

Investigating the impact of broad-based black economic empowerment on SMEs in selected areas

THEO GREYLING

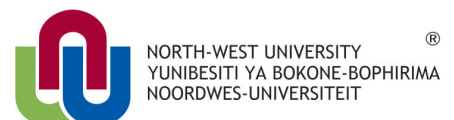
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Mini-dissertation submitted in partial fulfilment of the
requirements for the degree Master of Business
Administration at the Potchefstroom Campus of the North-
West University

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November 2015

It all starts here TM



PREFACE AND ACKNOWLEDGEMENTS

Personal Acknowledgements

Jesus Christ for blessing me with so much mercy and grace, to allow me to study an MBA. For giving me the strength to carry on with the MBA studies when things seemed dire and giving my wife words of wisdom for reassurance and the heartiness to allow me to study.

My wonderful wife, Naleen, my pillar and my post, especially during the past 3 years. She never doubted my abilities to finish the MBA studies and always seemed to be able to calm the periodic MBA storms I had in the past few years. Naleen, I love you, always have and always will. Thank you for being my research assistant and being my rock throughout this challenging time of our marriage.

Our kids, Schalk Taljard Greyling and Christofell Botha Greyling, for being the main reason why I pursued the MBA.

Jan and DM, my study group mates, who were instrumental in my development through this whole MBA process. Thank you for allowing me to talk to you about my MBA woes, providing tips and ideas and always giving advice how to carry on.

Esther for helping out with the spreading and gathering of the questionnaires.

Our church members who always wanted to know how the studies were going and provided kind words of inspiration, especially our pastor, Rev. Francois de Villiers.

Professional Acknowledgements

Johan Jordaan, Supply Chain and Operations Management lecturer at the Potchefstroom Business School (PBS), for giving me the opportunity to experience more. It is because of our group project, during the Supply Chain and Operations Management module during the MBA studies, that I received a lot of ideas to start a family business and which was partly the reason as well for this research topic.

Professor Stephan van der Merwe made me understand what it means to “sweat the details”; who is a wonderful study leader and extremely knowledgeable in

entrepreneurship and family business, which helped reinforce the importance of the MBA and to help me succeed in my MBA studies.

Professors Ines Nel and Christo Bischoff for encouraging me to never give up with the MBA studies.

Potchefstroom Business School for allowing me to study a MBA at such a professional organisation. As an engineer at trade, PBS showed me through the MBA that there is more to people and business than external traits and behaviours, “gears and wires”. The MBA studies allowed me to not only broaden my skillset, but also “see” more than the eye beholds.

ABSTRACT

The impact Broad-Based Black Economic Empowerment (B-BBEE) has on family businesses in the Boksburg, Ekurhuleni area was studied.

The research report begins with the nature and the scope of the research, followed by a literature review on Black Economic Empowerment (BEE) and Family Business that sets the tone of the study and from where the questionnaire was constructed. The results from the empirical research with a conclusion are at the end of this report.

The BEE programme was introduced in 2003. It was actually condemned by most businesses and organisations, which led to the introduction of an altered programme in 2007 called Broad-Based Black Economic Empowerment (B-BBEE). B-BBEE received further criticism and amendments were made to the codes, which came into effect on 1 May 2015. This brought a huge change to the manner in how an organisation's B-BBEE status will be calculated and thus affected. These new calculations might have far reaching effects as some organisations may fall from a level 4 to a level 7 B-BBEE rating. Organisations will have to evaluate their existing B-BBEE approach to measure the effect of these modifications and take steps to try and preserve their present B-BBEE ratings.

Owners of family businesses are passionate about their business and are very emotional with regard to decision making or changes that have a direct effect and impact on their business, because it impacts their livelihood. Legislation like B-BBEE is one of those changes that have a huge impact on the way family businesses are managed, their ownership and succession plans.

In the empirical study the results and information were acquired through an online questionnaire that was e-mailed to the correspondents. Follow-up phone calls were made, meeting requests sent and one-on-one discussions took place. A total of 41 respondents completed the online questionnaire. The results from the questionnaires were processed with SPSS and Microsoft Excel for various statistical data. This data was analysed to provide conclusions and recommendations.

It seems that numerous family businesses still continue to be unsure about the real consequences of B-BBEE and the significance it can bring to their businesses. Most

family business owners appear to recognise the principles of B-BBEE, but still feel that the policy is not the best for business and do not see it as a growth opportunity.

To make recommendations to family businesses in such an environment can be challenging, especially if the questionnaire output is so overwhelmingly negative towards the B-BBEE policy. The fact is that B-BBEE is a legislative framework and needs to be conformed to, especially if a business wants to grow. The best advice is to plan ahead with B-BBEE in mind and put processes and procedures in place to address any possible tension and issues that can escalate between business owners, partners, employees and / or siblings.

Key words: ANC, Apartheid, BEE, B-BBEE, Boksburg, Broad-Based, Business, Democracy, East Rand, Economic, Ekurhuleni, Empowerment, Enterprise, Family-owned, Gauteng, Small-sized, South Africa

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CHAPTER 1

NATURE AND SCOPE OF THE STUDY

1.1 Introduction

As an aspiring first time business owner one has dreams to start something sustainable, something for the family and something that can be succeeded by the younger generation; the kids (Swart, 2014). Unfortunately these dreams are short lived for some South Africans because of a law that acts as a barrier that has the potential to shatter those dreams. Black Economic Empowerment (BEE) is an act that was passed to enrich the lives of South Africans, but instead only benefits a few individuals that are well-positioned and has failed to address transformation for a broad base of South Africans and may have deepened rather than alleviated inequality. BEE also has that potential negative effect on small- and medium-sized enterprises (SMEs) in South Africa (Orton, 2008; Goldstuck, 2009; Kruger, 2011).

As any other law put in place, there are certain rules to follow and these rules can possibly make the white family-owned business extinct when starting a business is unattractive (Allix, 2014) and also where it can be seen that a certain percentage of the country's Gross Domestic Product (GDP) is being impacted. It's been shown in so many studies that SME businesses considerably add to a country's GDP. In South Africa SMEs contribute 47% to 57% of GDP (Goldstuck, 2009; Abor & Quartey, 2010). One can only imagine what a negative effect a policy like BEE can have on a country's economy over a long-term period if left unchanged or unchallenged, or better yet, to improve such a policy to work for the economy, not against, and be a growth catalyst. However, red tape headaches and constant policy changes, dealing with labour issues and BEE compliance, are another few deterrents for low growth in SMEs and the challenges small businesses in South Africa are faced with (SBP, 2014).

But before we get into the detail part of this discussion, why do white South Africans fear BEE? Previous research on the impact of BEE on family businesses shows that there indeed are a certain level of apprehension and distrust in the BEE policy (Orton, 2008). Also, a large portion of SMEs in South Africa is white-owned businesses that indicate that BEE has a bigger effect on white-owned businesses (Paton, 2013).

Some family-owned businesses fear the unknown of long-term effects in the South African labour environment because they know that BEE affects them (Goldstuck, 2009). BEE alone has changed since its inception and politicians and economists already foresee even more issues and challenges for white-owned family businesses in making it more difficult for them to become BEE compliant (Steward, 2013; Jeffery, 2014). Some family business owners even go as far as to say that the most difficult thing about business these days is doing business because laws and principles keep on changing, and those changes can be extremely costly at times due to all the red tape and regulations (SBP, 2014).

In order to research the issues and impact BEE has on family-owned businesses, some literature has been consulted. The key literature that which formed part of this research is BEE and all the aspects that go with family-owned businesses; micro- and small- to medium-sized. While the literature study is going on, a questionnaire was handed out to some family-owned businesses in and around Boksburg, Ekurhuleni. The output from these questionnaires was tallied and certain statistical analysis was made to draw some conclusions from. One of which was to see what has changed since 2004, and another to see if there is a way to plan for BEE in order to make family businesses a success with BEE and in doing so get more white people to reconsider starting their own businesses once more with this input in mind. This seems to be very difficult to prove because of early comments from economists and politicians that the amended BEE legislation will hurt small white businesses even more than before the policy change (Prinsloo, 2013).

Black Empowerment and Affirmative Action are not the same ideas, although one is a vehicle for the other. According to the Oxford English Dictionary, Affirmative Action is “an action taken to affirm an established policy and active measures taken by an employer, college, or any other organisation, to provide opportunities for members of minority groups, women, or other people regarded as having suffered from discrimination.” In short, Affirmative Action is needed to get a better balance in the workplace with regard to Employment Equity and Black Economic Empowerment as a means to achieve Affirmative Action (Jeffery, 2014).

South Africa has such a huge problem with inequality; the divide or gap between rich and poor is very wide, and as a nation, we have to do something to alleviate poverty in

our country or else the poor will just get poorer and our economy will suffer even more (Hoogeveen, 2005; Aguero *et al.*, 2006).

In 2014 the South African Minister of Small Business Development, Lindiwe Zulu, said that perceptions that BEE is all bad for white family-owned businesses need to change, and by doing so, we need to find the positives BEE can provide. The only way this will work is if government make it easier for entrepreneurs to start new business, and not penalise them for doing so, or keeping them “small” not to qualify for BEE accreditation, and also not being able then to contribute to the country’s economy, alleviating poverty and relieve inequality (Zulu, 2014).

1.2 Problem statement

According to Herrington (2013) new business start-ups feel threatened by regulatory frameworks and policies. The unknown does sometimes interfere with an entrepreneur’s decision to start a new business venture, especially if it is the entrepreneur’s first venture. Market changes and the level of how open markets are, which relate to entry procedures, are very important because they serve as the first barriers or embellishments for prospective entrepreneurs in the entrepreneurial process (Herrington & Kew, 2014).

Black Economic Empowerment was formed in 1994 when a new black majority government was elected into power in South Africa for the first time, and this was to transform any inequalities of the past apartheid regime. This was in an effort to alleviate any imbalances of the poor masses who have been kept from any economic uplifting and engagement (South Africa, 2004).

Black Economic Empowerment (BEE) is currently more closely or technically referred to as Broad-Base Black Economic Empowerment (B-BBEE) and is explained as an act via the Broad-Based Black Economic Empowerment Act 2003, and controls that organs of state and public individuals, in exercising their resolution to award licenses, payments or other authorisations, are required to verify an applicant's BEE fulfilments. The descriptions of “public individuals” and “organ of state” are broad and contain several governmental departments, Development Bank of South Africa, SA Tourism Board, Financial Services Board, Accounting Standards Board, Independent Communications

Authority of South Africa (ICASA), Compensation Commission and the National Electricity Regulator (B-BEE Act, 2003).

President Mbeki signed this initiative / act into law on 9 January 2004. Conferring to this act, all businesses that meet the needed criteria have to implement B-BBEE into their businesses (B-BEE Act, 2003).

As a start-up business, how does one plan to implement B-BBEE into the business, and comply with the law, as well as be ethical and profitable at the same time? Previous studies (Oosthuizen, 2004; Orton, 2008) have shown that some businesses do not comply with BEE, or use unethical practices like fronting to seem to be BEE compliant. Other businesses see BEE as a threat to family-owned businesses and a cumbersome practice to follow.

Just as a new venture needs to put a business plan in place before jumping into anything new, so too can planning for B-BBEE be extremely beneficial to both the owner and the authorities. Perhaps one can even add B-BBEE planning into the business plan and business strategy, (it is actually encouraged as it certainly has a financial risk / reward component attached). It thus needs to be included into any financial / accounting parts of the business and the planning thereof.

In order to answer some of these questions, i.e. “How do B-BBEE impact family businesses?” and “What are the typical costs involved to be B-BBEE compliant?” one can consider previous studies that looked at the impact of B-BBEE on family businesses and perhaps even do a follow-up survey / questionnaire to gauge how some businesses have adapted to B-BBEE as well as to get a feel for what the risks / rewards were for becoming B-BBEE compliant (Oosthuizen, 2004; Orton, 2008). One should also consider / investigate the outcome of a ruling that 26% of the business should be passed on to black personnel by 2014 (Jeffery, 2010).

The aim of this study is to help a first time family business start-up plan for B-BBEE in order to be successful with the venture and assist government with their aim to improve economic outlook and provide a sustainable income to the previously deprived as well as empower those who need to adapt and make the change for a better, equal, South African society.

Previous studies looking at the impact of BEE on family businesses have found that most businesses have already identified successors for the business; family businesses are unique with their own culture and characteristics, so it is extremely vital to consider this aspect with regards to BEE and outside partnerships (Oosthuizen, 2004).

According to Orton (2008), family business owners rated the opportunities of B-BEE to family businesses as low. The general perception of family business owners is that B-BBEE does not have a great deal of opportunities to offer. However, participants indicated the possibility of obtaining new contracts as the biggest opportunity of B-BBEE. This finding is confirmed by Booyesen & Bouche (2005) in the literature review.

According to Oosthuizen (2004), the overall respondents of her questionnaire indicated that business owners have taken note of the policy of BEE and 85% agree on the importance thereof. The conclusion is made that the owners of family businesses have taken note of BEE and realise the importance of the policy. This study has a look on how things have changed in 10 years since Oosthuizen's research has been conducted.

It is clear from previous studies and reports (Goldstuck, 2009) that SMEs do not entirely agree with BEE policy, but some have started to make BEE a reality in their businesses in 2004, although they feel that BEE should not apply to all businesses (Oosthuizen, 2004).

There is however a portion of the family business owners who feel that there are no advantages to the business and the economy as a whole. Orton concluded in 2008 in his study on the impact that BEE has on family businesses, that the majority of family business owners do not share the view that B-BBEE is advantageous to the South African economy. This conclusion is also supported by the numerous disadvantages highlighted by family business scholars (Anon., 2007; Janssens *et al.*, 2006).

Incompetency was also a big threat to family businesses, and confirmed by Janssens (2006), as well as possibilities of losing control over the business as part of B-BBEE. These two threats are amongst the biggest dangers on the minds of business owners and their families.

Further to the abovementioned, previous studies also looked into disadvantages to the economy as a whole, impact on management succession, impact on ownership

succession, government support, implementation of B-BBEE, finding the right empowering partner and financing a B-BBEE deal.

The theoretical framework for this study will begin with an introduction to B-BBEE and family businesses in South Africa. A literature review will follow on these two main topics; B-BBEE and small- and medium-sized family businesses in South Africa. An empirical study (data gathering) will then be done to determine the impact of B-BBEE on small- and medium-sized family businesses, and then conclude what new start-ups need to consider and look out for when planning and beginning a new venture in South Africa as well as provide recommendations to family businesses.

The theories that are relevant to this study are:

1. B-BBEE; what it is and why it was developed, and how businesses become B-BBEE rated.
2. Small- and medium-sized family businesses: what it is, how it exists, its characteristics / culture and its contribution to the economy.

1.3 Objectives of the study

Objectives of the study are general assessments on how the problem appears. This is offered along with the detailed purposes of the project under study (Kothari, 2009). The study is divided into two objectives; Primary Objective (which is the high-level objective) and Secondary Objective (which supplies the detail of the objectives).

1.3.1 Primary objective

The primary objective of this research is to establish the impact of B-BBEE on small- and medium-sized family businesses in and around Boksburg, Ekurhuleni, and to make recommendations to new family business start-ups on how to plan for B-BBEE.

1.3.2 Secondary objectives

In an attempt to achieve the primary objective, the following secondary objectives are expressed for this research:

- To define B-BBEE and family businesses from literature.
- To authenticate the reliability of the questionnaire measuring the impact BEE has on family businesses by means of Cronbach's Alpha.
- To assess the potential impact BEE has on family businesses.
- To examine the criteria and rules that businesses need to meet in order to become BEE compliant.
- To assess how well family businesses have adapted to BEE since 2004 when the act was passed.
- To assess the possible impact that the recent amendments to BEE has on family businesses.
- To identify the effect of BEE on the characteristics of family businesses.
- To suggest recommendations to an entrepreneur wanting to start a new family business, how to plan for BEE and still be profitable and sustainable.

1.4 Scope of the study

This section attempts to give an outline of the area / field where the study was done.

1.4.1 Field of the study

This analysis predominantly falls in the substance of entrepreneurship with specific mention to white-owned family businesses and SMEs, and the possible impact of BEE on business.

1.4.2 Geographical demarcation of the study

The targeted population in the study was predominantly small- and medium-sized family businesses.

The study was conducted in Boksburg, within Ekurhuleni, in the Gauteng province, as indicated in **Figure 1.1** and **Figure 1.2**. The study was not limited to a specific trade and

all participants who are classified under the definition of SMEs (50 to 200 employees, R3 m to R50 m turnover), and micro enterprises (1 to 50 employees, below R10 m turnover) were allowed to take part. According to McCarthy (2015), “family businesses also adopt the term SME”.

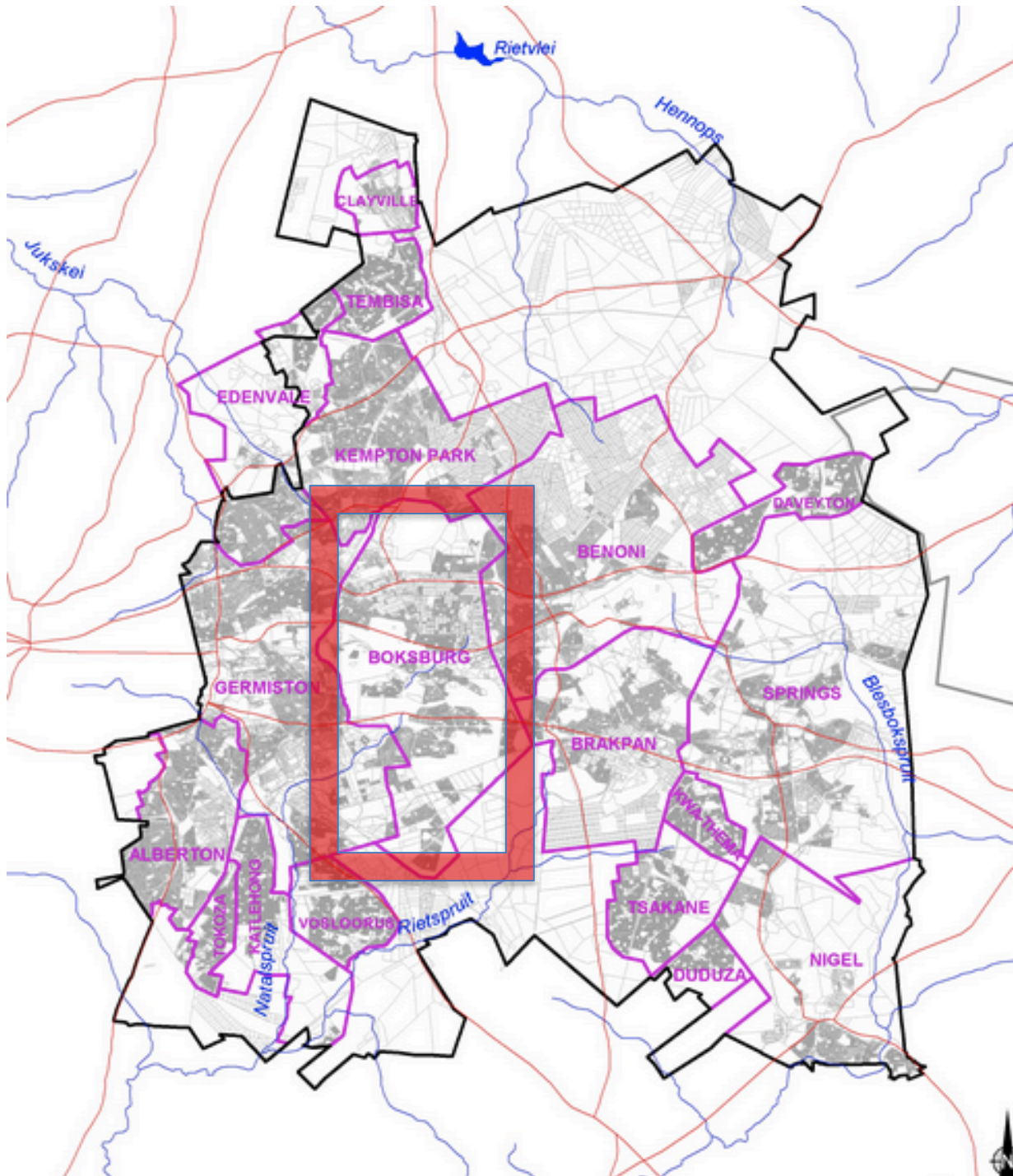
Figure 1.1 is a map of the Gauteng Province showing the Ekurhuleni municipality, coloured in yellow, whereas **Figure 1.2** is a map of Ekurhuleni, emphasising Boksburg.

Figure 1.1: Location of East Rand (Ekurhuleni), Gauteng, South Africa



Source: http://www.booktravel.travel/index.php?p=east_rand_ekurhuleni

Figure 1.2: Location of Boksburg in Ekurhuleni, Gauteng, South Africa



Source:

<https://www.dwa.gov.za/projects/vaal/documents/LargeBulkWater/files/Appendix%20F-Urban%20Sector/ekurhuleni.jpg>

1.5 Research methodology

Through early research by other researchers (Oosthuizen, 2004; Orton, 2008) on the same topic in different locations of South Africa, it was found that most studies around the impact of BEE on family businesses have already been performed in the Vaal Triangle area, so this study will focus on Ekurhuleni, but more specifically Boksburg, which is within the Ekurhuleni metropolis.

This study will be carried out in two sections namely a literature review / study of Black Economic Empowerment and family businesses followed by an empirical research / study examining the selected aspects of the perceived impact of BEE on family businesses.

The companies in and around Boksburg will be observed closely and contacted by phone and personal visits to see who fits our criteria of small- and medium-sized family businesses. These businesses will then be approached by another phone call or visit to get contact details of the owners, specifically online contact information. Various contact sessions will be made to get the business owner to agree to participate in the questionnaire.

As the researcher is not part of the family business community, the researcher requested permission and support from the Greater Boksburg Chamber of Commerce and Industry in order to ensure effective execution of the empirical study in an attempt to gather as many participants as possible from the geographical study area.

1.5.1 Literature review

The literature study process to follow was that of gathering records and facts that are relevant to the study. According to Babbie and Mouton (2004) this will result in an increase of understanding on the problem after analysing and interpreting it.

Various publications on BEE and SME were reviewed during the completion of the literature review. These included textbooks related to the field of family businesses.

In addition, literature on business succession and family business behaviour were reviewed to gain a general understanding into the uniqueness, strength and weakness

and characteristics of these businesses and what impact they have on the South African economy.

Information was gathered using the following sources:

- Internet; Google Scholar, accredited journal articles, newspaper articles.
- Reputable scientific databases, e.g. ScienceDirect, NEXUS, JSTOR, EBSCOhost.
- Theses and dissertations in the family business field.
- Theses and dissertations on the impact that BEE has on SMEs.
- Books on research methodology, BEE and SMEs / family businesses.

Other applicable documents such as the Government Gazette, departmental guidelines, reports of companies and publications were also consulted.

The following topics were explored for family businesses:

- Defining the family business as a micro and small- to medium-sized enterprise.
- The dominant values, characteristics and culture of the family business.
- Defining the entry rules for family businesses.
- Show the importance of family businesses.
- What are the disadvantages and advantages of family businesses?
- How to manage conflict within family businesses.
- How to plan for succession and transferring of ownership.

The following B-BBEE topics will be explored:

- Defining what BEE and B-BBEE are.
- Provide some history around BEE. How did it come about?
- What and who are the BEE Commission?
- What does the B-BBEE Act entail?
- Explanation of the B-BBEE scorecards and codes of conduct.
- The dominant difficulties and pitfalls of B-BBEE.

- Lessons learned and progress made with B-BBEE since 2004.
- Explain the amendments made to B-BBEE and show the current state of B-BBEE affairs in 2015.

1.5.2 Empirical study

The empirical study was a cross-sectional approach because of the different sizes of family businesses in the Boksburg, Ekurhuleni area to compare different family-owned SMEs at a single point in time. Exploratory research was conducted to explore the phenomena of how B-BBEE impacts family businesses. This was done through an online survey based on a questionnaire put together from previous studies (Oosthuizen, 2004; Orton, 2008) and literature reviews in order to encompass results from previous studies as well as to add new updated information to the study regarding BEE. The questionnaire was directed to family owned SMEs in the Boksburg area. The output of the questionnaire was statistically analysed and the approaches used for the data analysis was Cronbach's Alpha to verify the reliability and consistency of the questionnaire's results and correlation to see how different factors like BEE and family business are connected.

1.5.2.1 Construction of questionnaire

The empirical study was completed by using and modifying the questionnaires from previous studies (Oosthuizen, 2004; Orton, 2008) and literature reviews to measure the impact BEE has on family businesses in South Africa. The questionnaire has five constructs regarding family business and BEE which include demographic information, awareness of B-BBEE, opportunities and advantages to the business, threats and disadvantages to the business and general matters, like government support and suggestions.

It happens quite often that the questionnaire is considered the heart of a survey procedure. Therefore it should be very carefully constructed. If the questionnaire is not set up properly, the survey then has the potential to fail (Kothari, 2009).

The selected factors influencing the success of the constructs were assessed on the basis of a seven-point summated scale, or also known as the Likert-type scale ranging from (1) as strongly disagree (least favoured) and (7) as strongly agree (most favoured) and which is, according to Kothari (2009), mostly chosen by students for opinion scoring.

The questionnaire was constructed with the following sections: (Important keys used in the questionnaire: 1 = strongly disagree; 2 = disagree; 3 = slightly disagree, 4 = neutral; 5 = slightly agree; 6 = agree; 7 strongly agree.)

Section A gathered data on demographic information of the owner and business, like age of owner, gender, business age, how many generations the business has been managed in the family, annual turnover, type of industry, and what legal status the business has. This information will be used to assist with statistical analysis of the data to compare different business groups.

Section B gathered data on the awareness of B-BBEE. It gathered information from the family business' owner on his / her knowledge of BEE. The respondents were asked simple (Yes) or (No) questions in this section and asked to mark the appropriate answer next to each statement.

Section C gathered data on the opportunities and advantages of B-BBEE. The questions in this section are put together to determine how much the family business owners believe BEE creates opportunities and advantages for business and the economy. The respondents were asked to rate the degree to which they agree or disagree on the 1 to 7 point scale next to each statement.

Section D gathered data on threats and disadvantages of B-BBEE. Respondents were asked to provide their views on possible threats and disadvantages as a result of B-BBEE on family business and economy. The respondents are asked to rate the degree to which they agree or disagree on the 1 to 7 point scale next to each statement.

Section E gathered data on some general aspects around B-BBEE and business, like what type of support government provides, its implementation process, financing and how to find the best empowerment partner. The respondents were asked to rate the degree to which they agree or disagree on the 1 to 7 point scale next to each statement.

1.5.2.2 Study population and sample

The target population for this study are the small- and medium-sized family businesses in and around the Boksburg, Ekurhuleni area and the sample size is 150 businesses. Numerous attempts were made to acquire a database of family businesses in Ekurhuleni but without any success. The sampling frame is thus the family businesses in the Boksburg, Ekurhuleni geographical area and mostly targets the micro-, small- and medium-sized businesses that typically involve most “mom-and-pop-shops” in and around the industrial areas of Boksburg. To assist matters in getting closer to the business owners in Boksburg, the researcher has become a member of the Greater Boksburg Chamber of Commerce and Industry (GBCCI), as well as asked schools, churches and family members to assist spreading the questionnaire to family-owned businesses in the greater Boksburg area.

A convenience sample technique by means of the snowball sampling method were also used to assist finding other family businesses that could take part in this study. This type of sampling method is reliable and consistent with that of other family business researchers who have been restricted by the lack of a national database on family businesses (Eybers, 2010; Farrington, 2009; Van der Merwe, Venter, & Ellis, 2009; Adendorff, 2004; Sonfield & Lussier, 2004).

The participants from the GBCCI member list and convenience sampling were included in this study because they could all give primary information of how BEE has impacted their business, which is the ultimate goal of the research.

1.5.2.3 Data collection

Businesses listed on the GBCCI database and businesses found by means of convenience (school parents and church members whom own businesses in the Boksburg area) were subsequently contacted to identify the individual family members in the particular family and questionnaires were then e-mailed to these family members. The questionnaire was only in English. Each questionnaire was sent with a covering letter that guarantees the confidentiality of the responses.

