The effects of altering B-BBEE on small enterprises within South Africa

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DECLARATION

I, Kerri-Ann Baggaley, declare that this research article is my own work except as indicated in the references and acknowledgements. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration in the Graduate School of Business Administration, University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.

Kerri-Ann Baggaley

Signed at Johannesburg

On this 27 day of March 2019

DEDICATION

Dedicated to my parents who have been there through all the tough times, and taught me the value of hard work and dedication. Their love and support has been my pillar and inspired me to become the person I am today and strive for even bigger goals. Without them I would not have had the opportunity to walk this informative and rewarding journey.

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ABSTRACT

The South African Government has been working to right the injustices of the past through incorporating various policies into the business environment, one such policy is that of Black Economic Empowerment (BEE), which is meant to aid previously disadvantaged individuals. There are regularly conflicting messages relating to the policy as to whether or not it is being effective and accomplishing what it was designed for, or if instead it should be removed completely from the legislative system. This study looked at various aspects of the policy, including findings from previous studies, people's options and their willingness to comply, as well if the policy has assisted or halted organisational growth, business opportunities or personal growth and the associated costs. An online survey was conducted, in order to gather information which was missing from the literature, however only respondents who indicated that they were part of a Qualifying Small Enterprise or Exempt Micro Enterprise were used in the results, all other data was excluded. Surprisingly although majority of the respondents indicated that they were non-compliant and unwilling to comply or only did the minimal required to obtain a level 4 status, also agreed that the policy overall assists with SME growth. Many were also of the opinion that the policy had not assisted their organisation whether it be regarding growth or access to business opportunities. The study also expressed a level of misunderstanding by participants regarding the policy, its actual requirements and the funds needed to fully comply. It is clear that the policy is not being effective and still continues to have resistance from many organisations, and should be reanalysed and potentially readjusted to better suit the business environment, whereby people are more willing to integrate its components into their organisations and assist with the government's aim of bettering the lives of those previously disadvantaged individuals.

Keywords: South Africa; BEE; SMEs; Management; Organisational Growth

INTRODUCTION

The South African government has placed great importance on the growth of the economy and “building an inclusive society, rolling back the shadow of history and broadening opportunities for all” (National Planning Commission, 2011, p. 14). A fundamental part of doing business within the South African context is an organisations approach to the Broad-Based Economic Empowerment Act (B-BEE) and Employment Equity Act (EE). An organisation’s Black Economic Empowerment (BEE) level can have a significant influence on how and with whom they can conduct business, this is especially true when operating within the government or public sector.

This research is going to examine the extent to which the B-BBEE strategy is aiding or hindering the growth of Small to Medium Sized Enterprises (SME’s) within South Africa, and whether the removal or adaptation of the policy would benefit these small organisations. Understanding the impact, this policy has on organisations can be beneficial when addressing how best to grow the South African economy and provide the best opportunities to both small to medium enterprises as well as economically active individuals.

There are regularly conflicting statements being made about the BEE policy and the affects it has on an organisations ability to function, however majority cannot identify the areas associated with such contradictions. It is important to ascertain where the strengths and weaknesses lie within the policy in order to maximise its returns for organisations. This study will seek to clarify these points in order to fully understand the current situation and why many organisations are still non-compliant or struggling to remain complaint, as well as provide possible recommendations as to how the policy can be adjusted.

Background

South Africa has a complex history which has impacted many areas of the economy and general way of life. The Apartheid Regime became a major identifying factor for the country primarily due to the injustices imposed on the vast majority of its citizens. Apartheid lasted for 46 years, from 1948 when the

National Party (NP) took power right up until 1994 when Nelson Mandela was sworn in as the new president. The NP was a white-dominated government which created multiple racial laws aimed at segregating the population. Apartheid affected all areas of everyday life and was targeted towards the non-whites. In 1950 the Population Registration Act was imposed. The law forced all South Africans to be classified according to race (Chigozie, n.d.). The four categories were white, black (African) and coloured (mixed descent) and Asians; depending on appearance, social acceptance and ancestry an individual was categorised into one of these groups (Chahoud, Kneller, Krahl, Rieken, & Riffler, 2011). The laws imposed on the country eventually led to complete geographic segregation between the races and “restricted each race to certain types of jobs, curtailed non-white labour unions and denied non-white participation in the national government” (The Editors of Encyclopaedia Britannica, 2018).

