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# Black economic empowerment within the SME engineering sector

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# Chapter 4: RESULTS AND DISCUSSION

***This chapter presents the results and describes the analysis that was performed. The interpretation of the results, the answering of research questions and the validation of propositions are also covered in this chapter in order to facilitate reading of the report.***

## 4.1 Introduction

Chapter 4 discusses the results of the research in terms of:

- the sample details and responses; and
- research validity.

The associated analysis required to address the propositions and to answer the research questions is then discussed. The order in which the research questions and the propositions are addressed is not sequential and follows the same order as the analysis:

- categorical data analysis;
- open ended questions;
- rescaling of ordinal data – questions;
- rescaling of ordinal data – Issues; and
- mapping of Issues.

## 4.2 Sample details and responses

The total number of valid questionnaires returned is reflected in Table 4.1 below. The process consisted of a five-stage elimination process, whereby respondent's

responses to Question 1 through to Question 5 were used to filter questionnaires. To recap, the research population comprises SMEs, as defined by the National Small Business Act of 1996, which operate within the engineering manufacturing sector. A total of 70 questionnaires were returned; however, after filtering, the number of valid questionnaires that represented the research population was reduced to 41.

***Table 4.1: Total number of respondents in relation to the number of valid respondents***

| | Number of Respondents Involved in Manufacturing | Number of Respondents Involved in Engineering | Number of Respondents Classified as SMEs |
|---|---|---|---|
| Y | 61 | 59 | 41 |
| N | 9 | 2 | 18 |
| TOTAL | 70 | 61 | 59 |

The profile of the intended respondents was identified as being that of individuals who are charged with making the strategic decisions in an organisation. The respondents were expected to be CEOs, general managers, managing directors, directors or senior managers. Table 4.2 reflects the respondent profile of the 41 valid questionnaires, which was obtained by analysing the answers obtained to Question 3 in the survey. The respondents' responsibilities clearly matched the intended profile. This can be attributed to the fact that questionnaires were addressed to specific individuals within organisations and the workshops where questionnaires were distributed were specifically targeted at senior personnel

*Table 4.2: Profile of respondents*

| Position Held in Company | Number of Respondents | Percentage of Total |
|---|---|---|
| Managing Director or General Manager | 25 | 61% |
| Director | 13 | 32% |
| Senior Manager | 3 | 7% |
| TOTAL | 41 | 100% |

The research will analyse responses across the ownership spectrum and will also compare family-owned businesses to corporate businesses. In order to facilitate the making of this comparison, Q6 and Q7 were included in the survey. The profile of the respondents, as per the predefined categories, is shown in Tables 4.3 and 4.4 respectively. The profile of black ownership equity is well distributed, with 46% of respondents having no black equity and 54% having some level of black ownership equity in the company. Such a distribution facilitated the comparing of responses between the two groups.

*Table 4.3: Profile of respondents in terms of level of black ownership equity*

| Level of Black Equity Ownership | Number of Respondents | Percentage of Total |
|---|---|---|
| 0% | 19 | 46% |
| 0%–25% | 12 | 29% |
| 25%–50% | 7 | 17% |
| > 50% | 3 | 8 |
| TOTAL | 41 | 100% |

*Table 4.4: Profile of respondents in terms of business type*

| Ownership Category | Number of Respondents | Percentage of Total |
|---|---|---|
| Family Business | 13 | 32% |
| Non-Family Business | 28 | 68% |
| TOTAL | 41 | 100% |

Although 68% of respondents were found not to be family-owned businesses and only 32% were found to be family businesses, such a finding was felt not to detract from the overall validity of the research. The research methodology adopted thus facilitated a rank order comparison.

## 4.3 Research validity

In order to determine the external validity of the research, respondents were asked to rate their agreement with statements relating to the importance of BEE in their industry and the level to which their companies were currently affected by BEE. Q8 and Q9 in the survey served this purpose. Simple descriptive statistics were used to make the initial decision regarding external validity. Additional validation was provided through the use of distribution fitting to the converted interval scale as outlined in the research methodology. Table 4.5 shows the percentage of responses to Q8 and Q9, where 1 represents 'definitely not' and 6 represents 'definitely yes'.

The research appears to be valid, as 78% of the companies rated 3 or higher on the question indicating the level to which they are currently affected by BEE. More significantly, zero respondents indicated that BEE was definitely not an important issue, and a total of 88% responded with a rating of 3 or higher.

*Table 4.5: Importance of BEE*

| Statement | 1 | 2 | 3 | 4 | 5 | 6 | % rating >2 |
|---|---|---|---|---|---|---|---|
| **Q8. My company is affected by BEE.** | **7%** | **5%** | **29%** | **15%** | **10%** | **24%** | **78%** |
| **Q9. BEE is one of the most important issues that a company has to deal with today.** | **0%** | **12%** | **32%** | **17%** | **15%** | **24%** | **88%** |

Further analysis of the findings revealed in Table 4.7 show that Q9, which is directly aimed at identifying whether or not BEE is an important issue, was found to be important, according to the mean of 0.33 (a positive number indicating an affirmative response). Although the respondent's responses to Q9 were not found to be significantly important, the p-value of 0.062 was very close to the limit of being significantly important, with a mean of 0.33. A significance level ($\alpha$) of 5% is used throughout the report. Based on the above analysis, it was decided that the research was externally validated.

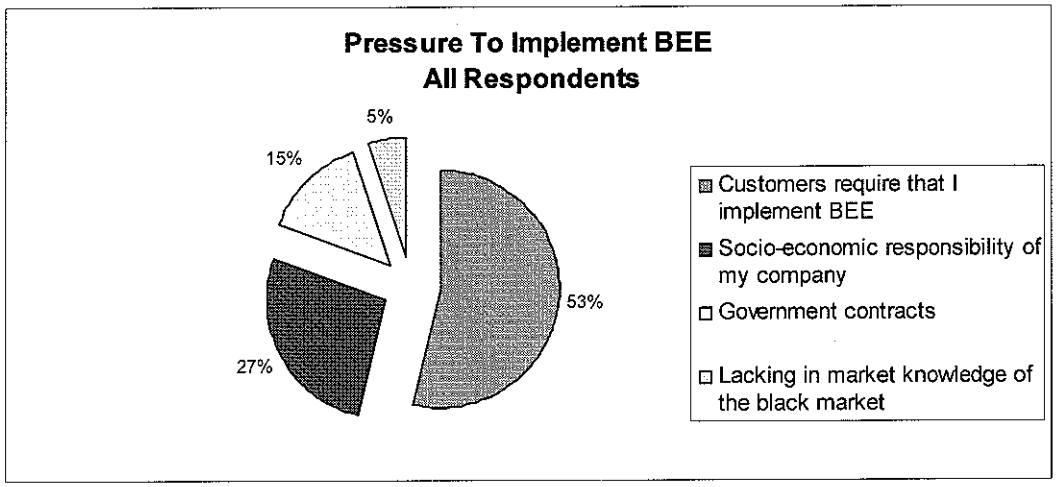
## 4.4 Categorical data analysis

Q14, Q15 and Q16 were aimed at identifying the current status of BEE within the respondent organisations, how long it had been since they had implemented BEE, and where the pressure to implement BEE was coming from. Three analyses were done looking at responses across the black ownership spectrum, the family business spectrum and all respondents as a whole.

### 4.4.1 BEE implementation rationale (Proposition 2)

Figure 4.1 shows where the pressure to implement BEE is coming from, as per the total sample combined.

***Figure 4.1: Pressure to Implement BEE (All respondents)***




Proposition 2 consists of two components: the first portion proposes that a primary reason why companies implement BEE is in order to leverage the black market (Randall, 1996). Figure 4.1 clearly indicates that amongst all respondents only 5% implement BEE in order to expand their markets into the black market. The majority of respondents (53%) implemented BEE because of pressure applied by customers and 15% indicated that they implemented BEE in order to secure government business, for which BEE is a requirement. By combining the responses to these two statements, we are able to address the second portion of the proposition, which states that another main reason why companies implement BEE is to secure existing business or new business where BEE is a requirement 63% of respondents clearly support the proposition that the primary reason why organisations implement BEE is to maintain existing contracts or to gain access to new contracts. Such a finding supports the research findings of Rabinowitz and Teichner (1998).

Figures 4.2 and 4.3 show where the pressure to implement BEE is coming from. However, the responses have been separated into two categories of black equity ownership: a low level (less than 25% black equity) and a higher level (greater than 25% black equity).

***Figure 4.2: Pressure to Implement BEE (BEE < 25%)***

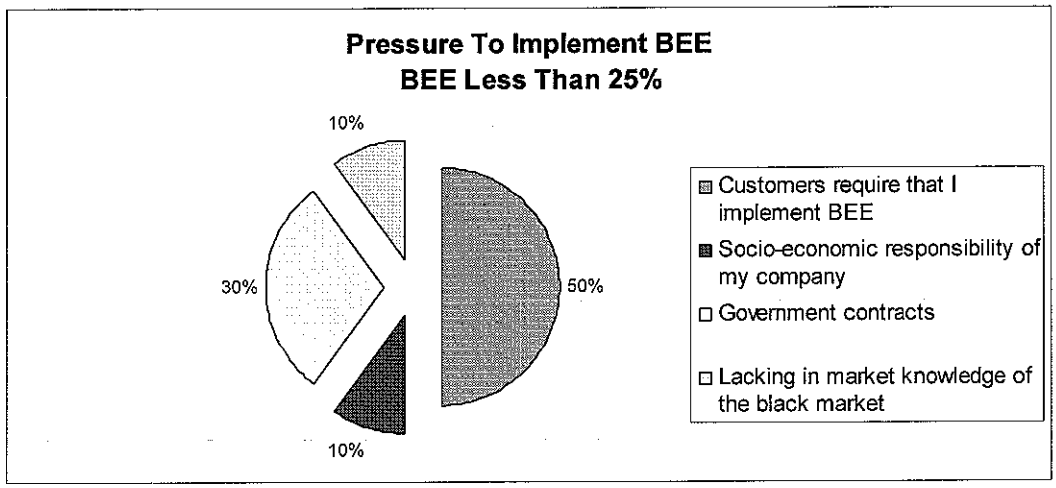
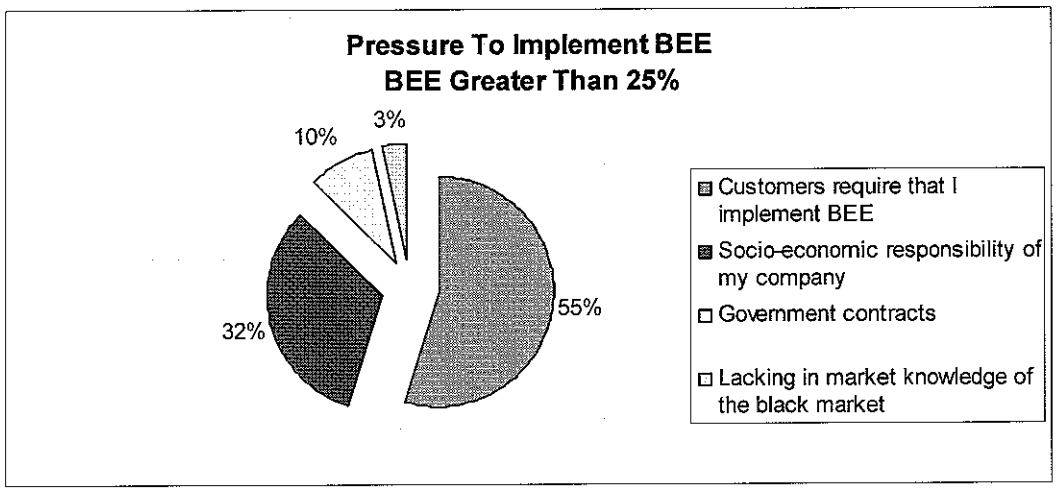



Figure 4.2 illustrates that companies with less than 25% Black equity also show low levels (10%) of support for the idea that BEE is implemented in order to gain access to the black market. 80% indicated that they implemented BEE in response to customer requirements or due to their interest in gaining access to government contracts.

Figure 4.3 illustrates that companies with more than 25% Black equity also show low levels (3%) of support for the idea that BEE is implemented in order to gain access to the black market. 65% indicated that they implemented BEE because their customers required them to or due to an interested in gaining access to government contracts.

*Figure 4.3: Pressure to Implement BEE (BEE > 25%)*




Figures 4.4 and 4.5 show where the pressure to implement BEE is coming from. However, the responses have been separated into two categories: family ownership and corporate ownership.

*Figure 4.4: Pressure to Implement BEE (family business)*

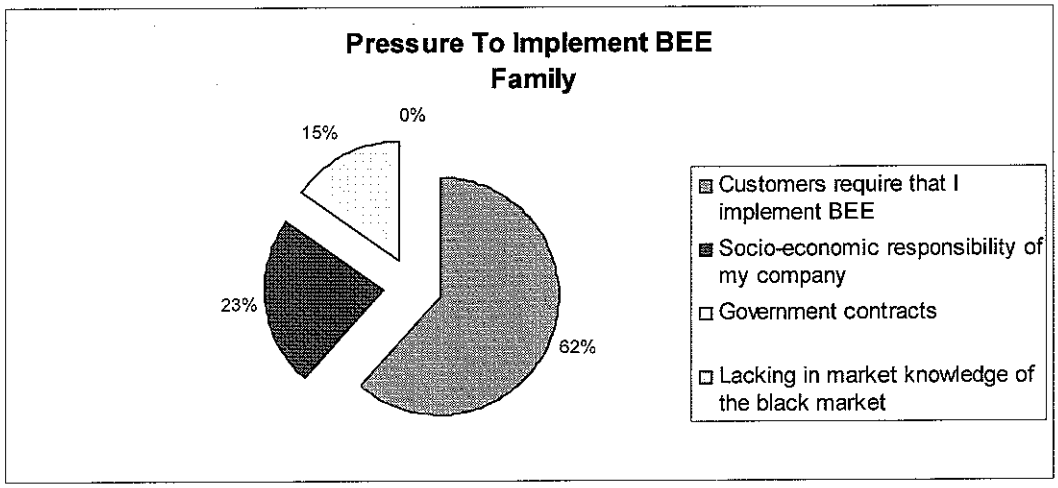


Figure 4.4 illustrates that companies that are family-owned businesses do not think (0%) that BEE is implemented in order to gain access to the black market. 77% indicated that they implemented BEE in response to customer requirement or due to an interest in gaining access to government contracts.