A total of 41 questionnaires were returned from 150 businesses.

1.5.2.4 Statistical analysis

The data analysis focused on the impact of BEE on SMEs, specifically family businesses in the Boksburg area. The results were statistically processed by statistical application SPSS, to do most of the analysis. The focus of the statistical analysis was based on the reliability between the different indicators of the questionnaire.

The results were interpreted by arithmetic mean, standard deviation and Cronbach's Alpha coefficient in order to determine reliability and internal consistency of the questionnaire results. A Cronbach's Alpha coefficient of 0.7 or higher will be acceptable for reliability of this study.

1.6 Limitations of the study

In all empirical studies, limitations must be identified and considered when making recommendations and conclusions. Family businesses from Boksburg are a small sample when considering the amount of towns and cities in South Africa. Since only Boksburg businesses participated in this study and due to the use of a non-probability snowball convenience sample, the sample cannot be considered to be representative of all small- and medium-sized family businesses in the family business population.

Future research is possible on this same topic:

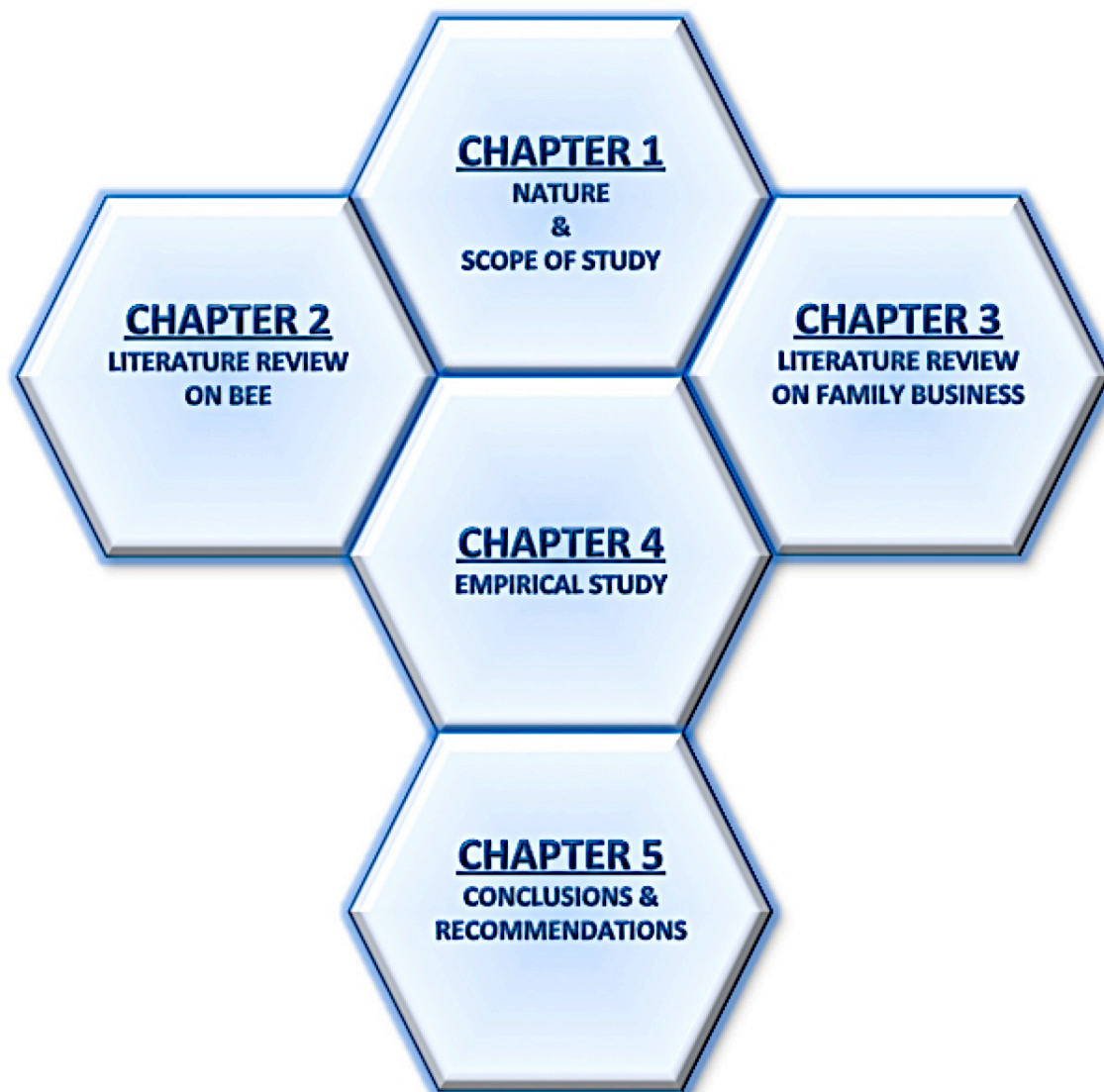
- The purpose of the literature review is to recognise the applicable literature nationally and internationally on the assumptions under investigation. It is likely for that reason that some articles have not been taken into consideration for this study.
- Recommendations to be made, as a consequence of the results of this study, will have particular reference to the population group and geographical area that are small. Other areas and population groups can be considered.
- The statute dealing with B-BBEE is a huge field and for the perseverance of this study only certain qualities, which impact micro- to small- and medium-sized family businesses, were studied. Importance was placed on the subtleties of the B-BBEE scorecards and there will be seen to it to explain these ideas and consequences in a way that would make sense to family business owners. Other

areas of the impact B-BBEE has on the likes of finances or business succession, as only a few examples are available, can be studied.

1.7 Layout of the study

Refer to Figure 1.3 to illustrate the layout of the study and the topics that were studied.

Figure 1.3: A diagram representing the layout of the study per chapter



- Chapter 1: Nature and Scope of the study

Chapter 1 acts as a summary and overall dexterity to the study. It includes an introduction, problem statement, objectives and scope, research methodology, the limitations and outline of the study.

- Chapter 2: Literature review on BEE

Chapter 2 focuses on the literature review of B-BBEE and provides an understanding into this subject in a broad-spectrum as well as legislation pertaining to this issue.

- Chapter 3: Literature review on family business

Chapter 3 focuses on the literature review of small- and medium-sized family businesses in South Africa, in an attempt to gain an understanding into the subject. The chapter highlights the meaning of family businesses to the economy. It also attempts to give insight to other aspects like the family business culture and the uniqueness of family businesses.

This chapter also provides an understanding into the advantages and disadvantages of family businesses. The dynamics of ownership succession and management are also discussed.

- Chapter 4: Empirical study

Chapter 4 deals with the construction of the questionnaire and the data gathering process is discussed. The results of the empirical study are also presented and the findings are examined.

- Chapter 5: Conclusions and recommendations

Chapter 5 summarises and discusses the study with relevant points by means of various recommendations made to family businesses. It highlights the negative and positive conclusions reached of how B-BBEE impacts family businesses. This chapter also highlights how family businesses can plan and integrate B-BBEE into their businesses. Suggestions for future research are also made in Chapter 5.

CHAPTER 2

LITERATURE REVIEW ON BEE

2.1 Introduction

In 2015 / 2016, South Africa has freeborns at 21 / 22 years of age whom are ready to start their own businesses, but for young white South Africans there is an extra barrier; B-BBEE, or better known in short as BEE.

What is BEE and B-BBEE and why does it exist? Are there differences and what do they entail? Are there a certain qualification criteria to become BEE compliant?

These questions need answers because as a white South African wanting to start a business, if BEE is not planned for from the start, the business world might soon become a harsh reality with negative consequences.

Luckily more and more studies like these and others have been done to see what the possible impact of BEE on small- and medium-sized businesses are, but the fact is, BEE is still a relatively young topic in South Africa. Although BEE is relatively young, it's had its fair share of negative impact on the economy as a whole (Orton, 2008; Goldstuck, 2009; Kruger, 2011). BEE has its difficulties and pitfalls, but there will also be a quick look at what lessons have been learnt, if any, since the act was passed in 2004, and there will also be attempted to explain the amendments made to B-BBEE and show the current state of B-BBEE affairs in 2015.

A certain percentage of the country's Gross Domestic Product (GDP) is being impacted. It's been shown in so many studies that SME businesses add considerably to a country's GDP. In South Africa SMEs contribute 47% to 57% of GDP (Goldstuck, 2009; Abor & Quartey, 2010).

Experience in other countries has constantly shown that the poor profit very little from affirmative action. In India, Malaysia, Sri Lanka, and the United States, affirmative action has advanced a comparative elite within the underprivileged group what India calls "the creamy layer" while the really banished have derived little or no help from it. The same is true in South Arica, where millions of unemployed and unskilled people have little outlook of ever achieving management jobs or profiting in other ways from empowerment laws (Jeffery, 2014).

Various BEE topics will be looked at to try and explain what B-BBEE, or better known as BEE, is. The following topics will be discussed: 1. Defining what BEE and B-BBEE is. 2. History of BEE. How it came about. 3. What and who are the BEE Commission. 4. What does the B-BBEE Act entail. 5. Explanation of the B-BBEE scorecards and codes of conduct. 6. The dominant difficulties and pitfalls of B-BBEE. 7. Lessons learned and progress made with B-BBEE since 2004. 8. Explain the amendments made to B-BBEE and show the current state of B-BBEE affairs in 2014 / 2015.

2.2 Defining what BEE and B-BBEE is

Black Economic Empowerment (BEE) and Broad-Based Black Economic Empowerment (B-BBEE) are often used interchangeably and have the same basic definition in that they are economic policies offered in South Africa specifically for black empowerment in restoring the economic misfortunes of the past where most blacks were not participating in the economy. As South Africa moved towards a combined society, B-BBEE was introduced which aims at distributing the wealth of the nation across all race and gender groups. B-BBEE also means the economic empowerment of all black people including women, workers, youth, people with disabilities and people living in rural areas through diverse but integrated social-economic strategies (South Africa, 2003).

Various previous studies actually mention that different institutions seem to define and portray BEE differently (van der Nest, 2004; Nair, 2007). White business regarded Black Economic Empowerment as an instrument to create a black middle-class with benefits in the economy. The initial thought was that by comparatively rearranging the racial structure of the ownership organisation of the economy, the market economy and political steadiness would be ensured. The Government, ANC, Trade Unions, and Private Enterprises seem to view BEE differently.

The Government and ANC defines B-BBEE as an integrated and coherent socio-economic process that directly contributes to the economic transformation of South Africa and brings about significant increases in the number of black people that manage, own and control the country's economy as well as significant decreases in economic inequalities (Government, 2005).

COSATU, a trade union, has a slightly different view of BEE, although still points to the injustices done to the previous disadvantaged and underdeveloped. COSATU focuses on the enhancement of extreme forms of poverty and inequality (COSATU, 2003).

Private enterprise seems to have a different view, depending on who provides the definition, but most of them define BEE as a means to restore imbalances of the past (Alexander, 2006), a practice of educating and assisting black people to empower them to contribute to the economy (Nair, 2007). Nair also states that transformation and BEE are intertwined and that BEE is part of transformation to create a new value system. It is about the elimination of apartheid-caused disparities and deracialisation of the South African economy.

2.3 BEE history

BEE policies can be tracked back to the political changeover in 1994 that brought the African National Congress (ANC) to power to recompense more than four decades of racial discrimination under the National Party's (NP) government.

The timeline shown in Figure 2.1 is a high level view of how BEE came about and below is a brief history overview of affirmative action and BEE in its current state.

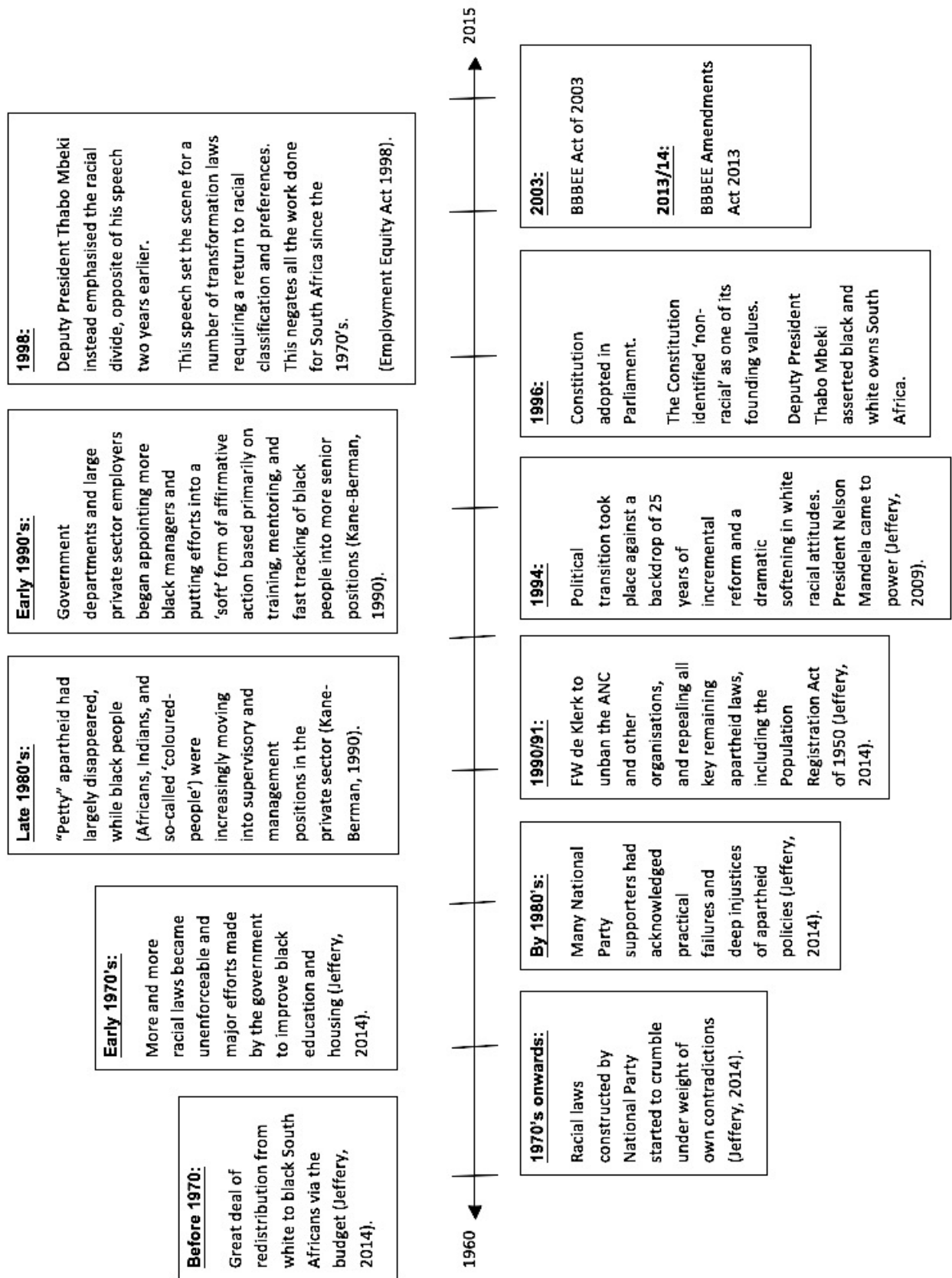


Figure 2.1: Affirmative Action / BEE Timeline

According to Jeffery (2014) racial discrimination under the National Party government was greatly damaging to black South Africans. It encompassed every aspect of their lives, restricting them to overcrowded rural “homelands” and separated urban “townships” where housing was confined and electricity and modern sanitation were rare luxuries. It denounced them to schools where teachers were under-qualified and classes overcrowded, and where textbooks, stationery, and other amenities were inadequate and sometimes non-existent. It prohibited them from buying houses or land in most parts of the country. It prohibited them from running businesses in city centres designated as “white” areas, while limiting the business activities open to them in townships. For many years it also banned them from the skilled jobs that were earmarked for whites.

Constitutional racial discrimination thus made mounting social mobility substantially more difficult for black South Africans, since the normal foundations for this acceptable business opportunities, good schooling, skilled employment, property ownership and housing were barred to them in total or in part. Black people were thus dispensed key economic blows, while suffering the regular disgraces running both from these limitations and from the prevalent sense of being “second-class” citizens (Jeffery, 2014).

Jeffery (2014) adds, at the same time, and even under National Party rule, a great deal of redeployment from white to black South Africans took place via the budget. Adding to this, from the 70s ahead, the universal structure of racial laws constructed by the National Party began to deteriorate under the weight of its own paradoxes. More and more racial laws became unenforceable, while from the early 70s the government made huge efforts to improve black education and housing. From the early 80s, significant improvements were presented with regard to African trade union rights, influx control, group areas, goals of “separate development” and the freehold ownership of township houses.

By the late 80s, “trivial” apartheid had basically disappeared, while black people were gradually moving into management and supervisory positions in the private region. In the early 90s, both larger private region employers and government departments began employing more black managers and putting substantial exertions into a “lenient” form

of affirmative action founded principally on mentoring and training and the progressing of black people into more high-ranking positions (Kane-Berman, 1990).

In the 80s many National Party (NP) supporters had recognised the practical disasters and deep discriminations of apartheid policies.

FW de Klerk, then president of South Africa, unbanned the ANC and other organisations in 1990. In 1991 De Klerk followed up by dismantling all important remaining apartheid laws, as well as the Population Registration Act of 1950, which classified everyone according to race as White, African, Coloured or Indian.

In 1992 whites voted in a ballot for the extension of a reform process assured to result in majority rule and the loss of their political power. In 1994 political changeover took place against the background of 25 years of increased transformation and a vivid relaxing in white racial outlooks (Jeffery, 2009).

In his foundational address as South Africa's first black president, Mandela stressed the significance of racial resolution. He praised De Klerk, saying he had turned out to be "one of the greatest sons of our soil". He said that he intended to work with him to build the country and stimulate racial coherence. "Let us forget the past" Mandela said, speaking in Afrikaans. "What is past is past ... Let us work together to make a great country." It was not a time for accusation but a time for delight, as the dreams of all the millions of South Africans who had undergone so significantly under apartheid could now be secured (Business Day, 1994).

A similar attitude was clear two years later, in 1996, when the constitution was accepted in parliament with the backing of almost all political parties. The constitution acknowledged "non-racialism" as one of its establishing standards, while the equality clause in the Bill of Rights announced the right of all South Africans to "equality before the law and ... the equal protection and benefit of the law". Speaking to parliament in his "I am an African" speech, the then deputy president, Thabo Mbeki, famously said: "The constitution whose adoption we celebrate constitutes an unequivocal statement that we refuse to accept that our Africanis shall be defined by our race, colour, gender, or historical origins. It is a firm assertion made by ourselves that South Africa belongs to all who live in it, black and white ... It rejoices in the diversity of our people and creates the space for all of us voluntarily to define ourselves as one people" (Mbeki, 1996).

Conversely, this speech was shadowed in 1998, a meagre two years later, by Mbeki's "two nations" speech, in which he in its place stressed the racial gap. Mbeki said: "We therefore make bold to say that South Africa is a country of two nations. One of these nations is white [and] relatively prosperous ... The second and larger nation of South Africa is black and poor ... We are not one nation, but two nations. And neither are we becoming one nation." (Mbeki, 1998). This address set the view for a total of transformation laws demanding a return to racial preferences and racial classification - but this time in the clear significance of social righteousness and compensation (Jeffery, 2014).

The ANC wanted to correct past injustices, but also put special measures in place to bar racial discrimination to bring about balance in the civil services, armed forces and police services, to ensure that the whole workforce became representative of the skills and talents of the entire population. Black economic empowerment would also be needed to give black people a chance of ownership of capital and decision making power in the economy as a whole. BEE was thus required to remove all barriers to develop the entrepreneurial capacity of black people (ANC, 1994).

The B-BBEE act was passed in 2003 and came into effect in 2004. According to the B-BBEE act (South Africa, 2003), black people include Africans, coloureds and Indians, and Broad-Based includes not only black people, but also women, workers, youth, people with disabilities and people living in rural areas through diverse but integrated social-economic strategies. The main objective of the B-BBEE act is to promote economic transformation in order to enable meaningful participation of black people in the economy (South Africa, 2003).

2.4 What and who are the BEE Commission?

The BEE Commission, also known as BEECom was established in 1998 to take empowerment further and was chaired by Cyril Ramaphosa. This commission spent 3 years outlining a wide-ranging BEE structure. Its report was distributed in 2001 and was based on an argument of the current needs, as Cargill writes, for the state "to play an unregretful and dominant role to decrease discriminations. The commission advised all black South Africans to take responsibility of a new apparition of BEE, and more

widespread empowerment in order to inspire more black firms by means of enterprise development and preferential procurement.” (Cargill, 2010a). This paved the way to a more broad-based black empowerment action.

Seven years after democracy, notwithstanding substantial accomplishments by government on many borders, the concept communicated in the RDP (Reconstruction and Development Plan) has not been recognised.

The control of business accomplishments by white businesses and the barring of black people and women from the majority of economic interest are causes for huge concern for the rebuilding and expansion process. A dominant objective of the RDP is to deracialise business ownership and control entirely through concentrated guidelines of BEE. These policies must aim to make it simpler for black people to benefit entrance to investment for business improvement. The democratic government must ensure that no discrimination occurs in financial establishments. State and parastatal organisations will also provide investment for the realisation of BEE intentions. The democratic government must also introduce tendering out practices, which accelerate BEE. Special importance must also be placed on upgrading, training, and real participation in ownership (RDP, 1994).

Studies and consultations made by BEECom suggest that there has been almost no change in the general disparity and prosperity; the outcome is that black people continue to remain in poverty and banished from management, control and ownership of economic undertakings. This predicament is delaying our growth outlooks and our attractiveness as a nation.

The indication of BEECom occurred out of a determination taken at the Black Management Forum (BMF) National Conference in Stellenbosch, from 14 to 15 November 1997. The dominant view at the conference was that black people should express and take responsibility of a new vision for BEE, an activity that, until then, had been theorised, driven and controlled by the private sector.

At the conference, it was contended that the commission should adopt concerns such as:

- The absence of a national vision for BEE.

- The disappointment by government and black businesses to deliver leadership and a vision for BEE.
- Empowerment versus enrichment.
- The empowerment process being determined by white institutions.
- The absence of a comprehensible definition for BEE.

The BEECom set its intentions as follows:

- To understand BEE development through experimental research and to make interpretations on the speed and outcomes of BEE advantages during the 1990s.
- To draw assumptions on the difficulties to significant involvement of black people in the economy.
- To develop a prevailing case for a fast-tracked national BEE strategy and to make proposals on instruments and policies needed to lead a maintainable strategy.
- To improve standards and policies to monitor the employment of the national BEE strategy.

The Broad-Based BEE Act of 2003 that BEECom encouraged brought together wealth deracialisation, business development, skills improvement, employment equity and privileged procurement, all in a structure of voluntary fulfilment flexible enough to adjust the full diversity of SA businesses. Its main mechanism is a “balanced scorecard” that measures each enterprise / business / organisation against comprehensive standards for broad-based empowerment (Butler, 2006; Shapiro & Tebeau, 2011). This scorecard is discussed in more detail in Section 2.6 of this document.

2.5 What does the B-BBEE Act entail?

If the B-BBEE act was passed in parliament as a law to increase black participation and a vehicle for affirmative action to address the wrongs from the past and stimulate / grow the economy by allowing more black people to take part in business and ownership merely on the colour of their skin, it contradicts a study done by the Helen Suzman Foundation between 1994 and 2000 that a huge majority of black people (80%) were against affirmative action. There was so much disbelief that such findings were disliked

by the government, that no newspaper was eager to reproduce and report on it. (Johnson, 2000).

Some recent surveys (2012 - 2014) by futurefact.co.za show the same results, showing 87% saying that jobs should be given to the best person, regardless of race (Kuper, 2014) and Jeffery (2014) suggests that the poor are well aware that BEE is not for them. BEE seems to be ill conceived, because notwithstanding its human, economical and social costs, BEE still possesses enormous encouragement from critics and the media and not to forget the government.

So how does B-BBEE fit into all of this if the majority of South Africans do not actually support it?

The Employment Equity Act of 1998 was announced as a bill in November 1997, passed into law in 1998 and brought into action in December 1999. Now, in 2015, it had thus been in place for almost 16 years. It blocks unjust discrimination on race and a minimum of 15 other grounds, this exclusion applying to all employers regardless of their size. By contrast, the affirmative action requirements of the statute apply only to “selected” employers. These are expressed as employers, whether in the private or public sectors, which either employ 50 or more people or have a yearly turnover beyond specified limits (South Africa, 1998).

Nominated employers must guarantee that black people, women and the disabled are “equitably represented” at each level of the workforce, while black people are specifically defined as “Africans, Coloureds, and Indians”. Nevertheless, the National Party government in 1991 abolished the Population Registration Act of 1950, which founded these categories and set out rules for organising South Africans into them. Consequently, there no longer is any legislation that outlines these categories or clarifies how classification is to be accomplished (Jeffery, 2014).

The Employment Equity Act pursues to provide for this by demanding (in guidelines first gazetted by the minister of labour in 1999 and renewed regularly since) that each employee should “voluntarily” classify themselves as “African”, “White”, “Coloured”, or “Indian”. In excess of two decades after the National Party ended racial classification, the ANC government has thus respired new life into a classification that would otherwise have ended long since. Furthermore, if employees decline to classify

themselves or provide “inaccurate information”, employers must take possession of the task of racial classification, using “reliable historical and existing data” for this purpose, whatever that may mean (Jeffery & Schönteich, 1998).

Jeffery and Schönteich (1998) mention that, when employees have been recognised by race, employers must use national and regional demographic data to evaluate the degree to which black people are understated at whichever level in the workforce. However, the Employment Equity Act specifically “excludes” the use of “quotas”, employers are anticipated to set “numerical goals” and employ “preferential treatment” to black people to correct for misrepresentation / under presenting and certify their reasonable representation at each level, from the most junior up to senior management. However only black people who are “suitably qualified” are allowed to special treatment, this principle is generally defined. It may be contingent on recognised qualifications or appropriate experience, but it also suits if a black person has “the capacity to acquire, within a reasonable time, the ability to do the job”.

Nonetheless firms would have to make sensible progress towards the state's objective of demographic representation; they would have some preference in setting their own racial goals along the way, provided they did so in discussion with the employees and trade unions (Jeffery, 1998).

Nonetheless, with the BEE codes coming into power in 2008, this flexibility was much condensed. Instead of permitting businesses to select their own racial objectives, the BEE standard codes put pressure on firms to expand black representation to 60% at senior management level, 75% at middle management level, and 80% amongst junior managers (Commission for Employment Equity Act, 2014). Nevertheless, Jeffery (2014) writes, given the skills and age outline of the largely African population, a 60% target for black representation at senior management is not easy to accomplish. In addition, several of the accessible skills have already been absorbed into the public service, where black representation among “all government” employers normally stands at more than 80% at senior levels.

2.6 Explanation of the B-BBEE Scorecards and Codes of Conduct

Early on in BEE, the influence of empowerment initiatives was largely restricted to special procurement by the state, together with special equity deals within the private sector. Nevertheless, the B-BBEE Act of 2003 (South Africa, 2003) and its general codes of good practice, also known as “the codes”, have been complemented by five others.

These seven fundamentals are anticipated to help give black South Africans considerable control over the management and ownership of current businesses, while at the same time encouraging the formation of many more black firms by means of favoured enterprise development and procurement (Cargill, 2010a).

Cargill (2010a) carries on; the codes put down different conformity objectives for each of the seven elements. As example, under the ownership aspect, organisations must look for, by 2017, to reassign 25% of their equity to “black” South Africans, defined as Africans, Indians, and Coloured people. Under the favoured procurement aspect, organisations must look to buy 70% by value of the services and goods they need each year from “empowered” organisations; those that have 25% black ownership or can supply other proof of good BEE status.

The basic codes, which came into effect in August 2008, concern organisations in all areas of the economy. This differentiates them from a variety of sectorial agreements that have been bargained by stakeholders within specific areas and which apply exclusively within those specialities. Examples of such agreements include the financial area, liquid fuels and area agreements.

