

# **The impact of Broad-Based Black Economic Empowerment (BBBEE) on family businesses**

D. Orton

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Studyleader: Dr. SP van der Merwe

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# ABSTRACT

The South African history and the issue of apartheid lead partially to the exclusion of South Africa from the global economy due to sanctions from first world countries. In an effort to become part of the global economy South Africa needed to restructure its economy. Prior to 1994 the economy of South Africa was characterized by the participation of a small number of actively contributing citizens.

The first democratic election in 1994 was won by the African National Congress (ANC) who made their intentions of transformation very clear right from the start. In an attempt to transform the economy to include the majority of South Africans the Government developed a number strategies and programs.

The most controversial legislation passed was the Broad-Based Black Economic Empowerment Act (53/2003). This Act aims to include previously disadvantages individuals to the economy and laid down certain requirements for all business with an annual turnover of R5 million and more. These requirements entail the participation of previously disadvantaged individuals in management and ownership structures. Preferential procurement and skills development are also part of the legislation.

Family businesses have made a positive contribution towards the South African economy for hundreds of years. The composition of a family business is complex and involves the balancing of work related issues and home related issues. The greatest reward for family business owners is the knowing that they will leave behind a legacy.

The primary objective of this study is to assess the impact of Broad-Based Black Economic Empowerment on small and medium-sized family businesses in South Africa, and to make recommendations to family businesses relating to the management of this issue.

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The research was conducted by means of a literature and empirical study. The literature study was divided into two sections. The first section studied family businesses to gain insight into family businesses and topics include: the definition of a family business, the family business system, communication and conflict and the succession process. The second part of the literature study dealt with Broad-Based Black Economic Empowerment and highlighted aspects like: the South African history, the fostering years and the implementation of an idea and the legislative framework.

The literature study formed the basis for the assessment of the impact of Broad-Based Black Economic Empowerment on family businesses. Specific indicators were empirically tested in practice by means of a developed questionnaire where-after the results were assessed.

Based on the findings of the empirical study, it was concluded that the majority of family business owners do not believe that Broad-Based Black Economic Empowerment are successfully addressing the critical issues that could lead to the achievement of Government's goals.

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# CHAPTER 1

## NATURE AND SCOPE OF THE STUDY

### 1.1 INTRODUCTION

Family businesses are being given increased recognition for their contribution towards economic growth and wealth creation throughout the world (Basu, 2004: 13; Morck & Yeung, 2004; Astrachan & Shanker, 2003; Ibrahim, Soufani & Lam, 2001: 245; Birley, Ng & Godfrey, 1999: 598). Even though the South African economy could be seen as one of the smaller economies in the world, family businesses contribute significantly towards this economy. Van der Merwe (1998: 3) claims that family businesses have been making a positive contribution towards the South African economy for the last 300 years. Ackerman (2001: 325) argues for instance that approximately 80% of businesses in South Africa could be classified as family businesses, and these businesses comprise 60% of the companies listed on the Johannesburg Stock Exchange (Ackerman, 2001: 325).

The rich history of family businesses in South Africa includes some of our country's largest corporate companies namely Pick a Pay, De Beers and the Rembrandt group. Family commitment is at the heart of the family business. The issue of who is committed to keep the business in the family is probably one of the most important questions facing the individual family members (Carlock & Ward 2001: 51). Family businesses are so complex that they are frequently misunderstood - even by their members (Shanker, 2000: 4). Family businesses face increasingly complex issues that affect not only the destiny of the family business itself, but also those of the proprietor, his family, and his employees (Leach & Bogod, 1999: xv). The majority of traditional family businesses are characterized by strong family bonds and cultures which contribute significantly to the uniqueness of family businesses.

New challenges and changes within the operations and structures of family businesses often lead to tension and conflict between family members, one of the

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most recent challenges that face most family businesses in South Africa is the issue of Broad-Based Black Economic Empowerment.

South Africa is currently in its post Apartheid era and the country has seen many changes since the first democratic election in 1994. One of the most controversial changes was the Government's implementation of the Broad-Based Black Economic Empowerment initiative. The South African Broad-Based Black Economic Empowerment Act (53/2003) came into effect on 9 January 2004. According to this Act all businesses with an annual turnover of R5 million or more that want to do business with the Government have to implement Broad-Based Black Economic Empowerment into their businesses. The specific criteria will be discussed briefly in this study.

In the majority of cases the unique composition of family businesses makes the transition to comply with the Broad-Based Black Economic Empowerment legislation a very delicate matter. Family businesses are built up over a number of years through hard work and ultimate dedication of a single family, and it is for this reason that family businesses cannot be evaluated on the same grounds as corporate giants.

This study will focus on family businesses and specifically small and medium-sized family businesses (as defined in 1.3.1. of this study). The study will further investigate the transition to comply with Broad-Based Black Economic Empowerment legislation by highlighting the potential positive implications as well as suggesting the most appropriate ways of implementing the process. By doing this the entire process can be eased for family business owners.

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

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## 1.2 PROBLEM STATEMENT

A large number of family businesses have been established over the past decades in South Africa. According to Swart (2005: 4), the time has come to appreciate and acknowledge the role and positive contribution that family businesses have played over the past years. Many South Africans have been forced to start their own businesses due to economic and unemployment realities. These successful family businesses are the result of ultimate dedication and in the majority of cases even led to the neglect of the owner's family, all in an effort to ensure success and the ability to provide for their loved ones. Longevity and the transfer of the business from one generation to another is the core of any family business' existence.

Swart (2005: 4) reiterates the importance of the survival of family businesses in South Africa and argues that family businesses are critically important for overall wealth creation, with the reservation that the community and social system also benefit from family business initiatives.

Economic policies and legislation prior to 1994 in South Africa did not make provision for all South Africans to participate in the economy and economic activities, which resulted in some imbalances between different groups in South Africa. This resulted in the current Government laying down new legislation in 2003 as an effort to open up the economy and include all South Africans in the economic activities of the country. Newly imposed legislation by Government led to new challenges and obstacles for family business owners. The single most important initiative was the Broad-Based Black Empowerment Act of 2003 (53/2003).

The objectives as set out in the Government Gazette (2004: 463), pertaining to the Broad-Based Black Economic Empowerment Act contradicted everything the majority of family businesses strive to achieve. The aspects of management and wealth sharing make the issue of Broad-Based Black Economic Empowerment even more complex. The new legislation provokes enormous emotional distress to the majority of family businesses, as these legislative measures are constructed with the intention

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to be implemented in large corporate companies. Although the initial intention was to focus on corporate companies and Government associates these legislative measures are now also imposed on smaller family businesses.

Typical family businesses have been around for centuries and are still characterized by strong family bonds and family cultures, for these businesses the idea of sharing their businesses with strangers is most of the time a daunting thought.

Families might not be aware of the true implications that Broad-Based Black Economic Empowerment can have on their businesses. Numerous family businesses might be of the opinion that an empowerment partner would actually not empower the business at all, but might rather have a negative impact on the business.

The aim of this study is to address these issues and challenges faced by so many family businesses in South Africa, who are compelled to comply with the laid down legislation. Secondly the study will make recommendations based on the analyses of the questionnaire completed by family business owners, these recommendations will aim to ease the impact and implementation of Broad-Based Black Economic Empowerment for these business owners.

### **1.3 TERMINOLOGY**

This study will specifically focus on the impact of Broad-Based Black Economic Empowerment on small and medium-sized family businesses in South Africa. Therefore the meaning of family businesses and Broad-Based Black Economic Empowerment are defined below.

#### **1.3.1 Family businesses**

Numerous family business scholars have created definitions unique to their own perceptions, concentrating on different aspects such as the family's influence over the business, the strategic direction of the firm and the family's intention to keep

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control over the business (Chrisman, Chua & Sharma, 2005: 556; Klein; Astrachan & Smyrnios, 2005: 325; Davis & Taguiri, 1989)

Due to the lack of consistency in defining family businesses, the definition of Ibrahim and Ellis (2004: 5) has been adopted for this study. They define family businesses as enterprises that are at least 51% owned by a single family, of which two or more members are actively involved in management or the operation of the business and the transfer of leadership to the next generation is anticipated (Ibrahim & Ellis, 2004: 5).

The South African National Small Business Act (102/1996) and National Small Business Amendment Bill (29/2004) classify micro, very small, small and medium-sized businesses as businesses that employ fewer than 200 full-time equivalently of paid employees. The focus of this study is small and medium-sized family businesses, as defined above.

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

With the enforcement of the Broad-Based Black Economic Empowerment Act of 2003 (53/2003), the definition as stated in this Act is generally used to define Broad-Based Black Economic Empowerment and therefore this definition will also be used in this study. The definition states:

“Black People” is the generic term which means African, Coloureds, and Indians (53/2003: 4). “Broad-Based Black Economic Empowerment” 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 socio-economic strategies that include, but are not limited to:

- Increasing the number of black people that manage, own and control enterprises and productive assets.

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- Facilitating ownership and management of enterprises and productive assets by communities, workers, cooperative and other collective enterprises.
  - Human resource and skills development.
  - Achieving equitable representation in all occupational categories and 20 levels in the workforces.
  - Preferential procurement.
  - Investment in enterprises that are owned or managed by black people (53/2003: 4).

## **1.4 OBJECTIVES OF THE STUDY**

### **1.4.1 Primary objective**

The primary objective of this study is to assess the impact of Broad-Based Black Economic Empowerment on small and medium-sized family businesses in South Africa, and to make recommendations to family businesses relating to the management of this issue.

### **1.4.2 Secondary objectives**

In order to address the primary objective of this study, the following secondary objectives were formulated:

- To define family businesses.
- To gain insight into the dynamics of family businesses by means of a literature review.
- To obtain insight into Broad-Based Black Economic Empowerment by means of a literature review.
- To assess the impact of Broad-Based Black Economic Empowerment on small and medium-sized family businesses in Sedibeng (Vaal Triangle) through a developed questionnaire.

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- To suggest practical recommendations to family businesses, resulting in the successful management of Broad-Based Black Economic Empowerment in their businesses.

## **1.5 SCOPE OF STUDY**

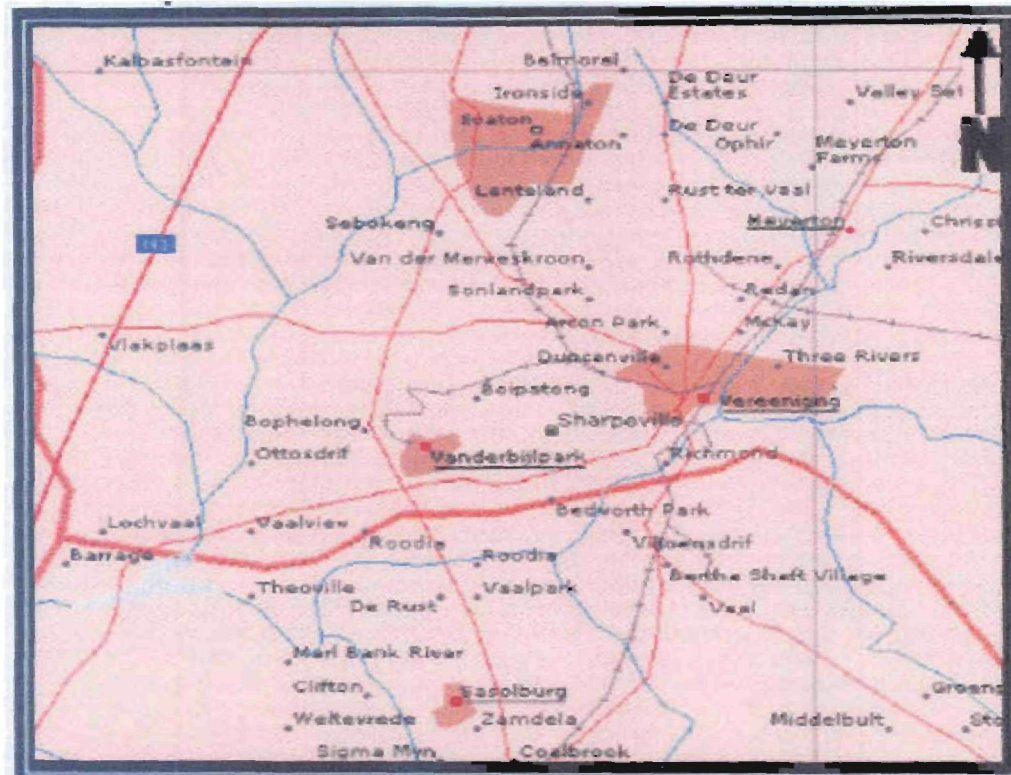
### **1.5.1 Field of the study**

This study will focus on small and medium-sized family businesses as defined in paragraph 1.3.1 and these family businesses will represent a wide array of industries.

### **1.5.2 Geographical demarcation**

Due to the vast geographical area of South Africa the study will focus on small and medium-sized family businesses in the Sedibeng region. Refer to figure 1.1 for a map illustrating the geographical demarcation of the study. This region represents a diverse spectrum of industries in all the major sectors of the economy and can therefore be seen as a good example of an average diversified business environment in South Africa.

Figure 1.1: Map illustrating the geographical demarcation of the study



Source: Mapstudio

The map indicates the geographical demarcation which will be covered by this study and include Sasolburg, Vanderbijlpark, Vereeniging and Meyerton. These districts are collectively known as Sedibeng.

## 1.6 RESEARCH METHODOLOGY

This study will be performed in two phases, the first phase will entail a literature review based on small and medium-sized family businesses and Broad-Based Black Economic Empowerment and the second phase will deal with an empirical study on these two topics.

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### 1.6.1 Literature review

To ensure a literature review that reflects a broad spectrum of insights; a wide range of sources were used. These sources include the services of the Ferdinand Postma library of the North-West University, textbooks on the subjects, published articles, scientific journals and numerous electronic references including websites and search engines.

The literature review will be conducted to gain insight into the dynamics of family businesses and the concept of Broad-Based Black Economic Empowerment. The literature review will be divided into two different chapters, the first chapter will deal with the literature review on small and medium-sized family businesses and the second chapter will deal the concept of Broad-Based Black Economic Empowerment.

Chapter two of this study will deal with family businesses and the following facets will be studied:

- Culture and characteristics of family businesses.
- Advantages and disadvantages of family businesses.
- Conflict management.
- *Succession planning*.
- Transfer of ownership.

Chapter three will focus on the issue of Broad-Based Black Economic Empowerment and will concentrate on the following aspects:

- Black Economic Empowerment Commission.
- Broad-Based Black Economic Empowerment Act.
- Broad-Based Black Economic Empowerment score cards and codes of good conduct.
- Difficulties and pitfalls.
- Lessons learnt and progress made.

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## **1.6.2 Empirical study**

The empirical study will be conducted by means of a self-developed questionnaire that will be distributed to various family businesses that need to comply with Broad-Based Black Economic Empowerment.

The results will be statistically analyzed and will be used to reach conclusions on the different perceptions of family business owners on the issue of Broad-Based Black Economic Empowerment.

### **1.6.2.1 Constructing the questionnaire**

From the literature study it became evident that certain aspects which family businesses need to deal with on a daily base can be utilized to obtain insight into the perceptions and emotions of the people involved in these businesses. Some of the aspects include: relationships between family members, communication processes and the ability to effectively plan the succession process.

The questionnaire was designed to ensure the gathering of information on three different levels. The first section (section A) dealt with questions relating to the awareness of Broad-Based Black Economic Empowerment. The second level of the questionnaire (section B, C, D and E) were constructed to obtain the perceptions of family business owners on issues like advantages and disadvantages, opportunities and threats and government support to companies that engaged in Broad-Based Black Economic Empowerment.

The final section of the questionnaire (section F) dealt with the demographical information of the family businesses and provided insight into the annual turnover of the business, age of the family business owner and the number of full-time employees.

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### **1.6.2.2 The study population**

The target population of this study was small and medium-sized family businesses in the Sedibeng region. It was decided that questionnaires will be completed by the owner-manager of the selected family businesses. A convenience sample, by means of the snowball sampling technique as interpreted by Page and Meyer (2000: 100) where used to identify the family businesses that participated in this study. Statistical inference and p-values cannot be seen as relevant due to the fact that data was collected from a small study population (Ellis & Steyn, 2003: 51).

Generating a list of potential family businesses, involved the contacting of well known business people in Sedibeng as well as communications with Business Chambers in this area. These business people then acted as informants and suggested potential family businesses for inclusion in the sample. Once potential family businesses where contacted they would identify a further set of family businesses. These referrals were subsequently contacted telephonically to confirm that they fitted the definition of small and medium-sized family businesses used in this study (Ibrahim & Ellis, 2004: 5; National Small Business Amendment Bill, 2004: 2; National Small Business Act, 1996) and to test their willingness to participate in the study.

The final list consisted of 47 family businesses which were willing to participate in the study.

### **1.6.2.3 Data collection**

Once the questionnaire was developed it was taken personally to the identified family businesses, ensuring effective lead times and portraying an image of appreciation for their participating in the study. The nature of the study compelled the researcher to focus on the perceptions of family business owners therefore only one questionnaire was submitted to each family business.

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Each questionnaire was accompanied with a covering letter that guaranteed the confidentiality of their responses, and by offering to personally collect the completed forms participants were further encouraged to participate.

A total of 31 usable questionnaires were returned from family business owners who completed the questionnaires. The questionnaires were subsequently statistically analyzed.

#### **1.6.2.4 Statistical analysis**

The questionnaires were statistically processed by the Statistical Consultation Services at the North-West University who used STATISTICA (Statsoft, 2006) to do the analysis. The main focus of the statistical analysis was based on the consistency between the different indicators of the questionnaire.

The arithmetic mean, standard deviation and Cronbach alpha coefficient were used to interpret the results obtained.

### **1.7 LIMITATIONS OF THE STUDY**

The study aimed at making a contribution towards the knowledge of small and medium-sized family businesses in South Africa and especially the impact of Broad-Based Black Economic Empowerment legislation on these businesses. However the geographical area on which the study focused are restricted to the Sedibeng region, and the convenience sampling technique was used to source participants therefore the sample cannot be considered representative of all small and medium-sized family businesses in South Africa.

The legislation dealing with Broad-Based Black Economic Empowerment is a vast field, and for the purpose of this study only certain aspects which influence small and medium-sized family businesses were studied. Emphasis has been placed on the dynamics of the Broad-Based Black Economic Empowerment score cards, and an

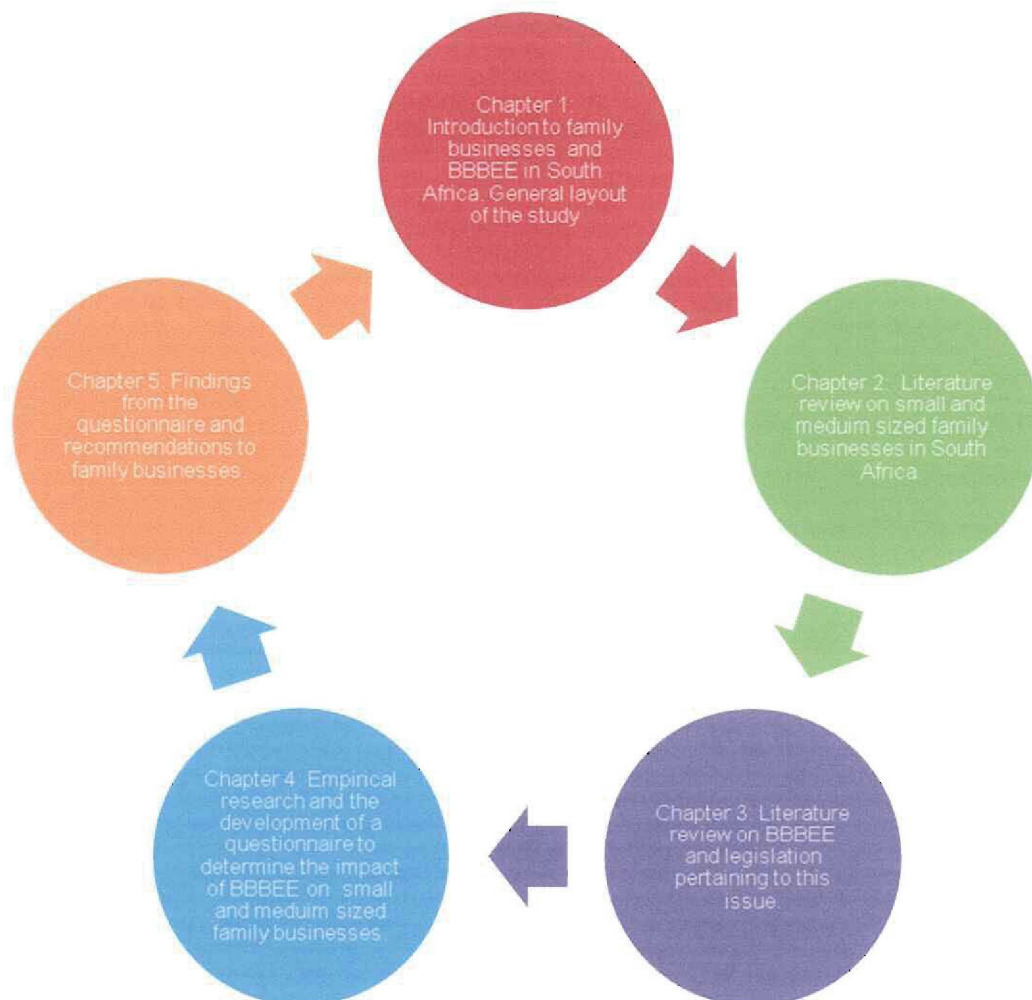
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effort has been made to explain these concepts and implications in a way that would make sense to family business owners. The interpretation of results and outcomes of this study should be dealt with in accordance with the limitations highlighted in the previous paragraphs.

## 1.8 LAYOUT OF THE STUDY

Refer to figure 1.2 for a flow diagram to illustrate the layout of the study and the topics that will be studied.

Figure 1.2: A flow diagram which demonstrate the layout of the study



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The chapters are divided in a way that ensures a systematic flow of information. The layout of the different chapters is discussed below.

### **Chapter 2:**

This chapter will deal with the literature review on small and medium sized family businesses in South Africa, in an attempt to gain insight into the topic. The chapter will emphasize the importance of family businesses to the economy. Aspects like the family business system and the unique culture of family businesses will be studied.

The chapter will furthermore give insight into the advantages and disadvantages of family businesses. Finally the the dynamics of management and ownership succession will be discussed.

### **Chapter 3:**

Chapter three will focus on a literature review of Broad-Based Black Economic Empowerment and the chapter will provide insight into this topic in general as well as legislation pertaining to this issue.

Legislative implications will be studied by means of the Broad-Based Black Economic Empowerment Act and the Black Economic Empowerment Commission.

### **Chapter 4:**

In this chapter the constructing of the questionnaire and the process to gather the data will be discussed. Thereafter, will the results of the empirical study will be presented and the findings will be discussed.

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## **Chapter 5:**

Results from the analyses done in Chapter 4 will be presented in workable solutions for family businesses. This will be done by highlighting both the positive and negative conclusions reached.

