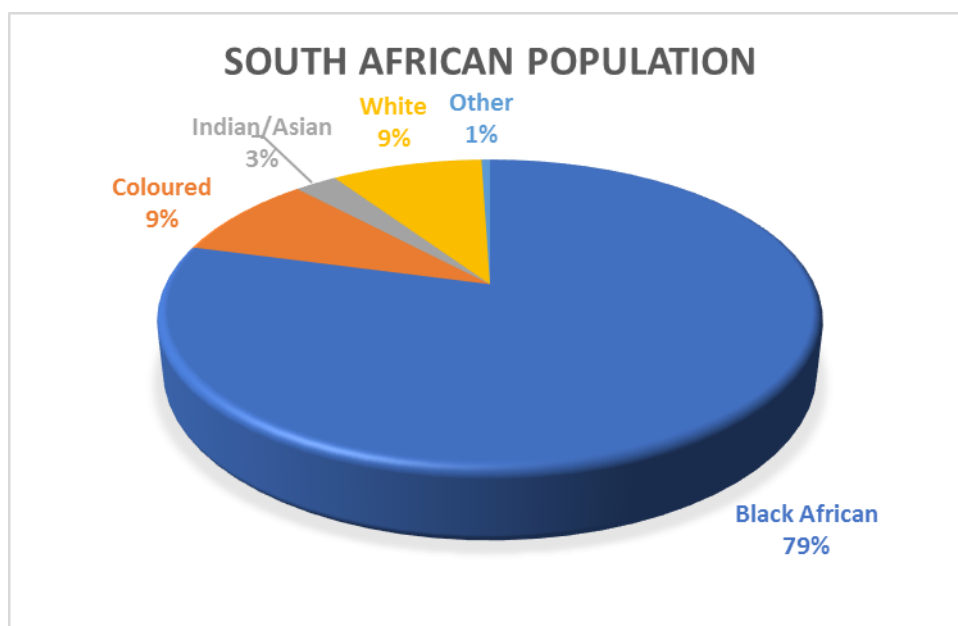
**Chapter 4** includes the conclusions and recommendations as answers to the research questions posed earlier.

## Chapter 2: Literature review

### 2.1 Introduction

South Africa has a population of over 51 million people and is still growing. The community is divided into several population groups based on race according to the latest census results. The South African population consist of a 79.1% black African population, 8.9% coloured, 2.5% Indian/Asian, and 8.9% white. These statistics can be seen in Figure 1.

**Figure 1: Population demographics of South Africa by population group**



(Statistics South Africa, 2012)

Besides the majority of South Africans being black, the statistics show that South Africa still battles a significant unemployment rate, which stood at 27.2% by the second quarter of 2018, of which most of these are black Africans (Statistics South Africa, 2018). Black Africans have the highest income inequality among South Africans with an increasing Gini coefficient of 0,64 in 2006 to 0,65 in 2015. Income inequality amongst whites declined from 0,56 in 2006 to 0,51 in 2015 (Statistics South Africa, 2017c).

To address the abovementioned inequalities, the South African government has implemented strategic policies, one of which is BEE, to increase the number of black people that own, manage, control and gain employment in the South African economy.



The BEE legislation has a direct impact on both large firms as well as SMEs. As mentioned, SMEs make up 91% of formalised businesses in South Africa and is therefore one of the most significant contributors to the South African economy (The Banking Association of South Africa, 2018).

This chapter aims to generate a clear understanding of the SME environment in South Africa, the BEE policy, how it has changed since its conception, and the objectives that are intended to be met by implementing the BEE policy. This chapter also briefly looks at the effects of employee perceptions and their potential effects on SMEs.

Before delving into the inner workings of BEE in the South African context, it is essential to understand the specific terms and definitions regularly used in the legislation. A proper understanding of the definitions and terms used will avoid misinterpretation of the legislation.

## **2.2 Definitions and Terms.**

For this study, some terms and definitions are defined below to avoid unclarities. Some amendments to these definitions will also be discussed.

### **2.2.1 BEE-controlled company**

The BEE Act defines a BBE-owned company as a company owned by a juristic person and having shareholding or similar member interests that are BEE-controlled, in which black participants enjoy a right to economic interest that makes up at least 51% of the total of such interests, which is measured with the flow-through principle (DTI, 2003a).

Before the latest amendments to the legislation, it was possible for companies that were mostly white-owned to achieve good BEE-levels by excelling in other categories of the BEE scorecard like employment equity, skills development, preferential procurement, socioeconomic development, or enterprise development. The new legislation, however, prioritises black ownership with a weighting of 40%, which equates to a minimum 10% black shareholding. Companies that do not comply with the minimum requirement will be penalised with one BEE-level on their scorecard (Steyn, 2015).

To summarise, the original BEE Act allowed a company with at least 51% black ownership in the form of a juristic person(s) or shareholders to be declared a black-controlled company. It allowed companies to sell shares to black shareholders while maintaining white control and still being considered a black-controlled company. Formerly, the ownership element of the BEE scorecard was not prioritised, and so companies focussed more on the other aspects of the scorecard to obtain good BEE-levels. The legislation has now been amended to ensure that companies place a greater emphasis on direct ownership. Companies are now forced to comply with the ownership element to obtain the desired BEE-level.

### **2.2.2 Black people**

*Black* is a generic term that refers to African, coloured and Indian people who are citizens of the Republic of South Africa by birth or descent; or who became citizens of the Republic of South Africa by naturalisation before 27 April 1994 or after 27 April 1994 and who would have been entitled to acquire citizenship by naturalisation prior to that date (DTI, 2013).

According to a website, BEE Analyst & BEE Analyst & Associates (2018), black people can be defined as African, coloured or Indian persons who were either:

- born in South Africa,
- citizens by descent (through one or more parents),
- became citizens by naturalisation before the commencement of the Constitution, or
- became citizens by naturalisation after the commencement of the Constitution, but who without the apartheid policy would have qualified for naturalisation before then.

It is important to note that the Chinese community is excluded from both these definitions, but in 2008 the South African High Court in Pretoria ruled that Chinese South Africans should be reclassified as black people. This ruling redefined the Chinese community as black with regards to employment equity and BEE. It made the order so that ethnic Chinese persons can benefit from government policies such as BEE and preferential procurement (Harris, 2017).

From the abovementioned it can be concluded that only white persons are excluded from the definition “black people” and that under the BEE Act all other South African racial groups are included.

### **2.2.3 Small and medium-sized enterprises (SME)**

An SME's general definition is an enterprise with a turnover of less than R50 million. SMEs can be subdivided into two categories by the BEE legislation. The first is exempt micro enterprises (EME). Compliance with this category will result in a company being a level-4 contributor regardless of black ownership or procurement. The second category is qualifying small enterprises (QSE). In the new codes, QSEs need to comply with all five elements of the BEE scorecard (Pieterse, 2015).

The above definition is however generalised as definitions vary from industry sector to sector. For this study, the upper threshold for SMEs will include medium-sized companies and all smaller companies. According to the National Small Business Amendment Act (26 of 2003) a South African company is considered a medium-sized company when:

- the company has fewer than 200 employees,
- the annual turnover is less than R64 million,
- it has capital assets of less than R10 million,
- there is direct managerial involvement by owners.

### **2.2.4 Exempted micro enterprise (EME)**

An exempted micro enterprise (EME) has an annual turnover of less than R10 million., and includes entities recently incorporated who have been operating for less than one year. An EME is not measured on the B-BBEE scorecard (van der Westuizen, 2017).

Under the new B-BBEE Codes of Good Practice (DTI, 2012), a business qualifies as an EME if its annual turnover is less than R10 million and the entity has been in operation for less than one year. EMEs are also exempt from being measured with a BEE scorecard, and also qualify for the following under the new BEE Act (EMPOWERDEX, 2018a):

- 100% black-owned EME – Level-1 BEE status and a procurement recognition level of 135%.
- 51% or more black-owned EME – Level-2 status and a procurement recognition level of 125%.
- Any other EME – Level-4 status and a procurement recognition level of 100%.

### **2.2.5 Qualifying small enterprise (QSE)**

A business with an annual turnover of more than R10 million but less than R50 million qualifies as a qualifying smaller enterprise (EMPOWERDEX, 2018b). This definition is directly in line with the 2013 Codes of Good Practice (DTI, 2013). The Codes of Good Practice also elaborates on the enhanced B-BBEE recognition level for QSEs as follows:

- Qualifying small enterprises which are 100% black-owned qualify for a level-1 B-BBEE recognition.
- QSEs which are at least 51% black-owned qualify for level-2 B-BBEE recognition.

The turnover thresholds were amended since the original 2007 Codes of Good Practice in which QSEs qualified for measurement under the qualifying small enterprise scorecard with a turnover of between R5 million and R35 million (Jack & Harris, 2007).

### **2.2.6 Black economic empowerment (BEE)**

The Department of Trade and Industry defines BEE as an integrated and coherent socio-economic process that directly contributes to the economic transformation of South Africa. It does so by bringing about significant increases in the numbers of black people who manage, own and control the country's economy and significantly decreasing income inequalities (DTI, 2003b).

The South African Western Cape Government (2018) defines BEE as the broad approach to de-racialise South Africa's economy and to fast-track the entry of historically disadvantaged individuals into the business arena. BEE is an inclusive process that needs all sectors of the economy's input to make it work. Government is trying to create a real BEE and avoid *fronting*, which many companies still use.

## 2.2.7 Amendments to definitions

The most prominent amendments to the Codes of Good Practice were those made on the turnover thresholds that qualified EMEs and QSEs. The amended turnover thresholds to definitions 2.2.4 and 2.2.5 can be seen in Table 1.

**Table 1: 2013 Amendments to EME and QSE turnover thresholds**

<b>Entity size classifications</b>	<b>2007 Codes of Good Practice turnover threshold</b>	<b>2013 Codes of Good Practice turnover threshold</b>
Exempt micro enterprise	< R5-million	< R10-million
Qualifying small enterprise	R5-million ≤ R35-million	R10-million ≤ R50-million
Generic enterprise	≥ R35-million	≥ R50-million

(EMPOWERDEX, 2015)

The table above illustrated that entities used to qualify as EMEs if they had a financial annual turnover of less than R5 million, but under the 2013 Codes of Good Practice this threshold was moved to entities with a turnover of less than R10 million. The turnover threshold for QSEs has also been amended from between R5 million and R35 million per financial year to between R10 million and R50 million.

This study focuses on SMEs that qualify under QSEs, but it is also important to note that an SME that is currently operating just below the generic enterprise (GE) turnover thresholds of R50-million may surpass the threshold, which would mean that the entity could no longer use the enhanced BEE-level recognition levels as mentioned in section 2.2.5. These entities will have to manage their BEE-level differently under the generic scorecard (which will be discussed later) on their next BEE-level evaluation (DTI, 2013).

## 2.3 Historical overview of BEE and South African legislation

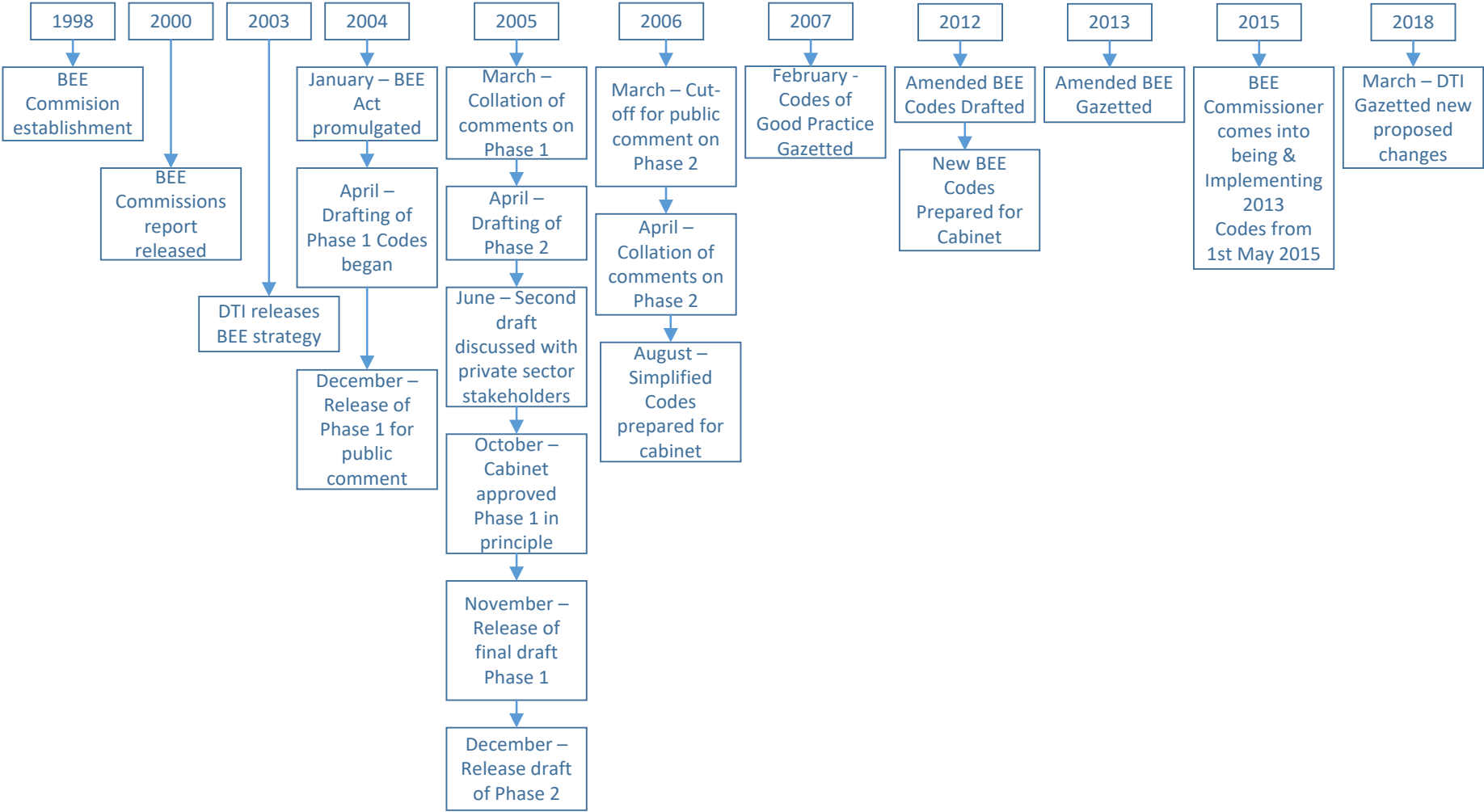
Since the election of the ANC government in 1994, the ruling party has been driven to redress the inequalities of the apartheid era government by implementing legislation that sought to substantially and equitably transfer ownership, management and proportionate

control of South Africa's financial and economic resources to the majority of its citizens (Harris, 2017).

In 1994 when the ANC took office South Africa's unemployment rate was at 38.2%, of which the vast majority consisted of black people living in large-scale poverty (Orkin, 1998). During the early days of the South African democracy, the ANC suffered from a lack of skilled managers and policy coordination and implementation methods were not proving to be successful. To address these constraints, the ANC introduced a macroeconomic policy framework called the Growth, Employment and Redistribution (GEAR) Strategy in 1996 to stimulate faster economic growth and alleviate the high unemployment rate (SAHO, 2017).

