THE ADMINISTRATIVE IMPACT OF BLACK ECONOMIC EMPOWERMENT CERTIFICATION ON TOURISM ENTERPRISES IN SOUTH AFRICA

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In partial fulfilment of the academic requirements of the Masters of Management in Public Policy degree.

DECLARATION ON PLAGIARISM

I Makhosazana Nomcebo Ngcobo declare that this report is my own, unaided work. All sources have been accurately reported and acknowledged. It is submitted in partial fulfilment of the requirements of the Degree of Masters of Management in Public Policy at the University of Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in any other university for the purposes of obtaining any qualification.

Signature: MNgcobo Date: 14 Oct 2011

ACKNOWLEDGEMENTS

I would like to take this opportunity to give all glory to My Daddy, My Protector whose grace has taken me thus far. This has been a very fulfilling journey, but it has come with many sacrifices, the most significant of which has been the semi-neglect of my family and friends who have had to make do with my highly rationed time. Mah, you're special and you sacrificed your all just so your children could have a better and easier life than you had, thank you. My sister, Ndumo, for all the encouragement and keeping the projects going at work whilst I commuted between Durban and Gauteng. My brother, Svurangs, for keeping it real. My niece, Ngothando, and nephew, Ndonsa, for never failing to be my sunshine in my very rare visits home.

To all my friends and cousins, 'the pieces' that were stress-busters through those girl's escapades. A special thanks to Gugu, my friend but more a sister for being my airport shuttle and my B&B during those frequent trips to Wits. Nobuntu, you moved from being a business associate, to being a friend and quickly to a little sister, for being a nominated shuttle to the airport and providing leadership at my office and some of my projects whenever I was buried in academic work. To Nokulunga, you are more than just a PA, my office is safe with you.

Graeme de Bruyn, for being my partner in academia, and for cheering me on when it got tough and lonely. Prof Booysen for your guidance and taking care of the M&G Show, we owe it all to you. Sixtus Sibete for the time you took to coach me in spite of having to deal with your own PhD demands, I cannot wait to call you my Dr Friend the minute you qualify.

To everyone who has contributed in my life throughout my existence through prayers and otherwise, if I had to mention you all, it would be another thesis. Thank you.

My nephew Ndonsa and niece Ngothando, this is for you!

ABSTRACT

The Broad-Based Black Economic Empowerment (B-BBEE) Act 53 of 2003 sought to redress the socio-economic imbalances caused by South Africa's apartheid laws. The Act included different strategies to give preference to previously disadvantaged individuals on such aspects as ownership, management, employment, enterprise development, preferential procurement, skills development and socio-economic development. This thesis does not explore the plausibility of the regulations but rather the possible gap between intended benefits and the impact of B-BBEE. It is intended to establish the administrative impact of Black Economic Empowerment (BEE) certification,[1] using a case study of a medium-sized tourism enterprise. The findings of this administrative impact are juxtaposed with the policy intentions as established through policymakers. The primary question is 'What is the administrative impact of BEE certification on tourism enterprises in South Africa?' The main propositions are that the administrative costs of BEE certification have had a significant negative impact on the profitability and competitiveness of medium-sized tourism enterprises; that tourism enterprises are not aware of the full extent of the administrative costs of BEE certification; and that policymakers are not aware of the unintended impacts caused by BEE certification on tourism enterprises. The research was undertaken through two interrelated phases, the first of which was exploratory in nature and sought to establish the administrative impact of BEE certification through the case study organization. The second phase sought to present the findings regarding the administrative impact of BEE certification to policymakers, with the aim of establishing policymakers' awareness of the gap between policy intentions and policy impacts. Multiple methods have been used in order to gather data that informs this thesis. Primary data was obtained through semi-structured interviews. The thesis focused on a case of one medium-sized organization, which was selected using convenience sampling. An in-depth interview was conducted with the Head of Administration and Finance in the organization, as the key person responsible for overseeing the process of BEE certification. Since the thesis focuses on a single entity, the data pool was too small to allow for the generalization of findings, but sufficient for a series of in-depth explorations and assessments of the topic. Secondary data was obtained from various sources such as journals, periodicals, and reports, particularly in relation to regulatory impact assessments as well as on certification issues in the tourism sector. The main findings are that the administrative costs of BEE certification have had a minimal impact on the profitability and competitiveness of medium-sized tourism enterprises, especially from the second year of conducting the annual audits as the systems are already in place for oncoming audits. It is only about 0.01% of turnover. However, the psychological burden associated with the stress of

[1] An activity that stems from one of the regulations linked to B-BBEE Act. It is an annual certification to demonstrate the companies' achievement as far as B-BBEE is concerned, and entails an audit process executed by South African National Accreditation System (SANAS) registered agencies.

administrative preparations for audits makes it seem more costly. The tourism enterprises are unaware of the extent of the administrative costs of BEE certification in that they overestimate the cost implications by at least 75%. The policymakers are unaware of the unintended impacts caused by BEE certification on tourism enterprises, especially as they relate to the administrative costs. In conclusion, the administrative impact of BEE certification on medium-sized enterprises is minimal as far as costs are concerned; however the psychological burden, although not measurable, is substantial. Moreover, the policymakers are oblivious to any possible impacts that might have been caused by BEE certification on enterprises, thus making the gap between policy intentions and the policy impact more than it could have been had they had the awareness. Awareness at the least gives an option to rectify where possible, thus ignorance of situation can to a certain extent exacerbate the situation.

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ABBREVIATIONS AND ACRONYMS

BEE	Black Economic Empowerment
B-BBEE	Broad-Based Black Economic Empowerment
BRE	Better Regulation Executive
CEO	Chief Executive Officer
CIPRO	Companies and Intellectual Property Registration Office
DEAT	Department of Environmental Affairs and Tourism
DEDT	Department of Economic Development and Tourism
DTI	Department of Trade and Industry
GEAR	Growth Employment and Redistribution
GDP	Gross domestic product
KZN	KwaZulu-Natal
NGO	Non-government organization
OECD	Organization for Economic Co-operation and Development
OFT	Office of Fair Trade
R	rand
RBP	Regulatory Business Practice
RCBA	Regulatory Cost Benefit Analysis
RIA	Regulatory Impact Assessment
RSA	Republic of South Africa
SAF	South Africa Foundation
SANAS	South African National Accreditation System
SBP	Strategic Business Partnership
SCM	Standard Cost Model
SME	Small medium enterprise
SMME	Small Micro Medium Enterprise
TBCSA	Tourism Business Council of South Africa
THETA	Tourism Hospitality Education and Training Authority
TRILF	Tourism Regulatory Impact Lobby Forum
UNDP	United Nations Development Programme
WTO	World Trade Organisation

1 CHAPTER ONE: THE ADMINISTRATIVE IMPACT OF BEE CERTIFICATION ON TOURISM ENTERPRISES IN SOUTH AFRICA

1.1 INTRODUCTION

This chapter presents the background to the thesis against which the problem statement is made and research questions posed. Specific terminology and key concepts are clarified.

Highly involved regulations create an administrative burden that is not only time-consuming but also costly and diverts resources that might have been used productively. A national survey conducted by Grant Thornton in 2008/9 looked at privately owned businesses in South Africa in terms of their experiences and attitudes and how they had been affected by the economic crisis, listed regulatory costs and red tape as the topmost constraint to business expansion (Grant Thornton, 2009). Compliance costs associated with meeting the requirements of regulations are directly borne by business as, for example, a firm may need to create a position such as Transformation Manager or BEE Manager, with cost implications and negative consequences for private enterprises. According to the Organization for Economic Co-operation and Development, where costs are regarded as unreasonable, compliance levels generally fall and the level of respect for the law could be undermined, thereby threatening the legitimacy and effectiveness of regulation as a tool to achieve policy objectives (OECD, 2003). Regulation can hamper economic efficiency, create unnecessary barriers to trade and investment, and impede innovation in the market (OECD, 2003). A study carried out in 2004 by the Strategic Business Partnership for Growth in Africa (SBP) estimated that South African business was spending in excess of R79 billion per annum, or 6.5 percent of gross domestic product (GDP) to comply with government regulations (SBP, 2004). These effects are more costly in global markets, where the efficiency of the domestic regulatory and administrative environment can affect business competitiveness.

Under apartheid, race was used to control access to South Africa's productive resources and skills. To date, and despite legislative review, the country's economy still excludes the vast majority of its people from ownership of productive assets and the possession of advanced skills. The economy still performs below its potential because of the low level of income earned and generated by the majority of its people (Hosking, 2010). In response to this, the government introduced Black Economic Empowerment (BEE), the main purpose of which was to redistribute wealth from the previously advantaged minority to the previously disadvantaged majority (Hosking, 2010, p.5). The BEE policy encourages private enterprises to demonstrate their compliance through attainment of a BEE certificate that details each enterprise's level of compliance.

Lowi (1963) characterizes policy as either distributive, regulatory, or redistributive, where distributive policies create public goods for the general welfare and are non-zero-sum in character; regulatory policies specify rules of conduct with sanctions for failure to comply; and redistributive policies attempt to change allocations of wealth or power of some groups at the expense of others. The Broad-Based Black Economic Empowerment (B-BBEE) Act 53 0f 2003, which is the policy issue for this thesis, can be characterized as a redistributive policy as it attempts to bridge the gap of inequality between the previously advantaged minority and the previously disadvantaged majority. The B-BBEE policy is applicable to the public sector, but is designed to be enforced on private enterprises through social and profitability pressure. In this thesis, it is used synonymously with BEE policy. The B-BBEE policy looks at improving the lives of the previously marginalized in South African society by using seven pillars, namely ownership, management control, employment equity, skills development, preferential procurement, enterprise development, and socio-economic development in order to achieve broad based empowerment.

Although the B-BBEE Act was a very short and succinct piece of legislation, it was supported by its regulation, the Codes of Good Practice on BEE of 9 February 2007. These codes were to serve as the practical tools for application of the legislation. Further to that, various Industry Charters have been and are still being developed, taking the application a stage further by recognizing the different context of each sector. Of significance to this study is the Tourism Industry Charter, which is used by enterprises within this sector to guide application of their BEE initiatives. In terms of legislation and the Codes of Good Practice, all commercial entities are encouraged (but not obliged) to have their B-BBEE status verified.

One of the responsibilities of the Department of Trade and Industry (DTI) in terms of the B-BBEE Act is to ensure that sector charters submitted for gazetting are sufficiently aligned to the B-BBEE Act and Codes of Good Practice. Thus, in February 2007, the DTI gazetted the Black Economic Empowerment (BEE) Codes of Good Practice, in terms of which a number of Transformation Sector Charters (also referred to as Sector Charters) were introduced, vetted and analyzed for compliance, as per the stipulations of either Section 9(1), 9(5) or 12 of the B-BBEE Act, No. 53 of 2003.

A B-BBEE Draft Sector Code, gazetted in terms of Section 9(1) of the B-BBEE Act, holds the highest achievable status and means that it becomes a Sector Code of Good Practice (Sector Code) and shares the same status as the B-BBEE Codes of Good Practice, published by the Minister of Trade and

Industry, in February 2007. A Sector Code with Section 9(1) status, such as the tourism sector code, is fully binding between and amongst businesses operating in the industry (DTI, 2009)

The Department of Trade and Industry (DTI) gazetted the B-BBEE Verification Manual on 18 July 2008, for purposes of accreditation and verification of B-BBEE-related reporting by the South African National Accreditation System (SANAS) and Black Economic Empowerment (BEE) Verification Agencies. The Verification Manual provides comprehensive and clear guidelines on endorsement of B-BBEE reporting, and minimum standards on the ethical conduct and procedures employed in ensuring the verification of B-BBEE Codes of Good Practice. Further to that, on 23 March 2009, the DTI *Government Gazette* (2009, p.91) determined that:

> (a) From the 1st of August 2009, only BEE verification certificates issued by Accredited Verification Agencies or Verification Agencies that are in possession of a valid pre-assessment letter from South African National Accreditation Systems will be valid;
>
> (b) the period of validity of the certificates contemplated in paragraph above, will be 12 months from the date of issue.

This means that as of 1 August 2009 only verification agencies that had accepted the painstaking assessment requirements of the South African National Accreditation System (SANAS) and had already completed the process and been accredited would be able to issue BEE Certificates that were valid. BEE certification is a means used by private companies to demonstrate their compliance with government policy.

BEE as a policy issue has attracted widespread attention and is therefore not an under-researched area. However, the focus has been mostly on policy performance and its impact on society or its intended beneficiaries (Addleson, Pretorius & Tomlinson 1984; Bell 1973, 1983, 1984; Chard & Shangase 2007; Fair 1982; Ganaseb 2008; Kim 2010; Teek 2008). Whilst Regulatory Impact studies have become standard procedure in the United States of America and in Europe, in South Africa its existence has spanned only a few years (SBP, 2004, 2005, 2006; SBP Consortium 2005). Even then the focus has been on advocacy for the concept of Regulatory Impact Assessment (RIA). Whilst legislation, regulations and policies are put in place to address a specific problem, they may have unintended consequences. In the tourism sector, as in many other sectors, it might be apathy or non compliance as a result of being overregulated or as a result of the unmanageable costs of regulation. This said, the purpose of this research is to explore the potential gap between the overall BEE policy intentions and the policy impacts of BEE certification on the tourism sector.

Tourism World, the enterprise that has been used as a case study for this thesis, must in turn be in receipt of a BEE certificate that has been issued by one of the 47 Verification Agencies to comply with Notice No. 354 of 2009. *Tourism World* is a tourism training division of the *Calypso Group*, and is a medium-sized enterprise in the tourism sector, which means it must comply with the Tourism Industry Charter. There are many ways of determining the size of companies, most of which involve a combination of turnover, size of workforce and size of assets. The generic scorecard has taken a simplistic view by using 'turnover' alone to make a distinction between the compliance requirements for smaller and larger firms. Small businesses with turnover of less than R5 million are exempted from BEE scorecards, while medium-sized enterprises with turnover of between R5 million and R35 million can choose to comply with only four of the seven pillars of BEE. *Tourism World* has been selected because it falls within a sector that has received Section 9(1) status in terms of the Industry BEE Charter. It has also been selected because of its medium-sized status, which means it has some of the attributes of big businesses as much as it holds some of the attributes of a small business. In a sense, as a medium-sized enterprise it can be regarded as a median of the different business sizes.

Whilst debates have been intensifying about impact of policy on the constituents, there has been very little research into the gap between public policy intentions and the impact on the private sector, and little or none on the impact of public policy on the tourism sector. This is in spite of the tourism sector being one of the most heavily regulated sectors in South Africa (SBP, 2005). This thesis contributes to the limited knowledge by exploring the potential gap between BEE policy intentions and policy impacts, and by focusing on the administrative impact of BEE certification on companies in the tourism sector, one of the most regulatory burdened sectors.

According to the United Nations Development Programme, South Africa is ranked as one of the top 10 countries in the world for income inequality (UNDP, 2008). After almost 17 years of the new Constitution and universal suffrage, almost 87% of the wealth of South Africa still lies with 13% of the population. According to Leibbrandt, Woolard, Finn and Argent (2010), the inequality rate between races has been slowly falling, but there has been an increase in intra-race inequality, thus preventing aggregate measures from showing a decline in inequality. This however cannot be taken to mean that inter-race inequality is no longer an issue, and a general hierarchy of wealth remains between Blacks, mixed race ('Coloureds'), Sub-continental Asians ('Indians'), and Europeans ('Whites') (Leibbrandt et al., 2010). Many policies have been enacted with the aim of improving the lives of all citizens, including Affirmative Action (1998), Preferential Procurement Policy Framework (2000), Skills Development (1998), Integrated Sustainable Rural Development Strategy (2000), the B-BBEE Act (2003) and many others. The problem statement for this thesis emanates from the B-BBEE

Act, which although aimed at redressing the inequalities of the past may be subject to unintended consequences.

The objective of this thesis is to establish whether there is a gap and if there, what the nature of this gap is between the overall BEE policy intentions and the policy impacts. This is done by analyzing the administrative impact of BEE certification on tourism enterprises in South Africa. The case study findings on the impact of the policy, particularly the administrative impact emanating from BEE certification, was used to further pose questions to policymakers regarding the possible gap between policy intentions and policy impacts.

The ambits of this thesis fall within the field of regulatory impact assessment, policy formulation and implementation. RIAs are typically made at the policy formulation stage in order to forecast the cost implications of a new policy (SBP Consortium, 2005). However, in instances where they have not been made at the policy formulation stage, as in the case of the BEE policy, they can still be made at different stages of policy implementation, as in this thesis.

1.2 RESEARCH QUESTIONS

Having presented the background and identified gaps in terms of the regulatory impact of the BEE policy emanating from certification process, the following primary research question is posed:

What is the administrative impact of BEE certification on tourism enterprises in South Africa?

Secondary Research Questions are:

- What are the administrative processes involved in seeking BEE certification from SANAS accredited Verification Agencies?
- What physical, financial and human resources are allocated to administrative processes of BEE compliance?
- What systematic changes have organizations undertaken in compliance with BEE certification? Have enterprises changed their organizational structures in order to comply with BEE certification?
- How have the administrative impacts of BEE certification affected the enterprises' attitude towards the BEE policy?

- Are policymakers aware of the possibility of the gap between the intentions of the policy and its administrative impact on the tourism enterprises?

1.3 PROPOSITIONS

The following propositions are made:

Proposition 1: The administrative costs of BEE certification have a significant negative impact on the profitability and competitiveness of medium-sized tourism enterprises.

Proposition 2: Tourism enterprises are not fully aware of the extent of the administrative costs of BEE certification.

Proposition 3: Policymakers are not aware of the unintended impacts caused by BEE certification on tourism enterprises.

1.4 RESEARCH DESIGN AND METHODOLOGY

The thesis is divided into two phases. Phase 1 of the data collection sought to gather information regarding the administrative impact of BEE certification. The data collection was at enterprise level using a single enterprise as a unit of analysis and case study. The information gathered was validated using desktop process information gathered from verification agencies, physically and through information provided on their websites. This is in line with assertions by Miles and Huberman (1994) regarding the corroboration and validation of results, which they claim are essential components of data analysis and the qualitative research process. Essentially, the main aim of this phase is to establish the administrative impact of BEE certification by interrogating the perceived administrative costs versus actual costs, and the perceptions of business regarding the certification process. Phase 2 is targeted at policymakers and those involved directly or indirectly with BEE policy issues at strategic level in the public sector. The aim is to determine policy intentions and the awareness of policymakers regarding policy impacts. The results of the first phase are used to draw the first set of conclusions that are in turn used to inform the question rationale of the second phase. Furthermore, the results of the first and second phase are juxtaposed to establish any gaps between the policy intentions and the policy impacts.

1.5 ELUCIDATION OF CONCEPTS

A number of key concepts are used in the thesis, and their meanings as understood by the researcher are clarified here.

Black Economic Empowerment (BEE) - an instrument to break through the "wall of whiteness" around South Africa's economy (Tangri & Southall, 2008), a redistributive policy or a political strategy for increasing the wealth and income of members of the non-White relative to White (male) population of South Africa through interventions in the factor input markets (Hosking, 2010)

Broad-Based Black Economic Empowerment (B-BBEE) - 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 (The Presidency, 2004).

Business – used interchangeably with **company**, **enterprise**, or **firm**, in reference to a legally recognized organization or social arrangement designed to provide goods, services, or both to consumers or tertiary business in exchange for money (O'Sullivan & Sheffrin, 2003, p.29), as well as units which produce goods or services for the market, and where one of the purposes of the business is to generate a profit for the owners. An additional criterion is that the unit is not owned wholly or partly by public authorities (Standard Cost Model (SCM) Network, 2004).

Full compliance - a measurement of the costs that all the businesses concerned have in following the rules completely. It is thus not the actual number of businesses that observe a rule that is measured, but rather how many businesses are to follow the rule and what costs typically they have (would have) in following those parts of the set of rules that they are required to (Better Regulation Executive, 2005, A8).

Actual compliance - a measurement of the actual costs that the businesses concerned have in following the rules. Thus, the population that is calculated is only the number of businesses who in reality comply with the rule, even though a larger number of businesses are required to observe the rule (Better Regulation Executive, A8).

Compliance costs - purely red tape costs, that is, the incremental costs incurred by business in the course of complying with regulations. They include the value of time spent by business managers and staff on understanding the rules and applying them; interacting with the authorities to clarify matters arising; and the payments made for the expertise of professional advisers, such as consultants, lawyers, and accountants (SBP, 2004).

Administrative costs - also known as **paperwork costs**, incurred by business and the community sector when demonstrating compliance with a regulation and by government in administering the regulation (New South Wales Government, 2008). In this thesis this term is used to refer to costs incurred by business and the community sector, not the government. They are also referred to as **administrative burdens**, that is, activities conducted by businesses because they are required by regulations (Weigel, 2008, p.7).

Regulatory Impact Assessment (RIA) – is made when systematic consultations and criteria for policy choice are used in order to arrive at an economic analysis of how costs and benefits of regulations affect a wide range of actors (OECD, 2002).

Standard Cost Model – is a framework for defining and quantifying administrative burdens for businesses. It is a way of breaking down regulation into a range of manageable components that can be measured. However, it does not focus on whether the regulation itself is reasonable or not (International Working Group on Administrative Burdens, 2004).

1.6 OUTLINE OF CHAPTERS

This thesis comprises four chapters, which cover the following:

Chapter One has presented the background to the thesis against which the problem statement is formulated and research questions posed. Specific terminology and various concepts used in the thesis were also clarified.

Chapter Two provides a theoretical framework to underpin the thesis; positions the thesis in the context of relevant literature; presents an overview of various means of assessing policy intentions against policy impacts; and concludes with the arguments on pros and cons of methodologies used to assess regulatory impacts.

Chapter Three outlines the research methodologies and the premise behind the methodologies that have been employed in this thesis.

Chapter Four details the findings of the two phases of this research, covering both data collected from case study enquiry and a questionnaire distributed to policymakers. Furthermore, this section consolidates the findings, thus establishing the extent of the gaps between policy intentions and policy impacts.

Chapter Five serves as a summary of the overall thesis, outlining the objectives, primary question, methods used, the theoretical positioning, main findings and scope for further research.

1.7 CONCLUSION

The purpose of this chapter has been to contextualise the study, bring to the fore the research problem and the main research question. It is based on an in-depth case study of a single medium-sized enterprise in the Tourism sector, *Tourism World*. The chapter outlined the main thesis objective, which is to establish whether there is a gap between policy intentions and policy impacts as it relates to the case of BEE certification for enterprises operating in the tourism sector; and if there is a gap, what the nature of this gap is.

BEE is an attempt by government to close the societal gap created by apartheid. Policies, although well meaning, may create unintended consequences on the different stakeholders. Private corporations are one of the biggest stakeholders when it comes to implementing BEE. However, impact assessments are most often geared in favour of beneficiaries and or the public sector. There is therefore a need to look at impact in as far as the private corporations are concerned, hence my thesis.