By the time Apartheid was abolished and the newly elected government, namely the African National Congress (ANC), took power the “economic system was characterised by low growth, high government debt, mass unemployment, poverty, and inequality with little worker protection, especially of African (Black) workers” (Irene, 2017, p. 145). The ANC realised that there were multiple socio-economic problems which had to be addressed moving forward. The approach included “combining a development path of job creation through macroeconomic stability, fiscal discipline, and export-oriented growth as well as a radical restructuring of the labour market with a focus on worker rights” (Irene, 2017, p. 145). Legislation for the country underwent reform to meet the new governments’ mandates aimed “to redress the inequalities of the past in every sphere: political, social and economic” (The DTI n.d.).

Two of the key legislation which was brought into effect to deal with the injustices experienced during Apartheid was the Employment Equity Act, No 55 of 1998, and the Broad-Based Black Economic Empowerment Act, No 53 of 2003.

The Employment Equity Act, No 55 of 1998, was developed as part of affirmative action, which according to the act is defined as: “measures designed to ensure that suitably qualified people from designated groups have equal employment opportunities and are equitably represented in all occupational categories and levels in the workforce of a designated employer"(*Employment Equity Act No 55 of 1998*, 1998). The EE assists the government in improving an organisations willingness to abide by the numerous regulations which deal with correcting the injustices of the past in the business environment. The B-BBEE was developed to add-on to the policies of the EE, with its main objective being to "advance economic transformation participation of black people in the South African economy" (The DTI n.d.), furthermore it is intended to create a "more representative distribution of wealth and opportunity amongst the various racial groups" (Silverman, 2015). These initiatives according to Ngwenya (Ramlall, 2012) have been seen more as moral rather than legal obligations in the private sector due to the lack of criminal liability if they do not comply, and as of April 2010, only 25% of the private sector was BBBEE compliant (Ramlall, 2012).

LITERATURE REVIEW

Burger and Jafta (2010) looked at the effectiveness of affirmative action in the marketplace between 1997 and 2006; they determined that the policies have had a minimal impact and brought very little change within the labour markets, including improving education for Africans. Since then additional studies have been conducted which looked at the effectiveness of BEE, one such study was by Kleynhans and Kruger (2014) who found that in order to fully benefit from BEE there needs to be active participation from an organisation, but that the effects so far have been mostly positive, which can be attributed to the increased turnover and investment opportunities. It was also mentioned there is a shortcoming to the policy, which is the tremendous amount of capital required to implement successfully, and these costs usually outweighed the gains (Kleynhans & Kruger, 2014).

A research paper by Kruger (2011) titled, *The impact of black economic empowerment (BEE) on South African businesses: Focusing on ten dimensions of business performance,* included data collected through a survey with a sample of 500 participants who worked in organisations of varying sizes, dealing with B-BBEE. The focus of the research was to distinguish what the overall impressions were, and the impact BEE would have on the ten dimensions of business performance. The study found that the majority of respondents had a negative outlook on BEE and did not support the notion that it would improve a company's performance. However, this was only in regards to the ten business performance dimensions. When it comes to whether they would benefit from the BEE practices they found that about 70% agreed they were considered as previously disadvantaged individuals (PID's), which lead to improved employment opportunities (Kruger, 2011). However, it was mentioned that majority of the respondents were black females who are part of the designated group for the BEE strategy. The study did not elaborate as to how individuals benefited and why they had a generally negative outlook.