Like the BEE Act from which they obtain their legal influence, the codes put out seven elements of BEE. Large companies, defined by the Department of Trade and Industry as those with an annual turnover of more than R35 million, are expected to fulfil all seven. “Qualifying small enterprises”, defined as those with an annual turnover between R5 million and R35 million, may select four out of the seven to practise and ignore the rest. “Exempt micro enterprises”, with a turnover of less than R5 million a year, are legitimately excused from having to display their fulfilment with the codes (Cargill, 2010a).

These turnover limits appear randomly and seem to have been determined on political, rather than economic, justification. The government wanted to increase it in 2006 when the codes were being finalised, but backed down in the face of opposition from various BEE proponents and black businesses. However, an organisation with a R35 million annual turnover is small by most calculations. In addition, as BEE analyst Jenny Cargill notes (2010a), many companies with a turnover of more than R35 million a year are family businesses that cannot simply soak up outside shareholders, as the ownership aspect in BEE requires. Imposing this commitment on such companies merely promotes fronting, while the better approach would have been to elevate the exclusion limits to more practical levels. As a substitute, the R35 million threshold has remained in place, with the result, as Cargill writes, that “by far the utmost portion of useful activity in the economy is captured by the codes”.

The BEE standing of organisations is calculated each year on the foundation of their fulfilment with the various targets as shown in the codes. The procedure of calculating fulfilment must now be carried out by accredited BEE verification agencies, which are necessary to apply a standardised methodology, put down by the Department of Trade and Industry in a confirmation manual. However, this is an extensive and multipart document that is not straightforward to comprehend or apply in a dependable manner.

Jeffery (2014) shows how the BEE points that can be received on different aspects are set down in the scorecards integrated in the codes. For instance, 20 points can be earned for meeting the 25% ownership target and an added 20 points can be earned for satisfying the targets for preferential procurement. Firms that make progress towards meeting the aspects / targets set on these (and other) aspects of BEE cannot acquire the full points presented. They, instead, are granted a fraction of these points on a pro-rata basis, depending, amongst other effects, on what proportion of each target they have achieved. A total of 100 points is obtainable for all seven elements together as follows:

As shown in Table 2.1, a unique scorecard applies to succeeding small enterprises, which must select four out of the seven aspects to achieve. On each of the four aspects selected, a maximum of 25 points can be received, bringing the overall number of BEE points obtainable to such organisations up to 100. It is similar for larger organisations.

Table 2.1: BEE elements and available points, pre-2015

Element / Aspect	Points available
Ownership	20
Management control	10
Employment equity	15
Skills development	15
Preferential procurement	20
Enterprise development	15
Socio-economic development	5
Total points available	100

(apart from special bonus points)

Because BEE is apparently voluntary, no official penalties apply if not scoring a good BEE points rating. Though, organisations with little BEE points are expected to be banned from government agreements and may also encounter difficulty to acquire essential permits or licences from the state.

The way this structure works is demonstrated in Table 2.2. BEE points received by an organisation define its “level of contribution” to BEE. As the table displays, there are eight potential levels of BEE contribution, beginning at level 1. This is the premier level, and implies that an organisation has attained 100 points out of the 100 available (100% score). The bottom level of BEE contribution is level 8, for organisations with 30 to 40 points out of 100 (30% to 40% score). Organisations that earn fewer than 30 points out of 100 in a year are perceived as creating no impact to BEE.

Established on its “level of contribution” to BEE, an organisation is then allowed a “level of BEE recognition”. This in turn defines the degree to which other companies will be penalised or rewarded when they buy services and goods from the organisation in

question. An organisation with the premier “level of contribution” to BEE (Level 1) is rendered a “level of BEE recognition” of 135%. This means that an organisation that spends R100 in buying services or goods from a “Level 1” organisation is considered to have spent R135 in doing so. This increases considerably to this organisation's procurement points when its own BEE contribution is measured. By difference, an organisation with a small “level of contribution” to BEE (e.g. Level 8) is rendered a “level of BEE recognition” of 10%. This means that an organisation that spends R100 in buying services and goods from a “Level 8” organisation is considered to have spent only R10. This confine the organisation's privileged procurement points when its own impact to BEE is measured. Equally, an organisation with a BEE score lower than 30 out of 100 is perceived as making no influence to BEE and has a “level of BEE recognition” of 0%. Therefore, an organisation that spends R100 on buying services and goods from such an organisation is considered to have spent R0, which again restricts the BEE points it can receive (South Africa, 2008).

2.6.1 Element / Aspect One: Ownership (20 points)

The BEE scorecard prior to 2015 allowed organisations to score 20 points for the reassignment of 25% of their assets or equity to BEE recipients by 2017. Although the “Ownership” aspect is only one of seven aspects, it has always been seen as the most important of all, because the Preferential Procurement Policy Framework Act of 2000 for many years viewed black ownership as the main determinant of BEE status, though the codes (with their seven aspects of BEE) came into action only in August 2008. While the codes took effect and made it achievable for organisations to attain good BEE scores by focusing on other elements of BEE, the prominence on ownership has started to diminish.

Cargill (2010a) writes, on the pre-2015 phrasing of the codes, that even if organisations surrender all their realisation points, they could still achieve 75% for BEE ownership by way of the bonus points they had for bringing in the correct number of community investors and black women.

This elevates the additional question of what BEE is accomplishing for the economy and what type of black business people the BEE guideline is making. Since the “value” that most BEE sponsors bring to the table is principally their relationship to the ruling party, there certainly is a threat that such associations will be used to assist trader

organisations to expand state agreements. Yet the promotion of political authority for financial expansion seems premeditated to support crony capitalism, if not corruption (Cargill, 2010a).

Table 2.2: BEE status under the 2007 generic codes

Qualifying points	Level of BEE contribution	Level of BEE recognition
Displays the points that can be received on the scorecard for the exertions made by organisations to comply with the different aspects of BEE	Displays the BEE levels which are rendered to organisations, established on the number of succeeding points they have received	Displays the percentages and estimated rand values that concern in the purchasing of services and goods from organisations with various “levels of BEE contribution”
≥ 100 points	Level 1 contributor	135% (R100 = R135)
85 - 100 points	Level 2 contributor	125% (R100 = R125)
75 - 85 points	Level 3 contributor	110% (R100 = R110)
65 - 75 points	Level 4 contributor	100% (R100 = R100)
55 - 65 points	Level 5 contributor	80% (R100 = R80)
45 - 55 points	Level 6 contributor	60% (R100 = R60)
40 - 45 points	Level 7 contributor	50% (R100 = R50)
30 - 40 points	Level 8 contributor	10% (R100 = R10)
< 30 points	Non-compliant contributor	0% (R100 = R0)

2.6.2 Element / Aspect Two: Management Control (10 points)

With the management control element of the pre-2015 codes, 10 points can be obtained for escalating black demonstration and “exercisable voting rights” to 50% at board level. Blacks must also make up 40% of senior top management, while extra points can be achieved for warranting that 50% of black directors (plus executive directors) are women.

Considering the 20 years from 1992 to 2012, there were just 15 black directors of listed companies in the country at the start of this period (as Empowerdex also accounts), while in 2012 the entire number of black directors, both nonexecutive and executive, had risen to 1,046. This reveals an increase of almost 7,000% over twenty years (Empowerdex, 2012).

As these numbers show, this aspect of BEE has produced a huge requirement for black directors who are equally experienced in business and politically well linked. On the other hand, these individuals are in little supply. To illustrate, Mathews Phosa, a lawyer and former national treasurer of the ANC, was part of no less than 80 company boards. Cyril Ramaphosa, who was selected deputy president of the ANC at the ruling party's national conference at Mangaung (Bloemfontein) in 2012, was found to be involved in no less than 50 boards (Jeffery, 2014).

2.6.3 Element / Aspect Three: Employment Equity (15 points)

With the employment equity aspect of the pre-2015 codes, 15 points can be added by increasing black representation to:

- 43% at senior management level in the first five years of the codes (between 2007 and 2011) and 60% in the next five years (from 2012 to 2017);
- 63% at middle management level in the first five years, and 75% thereafter and
- 68% at junior management level by 2011 and 80% in the next five years (Jeffery, 2010).

This aspect of the codes is directed by the Employment Equity Act of 1998, which needs demographic representation, not just at management levels, but also at each other level of employment. With the Employment Equity Act, organisations are believed

to be able to progress at their own rate on the way to the government's objective of demographic representation, but the BEE codes have deprived them of much of this elasticity by specifying the objectives to be met. These objectives are also impractical because they fail to notice the skills and age profile of the African population. In an additional exit from the Employment Equity Act, the codes also need organisations to reach a “sub-minimum” of 40% for every specified management target of the three, if their hard work on employment equity is to be acknowledged at all. This means, for instance, that they must acquire at least 40% of the 60% target (or 24% black representation) at the senior management level if they are to achieve any BEE points (Jeffery, 2014).

2.6.4 Element / Aspect Four: Skills Development (15 points)

With the pre-2015 codes, organisations can score 15 points for adding 3% of salaries of their black staff to skills development. This 3% donation is besides the skills development charge, set at 1% of salaries, which the majority of organisations pay to the state to assist in subsidised training for every one of their staff under the sponsorship of the sector education and training authorities (Setas) launched in the late 90s.

When the BEE codes were gazetted in 2007, many organisations started moving consideration away from ownership agreements and in the direction of the skills development aspect, which normally presents more significance to businesses than equity shift. In KPMG's BEE survey for 2010, a large number of organisations thus recognised skills development as a main concern (South Africa, 2008).

2.6.5 Element / Aspect Five: Preferential Procurement (20 points)

With these codes, 20 points can be earned for preferential procurement, or the buying of services and goods from suppliers so that they have good BEE scores. As previously shown, procurement commitments are proposed to have a “cascade” outcome, under which big organisations, looking for contracts or licences from the state, will persist on fine BEE scores from their providers, which in succession will want related scores from

their own providers, and so on. Reg Rumney, BEE analyst, says that this makes “preferential procurement the sharpest tool in governments transformation armoury” (Jeffery, 2014).

The codes put ruthless fulfilment targets for preferential procurement; the objectives being that BEE trading should increase to 50% of total annual procurement within four years between 2007 and 2011, and then increase more to 70% of this procurement for the next five years, 2012 to 2017. To make these objectives easier to achieve, as previously explained, the codes permit an organisation that buys from a BEE supplier with level 1, a company with an empowerment score of 100%, to add up each R100 spent as R135, to assist in enhancing the BEE percentage of the organisation's procurement (Cargill, 2010a).

In 2004, when the draft codes were out and the propositions of the procurement provisions started to become a reality, there was “a lot of fear, particularly from small firms, that empowerment would put them out of business”, *Business Day* reported. The *Sunday Times* added that white-owned small businesses that had not yet changed were “beginning to feel the pinch”. The command for preferential procurement was growing so quick that “traditional white businesses that had not yet done a BEE deal were beginning to experience declining revenues. Their major customers were severing long-standing relationships or insisting they meet charter scorecard requirements if they wished to continue doing business”.

Nonetheless, it was furthermore complicated for many organisations to do BEE ownership agreements, as their financial struggles made banks hesitant to loan them the required finances. Ntoba Maqubela, a lawyer, said: “Once the business is struggling, it becomes extremely difficult to inject BEE partners because invariably they require bank funding and banks will look closely at the cash-flow capability of the business to repay loans.” Owners of organisations were also discovering that their companies were worth not as much as they thought and expected as “the market was flooded with white-owned companies wanting to sell to black purchasers” (Jeffery, 2014).

Jeffery (2014) continues to write that in 2008, when the codes came into effect, KPMG's monitor of BEE stated a common score for preferential procurement of 8.7 out of 20 points. At 2011, though, the common score for preferential procurement had increased to 16 out of 20 and this although 62% of firms derived less than 10% of their turnover

from contracts with the public sector. The “cascade” effect of BEE procurement rules was thus clearly having an impact; 43% of organisations made known that they had set the least amount of BEE targets they required their providers to get together. Several organisations were also intensely worried that their preferential procurement scores were expected to reduce when the target increased from 50% in 2011 to 70% in 2012. This alarm got confirmed well founded, KPMG discovered that the common score for preferential procurement dropped to 14.8 points out of 20 in 2012 and dropped another 2.8 points in 2013 to 12 (KPMG, 2013).

2.6.6 Element / Aspect Six: Enterprise Development (15 points)

Fifteen points could be scored for enterprise development in the pre-2015 codes. The incentive for this aspect, as Cargill (2010a) points out, lies in the “high failure rate amongst black-owned start-ups due to a lack of access to financing and other business support”, together with the outlook that “job-creation cannot be sustained without the growth of the small business sector”. Organisations are thus supposed to use 3% of net after-tax profit on developing organisations that are 25% black-owned or otherwise black-empowered. However the codes were originally unclear in this regard; the Department of Trade and Industry has since made it obvious that this intensity of expenditure is necessary each year (rather than over a phase of five years). The codes include that assistance need not be in money and that organisations may in its place subsequent some of their skilled personnel to start-up enterprises to guide their new managers. Nonetheless, as Cargill (2010a) notes, staff, subsequent can be implemented as well as other means of training bear costs.

The payment needed of established organisations is a main one. As an example, from corporate tax revenues in 2009, Cargill (2010a) approximates that 3% of net after-tax revenue, amid the organisations concerned, would have come to almost R12 billion. Assuming that 75% of these organisations had annual income of more than R35 million (thus getting them to agree to comply with every one of the aspects in the codes), these organisations on their own would have been expected to make a payment of R9 billion to enterprise development in that one year.

2.6.7 Element / Aspect Seven: Socio-Economic Development (5 points)

The seventh and last aspect, socio-economic development, which only counts five points, could only be scored by larger organisations within the pre-2015 codes. To succeed for these points, organisations must contribute 1% of net after-tax revenue to programmes that “contribute towards social development and directly facilitate access to the economy for black people”. In 2010 Cargill (2010a) calculated that 1% of net after-tax revenue tax amid organisations to comply with BEE regulations, would have added up to R3 billion. Yet again, this is a considerable amount of money. Nevertheless, the DTI says that the goal is reasonable as it is constant with what organisations have used up in the past on corporate social investment (CSI): for instance R2.65 billion in 2004 / 2005, increasing to R2.8 billion in 2005 / 2006 (South Africa, 2008).

2.7 The dominant difficulties and pitfalls of B-BBEE

Since affirmative action was one of the driving forces behind B-BBEE, it will be looked at according to the impact affirmative action has had on a high level before we discuss the impact B-BBEE has had on various sectors.

2.7.1 Affirmative action in education

When the concluding constitution was being discussed amid 1994 and 1996, every party to the talks, as well as the African National Congress, approved on the need for a “soft” structure of affirmative action that would aid as remedy for apartheid wrongs. This was to be done by meeting with contributions (opportunities and education) and not outputs (quotas or targets). Headed for this end, the “equality” section in the Constitution (Section 9) integrated a sub-section, authorising legislative and other channels designed to “protect or advance people disadvantaged by unfair discrimination ... [in order to] promote the achievement of equality” (South Africa, 1996).

South Africa officially has no affirmative action guidelines in schooling; every pupil has the same right (under Section 29 of the Constitution, 1996) to “a basic education” from Grade 0 to 9. Therefore, it is only at the “further education and training” (FET) stage,

and particularly between the country's 23 public universities of technology and universities, that affirmative action in admittance is applied. Nonetheless, even at the basic education level, a variety of alterations have been prepared since 1994 to help recompense for historical wrongs.

The 1996 Constitution forbids any school, whether private or public, from discriminating not in favour of anybody on the foundation of race. In total, every public school is banned (in the South African Schools Act of 1996) from showing away learners for incapability of paying school fees. As an alternative, those government schools that still request fees in tradition, which mostly are previous Model C schools, which earlier mainly were for white learners, must award a reduction of costs completely or part of, to parents not capable to manage to pay for it. In 2013 the cost reduction given to poor parents (most of them black) was almost R1 billion. The government theoretically has to pay back schools for such reductions but this money frequently does not get paid, having wealthier parents (mostly whites) to bear the weight (Jeffery, 2014).

Secondly, in what was in fact another feature of affirmative action, the government took different steps to get rid of the pay disparity between black and white teachers. In June 1996 the least qualified teachers (most of them African) received a R2.5 billion pay boost, which assisted to put their wages more on a same level with those of better-qualified personnel. In addition, a new wage arrangement was put into effect, which slashed the previous connection between wages and credentials in support of “performance” criterion that have since showed pointless in practice (Myburgh, 2012).

Jeffery (2013) noted from a survey that the government also started improving school infrastructure, which included the building of new schools and adding electricity and water to some existing schools, however only 79% of schools have on-site electricity, a third has flush toilets and 40% of them have running water connections. Added to this, only 5% of the schools are stocked with science laboratories, 7.5% have libraries with enough books supply and 10% have decent computer centres.

Taylor *et al.* (2008) wrote that by 2008 it was apparent that ineffective or inexperienced principals, who were failing to guarantee appropriate teacher performance or make use of their partial assets, were poorly administering several schools. This was still the circumstance in 2011, when the National Planning Commission released its primary outline of a “national development plan” (NDP), proposed to elevate South Africa's

yearly rate of economic expansion to 5.4% over a time of 20 years. The NDP mainly put the fault for deprived schooling on appalling teaching, but it furthermore correlated malfunctions in teaching to “the quality of school leadership” and recommended that school principals must in future have “minimum qualifications”. However, many of the NDP's suggestions for improvement were absent from the last report of the plan; the amended document did once more stress the requirements for school principals to be selected on merit.

Affirmative action in the Department of Education and other related state departments has also withdrawn the provision for delivery of necessary services and goods to schools and the provision of school infrastructure. In general, it has supplied a noteworthy hammering of talent over the public service, as a skills review released in 2004 by the minister of public service and administration was made understandable. This statement established that 50% of public sector workers were lower-skilled workers, while 40% were semi-skilled workers. Shockingly, only 2% had managerial skills and 8% had vague “other” skills (Taylor *et al.*, 2008).

In 2012 the yearly report of the Department of Basic Education established that “many schools did not receive all the learning, teaching and support material needed”, as well as workbooks, other resources, and textbooks. The magnitude of schools that had acquired the applicable supplies ranged from 84% in the Western Cape, 52% in the Northern Cape and 38% in Mpumalanga (which was overseen by the Democratic Alliance, rather than the ANC). Furthermore, even where schools had received workbooks, it frequently was in the incorrect languages (Jeffery, 2014).

What’s more is that the government had accounted some R6.5 billion for workbooks, other learner support material and textbooks in the 2012 / 2013 financial year, a shortage of money was doubtful to be the main problem. Myburgh (2012) commented: “The inability of government to get textbooks and workbooks to schools in Limpopo and who knows where else, ... cannot be put down to ... a lack of resources ... It is rather the result of extreme state dysfunctionality with the civil service no longer able to perform even the most routine bureaucratic tasks.”

2.7.1.1 Poor quality of schooling

From 1994, factors such as these have been seen by millions of black learners, meticulously, continuing through mostly dysfunctional schools with no proper learning to write, do arithmetic or read. Such abilities are the basis for all consequent learning and also for accomplishment in the workplace. In April 2014 the Statistician-General, Pali Lehohla, was bizarrely blunt in faulting high unemployment amid Africans on “the poor quality of public education” in South Africa. Lehohla said that there was only one cause why unemployment intensities were still tops among Africans 20 years into a democratic state, namely deprived education. “The numbers tell the story. The grey matter needs to feel to garner adjustment. Education is the only way to nourish grey matter. And grey matter is what makes thriving countries” (Jeffery, 2014).

International measurements also emphasise the deprived quality of education in South Africa. In its global competitiveness index for 2014 / 2015, the World Economic Forum positioned the quality of South Africa's primary education system at 132nd out of 148 countries. It positioned South Africa's secondary education system at 146th or second worst in the world for 2013 /2014. This put South Africa's performance after those of impoverished neighbouring countries such as Swaziland and Lesotho. The World Economic Forum has also positioned South Africa last of all (at 148th out of 148 countries) for how its pupils perform on mathematics and science for 2013 / 2014 and 144th for 2014 / 2015 (World Economic Forum, 2015).

South Africa's schooling has become so bad that the previous general secretary of the Congress of South African Trade Unions (Cosatu), Zwelinzima Vavi, has said: “South Africa's educational system is a catastrophe and the children of working class parents are being condemned to a deep black hole with minimal chances of escape.” (Jeffery, 2014).

2.7.1.2 High failure and drop-out rates at universities

Questions arose as to what benefits privileged admissions and other affirmative action guidelines are bringing when graduation rates amid African undergraduate students stay disturbingly low. A depressing picture of student disappointment has lately come into view from two reports on throughput rates assembled in 2012 and 2013 by the

Council on Higher Education, a legal body charged with examining the status of the higher educational system. According to the 2012 report, just 16% of Africans who enrolled in 2005 for three-year undergraduate degrees coped to graduate by 2007, within the legal time, while 50% dropped out. By 2010, six years after first enrolment, 41% of Africans from this first group had graduated, while 59% had dropped out and had no additional outlook of being able to expand their degrees. Graduation rates among coloured and Indian students were low as well, at around 23% within the legal three-year period, and it was only among white students that outcomes were considerably better, 44% graduating within the legal time and 31% dropping out (Higher Education Act, 2012).

The Council's 2013 report found a comparable example amid students who had first enrolled in 2006 for three-year undergraduate degrees. Inside this group, only 20% of Africans had graduated in the legal time, as opposed to 44% of whites. Financial limitations had added to these results, the report went on, but the main reason lay in “systematic academic obstacles to learning” (Higher Education Act, 2013).

Stated by The Star in an editorial: “When you consider it requires a scandalous 35% average in matric to gain a National Senior Certificate, it's no wonder so many undergraduates are not doing well, and will never earn a degree or a qualification ... Neither Basic Education's Angie Motshekga nor higher education minister Blade Nzimande can show that they have changed the learning landscape for the better during their years of office ... While finances remain a problem, this disaster is not only about money. It's also about a lack of academic preparedness (read poor schooling) and ... an appalling lack of ambition and will to improve public education in our country.” (Jeffery, 2014).

2.7.2 Affirmative action in employment

While the Employment Equity Bill might promote a few elite within the black populace, it would also minimise the direct generation of new jobs, economic growth and investment, thus making it harder for the unskilled black majority to rise on the economic ladder. Additionally, before now, the demand for skilled black people was extremely high in both the private and private sectors and would increase even faster as

the economy developed. Consequently, guidelines aimed at motivating the growth rate and escalating skills would help far more in providing prospects for all South Africans and defeating apartheid bequests (Jeffery, 1998).

2.7.2.1 Black representation in management

It was in April 2014 that the Commission for Employment Equity founded under the EE Act issued its 14th annual report on employment equity, covering the phase from 2013 to 2014. This account discovered that, amongst “all government” employers in this phase, Africans held 79% of skilled jobs, 67% of jobs at the “professionally qualified” level (previously termed “middle management”), 63% of senior management posts, and 69% of top management jobs. If Indian and coloured representation were taken into relation as well, then black South Africans assumed 84% of top management posts. They also comprised 90% of skilled personnel, 82% of professionally qualified staff and 78% of senior management (Commission for Employment Equity, 2014).

Given the skills and age profile of the African populace, these statistics are extraordinary. Take, for example, the commission's number of 69% for African representation at top management level in government, which comes nearby to the total African share (75%) of the economically working populace. But in 2013 economically working Africans within the age group of 35 to 64 from which top managers can credibly be drawn, built up only 36% of the entire economically working populace. Adding to this, in 2012 just 992,000 Africans (of those, 4% aged 20 or older) had somewhat of a form of post-school education. Furthermore, statistics released by Statistics South Africa in April 2014 exhibited that half (54%) of young people between the ages of 15 and 34 had no work proficiency at all, while 47% did not have matric (Jeffery, 2014). These aspects endorse that a 75% goal for African representation at top management level is far too aspiring and nevertheless, this objective has already come near to being fulfilled.

2.7.2.2 Inappropriate appointments

During the political changeover, the South African public service was less effective than it should have been. However, according to Gavin Woods, director of the Anti-

Corruption Centre for Education and Research at the University of Stellenbosch, it continued “a stable, experienced and ... functional sector that achieved most of its operational objectives, including ideologically controversial ones”. Though, according to Woods, since 1994 the public service has “lost hard management experience and crucial institutional memory” (Jeffery, 2014).

Some of the problems have been the nearly 80% staff renewal rate in senior management that took place amid 1994 and 2007. Also applicable, is its prearrangement in the Employment Equity Act permitting the employment of black people with no confirmed capacity but rather the potential to obtain the ability to do the job. Franks continues: “This soon became the favoured loophole behind which kin, friends and comrades were favoured over more competent applicants.” Furthermore, “even the possibility of on-the- job mentoring and training diminished as the voluntary severance packages (introduced in May 1996) ... depleted the store of experience and expertise within the public service”. As early as 1998, a presidential assessment commission thus cautioned of the “undesired and serious adverse effects” that were becoming evident. These encompassed a weakening in staff confidence and a reduction in state capability, both developing from the loss of capable workers (Jeffery, 2014).

Skills deficiencies within the public service have regularly left the government with little selection but to trust outside consultants to get most of the work done. As a consequence, provincial and national departments alone exhausted R105 billion on professionals in a three-year phase from 2008 / 2009 to 2010 / 2011. When this was pointed out in January 2013, the *Times* newspaper remarked that it was “shocking and downright criminal” that professionals (several of them skilled whites) had to be compensated to do the work of already well-paid civil servants. The newspaper said: “It defies logic that we are able to pay consultants billions at the same time as we complain about the lack of professionals in our public sector ... We simply cannot afford to outsource the government's key functions while we have permanent civil servants.” (Jeffery, 2014).

The skills shortfall in the public service has gone so serious that recent Global Competitiveness Reports issued by the World Economic Forum have repetitively highlighted “an inefficient government bureaucracy” as one of the “most problematic factors for doing business” in South Africa. In 2008 / 2009 this issue was ranked fourth

highest out of 15, ranking lower than difficulties such as “crime and theft” (which ranked second) and an “insufficient quantity of infrastructure” (which ranked third). But by 2010 / 2011, South Africa's ineffective bureaucracy had appeared as the single most problematical of all 15 elements. This continued the case in 2011 / 2012 (World Economic Forum, 2013).

2.7.3 National infrastructure disparities

The 2014 Budget Review devoted the state to outlay R847 billion on infrastructure for three years. In practice though, and notwithstanding the crucial need to grow the country's infrastructure by upgrading transport infrastructure and building new power stations, in particular, a huge lack of management and technical skills remain to constrain development. Trevor Manuel, then minister in the presidency: national development commission, added in June 2012 that “the large sums allocated by the government for infrastructure each year are routinely rolled over because of a lack of capacity to get projects off the ground”. “All that materialises is that the amounts get bigger every year and they talk about similar projects and those developments are nevertheless there and they haven't been completed.” (Jeffery, 2014).

This shortage of competence within the state has been made worse by a huge loss of engineering skills. In 1990 about 40% of qualified engineers worked in the public sector, but by 2012 this percentage had decreased to some 15%. According to Consulting Engineers South Africa (CESA), engineering proficiency is now nearly “non-existent” in government. This means that we don't have people in government who can make the big decisions on infrastructure developments (CESA, 2012).

Jeffery (2014) goes on by saying that in 2014 the National Treasury again recognised “weak planning” as “one of the biggest obstacles to the successful implementation of infrastructure projects”. To beat this, the government needed to have “experienced professionals in departments”. Nevertheless, it encountered “serious challenges” in employing qualified, quantity surveyors, architects and engineers, while the people who did request employment for such placements had “very limited post-qualification experience and none in the state's infrastructure delivery management system”.

Other areas that are also affected in the public sector include “Service delivery by local authorities”, “Financial management”, “Water and sanitation”, and “Combating crime”, but according to Jeffery (2014:107), the government mostly disagrees that affirmative action has destabilised public sector competence or that any public servants have been evacuated to make way for “equity” appointees.

2.7.4 Implementation in the private sector

Private business would have to make “reasonable” improvement concerning the state's goal of demographic representivity. They would have some prudence in putting their own ethnic objectives along the way, provided they did so in discussion with employees and trade unions (Jeffery, 2014).