Recommendations will be made to family businesses on the issue of managing and implementing Broad-Based Black Economic Empowerment into their businesses. The chapter will be concluded by discussing the achievement of the objectives of this study and suggestion for future research.

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# **CHAPTER 2**

## **LITERATURE REVIEW ON FAMILY BUSINESSES**

### **2.1 INTRODUCTION**

This chapter will focus on a literature review based on small and medium- sized family businesses. To ensure a greater understanding of family businesses the study will not only focus on South African family businesses but will provide insight into family businesses and its operations globally.

The discussion in this chapter will include among others the ownership success, the unique cultures of family businesses and conflict management within family businesses. The literature review will emphasize the fact that family businesses are unique when compared to corporate or public companies. It will become evident from the literature review that family businesses are loaded with emotions which require a fine balance between the working environment and family issues.

All the aspects which will be discussed are seen as being crucial in an effort to provide background and insight into the unique composition and challenges of family businesses globally and then applying it to the South African context.

This chapter will be introduced by a discussion of the contribution of family businesses to the economy, a definition of family businesses, the family business system, the culture of family businesses, advantages and disadvantages of family businesses, conflict and communication in the family business, management succession and ownership succession.

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## 2.2 THE CONTRIBUTION OF FAMILY BUSINESSES TO THE ECONOMY

Venter and Boshoff (2007: 1) concur that among small and medium-sized businesses, family businesses are fast becoming the dominant form of business enterprise in both developed and developing countries. They argue that the social and economic importance of family businesses particularly in developing countries can hardly be over-stated (Venter & Boshoff, 2007: 1).

Family businesses are responsible for a substantial contribution towards the global economy. Estimations show that over 90% of businesses in the United States of America remain family owned and family controlled (Aronoff *et al.*, 2002: ii; Bareither & Reischl, 2003: 20). Family businesses account for 50% of the gross domestic products of the world's most advanced economies; they employ approximately 48% of the working population and have created the bulk of new jobs in the last two decades (Ibrahim & Ellis, 2004: 3; Ward, 1987: xv).

Family businesses have been passed on from generation to generation, with the oldest example in South Africa being the Van der Merwe family of Boplaas in the Ceres district in the Koue Bokkeveld who started the family business in 1743 (Maas, Van der Merwe & Venter, 2005: 7). Boplaas owned by the van der Merwe family is only one example of numerous successful family businesses operating in the South African economy.

The importance of family businesses are reiterated by the claim of Ackerman (2001: 325) which states that approximately 80% of businesses in South Africa could be classified as family businesses, and these businesses comprise 60% of the companies listed on the Johannesburg Stock Exchange.

Acknowledgement of family businesses in South Africa is thus critical for overall wealth creation with the reservation that the community and social system also benefit from family business initiatives (Swart, 2004: 2).

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## 2.3 DEFINING A FAMILY BUSINESS

This study will predominantly focus on small to medium-sized family businesses and therefore both these concepts will be defined. Numerous different scholars of family businesses define the concept according to their own views and some of these definitions will be highlighted.

The simplest definition of a family business is a business that includes two or more members of a family that have financial control of the company (Aronoff, 2002: 2). Hellriegel, Jackson and Slocum (2002: 137) argue that most often the term is used to describe a business owned and managed mostly by people who are related by blood and /or marriage.

A broader view of family businesses is formulated by Neubauer and Lank (1998: 5) that summarized the most common elements of the myriad definitions of family businesses as follow:

- The percentage of share capital (voting or otherwise) owned by a family.
- Employment of owning family in executive or other positions.
- The existence of non-family executives or employees.
- The extent to which the intention is to maintain family involvement in the future.
- The number of generations of the owning family involved in the business.
- The number of families involved in either management and / or ownership.
- Whether a given family accepts that it controls its own enterprise.
- Whether non-family employees accept that it is a family enterprise.
- Whether direct descendants of the founder have management and/or ownership control.
- The size of the business, particularly the number of employees (Neubauer & Lank, 1998: 5).

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Looking at all the views on defining family businesses, the definition of Ibrahim and Ellis (2004: 5) will be used for the purpose of this study. They defined a family business as follows:

- At least 51% of the business is owned by a single family.
- At least two family members are involved in management activities.
- The transfer of leadership to next generation family members is anticipated (Ibrahim and Ellis, 2004: 5).

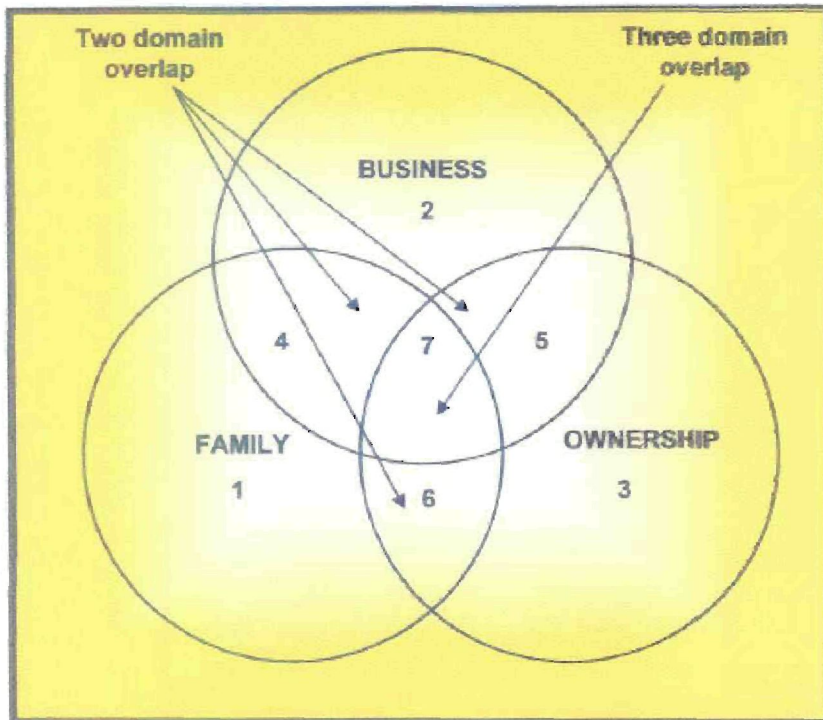
Small and medium-sized businesses will be defined according to the South African National Small Business Act (102/1996) and National Small Business Amendment Bill (29/2004: 2) which classify micro, very small, small and medium-sized businesses as businesses that employ fewer than 200 full-time equivalent of paid employees. The annual turnover of the businesses that form part of the study will be between R5 million and R35 million.

## **2.4 THE FAMILY BUSINESS SYSTEM**

There are three interrelated and completely different and distinct systems involved in a family business (Ibrahim & Ellis, 2004: 45; Charlocks & Ward, 2001: 4; Flemming, 2000: 21), namely the family, management and ownership systems. For the past two decades the three overlapping circles model have been the standard theoretical model for picturing family and business as interlinking systems that explain the competitive tensions in strategy making. An illustration of the overlapping circle model is given below.

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Figure 2.1: The three domains of the family business



Derived from Ibrahim and Ellis (2004: 44) and Voeller *et al.* (2002: 19)

Aronoff, Astrachan and Ward (2002: 354) argue that the three systems have different goals and expectations and view each system as follow:

**The family:** The family members often view the firm both as an important part of the family's identity and heritage and as a source of financial security that will enable them to satisfy their life-style expectations (Aronoff *et al.*, 2002: 354).

**Management:** Members of management see their careers tied to the business and tend to regard the business as a vehicle for professional development and economic achievement. From their perspective, the firm's primary goal is not to look after the needs of the family members but to generate profit and ensure continued career growth (Aronoff *et al.*, 2002: 355).

**Owners:** They view the business predominantly as an investment from which they want to receive a fair return. Their expectations stem from an ownership right that is

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**Owners:** They view the business predominantly as an investment from which they want to receive a fair return. Their expectations stem from an ownership right that is often difficult to exercise in the context of a family business (Aronoff *et al.*, 2002: 355).

It is evident from the views of Aronoff *et al.* (2002: 355) that the three overlapping systems will most likely result in tension and conflict if not managed correctly, and according to Spector (2003: 35), the reason for this is because the family and the family business are two separate systems with different and competitive needs and objectives. The interaction between the two systems can lead to role conflict and confusion, which causes stress to relationships and effective communication (Swart, 2005: 19).

Carlock and Ward (2001: 7) emphasized that the family who equalizes the family and business systems, can create a positive environment where the family thrives and the business performs. The balanced approach to addressing these two subsystems becomes the foundation for healthy family business relations and for the creation of a family business legacy (Carlock & Ward, 2001: 7).

## **2.5 THE CULTURE AND CHARACTERISTICS OF FAMILY BUSINESSES**

According to Kreitner and Kinicki (2004: 81), a business culture is “the set of shared, taken-for-granted implicit assumptions that a group holds and that determines how it perceives, thinks about, and reacts to its various environments”. According to Ibrahim and Ellis (2004: 6), the term familiness is used to describe the unique bundle of resources that a family firm possesses as a result of its dual identity. In any family business familiness overlaps with the corporate culture of a family business, as the founder’s and founder’s descendants’ own values, beliefs, assumptions, and attitudes are absorbed in the corporate culture which in turn influence the way things are done in the business (Venter & Kruger, 2003: 20). Venter and Kruger (2003: 20)

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believe that when culture is transmitted, familiness will then be automatically transmitted as well and to ensure that the business culture have a positive influence, it needs to be valuable, rare and inimitable, this view is shared by Barney (1986: 658).

According to Ibrahim and Ellis (2004: 427), the business culture is build around an informal entrepreneurial style of management, with a centralized decision-making process. What makes family businesses different from non family businesses is the added complexity of family dynamics that cause most family businesses to operate, to adopt strategies, and to make decisions differently. Venter and Kruger (2004: 21) confirm this view by stating that the ability to adapt and sustain the culture that creates the business' success in such a way that the success is maintained, is what makes successful family businesses unique.

Muson (2002: 10) argues that the majority of family businesses are characterized by an operational environment that reflects high levels of concern pertaining to the quality of products, the general welfare of employees and job satisfaction of everybody involved. This according to Muson is some of the elements that differentiate family businesses from corporate or public businesses.

Hess (2006: 25) emphasizes that family businesses factor in family needs, hopes, and fears into their decisions regarding the business and only family businesses have sibling or cousin rivalries, jealousies, and competition for parental love, approval and financial favour, these are just some of the characteristics only found in family businesses.

Muson (2002: 11) emphasizes that the culture of a family business should embrace the culture of change and also involves creating a competitive culture that encourages experimentation and new ideas. Studies from IMD in Switzerland shows family firms have distinct and more profitable company cultures (Kenyon-Rouvinez & Ward, 2005: 2-3).

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## **2.6 ADVANTAGES AND DISADVANTAGES OF FAMILY BUSINESSES**

In any business it is important to analyze the competitive advantages, and disadvantages that the business is faced with, this is particularly important in family businesses hence the necessity to study these advantages and disadvantages.

### **2.6.1 Advantages of family businesses**

The overriding characteristic that distinguishes most family businesses is a unique atmosphere that creates a sense of belonging and enhances common purpose among the whole workforce (Leach & Bogod, 1999: 5).

Although intangible, this factor manifests itself in a number of very concrete and positive advantages that give family businesses a competitive edge over non-family businesses (Ibrahim & Ellis, 2004: 6). Some of the major advantages of family businesses are discussed below.

#### **2.6.1.1 Business expertise**

The extensive expertise of family businesses can lead to an important competitive advantage for the family business (Kets de Vries, 1996: 18). Leach and Bogod (1999: 7) indicate that family businesses often have particular ways of doing things - special technology or commercial know-how that their competitors do not possess.

The idea of knowledge is also relevant in relation to the founder's children joining the business (Ward, 2004: 7). Children grow up in the business environment learning about the business, infected by the founder's experience and knowledge. When the time comes for them to consider joining the business, they already have a deep understanding of what the business is all about (Roberts, 2006: 28).

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### **2.6.1.2 Strong commitment and long-term orientation**

Shanker (2000: 4) believes that when things get tough, family members will do what is needed to make the business work. Thus, hiring family members means hiring people who are more committed to the success of a business than non-family employees (Shanker, 2000: 4). This extremely deep commitment extends to all family members who come to have a stake in the success of the business, both active and inactive members (Ward, 2004: 21).

### **2.6.1.3 Flexibility**

Family businesses are less hierarchical and bureaucratic than professionally managed businesses, thus more flexible which allows the family business to respond quickly and effectively to a changing environment (Ibrahim & Ellis, 2004: 7; Aronoff & Ward, 1996: 334).

Carlock and Ward (2001: 192) indicate that the management and staff of large companies often waste valuable business time on political warfare and they end up paying very highly for this.

### **2.6.1.4 Perception of the family name**

Crenshaw (2005: 20) points out that in a world of franchises the idea of “family owned” means something to people, and he believes that it inspires loyalty in customers. The confidence, trust and personal involvement that customers experience in family businesses are key characteristics of a successful family business (Ibrahim & Ellis, 2004: 7).

As made clear by Le Van (1999: 45) a family name can be a powerful symbol. The business can symbolize the accomplishments of the family, family heritage, family power, and family position in the eyes of the community and the world. Important community and business relationships stem from a respected name (Aronoff *et al.*, 2002: 9).

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## **2.6.2 Disadvantages of family businesses**

Family businesses are prone to some serious and endemic disadvantages which could leave the business extremely vulnerable. The major disadvantages of family businesses are discussed below.

### **2.6.2.1 Conflict**

Conflict occurring between the interests of the family and those of the business as a whole, can create emotional issues unheard of in non-family businesses (Aronoff *et al.*, 2002: 5). Sometimes, sibling rivalry can be friendly and sometimes it becomes ugly (Buchholz, Crane & Nager, 2000: 273). The fallout may result in business problems, low morale among employees and other family members, and the need for one to leave the family business (Buchholz *et al.*, 2000: 273).

Almost always in a family business the family has the proprietary and / or management power to pursue its own objectives and aspirations, even when they are at variance with the best interest of the company (Swart, 2005: 25).

### **2.6.2.2 A lack of discipline**

Being exerted over profits and performance in all parts of the organization, family businesses may tend to concentrate on product quality, sales, "empire building" and personnel relationships beyond the contribution of these factors to the long-term profits of the business (Aronoff *et al.*, 2002: 5).

### **2.6.2.3 Nepotism**

Situations where nepotism rules unchecked by objective standards of meritorious managerial performance, can lead to the promotion of a family member with inadequate qualifications or experience (Ibrahim & Ellis, 2004: 7; Aronoff *et al.*, 2002: 5).

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Nepotism entails dominance of family reasons over business logic and can include an inequitable reward system (Kets de Vries, 1996: 23). According to Jonovic (1997: 11), the danger in nepotism is that it seldom takes the needs of the business into consideration.

#### **2.6.2.4 Abusing family ties**

The manager of a family business may find it hard turning down relatives as employees regardless of lack of qualifications. Moreover relatives who are allowed into the company may abuse family ties and feel that they can under-perform simply because they are family (Aronoff *et al.*, 2002: 5).

#### **2.6.2.5 Lack of objectivity**

A number of family members are so involved in the family intrigues that they find it difficult to express their objective opinion when business decisions need to be taken. Thus, decisions are often based on emotions rather than an objective assessment of the situation (Ibrahim & Ellis, 2004: 9).

### **2.7 CONFLICT AND COMMUNICATION IN THE FAMILY BUSINESS**

Conflict and the failure of communication contribute significantly to the failure of many business-owning families (Ibrahim & Ellis, 2004: 162; Astrachan & McMillan, 2003: 21, 53; Aronoff *et al.*, 2002: 12; Carlock & Ward, 2001: 67). Since family businesses are more prone to conflict than non-family businesses, the ability to manage conflict in a family business is crucial (Ibrahim & Ellis, 2004: 162).

Maas *et al.* (2005: 119) argue that effective communication provides the basis for sound family relationships as well as conflict resolution. Crenshaw (2005: 20) states that the key to working through conflict in a family business is to comfortably share your views while still respecting traditional family boundaries. Jaffe (2005: 51) reiterates the importance of negotiating boundaries between the world of the

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business and the world of the family, and argues that by setting these boundaries the possibilities of destructive conflict is diminished.

Various scholars argue that by instituting communication forums in which family members can talk with one another, a family creates a system for dealing with miscommunication as well as more serious conflict on an ongoing basis, instead of letting disagreements fester until they explode into open hostility (Van der Merwe & Ellis, 2007: 33; Ward, 2004: 15; Astrachan & McMillan, 2003: 34).

Jaffe (2005: 51-52) differentiates between the business of the family and the family business by suggesting that family business owners develop two “committees”. Firstly he proposes that family business owners establish a board of directors consisting of family members which are actively involved in the business, to deal with business issues. The board of directors needs to focus on issues like business renewal, capital needs for the business and the owners, key employees and succession governance. Secondly Jaffe encourages family businesses to establish a family council consisting of non-active family members. The family council’s purpose is to handle family issues, and some of its main concerns should be the development of a vision and mission for the business, guidelines for family involvement, next generation development plans as well as ownership and transfer policies (Jaffe, 2005: 51-52: 54).

In smaller first- and second-generation families, effective communication can be facilitated through annual family meetings or forums, guided by an effective communication process for both family and business matters (Aronoff *et al.*, 2002: 299; Bork, 1996: 107).

Sander and Bordone (2006: 4) give four guidelines that can be used to reduce the possible occurrence of conflict in family businesses:

- Prepare for complications: By taking inconsideration the web of relationships within the family business, family business owners can avoid pitfalls that could offend or impose members of the organization.

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- Strive for transparency: It is better to be explicit and transparent about challenges and issues implicated by the negotiations. Addressing difficult issues upfront can seem scary or time-consuming, but often it can make dispute resolution easier in the long run.
  - Consult a natural advisor: Whenever a sensitive or emotional issue cannot be resolved by the family, it is best to consult a natural advisor that could act as a mediator.
  - Plan ahead: Whenever possible, family members entering into a family business relationship should agree explicitly and in advance on the norms, standards and processes they will use to resolve disputes that may arise (Sander & Bordone, 2006: 4).

From the above-mentioned systems of resolving conflict it is evident that communication is the main key to successfully avoid or lessen the occurrence of conflict in the family business. It is important that family business leaders encourage the inputs and ideas of all family members involved in the business. When all the important issues effecting the operation and well being of the business are disclosed to everyone involved, only then can meaningful conversations take place pertaining to the business. The lack of information will result in some family members being ill informed and this might result in conflict which could have been avoided if all the family members were familiar with the current affairs of the business.

## **2.8 MANAGEMENT SUCCESSION**

The inadequate transfer of leadership and ownership from one generation to the next has been identified as one of the primary reasons for the lack of longevity among small and medium-sized family businesses (Malinen, 2001: 3; Corbetta & Montemerlo, 1998: 5).

Founders are one of the most important resources of a family business in its early years (Costa & Gubitta, 2002: 3). This can however, easily work in the opposite direction. A founder, who remains virtually omnipotent and refuses to make crucial

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changes, or recognize great opportunities, can become a firm's greatest obstacle and, in many cases, cause a firm's failure. Letting go is part of every parent child relationship and the family business is no different, there comes a time when the senior generation has to let go (Mirel, 2006: 35).

Some planners argue that management issues are more important than ownership issues, after all, anyone can own the business, but its continued health and value rely on the quality of the management team. Succession plans suffer when they focus on ownership at the expense of who's actually running the company.

Positive relationships have been reported between management succession planning and the following factors:

- The extent of a family's commitment to the business (Lansberg & Astrachan, 1994: 52).
- The continued profitability of the business, as well as the satisfaction with the process (Venter & Boshoff, 2007: 50).
- The propensity of the incumbent to step aside (Sharma, 1997: 237).
- Owner-manger's trust in the successors' abilities and intensions (Venter & Boshoff, 2007: 44).

Succession based solely on birth order is a careless proposition in today's marketplace. Regardless of your last name or family background, executive placement must be judged on practiced knowledge, skills and ability (Crenshaw, 2005: 20). According to Jaffe (2005: 53), the family business owner needs to let the next generation know early that they can work in the business, and they can have a career, but they may not be the president. The best person is going to be the chief executive officer, not necessarily a family member. Jaffe has found that most children understand the situation when it's presented to them in this way. It's being led to believe they will play a key role in the company and having those dreams dashed that is what leads to serious problems later on (Jaffe, 2005: 53).

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Goad (2005: 38) states that family business owners don't always hold the next generation to the same standards that they would an outsider, or even a long-time employee. The owner has to set aside the emotional issues of having a son or daughter involved in the business and make sure the business is still run professionally (Goad, 2005: 38). Sometimes the business needs to get a non-family leader to bring in another kind of leadership. If that's the case, then communication again is the key (Jaffe, 2005: 38).

A supportive relationship and mutual respect are conducive to the smooth transition of knowledge, social capital and network from one generation to the next (Steier, 2001: 11).

Many family business scholars state that it is never too soon to start planning for succession, and that succession is not just an action but a process that takes time to implement. Goad (2005: 39) argues that a lot of owners of family-owned businesses get caught short of time, and recommends that owners have a plan ready to go at a minimum of five years and as many as ten years from when they plan to make the transition.

Experts recommend that business owners put a formal or informal training programme in place to ensure the next generation understands how the business is managed and makes money (Mirel, 2006: 33). Getting the first generation on board is often the most difficult task as the independence, drive, and sheer perseverance that allow success do not always translate well into the team approach that a succession plan requires (De Vos, 2005: 38).

Delegating tasks gives the successor practice in assuming responsibility and exercising authority while more experienced people are still around to act as advisors (Venter & Boshoff, 2007: 51). If the older generation intends to pass management on to their children, they should be involved in running the company as early as possible. "If the younger generation has been very visible, clients may not even know that a transfer has taken place," (Jaffe, 2005: 55).

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## 2.9 OWNERSHIP SUCCESSION

The importance of estate planning as a critical part of the succession process is well documented in family business literature. Bjuggren and Sund, (2001); Hume (1999); and Sturgill, (1998) suggest that retirement, estate planning and the management of the wealth created by the family business are important elements in ensuring the success of the family business. This view is further supported by a study done by Morris, Williams, Allen and Avila (1997: 386) which revealed that family business successions ran smoothly when family businesses engaged in planning for taxation and wealth-transfer purposes.

A planning procedure implies formulating objectives, instruments and timing, taking account of the aspirations of all stake-holders (Degardt, 2003: 394). One thing most experts agree upon is that the concerns of the business must come before the desires of the family. Jaffe (2005: 38) suggests that the family develop a written statement clearly outlining that the needs of the business will take precedence.

In the rise and fall of family businesses, the risks seem to come when you get the generations that feel they are entitled and don't have to earn it (Mirel, 2006: 73). White (2007: 71) further highlights common issues which include the emotional impact of selling the family members' business ownership interest and interrelated extended family issues across generations (White, 2007: 71). Another major problem with ownership success in family businesses is the issue of active and non active siblings (Scroggin, 2006: 24).