GEAR was the start of a host of policy changes toward addressing the impeding inequality, unemployment and poverty levels of South Africa. Some of the first policies drafted were the Employment Equity Act, the Competition Act and the National Empowerment Fund. Figure 2 Below illustrates a brief the historical timeline of BEE legislation and supplementary legislation in South Africa as quoted by (Van Wyk, 2010) and updated from (EMPOWERDEX, 2015) and (DTI, 2012).

**Figure 2: Schematic layout of the history of the BEE legislation.**



(Van Wyk, 2010; EMPOWERDEX, 2015).

### **2.3.1 Employment Equity Act No. 55 of 1998 (SAICA, 2017)**

During 1996 a need arose for the participation of the black population in economic activity, which led to the establishment of the Employment Equity Act in 1998 to promote the participation of black people in the economy (Ewert & Melinda, 2014).

The purpose of the Employment Equity Act is to achieve equity in the workplace by promoting equal opportunity and fair treatment in employment toward eliminating unfair discrimination, implementing affirmative action measures to redress the disadvantages experienced by designated groups from the past, and to ensuring equitable representation in all occupational categories and levels in the workforce (SAICA, 2017).

### **2.3.2 Competition Act 89 of 1998 (Competition Commission, 1998).**

The Competition Commission was established in adherence with the Act. The Competition Commission was empowered to investigate, control, and evaluate restrictive business practices, abuse of dominant positions and mergers to achieve equity and efficiency in the South African economy. Its primary purpose is to promote and maintain competition in South Africa (Competition Commission, 2018).

### **2.3.3 National Empowerment Fund Act 105 of 1988 (DTI, 1998).**

The National Empowerment Fund was created to hold equity stakes in state-owned and private enterprises on behalf of historically disadvantaged persons. The National Empowerment Fund was established as a driver for promoting and facilitating black economic participation by providing both financial and non-financial support to BEE businesses. The National Empowerment Fund grants business loans to BEE companies in the range of R250 000 and R75 million across all industry sectors. These business loans are aimed at start-ups, expansions and equity acquisitions (DTI, 2018c).

### **2.3.4 Broad-Based Black Economic Empowerment Act No. 53 of 2003 (DTI, 2003a).**

During 2003 the concept of broad-based black economic empowerment (B-BBEE) came into being. This policy was published by the Department of Trade and Industry in a document known as *A Strategy for Broad-Based Black Economic Empowerment* and



was also the document that first mentioned the generic BEE scorecard (Ewert & Melinda, 2014).

Subsequently, the Broad-Based Black Economic Empowerment (53 of 2003) (hereafter referred to as the BEE Act) came into being on 7 January 2004 (DTI, 2003a). The purpose of the Act was to establish a legislative framework for the promotion of BEE. The BEE Act also empowers the Minister of Trade to issue codes of good practice and to publish transformation charters. The BEE Act made provision for the establishment of the Black Economic Empowerment Advisory Council (B-BBEE Commission, 2018).

According to Ewert and Melinda (2014), primary objectives of the BEE Act can be summarised as follows.

- To increase black ownership and management of enterprises. Black ownership indicates that least 51% of a company is owned by a black person(s);
- To increase black ownership and management in priority sectors of the economy. Some of the most significant contributing sectors are mining, manufacturing and finance (Statistics South Africa, 2017a);
- To gain greater access to financial support for BEE through the National Empowerment Fund;
- To enable rural communities to participate in economic activities, thereby empowering them;
- To encourage the development of human resources in enterprises with education and training; and
- To actively encourage black female ownership of companies by facilitating them in skills development, infrastructure development, and access to economic activities.

### **2.3.5 The B-BBEE Codes of Good Practice 2007 (DTI, 2007b)**

Before the release of the BEE Act in 2003, there was no framework for measuring BEE. Moreover, by the beginning of 2004 when the BEE Act had been promulgated,

many sectors of the economy had drafted industry charters on BEE and transformation, but others had contained scorecards loosely based on the broad-based scorecard. Some sectors had only written undertakings of commitment to change. The original strategy had only provided the outline of a broad-based scorecard, together with weightings, contained no detail on measurement principles and application of the scorecard (Herman, 2017).

The Codes of Good Practice provides a standard framework for measuring BEE across all sectors of the economy. The intention of the Codes of Good Practice is to create a level playing field for all entities operating within the South African economy by providing clear and comprehensive criteria and guidelines for the measurement of BEE (DTI, 2007a). The Codes of Good Practice acts as a guideline for the overall operational aspects of the BEE strategy in South Africa.

These Codes of Good Practice also allow for the creation of sector charters. These sector charters were created by the DTI to ensure that sector charters submitted for gazetting were sufficiently aligned with the BEE Act and Codes of Good Practice and more importantly, that they advanced the objectives of sustainable BEE (DTI, 2018a). The sector charters and their effective dates can be seen in Table 2:

**Table 2: Sector charters and their effective dates**

Sector Codes	Effective date
Agri-BEE Charter	28-Dec-12
Financial Sector Charter	26-Nov-12
Information and Communication Technology (ICT) Charter	07-Nov-16
Property Sector Charter	01-Jun-12
Chartered Accountancy Sector Code	10-May-11
Integrated Transport Sector Codes	21-Aug-09
Forest Sector Code	12-Jun-09
Marketing, Advertising and Communication (MAC) Sector Code	01-Apr-16
Tourism Sector Code	20-Nov-15

(DTI, 2018a)

The original Codes of Good Practice allowed opportunistic entities to bend the rules to fit their outlook on BEE, of which one of the most common transgressions is fronting. Fronting is an arrangement or other act that directly or indirectly undermines the achieved objectives or the implementation of any of the requirements of the BEE Act. The DTI describes fronting as one or more of the following practices:

- **Window-dressing (Jackson *et al.*, 2015):**

Window-dressing includes situations in which black people are appointed or introduced to an enterprise by minimum effort and where black people who are designated for an enterprise are discouraged or prohibited from participating in the core business of that enterprise ;

- **Benefit diversion(Jackson *et al.*, 2015):**

Benefit diversion includes activities where the economic benefits received as a result of its BEE status do not flow to black people according to the percentage specified in the relevant legal documentation. Benefit diversion also includes a legal relationship with a black person to achieve a certain level of BEE compliance without the economic benefits.

- **Opportunistic intermediaries(DTI, 2018b):**

Opportunistic intermediaries include enterprises that have made agreements with other enterprises to use their favourable BEE status in circumstances where the agreement involves limitations or restrictions upon the identity of the opportunistic intermediary's suppliers, service providers, clients or customers .

According to acting commissioner of the BEE Commission, Zodwa Ntuli, in 2016 alone 22 of the 33 complaints the commission received involved fronting practices (Ngoepe, 2016). This trend seems to be a growing concern as by October 2017 the BEE commissioner was to issue 50 findings against companies with regards to fronting practices (Ensor, 2017).

The BEE Codes of Good Practice have however undergone several phases of implementations since its promulgation in January 2004 and was amended in 2013 (DTI, 2013).

### **2.3.6 The BEE Codes of Good Practice 2013 (DTI, 2013)**

The revisions to the 2007 Codes of Good Practice were gazetted in 2013 but was only implemented on 1 May 2015 (EMPOWERDEX, 2015). There were five significant amendments made to the Codes of Good Practice. The aim of these major amendments was to show that the government was taking a more dominant and prescriptive approach to the implementation of BEE. The new measures that were introduced included the following (Werkmans, 2014):

- The Government established a BEE Commission to investigate complaints relating to BEE, BEE transactions, and fronting practices.
- The new codes made provision for and introduced various criminal offences of misrepresenting or providing false information regarding a firm's BEE status and have therefore classified fronting as a criminal offence.
- The new codes introduced a statutory right for public and private companies to cancel any contract awarded due to false information being provided on a firm's BEE status.
- The new codes also pose an obligation by Government and public entities to apply the Codes of Good Practice in their procurement policies.
- The new Act also forces South African listed entities to provide a report to the BEE Commission on their compliance with BEE as well as the BEE targets they aim to obtain.

One of the most significant amendments of the act was the establishment of the BEE Commission on 6 August 2015 (B-BBEE Commission, 2016). The primary functions of the commission are as follows (B-BBEE Commission, 2018):

- To oversee and regulate adherence to the BEE Act in the public interest;
- To strengthen collaboration between the public and private sector to protect the BEE objectives;
- To receive complaints with regards to BEE and investigate;

- To promote educational programmes and initiatives of BEE;
- To maintain a register of essential BEE transactions;
- To receive and analyse BEE compliance reports;
- To encourage good governance and accountability with regards to BEE; and
- To create public awareness of BEE.

There are several policy instruments that the government has implemented to achieve BEE, but one of the most crucial policy instruments that implemented across all sectors of the economy is preferential procurement (Nkwananchi, 2015).

### **2.3.7 Preferential Procurement Act of 2000 (DTI, 2000)**

The Preferential Procurement Framework Act allows government entities conducting a tender process to evaluate tender submissions according to specific prescribed criteria. The Preferential Procurement Act gives the government and private entities guidance on how to calculate the points for price and categories of preference. The regulations then require the tender to be awarded to the bidder that scores the highest number of points (Barclay, 2012). Therefore, companies wanting to do business with government organs should aim to have the best BEE procurement scores to be more successful in tender applications.

The South African Government is one of the country's largest spenders, having spent R1.52 trillion in the 2015/2016 financial year (Statistics South Africa, 2017b). This emphasises the importance of business in South Africa to have a good BEE rating. Not only does Preferential Procurement Act as an incentive for dealing with the government but also for dealing with enterprises with good BEE scores to improve their BEE scores. Clearly, preferential procurement plays a significant role in driving transformation across the South African economy.

The Preferential Procurement Act also calls for an 80/20 preferred procurement point system when awarding tenders. This system assigns a score out of 100 based on the BEE-level of the supplier and the rand value or the tender. This system is to be applied to

all tenders with a value larger than or equal to R30 000 and up to a value of R50 million (DTI, 2017). The formula for this point system can be seen in Figure 3:

**Figure 3: Preferential procurement 80/20 principal equation**

$$P_s = 80 \left( 1 - \frac{P_t - P_{\min}}{P_{\min}} \right)$$

Where-

$P_s$  = Points scored for price of tender under consideration;

$P_t$  = Price of tender under consideration; and

$P_{\min}$  = Price of lowest acceptable tender.

For the 20 points available in the point system, a company scores points based on their BEE level. The points are awarded in Table 3 below:

**Table 3: Preferential procurement points awarded on BEE-level**

BEE-level	Number of points
1	20
2	18
3	14
4	12
5	8
6	6
7	4
8	2
Non-compliant	0

This point system changes for tenders over R50 million, but for this study, the focus is kept on QSEs with an annual turnover of less than R50 million.

Another policy instrument to achieve BEE is the institution of the generic BEE scorecards. These scorecards are used to verify the BEE credentials of businesses (The PRS Group, 2017).

These scorecards contain various elements such as ownership, management control, employment equity, skills development, enterprise development, socio-economic development, and sector specific contributions.

### 2.3.8 The generic BEE scorecard and revisions.

To obtain a BEE contribution level, firms are audited by approved auditing bodies on several elements of their institutional operations. The original BEE Act focussed on seven elements including ownership, management control, employment equity, skills development, enterprise development, socio-economic development (Nkwananchi, 2015). The amended Codes of Good practice focuses on only five elements with three elements being prioritised (DTI, 2013).

A comparison between the original and amended generic BEE scorecard and weighting points of each element can be seen in Table 4 below.

**Table 4: Comparison of generic BEE scorecard between the original and amended Acts**

<b>Element</b>	<b>Weighting point (amended Codes)</b>	<b>Weighting point (current Codes)</b>
<b>Ownership</b>	25	20 plus 3 bonus points
<b>Management control</b>	15 plus 4 bonus points	Management control - 10 plus 1 bonus point Employment equity - 15 plus 3 bonus points
<b>Skills development</b>	20 plus 5 bonus points	skills development - 15
<b>New enterprise and supplier development</b>	40 plus 4 bonus points	Preferential procurement - 20 Enterprise development - 15
<b>Socio-economic development</b>	5	5

<b>Total</b>	<b>118</b>	<b>107</b>
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Source: (DTI, 2013).

Following how entities contribute to the above elements, they will be awarded a BEE-level. A comparison of the levels that are allocated according to points earned on an entity's BEE scorecard between the original and amended codes can be seen in Table 5.

**Table 5: Comparison of BEE-level contributor between the original and amended Acts**

<b>BEE-level</b>	<b>Amended Codes</b>	<b>Original Codes</b>
<b>1</b>	≥ 100 points	≥ 100 points
<b>2</b>	≥ 90 but < 100 points	≥ 85 but < 100 points
<b>3</b>	≥ 90 but < 95 points	≥ 75 but < 85 points
<b>4</b>	≥ 80 but < 90 points	≥ 65 but < 75 points
<b>5</b>	≥ 75 but < 80 points	≥ 55 but < 65 points
<b>6</b>	≥ 70 But < 75 points	≥ 45 but < 55 points
<b>7</b>	≥ 55 but < 70 points	≥ 40 but < 45 points
<b>8</b>	≥ 40 but < 55 points	≥ 30 but < 40 points
<b>Non-compliant</b>	< 40 points	< 30 points

Source: (DTI, 2013)

Under the amended BEE Codes of Good Practice, the code prioritises three elements out of the five, namely ownership, skills development, and enterprise and supplier development. The only one of these that is compulsory is ownership (DTI, 2013). The new Act calls for a QSE to achieve a minimum of 40% of at least two of the three priority elements. Should an entity not meet the minimum requirement, their BEE-level will be penalised by one level on their scorecard (Schoeman–Louw, 2017).

### **Ownership**

The ownership element refers to the owner's right to share in economic benefits that accumulate resulting from the owner's participation in the enterprise. The ownership



element also refers to the right of the owner to influence the use of resources of the enterprise (SEESA, 2018). The weighting of the ownership element has also increased from 20 to 25 points as set out in Table 4. This element is in alignment with the first primary objective of the BEE Act as set out in section 2.3.4.

Under the current Codes of Good Practice, an EME is deemed to have a level-4 BEE status regardless of the race of the ownership (Werkmans, 2014). The BEE contribution level of QSEs will be measured by reference to all five BEE elements, but the ownership element is compulsory. The Codes of Good Practice stipulates that at least 40% of the available 25 points for ownership should be obtained or the entity's BEE-level will be penalised by one level (Schoeman–Louw, 2017).

Also concerning the ownership element, the Codes of Good Practice allows for the following special conditions (DTI, 2013):

- A QSE with 51% black ownership will automatically qualify a business as a level 2 contributor,
- A QSE that is 100% black-owned will be considered as a level 1 contributor.

Under these special conditions, QSEs do not have to go through the process of being certified by an authorised accreditation agency and can merely submit an affidavit proving to the fact that they qualify as a QSE and confirming the percentage ownership. This can also be viewed as an advantage for compliance, from an administrative and cost perspective (Werkmans, 2014).