CHAPTER TWO

THEORETICAL FRAMEWORK AND LITERATURE REVIEW

2.1 INTRODUCTION

The first section of this chapter provides a theoretical framework to underpin the thesis. Hoover and Donovan (2001) argue that theory performs at least four functions, namely, it provides patterns for the interpretation of data, links different studies, provides frameworks within which notions and variables gain substantive importance, and allows one to infer the larger meaning of the findings for oneself and others. Public policy theories, especially those on policy formulation and implementation and on regulatory impact analysis, inform this paper. The second section of the chapter positions the study in the context of relevant literature. Beginning with a brief overview of the complex regulatory framework of the tourism industry, it is followed by an overview of the complexity of redistributive policy, particularly that relating to BEE, and subsequently an overview of the issues surrounding BEE certification. The last section presents an overview of ways of assessing policy intentions against policy impacts, and presents arguments surrounding how to assess regulatory impacts, especially the pros and cons of methodologies employed. It concludes with assessment of which of the various perspectives constitutes the theoretical framework for this thesis.

2.2 THEORETICAL FRAMEWORK

This section looks at two important theoretical considerations, the first of which is *policy formulation*, further divided into top-down theorists and bottom-up theorists. The proponents of the former place emphasis on how administrators and policymakers are achieving policy goals, while proponents of the latter advocate identification of different stakeholder groups from policy conceptualization and understanding of how the groups will be affected by the proposed policy in all means, including the financial impact of the policy on them.

The second group of theories relate to *regulatory impact*, also with two important variants, namely the normative theoretical variant and the positive theoretical variant. The former investigates which types of regulation are most efficient, whilst the latter is directed to the economic explanation of regulation and its consequences.

2.2.1 Policy Formulation and Implementation Theories

Ferman (1990) and O'Toole (2000) define 'implementation' as what happens between policy expectations or intentions and policy impact. Whilst Howlett and Ramesh (1995, p.153) considered programme implementation unproblematic, provided a clear policy was in place, De Leon and De Leon (2002) argued that policy requires changes in the behaviour of some people before successful implementation takes place, and that people's modes of behaviour change more easily if they are properly informed and are given the opportunity to consent before a policy is enacted. Policy implementation planning must therefore begin at the time the policy is being conceived.

Blair (2002) points to two thrusts in implementation theories, that is, top-down and bottom-up. Top-down research is based on the traditional dichotomous public administration model, which as its name suggests begins at the top of the policy process and focuses on how implementers have achieved policy goals, as promulgated by authorities. Conversely, bottom-up researchers begin by examining target groups and service implementers at the very onset of the policy process. In a sense, 'bottom-uppers' (Hjern, 1982; Hjern & Hull, 1983; Lipsky, 1980) are in agreement with Milward (1980), who argued that if policy researchers are inclined to improve the chances for successful implementation of policies, they need to concentrate on the relationship between agenda-setting and policy implementation. They argue that implementation costs associated with any new programme have to be established as early as possible, and it is better to look at implementation costs before they become muddled with political cost benefit analysis (Hjern & Hull, 1983; Lipsky, 1980; Milward, 1980). Their arguments are in line with the basis of this thesis, which advocates regulatory impact assessments be conducted in the early stages of policy formulation, in order to close the gap between policy intents and policy impacts.

2.2.2 Regulatory Impact Theories

Regulation is the use of legal apparatus for the implementation of social and economic policy objectives (Hertog, 2010, p.3). A number of authors, Arrow (1985), Shubik (1970) and Hertog (2010), claim that regulation is one of the means by which governments achieve efficiency in the allocation of resources. It occurs when they believe that if the private sector is left to its own devices it would act in a manner contrary to government intentions (Jamison & Berg, 2008, p.1).

According to both Hertog (2010, p.3) and Stigler (1972), the state's power to forbid or coerce, to take or give, is both a potential resource and a potential threat to all industries in society. The state does not intend to threaten industries, therefore this argument directly relates to unintended consequences of policy. This thesis argues that incorporating regulatory impact assessments into policymaking will at least ensure that the power of the state to regulate does not become a threat to industries.

According to Hertog (1999, p.224), there are two theoretical variants of economic regulation, namely the positive and normative variant. Whereas the latter investigates which types of regulation are most efficient, the former is directed to the economic explanation of regulation and its consequences. In short, the positive variant of economic regulation seeks to make a cost-benefit analysis of various regulatory instruments. This could include costs of formulating and implementing regulation, maintaining regulation, complying with the rules of the industry and the costs associated with the changes caused by all these types of cost. The positive variant of this theory, which is explored further herein, supports the primary objective of this thesis, which is to determine the costs of complying with the prescriptions of the B-BBEE policy in so far as BEE certification is concerned. The positive variant of theory of economic regulation is further disaggregated into private interest theory and public interest theory.

2.2.2.1 Public Interest Theory of Regulation

The objective of public interest theory is to achieve collective goals. There is an economic version which looks at regulation as a response to market failure (Ogus, 1994) and a political version which looks at regulation as a tool to foster collective learning and values of social justice and paternalism (Sunstein, 1990). According to public interest theory, the regulation of economic actors contributes to the promotion of public interest, correction of imperfect competition, unbalanced market operation and undesirable market results (Hertog, 2010, p.5). This theory is in accordance with what the BEE policy seeks to achieve, in terms of correcting past economic discrepancies and thus perpetuating social justice.

The original version of this theory, however, calls into question the basis for this thesis as it assumes that the transaction and information costs which underlie market failure are absent in the case of government regulation; and that government regulation is effective and can be implemented without great cost. It explains regulation by assuming that a theoretically efficient institution is able to replace or correct imperfect real institutions. The persistence on pursuing this thesis is premised on Joskow and Noll's argument that the original version of public interest theory is unable to clarify why on occasion other objectives, such as procedural fairness or redistribution, are aimed for at the expense of economic efficiency (1981, p.36). Another premise is that there is no empirical evidence presented thus far, especially in sectors highly burdened by regulation, such as tourism, that efficient institutions correct the effect of inefficient institutions.

The sophisticated version of public interest theory does not require regulation to be perfect. However, it assumes that market failure exists, that regulation is the most effective means of combating it and that regulation does not continue to exist once the costs exceed the benefits. This theory also presupposes that politicians are in support of open decision-making processes and they spread information widely about the effects of market results and regulation (Hertog, 1999, p.235). The argument in this thesis is that for policymakers to even be able to determine when the costs of policy implementation exceed the benefits, they would have had to execute an analysis of some sort, probably a regulatory impact assessment.

2.2.2.2 Private Interest Theory of Regulation

The basis of private interest theory of regulation is that it emerges from the actions of individuals or groups with the aim of maximizing their self-interest. It assumes that regulators do not have sufficient information with respect to the cost, demand, quality and other dimensions of firm behaviour, and therefore cannot perfectly promote public interest when controlling firms' or societal activities (Hertog, 2010, p.2). This thesis, however, argues that regulators continue to regulate in the absence of sufficient information in terms of cost and other dimensions of firm behaviour, hence the hypothesised gap between policy intentions and policy impacts.

Further, the theory assumes a close relationship between the regulators and the regulated, thus eventually resulting in the protection of the 'regulated' group interests (Hertog, 2010; Stigler, 1971). Stigler (1971) terms this the 'Theory of Economic Regulation', and together with Peltzman (1976) claims its central proposition is that "as a rule, regulation is acquired by the industry and is designed and operated primarily for its benefit". However, Hertog (1999, p.236) claims that it is not likely that regulation will be for the exclusive benefit of industry as politicians will choose their policy of regulation such that political support is maximized. Jamison and Berg's (2008, p.1) argument contradicts those of Stigler (1971) and Peltzman (1976) by claiming regulation comes about when the government believes that if the private sector is left to its own devices it would act in a manner contrary to government's intentions. As Jamison and Berg (2008) argue, regulation is neither acquired by the industry nor designed primarily for its sake.

Hertog (1999, p.241) further claims that large companies are advantaged when complying with administrative obligations or costly measures and small companies are driven out of the market to limit the competition. Hertog may be correct in that large companies have a higher threshold for discomfort resulting from costs of regulation than small companies, therefore whilst the cost of BEE certification may not have a great impact on the competitiveness and bottom line of large companies, it may have a detrimental impact on those of small companies.

2.2.3 Theoretical Framework Conclusions

Transpiring from these theories is a debate on how to approach policy implementation. Whilst the top-down proponents argue that policy implementation is not problematic, just so long as a good policy is in place, bottom-up proponents argue for consideration of policy impacts on different stakeholders from the very policy conception stage. This thesis leans strongly on the arguments posed by the bottom-uppers, and so these are used to analyse and support key research findings.

Second, whereas the normative variant investigates which types of regulation are most efficient, the positive variant is directed to the economic explanation of regulation and its consequences. The basis for this thesis leans strongly on the philosophy brought forward by the positive variant, which is further subdivided into private interest theory and public interest theory. The former argues that regulation emerges with the aim of self-interest for business and individuals, assuming a close relationship between the regulators and the regulated, while the latter has two versions, that is, an economic version that looks at regulation as the most effective means of addressing market failure, and a political version that looks at regulation as a tool to foster collective learning and values of social justice. The arguments of the public interest theory, especially the economic version, are in sync with the arguments of this thesis, since they also presuppose that politicians are in support of open decision-making processes and they spread information widely about the effects of market results and regulation (Hertog, 1999). This assertion is key to analysing the findings of this research.

2.3 LITERATURE REVIEW

The thesis makes use of the case study approach, using a single tourism enterprise for collection of primary data, however the objective of a literature review is to position the study in the context of prevailing relevant research into and publications on the topic. The study is crosscutting in nature as it has to take into consideration many variables, which include the regulatory framework of the tourism industry, the main arguments of redistributive policies, particularly that of BEE, and the arguments surrounding certification in general, in the tourism sector and also specifically BEE certification. Beyond the tourism regulatory framework, the redistributive policy arguments and issues of certification, the study cannot escape being informed by arguments surrounding the assessment of policy intentions versus policy impacts. Literature review in this section covers five key areas. First, it looks at the tourism sector in order to contextualise the study. Second, since the B-BBEE Act a policy issue for this thesis is a redistributive policy, the literature review also looks at the complexity of redistributive policies. Third, it looks at different arguments on the issue of assessment of policy intentions versus policy gaps as well as applicable tools, especially the Regulatory Impact Analysis. All these elements provide a rich background for this thesis.

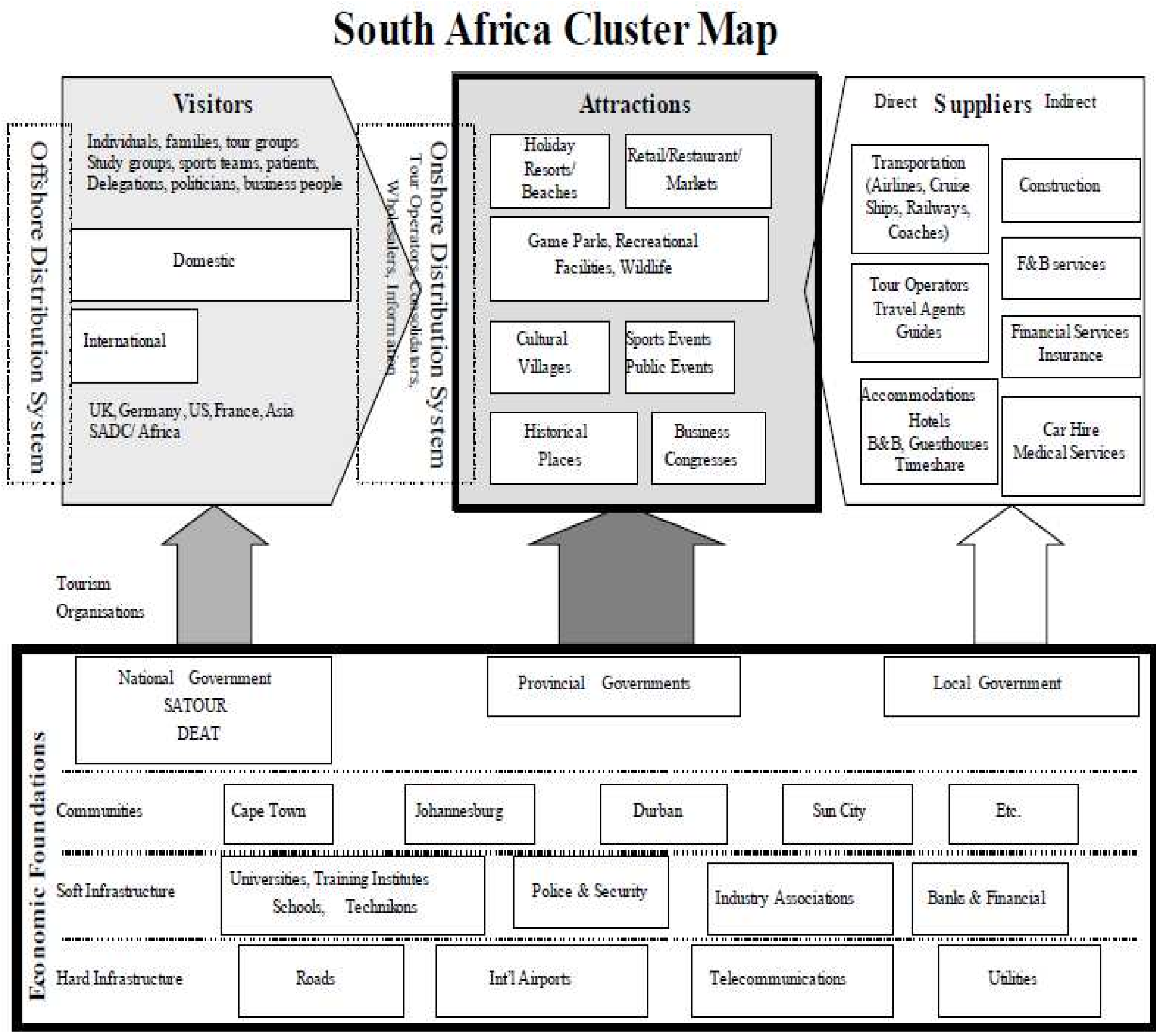
2.3.1 The Tourism Sector

The unit of analysis for this thesis (the case study enterprise) is drawn from the tourism sector. The selection of the sector was not a random action but rather was based on its importance to the national economy, and on findings by SBP (2005) that this sector was the most regulatory burdened of all sectors. It is therefore important that the sectoral context is taken into consideration and this section looks at the contribution of the sector to the economy of the country, how it is segmented, issues of certification and also the phenomenon of regulation.

2.3.1.1 Economic Contribution of the Sector

Porter (1998) refers to a sector as a ‘cluster’, a concept that denotes a group of firms engaged in similar or related activities within a national economy. In this sense, it is the links along the vertical and horizontal value chains of a particular economy, not the geographic proximity that defines a cluster. South Africa’s country-wide, composite tourism cluster is composed of many elements, ranging from the principal tourism attractions and the suppliers of direct and indirect services and products, to the soft and hard infrastructure that enables the system to function. This complex set of interrelations is depicted in Figure 2.1, below (The Cluster Consortium, 1999, p.39).

Figure 2.1: South Africa Cluster Map.



Source: The Cluster Consortium (1999).

Another way of segmenting and interpreting the tourism sector is through the total foreign direct expenditures (The Research Consortium, 2008, p.5):

- **Tourism Industry:** expenditure by tourists on products such as accommodation, transport, and recreation. Expenditure on such items contributes directly to tourism.
- **Tourism economy**: expenditure by tourists on products such as food and other goods. Expenditure on such items contributes indirectly to tourism.
- **Capital goods bought by tourists**: expenditure by tourists on capital goods, e.g., houses and motor vehicles. Expenditure on such items contributes indirectly to tourism in South Africa.

The tourism sector in South Africa is based on a three-tier hierarchy of enterprises. At the top are the operations of the elite group of large corporations, which are responsible for, *inter alia*, the country's major travel and tour agencies, transportation, hotels, casinos and conference centres. However, the greatest concentration of businesses is on the middle and lowest tiers. The middle tier is characterized by a collection of predominantly white-owned established Small Micro Medium Enterprises (SMMEs) which operate a host of different establishments, including travel and touring companies, restaurants, small hotels, self-catering accommodation and resorts, game farms, bed and breakfasts and backpacking hostels. However, the lowest tier in the tourism sector of the country mostly comprises emerging black-owned tourism enterprises, some of which operate informally (Rogerson, 2007). The two firms that are subjects of this thesis fall within the middle tier.

South Africa has a vision of developing the tourism sector as a national priority in a sustainable and acceptable manner so that it will contribute significantly to the improvement of the quality of life of every South African. This vision is clearly articulated in the White Paper on Tourism (South Africa, 1996). The sector's contribution has indeed grown, considering that in 1994 it had contributed slightly less than 2 per cent of the GDP; in 2002 it contributed R72.5 billion or 7.1 per cent of GDP, of which R43, 8billion was from foreign exchange earnings, and further accounted for 1.1 million jobs. By 2004 the sector's contribution had grown to R109.73 billion, or nearly 8 per cent of GDP. Nearly a year later (2005), the sector's contribution had increased to R124, 02 billion, or 8, 15 per cent of the GDP (Annual Tourism Report, 2006; Mahony, 2006; South African Tourism Strategic Unit, 2005; WTTC, 2002). Overall, in the ten-year period between 1994 and 2004, the tourism sector's contribution to GDP grew by nearly 6 per cent.

This growth has led to the government's focus on the sector as a key contributor to the promotion of socio-economic development and transformation through various means, such as job creation, poverty reduction, community development and Black economic empowerment (Mahony, 2006, p.2; South Africa, 1996, p.22). Whilst it was assumed that the benefits of growth in the tourism industry would eventually trickle down to the poor, requiring no specific government intervention (Mahony, 2006, p.8), the transformation in the sector has been very slow (Tourism White Paper, 1996). Since 1996 there have been positive changes in the sector in terms of transformation, however minute. The sector has shown its commitment to transformation by being the first sector to achieve Section 9 (1) status for its sector charter, the highest level achievable. This gives the sector charter the same status as the Codes of Good Practice on BEE Notice 112 of 2007.

Tourism is a highly competitive industry, with firms competing not only amongst themselves but also with other global actors that seek to gain as much of the market share as possible. Tourism enterprises must therefore be internationally competitive both in terms of their product offering and their pricing strategy (Mahony, 2006, p.3). The issue of regulatory costs in this sector, and thus BEE certification, becomes very important.

In August 2005, the DTI released a strategy for tourism sector development that identified specific action programmes aimed at materially improving the competitiveness, exports and investments, as well as employment and equity in the sector. Some of the programmes identified included information for decision making, B-BBEE, product development and investment, tourism transportation, employment, productivity and skills. In the same document, certification was noted as one of the key issues to be addressed (DTI, 2005, p.8). Hence, the costs of BEE certification as the subject of this thesis are not wide of the mark.

2.3.1.2 Certification in the tourism sector

Certification is defined as a voluntary procedure that assesses, audits, and gives written assurance that a facility, product, process or service meets specific standards (Bien, 2003). In the international context, certification schemes need to be understood within the broader literature on standards (Mahony, 2006). According to Font and Bendell (2002), for something to be called a standard there needs to be a set of rules, conditions or requirements that are identified and adhered to. Roe, Harris and De Andrade (2003) reiterate that standards vary from simple statements of principles or codes of conduct with no means of measurement or verification, to benchmarking and reporting schemes that can be used by individual companies to measure their performance against a prescribed set of indicators and publicly report on achievements. They go further to include certification and award schemes, whereby a company may submit to an independent review and be awarded a label to demonstrate success in meeting various conditions. In the South African context, BEE certification has the characteristics pointed out by these scholars in that it is a voluntary procedure, it gives written assurance of conformance against specific standards and rules, and it is an independent review that awards a label to demonstrate level of compliance, for example, a Level 3 BEE contributor.

Internationally, certification in the tourism industry is playing an increasing role in regulating and monitoring tourism enterprises and promoting sustainable development. Certification usually awards a marketable logo to those that meet or exceed the baseline standards (Bien, 2003). There are many tourism certification systems internationally, which, according to the World Trade Organisation (WTO, 2003), usually address three main aspects, namely product quality (including some aspects of health, hygiene and safety), environmental performance of companies, operations and/or destinations, and corporate social responsibility. In the South African context, a BEE certificate addresses the social responsibility aspect. According to Vorley, Roe and Bass (2002), and Bien (2003), certification programmes may be either process- or performance-driven. Process-based standards mean that the company makes a commitment to improvement by putting in place a management system to ensure year-on-year progress. Performance indicators measure whether an applicant has met a threshold level, which is usually defined through sector-specific benchmarks (Bien, 2003; Vorley et al., 2002). BEE certification is both process-based and performance-based. It is process-based in that companies seek to achieve year-on-year progress and would therefore better their systems to ensure this, while it is performance-based in that the certificate only shows the threshold that has been reached, with no consideration for past performance. In general, certified companies retain their label year-on-year, provided they continue to meet or exceed the given standard (Mahony, 2006, p.15), as in the case of BEE certification.

According to Bien (2003), tourism certification essentially started in the 1960s, with the oldest tourism and hospitality industry programme from *Michelin* that certified facilities in its first travel guide to France. By 2002, it was estimated that globally there were over 7 000 certified tourism products, with over 85 per cent of them occurring in Europe. Font (2003) claims that two-thirds of the certification programmes are led by private tourism associations, non-government organizations (NGOs) and consultancies, and the remaining one-third are led by governmental organizations. Dodds and Joppe (2005) argue that certification in developing countries has focused more on social and labour issues, simply because those types of issue are top of the agenda in such countries. In South Africa, tourism certification is regarded as a useful tool to market the country, and promote responsible and sustainable tourism development. In addition to the international tourism certification schemes that some tourism enterprises have adopted, a variety of national certification systems have been developed to assess and monitor tourism products in South Africa. Fair Trade in Tourism South Africa (Mahony, 2006, p.2) and BEE certification in terms of the BEE Tourism Charter of May 2009 are used to certify social standards.

In a world of globalizing business and increased consumer concern for sustainability, certification is being used as a voluntary initiative to show higher standards of performance beyond legislation. More recently, social and community issues have been added (Mahony, 2006, p.15), for example the BEE Charter for the tourism industry which calls for the certification of businesses that comply with the charter and scorecard (Tourism Business Council of South Africa (TBCSA), 2004a). The certification of social standards may contribute towards enterprises meeting transformation objectives by measuring and monitoring BEE (Mahony, 2006, p.3).

Mahony (2006) argues that certification can be used as a powerful marketing incentive to attract tourists to South Africa, as certification distinguishes between enterprises making empty claims of the social and environmental performance against those establishments that are willing to have their claims independently verified. International literature on certification, however, argues that certification should not be viewed as an end in itself, but rather as one of the tools available to the tourism industry to improve their environmental, social and economic performance (Mahony, 2006, p.17).