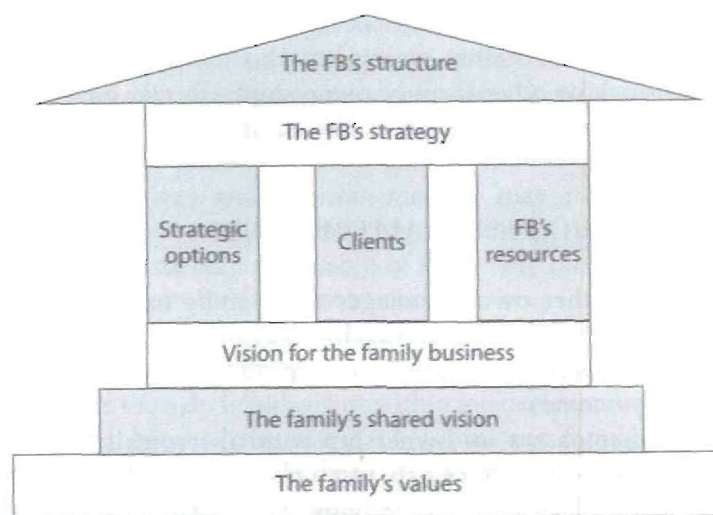
The best way of minimizing potential conflict pertaining to succession planning is to consult a financial advisor and legal expert, who can assist the family with advice regarding estate planning and tax implications as well as planning on how to make provision for children that might not be actively involved in the business (Scroggin, 2006: 25).

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Fair versus equal is what makes or breaks business-succession plans (Daroff, 2005). The key is to being open to the feelings of each family member on a non judgmental basis while focusing on all the options available (Jaffe, 2005: 35).

When taking all of the above mentioned, one can summarize the process of succession by referring to the example of the family business house as illustrated by Ward (2005: 61).

Figure 2.2: The family business house.



Source: Ward, (2005: 61)

According to Ward (2005: 67), succession means reconfirming or newly formulating the foundation of the house, and then rebuilding it, bit by bit, with those who are involved, starting from the bottom and going to the top. The succession processes that fail in family businesses are often proposals which start with building the roof before even thinking about the fundamentals. In adopting these, families seek to achieve solutions that are highly professionally designed, but the proposed solutions have nothing to do with the peculiarities of their own families and businesses (Kenyon-Rouvinez & Ward, 2005: 67).

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## 2.10 SUMMARY

The literature review revealed the fact that family businesses have been making a positive contribution towards the South African economy for the past three hundred years and that the importance of these businesses in developing countries could hardly be overstated.

In a quest to define family businesses it became evident that numerous definitions for family businesses exist, and it was decided to use the definition of Ibrahim and Ellis (2004: 5) for this study. They defined family businesses as businesses which are at least 51% owned by a single family where two or more family members are actively involved in the business and where the transfer of leadership from one generation to other is anticipated.

The family business system was investigated and it was found that the unique structure of family business, could give the family business a competitive advantage. It became evident that the fact that family and business issues are overlapping in family businesses could lead to role confusion and conflict. The importance of balancing family and business concerns was established. A look at the culture of family businesses made it evident that family businesses tend to be long term orientated and are more focused on the quality of products and customers relationships than non-family businesses.

Some advantages of family businesses were investigated and include aspects such as flexibility, business expertise and a strong perception of the family name. Disadvantages include conflict, a lack of discipline and nepotism.

The literature review also dealt with conflict and communication within the family business. These two issues could be seen as the two most important factors that need to be successfully addressed in an effort to ensure a sustainable family business, with a long term orientation.

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The inability of family businesses to address and resolve conflict effectively proved to be fatal to any family business. Many scholars emphasize the importance of family businesses to establish family forums and a board of directors to facilitate the different concerns of the family and the business. Effective communication in a trusted and open environment seems to create an atmosphere where all family members can raise their concerns and share their ideas without any family member feeling intimidated or being treated unfairly.

It is evident that management succession is one of the major contributors towards the failure of family businesses. The lack of planning and the unwillingness of owners to let go of the business proved to be some of the main contributors towards family business failures. The literature review made it clear that the planning of ownership succession plays a curtail role in the longevity of family businesses. It became clear that the assistance of external expertise should be used to assist with aspects such as estate planning and the structuring of future ownership models.

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# **CHAPTER 3**

## **LITERATURE REVIEW ON BROAD-BASED BLACK ECONOMIC EMPOWERMENT**

### **3.1 INTRODUCTION**

This literature study will focus on all the major aspects pertaining to Broad-Based Black Economic Empowerment in South Africa, including the origins, the goals set and the progress made this far. The study will highlight the obstacles faced as well as the challenges impacting on the implementation process, these include financial obstacles and the effective measurement of progress made.

The literature study is divided into sub sections with each section focusing on specific aspects. The history of South Africa and the concept of Broad-Based Black Economic Empowerment will be used as an introduction to the chapter, followed by the fostering of the Broad-Based Black Economic Empowerment idea and the initial programs developed. The study will further give insight into the legislative policies and programmes implemented, together with different viewpoints pertaining to these policies and programmes.

### **3.2 HISTORY OF THE CONCEPT BLACK-ECONOMIC EMPOWERMENT**

Hardly any phase in South Africa's history has had the international and local impact on the country and its citizens as that of apartheid. The apartheid years have seen millions of South Africans excluded from the formal economy, resulting in numerous disadvantages and negative implications, not only for those excluded from the economy but for the country in its entirety (Sutcliffe, 2007: 26; Chabane, 2003: 2). Apartheid resulted in the exclusion of South Africa from the global economic playing field through numerous boycotts and sanctions imposed upon South Africa by major

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developed countries, leading to import and export constraints (Nieuwhof & Bangani, 2004: 2). In the early 1980's, changes in apartheid policies suggested some recognition of the failure to contain black people in rural settlements.

Unemployment among the black population presented a problem and in response the white government allowed, and to some extent encouraged, small business among black people to create employment. Government granted the Small Business Development Corporation (SBDC), started by Afrikaner businessman Anton Rupert, the right to provide black people with limited finance for business development (Jack, 2006: 6).

There is a considerable lack of clarity as to what the concept of Black Economic Empowerment entails. Different people and constituencies define it in different ways and assign it different meanings (Van der Nest, 2004: 8). The definition also varies over time. Black Economic Empowerment (BEE), Affirmative Action, National Economic Empowerment and Development (NEED), Broad-Based Black Economic Empowerment (BBBEE) are different terms used from the late 1980's and onwards to describe mainly the same thing.

A number of different programmes and initiatives were launched to achieve Black Economic Empowerment some of these include corporate social responsibility programmes, which were aimed at creating a group of middle class blacks which would have gained access to the formal economy, while the underlying structures of the economy would remain the same (Edigheji, 2000: 6-8). The empowerment attempts of the pre-1994 Government was not addressing the problem in its entirety and was aimed at benefiting only a small number of influential black people in South Africa. This issue proved to be an ongoing concern even at present times.

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### **3.3 THE FOSTERING YEARS AND THE IMPLEMENTATION OF AN IDEA**

The real turning point for Black Economic Empowerment came in 1994 after the first democratic election was won by the African National Congress (ANC). The newly elected Government of South Africa represented the majority of people that had been excluded from the economy, and made it one of their first tasks to start opening up the economy in an effort to make it accessible to all South Africans (Van der Nest, 2004: 1).

This idea called for a structured approach with goals and objectives as to how to go about in achieving the desired outcomes.

The issue of Black Empowerment was always part of the Government's strategy although the focus was not as strong in the early 1990's than currently. The Black Business Council (BBC) was founded in 1995 and is made up of 11 black businesses. The Council was established, as a need for a black voice in the economy was necessary, its main purpose was shaping the economic policies raging in the country (Van der Nest, 2004: 27).

Empowerment has been a consistent theme in the ANC's policy since the adoption of the freedom charter, and so it came as no surprise that among the new democracy's first projects was an empowerment-related initiative known as the Reconstruction and Development Program (RDP). The Reconstruction and Development Program included in its objectives the creation of jobs, human resource development, and provision of infrastructure, changes in ownership and the reduction of inequality in society (Woolley, 2005: 21).

The Black Business Council developed among others the Reconstruction and Development Programme and the Growth Employment and Redistribution strategy (GEAR). The Growth Employment and Redistribution strategy was criticized by numerous scholars like Luiz (2000: 12) who argued that: "Currently, government

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policy as reflected in the Growth, Employment and Redistribution document appears to not enhancing Growth, Employment, or Redistribution (Luiz, 2000: 12). According to Van der Nest (2004: 25), the Growth Employment and Redistribution programme can be viewed as an appropriate strategy for a country which has already crossed the threshold, in that it focuses on macroeconomic fundamentals. The fact that the South African economy has stagnated since the 1970's makes the South African context a difficult one for the Growth, Employment and Redistribution strategy to be implemented to its full potential (Van der Nest, 2004: 25).

Hamman, Khagram and Rohan (2008: 25) state that the Growth, Employment and Redistribution programme was characterized by fiscal prudence and liberalized trade. It was a culmination of the African National Congress's leadership shifting away from the socialist ideals of the freedom charter of 1955, which argued that all banks and mines should be nationalized. The Growth, Employment and Redistribution programme contradicted the African National Congress's 1994 election manifesto as the Reconstruction and Development Programme still emphasized people-centred development and public spending (Hamman, Khagram & Rohan, 2008: 25).

In November 1997, the Black Management Forum (BMF), an independent non-government initiative, proposed the establishment of the Black Economic Empowerment Commission (BEECom, 2001: 2). The motion for the establishment of the commission was that the notion of true empowerment as defined by black people did not exist, nor did a common definition or benchmark which could serve as the minimum requirement.

The unclear definitions of Black Economic Empowerment had resulted in opportunism and a large number of companies started to apply unscrupulous tactics in an effort to comply with Black Economic Empowerment. These attempts were called fronting and were completely against the grain of what the Government wanted to achieve with Black Economic Empowerment. As a result Government has established accredited screening agencies which assist in the process of preventing and eliminating fronting practices (Jacobs, 2007: 54).

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## **3.4 THE LEGISLATIVE ENVIRONMENT**

### **3.4.1 The Black Economic Empowerment Commission (BEECom)**

The Black Economic Empowerment Commission is one of the commissions that have done ground breaking work in establishing definitions, goals and objectives that are believed to be achievable and sustainable for the ultimate implementation of Broad-Based Black Economic Empowerment in South Africa. The Commission was headed by Mr. Cyril Ramaposa and did research and development in the field of Black Economic Empowerment from 1998 until 2001 when they released their findings in the form of the Black Economic Empowerment Commission report (Erwin, 2003: 2).

The Black Management Forum (BMF) viewed aspects such as the lack of a national Black Economic Empowerment vision, the issue of empowerment versus enrichment and the absence of a coherent definition of Black Economic Empowerment as some of the most important issues that needed to be addressed in an effort to develop and implement an effective and sustainable Black Economic Empowerment strategy and requested the Black Economic Empowerment Commission to address these issues (BEECom, 2001: 5).

The Commission argued that the challenge confronting South Africa dictates a fundamental shift in approach from all sectors of society, Government, established business, emerging black businesses and labour forces, to commit to contributing towards the goals encapsulated in the Redistribution and Development Programme. The BEE Commission (2001: 5), argued that the strategy would require a sustained and inclusive effort to mobilize all South Africans to arrive at a national consensus on the challenges of economic transformation and the roles and obligations of all stakeholders in helping achieve these objectives (BEECom, 2001: 5).

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In an effort to create a uniformed definition for all South Africans the commission defined Black Economic Empowerment as follows:

- It is located within the context of the country's National Transformation Program, the RDP.
- It is aimed at redressing the imbalances of the past by seeking to substantially and equitably transfer and confer the ownership, management and control of South Africa's financial and economic resources to the majority of its citizens.
- It seeks to ensure broader and it is an integrated and coherent socio - economic process.
- Meaningful participation in the economy by black people in order to achieve sustainable development and prosperity (BEECom, 2001: 2).

The Black Economic Empowerment Commission through consultation with experts in the business environment and research into a strategy that could serve as a guideline for the nation identified a number of key components that are critical to a national Black Economic Empowerment strategy that would be sustainable.

From the guidelines given by the Black Economic Empowerment Commission the Government's Black Economic Empowerment strategy according to Anon. (2005: 47) are based on four principals, which are:

- It must be broad based – ensuring greater participation by more people, particularly black people, in the economy.
- It must be an inclusive process – benefiting all South Africans.
- It must be associated with good governance – improving the quality and transparency of all economic activity.
- It must be part of the broader economic growth strategy – ensuring that economic growth is sustainable (Anon., 2005: 47)

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The most significant development that has been implemented as a result of the recommendations from the Black Economic Empowerment Commission is the Broad-Based Black Economic Empowerment Act of 2003 (53/2003). The Act encompasses all the key areas that need to be addressed in an effort to genuinely implement Broad-Based Black Economic Empowerment in such a way to ensure that all aspects of concern are addressed, and that specific guidelines are set out in an attempt to achieve the goals of Government. Over and above the fact that the Broad-Based Black Economic Empowerment Act defines Black Economic Empowerment and set out goals that need to be achieved by businesses in South Africa, it also stipulated codes of good practice that act as guidance for businesses that need to comply (53/2003: 4-8).

The Act also gives insight into the ways in which Government measures the progress that has been made by businesses engaging in Black Economic Empowerment deals. This measurement tools are known as the Broad-Based Black Economic Empowerment score cards, these score cards will be discussed and explained in a later part of this chapter.

### **3.4.2 The Broad-Based Black Economic Empowerment Act**

The Broad-Based Black Economic Empowerment Act was signed into law on 7 January 2004 by President Thabo Mbeki, and is the single most important legislation pertaining to Broad-Based Black Economic Empowerment in South Africa as it outlines all the Government's goals and objectives for Black Economic Empowerment (SA, 2004: 463).

The Act entails seven main objectives to facilitate Broad-Based Black Economic Empowerment and include aspects such as the promotion of economic transformation in order to enable meaningful participation of black people in the economy and achieving change in the racial composition of owner- and management structures of enterprises in South Africa (SA, 2004: 463).

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The Broad-Based Black Economic Empowerment Act served as the base for the establishment of the Black Economic Empowerment Council, and the codes of good practice for Broad-Based Black Economic Empowerment. The function of the Black Economic Empowerment Council is to give advice to the Government on Black Economic Empowerment, review progress in achieving Black Economic Empowerment as well as giving advice on draft codes of good practice (SA, 2004: 463).

The codes of good practice form part of the Broad-Based Black Economic Empowerment Act (53/2003), and authorize the Minister of Trade and Industry to issue codes of good practice pertaining to Broad-Based Black Economic Empowerment. The codes represent the Government's expectations for Broad-Based Black Economic Empowerment and include aspects such as preferential procurement, indicators to measure Broad-Based Black Economic Empowerment, business development, training and education and strategies for achieving Broad-Based Black Economic Empowerment (SA, 2004: 463).

### **3.4.3 The Broad-Based Black Economic Empowerment score cards and codes of good conduct**

Prior to the establishment of the Broad-Based Black Economic Empowerment Act in 2003, there were no concrete guidelines from Government in measuring the levels of compliance to Broad-Based Black Economic Empowerment, hence the suggestion to create an instrument to enable the measurement of progress. In the quest for a measuring instrument Government had to determine ways in which they want companies to achieve the goals of Broad-Based Black Economic Empowerment, this resulted in the creation of the codes of good conduct (Maphisa, 2006: 80). The codes of good practice are, in part, a response by Government to the need to overhaul empowerment guidelines so as to ensure the benefits of the policy are spread more evenly (Anon., 2005/6: 13).

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Since the suggestion of the codes of good conduct in 2003 many different scholars believed that once the codes are finalized they would become the most important development in the Broad-Based Black Economic Empowerment process (Mamoojee, 2005: 3; Pietersen, 2006: 82). Although the Broad-Based Black Economic Empowerment Act was signed into law in 2004 the official codes of good conduct were only gazetted and passed into law on 9 February 2007 (Jacobs, 2007: 51).

All seven pillars of Broad-Based Black Economic Empowerment being skills development, employment equity, preferential procurement and enterprise development has a set quota objective that contributes to awarded points on a score card under the Department of Trade and Industry's Broad-Based Black Economic Empowerment codes (Arendse, Peralta & Stark, 2007: 53).

The Government has designed a generic score card that serves as an indication of how to measure Broad-Based Black Economic Empowerment in all businesses. This score card represents a broad spectrum of aspects to which a company has to adhere to, some of these include direct empowerment and management, human resource development and employment equity (Hamman *et al.*, 2008: 26). Each of these sections represents a certain percentage of the total score card and companies need to achieve certain scores for each section to ensure that they comply with Government requirements.

The different sectors in the economy such as mining, financial and construction sectors have created their own charters with respect to Broad-Based Black Economic Empowerment. These charters are in accordance with the Government's goals and objectives for Broad-Based Black Economic Empowerment and are specifically designed to address the most critical compliance issues for each sector, as set out in the codes. This study focuses on small and medium-sized businesses and therefore the generic score card will be used as a reference.

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The charters for each sector of the economy must specifically state what that sector want to achieve in terms of Broad-Based Black Economic Empowerment and a time frame needs to be linked to the objectives set (Department of Trade and Industry, 2003: 16).

Each drafted charter is approved by the Minister of Trade and Industry, and serves as the benchmark of what is expected of each company within that specific sector of the economy when it comes to compliance for the implementation of Broad-Based Black Economic Empowerment (Department of Trade and Industry, 2003: 16).

The level to which a company complies with the requirements of the Government, define the company in terms of its Broad-Based Black Economic Empowerment contributor status. The generic scorecards that need to be used by companies are allocated according to the size of the company and its annual revenue.

This study is focusing on family businesses in South Africa, and therefore more emphasis will be placed on small and medium-sized businesses as this is the sector which represents the majority family businesses in South Africa which have reached the maturity stage. All businesses with an annual revenue of between R5 million and R35 million qualifies as a qualifying small enterprise (QSE), if its qualification does not result from circumvention of the codes (SA, 2007: 463). Therefore any business with an annual turnover of R5 million and less will be exempted, and will automatically be recognized as a level four Broad-Based Black Economic Empowerment contributor with a procurement recognition level of 100% (BEE scorecard, 2008).

It is important to note that nowhere in any legislation is it laid down that a company has to comply with Broad-Based Black Economic Empowerment unless a company endeavours to do business with Government or its associates (53/2003). This is however easier said than done. The fact that Government suppliers have to comply with Broad-Based Black Economic Empowerment has a trickle down affect.

In an effort for Government suppliers to comply with Broad-Based Black Economic Empowerment these companies strive to do business with other empowered companies, resulting in pressure to comply for non-complying companies. For this reason it is important to take note of the ways in which companies can comply to Broad-Based Black Economic Empowerment according to the score cards.

The table below indicates the respective weight which each of the seven elements contributes towards the total score of the qualifying small enterprise.

Table 3.1: The qualifying small enterprise scorecard is composed as follows:

<b>Element</b>	<b>Weighting</b>
Ownership	25 points
Management Control	25 points
Employment equity	25 points
Skills Development	25 points
Preferential Procurement	25 points
Enterprise Development	25 points
Socio-Economic Development Initiatives	25 points

Source: SA (2007: 463).

Qualifying small enterprises will be allowed to choose four of the seven Broad-Based Black Economic Empowerment pillars. The effect of this is that they can leave out three of the seven pillars from their score card without being prejudicated by doing so (Dorrington, 2005: 24). If a qualifying small enterprise does not make a selection, its four best element scores will be used for the purpose of measurement (SA, 2007: 463).

The Government has specified certain goals that need to be reached by qualifying small enterprises for each section of the Broad-Based Black Economic Empowerment scorecard, according to the achievements of these goals a score is allocated to each section and the scores are added together to reach a total.

The Government has created a contribution table, which measures the level of contribution made by each company in terms of the total score achieved on the generic scorecard for qualifying small enterprises (SA, 2007: 462). Table 3.2 illustrates the different levels of contributions based on the scores achieved.

Table 3.2: Levels of contribution towards Broad-Based Black Economic Empowerment by qualifying small enterprises

<b>B-BBEE Status</b>	<b>Qualification</b>	<b>B-BBEE Recognition level</b>
Level one contributor	≥ 100 points on the Generic Scorecard	135%
Level two contributor	≥ 85 but < 100 point on the Generic Scorecard	125%
Level three contributor	≥ 75 but < 85 on the Generic Scorecard	110%
Level four contributor	≥ 65 but < 75 on the Generic Scorecard	100%
Level five contributor	≥ 55 but < 65 on the Generic scorecard	80%
Level six contributor	≥ 45 but < 55 on the Generic scorecard	60%
Level Seven contributor	≥ 40 but < 45 on the Generic scorecard	50%
Level eight contributor	≥ 30 but < 40 on the Generic Scorecard	10%
Non-complaint contributor	< 30 on the Generic scorecard	0%

Source: South African Government Gazette, (2007: 500).

The different levels of contributions are used in the preferential procurement processes when companies want to select suppliers.

The Government and its parastatals aim to select empowered companies with the highest possible score; according to the Broad-Based Black Economic Empowerment scorecard this makes perfect sense in the light that Government believes that the scorecard serves as a crucial indicator of the extent to which companies have implemented Broad-Based Black Economic Empowerment (SA, 2007: 500).

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### **3.5 FINANCIAL ASSISTANCE AND BROAD-BASED BLACK ECONOMIC EMPOWERMENT**

Over and above the Broad-Based Black Economic Empowerment compliance and qualifying criteria companies are often faced with immense difficulties when it comes to financing a Broad-Based Black Economic Empowerment deal. Since its inception in 1994 a number of different strategies were used to structure Broad-Based Black Economic Empowerment deals.

The National Small Business Act 1996 provided for the creation of four new institutions: Khula Enterprise Finance, Ntsika Enterprise Promotion Agency, the National Small Business Council and the Centre for Small Business Promotion within the Department of Trade and Industry. These institutions were specifically aimed at assisting small micro and medium-sized enterprises, but the majority of Broad-Based Black Economic Empowerment deals in the 1990's were focused on public sector empowerment and Government parastatals, and these deals had to focus on different strategies as funding could not be done through Khula and the other institutions (BEECom, 2001: 28).

The first attempt in financing Broad-Based Black Economic Empowerment deals was by means of Special Purpose Vehicles (SPV's). Special Purpose Vehicles were by far the most favoured financing structure, and accounting for 52% of black economic ownership between 1996 and 1998 (Van der Nest, 2004: 27). The Special Purpose Vehicles were premised in on a bull market. When the bear market came into effect, many empowerment groups realized that they may not be able to meet their financial obligations as defined in the Special Purpose Vehicles, and some were forced to give up recently acquired shares in invested companies (BEECom, 2001: 21).

The numerous flaws in the Special Purpose Vehicle model resulted in the Black Economic Empowerment Commission's recommendation to establish a National Empowerment Funding Agency (NEFA) which would be located within the Department of Trade and Industry. According to the Black Economic Empowerment

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Commission (2001: 31), the National Empowerment Funding Agency would operate alongside the Department of Trade and Industry as a structure providing oversight and ensuring co-ordination of financial and non-financial support, thereby facilitating black ownership (BEECom, 2001: 31). As a result of the Black Economic Empowerment Commission's recommendation the National Empowerment Fund was established with its main role to support Broad-Based Black Economic Empowerment.