### **Enterprise and supplier development**

Enterprise and supplier development is a new element added to the BEE scorecard, and mostly represents the combination between what was previously separately known as enterprise development and preferential procurement. This element measures the extent to which the business purchases and supports other supplier businesses who are BEE compliant. This element also measures to which extent entities incentivise supplier development in the form of growth and the sustainability of black-owned businesses (Werkmans, 2014).

Enterprise and supplier development are made up of four sub-categories as follows (Sebati, 2018):

### **Preferential procurement**

Preferential procurement is a national policy set out by the Preferential Procurement Act (see section 2.3.7). The policy encourages government departments and public entities to purchase goods and services from BEE empowered businesses.

### **Supplier diversity**

Supplier diversity refers to the process of obtaining products and services from misspent BEE suppliers. The process assists in the transformation of an entity's supply chain to include smaller and underutilised BEE empowered companies.

### **Supplier development**

Supplier development refers to the process of working with BEE empowered suppliers on a close basis to improve overall performance. The proses should result in improvements to the total value added by the supplier, which may include improved business practices or operation management improvements.

### **Enterprise development**

Enterprise development is the process of promoting the economic growth of SMEs. The process consists of financial and non-financial contributions with the specific objective of assisting or fast-tracking the development, sustainability and ultimately, the financial independence of BEE empowered businesses.

### **Management control**

Unlike the ownership element, the management control element measures the effective control of the business by black people on all management levels from board participation to employees in junior management (DTI, 2013).

The management control element is aimed at addressing specific vital issues surrounding black management and control of enterprises such as the representation of black people at executive board level as well as the involvement of black people in daily operations and

strategic decision making at senior levels (CA Charter, 2018). In the past, companies would employ black people on a company's board as a non-executive board member in order to obtain preferential BEE-levels. The measurement of this element also promotes the promotion of black employees to more senior management roles.

### **Skills development**

This element relates to the extent to which employers incentivise the internal and external development and training of employees. Under the 2007 Codes of Good Practice, it was not compulsory to comply with all the elements of the generic scorecard, but the amended Codes of Good Practice requires entities to comply with all five elements. Skills development is one of the priority elements – as mentioned earlier, entities are required to obtain at least 40% of the minimum target of the priority elements or lose a level on their BEE scores (DTI, 2013).

Skills development can be considered one of the more straightforward elements with which to gain points. Entities can earn skills development points by doing the following (i-fundi, 2017).

- An entity can earn eight points by investing 6% of its annual payroll on training black people. Before the amendments to the Codes of Good Practice, it used to be 3%;
- An entity can earn four points by investing 0.3% of its total payroll on learning programmes for disabled, black employees;
- An entity can earn four points by contributing to learnerships, apprenticeships and internships if 2.5% of its staff is enrolled in such programmes;
- An entity can earn four points if 2.5% of its employees are black unemployed learners;
- An entity can earn five bonus points if the abovementioned unemployed learners are gainfully employed at the end of their learnerships.

Skills development compliance also carries an additional tax benefit. The South African Revenue Service (SARS) offers a tax benefit of R60 000 per participant on a learnership, which equals a saving of R16 800.00 per learner per year (Barry, 2017).

### **Socio-economic development**

Socio-economic development (SED) contributions include any monetary or non-monetary contribution implemented for individuals, a group of individuals, or communities, of which at least 75% of the beneficiaries of the socio-economic activities are black people. These developments can take many forms of which the following is most common (Van Deventer, 2017).

- Grant contributions;
- Discount offerings on products or professional services;
- Covering overheads or direct costs; and
- Providing professional services at no cost.

As per the amended Codes of Good Practice, entities can earn a maximum of five points for the socio-economic development element. The type of contribution and benefit factor percentage can be seen in Table 6.

**Table 6: Socio-economic development benefit facto matrix**

<b>Qualifying Contribution type</b>	<b>Contribution Amount</b>	<b>Benefit Factor</b>
<b>Grant and Related Contributions</b>		
Grant Contribution	Full Grant Amount	100%
Direct Cost incurred in supporting enterprise development and supplier development	Verifiable cost (including both monetary and non-monetary)	100%
Discounts in addition to normal business practices supporting enterprise development and supplier development	Discount amount (in addition to normal business discount)	100%
Overhead costs incurred in supporting enterprise development and supplier development (including people appointed in enterprise development and supplier development)	Verifiable costs (including both monetary and non-monetary)	70%
<b>Contributions made in the form of human resource capacity</b>		
Professional services rendered at no cost supporting socioeconomic development, sector-specific initiatives or qualifying socio-economic development contributions	Commercial hourly rate of professional	80%
Professional services rendered at a discount for supporting socio-economic development, sector-specific initiatives or qualifying socio-economic development contributions	Value of discount based on commercial hourly rate of professional	80%
Time of employees of measured entity productively deployed in assisting beneficiaries and supporting socio-economic development, sector-specific initiatives or qualifying socio-economic development contributions.	Monthly salary divided by 160	80%

Source: (DTI, 2013)

## **2.4 SME sector in the South African economy**

SMEs play a vital role in the South African economy and are considered critical drivers of economic growth, innovation and job creation. The National Development Plan reports that

the SME sector accounted for 90% of jobs created in South Africa between 1998 and 2005 (National Planning Commission, 2013).

The South African Government's realisation of the SME sector's importance in the local economy led them to establish a new Ministry of Small Business Development in early 2014 (Ingle, 2014). According to the Ministry, the Department's focus is on providing enhanced support for small business, with an emphasis on programmes that will advance entrepreneurship amongst women, the youth, and people with disabilities to contribute to job creation and economic growth (National Government of South Africa, 2018).

Despite the government's efforts to support SMEs and in reduce the unemployment rate, statistics show that South Africa still suffers a significant and increasing unemployment rate of 27.2% as of the second quarter of 2018 (Statistics South Africa, 2018). The large unemployment rate issue is further emphasised when taking into account that only 13% of the South African population or 56 million people contribute to personal income tax. A significant portion of personal income tax is used to provide grants to the less fortunate people of South Africa (Business Tech, 2017).

In contrast with the above, according to a 2016/2017 Global Competitiveness Report compiled by the World Economic Forum, South Africa has maintained an upward trend in its economic competitiveness, climbing two places since 2016 to reach 47th position out of 138 economies (Schwab, 2017). This could indicate that not all the upward trend in competitiveness is contributed to SMEs in particular and that SMEs still have constraints.

One of the major constraints on the SME sector is the fact that 80% of SMEs are resellers of products, indicating that that South Africa is predominantly a consumption-driven economy and that there is a direct need to invest in manufacturing and productive skills (Guliwe, 2018).

The implementation of the government's BEE policy was intended not only to facilitate and accelerate the integration and participation of the black African population into the mainstream economy, but also to encourage black Africans to start businesses (Ingle, 2014). The intent of the BEE policy was therefore to create opportunities for black Africans to be entrepreneurs.

According to the Global Entrepreneurship Monitor (GEM), 22.9% of total early-stage entrepreneurial activity (TEA) in 2006 was by opportunity-motivated black Africans (Herrington *et al.*, 2017). TEA can be defined as the percentage of the 18-64 population who are either emerging entrepreneurs or owner-managers of a new businesses (World Bank, 2018). These new or emerging entrepreneurs make up a substantial part of the SME sector.

The abovementioned statistics do present evidence that the government is meeting its intentions with regards to the BEE policy and the Codes of Good Practice, but according to the same report, there has been a decline in TEA by coloured, Indian and white individuals between 2005 and 2016. TEA in South Africa between 2005 and 2016 can be seen in Table 7.

**Table 7: TEA in South Africa 2005 – 2016, separated according to population group.**

Population Group	TEA (%) 2005	TEA (%) 2016
Black African	22.9	55.4
Coloured	9.3	4
Indian	6.4	4.6
White	19.3	9.7

(Herrington *et al.*, 2017).

One of the key solutions to South Africa’s significant unemployment rate is suggested to be to stimulate South Africa’s SME sector growth. The GEM report estimates that 58.7% of early-stage entrepreneurs in 2016 expected to create between 1 and five jobs within the next five years and 27.6% are expected to create 6 or more jobs within the next five years. The report also reports that only 35% of South African adults (aged 18 to 64) in 2016 perceived good entrepreneurial opportunities in their areas of business (Herrington *et al.*, 2017).

One study conducted on factors that impede SME performance in South Africa suggests that even though the government has put significant programmes and policies in place to support SME creation and growth, many entrepreneurs might be incapable of complying with stringent government regulations with regards to doing business (Ingle, 2014). A

further study also suggests that government and municipalities are not providing sufficient infrastructure and basic services for SMEs to grow (Mokoena, 2017). Another article reports that 80% of South African SMEs do not do business with the government due to late payments even though government BEE policies favour them (Barnes, 2017).

The Small Enterprise Development Agency (SEDA) did a full report on South African SMEs and identified eight critical challenges that SMEs face in South Africa (SEDA, 2016):

- Access to finance and credit;
- Poor infrastructure;
- Low levels of research and development;
- Onerous labour laws;
- An inadequately educated workforce;
- Inefficient government bureaucracy;
- High crime rates;
- Limited access to markets.

To summarise, South Africa has an increasing unemployment rate, and the South African government has identified the SME sector as the last hope for reducing unemployment. The government has set out to implement programmes and policies to promote the SME sector growth. One of these policies is BEE, which is intended to stimulate business opportunities between government and SMEs. From studies conducted it is clear that policies and programmes alone are not sufficient and that government still impedes SME growth by not being able to provide basic services.

The information provided above emphasises that government is working on solutions but falling short. Therefore it is suggested that the government policies like BEE be investigated to determine whether they are accelerating or impeding SME creation and growth. One factor that might be impacting the success of the BEE policy is the perceptions that employees of SMEs have about these policies.



## **2.5 How employee perceptions can influence business**

Studies have shown that increased perceptions resulting from a company's acts of corporate social responsibility (CSR) can enhance employee commitment to employers, and improving employee perceptions of CSR should result in positive employee work attitudes (Valentine & Godkin, 2017).

In South Africa, the implementation of the BEE Act and Codes of Good Practice has resulted in a significant increase BEE-related CSR actions in that the Codes of Good Practice suggests that recommend expenditure on socio-economic development (SED) be 1% of the nett profit after tax (Impilo, 2018).

In the South African context, CSR could be used as an umbrella term that encapsulates SED and corporate social investment (CSI). CSR should indicate that businesses have a responsibility towards the societies within which they operate and that this responsibility needs to be managed (Kloppers, 2014).

In a study on the authenticity of CSR activities, the results show that employees who perceive their employers' CSR activities as authentic will show greater organisational identification and effective attachment. This means that these employees will experience a greater sense of belonging to the organisation and therefore exhibit beneficial traits for the organisation (Soojung & Jeongkoo, 2018). It can therefore be argued that organisations involved in fronting practices will have the opposite effect on employees.

Employees also form perceptions about an organisation's human recourse (HR) practices. The key findings of a study done on this topic have found that it is important to not only have the right HR practices but the right employee perceptions of those practices. The study further explains that employees are less engaged when they believed a company's HR practices were motivated by a desire to reduce costs and exploit employees (Center for Advanced Human Resource Studies, 2011). In the BEE context, HR practices might affect employees in two ways. Employees who benefit from BEE policies regarding the management control element might have a positive perception of the organisational HR practices, and the opposite can be assumed for employees who do not benefit. For instance, one employee might get promoted above another without the promotion being merit-based because HR is aiming at achieving BEE scorecard targets.

The developing economic environment of South Africa has seen an increased demand in specific skills, making it more difficult for employers to retain current high-skilled employees. Creating the desired perceptions among current employees could ensure better employee retention (Oladipo *et al.*, 2013).

## **2.6 Summary**

SMEs make up 91% of formalised businesses in South Africa, employ about 60% of the labour force, and the total economic output of South African SMEs accounts for roughly 34% of the GDP. SMEs are therefore one of the most significant contributors to the South African economy.

To address the inequalities of the past, the South African government has implemented strategic policies like BEE to increase the number of black people who own, manage, control and gain employment in the South African economy. The BEE Act came into effect on 7 January 2004 (DTI, 2003a). The purpose of the Act is to establish a legislative framework for the promotion of BEE.

The South African government is one of the largest spenders in the country and companies wanting to do business with government organs should aim to have the best BEE contribution levels if they want be awarded tenders. For the government to encourage BEE compliance under SMEs, several policies and legalisation were introduced.

The first policy instrument that was introduced was the BEE Codes of Good Practice in 2007. Some SMEs, however, have used illegal practices like fronting to obtain BEE recognition. Fronting practices and other shortcomings of the resulted in the amendment of the BEE Codes of Good Practice in 2013 and its implementation in 2015. The main amendments to the act were the establishment a BEE Commission, the introduction of various criminal offences, and the obligation of government and public entities to apply the Codes of Good Practice in their procurement policies.

The second policy instrument introduced was the Preferential Procurement Framework Act in 2000. This Act guides governments and private entities in calculating the points for price and categories of preference when SMEs or other entities submit tenders to government

or private entities. The Preferential Procurement Act provides a scoring system in which an entity's BEE contribution level makes up 20% of the points that can be awarded. An entity's BEE contribution level is calculated using the generic BEE scorecard.

The original generic scorecard consisted of seven elements, but the amended BEE scorecard focuses on only five elements, with three elements being prioritised. The scorecard elements consist of ownership, management control, skills development, new enterprise and supplier development, and socio-economic development, with the first three being priority elements. The latest Codes of Good Practice Act requires entities to achieve a minimum of 40% of at least two of the three priority elements. Should an entity not meet the minimum requirement, their BEE level will be penalised by one level on their scorecard. The contribution levels are calculated per element, and a resulting BEE-level is awarded between 1 and 8, of which 1 is the most desirable.

This study focuses on the perceptions employees have about the BEE legislation. Studies show that there is a strong correlation between the perceptions formed by employees about their entities and their commitment to their employers and improving employee perceptions of CSR and HR practices should result in positive employee work attitudes.

## **Chapter 3: Results and discussion**

### **3.1 Introduction**

This empirical study focuses on BEE legislation and its perceived impact on SMEs in South Africa by employees.

This chapter describes the compilation of the questionnaire, the target population, the data collection, and the results obtained from the analysed information. These conclusions from the results are then discussed in Chapter 4.

### **3.2 Research ethics**

Due to the sensitive nature of race-based topics in South Africa, it is important to guarantee respondent anonymity. The questionnaire was therefore constructed in such a manner that respondents were unidentifiable from their correspondence and the platforms from which data was gathered. All respondents were informed of the purpose of the study as well the fact that the survey is entirely voluntary.

The questionnaire was accompanied by a research proposal and submitted to the North-West University's Ethics Committee for approval. This committee ensures that there are no ethical transgressions in the study and questionnaire.

### **3.3 Questionnaire design**

The questionnaire was designed to address specific aspects relating to BEE and SMEs. The questionnaire design also ensures that data which does not comply with the study parameters can be subtracted from the valid data. The questionnaire was divided into three sections, each addressing various aspects. The sections and layout of the questionnaire can be seen in Table 8.