However, with the coming into force of the government's Black Economic Empowerment (BEE) codes in 2008, this flexibility was much reduced (see Section 2.6). In its place of permitting businesses to select their own racial objectives, the BEE generic codes put difficulty on businesses to expand black representation to 80% among junior managers, 75% at middle management level and 60% at senior management level. Nevertheless, given the skills and age profile of the largely African populace (as described earlier), a 60% objective for black representation at senior management is not comfortable to accomplish. In supplement, several of the obtainable talents have already been immersed into the public service, where black representation amongst “all government” employers usually stands in excess of 80% at senior levels (Commission for Employment Equity, 2014).

2.7.4.1 Black representation in management

Notwithstanding these constrictions, the most current (14th) account of the Commission for Employment Equity shows noteworthy black representation at each management level among private sector employers. In 2013 / 2014, black South Africans thus made up 32% of senior managers and 21% of top managers. Added to this, black representation was at 70% among skilled employees and at 49% at the professionally skilled level (Commission of Employment Equity, 2014). These statistics point to a key

determination on the part of private business to apply affirmative action notwithstanding the complications hampering this.

The numbers composed by P-E Corporate Services similarly shows that black infiltration into management jobs has considerably reduced since 2010. This, the consultancy says, is because of stark skills deficiencies at these senior levels. So severe is the skills shortfall that some 40% of private businesses offer pre-minimums of between 10% and 20% beyond traditional pay measures) to entice and maintain black managers. In supplement, many private businesses (57% in 2013) have experienced the “poaching” of their black specialists. This is not unexpected given that numbers collected by Adcorp, a private employment organisation, put the number of skilled positions that could not be occupied because of the skills shortage at close to 830,000 in March 2014 (P-E Corporate Service, 2014).

Limited voices were extended in justification of private business. Even a business agent on the commission corresponded that corporate implementation was “very bad”. An editorial in *Business Day* said that the commission's account made for miserable reading and that private business continued “woefully dominated” by whites. The government, the tabloid went on, was “quite right” in saying that the speed of change must accelerate, albeit there were probable threats in using the statutory hammer to vigour change. Stockholders should thus take the concern much more seriously and “demand that companies adopt practical measures to speed up transformation”. If stockholders are unsuccessful in doing this, then the government would take the lead and “justifiably” so, according to the newspaper (Jeffery, 2014).

The minister of labour commented that “whites still dominated in leadership and managerial posts” while black South Africans were “still being relegated to low-level jobs”, which was placing difficulty on the government to interfere. “Do not force us to come up with legislation that will force you to comply with our equity laws,” she warned. An editorial in *The New Age*, a newspaper broadly seen as validating government views, added: “It is clear that the softly-softly approach by the authorities in the implementation of employment equity has not worked...A government big stick approach is the only solution.” (Jeffery, 2014).

Labour minister, Mildred Oliphant, criticised people who used talent deficiencies as a reason, saying it was “unfair discrimination practices in the workplace that led to under-

utilisation of the greater proportion of the productive population. It might be expressed in clever words like "lack of experience" ... but in the end those at the coalface felt the racism and exclusion."

But acting chief executive of Business Unity South Africa (BUSA), Cas Coovadia, rejected the notion that sluggish black progression was "simply due to pure racism" and advised the minister and others to start "unpacking the real reasons" for it. Leading amongst these, as previously noted, is the fact that Africans of an age (35 to 64) appropriate for top and senior management positions make up 36%, not 75%, of the economically working populace. Added to that, only 4% of Africans have the post-school credentials often needed for management posts, while 54% of the youth between the ages of 15 and 34 have no work proficiency at all and cannot be contemplated suitable for management jobs (Jeffery, 2014).

2.7.5 Damage to small business

BEE has impaired small businesses as well. Small and medium enterprises (SMEs) are just as fundamental to economic progression and the creation of new jobs as big corporations, but South Africa has less small businesses than most other emerging countries and a considerably poorer level of "total entrepreneurial activity". Such endeavours inside the country is also deteriorating, as the 2013 Global Entrepreneurship Monitor (GEM) found that South Africa's grade had declined from 8.9% in 2010 and 9.1% in 2011 to 7.3% in 2012. This modest performance once again put the country significantly behind other developing markets, such as Argentina, Angola, Brazil, China, Ghana, Mexico, Malaysia and Nigeria (GEM, 2013). One of the main hindrances that threaten SMEs is the problem of red tape. In March 2013 the second version of the SME Growth Index (a longitudinal analysis of 500 small businesses guided over three years by the Small Business Project) uncovered that extreme regulation was a substantial barrier to accomplishment. "Most respondents said complying with laws and regulations diverted time and resources away from their core business", while the common small enterprise was expending 4% of annual turnover, basically on dealing with red tape. Furthermore, almost 20% of respondents acknowledged BEE as a specific problem, saying "empowerment requirements constrained access to business opportunities and created a considerable annual

expense". Partially because of the general regulatory liability, numerous SMEs had abandoned development plans and were focusing merely on existence (Jeffery, 2014).

Richard Maponya, an expert black businessman who began as a clothing salesman in Soweto in the 1950s and founded his own regular business in the 1970s, deems that BEE has considerably demoralised black business. He wishes that BEE be abandoned, alongside the preferential procurement system it has produced. Maponya said the following in November 2012: "In my day there was nothing like a tender turning people into billionaires overnight. It's a terrible system that has created corruption from top to bottom and it's a system which should be done away with." (Jeffery, 2014). National African Federated Chamber of Commerce and Industry's (NAFCOC) president, Joe Hlongwane, concurs by saying: "BEE has done nothing for township business." Hlongwane started his own business in Mamelodi, a township neighbouring Pretoria (Gauteng), in the 1970s, becoming a millionaire in about a decade. However, circumstances for black business in the apartheid period were "extremely tough", those who were untiring to accomplish could however win through, he says. But, since 1994 there has been slight encouragement for others to imitate this kind of accomplishment "because they feel they are entitled to succeed and don't have to work for it".

Jeffery (2014) continues by saying that, if NAFCOC affiliation is everything to go by, the amount of small black businesses has plummeted severely since BEE started. Hlongwane said that in 1998, NAFCOC had almost 155,000 official members but by 2013 its participation had dropped to 50,000. Hlongwane adds: "Black business has not grown since 1994, [this is] a condemning cause of BEE, [which has become] a profitable practice for a selected few." White business has been complicit in this process, but black recipients of BEE are similarly at fault. "They thought that they would just go in there and they'd be given equity and just draw the cheque at the end of the year or the month. They never understood and they were never prepared for this; getting into business means you get involved."

Business is now also beginning to express concerns about the damaging effects of the ANC's stress on race. Early in 2014, after Zuma had endorsed the new employment equity rules and BEE into law, the National Employers' Association of South Africa mentioned that the modifications would make South Africa "the most racially defined nation in the world". Gerhard Papenfus, chief executive of the association, said: "Legislation of this nature will systematically become more demanding until South

Africa's racial demographics are reflected. [But] such legislation also makes it completely unattractive for white entrepreneurs to start up a business in South Africa (Allix, 2014).

2.7.6 Fabricated assurance of BEE

Pravin Gordhan, previous finance minister, said in 2010: “South Africa's BEE policies ... have not worked ... BEE policies have not made South Africa a fairer and more prosperous country. They have led to a small elite group benefiting, and that is not good enough in terms of benefiting 45 million people.” According to Jeffery (2014), the South African Communist Party concurs by saying: “We must honestly and urgently review BEE as it has not addressed the huge economic inequalities and has led to the empowerment of only a small elite instead of the majority.” Vavi supports this criticism, condemning “the oasis of opulence” to which a limited “black elite” has accomplished to gain access via “dirty” BEE ownership contracts, even as the pronounced mainstream of black South Africans remain hindered in poverty.

In the aftershock of the Marikana genocide on 16 August 2012, when the police shot dead 34 striking mineworkers and other protestors at Lonmin's Marikana platinum mine in Rustenburg (North-West), Archbishop Emeritus Desmond Tutu counselled against BEE's constricted domain, saying: “We have created a small handful of mega-rich beneficiaries of BEE policy while spectacularly failing to narrow the gap in living standards between rich and poor South Africans. Instead, we have allowed the gap to widen.” (Tutu, 2012).

Previous state president FW de Klerk concurs by warning that “BEE policies have failed to address inequality and might even have aggravated it”. De Klerk adds: “This is because most affirmative action and BEE occur in the top 10% to 15% of the income pyramid and has little or no impact on the bottom 85% of our society.” Furthermore, “unbalanced” affirmative action has “contributed to the collapse of service delivery in municipalities and key government departments”, to the great disadvantage of the poor (De Klerk, 2012).

2.8 Lessons learned and progress made with B-BBEE since 2004

Several local government managers and representatives lack proper skills. This, combined with a huge departure of engineers from numerous local authorities since 1994, has caused the near failure of local government services in almost all small villages and towns. In several of these parts, as the president of a business association said, "Sewerage often runs down the street, street lights don't work, roads are disintegrating, refuse is not collected, water supply is erratic and water from taps is unsafe". Jeffery (2014) also notes that in 2009 Mathews Phosa bemoaned that local government was "now in ICU" because of the slip-ups the government had made on affirmative action. In that same year, the new minister of co-operative governance and traditional affairs in the first Zuma government, Sicelo Shiceka, said that he scheduled to visit all 283 municipalities soon as probably, for several of them were generally seen, even by ANC followers, as "incompetent, disorganised, uninterested and ridden with corruption and maladministration."

Notwithstanding such condemnations, the Municipal Systems Amendment Act was adopted by Parliament in 2011. Though, it was not till 2014 that the Act ultimately took effect, when regulations, which put down capability requirements for senior staff and municipal managers, were gazetted. According to the new guidelines, municipal managers must have a bachelor's degree in social sciences, law, public administration or an equivalent qualification. Furthermore, they must have five years of "relevant experience at a senior management level" and "an advanced knowledge and understanding of relevant policy and legislation." Given the magnitude of the skills shortfall, it will not be easy-going to find people who meet these challenging conditions. Furthermore, the guidelines state that senior managers appointed before the new codes became effective are to resume in their posts until their agreements lapse or terminate. This implies that there will be little enhancement in the ability of senior municipal managers for a noteworthy time (Jeffery, 2014).

In 2009 the Department of Water Affairs announced "blue drop" and "green drop" reports to observe the management of wastewater and drinking water. In 2009 the typical national score on the blue drop report on drinking water was a miserable 51%, but this enhanced to 73% in 2011 and then to 88% in 2012. Conversely, the treatment of wastewater remains poor. However the green drop report for 2011 (the most current available) put the national standard score at 71%; it also recognised that more than half

(56%) of the 821 waste systems it observed scored less than 50%. Furthermore, the number of waste systems with this modest level of implementation had doubled since 2009. Generally, 143 waste systems (17% of the total) were performing inadequately, whilst 317 (39%) were in a desperate disorder (Jeffery, 2013).

In the short term, the National Development Plan (NDP) allegedly the country's policy blueprint from now until 2030, has put pronounced importance on the need to overcome skills deficiencies in the public service and build “a capable developmental state”. Manuel, who oversaw the commission that constructed the NDP, has also frequently emphasised the need for improved state capability. In 2012 he said: “Talking about a developmental state makes no sense if it is incapable of delivery to its citizens. You first have to build a “capable state” staffed by competent people.” In 2013 he revisited this matter, cautioning that nothing of the NDP suggestions to increase jobs and growth would be accomplished if the public service continued to “misfire”. Manuel added: “So the clarion call is: let us fix the engine room.” Execution of the NDP would judiciously be contingent on “fixing the machinery of the state so that it delivers efficiently”. Manuel's stress on the prerequisite to “fix the engine room” is momentous (Jeffery, 2014).

In spite of the earlier comments by Trevor Manuel, Pravin Gordhan and Zwelinzima Vavi that BEE policies are not working as intended, the government is determined to intensify affirmative action which is reflected in the latest amendments to the Employment Equity Act and BEE as described in the next section.

2.9 Amendments to BEE and Current state of B-BBEE In 2014 / 2015

In October 2013 the Department of Trade and Industry issued the outcomes of a study it had piloted to gauge advancement on BEE since the generic codes were gazetted. This presented that the general level of fulfilment had increased from small levels in 2007 to the point where a lot of private companies in 2012 had generally BEE scores amongst 65% and 75%, making them “level 4” sponsors to empowerment. Accountancy firm Grant Thornton defined these outcomes as “an amazing achievement”, particularly as many private companies had to “make significant structural changes to their businesses” in turn to apply the codes (Paton, 2013a).

But Nomonde Mesatywa, the chief director of BEE at the DTI, disputed that the scores of the report were only “superficially good”, as some 33% of big enterprises still had no black ownership and merely 9% of businesses had an excess of 90% black ownership. Consequently, barely “a modest improvement” on each element or aspect of the scorecard had been accomplished. In related attitude, Rob Davies conceded that “the research was surprisingly positive” but stressed also that many bigger businesses were still “lagging behind” (Jeffery, 2014).

Rather than admitting the huge effort that many private businesses have made, the DTI has used supposedly small levels of fulfilment with empowerment responsibilities to push forward with extensive alterations to the 2003 BEE Act as well as the generic codes, as discussed a little later in this section.

As the department's own analysis reveals, it is in fact outstanding that many private businesses have accomplished to score about 70% for BEE in the area of five years and this notwithstanding South Africa's stark skills deficits, low entrepreneurial drive, little business experience and capital issues.

In 2013 the BEE generic codes of good practice had been in power for almost five years, whilst organisations had made enormous works to fulfil them in the progression marking up standard scores of between 65% and 75%, as shown earlier. Nonetheless, instead of supporting private business for its accomplishments, the Department of Trade and Industry contended that main modifications to BEE guidelines now needed to be made. One fundamental prerequisite, it said, was to stop “fronting”, or the overemphasis of BEE qualifications, by making such behaviour a felony. The subsequent main prerequisite, the DTI went on, was to tighten the substance of the generic codes, which were boosting a “tick-box” approach and were in any event much too relaxed for organisations to meet. These suggested modifications have now been turned into law. Fronting has been forbidden and made illegal by huge penalties and jail terms of equal to 10 years, in the Broad-Based Black Economic Empowerment Amendment Act of 2013, which has received the president's approval with a starting date early in 2015. Furthermore, new generic codes, which considerably modify most aspects of BEE and make it considerably tougher for organisations to receive empowerment points, were written up in October 2013. They were planned to come into effect in October 2014 but were postponed further till 1 May 2015. Keith Levenstein, CEO of EconoBEE, a BEE advisory firm, pointed out that when the new codes actually do take effect, businesses

with a “level 4” BEE rating “will almost certainly fall to “level 6”, and possibly even further (Mohamed, 2015).

Businesses also agree that stricter rules are not needed. Many organisations are also extremely discouraged that the government has expansively moved the BEE goals so quickly after the current rules took effect. This has added uncertainty to the policy and increased uncertainties that BEE interferences are set to deepen further in the future. The comprehensive changes made may also have estranged some organisations to the point where they avert from BEE, making notably fewer efforts to conform to what is assumed to be a “voluntary” procedure. For many organisations, wanting to do business with the state or acquire government permissions and licences, this choice is doubtful to be achievable (Jeffery, 2014).

The incentive for the Broad-Based Black Economic Empowerment Amendment Act of 2013 (the BEE Amendment Act) can be tracked back to 2009, when President Jacob Zuma first came to control. Rob Davies, recently selected minister of trade and industry, cautioned that fronting was becoming more complex and extensive and emphasised that steps would have to be taken to outlaw the custom. This perception is now exposed in the BEE Amendment Act, which was authorised into law in January 2014 and will take clout in 2015 (Benjamin, 2014).

One of the key reasons of the amendments is to ban “fronting” with the assistance of a new BEE commission. The amendments explain fronting in extremely broad terms, criticising that it incorporates any “conduct” or “transaction” which “directly or indirectly” (that is, unintentionally or intentionally) “undermines or frustrates the achievement of the objectives” of the 2003 BEE Act (South Africa, 2013).

2.9.1 A new responsibility to develop small businesses

The BEE Amendment Act echoes the government's purpose that established businesses should become extra effective in promotion of the development of small black businesses. Under the pre-2015 codes, organisations are anticipated to put 3% of net after-tax revenue into enterprise development every year, but need not go more than this. Under the BEE Amendment Act, organisations will furthermore be anticipated to nurture small enterprises by “enhancing their access to financial and non-financial

support” and so “increasing [the number of] effective black-managed and -owned enterprises” (South Africa, 2013).

2.9.2 Modifications to the Generic Codes

In the past 10 years, BEE requests have frequently been disapproved of for promoting a limited political privilege while discounting the needs of the actually disadvantaged. Critics have concentrated, in particular, on the adverse concerns of the ownership element or aspect, saying this urges organisations to enter into BEE arrangements with “the usual suspects”; a smaller group of individuals with intimate connections to the upper classes of the African National Congress.

Throughout time, this reproach has provoked various calls for amendments to the codes, so as to make light of the ownership aspect or element and put extra importance on “broad-based” elements of BEE (such as preferential procurement and enterprise development), which have the possibility to grant a bigger number of black South Africans. BEE supporters have also frequently called for the codes to be intensified substantially, as they see the existing BEE rules as too moderate, “like an exam which is easy to pass” (in the words of Duma Gqubule, a BEE analyst) (IRR, 2012).

In gazetting this concluding version of the codes, Davies said that the amended rules “symbolised a new beginning in the reorientation of transformation policy to focus more on productive broad-based BEE”. Nevertheless, some of the most severe of the new requests apply to the ownership aspect or element, which, before being played down, has been given more importance.

This, a *Business Day* report said, echoes an “impressive” success for the Black Business Council, which had intensely urged Davies to preserve equity ownership as a core aspect or element (IRR, 2012).

The latest generic codes are planned to come into effect on 1 May 2015. Organisations may select to have their BEE fulfilment measured under the new codes with instant effect, but limited improbable to do so as the amended codes differ considerably from the pre-2015 ones and most companies need time to adapt. Furthermore, the new rules

are more burdensome in several ways, which means most organisations will want to delay having to fulfil with them for as long as feasible (Wentzel, 2013).

2.9.2.1 Fulfilment levels

Within the pre-2015 codes, “exempt micro enterprise” organisations that do not have to conform to BEE rules are stated as those with less than R5 million in annual revenue. Under the new codes the same standard applies, but the limit for exclusion has been doubled, excused micro enterprises now being stated as organisations with annual revenue below R10 million (South Africa, 2013).

Under the pre-2015 codes, as explained in Section 2.6, “qualifying small enterprises” are stated as those having annual revenue between R5 million and R35 million, while organisations with annual revenue above R35 million are viewed as “larger enterprises”. With the revised codes, these limits have also been altered. Qualifying small enterprises are now stated as organisations with annual revenue of between R10 million and R50 million, while larger enterprises are those with annual revenue of more than R50 million (South Africa, 2013).

Although these higher limits may beckon an objective to lessen the liability of BEE fulfilment, they are indeed mostly in line with inflation since 2007. Furthermore, qualifying small enterprises will now have to fulfil with all aspects or elements of BEE, rather than being capable to select four out of seven. This will add significantly to the BEE liability on them.

The amended codes condense the seven pre-2015 aspects or elements of BEE to five, a move accomplished by joining some of the pre-2015 aspects or elements. Management control has therefore been merged with employment equity to create a single new aspect or element called “management control”. Likewise, enterprise development and preferential procurement have been pooled into one aspect or element called “enterprise and supplier development”. Nothing of the pre-2015 aspects or elements has in fact been disconnected, as the two “eliminated” aspects or elements have merely been merged into those that stay. As we saw in Section 2.6, a distinctive scorecard concerns to qualifying small enterprises, which must select four aspects or

elements out of seven to apply and can receive a maximum of 25 points on each of these four, so bringing the overall BEE points accessible to them up to 100.

The point that all businesses, other than exempt micro enterprises, will now have to fulfil with all aspects or elements of BEE, results in a substantial transformation from the pre-2015 codes. It also means that Zuma's BEE recommended council has won state backing for its interpretation that qualifying small enterprises should not be permitted to pick which elements or aspects of BEE to follow. This complication came to the front in January 2011, when the chairman of the advisory council, Sandile Zungu, insisted the Department of Trade and Industry to “prevent the popular practice by qualifying small enterprises, choosing the easiest elements to fulfil”. Small businesses challenged that the council's suggestion could increase the administrative costs of BEE compliance by three times, but Zungu appeared indifferent, saying: “The long-term gains will be worth any short-term pain for companies . . . Continuous improvement is not a cost-neutral endeavour.” (Jeffery, 2014).

Element / Aspect	Old Points	New Points
Ownership	20	25
Management control	10	15
Employment equity	15	-
Skills development	15	20
Preferential procurement	20	-
Enterprise development	15	40
Socio-economic development	5	5
Total points available	100	105

Table 2.3 BEE aspects or elements and available points; old and new points

While qualifying small enterprises must fulfil with every part of five of the new aspects or elements, the extraordinary scorecard for such businesses will fall away under the new codes. This means, for instance, that these smaller businesses will no longer be able to receive a maximum of 25 points for their inputs to socio-economic development, but merely five. The revised codes classify three out of the five aspects or elements as “priority” aspects or elements, for each of which a minimum level of fulfilment, totalling to 40% of the points obtainable, must be accomplished. These three elements are enterprises and supplier development, skills development and ownership. Organisations must thus tally at least 10 points out of 25 on ownership, eight points out of 20 on skills development and 16 points out of 40 for enterprise and supplier development.

All larger enterprises, with annual revenue of more than R50 million, must accomplish the 40% minimum on all three of these priority aspects or elements. If they fail to do so, they will have their entire level of BEE contribution be cut by one level. Qualifying small enterprises must accomplish the 40% minimum on the ownership aspect or element and furthermore on one of the other two priority aspects or elements: either enterprise and supplier development or skills development. If they fail to succeed the 40% minimum on ownership, in addition to the other priority aspect or element they have selected, their level of BEE support will likewise be cut by one level. The main fulfilment necessities for each of the five aspects or elements of BEE are set out below.

2.9.2.2 Levels of BEE influence

Under the pre-2015 codes, a business that accomplishes 65 points on the scorecard levels as a “level 4” sponsor to BEE. This contributes it a “level of BEE recognition” of 100%, which measures that every R100 expended on buying services and goods from it tallies as R100 towards the BEE points of the buyer. The points needed for distinctive “levels of BEE contribution” under the pre-2015 rules are set out in the following table: Table 2.4 BEE status under the pre-2015 generic codes.

With the new scorecard, the number of points required to benefit from good BEE positions will be very difficult. Therefore, an organisation with a score of 65 points, which tallies as a “level 4” contributor with an appreciation level of 100% under the pre-2015 codes, will drop to a “level 7” contributor with an acknowledgement level of only

50%. To reclaim “level 4” position under the new codes, such an organisation will have to tally an added 15 points to increase its overall score to 80 points. The points needed for altered “levels of BEE contribution” under the new rules are as follows in Table 2.5.

Qualifying points	Level of BEE contribution	Level of BEE recognition
≥ 100 points	Level 1 contributor	135% (R100 = R135)
85 - 100 points	Level 2 contributor	125% (R100 = R125)
75 - 85 points	Level 3 contributor	110% (R100 = R110)
65 - 75 points	Level 4 contributor	100% (R100 = R100)
55 - 65 points	Level 5 contributor	80% (R100 = R80)
45 - 55 points	Level 6 contributor	60% (R100 = R60)
40 - 45 points	Level 7 contributor	50% (R100 = R50)
30 - 40 points	Level 8 contributor	10% (R100 = R10)
< 30 points	Non-compliant contributor	0% (R100 = R0)

Table 2.4: BEE status under the pre-2015 generic codes

All organisations will find it considerably more demanding to benefit or maintain good BEE scores under these guidelines, while qualifying small enterprises will appreciate little assistances rivalled to larger organisations. According to Tony Balshaw of a comprehensive auditing business, Mazars, the altered codes also mean that “family or owner-managed ... businesses that do not have majority black ownership are unlikely to achieve more than a level 7 recognition. The median will probably be level 8.” On this foundation, obtaining from these establishments will count as a meagre R10 for every R100 expended. In these conditions, many of these companies might give up on BEE,

choosing that additional efforts to advance their scores are basically not worth the money, time or loss of independence required (Jeffery, 2014).

Qualifying points	Level of BEE contribution	Level of BEE recognition
≥ 100 points	Level 1 contributor	135% (R100 = R135)
95 - 100 points	Level 2 contributor	125% (R100 = R125)
90 - 95 points	Level 3 contributor	110% (R100 = R110)
80 - 90 points	Level 4 contributor	100% (R100 = R100)
75 - 80 points	Level 5 contributor	80% (R100 = R80)
70 - 75 points	Level 6 contributor	60% (R100 = R60)
55 - 70 points	Level 7 contributor	50% (R100 = R50)
40 - 55 points	Level 8 contributor	10% (R100 = R10)
< 40 points	Non-compliant contributor	0% (R100 = R0)

Table 2.5: BEE status under the 2015 revised generic codes

2.9.2.3 Confirmation of BEE position

With the new codes (as under the pre-2015 ones), the BEE position of an exempt micro enterprise will be considered to be that of a “level 4 contributor”. This will give such an enterprise a “BEE recognition level” of 100%, which means that any attaining from it will count in full as R100 for every R100 spent, regardless of the racial character of its ownership. Under the new codes, an exempt micro enterprise that is additionally 51% black-owned will count as a “level 2 contributor”, presenting it a BEE identification level of 125%. Furthermore, any such organisation that is 100% black-owned will be considered as a “level 1 contributor”, with a BEE identification level of 135%. The altered codes will also accept exempt micro enterprises to sidestep the exorbitant

practice of having their BEE grade substantiated by an endorsed ratings agency. In its place, such an organisation will be needed “only to obtain a sworn affidavit on an annual basis”. This confirmation must corroborate its “annual total revenue” at less than R10 million, as well as its “level of black ownership”. Any perversion in such an affirmation will “constitute a criminal offence” and be illegal under the BEE Amendment Act of 2013, when this comes into effect. Furthermore, any start-up business will instinctively qualify as an exempt micro enterprise for a year after its realisation, even if its revenue in that year in fact surpasses R10 million (South Africa, 2013).

Comparable rules will relate to qualifying small enterprises. An organisation of this kind that has 100% black ownership will tally as a “level 1” contributor and will be allowed to a 135% level of acknowledgment (R135 for every R100 spent in buying from it). A qualifying small enterprise that is 51% black-owned will be considered to be a “level 2” contributor, with a 125% acknowledgment level. Qualifying small enterprises will also be pardoned the expensive confirmation process and will merely have to offer yearly affidavits endorsing their annual total revenue (between R10 million and R50 million) and their ranks of black ownership. The intention of these new rules, according to Rob Davies, is to “remove the burden on small black businesses to prove that they are black” (Jeffery, 2014).

CHAPTER 3

LITERATURE REVIEW ON FAMILY BUSINESS

3.1 Introduction

Market variations and the level of how open markets are, which relate to entry practices, are extremely important because they aid as the first barriers or elaborations for potential entrepreneurs in the entrepreneurial process.

As a start-up business, how does one plan to apply B-BBEE into the business and obey with the law, as well as be moral and profitable at the same time?

Just as a new endeavour needs to put a business plan into place before leaping into anything new, so too can preparation for B-BBEE be extremely advantageous to both the owner and the authorities. Maybe one can even add B-BBEE planning into the business plan which is actually encouraged as it surely has a financial risk / reward element attached and thus needs to be integrated with any financial / accounting part of the business and the preparation thereof.

In order to answer some of these questions, i.e. “How do B-BBEE impact family businesses?” and “What are the typical costs involved to be B-BBEE compliant?” one can consider earlier studies that looked at the impact of B-BBEE on family businesses and possibly even do a follow-up survey / questionnaire to measure how some businesses have adapted with B-BBEE as well as get a feeling for what the risks / rewards were for becoming B-BBEE compliant (Oosthuizen, 2004; Orton, 2008).