Ntuli (2006: 3) states that certain products aim to support black entrepreneurs through the funding of their business ventures, fostering economic and community development, assisting applicants to access the capital market (both through the JSE and AltX), and providing liquidity and warehousing facilities.

The codes of good conduct as proposed in the Broad-Based Black Economic Empowerment Act (53/2003) resulted in an ever evolving approach towards the financing of Broad-Based Black Economic Empowerment deals. Under the new Broad-Based Black Economic Empowerment codes of good practice, financing structures will have to show sustainability from day one to earn points in the ownership aspects of the scorecard. That means Broad-Based Black Economic Empowerment financing structures that impose unreasonable conditions on empowering partners; will not be compliant (SA, 2007: 500).

Mezzanine finance, which takes the form of tradable instruments, is emerging as a critical factor in the funding of Broad-Based Black Economic Empowerment deals. With a lesser rank than senior debt, mezzanine debt fills the gap left by Broad-Based Black Economic Empowerment groups that are unable to make an equity contribution in transactions. However it is considered a high-risk instrument because in the case of liquidation it will be last considered for recovery (Radebe, 2006).

Commentators say that state funding institutions - mainly the National Empowerment Fund - will do well if they move aggressively into mezzanine finance.

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According to Radebe (2006), many Broad-Based Black Economic Empowerment transactions are moving away from the Special Purpose Vehicle structure by tying Broad-Based Black Economic Empowerment Funding into the operations of the purchased asset and thereby to dividend income stream. In such models, dividend income is locked in until the Broad-Based Black Economic Empowerment investors have significantly retired their debt (Radebe, 2006).

The quest for the ultimate structure and financial model to facilitate the financing process of Broad-Based Black Economic Empowerment remains a continuous journey of trial and error, that being said accreditation should be given to the Government for its efforts since 1994 in this regard. Broad-Based Black Economic Empowerment finance is still being viewed as very complicated and sometimes risky and for this reason the major commercial banks in South Africa remain rather cautious when engaging in Broad-Based Black Economic Empowerment finance.

### **3.6 DIFFICULTIES AND PITFALLS**

Considering the pioneering nature of South Africa's legislation and the fact that it has been a work in progress for only 13 years then it is understandable that there are implementation issues that need to be addressed. In doing so, it is important that the government balance short-term needs with longer-term strategies (Arendse *et al.*, 2007: 56).

Jansen, Sefoko, Van Rooyen and Bostyn (2006: 284) argue that Broad-Based Black Economic Empowerment has manifested itself into three basic pitfalls. Firstly, there was the risk that Black Economic Empowerment will be limited in scope, where the white elite would be replaced by the black elite, which in fact has little to do with a "broad-based" approach. Secondly, there was an emergence of an empowerment that lacked depth, and this has led to black employees being dependent on the 'goodwill' of their employers – hence the connotation 'pseudo-empowerment'. Thirdly, it became clear that assigning previously disadvantaged individuals to positions or tasks without possession of relevant qualifications and skills led to frustration and a

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negative effect on economic efficiency of businesses, and has led to bankruptcy in others (Jansen *et al.*, 2006: 284).

Broad-Based Black Economic Empowerment is also a colour concept. The determination of when a company is empowered is objectively defined, for example, when 25.1 per cent of the entity's management are black then the entity is referred to as black-empowered (Jansen *et al.*, 2006: 284).

The issue of financing Broad-Based Black Economic Empowerment deals are still being seen as one of the major obstacles in implementing this initiative especially for small and medium-sized businesses and this is an issue that has an ongoing hampering effect on the transformation process (Taljaard, 2008: 29; Jacobs, 2007: 53). Start-ups and smaller Broad-Based Black Economic Empowerment companies have difficulty raising funds as local investors and financial institutions tend to be risk averse, regardless of boasting the most developed financial sector on the continent with the Johannesburg stock exchange ranking in the top 20 globally (Arendse *et al.*, 2007: 55).

### **3.7 LESSONS LEARNT AND PROGRESS MADE**

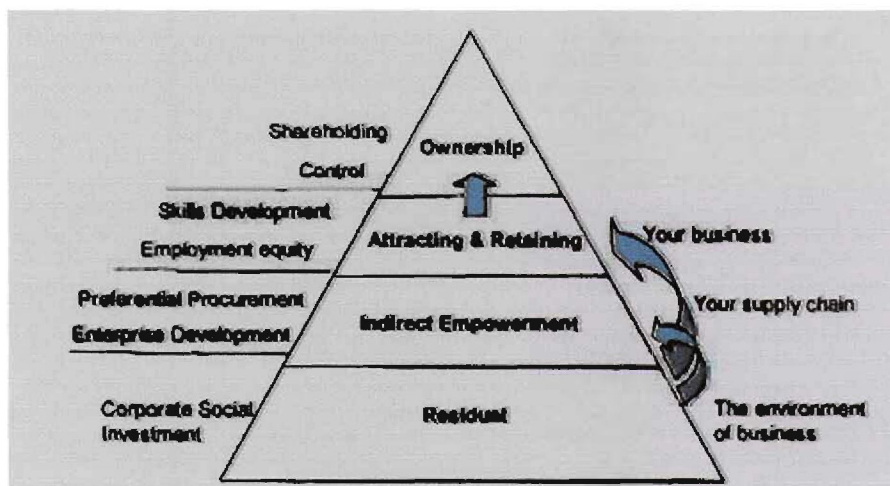
Chabane (2003: 7) states that it is important that Broad-Based Black Economic Empowerment policies should create and foster the sustainability of small and medium-sized businesses as they are an important engine of growth (Booyesen & Bouche, 2005: 46; Chabane, 2003: 7). According to Coetzee (2008: 139), the bulk of Broad-Based Black Economic Empowerment ownership initiatives were funded by the companies, demonstrating a commitment to the process.

It has become evident from historical Broad-Based Black Economic Empowerment deals that it is of the utmost importance for any company that want to implement Broad-Based Black Economic Empowerment, that the empowering partner should contribute towards the business in various ways not just financially or for the sake of getting contracts, the Broad-Based Black Economic Empowerment deal should truly

Broad-Based Black Economic Empowerment is a shared endeavour. There are no perfect models to follow, but even with the mistakes we have made, the rewards of getting things right are already evident in our dynamic economy (Sutcliffe, 2006: 7; 26).

Dorrington (2006: 24) has developed a transformation triangle specifically for small and medium-sized businesses in an effort to assist these businesses in the transformation process. The triangle is set out below and indicates some steps that can be followed to ensure that small and medium-sized businesses comply with Broad-Based Black Economic Empowerment requirements in all the different fields.

Figure 3.1: The transformation triangle



Source: Dorrington (2006: 24)

This triangle describes how companies, who are undertaking Broad-Based Black Economic Empowerment effectively, are contributing to the society in which they operate. For example companies are contributing to society through Corporate Social Investment (e.g. scholarships for the family of your employees), they are supporting and enabling emerging businesses which is called Enterprise Development, they are encouraging their suppliers to transform with them which is called Preferential Procurement, they have good diversity at an employment level which is called Employment Equity, they give their employees the tools to do the job which is called

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This triangle describes how companies, who are undertaking Broad-Based Black Economic Empowerment effectively, are contributing to the society in which they operate. For example companies are contributing to society through Corporate Social Investment (e.g. scholarships for the family of your employees), they are supporting and enabling emerging businesses which is called Enterprise Development, they are encouraging their suppliers to transform with them which is called Preferential Procurement, they have good diversity at an employment level which is called Employment Equity, they give their employees the tools to do the job which is called Skills Development, and they have diversity of thought at Ownership and Management levels (e.g. employee ownership through a trust) (Dorrington, 2006: 25).

As can be seen, when a company embraces the seven pillars of Broad-Based Black Economic Empowerment, these seven areas impact on the people in our environment of business, on our supply chain, on our employees and therefore impact on all stakeholders in our country and not just a select few (Dorrington, 2006: 25).

### **3.8 BROAD-BASED BLACK ECONOMIC EMPOWERMENT AND FAMILY BUSINESSES**

According to Balshaw (2004: 4), the single most strategic issue facing succession in a family business in South Africa is Broad-Based Black Economic Empowerment. The cascade effect of empowerment will be felt up and down; the supplier chain and any business ignoring it would be ill-advised. Balshaw (2004: 5) continues by saying in order to stay competitive, family businesses need to change their profile. If they wish to continue to supply goods or services to the public sector, state and public entities bidders for public procurement, family businesses will be required to demonstrate their empowerment credentials in relationship to ownership, governance, management, human resource development and affirmative procurement - in line with government policies and legislation (Balshaw, 2004: 6).

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The argument that Broad-Based Black Economic Empowerment will play an ever increasing role in not just businesses in South Africa, but also family businesses makes it one of the most important aspects to consider when dealing with succession planning of the family business. The quest for a suitable Broad-Based Black Economic Empowerment partner must be aimed to ensure some form of compatibility between the new empowerment partner and the values and goals of the family business (Booyesen & Bouche, 2005: 47).

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

Lennox (2004: 1) believes that Broad-Based Black Economic Empowerment is just one of the new realities facing family businesses in South Africa. The concept of equity is becoming a very sensitive issue. The problem family-owned businesses face is that they tend to have sentiment towards the businesses; the owners regard the assets and the pension funds as an extension of themselves. To meet the criteria of black empowerment policies, such businesses tend to feel they have to give away a part of themselves and they need to adopt a mindset that deals with Broad-Based Black Economic Empowerment on a business level and not in a sentimental context (Lennox, 2004: 1).

Government will use the total score card which include management, employment equity, skills development, preferential procurement and enterprise development to rank family businesses (Lennox, 2004: 1). Family businesses feel they would rather sell out than to lose the expertise.

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Lennox says empowerment should be incentive-driven and not driven by legislation and conclude the article by saying that family-owned businesses need to construct their strategies around such realities (Lennox, 2004: 1).

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

### **3.9 SUMMARY**

This literature study has looked at the history of South Africa in terms of the economic situation since the apartheid era, the first democratic election and the decade following the abolishment of apartheid up to the present state. The importance of Broad-Based Black Economic Empowerment was highlighted through numerous references to Government policies and strategies pertaining to this issue.

One of the most important outcomes of the Broad-Based Black Economic Empowerment initiative was the passing of the Broad-Based Black Economic Empowerment Act of 2003 (53/2003), which laid down the foundation of what is expected from Government in terms of companies that need to comply with Broad-Based Black Economic Empowerment. The Act also serves as the framework for the codes of good practice and the guidelines for sector specific charters namely the financial charter, mining charter and many more.

Broad-Based Black Economic Empowerment is one of the most important strategic issues, for any business in South Africa that need to comply with this legislation as set out in the Broad-Based Black Economic Empowerment Act (53/2003). The legislation requires all qualifying businesses (all businesses with an annual turnover of R5 million or more) to demonstrate their empowerment efforts in relation to

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ownership, governance, management, human resource development and affirmative procurement. The Broad-Based Black Economic Empowerment score cards are used to measure these companies' progress and levels of compliance.

It is important to take note of the Broad-Based Black Economic Empowerment policy and to recognize its importance in an effort to reinvent business. Any business that does not apply a concrete effort to embrace and adhere to the requirements of Broad-Based Black Economic Empowerment is believed to be in denial.

Broad-Based Black Economic Empowerment is here to stay and the sooner businesses realize this, the quicker transformation can take place. If Broad-Based Black Economic Empowerment is truly implemented in such a way as to create jobs and reduce poverty, we can look forward to a South Africa with higher levels of productivity, less crime and ultimately, harmonious relationships across all levels of South Africans irrespective of race or gender.

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# **CHAPTER 4**

## **RESULTS AND DISCUSSION**

### **4.1 INTRODUCTION**

In this chapter the constructing of the questionnaire, the study population and the process followed to gather the data will be discussed. Thereafter, will the data gathered by the empirical study be presented and the findings discussed.

This chapter will thus analyze and interpret the data gathered, enabling the contextualization of results obtained. The researcher relied extensively on personal interviews with established business owners to construct a questionnaire that was structured in a way that could ensure feasible results, ensuring practical conclusions and recommendations.

### **4.2 CONSTRUCTING THE QUESTIONNAIRE**

The questionnaire was designed to address specific indicators pertaining to Broad-Based Black Economic Empowerment that is believed to have an impact on family businesses. The questionnaire was divided into six sections with each section addressing different core aspects.

Section A of the questionnaire contains questions to which participants simply have to answer yes or no. Sections B to E were constructed based on a 7-point Likert-type scale. Participants can indicate to which extent they agree with a statement made by choosing a score between 1 (indicating a low level of agreement) and 7 (indicating a high level of agreement). Section F contained pre-determined categories for each statement, and participants are requested to choose the category which is most applicable to them. The outlay of the different sections of the questionnaire is done in table 4.1.

Table 4.1: Questionnaire sections and purpose

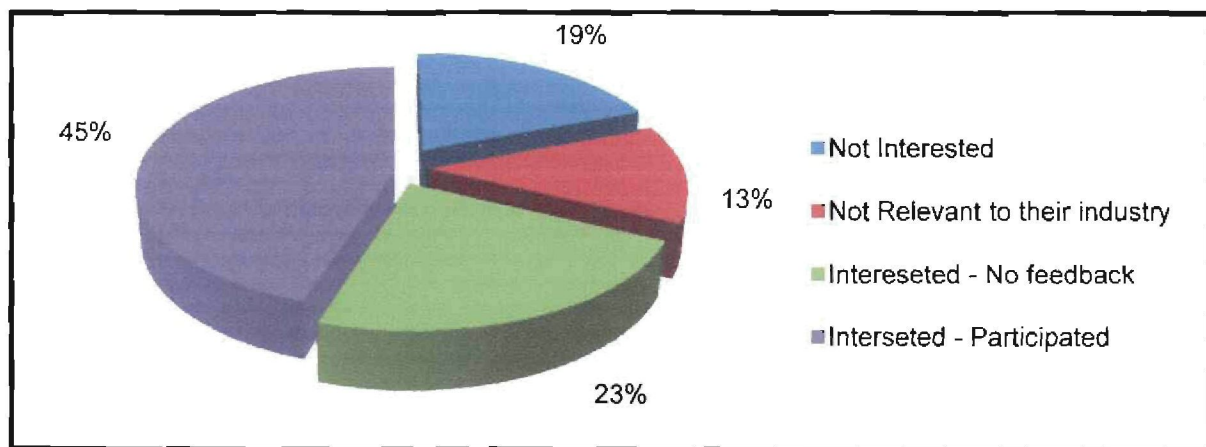
<b>Section</b>	<b>Purpose of section</b>
Section A	Awareness of Broad-Based Black Economic Empowerment. This section gathered information regarding the knowledge of each family business owner on the issue of Broad-Based Black Economic Empowerment
Section B	Opportunities and advantages: Questions in this section were structured to determine the degree to which family business owners believe that Broad-Based Black Economic Empowerment creates opportunities or advantages for the business and the economy.
Section C	Threats and disadvantages: Participants were questioned about their views on the possible threats and disadvantages that Broad-Based Black Economic Empowerment could post upon the economy and their family business.
Section D	Impact on the Succession process: The views of all family business owners were obtained on the issue of succession planning (management and ownership) and how this process is affected by Broad-Based Black Economic Empowerment
Section E	General: This section of the questionnaire focused on aspects like Government support, the implementation process, finding the right empowerment partner and financing a Broad-Based Black Economic Empowerment deal.
Section F	Demographic information: In section F family business owners were asked to answer business specific questions which included the owner's age, gender and highest qualification. This section also provided information regarding the business in terms of number of employees, annual turnover and the type of industry in which the business operates.

### **4.3 STUDY POPULATION AND SAMPLE**

The target study population of this study was small and medium-sized family businesses in the Sedibeng area in South Africa. Numerous attempts were made to secure a database of family businesses in the area, but to no avail. Therefore, it was decided to use a convenience sample, by means of the snowball sampling technique, to identify the family businesses that participated in this study (Page & Meyer, 2000: 100). This data should be considered as generated from a small study population for which statistical inference and *p*-values are not relevant (Ellis & Steyn, 2003: 51).

To generate a preliminary list of family businesses, different Business Chambers in the greater Sedibeng area as well as well-known business people were contacted in various regions in South Africa. These chambers or business people then acted as informants and identified potential family businesses for inclusion in the sample. The latter then identified a further set of family businesses. A list of 83 potential family businesses was identified. These referrals were subsequently contacted telephonically to confirm that they adhere to the definition of small and medium-sized family businesses used in this study (Ibrahim & Ellis, 2004: 5; National Small Business Amendment Bill, 2004: 2; National Small Business Act, 1996) and to gauge their willingness to participate in the study. A total of 14 of these businesses did not meet the required criteria resulting in a total of 69 qualifying family businesses. The results of the initial 69 family businesses identified are graphically presented by means of a pie-chart in figure 4.1.

Figure 4.1: Results of qualifying family businesses



In the end 47 (68%) businesses indicated that they are willing to participate in the study, 9 (13%) businesses stated that the industries they operate in are not affected by Broad-Based Black Economic Empowerment. These businesses included franchised fast food businesses, hardware stores and professional practitioners. A total of 13 (19%) businesses, furthermore, indicated that they do not want to participate in the study. Questionnaires were distributed to the family businesses via personal visits to the businesses, faxes and via e-mail.

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participate in the study. Questionnaires were distributed to the family businesses via personal visits to the businesses, faxes and via e-mail.

In spite of the fact that 47 businesses indicated their willingness to participate in the study, only a total of 31 (45%) completed questionnaires were received by the cut-off date.

## **4.4 RESULTS OF THE BIOGRAPHICAL DATA**

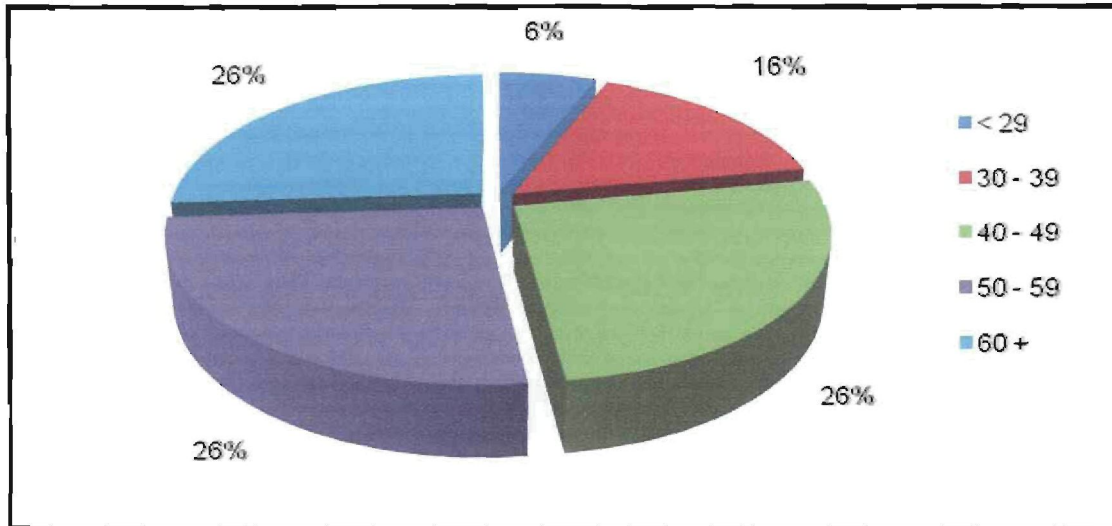
The biographical aspects of each family business was obtained from section F (refer Annexure 1) of the family business questionnaire. The results of the study might be influenced by the biographical data that were obtained the fact that only family business owners completed a questionnaire might contribute to this fact. The biographical information that was obtained include: gender, age and academic qualifications.

### **4.4.1 Age groups of family business owners**

Question F1 of the questionnaire (refer Annexure 1) contained five predetermined age groups from which the family business owners had to choose the group that would best represent their age. The purpose of this question was to determine the different ages of the participating family business owners.

The question was further more intended to determine if a relationship exists between the general perceptions of certain age groups on the impact of Broad-Based Black Economic Empowerment on their businesses. The age distribution of family business owners as per the pre-determined age groups is displayed in figure 4.2.

Figure 4.2: Age distribution of family business owners



The pie-chart indicates that a total of 6% of the family business owners that participated in this study are younger than 29 years old, 16% are between 30 and 39 years, with an even distribution between the other three age groups (40 – 49, 50 – 59 and 60+) which represent 26% each.

#### 4.4.2 Gender of family business owners

Question F2 (refer to Annexure 1) indicates the difference between the number of male and female family business owners, and was included in the questionnaire to determine the degree of distribution between the different sexes. Respondents simply had to mark male or female, and the results obtained are being represented in table 4.2.

Table 4.2: Gender distributions of family business owners

Gender	Total	%
Male	28	90%
Female	3	10%
Total	31	100%

It is evident from table 4.2 that family businesses are still predominantly managed and owned by males. A total of 90% of the family business owners that participated in this study are male and 10% female. It is important to reiterate the fact that only family business owners were asked to complete the questionnaires, and although the majority of participants were males, the results do not include other active family members of the businesses.

#### 4.4.3 Academic qualifications of family business owners

The purpose of question F3 in the questionnaire (refer to Annexure 1) was to determine the highest academic qualification of the family business owners. The level of formal qualification influence the way in which the business is managed and affects the attitude of the family business owner. The attitude of the family business owners is another key variable in determining the perception of the impact of Broad-Based Black Economic Empowerment on family businesses. The variance in qualification levels of family business owners are displayed in table 4.3 below.

Table 4.3: Highest academic qualifications of family business owners

Level of education	Total	Percentage (%)
Lower than Grade 12	0	0%
Grade 12	9	29%
Certificate	1	3%
Diploma	8	25%
University degree	7	23%
Post Graduate degree	3	10%
Missing	3	10%
Total	31	100%

None of the family business owners who participated in this study have a qualification lower than Grade 12, 29% have a Grade 12 qualification, 28% obtained a certificate or diploma and 33% have a graduate or post graduate qualification.

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Although 10% of the participants did not complete this question, evidence indicate that at least 61% of family business owners have obtained some form of formal education after completing secondary school.