**Table 8: Questionnaire layout and sections.**

Section	Description of Section
<b>Section A</b>	<b>Demographic information:</b> This section gathered data about respondent demographics as well as the enterprises they are employed at. This assists in controlling data collection limited to valid respondents that fit the target population of this study.
<b>Section B</b>	<b>Awareness of BEE:</b> This section focused on the knowledge of respondents about BEE. Since this study focuses on the perceptions of BEE, it was in the interest of the study to disregard information from respondents with no knowledge of BEE.
<b>Section C</b>	<b>Advantages and disadvantages of BEE to the business:</b> This section focused on the perceived positive and negative impacts of BEE on the employee's workplace. This section combined with the previous sections aims to answer the research questions posed.

### **3.4 Study population and sample size**

The study population and sample focus is on employees of SMEs, and therefore the number of respondents was not restricted. Due to the sensitive nature of the subject in the South African context, the author acknowledged that respondents may seem hesitant to respond and therefore the study was conducted on a self-administered basis without the presence of the researcher. The absence of the researcher was helpful in that it enabled respondents to complete the questionnaire in private where they could devote as much time as they wished on its completion. This was helpful because respondents might not have wanted to spend excessive time on completing the survey. This method also helped avoid feeling of intimidation or obligation to participate potentially resulting from the

researcher's presence. A further benefit of this method is that it is inexpensive and is more anonymous than having the researcher present (Cohen *et al.*, 2011).

During the data collection period, a target population of 164 respondents were obtained. Not all the respondent data qualified respondents as employees of SMEs. The respondent data of owners or part-owners were removed from the dataset as well as data obtained from employees who were employed by an entity with more than 200 permanent employees. The abovementioned respondent data did not qualify respondents as employees of SMEs. The resulting 116 respondents' data was then used as the study population for this study and for data analysis. The respondent summary can be seen in Table 9 below.

**Table 9: Total respondents and the resulting study population**

<b>Respondent Summary</b>	
Qualifying respondents	48
Non-qualifying respondents	116
<b>Total respondents</b>	<b>164</b>

### **3.5 Demographic information**

This section describes the demographic information of the study population and gives the reader a better understanding of the participating respondents in this study. This section furthermore represents a part of Section A of the questionnaire.

#### **3.5.1 Genders of the study population**

The purpose of this question is to indicate the gender profile of the respondents of the study population. The results are represented in

Figure 4 below.

**Figure 4: Gender distributions of the study population**

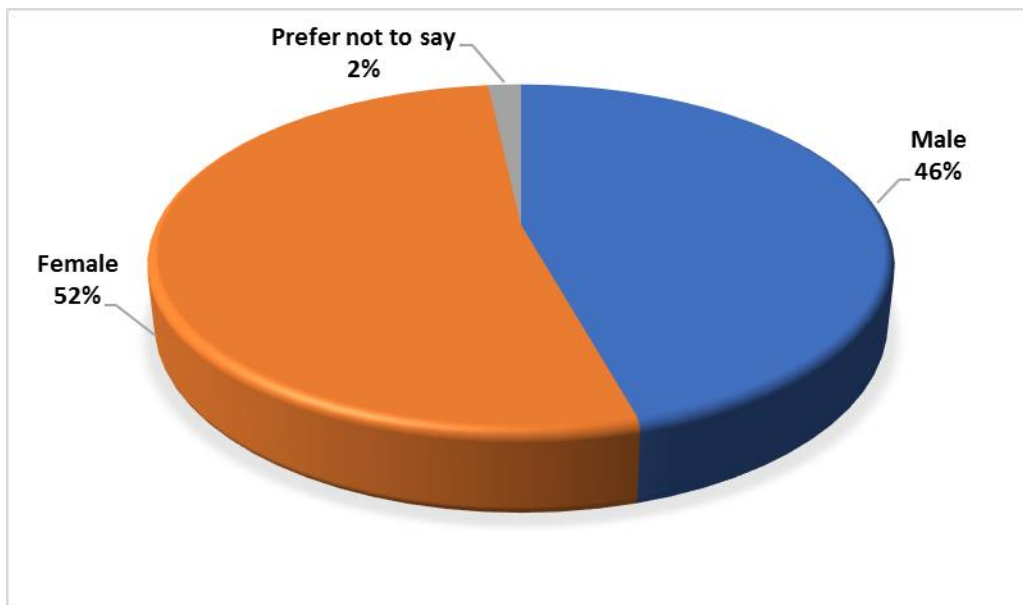


Figure 4 it is evident that 46% of the study population is male and 52% female. The results also indicate that 2% of respondents preferred not to disclose their genders. Respondents were given this option to further emphasise the anonymity of the study and to encourage further participation in the study without fear of being identified from the information they provided. The results indicate a good representation from both genders which reduces the risk of gender bias in the results.

### **3.5.2 Age distribution of the study population**

The purpose of this question is to generate a view of the respondent age distribution in the study population. The results are presented in Figure 5 below. This section is also used later as a construct to determine whether there are differences between the perceptions of different age groups.

**Figure 5: Age distribution of the study population**

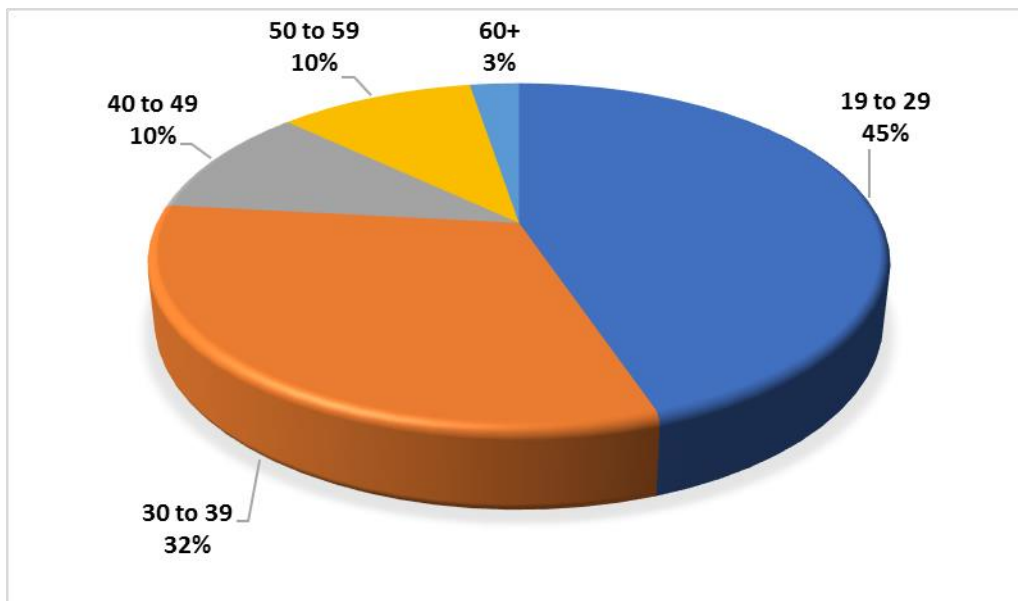


Figure 5 illustrates how most of the study population falls within the category between 19 and 39 years of age, with 45% of respondents belonging to the 19 to 29 age group and 32% belonging to the 30 to 39 age group.

The 19 to 29 age group represents employees who entered the job market at a time when BEE legislation and the most recently amended Codes of Good Practice had already been implemented for businesses in South Africa. The 30 to 39 age group represents a mixture of employees who entered the job market before the 2003 BEE legislation had been introduced and employees who entered the job market while the BEE legislation and the Codes of Good Practice were being implemented and amended.

The remaining respondents of the study population were part of the 40 to 60+ age group. Ten percent (10%) of the respondents belong to the 40 to 49 age group, 10% of the respondents belong to the 51 to 59 age group, and only 3% of respondents are older than 60 years and still employed. The age group 40 to 60+ represents employees who entered the job market long before any BEE legislation had been introduced.



### 3.5.3 Level of education of the study population

The purpose of this question was to determine the level of education of the respondents in the study population. The results are represented in Figure 6.

**Figure 6: Level of education of the study population**

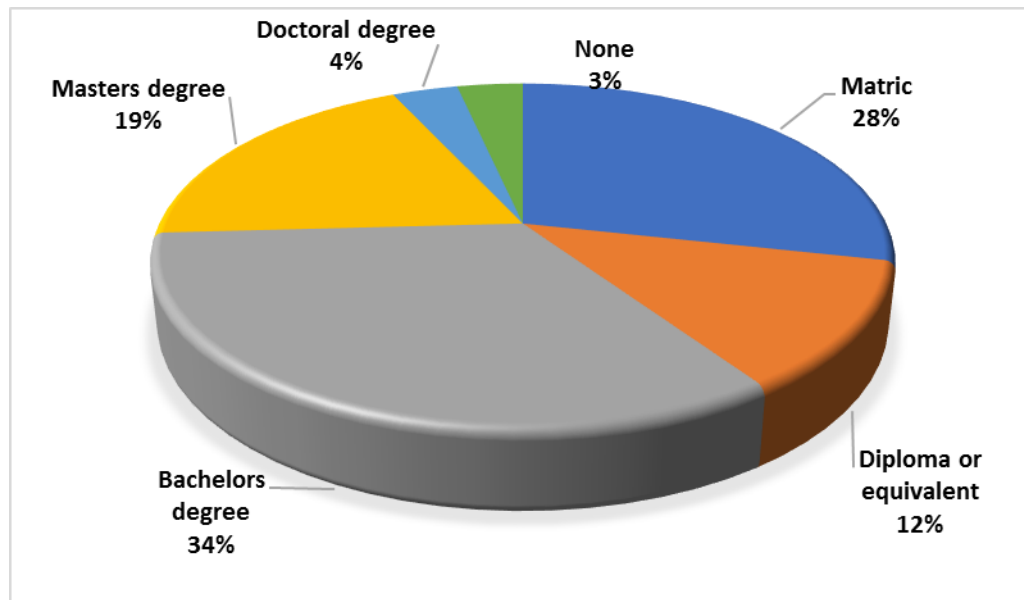


Figure 6 illustrates that 69% of the study population has some form of tertiary education, 28% of the study population has completed matric and only 3% of employees have no formal education. From this it is clear that the majority of the study population is well-educated and these employees can be assumed to hold more senior positions at the entities that employ them.

Of the 69% of the study population with a tertiary education, Figure 6 indicates that 12% of the respondents have a diploma or equivalent, 34% have a bachelor's degree, 19% have a master's degree, and 4% of the study population holds a doctoral degree.

### 3.5.4 Employment level of the study population

The purpose of this question is to determine the level of education of the respondents in the study population. The results are represented in Figure 7.

**Figure 7: Employment level distribution of the study population**

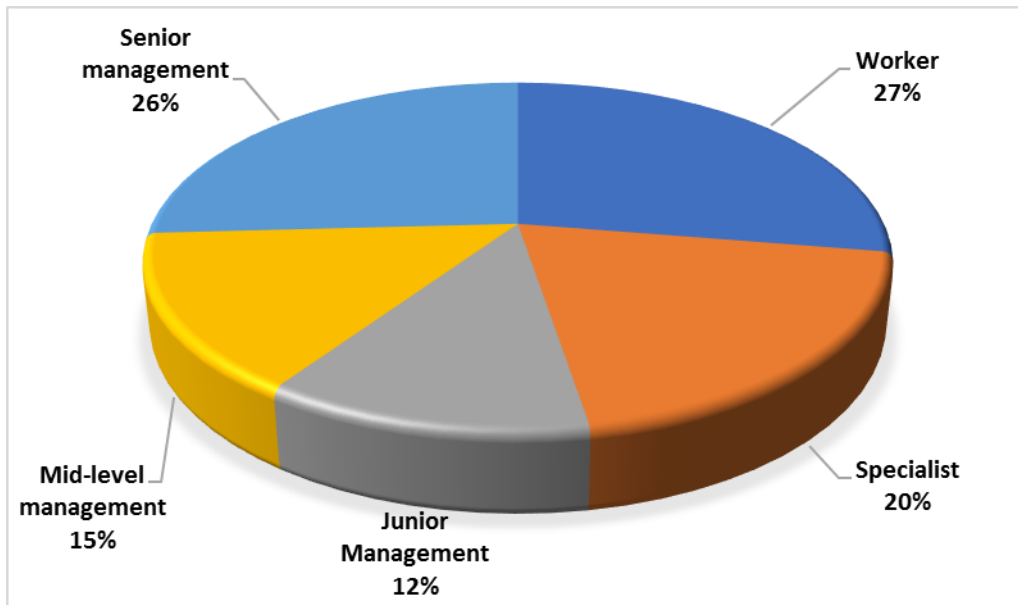


Figure 7 indicates that 27% of the study population consists of general workers, 20% are specialists in their fields of work, 12% are in junior management, 15% are in mid-level management, and 26% are in senior management. Figure 7 shows that 53% of respondents are in some level of management role. This will also provide greater insight on the perceptions of managers of SMEs and the role that the management control element of the BEE scorecard may play in SMEs.

### **3.6 Information about the SMEs that employ the study population**

This section describes the demographic information of the entities the study population is employed at and gives reader a better understanding of these entities. This section further represents part of Section A of the questionnaire.

#### **3.6.1 SMEs sizes and number of employees**

The purpose of this question is to get a clear understanding of the sizes of the SMEs that employ the respondents in this study. The results are represented in Figure 8.

**Figure 8: Number of employees employed by SMEs size**

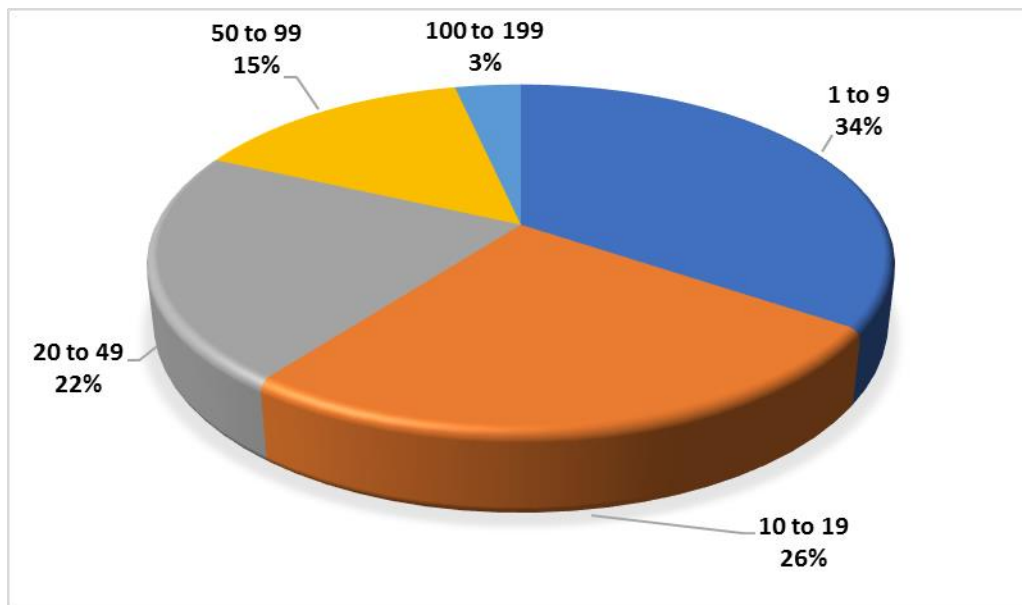


Figure 8 shows that 34% of SMEs have between one and nine employees, 26% of SMEs have between 10 and 19 employees, 22% of SMEs have between 20 and 49 employees, 15% of SMEs have between 50 and 99 employees and 3% have between a 100 and 199 employees. Furthermore, 60% of the SMEs are very small businesses, 22% are small businesses, and 18% are medium-sized businesses.