Regarding debate around the pros and cons of certification, the WTO (2003) argues that certification offers numerous benefits to tourism businesses, consumers, governments, the environment and local communities. Foster (2000) cites a study undertaken in Australia in 2000 which concluded that many operators felt that the process of applying for and obtaining accreditation or certification had a beneficial impact on their operations, particularly health and safety standards, staff turnover and morale. A study by the Green Tourism Business Scheme claimed that certified companies on average had higher occupancy rates than the average for Scotland. In the same study, Font and Buckley (2001) argue that the reason for the higher occupancies is that applicants were companies who were already managing their businesses well, and thus the higher occupancies could not be attributed to certification per se. Bien (2003) claims that certification provides a marketing advantage, enabling a company to market its products more effectively, and to improve its public image among consumers, business partners and host communities. This is refuted by Chafe (2004) who argues that this benefit is dependent on consumers becoming aware and understanding credible certification brands. Chafe's argument draws on the possibility of consumers being overloaded with different kinds of certifications that they cannot even synthesize. Mahony (2006, p.10) in turn refutes Chafe by arguing that consumers are becoming increasingly aware of the impacts of tourism development on local environments and communities, and that the drive towards corporate citizenship has forced responsibility and accountability to the top of the agenda of consumers and businesses alike.

One school of thought argues that sustainability issues are increasingly affecting actual buying patterns and the behaviour of tourists (Tearfund, 2001, 2002). The research undertaken for the international ecotourism society reiterates this, whereby consumers indicated that they were willing to pay more for ethical business practices were willing to contribute to community projects, and were largely in support of certification (Chafe, 2004). On the other hand, another school of thought argues that the tourism industry is actually lagging behind other industries for consumer demand for ethically produced goods, with the travel decision still dominated by factors such as price, quality, location, weather and safety (Meyer, Ashley & Poultney, 2004; Eplar-Wood, Wright & Corvetto, 2005). This is in contrast to Bien's (2003) claims that certification increases public awareness of responsible business practices, and that certification provides independently verified information to consumers on environmentally and socially responsible choices. The extent to which consumers' awareness of social and environmental issues actually impacts on tourism purchasing patterns is still open to debate. However, in the case of South Africa, BEE certification does enhance a firm's chances of getting business when dealing with government and its agencies, and other private sector firms that are themselves BEE certified. For a private or public firm to achieve a high BEE score, it has to procure goods and services from other companies that are BEE compliant. The use of a non-BEE compliant firm decreases the rating of all associated companies. Therefore, a BEE compliant company passes on the benefits of compliance to its customers and/or associates in the course of business.

A study on corporate social responsibility in the tourism sector concluded that even though the number and scope of certified tourism enterprises have grown substantially in the ten-year period prior to 2005, certification has however not enabled small and medium-sized enterprises to gain greater access to market opportunities (Dodds & Joppe, 2005). The WTO (2003) adds a perspective by moving the debate away from the industry enterprises and the consumers. It argues that certification offers benefits to government, with the primary one being an effective alternative to direct government regulation, which could prove difficult, costly, and time-consuming to implement. It claims government regulation may be met with resistance from industry, thus certification provides a more flexible approach to monitoring the tourism industry by the industry itself (WTO, 2003). The WTO (2003) may have a valid point, considering that besides generic certifications such as BEE, the tourism sector has to contend with a variety of other compulsory and voluntary sector-specific certifications, including, but not limited to, the Tourism Grading Council, the AA Travel Guide, the Portfolio Collection, Proudly South African, the Heritage Environmental Rating Program, and Fair Trade in Tourism South Africa. According to Mahony (2006, p.10), pro-poor tourism approaches[2] should be incorporated by all tourism actors, including government, business and communities. For Ashley and Roe (2002), this should happen in spite of commercial constraints in order to enhance the contribution of tourism to poverty alleviation.

2.3.1.3 Industry Regulation

The Global Competitiveness Project identified several critical issues that needed to be addressed in order for South Africa to remain competitive, and articulated the barriers and enablers to continued tourism growth in South Africa (Department of Environmental Affairs and Tourism(DEAT) et al., 2004). The Global Competitiveness Project and numerous other studies of the tourism sector in South Africa have identified regulatory issues as an area requiring government consideration (The African Executive, 2006). A study conducted in 2004/5 revealed that the average recurring tax compliance cost for firms was approximately R27 000, whilst it was over three times as high for the tourism firms, at R97 000 (SBP, 2005). The reason cited for the compliance costs for the tourism firms being

[2] Pro-poor tourism strategies represent a reaction to the laissez faire approach of tourism development, and highlight the need to introduce specific mechanisms to ensure that the benefits of tourism growth also accrue to the poor (Ashley et al., 2002).

about four times higher than other firms in South Africa is that the tourism sector is extremely diverse, and many tourism firms provide a diversity of services which are subject to the authority of a wide range of government departments, in addition to the DEAT (The African Executive, 2006, p.1). 'Excessive' or 'unnecessary' regulations imposed by national, provincial and local authorities have been identified as a constraint on the growth of firms in the tourism industry (DTI, 2003). However, major industry actors do not want the industry to be 'deregulated', rather they are calling for stricter enforcement but with greater consistency and ease of compliance (SBP, 2006). This is in spite of the findings that the tourism sector is one of the most heavily regulated in South Africa (SBP, 2005). SBP (2006) has raised a point which affirms the notion of private interest theorists (Stiegler, 1971 and Hertog, 2010) who assume a close relationship between the regulators and the regulated, thus eventually resulting in the protection of the 'regulated' group interests. The same argument was raised by Peltzman (1976), who claimed that regulation was designed and operated primarily for the benefit of the tourism industry.

2.3.2 Complexities of Redistributive Policies

One of the measures of inequality used worldwide is the Gini coefficient. According to Milanovic (2011) the Gini coefficient compares the income of each person with the incomes of all other people individually, and the sum of all such bilateral income differences is divided in turn by the number of people who are included in this calculation and the average income of the group. The result of that is a Gini coefficient which ranges from 0 (where all individuals have the same income and there is no inequality) to 1 (where the entire income of a community is received by one individual). According to World Bank (2011) in 2009 South Africa had one of the highest GDPs ($285billion) in the world (31st out of 185 countries), yet had a Gini coefficient of 0.65, the 2nd most unequal society out of 136 countries, second only to Namibia which leads the pack.

Although Manuel (2009) whilst a Minister of Finance argued that there had been an improvement in the average household incomes of the poorest, rising from R1 648.64 in 2005 to R1 776.01 in 2008, the country's standing in terms of inequality in the international arena shows a clear need to continue perpetuating redistributive policies.

Lowi (1963) characterized policy as either distributive, regulatory, or redistributive, where distributive policies create public goods for the general welfare and are non-zero-sum in character; regulatory policies specify rules of conduct with sanctions for failure to comply; and redistributive policies attempt to change allocations of wealth or power of some groups at the expense of others. The BEE policy is thus primarily a redistributive policy as it attempts to bridge the gap of inequality between the previously advantaged minority and the previously disadvantaged majority, and there is no punitive action in place for non-compliance.

Segal (1992, p.33) states that the issue of addressing poverty and income distribution is as much a burden of the private sector as it is that of the state. He further points out that corporate performance is no longer limited to financial measures, but of increasing importance is the extent to which a company can adapt and respond to South Africa's transitory demands, which include but are not limited to social investment, in the sense that it includes both fixed investment and social responsibility[3] investment (Segal, 1992). This asserts the need for implementation of redistributive policies in the country, but whilst there seems to be agreement around the need for these, arguments are pointing in many directions when it comes to conducting regulatory impact assessments.

The SBP Consortium[4] (2005) argues that attempts to quantify the costs of redistributive policies may not be a good idea, considering that the purpose of such policies is to redistribute wealth and opportunities regardless of the short-term economic costs to society. Thus, RIA may be seen to be politically incorrect because of the impression that wealth maximization is being afforded more importance than wealth-redistribution. The job of measuring the impacts of complying with the redistributive policies remains a difficult task to be undertaken, because some of the impacts will be experienced over a long period and others are very difficult to measure, partly because the current instruments selected (quotas for all firms above a certain size) is insensitive to the different marginal costs of accommodating the policy (Hosking, 2010).

Font and Harris (2004) argue that social standards are ambiguous, and so far the methodologies for their assessment are inconsistent and open to interpretation. Due to the specific complexities of social assessments, social certification programmes are generally regarded as more subjective and less robust than their environmental equivalents (Font & Harris, 2004). Moreover, Font (2002) argues that, internationally, social certification schemes have been criticized because social sustainability is a delicate and complex issue and often cannot be meaningfully quantified beyond fairly basic statistics concerning income and employment. Mahony (2006, p.25) argues that tourism companies are also less likely to join social certification schemes as, unlike environmental certification, the financial and/or marketing benefits of social certification are less clear. Despite the above shortcomings, Tepelus and Cordoba (2005) argue that there is a pressing need for certification schemes that address socio-economic issues in the tourism industry. Those companies seeking to do business with

[3] Those obligations of business that are voluntarily assumed or that, unlike philanthropy, are undertaken for advantage and extend beyond the duty to shareholders to include employees as well as the wider community outside of the company (Mann, 1992, p.37).
[4] The SBP Consortium Members are SBP, Ashira Consulting, Palmer Development Group, Job Mokgoro Consulting, Stephen Berrisford, Jonathan Klaaren. The sub-contractors to SBP are the Centre on Regulation and Competition, Manchester University and Graham Bannock.

government, government agencies and other companies that perpetuate black economic empowerment, are indirectly forced to comply with BEE certification.

2.3.3 Black Economic Empowerment

The government of South Africa has defined Black Economic Empowerment (BEE) as an integrated and coherent socio-economic process that directly contributes to the economic transformation of the country, and decreases income inequalities by significantly increasing the numbers of Black people that manage, own and control the country's economy (DTI, 2003, p.12). Dunnigan et al. (2005, p.1) refer to BEE as a policy that seeks to increase opportunities for South Africans who were disadvantaged during apartheid. The policy covers aspects of direct empowerment through ownership and control of enterprises and assets, human resource development and employment equity, as well as indirect empowerment through preferential procurement and enterprise development. Industry-specific charters incorporating a balanced scorecard have been developed in order to measure the extent of BEE compliance (Dunnigan et al., 2005).

Transformation of the South African economy and thus of the tourism sector is regarded as one of the key objectives of the South African government, and is firmly entrenched in the 1996 Constitution of the Republic of South Africa (South Africa, 1996). Several other government strategies, including the Growth Employment and Redistribution (GEAR) policy, the Tourism White Paper and the BEE strategy place emphasis on transformation of the economy of the country. The Tourism White Paper highlights the limited transformation that has occurred in the tourism sector, but recognizes that the sector has significant potential to promote BEE. At the provincial level, the KZN B-BBEE Strategy aims to de-racialise the KwaZulu-Natal economy and to change economic power relations to be in line not only with the demographic reality of the province, but also with principles of equality and equity, as enshrined in the Constitution (Department of Economic Development and Tourism (DEDT), 2007, p.11). It is also intended that the strategy be sustainable and facilitate growth in the economy in a manner that will cause the economy to be broad-based and all-inclusive.

Seif and Spenceley (2006) have argued that historical inequalities are still present in terms of access to markets, finance, expertise and opportunities, resulting in many of the benefits of growth accruing largely to established, often White-owned businesses. Questions remain regarding the extent to which tourism growth and investment actually benefit the country's poor (Seif & Spenceley, 2006). Mahony (2006, p.36) has identified three key challenges that need to be addressed in order to ensure that the tourism industry delivers on its expectations to become a leading economic sector in South Africa, namely, continued growth, transformation and sustainable socio-economic development.

The DEAT, together with industry players, launched a process to develop a BEE scorecard and charter for the tourism sector. It would address issues such as ownership, management and control, skills development and procurement. This scorecard gained Section 9(1)[5] status in May 2009, and recognizes transformation to be a competitive imperative, as new players, who are able to develop products and penetrate new market segments, will drive innovation (DTI, 2005). In tourism, as in many other sectors of the South African economy, favourable BEE credentials will play an increasingly important role in tourism businesses wishing to do business with government, as well with other sectors of the economy also affected by charters (Mahony, 2006, p.38). Evidence, although a bit sketchy gathered in a study by SBP (2006), suggests that requirements in respect of the charter and scorecard are likely to be complex and expensive to implement.

Even though the government's BEE policies, including the 2003 strategy document, the 2004 Act, and the 2007 Codes, were the outcome of much consultation with the corporate sector, established white business grew alarmed about the possibility of greater government interference in the world of capital. According to Roger and Roger (2008), in May 2001 the South African Chamber of Business (SACOB), a predominantly white business chamber, questioned the prudence of empowerment legislation, saying the markets would not tolerate it. Furthermore, White corporate executives were concerned that government efforts to accelerate the pace of empowerment would pilot greater political intrusion into business affairs. They advocated that government relax its regulatory approach towards enforcing BEE and called for greater co-operation between the state and the private sector in determining 'transformation' (Roger & Roger, 2008). To allay fears and discontent, the DTI stated that other than being disadvantaged when it came to bidding for government contracts and licences, there would be no penalties for companies failing to achieve BEE scorecard compliance (Roger & Roger, 2008).

Sithole (1997, p.25) has argued that, for businesses, BEE may hold no value in the economic sense, but has great socio-political value, refuting Segal (1992, p.185) who had pointed out that for businesses and sectors that are highly reliant on government for both licensing and its contracts, BEE compliance means enhanced chances for economic gain. Whatever the case, the BEE policy is a reality and will be so for a while in South Africa, making compliance increasingly important.

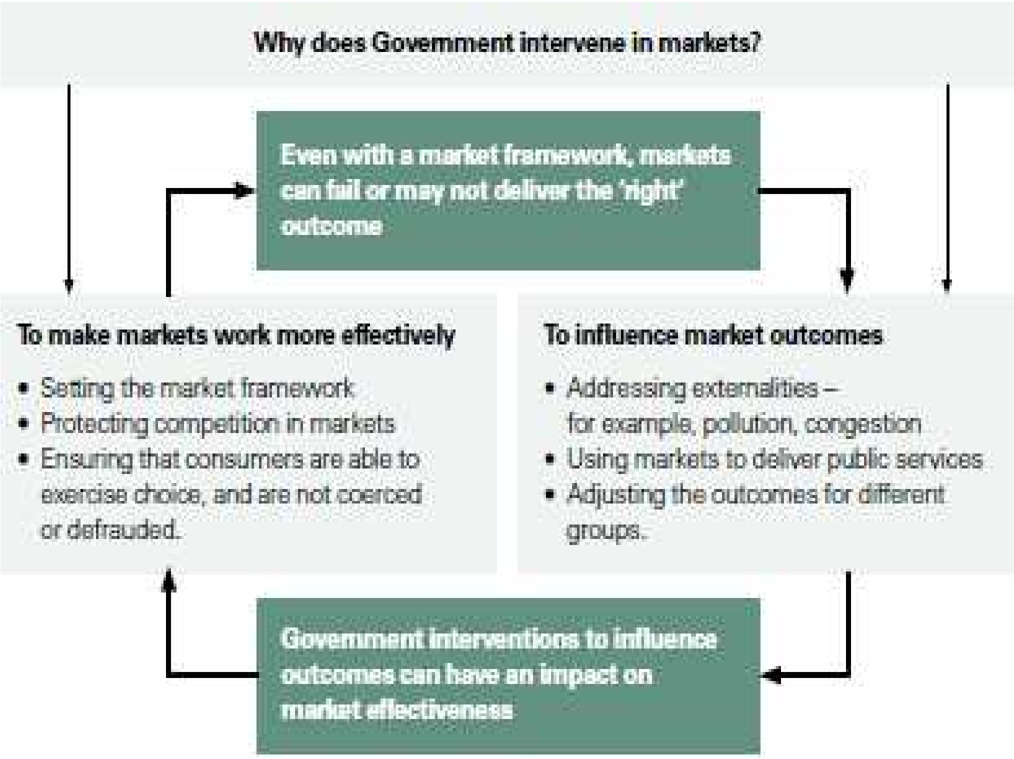
[5] The highest status that can be achieved by a sector code, giving the same status and latitude as the generic scorecard.

2.3.4 Policy Intentions vs. Policy Gaps

Regulation, according to the Office of Fair Trade (OFT)[6] (2009, p.22) consists of a set of rules administered by the government to influence the behaviour of businesses and, consequently, economic activity. The term ‘regulation’ captures a wide range of government actions, from primary legislation setting and market frameworks through to detailed regulations imposed and enforced by specialist thematic and sectoral regulators (OFT, 2009).

There is a strong link between government and the markets in that government sets the legal and institutional frameworks within which markets operate (OFT, 2009, p.4). Government has an interest in market outcomes and the way these are distributed between different groups and firms in society (OFT, 2009). Thus, government intervenes in markets for two main reasons, that is, to set a framework within which they operate, and to influence their outcomes, as illustrated in Figure 2.2.

Figure 2.2: Reasons for Government’s Intervention in markets.



Source: The Office of Fair Trade (OFT, 2009).

[6] The Office of Fair Trade (OFT) was established in terms of section 7 of the Enterprise Act 2002 of the United Kingdom. Its aim was to provide information and advice to Government on competition and consumer issues. This office has developed a guide, the aim of which was to provide a framework for analyzing Government’s interaction with markets, and for policymakers who wished to understand the different ways in which Government can affect markets (The OFT, 2009).

The South Africa Foundation (SAF)[7] (2003, p.2) and The OFT (2009, p.12) argue that whilst government intervenes in markets to achieve particular social objectives, such as poverty reduction or improvement of the health and wellbeing of citizens, there are however spill-over and second-order effects of which policymakers are usually unaware. Thus, whenever there is a need for government to intervene in markets, it should, as far as possible, try to do so in a way that avoids unintended consequences (The OFT, 2009, p.2). It is therefore important for policymakers to consider all of the costs and benefits of a policy intervention, even those that are not immediately visible, such as distortions to competition (ibid.). This is in line with the objectives of this thesis, even though the thesis explores mainly the costs without interrogating the benefits.

Roux (2002, p.429) argues that the formulation of public policy rests, in practice, mainly with the legislative institutions at the different levels (spheres) of government and administration, political functionaries, leading public officials, pressure groups and interest groups. According to Roux, these institutions and people, however, cannot play a central role in policy formulation if adequate information, relevant to policy, is not available. Therefore, public officials have to be in a position to provide valuable information about the cause and effect of policy and to initiate procedures to rectify them. SBP (2004, p.3) points out that some impacts of policy, such as compliance costs, are not the result of political choices, but rather are unintended consequences. The existence of unintended consequences of policy has acted as motivation for pursuing this thesis topic.

Considering the position of businesspeople in the South African economy, it is vital for the government to enlist the support of the private sector in the quest for its development goals (Krieg, 1985), but on the other hand, if corporate South Africa wants the social stability that creates a conducive environment for business, they have no choice but to contribute meaningfully to social reform (Segal, 1992, p.44).

Keim (1981), Tombari (1984) and Frederick et al. (1988, cited in Sutherland, 1990) argued that the private sector mainly becomes involved in public policy in order to control its operating environment for strategic purposes rather than for philanthropic reasons. Thus, it is of great importance to ensure that policies are seen to be efficient and less burdensome in order to increase stakeholder buy-in and compliance. Krieg (1985) captures the importance of this statement when he explains the cumulative effect of increased costs in business:

[7] On 25 November 2005, the South Africa Foundation changed its name and brand to Business Leadership South Africa, which is an association of South Africa's largest corporations and major multinational companies with a significant presence in the country. They are represented on Business Leadership's Council and Board at the level of Chief Executive Officer or Chairman. (http://www.businessleadership.org.za/).

> … if policies are costly for enterprises to implement, profit decreases. A reduction in profit results in a lower growth rate of the firm, and hence fewer employment opportunities are created. Poor performance of individual enterprises results in lower tax receipts accruing to the national government who may then have to borrow money to meet its commitments. The personal income tax rate would be increased, decreasing disposal income, and consumption decreases. Finally, the gross national product shrinks and the economic development is adversely affected. The obvious multiplier effects are that if the gross national product decreases, both the consumption and income tax rate decrease which means the taxes would have to be increased the following year. The implications are that the electorate will be dissatisfied with an increase in income personal tax and with the reduced growth rate. The lower growth rate means that less tax is collected by the Receiver.

Wilkinson and Pickett (2010) claim that greater equality can be gained in two ways, that is, either by using taxes to redistribute very unequal incomes or by ensuring greater equality in gross incomes before taxes, thus leaving less need for redistribution. Krieg (2005) claims that when the state has less money available with which to redress the inequality between the previously advantaged minority and the previously disadvantaged majority, the previously disadvantaged will be disgruntled. Krieg (2005) further claims that: "by applying resources to reduce the inequalities in the South African society, growth of the economy is retarded and less money is available for the development of the traditional sector". When this happens, the cumulative effects and costs imposed on the economy as a whole are significant.

According to Addleson et al. (1984), for any policy to be successful in the wider sense, the opportunity costs should not exceed the longer term returns. The return on investment, whether by the state or the private sector, must be positive and greater than if the capital had been applied in another direction and/or location. In line with Addleson et al.'s claims, the White Paper on Tourism (1996) defines sustainable tourism as tourism development, management and any other economic activity which optimizes the economic and other societal benefits available in the present, without jeopardizing the potential for similar benefits in the future (RSA, 1996a).

Ownership and benefits of the tourism industry in South Africa largely accrue to White South Africans (Rogerson, 2003; 2004). In order to be sustainable, the South African tourism industry needs to ensure that the benefits accruing from the growth of the tourism sector accrue to all South Africans (Cluster Consortium, 1999; DEAT, 2003, p.48), thus transformation of the industry is essential (Mahony, 2006, p.3). According to Mahony, transformation must take into consideration the contextual issues of each sector. which is especially so for the tourism sector that is fiercely competitive, considering that the country is competing with other destinations for the same market share.

Whilst there is no doubt that the issue of redistribution is important, the BEE certification issue is not immune to the wider debates about certification in general. The cost of certification is an issue of continuous discussion (Dodds & Joppe, 2005; Honey et al., 2001). Many certification schemes are costly to join, particularly for small, medium and micro businesses, as well as community-based initiatives, and the cost of adherence to many certification schemes is regarded as being high. These costs are particularly onerous if the certification programme cannot deliver on promised marketing benefits and consumer awareness (Dodds & Joppe, 2005). Mahony (2006, p.29) claims the cost of certification therefore precludes many enterprises which would normally qualify for certification from being certified. The long-term financial sustainability of certification programmes is a key issue of concern, especially since the government's interest in certification has usually not translated into financial support (Mahony, 2006, p.31)

The OFT (2009, p.18) advocates that policymakers conduct competition and market assessments during the policymaking process as a way of identifying unintended consequences. They further claim that impact on competition may be difficult to identify or quantify, particularly as they tend to emerge in the long term, but place key points that could be considered to identify interventions more likely to distort or restrict competitive markets: (The OFT, 2009, p18)

- Does the intervention affect the possibility of entry and exit in a market – for example, by granting exclusive rights to supply, limiting the number of suppliers, or significantly raising the cost to new firms of entering the market?