***Figure 4.5: Pressure to Implement BEE (corporate business)***

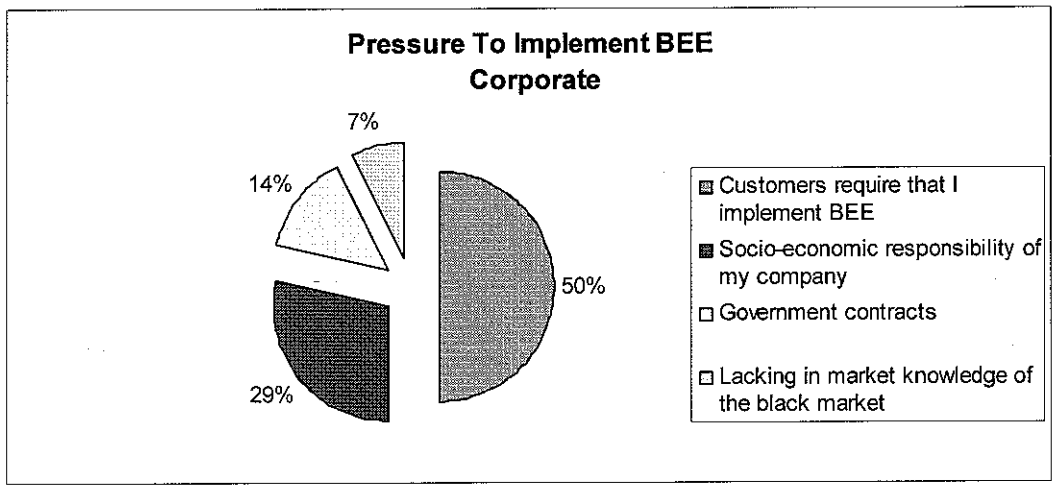



Figure 4.5 shows that only 7% of non-family-owned businesses think that BEE is implemented in order to gain access to the black market. 64% indicated that they implemented BEE in response to customer requirement or due to an interest in gaining access to government contracts.

***Proposition 2:*** The primary reasons why companies implement BEE is to leverage black market knowledge and to secure existing or new business for which BEE is a requirement.

In addressing the two statements raised in proposition 2, we can conclude that the idea proposed by Randall (1996) that companies primarily implement BEE in order to gain access to the black market is not supported. Although this is a consideration by some companies, it is not the primary reason. The analysis has shown that such a finding is confirmed across all spectrums of ownership. It is

proposed that the reason why this is no longer a primary consideration, is because since 1996 several new polices including the Preferential Procurement Policy Framework Act (2000) and the Broad-Based Black Economic Empowerment Act (2003) have been introduced, which has influenced the rationale for the implementation of BEE.

The second part of proposition 2 is supported: namely, that a primary reason for the introduction of BEE is the need to maintain existing business and in order to enhance the potential to obtain new business. The analysis has shown that such a finding is confirmed across all spectra of ownership. These findings not only support Rabinowitz and Teichner's (1998) findings, but also that the preferential procurement, as outlined in government's Preferential Procurement Policy Framework Act (2000) and the Broad-Based Black Economic Empowerment Act (2003), is a major driver for the implementation of BEE in South Africa.

A subsequent finding is that 27% of all companies indicated that BEE is being implemented due to the social obligation of the company towards helping reduce the inequalities that existed between blacks and whites. 23% of family-owned business and 29% of non-family-owned business indicated that the implementation of BEE is primarily being driven by the social responsibility of the company concerned. With regards to the level of black equity ownership within the company, 32% of companies that have exceeded the minimum compliance level of 25% black equity ownership indicated that social obligation was the main driver for the implementation of BEE, whereas only 10% of companies that were below the minimum level of black equity compliance indicated that the main reason for implementation of BEE was social responsibility.

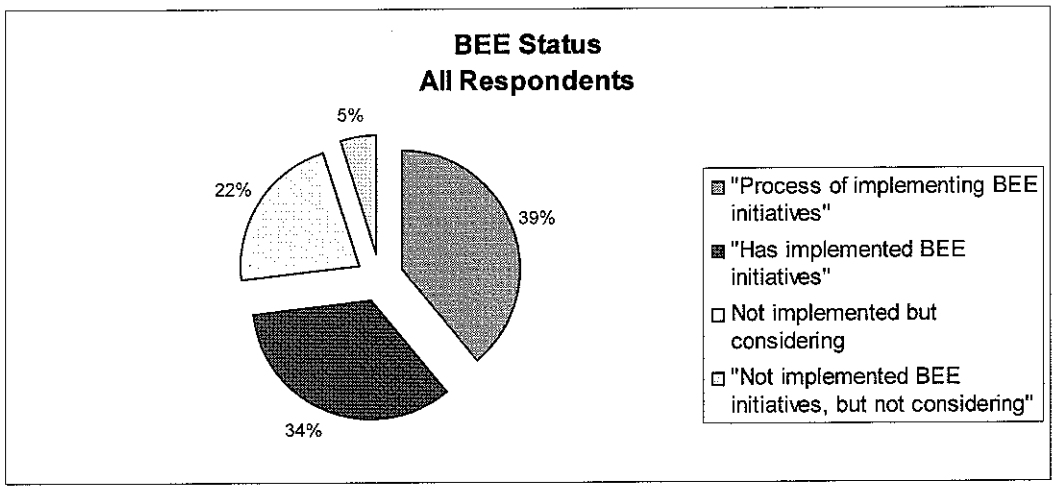
### 4.4.2 Status of BEE implementation

Q14 and Q15 were aimed at identifying the current status of BEE implementation within the SMEs in the engineering manufacturing industry. The results relevant to the answering of research Q2 are discussed later in the report

Figure 4.6 shows that 73% of SMEs within the engineering manufacturing Industry implemented some form of BEE initiative or are in the process of implementing BEE initiatives. Only 5% of all respondents indicated that they had not implemented BEE and did not intend to implement BEE initiatives. Of the 73% that have implemented some form of BEE initiative, 38% have had the BEE initiatives in place for less than a year, 54% have had them in place for between 1 and 5 years and only 8% have had BEE in place for more than 5 years (see Figure 4.7).

The majority of the industry (92%) has had BEE initiatives in place for less than 5 years, which indicates that the two primary pieces of BEE legislation, namely the Preferential Procurement Policy Framework Act (2000) and the Broad-Based Black Economic Empowerment Act (2003), have been instrumental in driving BEE within the SMEs in engineering manufacturing industry.

***Figure 4.6: BEE status (all respondents)***




The further analysis of the results obtained for the black ownership equity profile is not necessary, because the nature of the sub-classification already reflects the BEE status of the respondents. However, further analysis of the ownership

category could be valuable and Figures 4.8 and 4.9 show the BEE status of family-owned businesses and non-family-owned businesses respectively.

***Figure 4.7: Period of BEE implementation (all respondents)***

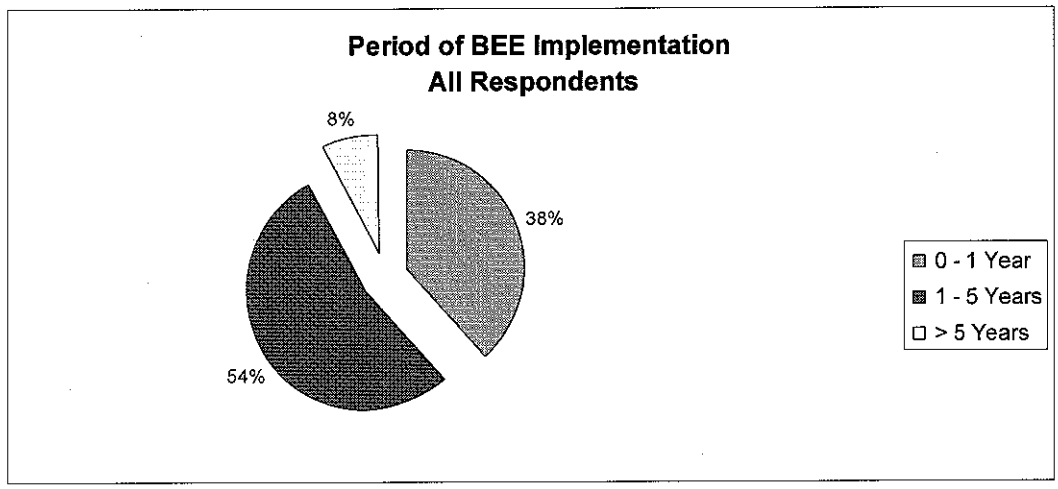



Figure 4.8 shows that 54% of SMEs within the engineering manufacturing Industry that are family businesses have implemented some form of BEE initiative or are in the process of implementing BEE initiatives. Only 8% of family-owned businesses indicated that they had not yet implemented BEE and did not intend to implement BEE initiatives.

Figure 4.9 shows that 82% of SMEs within the engineering manufacturing Industry that are non-family businesses have implemented some form of BEE initiative or are in the process of implementing BEE initiatives. Only 4% of non-family-owned businesses indicated that they had not yet implemented BEE and did not intend to implement BEE initiatives.

Family-owned businesses are clearly more reluctant to implement BEE initiatives, as they probably stand to lose the most as the majority shareholders in their own companies. Thirty-eight percent are, however, seriously considering the

implementation of BEE in their companies, as a result of the significant pressure (62%) exerted by customers (see Figure 4.4)

***Figure 4.8: BEE status (family)***

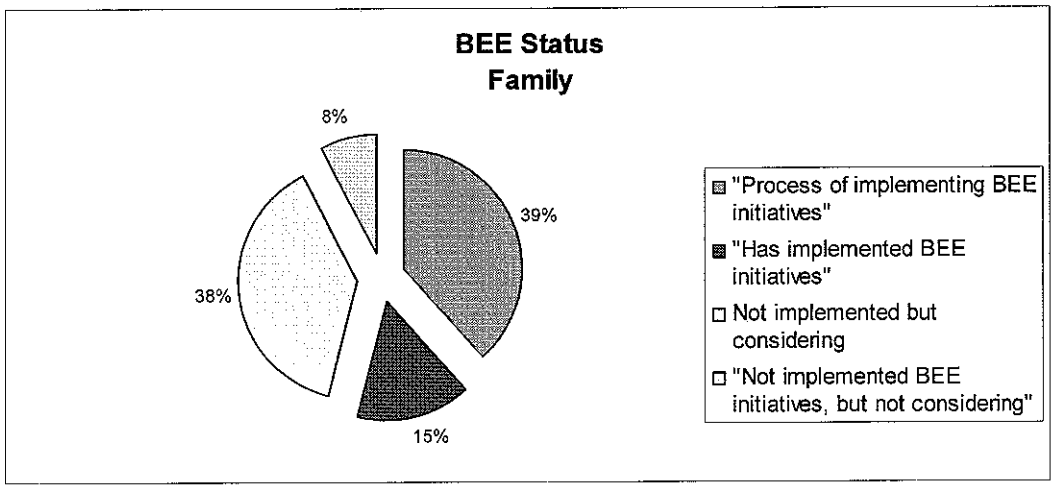
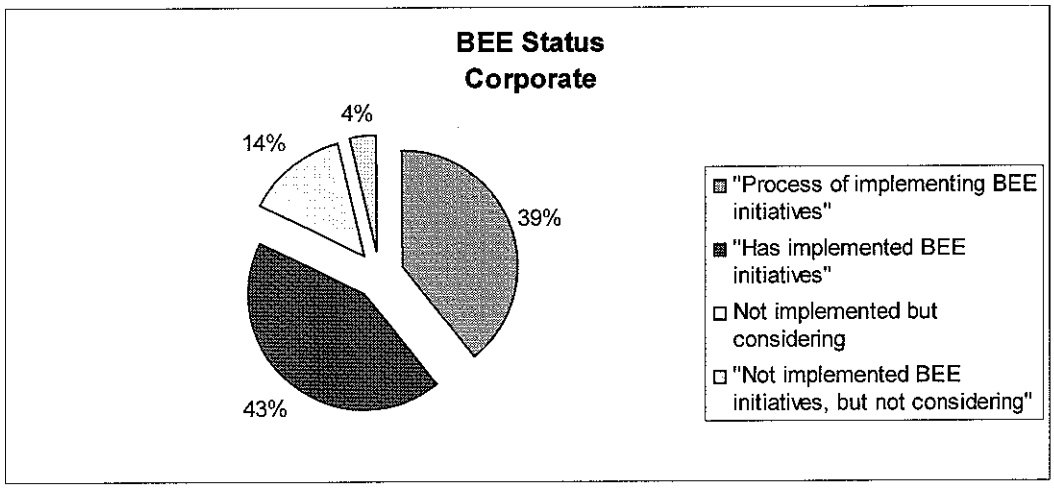



***Figure 4.9: BEE status (corporate)***



## 4.5 Open-ended questions

Two open-ended questions were asked in the questionnaire. Question 10 asked respondents whether they thought that BEE would be advantageous and, if so, how so.