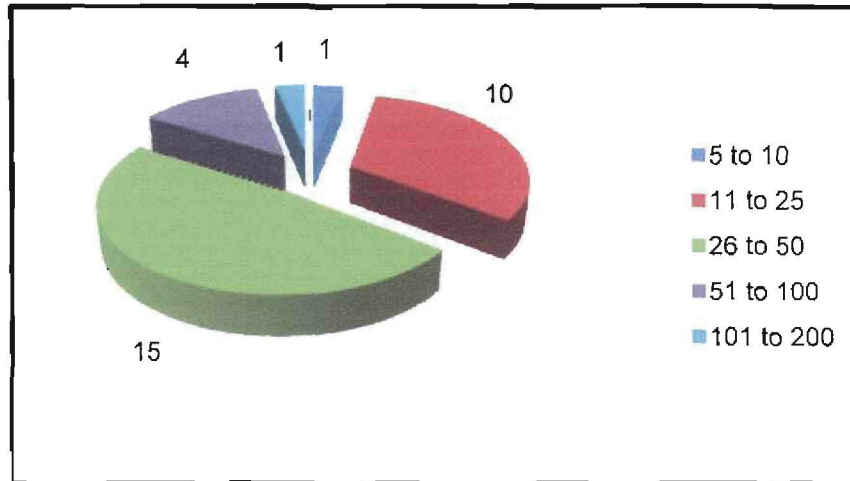
## **4.5 STRUCTURE OF PARTICIPATING FAMILY BUSINESSES**

The business information of the participating family businesses formed part of section F in the questionnaire. The variables in this part of section F were designed to determine which family businesses have to comply with the Broad-Based Black Economic Empowerment legislation. The variables include the number of fulltime employees, the annual turnover of the business and the industry in which the company operate. Business information from 31 participating family businesses will be analysed in the proceeding paragraphs.

### **4.5.1 Number of permanent employees**

The question F5 (section F) in the questionnaire (refer to Annexure 1) dealing with the number of permanent employees of the family business was designed to determine if the family business could be classified as a micro, small or medium enterprise. Although the predetermined categories differ from the standards of the National Small Business Act (2003:26), businesses were still grouped into three categories based on the number of fulltime employees. The results obtained for each predetermined age category are presented in figure 4.3.

Figure 4.3: Permanent employees of the family business



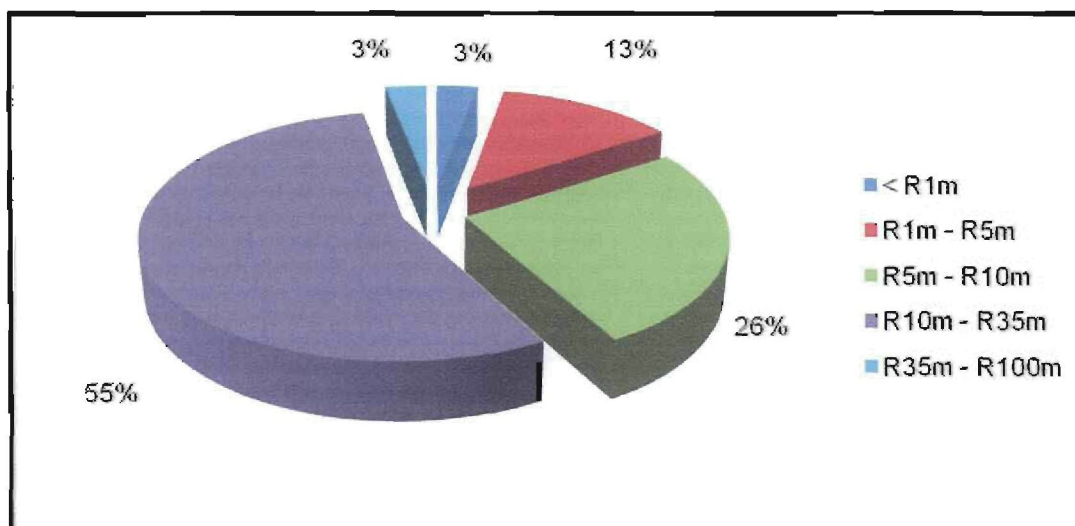
A total of 3% of the 31 family businesses who participated in this study can be classified as micro and very small businesses in the South African context (10 employees and less) and 81 percent small businesses (between 11 and 50 permanent employees). The rest (16%) can be categorised as medium-sized businesses (51 - 200 employees).

#### 4.5.2 Family business annual turnover

The annual turnover of the family businesses provided the author with information regarding the size and financial success of the family business. The annual turnover is the single most important variable to determine the need for a company to comply with Broad-Based Black Economic Empowerment legislation.

Different predetermined categories were specified and family business owners were requested to choose the most appropriate turnover. The results obtained from the annual turnover of family businesses are graphically presented in figure 4.4.

Figure 4.4: Annual turnover of the family business

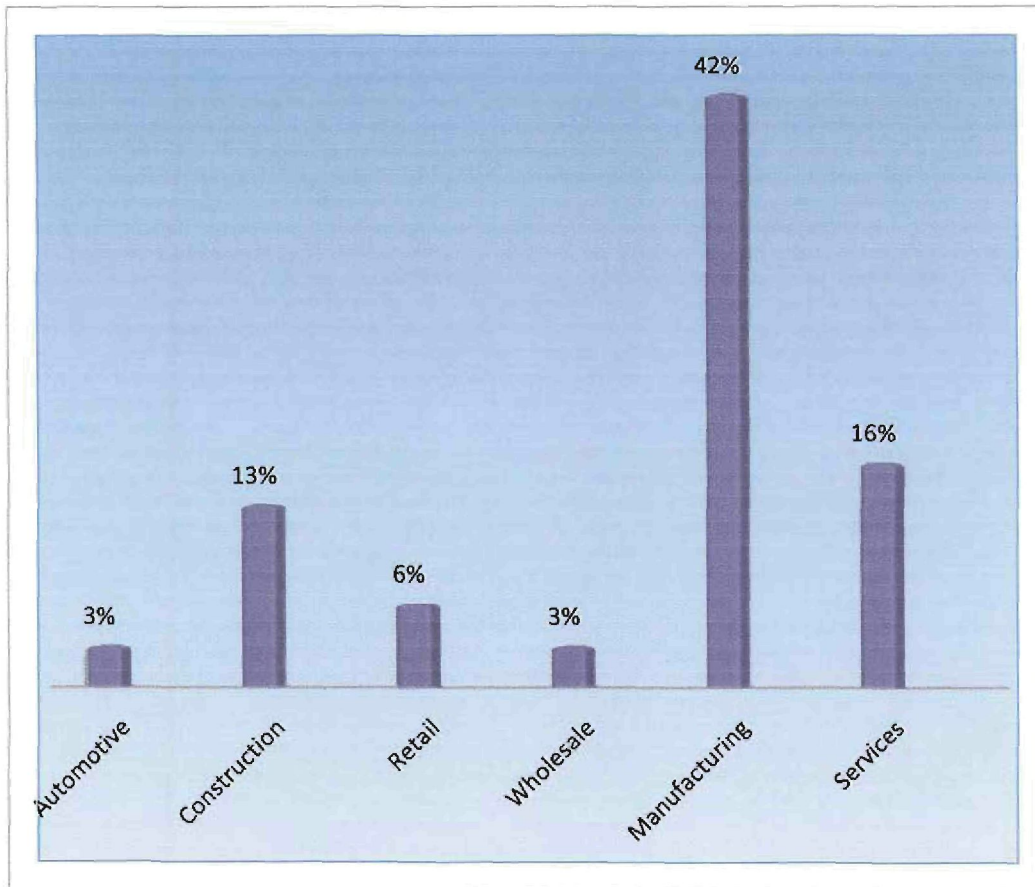


A total of 16% of the businesses have an annual turnover of less than R5 million and are not legally required to comply with Broad-Based Black Economic Empowerment legislation. The majority of businesses 55% have an annual turnover of between R10 million and R35 million, followed by 26% of the businesses with a turnover between R5 million and R10 million. Only 3% of the family businesses that participated in this study has an annual turnover exceeding R35 million.

#### 4.5.3 Industry spectrum of family businesses

The indication of the industry in which the family business operates helped to determine the degree of diversity obtained. The results of the industries are graphically displayed in figure 4.5.

Figure 4.5: Family business industries



A total of 3% of family businesses that participated in this study are operating in the automotive industry, 13% are in the construction industry and the retail industry represents 6% of the participants. The majority of family businesses that participated in the study operating in the manufacturing industry 42%, the services industry followed suite with 16% and only 3% operates in the wholesale industry.

#### **4.6 AWARENESS OF BROAD-BASED BLACK ECONOMIC EMPOWERMENT**

Section A of the questionnaire was designed to determine the different levels of awareness among family business owners on the issue of Broad-Based Black Economic Empowerment. This section was divided into 12 questions on which the

participants simply had to answer yes or no. The results of section A is displayed in table 4.4.

Table 4.4: Awareness of Broad-Based Black Economic Empowerment

No	Question	Number Yes	% Yes	Number No	% No
A1	The turnover of the family business falls within the R5 million to R35 million bracket.	23	74%	8	26%
A2	BBBEE has been implemented in the family business.	6	19%	25	81%
A3	I am familiar with the legislation pertaining to BBBEE.	24	77%	7	23%
A4	I know the management control criteria of the BBBEE Act.	14	45%	17	55%
A5	The employment equity component of BBBEE is known to me.	21	68%	10	32%
A6	I am aware of the implications of the required ownership element of BBBEE.	23	74%	8	26%
A7	I understand the requirements of social economic development as set out in the codes of good practise.	16	52%	15	48%
A8	I have a clear understanding of the impact of the preferential procurement requirements of BBBEE on the business.	16	52%	15	48%
A9	I know what is expected of my business in terms of the enterprise development requirements as per the codes of good conduct.	18	58%	13	42%
A10	I am aware of the fact that qualifying small enterprises consists of businesses with an annual income of R5 – R35 million.	29	94%	2	6%
A11	The fact that qualifying small enterprises only have to adhere to four of the seven codes of good practise is known to me.	24	77%	7	23%
A12	I know BBBEE is compulsory to any business in South Africa.	18	58%	13	42%

A total of 74% of the family businesses that participated in this study has an annual turnover exceeding R5 million. Although 74% percent of the business' turnovers fall within the required turnover of R5 million to R35 million only 19% of businesses have implemented Broad-Based Black Economic Empowerment in the business.

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Item A3 (refer table 4.4) further indicates that 77% of participating businesses are familiar with the legislation pertaining to Broad-Based Black Economic Empowerment.

The management control criteria of Broad-Based Black Economic Empowerment seems to be the factor with which participants are least familiar with only 45% participants indicating their familiarity with this requirements.

The awareness of ownership and employment equity requirements achieved results of 74 percent and 68 percent respectively. Participants indicated that they are the most familiar with these two indicators of the Broad-Based Black Economic Empowerment score card. The other three questions that were asked regarding the different indicators of the generic score card all achieved results between 52 percent and 58 percent.

The majority of participants (94%) indicated that they are aware of the required turnover (R5m – R35m) for qualifying small businesses. Item A12 (refer to table 4.4) has been asked to test participants indepth knowledge of Broad-Based Black Economic Empowerment by making a false statement, I know Broad-Based Black Economic Empowerment is compulsory to any business in South Africa. Eighteen (58%) participants answered yes to this question which is actually untrue.

#### **4.7 ASSESSMENT OF THE IMPACT OF BROAD-BASED BLACK ECONOMIC EMPOWERMENT ON FAMILY BUSINESSES**

The comprehensive literature studies done in chapter 2 and chapter 3 highlighted important indicators that need to be managed to ensure the impact of Broad-Based Black Economic Empowerment are being dealt with effectively within family businesses. These indicators were divided into ten groups and became the key determents in the family business questionnaire.

The ten indicators identified have an impact on the total operations of the family business. With this in mind it was decided to focus the questionnaire on the perceptions of family business owners. The researcher strongly believed that the owners would give the best insight into the total operations of the business and their views would be the most valuable. The ten indicators are define and listed in table 4.5.

Table 4.5: Broad-Based Black Economic Empowerment indicators, impacting on family businesses

<b>Indicators</b>	<b>Definition</b>
Indicator 1	Opportunities for family businesses
Indicator 2	Advantages of BBBEE to the economy
Indicator 3	Threats for family businesses
Indicator 4	Disadvantages to the economy
Indicator 5	Impact on management succession
Indicator 6	Impact on ownership succession
Indicator 7	Government support
Indicator 8	Implementation of Broad-Based Black Economic Empowerment
Indicator 9	Finding the right empowerment partner
Indicator 10	Financing a BBBEE deal

The data collected were statistically analysed, using Statistica (Statsoft 2006). The arithmetic mean and standard deviation values of the family business owner's evaluation of the indicators measuring the impact of Broad-Based Black Economic Empowerment were calculated.

The Cronbach alpha coefficients of the indicators of Broad-Based Black Economic Empowerment that have an impact on family businesses were calculated to assess the construct validity of the questionnaire. The statistical descriptive measures used in the analysis are defined in table 4.6.

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

Table 4.6: Statistical descriptive measures

<b>Statistical Term</b>	<b>Description</b>
Population	A population refers to the entire set of data or the complete set of measurements in a particular problem (Wisniewski, 2002: 100).
Sample	A sample is a representative part of the population containing those measurements actually obtained by the experiment (Wisniewski, 2002: 100).
Probability Sampling	Probability sampling involves the selection of a random sample from a list, containing all the names of the members in the population to be studied (Wisniewski, 2002: 100).
Arithmetic Mean	The arithmetic mean is the most commonly used average or measure of central tendency. It is calculated by adding all the observations in a batch of data and then dividing the total by the number of items involved (Wisniewski, 2002: 92).
Standard Deviation	The standard deviation is an indication of how much the items in the data set differ from the mean value. The standard deviation can be defined as the square root of the variance, where the variance is the average of the squared differences between each observation and the sample mean, divided by the number of observations minus one (Wisniewski, 2002: 96).
Cronbach alpha Coefficient	The Cronbach alpha coefficient is used to evaluate the internal consistency between the data, it is the factors and sub-factors in the questionnaire.

The arithmetic mean results for each indicator were ranked in a descending order. This technique cannot be considered as a scientific method to categorise or rank arithmetic means: the technique was applied specifically to this study to distinguish between the results of the different indicators.

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For the purpose of the interpretation of the results of this study, an arithmetic mean value of lower than 4.0 indicates a low level of agreement to the statement by participants, and a value between 4.0 and 5.0 indicates a moderately agreement. A result between 5.0 and 5.5 is viewed as an indication that the participants agree with the statement and results exceeding 5.50 indicates that participants to this study completely agree with the statement made.

The arithmetic mean is used to indicate the average response of family business owners and to help identify the areas that are not adequately addressed in the quest to determine the impact of Broad-Based Black Economic Empowerment on family businesses.

#### **4.7.1 Opportunities to the family business**

Section B of the questionnaire dealt with aspects relating to the possible opportunities and advantages that Broad-Based Black Economic Empowerment could have for family businesses and the South African economy.

The statements concerning the opportunities of Broad-Based Black Economic Empowerment included amongst others the prospect of attracting new customers, the obtaining of contracts, the possibility of a capital injection and higher growth rates.

The results of the evaluation of the opportunities of Broad-Based Black Economic Empowerment to family businesses are being displayed in table 4.7, with arithmetic mean =  $\bar{x}$  and standard deviation = s.

Table 4.7: The results of the evaluation of the opportunities of Broad-Based Black Economic Empowerment to family businesses

No.	Item	$\bar{x}$	s
	<b>Average of all the sub-indicators in this section</b>	<b>3.84</b>	<b>0.98</b>
B9	BBBEE makes it possible for the business to get access to contracts.	5.03	1.33
B2	BBBEE can result in the accusation of new customers for the business.	4.72	1.13
B8	BBBEE makes it possible for the business to compete in new unexplored markets.	4.61	1.54
B4	BBBEE makes it possible for the business to invest in affordable skills development for employees.	4.16	1.39
B10	Compliance to BBBEE makes it possible for the business to expand its business operations (higher growth).	4.06	1.46
B1	BBBEE creates new possibilities for the business in terms of business networks and new associates.	4.03	1.33
B6	BBBEE can help the business to achieve its social responsibility towards the community.	3.81	1.83
B7	BBBEE makes it possible for the business to be more competitive.	3.81	1.58
B3	BBBEE creates the opportunity for the business to improve its cash flow by means of a capital injection from the empowering partner.	3.74	1.75
B5	BBBEE can lead to new innovative ideas with the input of the empowering partner.	3.68	1.30
B13	Access to finance would be easier once the business comply with BBBEE requirements.	3.68	1.40
B14	BBBEE is the key to ensuring sustainable long term success.	3.35	1.68
B15	BBBEE creates new jobs.	3.35	1.62
B12	BBBEE can lead to more effective management styles within the business.	2.94	1.41
B11	BBBEE can give the business the opportunity to acquire materials cheaper as part of the preferential procurement process.	2.77	1.23

The average score of 3.84 for the construct opportunities of BBBEE for family businesses indicates that family business owners who participated in this study do not view Broad-Based Black Economic Empowerment to be advantageous to their businesses. The statement, BBBEE can give the business the opportunity to acquire materials cheaper as part of the preferential procurement process ( $\bar{x} = 2.77$ ), has the lowest average score. This indicates a very strong disagreement with the statement.

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The statement, BBEE can lead to more effective management styles within the business ( $\bar{x} = 2.94$ ), also scored well below par. Two of the statements, BBEE creates new jobs ( $\bar{x} = 3.35$ ), and BBEE is the key to ensuring sustainable long term success ( $\bar{x} = 3.35$ ), scored equally low.

Five of the statements, BBEE creates new possibilities for the business in terms of business networks and new associates ( $\bar{x} = 4.03$ ), compliance to BBEE makes it possible for the business to expand its business operations ( $\bar{x} = 4.06$ ), BBEE makes it possible for the business to invest in affordable skills development for employees ( $\bar{x} = 4.16$ ), BBEE makes it possible for the business to compete in new unexplored markets ( $\bar{x} = 4.61$ ), and BBEE can result in the accusation of new customers for the business ( $\bar{x} = 4.72$ ), were rated moderately true (score between 4.0 – 5.0) by participants.

The participating family business owners only rated one statement, BBEE makes it possible for the business to get access to contracts ( $\bar{x} = 5.03$ ) as “agree” in terms of the interpretation scale used.

Notice that the standard deviations of the different items range between 1.13 and 1.83 which are fairly high (on a 7-point scale). The variance in the different scores indicates that participants have different perceptions of the advantages that Broad-Based Black Economic Empowerment holds.

#### **4.7.2 Advantages of Broad-Based Black Economic Empowerment to the economy**

The second part of section B of the questionnaire focused on the advantages that Broad-Based Black Economic Empowerment boasts for the economy. The results of the sub-indicators are listed in table 4.8.

Table 4.8: Results of the evaluation of the advantages of Broad-Based Black Economic Empowerment to the economy

No.	Item	$\bar{x}$	s
	<b>Average of all sub-indicators in this section</b>	<b>3.36</b>	<b>1.07</b>
B17	BBBEE encourages the procurement of local products/ goods through preferential procurement.	4.74	0.93
B16	BBBEE encourages transformation throughout the country.	3.74	1.61
B22	BBBEE stimulates the local economy.	3.55	1.52
B18	Companies complying with BBBEE contribute significantly towards the uplifting of the communities the operate in.	3.23	1.50
B19	BBBEE ensures that companies act in a social responsible way.	3.23	1.48
B20	BBBEE is laying the foundation for an economy that benefits all South Africans.	2.90	1.74
B21	BBBEE truly addresses the issue of unemployment in South Africa.	2.13	1.36

This section has one of the lowest average scores of all the indicators ( $\bar{x} = 3.36$ ), it is however evident that participating family business owners disagree more with some statements than others.

Two items, BBBEE truly addresses the issue of unemployment in South Africa ( $\bar{x} = 2.13$ ), and BBBEE is laying the foundation for an economy that truly benefits all South Africans ( $\bar{x} = 2.90$ ), have been indicated by participants to be untrue.

The participating family business owners indicated a low level of agreement to four of the remaining items, BBBEE ensures that companies act in a social responsible way ( $\bar{x} = 3.23$ ), companies complying with BBBEE contribute significantly towards the uplifting of the communities they operate in ( $\bar{x} = 3.23$ ), BBBEE stimulates the local economy ( $\bar{x} = 3.55$ ), and BBBEE encourages transformation throughout the country ( $\bar{x} = 3.74$ ).

According to participants even the highest scoring item, BBBEE encourages the procurement of local products/goods through preferential procurement ( $\bar{x} = 4.74$ ) can only be rated as moderately agreeable. It is evident that the standard deviation across all seven items is moderate to high, ranging between 0.93 and 1.74.

### 4.7.3 Threats to the family business

Section C of the questionnaire focuses on the perceptions of family business owners regarding the threats and disadvantages that Broad-Based Black Economic Empowerment might have on family businesses and the South African economy.

The perceptions regarding the threats to family businesses were obtained from 15 statements made on this topic. Table 4.9 contain the results of these 15 statements.

Table 4.9: Results of the evaluation of the threats of Broad-Based Black Economic Empowerment to the family business

No.	Item	$\bar{x}$	s
	<b>Average of all sub-indicators in this section</b>	<b>5.49</b>	<b>0.70</b>
C11	BBBEE will result in the business employing incompetent people just for the sake of empowerment.	6.32	0.79
C8	The ownership requirements of BBBEE will lead to the family losing control over the business.	6.03	0.89
C5	Adhering to the BBBEE act and codes of conduct put an administrative burden on the family business.	5.90	0.94
C12	BBBEE might lead to the deterioration of quality due to higher levels of authority being given to people that does not possess the necessary skills.	5.84	0.97
C1	BBBEE threatens the future existence of our family business.	5.81	1.51
C10	An empowering partner will change the culture of the business, resulting in conflict.	5.77	1.22
C13	Preferential procurement might force the business to buy from new suppliers, resulting in potential risks in terms of reliability.	5.77	0.84
C14	Established relationships with current suppliers will be at risk once the business has to buy from empowered suppliers.	5.71	0.97
C7	Implementing BBBEE will be time consuming and can result in the neglect of	5.48	0.93

	existing customers.		
C15	Quality control might deteriorate as new materials from new suppliers have to be used as part of the preferential procurement requirements.	5.48	1.03
C6	The BBBEE codes of good conduct are vague and complicated.	5.14	1.27
C9	The skills development aspect of BBBEE will lead to a loss in productivity as workers will need to attend courses.	5.06	1.55
C4	Implementing the codes of good conduct on BBBEE could result in the loss of focus on business matters and therefore could have a hampering effect on our family businesses.	4.94	1.44
C3	The management requirements of BBBEE might lead to retrenchments (job losses) within our family business.	4.68	1.64
C2	BBBEE might cause our family business to lose some of its existing customers.	4.45	1.77

The average threats to the family business score of 5.49 indicates that, family business owners agree with the majority of statements made in this section. The items, BBBEE will result in the business employing incompetent people just for the sake of empowerment ( $\bar{x} = 6.32$ ), and the ownership requirements of BBBEE will lead to the family losing control over the business ( $\bar{x} = 6.03$ ), strongly support these views.

Participants indicated that they strongly agree with the following items, adhering to the BBBEE Act and the codes of conduct put an administrative burden on the family business ( $\bar{x} = 5.90$ ), BBBEE might lead to the deterioration of quality due to higher levels of authority being given to people that do not possess the necessary skills ( $\bar{x} = 5.84$ ), BBBEE threatens the future existence of our family business ( $\bar{x} = 5.81$ ), an empowering partner will change the culture of the business resulting in conflict ( $\bar{x} = 5.77$ ), preferential procurement might force the business to buy from new suppliers, resulting in potential risks in term of reliability, and established relationships with current suppliers will be at risk once the business has to buy from empowered suppliers ( $\bar{x} = 5.71$ ).