- Does it affect the nature of competition between firms in a market, either through direct restrictions (such as price or product regulation) or by reducing the incentive for firms to compete strongly?

- Does it affect the ability of consumers to 'shop around' between firms and exercise choice – for example, does it raise costs of switching?

2.3.5 Regulatory Impact Analysis

According to the Better Regulation Executive (BRE) (2005), when measuring the costs of regulation it is important to distinguish between compulsory regulations that businesses have to follow and voluntary regulations that businesses may choose to follow. BRE also observes that all costs that the businesses incur in complying with information obligations in compulsory regulations should be measured by the Standard Cost Model (SCM). However, BRE argues that when it comes to information obligations relating to voluntary rules, a distinction must be made between voluntary rules that are considered necessary in relation to being on the market and those rules that the businesses follow without their being regarded as necessary. They do however note that a voluntary rule is regarded as being necessary to follow when the majority of the businesses for which the rule is relevant choose to observe it. Thus, although some rules may be voluntary in theory, in practice companies are forced to comply if they are to remain competitive (BRE, 2005), such as the issue of BEE certification.

Regulation is a reality in many markets, including that of South Africa. However, regulation without the necessary checks and balances can create as many problems as it provides solutions (SAF, 2003, p.1). A study by SBP (2003) has shown that an appropriate regulatory and institutional milieu is the single most important component of a country's economic growth strategy. The same study outlines the following five principles of Regulatory Business Practice (RBP):

- **Proportionality**. Regulators should only intervene when necessary. Remedies should be appropriate to the risk posed, and costs identified and minimized.
- **Accountability.** Regulators must be able to justify decisions, and be subject to public scrutiny.
- **Consistency.** Government rules and standards must be joined up and implemented fairly.
- **Transparency**. Regulators should be open, and keep regulations simple and user-friendly.
- **Targeting.** Regulation should be focused on the problem, and minimize side effects.

Radaelli and De Francesco (2008) define RIA as a systematic and mandatory appraisal of how proposed primary and/or secondary legislation will affect certain categories of stakeholders, economic sectors, and the environment. According to the Organization for Economic Co-operation and Development (OECD) (2002), Regulatory Impact Analysis (RIA) is a fundamental component of a smart regulatory state. It is advocated by international organizations and is based on systematic consultation, criteria for policy choice, and the economic analysis of how costs and benefits of proposed regulations affect a wide range of actors (OECD, 2002). According to Radaelli and De Francesco (2008, p.2), the expected effects analysed via RIA may cover administrative burdens or basic compliance costs, or more complex types of costs and benefits, including environmental benefits, distributional effects, and the impact on trade. The European Commission has hailed RIA as a tool for transparent and accountable governance in multi-level political systems (Radaelli and De Francesco, 2008)

The Iret Policy Bulletin (2005, p.1) argues that the benefits and the costs of regulation are generally difficult to measure precisely. It is however important to try, in order to help policymakers arrive at prudent decisions as to whether and how much to regulate (Iret Policy Bulletin, 2005). In pursuit of interactive effects of policies, some countries, such as the United States, Australia, Ireland, and New Zealand, and the European Commission, have moved towards more integrated methods of assessment, including soft benefit-cost analysis. Others are moving towards more fragmented and partial forms of assessment, particularly assessment of administrative burdens on businesses, as a response to the historical neglect of these issues by policymakers (Jacob & Associates, 2006, p.4). While it might make sense to emphasize selected impacts on the RIA, Jacob and Associates (2006) advocate use of integrated methods of RIA, arguing that fragmentation poses a risk of systematically biased policy decisions. SBP (2004, p.4) offers a counter argument when stating that the benefits of regulation are often significant and usually far better understood than their costs, and therefore it is appropriate to focus research effort, at least in the first instance, on regulatory costs. The stance of this thesis is on fragmented administrative costs of the policy, with no consideration for policy benefits, and takes its cue from the arguments made in SBP (2004).

According to the Iret Policy Bulletin (2005, p.1), most of the costs of regulation are hidden, and thus much of the cost of government regulation is "off-budget", that is, it does not appear on federal, state, or local government books. As a result, government officials at all levels are deceived into perceiving regulation as costing much less than it really does (Iret Policy Bulletin, 2005). This illusion is not limited to cost from the public sector side only, as they also fail to comprehend the costs imposed on the private sector by public policy (Iret Policy Bulletin, 2005). It is therefore proper that one of the arguments here is that policymakers are unaware of the gap between policy intentions and policy impacts.

Even though the adoption of RIA in developing countries has been slow, a survey conducted in 2003 by the Centre on Regulation and Competition found that RIA was a legal requirement in at least 10 of the 40 countries that responded to the survey, and a further 20 countries reported that RIA was applied to a certain extent (SBP Consortium, 2005, p.5). No significant change has been documented since then.

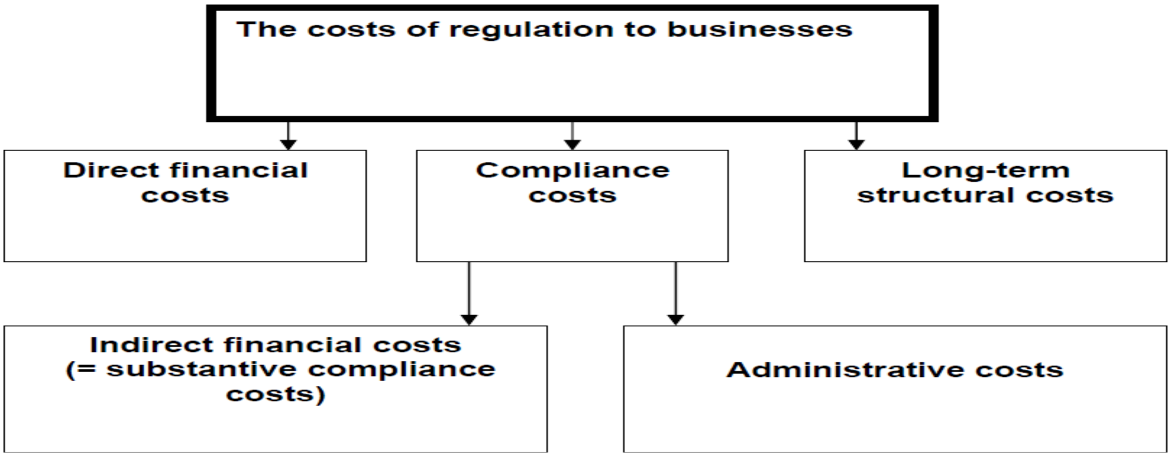
Since the advent of universal suffrage in the Republic, South African policymakers have been exposed to a wide range of international regulatory influence that is contributing to a cross-country dialogue, but the focus of the regulatory programme has been overhauling the apartheid legislative framework (SBP Consortium, 2005, p.5). Nonetheless, studies suggest that it is time to create government capacity for RIA in order to counsel policymakers about the costs and benefits of proposed new regulation (SBP, 2004). The SBP Consortium (2005, p.7) has traced the advocacy for

RIA as far back as 1996 in the National Small Business Act, which provided for the assessment of the impact of all forms of legislation or regulation on SMMEs. Subsequently, in 1999, the DTI published the first National Small Business Regulatory Review, which recommended certain regulatory reforms, especially on laws that impact on SMMEs, and even went as far as advocating the development of a Small Business Impact Assessment Policy. They also cited the various labour law reviews, the DTI's 2002 study into international best practice in regulatory impact assessment, another DTI study on the cost of regulatory compliance for SMMEs, and a submission by the Growth and Development Summit in June 2003 for the adoption of RIA for all national legislation. The SBP Consortium (2005) refers to an announcement by the then DTI's Deputy Director-General, Lionel October, that a mechanism would be created to review all new laws for their impact on small and medium businesses, as a response to submissions by the Growth and Development Summit. This undertaking was a sign of the recognition and acknowledgement by government of the importance of RIA.

Weigel (2008, p.2) claims that while it can be assumed that regulation absorbs substantial resources, little is known about their amount in monetary terms, and therefore recommends that the first step be taken to quantify the burden of regulation to industries and businesses respectively, before determining whether the costs exceed the benefits. Over the years, the world of regulatory impact assessment has experimented with a range of tools and methodologies for quantifying the cost of regulation, one of which is the Standard Cost Model (SCM). According to the SCM Network[8] (2006, p.5) the SCM, an activity-based measurement of administrative costs, is the most widely applied methodology for measuring administrative costs. The SCM aims at identifying, measuring and assessing the cost accruing to businesses when complying with administrative demands of providing information to government (Weigel, 2008, p.5). Whilst the SCM was originally designed to measure the administrative costs arising from legislation, in some countries much of the regulatory burden comes from non-legislative regulation. This reflects differences in legal and policymaking systems. In the Netherlands and Denmark, regulation is defined as legislation only. The United Kingdom has used a broader definition that includes non-legislative regulation with government backing, such as approved codes of practice (BRE, 2005). This thesis adopts the broader definition provided by the United Kingdom. Figures 2.3 and 2.4 demonstrate the flow of administrative costs that are measured through the SCM.

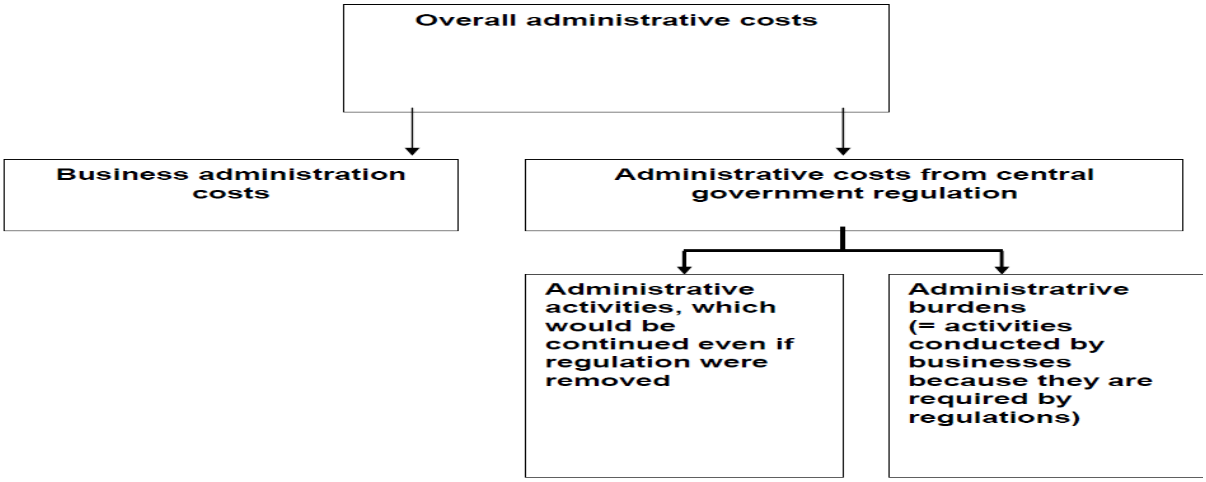
[8] The SCM Network was founded in 2003 by a number of member countries. Its primary aim is to reduce the administrative burdens for businesses (SCM Network, 2006).

Figure 2.3: The costs of regulation to businesses.



Source: Weigel 2008, p.6.

Figure 2.4: Determining administrative costs.



Source: Weigel 2008, p.7.

The SCM Network (2004) emphasises the importance of identifying which costs should be included as part of administrative burdens before attempting to quantify the latter. They state that administrative burdens form only a part of the overall costs of rules and regulations. With the exception of financial costs (concrete and direct obligation to transfer a sum of money to the government or the competent authority), compliance costs are all those to businesses of complying with regulation, which can be divided into 'substantive compliance costs' and 'administrative burdens'. Substantive compliance costs are those that businesses make in order to comply with the content obligations that legislation and regulations require of a production process or a product, for example, the costs of buying helmets in order to comply with Road and Traffic Regulations for motorcyclists. On the other hand, administrative burdens are those costs that businesses have when they comply with the information obligations in regulation, for example, the costs of submitting annual returns to the Companies and Intellectual Property Registration Office (CIPRO) by registered enterprises in South Africa (SCM Network, 2004).

The SCM Network (2004) goes as far as providing a 10-point plan, as stated below, to determine which costs should form part of administrative burdens. It is these guidelines that will be used to determine the costs of BEE certification for tourism enterprises in this thesis. The guidelines are:

- *Just the costs, not the benefits:* When measuring regulation using the Standard Cost Model, it is the costs for businesses when complying with information obligations in regulation that should be measured, not the benefits. Therefore, the question of whether or not the benefits outweigh the costs becomes irrelevant.

- *Just the costs, not the income:* Some information obligations may actually bring some sort of income, however the Standard Cost Model does not look at income generated through the information obligations or through the regulation per se.

- *Lost turnover:* Only costs that have actually been made in order to satisfy a statutory information obligation count as administrative burdens, not lost turnover emanating from the regulation.

- *Reimbursement:* If a business receives cost-effective reimbursement from a government body for a particular statutory information obligation, this does not count as an administrative burden since the costs of the administrative activities are nil, i.e., p=0.

- *One-off costs:* if the one-off costs are negligible, they need not be quantified, however if they are substantial they should be quantified and spread over the depreciation period.

- *Keeping abreast of existing legislation and regulations:* Costs incurred when attempting to keep up with the changes in existing legislation and regulations are considered to be administrative burdens. However, the costs of keeping up to date with existing regulations for which no amendments are anticipated do not count as administrative burdens.

- *Keeping abreast of new legislation and regulations:* The costs to a business of keeping up with new legislation and regulations are an administrative burden. These costs do not need to be quantified in advance, but it should be possible to obtain qualitative insight into them.

- *Full compliance:* administrative burdens are estimated on the assumption that legislation is complied with completely, despite the practice being that not all businesses comply (fully) with all of the legislation.
- *Mixed functions:* A number of businesses register data for more purposes than just the obligations arising from legislation and regulations. The total costs of multi-purpose registrations should be allocated to the legislation or regulation concerned as an administrative burden.
- *Concurrence with other areas of legislation:* If there is an overlap between two areas of legislation (the same information is used by two different parties), the costs of the reporting are shared on a 50%-50% basis between the two legislative areas, unless the involved parties arrive at another solution on the basis of measurements.

2.3.6 Literature Review Conclusions

The Tourism sector can be looked at in many ways, as informed by institutions such as the Cluster Consortium, the Research Consortium and Rogerson (2007). The Cluster Consortium (1999) clusters it in terms of the principal tourism attractions, the suppliers of services and products, and the suppliers of soft and hard infrastructure. The Research Consortium (2008) on the other hand segments it according to expenditure patterns, whereby the tourism industry refers to expenditure by tourists on products such as accommodation, transport and recreation. Expenditure on such items contributes directly to tourism, while the tourism economy refers to expenditure by tourists on products such as food and other goods. Expenditure on such items contributes indirectly to tourism, and the capital goods bought by tourists relate to expenditure by tourists on capital goods, e.g., houses and motor vehicles. Rogerson (2007) looks at the tourism sector in terms of a three-tier hierarchy of enterprises, the top one of which consists of the elite group of large corporations that control the country's major travel and tour agencies, transportation, hotels, casinos and conference centres. The middle tier is characterized by a collection of predominantly white-owned established SMMEs which operate a host of different establishments, from travel and touring companies, restaurants, small hotels, self-catering accommodation and resorts, game farms, bed and breakfasts or backpacking hostels. The lowest tier consists of emerging black-owned tourism enterprises, some of which operate informally. Based on the three types of sector segmentation, the case study firms are suppliers of direct or indirect services and products, according to the Cluster Consortium segmentation strategy; the tourism industry according to the Research Consortium segmentation strategy; and the middle tier according to Rogerson's segmentation strategy.

The tourism sector is becoming increasingly important as the contributor to the South African economy, in that whilst in 1994 it contributed just 2 per cent to GDP (Annual Tourism Report, 2006), and by 2009/10, it had grown to 7.9%. The trend is continuing upwards, with the government aiming to increase it to 12per cent of GDP[9]. Mahony (2006) points out that this sector is very competitive and enterprises are required to be internationally competitive in terms of their product offering and pricing strategy. The DTI (2003) identified 'excessive' or 'unnecessary' regulations imposed by national, provincial and local authorities as a constraint on the growth of firms in the tourism industry. Whilst there are various forms of certification, BEE certification is a direct result of regulation and adds or contributes to the 'excessive' regulations identified by the DTI. Based on this, the sector does warrant a great deal of attention and research as afforded by this thesis, especially in terms of issues that may impact on the sector's bottom line. The SBP Consortium (2005) states that quantifying the costs of redistributive policies is not a good idea as the aim of such policies is to redistribute wealth and opportunities regardless of short-term economic costs to society, however this thesis argues that it's important to quantify the costs of BEE certification against policy intentions, especially in light of possible resistance to comply in cases where companies feel overly or unjustifiably regulated. The stance of this thesis supports the arguments of the SAF (2003) and The OFT (2009), that whilst government intervenes in markets to achieve particular social objectives, such as poverty reduction or improvement of the health and well-being of citizens, there are often spill-over and second-order effects of which policymakers are not aware.

2.4 CONCLUSION

In conclusion, this thesis draws strongly on the arguments of the bottom-up theorists of policy implementation who argue for consideration of policy impacts on different stakeholders at the policy conception stage. The Regulatory Impact Assessment (RIA) phenomenon presented in the literature review directly correlates with and responds to the bottom-up theorists' assertions. Radaelli and De Francesco (2008) define RIA as a systematic and mandatory appraisal of how proposed primary and/or secondary legislation will affect certain categories of stakeholders, economic sectors, and the environment. Further, the Public Interest theory presupposed that politicians are in support of open decision-making processes and they spread information widely about the effects of market results and regulation (Hertog, 1999). For politicians and policymakers to be able to spread information, they need to have information at hand, thus a culture of RIA serves to perpetuate open decision-making and the wide spread of information. This brings information to the fore at the early stages of policy. The SAF (2003) and The OFT (2009) argue that whilst government intervenes in markets to achieve

[9] http://www.mediaclubsouthafrica.com/index.php?option=com_content&view=article&catid=41:visit_bg&id=91:tourism-industry-overvew

particular social objectives, such as poverty reduction or improvement of the health and wellbeing of citizens, there are often spill-over and second-order effects of which policymakers are usually unaware. It is this gap between policy intentions and policy impacts that is the basis for this thesis, and such arguments are used to analyse the results of the research conducted.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 INTRODUCTION

The credibility of research lies mainly in the strength of its methodology. This thesis seeks to advance knowledge and the theoretical understanding of the relationship between the two variables of policy intentions and policy impacts in the field of regulation. There is a dearth of empirical studies on the costs of regulation in South Africa, and even less information on the cost of certification that results from policy prescripts. This is the case despite the widely recognized belief that it is prudent to conduct regulatory impact assessments for all policy regulations that are issued (SBP, 2005). In view of the lack of public information on this specific topic, this thesis aims to contribute by starting a discussion regarding the possible gap between policy intentions and policy impact of a redistributive policy, as opposed to *testing theory*. The costs of Black Economic Empowerment (BEE) certification on a typical enterprise is used as the basis for reaching conclusions. This is done by interrogating the costs of BEE certification incurred by a typical medium-sized enterprise in the tourism sector, the costs of which are calculated using an adopted version of the Standard Cost Model (SCM). According to the International Working Group on Administrative Burdens (2004), the SCM is a framework for defining and quantifying administrative burdens for businesses. It is a way of breaking down regulation into a range of manageable components that can be measured. Further research is done with verification agencies in order to validate case study findings regarding certification process issues which in turn inform the costs, thus increasing the reliability of information gathered from the case study enterprise.

This chapter outlines the design and research methodology that have been employed in this thesis. The analysis draws on primary and secondary data sources for its main findings on the assessment of the costs of BEE certification versus BEE policy intentions.

Primary data was[10] obtained through an in-depth semi-structured interview of a key representative of the case study enterprise, *Tourism World*. The interview gave an opportunity for further assessments through observations and collection of supporting material. The study focused on the case of one

[10] Although it is acknowledged that 'data' is a Latin plural of datum, it may also be treated as an uncountable entity, thus acting grammatically as a singular noun, as is the case in this paper.

medium-sized organization, which was selected mainly because it is a medium-sized enterprise in the tourism sector, thus is a middle ground between big enterprises and small enterprises. It has also gone through BEE certification for two consecutive years, that is, prior to and after the adoption of the tourism sector charter, thus showing both the dynamics of using generic codes and using sector codes. Furthermore, the leadership of the company was amenable to participating to the full extent of the research, thus expediting the process of extracting the information. Thus an in-depth interview conducted with the Head of Administration and Finance in the organization provided the depth of information required for this study. Since this thesis entails case study research using interviews and questionnaires, the present chapter discusses the main arguments related to it and how the different concerns were mitigated. Secondary data was obtained from sources such as journals, periodicals, and reports, particularly in relation to regulatory impact assessments, as well as on certification issues in the tourism sector.

The study methodology was split into two interrelated phases, the first of which was exploratory in nature and sought to establish the costs of BEE certification through the case study organization. The second phase sought to present the findings regarding the costs of policy prescripts (in this case BEE certification) to policymakers. The aim was to establish policymakers' awareness of the possible gap between policy intentions and policy impacts. In summary, information for this thesis was extracted from five types of sources, namely, the review of existing literature on issues pertaining to this thesis, the case study organisation through interviews and review of enterprise documents, the verification agencies through enterprise literature review, the policymakers through questionnaires and in some cases follow up telephonic probing.

3.2 RESEARCH METHODS

Creswell (2002) refers to three types of approaches to research: quantitative, qualitative, and mixed-method. He describes a quantitative approach as one in which the researcher employs strategies of inquiry such as experiments and surveys, and collects data on predetermined instruments that yield statistical data; in contrast, a qualitative approach is used when the researcher employs strategies of inquiry such as descriptions, phenomenology, ethnography, grounded theory studies, or case studies. Creswell (2002) further describes a mixed-method approach as one in which the researcher bases claims on the grounds of matters of fact, employing strategies of inquiry that involve collecting data either simultaneously or sequentially to best understand the research problems. In this approach, data collection entails gathering both numeric information and textual information so that the final database represents both quantitative and qualitative information.

This thesis employed a mixed-method approach in that, first, it sought to quantify the costs of administration steps taken to attain BEE certification, and second, it used those findings to obtain information on policymakers' perceptions related to the gap between policy intentions and policy impacts. Essentially, quantitative information is used as a basis for further interrogation of the qualitative information.

The tool used to gather quantitative information is a structured questionnaire, comprising elements of the Standard Cost Model (SCM), which was designed to measure administrative burdens or paperwork costs. According to the New Zealand Ministry of Economic Development (2006), the SCM has been applied by regulatory agencies in a number of European countries, including the United Kingdom, Norway, Sweden, Denmark, Belgium, the Netherlands, Poland, France, Hungary, Italy, the Czech Republic, and Estonia. The ministry further claims that the OECD applies the SCM method in connection to the "OECD Red Tape Scoreboard" and other programmes that aim to simplify regulations to remove or minimize unnecessary administrative activities.