The responses received all validated Rabinowitz and Teichner's (1998) research findings that most businesses implement BEE in order to secure existing business or in order to gain access to new business. The advantages listed included the potential of expanding markets by tendering for new business, including that of:

- the government itself;
- the municipalities;
- government-controlled utilities, such as Eskom and Telkom;
- large nationals, such as Nampak, Tanspaco and Astrapak; and
- mining business.

Respondents specifically referred to the pressure that was being applied by these institutions to comply with BEE recommendations. Of interest is that a large number of the companies mentioned by name are in fact private companies. This is encouraging, as private industry is following government's example in requiring that suppliers become BEE compliant.

One respondent raised an interesting comment, stating that the biggest advantage for their company was the improved internal relationships and "better cohesive working conditions". Unfortunately, the respondent did not elaborate on the issue and, because the survey was done anonymously, we were unable to follow up on the comment. The literature review has focused on the external benefits of implementing BEE. This comment raises an interesting topic that should be researched further: namely, the internal benefits of BEE, and how BEE affects labour relations and organisational culture.

On the questionnaire, at the end of the statements reflecting the issues affecting SMEs within the engineering manufacturing industry, space was provided for respondents to include any additional issues that they thought were important for the successful implementation of BEE. Of all the 41 surveys, no additional issues were raised, highlighting that the literature review had been comprehensive in covering all the issues considered important for the successful implementation of BEE.

## 4.6 Rescaling of ordinal data – questions

Three primary conversions from ordinal scale data to interval scale were done. The first of these conversions was done for Q8–Q13 and for Q17–Q20. The reason for these questions being grouped together was because they shared the same ordinal scale from 1 to 6, where 1 represents "definitely not" and 6 represents "definitely yes". The research methodology adopted also facilitated the conversion process, as no requirement of interdependence was necessary between the questions.

Table 4.6 contains the frequency response table for all respondents, used as an input to the distribution-fitting algorithm. Table 4.7 contains the summary output from the distribution-fitting algorithm, indicating significance levels and means for the ordinal-scale conversions.

The results of the distribution-fitting algorithm indicate a $\chi^2$ value of 30.91, with a probability value p of 0.9845. Using a significance level ($\alpha$) of 5% indicates that the $\chi^2$ value is not significant. The use of the distribution-fitting algorithm to convert the ordinal scale to an interval scale on this set of data, as outlined by Stacey (2005), is justified.

*Table 4.6: Frequency of responses for Q8–Q13 and Q17–Q20 for all respondents*

| Question | 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|---|
| Q8 | 3 | 6 | 12 | 6 | 4 | 10 |
| Q9 | 0 | 5 | 13 | 7 | 6 | 10 |
| Q10 | 3 | 0 | 13 | 10 | 6 | 9 |
| Q11 | 2 | 5 | 10 | 9 | 6 | 8 |
| Q12 | 4 | 10 | 10 | 7 | 5 | 3 |
| Q13 | 5 | 3 | 11 | 10 | 8 | 4 |
| Q17 | 6 | 12 | 12 | 7 | 1 | 3 |
| Q18 | 1 | 0 | 11 | 6 | 13 | 10 |
| Q19 | 1 | 6 | 16 | 8 | 5 | 5 |
| Q20 | 9 | 5 | 16 | 6 | 2 | 1 |

*Table 4.7: Summary output conversion from ordinal to interval scale for Q8–Q13 and Q17–Q20 for all respondents*

| Question | Mean (M) | p-value | Significantly Important | Significantly Un-important |
|---|---|---|---|---|
| Q8 | 0.17 | 0.414 | | |
| Q9 | 0.33 | 0.061 | | |
| Q10 | 0.27 | 0.134 | | |
| Q11 | 0.24 | 0.189 | | |
| Q12 | -0.33 | 0.062 | | |
| Q13 | -0.02 | 0.903 | | |
| Q17 | -0.55 | 0.001 | | X |
| Q18 | 0.58 | 0.000 | X | |
| Q19 | 0.01 | 0.941 | | |
| *Q20* | *-0.69* | *0.000* | | X |

| Converted Ordinal Scale Spacing | | | | |
|---|---|---|---|---|
| 1–2 | 2–3 | 3–4 | 4–5 | 5–6 |
| *-1.57* | *-0.86* | *0.07* | *0.64* | 1.19 |

| $X^2$ | Total Variance | *Significance level α* | *p-value* |
|---|---|---|---|
| 30.91 | 1.33 | 5% | 0.9845 |

In order to facilitate comparison between the various ownership categories, a further two ordinal scale data conversions were done on the data A comparison was made between two groups of companies: one with no or minimal black ownership equity and one with 25% or more. Table 4.8 contains the frequency response table for the respondents, broken up into black ownership equity categories. This frequency table was used as an input to the distribution-fitting algorithm. Table 4.9 contains the summary output obtained from the distribution-fitting algorithm, indicating significance levels and means for the ordinal scale conversions.

The results of the above distribution-fitting algorithm indicate a $\chi^2$ value of 47.24, with a probability value p of 1.00. Using a significance level ($\alpha$) of 5% indicates that the $\chi^2$ value is not significant. The use of the distribution-fitting algorithm to convert the ordinal scale to an interval scale on this set of data, as outlined by Stacey (2005), is justified.

A further comparison was made between family-owned businesses and non-family-owned businesses. Table 4.10 contains the frequency response table for the respondents broken up into a family ownership and a non-family ownership category. This frequency table was used as input to the distribution-fitting algorithm. Table 4.11 contains the summary output from the distribution-fitting algorithm, indicating significance levels and means for the ordinal scale conversions.

The results of the above distribution-fitting algorithm indicate a $\chi^2$ value of 59.54 with a probability value p of 0.996. Using a significance level ($\alpha$) of 5% indicates that the $\chi^2$ value is not significant. The use of the distribution-fitting algorithm to convert the ordinal scale to an interval scale on this set of data, as outlined by Stacey (2005), is justified.

*Table 4.8: Frequency of responses to Q8–Q13 and Q17–Q20 on the Black ownership equity spectrum*

| Question | 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|---|
| Q8 High Level of Black Equity | 0 | 1 | 2 | 1 | 1 | 5 |
| Q8 Low Level of Black Equity | 3 | 5 | 10 | 5 | 3 | 5 |
| Q9 High Level of Black Equity | 0 | 0 | 5 | 1 | 2 | 2 |
| Q9 Low Level of Black Equity | 0 | 5 | 8 | 6 | 4 | 8 |
| Q10 High Level of Black Equity | 0 | 0 | 2 | 2 | 2 | 4 |
| Q10 Low Level of Black Equity | 3 | 0 | 11 | 8 | 4 | 5 |
| Q11 High Level of Black Equity | 1 | 2 | 3 | 1 | 2 | 0 |
| Q11 Low Level of Black Equity | 1 | 3 | 7 | 8 | 4 | 8 |
| Q12 High Level of Black Equity | 1 | 3 | 2 | 2 | 1 | 1 |
| Q12 Low Level of Black Equity | 3 | 7 | 8 | 5 | 4 | 2 |
| Q13 High Level of Black Equity | 0 | 1 | 2 | 4 | 1 | 2 |
| Q13 Low Level of Black Equity | 5 | 2 | 9 | 6 | 7 | 2 |
| Q17 High Level of Black Equity | 0 | 1 | 4 | 2 | 1 | 2 |
| Q17 Low Level of Black Equity | 6 | 11 | 8 | 5 | 0 | 1 |
| Q18 High Level of Black Equity | 0 | 0 | 2 | 3 | 4 | 1 |
| Q18 Low Level of Black Equity | 1 | 0 | 9 | 3 | 9 | 9 |
| Q19 High Level of Black Equity | 0 | 1 | 5 | 2 | 0 | 2 |
| Q19 Low Level of Black Equity | 1 | 5 | 11 | 6 | 5 | 3 |
| Q20 High Level of Black Equity | 2 | 0 | 5 | 2 | 1 | 0 |
| Q20 Low Level of Black Equity | 7 | 5 | 11 | 4 | 1 | 1 |

***Table 4.9: Summary output conversion from ordinal to interval scale for Q8–Q13 and Q17–20 on the Black ownership equity spectrum***

| Question | Mean (μ) | p-value | Significantly Important | Significantly Unimportant |
|---|---|---|---|---|
| Q8 High Level of Black Equity | 0.63 | 0.111259 | | |
| Q8 Low Level of Black Equity | -0.16 | 0.293182 | | |
| Q9 High Level of Black Equity | 0.10 | 0.611606 | | |
| Q9 Low Level of Black Equity | 0.11 | 0.460577 | | |
| Q10 High Level of Black Equity | 0.53 | 0.031201 | X | |
| Q10 Low Level of Black Equity | -0.06 | 0.681948 | | |
| Q11 High Level of Black Equity | -0.28 | 0.282682 | | |
| Q11 Low Level of Black Equity | 0.20 | 0.163563 | | |
| Q12 High Level of Black Equity | -0.36 | 0.187247 | | |
| Q12 Low Level of Black Equity | -0.33 | 0.025186 | | X |
| Q13 High Level of Black Equity | 0.16 | 0.438237 | | |
| Q13 Low Level of Black Equity | -0.20 | 0.206608 | | |
| Q17 High Level of Black Equity | 0.06 | 0.802823 | | |
| Q17 Low Level of Black Equity | -0.67 | 7.46E-06 | | X |
| Q18 High Level of Black Equity | 0.30 | 0.029223 | X | |
| Q18 Low Level of Black Equity | 0.32 | 0.023195 | X | |
| Q19 High Level of Black Equity | 0.00 | 0.998734 | | |
| Q19 Low Level of Black Equity | -0.12 | 0.328364 | | |
| Q20 High Level of Black Equity | -0.47 | 0.057476 | | |
| Q20 Low Level of Black Equity | -0.64 | 8.42E-05 | | X |

| Converted Ordinal Scale Spacing | | | | |
|---|---|---|---|---|
| 1–2 | 2–3 | 3–4 | 4–5 | 5–6 |
| -1.23 | -0.72 | -0.05 | 0.34 | *0.74* |

| $X^2$ | Total Variance | *Significance level α* | P–value |
|---|---|---|---|
| 47.24 | 0.68 | 5% | *1.00* |

*Table 4.10: Frequency of responses to Q8–Q13 and Q17–Q20 on the family ownership spectrum*

| Question | 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|---|
| Q8 Family Ownership | 0 | 3 | 4 | 3 | 1 | 2 |
| Q8 Non-family Ownership | 3 | 3 | 8 | 3 | 3 | 8 |
| Q9 Family Ownership | 0 | 2 | 3 | 4 | 3 | 1 |
| Q9 Non-family Ownership | 0 | 3 | 10 | 3 | 3 | 9 |
| Q10 Family Ownership | 2 | 0 | 5 | 3 | 2 | 1 |
| Q10 Non-family Ownership | 1 | 0 | 8 | 7 | 4 | 8 |
| Q11 Family Ownership | 0 | 1 | 2 | 3 | 4 | 3 |
| Q11 Non-family Ownership | 2 | 4 | 8 | 6 | 2 | 5 |
| Q12 Family Ownership | 0 | 2 | 2 | 3 | 4 | 1 |
| Q12 Non-family Ownership | 4 | 8 | 8 | 4 | 1 | 2 |
| Q13 Family Ownership | 1 | 2 | 1 | 4 | 4 | 1 |
| Q13 Non-family Ownership | 4 | 1 | 10 | 6 | 4 | 3 |
| Q17 Family Ownership | 4 | 4 | 2 | 3 | 0 | 0 |
| Q17 Non-family Ownership | 2 | 8 | 10 | 4 | 1 | 3 |
| Q18 Family Ownership | 0 | 0 | 2 | 4 | 3 | 4 |
| Q18 Non-family Ownership | 1 | 0 | 9 | 2 | 10 | 6 |
| Q19 Family Ownership | 1 | 4 | 3 | 2 | 2 | 1 |
| Q19 Non-family Ownership | 0 | 2 | 13 | 6 | 3 | 4 |
| Q20 Family Ownership | 4 | 2 | 3 | 1 | 1 | 1 |
| Q20 Non-family Ownership | 5 | 3 | 13 | 5 | 1 | 0 |

*Table 4.11: Summary output conversion from ordinal to interval scale for Q8–Q13 and Q17–Q20 on the family ownership spectrum.*

| Question | Mean μ | p-value | Significantly Important | Significantly Un-Important |
|---|---|---|---|---|
| Q8 Family Ownership | -0.08 | 0.680714 | | |
| Q8 Non-family Ownership | 0.12 | 0.542802 | | |
| Q9 Family Ownership | 0.04 | 0.785073 | | |
| Q9 Non-family Ownership | 0.23 | 0.128007 | | |
| Q10 Family Ownership | -0.19 | 0.351263 | | |
| Q10 Non-family Ownership | 0.28 | 0.041535 | X | |
| Q11 Family Ownership | 0.34 | 0.058577 | | |
| Q11 Non-family Ownership | -0.01 | 0.927154 | | |
| Q12 Family Ownership | 0.11 | 0.538435 | | |
| Q12 Non-family Ownership | -0.43 | 0.004336 | | X |
| Q13 Family Ownership | 0.05 | 0.787679 | | |
| Q13 Non-family Ownership | -0.15 | 0.293556 | | |
| Q17 Family Ownership | -0.62 | 0.008377 | | X |
| Q17 Non-family Ownership | -0.28 | 0.037359 | | X |
| Q18 Family Ownership | 0.46 | 0.003791 | X | |
| Q18 Non-family Ownership | 0.26 | 0.037108 | X | |
| Q19 Family Ownership | -0.27 | 0.189661 | | |
| Q19 Non-family Ownership | 0.05 | 0.641621 | | |
| Q20 Family Ownership | -0.64 | 0.046996 | | X |
| Q20 Non-family Ownership | -0.45 | 0.000375 | | X |

| Converted Ordinal Scale Spacing | | | | |
|---|---|---|---|---|
| 1–2 | 2–3 | 3–4 | 4–5 | 5–6 |
| -1.09 | -0.61 | 0.00 | 0.36 | 0.73 |

| $X^2$ | Total Variance | *Significance level α* | p-value |
|---|---|---|---|
| 59.54 | 0.59 | 5% | 0.996 |

### 4.6.1 Beneficiaries of BEE (Proposition 1)

The literature review highlighted the importance of increasing the size of the middle class for the economic and social betterment of the country as a whole (Easterly, 2001). Randall (1996) and Guest (2004) have warned that 'cronyism', according to which a few individuals benefit from economic empowerment, has been the downfall of similar programmes in Nigeria and Kenya. A review of the Malaysian empowerment policy has also indicated that the biggest failure has been the inability to empower a broader base of genuine entrepreneurs (EIU Views Wire, 2005b).