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Items that participants rated as “agree” (scores 5.0 – 5.50) are, implementing BBBEE will be time consuming and can result in the neglect of existing customers ( $\bar{x}$  = 5.48), quality control might deteriorate as new materials from new suppliers have to be used as part of the preferential procurement requirements ( $\bar{x}$  = 5.48), the BBBEE codes of good conduct are vague and complicated ( $\bar{x}$  = 5.14), and the skills development aspect of BBBEE will lead to a loss in productivity as workers will need to attend courses ( $\bar{x}$  = 5.06).

Participants rated even the three lowest scoring items, implementing the codes of good conduct on BBBEE could result in the loss of focus on business matters and therefore could have a hampering effect on our family business ( $\bar{x}$  = 4.94), the management requirements of BBBEE might lead to retrenchments (job losses) with our family business ( $\bar{x}$  = 4.68), and BBBEE might cause our family business to lose some of its existing customers ( $\bar{x}$  = 4.45) as moderate threats to their businesses. It is, therefore, evident that participants perceive the threats of Broad-Based Black Economic Empowerment to be one of the major issues surrounding this concept. The large variance of the average standard deviation of the items in this section from 0.79 to 1.77 might be due to different perceptions from family business owners whose businesses operate in different industries.

#### **4.7.4 Disadvantages of Broad-Based Black Economic Empowerment to the economy**

The perception of family business owners on the disadvantages that Broad-Based Black Economic Empowerment can have on the South African economy has been explored in this section. The questions were specifically designed to obtain the views on issues like the broadness of Broad-Based Black Economic Empowerment and the issue of skills (and the lack thereof) in the workplace. The results for this section are tabulated in table 4.10.

Table 4.10: Results of the evaluation of the disadvantages of Broad-Based Black Economic Empowerment to the economy

No.	Item	$\bar{x}$	S
	<b>Average of all sub-indicators in this section</b>	<b>5.84</b>	<b>0.86</b>
C16	BBBEE is benefiting only a small number of black elites.	6.55	0.77
C17	BBBEE increases the gap between the rich and the poor in South Africa.	6.16	1.44
C22	BBBEE creates a generation of people that just want the financial benefits without any positive contribution towards the business.	6.10	0.98
C20	The emphasis of BBBEE is placed too heavily on ownership and management aspects which lead to less efforts being made in terms of skills development.	5.77	1.02
C21	BBBEE leads to unsound business decisions made by unskilled empowering partners.	5.65	1.14
C18	BBBEE results in the business losing focus on business activities	5.39	0.99
C19	BBBEE contributes towards the unemployment crisis in South Africa.	5.29	1.64

The average score of the items pertaining to the disadvantages of Broad-Based Black Economic Empowerment was the highest ( $\bar{x} = 5.84$ ) of all the indicators. Three items, BBBEE is benefiting only a small number of black elites ( $\bar{x} = 6.55$ ), BBBEE increases the gap between the rich and the poor in South Africa ( $\bar{x} = 6.16$ ), and BBBEE creates a generation of people that just want the financial benefits without any positive contribution towards the business ( $\bar{x} = 6.10$ ), ultimately support this result.

The other four indicators in this section, the emphasis of BBBEE is placed too heavily on ownership and management aspects which lead to less efforts being made in terms of skills development ( $\bar{x} = 5.77$ ), BBBEE leads to unsound business decisions made by unskilled empowering partners ( $\bar{x} = 5.65$ ), BBBEE results in the business losing focus on business activities ( $\bar{x} = 5.39$ ), and BBBEE contributes towards the unemployment crisis in South Africa ( $\bar{x} = 5.29$ ), all achieved scores that indicate that participants strongly agree with the statements made.

The relatively high scores of all the items indicate that the family business owners who participated in this study have a coherent view surrounding the disadvantages of Broad-Based Black Economic Empowerment to the economy.

#### 4.7.5 Impact on management succession

Section D of the questionnaire explored the issues surrounding the impact of Broad-Based Black Economic Empowerment on the succession process of family businesses. The succession process was divided into two sub-sections (management succession and ownership succession) each with its own set of statements.

The impact of Broad-Based Black Economic Empowerment on the management succession process of family businesses consists of six statements, each of which were carefully selected to ensure a true reflection of the different perceptions of participants. The statements with their specific results obtained are being displayed in table 4.11.

Table 4.11: Results of the evaluation of the impact of Broad-Based Black Economic Empowerment on management succession

No.	Item	$\bar{x}$	S
	<b>Average of all the sub-indicators in this section</b>	<b>5.70</b>	<b>0.86</b>
D3	The advice of an expert is important when structuring any BBBEE deal.	6.13	1.26
D4	The issue of BBBEE makes the succession planning of the business very difficult (more complex).	5.90	0.98
D5	With an empowering partner the management succession of the business becomes complicated.	5.90	0.75
D2	The transfer of management from the senior to the younger generation will be troubled by BBBEE.	5.48	1.34
D6	Management succession planning is being delayed as a result of BBBEE.	5.48	1.15
D1	Implementing BBBEE will have an effect on the business' succession planning process.	5.32	1.42

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The average impact of Broad-Based Black Economic Empowerment on management succession scored the second highest average, ( $\bar{x} = 5.70$ ) which indicates that participating family business owners perceive Broad-Based Black Economic Empowerment to have a significant impact on the management succession process of the business.

The item, the advice of an expert is important when structuring any BBBEE deal ( $\bar{x} = 6.13$ ) seems to enjoy preference from all the different family business owners who participated in this study. Two items that scored equally high ( $\bar{x} = 5.90$ ) are, the issue of BBBEE makes the succession planning of the business very difficult (more complex), and with an empowering partner the management succession of the business becomes complicated.

The three lowest indicators, the transfer of management from the senior to the younger generation will be troubled by BBBEE ( $\bar{x} = 5.48$ ), management succession planning is being delayed as a result of BBBEE ( $\bar{x} = 5.48$ ), and implementing BBBEE will have an effect on the business' succession planning ( $\bar{x} = 5.32$ ), still scored relatively high in overall terms of the questionnaire. This reiterates the statement made earlier, that family business owners perceive Broad-Based Black Economic Empowerment to have a significant impact on the management succession process of the business.

#### **4.7.6 Impact on ownership succession**

The ownership succession of family businesses was dealt with by posing nine questions to participating family business owners. These questions included the possibility of the family losing the business as part of Black Economic Empowerment and the difficulty of the transition process once an empowering partner has entered the business. The results of this section are found in table 4.12.

Table 4.12: Results of the evaluation of the impact of Broad-Based Black Economic Empowerment on ownership succession

No.	Item	$\bar{x}$	S
	<b>Average of the sub-indicators in this section</b>	<b>5.14</b>	<b>0.73</b>
D13	BBBEE can lead to conflict of interest between the family and the empowering partner.	6.10	0.83
D15	Decision making can become an obstacle as a result of BBBEE.	5.87	0.96
D14	BBBEE will result in a change from the traditional family management style.	5.84	1.00
D10	Family business owners will find it very difficult to ensure economic stability for future generations.	5.68	1.01
D9	Family businesses will become extinct as a result of BBBEE.	5.45	1.61
D8	BBBEE will result in the family losing the business.	5.29	1.47
D12	BBBEE makes it impossible for the family business owner to make provision for his/her retirement.	5.03	1.45
D11	BBBEE might result in family business owners becoming obsolete in the day-to-day activities of the business.	4.45	1.36
D7	Once an empowering partner has entered the business, the ownership transition will be an easy process.	2.55	1.43

The average score 5.14 for this section indicates that family business owners agree with the statements made in this section. The highest scoring item, BBBEE can lead to a conflict of interest between the family and the empowering partner ( $\bar{x} = 6.10$ ), and has been indicated as the greatest concern of participants.

Three of the items, decision making can become an obstacle as a result of BBBEE ( $\bar{x} = 5.87$ ), BBBEE will result in a change from the traditional family management style ( $\bar{x} = 5.84$ ), and family business owners will find it very difficult to ensure economic stability for future generations ( $\bar{x} = 5.68$ ) have been indicated to be highly applicable.

The following items, family businesses will become extinct as a result of BBBEE ( $\bar{x} = 5.45$ ), BBBEE will result in the family losing the business ( $\bar{x} = 5.29$ ), and BBBEE makes it impossible for the family business owner to make provision for

his/her retirement reflects that family business owners agree that these statements are relevant.

The low score obtained from the item, once an empowerment partner has entered the business, the ownership transition will be an easy process ( $\bar{x} = 2.55$ ), is a clear indication that family business owners view this statement as being untrue.

#### 4.7.7 Government support

Section E of the questionnaire contain general aspects resembling government support, the implementation process, finding the right partner and the financing of a Broad-Based Black Economic Empowerment deal.

The government support section made statements about the availability of information on the subject of Broad-Based Black Economic Empowerment and the level of assistance from government. The outcome of this section can be found in table 4.13 below.

Table 4.13: Results of the evaluation of Government support given to businesses that engage in Broad-Based Black Economic Empowerment activities

	Item	$\bar{x}$	S
	<b>Average of all the sub-indicators in this section</b>	<b>2.98</b>	<b>1.41</b>
E1	Adequate information on the issue of BBBEE is available from Government and its departments.	3.32	1.42
E2	Adequate assistance on the issue of BBBEE is available from Government and its departments.	3.16	1.15
E3	Government has taken family businesses in consideration with the development of BBBEE legislation.	2.45	1.65

The average Government support score ( $\bar{x} = 2.98$ ) is the lowest of all the indicators, and points to the fact that family business owners view the support from Government as absolutely inadequate. This perception is reinforced by the statement,

Government has taken family businesses in consideration with the development of BBBEE legislation ( $\bar{x}$  = 2.45).

The items, adequate assistance on the issue of BBBEE is available from Government and its departments ( $\bar{x}$  = 3.16) and adequate information on the issue of BBBEE is available from Government and its departments ( $\bar{x}$  = 3.32), provoked a high level of disagreement. Consistently high standard deviations are evident for all three items (1.15 – 1.65).

#### 4.7.8 Implementation of Broad-Based Black Economic Empowerment in family businesses

This section tested the perception of the implementation process and subsequently the level of priority that Broad-Based Black Economic Empowerment enjoys in the family business. Participants had to indicate if Broad-Based Black Economic Empowerment is being perceived as a high priority of the business and if negotiations are underway to secure a Broad-Based Black Economic Empowerment deal. Table 4.14 contains the results of this section.

Table 4.14: Results of the evaluation of the implementation of Broad-Based Black Economic Empowerment in family businesses

No.	Item	$\bar{x}$	S
	<b>Average of all the sub-indicators in this section</b>	<b>2.98</b>	<b>0.91</b>
E5	BBBEE is process that can be implemented timorously into any business.	3.55	1.65
E4	Complying with BBBEE is not a priority of the business.	3.39	1.61
E9	A formal plan is in place to deal with the process of BBBEE within the business.	3.19	1.78
E8	Negotiations are underway to secure a BBBEE deal.	2.90	1.30
E6	The implementation process is lengthy process that will impact on the day to day operations of the business.	2.55	1.15
E7	Implementing BBBEE is a relatively easy process.	2.32	1.22

The average result of  $\bar{x} = 2.98$  for the items in this section share the position of being the lowest ranked average score with the statements made in the Government support section. This serves as an indication that the family business owners who participated in this study might perceive the lack of Government support to have an impact on the implementation process of Broad-Based Black Economic Empowerment into family businesses.

Participants indicated that they tend to disagree with the statements, BBBEE is a process that can be implemented timorously into any business ( $\bar{x} = 3.55$ ), a formal plan is in place to deal with the process of BBBEE within the business ( $\bar{x} = 3.19$ ), and negotiations are underway to secure a BBBEE deal ( $\bar{x} = 2.90$ ) and implementing BBBEE is a relative easy process ( $\bar{x} = 2.32$ ).

#### 4.7.9 Finding the right partner

The statements in this section provided an indication of the perception of family business owners, regarding the availability of qualified empowering partners and the importance of a good “fit” between the family business culture and the culture of the empowering partner. The results for this section are presented in table 4.15 below.

Table 4.15: Results of the evaluation of finding the right empowering partner

No.	Item	$\bar{x}$	s
	<b>Average of all the sub-indicators in this section</b>	<b>4.97</b>	<b>0.60</b>
E17	It is very important that the culture and personality of the empowering partner fit the profile of the business and its operations.	6.32	0.79
E20	In the quest for the right empowering partner it is more important to recruit someone with practical experience in the business as appose to someone with academic qualifications.	5.87	0.76
E18	The empowering partner expect too much from the business in relation to what he/she can contribute towards the business.	5.78	0.90
E19	Having an active empowerment partner is more desirable than having an inactive partner that contributes only financially towards the business.	4.87	1.48
E16	Empowerment partners with the required skills and qualifications are widely available.	2.06	1.41

The moderately high average score of 4.97 would have been significantly higher if participating family business owners did not perceive the item, empowerment partners with the required skills and qualifications are widely available ( $\bar{x} = 2.06$ ) to be untrue.

Participants indicated their complete agreement with three of the items, it is very important that the culture and personality of the empowering partner fit the profile of the business and its operations ( $\bar{x} = 6.32$ ), in the quest for the right empowering partner it is more important to recruit someone with practical experience in the business as appose to someone with academic qualifications ( $\bar{x} = 5.87$ ), and the empowering partner expects too much from the business in relation to what he/she can contribute towards the business ( $\bar{x} = 5.78$ ).

The lowest scoring item, having an active empowerment partner is more desirable than having an inactive partner that contributes only financially towards the business ( $\bar{x} = 4.87$ ) still achieved a level of moderately agreement from participants.

#### 4.7.10 Financing the Broad-Based Black Economic Empowerment deal

The final indicator of the questionnaire studied the perception of family business owners on the ease of financing a Broad-Based Black Economic Empowerment deal. The fair valuation of a business by commercial banks and the availability of empowering partners that can arrange their own funding were the main focus of this section. The results obtained for this section are being displayed in table 4.16 below.

Table 4.16: Results of the evaluation of the financing of a Broad-Based Black Economic Empowerment deal

No.	Item	$\bar{x}$	S
	<b>Average of all the sub-indicators in this section</b>	<b>3.45</b>	<b>1.06</b>
E25	Financial institutions tend to under value businesses that want to engage in BBBEE deals.	5.26	1.32

E21	Finance is easily available to deal with BBBEE transactions.	3.39	1.58
E22	The Government institutions give adequate assistance in funding BBBEE deals.	3.16	1.79
E24	When funding a BBBEE deal, the financial institutions will place a realistic value on the business.	3.16	1.51
E23	The majority of BBBEE partners can provide their own finance.	2.26	1.50

The average score of 3.45 obtained for financing a Broad-Based Black Economic Empowerment deal suggest that family business owners who participated in this study have a tendency to disagree with the majority of statements made in this section.

The item, financial institutions tend to under value businesses that want to engage in BBBEE deals ( $\bar{x} = 5.26$ ), is the only item to which participants largely agreed.

The items, finance is easily available to deal with BBBEE transactions ( $\bar{x} = 3.39$ ), the government institutions give adequate assistance in funding BBBEE deals ( $\bar{x} = 3.16$ ), and when funding a BBBEE deal, the financial institutions will place a realistic value on the business ( $\bar{x} = 3.16$ ) obtained very low scores. The participating family business owners indicated clearly that the item, the majority of BBBEE partners can provide their own finance ( $\bar{x} = 2.26$ ) are perceived to being untrue.

#### 4.7.11 Suggestions

Section E of the questionnaire consisted of general questions surrounding Broad-Based Black Economic Empowerment one of which dealt with suggestions made by the author. The purpose of these questions was to obtain insight into the different views of family business owners on the following issues: tax incentives for businesses which create new jobs and tax incentives for skill development attempts.

It is important to note that the suggestions can not been seen as an indicator of Broad-Based Black Economic Empowerment that impact on family businesses. The

results of these questions are displayed in table 4.17 and should only be interpreted as indicative.

Table 4.17: Results of the evaluation of suggestions made

	<b>Suggestions</b>	$\bar{x}$	<b>S</b>
	<b>Average of the sub-indicators in this section</b>	<b>5.32</b>	<b>0.64</b>
E12	Tax incentives should be given to businesses based on job creation rather than preferential procurement.	6.19	1.19
E13	BBBEE should not be applicable to family businesses.	6.00	0.82
E15	The ownership aspect of BBBEE should only be applicable to businesses where the empowerment partner can buy and pay for his own shares.	5.97	0.98
E14	The skills development aspect of BBBEE should weigh more on the score card than management participation.	5.60	1.10
E10	BBBEE should place more emphasis on job creation.	5.58	1.43
E11	BBBEE should be applicable to all business, not just Government suppliers and associates.	2.61	1.56

The average suggestions score of 5.32 indicates that participating family business owners tend to agree with the majority of statements made in this section. This view is reiterated by the score of  $\bar{x} = 6.19$  obtained for the item, tax incentives should be given to businesses based on job creation rather than preferential procurement.

Participating family business owners indicated their strong support for the following statements, BBBEE should not be applicable to family businesses ( $\bar{x} = 6.00$ ), the ownership aspect of BBBEE should only be applicable to businesses where the empowering partner can buy and pay for his own shares ( $\bar{x} = 5.97$ ), the skills development aspect of BBBEE should weigh more on the score card than management participation ( $\bar{x} = 5.60$ ), and BBBEE should place more emphasis on job creation ( $\bar{x} = 5.58$ ).

The statement, BBBEE should be applicable to all businesses, not just Government suppliers and associates ( $\bar{x} = 2.61$ ), was strongly disagreed upon by the family business owners.

#### 4.8 RELIABILITY OF THE RESEARCH INSTRUMENT

The Cronbach alpha coefficient identifies the average correlation of variables within a test (degree of internal consistency between indicators and sub-indicators). Results for the Cronbach alpha coefficients vary between 0.0 and 1.0 with a higher value indicating a more reliable scale (SAS Institute Inc., 2005). A Cronbach alpha coefficient greater than 0.7 can be interpreted as reliable and internally consistent.

The Cronbach alpha coefficients of the indicators of Broad-Based Black Economic Empowerment that impact on family businesses are being displayed in table 4.18.

Table: 4.18. Results obtained for the Cronbach alpha coefficients of the indicators of Broad-Based Black Economic Empowerment that have an impact on family businesses

No.	Indicators	Cronbach Alpha Coefficient
	<b>Average of all the indicators</b>	<b>0.765</b>
1.	Opportunities to the family business	0.869
4.	Disadvantages of BBBEE to the economy	0.855
2.	Advantages of BBBEE to the economy	0.853
5.	Impact on management succession	0.829
3.	Threats to the family business	0.779
6.	Impact on ownership succession	0.747
10.	Financing the BBBEE deal	0.721

8.	Implementation of BBBEE in the family business	0.433
7.	Government support	0.404
9.	Finding the right partner	0.396

The results of all the Cronbach alpha coefficients from the complete list of items encompassed in the questionnaire are displayed in Annexure 2 of this study. A total of 70% of the average Cronbach alpha coefficients for the indicators of Broad-Based Black Economic Empowerment that impact on family businesses have results higher than 0.721 (refer table 4.18). The fact that the majority of the sub-indicators in these sections also obtained high scores (refer Annexure 2) makes it possible to accept these indicators to be internally consistent and therefore reliable.

Three of the indicators obtained very low scores, implementation of BBBEE in the family business 0.433, Government support 0.404 and finding the right partner 0.396, these indicators cannot be seen as being reliable in the context of this study. An investigation is needed to determine the contributing factors of these low scores. However the average Cronbach alpha coefficient for the entire questionnaire is 0.765 which is still above the acceptable score of 0.70 as indicated by the Statistics South Africa (SAS Institute Inc., 2005). Therefore the assumption can be made that the questionnaire is relatively reliable due the high level on internal consistency between the different indicators and sub-indicators.

## 4.9 SUMMARY

This chapter reported on the results obtained from the statistical analysis done on the data from the empirical research model. Results of the biographical data indicated that an even distribution exist between the ages of 40 to 49, 50 to 59 and 60 plus with each group representing 26% of the sample. It was found that 90% of family business owners are men and 61% of all family business owners who participated in this study had some form of formal education after secondary school.

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The results revealed that 81% of participating family businesses could be classified as small businesses and 16% as medium-sized businesses. The majority (84%) of participating family businesses indicated an annual turnover exceeding R5 million, with the bulk of the participants (42%) operating their businesses in the manufacturing sector of the economy.

The assessment of the awareness of Broad-Based Black Economic Empowerment indicated that 94% of the participants indicated that they are aware of the fact that qualifying small enterprises have an annual turnover between R5 million and R35 million. Twenty three (74%) of the businesses indicated an annual turnover of between R5 million and R35 million, (77%) of the participants indicated that they are familiar with the legislation pertaining to Broad-Based Black Economic Empowerment but only 19% of the businesses have actually implemented Broad-Based Black Economic Empowerment in their businesses.

A questionnaire has been developed to determine the impact of Broad-Based Black Economic Empowerment on family businesses. The questionnaire that was used in this study is mainly based on a Likert-scale where participants had to indicate their level of agreement with statements made. A low score for a particular statement indicated disagreement and a high score indicate agreement.

An assessment of the impact of Broad-Based Black Economic Empowerment on family businesses was done by dividing the self developed questionnaire into ten indicators that could be analysed separately. Each indicator had sub-indicators that contributed towards the total assessment of the specific indicator. The indicators were: opportunities for family businesses, advantages of BBBEE to the economy, threats for family businesses, disadvantages to the economy, impact on management succession, impact on ownership succession, Government support, Implementation of BBBEE, finding the right empowering partner and financing a BBBEE deal.

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The arithmetic mean for each indicator and its respective sub-indicators were calculated to determine the levels of central tendency. The arithmetic means were interpreted by means of a scale ranging between  $< 4.00$  (indicating a low level of agreement to the statement) and  $> 5.50$  (indicating complete agreement to the statement).

The participating family business owners rated the indicators, the implementation of Broad-Based Black Economic Empowerment ( $\bar{x} = 2.98$ ), Government support ( $\bar{x} = 2.98$ ), the advantages of Broad-Based Black Economic empowerment to family businesses ( $\bar{x} = 3.359$ ) and financing the BBBEE deal ( $\bar{x} = 3.45$ ) as exceptionally low. This indicated that the family business owners that participated in this study perceive these indicators as being the biggest obstacles of Broad-Based Black Economic Empowerment.

The indicators, opportunities of BBBEE for the family business ( $\bar{x} = 3.84$ ), and finding the right partner ( $\bar{x} = 4.97$ ), were indicated by participating family business owners as being moderately agreeable.

Participating family business owners indicated that they strongly agree with the statements made in, disadvantages of BBBEE to the economy ( $\bar{x} = 5.84$ ), management succession ( $\bar{x} = 5.70$ ), threats of BBBEE to family businesses ( $\bar{x} = 5.49$ ), and ownership succession ( $\bar{x} = 5.14$ ).