The SCM has been used in South Africa in 2004, Kenya in 2007, and Rwanda in 2008, to measure the cost of compliance among firms (SAF, 2003). While there are other tools that can be used, such as Regulatory Impact Assessment (RIA) and Regulatory Cost Benefit Analysis (RCBA), the SCM was selected for this thesis because of its user's ability to translate regulatory administrative activities into monetary terms and because it focuses specifically on the cost - and not the benefit - of regulation.

This project used exploratory research, the primary purpose of which, according to Neuman (2010, p.33), is to examine a little-understood issue or phenomenon and to develop a preliminary understanding. It was fashioned along the principles of case study research methods, making it an exploratory case study. A case study method is suitable for meeting the objectives of this thesis because it allows for an in-depth understanding of processes that occur in relation to the topic (Ellinger et al., 2009). According to Suriyabhivadh (2006), case studies typically scrutinize the interaction among variables to present a comprehensive understanding through a "thick" description process that describes the unit, along with the conditions and features being evaluated, in depth. Variables such as time and the costs associated with different activities were analyzed. Ellinger et al. (2009) and Tellis (1997) further state that another characteristic of a case study is that it uses multi-methods, that is, a combination of methods such as interviews, documentary analysis, participant observation, ethnographic observation, surveys, and psychometric instruments to collect data. In this study, a combination of documentary analysis, multi-stakeholder face-to-face interviews, and a general survey involving the distribution of questionnaires were used. The use of multiple sources of evidence helped to ensure construct validity, as elaborated by Yin (1994). While research was traditionally seen to be warranted and conclusive to the extent that it could establish internal and external validity (Campbell & Stanley, 1963), there has been a move toward advocating the use of credibility, dependability, confirmability, and transferability to assess qualitative research (Creswell, 1998; Lincoln & Guba, 1985), as defined below.

Whereas internal validity is the extent to which the design of the study and the data it yields allow the researcher to draw accurate conclusions about cause-and-effect, external validity can be defined as the extent to which its results apply to situations beyond the study itself (Trochim, 2000). Furthermore, Lincoln and Guba (1985) and Trochim (2000) claim credibility is reached when the research participants affirm that the results are legitimate; transferability is the degree to which the results can be generalized or transferred to other contexts; dependability is the need for the researcher to account for the ever-changing context within which the research occurs, as well as how these changes affected the way in which the research was approached; and confirmability is the degree to which the results could be confirmed or corroborated by others.

Table 3.1 describes how this study sought to increase its soundness in line with the proposals made by Lincoln and Guba (1985) and Trochim (2000).

Table 3.1: Establishing soundness of research.

Criteria for establishing research soundness	**Method used**
Credibility	The case study respondents were sent the write-up of the research results from the first stage of research. The results of the first phase were only used to inform the second phase, and only after receiving confirmation from the case study organization that they were a true reflection of their responses and their experiences.
Transferability	The context and assumptions of the research have been described in detail in order to allow any other person who wishes to transfer the results to make an informed decision regarding the plausibility of doing so.
Dependability	Qualitative research occurs in an ever-changing environment; changes and their impact on the study have been described in great detail in the report.

Criteria for establishing research soundness	Method used
Confirmability	Multiple methods of gathering data have been used. Over and above interviews, organizational documentary analysis has been employed to triangulate[11] data. The literature review has been used to draw reference from other related studies and patterns. The study's summary reviewed all potential bias that might have occurred.

Source: Author's Compilation

The unit of analysis in this case is a medium-sized tourism organization, namely, *Tourism World*, a tourism training arm of the *Calypso Group*, which comprises six tourism companies (*Calypso Racing, Calypso Events, Calypso Travel, Consulting4u, Calypso Properties* and *Tourism World*), all offering different services, mostly tourism-related. The focus of this thesis is *Tourism World*, an institution that holds full accreditation by the Tourism Hospitality Education and Training Authority (THETA). The firm offers a variety of training programmes within the tourism sector, such as a tour guiding course and hotel management.

The research methodology follows a two-phase process as outlined below:

3.3 PHASE 1: CASE STUDY RESEARCH

Phase 1 of the data collection sought to gather information regarding the administrative impact of BEE certification. The data collection was at enterprise level using a single enterprise as a unit of analysis and case study. This ensured in-depth analysis of the subject within a specific context. Also in light of time and other resource constraints, more than one enterprise may have led to superficial research instead of in depth analysis, especially considering the quantitative part of the research. The enterprise selected offers a good illustration of pertinent issues as it is a typical medium-sized tourism enterprise, a middle ground between small enterprise and big enterprise. The information gathered was validated using desktop process information gathered from verification agencies, physically and through information provided on their websites. This is in line with assertions by Miles and Huberman (1994) regarding the corroboration and validation of results, which they claim are essential components of data analysis and the qualitative research process. Essentially, the main aim of this phase is to establish the administrative impact of BEE certification by interrogating the perceived administrative costs versus actual costs, and the perceptions of business regarding the certification process.

[11] Triangulation is looking at something from several angles instead of one way (Neuman, 2011).

3.3.1 Interviews

Yin (1994), Stake (1995), and Feagin et al. (1991) have asserted that case study research is not about sampling[12]; however, care must be taken when selecting cases so as to maximize what can be learned (Tellis, 1997, p.1). Furthermore Neuman (2011) states the importance of context when he claims that the meaning of social action or statements depends on the context in which it appears. According to Neuman (2011), a case study is one of the ways of getting a good grasp of context, getting the rich facts and perspective that make up for lack of complicated statistical analysis of huge numbers often characteristic of quantitative research. Furthermore Neuman (2011) identifies face-to-face interviews as one of the best ways of extracting rich detail, as during such interviews one is able to administer the longest questionnaires, and over and above that, they allow for observation of surrounding and gestures, thus enriching the context. Face-to-face interviews in this research were thus seen as the most effective way of extracting the level of detail that was required by this study, especially considering the calculations that are required when administering a tool that integrates the SCM. The interviews with the case study enterprise were mainly to ask this pertinent question 'what is the administrative impact of BEE certification on tourism enterprises in South Africa?'

Primary Respondents

Ellinger et al. (2009) make a distinction between single site case studies and multisite case studies, where multisite case studies are based on multiple people or sites from which cross-case comparisons are made. The current research project is a single site case study in that only one firm has been used as a case study. The selection of the enterprise was guided by many factors. First there was a need to select the sector to base casestudy on, and this was guided by which sector has had the longest exposure to Section 9(1)[13] status in terms of its Codes of Good Practice, which has to be the tourism sector. The same sector has been regarded as the most heavily regulatory burdened sector, thus more likely to be sensitive to the introduction of any new regulations, including redistributive policies like B-BBEE. Thus said, the enterprise selected had to be within the tourism sector. Secondly, the enterprise selected had to have undergone a process of BEE certification for two consecutive years for comparative purposes. Thirdly, the enterprise had to be medium-sized, because a medium sized enterprise to a certain extent displays characterists of a big enterprise as much as it displays some characterists of a small enterprise. For example, like a small enterprise, most medium sized

[12] Sampling is the process of selecting units (e.g., people, organizations) from a population of interest so that by studying the sample one may fairly generalize the results back to the population from which they were chosen (http://www.socialresearchmethods.net/kb/sampling.php.).
[13] Highest status achievable by a sector code, which gives it the same status as the generic BEE codes of Good Practice.

enterprises are owner-managed, whilst like big enterprises, they have decentralised management structure.

Based on the database of 26 medium-sized tourism enterprises supplied by Tourism KZN, only eleven were found to have a valid BEE certificate. Furthermore, of those eleven only three had been BEE certified for two consecutive years or more. It is these enterprises that were sent a letter of request to participate in the study. Of the three enterprises that responded, preliminary research showed that *Tourism World* had been a medium sized enterprises for more than 5years, which is the longest of the three. Therefore Tourism World was selected because it was a solid medium-sized enterprise in the tourism sector, thus is a middle ground between big enterprises and small enterprises. It has also gone through BEE certification for two consecutive years, that is, prior to and after the adoption of the tourism sector charter, thus it had gone through both the process of BEE certification in the generic era and the sector-specific era. When approached for selection as a case study, the leadership of the company understood the objectives of the study and was amenable to participating to its full extent. It is because of these reasons that *Tourism World*, a subsidiary of *Calypso Group* was selected for case study purposes.

I sought to interview either a Compliance Manager, a Head of Administration, a BEE Manager or a Financial Manager, as these are portfolios that typically deal with BEE certification issues. At *Tourism World*, the most appropriate person held the portfolio of Head of Administration/Finance. It is this person, the Head of Administration that was interviewed in order to allow for complex questions (see Neuman, 2011). A questionnaire based on the standard cost model, such as the one developed for this study, is complex and therefore demands face-to-face interviews. This was to ensure that all questions were understood and answered. Although only one interview was held with the Tourism World, through its Head of Administration, it was in-depth and very probing, and at times required the presentation of evidence (for example, financial statements) to support some of the answers. Probing, which according to Neuman (2011:306) is a neutral request to clarify an ambiguous answer, complete an incomplete response or obtain a relevant response, was necessary in some cases. For example, if a respondent was asked to state how long it takes to fill in a BEE application form and answered ‘five days’, it was necessary to determine the actual number of hours or time expended, as this is what is required in the Standard Cost Model. Probing became important in this case.

A semi-structured questionnaire containing both close-ended and open-ended questions was thus developed and used. Close-ended questions mainly related to questions emanating from the Standard Cost Model (SCM), and open-ended questions were mostly about context, attitudes and perceptions. These questions sought to answer the following secondary questions (which in turn give meaning to the primary research question):

- What are the administrative processes involved in seeking BEE certification from SANAS accredited Verification Agencies?
- What physical, financial and human resources are allocated to administrative processes of BEE compliance?
- What systematic changes have organizations undertaken in compliance with BEE certification? Have enterprises changed their organizational structures in order to comply with BEE certification?
- How have the administrative impacts of BEE certification affected the enterprises' attitude towards the BEE policy?

Secondary Respondents

Neuman (2011) argues that one is better positioned looking at something from several angles than one way, and he refers to this as 'triangulation'. Neuman specifically refers to triangulation of measures, where a person measures the same phenomenon in more than one way. This type of triangulation has been used in this thesis by using a SANAS accredited verification agency to validate data collected from *Tourism World*. The verification agencies are on the receiving end of the applications for BEE certification from enterprises and also audit the enterprises to verify compliance, and therefore are better placed to detail processes and cost implications of BEE certification, especially regarding requirements, cycles, costs and turnaround time. This was done by going through the promotional literature and websites of different SANAS-accredited verification agencies. The intention was to validate the findings of the case study research regarding the BEE audit process and the turnaround times. In total, information from three verification agencies was used.

3.2.2 Documentary Analysis

According to Balihar (2007), documentary research is the use of outside sources to support the viewpoint or argument of an academic work, a process which often involves some or all of conceptualizing, using and assessing documents. Noor (2008) states that documentary evidence acts as a method to cross-validate data gathered from either interviews and/or observation. This is particularly important given that in some cases what respondents say differs from what they do, and vice versa.

Scott (1990) emphasizes the importance of reflecting authenticity, credibility, representativeness and literal-cum-interpretative understanding when accessing documentary sources. In this instance, *authenticity* refers to soundness and authorship, thereby making it essential for the researcher to know if s/he received an original document or one duplicated from the original or from a duplicated original, over and above knowing the author and publisher of the said document.

Credibility in this instance refers to sincerity and accuracy of information (Scott, 1990). There are several factors that might affect the accuracy of information, for example, an enterprise might under-declare income or profit in their financial statements in order to decrease tax liability, whereas an enterprise seeking credit facilities at the bank may choose to reflect higher profit margins. This then means, according to Kok (2011), that the onus lies on the researcher to find out whether the author is giving a true account of what has been written.

Representativeness, according to Scott (1990), is about survival of information which comes about through publication or archiving of information. This then means that at the time of planning research, a researcher must ensure that the required documents are still retrievable. Distinguishing between *literal* and *interpretive* understanding, Scott(1990) states that the ultimate purpose of examining documents is to arrive at an understanding of the meaning and significance of what the documents contain. Thus, the researcher must be able to interpret beyond the literal meaning of words by placing everything into context, because ultimately it is the interpretive meaning that is sought in research.

In order to answer some of the proposed research questions, it was necessary to refer to enterprise documents. For example, in order to establish the percentage of administrative costs of BEE certifications versus the overall turnover of the company, it was necessary to confirm turnover information or even expenditure of a specific unit by examining the financial statements of the company. In order to establish credibility it was also verified that the financial statements were the true reflection of the enterprise's financial status. Other documents that assisted in answering the research question were the multi-year organograms of the enterprise, from which information regarding past structure versus current organizational structures was extracted. This assisted in demonstrating the metamorphosis that the organization had undergone since the advent of the BEE policy. Representatives in this case were not an issue since, according to South African law regarding access to information, all enterprises have to keep their financial information for a minimum period of five years before destroying it. Since the study only went back two financial periods, all information was still retrievable. It was then interpreted against the research question, taking it into the context of sector and company size issues.

3.2.3 Data Analysis

A systematic search through BEE application processes data was carried out with the aim of identifying specific observable characteristics that were then coded for application in the administrative burdens formula[14]: Important data extracted for analysis included the processes involved in BEE certification over a specified period, the time it took for each specific activity, the number of people involved in the processes, the payroll information of the people involved, the physical resources expended during the BEE certification process, and all other factors that may have been considered necessary in quantifying the administrative costs of BEE certification. The SCM's original formula that was adopted and customised for objectives of this study is as follows:

AB = (PxQ)
Where AB= Administrative Burdens
P = Price (tariff, time, overheads and acquisitions) and Q=Quantity (number of case study enterprises and frequency of activities)
(International Working Group on Administrative Burdens, 2004, p.19)

The final formula used for this study, and customised from the SCM is as follows:

AB = (Tariff x Time) + Overheads[15]

According to the Business Regulation Executive (2005), the SCM was originally designed to measure the administrative costs for private businesses. It is said that some countries have chosen to use a narrow definition of private business as comprising those entities that conduct business for profit purposes, whilst other countries have chosen to broaden the definition to include 'semi-private' businesses, such as charities, the voluntary sector and public or partly public owned businesses that cover their own costs. The definition is important when one is to set a figure as to how large the population is that will be affected by a given rule. In this case, 'private business' refers to enterprises that are in business for the purpose of generating profit and thus excludes charities, the voluntary sector or even government agencies (BRE, 2005).

The core of the model used is that administrative costs are calculated on the basis of the average cost of an action (price), which is multiplied by the total number of actions performed per year (quantity). The average cost per action is estimated by multiplying a tariff (based on average labour cost per hour, including prorated overheads) and the time required per action. The full number of actions is

[14] Used interchangeably with administrative costs/burdens.
[15] Note: Quantity has been eliminated from the formula in order to emphasize on the single enterprise and its context, as opposed to generalization

then estimated by multiplying the number of entities that have to fulfil an action by the frequency of that action (BRE, 2005).

3.4 PHASE 2: POLICY GAP IDENTIFICATION

The second phase of this research is targeted at policymakers and those involved directly or indirectly with BEE policy issues at strategic level. They mostly operate at senior level in their organisations and selected mostly because of their involvement at board level at institutions dealing with black economic empowerment. The aim is to determine policy intentions and the awareness of policymakers regarding policy impacts. The results of the first and second phase are then juxtaposed to establish any gaps between the policy intentions and the policy impacts.

3.4.1 Questionnaire Distribution

The central focus of this thesis is to explore the possible gap between the policy intentions and the policy impacts. Thus, this second phase was used to investigate the opinions of the policymakers regarding BEE policy intentions and their awareness of policy impacts established during the first phase of the thesis. One of the propositions of this thesis is that policymakers are unaware of the unintended impacts caused by BEE certification on tourism enterprises, and this phase seeks to examine this proposition and explore its truthfulness. The questionnaire sought to answer the following secondary question (which in turn feeds into the main research question):

- Are policymakers aware of the gap between the intentions of the policy and its administrative impact on the tourism enterprises?

The pool of policymakers that were targeted are involved either with issues of black economic empowerment and or tourism sector, however not in anyway with the case study enterprise used, nor specifically with issues of regulatory cost quantification.

A questionnaire that combines both qualitative and quantitative questions was distributed to 10 people involved in policy formulation and at the forefront of BEE. Nowadays, and with the advent of social media, there are many methods that can be used to distribute questionnaires, for example, emails, *Facebook*, physical distribution and postage. This thesis made use of social media that specifically targets proposed respondents in 'www.whoswhosa.co.za', in order to source the contact details of intended recepient. This social medium is one of the very few in which high profile people openly state their contact details, such as telephone, email address and, in some instances, even personal mobile phone numbers, even though some details are only restricted to members only. Using the contact information gathered here, questionnaires were distributed using emails, and follow up calls to ensure they reached the intended recepients.

A questionnaire was circulated by email to 10 people involved in policy formulation and at the forefront of BEE. The email introduced and described the research objectives in order to lay the ground for the questionnaire. A total of six admissable questionnaires were received (60% response rate) back, that is n=6. The respondents were asked to rate the accuracy of 14 statements according to their perceptions and or knowledge. The statements were set on a likert scale from 1-5, where:

1. = strongly disagree
2. = disagree
3. = undecided
4. = agree
5. = strongly agree

Out of the 10 questionnaires distributed through this method, 6 (60%) admissable responses were received. The questionnaire had been sent to current and ex-members of the following institutions and structures, all of which are senior in the organizational hierarchy:

The BEE Working Group was set up to tackle issues such as BEE and the development of small medium enterprises (SMEs) as a way of addressing unemployment, as well as the latest developments in challenges facing the economy, such as poverty. These working groups provided the possibility for Government to interact with various sectors on the steps to be taken as a country to achieve economic growth and development, and to remove obstacles that might impede the realization of this goal. The BEE Working Group focused, *inter alia*, on the formation of the Black Economic Empowerment (BEE) Advisory Council, access to funding, the Codes of Good Practice and BEE Charters.

The Presidential BEE Council was set up to ensure that the full transformation of the business sector is in line with the country's economic growth, while the codes will ensure a uniform approach is applied when the empowerment strategy is implemented. The council advises the president on the implementation of the BEE strategy to ensure it is broad-based and in accordance with the economic growth targets of the country. The body comprises 19 members, four of whom are Cabinet ministers and the rest are representatives from labour, business and civil society.

The KZN Broad-Based Black Economic Empowerment Advisory Council held its inaugural meeting on the 10th of August 2010. It was established in terms of the Broad-Based Black Economic Empowerment Act 53 of 2003 and was chaired by the Premier of the Province of KwaZulu-Natal. The

Council would need to advise government on how to ensure that B-BBEE's intended benefits trickled down faster and benefited the broader society. The broad aims and objectives of the Council were to review progress in achieving B-BBEE objectives, advise on programmes and instruments to better achievements of B-BBEE objectives, promote partnerships to enhance the implementation of B-BBEE, advise on implementation of transformation sector charters, and advise on B-BBEE Codes of Good Practice and guidelines (B-BBEE Media Release, 10 August 2010.)

The National Department of Trade and Industry (DTI) provides strategic direction in the development of policies and strategies that promote enterprise growth, empowerment and equity in the economy. Various initiatives have been undertaken to implement B-BBEE, including the establishment of B-BBEE Codes of Good Practice; the development of Sector Charters in Forestry, Tourism, Construction and Transport; accreditation of B-BBEE Verification Agencies; and establishment of the B-BBEE Advisory Council (www.thedti.gov.za)

3.4.2 Data Analysis

The analysis of data from the second phase was juxtaposed against the findings of the first phase, with the particular aim of identifying policy gaps, if any. Miles and Huberman (1994) have stated that qualitative data analysis consists of three concurrent flows of activity, namely data reduction, data display, and conclusion-drawing/verification. They describe data reduction as a process of comparing, aggregating, contrasting, sorting, and ordering data. This involves looking for patterns, links, and relationships. Further, they describe data display as a process where research data is displayed using charts, graphs, diagrams, tables, matrices, and any other devices, such as drawings, that researchers may see fit for the purpose. In some instances, frequency tables are typically developed for categories of coded behaviour. Lastly, they describe conclusion-drawing as a process of interpreting results and writing up the study. This might mean developing an ethnographic analysis and integrating and interpreting the study.

Thus, the data analysis method used in this part of the study corresponds with the three-step flow outlined by Miles and Huberman (1994), in that firstly the patterns were established from the different data sources (case study enterprise, enterprise documents and verification agency documents) in the first phase, and this was coded accordingly. Secondly, the coded information was expressed visually in charts, graphs and tables, where possible. Lastly, the information was analysed and interpreted and juxtaposed against the findings of the second phase in order to derive conclusions regarding the three proposals made in the study.

3.5 CHAPTER CONCLUSION

This chapter outlined the methodologies used in order to collect, display and interpret data. Moreover, its intention was to ensure credibility and authenticity of the study. It also outlined how *Tourism World* was selected as a relevant case study enterprise. The study was conducted in two phases, firstly using a single enterprise as a case study, and then using documentary analysis of information from verification agents to validate information from the case study enterprise. Secondly, based on findings of the first phase (case study enterprise and verification agency documents), a questionnaire was prepared and distributed to policymakers in order to assess their awareness of the policy impacts established in phase 1, and to establish what the policy intentions are. It was necessary to take this double-phase approach in order to explore the gaps between policy intentions and policy impacts.

The limitations of the study are however, more specifically sector-related limitations in that the tourism sector has different dynamics from other sectors. Even the codes of each sector have been contextualized accordingly, and thus the findings may not apply to other sectors. Furthermore, limitations relating to the size of the enterprise are noted in that the case study enterprise has been purposively selected to be a medium-sized enterprise, primarily because they contain some characteristics of both a small and a large enterprise. However, even then the results may not be applicable to small enterprises or large enterprises. The information is enough to raise crucial issues regarding policy implementation, and perhaps motivate further research, if not advocating implementation of Regulatory Impact Assessments at conception of all regulations.

CHAPTER FOUR

ANALYSIS AND FINDINGS

4.1 INTRODUCTION

This chapter seeks to present findings of the in-depth research conducted through the case study method. The subject of the case study was Tourism World, a medium sized tourism enterprise. A single enterprise was selected in order to allow for a detailed assessment of all aspects, including costs associated with BEE compliance and certification. The chapter further analyses findings of the research conducted through the distribution of questionnaires and through documentary analysis.