Proposition 1 below was aimed at identifying whether the SMEs within the engineering manufacturing Industry in South Africa believe that BEE initiatives in their industry are benefiting only a few of the elite, in this way providing a reference for policymakers to review BEE policies.

- ***Proposition 1:*** The SMEs within the engineering manufacturing industry believe that BEE is benefiting only a few of the elite rather than the majority of the population.

The distribution-fitting methodology that was adopted facilitated the rank ordering of questions. In addition, the threshold between an affirmative and negative response was taken to be the mean of zero, thus a positive mean for this scale was interpreted as being a yes and negative mean was taken to be a no. Whether responses were significantly affirmative or significantly negative relative to each other was determined using the individual calculated probability values (p).

Analysis of the responses to Q11 provides us with the necessary information for addressing proposition 1. Table 4.7 indicates that the mean for Question 11 was 0.24, which indicates that, on average, the entire group of respondents felt that

BEE was in fact benefiting only a few individuals. The associated p value of 0.189 indicated that the response was not significantly affirmative.

Further detailed analysis of Table 4.9 indicates that with a mean of -0.28, companies with more than 25% black equity do not believe that BEE is benefiting a small group of individuals. However, in terms of the mean of 0.2, companies with no back ownership equity or less than 25% do apparently seem to believe that BEE is benefiting a few individuals. None of these responses was found to be significant.

When analysing the responses by ownership type, Table 4.11 indicates that family-owned businesses believe that BEE benefits a small group of individuals in terms of the mean of 0.34, with a p value of 0.058 just falling outside the threshold of being significantly affirmative. Non-family-owned businesses had a mean of -0.01, which essentially indicated that, on average, they were indifferent as to whether BEE benefited a small group of individuals and the p value of 0.927 was far from being significant.

Thus proposition 2, as it currently is phrased, is found to be true and the SMEs within the engineering manufacturing Industry as a whole believe that BEE is benefiting a few individuals. However, the findings were not found to be significant.

On further detailed analysis, the companies with 25% or less black ownership equity believe that BEE is benefiting a small group of individuals. However, companies with more black ownership equity believe that BEE is benefiting a larger base of individuals. This polar split in opinion could represent a division in opinion along racial lines, as one would expect more 'white business' to be represented by the lower levels of black ownership equity and 'black business' to be represented by higher levels of black ownership equity. This research did not aim to analyse responses along racial lines; however, future research could address this aspect.

Family-owned business demonstrated the strongest affirmative response, believing that BEE benefits only a few individuals.

The fact that none of the responses was significantly negative is of concern, because, on an important issue like this, one would have hoped that the responses would all be significantly negative. The literature review highlighted the lack of broad-based empowerment as being the primary reason for the failure of empowerment initiatives across the world. After the introduction of the Broad-Based Black Economic Empowerment Act (2003), the researchers would have liked to have seen more distribution of benefits; however, three years is considered a relatively short timeframe to measure the success of the policy. It is recommended that policymakers implement measures to evaluate progress in achieving broad-based empowerment on a regular basis, in order to avoid the fate of empowerment initiatives across the world.

### 4.6.2 BEE and control of SMEs (Proposition 3)

Thackwray (1998) proposed that one of the major impediments in the implementation of BEE in South Africa was the attitude of white businesspeople in South Africa. Rabinowitz and Teichner (1998) further added that the reason for their attitude is that they fear a loss of control as a result of implementing BEE.

Proposition 3 below was aimed at testing whether white business was an impediment to the implementation of BEE

- ***Proposition 3:*** White-owned SMEs within the engineering manufacturing sector are reluctant to relinquish power voluntarily, as they fear a loss of control.

Q12 was used to address the above proposition. Although the intention was to test the perceptions of white business, the responses across the full spectrum of ownership were also analysed. For the purposes of this report, a 'white' business was taken to be a business with minimal or zero black equity ownership, so businesses with less than 25% black equity were categorised as being white business.

Table 4.7 indicates that the mean for Question 12 was -0.33, which indicates that, on average, the entire group of respondents felt that, by implementing BEE, they would not lose control of their business. The associated p value of 0.062 indicated that the response was not significantly negative; however, it was on the threshold of being considered significant. Clearly, strong opinions were held on the matter.

Looking at the responses across the black equity ownership level, Table 4.9 indicates that, with a mean of -0.36, companies with more than 25% black equity do not believe that loss of control will occur due to the implementation of BEE. Companies with no, or less than 25%, black ownership equity also responded negatively in terms of the mean of -0.33. This segment of responses also turned out to have a p value of 0.025, thus proving to be significantly negative and un-important.

The research findings of both Thackwray (1998) and Rabinowitz and Teichner (1998) indicate that they are not inferable onto the SMEs within the engineering manufacturing industry. Proposition 3 can, therefore, be rejected, with 'white' owned business in this sector not serving as an impediment to the implementation of BEE because they fear a loss of control. Such an outlook is heartening to policymakers, who easily blame the attitudes held by business for failures in policy that come about as a result of poor design.

When analysing the responses in terms of ownership type, Table 4.11 indicates that family-owned businesses fear more of a loss of control than does 'white' owned business, which presents with a mean of 0.11. Non-family-owned

businesses were characterised by a mean of -0.43, indicating that they do not fear a loss of control as a result of the implementation of BEE, so that the response with a p value of 0.004 was found to be significant.

The sentiment towards BEE appears to be divided along ownership category, more than racial, lines with regard to the issue of fear of loss of control. It is understandable that family-owned businesses stand to lose the most, as often their equity has been built up over many years and the original intention was to pass it down through the generations. With most corporate companies, equity is in the hands of various shareholders via mechanisms like the stock market, so that dilution of equity is not as critical. Often, in such cases, the connection to the business is financial rather than personal.

### 4.6.3 BEE as an advantage (Proposition 4)

Proposition 4 was aimed at testing whether white business believed that, by implementing BEE, it would gain a competitive advantage.

- ***Proposition 4:*** White-owned SMEs within the engineering manufacturing sector believe that BEE is not advantageous to them.

Q10 was used to address the above proposition. Although the intention was to test the perceptions of white business, the responses across the full spectrum of ownership were also analysed.

The analysis of the responses to Q10 provides us with the necessary information for addressing proposition 4. Table 4.7 indicates that the mean for Q10 was 0.27, indicating that, on average, the entire group of respondents felt that they would gain an competitive advantage by implementing BEE. The associated p value of 0.134 indicated that the response was not significantly affirmative.

Looking at the responses across the black equity ownership level, Table 4.9 indicates that, with a mean of 0.53, companies with more than 25% black equity believe that BEE will be advantageous to them. The corresponding p value of 0.031 indicates that this affirmative response is significant. Companies with no, or less than 25%, black ownership equity responded indifferently with a mean of -0.06. Thus, proposition 4 cannot be accepted as true, as insufficient proof exists to verify that 'white' business believes that BEE will not advantage them. A significant difference exists between the high level of BEE black equity ownership and the low level of BEE black equity ownership responses. These results are expected, as companies with high levels of black equity ownership are inclined to realise the benefits of BEE, whereas companies with low levels of BEE equity mainly speculate about the potential benefits of BEE equity.

When analysing the responses by ownership type, Table 4.11 indicates that family-owned businesses believe that they will not benefit from the implementation of BEE, in terms of the mean of -0.19. Non-family-owned businesses had a mean of 0.28, indicating that they believe that BEE will be beneficial to them, and the result, with a p value of 0.041, was considered significant. Once again, the divisions in opinion are strongly centred along lines of the type of ownership rather than in terms of racial ownership categories.

### 4.6.4 Loss of personnel due to the implementation of BEE

Rabinowitz and Teichner (1998) identified a fear of losing experienced white personnel as impeding the implementation of BEE. Analysis of Q13 provides us with sufficient information for addressing this claim. Table 4.7 indicates that the mean for Q13 was -0.02, which indicates that, on average, the entire group of respondents felt indifferent with regard to the fear of losing white experienced personnel. The response was found not to be significant.

Looking at the responses across the black equity ownership level, Table 4.9 indicates that, with a mean of 0.16, companies with more than 25% black equity

believe that a loss of white skills will occur due to the implementation of BEE. Companies with no, or less than 25%, black ownership equity responded negatively in terms of the mean of -0.2. None of these responses was considered significant.

When analysing the responses in terms of ownership type, Table 4.11 indicates that family-owned businesses on average (0.05) are indifferent in their opinion of whether they fear a loss of white skills as a result of BEE implementation. Non-family-owned businesses had a mean of -0.15, indicating that they do not fear a loss of white skills as a result of the implementation of BEE. The only group of respondents that felt that BEE would result in a loss of white skills was companies with high levels of black ownership equity; all other groups felt that a loss of white skills would not occur.

### 4.6.5 The role of government (Research Question 1)

Van Wyk and Custy (2004) argue that the freer an economy is from government intervention, the better off the poorest 10% of its population will become. Sethi (2001) and other proponents argue that, for young democracies like South Africa, legislative intervention is important.

***Research Question 1*** was aimed at discovering what the perceptions of the SMEs within the engineering manufacturing industry were regarding the role that government should play in addressing the economic disparities that exist between blacks and whites. Respondents were presented with three options, which they were asked to rate. The first option suggested government intervention by means of legislation; the second, that the reduction of disparities would be best achieved by means of economic growth; and, finally, that the best scenario is a combination of the two approaches. Q17–Q19 were used to answer the above research question

Of all the questions in this first section of the ordinal scale conversion, these questions solicited the strongest opinions. Reference is made to Table 4.7 for the analysis of all responses obtained. The question as to whether government should intervene by means of legislation (Q17) received a resounding "no response" with a mean of -0.55. This also proved to be a significant finding with a p value of 0.001. The question as to whether disparities would best be removed by economic growth with no government intervention (Q18) received a resoundingly positive response in terms of the mean of 0.58, which also proved to be a significant finding. Finally the option to consider a balance of measures, government legislation and economic growth (Q19) received an indifferent response, characterised by a mean of 0.01, which was not a significant finding.

Reference is made to Table 4.9 for the analysis of responses at the black ownership equity level. The question as to whether government should intervene by means of legislation (Q17) received an indifferent response from high levels of black ownership equity, resulting in a mean of 0.06, while companies with low levels of black equity less than 25% resoundingly responded in the negative, resulting in a mean of -0.67, which was found to be significant, with a p value of close to zero. The question as to whether disparities would best be removed by economic growth without government intervention (Q18) received a resoundingly positive response from both companies; 25% or more black ownership equity registered a mean of 0.3, and companies with less than 25% black ownership equity a mean of 0.32. Both these findings were found to be significant, with respective p values of 0.029 and 0.023. Finally, the option to consider a balance of both measures, government legislation and economic growth (Q19), received an indifferent response from high levels of black ownership equity with a mean of zero, and a relatively small negative response, with a mean of -0.12. None of these findings was significant.

Reference is made to Table 4.11 for the analysis of responses across the type of ownership spectrum. The question as to whether government should intervene by

means of legislation (Q17) received a resoundingly negative response from all levels of family ownership and non-family ownership; the respective means of -0.62 and -0.28 were found to be significant findings. The question as to whether disparities would best be removed by economic growth without government intervention (Q18) received a resoundingly positive response from all levels of family ownership and non-family ownership; the respective means of 0.46 and 0.26 were found to be significant findings. Finally the option to consider a balance of both measures, government legislation and economic growth (Q19), received an indifferent response from non-family businesses, with a mean of 0.05 and a negative response from family businesses, with a mean of -0.27.

The research has conclusively shown that companies in the SMEs within the engineering manufacturing sector strongly believe that the growth of the economy still should play the most important role in addressing the imbalances between blacks and whites. The findings were significant across all spectra of black equity and family ownership. Sethi (2001) proposed that the sentiment that government should not intervene by means of legislation was predominantly a 'white' business attitude. The research has clearly shown that in the SMEs within the engineering manufacturing industry the holding of such a sentiment is prevalent across the entire spectrum of ownership and is not limited to 'white' business only.

### 4.6.6 BEE awareness in the SMEs within the engineering manufacturing sector (Research Question 2)

Research Question 2 was aimed at measuring both the awareness of BEE within the SMEs in the engineering manufacturing sector and how the extent of BEE implemented so far has affected the industry.

Section 4.3 addressed the research validity used in the descriptive statistics to identify the extent to which companies were affected by BEE (Q8) and the

importance of BEE (Q9). This section now utilises the ordinal scale conversions to find out the significance of the responses received.

With reference to Table 4.7, we are able to identify that all respondents were affected by BEE, in terms of the mean of 0.17, and that all respondents felt that BEE was an important issue, in terms of the mean of 0.33. Although none of these responses was found to be significant, the responses were found to be in the affirmative.