Since the implementation of BEE, there has been controversies about its effectiveness and whether it is creating the results intended, with some people going as far as to say its perpetuating racism (Wallace, 2017). A number of individuals including the former Reserve Bank Governor Tito Mboweni (Silverman, 2015) have over the last couple of years publicly spoken out against BEE, supporting the idea of banishing it from South Africa's legislation as they believe it is not addressing the issues correctly and providing the results initially thought it would. Mboweni argued that the policies were being used by black managers who are appointed into a position of power within a company or public sector to exclude white applicants from jobs as they see it as their responsibility to do so, however he says this is not what the policies were intended to do (Pressly, 2012).

Research conducted by Jeffery (2013) shows the former finance minister Pravin Gordhan, the President of the National African Federated Chamber of Commerce and Industry, Lawrence Mavundla and Moeletsi Mbeki brother to former president Thabo Mbeki strongly oppose the BEE system and stand by their opinions that the policies have not worked as they were predicted. Mavundla believes that it has "marginalised small businesses instead of helping" (as cited in Jeffery, 2013) while Mbeki has the outlook that it has removed a lot of the entrepreneurial freedom within the country, stating that it has created “a small class of unproductive but wealthy black crony capitalists...”[1] (Beukes, 2011, p. 6).

Wallace (2017), contends that many businesses do not take BEE compliance seriously and instead focus on being able to tick a box on the scorecard instead of improving their overall merit and performance. One essential focus of the policy is the skills development of black employees; however, many organisations do not allocate enough resources to this, which reduces the long-term effectiveness of BEE’s objectives (Wallace, 2017).

Another issue facing BEE implementation is corruption specifically the concept of fronting. Fronting is when “entities claim compliance and deliberately circumvent the B-BBEE Act and Codes by misrepresenting facts in order to appear more appealing to potential consumers and government actors” (Wallace, 2017). It has become so prominent within the business environment that Cyril Ramaphosa suggested government put specific measures in place to penalise transgressors. As a result, organisations can now be “fined up to 10% of their turnover or 10 years in prison” (Wallace, 2017, p. 28).

Wallace (2017), is of the opinion that the policy does not address a critical factor required for the advancement of the majority, being the growth in skills and vocational development. However, the amended BEE codes now places more emphasis on skills development, with targets being doubled from 3% to 6% of payroll which counts 15% towards the total scorecard weighting (BEE Online, 2016). However, the socio-economic development element has been kept constant at 1% and only counts for 5% of the total scorecard weighting in the section which provides for training or mentoring to beneficiary communities (BEE Online, 2016).

[1] Mbeki M Architects of Poverty: Why African Capitalism Needs Changing (2009) 69. (as cited by Beukes, 2011)

Affirmative action within Malaysia

Malaysia is another country which has imposed affirmative action legislation which aims to advance the majority due to a division based on race. In 1971 the Malaysian Government introduced the New Economic Policy (NEP), its purpose was to “reduce and progressively eradicate poverty, and to restructure the society to eliminate the association of race with economic standing” (Burger, Jafta, & von Fintel, 2016, p. 8). The policy was explicitly targeted towards indigenous Malays and set out quotas in areas of education, employment, management and business ownership. They also provided Malays with trust agencies to manage equity as well as financial and technical assistance for entrepreneurs (Abdelal & Alfaro, 2003). Therefore the government not only focused on the working environment but rather started at the educational level, which allows individuals to have a proper foundation before entering the business platform (Burger et al., 2016). The NEP targets were also extended to businesses in the private sector whereby they were required to submit plans which outlined how they were going to employ, train and promote the inclusion of Malays within their operations, the employment quota was set at 40% of the total labour force of that organisation (Shome, 2009). However many companies ignored this quota, except for international organisations who were obligated to comply if they were to receive their licenses and tax concessions (Shome, 2009).

Since its implementation the country has experienced a significant decline in poverty and improved access by the targeted group to the economy (Burger et al., 2016), however it was noted by Yusof (as cited by Burger et al., 2016) that the ability of the Malay’s to function within the modern corporate environment is still lacking. It must also be noted that Malaysia was not able to meet their expected poverty reduction, which is attributed to the fact that they moved away from agriculture during the initial implementation stages of the NEP, causing untrained rural individuals to seek employment within cities (Shome, 2009).