The data shows that an overwhelming amount of the respondents who participated in this study are employed by very small businesses. This was considered when interpreting the perceptions of the employees in addition to medium-sized businesses not being well-represented in the study population.

### **3.6.2 BEE compliance level of the SMEs**

The purpose of this question was to generate a clear profile of the BEE compliance levels of the various SMEs in the population. This section is also used later to determine whether there are differences between the perceptions of employees employed by entities with different BEE compliance levels. The results are represented in Figure 9.

**Figure 9: BEE compliance level of the SMEs by which the study population is employed at**

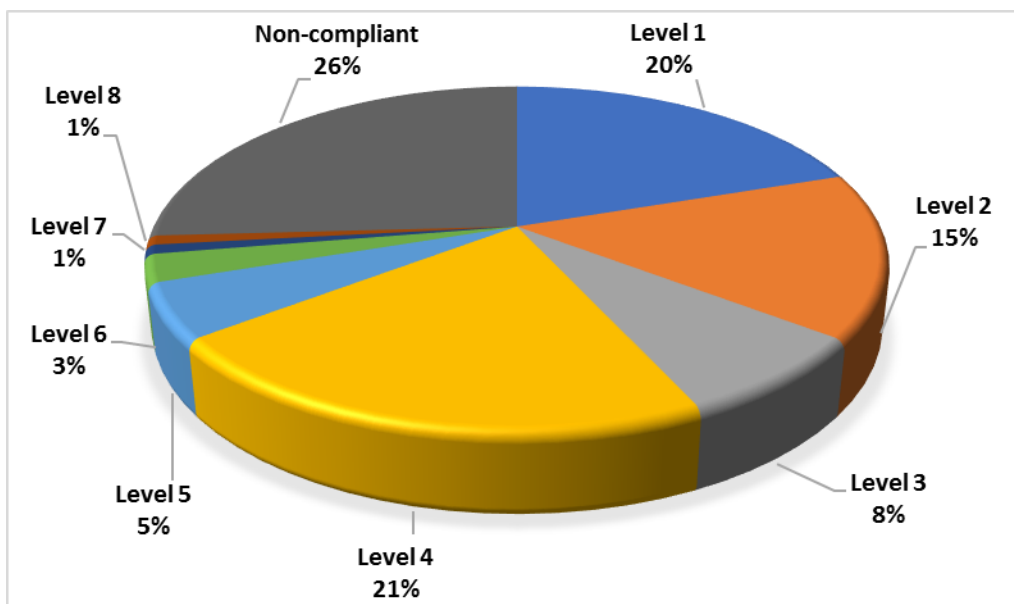


Figure 9 indicates that 20% of SMEs are BEE-level 1 compliant, 15% of SMEs are BEE-level 2 compliant, 8% of SMEs are BEE-level 3 compliant, 21% of SMEs are BEE-level 4 compliant, 5% of SMEs are BEE-level 5 compliant, 3% of SMEs are BEE-level 6 compliant, 1% of SMEs are BEE-level 7 compliant, 1% of SMEs are BEE-level 8 compliant, and 26% of SMEs are not compliant with BEE legislation.

The information from Figure 9 shows that four levels of compliance are more prevalent than the others. It cannot be concluded with certainty how these entities' BEE-levels were calculated, but from the information in section two some speculative conclusions can be drawn. Entities with level-1 compliance suggest that the 20% of SMEs are 100% black-owned. The entities with level-2 compliance suggest that 15% of SMEs have at least 51% black ownership. The entities with level-4 compliance suggest that 21% of SMEs do not necessarily have black ownership, but that these entities have a turnover of less than R10 million and therefore only have to complete an affidavit stating their annual turnover, which then qualifies them as level-4 compliant. The SMEs with no BEE compliance indicate that these enterprises are operating in markets where BEE compliance is not compulsory or that the non-compliant entities have customer bases that do not require BEE compliance for doing business.

### 3.7 The general perception employees of SMEs have about BEE

The purpose of this question is to get a general sense of employee perceptions about BEE before looking at the individual aspects of BEE. This corresponds with the last question of section A of the questionnaire. The results are represented in Figure 10.

**Figure 10: The study population's general perception about BEE**

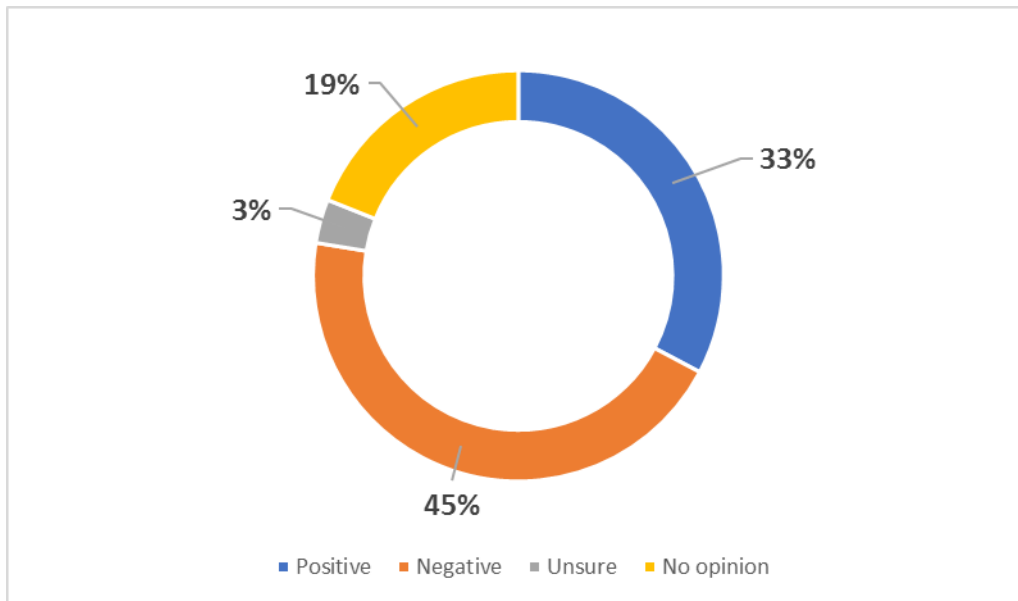


Figure 10 indicates that the majority (45%) of the respondents who participated in this study have a generally negative perception about BEE. However, the information also shows that 33% of the study population has a generally positive perception about BEE, 19% of the study population has no opinion about BEE, and 3% of the study population is unsure about whether they perceive BEE to be positive or negative.

Figure 10 indicates that there is a good representation of both negative and positive general perceptions with a slight bias to the negative end. The fact that 19% of respondents have no opinion about BEE can be explained by the 26% of SMEs in Figure 9 that are BEE non-compliant companies, which suggests that BEE does not influence either the company they are employed at or the employees personally. This was considered in the analysis of section C of the questionnaire, as the respondents who had no opinion about BEE would have had to form an opinion on each question of Section C to complete the survey.

This question is also the first step to answering the research question namely whether employees of SMEs perceive BEE in a positive or negative light, the general nature of the question in section A does not entirely answer this question, and more information from section C of the questionnaire is required to get a definite answer.

### 3.8 BEE awareness amongst the study population

The purpose of this question is to determine whether the study population is educated on, aware of, and carries knowledge about BEE and the Codes of Good Practice. This represents section B of the questionnaire and comprises four questions to which respondents had to answer yes or no. The results are represented in Figure 11.

**Figure 11: The population’s awareness of BEE**



Figure 11 indicates that 84% of the study population is familiar with BEE legislation and 16% does not consider themselves familiar with the BEE legislation. Of all the respondents in the study population, 76% indicated that they are familiar with the preferential procurement practices. The information further shows that 72% of the study population is familiar with the term fronting and that 76% of respondents are familiar with the set goals and objectives of the BEE legislation. Overall, the study population indicated an average of 77% familiarity with the BEE legislation and its accompanying terms and practices, which suggests that the study population is informed and can add value to the study.

### **3.9 The perceived impact of BEE on SMEs and their employees**

This goal of this section is to measure the perceived advantages and disadvantages of BEE overall and to look at specific advantages and disadvantages for the SMEs and their employees separately. This section represents section C of the questionnaire.

The data was captured and statistically analysed by the North-West University's Statistical Consultation Services using computer software called SAS (SAS Institute Inc, 2017). The arithmetic mean ( $\bar{x}$ ) was used to interpret the results. The results also have sub-constructs for which the Cronbach's alpha reliability coefficients were calculated to determine the reliability of the constructs.

The questionnaire is based on a four-point scale (where 1 = strongly disagree and 4 = strongly agree). An arithmetic mean for each question or construct with a value closer to 1 indicates that the study population strongly disagrees with the statement and an arithmetic mean for each question or construct closer to 4 indicates that the study population strongly agrees with the statement. For the interpretation of the results of this study, an arithmetic mean value of lower than 2 indicates a disagreement to the statement by the study population, while a value between 2 and 3 indicates that participants neither agree nor disagree with the statement made. An arithmetic mean value larger than 3 indicates an agreement with the statement made.

The questionnaire also has five sub-constructs comprise several questions within section C of the questionnaire. The compilation of questions of each sub-construct can be seen in Table 10.

**Table 10: Question compilation for constructs**

<b>Construct</b>	<b>Questions</b>
Benefits of BEE for SMEs	C1, C2, C4, C5, C6, C9, C10, C11
Benefits of BEE for employees of SMEs	C3, C7, C8, C12, C13, C14, C15
Disadvantages for efficiency and reliability for SMEs	C19, C21, C22, C23, C24, C25
Economic disadvantages for SMEs	C17, C18, C26, C27
Perceived fundamental disadvantages of BEE	C16, C20

To determine the reliability of the constructs, the Cronbach's alpha value was calculated. The Cronbach's alpha value indicates the internal consistency of the construct (Field, 2009). The guidelines for interpreting Cronbach's alpha value can be seen in Table 11.

**Table 11: Cronbach's alpha internal consistency**

<b>Cronbach's <math>\alpha</math></b>	<b>Internal consistency</b>
$\alpha \geq 0.9$	Excellent
$0.9 > \alpha \geq 0.8$	Good
$0.8 > \alpha \geq 0.7$	Acceptable
$0.7 > \alpha \geq 0.6$	Questionable
$0.6 > \alpha \geq 0.5$	Poor
$0.5 > \alpha$	Unacceptable

Similar to the Cronbach's alpha calculation analysis, the practical significance of the associations between the five constructs was analysed using Cohen's correlation coefficients ( $\Phi$ ). The guidelines used to analyse phi-values can be seen in Table 12 (Gignac & Szodorai, 2016). Some of the demographic information from section A of the questionnaire was used to interpret and evaluate Cohen's effect sizes for different constructs.



**Table 12: Cohen’s phi-value for effect sizes (Gignac & Szodorai, 2016)**

phi-value	Effect size
$\Phi =   0.1  $	Small effect
$\Phi =   0.3  $	Medium effect noticeable with the naked eye
$\Phi =   0.5  $	Large effect or practically significant

Lastly followed the interpretations of the practical significance of the five main constructs. According to Gignac and Szodorai (2016), the guidelines for practical interpretation of the strength of correlation coefficients are the same as those for the phi-coefficient and the guidelines in Table 13 can be used.

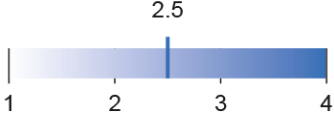
**Table 13: Pearson correlation coefficients effect sizes**

r-value	Effect size
$r =   0.2  $	Small effect
$r =   0.5  $	Medium effect noticeable with the naked eye
$r =   0.8  $	Large effect or practically significant

### **3.9.1 Perceived advantages of BEE on SMEs**

The goal of this section is to determine whether there is any BEE legislation that holds any perceived benefit for SMEs, and it focuses on the entities that employ the respondents. The next section discusses the perceived advantages of BEE for employees. Construct 1 therefore represents the perceived advantages of BEE for SMEs. The mean, standard deviation, and Cronbach’s alpha values for this construct can be seen in Table 14.

**Table 14: Construct 1 - Advantages of BEE for SMEs mean and Cronbach's alpha values**

Construct 1	$\bar{x}$	$\sigma$	Cronbach $\alpha$
Advantages of BEE for SMEs		0.96	0.94

From Table 14 it is evident that this construct has a Cronbach's alpha value of 0.94, which indicates excellent internal consistency and that the construct is reliable. The mean value for this construct is 2.5, which indicates that the study population has a neutral perception of the statements made in this construct.

The questions used to compile construct 1, the resulting means, and standard deviations can be seen in Table 15 below.

**Table 15: Perceived advantages of BEE on SMEs mean and standard deviation**

#	Statement	$\bar{x}$	$\sigma$
C1	BEE creates new possibilities for the company I'm employed at in terms of business networks and new associates.	2.44	1.10
C2	The company I'm employed at has been more successful by complying with BEE legislation.	2.34	1.20
C4	The company I'm employed at has seen an increase in annual turnover since the implementation of BEE.	2.18	1.13
C5	BEE resulted in the acquisition of new customers for the company I'm employed at.	2.51	1.12
C6	Our company is continuously striving to better our BEE-level.	2.73	1.13
C9	BEE makes it possible for the company I'm employed at to be more competitive in the market.	2.56	1.15
C10	BEE makes it possible for the company I'm employed at to compete in new unexplored markets.	2.59	1.16

C11	BEE compliance makes it possible for the company I'm employed at to rapidly expand its business operations and grow faster than without BEE compliance.	2.51	1.18
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All the questions in this section have mean scores of between 2 and 3, which confirms that the study population has a neutral perception about the advantages of BEE for SMEs. This neutrality of the result may be contributed to the facts that 36% of the SMEs represented in this study have a BEE-level 5 or weaker and that 45% of the study population has a generally negative perception of BEE, which would indicate that entities with a good BEE-level enjoy more benefits from the implementation of BEE.

Question C4 has a mean of 2.18, which indicates that the study population leans slightly more to disagree with the statement that the companies they are employed at has seen an increase in annual turnover since the implementation of BEE. This result could be contributed to the fact that 26% of the study population's entities of employment are not BEE compliant, and a further 10% are BEE-level 5 contributors and higher (Figure 9). It can be deduced that the better the BEE-level of a company is, the better their chances are of being awarded tenders, and level-4 contributors also have a better chance at being awarded tenders.

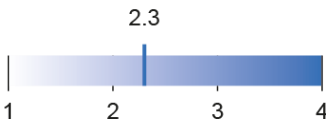
Question C6 has a mean of 2.73, which indicates that the study population leans slightly more to agree with the statement that the companies they are employed at are continuously striving to better their BEE-levels. For the same reasons provided for question C4 above, it can be assumed that companies are looking to better their BEE-levels to get more work.