The final part of this chapter analysed the Cronbach alpha coefficients of the indicators and the sub-indicators of Broad-Based Black Economic Empowerment that impact on family businesses to determine the reliability of the developed questionnaire. The average Cronbach alpha coefficient for the entire questionnaire is 0.765 which indicates that the questionnaire can be viewed as being a reliable instrument.

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# CHAPTER 5

## CONCLUSIONS AND RECOMMENDATIONS

### 5.1 INTRODUCTION

This chapter will be based on the indicators that affect the impact of Broad-Based Black Economic Empowerment on family businesses. These indicators have been evaluated during the literature study in chapter 2 and chapter 3 and the empirical study done in chapter 4. Conclusions and recommendations will be made based on the findings in chapters 2 to 4.

An appraisal will be done to determine the extent to which the primary and secondary objectives as set out in chapter 1 were achieved. Suggestions for future research will be made followed by a summary of the completed study.

### 5.2 CONCLUSIONS ON THE EMPIRICAL STUDY

An empirical study was conducted and entailed the participation of 31 family businesses in the Sedibeng District. The results of the empirical study are presented in chapter 4. Subsequently conclusions can be drawn from the indicators of Broad-Based Black Economic Empowerment that have an impact on family businesses. The conclusions will highlight the most noteworthy findings of the empirical study.

#### 5.2.1 Biographical and demographical data

- **Age groups of family business owners:** A total of 75% of the family business owners who participated in this study are older than forty years. According to Goad (2005: 39) it was found that owners should plan for the succession process five to ten years prior to their anticipated retirement. Therefore it can be concluded that that the issue of succession planning should be a priority of these business owners.

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- **Gender of family business owners:** The majority of business owners who participated in this study were found to be male, and it can therefore be concluded that family businesses are predominantly owned by men.  
**Academic qualification of family business owners:** More than sixty percent of the family business owners who participated in this study have obtained some form of formal education after completing secondary school. It can be concluded that family business owners deem it necessary to broaden their knowledge in an attempt to run the business more effectively.
  - **Number of permanent employees:** The majority (81%) of family businesses who participated in this study employ between 10 and 50 fulltime employees which classify these businesses as being small. The conclusion is reached that the majority of family businesses can be classified as small businesses.
  - **Family business annual turnover**  
The results from the annual turnover of the participating family businesses make it possible to conclude that 84% of the businesses which participated in this study are compelled to comply with Broad-Based Black Economic Empowerment.
  - **Industry spectrum of family businesses:** The conclusion is reached that the majority of family businesses that participated in this study operates in the manufacturing industry.

### **5.2.2 Awareness of Broad-Based Black Economic Empowerment in the family business**

Section A of the questionnaire dealt with the awareness of family business owners on the issue of Broad-Based Black Economic Empowerment. Seventy seven percent of participating business owners indicated that they are familiar with the legislation pertaining to Broad-Based Black Economic Empowerment (section 4.6).

The awareness of the fact that businesses with an annual turnover of R5 million to R35 million are being classified as qualifying small business achieved the highest score with 94% of owners indicating that they are aware of this fact. However, only

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19% of the participating businesses have implemented Broad-Based Black Economic Empowerment.

A conclusion is reached that although the majority of family businesses are aware of the legislation pertaining to Broad-Based Black Economic Empowerment, and have annual turnovers exceeding R5 million, very few of these businesses have actually implemented Broad-Based Black Economic Empowerment.

### **5.2.3 Assessment of the impact of BBEE on family businesses**

The assessment of the impact of Broad-Based Black Economic Empowerment was done by using 10 indicators as guidelines to assess the perceptions of family business owners. The 10 indicators each have sub-indicators that contributed towards the total average arithmetic mean of the specific indicator.

The total average arithmetic mean is an indication of how business owners perceive the specific indicator. The questionnaire was developed to ensure that a higher score will state that owners agree to a larger extent to the statements made. Lower scores indicated a level of disagreement by participating family businesses on the specific statement made.

#### **5.2.3.1 Opportunities for family businesses**

Family business owners rated the opportunities of Broad-Based Black Economic Empowerment to family businesses as low. The general perception of family business owners is that Broad-Based Black Economic Empowerment does not have a great deal of opportunities to offer.

However participants indicated the possibility of obtaining new contracts as the biggest opportunity of Broad-Based Black Economic Empowerment. This finding is confirmed by (Booyesen & Bouche, 2005: 45) in the literature review.

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### **5.2.3.2 Advantages of Broad-Based Black Economic Empowerment to the economy**

Participants rated the advantages of Broad-Based Black Economic Empowerment to the economy as very low. The fact that the local economy is boosted by promoting local products and services through preferential procurement received some support from participants.

However the conclusion can be reached that the majority of family business owners do not share the view that Broad-Based Black Economic Empowerment is advantageous to the South African economy. This conclusion is supported by the numerous disadvantages highlighted by family business scholars (Arendse *et al.*, 2007: 56; Jansen *et al.*, 2006: 284).

### **5.2.3.3 Threats to family businesses**

Business owners indicated that the employment of incompetent people just for the sake of empowerment is the biggest threat to family businesses. This fact was confirmed by the Jansen *et al.* (2006: 286) in the literature review done in chapter 3.

Another significant threat according to the participating family businesses is the fact that families might lose the control of the business as part of Broad-Based Black Economic Empowerment. This is a view shared by Lennox (2004: 1).

The threats mentioned above are just two of the most significant threats indicated by family business owners, therefore it can be concluded that family business owners are greatly concerned about the threats that Broad-Based Black Economic Empowerment holds for their businesses.

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#### **5.2.3.4 Disadvantages to the economy**

The disadvantages that Broad-Based Black Economic Empowerment has on the South African economy have been singled out as the biggest concern to family business owners.

The issue of BBBEE only enriching a small number of black elites and the issue that BBBEE increases the gap between the rich and the poor in South Africa was indicated as most significant disadvantages of Broad-Based Black Economic Empowerment. The literature review done in chapter 3 highlighted these disadvantages (Jansen *et al.*, 2006: 284).

Therefore it is possible to draw a conclusion based on the outcome of the empirical study and the literature review, that Broad-Based Black Economic Empowerment could have a negative effect on the economy.

#### **5.2.3.5 Impact on management succession**

The results obtained from the empirical study indicate that family business owners are of the opinion that Broad-Based Black Economic Empowerment has a considerable impact on the management succession of their businesses. The consulting of expert advice when structuring a Broad-Based Black Economic Empowerment deal was indicated to be the most important aspect to consider when planning the succession process. Scroggin (2006: 25) confirms this finding in the literature review done in chapter 3.

It can be concluded that family business owners definitely recognize the fact that Broad-Based Black Economic Empowerment will impact on the management succession of their businesses. Moreover family business owners deem it critical to obtain expert advice when structuring a Broad-Based Black Economic Empowerment deal.

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### **5.2.3.6 Impact on ownership succession**

The possibility of conflict of interest between the family and the empowering partner has proven to be the most noteworthy concern of family business owners. Another major concern is that Broad-Based Black Economic Empowerment will result in the dismay of traditional family management styles. In the literature review done earlier in this study these two aspects were indicted as major obstacles of the ownership succession planning of family businesses (Booyesen & Bouche, 2005: 47; Lennox 2004: 1).

Therefore it is possible to conclude that family business owners are greatly concerned about the impact that an empowering partner will have on the traditional way the business has been operating and the possibility of conflict between family members and the empowering partner as a result of conflict of interest.

### **5.2.3.7 Government support**

The participants rated the Government support given to businesses that want to engage in Broad-Based Black Economic Empowerment as totally inadequate. This finding from the empirical study is confirmed by Taljaard (2008: 29) and Jacobs (2007: 53). However the Department of Trade and Industry (2003: 16) and the Black Economic Empowerment Commission (2001: 5) argue that the Government has adequate support structures in place to assist businesses that engage in Broad-Based Black Economic Empowerment activities.

It is concluded that the findings of this study surrounding the support given by Government to businesses that want to engage in Broad-Based Black Economic Empowerment activities seems to be controversial and therefore further investigation into this matter is suggested.

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### **5.2.3.8 Implementation of Broad-Based Black Economic Empowerment**

The implementation process of Broad-Based Black Economic Empowerment scored the lowest of all the indicators. Participants indicated that they perceive the implementation of Broad-Based Black Economic Empowerment as being a complex and difficult process. Arendse *et al.* (2007: 56) share this perception by stating that *there are implementation issues that need to be addressed.*

Therefore it is concluded that family business owners consider Broad-Based Black Economic Empowerment as a complex process that is time consuming to implement in the business.

### **5.2.3.9 Finding the right empowering partner**

The issue of finding the right empowering partner appears to be a high priority of family business owners. The importance of a cultural and personality “fit” between the empowering partner, the business and its operations was indicated to be the most vital. These views are confirmed by Maphisa (2006: 78) and Booysen and Bouche (2005: 47). The availability of empowering partners who possess the necessary skills and qualifications was indicated by participants as being another major concern. Jansen *et al.* (2006: 284) share these concerns.

Therefore it is possible to conclude:

- A cultural and personality “fit” between the empowering partner and the business is of the utmost importance.
- Skilled empowering partners are rarely available.

### **5.2.3.10 Financing a Broad-Based Black Economic Empowerment deal**

Participating family business owners indicated their concerns regarding the finance of a Broad-Based Black Economic Empowerment deal in the empirical study. The fact that financial institutions tend to under value businesses that want to engage in a

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Broad-Based Black Economic Empowerment deal and the issue of Government support with regards to finance seems to be the biggest dilemmas.

As stated previously the issue of Government support need to be investigated further and therefore no definite conclusion could be reached on the issue of Government support relating to the financial assistance of Government for a Broad-Based Black Economic Empowerment deal.

Taljaard (2008: 29) and Jacobs (2007: 53) share the same view as participants on the issue that the majority of empowering partners cannot contribute financially toward the Broad-Based Black Economic Empowerment deal.

Consequently it can be concluded that family business owners perceive financial institutions to under-value businesses that want to engage in Broad-Based Black Economic Empowerment deals. The majority of empowering partners do not have the ability to contribute financially towards the empowerment deal.

### **5.3 RECOMMENDATIONS**

The recommendations are based on the analysis that were done and the conclusions that were reached through the literature reviews and the empirical study. Family business owners who participated in this study identified certain indicators and sub-indicators that could be improved or altered in an attempt to decrease the impact of Broad-Based Black Economic Empowerment on these businesses.

With these indicators in mind specific recommendations can be made to all the major role players in this process. The role players include: Government, the Department of Trade and Industry, family businesses, consultants and prospective empowering partners. The recommendations will subsequently be categorized to ensure the ease of reference.

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### **5.3.1 Recommendations to Government**

- Government to investigate the possibility of tax incentives for businesses that create new jobs. This will encourage job creation and will therefore contribute towards addressing the unemployment situation in South Africa.
- Government need to instruct the Department of Trade and Industry to expand its training programmes on the Broad-Based Black Economic Empowerment.
- *Government should re-investigate the screening committees, to ensure that fronting is kept at a minimum.*
- Government should focus more strongly on smaller empowerment deals, and not just giant corporate deals. Small and medium-sized businesses are the heartbeat of the economy and need more assistance from Government.
- Government need to investigate ways to encourage enterprises to commit to skills development. The current incentives are not perceived to be greatly advantageous to companies and therefore companies will not truly commit themselves to this issue. The entire country can benefit from a population with higher educational levels (which include skills development).
- Government should provide greater assistance in the process of financing a Broad-Based Black Economic deal. The focus should shift from corporate giants to qualifying small businesses.

### **5.3.2 Recommendations to the Department of Trade and Industry**

- The DTI need to ensure that customer consultants that assist businesses with the process of Broad-Based Black Economic Empowerment possess the needed skills and subject knowledge to assist customers effectively.
- The DTI need to investigate ways to simplify the interpretation of Broad-Based Black Economic Empowerment requirements for qualifying small enterprises. Businesses will be less reluctant to implement Broad-Based Black Economic Empowerment if the process becomes less tedious.
- The DTI need to re-visit the goals of Broad-Based Black Economic Empowerment to establish if the generic scorecard effectively addresses these issues, with specific reference to small qualifying enterprises.

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- A continued effort from the DTI is required to constantly assess the changing economic environment, to ensure that programmes and initiatives do not become outdated.

### **5.3.3 Recommendations to family businesses**

- The first question that family businesses have to answer is: Does Broad-Based Black Economic Empowerment has an impact on their business? By answering this question family business owners will know how to structure the business strategy (with BBBEE in mind / or not).
- Family business owners should recognize the fact that Broad-Based Black Economic Empowerment is a process that needs to be managed. It is important to make Broad-Based Black Economic Empowerment part of your strategic planning process.
- Business owners should view Broad-Based Black Economic Empowerment in its totality and weigh the advantages and disadvantages, family business owners often engage in empowerment activities just for the sake of empowerment. Getting an empowering partner is not necessarily the solution to long-term sustainability.
- Choose an empowering partner whose culture and personality will fit in with the business. It is advisable to identify a possible empowering partner through studying current suppliers or customers. This will reduce the possibility of future conflict due to a conflict of interest.
- Get expert advice on how to structure the Broad-Based Black Economic Empowerment deal. The process is complex and encompasses a number of different fields and family business owners run the risk of making tremendous mistakes by trying to facilitate the process on their own.
- Do not let the issue of Broad-Based Black Economic Empowerment delay the management and ownership succession process. The future is uncertain and the best way to deal with the uncertainty is to be prepared.
- Guard against the promises of prospective empowering partners in what they can contribute towards the business. Numerous businesses have fallen pray to empowering partners that offered empty promises.

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#### **5.3.4 Recommendations to Broad-Based Black Economic Empowerment consultants**

- Consultants need to disclose all the anticipated advantages and disadvantages of the Broad-Based Black Economic Empowerment proposition to all parties involved.
- Consultants should communicate with the Department of Trade and Industry on a regular base to ensure that they are familiar with the latest developments surrounding Broad-Based Black Economic Empowerment.
- Consultants need to develop a user guide that consists of the most effective results obtained from previous empowerment deals. This user guide will make it possible for consultants to assist and recommend specific steps and aspects to consider for businesses operating in any industry in the economy.

#### **5.3.5 Recommendations to prospective empowering partners**

- Prospective empowering partners need to target companies that operate in the industry with which they are familiar; this will ensure a positive contribution towards the business.
- An honest assessment of the prospective partner's personality and management styles should play a critical role in assessing the most appropriate business. This will minimize potential future conflict.
- The prospective partner needs to disclose his / her full intention pertaining to him/her becoming part of the business, and should disclose intentions to be actively or inactively involved in the business. This will create no false intentions or expectations from both parties.
- The prospective empowering partner needs to be explicitly honest as to what he or she can contribute towards the company. Aspects include financial contributions, access to contracts and specialized skills or know-how.

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## **5.4 CRITICAL EVALUATION OF THE STUDY**

The measurement of success of this study is based upon the achievements of the primary and secondary objectives, as indicated in section 1.4 of this study.

### **5.4.1 Primary objective**

The primary objective of this study is to assess the impact of Broad-Based Black Economic Empowerment on small and medium-sized family businesses in South Africa and to make recommendations to family businesses relating to the management of this issue.

The primary objective of this study was achieved by means of the development of the questionnaire in chapter 4 and the subsequent assessment of the results obtained from the completed questionnaires. The recommendations made in section 5.3 ensured the final achievement of the primary objective.

### **5.4.2 Secondary objectives**

Section 1.4.2 indicated the secondary objectives that had to be met to ensure the realization of the primary objective. The following secondary objectives had to be met:

- To define family businesses.
- To gain insight into the dynamics of family businesses by means of a literature review.
- To obtain insight into Broad-Based Black Economic Empowerment by means of a literature review.
- To assess the impact of Broad-Based Black Economic Empowerment on small and medium-sized family business in Sedibeng (Vaal Triangle) through a developed questionnaire.
- To suggest practical recommendations to family businesses, resulting in the successful management of broad-based black economic empowerment in their businesses.

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The first secondary objective, to establish what a family business is, was achieved by means of the literature study as presented in chapter two. This chapter entailed literature research pertaining to family businesses.

The secondary objective, to gain insight into the dynamics of family businesses by means of a literature review was also achieved. Chapter two of the study entailed a detailed literature study which focused on aspects like: the importance of family businesses to the economy, the definition of a family business, the family business system, the culture and characteristics of a family business, conflict and communication, management succession and ownership succession.

The third secondary objective was to gain insight into Broad-Based Black Economic Empowerment by means of a literature study. This objective has been achieved through chapter three of this study. This chapter highlighted features of Broad-Based Black Economic Empowerment which included: the South African history and the concept of Black Empowerment, the fostering years and the implementation of an idea, the legislative background, financial assistance, difficulties and pitfalls, lessons learnt and progress made.

The fourth secondary objective was to assess the impact of Broad-Based Black Economic Empowerment on small and medium-sized family businesses in Sedibeng (Vaal Triangle) area through a developed questionnaire. This was achieved by basing all the questions in the questionnaire on indicators and sub-indicators as identified in the literature studies in chapters two and three. The assessment of the developed questionnaire (refer Annexure A) is done in chapter 4.

The final secondary objective; to suggest practical recommendations to family businesses, resulting in the successful management of Broad-Based Black Economic Empowerment in their businesses has been achieved through the recommendations made in section 5.3 of this study.

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It can be concluded that all of the secondary objectives were achieved. Based on the realising of the secondary objectives, as well as the recommendations put forward in section 5.5 the conclusion can be drawn that the primary objective was achieved.

## **5.5 SUGGESTIONS FOR FUTURE RESEARCH**

- Notwithstanding the fact that family businesses play an important role in the economy of South Africa, very little literature is locally available concerning family businesses. Moreover is the lack of literature based on family businesses in South Africa.
- Broad-Based Black Economic Empowerment affects the majority of family businesses in South Africa. Therefore, scientific research on the impact of Broad-Based Black Economic Empowerment on small and medium-sized family businesses should be encouraged.
- The development of a practical implementation instrument should be a subject for future studies.
- The unique composition of family businesses and the emotions affecting the attitude and perceptions of family business owners regarding Broad-Based Black Economic Empowerment calls for urgent scientific studies.
- Possibilities should be investigated to determine more effective ways of dealing with emotions when businesses engage in Broad-Based Black Economic Empowerment.

## **5.6 SUMMARY**

In this chapter conclusions and recommendations were drawn based on the indicators and sub-indicators of Broad-Based Black Economic Empowerment that impacts on family businesses. These indicators and sub-indicators were identified from the literature studies done in chapter two and chapter three, and formed the base of the empirical study conducted in chapter four.

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The conclusions drawn in this chapter were based on the arithmetic mean of each indicator of Broad-Based Black Economic Empowerment that impacts on family businesses. The most noteworthy conclusions drawn include:

- Family business owners believe that the winning of contracts is the biggest opportunity for family businesses that comply with Broad-Based Black Economic Empowerment legislation.
- The promotion of local goods through preferential procurement was found to be the greatest advantage.
- The skill shortage of empowering partners was stated as the most critical threat.
- The enrichment of a small number of black elites and the increase in the gap between the rich and the poor were found to be the biggest disadvantages of Broad-Based Black Economic Empowerment to the economy.
- Broad-Based Black Economic Empowerment has a definite impact on the succession process of family businesses, and expert advice needs to be consulted when planning the succession.
- Ownership succession is affected due to a conflict of interest between the empowering partner and the business.
- Inadequate Government support to businesses that want to engage in Broad-Based Black Economic Empowerment.
- The implementation process was found to be complex and time consuming.
- A cultural and personality “fit” between the empowering partner and the family business is crucial in the quest of finding the right empowering partner.
- Inadequate Government support and the under-valuation of businesses were found to be the most significant obstacles for businesses that want to finance a Broad-Based Black Economic Empowerment deal.
- The majority of family businesses are aware of the legislation pertaining to Broad-Based Black Economic Empowerment, and the annual turnover of the majority of businesses fall between R5 million and R35 million. However the bulk of these businesses have not yet implemented Broad-Based Black Economic Empowerment in their businesses.

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Recommendations were made to all the major role players in Broad-Based Black Economic Empowerment like: the Government, The Department of Trade and Industry and consultants. It was recommended that Government should give more support to businesses that want to engage in Broad-Based Black Economic Empowerment. The Department of Trade and Industry must ensure that employees are competent and able to provide useful information to customers. Consultants need to develop a user manual to make the assistance to businesses in any section of the economy possible.

Recommendations were furthermore made to family businesses regarding the impact of Broad-Based Black Economic Empowerment on their businesses. The most significant recommendation made to family businesses is the fact that any business that need to or want to comply with Broad-Based Black Economic Empowerment should consult an expert's opinion and guidance in planning and implementing the process.

The realisation of the study objectives was tested against outcomes achieved in the study. The primary objective was achieved as was depicted through the conclusions and recommendations. The secondary objectives were achieved through the definition of a family business, a literature study on family businesses and a literature study on Broad-Based Black Economic Empowerment. The measurement instrument was tested against the literature reviews that were conducted and the analysis and evaluation of these indicators were done in chapter 4.

Finally, recommendations for future research studies were made. These recommendations include the need for scientific research on the impact of Broad-Based Black Economic Empowerment on small and medium-sized family businesses; the possibility of the development of an implementation tool and effective ways of dealing with emotions when engaging in Broad-Based Black Economic Empowerment activities.

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# ANNEXURE 1

## QUESTIONNAIRE: IMPACT OF BROAD-BASED BLACK ECONOMIC EMPOWERMENT ON FAMILY BUSINESSES



Private Bag X6001  
Potchefstroom Campus  
North-West University  
Potchefstroom  
2520

Code number:

## QUESTIONNAIRE: IMPACT OF BROAD-BASED BLACK ECONOMIC EMPOWERMENT ON FAMILY BUSINESSES

### CONTACT DETAILS:

Douglas Orton  
Cell: 082 413 1246  
E-mail: douglas.orton@vodamail.co.za



NORTH-WEST UNIVERSITY  
YUNIBESITHI YA BOKONE-BOPHIRIMA  
NOORDWES-UNIVERSITEIT  
POTCHEFSTROOM CAMPUS

# BROAD-BASED BLACK ECONOMIC EMPOWERMENT QUESTIONNAIRE

The fact that family businesses have to balance the interest of the family and the interest of the business contribute enormously to the uniqueness of these businesses. Should the interaction between the interests of the family and the business not be managed efficiently, this may lead to a serious conflict of interest, which will be detrimental to the long term survival of the family business.

This questionnaire is designed to collect information regarding the perception of family business owners on the issue of broad-based black economic empowerment. This issue is applicable to the majority of family businesses, and the aim is to assist the family business in the light of their very important role in the economy, to take corrective and proactive steps in order to be successful.

Once the information has been analysed the conclusions reached will be available to the business in the form of practical suggestions. Your answers will be dealt with in the utmost confidence. To ensure a valuable diagnosis the honesty and open-heartedness with which you answer the questions are crucial.