BEE Policy

The B-BBEE codes and requirements are revised on a regular basis and appear to be getting stricter with additional quotas needing to be met, the most recent amendments having been issued in 2013. However, Dr Rob Davies, Minister of Trade and Industry, gazetted further changes to the Act as recently as March 2018 for public comment.

In terms of the BEE strategy a business can be classified into one of three categories namely, an Exempted Micro Enterprise (EME) which has an annual turnover of less than R10 million, a Qualifying Small Enterprise (QSE) which has an annual turnover of more than R10 million but less than R50 million and lastly a Large Enterprise which has a yearly turnover of more than R50 million (BEE Online, 2016).

Each category requires slightly different compliance requirements to reach certain BEE level statuses based on the scorecard. A large enterprise has to complete the generic scorecard covering all elements, a QSE has to comply with a simplified scorecard which means less criteria and a EME is exempt and receives a level 4 rating (Arya & Bassi, 2011). The BEE scorecard is structured under five critical elements of focus including ownership, management control (includes EE), skills development, enterprise supplier development and socio-economic development (BEE Online, 2016), each element has specific codes which receive points according to an organisations compliance. The total combined score across all five components will determine which BEE level an organisation will earn, the higher the score, the better the BEE level, see below table 1 for points required per B-BBEE status (BEE Online, 2016).

B-BBEE Status	Qualification (points)	B-BBEE Recognition Level
Level 1	≥ 100 points	135%
Level 2	≥ 95 but < 100 points	125%
Level 3	≥ 90 but < 95 points	110%
Level 4	≥ 80 but < 90 points	100%
Level 5	≥ 75 but < 80 points	80%
Level 6	≥ 70 but < 75 points	60%
Level 7	≥ 55 but < 70 points	50%
Level 8	≥ 40 but < 55 points	10%
Non-Compliant	< 40 points	0%

If a company is unable to meet the requirements (points) as set out according to their classification, it becomes difficult for an organisation to obtain licences, government work and sometimes is unable to partner with other organisations and suppliers within the private sector (Bjornsund & Grundstrom, 2016).

Challenges of the BEE

As mentioned previously by Wallace (2017), many organisations view BEE compliance as an inconvenience and resent the policy, limiting effectiveness, which could be a result of improper management. Elton Mayo's Human Relations Theory addresses this mind-set, by focusing on the psychological (workers cognition and emotions) aspect of business and dealing with 'irrational' employees and managers (Bruce & Nyland, 2011).

In order to motivate workers and encourage them to buy into an organisations goals and needs, such as BEE requirements, Mayo highlights the importance of having a strong managerial structure that is able to work directly with employees, taking into consideration their individual aspirations, desires, as well as social needs, both within the organisation and the wider societal environment (Bruce, 2006). Motivation is not always centered around the promise of monetary gains, but rather employees are more willing to participate when presented with the opportunity to achieve self-expression and a sense of control and security over their own destiny (Bruce & Nyland, 2011). Organisations can too easily loose the importance of establishing and maintaining loyalty amongst their employees while chasing their economic motives (Bruce, 2006).

The benefits of incorporating Elton Mayo's Theory into an organisation includes creating a democratic work force where workers experience greater freedom within their working environment, and a more established communication structure which encourages team work (Vernon, 2014), that can be leveraged to assist with any policy or legislative compliance. The theory is not without faults, as it has the potential of creating greater stress or pressure for employees due to the additional responsibilities placed on them, in addition the freedom given, leads to less control which could create insubordination by workers (Vernon, 2014).