With reference to Table 4.9, we are able to identify that respondents with a high level of black ownership equity are affected by BEE. In terms of the mean of 0.63, companies with a low level of black ownership equity indicated that they were not as affected by BEE with a mean of -0.16. The polar response is explained by the bias inherent in the classification, as companies with higher levels of black ownership will have been more affected, as they have already worked through the process of achieving the higher levels of black ownership equity. Both high and low levels of black ownership equity agreed that BEE was an important issue; however, with a mean of 0.1 and 0.11, these were not significant findings.

With reference to Table 4.11, we are able to identify that those respondents that are family businesses indicated that they were indifferent as to the level to which they were affected by BEE, with a mean of -0.08. The non-family businesses indicated that they were slightly affected by BEE, in terms of the mean of 0.12; however, these findings were not regarded as significant. Family businesses also responded indifferently to the extent to which they felt BEE was an important issue, the mean being 0.04. Non-family businesses, however, felt that BEE was a more important issue, in terms of the mean of 0.23; none of these responses was identified as significant.

Reference is made to Section 4.4.2, which presented and discussed the results showing BEE status across all the spectrums of ownership.

## 4.7 Rescaling of ordinal data – issues and statements

The second set of conversions was done for the rating of the 23 issues as they currently exist in organisations and the importance of these issues as rated by respondents. This was the last part of the questionnaire and constitutes the core of the research. Table 4.12 contains the frequency response table for the respondents' responses to the 23 statements as they currently reflect the organisational status quo. The frequency table was used as an input to the distribution-fitting algorithm. Table 4.13 contains the summary output from the distribution-fitting algorithm, indicating significance levels and means for the ordinal scale conversions. The primary objective of this section of the report was to analyse the issues facing the industry as a whole, thus analysis focused only on the responses received from all respondents. Future research can look at the detailed responses across the spectrum of ownership regarding the issues affecting the industry. The results of the distribution-fitting algorithm indicate a $\chi^2$ value of 46.87, with a probability value p of 1. Using a significance level ($\alpha$) of 5% indicates that the $\chi^2$ value is not significant. The use of the distribution-fitting algorithm to convert the ordinal scale to an interval scale on this set of data, as outlined by Stacey (2005), is justified.

Table 4.14 contains the frequency response table for the respondents' responses to the 23 statements as per their perceived importance in the organisation. This frequency table was used as an input to the distribution-fitting algorithm. Table 4.15 contains the summary output from the distribution-fitting algorithm, indicating significance levels and means for the ordinal scale conversions

The results of the distribution-fitting algorithm indicate a $\chi^2$ value of 35.04, with a probability value p of 1. Using a significance level ($\alpha$) of 5% indicates that the $\chi^2$ value is not significant. The use of the distribution-fitting algorithm to convert the ordinal scale to an interval scale on this set of data, as outlined by Stacey (2005), is justified

*Table 4.12: Frequency of responses to Statements 1–23 for the existing situation of all respondents*

| Statement | 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|---|
| S1 | 13 | 4 | 10 | 4 | 4 | 5 |
| S2 | 15 | 6 | 10 | 1 | 2 | 6 |
| S3 | 9 | 5 | 16 | 3 | 4 | 4 |
| S4 | 16 | 5 | 5 | 4 | 3 | 8 |
| S5 | 11 | 5 | 7 | 6 | 6 | 6 |
| S6 | 7 | 5 | 11 | 7 | 5 | 5 |
| S7 | 3 | 6 | 13 | 6 | 4 | 8 |
| S8 | 10 | 3 | 9 | 7 | 6 | 5 |
| S9 | 9 | 6 | 10 | 6 | 5 | 4 |
| S10 | 16 | 6 | 9 | 3 | 4 | 3 |
| S11 | 16 | 5 | 9 | 6 | 3 | 1 |
| S12 | 16 | 3 | 8 | 4 | 5 | 3 |
| S13 | 8 | 4 | 9 | 7 | 3 | 7 |
| S14 | 9 | 6 | 7 | 4 | 6 | 8 |
| S15 | 8 | 6 | 9 | 3 | 7 | 6 |
| S16 | 12 | 10 | 9 | 3 | 4 | 2 |
| S17 | 13 | 6 | 16 | 2 | 1 | 2 |
| S18 | 13 | 5 | 5 | 6 | 6 | 4 |
| S19 | 6 | 4 | 10 | 3 | 5 | 10 |
| S20 | 8 | 5 | 11 | 5 | 3 | 5 |
| S21 | 11 | 8 | 10 | 3 | 4 | 2 |
| S22 | 9 | 5 | 6 | 3 | 11 | 6 |
| S23 | 11 | 4 | 7 | 7 | 5 | 5 |

*Table 4.13: Conversion from ordinal to interval scale for the existing situation for all respondents*

| Question | Mean μ | p-value | Significantly Important | Significantly Un-important |
|---|---|---|---|---|
| S1 | -0.10 | 0.539165 | | |
| S2 | -0.23 | 0.224022 | | |
| S3 | 0.02 | 0.879851 | | |
| S4 | -0.19 | 0.413238 | | |
| S5 | 0.08 | 0.624511 | | |
| S6 | 0.17 | 0.184178 | | |
| S7 | 0.36 | 0.005586 | X | |
| S8 | 0.11 | 0.447285 | | |
| S9 | 0.04 | 0.743076 | | |
| S10 | -0.32 | 0.046018 | | X |
| S11 | -0.32 | 0.020753 | | X |
| S12 | -0.28 | 0.115274 | | |
| S13 | 0.21 | 0.190981 | | |
| S14 | 0.20 | 0.262398 | | |
| S15 | 0.17 | 0.273014 | | |
| S16 | -0.23 | 0.074464 | | |
| S17 | -0.23 | 0.049714 | | X |
| S18 | -0.07 | 0.675362 | | |
| S19 | 0.41 | 0.021527 | X | |
| S20 | 0.08 | 0.582445 | | |
| S21 | -0.18 | 0.159136 | | |
| S22 | 0.27 | 0.093319 | | |
| S23 | 0.05 | 0.774867 | | |

| Converted Ordinal Scale Spacing | | | | |
|---|---|---|---|---|
| 1–2 | 2–3 | 3–4 | 4–5 | 5–6 |
| -0.60 | -0.24 | 0.34 | 0.67 | *1.13* |

| $X^2$ | Total Variance | *Significance level α* | P–Value |
|---|---|---|---|
| 46.87 | 1 | 5% | 1 |

*Table 4.14: Frequency of responses to Statements 1–23 in terms of the perceived importance of all respondents*

| Statement | 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|---|
| S1 | 4 | 6 | 10 | 7 | 6 | 6 |
| S2 | 2 | 6 | 8 | 4 | 8 | 11 |
| S3 | 2 | 5 | 8 | 10 | 7 | 6 |
| S4 | 5 | 3 | 6 | 12 | 6 | 6 |
| S5 | 3 | 7 | 10 | 9 | 7 | 2 |
| S6 | 0 | 4 | 11 | 9 | 10 | 5 |
| S7 | 1 | 1 | 7 | 10 | 12 | 8 |
| S8 | 4 | 7 | 12 | 9 | 4 | 3 |
| S9 | 2 | 2 | 10 | 11 | 8 | 6 |
| S10 | 2 | 1 | 7 | 9 | 6 | 13 |
| S11 | 6 | 5 | 9 | 10 | 6 | 2 |
| S12 | 3 | 3 | 8 | 6 | 8 | 11 |
| S13 | 3 | 4 | 10 | 6 | 8 | 8 |
| S14 | 3 | 0 | 4 | 6 | 8 | 18 |
| S15 | 0 | 3 | 6 | 4 | 12 | 14 |
| S16 | 1 | 2 | 9 | 11 | 9 | 7 |
| S17 | 6 | 6 | 9 | 6 | 7 | 3 |
| S18 | 2 | 1 | 7 | 10 | 9 | 11 |
| S19 | 2 | 1 | 6 | 8 | 7 | 16 |
| S20 | 1 | 1 | 7 | 7 | 10 | 13 |
| S21 | 3 | 2 | 9 | 12 | 7 | 6 |
| S22 | 2 | 2 | 6 | 8 | 10 | 11 |
| S23 | 5 | 2 | 9 | 9 | 6 | 8 |

*Table 4.15: Conversion from ordinal to interval scale in terms of the perceived importance of all respondents*

| Question | Mean (μ) | p-value | Significantly Important | Significantly Un-important |
|---|---|---|---|---|
| S1 | -0.30 | 0.063553 | | |
| S2 | 0.03 | 0.867841 | | |
| S3 | -0.14 | 0.336494 | | |
| S4 | -0.20 | 0.206454 | | |
| S5 | -0.41 | 0.001944 | | X |
| S6 | -0.08 | 0.505573 | | |
| S7 | 0.18 | 0.141251 | | |
| S8 | -0.48 | 0.000585 | | X |
| S9 | -0.06 | 0.619307 | | |
| S10 | 0.29 | 0.095842 | | |
| S11 | -0.49 | 0.001096 | | X |
| S12 | 0.13 | 0.480282 | | |
| S13 | -0.08 | 0.629194 | | |
| S14 | 0.64 | 0.004371 | X | |
| S15 | 0.40 | 0.010906 | X | |
| S16 | 0.05 | 0.684298 | | |
| S17 | -0.49 | 0.003915 | | X |
| S18 | 0.21 | 0.164352 | | |
| S19 | 0.46 | 0.012496 | X | |
| S20 | 0.37 | 0.015518 | X | |
| S21 | -0.11 | 0.408884 | | |
| S22 | 0.24 | 0.127588 | | |
| S23 | -0.14 | 0.421216 | | |

| Converted Ordinal Scale Spacing | | | | |
|---|---|---|---|---|
| 1–2 | 2–3 | 3–4 | 4–5 | 5–6 |
| -1.43 | -0.98 | -0.34 | 0.19 | 0.77 |

| $X^2$ | Total Variance | Significance level α | P-Value |
|---|---|---|---|
| 35.04 | 1 | 5% | 1 |

## 4.8 Mapping of issues (Research Question 3)

The analysis of the BEE issues facing SME organisations in the engineering manufacturing industry was facilitated by the use of a perceptual map with the importance rating of issues plotted on the x-axis and the existing situation rating on the y-axis. This essentially created 4 quadrants in which issues were classified one of the following four; important and being done; important and not being done; unimportant and being done; or unimportant and not being done. The means, as listed in table 4.15 (importance) and table 4.13 (existing), were used for this purpose. Figure 4.10 highlights where the individual statements are located in the defined quadrants and also indicates the statements which were found to be significantly important and significantly unimportant based on the p values obtained. For easy reference, the 23 issues that were identified as being important for the successful implementation of BEE are listed in Table 4.17 below

### 4.8.1 Less important issues – Not being implemented

This is the quadrant that requires no corrective action from industry, as issues not identified as important require no attention. The issues that were identified as falling into this category are listed in Table 4.16 below. Each issue will be discussed independently.

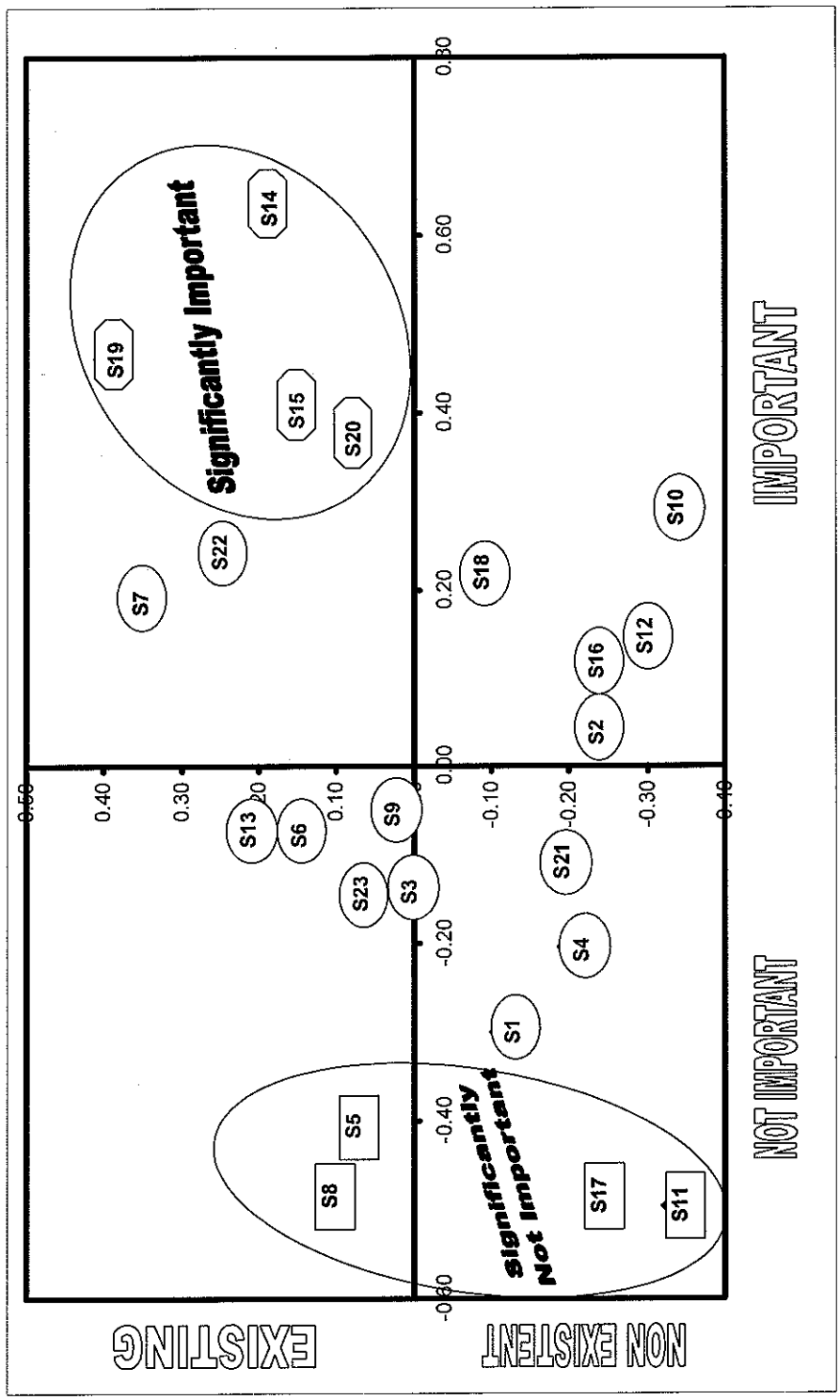
***Table 4.16: Issues Identified as Not Important and Not being Implemented***

| Number | Statement |
|---|---|
| 1 | BEE partners should be politically well connected. |
| 4 | Affirmative action appointments should be made to important executive positions and not just to 'soft portfolios'. |
| 21 | The linking of incentives for managers to BEE objectives is important in achieving successful BEE outcomes. |
| 17 | Black control should exist throughout an organisation at senior management level as well. |
| 11 | The more diversified the shareholdings that a BEE equity partner has, the more such diversification is likely to affect the outcome of any BEE deal negatively |