The first section of this chapter seeks to detail the findings of the first phase of this research, which is in the form of a case study enquiry, data for which was extracted from *Tourism World* using a semi-structured questionnaire as an interview tool. Further to that, enterprise documents such as the organogram and financial statements were used in order to confirm some of the information extracted during the interview. The questionnaire had both characteristics of qualitative and quantitative research in that there was a mix of open-ended questions of a qualitative nature, as well as structured close-ended questions of a quantitative nature. The close ended-questions especially related to the customised version of the Standard Cost Model (SCM), which was adopted to suit the objectives of the study and used to calculate the administrative costs of acquiring a BEE certificate by a single enterprise. The first phase of the research, which was a 'case study enquiry', is used as a basis for further research in determining if there is a gap between policy intentions and policy impact. The second phase of the research, termed 'policy gap analysis', was necessary, taking into consideration the findings of the first phase. The second part of this chapter seeks to present findings of a questionnaire distributed to policymakers. It made special reference to the case study findings and was used to identify the gaps between policy intentions and policy impacts. The last part of this chapter seeks to consolidate findings, thus establishing the extent of the gaps between policy intentions and policy impacts. Furthermore, this section seeks to make proposals or recommendations based on documented findings.

4.2 CASE STUDY FINDINGS: TOURISM WORLD

This case study is based on a single medium-sized tourism enterprise, based in Durban, Umhlanga. *Tourism World* is one of six subsidiaries of *Calypso Group*. The group is wholly-owned and managed by a single individual, Mr Sadha Naidoo. Although the group can be regarded as a big business because of combined turnover, *Tourism World* itself is a medium-sized enterprise, which, according to the National Small Business Act, has less than 200 employees, is still mainly owner managed, but has a decentralised management structure with division of labour and operates from fixed premises with all formal requirements, characteristics that are typical of *Tourism World*. Tourism World conducts training on various skills programs and short courses within the tourism sector.

4.2.1 Where *Tourism World* fits within the Tourism Sub-sectors

The tourism sector is a multifaceted sector with a variety of subsectors falling under it. During the interview with Tourism World, it became important to first ascertain where they fall within these sectors. The questionnaire made mention of eight different sub-sectors within the tourism sector, namely, the accommodation sub-sector, which comprises hotels, lodges, bed and breakfast enterprises, guesthouses and campgrounds; the food and beverages sub-sector, which covers restaurants, bars, nightclubs and trendy dining rooms; the transportation sub-sector, which covers air, railway, water, ground-car rentals, shuttle services and taxicabs; the adventure, recreation and entertainment sub-sector, which covers wildlife viewing, horseback riding, golf, canoeing, cycling, hiking, mountaineering, scuba diving, hunting, marine exploration, parks, and dance; the travel trade, which covers travel agencies, booking, reservations and tour operators; the attractions sub-sector, which covers all types of attractions and monuments; the events and conferences sub-sector, which covers international and local events, conferences and exhibitions; and lastly, the tourism services sub-sector, which covers the organization, associations, government agencies and companies servicing the needs of the industry, research work, marketing, tourism education and information, and retail businesses benefiting from tourism.

Whilst *Calypso Group* cuts across many of these subsectors, *Tourism World* itself falls under the tourism services subsector in that its primary service offering is tourism education.

4.2.2 How *Tourism World* has integrated BEE into their Organizational Structure

Since the advent of BEE, the organizational structures of companies have evolved in order to accommodate BEE-related activities. Prior to the enactment of BEE policy, a position ‘BEE Manager’ was unheard of or even a 'BEE Unit' in a company was non-existent. Whilst some companies have developed new units, others have added new positions within their current structures; and others have amended the Key Performance Areas of certain occupations in order to integrate BEE, whilst others have done nothing. *Tourism World* has integrated BEE-related activities into the job specification of the Head of Administration/Finance, who receives ad hoc assistance from the Chief Executive Officer (CEO) of the organization whenever necessary with regards to BEE certification issues. This is typical of most companies of this size that cannot justify the expense of employing someone or establishing a unit specifically dedicated to BEE-related activities.

4.2.3 The BEE Status of *Tourism World*

When the BEE policy was enacted, one of the ways established to demonstrate compliance was BEE certification. A BEE certificate is formulated from a scorecard, which is an exact calculation and report of an enterprise's contribution towards BEE. A BEE scorecard is categorised in eight different levels, each of which indicates the extent of contribution to black economic empowerment made by that particular enterprise under review. Based on Section 8.2 of the Codes of Good Practice on Black Economic Empowerment, a company seeking BEE certification can achieve a BEE status as outlined in Table 4.1.

Table 4.1: BEE Levels of Achievement

B-BBEE Status	Qualification	B-BBEE recognition level
Level One Contributor	≥100 points on the Generic Scorecard	135%
Level Two Contributor	≥85 but <100 points on the Generic Scorecard	125%
Level Three Contributor	≥75 but <85 on the Generic Scorecard	110%
Level Four Contributor	≥65 but <75 on the Generic Scorecard	100%
Level Five Contributor	≥55 but <65 on the Generic Scorecard	80%
Level Six Contributor	≥45 but <55 on the Generic Scorecard	60%
Level Seven Contributor	≥40 but <45 on the Generic Scorecard	50%
Level Eight Contributor	≥30 but <40 on the Generic Scorecard	10%
Non-Compliant Contributor	<30 on the Generic Scorecard	0%

Source: Codes of Good Practice on BEE (2007, p.11).

A BEE level of achievement can be further expressed in terms of contribution status. This dimension is outlined in Table 4.2 below.

Table 4.2: Expression of BEE Status[16]

EMPOWERDEX	Contribution Level	Qualification	Procurement Recognition Level
AAA+	Level One Contributor	≥100 points on the Scorecard	135.00%
AAA	Level Two Contributor	≥ 85 But < 100 points on the Scorecard	125.00%
AA	Level Three Contributor	≥ 75 But < 85 points on the Scorecard	110.00%
A	Level Four Contributor	≥ 65 But < 75 points on the Scorecard	100.00%
BBB	Level Five Contributor	≥ 55 But < 65 points on the Scorecard	80.00%
BB	Level Six Contributor	≥ 45 But < 55 points on the Scorecard	60.00%
B	Level Seven Contributor	≥ 40 But < 45 points on the Scorecard	50.00%
C	Level Eight Contributor	≥ 30 But < 40 points on the Scorecard	10.00%
D	Non Compliant Contributor	< 30 points on the Scorecard	0.00%

Source: Empowerdex Rating Agency.

In terms of both the expression used in Table 4.1 and 4.2, *Tourism World* is a Level One Contributor, that is, it has AAA+ BEE status, the highest BEE status achievable. In simple terms, this means any company that does business with *Tourism World* can claim a spending of R135 for every R100 spent on the company, thus giving them more value in terms of BEE points. This illustrates the benefit of a high BEE score, not just for *Tourism World*, but for all other entities that do business with it throughout the value chain.

Tourism World was verified for BEE in the financial years 2009/10 and 2010/11, and achieved AAA+ on both occasions, with the verification being conducted by Empowerdex, a South African National Accreditation System (SANAS) accredited verification agency. According to the respondent, the fees paid for verification in 2009/10 were R6 000, however in 2010/11 this amount doubled to R12 000, as the verification included both the generic scorecard and the sector scorecard in accordance with Tourism BEE Charter, which received Section 19(1)[17] status in May of 2009. Tourism World's opinion on the direct cost of BEE certification is that it is expensive, when considering billable time that is spent on preparing for a BEE audit. The bulk of the work prior to the audit is done by the enterprise seeking verification itself (in this case Tourism World), not the verification agency. It must be noted that it is the choice of Tourism World to be verified against both the generic codes and the sector codes; as since the sector codes have same status as the generic codes, companies in the tourism sector are required to be certified against the Tourism BEE Charter only, not both. Thus said, the direct costs for the year 2010/11 could have been the same as the costs of the year 2009/10.

4.2.4 BEE Certification Process undertaken by *Tourism World*

There is agreement amongst different stakeholders about the complexity of BEE certification. The results of the research case study enterprise and the verification show that it is administratively

[16] Measured against the seven pillars of BEE which are ownership, management, employment, skills development, procurement, enterprise development and social development.
[17] Gives it same status as the generic scorecard.

demanding. Different financial and human resources for this activity are allocated depending on the size of the company. At *Tourism World*, this task has been allocated to one senior staff member at an average annual salary of R300 000 over a period of two years. In must be noted that this staff member, the Head of Administration is tasked with other activities over and above BEE implementation. In fact, BEE implementation has been integrated within his existing key performance areas, however the CEO of Tourism World assists on strategic matters relating to BEE.

According to *Tourism World*, the preparations for a BEE verification which leads to certification took between one to three months, and an average of 32 hours over the audit period when they were doing it for the second time. However, when they initiated the BEE verification process for the first time in the year 2009/10, an average of 100 hours over a period of three months was expanded. Based on these given hours and an hourly rate of R156, my analysis is that Tourism World spent an average of R15 600 during the first attempt of verification, and this decreased to R4 992 the following year. It must be noted that these are administrative costs only in terms of manhours spent on the activities. However a closer and more detailed analysis relying on the customised version of the SCM tool led to contrary findings as demonstrated in table 4.3. This means *Tourism World*'s perception of the time expended and the actual time spent on the activities differ significantly.

The use of the SCM required a detailed description of activities relating to BEE certification. According to Tourism World these activities included researching verification agencies, receiving a BEE verification pack, studying it, assembling required information and filling in the questionnaire. More specifically, according to Tourism World, the steps that are detailed in Table 4.3 below were taken in order to acquire BEE certification.

Table 4.3: Calculations of Administrative Costs incurred by *Tourism World* using SCM[18]

PROCESS	BY WHOM		TIME SPENT	OTHER REQUIREMENTS	
	POSITION	AVERAGE SALARY PER HOUR[19]	TIME SPENT	REQUIREMENT	COST
Research on verification agency	Head of Admin	R156.25	0.10hr	-	R15.63
Commission an agency	Head of Admin	R156.25	1hr	-	R156.25
Source information pack from agency	Head of Admin	R156.25	0.5hr	-	R78.13
Fill in forms	Head of Admin	R156.25	0.5hr	-	R78.13
Collect, print and submit supporting documents	Head of Admin	R156.25	1hr	30 pages printed	R60[20] (R216.25)
Onsite audit	Head of Admin	R156.25	1.5hr	-	R234.38
Onsite audit	CEO	R156.25	1.5hr	-	R234.38
Onsite audit: staff interviews	Various staff	R75	1hr[21]	-	R75
Review draft report, comment and accept.	Head of Admin	R156.25	0.5hr	-	R78.13
Review draft report, comment and accept.	CEO	R156.25	0.5hr	-	R78.13

Source: Author's Compilation

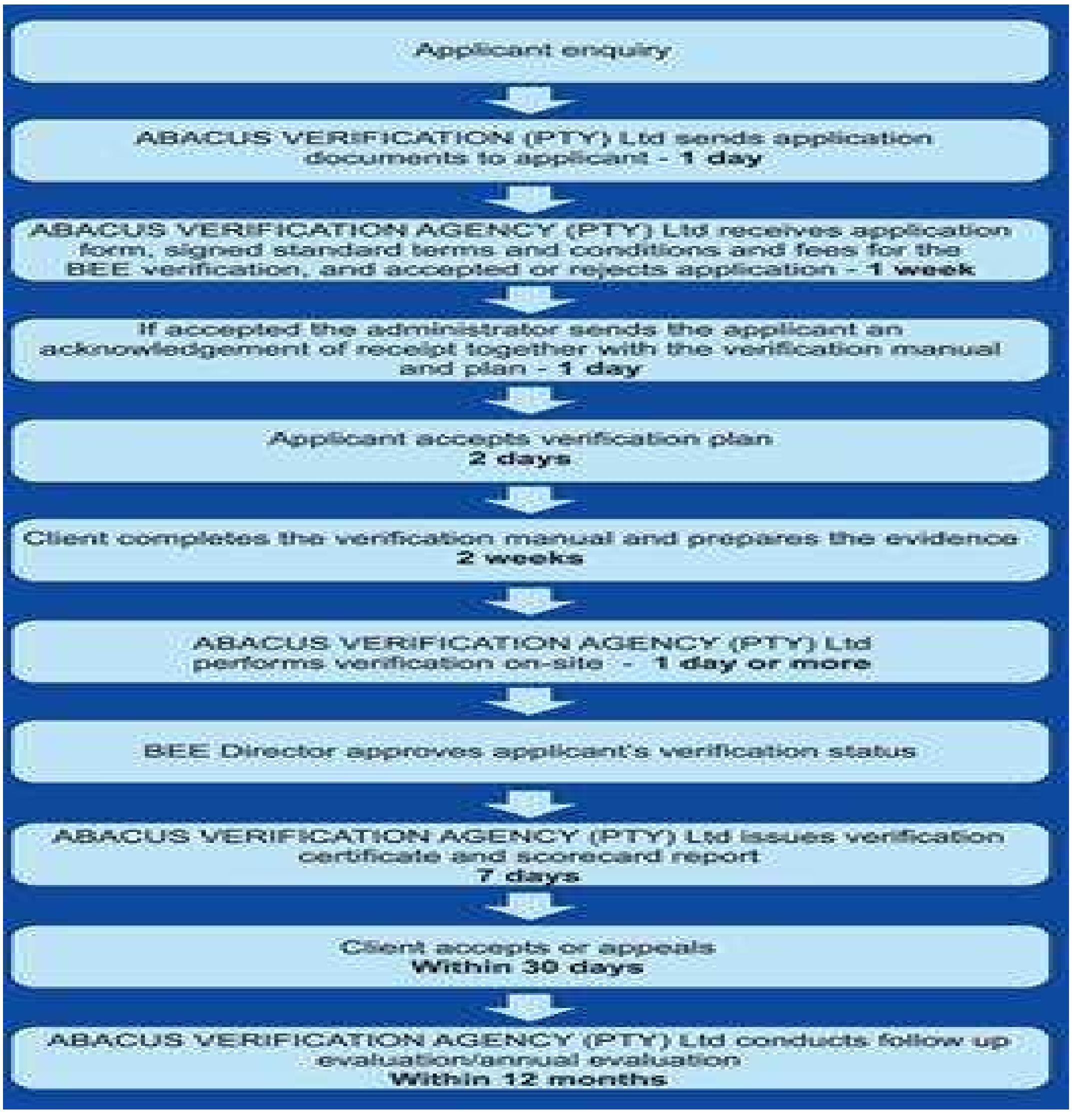
Using the SCM, the actual time spent by *Tourism World* on BEE certification activities in the year 2010/11 amounted to 8.17 hours rather than the 32 hours initially estimated by Tourism World, and the overall administrative cost amounted to R1 244.41 instead of R4 992 initially calculated, a figure that is at least a quarter of that initially perceived by the respondent.

When asked about the turnaround time for receipt of BEE scores after the verification process, the experience of *Tourism World* is that it takes an average of two weeks to obtain a draft report, and a further two weeks for a certificate to be issued; therefore within a month of verification a company is able to get a SANAS-accredited BEE certificate. This tallies with that provided in the promotional literature of the three SANAS-accredited verification agencies that were scrutinized, namely *Abacus*

[18] The figures for the time spent are based on the responses of Tourism World, and the rate per hour is based on the salary of the incumbent responsible for BEE as provided by the enterprise. The final costs are a calculation done by researcher using information provided by Tourism World. The information especially regarding time spent was then verified through information provided by verification with regard to trends.
[19] Based on information provided by respondent, verification of wage bill was not verified using any other means.
[20] Based on R2 per page printed.
[21] Combined for all employees interviewed over the space of an hour.

Verification, *Iquad Verification* and *Integra Scores*. The rating process according to the three verification agencies is presented in figures 4.1 to 4.3. The information supports the claims of the enterprise respondent, both in terms of the process for certification and the turnaround time for issuing of certificates. There are certain steps that appear to be common amongst all three, such as receipt and review of application pack, completion of verification manual by applicant, audit by verification agency, verification report receipt and approval by enterprise.

Figure 4.1: BEE Verification Process according to Abacus Verification Pty (Ltd).



Source: http://www.bee-verification.co.za/page/services/ (accessed 27 Dec 2010).

Figure 4.2: BEE Verification Process according to IQUAD Verification Services (Pty) Ltd.

• IQVS receives the completed Application for BEE Services form • IQVS evaluates information and calculates a verification fee • IQVS compiles a verification proposal and attaches the Terms of Engagement for acceptance. This offer is valid for 30 days.	2 days
• Entity signs Terms of Engagement indicating acceptance (within 30 days)	1 – 30 days
• IQVS sends the Client Information Pack, the Pre-Audit Information Request together with the invoice for payment.	1 day
• Entity completes the Pre-Audit Information Request and gathers requested evidence and submits to IQVS.	30 days
• IQVS completes a document review of the information, initiates the audit plan and compiles a preliminary scorecard.	14 days
• IQVS notifies the Entity of the proposed date of on-site verification, the samples selected for verification and a schedule of any additional information required • Entity agrees a proposed date in writing • On-site visit takes place.	14 - 30 days
• IQVS finalises for review • IQVS reviews and issues the certificate ready for distribution • Complaints & Appeals.	7 - 14 days

Source: http://www.iquadvs.co.za/docs/IQVS-Our-BBBEE-Process.pdf (Accessed 27 December 2010)

Figure 4.3: The BEE Verification Process according to Integra.

The Rating Process

In order for the process to commence, an enterprise must fill in the Request for Verification Document noted below.

INTEGRA SCORES' Request for Verification Document (IS–01a), provides **INTEGRA SCORES** with important information to evaluate any conflicts of interest as well as to calculate the cost to complete the Verification.

INTEGRA SCORES' Budget Breakdown (IS–01b). This is essentially a quotation indicating the cost of the Verification.

INTEGRA SCORES' Service Level Agreement (IS–02b), details and commits both parties to a level of service throughout the verification process.

INTEGRA SCORES' Non-Disclosure Agreement (IS–02c), details confidentiality arrangements within the contractual relationship, and how the issue of confidentiality will be managed.

INTEGRA SCORES' Letter of Engagement (IS–02d). This letter can be sent to suppliers or stakeholders to prove engagement in the verification process during the time that it takes to complete the verification. It is valid for two months only from the date reflected on the letter.

INTEGRA SCORES' Information Gathering Workbook (IS–Q3a or IS-G3a), is a document which provides, you the client, with the information **INTEGRA SCORES** requires to provide an initial off-site score for the Measured Enterprise according to the relevant scorecard against which the Measured Enterprise will be verified.

Time Frames

The total time required to complete the Verification Process can be one week, however this is affected by the readiness of each client.

Source: http://www.integrascores.co.za. (Accessed 27 December 2010)

When asked about what changes the case study respondent would recommend for the BEE certification process, the response was that there is difficulty in securing some of the information necessary to prove BEE spending on some of the pillars or categories of BEE certification. The respondent alluded to the issue of suppliers in the tourism sector who are mostly not BEE certified, and who comprise the bulk of their procurement spending. Even though they have spent copious amounts on BEE enterprises, the verification requires proof of that spending in the form of BEE certificates. Although this may not be a process issue, it impacts on the overall results of the verification process.

The respondent's view of the entire issue of BEE certification is that BEE policy is important and necessary; hence any measures to ensure and track its implementation are necessary. BEE certification is meant to ensure BEE policy implementation, and in a way track progress. Therefore, according to the respondent, it is something that is necessary and cannot be avoided.

On the question of a view on the issue of BEE certification process, the respondent felt it was reasonable, but that it lends itself to tiresome work on the part of the enterprise when collecting evidence. The respondent however thought that although it cannot be avoided, verification agencies must use various sources of information as evidence rather than prescription.

4.2.5 Attitudes and Business Competitiveness

When asked what factors could discourage the enterprise from acquiring BEE certificate in the future, the respondent said nothing could discourage *Tourism World* as the firm understands the necessity and importance of the exercise. The attitude with which the incumbent addressed BEE was positive, showing support for the policy. When asked whether the respondent was aware of the overall costs of BEE certification, including administrative costs and related disbursements, the respondent responded affirmatively and stated R22 000 as the estimated cost of certification including both direct and indirect costs. This figure is 66 per cent more than the actual figure of R13 244 (a combination of R1 244.41, a figure calculated using the standard cost model plus R12 000, an actual cost paid to verification agency for both generic and sector codes). This further illustrates that the perception of the respondent is that the costs of certification are actually higher than they really are.

When asked whether the overall costs of BEE certification are sufficiently substantial to impede the enterprises' local competitiveness, the response was that it is not substantial enough to affect local competitiveness. The same question was asked regarding international competitiveness, and the answer was that the costs of BEE certification are not sufficiently substantial to affect the enterprise's international competitiveness. This is in spite of the respondent having an overinflated sense of the costs of BEE compliances in comparison to actual costs calculated using the SCM.

4.2.6 Case Study Conclusions

Based on the case study enquiry, the enterprise has a positive attitude towards BEE as a policy in general and towards the necessity for BEE certification. The respondent has an inflated sense of the costs of BEE certification, however, in spite of that, the respondent does not see the cost of BEE certification as substantial enough to impede either its local or international competitiveness. The enterprise has opted to weave in BEE-related Key Performance Areas into a job description of an existing employee instead of employing a new dedicated person or establishing a BEE unit. Although case study findings cannot be generalized per se, it is likely that other medium-sized enterprises would also choose to integrate BEE-related Key Performance Areas to existing personnel instead of employing additional staff for this purpose.

Thus, as it stands, the objectives of the BEE policy and the objectives of BEE certification are well understood and accepted by the enterprise. After the inaugural certification process, the subsequent ones are regarded as less costly and less cumbersome. Thus said, verification agencies must provide clear and simple guidelines for preparation for audit, especially for enterprises doing their very first audit. This will serve to ensure that fewer companies are discouraged from engaging in the certification process.

4.3 POLICYMAKERS' FINDINGS

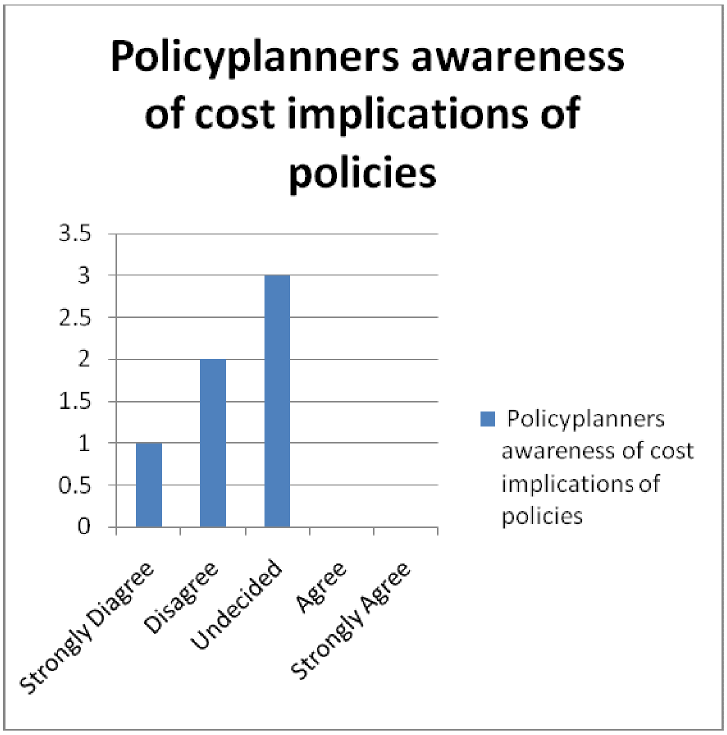
This section seeks to delineate the findings of the research conducted with policymakers and those involved directly or indirectly with BEE policy issues at strategic level. The policymakers are involved with BEE policymaking and policy implementation; and in some cases the tourism sector, they however have no direct influence or even engagement with Tourism World prior to this study. The aim of engaging these policymakers is to examine the extent to which policymakers are aware of BEE policy impacts on private enterprises. The findings from this section are then analyzed in the last section in comparison to the findings of the preceding section.