It should also be considered / investigated what the consequences could be of a ruling that 26% of the business should be distributed to black personnel by 2014 / 2015 (Jeffery, 2010).

Earlier studies (Oosthuizen, 2004; Orton, 2008) looking at the impact of Black Economic Empowerment on family businesses have discovered that most businesses have already acknowledged successors for the business. Family businesses are distinctive with their own culture and characteristics, so it is particularly fundamental to consider this aspect with regards to B-BBEE and external partnerships.

We'll have a look how things transformed in 10 years since Oosthuizen's (2004) research has been conducted.

It is clear from earlier studies (Oosthuizen, 2004; Orton, 2008) and reports that SMEs do not completely agree with B-BBEE policy, but some have started in 2004 to make B-BBEE a reality in their businesses, although they feel B-BBEE should not apply to all businesses.

Incompetency was also a big intimidation to family businesses, as confirmed by Janssens *et al.* (2006), as well as risks of losing control over the business as part of B-BBEE. These two risks are amongst the biggest dangers on the minds of business owners and their families.

Added to the abovementioned, earlier studies (Oosthuizen, 2004; Orton, 2008) also looked into weaknesses in the economy as a whole, the impact on management succession, the impact on ownership succession, government support, implementation of B-BBEE, finding the right empowering partner and financing a B-BBEE deal.

Nicholson *et al.* (2008) mentioned that the fact is that family companies have the ability to beat non-family organisations, but at the same time they are in danger of family risks that can overflow and overwhelm them.

Why should people, external to the mysterious realm of family business, care about them? According to Colli (2008), there are three explanations. The first is that family companies are the strength of the economy of almost every country on earth and the prosperity of countries depends on them. The second explanation is that many, almost all of the big corporations on earth, had family business beginnings. Thirdly, understanding family businesses can answer one of the ultimate and most mysterious challenges in the business world, namely "what does it take to make a large company feel like a small one, or more precisely, what is the secret to building a truly admirable culture." Non-family companies have a lot to learn from family companies, because all organisations preserve foundations of "familiness" in every tier of their processes and exploiting their enhanced qualities while evading the worst, can be the main building competitive advantage within culture.

Here's some of the confirmation of how well family businesses fare in the world:

- According to a current study by S&P 500 businesses found those with family ownership outclassed those without it. Extra studies in European research have also proved a similar trend (Anderson & Reeb, 2003).
- Several of the world's oldest businesses are those that have remained in family ownership. They contain a 40th-generation Japanese business that overhauls temples (started 578), an Italian wine merchant (started 1141) and a French papermaker (started 1326). There is a big group of businesses in the Old and New World that has subsisted through the 20th century and that is still turning in world class performances in the 21st century (Colli, 2008).
- Several of the world's most successful and largest corporations retain a resilient family personality: BMW in Germany, Cargill in the United States, LVMH in France, Samsung in Korea, H&M in Sweden, Clarks Shoes in the United Kingdom and so on (Colli, 2008).

3.2 Defining the family business as a small- and medium-sized enterprise

It is well acknowledged that family businesses originate their unique nature from the stimulus of family on business (Hall & Nordqvist 2008; Leach 2007). Hall and Nordqvist (2008) points out that family businesses are distinctive in the sense that a single family has a substantial impact on the business.

According to Sharma (2004), several attempts have been made to pronounce theoretical and functioning definitions of family businesses. Several researchers have evaluated existing meanings, and tried to strengthen thoughts and theorised other meanings of family companies (Chua, Chrisman & Sharma, 1999; Neubauer & Lank, 1998; Goodman & Dreux IV, 1997; Brockhaus, 1994; Handler, 1990).

Chrisman, Chua and Sharma (2005) propose that one way of stating the family business is academically by its spirit, i.e. the family's guidance over the business (Klein *et al.*, 2005) and more exclusively the strategic direction of the business (Davis & Taguiri, 1989); the purpose of the family to keep power (Litz, 1995) or handover the business to the next generation family partners (Ibrahim & Ellis, 2004); family conduct (Chua *et al.*, 1999); and finally, irreplaceable, undividable, synergistic supplies and

abilities beginning from family participation and relations (Habbershon, Williams & MacMillan, 2003).

Several classifications of family businesses exist. A comprehensive discussion of all these classifications though, falls outside the span of this study. For the purposefulness of this study, the classification of Ibrahim and Ellis (2004) was accepted. They stated a family business as follows: a minimum of 51% of the business is owned by a distinct family; furthermore, at least two family members are involved in the operational activities or management in the business and the handover of leadership to the next generation family members is expected. The South African National Small Business Act (1996) and National Small Business Amendment Act (29/2004:2) categorise micro-, very small, small- and medium-sized businesses as businesses that hire less than 200 full-time remunerated employees (South Africa, 1996).

Venter *et al.* (2012) classifies a small- and medium-sized family business as one where one family maintains at least 51% of the equity of the business; where a family is able to practise substantial guidance in the business; where at least two family members are concerned with the leading management of the business and where the business retains less than 200 full-time employees.

According to McCarthy (2015), “family businesses also adopt the term SME.”

3.2.1 Non-family members in family business

It is, nonetheless, not only family members that impact the accomplishments of the family business, but also non-family members (including non-family employees) (Claver *et al.*, 2009; Eybers, 2010; Poza, 2010). Sundaramurthy (2008) and Farrington *et al.* (2010) witness that it is imperative for non-family and family members to work organised if the family business is to remain growing. In other words, for family businesses to be successful and to survive, family members need to encourage their personal interactions with one another and with other non-family participants (Swart, 2005).

For the reasons of this study, non-family members signifies to non-family members involved in the business who offer skills and expertise and form part of the controlling team as well as supporting in strategic business evaluations. These non-family

members contain people such as external professionals, consultants, experts, non-family employees and advisors (Venter *et al.*, 2012).

Chua, Chrisman and Sharma (2003) point out that non-family managers assist family businesses fast-track progress by providing needed new ideas and skills. In the same way, Leach (2007) is of opinion that by being willing and outward-looking to take benefit of outside assistances, family businesses are well capable to mature and answer successfully to transformation. Chosen intelligently, “outside” consultants and professional advisors offer an extra factor of experience, objectivity and competence to matters affecting both the business and the family. Poutziouris *et al.* (2006) comment that family businesses with external assistance report heightened levels of implementation with the help of professional guidance.

Although in a study by Venter *et al.* (2012), no association was found between family harmony and non-family members. This discovery is in contrast with earlier researchers, who support that non-family members can play an essential role in assisting the family business to respond and grow to change (Chua *et al.*, 2003) and that family businesses with external support report heightened levels of performance stemming from professional guidance (Poutziouris *et al.*, 2006). Eybers (2010) and Farrington (2009), both found an encouraging connection between the growing performance of the family business and non-family members’ participation.

3.2.2 How does BEE fit into family business ownership?

With the family business defined academically, how does BEE's codes fit into a family business with regard to ownership; 51% family owned to be considered a family business, but the BEE codes and levels of contribution does impact white-owned businesses severely.

Under the new codes, the same standard applies, but the limit for exclusion has been doubled, excused micro enterprises now being stated as organisations with an annual revenue below R10 million. Qualifying small enterprises are now stated as organisations with an annual revenue between R10 million and R50 million, while larger enterprises are those with an annual revenue of more than R50 million (South Africa, 2013).

A total of 25% black ownership is needed in order to comply with the BEE codes under the ownership aspects of the codes, which means family business ownership for white families are not a huge concern regarding the “familyness” of a family business when it comes to the definition of family businesses, however, the main concern comes in when management control is considered, because according to the new BEE codes, 60% of executive and senior management need to be black or else no points or lesser thereof will be given for the management control aspect of the BEE codes.

According to Tony Balshaw, associated with a comprehensive auditing business, Mazars, the altered codes also mean that “family or owner-managed ... businesses that do not have majority black ownership are unlikely to achieve more than a level 7 recognition” for companies earning more than R10 million per year (Jeffery, 2014).

Jeffery (2014) continues, this is a huge drawback for white-owned family businesses, as good BEE scores are needed to gain government contracts and do business with other well-suited BEE companies.

3.3 The dominant values, characteristics and culture of family business

Family values form the basis on which the family business is developed and these values are critical for promoting family harmony and warranting the future stability of the business (van der Merwe *et al.*, 2012).

The complex subtleties that exist amid family members not only affect the performance of their family business but also its progression, transformation and change over time. Relational subtleties among family members have been acknowledged as a serious factor in the low number of effective multi-generational handovers among such businesses (Farrington *et al.*, 2010). In turn, the subtleties of the family business also mark the welfare of the family (Olson *et al.*, 2003) and the family should be well defined about the progressive link concerning the endurance of the business and the welfare of the family (Ibrahim *et al.*, 2009; Venter & Boshoff, 2006).

Because of the mysterious class of family businesses, as well as the point that most of them are somewhat small, they may still feel vulnerable about approaching strangers for guidance on business complications, to help them make planned business choices and

increase their proficiencies in the business. Many family businesses also have the insight that it is costly to confer with strangers (Venter *et al.*, 2012).

The findings of a study by Van der Merwe *et al.* (2012) indicate that the more family members distinguish reasonable conduct in the family business, the more pleasant family interactions and insights of business continuousness will be. Furthermore, the observed level of effective communication, commitment and trust has an encouraging effect on family coordination and business continuousness. The value of family relations will establish the accomplishment of family businesses as well as the achievement of the contingency procedure (Lansberg, 1999). The family should clearly define the positive link between the welfare of the family and the endurance of the business (Ibrahim *et al.*, 2009; Venter & Boshoff, 2006). Van der Merwe *et al.* (2012) continues by saying that affiliations in family businesses are built on values such as agreement between family members, trust, fairness, honesty, respect, integrity, openness, commitment and peace.

Family businesses have a competitive advantage above non-family businesses when it comes to common trust and respect in the business domain. Very little family members or owners in the business have grounds to anticipate the intentions of their colleagues or partners (Carlock & Ward, 2001; Shanker, 2000; Venter & Boshoff, 2006). It is rare that any family member will flee to the competing business. Venter and Boshoff (2006) mention that it has been discovered that trust has the prospective to make family companions more protected, more informed and more open than any group of separate people (Van der Merwe *et al.*, 2012).

In a study Farrington (2012) has shown that persons who have abnormal quantities of the personality traits “openness to experience”, “conscientiousness” and “extraversion” are more prone to have well-off small businesses. “Openness to experience” is of definite significance as it proves the deepest encouragement and is the only characteristic that has an encouraging impact on both the growth performance and financial side of the business.

3.4 Defining the entry rules for family businesses

Neubauer and Lank (1998) made the announcement that a family member should not see admission to a family business as a certainty and right. Murak (2001) emphasised that the basic rules for employment of family participants should be recognised before they should be permitted to enter the business. Neubauer and Lank (1998) dispute that evaluation to allow family members to enter into the business without the person enhancing adequate value does not make logical business sense. Such activities impend the longevity of the family business. Jaffe (1991) affirmed that when any family member enters a family business, a certain job position should be unmistakably defined. Using job explanations in measuring and recruiting the work performance of family personnel, Loeb suggests that positions will be compensated and granted on accomplishments and merit and not on family association (Loeb, 2001). The job explanation should categorise main responsibilities, duties and spans of power in the family business (Brooks, 2001). It is by no means comprehensive, because spontaneous informal expectations and errands are continuously being presented and removed by peers and supervisors alike. Nevertheless, the job explanation should be adequately comprehensive to allow well-informed parties to value the central job. Basics are to create a grade that replicates the job's significance to the business (Brooks, 2001). The creation of clear work responsibilities and duties is thus imperative for the effectual employment of family members in family businesses (Van der Merwe, 2009).

No family business should feel indebted to hire ineffectual relatives (Buchholz *et al.*, 2000). Voeller *et al.* (2002) suggest that performance expectancies could be endorsed to help guarantee that all family employees meet similar principles and obtain the same encouragement. This will eliminate any genuine complaints on the part of their equals and the hindrance that comes from being detained to a higher standard than anybody.

Loeb (2001) states that when principles are recognised at the time of engagement and non-performance associations are clearly described as set out in the helpful corrective procedure, family employees are less probable not to obey to performance principles. By connecting payment into the assessment for non-performance, family employees have encouragements to work at an ideal level.

Jaffe (1991) suggests that either inside the business or in the family, performance should be evaluated. Jonovic (1997) reinforced the importance of performance

evaluation and enhanced that in turn to successfully manage a business as an investment, a formal process of performance appraisal should be established. Driscoll and Korman (2001) also highlight the significance performance appraisal for family business accomplishment.

Buchholz *et al.* (2000) note that every family business should determine how unwanted conduct of family members should be managed. Family employee punishment is a sensitive issue, but Sander and Bordone (2006) corroborate that the burn can be taken out of penalising processes by having clear procedures and rules in place. Hellriegel *et al.* (2002) affirmed that affiliates of a business need to regard the agreements and rules that control it. If unsatisfactory behaviour or low work performance by a family worker cannot be solved within the family, the family business should get expert help and strongly inspire the upsetting family member to tackle the issue (Buchholz *et al.*, 2000).

If a family worker isn't doing work to expectancies, action should be taken (Loeb, 2001). The penalty should, nonetheless, be in light of the gravity of the transgression. These activities could include moving the family worker to a more fitting job or extra training may be needed. If the wrongdoing is quite severe, it could lead to the discharge of the family worker (Buchholz *et al.*, 2000). The discharge of any low-performing worker, including family personnel, may be needed for the general good of the family business and, eventually, for the family owners. Loeb (2001) adds that a family business' breakdown to discard low-performing workers (including family participants) deters higher performers and could hamper the complete efficiency of the business.

Several authors emphasised the significance of the measurement and response of the family worker's long-lasting accomplishment of family performance (Driscoll & Korman, 2001; Neubauer & Lank, 1998; Jonovic, 1997) and an official corrective policy (Sander & Bordone, 2006; Loeb, 2001; Buchholz *et al.*, 2000) to safeguard the businesses.

Van der Merwe (2009) showed that in a survey conducted by the *Family Business Magazine* (Autumn 1999) respondents graded family employee payment second to succession as an important concern as they considered the past ten years and forward to the next ten years (Hoover & Hoover, 2001). Aronoff and Ward (1993) stressed the increasing significance of family employee payment, as second and third generation successors enter the family business. Queries about paying family employees can,

consequently, become gradually unmanageable and complex as a family business matures and gets passed from generation to generation.

Brooks (2001), and Aronoff *et al.* (2002), deem that a payment program has no basis if job explanations representing the work responsibilities and functions have been arranged in adequate detail to help as a way of arranging pay categorisations and of grading performance. Jaffe (1991) points out that family members should have genuine accountabilities for an unblemished area of the business and performance should be frequently revised. Little verification could be uncovered of empirical-based research on family employee work payment and performance and in small- and medium-sized businesses.

3.5 The importance of family businesses

See Section 3.1 for various examples of the importance of some family businesses, but more elaboration in this section.

Family businesses have substantial influence in the world to prosperity creation (Farrington, 2009; Astrachan & Shanker, 2003; Venter & Boshoff, 2005; Morck & Yeung, 2004; Basu, 2004).

Van der Merwe (1998) points out that family businesses have added a significant contribution to the South African economy for the past 300 years. Ackerman (2001) concurs that about 80% of businesses in South Africa could be considered as family businesses and that these comprise of 60% of the companies listed on the Johannesburg Stock Exchange (Van der Merwe, 2009).

Nevertheless, the confronts existing by the collaborative intricacies that are a consequence from the abundant family business stockholder groups, family businesses have been acknowledged to accomplish astounding outcomes, often to a bigger amount than non-family businesses (Gordon & Nicholson, 2010; Schuman *et al.*, 2010).

Maas *et al.* (2005) emphasised that, because of the substantial purpose family businesses achieve in the South African economy, its continuation is of the severe importance (Van der Merwe, 2009a).

According to an article in the *Economist* (1996), family businesses are extremely important in all countries. In established countries, they account for a significant share of the affluence. As example, they account for 66% of Germany's GDP and 75% of its workforce; 40% of the US GDP and 60% of its workforce and approximately 50% of Britain's workforce. In emerging countries, family businesses signify almost the whole private economy. For example, in India family businesses account for 70% of the entire net profit and sales of the leading 250 private-sector companies (Economist, 1996).

According to Van der Merwe (2015), family businesses make a significant impact on the global economy. "It is estimated that 70% to 90% of businesses in the United States of America and Western Europe are classified as family businesses. More than 50% of the total labour force in these areas is employed by these businesses, which in turn account for 40% to 60% of gross domestic product (GDP). Furthermore, family businesses make a substantial contribution to the economies of most Asian countries."

Van der Merwe also adds that "South Africa is no exception – over the last 300 years, more family businesses have made a major contribution to the South African economy." (Van der Merwe, 2015).

Globally, the tremendous bulk of family businesses are medium-sized or small (Bjurren & Sund, 2000; Serrano, 2000; Goldberg, 1991; Maas, 1999; Hume, 1999. Even the greatest moderate estimations put the percentage of all global businesses managed or owned by families amid 65% and 90% (Gersick *et al.*, 1997; Sharma *et al.*, 1997; Van der Merwe, 1998; Zimmerer & Scarborough, 2002; Venter, 2003). In numerous countries, family businesses form the bulk of all businesses. The statistics (supplied by IFERA, 2003) for numerous countries are: Belgium (70%), Finland (80%), France (60%), Greece (80%), Germany (60%), Italy (93%), Netherlands (74%), Portugal (70%), United Kingdom (70%), Spain (75%), Sweden (79%), Australia (75%), Cyprus (80%), and the USA (95%) (Boshoff & Adendorf, 2011).

Many family businesses are filling the proficiency space by bringing in external ability at both executive and management levels; 63% of respondents (65% globally) have non-family members on the board and 39% (34% globally) have non-family shareholders (PwC, 2014).

The economic meaning of family businesses for the economies of both the developing countries and the developed world (and South Africa) are well documented (Adendorff *et al.*, 2008; Venter, 2003; Steier, 2001). Family businesses are, nevertheless, one of the most distinctive, dynamic and complex organisations in our modern civilisation (Boshoff & Adendorf, 2011).

3.6 What are the advantages, disadvantages and challenges of family businesses?

3.6.1 Advantages

A family business proposes the following advantages:

- One of the general misunderstandings about family businesses is that it is incapable of changing easily to increasing technological progress and competitiveness. The truth is that family businesses regularly have the benefit of flexibility, opportunism and entrepreneurial spirit (Van der Heyden, 2002).
- It is thought by some that family businesses are “too soft” and hardly extend to their potential. The truth is that family businesses truly outclass public companies. It is often seen that the market forces public companies to make instant choices, while a family business has the benefit of having more independence to make its decisions. Family businesses can adjust to market variations more effortlessly because they can afford to be persistent. They have shared goals, a commitment to brand building and shared values (Van der Heyden, 2002).
- Family businesses are frequently seen as perfect because family participants form a “grounded and loyal foundation” for the business and family participants tend to display more commitment to their shared ambitions. “Having a certain level of intimacy among the owners of a business can help bring about familiarity within the company and having family members around provides a built-in support system that should ensure teamwork and solidarity” (Writing, 2015).
- Many family businesses tend to be optimistic and stable, even when economic times are tough. They seem to be better able to withstand economic struggles and calm the economy than their non-family equivalents. Nevertheless, this is a

purpose of the industry and the dimension of the business (Mass Mutual Financial Group, 2007).

- Family businesses may be more accessible to part-time or flexible schedules, or selecting its own operating hours. This gives an extremely appealing work atmosphere for people who need to supervise parents, children or other family affiliates in need (Writing, 2015).
- Family businesses manage to operate more morally. Actually, many family businesses deem that its moral standards are stricter than those of its opponents. Furthermore, family businesses are often greatly entrenched in its neighbourhoods and this closeness is seen as an imperative aspect that escalates the prospect of moral decision making and moral behaviour (Mass Mutual Financial Group, 2007).
- Family businesses, at large, have larger freedom of action because it has no (or less) burden from the stock market and no (or less) invasion threats (De Vries, 1993).
- Family businesses manage to be stronger in tough times because it is enthusiastic to plough revenues back into the business (De Vries, 1993).
- Family businesses are less governmental and less objective, which permits for better flexibility and faster decision making (De Vries, 1993).

According to Moore *et al.* (2008), the advantages of family businesses are illustrated in Figure 3.1 and explained below:

1. Family members have a distinctive motivation because the business is a family business. “Business success is also a family success.”
2. Businesses that are family-owned frequently underline this feature in the advertising materials to set itself separately from opponents. For instance, a catchphrase such as “A family serving families” is frequently placed on promotional literature, websites and signage, where would-be consumers can’t miss it. This is a “high-touch” meaning, one that echoes with consumers who don’t want to be treated as “just another customer”; as a consequence, the subject is particularly effectual for businesses that offer extremely modified products or incredibly individual services, such as fine dining, investment planning, funeral services and chiropractic care.

3. Business-specific knowledge: Family businesses frequently contend using business-specific knowledge that is best combined and more developed by persons who care intensely about the business and who trust one another. These businesses are in the distinctive position to pass this information down from generation to generation, refining the edge of that improvement over time.
4. Shared common networks: Family members create cherished common capital to the business when they distribute their networks with earlier generations of the family and thus help to safeguard the business' potential performance.
5. An emphasis on the long-run: Most family leaders tend to make a long-term outlook on the business, partly because they see it as an asset and because it has to be preserved for the sake of forthcoming generations.
6. Safeguarding the business reputation: Because they have a stake in upholding the families standing, participants of the family are likely to uphold elevated standards when it comes to morality in business transactions such as offering value and quality to the customer.
7. Reduced cost of control: Because important workers in the family business are interrelated and trust another, the business can spend less on structures designed to decrease the robbery and supervising employees' work behaviours.

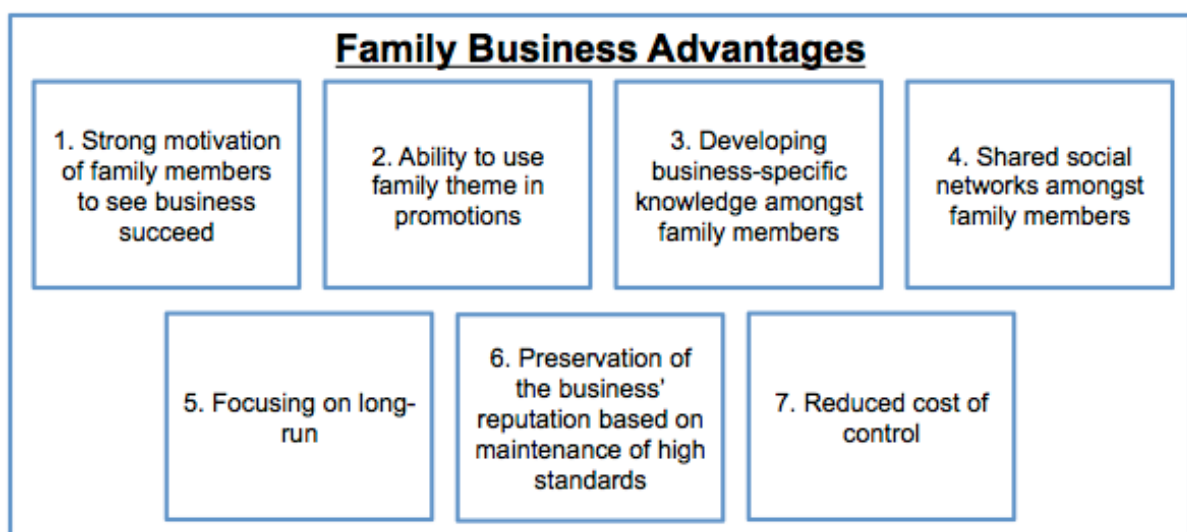


Figure 3.1: Family business advantages

3.6.2 Disadvantages

As appealing as family businesses are on numerous fronts, it has some disadvantages:

- The combination of two innately different territories, the emotion-based territory of the family and the performance-based domain of business, produces a system possibly burdened with conflict and confusion (McCann *et al.*, 2004; Boshoff & Adendorf, 2011).
- Possible conflict within family due to many complex issues discussed and raised, as example, business succession (PwC, 2014).
- Family business owners might spontaneously endorse someone from the family or give family affiliates a job even if they do not have satisfactory abilities for the job. A non-family worker may be better competent (Writing, 2015).
- The family business may be a breeding ground for sabotage, anger, resentment and jealousy. Family complications may overflow into the workplace (PNT, 2015).
- Affiliations amongst children and parents or amid relatives have a propensity to worsen due to communication troubles. “This dysfunctional behaviour can result in judgments, criticism and lack of support” (Writing, 2015).
- The business may be overwhelmed with managerial ineffectiveness, the incapability to separate work and family and the absence of contact with other businesses (PNT, 2015).
- Some family businesses might have trouble keeping and attracting extremely competent supervisors. “Qualified managers may avoid family firms due to the exclusive succession, limited potential for professional growth, lack of perceived professionalism and limitations on wealth transfer” (Sirmon & Hitt, 2003).
- Family businesses have restricted sources of outside capital because they tend to evade distributing parity with non-family members (Sirmon & Hitt, 2003). Having fewer admissions to money markets might limit progress (De Vries, 1993).
- The “spoiled kid syndrome” frequently happens in a family business. The business owner might feel mortified because his loyalty to the business takes away some of the consideration he should be presenting to his children. Out of a consciousness of remorse, he or she starts to induce the children, “a kind of pay-off for not being emotionally available or otherwise” (De Vries, 1993).

- Family businesses regularly have a perplexing organisation, with “messy structure and no clear division of tasks.” Responsibility and authority lines are uncertain, jobs might overlap, executives might hold a number of diverse jobs and the administrative pyramid might be totally ignored, presented only to be side-stepped (De Vries, 1993).

3.6.3 Challenges

- B-BBEE (Broad-Based Black Economic Empowerment) is perceived as a certain challenge to family businesses in South Africa, predominantly with regard to the obtainability of properly competent empowerment associates and the significance of a good “fit” amongst the culture of the empowerment partner and the family business culture (PwC, 2014).
- The main matters facing family businesses in South Africa are comparable to those facing family businesses globally. 77% of the South African respondents (63% globally) assumed that overall economic environment and market environments remain major outside challenges over the next 12 months as well as the next 5 years (PwC, 2014).
- 58% of South African respondents (52% globally) distinguished that the climate change and resource shortages are possible to be main worldwide confronts of the next 5 years (PwC, 2014).
- 65% (61% globally) of family businesses mentioned enticing the right talent or skills as one of the two primary encounters in the next 5 years (compared to 61% in the former survey) (PwC, 2014).
- Family businesses are offered with many unique challenges, as well as concerns shared by all developing businesses. The most mutual discussion point for a family business frequently relates to the subject of succession (Marks, 2014).

According to Spinelli & Adams (2012) there are twelve challenges to family businesses. “Like the gravitational pull that keeps us bound to the earth, families face a number of inherent challenges that keep them bound to past strategies rather than pursuing new opportunities”.

1. Families accept that the past success will promise their future success.

2. Family members feature “legacy value” to their assets or businesses, but that significance does not render into a market advantage or value.
3. Families want a “legacy pass” in the market: “We are 50 years old and we deserve another 50 years since we have been such good citizens.”
4. Managers try to equalise the threat profile (reward and risk opportunities) of their stakeholders with the investment demands and risks of the marketplace.
5. Successor and senior generations have diverse goals and threat profiles for how their business should cultivate in the future.
6. Families find it tough to pass the ground-breaking assurances and competences from the older generation to a less “hungry” beneficiary generation.
7. Families construct their first-generation businesses on the initiator's perception, but the business never ascertains more deliberate entrepreneurial procedures to keep the entrepreneurial influences alive.
8. Families will not use much of the financial plans that entrepreneurs use to nurture businesses: partnerships, debt, strategic alliances and equity capital.
9. Families do not shed underperforming businesses and fruitless assets to move reserves to more constructive places.
10. Beneficiary generation family members feel titled to get a business before they pursue next-generation entrepreneurial prospects.
11. Older managers converse with the next generation that entrepreneurial analysis and business planning are a waste of time.
12. Family participants are given a business to run as part of their heritage which is considered entrepreneurship in the family.