***Table 4.17: List of statements and issues identified as important in the literature review for the successful implementation of BEE***

| Number | Issues identified as important for successful BEE implementation |
|---|---|
| 1 | BEE partners should be politically well connected. |
| 2 | BEE partners perform the functions of genuine ownership. |
| 3 | A transfer of managerial skills and business acumen should take place |
| 4 | Affirmative action appointments should be made to important executive positions and not just to 'soft portfolios' |
| 5 | Black ownership equity. |
| 6 | Management equity |
| 7 | Employment equity and skills development |
| 8 | Preferential procurement |
| 9 | Social investment. |
| 10 | BEE investors should put more of their own equity into the deal. |
| 11 | The more diversified the shareholdings that a BEE equity partner has, the more such diversification is likely to affect the outcome of any BEE deal negatively. |
| 12 | BEE equity investors should focus on long-term financial gains rather than on short-term 'quick cash' gains |
| 13 | Companies should select BEE equity partners based on their track record. |
| 14 | BEE equity partners need to have good business skills and acumen. |
| 15 | Business and BEE equity partners need to determine upfront what the targets and measures of value add will be. |
| 16 | A large institutional investor can add value by acting in an executive role and as a mentor to BEE partners. |
| 17 | Black control should exist throughout an organisation at senior management level as well. |
| 18 | The funding structure of a BEE equity deal should solely depend on the performance of the target company and not on that of the stock market. |
| 19 | The adherence to corporate governance guidelines and ethical business conduct is important in achieving successful BEE outcomes. |
| 20 | Analysing and planning upfront the implementation of BEE initiatives is important in achieving successful BEE outcomes. |
| 21 | The linking of incentives for managers is important in achieving successful BEE outcomes |
| 22 | Companies need to set milestones and constantly to monitor the progress of the BEE initiatives against such milestones. |
| 23 | Tax incentives are important motivators for the implementation of BEE. |

*Figure 4.10: Perceptual map of Importance vs existing situation, as reflected in statement ratings*



Statements are also discussed in rank order from least unimportant important to significantly unimportant.

***Incentives for managers linked to BEE objectives*** **(μ=-0.11)**

Sithole (1997) identified that incentives played a major role in facilitating the implementation of BEE initiatives. The SMEs within the engineering manufacturing sector do not feel that this issue is important in facilitating the transformation process, and, as a result, it is not widely implemented within the sector. Incentives that are not linked to short-term profit generation are very difficult to motivate in SMEs, as the inherent success of such companies often relies on their ability to control costs and expenditure. Large companies like Sasol have acknowledged that implementation of BEE comes at a cost; however, large companies have budgets that can be set aside for dealing with BEE. SMEs are not in a position to do so, therefore this response is contextualised.

***Affirmative action appointments should be made to important executive positions and not just to 'soft portfolios'*** **(μ=-0.2).**

Randall (1996) identified fronting and the appointment of black executives to soft portfolios, such as those in human resources, as a potential risk that might lead to the failure of BEE initiatives in the long term. The SMEs within the engineering manufacturing sector do not feel that this issue is important, therefore whether black appointments are being appointed to soft positions is perceived as irrelevant by the industry; however, it acknowledged that BEE appointments are not being made in important portfolios. Of concern, though, is that an element of fronting is occurring within this sector. A potential explanation is that, within the SMEs, structured portfolios and titles are not regarded as important, especially as many family-owned businesses are known to be run by individuals who take on many responsibilities. Small companies also are unlikely to have human resource managers.

***BEE partners should be politically well connected* (μ=-0.3).**

Guest (2004) identifies that empowerment partners with political connections, have been responsible for creating a 'cronyism' that has wrecked most business in Africa. Fortunately, research has shown that in the SMEs within the engineering manufacturing sector, this is not perceived to be an important advantage and, as a result, it is not prevalent within the industry. The probable reasoning for this is that within the SME sector deals are not perceived to be lucrative and, as a result, do not attract the attention of political influence.

***Black control should exist throughout the organisation at senior management level as well (μ=-0.49).***

Sithole (1997) identified the importance of there being black control at all levels in the organisation, not only at board level. All respondents were expected to agree that that is an important objective for the successful implementation of BEE; however, despite the SMEs within the engineering manufacturing sector finding this issue to be of least importance, the response was, nevertheless, found to be statistically significant. A reason for low implementation in the industry can thus be attributed to the perception that this is not an issue of importance to the successful implementation of BEE. Future research is recommended that should involve follow-up interviews aimed at identifying whether there are racial or organisation differences of opinion regarding this issue.

***The more diversified shareholdings a BEE equity partner has, the more likely it is that such diversification will negatively affect the outcome of the BEE deal (μ=-0.49).***

Dlamini (2001) identified that the broader the scope of investments a BEE partner has, the less likely it is that a particular BEE initiative will succeed. These findings are, however, not inferable to the SMEs within the engineering manufacturing

sector. The results indicaed that this issue was found to be significantly not important. It also seems that diversified investments by BEE partners are not widespread throughout the sector. A proposed rationale for this is that this particular sector, because of its size, does not attract the large BEE investors and, as a result, the BEE partners who do invest in SMEs within the manufacturing engineering sector are satisfied with a single investment in their portfolio.

### 4.8.2 Less Important Issues – Currently being implemented

This is the quadrant that needs corrective action, unless it is a legislative requirement. Even so, policymakers need to review the effectiveness of policies that fall in this quadrant. From the perspective of the SMEs within the manufacturing engineering sector, unnecessary resources are being spent on issues that are not considered to be important. The issues that were identified as falling into this category are listed in Table 4.18 below. Each issue will be discussed independently.

***Table 4.18: Issues identified as Less important and Currently being implemented.***

| Number | Statement |
|---|---|
| 13 | Companies should select BEE equity partners based on their track record. |
| 6 | Management equity. |
| 9 | Social investment. |
| 23 | Tax incentives are important motivators for the implementation of BEE. |
| 3 | A transfer of managerial skills and business acumen should take place. |
| 8 | Preferential procurement. |
| 5 | Black ownership equity |

Statements are also discussed in rank order from the least unimportant important to the significantly unimportant.

***Social investment (μ=-0.06).***

Social investment is one aspect of the DTI's B-BBEE scorecard, which essentially was published as a result of the B-BBEE Act (2003). The rating of this issue by respondents was very close to the threshold of being average; however, because of its negative rating (-0.06) and the consistent application of the classification criteria adopted by the research methodology, it was considered to be a slightly unimportant issue. Nevertheless, SMEs within the manufacturing engineering sector are investing in the social aspect of South African society. Of particular interest is that, although it is not considered an important issue; because of legislative requirements to score well on the B-BBEE recommendations, the sector is, albeit unwillingly, addressing this issue.

***Management equity (μ=-0.08).***

Management equity is another aspect of the DTI's B-BBEE scorecard. The rating of this issue by respondents was also very close to the threshold of being average (-0.08). This issue is not considered an important issue, but, again, because of legislative pressure, the industry is, albeit unwillingly, addressing this issue. This finding supports the significant finding earlier that the SMEs within the manufacturing engineering sector feel that black management control is not important at all levels in the organisation for the successful implementation of BEE.

***Companies should select BEE equity partners based on their track record (μ=-0.08).***

This issue was found to be unimportant, but very close to falling exactly in the middle of the opinions Intuitively, one would expect that business people with good acumen would rate this issue very highly; however, one needs to contextualise the responses A potential explanation for the low importance rating is that discriminatory practices of the past excluded disadvantaged individuals

from building a track record; therefore, it would be unfair to apply this selection criterion strictly. Dlamini (2001) raised this concern. As time elapses, the application of this selection criteria is expected to increase as black businesspeople build a track record.

***Tax incentives are important motivators for the implementation of BEE (μ=-0.14).***

General intuition in the Industry indicates that increased tax incentives would foster the implementation of BEE SMEs within the manufacturing engineering sector do not believe that this is an important issue to consider. Government and, in particular, tax revenue services will be glad to see that the industry is not expecting more tax breaks. The sector has indicated that a level of tax incentives is being applied and the assumption is made that such incentives are related to the refunding of levies charged for the investment that is made in training of individuals.

***Transfer of managerial skills and business acumen takes place (μ=-0.14).***

Randall (1996) linked the failure of empowerment initiatives in Kenya and Nigeria to a lack of transfer of skills to empowered individuals. Unfortunately, the SMEs within the manufacturing engineering sector believe that this is not an important issue. The rating of this issue as it currently exists in respondent organisations was very close to the threshold of being average; however, because of its positive rating (0.02) and the consistent application of the classification criteria adopted by the research methodology, the issue was considered as being one which is currently being implemented. The rationale for considering this issue as not important could be related to the findings in section 4.6.2, in which it was shown that family-owned businesses feared a loss of control of the business. A transfer of managerial skills and business acumen could be interpreted as relinquishing control by family-owned businesses.

***Black ownership equity (μ=-0.41).***

Management equity is another aspect of the DTI's B-BBEE scorecard. This is often the most highly emotive issue in SMEs, especially in family-owned businesses that are reluctant to dilute ownership equity. The issue of black ownership equity was rated as significantly unimportant by the SMEs within the manufacturing engineering sector; however, once again because of legislative requirements and the high BEE rating achieved for black equity ownership, the sector is unwillingly addressing this issue.

***Preferential procurement (μ=-0.48).***

Preferential procurement is another aspect of the DTI's B-BBEE scorecard. This is the most powerful policy available to government, because it cascades down the supply chain, ultimately affecting every business This is often considered as an easy route to scoring BEE points on the DTI's score card, but the implications are that businesses that are not BEE compliant can easily lose out. SMEs are especially vulnerable, as many of the services that they supply are not considered strategic, and it is thought that changing suppliers will not impact on the strategic outcomes of buyers. The SMEs within the manufacturing engineering sector rated this as being the most significantly unimportant issue, probably because of first-hand experience and the pressure that 53% of their customers are placing on them. Legislative requirements and the ease at which companies can score BEE points without sacrificing control is why the sector is unwillingly addressing this issue.

### 4.8.3 Important issues – Currently not being implemented

This is the quadrant that needs to be addressed urgently, because the SMEs within the manufacturing engineering sector believe that this is important; however, it is not being implemented effectively. The issues that were identified as falling into this category are listed in Table 4.19 below. Each issue will be

discussed independently. Statements are also discussed in rank order from least important to significantly important.

***Table 4.19: Issues identified as Important and Currently not being implemented.***

| Number | Statement |
|---|---|
| 2 | BEE partners should perform the functions of genuine ownership |
| 16 | A large institutional investor can add value by acting in an executive role and as a mentor to BEE partners. |
| 12 | BEE equity investors should focus on long-term financial gains rather than on short-term 'quick cash' gains. |
| 18 | The funding structure of a BEE equity deal should solely depend on the performance of the target company and not on that of the stock market |
| 10 | BEE investors should put more of their own equity into the deal |

The issues identified in this quadrant all revolve around the theme of black ownership equity and recommendations as to how equity partners can be more effective as owners of business. This section provides some valuable information to policymakers on how to prevent a scenario, whereas Randall (1996:663) expresses this as "an unproductive group of pseudo capitalists has emerged".

***BEE partners perform the functions of genuine ownership (μ=0.03).***

Randall (1996) and Guest (2004) have identified the need that BEE empowerment partners perform genuine functions of ownership. The rating of this issue by respondents was found to be very close to the threshold of being average; however, because of its positive rating (0.03) and the consistent application of the classification criteria adopted by the research methodology, it was considered important. Unfortunately, the results indicate that this is not currently the situation in the SMEs within the manufacturing engineering sector. An explanation for this is that fronting in the industry is prevalent and that the power and control still remain in the hands of the white-owned businesses. Alternatively, capitalistic greed appears to be taking advantage of the empowerment policy adopted by

equity partners, who are focused on short-term gains rather than on long-term macro- economic development.

***A large institutional investor can add value by acting in an executive role and as a mentor to BEE partners (μ=0.05).***

Dlamini (2001) identified that large institutional investors can assist and guide new BEE equity partners in the roles and functions of ownership. The SMEs within the manufacturing engineering sector support the proposal made by Dlamini (2001), and have indicated that this is not the case within their industry. Government has been putting pressure on financial institutions to provide easy access to capital for BEE equity candidates. The industry has responded well, with all major banks having already established empowerment funds; however, often these empowerment funds provide access to capital for first-time business owners, but then fail in their ability to provide regular support and training to these individuals, who are then overwhelmed with the responsibility of owning a business for the first time.