4.3.1 Policymakers are aware of the cost implications of policies

Figure 4.4 shows the responses of the six respondents when asked whether they think policymakers were aware of the cost implications of the policies. Of the six respondents, three were undecided on the issue, whilst two disagreed and one strongly disagreed. The majority of the respondents fell on the left side of the quadrant, which shows the lack of confidence in terms of the policymakers' awareness of the cost implications of policy. This resonates with the claims of the private interest theorists who claim regulators do not have sufficient information with respect to the cost, demand, quality and other dimensions of firm behaviour (Hertog, 2010, p.2). It also resonates with the claims made by Iret Policy Bulletin (2005, p.1) that most of the costs of regulation are hidden.

According to the Iret Policy Bulletin (2005, p.1), most of the costs of regulation are hidden, and thus much of the cost of government regulation is "off-budget", that is, it does not appear on federal, state, or local government books. As a result, government officials at all levels are deceived into thinking regulation costs much less than it really does (Iret Policy Bulletin, 2005,p.1) This disillusionment is not limited to cost from the public sector side, as they also fail to comprehend the costs imposed on the private sector by public policy (Iret Policy Bulletin, 2005,p.1)

Figure 4.4: Policymakers' awareness of policy cost implications (n=6).

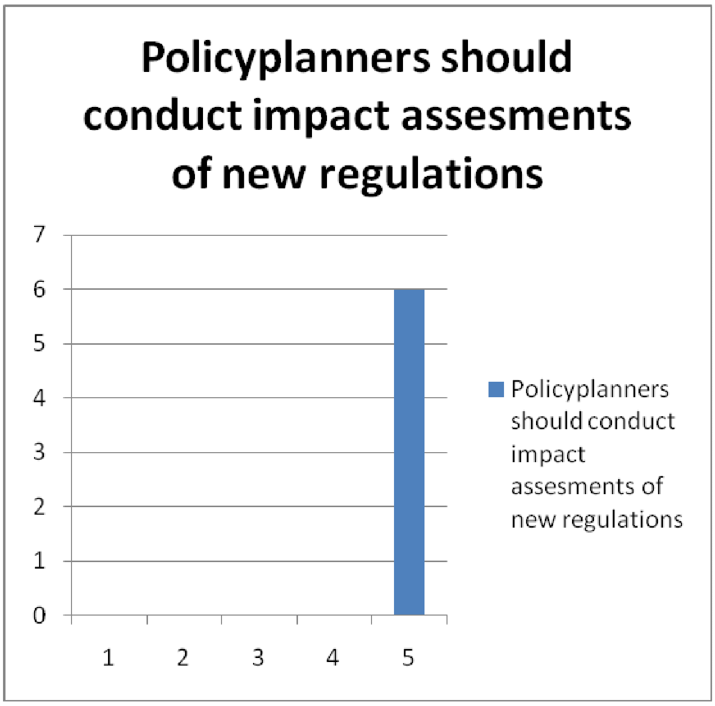


Source: Author's Compilation.

4.3.2 Policymakers should conduct Impact Assessments of New Regulations

As shown in figure 4.5, all six respondents strongly agreed that policymakers should conduct regulatory impact analysis for new regulations. This statement is supported in a study by SBP (2003), which showed that an appropriate regulatory and institutional milieu is the single most important component of a country's economic growth strategy; and the OECD (2002), which claimed that RIA is a fundamental component of a smart regulatory state.

Figure 4.5: Policymakers should conduct Regulatory Impact Assessments.



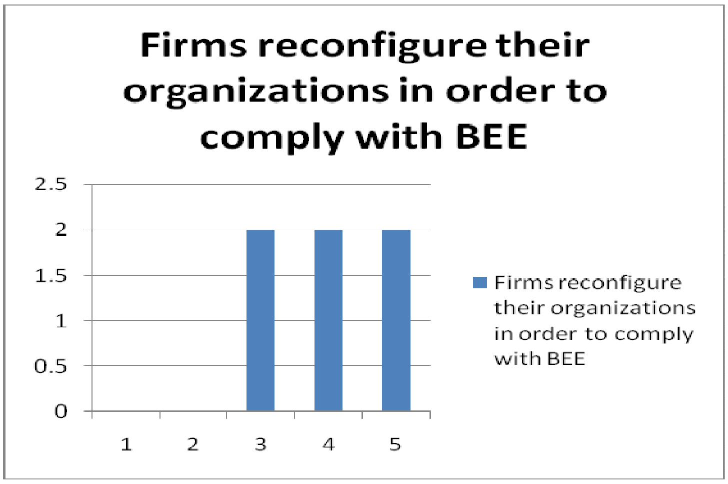
Source: Author's Compilation.

A survey conducted in 2003 by the Centre on Regulation and Competition found that RIA was a legal requirement in at least 10 of the 40 countries that responded, and a further 20 countries reported that RIA was applied to a certain extent (SBP Consortium, 2005, p.5), even though the adoption of RIA in developing countries has been slow. However, studies suggest that it is time to create government capacity for RIA in order to counsel policymakers about the costs and benefits of proposed new regulation (SBP, 2004).

4.3.3 Firms may need to reconfigure their organizational structure in order to comply with BEE

When the respondents were asked whether they thought firms may need to alter the organizational structure in order to comply with BEE policy, the answers were affirmative. Whilst two of the respondents were undecided, two agreed and another two strongly agreed. Thus said, four out of the six respondents thought firms may need to somewhat alter their organizational structure in order to comply with BEE policy.

Figure 4.6: Firms reconfigure organizational structure to comply with BEE.

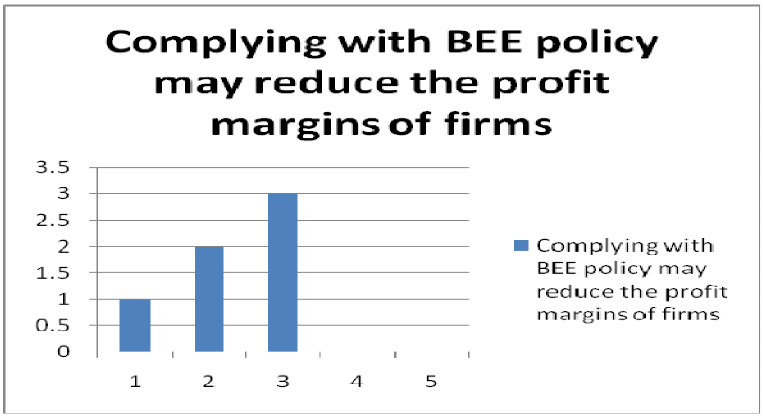


Source: Author's Compilation.

4.3.4 The costs of complying with BEE policies may reduce the profit margins of firms

Weigel (2008, p.2) claims that while it can be assumed that regulation absorbs substantial resources, little is known about their amount in monetary-terms. This was reiterated in the responses reflected in figure 4.7, in which three of the respondents are shown to have answered that they were undecided as to whether the costs of complying with BEE may reduce the profit margins of firms. Two of the respondents disagreed whilst one strongly disagreed that the compliance costs of BEE may reduce profit margins. This ties up with the responses from the case study in which the Head of Administration of *Tourism World* claimed that the costs of BEE, more specifically BEE certification, are not substantial enough to affect the enterprise's local and international competitiveness.

Figure 4.7: Complying with BEE policy may reduce profit.

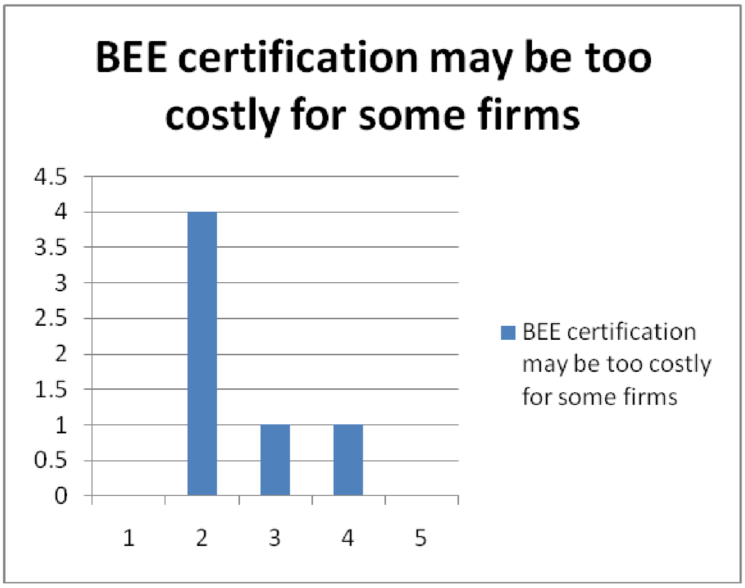


Source: Author's Compilation

4.3.5 BEE certification may be too costly for some firms

Four of the six policymaking respondents disagreed with the statement that BEE certification may be too costly for some firms, one was undecided and one agreed with the statement.

Figure 4.8: BEE certification may be too costly for some firms.

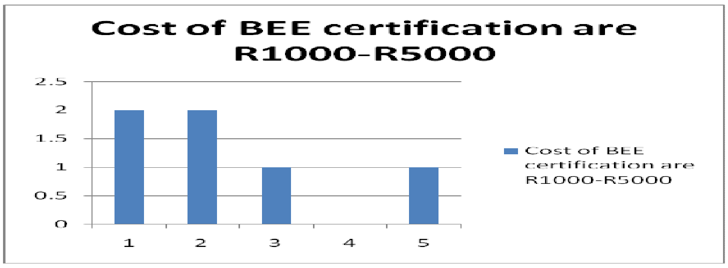


Source: Author's Compilation.

4.3.6 It is likely that the firm's costs of preparing for BEE certification are R1 000-R5 000 per annum

The majority (four) of the respondents disagreed with the statement that the costs of preparing for BEE certification were between R1 000-R5 000, one was undecided and another one strongly agreed. When the four that disagreed were asked about their reasons for disagreeing, their reasons mostly related to their perceptions that the costs were unlikely to be that low, even though none could provide source of this kind of assumption.

Figure 4.9: Costs of BEE certification R1000- R5000

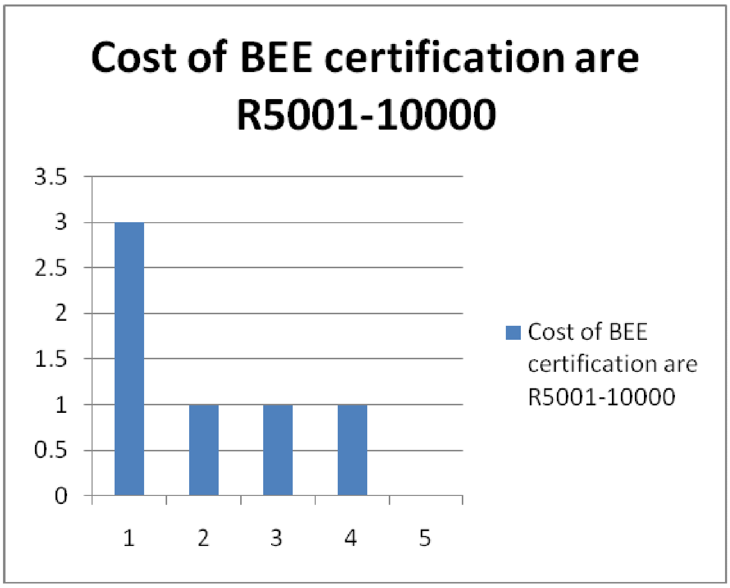


Source: Author's Compilation.

4.3.7 It is likely that the firm's costs of preparing for BEE certification are R5001-R10 000 per annum

Figure 4.10 shows that half of the respondents strongly disagreed that the costs of BEE certification are between R5 001-R10 000; and one disagreed, whilst one was undecided and another agreed. This is consistent with the results above.

Figure 4.10: Costs of BEE certification R5 001-R10 000

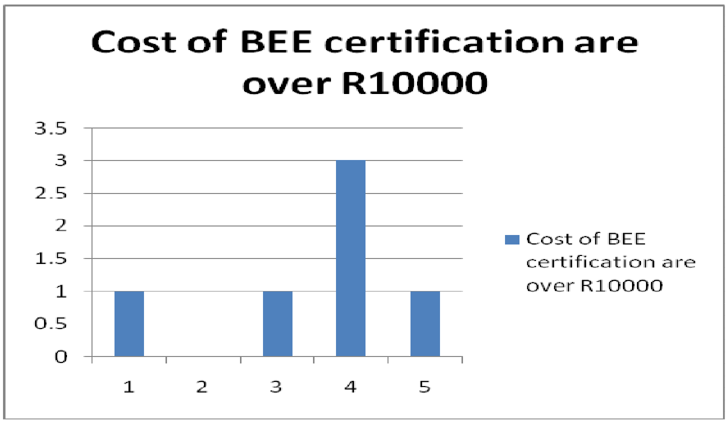


Source: Author's Compilation.

4.3.8 It is likely that the firm's costs of preparing for BEE certification are over R10 000 per annum

As shown in figure 4.11, whilst one of the respondents strongly disagreed that the costs of preparing for BEE certification exceeds R10 000, one of the respondents was undecided. The majority however affirmed this statement. This is consistent with the two questions above in that the majority of the respondents believed the costs of BEE certificate are not between R1 000-R10 000, but are above this figure. This is also consistent with the claims of the case study respondent who had pegged the costs of BEE certification at R22 000, and the results of the Standard Cost Model that placed this figure at R13 244, a figure that is indeed above R10 000.

Figure 4.11: Costs of BEE certification over R10 000.

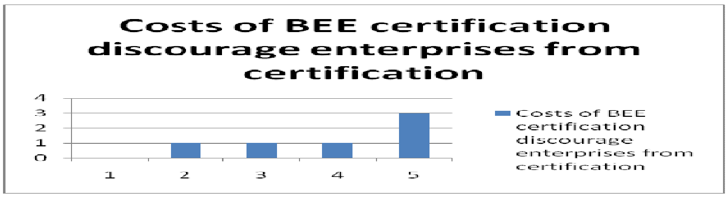


Source: Author's Compilation

4.3.9 The costs of BEE certification may discourage some firms from certification

Figure 4.12 shows that half of the respondents strongly agree that the costs of BEE certification may discourage some firms from certification, and one agrees, whilst one is undecided and the other disagrees. This corresponds to results of figure 4.11, which show that four of the six respondents think the costs of BEE are higher than R10 000. When asked about why they think the costs are higher, one of the respondents had based this information on the costs incurred by his company which is outside of the tourism sector, and the rest had based it on sentiments.

Figure 4.12: Costs of BEE certification discourage certification.

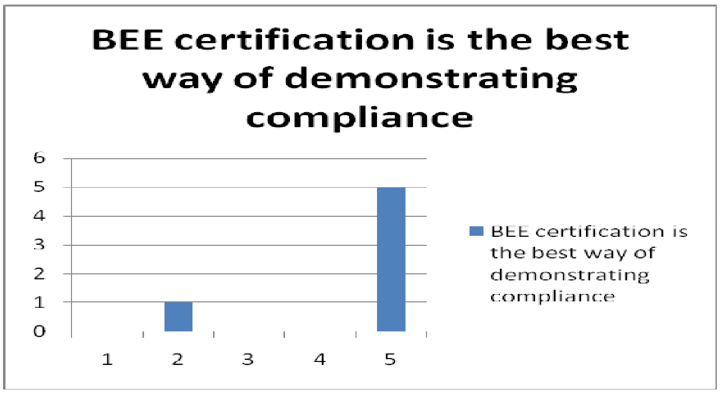


Source: Author's Compilation

4.3.10 BEE certification is the best way of demonstrating compliance

Figure 4.13 shows that whilst one of the respondents disagreed that BEE certification is the best way of demonstrating compliance, the rest of the respondents strongly agreed that it is the best way of demonstrating compliance. This also ties up with assertions from the case study respondent that BEE certification is the best way of demonstrating compliance. The respondent that had disagreed elaborated that his reason for disagreeing is that BEE compliance must be a voluntary action that is not 'policed'. The rest were of the view that it was important to track compliance in order to ensure transformation happens and to track at which pace it takes place.

Figure 4.13: BEE certification is best way of demonstrating compliance.

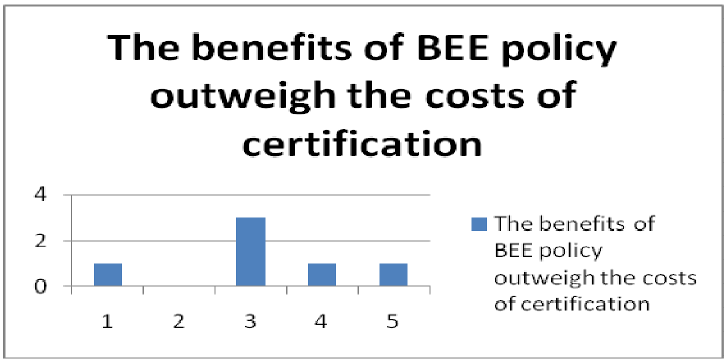


Source: Author's Compilation

4.3.11 The benefits of BEE policy outweigh the costs of BEE certification

Figure 4.14 shows that half of the respondents were undecided as to whether the benefits of BEE policy outweigh the costs of BEE certification, whilst one strongly disagreed, one agreed and another strongly agreed. Perhaps the indecisiveness is an indication of the lack of knowledge regarding the actual costs of BEE certification process.

Figure 4.14: Benefits of BEE policy outweigh costs of certification.

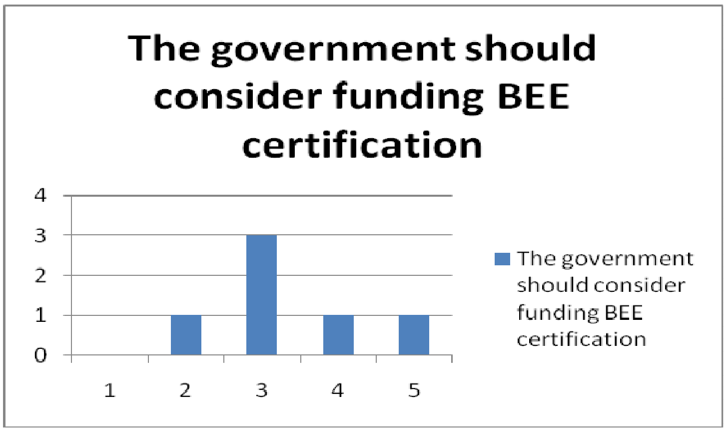


Source: Author's Compilation

4.3.12 The government should consider funding BEE certification

Figure 4.15 shows that at least half of the respondents were undecided on whether the government should consider funding BEE certification, whereas two were in agreement with this statement, and one disagreed. The indecisiveness ties up with the tone expressed throughout most of the questions and statements regarding the actual costs of BEE certification. It is clear that the policy makers cannot answer decisively if they are unsure about the extent of costs of BEE certification. With this lack of knowledge these policymakers cannot participate constructively in the interest of private firms as they themselves are not fully aware of cost implications.

Figure 4.2.5: Government should consider funding BEE certification.



Source: Author’s Compilation

4.3.13 Phase 2 Conclusions

There is an air of uncertainty regarding the costs of the BEE certification, consistent with claims by Weigel (2008, p.2) that while it can be assumed that regulation absorbs substantial resources, little is known about the value in monetary-terms. There is however agreement that whilst the costs may be assumed to be higher than R10 000, this amount is not regarded as high enough to warrant non-compliance. Thus said, certification is regarded as necessary means to demonstrate BEE compliance. What becomes clear from the responses is that policymakers are not au fait with the impacts of BEE policy on private enterprises, thus potentially causing a gap between policy intentions and policy impacts.

4.4 SYNTHESIS OF PHASE 1 AND PHASE 2

The aim of having two phases in this project is to acquire a distinct understanding of private sector encounters with BEE policy, specifically its certification; versus the views and perceptions of the policymakers. The first phase comprises of a case study enterprise supplemented with information collected from verification agencies, whilst the second phase comprises primarily of policymakers.

There are two distinct commonalities in the responses of the two phases. First, both respondent groups have a positive attitude towards the policy; and both view BEE certification as an important and relevant measure of compliance. Second, both respondents are unaware of the true extent of the administrative costs and thus impact of BEE certification. In fact, both respondent groups overplay or over estimate these costs. In spite of having an inflated sense of costs, this does not negatively influence the positive attitude towards the need for BEE certification. The point of convergence for the two respondent groups is that whilst the case study enterprise is somewhat aware of the impact or possible impact of engaging in BEE activities, including certification, the policymaker respondents are not aware of the possible impacts of BEE policy on private enterprises. It is this converging point that could be a source for a potential gap between policy intentions and policy impacts.

4.5 CHAPTER CONCLUSIONS

The attitudes towards BEE as a policy and all its administrative processes are positive as far as the private sector is concerned. This serves the interest of the policy very well since the private sector is a very important stakeholder when it comes to fulfilling the policy objectives. Although the attitudes are conducive to fulfilment of the objectives of this policy, an adoption of a RIA culture will have an added benefit of accurate information by all, thus contributing to better decision making, since the research findings from both private sector and policymakers are that the information regarding the costs of implementation is ill-informed.

The prevalent air of uncertainty around the implications of BEE policy could potentially create a gap between its intentions and its impact, and this gap can be closed by adopting a culture of RIA. Thus said, it is important for central government of South Africa to *adopt and institutionalize RIA*, for the government to *identify and work with as many and as varied affected stakeholders from the onset*; and for the tourism sector to organize itself into a *Tourism Regulatory Impact Lobby Forum (TRILF)* with a strong voice so that it is able to influence the direction of policy in such a way that it is has as little as possible negative impact on the private tourism sector, thus closing any potential gap between policy intentions and policy impact.

CHAPTER FIVE

SUMMARY, RECOMMENDATIONS AND CONCLUSIONS

5.1 INTRODUCTION

The objective of this thesis was mainly to explore the gap between policy intentions and policy impacts, with specific reference to BEE certification, which is a form of proof of compliance with BEE policy. It explored this gap by establishing the administrative impact of BEE certification on private enterprises, specifically in the tourism sector, and sought to assess the policymakers' awareness of the policy impacts on the private enterprises.