The resulting mean for questions C4 and C6 slightly deviates from the neutral position, and therefore no definite answer is prevalent. This also contributes to answering two research questions, the first being whether BEE holds any perceived advantages or disadvantages for SMEs, and the second being whether BEE has had a positive or negative impact on SMEs. This section indicates that that employees of SMEs do not perceive BEE as having neither a negative impact on SMEs nor a positive impact. Employees also have a neutral perception with regards to BEE having advantages for SMEs.

### 3.9.2 Perceived advantages of BEE for employees of SMEs.

The goal of this section is to determine whether there are any perceived benefits of BEE legislation for employees of SMEs. This section focuses on the employees of SMEs and the perceived benefits for them. Construct 2 therefore represents the perceived advantages of BEE for employees of SMEs. The mean, standard deviation, and Cronbach's alpha values for this construct can be seen in Table 16.

**Table 16: Construct 2 - Advantages of BEE for employees of SMEs mean and Cronbach's alpha analysis**

Construct 2	$\bar{x}$	$\sigma$	Cronbach $\alpha$
Advantages of BEE for employees of SMEs		0.92	0.93

From Table 15 is evident that this construct has a Cronbach's alpha value of 0.93, which indicates excellent internal consistency and that the construct is reliable. The mean value for this construct is 2.3, which indicates that the study population has a neutral perception of the statements made in this construct.

The questions used to compile construct 2, the resulting means, and standard deviations can be seen in Table 17.

**Table 17: Benefits of BEE for employees of SMEs mean and standard deviation**

#	Statement	$\bar{x}$	$\sigma$
C3	In general employees are better off in terms of skills and rank in the business since the implementation of BEE.	2.28	1.14
C7	BEE has directly resulted in better skilled workers in the company I'm employed at.	1.89	0.98
C8	BEE has helped the company I'm employed at to achieve its social responsibility towards the local community.	2.28	1.09

C12	BEE has led to more effective management of the company I'm employed at.	1.85	1.05
C13	BEE has created more jobs at the company I'm employed at.	2.18	1.12
C14	I have benefited because the company I'm employed at complies with BEE legislation.	1.86	1.11
C15	I feel positive about the company I'm employed at because it complies with BEE legislation.	2.37	1.17

The questions in this section have various mean values and is therefore discussed below.

Questions C3, C8, C13 and C15 have mean values of between 2 and 3, which indicates that the study population has a neutral perception about the advantages of BEE for employees of SMEs. The mean values of these questions also lean slightly more to 2, which indicates that the study population tends to disagree with the statement that there are perceived benefits for employees of SMEs because of BEE.

Question C3 ( $\bar{x} = 2.28$ ) indicates that the study population leans slightly more to disagree with the statement that in general employees are better off in terms of skills and rank in the business since the implementation of BEE.

Question C8 ( $\bar{x} = 2.28$ ) indicates that the study population leans slightly more to disagree with the statement that BEE has helped the companies they are employed at to achieve their social responsibilities towards the local community. This also helps answer one of the research questions namely whether employees perceive the mandates and goals of BEE as being met. The resulting mean indicates that employees have a neutral perception about the entities they are employed at meeting their social responsibilities towards the local community, which is one of the goals of BEE legislation.

Question C13 ( $\bar{x} = 2.18$ ) indicates that study population leans slightly more to disagree with the statement that BEE has created more jobs at the companies they are employed at. Job creation is another goal of the BEE legislation and the results indicate that employees have a neutral perception with regards to job creation because of BEE, but the mean leans slightly more to disagreement.

Questions C7, C12 and C14 have mean values of between 1 and 2, which indicate that the study population disagrees with the statements made in these questions.

Question C7 ( $\bar{x} = 1.89$ ) indicates that the study population disagrees with the statement that BEE has directly resulted in better-skilled workers in the company they are employed at. This indicates that the study population does not perceive the skills development element of the BEE scorecard as having resulted in better-skilled workers at SMEs.

Question C12 ( $\bar{x} = 1.85$ ) indicates that the study population disagrees with the statement that BEE has led to more effective management of the companies they are employed at. This may be contributed to owners SMEs demoting or retrenching high-skilled managers in to assign other managers to those positions to obtain a better score for the management control element of the BEE scorecard.

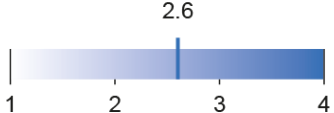
Questions C7 and C12 contribute to answering the research question namely whether employees perceive the mandates and goals of BEE as being met, and the results indicate a negative perception.

Question C14 ( $\bar{x} = 1.86$ ) indicates that the study population disagrees with the statement that they have benefited because the companies they are employed at comply with BEE legislation. This helps answer the research question as to whether there are perceived benefits for employees of SMEs because of BEE, and the results indicate a negative perception.

### **3.9.3 Disadvantages for efficiency and reliability for SMEs**

The goal of this section is to determine whether there are any perceived disadvantages of BEE legislation to SMEs. This section focuses on efficiency and reliability in the daily operations of SMEs. Construct 3 therefore represents the perceived disadvantages of BEE for SMEs regarding efficiency and reliability. The mean, standard deviation, and Cronbach's alpha values for this construct can be seen in Table 18.

**Table 18: Construct 3 - Disadvantages for efficiency and reliability for SMEs mean and Cronbach's alpha values**

Construct 3	$\bar{x}$	$\sigma$	Cronbach $\alpha$
Disadvantages for efficiency and reliability for SMEs		0.86	0.89

From Table 18 is evident that this construct has a Cronbach's alpha value of 0.89, which indicates good internal consistency and that the construct is reliable. The mean value for this construct is 2.6, which indicates that the study population has a neutral perception of the statements made in this construct.

The questions used to compile construct 3, the resulting means, and standard deviations can be seen in Table 19.

**Table 19: Disadvantages for efficiency and reliability for SMEs mean and standard deviation**

#	Statement	$\bar{x}$	$\sigma$
C19	Implementing the Codes of Good Practice on BEE could result in a loss of focus on business matters and therefore could have a hampering effect on the company I'm employed at.	2.54	1.12
C21	The skills development aspect of BEE leads to a loss in productivity as workers need to attend courses or training.	2.40	1.05
C22	BEE has negatively impacted the company culture at the company I'm employed at.	2.21	1.14
C23	BEE has resulted in the company I'm employed at employing incompetent or undertrained people just for the sake of empowerment.	2.49	1.18
C24	Preferential procurement practices might force the company I'm employed at to buy from new suppliers, resulting in potential risks in terms of reliability.	2.82	0.98

C25	Established relationships with current suppliers will be at risk once the company I'm employed at has to buy from empowered suppliers.	2.86	0.98
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All the questions in this section have mean scores of between 2 and 3, which confirm that the study population has a neutral perception about the disadvantages of BEE for SMEs regarding efficiency and reliability.

Question C22 ( $\bar{x} = 2.21$ ) indicates that the study population leans slightly more to disagree with the statement that BEE has negatively impacted the company culture at the companies they are employed at. Despite the fact that the mean indicates a neutral perception, it can be interpreted as positive in light of the study population leaning slightly more to disagree with the statement.

Question C24 ( $\bar{x} = 2.82$ ) indicates that the study population leans slightly more to agree with the statement that preferential procurement practices might force the companies they are employed at to buy from new suppliers thereby resulting in potential risks for reliability. This indicates that the study population identifies the risk of dealing with new suppliers.

Question C25 ( $\bar{x} = 2.82$ ) indicates that the study population leans slightly more to agree with the statement that established relationships with current suppliers will be at risk once the companies they are employed at have to buy from empowered suppliers. This indicates that suppliers of the entities the study population is employed at are not BEE compliant.

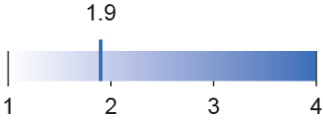
Questions 24 and 25 help answer the question of whether BEE has a positive or negative impact on SMEs. The results show a neutral perception leaning towards the negative.

#### **3.9.4 Economic disadvantages for SMEs**

The goal of this section is to determine whether there are any perceived economic disadvantages for SMEs from BEE legislation. Construct 4 therefore represents the perceived economic disadvantages of BEE for SMEs. The mean, standard deviation, and Cronbach's alpha values for this construct can be seen in Table 20.



**Table 20: Construct 4 - Economic disadvantages for SMEs mean and Cronbach's alpha values**

Construct 4	$\bar{x}$	$\sigma$	Cronbach $\alpha$
Economic disadvantages for SMEs		0.82	0.74

From Table 20 it is evident that this construct has a Cronbach's alpha value of 0.74, which indicates acceptable internal consistency and that the construct is reliable. The mean value for this construct is 1.9, which indicates that the study population disagrees with the statements made in this construct.

The questions used to compile construct 4, the resulting means, and standard deviations can be seen in Table 21.

**Table 21: Economic disadvantages for SMEs mean and standard deviation.**

#	Statement	$\bar{x}$	$\sigma$
C17	The company I'm employed at has lost work which can be directly linked to BEE legislation.	2.37	1.28
C18	BEE has caused job losses in the company I'm employed at.	1.55	0.91
C26	I feel negative towards my job due to the BEE-level of the company I'm employed at.	1.80	1.02
C27	BEE legislation has resulted in corrupt or illegal practices at the company I'm employed at.	1.94	1.12

All the questions except for question C17 in this construct have mean scores of between 1 and 2, which confirm that the study population disagrees with the statements made in this construct regarding the economic disadvantages of BEE for SMEs.

Question C17 ( $\bar{x} = 2.37$ ) indicates that the study population has a neutral perception about the statement that the companies they are employed at have lost work that is directly

linked to BEE legislation. The mean value of 2.37 however also indicates that the study population leans slightly more to agree with the statement.

Question C18 ( $\bar{x} = 1.55$ ) indicates that the study population disagrees with the statement that BEE has caused job losses in the companies they are employed at. This can therefore be considered as a positive perception of BEE for employees and SMEs.

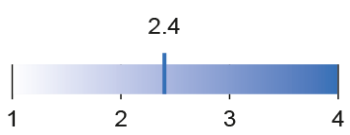
Question C26 ( $\bar{x} = 1.80$ ) indicates that the study population disagrees with the statement that they feel negative towards their jobs due to the BEE-level of the companies they are employed at. This can therefore be interpreted as a positive perception of BEE for employees of SMEs.

Question C26 ( $\bar{x} = 1.94$ ) indicates that the study population disagrees with the statement that BEE legislation has resulted in corrupt or illegal practices at the companies they are employed at. This can therefore be regarded as a positive perception of BEE for SMEs as well as for BEE legislation in general. The mean value of 1.94 indicates that illegal practices like fronting is less prevalent in the SMEs the employ the study population.

### 3.9.5 Perceived fundamental disadvantages of BEE

The goal of this section is to determine whether there are any perceived fundamental disadvantages of the BEE legislation. Construct 5 therefore represents the perceived fundamental disadvantages of BEE for SMEs. The mean, standard deviation, and Cronbach's alpha values for this construct can be seen in Table 22.

**Table 22: Construct 5 - Fundamental disadvantages of BEE mean and Cronbach's alpha values**

Construct 5	$\bar{x}$	$\sigma$	Cronbach $\alpha$
Fundamental disadvantages of BEE		0.91	0.54

From Table 20 it is evident that this construct has a Cronbach's alpha value of 0.54, which indicates poor internal consistency. The mean value for this construct is 2.4, which shows that the study population has a neutral perception of the statements made in this construct. Due to the poor internal consistency of this construct, the questions are investigated separately.

The questions used to compile construct 5, the resulting means, and standard deviations can be seen in Table 23.

**Table 23: Fundamental disadvantages of BEE mean and standard deviation.**

#	Statement	$\bar{x}$	$\sigma$
C16	Complying with BEE is not a priority for the company I'm employed at.	2.07	1.16
C20	Implementing BEE is time consuming and a financial burden on the company I'm employed at.	2.77	1.05

Question C16 ( $\bar{x} = 2.07$ ) indicates that the study population has a neutral perception of the statement that complying with BEE is not a priority for the company they are employed at. The mean value of 2.07 indicates that the study population leans slightly more to disagree with the statement. This result can be viewed as a slightly positive perception for BEE as it indicates that complying with BEE legislation is becoming more important for SMEs.

Question C20 ( $\bar{x} = 2.77$ ) indicates that the study population has a neutral perception about the statement that implementing BEE is time consuming and a financial burden on the company they are employed at. The mean value of 2.77 indicates that the study population leans slightly more to agree with the statement. This result can therefore be viewed as a slightly negative perception for BEE as it indicates that complying with BEE places additional strain on SMEs with regarding time consumption and finances.

### 3.9.6 Construct correlations

Cohen's correlation coefficients were used to determine whether there is any correlation between the five constructs discussed above. The guide for interpreting the correlations and effect sizes were used as described in section 3.9. The Pearson correlation values ( $\Phi$ ) between the constructs are depicted in Table 24.

**Table 24: Cohen’s correlation coefficient ( $\Phi$ ) effect sizes between constructs**

	Advantages of BEE for SMEs	Advantages of BEE for employees of SMEs	Disadvantages to efficiency and reliability for SMEs	Economic disadvantages for SMEs	Fundamental disadvantages of BEE
Advantages of BEE for SMEs	1.0	0.8	-0.3	-0.2	-0.2
Advantages of BEE for employees of SMEs	0.8	1.0	-0.2	-0.1	-0.1
Disadvantages to efficiency and reliability for SMEs	-0.3	-0.2	1.0	0.6	0.6
Economic disadvantages for SMEs	-0.2	-0.1	0.6	1.0	0.4
Fundamental disadvantages of BEE	-0.2	-0.1	0.6	0.4	1.0

Table 24 reveals a large linear effect of practical significance between constructs 1 and 2 with a coefficient value of 0.8. This means that there is a direct linear relationship between the advantages of BEE for SMEs and the advantages of BEE for employees of SMEs. The large effect size can be interpreted as SMEs realising the advantages that BEE legislation can offer and so their employees, and vice versa.

Both construct 1 and construct 2 resulted in a neutral perception of the advantages of BEE for SMEs and their employees and can therefore not be considered either positive or negative. This result could indicate that some SMEs are enjoying advantages from being BEE compliant while others are not. This result could also be contributed to the fact that 26% of the study population’s entities are not BEE compliant, and a further 10% are BEE-level 5 contributors and higher (Figure 9).

Table 24 also indicates that a medium inverse effect is noticeable with the naked eye between construct 1 and construct 3, with an absolute coefficient value of 0.3. This result

indicates that the more advantages SMEs realise from the BEE legislation, the fewer disadvantages they experience with regards to efficiency and reliability.

Both construct 1 and construct 3 resulted in a neutral perception regarding the advantages and disadvantages of BEE for SMEs and can therefore not be considered as either positive or negative. This result could, however, be interpreted as a positive outlook on BEE legislation as it indicates that the more advantages an SME realises from BEE, the fewer disadvantages they will experience regarding efficiency and reliability. Even though the effect size can only be considered a medium effect, it could serve as a motivator for SMEs to improve their BEE ratings to enjoy more advantages from implementing BEE.