***BEE equity investors should focus on long-term financial gains rather than on short-term 'quick cash' gains (μ=0.13).***

Dlamini (2001) raised the importance of focusing on long-term financial gains rather than on short-term gains. The SMEs within the manufacturing engineering sector recognise the proposal made by Dlamini (2001) as important, and have indicated that BEE equity partners in their sector are focused on making short-term financial gains. This supports the finding that BEE partners are not performing functions of genuine ownership.

***The funding structure of the BEE equity deal should solely depend on the performance of the target company and not on that of the stock market (μ=0.21).***

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Dlamini (2001) also raised the importance of linking BEE capital structure to business unit level performance. The SMEs within the manufacturing engineering sector recognise the proposal made by Dlamini (2001) as important, and have indicated that currently the structure of BEE equity deals is not exclusively linked to the performance of the business unit. As a result, no incentive for BEE equity partners exists to play a more executive role in the business, as shares are converted into equity with no link to company performance.

***BEE investors should put more of their own equity into the deal (μ=0.29).***

The SMEs within the manufacturing engineering sector support the idea that BEE investors should put more of their own equity into a deal. One of the greatest motivators is ownership, thus if equity partners stand to lose nothing if BEE deals go sour, the motivation level to make the deal succeed will not be high. The argument is that often, because of historical disadvantages, BEE equity partners lack substantial capital to put into these deals. The author believes that it is still important that some amount of equity relative to the individual's net worth be in place before capital is made available.

### 4.8.4 Important issues – Currently being implemented

This is the quadrant on which SMEs within the manufacturing engineering sector are focusing their energies, because of its perceived importance. The issues that were identified as falling into this category are listed in Table 4.20 below. Each issue will be discussed independently. Statements are also discussed in rank order from least important to significantly important.

***Employment equity and skills development (μ=0.18).***

Employment equity and skills development is the only aspect of the DTI's B-BBEE scorecard which has been considered to be important by the SMEs within the manufacturing engineering sector. The reason for this is that it makes business

sense in any circumstance to develop the skills within your organisation, and, as a result, the sector is actively developing skills. The introduction of the skills levy and the ability to claim back money for accredited training has also been a main motivator. With regard to the employment equity aspect, often companies find that they reflect the demographics of the country on lower qualification bands; however, on higher qualification bands such demographics are under-represented. The questionnaire did not distinguish between the different employment bands and thus respondents could have been referring to overall employment equity targets.

***Table 4.20: Issues identified as Important and Currently being implemented.***

| Number | Statement |
|---|---|
| 7 | Employment equity and skills development. |
| 22 | Companies need to set milestones and constantly to monitor the progress of BEE initiatives against these milestones. |
| 20 | Analysing and planning upfront the implementation of BEE initiatives is important in achieving successful BEE outcomes. |
| 15 | Business and BEE equity partners need to determine upfront what the targets and measures of value add will be. |
| 19 | The adherence to corporate governance guidelines and ethical business conduct is important in achieving successful BEE outcomes. |
| 14 | BEE equity partners need to have good business skills and acumen |

***Companies need to set milestones and constantly to monitor the progress of the BEE initiatives against these milestones (μ=0.24).***

Montsho (2001) identified that BEE SMEs that were supplying the national carrier SAA were more likely to succeed if milestones and targets were set in place to measure the implementation of BEE. SMEs within the manufacturing engineering sector agree that this is very important for the successful implementation of BEE initiatives. The sector currently is implementing this good practice as it implements its BEE initiatives.

***Analysing and planning upfront the implementation of BEE initiatives (μ=0.37).***

Dlamini (2001) raised the importance of planning BEE initiatives before implementation occurs. SMEs within the manufacturing engineering sector agree that doing so is very important for the successful implementation of BEE initiatives. The finding was found to be significantly important. It is understandable that SMEs are very reluctant to dilute ownership and control and, thus, if they are going to do so, substantial planning will go into it before implementation occurs. The resulting mean of 0.08 reflected in Table 4.13 indicates that this is actually what is happening.

***Business and BEE equity partners need to determine upfront what the targets and measures of value add will be (μ=0.40).***

Dlamini (2001) further raised the importance of deciding what value add targets should be upfront. SMEs within the manufacturing engineering sector agree that such upfront decision making is very important for the successful implementation of BEE initiatives. The finding was found to be significantly important. It is understandable that SMEs are very reluctant to enter BEE deals where equity partners are perceived to be getting a free ride; therefore, the achievements of value add targets form an integral part of BEE deals in the SMEs. The resulting mean of 0.17, as reflected in Table 4.13, indicates that this is actually what is happening in the industry

***The adherence to corporate governance guidelines and ethical business conduct (μ=0.46).***

Corruption is often the Achilles heel of business in Africa and adherence to strict corporate governance standards is vital to the success of any business. SMEs within the manufacturing engineering sector understandably agree that this is very important. The finding was also found to be significantly important. The industry

also rates itself and its BEE initiatives as following the corporate governance guidelines.

***BEE equity partners need to have good business skills and acumen (μ=0.64).***

Randall (1996) and Dlamini (2001) all identified the importance of having equity partners who have good business skills. The findings indicate that the SMEs within the manufacturing engineering sector agree that this is very important for the successful implementation of BEE initiatives. The finding was found to be significantly important. At first glance, this contradicts the finding that statement 3 (transfer of managerial skills and business acumen takes place) was found to be unimportant. The phrasing of the question is believed to be responsible for the opposing opinions.

Statement 3 intended to probe whether respondents felt as though a transfer of skills was taking place, to which the answer was in the negative. Respondents perceived the importance of the transfer taking place as unimportant. So, contextualising this response relative to the responses received to the question as to whether good business skills and acumen are important, the following can be deduced: SMEs within the manufacturing engineering sector feel that it is important that BEE equity incumbents come into these deals already armed with these skills, and that they do not feel that time should be spent in transferring skills to these individuals after the deal has taken place. A transfer of managerial skills is not taking place, because companies feel that BEE partners already have such skills on joining them.

## 4.9 Satisfaction levels

Question 20 gauged the level of satisfaction of respondents who had implemented BEE initiatives. It is important to measure this satisfaction level because this will indicate to policy makers whether or not to modify policies, companies who are satisfied with the BEE transformation in their organisations are more likely to accelerate the rate of transformation compared to companies who are not satisfied with their BEE initiatives

Analysis of the responses to Q20 provides us with the necessary information for determining satisfaction levels in SMEs within the manufacturing engineering sector. Table 4.7 indicates that the mean for Question 20 was -0.69, which indicates that, on average, the entire group of respondents was not satisfied with their BEE initiatives. The response was also found to be significantly negative.

Further detailed analysis of Table 4.9 indicates that with a mean of -0.47, companies with more than 25% black equity are not satisfied with their BEE initiatives Companies with no or little back ownership equity also are not satisfied with their BEE initiatives, indicated by a mean of -0.64, which was found to be significantly negative.

When analysing the responses by ownership type, Table 4.11 indicated that family-owned businesses were not satisfied with their BEE initiatives (mean of -0.64). Non-family owned businesses also indicated their dissatisfaction with their BEE initiatives, indicated by a mean of -0.45, both these responses were found to be significantly negative.

Thus across the entire range of ownership all respondents were significantly not satisfied with the implementation of their individual BEE initiatives. These high levels of dissatisfaction are an area of concern for policy makers, and it is recommended that future research explore the reasons behind this dissatisfaction.

This research has identified the issues considered to be important by the SMEs within the manufacturing engineering sector, it also identified that some of these important issues are not being implemented. It is proposed that these issues contribute somewhat towards these high levels of dissatisfaction.

## 4.10 Summary of research findings

The research propositions were concluded as follows:

***Proposition 1: Proposition 1 is supported***, as it was found that SMEs within the engineering manufacturing industry as a whole believe that BEE is benefiting a few individuals; however, it was found that companies with high levels of black ownership equity did not believe that this was the case.

***Proposition 2: Part 1 of proposition 2 is not supported***, as it was found that SMEs within the manufacturing engineering sector do not primarily implement BEE in order to gain access to the black market. ***Part 2 of proposition 2 is supported***, as it was found that the primary reason why BEE is implemented is in order to secure existing business or tender for new business, for which BEE is a requirement.

***Proposition 3: Proposition 3 is not supported***, as it was found that 'white'-owned businesses in this sector are not an impediment to the implementation of BEE, because they fear a loss of control.

***Proposition 4: Proposition 4 is not supported***, as 'white'-owned business in this sector answered indifferently to this question and thus not enough proof exists to verify whether or not 'white'-owned business believes that BEE will not be advantageous to them.

Additionally, the research questions were answered as follows:

***Research Question 1*** was aimed at discovering what the perceptions of the SMEs within the engineering manufacturing industry were regarding the role that government should play in addressing the economic disparities that exist between blacks and whites. The research has conclusively shown that companies in the SMEs within the engineering manufacturing sector strongly believe that the growth of the economy should still play the most important role in addressing imbalances between blacks and whites. The findings were significant across all the spectra of black equity ownership and family ownership.

***Research Question 2*** was aimed at measuring the awareness of BEE within the SMEs in the engineering manufacturing sector and at measuring the extent to which BEE has affected the industry. The research has shown that all respondents are, at least, aware of BEE. The research also concluded that, on average, all respondents are affected by BEE; however, low levels of black ownership equity and family business were not as affected by BEE as were high levels of black ownership equity and non-family business.

***Research Question 3***, which was at the heart of the research, utilised distribution-fitting algorithms to identify which of the 23 issues identified in the literature review were found to be important and which unimportant for the successful implementation of BEE initiatives. These issues are listed below.

**Less-important issues**

- BEE partners are politically well connected.
- Affirmative action appointments are appointed to important executive positions and not just to 'soft portfolios'.
- Incentives for managers linked to BEE objectives
- Management equity.
- Social investment.

- Companies should select BEE equity partners based on their track record.
- Tax incentives are important motivators for the implementation of BEE.
- Transfer of managerial skills and business acumen takes place.

**Significantly Less-important issues**

- Black control should exist throughout the organisation at senior management level as well.
- The more diversified shareholdings a BEE equity partner has, the greater this negatively affects the outcome of the BEE deal
- Preferential procurement.
- Black ownership equity.

**Important issues**

- BEE partners perform the functions of genuine ownership.
- A large institutional investor can add value by acting in an executive role and as a mentor to BEE partners.
- BEE equity investors should focus on long-term financial gains rather than on short-term 'cash quick' gains
- The funding structure of the BEE equity deal should solely depend on the performance of the target company and not on the stock market.
- BEE investors should put more of their own equity into the deal.
- Employment equity.
- Companies need to set milestones and constantly to monitor the progress of the BEE initiatives against these milestones.

**Significantly Important issues**

- Analysing and planning upfront the implementation of BEE initiatives.

- Business and BEE equity partners need to determine upfront what the targets and measures of value add will be.
- Adherence to corporate governance guidelines and ethical business conduct.
- BEE equity partners need to have good business skills and acumen.

# Chapter 5: CONCLUSION

***This chapter will conclude the research by discussing the research achievements and application, as well as making recommendations for future research.***

## 5.1 Introduction

The four previous chapters set out the need for the research, reviewed the relevant literature, described the research methodology, introduced the research findings and discussed them. This chapter will attempt to conclude the research by discussing the research achievements and application, as well as making recommendations for future research.

## 5.2 Research achievements

The primary objective of this research was to identify and analyse the relevant issues that small medium enterprises (SMEs) in the engineering manufacturing sector consider important for the successful implementation of black economic empowerment (BEE). This objective was met and seven important issues and four significantly important issues were identified. These are:

**Important issues**

- BEE partners perform the functions of genuine ownership.
- A large institutional investor can add value by acting in an executive role and as a mentor to BEE partners.
- BEE equity investors should focus on long-term financial gains rather than on short-term 'cash quick' gains.

- The funding structure of the BEE equity deal should solely depend on the performance of the target company and not on the stock market
- BEE investors should put more of their own capital into the deal.
- Applying principles of employment equity and the development of skills.
- Companies need to set milestones and constantly to monitor the progress of the BEE initiatives against these milestones

**Significantly important issues**

- Analysing and planning upfront the implementation of BEE initiatives.
- Business and BEE equity partners need to determine upfront what the targets and measures of value add will be.
- Adherence to corporate governance guidelines and ethical business conduct.
- BEE equity partners need to have good business skills and acumen.

Further objectives that were achieved are:

- that the primary reason for the introduction of BEE is the need to maintain existing business and in order to enhance the potential to obtain new business. The analysis has shown that such a finding is confirmed across all spectra of ownership.

- that the majority of the industry has BEE initiatives in place and that most of these initiatives have been in place for less than five years. Of all the ownership categories family owned businesses are the most reluctant to implement BEE, however a large percentage are considering the implementation of BEE.

- the majority of respondents feel that BEE is not broad-based and that only a few individuals are benefiting from BEE implementation. The companies with a high level of black equity ownership did not support this finding.

- contrary to the literature review findings and perceptions white business was found not to be an impediment to the implementation of BEE, because they fear a loss of control or think that BEE is not advantageous to them.

- the loss of white experienced skills as a result of the implementation of BEE was found not to be a barrier to the implementation of BEE in the SMEs in the engineering manufacturing sector.

- The (SMEs) in the engineering manufacturing sector believe that the governments macroeconomic objective of reducing the disparities that exist between blacks and whites in South Africa is best achieved through economic growth and are against the intervention by government through legislation.

- all respondents indicated that they were not satisfied with the outcomes of the BEE initiatives they had implemented.