The concluding chapter serves as a summary of the overall thesis, outlining the objectives, primary questions, methods used, the theoretical positioning, main findings and scope for further research.

5.2 SUMMARY OF OBJECTIVES

This thesis falls within the field of Public Policy and specifically looks at the Broad-Based Black Economic Empowerment (B-BBEE) Act 53 of 2003 as a policy issue. Whilst the main objective of the policy is to redress the inequalities caused by apartheid laws, its underlying premise is to ensure that this is achieved in a broad-based manner, which is, it positively impacts on the wider community. This is done by getting multiple stakeholders to reconfigure their policies and strategies when it comes to issues of business ownership, management, employment, enterprise development, preferential procurement, skills development and socio-economic development.

One of the stakeholders that play an important part in the implementation of B-BBEE is the private sector. In order to prove participation in line with the objectives of B-BBEE, the stakeholders are required to acquire BEE certificates which show the company's compliance levels. The policy also accommodated sectoral dynamics by introducing sector codes. One of the sectors that has drawn up its sector codes is that of tourism, which coincidentally is regarded as one of the most regulated sectors. It is this sector that has been selected for purposes of this thesis. Thus *Tourism World*, an enterprise within this sector has been used as a case study. The primary question that the thesis has asked is '*What is the administrative impact of BEE certification on tourism enterprises in South Africa'?* The overall objective of this thesis is to explore the *actual impact* of the policy on the private sector (specifically in the tourism sector) versus the *intended impact*.

The impact of policy on the general public has received much attention, with little or no attention being paid to the impact of policy on the private sector, in spite of being a key stakeholder in the implementation of policy. Furthermore, no attention has been given to the impact of this public policy on the tourism sector. Thus, this thesis contributes to this limited state of knowledge by exploring the possible gap between BEE *policy intentions* and *policy impacts*, and by focusing on the administrative impact of BEE certification on companies in the tourism sector, one of the most regulatorily burdened sectors. The propositions the propelled the thesis were three-pronged. Firstly, it was 'hypothesised' that the administrative costs of BEE certification have a significantly negative impact on the profitability and competitiveness of medium-sized tourism enterprises. Secondly, the thesis explored the proposition that tourism enterprises are unaware of the full extent of the administrative costs of BEE certification. Lastly, the thesis investigated the proposition that the policymakers are unaware of the unintended impacts of BEE certification on tourism enterprises.

5.3 METHODOLOGY, LITERATURE REVIEW AND THEORETICAL FRAMEWORK

In terms of methodology, the thesis was divided into two phases. Phase 1 was based on the investigation of the administrative impact of BEE certification using a case study enterprise, *Tourism World*. Data was collected from *Tourism World* using a semi-structured questionnaire, complemented with a review of company data. This company data review entailed scrutiny of company financial statements, past and current organograms of the company and its operations, and strategic planning documents of the firm. According to Andrews (2007, p. 49) financial reports, the primary documents that served as base for obtaining evidence, are obviously written for public consumption by shareholders and also by regulatory bodies, and thus may present a certain face of the company and not necessarily its real face. It is for this reason that it was important to also scrutinise non-public information like the strategic planning documents and organograms in order to be able to identify any discrepancies. Furthermore, data relating to process of certification was validated through the review of information extracted from corporate brochures and/or websites of verification agencies. The main aim of this research phase was to establish the administrative impact of BEE certification by interrogating the perceived administrative costs versus actual costs, and the perceptions of business regarding the certification process.

The second phase of the research was mainly targeted at policymakers and those involved directly or indirectly with BEE policy issues at strategic level. The phase consisted of six respondents and data was collected again using a semi-structured questionnaire, administered by email directly to policymakers, and in some cases this was followed up with a telephone call or email to probe or get clarifications. These are senior people who interact with BEE issues through their involvement either as senior public servants or as board members of BEE agencies. The main aim of this phase was to determine BEE policy intentions and the policymakers' awareness of policy impacts on private enterprises.

The results of the first and second phases were then subjected to comparative analysis to establish any gaps between the policy intentions and the policy impacts. Furthermore, the thesis draws from an in-depth literature review of the tourism sector, certification dynamics and the concept of RIA, which revealed that the tourism sector is one of the most regulatorily burdened sectors, particularly because it has many subsectors which may cut across different sectors and therefore be accountable in varying degrees to different government departments. For example, this sector is governed primarily by the Department of Environmental Affairs and Tourism (DEAT), but some subsectors, such as its shuttle services, are governed and licensed by the Department of Transport, whilst bars and taverns are licensed by the Department of Economic Development's liquor licensing unit. This leaves the tourism sector heavily regulated, as illustrated in a study by the DTI (2003) which identified 'excessive' or 'unnecessary' regulations imposed by national, provincial and local authorities as a constraint on the growth of firms in the tourism industry. Whilst there are various forms of certification, BEE certification is a direct result of regulation and adds or contributes to the 'excessive' regulations identified by the DTI. However, a further literature review showed that the sector participants are not opposed to regulation. What concerns them, however, is the lack of effective and consistent implementation of regulations, thus making the playing field unfair for companies that are compliant.

The literature also revealed that there are various ways of segmenting the tourism sector. For instance, the Cluster Consortium (1999) arranges it into three parts, namely principal tourism attractions, the suppliers of tourism services and products and the suppliers of soft and hard infrastructure. On the other hand, the Research Consortium (2008) divides it into expenditure patterns, that is, expenditure by tourists on food and other goods, and tourist expenditure on capital goods such as fixed property and vehicles. Lastly, Rogerson (2007) sees the tourism sector as comprising a three-tier hierarchy of enterprises, that is, the elite group of large corporations that control the country's major travel and tour agencies, transportation, hotels, casino's and conference centres; the middle tier which is characterized by a collection of predominantly white-owned established SMMEs that operate a host of different establishments, from travel and touring companies, restaurants, small hotels, self-catering accommodation and resorts, game farms, bed and breakfasts or backpacking hostels; and lastly, the lowest tier which consists of emerging black-owned tourism enterprises, some of which operate informally.

The tourism sector is becoming a major contributor to the economy of South Africa, both in terms of employment, attraction of foreign direct investment and general contribution to the GDP, which according to the Annual Tourism report (2006) grew from 2% in 1994 to 8% in 2004. The growth potential of the sector warrants the attention afforded by this thesis, specifically to avoid possible growth impediments.

The literature review introduced the concept of Regulatory Impact Assessments (RIA), which according to Radaelli and De Francesco (2008) is a systematic and mandatory appraisal of how proposed primary and/or secondary legislation will affect certain categories of stakeholders, economic sectors, and the environment. The likes of SAF (2003) and The OFT (2009) argue that whilst government intervenes in markets to achieve particular social objectives, such as poverty reduction or improvement of the health and well-being of citizens, there are often spill-over and second-order effects of which policymakers are usually unaware. The SBP Consortium (2005) argues that the purpose of redistributive policies (e.g. BEE) is to redistribute wealth and opportunities regardless of short-term economic costs to society, and therefore it is not necessary to conduct regulatory impact assessments on such activities. The core of this thesis takes a direct stance against the assertions of the SBP Consortium's argument regarding conducting RIA on redistributive policies. This is in light of arguments by the likes of International Working Group on Administrative Burdens (2004) that enterprises are more likely to default on compliance in cases where they consider themselves to be unreasonably regulated. Therefore measures should be put in place to ensure that this does not happen. This argument is consistent with the theoretical framework that underpins this thesis.

The theoretical framework highlighted a debate on how to approach policy implementation. On the one hand there are top-down proponents who argue that as long as there is a good policy in place, there can be no problems with policy implementation. On the other hand, there are bottom-up proponents who argue for consideration of policy impacts on different stakeholders from the policy conception stage onward. The core of this thesis is based on the assertions of the bottom-uppers. It also ties in with the RIA phenomenon presented in the literature review. A culture of RIA serves to perpetuate open and informed decision-making and the wide spreading of information, which complements the presupposition by Public Interest theorists that politicians are in support of open decision-making processes and they spread information widely about the effects of market results and regulation (Hertog, 1999). The Public Interest Theory emanates from the positive variant of regulation which primarily explores economic explanation of regulation and its consequences. Although the positive variant of regulation has two components, the private interest theory and public interest theory, the latter resonates with the arguments of this thesis.

5.4 MAIN FINDINGS

From the two phases of the thesis, the following eleven main findings emerged:

a. *Tourism World* has made changes to its organisational structure in order to accommodate the requirements of BEE. More specifically, it has integrated BEE-related activities into the job specification of existing personnel, the Head of Administration rather than employing new persons specifically for those activities.

b. The administrative burden incurred in the first year of BEE verification is twice that of subsequent years.

c. The direct costs of verification are doubled if a company chooses to be verified against both the generic scorecard and the sector scorecard, as in the case of *Tourism World.*

d. *Tourism World* has an inflated sense of the administrative burden of BEE certification. Tourism *World* predicted the time and cost to be four times more than the actual time spent and cost. Using the SCM, the actual time spent by *Tourism World* on BEE certification activities in the year 2010/11, amounted to 8.17 hours rather than the 32 hours initially estimated, and the overall administrative cost amounted to R1 244.41 as against R4 992 initially calculated, a figure that is at least a quarter of that initially perceived.

e. The turnaround time for receipt of BEE certificate after the conclusion of audit is two weeks.

f. BEE verification is complicated by the unavailability of BEE certified companies down the value chain, thus making compliance in terms of suppliers difficult to prove, since verification agencies seek this proof in terms of BEE certificates of suppliers.

g. The BEE certification costs are not substantial enough to impede the enterprises' local and/or international competitiveness.

h. The majority of policymakers are not aware of the cost implications of policy on private enterprises. This resonates with the claims of the private interest theorists who claim regulators do not have sufficient information with respect to the cost, demand, quality and other dimensions of firm behaviour (Hertog, 2010, p.2).

i. Policymakers agree that regulatory impact analysis should be conducted for all new regulations.

j. Both the case study respondent and the policymakers agree on the necessity by private enterprises to alter their organizational structures in order to accommodate BEE policy.

k. There is general agreement between policymakers and case study enterprise that BEE certification is the best way of demonstrating compliance with the BEE policy.

5.5 OVERALL CONCLUSIONS IN RELATION TO THESIS PROPOSITIONS

The thesis is based on three propositions, which this section examines in relation to the combined findings of the two phases of research.

Proposition 1: The administrative costs of BEE certification have a significantly negative impact on the profitability and competitiveness of medium-sized tourism enterprises.

The findings refute this proposition in that when using the perceived costs of BEE certification by the case study respondents, they are less than 0.22% of the annual turnover[22]. Of course the perceived costs are much higher than the actual costs calculated using the SCM, thus driving this percentage down to 0.16% of the annual turnover. Also, the case study respondent justifiably stated that the costs of BEE certification do not have a significant impact on the firm's local or even international competitiveness of a medium-sized tourism enterprise.

Proposition 2: Tourism enterprises are not aware of the full extent of the administrative costs of BEE certification.

The case study findings show that the enterprise respondents have an exaggerated sense of the costs of BEE certification. To a great extent this means they are aware that there are cost implications, but they do not have an accurate picture of the extent of this.

Proposition 3: Policymakers are not aware of the unintended impacts caused by BEE certification on tourism enterprises.

According to Hertog (2010, p.2), Private Interest theory assumes that regulators do not have sufficient information with respect to the cost, demand, quality or other dimensions of firm behaviour. This is further supported by the responses of the policymakers, which show a high percentage of indecisiveness, especially when it relates to quantification of impacts of the BEE policy. This is especially prevalent in Figure 4.14, in which half of the respondents were shown to be undecided on the issue of whether the benefits of BEE policy outweigh the costs of BEE certification. If the policymakers show such indecisiveness on the issue, then this proposition holds true.

[22] Which is in excess of R10 million in the case of this enterprise.

Policymakers continue to regulate in spite of the absence of sufficient information in terms of cost and other dimensions of firm behaviour, therefore possibly creating a gap between policy intentions and policy impacts.

5.6 RECOMMENDATIONS

Although the recommendations herein are based on findings of a single case study enterprise, this allowed for rich, in-depth information which may be applicable in certain respects to other similar organizations, more specifically, medium-sized tourism enterprises. Thus said, the following is recommended:

RIA must be performed for all new regulations: There seems to be agreement amongst policymakers, all of whom are very senior individuals, that regulatory impact assessments must be performed for new regulations. There is therefore a case for economic explanation and consequences of regulation in line with the assertions of the economic regulation theory. A study by SBP (2003) singled out an appropriate regulatory and institutional milieu as the most important component of a country's economic growth strategy, thus calling for adoption of a Regulatory Business Practice that involves institutionalization of regulatory impact assessments.

Although South Africa has over the past few years investigated the case for adopting RIA at central government level, nothing has been done so far in terms of adopting this part of the South African policymaking process. It is recommended that this be adopted and institutionalized at central government level, and it can filter down to other levels over time.

Sectoral considerations form part of the RIA: Each sector has its own dynamics; it therefore stands to reason that sectoral considerations are made when performing RIA. The best way for government to make such sectoral considerations is for each sector to form its own strong lobby group that is visible so that it forms part of consulted stakeholders from the onset. Tourism is a 'cutthroat' industry, with South African firms competing not only amongst themselves but also with other global actors that seek to gain as much tourist market share as possible (Mahony, 2006, p.3). Furthermore, according to SBP (2005), the tourism sector is one of the most heavily burdened sectors in terms of regulation. The African Executive (2001, p.1) has ascribed this to many tourism firms providing a diversity of services which are subject to the authority of a wide range of government departments in addition to the DEAT.

Against this background it is recommended that the tourism sector organizes itself into a specific *Tourism Regulatory Impact Lobby Forum* (TRILF) that will ensure that that new regulations that cut across the tourism value chain are means tested for the economic impact on the tourism sector, down the value chain. With good positioning, this forum would serve regulators well in terms of a specific body that represents the private sector when they initiate stakeholder consultations.

Policy consultation must be performed in line with bottom-up theories: The post-apartheid government has emphasized the importance of public consultation, and even institutionalised this to a great extent. However, according to the bottom-up theorists (Hjern, 1982; Hjern & Hull, 1983; Lipsky, 1980), it is not enough merely to consult. Rather, what it is more important to use a bottom-up approach instead of a top-bottom one. In short, it is important for policymakers to identify target groups and service implementers at the very start of the policy process and involve them from the onset in formulating policies, instead of consulting them when policies have already been formulated as an administrative and political rubber-stamping procedure. Affected enterprises, like *Tourism World*, should be consulted when policies are introduced. The consultation must contain information with scenario analysis results, showing the possible impact on such enterprises so that sound contributions to policy can be made.

5.7 CONCLUSIONS AND SCOPE FOR FURTHER RESEARCH

The positive attitude demonstrated by *Tourism World* towards the BEE policy signify that policymakers have been successful in gaining support for the BEE policy and more specifically for the use of BEE certification as a tool to demonstrate compliance. This buy-in is not only limited to direct beneficiaries of BEE (previously disadvantaged individuals), but also comes from the private sector in general, a factor that is important for implementation. This serves the interests of the policy well, since the positive attitudes towards BEE as a policy serve to justify the costs incurred in its implementation.

The findings have shown that there are inaccurate perceptions regarding the actual administrative costs of BEE certifications, thus making RIA a crucial part of the policymaking process, even if only to manage the perceptions. Future research on the possible impact that could be caused by unmanaged perceptions regarding policy impacts would be useful.

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APPENDICES

A: Case Study Research Questionnaire

B: Policymakers Research Questionnaire

C: List of Interview Respondents

APPENDIX A:

CASE STUDY RESEARCH QUESTIONNAIRE

QUESTIONNAIRE: TOURISM ENTERPRISES

THE ADMINISTRATIVE IMPACT OF BEE CERTIFICATION ON TOURISM ENTERPRISES IN SOUTH AFRICA

ENTERPRISE INFORMATION

Enterprise Name : ______________________________

Respondent : ______________________________

Gender : M F **Disability:** Y N

Position of Respondent : ______________________________

Number of branches: ______________________________

Number of Employees : Full-time______ Part-time _____

Annual turnover : Less than R5 000 000 | Less than R10 000 000 | More than R10 000 000

Business Activity :

Which tourism subsectors do you operate in? (tick all appropriate options)				
Accommodation (hotels, lodges, b&bs, guesthouses, campgrounds, etc.)			**Travel trade** (travelling agencies, bookings, reservations, tour operators, etc.)	
Food and beverage (restaurants, bars, nightclubs, posh dining rooms, etc.)			**Attractions**	
Transportation (air, railway, water, ground – car rentals, shuttle services, taxicab, etc.)			**Events and conferences**	
Adventure, recreation and entertainment (wildlife viewing, horseback riding, golf , canoeing, cycling, hiking, mountaineering, scuba diving, hunting, marine exploration, parks, dance, etc.)			**Tourism services** (organizations, associations, government agencies and companies servicing the needs of the industry, research work, marketing, tourism education and information, retail businesses benefiting from tourism, etc)	

Section 1: ORGANIZATIONAL BEE STRUCTURE

1.1 Do you have a unit undertaking BEE related activities in your firm? **Yes** ☐ **No** ☐

1.2 If yes		**1.3 If no**	Yes	N
What is it called?		Do you have staff in other units that are dedicated to BEE related activities		
When was it established?		If yes, how many		
How many personnel does it have?		Which unit/cost centre do they fall under?		
What is the annual budget for this unit		What is the combined wage bill per annum of this staff?		
What percentage of this budget is directly related to the wagebill?		Would you have this staff if it wasn't for the BEE policy?		
Would you have this unit if it wasn't for the BEE policy?				

Section 2: BEE STATUS

2.1 Is your company in possession of a valid BEE certificate? **Yes** ☐ **No** ☐

2.2 If yes,

What is your BEE rating?		
Is this your first BEE rating you've had?	yes	no
If no, what is your prior rating?		

2.3 Which type of verification agency issued your late two BEE certificates at what cost?

Year	**SANAS-accredited**	**Non SANAS-accredited**	**Fee Paic**
2009/10			
2010/11			

2.4 In your opinion, do costs justify benefits of BEE certification?		2.5 If no to Q 2.1		
		Have you used the same verification agency for your past 2 verifications?	yes	no
Yes		If no, what was your reason for changing verification agency		
No				

Section 3: CERTIFICATION PROCESS

3.1 How many people are responsible for overseeing the BEE certification process?_______________

3.2 What is the salary range per annum of above mentioned personnel?				
Salary Range	**Person1**	**Person 2**	**Person 3**	**Person**
Above R500 000				
R300 001 – R500 000				
R100 001 – R300 000				
Under R100 000				
Volunteers /Learnerships or unsalaried personnel				

3.3 How long in advance do preparations for BEE certification audit start?		3.4 Approximately how many hours per week are u for BEE verification preparation during the ab selected period ?	
9-12 months		40 hours and above	
6-9 months		24-40 hours	
3-6 months		16-24hours	
1-3 months		8-16hours	
Less than 3 months		Less than 8 hours	

3.5

How long does it take to get BEE certificate after the audit?			
What changes / improvements would you recommend for BEE certification process			
What is your view of the whole issue of BEE certification?	Necessary	Unnecessary	
What is your view of the process of BEE certification?	Tedious	Manageable	Very easy

3.6 What are the steps involved in BEE certification?

PROCESS	BY WHOM		TIME SPENT	OTHER REQUIREMENTS	
	Position	Average Salary Level pm		Requirement	Cost
Pre-Registration Activities					
Researching verification agencies					
Selecting an agency					
Sourcing requirements from verification agency					
Other Activities:					
BEE Certification Audit					

PROCESS	BY WHOM		TIME SPENT	OTHER REQUIREMENTS	
	Position	**Average Salary Level pm**		**Requirement**	**Cost**
Contract an agency					
Fill in forms					
Collect / print supporting documents					
Participate at audit					
Other activity:					
Other activity:					
Other Activity:					
Post-Audit					
Follow up for feedback					
Collect / arrange for delivery of certificate					
Circulate /display BEE certificate					
Other Activity:					

Section 4: ATTITUDES AND BUSINESS COMPETITIVENESS

4.1 In your opinion, what factors could discourage your firm from acquiring BEE certificates in the future?		4.2 Are you aware of how much the overall costs BEE certification? (incl. admin costs a disbursements)
Yes		Yes
No		No
		If yes, how much?

4.3 Are the overall costs of BEE certification process substantial enough to impede your local competitiveness?		4.4 Are the overall costs of BEE certification process substantial enough to impede your international competitiveness?	
Yes		Yes	
No		No	
If yes, please substantiate		If yes, please substantiate	

THANK YOU FOR TAKING YOUR TIME TO RESPOND TO THE QUESTIONNAIRE

APPENDIX B:

ASSESSMENT OF BEE POLICY IMPACTS VS. POLICY INTENTIONS

Name of Respondent

Organization Represented

Position of Respondent

Date of response

Please indicate the extent to which you agree with the following statements by clicking on one of the numbers from 1-5, where **1** is **STRONGLY DISAGREE** and **5** is **STRONGLY AGREE**

	1 (false)	2	3	5 (true)
Policy planners are aware of the cost implications of policies	☐	☐	☐	☐ ☐
Policy planners should conduct impact assessments of new regulations	☐	☐	☐	☐ ☐
Firms may need to reconfigure their organizational structure in order to comply with BEE	☐	☐	☐	☐ ☐
Complying with BEE policies may reduce the profit margins of firms	☐	☐	☐	☐ ☐
BEE certification may be too costly for some firms	☐	☐	☐	☐ ☐
It is likely that the firm's costs of preparing for BEE certification are R1000-R5000 per annum				
It is likely that the firm's costs of preparing for BEE certification are R5000 -R10000 per annum	☐	☐	☐	☐ ☐
It is likely that the firm's costs of preparing for BEE certification are over R10 000 per annum	☐	☐	☐	☐ ☐
The costs of BEE certification may discourage some enterprises from certification	☐	☐	☐	☐ ☐
BEE certification is the best way of demonstrating compliance	☐	☐	☐	☐ ☐
The benefits of BEE policy outweigh the costs of BEE certification	☐	☐	☐	☐ ☐
The government should consider funding BEE certification	☐	☐	☐	☐ ☐
The tourism sector has too many regulations that it must comply with	☐	☐	☐	☐ ☐
The tourism sector deserves some concessions when it comes to BEE certification	☐	☐	☐	☐ ☐

Note: Researcher to make follow up questions where necessary

Thank you very much for your time and assistance

If you encounter any problems filling in and answering the questionnaire please, feel free to contact me at my e-mail: ngcobom@makhocom.co.za or telephone number: 082 325 1126. Please email back in order to return questionnaire.

APPENDIX C:

LIST OF INTERVIEW RESPONDENTS

Name	Company / government unit represented
V Naidu	Calypso Group
S Sibete	KZN DEDT: BEE Unit + KwaZulu-Natal BEE Council
C Manning (Dr)	ECI Africa (National BEE Council)
R Latchman	PKF BEE Solutions (NEDLAC BEE Task Team)