Thank you for your co-operation. We hope that you will find the questionnaire interesting and stimulating.

## GENERAL INSTRUCTIONS

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

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

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

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

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

## SECTION A: AWARENESS OF BBBEE

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

A1	The turnover of the family business falls within the R5 million to R35 million bracket.	Yes (01)	No (02)
A2	BBBEE has been implemented in the family business.	Yes (01)	No (02)
A3	I am familiar with the legislation pertaining to BBBEE.	Yes (01)	No (02)
A4	I know the management control criteria of the BBBEE act.	Yes (01)	No (02)
A5	The employment equity component of BBBEE is known to me.	Yes (01)	No (02)
A6	I am aware of the implications of the required ownership element of BBBEE.	Yes (01)	No (02)
A7	I understand the requirements of social economic development as set out in the codes of good practise.	Yes (01)	No (02)
A8	I have a clear understanding of the impact of the preferential procurement requirements of BBBEE on the business.	Yes (01)	No (02)
A9	I know what is expected of my business in terms of the enterprise development requirements as per the codes of good conduct.	Yes (01)	No (02)
A10	I am aware of the fact that qualifying small enterprises consists of businesses with an annual income of R5 – R35 million.	Yes (01)	No (02)
A11	The fact that qualifying small enterprises only have to adhere to four of the	Yes	No

	seven codes of good practise is known to me.	(01)	(02)
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A12	I know BBBEE is compulsory to any business in South Africa.	Yes (01)	No (02)
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## SECTION B: OPPORTUNITIES AND ADVANTAGES

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

		Strongly disagree	Disagree	Slightly disagree	Neutral view	Slightly agree	Agree	Strongly agree
<b>OPPORTUNITIES TO THE FAMILY BUSINESS</b>								
<b>B1</b>	BBBEE creates new possibilities for the business in terms of business networks and new associates.	1	2	3	4	5	6	7
<b>B2</b>	BBBEE can result in the accusation of new customers for the business.	1	2	3	4	5	6	7
<b>B3</b>	BBBEE creates the opportunity for the business to improve its cash flow by means of a capital injection from the empowering partner.	1	2	3	4	5	6	7
<b>B4</b>	BBBEE makes it possible for the business to invest in affordable skills development for employees.	1	2	3	4	5	6	7
<b>B5</b>	BBBEE can lead to new innovative ideas with the input of the empowering partner.	1	2	3	4	5	6	7
<b>B6</b>	BBBEE can help the business to achieve its social responsibility towards the community.	1	2	3	4	5	6	7
<b>B7</b>	BBBEE makes it possible for the business to be more competitive.	1	2	3	4	5	6	7
<b>B8</b>	BBBEE makes it possible for the business to compete in new unexplored markets.	1	2	3	4	5	6	7
<b>B9</b>	BBBEE makes it possible for the business to get	1	2	3	4	5	6	7

		Strongly disagree	Disagree	Slightly disagree	Neutral view	Slightly agree	Agree	Strongly agree
	access to contracts.							
<b>B10</b>	Compliance to BBBEE makes it possible for the business to expand its business operations (higher growth).	1	2	3	4	5	6	7
<b>B11</b>	BBBEE can give the business the opportunity to acquire materials cheaper as part of the preferential procurement process.	1	2	3	4	5	6	7
<b>B12</b>	BBBEE can lead to more effective management styles within the business.	1	2	3	4	5	6	7
<b>B13</b>	Access to finance would be easier once the business comply with BBBEE requirements.	1	2	3	4	5	6	7
<b>B14</b>	BBBEE is the key to ensuring sustainable long term success.	1	2	3	4	5	6	7
<b>B15</b>	BBBEE creates new jobs.	1	2	3	4	5	6	7
<b>ADVANTAGES OF BBBEE TO THE ECONOMY</b>								
<b>B16</b>	BBBEE encourages transformation throughout the country.	1	2	3	4	5	6	7
<b>B17</b>	BBBEE encourages the procurement of local products/ goods through preferential procurement.	1	2	3	4	5	6	7
<b>B18</b>	Companies complying with BBBEE contribute significantly towards the upliftment of the communities the operate in.	1	2	3	4	5	6	7
<b>B19</b>	BBBEE ensures that companies act in a social responsible way.	1	2	3	4	5	6	7
<b>B20</b>	BBBEE is laying the foundation for an economy that benefits all South Africans.	1	2	3	4	5	6	7
<b>B21</b>	BBBEE truly addresses the issue of unemployment in South Africa.	1	2	3	4	5	6	7
<b>B22</b>	BBBEE stimulates the local economy.	1	2	3	4	5	6	7

## SECTION C: THREATS AND DISADVANTAGES

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

		Strongly disagree	Disagree	Slightly disagree	Neutral view	Slightly agree	Agree	Strongly agree
<b>THREATS TO THE FAMILY BUSINESS</b>								
<b>C1</b>	BBBEE threatens the future existence of our family business.	1	2	3	4	5	6	7
<b>C2</b>	BBBEE might cause our family business to lose some of its existing customers.	1	2	3	4	5	6	7
<b>C3</b>	The management requirements of BBBEE might lead to retrenchments (job losses) within our family business.	1	2	3	4	5	6	7
<b>C4</b>	Implementing the codes of good conduct on BBBEE could result in the loss of focus on business matters and therefore could have a hampering effect on our family business.	1	2	3	4	5	6	7
<b>C5</b>	Adhering to the BBBEE act and codes of conduct put an administrative burden on the family business.	1	2	3	4	5	6	7
<b>C6</b>	The BBBEE codes of good conduct are vague and complicated.	1	2	3	4	5	6	7
<b>C7</b>	Implementing BBBEE will be time consuming and can result in the neglect of existing customers.	1	2	3	4	5	6	7
<b>C8</b>	The ownership requirements of BBBEE will lead to the family losing control over the business.	1	2	3	4	5	6	7
<b>C9</b>	The skills development aspect of BBBEE will lead to a loss in productivity as workers will need to attend courses.	1	2	3	4	5	6	7
<b>C10</b>	An empowering partner will change the culture of the	1	2	3	4	5	6	7

		Strongly disagree	Disagree	Slightly disagree	Neutral view	Slightly agree	Agree	Strongly agree
	business, resulting in conflict.							
<b>C11</b>	BBBEE will result in the business employing incompetent people just for the sake of empowerment.	1	2	3	4	5	6	7
<b>C12</b>	BBBEE might lead to the deterioration of quality due to higher levels of authority being given to people that does not possess the necessary skills.	1	2	3	4	5	6	7
<b>C13</b>	Preferential procurement might force the business to buy from new suppliers, resulting in potential risks in terms of reliability.	1	2	3	4	5	6	7
<b>C14</b>	Established relationships with current suppliers will be at risk once the business has to buy from empowered suppliers.	1	2	3	4	5	6	7
<b>C15</b>	Quality control might deteriorate as new materials from new suppliers have to be used as part of the preferential procurement requirements.	1	2	3	4	5	6	7
<b>DISADVANTAGES OF BBBEE TO THE ECONOMY</b>								
<b>C16</b>	BBBEE is benefiting only a small number of black elites.	1	2	3	4	5	6	7
<b>C17</b>	BBBEE increases the gap between the rich and the poor in South Africa.	1	2	3	4	5	6	7
<b>C18</b>	BBBEE results in the business losing focus on business activities	1	2	3	4	5	6	7
<b>C19</b>	BBBEE contributes towards the unemployment crisis in South Africa.	1	2	3	4	5	6	7
<b>C20</b>	The emphasis of BBBEE is placed too heavily on ownership and management aspects which lead to less efforts being made in terms of skills development.	1	2	3	4	5	6	7
<b>C21</b>	BBBEE leads to unsound business decisions made by unskilled empowering partners.	1	2	3	4	5	6	7
<b>C22</b>	BBBEE creates a generation of people that just want	1	2	3	4	5	6	7

	Strongly disagree	Disagree	Slightly disagree	Neutral view	Slightly agree	Agree	Strongly agree
the financial benefits without any positive contribution towards the business.							

## SECTION D: IMPACT ON THE SUCCESSION PROCESS

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

		Strongly disagree	Disagree	Slightly disagree	Neutral view	Slightly agree	Agree	Strongly agree
<b>IMPACT ON MANAGEMENT SUCCESSION</b>								
<b>D1</b>	Implementing BBBEE will have an effect on the business' succession planning process.	1	2	3	4	5	6	7
<b>D2</b>	The transfer of management from the senior to the younger generation will be troubled by BBBEE.	1	2	3	4	5	6	7
<b>D3</b>	The advice of an expert is important when structuring any BBBEE deal.	1	2	3	4	5	6	7
<b>D4</b>	The issue of BBBEE makes the succession planning of the business very difficult (more complex).	1	2	3	4	5	6	7
<b>D5</b>	With an empowering partner the management succession of the business becomes complicated.	1	2	3	4	5	6	7
<b>D6</b>	Management succession planning is being delayed as a result of BBBEE.	1	2	3	4	5	6	7
<b>IMPACT ON OWNERSHIP SUCCESSION</b>								
<b>D7</b>	Once an empowering partner has entered the business, the ownership transition will be an easy process.	1	2	3	4	5	6	7

		Strongly disagree	Disagree	Slightly disagree	Neutral view	Slightly agree	Agree	Strongly agree
D8	BBBEE will result in the family loosing the business.	1	2	3	4	5	6	7
D9	Family businesses will become extinct as a result of BBBEE.	1	2	3	4	5	6	7
D10	Family business owners will find it very difficult to ensure economic stability for future generations.	1	2	3	4	5	6	7
D11	BBBEE might result in family business owners becoming obsolete in the day to day activities of the business.	1	2	3	4	5	6	7
D12	BBBEE makes it impossible for the family business owner to make provision for his/her retirement.	1	2	3	4	5	6	7
D13	BBBEE can lead to conflict of interest between the family and the empowering partner.	1	2	3	4	5	6	7
D14	BBBEE will result in a change from the traditional family management style.	1	2	3	4	5	6	7
D15	Decision making can become an obstacle as a result of BBBEE.	1	2	3	4	5	6	7

## SECTION E: GENERAL

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

		Strongly disagree	Disagree	Slightly disagree	Neutral view	Slightly agree	Agree	Strongly agree
<b>GOVERNMENT SUPPORT</b>								
E1	Adequate information on the issue of BBBEE is	1	2	3	4	5	6	7

		Strongly disagree	Disagree	Slightly disagree	Neutral view	Slightly agree	Agree	Strongly agree
	available from Government and its departments.							
E2	Adequate assistance on the issue of BBBEE is available from Government and its departments.	1	2	3	4	5	6	7
E3	Government has taken family businesses in consideration with the development of BBBEE legislation.	1	2	3	4	5	6	7
<b>IMPLEMENTATION OF BBBEE IN THE FAMILY BUSINESS</b>								
E4	Complying with BBBEE is not a priority of the business.	1	2	3	4	5	6	7
E5	BBBEE is a process that can be implemented timorously into any business.	1	2	3	4	5	6	7
E6	The implementation process is lengthy process that will impact on the day to day operations of the business.	1	2	3	4	5	6	7
E7	Implementing BBBEE is a relatively easy process.	1	2	3	4	5	6	7
E8	Negotiations are underway to secure a BBBEE deal.	1	2	3	4	5	6	7
E9	A formal plan is in place to deal with the process of BBBEE within the business.	1	2	3	4	5	6	7
<b>SUGGESTIONS</b>								
E10	BBBEE should place more emphasis on job creation.	1	2	3	4	5	6	7
E11	BBBEE should be applicable to all businesses, not just Government suppliers and associates.	1	2	3	4	5	6	7
E12	Tax incentives should be given to businesses based on job creation rather than preferential procurement.	1	2	3	4	5	6	7
E13	BBBEE should not be applicable to family businesses.	1	2	3	4	5	6	7
E14	The skills development aspect of BBBEE should weigh more on the score card than management participation.	1	2	3	4	5	6	7

		Strongly disagree	Disagree	Slightly disagree	Neutral view	Slightly agree	Agree	Strongly agree
<b>E15</b>	The ownership aspect of BBBEE should only be applicable to businesses where the empowerment partner can buy and pay for his own shares.	1	2	3	4	5	6	7
<b>FINDING THE RIGHT PARTNER</b>								
<b>E16</b>	Empowerment partners with the required skills and qualifications are widely available.	1	2	3	4	5	6	7
<b>E17</b>	It is very important that the culture and personality of the empowering partner fit the profile of the business and its operations.	1	2	3	4	5	6	7
<b>E18</b>	The empowering partner expect too much from the business in relation to what he/ she can contribute towards the business.	1	2	3	4	5	6	7
<b>E19</b>	Having an active empowerment partner is more desirable than having an inactive partner that contributes only financially towards the business.	1	2	3	4	5	6	7
<b>E20</b>	In the quest for the right empowering partner it is more important to recruit someone with practical experience in the business as appose to someone with academic qualifications.	1	2	3	4	5	6	7
<b>FINANCING THE BBBEE DEAL</b>								
<b>E21</b>	Finance is easily available to deal with BBBEE transactions.	1	2	3	4	5	6	7
<b>E22</b>	The Government institutions give adequate assistance in funding BBBEE deals.	1	2	3	4	5	6	7
<b>E23</b>	The majority of BBBEE partners can provide their own finance.	1	2	3	4	5	6	7
<b>E24</b>	When funding a BBBEE deal, the financial institutions will place a realistic value on the business.	1	2	3	4	5	6	7
<b>E25</b>	Financial institutions tend to under value businesses that want to engage in BBBEE deals.	1	2	3	4	5	6	7

## SECTION F: DEMOGRAPHIC INFORMATION

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

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

<b>F1</b>	<b>In which age group do you fall?</b>	$\leq 29$	30 - 39	40 - 49	50 - 59	60+
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<b>F2</b>	<b>What is your sex?</b>	Male	Female
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<b>F3</b>	<b>State your highest academic qualification. Mark the applicable block with a cross (X).</b>					
	Lower than Grade 12					
	Grade 12					
	Certificate					
	Diploma (Technical College or Technicon)					
	University degree					
	Post graduate degree					

<b>F4</b>	<b>Percentage shares the family own in the business?</b>	%
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<b>F5</b>	<b>How many permanent employees are employed by the family business?</b>							
	1-4	5-10	11-25	26-50	51-100	101-200	201-500	500+

<b>F6</b>	<b>What is the turnover of the family business per year?</b>					
	< R 1 m	R 1 – R 5 m	R 5 – R 10 m	R 10 – R 35 m	R 35 – R 100 m	> R 100 m

<b>F7</b>	<b>In which industry does the business operates?</b>				
	Automotive	Agriculture	Farming	Construction	Food
	Real estate	Retail	Wholesale	Manufacturing	Services
	Other: (Specify):				

<b>F8</b>	<b>What is the age of the business (years)?</b>
	Specify:

<b>F9</b>	<b>How many generations of the family managed and owned the family business over the years (number)?</b>
	Specify:

<b>F10</b>	<b>What is the legal status of the business?</b>			
	Proprietorship	Partnership	Company (private)	Company (Public)
	Close Corporation	Co-operative	Business Trust	Franchise
	Other or combination (specify):			

**THANK YOU FOR YOUR TIME**

## ANNEXURE 2

### CRONBACH APLHA COEFFICIENTS OF INDICATORS AND SUB-INDICATORS OF BROAD-BASED BLACK ECONOMIC EMPOWERMENT THAT IMPACT ON FAMILY BUSINESSES

No.	Indicators and sub-indicators	Cronbach Alpha Coefficient
	<b>Opportunities to the family business</b>	<b>0.869</b>
B8	BBBEE makes it possible for the business to compete in new unexplored markets.	0.878
B14	BBBEE is the key to ensuring sustainable long term success.	0.871
B13	Access to finance would be easier once the business comply with BBBEE requirements.	0.868
B15	BBBEE creates new jobs.	0.864
B1	BBBEE creates new possibilities for the business in terms of business networks and new associates.	0.861
B9	BBBEE makes it possible for the business to get access to contracts.	0.861
B10	Compliance to BBBEE makes it possible for the business to expand its business operations (higher growth).	0.859
B4	BBBEE makes it possible for the business to invest in affordable skills development for employees.	0.858
B7	BBBEE makes it possible for the business to be more competitive.	0.857
B5	BBBEE can lead to new innovative ideas with the input of the empowering partner.	0.856
B12	BBBEE can lead to more effective management styles within the business.	0.856
B3	BBBEE creates the opportunity for the business to improve its cash flow by means of a capital injection from the empowering partner.	0.855
B11	BBBEE can give the business the opportunity to acquire materials cheaper as part of the preferential procurement process.	0.853
B6	BBBEE can help the business to achieve its social responsibility towards the community.	0.852
B2	BBBEE can result in the accusation of new customers for the business.	0.866

	<b>Advantages of BBBEE to the economy</b>	<b>0.853</b>
B17	BBBEE encourages the procurement of local products/ goods through preferential procurement.	0.891
B22	BBBEE stimulates the local economy.	0.836
B21	BBBEE truly addresses the issue of unemployment in South Africa.	0.829
B18	Companies complying with BBBEE contribute significantly towards the uplifting of the communities the operate in.	0.821
B16	BBBEE encourages transformation throughout the country.	0.813
B19	BBBEE ensures that companies act in a social responsible way.	0.812
B20	BBBEE is laying the foundation for an economy that benefits all South Africans.	0.804
	<b>Threats to the family business</b>	<b>0.779</b>
C6	The BBBEE codes of good conduct are vague and complicated.	0.805
C12	BBBEE might lead to the deterioration of quality due to higher levels of authority being given to people that does not possess the necessary skills.	0.781
C11	BBBEE will result in the business employing incompetent people just for the sake of empowerment.	0.779
C1	BBBEE threatens the future existence of our family business.	0.777
C5	Adhering to the BBBEE act and codes of conduct put an administrative burden on the family business.	0.773
C14	Established relationships with current suppliers will be at risk once the business has to buy from empowered suppliers.	0.767
C10	An empowering partner will change the culture of the business, resulting in conflict.	0.766
C9	The skills development aspect of BBBEE will lead to a loss in productivity as workers will need to attend courses.	0.764
C8	The ownership requirements of BBBEE will lead to the family losing control over the business.	0.761
C13	Preferential procurement might force the business to buy from new suppliers, resulting in potential risks in terms of reliability.	0.761
C7	Implementing BBBEE will be time consuming and can result in the neglect of existing customers.	0.760
C15	Quality control might deteriorate as new materials from new suppliers have to be used as part of the preferential procurement requirements.	0.753
C2	BBBEE might cause our family business to lose some of its existing	0.752

	customers.	
C3	The management requirements of BBBEE might lead to retrenchments (job losses) within our family business.	0.744
C4	Implementing the codes of good conduct on BBBEE could result in the loss of focus on business matters and therefore could have a hampering effect on our family business.	0.740
	<b>Disadvantages of BBBEE to the economy</b>	<b>0.855</b>
C19	BBBEE contributes towards the unemployment crisis in South Africa.	0.856
C21	BBBEE leads to unsound business decisions made by unskilled empowering partners.	0.846
C16	BBBEE is benefiting only a small number of black elites.	0.835
C20	The emphasis of BBBEE is placed too heavily on ownership and management aspects which lead to less efforts being made in terms of skills development.	0.833
C17	BBBEE increases the gap between the rich and the poor in South Africa.	0.831
C18	BBBEE results in the business losing focus on business activities	0.824
C22	BBBEE creates a generation of people that just want the financial benefits without any positive contribution towards the business.	0.824
	<b>5. Impact on management succession</b>	<b>0.829</b>
D6	Management succession planning is being delayed as a result of BBBEE.	0.829
D4	The issue of BBBEE makes the succession planning of the business very difficult (more complex).	0.804
D3	The advice of an expert is important when structuring any BBBEE deal.	0.803
D1	Implementing BBBEE will have an effect on the business' succession planning process.	0.801
D5	With an empowering partner the management succession of the business becomes complicated.	0.796
D2	The transfer of management from the senior to the younger generation will be troubled by BBBEE.	0.770
	<b>Impact on ownership succession</b>	<b>0.747</b>
D7	Once an empowering partner has entered the business, the ownership transition will be an easy process.	0.795
D9	Family businesses will become extinct as a result of BBBEE.	0.749
D11	BBBEE might result in family business owners becoming obsolete in the day to day activities of the business.	0.724
D14	BBBEE will result in a change from the traditional family management style.	0.718

D15	Decision making can become an obstacle as a result of BBBEE.	0.716
D8	BBBEE will result in the family loosing the business.	0.709
D12	BBBEE makes it impossible for the family business owner to make provision for his/her retirement.	0.703
D13	BBBEE can lead to conflict of interest between the family and the empowering partner.	0.702
D10	Family business owners will find it very difficult to ensure economic stability for future generations.	0.691
	<b>Government support</b>	0.404
E1	Adequate information on the issue of BBBEE is available from Government and it departments.	0.831
E2	Adequate assistance on the issue of BBBEE is available from Government and its departments.	0.130
E3	Government has taken family businesses in consideration with the development of BBBEE legislation.	-0.614
	<b>Implementation of BBBEE in the family business</b>	<b>0.433</b>
E4	Complying with BBBEE is not a priority of the business.	0.450
E5	BBBEE is a process that can be implemented timorously into any business.	0.416
E7	Implementing BBBEE is a relatively easy process.	0.382
E6	The implementation process is lengthy process that will impact on the day to day operations of the business.	0.381
E8	Negotiations are underway to secure a BBBEE deal.	0.358
E9	A formal plan is in place to deal with the process of BBBEE within the business.	0.354
	<b>Suggestions</b>	<b>0.433</b>
E10	BBBEE should place more emphasis on job creation.	0.450
E11	BBBEE should be applicable to all business, not just Government suppliers and associates.	0.416
E13	BBBEE should not be applicable to family businesses.	0.382
E12	Tax incentives should be given to businesses based on job creation rather than preferential procurement.	0.381
E14	The skills development aspect of BBBEE should weigh more on the score card than management participation.	0.358
E15	The ownership aspect of BBBEE should only be applicable to businesses where the empowerment partner can buy and pay for his own shares.	0.354

	<b>Finding the right partner</b>	<b>0.396</b>
E16	Empowerment partners with the required skills and qualifications are widely available.	0.613
E19	Having an active empowerment partner is more desirable than having an inactive partner that contributes only financially towards the business.	0.323
E18	The empowering partner expect too much from the business in relation to what he/she can contribute towards the business.	0.285
E17	It is very important that the culture and personality of the empowering partner fit the profile of the business and its operations.	0.206
E20	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.	0.248
	<b>Financing the BBBEE deal</b>	<b>0.721</b>
E25	Financial institutions tend to under value businesses that want to engage in BBBEE deals.	0.857
E23	The majority of BBBEE partners can provide their own finance.	0.664
E24	When funding a BBBEE deal, the financial institutions will place a realistic value on the business.	0.600
E21	Finance is easily available to deal with BBBEE transactions.	0.569
E22	The Government institutions give adequate assistance in funding BBBEE deals.	0.535