3.7 How to manage conflict within family businesses

Numerous authors have shown that family conflict is one of the key causes of breakdown in a family business and that conflict is one of the utmost damaging causes impacting on family coherence (Upton, 2001; Van der Merwe & Ellis, 2007; Ward, 1997). People are under the misguided opinion that successful and healthy family businesses are free from conflict (Bork, 1993). Actually, it is common for families to have internal struggles (Pickard, 1999). Kaye (2005) stresses that conflict is inevitable and shows that it is beneficial for a family business. Ducking conflict is, nonetheless, not the answer; it is essential that it is managed to warrant that one finds the explanation in

lessening the influence of conflict on family coherence (Upton, 2001). Family businesses should endeavour towards a state where severe conflict is averted, and if it happens, it is dealt with swiftly before it has an adverse influence on family coherence and eventually the endurance of the family business. Family businesses should consequently endeavour towards a reasonably serene atmosphere. Adequate empirical evidence and anecdotal evidence exist to back the idea that the management and prevention of conflict can warrant a superior level of family coherence in family businesses (Van der Merwe & Ellis, 2007).

The likelihood for conflict in family businesses can be more than for conflict in non-family businesses (Swart, 2005). Astrachan and McMillan (2003) noted that the cause for this amplified possibility for conflict is the connection amongst the business and family sub-systems. Since family businesses are extra disposed to conflict than non-family businesses, the capability to manage conflict in a family business is imperative (Ibrahim & Ellis, 2004).

Cohn (1992) is of the opinion that family members regularly fight about greater issues than the ones they declare to be infuriated about. Family disputes often fester for years before they begin to overflow. Identifying indications of anguish early and dealing with the fundamental concerns that are initiating the suffering can keep disputes from emerging. Occasionally families think that they have no divergence because the conflict is inhibited (Astrachan & McMillan, 2003). Conflict can be controversial and it can be described as war, battle or struggle, but disagreement in a family business is often much more delicate. It can be denied or hidden and occasionally it is kept quiet (Astrachan & McMillan, 2003). It may be so undetectable that people outside and inside the family do not concede that it is there and it almost permanently conceals graver concerns (Astrachan & McMillan, 2003).

Cohn (1992) proclaims that healthy family businesses and families successfully manage disagreement by evolving tools to resolve disagreements. Referring to Bork (1993), many people have the misunderstanding that the degree of the healthy or successful family is the absence of conflict. Though, concurring with Kickham (2004), it is frequently the family's ability to resolve and manage disagreement that regulates its emotional health and maturity.

Conflict controlling is an important ability in the management of the family business (Ibrahim & Ellis, 2004). Nothing interrupts a family business as significantly as disagreement between family members, or aggravates it as much as the incompetence of family members to acceptably converse with each other (Astrachan & McMillan, 2003).

A key concern in most family businesses is the issue of its endurance. Astrachan and McMillan (2003) make no secret of the statement that the past is packed with examples of family businesses that failed to endure to the succeeding generation because family members could not resolve and agree to their differentiations or successfully converse with each other. Disagreement and the breakdown of communication give expressively to the breakdown of many business-owning families (Ibrahim & Ellis, 2004; Astrachan & McMillan, 2003; Aronoff, *et al.*, 2002; Carlock & Ward, 2001). Numerous family business academics are of the view that intimate family links and resilient working connections are fundamental to the endurance of a family business (Venter & Boshoff, 2006; Santiago, 2000; Sharma, 1997; Malone, 1989).

Several authors emphasise that the utmost threat to the survival, success and growth of a family business is linked to family affiliations (Goldberg, 1996; Venter, 2003; Ward, 1997). It is from conflict-burdened family connections that several family business problems originate and handling both business and family seems to be a continuous confrontation (Schuman *et al.*, 2010).

Family business managers know that when they confront problems in the business, such as disagreement between family members, both the achievement of the business and the connections among family colleagues are in jeopardy (Visser & Strydom, 2010).

When effective family members experience disagreement among themselves, inactive family partners should make a determined exertion to stay out of the disagreement situation and evade jesting family members off each other. Forethought should, nonetheless, be made by means of distinct family meetings for these members to express their thoughts and to be educated about concerns related to the family business that may be of significance to them or guide them business-wise. Should non-family investors exist, their responsibilities and roles should also be explained and

approved upon throughout these family meetings or in a family foundation (Venter *et al.*, 2012).

Insignificant communication is a usual drawback in family businesses (Ibrahim & Ellis, 2004) and the lack of satisfactory channels of interaction can be an overwhelming source of family disagreement (Friedman, 1998). Consequently, the family's capability to resolve disparities is clogged by its communication and conflict arrangements and poor communication proficiencies (Bork *et al.*, 1996). Communication is a very efficient way of accepting and perhaps even approving on concerns that are usually extremely complex (Adendorff *et al.*, 2008). The emotional and sensitive concerns are usually eluded. The more family members converse and debate their disparities, the more probable it is that disagreement will be lessened and understandings reached (Friedman, 1998).

Remuneration is a concern in every business (Spector, 2001). In a family-owned business the feelings are intensified and the risks are high. Because it is such a complex concern, most families do not do a very good job at coming up with a sensible reward system (Aronoff *et al.*, 2002; Bork *et al.*, 1996). Business owning families frequently complicate the subjects of equality and fairness and, rather than paying a reasonable market price for every person's involvement on the job, they pay each similarly (Bork *et al.*, 1996). A carefully structured and well-planned reimbursement method, nonetheless, one that displays a distinctive relation between results and pay, can successfully increase owner significance and lower disagreement (Jonovic, 1997). Koenig (2000) indicated that one of the greatest practices that family businesses can adopt is that of a merit rewards system in order to do well in the business world and be sustainable.

3.8 How to plan for succession and transferring of ownership

Family businesses face the predicament of lasting existence (Brenes *et al.*, 2006). Effective succession is dire to the sustainability of the family business. An assortment of conditions can lead to their failure, but nothing is more destructive than the difficulty of succession. Schuman (2004) stressed that to increase the chance of success and survival throughout peers, a family business must participate in a thoughtful series of

strategic business expansion of the newer generation family partners (Aronoff and Ward, 1992a, 1992b). The leading generation family partners play a dire part in the permanent development of constructing control competence to meet the requirements of the future.

Little encounters need additional focus from a business owner than passing on the family business to the succeeding generation (Aronoff & Ward, 1992a). Family members' ultimate personal struggles, relationships, ambitions, dreams and hopes with mortality entirely come to play in progression planning (Van der Merwe *et al.*, 2009). The opinion of the leading generation family members about the competence of the potential beneficiary to effectively succeed the family business after progression is critical for an effective management changeover (Van der Merwe, 2010).

Van der Merwe *et al.* (2012) points out that by employing a few modest fundamentals for family coherence, the family could safeguard the longstanding sustainability of the family business, without even knowing it. Neubauer and Lank (1998) point out that if there is a reasonable amount of family coherence existing, it is significantly simpler to converse progression development and to apply the required structures that can certify an effective changeover of the business from one generation to the next (Astrachan & McMillan, 2003).

Assurance of the family to the outlook continuousness of the business is important because it supports the elaboration of the mutual future dream and the family business endurance plan (Carlock & Ward, 2001). The prospect factor of continuousness needs to contain the family's assurance to develop the business and to upkeep succeeding future generations with both financial assistance and employment opportunities (Miller & Le Breton-Miller, 2005). This vow consequently needs family members to sustain other resources and financials to expand for the future. While the future endurance of a family business has definite past and future sections, family directors must warrant that an established and respected legacy is passed over from the former generation to the next one (Miller & Le Breton-Miller, 2005).

Several writers (Ward, 2004; Venter, 2003; Flören, 2002) recommend that agreeable family relations amongst family members are vital for effective succession as well as a prosperous family business, which eventually certifies the future continuousness of the

business. Malone (1989) discovered an encouraging connection between supposed family coherence and endurance planning in family businesses.

In an extra study, Slaughter (2008) uncovered that supposed future endurance has a convincing linear connection with family coherence in a family business. This indicates that the bigger the level of family coherence, the bigger the likelihood that business continuousness will occur (Farrington, 2009). So, to persist and to be prosperous, family members need to encourage their personal connections with one another (Swart, 2005).

In turn, to make an educated assessment about their future, possible successors need to evaluate their career ambitions, their family relationships and their shareholding in the family business. If beneficiaries are attracted in having a profession in the family business, they should willingly converse and design this likelihood with the owner-manager, deliberating prospects within the family business, as well as other profession opportunities. To make family and personal visions is the initial point for keeping the business and family systems in synchronisation; disagreement can be circumvented if everybody knows where the business, family and individual are heading. A common dream also offers a basis for continuousness. A common dream is not easy-going to build and comprises an open and on-going practice amongst family members. Holding routine family conferences where family members, particularly the inactive family members and the younger generation, can express their dreams and goals for the family business is of fundamental significance (Venter *et al.*, 2012).

3.8.1 Apparent capability of the potential successor

As specified by Ibrahim and Ellis (2004), established by Lansberg (1999) and Neubauer and Lank (1998), an effective and smooth succession practice needs that the descendants gain approval, legitimacy and credibility amongst non-family members and family members. The descendants need to work hard to substantiate themselves. This method should be discussed frankly with the successor as to ascertain explicit competency and skills that have to be gathered at each phase before progressing to the following phase (Chrisman *et al.*, 1998). No matter how particular the planning procedure is, it must be clear throughout that the beneficiary is eventually accountable for his or her growth (Aronoff & Ward, 1992b).

3.8.2 Arrangement of the potential successor

Attention given to the occupational tracks of the subsequent generation is an important part of the improvement of beneficiaries (Neubauer & Lank, 1998). Therefore, older generation owner-managers need to help beneficiaries to cultivate the essential proficiencies to enthusiastically contribute and participate to the total operational success of the business and also be competent to lead the business in different ways (Buchholz *et al.*, 2000). The leading generation family members must encourage the desires of every family member when they enter the family business. Structures must be founded so that each family member has the chance to increase skill over time (Neubauer & Lank, 1998). This needs the setting of credible standards and objectives, offering stimulating tasks and varied practices and offering training and education as suitable. Beneficiaries learning practices must be vigilantly supervised, collect the right combination of responsibilities and challenges, be alternated through diverse areas of the business and they should get response on their performance (Jaffe, 1991). Consequently, in order to effectively make the changeover from one generation to the next, family businesses must project a practice of developing and grooming the next generation of the family into the skilful leaders who can guide the business past the unavoidable growth, changes and crises of the aggressive future (Solomon, 1998). Ibrahim and Ellis (2004) highlight that organising the descendants for the future positions should start at a very early phase and should be followed up when they have joined the family business. This incorporates their willingness and participation in dissimilar business proceedings (Lansberg, 1999; Maas *et al.*, 2005). As a young and new manager, the beneficiary should be involved in a management improvement programme from the beginning of his or her profession (Aronoff & Ward, 1992b; Bork, 1993; Rawls, 1999). Suppose that there is sensible management ability; success differs with the attribute of the management alignment and training instruct (Rawls, 1999). The application of a good thought out management support and training instructs are in most situations dire to the succession procedure (Rawls, 1999). This training of the future successor therefore comprises aspects such as education and academic qualifications (Chrisman *et al.*, 1998; Sharma, 1997), external work capability (Chrisman *et al.*, 1998; Aronoff & Ward, 1992a), the continuation of an official improvement programme (Aronoff & Ward, 1992a), functional reassurance of the potential successor to develop him- or herself, to be accessible for learning (Matthews *et al.*, 1999; Aronoff & Ward,

1992b) and the attainment of sufficient familiarity at each level in the business (Chrisman *et al.*, 1998).

3.8.3 Cooperative management

Neubauer and Lank (1998) mentioned that ability does not come about by absorption. Structures need to be in place to allow the possible beneficiary the chance to increase knowledge over time. This requires the setting of realistic standards and objectives, offering stimulating duties with varied capabilities, recommending training and education as suitable and certifying comment on performance. The role of the leading generation owner-manager is dire in the formulation of the potential beneficiary for the job ahead. It is, nevertheless, a functional procedure and a participative management method is important to develop and groom the potential beneficiary. Contained in participative management, is the talent of delegating. Aronoff and Baskin (2005) encapsulate delegation in family businesses as such: “Delegating means giving up that very thing you would often like to hold onto most, authority, while retaining the thing you would most like to give up, responsibility”. The leading generation family members should enthusiastically make chances for the newer generation to develop and grow. They have to listen to novel concepts from the newer generation, embrace the newer generation in important meetings with contractors and suppliers, advisors and customers, delegate influence, include them in choices that may upset him or her, inspire them to contribute in, and query important decisions (Aronoff & Ward, 1992a, 1992b; Schuman, 2004; Aronoff & Baskin, 2005).

3.8.4 Possible recognition

The enthusiasm of the newer generation or potential successor to manage the family business may be persuaded by how well the beneficiary's profession, personal needs and other interest needs are supported with chances in the business, whether the chance exits to practice impact in the business and the conceivable returns from the business (Venter *et al.*, 2003:3). Beneficiaries are more probable to extend to their potential through organised communication and mentors, and through doing, industry and peer contacts that share insight and experience (Aronoff & Ward, 1992b). The

writers stressed that these learning chances do not just occur in a family business. They must be intended. An efficient beneficiary expansion plan should strike equilibrium amongst meeting the requirements of the business however, giving the beneficiary a varied range of tasks, opportunities and experiences. The family business, under the control of the leading generation owner-manager, must provide chances for the potential beneficiary to develop and grow, to use his or her specific abilities and skills to fulfil his or her individual career objects in the family business. It is, nonetheless, a functional process and it is significant to make a climate favourable for the apprehension of the possible potential beneficiary (Aronoff & Ward, 1992a, 1992b; Schuman, 2004; Aronoff & Baskin, 2005).

Literature indicates, nonetheless, that the newer generation is eventually responsible for their personal growth (Aronoff & Ward, 1992b). It is therefore imperative that the growth of the beneficiary should be watched from the viewpoints of both role players.

The study by Van der Merwe (2010) concentrated on the valuation of the role of the leading generation family members in the expansion of the potential beneficiaries. It is, nevertheless, imperative to take note of management progression planning as well as the accountability of the potential beneficiary in the growth of him- or herself. Beneficiaries should empower themselves and be receptive and eager to learn.

3.8.5 Managerial implications and practical recommendations

The leading generation owner-manager should enthusiastically take the lead in the development and training of the potential beneficiary. They should create a climate where the newer generation family members can grow their leadership and management skills and eventually become eager to take over the duties of the future management of the family business. Potential beneficiaries should, nevertheless, comprehend that they are accountable for their own growth. They should thus be keen to be receptive and keen to learn. Van der Merwe's (2010) study confirms a solid confident relationship among a participative management method and the apparent capability and the comprehension of the prospects of the newer generation family members. This means, in practice, that a participative management method and guidance by the parents form the basis of the empowerment and development of the

newer generation family members. The leading generation owner-manager must over time retract from the business action, entrusting more managerial accountabilities to the potential beneficiary. This will progressively prepare them to take over the managerial administration of the family business in the future. The growth of the potential beneficiary to effectively manage the family business in the future is only one step in the handover of the ownership and management to the following generation family members. Progression is an expressive subject that could generate severe conflict in the family business. Family businesses must, consequently, start to plan for progression at an early phase; once the newer generation enter the family business. It is vital to tackle the concern of progression before it becomes an emotional and personal concern and can consequently be tackled more contentedly and more sensibly. The dialogue of management progression on a consistent basis throughout family meetings can also play a vital role to certify the achievement of the family business. It is significant that both role players in the growth of the newer generation appreciate each other's accountabilities, fears and needs. Casual family gatherings can provide a suitable setting for the communication of feelings and thoughts of the growth of the newer generation specifically and the overall preparation of management and ownership progression (Van der Merwe, 2010).

So, the more the family business is managed by ways of a participative controlling style by the leading generation owner-managers, the more the apparent capability and the comprehension of the full potential of the newer generation family partners will be. These definitions endorse the literature (Aronoff & Ward, 1992a, 1992b; Schuman, 2004; Aronoff & Baskin, 2005).

Van der Merwe's (2010) study endorses the vital role that the leading generation family members play in the growth of the newer generation successors to confirm that the potential successor is capable to effectively manage the family business after management progression and to confirm the sustainability of the family business (Aronoff & Ward, 1992; Ward, 2004:27; Aronoff & Baskin, 2005). Understanding the factors of this function is vital to be subtle for both role players, the newer and leading generation, fears, needs and expectations in the development.

The desolate news though, is that actual limited family businesses persist to the second generation and significantly less makes it to the third (Bareither & Reischl, 2003; Lea, 1991). A diversity of conditions can lead to their collapse, but a big number of family

businesses flop because of progression failure (Ibrahim & Ellis, 2004; de Vries, 1996), mostly as a consequence of insufficient progression planning (Bareither & Reischl, 2003; Lansberg, 1999).

File and Prince (1996) found that insufficient wealth planning is more frequently a reason of family business breakdown than is meagre management progression planning. Venter *et al.* (2003) points out that the dire significance of wealth planning in the progression process is well documented in family business policies and procedures (Hume, 1999; Sturgill, 1998) particularly in small and medium-sized businesses where the manager and owner is frequently the same person.

Maas *et al.* (2005) insinuate to ownership progression as a lifelong development that allows the family to secure, manage and arrange its liabilities and assets. Obviously the consequence of the procedure is the protection, development and transition of other assets and the business to the funding of the family exclusive of influencing any inactive family members. File and Prince (1996) specified that ownership planning is a vital part in understanding family businesses due to the fact that most family business owners embrace their primary resources inside the business. For a family business ownership preparation contain tax savings, equitable treatment of the next generation, personal financial security and continuity (Aronoff *et al.*, 2002).

Van der Merwe (2009a) showed in a study that wealth planning, effect of wealth taxes, ownership transfer to the younger generation family members, retirement planning, sensitivity of fairness and equality of the will and supposed liquidity of the business after progression are also vital to the family business when succession is concerned, which also needs careful planning and considerations when the family business is to be successfully and smoothly handed over to the next generation.

It is recommended that the withdrawal of the leading generation owner-manager to be designed for individually from the belongings of the family business (Aronoff & Ward, 1993). The leading generation must, preferably, secure a source of revenue or remuneration independent from the business to be monetarily protected after retirement. If the leading generation family members are reliant on the earnings of the family business after retirement, the success and the continuousness of the business could be disturbed if the progression is not properly succeeded (File & Prince, 1996).

A financial advisor can help the family in the progression procedure when wealth planning is conversed and to guide the ownership progression handover from the leading to the newer equity and shareholding and reasonable wealth generation. This contains features such as preparation. Tax consequences of the final will must also be conversed. Wealth planning is dire to certify the effective handover of the ownership of the family business to the newer generation family members (Van der Merwe, 2009a).

The monetary significances of wealth taxes on family businesses may be substantial (Venter *et al.*, 2003). It is therefore vital that family businesses start from an early phase to plan for the withdrawal of the leading generation family members and ownership handover of the family business.

CHAPTER 4

RESULTS AND DISCUSSIONS

4.1 Introduction

The empirical study focuses on B-BBEE and the impact on the small- and medium-sized businesses (family owned) in Boksburg, Ekurhuleni.

In this chapter the structure of the questionnaire, the population study and the method followed to collect the data are discussed. The outcome of the observed study are also discussed and presented.

This chapter interprets and analyses the data that was collected, allowing the investigation of the collected results. The researcher widely relied on previous research done on this topic along with some personal interviews with reputable business owners in order to assemble a questionnaire that was ordered in a way that could warrant viable outcomes, making sure that there are sensible conclusions and advice.

4.2 Ethical aspects

The privacy of the participants is guaranteed. There is no way of recognising individuals or businesses through the questionnaire on how it is structured and the results thereof. Each finding of the questionnaire will be cared with in confidence and concerns raised by a business owner will only be conversed with that particular individual if a requirement for additional conversation exists. Business owners were informed what the study's purpose is by means of an introduction letter and the business owner's involvement was voluntary.

4.3 Questionnaire design

The questionnaire was intended to attend to definite pointers relating to B-BBEE and the impact it has on the small- and medium-sized, family-owned businesses in the Boksburg area. The questionnaire was sectioned into five parts, each part concentrating on a different aspect of B-BBEE. The layout of the questionnaire is shown in Table 4.1.

Table 4.1: Questionnaire parts and objectives

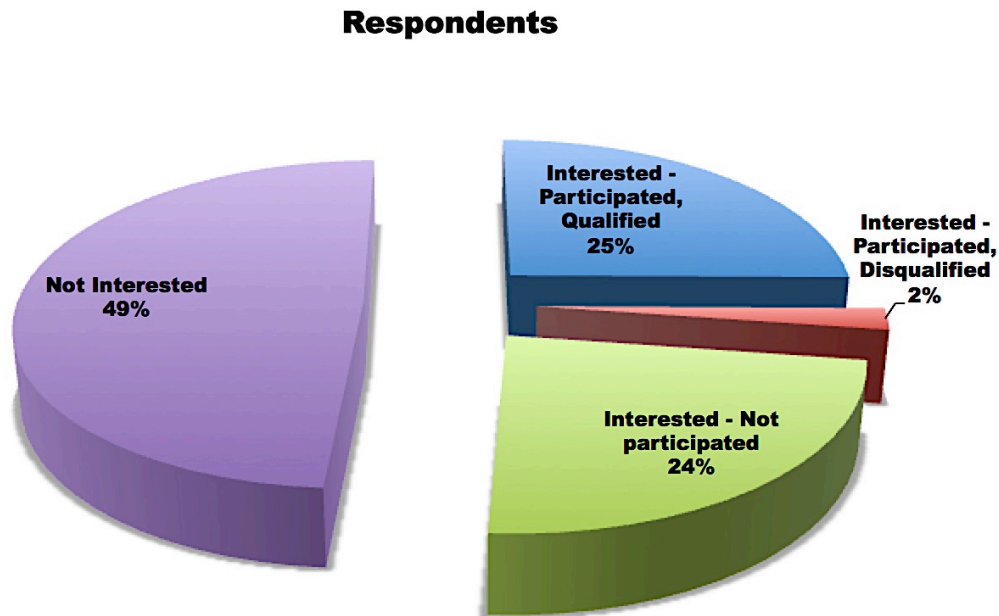
	Objective
Part A	<p>Demographic information: Part A collected data about the demographics of the business owner.</p> <p>Questions integrated into this part include the owner's gender, age, academic qualification and some questions about the business, like whether it is white-owned, the legal status and whether the business belongs to any kind of business association.</p>
Part B	<p>Awareness of Broad-Based Black Economic Empowerment:</p> <p>This part focused on the business owner's understanding of B-BBEE.</p>
Part C	<p>Advantages to the business: This part measured the level of which the business owner deems that B-BBEE has an advantage to business.</p>
Part D	<p>Disadvantages to the business: This part measured the level of which the business owner deems that B-BBEE has a disadvantage to the business.</p>
Part E	<p>General: This part of the questionnaire measured other parts of B-BBEE, like government support, tax incentives, skills development and the implementation procedures.</p>

4.4 Study population and sample

The study population goal of this research was family-owned, small- and medium-sized enterprises in the Boksburg, Ekurhuleni municipality of South Africa. A list of 150 micro-, small- and medium-sized family businesses was recognised to fulfil the research criteria and all of these businesses were contacted to determine their compliance to contribute to the research. Non-probability sampling, snowball and accidental or convenient sampling methods were selected. Welman *et al.* (2005) depict snowball sampling as a non-probability sampling method whereby one approaches an individual or a few people from the intended population or area of research. Then these individuals act as informers to identify other members from the same area of business which can be included in the sample. The Greater Boksburg Chambers of Commerce and Industry (GBCCI) were also contacted to provide a contact list of all the businesses that are GBCCI members. Business friends and schools in the Boksburg area were also asked to provide names of small- and medium-sized family businesses. These business

owners were contacted telephonically and asked whether they will participate in the study. Of the 150 business owners identified, only 73 responded positively to the study participation request. E-mails were sent out to the 73 respondents, with a cover letter (Appendix A) explaining further what the study is about as well as a link to the online questionnaire (Appendix A). Initial feedback to the questionnaire was slow, even after the fact that follow-up phone calls were made and meeting requests sent to schedule a specific time for the business owners to set time aside in their diaries for answering the questionnaire. It was only until respondents were called again and the questionnaire completed while talking to them on the phone, that more questionnaires were collected. A total of 41 completed questionnaires were gathered, of which only 3 do not fit the SME and family business criteria of less than 200 full-time employees and the owner should own more than 51% of the business (Ibrahim & Ellis, 2004). The results of the preliminary 150 small- and medium-sized businesses identified are shown as a pie chart below in Chart 4.1.

Chart 4.1: The outcome of the enterprises contacted



Analysis of the results

Chart 4.1 shows that, of the 150 prospective businesses, 27% participated in the study. 24% showed that they were keen to contribute to the research but failed to provide feedback of the questionnaire before the deadline and 49% showed that they were not prepared to contribute to the research. All the businesses that were requested to participate were intentionally from the Boksburg, Ekurhuleni area.

4.5 Demographic information

The outcomes are found on the feedback received from the questionnaires given to the business owners of small- and medium-sized businesses. This section, Demographic information, embodies the age, gender, highest academic qualification, whether the business is white-owned and some business related questions like owner shares, employee counts, turnover, legal status and so on.

4.5.1 Age of the respondents

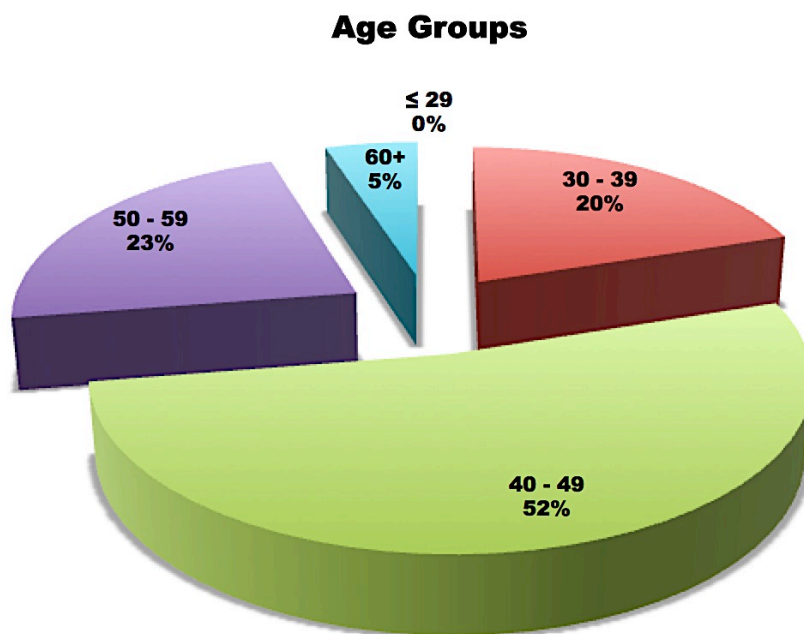
Purpose of the question

To study the age group of the business owners in Boksburg, Ekurhuleni and to establish if a connection is present, linking the common awareness of some age groups on the impact of B-BBEE.

Results obtained

The age division of the business owners of the small- and medium-sized family-owned businesses in Boksburg, Ekurhuleni who contributed to this research as per the determined age groups is shown in Chart 4.2.

Chart 4.2: Age division of the family business owners of small- and medium-sized businesses in Boksburg who contributed to the research.



Analysis of the results

Chart 4.2 points out that 20% of the business owners of small- and medium-sized businesses that contributed to the research are between 30 to 39 years old, 52% are between 40 and 49 years old, 23% are between 50 and 59 years old and 5% are older than 60 years. No respondents below 29 years of age took part in the study.