The research has confirmed that issues considered important for industry and big business at large is not necessarily inferable to the SMEs in the engineering manufacturing sector. Of the twenty three issues identified in the literature survey only 11 were found to be important by the industry. It is important that BEE policies are tailored to suit company size and industrial segment in order to ensure improved implementation efficiencies

## 5.3 Research application

This research could prove useful to the following interest groups:

- **Executives and HR managers who are planning BEE initiatives,** and who should acquaint themselves with the issues which were identified as

being important to the successful implementation of BEE, particularly applicable to the SMEs in the engineering manufacturing sector, however other industry sectors can benefit from the research findings

- **Consultants to organisations on BEE initiatives,** can find the research findings useful by directing them towards more effective BEE initiatives Of particular focus should be the planning initiatives and preparation which should be done before any tactical implementation is done.

- **Academics,** especially those seeking to integrate studies on the implementation of BEE, and those who are looking to investigate other industry segments.

- **Policy Makers,** the research has identified that certain issues are considered important for the successful implementation of BEE, policy makers should take not and look at reforming policies to incorporate some of these issues. Issues identified as not being important, should also be reviewed by policy makers.

## 5.4 Recommendations for future research

Further research in this filed would definitely be beneficial, as it could provide valuable assistance to companies wishing to implement BEE initiatives effectively, especially against a back drop of increased pressure from the private sector to comply to BEE codes of good practice.

The following areas for further research have been identified:

- This research has focused outwards on the issues facing an organisation when implementing BEE. The impact on internal organisational culture and

internal labour relations should be explored as this can significantly affect the outcome of BEE initiatives.

- Although the research attempted to analyse responses along racial ownership lines and family ownership, this was limited to the secondary objectives of the research. The main part of the research was analysed from an industry perspective, it is recommended that future research attempt to analyse the issues identified across all the spectrums of ownership.

- The quantitative analysis has identified the issues that are important and issues that are not considered to be important, although rational explanations have been proposed, it is recommended that follow up interviews be conducted in the future to expand on these findings.

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# APPENDIX 1: QUESTIONNAIRE STATEMENTS

1. BEE partners should be politically well connected (Guest, 2004; Randall,1996).

2. BEE partners should perform the functions of genuine ownership (Guest, 2004; Randall, 1996).

3. A transfer of managerial skills and business acumen should take place (Randall, 1996).

4. Affirmative action appointments should be appointed to important executive positions and not just to 'soft portfolios', such as to those in the human resource and public relations fields (Randall, 1996).

5. Black ownership equity is important in achieving the broader objectives of BEE (Republic of South Africa, 2003).

6. Management equity is important in achieving the broader objectives of BEE (Republic of South Africa, 2003).

7. Employment equity and skills development are important in achieving the broader objectives of BEE (Republic of South Africa, 2003).

8. Preferential procurement is important in achieving the broader objectives of BEE (Republic of South Africa, 2003).

9. Social investment is important in achieving the broader objectives of BEE (Republic of South Africa, 2003).

10 BEE investors should put more of their own equity into the deal (Dlamini, 2001).

11. The more diversified shareholdings a BEE equity partner has, the more likely it is that this will negatively affect the outcome of the BEE deal (Dlamini, 2001).

12. BEE equity investors should focus on making long-term financial gains rather than on making short-term 'cash quick' gains (Dlamini, 2001).

13. Companies should select BEE equity partners based on their track record (Dlamini, 2001).

14. BEE equity partners need to have good business skills and acumen (Dlamini, 2001; Randall, 1996).

15. Business and BEE equity partners need to determine upfront what the targets and measures of value add will be (Dlamini, 2001).

16. A large institutional investor can add value by acting in an executive role and as a mentor to BEE partners (Dlamini, 2001).

17. Black control should exist throughout the organisation at senior management level as well (Sithole, 1997).

18. The funding structure of the BEE equity deal should solely depend on the performance of the target company and not on that of the stock market (Sithole, 1997).

19. The adherence to corporate governance guidelines and ethical business conduct (Van Zyl, 2002).

20. Analysing and planning upfront the implementation of BEE initiatives (Dlamini, 2001).

21. Incentives for managers should be linked to BEE objectives (Sithole, 1997).

22. Companies need to set milestones and constantly to monitor the progress of the BEE initiatives against these milestones (Mathu,1008; Sithole, 1997).

23. Tax incentives are important motivators for the implementation of BEE (Industry sentiment).

# APPENDIX 2: QUESTIONNAIRE

**The Wits Business School**

2 St David's Place, Parktown, Johannesburg, 2193. South Africa
PO Box 98. WITS, 2050
Telephone: +27 11 717 3600, Facsimile: + 27 11 643 2336
Website: http://wbs.mgmt.wits.ac.za

University of the
Witwatersrand

Dear Sir/Madam

Your organisation has been selected to participate in a study which is aimed at identifying the issues that are facing the Small Medium Enterprises (SME) within the Engineering Manufacturing Industry, with regard to the implementation of Black Economic Empowerment (BEE). Please note that it is not the intention of this research to audit your company's compliance to BEE legislation, but rather to obtain an overall strategic view of the implications of BEE.

The study is being conducted by the undersigned, for an MBA research report in the Graduate School of Business Administration, University of The Witwatersrand

The research is being conducted by means of self administered questionnaires. You will be asked a number of questions relating to certain aspects pertaining to BEE within your organisation and Industry.

The questionnaire should take you no more than 20 minutes to complete, and the Wits Business School, as well as policy makers and Industry stakeholders, will find the overall results extremely valuable.

Please insert the completed questionnaire into the envelope attached, seal, and return it to the addressee. Alternatively please fax the completed questionnaire to 011 392 5179 or email the questionnaire to Gaspari@telkomsa.net

Thank you for your valuable time and assistance.

Roberto Gaspari
Tel: (011) 392 5061
Fax: (011) 392 5179
Cell: 082 571 5411

Yours faithfully

**Prof John Luiz**
**Director International Programmes**

**Please complete the following biographical details: *(tick the appropriate box )***

1. Is your company involved in Manufacturing?

   Yes ☐ No ☐

2. Is your company involved in the Engineering Sector?

   Yes ☐ No ☐

3. As the person completing the questionnaire what position do you hold in the company?_____

4. How many full time employees does your organisation employ ?

| 0 - 4 | 5 - 19 | 20 - 49 | 50 - 200 | > 200 |
|---|---|---|---|---|

5. What is your company's annual turnover? (R Millions)

| 0 – 0.15 | 0.15 - 4 | 4 - 10 | 10 – 40 | > 40 |
|---|---|---|---|---|

6. Please indicate current black equity ownership in your company? (%)

| 0 | 0 – 25 | 25 - 50 | > 50 |
|---|---|---|---|

7. Is your company a family owned business?

   Yes ☐ No ☐

**Please indicate your company's position with regard to the statements below by marking the appropriate box:**

8. My company is affected by BEE.

| Definitely Not | | | | | Definitely Yes |
|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 |

9. BEE is one of the most important issues a company has to deal with today.

| Definitely Not | | | | | Definitely Yes |
|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 |

10. BEE will be advantageous to my company.

| Definitely Not | | | | | Definitely Yes |
|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 |

How will it be advantageous? _____

_____

_____

_____

11. BEE only benefits a small number of individuals.

| Definitely Not | | | | | Definitely Yes |
|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 |

12. My company fears a loss of control as a result of implementing BEE initiatives.

| Definitely Not | | | | | Definitely Yes |
|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 |

13. My company feels BEE will result in loss of experienced white personnel.

| Definitely Not | | | | | Definitely Yes |
|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 |

**Please indicate your company's current position by marking the appropriate box:**

14. Indicate your company's current position regarding BEE.

- My company has implemented BEE initiatives ☐
- My company is in the process of implementing BEE initiatives ☐
- My company has not implemented BEE initiatives, however ***is*** considering the implementation of BEE initiatives ☐
- My company has not implemented BEE initiatives, and is ***not*** considering the implementation of BEE initiatives ☐

15. If your company has implemented BEE initiatives, how many years has your BEE policy been in place.

| 0 – 1 year | 1 – 5 year | 5 or more |
|---|---|---|

16. Indicate where pressure to implement BEE is primarily coming from.

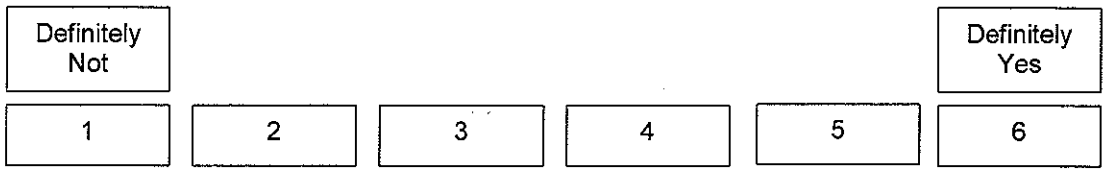
- My existing customers require that I implement BEE ☐
- I currently have or intend to tender for government contracts ☐
- I currently am lacking in market knowledge of the black market and hope to bring in expertise in this field ☐
- It is the socio-economic responsibility of my company to assist with the reduction of inequalities that exist between whites and blacks ☐

**Please indicate the degree to which your company agrees with the following statements, with regard to achieving the objectives of reducing inequalities that exist between whites and blacks.**

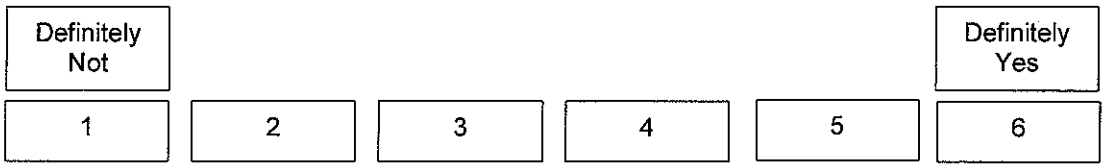
17. Government must intervene by means of legislation.

| Definitely Not | | | | | Definitely Yes |
|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 |

18. Reducing the inequalities will best be achieved by economic growth, and government must not intervene with legislation.




19. A combination of economic growth and government intervention by means of legislation is the best solution for reducing Inequalities.




**Please rate each of the issues below with the following question in mind:**

- ***To what extent the statement applies to existing conditions in your organisation (on the left hand side).***

- ***How important or true do you think the statement is with regard to its potential ability to positively affect the successful implementation of Black Economic Empowerment (BEE) in your organisation (on the right hand side)?***

***PLEASE NOTE THERE ARE ADDITIONAL QUESTIONS ON THE NEXT PAGE !***

| Existing Situation | | | | | | ISSUES (Statements) | Importance | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Not at All | | | | | To a Large Extent | | Not at all important | | | | | Very important |
| 1 | 2 | 3 | 4 | 5 | 6 | | 1 | 2 | 3 | 4 | 5 | 6 |
| | | | | | | 1. BEE partners are politically well connected. | | | | | | |
| | | | | | | 2. BEE partners are performing the functions of genuine ownership. | | | | | | |
| | | | | | | 3. A transfer of managerial skills and business acumen to BEE partners is taking place | | | | | | |
| | | | | | | 4. Affirmative action appointments are being appointed to important executive positions and not "soft portfolios", such as the human resource field or in the public relations field. | | | | | | |
| | | | | | | 5. Black ownership equity is important in achieving the broader objectives of BEE | | | | | | |
| | | | | | | 6 Management equity is important in achieving the broader objectives of BEE. | | | | | | |
| | | | | | | 7. Employment equity and skills development is important in achieving the broader objectives of BEE. | | | | | | |
| | | | | | | 8. Preferential procurement is important in achieving the broader objectives of BEE. | | | | | | |
| | | | | | | 9. Social investment is important in achieving the broader objectives of BEE. | | | | | | |
| | | | | | | 10. BEE partners are putting some of their own equity into financing BEE deals. | | | | | | |
| | | | | | | 11. BEE equity partners limit their investments to a single BEE deal. | | | | | | |
| | | | | | | 12. BEE equity investors are focusing on long term financial gains rather than short term 'cash quick' gains. | | | | | | |
| | | | | | | 13. Companies are selecting BEE equity partners based on track record | | | | | | |
| | | | | | | 14. BEE equity partners need to have good business skills and acumen | | | | | | |
| | | | | | | 15 Business and BEE equity partners need to determine upfront what the targets and measures of value add will be. | | | | | | |

| Existing Situation | | | | | | ISSUES (Statements) | Importance | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Not at All | | | | | To a Large Extent | | Not at all important | | | | | Very important |
| 1 | 2 | 3 | 4 | 5 | 6 | | 1 | 2 | 3 | 4 | 5 | 6 |
| | | | | | | 16 A large institutional investor can add value by acting in an executive role and as a mentor to BEE partners. | | | | | | |
| | | | | | | 17. Black control should exist throughout the organisation and at senior management level. | | | | | | |
| | | | | | | 18. The funding structure of the BEE equity deal should be solely dependent on performance of the target company and not the stock market | | | | | | |
| | | | | | | 19. The adherence to corporate governance guidelines and ethical business conduct. | | | | | | |
| | | | | | | 20. Analysing and planning upfront the implementation of BEE initiatives | | | | | | |
| | | | | | | 21. Incentives for managers linked to BEE objectives | | | | | | |
| | | | | | | 22. Companies need to set milestones and constantly monitor the progress of the BEE initiatives against these milestones. | | | | | | |
| | | | | | | 23. Tax incentives are important motivators for the implementation of BEE. | | | | | | |
| ***OTHER:*** | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| | | | | | | | | | | | | |

20. If you have implemented BEE initiatives what level of satisfaction have you obtained as a result of the implementation of these BEE initiatives?

| Definitely Not Satisfied | | | | | Definitely Satisfied |
|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 |

***THANK YOU FOR TAKING TIME TO COMPLETE THE QUESTIONNAIRE***
***Please Fax to 011 392 5179 or email to Gaspari@telkomsa.net***