Table 24 indicates that there is a large linear effect of practical significance between constructs 3 and 4 with a coefficient value of 0.6. This means that there is a direct linear relationship between the disadvantages for efficiency and reliability for SMEs and the economic disadvantages for SMEs with regards to the BEE legislation. This result indicates that when SMEs experience disadvantages for efficiency and reliability because of the BEE legislation, they also experience economic disadvantages.

Construct 3 resulted in a neutral perception of BEE but construct 4 indicated that the study population disagreed with the statements made in construct 4, which can be interpreted as a positive perception about BEE.

Table 24 illustrates a large linear effect of practical significance between constructs 3 and 5 with a coefficient value of 0.6. This means that there is a direct linear relationship between the disadvantages for efficiency and reliability for SMEs and the fundamental disadvantages of BEE. Due to the poor internal consistency of construct 5 ( $\alpha=0.54$ ) this effect size will not be interpreted further. The same conclusion is made for the effect size between construct 4 and construct 5, which indicated a medium linear effect that is noticeable with the naked eye between construct 4 and construct 5 with an absolute coefficient value of 0.4.

### **3.9.7 Demographic construct effect sizes**

The purpose of this section was to evaluate whether there is any correlation between some of the demographic information obtained in Section A of the questionnaire and the constructs created from the questions in section C of the questionnaire.

The first construct was created to determine whether there are any differences in perceptions between three age groups. The first group is made up of respondents between 19 and 29 years of age. The 19 to 29 age group represents employees who entered the job market at a time when BEE legislation and the most recent amended Codes of Good Practice had already been implemented in businesses in South Africa.

The second age group consists of respondents between 30 and 39 years of age. The 30 to 39 age group represents a mixture of employees who entered the job market before the 2003 BEE legislation had been introduced as well as employees who entered the job market when the BEE legislation and Codes of Good Practice had been implemented and amended.

The third age group is made up of respondents between 40 and 60+ years of age. The age group 40 to 60+ represents employees who entered the job market long before any BEE legislation had been introduced.

The Pearson correlation coefficients ( $r$ ) were calculated between each age group and the guide by which they were interpreted was used as set out in section 3.9. The resulting effect size can be seen in Table 25.

**Table 25: Pearson correlation coefficients between age groups**

	Benefits of BEE for SMEs	Benefits of BEE for employees of SMEs	Disadvantages for efficiency and reliability for SMEs	Economic disadvantages for SMEs	Perceived fundamental disadvantages of BEE
Age group 1 & 2	-0.31	-0.04	0.15	0.09	0.04
Age group 1 & 3	0	0.09	0.08	-0.03	-0.39
Age group 2 & 3	0.32	0.12	-0.08	-0.12	-0.43

From Table 25 it can be concluded that there is no correlating perceptions between the selected age groups and not a single effect size having a value larger than 0.2. This result is worthy of noting because these age groups entered the job market at different stages of BEE. This result indicates that there is a difference in perception between the employee

age groups who entered the job market at various stages of the BEE implementation and who consequently have different perceptions about the constructs in this study.

The second construct was created to determine whether there are any differences of perceptions between respondents employed at SMEs with varying BEE contribution levels. The entities with level-1 and level-2 compliance represent BEE-level group 1 for this construct and suggests that these SMEs are 100% and 51% black-owned respectively. The entities with level-3 compliance and higher represent BEE-level 2 for this construct. This group represents SMEs that do not necessarily have black ownership.

The Pearson correlation coefficients ( $r$ ) were calculated between each group and the guide by which they were interpreted was used as set out in section 3.9. The resulting effect sizes can be seen in Table 26.

**Table 26: Pearson correlation coefficients for SMEs with different BEE compliance levels**

	Benefits of BEE for SMEs	Benefits of BEE for employees of SMEs	Disadvantages for efficiency and reliability for SMEs	Economic disadvantages for SMEs	Perceived fundamental disadvantages of BEE
BEE-level group 1 and 2	-0.83	-0.68	0.05	0.32	0.16

Table 26 indicates that there is a large and practically significant inverse effect size ( $|r| = 0.83$ ) between these two groups with regards to the perceived benefits of BEE for SMEs. This indicates that respondents employed at SMEs with a BEE-level of 1 or 2 had significantly differing perceptions about the benefits of BEE for SMEs. This result can be contributed to the fact that the ownership element of the BEE scorecard is mandatory in order to have a BEE-level of 1 or 2 and that these SMEs will enjoy more benefits because of their higher BEE-levels. This indicates that SMEs with better BEE-levels directly enjoy more benefits from BEE legislation than their counterparts.

Table 26 shows a medium inverse effect size ( $|r| = 0.68$ ) noticeable with the naked eye between the two groups regarding the benefits of BEE for employees of SMEs. For the same reason mentioned above, when SMEs benefit from BEE legislation, their employees

indirectly benefit as well. This is further demonstrated by the Pearson correlation coefficient of 0.8 as seen in Table 24. This result suggests that employees of SMEs with a contribution level of 1 or 2 have different perceptions about the benefits of BEE for employees of SMEs.

Lastly, Table 26 indicates that there is an insignificant difference between the perceptions of the two groups about the disadvantages to efficiency and reliability for SMEs, the economic disadvantages for SMEs, and the fundamental disadvantages of BEE.

### **3.10 Summary**

This chapter reported on the statistical analysis results from the data collected by means of an anonymous survey. The study population of this study was the employees of SMEs in South Africa.

The evaluation of the questionnaires revealed that the majority of employees of SMEs who participated in this study have a generally negative perception of BEE. This result was obtained before asking in-depth questions about the implementation of BEE at SMEs.

Questions from section B of the questionnaire indicated that, overall, the study population indicated an average of 77% familiarity with the BEE legislation and its accompanying terms and practices.

Using some of the demographic results and the questions from section C of the questionnaire, several constructs were created to answer the research questions. All but one of the constructs had a high Cronbach's alpha value with an internal consistency ranging from acceptable to excellent, indicating that the constructs are reliable.

All but one of the constructs resulted in a neutral perception of BEE by employees of SMEs. The study population did, however, indicate that it disagrees with the statements made in the construct about the economic disadvantages for SMEs because of BEE legislation. This could be interpreted as a positive perception from employees of BEE. The neutrality of employee perceptions could neither be interpreted as positive nor negative for BEE, which indicates the importance of the study, as the ideal outcome would require a positive employee perception of BEE. The fact that the results are neutral indicates that



perceptions of BEE lean to a positive direction, where previous studies have indicated an overall negative perception.

Based on the interpreted results of this chapter, the final conclusions and recommendations are discussed in Chapter 4. Chapter 4 also addresses the research questions and their answers.

## **Chapter 4: Conclusions and recommendations**

### **4.1 Introduction**

SMEs are one of the most significant contributors to the South African economy and one of the most important instruments of job creation, addressing unemployment and providing sustainable growth for the South African economy.

The implementation of BEE at SMEs is one of the most significant factors for doing business with the country's largest spender, namely the South African Government, in the South African economy. SMEs are encouraged to obtain the best possible BEE contribution levels to be awarded tenders, which will directly impact the growth and sustainability of these entities.

The wellbeing of SMEs is not only important for the South African economy but also for the wellbeing of their employees. The perceptions formed by employees about BEE could indicate whether the implementation of BEE has had positive or negative effects on SMEs and their employees. The perceptions formed could also indicate whether the implementation of the BEE Act and the Codes of Good Practice have resulted in the mandates and objectives of BEE being met or not.

Based on the results of Chapter 3, final conclusions and recommendations are reported in this chapter.

### **4.2 Conclusions on empirical studies**

An empirical study was conducted and received participation from 164 respondents, of which 116 qualified as employees of SMEs. The results of the empirical study are represented in Chapter 3, and the following conclusions are based on the results obtained from the study population.

#### **4.2.1 Conclusions based on the demographic information**

- **Gender groups of the study population:** The results indicate that the study population had a nearly even representation from both gender groups with 46% of the study population being male and 52% female.

- **Age groups of the study population:** The results indicate that the majority (77%) of the study population was in the age group 19 to 39 and that 23% of the population was in the age group 40 to 60+. This indicates a good representation of age groups of employees who entered the job market before BEE had been implemented, while BEE was initially being implemented, and when BEE and the Codes of Good Practice had been amended and fully implemented. The results also show that there is no correlation between perceptions of different age groups. This is a result of the different age groups having entered the job market at various stages of BEE implementation. It can therefore be concluded that employees who entered the job market before and after the implementation of BEE have different perceptions about BEE.
- **Education levels of the study population:** The results indicate that 69% of the study population has a tertiary education, 28% has secondary education, and only 3% has none of the previously mentioned. The results show that the majority of the study population is well-educated, which indicates that the study population might hold higher positions at the SMEs they are employed at overall. The portion of the study population that represents secondary or no formal education is slightly under-represented in this study.
- **Employment levels of the study population:** The results show that more than half (53%) of the study population is employed in some capacity as a manager at a SME and that 47% of the study population is general workers or specialists. This makes sense when considering that SMEs usually have few employees and that a large portion of the study population has a tertiary education.

#### 4.2.2 Conclusions based on the business information

- **SME size regarding number of employees:** The results show that 60% of the SMEs represented in this study only have between 1 and 19 employees, 22% have between 22 and 49 employees, and 18% is larger entities with between 50 and 199 employees.
- **BEE compliance levels of SMEs:** The results show that 74% of the SMEs represented have some form of BEE compliance level. The results also indicate that

a large portion (26%) of the SMEs represented in this study are non-compliant. This suggests that these entities operate in an environment where BEE is not compulsory and that these entities do not provide products or services to any government departments. The results also indicate that respondents employed at SMEs with a BEE-level of 1 or 2 have significantly differing perceptions than SMEs with a BEE-level 3 and higher about the benefits of BEE for SMEs. The results also indicate that employees employed at SMEs with varying levels of BEE compliance have no correlating perceptions with regards to the disadvantages of BEE for SMEs. It can therefore be concluded that SMEs with a BEE-level 1 or 2 enjoy more benefits from the BEE legislation, but that perceptions of employees across SMEs with varying BEE-levels have varying perceptions about the disadvantages of BEE for SMEs.

#### **4.2.3 Conclusions based the general perception of BEE**

This question was asked at the end of section A of the questionnaire to determine the general perception that employees of SMEs have about the BEE legislation. This question was purposefully asked before any detailed questions to determine what the general feeling was before respondents had a chance to think about all the particular aspects of BEE.

The results indicate that 45% of respondents have a general negative feeling about BEE. This is not surprising considering the sensitive nature of the study. It is well-documented that in South Africa any topic involving race is a sensitive subject which usually evokes negative feelings. The results however also show that 33% of the study population has positive feelings about BEE. This can be considered positive for BEE in light of previous studies on owners of SMEs indicating strong negative perceptions about BEE.

The remaining 21% of the study population indicates that they have no opinion or are unsure of how they feel about BEE. This correlates with the results that 26% of the represented SMEs are BEE non-compliant entities. It can therefore be concluded that employees of these SMEs are less involved in or affected by the implementation of the BEE legislation.

This result answers one of the research questions namely whether employees perceive BEE in itself in a positive or negative light and the results indicate that the majority of the study population perceives BEE negatively.

#### **4.2.4 Conclusions based on the awareness of BEE**

The results show that 84% of the respondents who participated in the study are familiar with the BEE legislation and that on average 77% of respondents are familiar with preferential procurement, the term fronting, and the goals and objectives of BEE.

Similar to the result in section 4.2.3 it can be concluded that employees employed at BEE non-compliant SMEs are less involved or affected by BEE implementation and therefore do not carry knowledge about it.

The results further indicate that there is some room for improvement by the government regarding awareness of BEE and its accompanying terms and legislation. Considering the importance of SMEs in South Africa and the effect that BEE can have on these entities, everyone involved in these institutions should carry basic knowledge of the BEE legislation outlined in section B of the questionnaire.

This result is important when considering that SMEs that are BEE non-compliant might have benefitted from BEE had they been informed that an entity with less than a R10 million turnover is considered a BEE-level 4 compliant company. These SMEs might have lost out on opportunities to benefit from the BEE legislation resulting from a lack of information or knowledge.

#### **4.2.5 Conclusions based on the perceived impact of BEE on SMEs and their employees**

- **Conclusions based on the perceived advantages of BEE on SMEs:** This construct has a resulting Cronbach's alpha value of 0.94, which indicates excellent internal consistency and that the construct is reliable. The results from this construct ( $\bar{x} = 2.5$ ) indicate that the study population has a neutral perception about the statements made in this construct. This indicates that some respondents perceive the company they are employed at as having benefitted from BEE and others perceive the opposite. This also answers one of the research questions of whether

there is any perceived advantage or disadvantage for SMEs because of BEE. The results are neutral, and it can be concluded the study population does not perceive SMEs as either being advantaged or disadvantaged by BEE.

- **Conclusions based on the perceived advantages of BEE for employees of SMEs:** This construct has a resulting Cronbach's alpha value of 0.93, which indicates excellent internal consistency and that the construct is reliable. The results from this construct ( $\bar{x} = 2.3$ ) indicate that the study population has a neutral perception about the statements made in this construct. This indicates that some respondents perceive employees as having benefitted from BEE and others perceive the opposite. This also answers one of the research questions of whether there is any perceived advantage or disadvantage for employees because of BEE. The results are neutral, and it can be concluded the study population does not perceive employees as either being advantaged or disadvantaged by BEE.

Question C15 in this construct contributes to answering another research question, namely whether it is important to employees that their employers have a reasonable BEE-level. The result of this question ( $\bar{x} = 2.37$ ) is neutral and therefore it cannot be concluded whether the study population finds it important that their companies have a reasonable BEE-level.

- **Conclusions based on the disadvantages for efficiency and reliability for SMEs:** This construct has a resulting Cronbach's alpha value of 0.89, which indicates good internal consistency and that the construct is reliable. The results from this construct ( $\bar{x} = 2.6$ ) indicate that the study population has a neutral perception about the statements made in this construct. This indicates that some respondents perceive BEE as having disadvantaged SMEs with regards to efficiency and reliability, and others perceive the opposite. This also contributes to answering one of the research questions of whether employees perceive BEE as having a positive or negative impact on SMEs. The results are neutral, and it can be concluded that the study population does not perceive BEE as either having a positive or negative impact on SMEs.
- **Conclusions based on the economic disadvantages for SMEs:** This construct has a resulting Cronbach's alpha value of 0.74, which indicates an acceptable

internal consistency and that the construct is reliable. The results from this construct ( $\bar{x} = 1.9$ ) indicate that the study population disagrees with the statements made in this construct. This indicates that the study population perceives BEE as not having economically disadvantaged SMEs. This also contributes to answering one of the research questions of whether employees perceive BEE as having a positive or negative impact on SMEs. The results are positive, and it can be concluded the study population does not perceive BEE as having a negative impact on SMEs.

Question C26 in this construct contributes to answering another research question of whether it is important to employees that their employers have a reasonable BEE-level. The result of this question ( $\bar{x} = 1.8$ ) indicates that the study population does not feel negative towards their jobs because of the BEE-levels of their companies. Considering that 64% of the represented SMEs have a BEE-level 4 or higher, it can be concluded employees consider it important that the companies they are employed at have reasonable BEE contribution levels.