4.5.2 Gender of the respondents

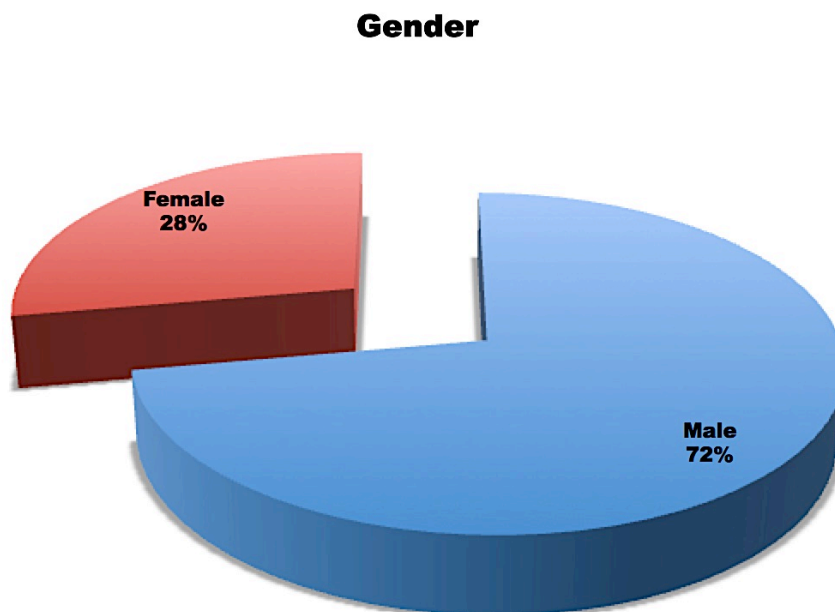
Purpose of the question

To study the gender of the business owners in Boksburg, Ekurhuleni and to establish if a connection is present, linking the common awareness of some age groups on the impact of B-BBEE.

Results obtained

The gender of the business owners of the small- and medium-sized family owned businesses in Boksburg, Ekurhuleni who contributed to this research as per the determined gender groups is showed in Chart 4.3.

Chart 4.3: Gender division of the family business owners of small- and medium-sized businesses in Boksburg who contributed to the research.



Analysis of the results

Chart 4.3 points out that 28% of the business owners of small- and medium-sized businesses that contributed to the research are female and 72% are male.

4.5.3 White-owned business status

Purpose of the question

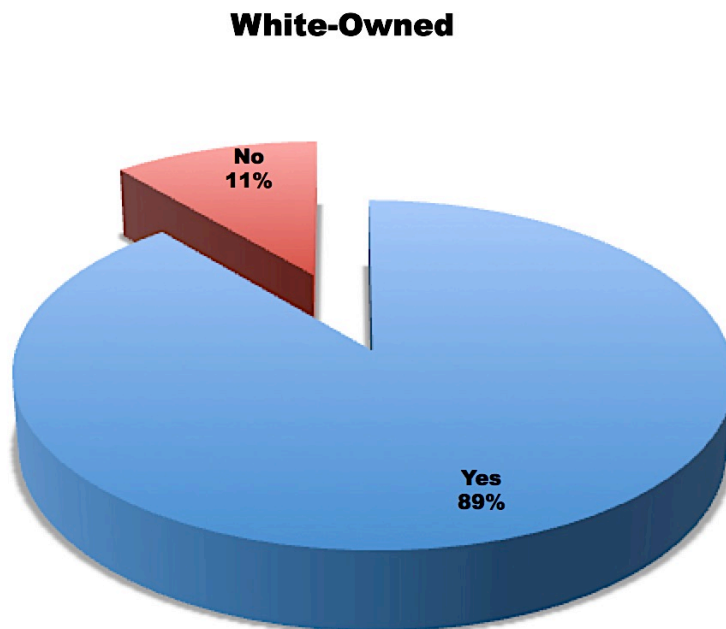
To study the race (black or white) of the business owners in Boksburg, Ekurhuleni and to establish if a connection is present linking the common awareness and effects of some race groups on the impact of B-BBEE.

Results obtained

The race of the business owner of small- and medium-sized family-owned businesses in Boksburg, Ekurhuleni who contributed to this research to determine whether the

business is white-owned is shown in Chart 4.4.

Chart 4.4: White-owned status of the respondents of the family business owners of small- and medium-sized businesses in Boksburg who contributed to the research.



Analysis of the results

Chart 4.4 points out that 11% of the businesses of small- and medium-sized family businesses that contributed to the research are black-owned and 89% are white-owned. It is for this reason that white-owned businesses are the focus group of this study.

4.6 Business information

The company information of the contributing family owned small- and medium-sized businesses forms part of Part A in the questionnaire. The variables used are employee count in the business, annual turnover, legal status and the time the business has been in operation. These variables' results from the family-owned small- and medium-sized

businesses that partook in the research are explained below in the next few sub-sections.

4.6.1 Permanent employees in the respondents' business

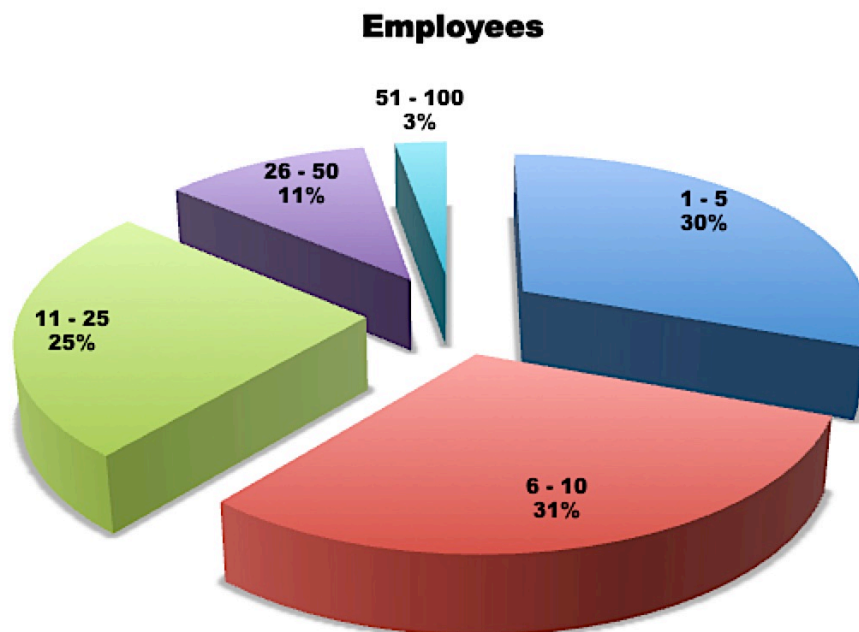
Purpose of the question

To study the amount of permanent employees in the family-owned businesses in Boksburg, Ekurhuleni and to establish if a connection is present, linking the common awareness that the company size has on the impact of B-BBEE.

Results obtained

The permanent employees or company size of the small- and medium-sized family owned businesses in Boksburg, Ekurhuleni who contributed to this research as per the determined age groups is shown in Chart 4.5.

Chart 4.5: Permanent employees in the family owned small- and medium-sized businesses in Boksburg who contributed to the research.



Analysis of the results

Chart 4.5 points out that 30% of the family-owned small- and medium-sized businesses that contributed to the research have 1 to 5 permanent employees, 31% have 6 to 10 permanent employees, 25% have 11 to 25 permanent employees, 11% have 26 to 50 permanent employees and 3% have 51 to 100 permanent employees.

4.6.2 Business turnover of the respondents' business

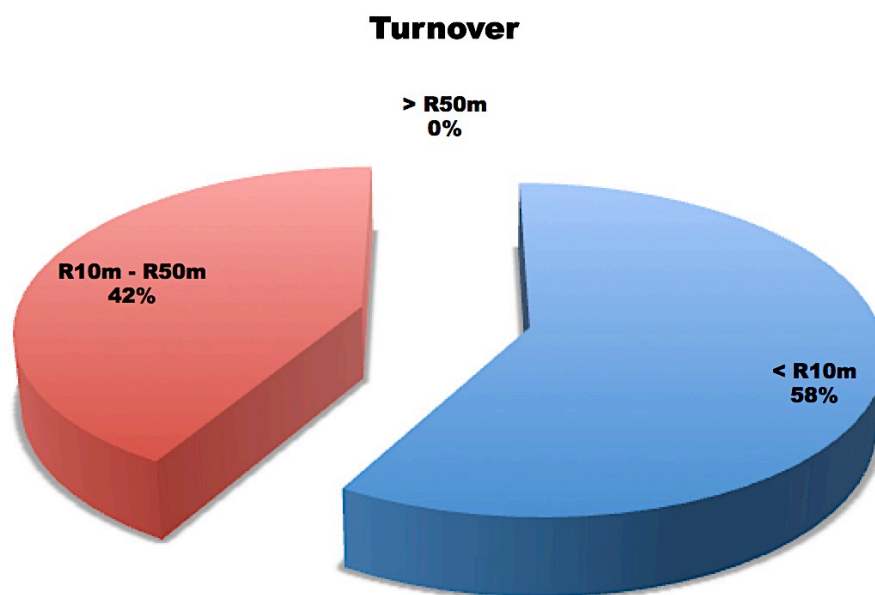
Purpose of the question

To study the business turnover of the family-owned businesses in Boksburg, Ekurhuleni and to establish if a connection is present, linking the common awareness of different business turnover groups on the impact of B-BBEE.

Results obtained

The business turnover of the small- and medium-sized family-owned businesses in Boksburg, Ekurhuleni who contributed to this research as per the determined business turnover groups is shown in Chart 4.6.

Chart 4.6: Business turnover of the family-owned small- and medium-sized businesses in Boksburg who contributed to the research.



Analysis of the results

Chart 4.6 points out that 58% of the family-owned small- and medium-sized businesses that contributed to the research have a turnover of less than R10 m and 42% have a turnover of between R10 m and R50 m.

4.6.3 Business legal status of the respondents' businesses

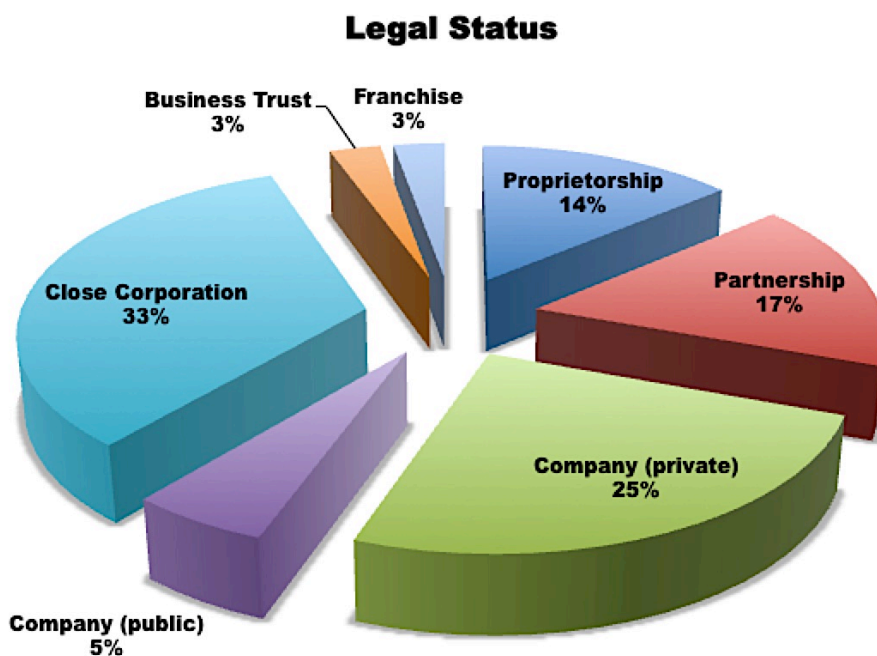
Purpose of the question

To study the legal status of the businesses in Boksburg, Ekurhuleni and to establish if a connection is present, linking the common awareness of legal status groups on the impact of B-BBEE.

Results obtained

The legal status of the small- and medium-sized family-owned businesses in Boksburg, Ekurhuleni who contributed to this research as per the determined legal status groups is shown in Chart 4.7.

Chart 4.7: Business legal status of the family-owned small- and medium-sized businesses in Boksburg who contributed to the research.



Analysis of the results

Chart 4.7 points out that 14% of the small- and medium-sized family businesses that contributed to the research whose legal status is that of proprietorship, 17% are partnerships, 25% are private companies, 5% are public companies, 33% are close corporations, 3% are business trusts, and 3% are franchises.

4.6.4 Age of the respondents' business

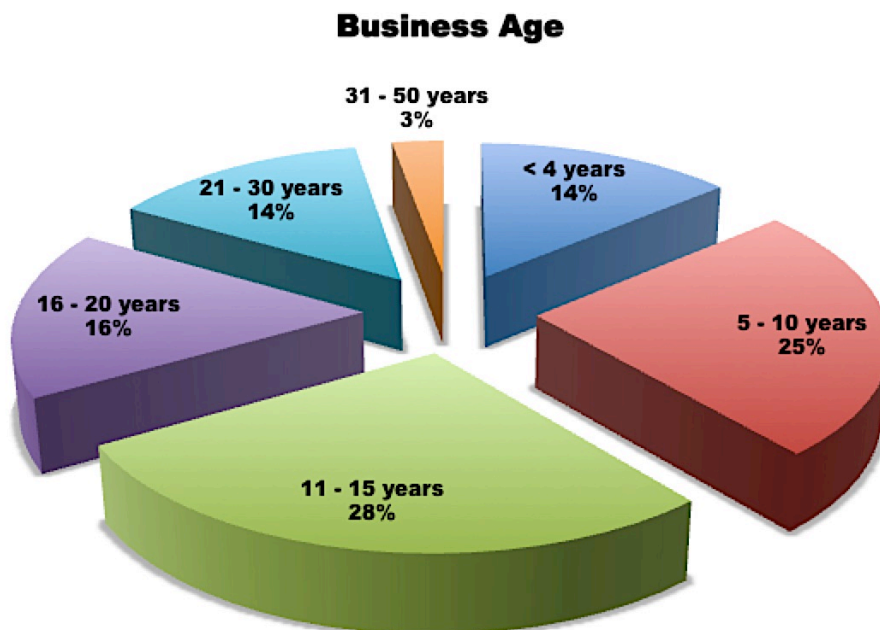
Purpose of the question

To study the age of the different family businesses in Boksburg, Ekurhuleni and to establish if a connection is present, linking the common awareness of the business' age on the impact of B-BBEE.

Results obtained

The business age of the small- and medium-sized family-owned businesses in Boksburg, Ekurhuleni who contributed to this research as per the determined business age groups is shown in Chart 4.8.

Chart 4.8: Age of the family owned small- and medium-sized businesses in Boksburg who contributed to the research.



Analysis of the results

Chart 4.8 points out that 14% of the small- and medium-sized family businesses that contributed to the research have been in business for less than 4 years, 25% have been in business between 5 and 10 years, 28% have been in business between 11 and 15 years, 16% have been in business between 16 and 20 years, 14% have been in business between 21 and 30 years and 3% have been in business between 31 and 50 years.

4.7 Awareness Of B-BBEE

From here onwards only responses from white-owned (31) businesses is shown because black-owned (4) businesses' response was too low in order to make any statistical conclusion.

The main goal of Part B of the questionnaire is to establish the changing levels of awareness amongst the participating family business owners on B-BBEE. This part has eight questions with yes or no answers. Table 4.2 confirms the results of Part B.

Table 4.2: Awareness of B-BBEE

No	Question	Number or Percentage Yes	Number or Percentage No
B1	I am familiar with the legislation pertaining to B-BBEE.	100%	0%
B2	I am familiar with the new codes pertaining to B-BBEE.	90%	10%
B3	I know about all the seven (five) elements of the codes of good practice.	94%	6%
B4	I am aware of the fact that qualifying small enterprises consist of businesses with an annual turnover of R10 m – R50 m.	100%	0%
B5	The fact that qualifying small enterprises now have to adhere to all of the elements of codes of good practice is known to me.	94%	6%
B6	I am aware of the contribution levels of B-BBEE.	90%	10%
B7	The turnover of the enterprise is above the R50 m bracket.	13%	87%
B8	I am aware that businesses with less than R10 m turnover are exempted from complying with the codes.	84%	16%

Analysis of the results

All the participating owner-managers surveyed indicated that they are familiar with the legislation pertaining to B-BBEE. Most of the participating businesses are familiar with the new codes of B-BBEE, 94% know about the seven (five) elements of the codes of good practice. The results furthermore show that all of the respondents are aware of

what qualifying small enterprises are, 94% of them know that as a qualifying small enterprise they have to comply and adhere to all the elements (five) of the codes of good practice.

The results show that 90% of the participants are familiar with the contribution levels of the B-BBEE legislation. The question whether the turnover of the enterprise was above R50 m shows which companies are classified as medium enterprises, but can also deem as a test or validation question when compared to Question A.7 regarding the actual turnover of the business. Only 13% of respondents fall in this specific bracket which can be negated. A total of 84% of the respondents indicated that they knew that a business with less than R10 m annual turnover is exempted from complying with the codes.

4.8 The impact of B-BBEE on small- and medium-sized enterprises

The impact of B-BBEE on small- and medium-sized businesses in the Boksburg, Ekurhuleni area was gathered by using the perceptions of the family business owners through statements that were included in the questionnaire. These statements were divided into disadvantages and advantages to the family businesses as seen by the business owner.

The end result data received from the questionnaire was statistically analysed, using SPSS (2012). An arithmetic mean is used to interpret the results.

The questionnaire is constructed on a Likert-style seven point (1 = strongly disagree; 7 = strongly agree). The comparatively low numbers represent disagreement with the statement and comparatively high numbers signify agreement with the statement. This measures that a lower number represents disagreement with the statement and thus suggests that the statement is alleged to be false or not applicable to the business. Similarly, a high number represents agreement with the statement and thus suggests that the statement is alleged to be correct, valid or applicable to the business.

Table 4.3: Statistical descriptive measures

Statistical Term	Description
Population	“The population encompasses the total collection of all the units of analysis about which the researcher wishes to make specific conclusions.” (Welman <i>et al.</i> , 2005).
Probability sampling	“In the case of probability sampling, we can determine the probability that any element or member of the population will be included in the sample.” (Welman <i>et al.</i> , 2005).
Non-probability sampling	“In non-probability sampling by contrast, we cannot specify this probability. Elements which have a probability that exceeds zero. In some examples of non-probability samples some elements have no chance of being included.” (Welman <i>et al.</i> , 2005).
Arithmetic mean	“The average score for a group (also called the arithmetic mean) and which is equal to the total of individual scores divided by the number of scores.” (Welman <i>et al.</i> , 2005).
Standard deviation	“To determine if the scores on a parametric test are evenly distributed and cluster closely around the mean (parametric assumptions hold that populations are normally distributed, or that their variances are the same).” (Welman <i>et al.</i> , 2005).

To resolve the explanations of the scores of this study, an arithmetic mean value of lower than 2.5 specifies a disagreement to the testimony by contributors, whereas a value between 2.5 and 3.5 shows that contributors marginally disagree with the testimonial. Neutral view score is between 3.5 and 4.5. A score between 4.5 and 5.5 suggests a minor agreement. A score between 5.5 and 6.5 is seen as a suggestion that the contributors correspond with the testimonials and the scores surpassing 6.5 signifies that the contributors strongly agree with the testimonial.

Score and indicator used for evaluating averages received from each statement:

<u>Score</u>	<u>Indicator</u>
1.0 - 1.5	Strongly disagree
1.5 - 2.5	Disagree
2.5 - 3.5	Slightly disagree
3.5 - 4.5	Neutral view
4.5 - 5.5	Slightly agree
5.5 - 6.5	Agree
6.5 - 7.0	Strongly agree

4.8.1 Opportunities and advantages of B-BBEE

Section C of the questionnaire concentrated on the opportunities and advantages of B-BBEE to the business as observed by the contributing business owners. The scores are shown in Table 4.4 with standard deviation (S) and arithmetic mean (\bar{x}).

Table 4.4: The results of the evaluation of the opportunities and advantages of B-BBEE

<u>OPPORTUNITIES and ADVANTAGES of B-BBEE</u>			
No.	Item	\bar{x}	S
	Average of all the sub-indicators in this section	3.55	1.87
C8	B-BBEE has already been implemented in this business.	4.72	1.87
C2	We have been rated by an accreditation agency in this business and were found to be between level one and level four contributors.	4.59	1.79
C13	B-BBEE makes it possible for the business to compete in new unexplored markets.	3.94	2.30

C15	Compliance to B-BBEE makes it possible for the business to expand its business operations (higher growth).	3.91	2.19
C7	B-BBEE can result in the acquiring of new customers for the business.	3.88	2.11
C14	B-BBEE makes it possible for the business to get access to contracts.	3.81	2.35
C12	B-BBEE makes it possible for the business to be more competitive.	3.69	2.24
C9	B-BBEE makes it possible for the business to invest in affordable skills development for employees.	3.47	1.78
C18	Access to finance would be easier once the business complies with B-BBEE requirements.	3.41	1.64
C19	B-BBEE creates new jobs.	3.41	1.68
C1	B-BBEE creates new possibilities for the business in terms of business networks and new associates.	3.34	2.21
C3	Implementing B-BBEE is a relatively easy process.	3.34	1.54
C10	B-BBEE can lead to new innovative ideas with the input of the empowering partner.	3.34	1.73
C4	We have been more successful in this business after complying with the B-BBEE legislation.	3.28	1.99
C5	Black employees are better off in terms of skills and seniority in the business since we implemented B-BBEE.	3.28	1.61
C11	B-BBEE can help the business to achieve its social responsibility towards the community.	3.28	1.69
C6	Our annual turnover has increased since the implementation of B-BBEE.	3.16	1.83
C16	B-BBEE can give the business the opportunity to acquire materials cheaper as part of the preferential procurement process.	2.91	1.59
C17	B-BBEE can lead to more effective management styles within the business.	2.69	1.33

Analysis of the results

An average score of $\bar{x} = 3.55$, for the construct **opportunities and advantages of B-**

BBEE, shows that the owners of the small- and medium-sized family businesses who participated in this study do not particularly view B-BBEE as an opportunity or advantage to their businesses, but do have a fairly neutral view. The average standard deviation is slightly high at 1.87, which shows that the respondents' views on this is fairly spread amongst the indicators and not one indicator was emphasised by all the family business owners because their opinions differ on the statements put forth.

None of the mean values is lower than 2.5. This indicates that the participants in this study do not disagree that there are opportunities and advantages with B-BBEE, but do however slightly disagree.

The highest score in this section was from item no. C8, "**B-BBEE has already been implemented in this business**". At an average of 4.72, it indicates that there is a slight agreement that B-BBEE has been implemented in the business.

The statement, "**B-BBEE can lead to more effective management styles within the business**" from item no. C17 has the lowest mean score, at 2.69 it implies that family businesses slightly disagree to the statement.

Item no. C13, C15, C7, C14 and C12 respectively had average scores of 3.94, 3.91, 3.88, 3.81 & 3.69. These scores all imply that the respondents had a neutral view on "**B-BBEE makes it possible for the business to compete in new unexplored markets**", "**Compliance to B-BBEE makes it possible for the business to expand its business operations (higher growth)**", "**B-BBEE can result in the acquiring of new customers for the business**", "**B-BBEE makes it possible for the business to get access to contracts**", and "**B-BBEE makes it possible for the business to be more competitive**".

11 Statements received average scores between 2.5 and 3.5, which imply that the respondents slightly disagree to item no. C9, C18, C19, C1, C3, C10, C4, C5, C11, C6, and C16. The individual scores for these item numbers were, in order, 3.47, 3.41, 3.41, 3.34, 3.34, 3.34, 3.28, 3.28, 3.28, 3.16 and 2.91. These statements respectively point out a slight disagreement towards "**B-BBEE makes it possible for the business to invest in affordable skills development for employees**", "**Access to finance would be easier once the business comply with B-BBEE requirements**", "**B-BBEE creates new jobs**", "**B-BBEE creates new possibilities for the business in terms of**

business networks and new associates”, “Implementing B-BBEE is a relatively easy process”, “B-BBEE can lead to new innovative ideas with the input of the empowering partner”, “We have been more successful in this business after complying with the B-BBEE legislation”, “Black employees are better off in terms of skills and seniority in the business since we implemented B-BBEE”, “B-BBEE can help the business to achieve its social responsibility towards the community”, “Our annual turnover has increased since the implementation of B-BBEE”, and “B-BBEE can give the business the opportunity to acquire materials cheaper as part of the preferential procurement process”.

4.8.2 Threats and disadvantages of B-BBEE

The questionnaire’s section D focused on the threats and disadvantages of B-BBEE have on the family business as observed by the contributing family business owners. The scores are shown in Table 4.5 with standard deviation (S) and arithmetic mean (\bar{x}). In this segment a higher mean score points to a possible threat or disadvantage to the business.

Table 4.5: The results of the evaluation of the threats and disadvantages of B-BBEE

<u>THREATS and DISADVANTAGES of B-BBEE</u>			
No.	Item	\bar{x}	S
	Average of all the sub-indicators in this section	4.15	1.58
D11	B-BBEE will result in the business employing incompetent people just for the sake of empowerment.	4.88	1.66
D5	Adhering to the B-BBEE act and codes of conduct put an administrative burden on the business.	4.69	1.33
D8	The ownership requirements of B-BBEE will lead to the owner losing control over the business.	4.69	1.93
D12	B-BBEE might lead to the deterioration of quality due to higher levels of authority being given to people that does not possess the necessary skills.	4.59	1.56
D13	Preferential procurement might force the business to buy from new suppliers, resulting in potential risks in terms of reliability.	4.53	1.14
D10	An empowering partner will change the culture of the business, resulting in conflict.	4.44	1.63
D14	Established relationships with current suppliers will be at risk once the business has to buy from empowered suppliers.	4.31	1.26
D4	Implementing the codes of good conduct on B-BBEE could result in the loss of focus on business matters and therefore could have a hampering effect on our businesses.	4.22	1.84
D15	Quality control might deteriorate as new materials from new suppliers have to be used as part of the preferential procurement requirements.	4.22	1.31
D9	The skills development aspect of B-BBEE will lead to a loss in productivity as workers will need to attend courses.	4.13	1.48
D2	B-BBEE has caused us to lose a lot of contracts.	4.03	2.10

D7	Implementing B-BBEE will be time consuming and can result in the neglect of existing customers.	3.91	1.38
D3	B-BBEE has caused job losses of black people in this business.	3.81	1.93
D1	Complying with B-BBEE is not a priority of this business.	3.78	1.83
D6	The B-BBEE codes of good conduct are vague and complicated.	3.78	1.39
D16	B-BBEE has caused job losses in this business.	3.75	1.88
D17	We can't comply fully because there are very few women in this industry.	2.81	1.23

Analysis of the results

An average score of $\bar{x} = 4.15$, for the construct **threats and disadvantages of B-BBEE**, shows that the owners of the small- and medium-sized family businesses who participated in this study do not particularly view B-BBEE as a threat or disadvantage to their businesses, but do have a fairly neutral view. The average standard deviation is slightly high at 1.58, which shows that the respondents' views on this is fairly spread amongst the indicators and not one indicator was emphasised by all the family business owners because their opinions differ on the statements put forth.

None of the mean values are lower than 2.5. This indicates that the participants in this study do not disagree that there are threats and disadvantages to B-BBEE, but do however tend to lean more towards a slight agreement because 5 of the 17 statements point towards that indicator and 11 of the statements have a neutral view indicator.

The highest score in this section was from item no. D11, "**B-BBEE will result in the business employing incompetent people just for the sake of empowerment**". At an average of 4.88 it indicates that there is a slight agreement that B-BBEE will be the reason for the employment of the wrong people in the business for the sake of legislation framework.

The statement, "**We can't comply fully because there are very few women in this industry**" from item no. D17 has the lowest mean score; at 2.81 it implies that family

businesses slightly disagree to the statement.

Item no. D5, D8, D12, and D13 respectively had average scores of 4.69, 4.69, 4.59, and 4.53. These scores all imply that the respondents slightly agreed on **“Adhering to the B-BBEE act and codes of conduct put an administrative burden on the business”**, **“The ownership requirements of B-BBEE will lead to the owner losing control over the business”**, **“B-BBEE might lead to the deterioration of quality due to higher levels of authority being given to people that does not possess the necessary skills”**, and **“Preferential procurement might force the business to buy from new suppliers, resulting in potential risks in terms of reliability”**.

11 Statements received average scores between 3.5 and 4.5. This implies that the respondents had a neutral view on item no. D10, D14, D4, D15, D9, D2, D7, D3, D1, D6 and D16. The individual scores for these item numbers were, in order, 4.44, 4.31, 4.22, 4.22, 4.13, 4.03, 3.91, 3.81, 3.78, 3.78 and 3.75. These statements respectively point out a neutral view towards **“An empowering partner will change the culture of the business, resulting in conflict”**, **“Established relationships with current suppliers will be at risk once the business has to buy from empowered suppliers”**, **“Implementing the codes of good conduct on B-BBEE could result in the loss of focus on business matters and therefore could have a hampering effect on our businesses”**, **“Quality control might deteriorate as new materials from new suppliers have to be used as part of the preferential procurement requirements”**, **“The skills development aspect of B-BBEE will lead to a loss in productivity as workers will need to attend courses”**, **“B-BBEE has caused us to lose a lot of contracts”**, **“Implementing B-BBEE will be time consuming and can result in the neglect of existing customers”**, **“B-BBEE has caused job losses of black people in this business”**, **“Complying with B-BBEE is not a priority of this business”**, **“The B-BBEE codes of good conduct are vague and complicated”**, and **“B-BBEE has caused job losses in this business”**.

4.8.3 Government support

The government support shown in Section E reported about adequate information availability of B-BBEE and adequate assistance on B-BBEE issues from government, as

well as government’s consideration of SMEs when B-BBEE legislation and the level of assistance from government are considered. The scores are shown in Table 4.6 with standard deviation (S) and arithmetic mean (\bar{x}). In this segment a higher mean score points to government, providing adequate information and assistance regarding B-BBEE issues to the business.

Table 4.6: The results of the evaluation of government support of B-BBEE

<u>GOVERNMENT SUPPORT</u>			
No.	Item	\bar{x}	S
	Average of all the sub-indicators in this section	4.03	1.56
E1	Adequate information on the issue of B-BBEE is available from government and its departments.	4.53	1.57
E2	Adequate assistance on the issue of B-BBEE is available from government and its departments.	4.22	1.62
E3	Government has taken small- and medium-sized businesses in consideration with the development of B-BBEE legislation.	3.34	1.49

Analysis of the results

An average score of $\bar{x} = 4.03$, for the construct of **Government support**, shows that the owners of the small- and medium-sized family businesses who participated in this study do not particularly view government’s support on B-BBEE issues as inadequate, but do have a fairly neutral view. The average standard deviation is slightly high at 1.56, which shows that the respondents’ views on this is fairly spread amongst the indicators and not one indicator was emphasised by all the family business owners because their opinions differ on the statements put forth.

None of the mean values are lower than 2.5. This indicates that the participants in this study do not disagree that government provides adequate support on B-BBEE issues.

Item no. E1 has the highest score; **“Adequate information on the issue of B-BBEE is**

available from government and its departments". At an average of 4.53, it indicates that there is a slight agreement that government do provide adequate information on B-BBEE issues.

The statement, "**Adequate assistance on the issue of B-BBEE is available from government and its departments**" from item no. E2 has an average score of 4.22, which implies that family businesses have a neutral view to the statement.

The statement, "**Government has taken small- and medium-sized businesses in consideration with the development of B-BBEE legislation**" from item no. E3 has an average score of 3.34, which implies that family businesses slightly disagree to the statement.

4.8.4 Suggestions

The suggestions in section E of the questionnaire contained general suggestions around B-BBEE that were gathered from previous studies on this topic. The scores are shown in Table 4.7 with standard deviation (S) and arithmetic mean (\bar{x}). In this segment a higher mean score points to a general agreement on the particular suggestion made.

Table 4.7: The results of the evaluation of the suggestions of B-BBEE

<u>SUGGESTIONS</u>			
No.	Item	\bar{x}	S
	Average of all the sub-indicators in this section	5.18	1.20
E6	Tax incentives should be given to businesses based on job creation rather than preferential procurement.	5.69	0.93
E4	B-BBEE should place more emphasis on job creation.	5.63	0.94
E7	B-BBEE should not be applicable to qualifying small enterprises (with an annual turnover of less than R50 m).	5.25	1.19
E10	In the quest for the right empowering partner it is more important to recruit someone with practical experience in the business as opposed to someone with academic qualifications.	5.22	1.43
E9	The ownership aspect of B-BBEE should only be applicable to businesses where the empowerment partner can buy and pay for his own shares.	5.09	1.35
E8	The skills development aspect of B-BBEE should weigh more on the score card than management participation.	4.94	1.32
E11	The targets of 3% skills development spend must be reduced for qualifying small enterprises, not increased as with the new codes.	4.88	1.16
E5	B-BBEE qualifying criteria should be based on net income not turnover.	4.78	1.24

Analysis of the results

An average score of $\bar{x} = 5.18$, for the construct of **Suggestions**, shows that the owners of the small- and medium-sized family businesses who participated in this study slightly agree to the suggestions made in the questionnaire. The average standard deviation is slightly lower than the other statement sections in this study, at 1.20, which shows that the respondents' views on this is fairly similar amongst the indicators pointing to a general agreement from the respondents in this section.

Item no. E6 has the highest score; **"Tax incentives should be given to businesses based on job creation rather than preferential procurement"**. At an average of 5.69, it indicates that there is an agreement amongst family businesses that tax incentives should be given based on job creation, not preferential procurement.

Item no. E4 also has a higher than average score in this section; **"B-BBEE should place more emphasis on job creation"**. At an average of 5.63, it also indicates that there is an agreement amongst family businesses that B-BBEE should deem job creation more important.

6 Statements received average scores between 4.5 and 5.5. This implies that the respondents slightly agreed on item no. E7, E10, E9, E8, E11 and E5. The individual scores for these item numbers were, in order, 5.25, 5.22, 5.09, 4.94, 4.88, and 4.78. These statements respectively point out a slightly agreed view towards **"B-BBEE should not be applicable to qualifying small enterprises (with an annual turnover of less than R 50 m)"**, **"In the quest for the right empowering partner it is more important to recruit someone with practical experience in the business as opposed to someone with academic qualifications"**, **"The ownership aspect of B-BBEE should only be applicable to businesses where the empowerment partner can buy and pay for his own shares"**, **"The skills development aspect of B-BBEE should weigh more on the score card than management participation"**, **"The targets of 3% skills development spend must be reduced for qualifying small enterprises, not increased as with the new codes"**, and **"B-BBEE qualifying criteria should be based on net income not turnover"**.

4.9 Reliability of the research instrument

The results are interpreted by arithmetic mean, standard deviation and Cronbach's Alpha coefficient in order to determine reliability and internal consistency of the questionnaire results. A Cronbach's Alpha coefficient (0.0 to 1.0) of 0.7 or higher will be regarded as acceptable levels of reliability for this study.

The Cronbach's Alpha coefficients of the indicators in this study are shown in Table 4.8.

Table 4.8: The results of the Cronbach's Alpha coefficients of the indicators of B-BBEE that have an impact on family businesses

No.	Section	Cronbach's Alpha
	All the sections	0.636
C	Opportunities and Advantages	0.969
D	Threats and Disadvantages	0.944
E	Government Support and Suggestions	0.236

The Cronbach's Alpha coefficient result for the entire questionnaire in this study is 0.636, and the reason for a score lower than 0.7 is due to the results from one section in the questionnaire that is possibly not reliable. Section E, Government Support and Suggestions received a very low Cronbach's Alpha score of just 0.236. Whereas sections C and D, Opportunities and Advantages and Threats and Disadvantages, received very high Cronbach's Alpha scores of 0.969 and 0.944 respectively.

A special investigation can be done to find a reason why section E is not reliable in the context of this study, but it is not the aim of this study, although it does indicate that further a study is needed for Government Support and Suggestions on the impact B-BBEE has on family businesses.

The fact that the bulk of the sub-indicators in these sections obtained high scores (see Annexure 2) makes it probable to assume that these indicators are reliable and

internally consistent.

4.10 Summary

This chapter described the results taken from the statistical analysis done on the data from the empirical research. Results of the biographical data showed that the majority of the owners are between the ages of 40 and 49 years of age (52.5%). The age groups 50 to 59 had the second most respondents at 22.5% and 30 to 39 with 20%. Only 5% of the owners are more than 60 years old, with no respondents below 29 years old. It was found that 72% of family business owners are men and 28% women.

The scores disclosed that 61% of contributing family businesses could be categorised as micro and very small businesses (less than 10 employees) and 38.9% as medium-sized businesses. 42% of contributing family businesses showed an annual turnover beyond R10 million, with the majority of the participants (33%) operating their businesses as close corporations.

The evaluation of the awareness of B-BBEE showed that all of the participants specified that they are aware of the fact that qualifying small enterprises have an annual turnover between R10 m and R50 m. 15 (42%) of the businesses showed an annual turnover of between R10 m and R50 m; all of the respondents showed that they are familiar with the legislation pertaining to B-BBEE.

The questionnaire was further expanded to determine the impact of B-BBEE on family businesses. The questionnaire used a Likert-scale where contributors had to specify their level of agreement with the statements in the questionnaire. A low score (1) for a specific statement show disagreement and a high score (7) show agreement.

Splitting the self-developed questionnaire into four indicators that could be analysed separately, an evaluation was done on the impact of B-BBEE on family businesses. Each indicator had sub-indicators that assisted towards the total evaluation of the particular indicator. The indicators were: opportunities and advantages for family businesses, threats and disadvantages for family businesses, government support and general suggestions.

The arithmetic mean (\bar{x}) for each indicator and its corresponding sub-indicators were

estimated to establish the levels of dominant trend. The arithmetic means were translated by measures of a scale ranging between < 3.5 (indicating a low level of agreement to the statement) and > 5.50 (indicating a higher agreement to the statement).

The contributing family business owners measured the indicators, the implementation of B-BBEE, C8, at an arithmetic mean of 4.72, Government support, E1 to E3, at an arithmetic mean of 4.03, the opportunities and advantages of B-BBEE to family businesses, Section C, at an arithmetic mean of 3.55 and threats and disadvantages of B-BBEE to family businesses, Section D, at an arithmetic mean of 4.15. Even though respondents slightly agree that B-BBEE has been implemented in their businesses, all other indicators have scores below that which point to an overall disagreement towards the indicators.

The closing part of this chapter examined the Cronbach's Alpha coefficients of the indicators and the sub-indicators of B-BBEE that have an impact on family businesses to establish the consistency of the questionnaire. The average Cronbach's Alpha coefficient for the entire questionnaire is 0.636, which is below 0.7 to show that the questionnaire can be seen as a reliable instrument. The main reason for the Cronbach's Alpha coefficient being below 0.7 is due to one indicator, Section E, which resulted in a very low Cronbach's Alpha coefficient of 0.236.

CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter is founded on the indicators and sub-indicators that affect the impact of B-BBEE on small- and medium-sized family businesses in the Boksburg, Ekurhuleni area. These measurements have been assessed during the literature study in the preceding chapters, Chapter 2 and Chapter 3 (the literature review) and Chapter 4 (the empirical study). Conclusions and recommendations are set forth from the outcomes of Chapters 2 to 4.

Chapter 5 concludes with an evaluation to establish whether the primary and secondary objectives as set out in Chapter 1 were achieved. The chapter finally ends with some suggestions for future research and a summary of the complete study.

5.2 Conclusions on the empirical study

For the empirical study, 150 business owners in the Boksburg, Ekurhuleni area were identified, but only 73 responded positively to participate in the study. Of the 73, 41 returned the questionnaire of which 5 were disqualified; effectively 36 questionnaires' results were used successfully in the empirical study, Chapter 4.

Conclusions were drawn from the indicators and sub-indicators of the empirical study based on the impact B-BBEE has on small- and medium-sized family businesses. The conclusions highlight the most important outcomes of the empirical study.

5.2.1 Conclusion based on biographical and demographical data

- **Age groups of family business owners and businesses**

More than 75% of the family business owners are above 40 years of age and more than 50% of the businesses have been in business for over 10 years. This proves that sustainable business takes a long time to build and early planning and strategies are needed for it to survive that long.

- **Gender of family business owners**

The bulk of business owners who contributed to this study were found to be male (72%) and it can consequently be concluded that men primarily own small- and medium-sized family businesses in Boksburg, Ekurhuleni.

- **Ethnic group of business owner**

The questionnaires were sent out to all willing businesses in the Boksburg, Ekurhuleni area, with no favour towards any ethnic group. Most of the respondents that returned a questionnaire were white (89%). It is for this reason that the results from indicators C, D, and E are based on white-owned family businesses. It can further be concluded that the majority of family businesses in Boksburg are white-owned.

5.2.2 Conclusion based on the business information

- **Number of permanent employees**

Close to half of the responding businesses are classified as small enterprises with 11 to 50 employees, although the majority are classified as very small (6 to 10 employees). There are however a large portion of micro enterprises (less than 6 employees) too, but the conclusion can be reached that the bulk of the family businesses in Boksburg are small businesses.

- **Family business annual turnover**

42% of the participating family businesses have an annual turnover between R10 m and R50 m. The majority (58%) however has an annual turnover below R10 m. With the updated B-BBEE legislative codes, close to half of the businesses in Boksburg need to comply with all the B-BBEE codes.

- **Legal status of the business**

The results indicate that the majority (40%) of business owners favour close corporation (33%) and partnership (17%) structures that are less complicated than private company structures. Complicated structures obviously need skills, time and effort to manage properly and as pointed out earlier, most family businesses in Boksburg are relatively small in size with regards to permanent employees, so it is not entirely geared towards company structure complications.

5.2.3 Awareness of B-BBEE in the family business

100% of the small- and medium-sized family businesses that participated in this study showed that it is familiar with the legislation pertaining to B-BBEE, however, only 90% is familiar with the new codes and 94% knows about all the elements of the codes. Strangely, all the respondents know that businesses with an annual turnover of R10 m to R50 m are seen as qualifying small enterprises that need to adhere to the B-BBEE codes, but only 84% are aware that businesses with an annual turnover below R10 m are exempted from complying with B-BBEE. This is a significant result because it can prove that not all business owners are exactly sure what some of the B-BBEE details are.

5.2.4 Assessment of the impact of B-BBEE on family businesses

3 main indicators (Section C, D and E of the questionnaire) were used as guidelines to assess the perceptions of family business owners and the impact B-BBEE has on their businesses. The 3 indicators each have sub-indicators that gave a tally towards an average arithmetic mean of that particular indicator.

The average arithmetic mean of each section is a clue of how family business owners understand the particular indicator. The questionnaire was put together, showing that a higher score points towards business owners agreeing to the statements and lower scores showed business owners disagreeing to the statements put forth.

5.2.4.1 Opportunities and advantages for family businesses

Family business owners rated the opportunities and advantages of B-BBEE to family businesses as fairly low at an average of 3.55. Although it is within the score to point toward a neutral view, the tendency is more towards a slight disagreement. Thus, the overall perception of the participating family business owners in Boksburg is that B-BBEE does not have a great deal of opportunities and advantages to offer.

However, participants indicated the possibility to compete in new unexplored markets and to expand business as the biggest opportunities and advantages of B-BBEE.

5.2.4.2 Threats and disadvantages for family businesses

Family business owners rated the threats and disadvantages of B-BBEE to family businesses slightly higher than the opportunities and advantages at an average of 4.15. The tendency of this average score is more towards a neutral view from participating family business owners on these statements. The overall perception of the participating family business owners in Boksburg is that B-BBEE might have threats and disadvantages for the business.

The participating family business owners specified that the employment of incompetent people just for the sake of empowerment is the biggest threat and disadvantage to their family business, which is confirmed by Janssens *et al.* (2006) in the literature review (Chapter 3).

The topics “B-BBEE only enrich a small number of black elites” and “B-BBEE increases the gap between the rich and the poor in South Africa” are probably the most significant threats and disadvantages of B-BBEE, which is confirmed by Jeffery (2014) and Janssens *et al.* (2006) in the literature review (Chapter 3).

Therefore it is plausible to draw a conclusion established on the input from the literature review and the results of the empirical study that B-BBEE potentially has a negative effect on the family businesses in the Boksburg area, and so the economy as a whole.

5.2.4.3 Government support and suggestions

The participating family businesses rated the government support given to businesses that want to participate in B-BBEE, as neutral. This finding is slightly different from previous studies (Orton, 2008; Oosthuizen, 2004) on the same topic, where it was concluded that businesses disagreed that government support was adequate. This proves that as businesses spend more time with B-BBEE and its rules, they obviously become more aware of B-BBEE and the legislative framework. However, this perception change can be seen as taking too long and as only a very slight change over 7 to 10 years, thus pointing to codes that are cumbersome to understand and implement into business. It is therefore suggested to further investigate this matter.

5.3 Recommendations

The recommendations are prepared from the findings of the literature study, empirical study and conclusions. The recommendations are offered to the government as represented by the Department of Trade and Industry, its role players and the small- and medium-sized family businesses in the Boksburg, Ekurhuleni area.

5.3.1 Recommendations to government

The following recommendations are made to government:

- Replace BEE and introduce Economic Empowerment of the Disadvantaged (EED).
- Start taking NGO's like IRR (Institute of Race Relations), BUSA (Business Unity South Africa) and SMESouthAfrica more serious. Actively listen to what they, as well as small businesses, have to say. Engage more with these entities.
- If BEE as a policy will stay:
 - Provide tax incentives for businesses that create new jobs.
 - Expand training programmes on B-BBEE.
 - Focus more on smaller empowerment deals. Small- and medium-sized enterprises are very important for any economy and need more support from government.

- The current incentives towards skills development are not seen to be significantly advantageous to businesses. Raising taxes and fees to assist with skills development is not a good mechanism in a struggling economy.

5.3.2 Recommendations to family businesses

The following recommendations are made to the family business:

- Family businesses must recognise that B-BBEE is a given fact and has an effect on all businesses in South Africa. More so if the business grows above a R10 m annual turnover and then has to comply with all (five) of the new elements.
- B-BBEE's impact on family business can be lessened through long term strategic planning initiatives. Involve specialists and professional outside advice to assist with the transformation planning and implementation and make sure that a new business culture is adopted by all involved.
- Only employ people for the right reasons; not for empowerment policies.
- The owners must empower themselves by familiarising themselves with everything relevant to B-BBEE.
- Make sure that goals and timeframes are established for the implementation of B-BBEE into the business and adhere to those timelines and goals.
- Involve everybody in the business during this whole process, from start to finish.

5.4 Critical evaluation of the study

The success measurement of this research is established on the realisations of the primary and secondary objectives, as indicated in Section 1.3 of this research.

5.4.1 Primary objective

The primary objective of this research was to establish the impact of B-BBEE on small- to medium-sized family businesses in the Boksburg, Ekurhuleni area, and to make recommendations to new family business start-ups on how to plan for B-BBEE.

The primary objective of this research was achieved by the construction of a

questionnaire in Chapter 4 and the succeeding evaluation of the results taken from the completed questionnaires. The recommendations made in Section 5.3 above confirmed the final achievement of the primary objective.

5.4.2 Secondary objective

In an attempt to achieve the primary objective, the following secondary objectives were expressed for this research:

- To define B-BBEE and family businesses from literature.
- To authenticate the reliability of the questionnaire measuring the impact B-BBEE has on family businesses by means of Cronbach's Alpha.
- To assess the potential impact B-BBEE has on family businesses.
- To examine the criteria and rules that businesses need to meet in order to become B-BBEE compliant.
- To assess how well family businesses have adapted to B-BBEE since 2004 when the act was passed.
- To assess the possible impact that the recent amendments to B-BBEE has on family businesses.
- To suggest recommendations to an entrepreneur wanting to start a new family business; how to plan for B-BBEE.

A literature study on BEE (Chapter 2) and Family Business (Chapter 3) was required to compose a questionnaire to establish the impact of B-BBEE on the small- and medium-sized family businesses. Established on the conclusion of these results, certain statements were made in this chapter, which confirm that B-BBEE has a definite impact on the small- and medium-sized family businesses in the Boksburg, Ekurhuleni area.

Given the conclusions, it is suggested that the objectives and sub-objectives as set out in Section 1.3 of this research have been achieved.

5.5 Suggestions for future research

It's been 20 years since the "new South Africa" and 12 years with BEE / B-BBEE as a

policy and new B-BBEE codes in 2015. The B-BBEE policy and implementation are seen as a risk by most family businesses, 20 years into democracy. How much longer is needed to prove that such a policy can work? Perhaps other “policies” can be put into place to help South Africa’s family businesses grow and ultimately add to the economy, positively. It is consequently recommended that:

- Alternative policies be investigated that can help both family businesses and the South African economy, i.e. Economic Empowerment of the Disadvantaged (EED).
- What is it family businesses desire, from government, to positively contribute to the economy?
- What changes are needed to B-BBEE to make it effective?

5.6 Summary

Family businesses outperform non-family businesses and it is for this reason that government and the private sectors should allow these business entities to flourish in order to build the economy. Unfortunately legislation frameworks like B-BBEE are crippling these business entities, or at least that is what the results from this research point out, which is similar to previous research on the same topic.

In this chapter some conclusions and recommendations were provided, constructed from the indicators and sub-indicators of B-BBEE that impacts small- and medium-sized family businesses. These indicators and sub-indicators were acquired from the literature studies done in Chapter 2 and Chapter 3 and ultimately created the base of the empirical study which led to Chapter 4.

Family business owners rated the opportunities and advantages of B-BBEE to family businesses as fairly low at an average of 3.55, which points to a disagreement towards B-BBEE providing any opportunities and advantages. Family business owners rated the threats and disadvantages of B-BBEE to family businesses slightly higher than the opportunities and advantages, at an average of 4.15, which shows more of an agreement on these statements and indicators. This poses the question: Is B-BBEE actually working?

Some of the recommendations that were made are the following: Government should replace B-BBEE with EED, but if B-BBEE is not to be replaced, government should give more support to businesses, like tax incentives, more training, focusing on smaller deals and better incentives towards skills development.

Recommendations were also made to family businesses: They should recognise B-BBEE as a given fact and plan ahead for it as part of their business strategy because it has a definite impact on business. Only employ people for the right reasons and involve everybody in the business during the whole B-BBEE transformation phase.

It is however the family business owner's choice to comply with B-BBEE, but seeing that such a decision can be a very emotional one, the owner would need to set aside emotions and make informative decisions based on relevant research and sound economical advice.

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ANNEXURES

ANNEXURE 1

MBA mini-dissertation questionnaire letter

Dear Family Business Owner

Re: MBA mini-dissertation questionnaire

The family business has an important and integral function in the South African economy, and also in Ekurhuleni's economy for that matter. It is an essential instrument for job creation and sustainability; dealing with unemployment and providing sustainable growth for the economy.

However, legislation (BEE) commands that all businesses will have to comply with the new BEE codes, and at least 51% ownership and equity in black hands to gain a significant BEE score and seen as a higher level BEE contributor. This is of critical interest for the white owned family business because it impacts the heart of the family business.

This research wants to make an effort to get some proposals and conclusions on how to tackle this predicament.

I am a third year MBA student at North-West University, Potchefstroom Business School, and currently researching the impact of the guidelines of Broad-Based Black Economic Empowerment (B-BBEE) on a Family Business, as part of the concluding fulfilment of my MBA degree.

This subject is of particular interest to me, because I am also aspiring to start a family business and will be facing the same situation as all the participants of this study.

I would like to incorporate your business in my research and would be grateful if you could set time aside in your busy timetable to fill in the prepared questionnaire emailed to you (online). I will be very pleased if you can participate.

For convenience, here is the link to the questionnaire: <http://goo.gl/forms/KMrkOcfssF>.

I fully recognise that some of the information may be private / confidential and the

names of the companies taking part in this study will remain unknown.

Thank you for your time.

Yours truly,

Theo Greyling

083 212 5908

ANNEXURE 2

<u>OPPORTUNITIES and ADVANTAGES of B-BBEE</u>		
No	Indicator	Cronbach's Alpha
C1	B-BBEE creates new possibilities for the business in terms of business networks and new associates.	0.965
C10	B-BBEE can lead to new innovative ideas with the input of the empowering partner.	0.965
C11	B-BBEE can help the business to achieve its social responsibility towards the community.	0.966
C12	B-BBEE makes it possible for the business to be more competitive.	0.965
C13	B-BBEE makes it possible for the business to compete in new unexplored markets.	0.965
C14	B-BBEE makes it possible for the business to get access to contracts.	0.966
C15	Compliance to B-BBEE makes it possible for the business to expand its business operations (higher growth).	0.965
C16	B-BBEE can give the business the opportunity to acquire materials cheaper as part of the preferential procurement process.	0.967
C17	B-BBEE can lead to more effective management styles within the business.	0.967
C18	Access to finance would be easier once the business comply with B-BBEE requirements.	0.969
C19	B-BBEE creates new jobs.	0.968
C2	We have been rated by an accreditation agency in this business and were found to be between level one and level four contributors.	0.97
C3	Implementing B-BBEE is a relatively easy process.	0.971
C4	We have been more successful in this business after complying with the B-BBEE legislation.	0.965

C5	Black employees are better off in terms of skills and seniority in the business since we implemented B-BBEE.	0.969
C6	Our annual turnover has increased since the implementation of B-BBEE.	0.966
C7	B-BBEE can result in the acquiring of new customers for the business.	0.965
C8	B-BBEE has already been implemented in this business.	0.969
C9	B-BBEE makes it possible for the business to invest in affordable skills development for employees.	0.967

<u>THREATS and DISADVANTAGES of B-BBEE</u>		
No	Indicator	Cronbach's Alpha
D1	Complying with B-BBEE is not a priority of this business.	0.941
D10	An empowering partner will change the culture of the business, resulting in conflict.	0.938
D11	B-BBEE will result in the business employing incompetent people just for the sake of empowerment.	0.937
D12	B-BBEE might lead to the deterioration of quality due to higher levels of authority being given to people that does not possess the necessary skills.	0.938
D13	Preferential procurement might force the business to buy from new suppliers, resulting in potential risks in terms of reliability.	0.945
D14	Established relationships with current suppliers will be at risk once the business has to buy from empowered suppliers.	0.947
D15	Quality control might deteriorate as new materials from new suppliers have to be used as part of the preferential procurement requirements.	0.942

D16	B-BBEE has caused job losses in this business.	0.939
D17	We can't comply fully because there are very few women in this industry.	0.95
D2	B-BBEE has caused us to lose a lot of contracts.	0.939
D3	B-BBEE has caused job losses of black people in this business.	0.939
D4	Implementing the codes of good conduct on B-BBEE could result in the loss of focus on business matters and therefore could have a hampering effect on our businesses.	0.937
D5	Adhering to the B-BBEE act and codes of conduct put an administrative burden on the business.	0.944
D6	The B-BBEE codes of good conduct are vague and complicated.	0.942
D7	Implementing B-BBEE will be time consuming and can result in the neglect of existing customers.	0.941
D8	The ownership requirements of B-BBEE will lead to the owner losing control over the business.	0.937
D9	The skills development aspect of B-BBEE will lead to a loss in productivity as workers will need to attend courses.	0.94

<u>GOVERNMENT SUPPORT AND SUGGESTIONS</u>		
No	Indicator	Cronbach's Alpha
E1	Adequate information on the issue of B-BBEE is available from Government and its departments.	0.31
E10	In the quest for the right empowering partner it is more important to recruit someone with practical experience in the business as appose to someone with academic qualifications.	0.251

E11	The targets of 3 % skills development spend must be reduced for qualifying small enterprises, not increased as with the new codes.	0.315
E2	Adequate assistance on the issue of B-BBEE is available from Government and its departments.	0.359
E3	Government has taken small and medium-sized businesses in consideration with the development of B-BBEE legislation.	0.402
E4	B-BBEE should place more emphasis on job creation.	0.193
E5	B-BBEE qualifying criteria should be based on net income not turnover.	-0.024
E6	Tax incentives should be given to businesses based on job creation rather than preferential procurement.	0.108
E7	B-BBEE should not be applicable to qualifying small enterprises (with an annual turnover of less than R 50 m).	0.051
E8	The skills development aspect of B-BBEE should weigh more on the scorecard than management participation.	0.078
E9	The ownership aspect of B-BBEE should only be applicable to businesses where the empowerment partner can buy and pay for his own shares.	0.194