Question C27 in this construct answers another research question of whether BEE legislation has resulted in corrupt or illegal practices at the companies they are employed at. The result of this question ( $\bar{x} = 1.94$ ) indicates that the study population does not agree with the statement and the results indicate that BEE has not resulted in corrupt or illegal practices in these SMEs. This answer also indicates that fronting and other related illegal practices have not been completely eradicated.

- **Conclusions based on the fundamental disadvantages of BEE:**

This construct has a resulting Cronbach's alpha value of 0.54, which indicates a poor internal consistency and that the construct is not reliable. The questions in this construct were therefore evaluated separately. The results for question C16 and C20 resulted in mean values of  $\bar{x} = 2.07$  and  $\bar{x} = 2.77$  respectively. The result for C16 indicates that the study population has a neutral perception with regards to the statement that complying with BEE is not a priority for the company they are employed at. The result for question C20 indicates that the study population perceives the implementation of BEE as time consuming and a financial burden. This result answers one of the research questions of whether BEE has impacted

positively or negatively on SMEs. The results indicate that BEE has impacted SMEs negatively concerning a loss of time and financial strain.

### **4.3 Recommendations**

The following recommendations are made with regard to the conclusions of the empirical study. This section includes recommendations to employees of SMEs, owners of SMEs, and government and regulatory bodies.

#### **4.3.1 Recommendations to employees and owners of SMEs**

- Employees and owners of SMEs should familiarise themselves with the BEE Act, the Codes of Good Practice, and the Preferential Procurement Act as well as all the amendments. Significant changes have been made to the legislation and to obtain the optimal BEE-level, owners and their employees should be up to date with those changes.
- Employees and owners of SMEs should familiarise themselves with the industry charter of their relevant industry to strategically position themselves in their respective industries.
- Owners of SMEs who are not BEE compliant should familiarise themselves particularly with the amended Codes of Good Practice. These SMEs could qualify for a BEE rating without undergoing organisational changes, which could lead to business opportunities with state-owned enterprises.
- Employees of SMEs should understand the BEE scorecard completely, as it may serve as an initiative to work harder and move up in the company ranks.
- Employees and owners of SMEs should investigate the goals and objectives of BEE clearly so that they can understand that BEE is not only implemented to right the wrongs of the past but also to grow the economy inclusively and to assist SMEs.
- Owners of SMEs should ensure that their employees are informed about BEE and the amendments made, and employees should also inform the owners.



- The BEE legislation should not be viewed in a negative light. Like all important decisions in business, an informed well-communicated strategy should be set in place to ensure the mutual benefit to all stakeholders.

#### **4.3.2 Recommendations to government and regulatory bodies**

- The government should duplicate this study on a larger scale. A lot has been done to set these policies in place and amend shortcomings, but little information has been gathered from the people who are supposed to benefit from it.
- The government should investigate better incentives for companies who comply with BEE above just the opportunity to be awarded tenders.
- The government should assist white-owned SMEs in the process of finding black African business partners and investors.
- Regulatory bodies should be more vigilant with regards to fronting, corruption or other illegal practices. The results of this study clearly indicate that fronting has not yet been eradicated.
- The government should prioritise the development of SMEs as SMEs have the greatest potential of reducing the unemployment rate and developing the economy.

#### **4.4 Evaluation of the study**

The evaluation of this study is based on the achievements of the primary and secondary objectives as set out in section 1.4.

##### **4.4.1 Primary objective**

The primary objective of the study was to investigate whether the impact of BEE on SMEs in South Africa is perceived as positive or negative.

This objective was achieved by means of a questionnaire that was developed and administered to employees of SMEs. The results are presented in Chapter 3 of the study and the recommendations are made in Chapter 4 of the study.

#### **4.4.2 Secondary objectives**

Section 1.4.2 specified the following secondary objectives:

- To clearly define BEE;
- To identify and describe the outcomes and goals of BEE;
- To gain greater insight on the aspects of BEE by conducting a literature study;
- To understand the role that SMEs play in the South African economy;
- To construct a questionnaire to assess what the perceived impact of BEE is on SMEs;
- To make conclusions and recommendations based on the literature study and empirical study.

The first secondary objective was achieved through definitions relating to BEE in section 2.2 of this study and an in-depth definition was provided in section 2.3.4 of the study.

The second secondary objective of identifying and describing the outcomes and goals of BEE was achieved by means of a literature study in section 2.3.4.

The third secondary objective of gaining greater insight on the aspects of BEE was achieved through a literature study in section 2.3. This section included the most relevant history of BEE from its inception to date and discussed subjects such as the Employment Equity Act, Competition Act, National Empowerment Fund, the BEE Act, the BEE Codes of Good Practice, and the Preferential Procurement Policy. The section explored the original policies as well as the amendments made to these policies from their inception.

The fourth secondary objective was to establish an understanding of the role that SMEs play in the South African economy. This objective was achieved through a literature study in section 2.4.

The fifth secondary objective was to construct a questionnaire to assess the perceived impact of BEE on SMEs in South Africa. The questionnaire design is discussed in Chapter

3, and specific details about the questionnaire and study population follow in sections 3.3 and 3.4 respectively.

The last secondary objective was to draw conclusions and recommendations based on the literature study and empirical study. Conclusions based on the obtained results in section 3 are discussed in section 4.2 and recommendations based on the conclusions are discussed in section 4.3.

#### **4.5 Suggestions for future research**

- From the conclusion of the study it is evident that BEE is still a controversial topic amongst employees of SMEs and it carries a negative sentiment in general. This topic should be openly discussed without prejudice, and therefore a similar study as this study that requires some form of government backing or involvement in order for it to be scaled is recommended.
- BEE has existed since 2003, yet little evidence shows the impact that BEE has truly had on SMEs in south Africa. Although perceptions of BEE is important, it is suggested that the actual economic impact of BEE on the SME sector be investigated with regard to economic and growth advantages and disadvantages.
- An additional study comparing competing companies within the same sector but with different BEE-levels will also contribute to understanding the true value that BEE brings to SMEs.
- The study has shown that employee perceptions influence employee participation and therefore a study into company culture should be conducted to understand whether BEE has had a positive or negative effect on company culture.
- This study has focussed on SMEs, but it is suggested that this study be scaled to include employees of all enterprises. It would be valuable to understand employee perceptions are across all sectors and which policy amendments could be made in order to change negative perceptions about BEE.

## 4.6 Summary

The South African Government has taken several steps into righting the wrongs of the apartheid era with regards to implementing policy instruments that support SME growth and sustainability. SMEs have been identified as one of the most significant drivers of the South African economy but, despite the government efforts, South Africa still battles an enormous unemployment rate and a struggling economy.

This study set out to determine the perceptions that employees of SMEs have of BEE, but the true economic effect of BEE on SMEs have yet to be determined. The study showed that employees of SMEs have a mostly neutral perception about several factors of BEE and this can be viewed as negative for the BEE policy, because not only was the policy created to right the wrongs of the past, but to reduce unemployment and increase economic growth and inclusivity for black entrepreneurs. A positive perception of BEE would be encouraging for young black entrepreneurs who plan to enter the market, which in turn would reduce unemployment and increase economic growth.

This study has revealed that a large portion of the SMEs represented in this study has not made an effort to comply with BEE, which suggests that a significant portion of economic activity in South Africa does not require compliance with the BEE Act. This suggests that government should focus their efforts on broadening the implementation of BEE across more sectors and economic activity. This should, however, only be done once the true economic and social implications of BEE have been investigated.

The study results indicate that there could be a strong relationship between the economic wellbeing of a company and its BEE-level, illustrating that the BEE policies set in place are achieving some of its set goals and mandates, but the extent to which this is achieved has not yet been measured.

BEE should not be viewed as an obstacle for business owners but rather as a strategic advantage to grow sustainable business. This message should be emphasised by the government to accelerate participation of BEE.

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# APPENDIX A: The Questionnaire

## Broad-Based Black Economic Empowerment Questionnaire

Thank you for taking the time to contribute to this study. This focus of this study is to understand your personal perceptions of the BBBEE legal framework and how it is affecting the business you are employed at. If you are an employer or owner of a small or medium enterprise, we would like to encourage you to distribute this questionnaire between your employees. This questionnaire seeks the feedback from ALL South Africans from all walks of life, employed at a small or medium enterprise. All information will be treated as STRICTLY CONFIDENTIAL and will only be used for academic purposes. No private information such as email-addresses or IP-addresses will be collected. This information will benefit not only you as an employee but also the South African economy that we all are reliant on.

### 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.

A1: What is your gender? \*

Female

Male

Prefer not to say

A2: What is your age group? \*

19 to 29

30 to 39

40 to 49

50 to 59

60+

A3: What is your highest level of education? \*

Matric

Diploma or equivalent

Bachelor's degree

Master's degree

Doctoral degree

None of the above

A4: What is your level of employment? \*

Worker

Specialist

Junior Management

Mid-level management

Senior management

Owner or part owner

A5: How many permanent employees are employed by the business you are employed at? \*

1 to 9

10 to 19

20 to 49

50 to 99

100 to 199

200 to 499

500+

A6: What BEE-level does the business have? \*

Level 1

Level 2

Level 3

Level 4

Level 5

Level 6

Level 7

Level 8

Non-compliant

A11: Complete the sentence: In general, I have an overall \_\_\_\_\_ feeling towards BEE legislation. \*

Positive

Negative

Unsure

No Opinion

## Section B: Awareness of BEE

B1: I am familiar with the BEE Legislation. \*

Yes

No

B2: I am familiar with the preferential procurement practices as set out by BEE legislation \*

Yes

No

B3: I am familiar with the term "fronting" in light of BEE legislation \*

Yes

No

B4: I am familiar with the prescribed goals and objectives of BEE \*

Yes

No

## Section C: Advantages and disadvantages of BEE to the business

All the questions may be answered by making a selection in the relevant circle. Use the following key:

- 1 = Strongly disagree;
- 2 = Slightly disagree;
- 3 = Slightly agree;
- 4 = Strongly agree.

You must select the number which best describes how you feel about the item.

C1: BEE creates new possibilities for the company I'm employed at in terms of business networks and new associates. \*

Strongly disagree

- 1
- 2
- 3
- 4

Strongly agree

C2: The company I'm employed at has been more successful by complying with BEE legislation. \*

Strongly disagree

- 1
- 2
- 3
- 4

Strongly agree

C3: In general employees are better off in terms of skills and rank in the business since the implementation of BEE.

Strongly disagree

1

2

3

4

Strongly agree

C4: The company I'm employed at has seen an increase in annual turnover since the implementation of BEE. \*

Strongly disagree

1

2

3

4

Strongly agree

C5: BEE resulted in the acquisition of new customers for the company I'm employed at. \*

Strongly disagree

1

2

3

4

Strongly agree

C6: Our company is continuously striving to better our BEE-level. \*

Strongly disagree



- 1
- 2
- 3
- 4

Strongly agree

C7: BEE has directly resulted in better skilled workers in the company I'm employed at.

Strongly disagree

- 1
- 2
- 3
- 4

Strongly agree

C8: BEE has helped the company I'm employed at to achieve its social responsibility towards the local community. \*

Strongly disagree

- 1
- 2
- 3
- 4

Strongly agree

C9: BEE makes it possible for the company I'm employed at to be more competitive in the market? \*

Strongly disagree

1

2

3

4

Strongly agree

C10: BEE makes it possible for the company I'm employed at to compete in new unexplored markets. \*

Strongly disagree

1

2

3

4

Strongly agree

C11: BEE compliance makes it possible for the company I'm employed at to rapidly expand its business operations and grow faster than without BEE compliance. \*

Strongly disagree

1

2

3

4

Strongly agree

C12: BEE has led to more effective management of the company I'm employed at.

Strongly disagree

1

2

3

4

Strongly agree

C13: BEE has created more jobs at the company I'm employed at. \*

Strongly disagree

1

2

3

4

Strongly agree

C14: I have benefited because the company I'm employed at complies with BEE legislation. \*

Strongly disagree

1

2

3

4

Strongly agree

C15: I feel positive about the company I'm employed at because it complies with BEE Legislation. \*

Strongly disagree

1

2

3

4

Strongly agree

C16: Complying with BEE is not a priority for the company I'm employed at.

Strongly disagree

1

2

3

4

Strongly agree

C17: The company I'm employed at has lost work which can be directly linked to BEE legislation \*

Strongly disagree

1

2

3

4

Strongly agree

C18: BEE has caused job losses in the company I'm employed at. \*

Strongly disagree

1

2

3

4

Strongly agree

C19: Implementing the codes of good conduct on BEE could result in the loss of focus on business matters and therefore could have a hampering effect on the company I'm employed at. \*

Strongly disagree

1

2

3

4

Strongly agree

C20: Implementing BEE is time consuming and a financial burden on the company I'm employed at. \*

Strongly disagree

1

2

3

4

Strongly agree

C21: The skills development aspect of BEE lead to a loss in productivity as workers need to attend courses or training. \*

Strongly disagree

1

2

3

4

Strongly agree

C22: BEE has impacted negatively on the company culture at the company I'm employed at. \*

Strongly disagree

1

2

3

4

Strongly agree

C23: BEE has resulted in the company I'm employed at employing incompetent or under trained people just for the sake of empowerment. \*

Strongly disagree

1

2

3

4

Strongly agree

C24: Preferential procurement practices might force the company I'm employed at to buy from new suppliers, resulting in potential risks in terms of reliability. \*

Strongly disagree

1

2

3

4

Strongly agree

C25: Established relationships with current suppliers will be at risk once the company I'm employed at has to buy from empowered suppliers. \*

Strongly disagree

1

2

3

4

Strongly agree

C26: I feel negative towards my job due to the BEE-level of the company I'm employed at. \*

Strongly disagree

- 1
- 2
- 3
- 4

Strongly agree

C27: BEE Legislation has resulted in corrupt or illegal practices at the company I'm employed at. \*

Strongly disagree

- 1
- 2
- 3
- 4

Strongly agree



## APPENDIX B: Application for ethical clearance



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Economic and Management Sciences Research  
Ethics Committee (EMS-REC)

Tel: 018 299-1427

Email: [Bennie.Linde@nwu.ac.za](mailto:Bennie.Linde@nwu.ac.za)

Prof JC Visagie

*Per e-mail*

Dear prof Visagie,

### **FEEDBACK – ETHICS APPLICATION: AP VAN NIEKERK (20507593)**

Your application for ethical clearance – *The perception of Broad-Based Black economic empowerment (BBBEE) in small and medium enterprises* – has been evaluated on the 24<sup>th</sup> of August 2018.

#### Outcome:

The application is approved as a low risk study.

Ethics number: **NWU-00629-18-S4**

Yours sincerely,



Prof BJ Linde

Chairperson: Economic and Management Sciences Research Ethics Committee (EMS-REC)

Original details: (11153431) C:\Fakulteit\Bestuur\Kwaliteitsbestuur\Etik\Aug 2018\AP vNiekerc\24 Aug 2018

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