Bjornsund and Grundstrom (2016), found that some of the organisations they interviewed did not invest any resources into meeting the criteria set out by the BEE Act. One of the reasons presented is the financial investment required to meet the criteria. One of their respondents went on to state that by adding additional requirements such as ethnicity prerequisites (according to BEE), it can lead to a competitive disadvantage due to the lack of appropriately skilled candidates in that profession (Bjornsund & Grundstrom, 2016). Organisations which see the BEE requirements of integrating PDI's as a checklist rather than an integrated system are not seeing employees as people, and are rather going against Mayo's Theory which determines that "humans are not merely the egoistic, utilitarian economic animal of mainstream economics…but they have other, (high level) psycho-social needs and their relationships at work play an important role in their productivity" (Bruce & Nyland, 2011, p. 385).

The companies which did invest into actively working on the BEE regulations find it difficult to comply with and meet expectations due to the constant changes which happen on a regular basis. These companies had a generally positive outlook on the policy, however, they mentioned that it is not being implemented correctly in general which is giving it a negative association especially with those not part of the designated groups mentioned within the Act (Bjornsund & Grundstrom, 2016).

Another respondent from ABB stated that "the reality is that we cannot afford to employ black candidates into all roles, because black people have not historically had the opportunities to gain the relevant skills and experiences in certain professions and industries. In our country, we have certain scarce and critical skills where we don't have the number in terms of black skilled and qualified professionals – we need to grow and develop people from designated groups early at a junior school level in these scarce and critical skills so that we can start changing the demographics to a more representative workforce" (Bjornsund & Grundstrom, 2016, p. 51). Furthermore, it was highlighted that companies regularly have to sacrifice skills to meet the requirements (Bjornsund & Grundstrom, 2016). Organisations which view the incorporation and development of PDI's as a financial burden remove the social requirements of an individual, and according to the Human Relations Theory, employees who believe their own “’non logical’ social or ‘belonging’ needs” (Bruce & Nyland, 2011, p. 385) are being met become more willing to participate within the organisation, therefore cooperating towards the goals, as they as individuals hold a greater sense of identity, stability as well as overall satisfaction (Bruce & Nyland, 2011).

The government has worked over the years to increase spending in public schools which cater to the majorities as well as increase the number of teachers paid, unfortunately, there is still a large discrepancy between these schools and the historically ‘white’ schools (Ponte, Roberts, & Van Sittert, 2007). Opposition parties (DA, COPE and IFP) have mentioned that not enough is being done in regards to education and that “B-BBEE cannot be implemented sustainably if the education system is not working properly” (Chahoud et al., 2011, p. 63), this was further emphasised by Pooe (2013) who stated that government needs to place more importance on education in order to improve economic transformation and development within the country.

Jackson III et al. (as cited in Dongwana, 2016) is of the opinion that there is still a lack of black talent available, which affects the ability of an organisation to recruit individuals at the right level and therefore achieve the required EE and effectively BEE goals. Not only is there a lack of talent but many of these individuals tend to move between jobs regularly instead of staying at one organisation for an extended period, which can also affect an organisations ability to retain their BEE levels on a year to year basis (Dongwana, 2016). According to the Human Relations Theory, workers can be irrational and easily susceptible to socialistic radicalism which can be a product of disassociation and imperfect understanding (Bruce & Nyland, 2011). Mayo was of the opinion that the disorder/unrest within the work place, such as high labour turnover, absenteeism or dissatisfaction was a result of the working conditions, one such condition is an employee’s inability to experience the sense of personal significance within the organisation (Bruce & Nyland, 2011).

In the research conducted by Ederlöv and Ring (2017) it was found that depending on whether the business was owned by a white or a black individual/s they had a negative or positive outlook on BEE. The white-owned organisations saw no benefit in the policy, this was mainly due to the lack of black skilled labour as well as proper knowledge about the policy and the requirements associated with it, however they did note that once the companies were adequately informed and started training and developing their workforce appropriately, the negative perception shifted (Ederlöv & Ring, 2017).

Irene (2017) conducted a survey, which looked at how beneficial BEE has been to female-owned SME businesses, looking specifically at Du Toit et al. (as cited by Irene, 2017) ten dimensions of business; of the 500 respondents, 72% classified themselves as PID's (black females), 20% as non PID and the remaining 8% did not know. The results indicated that 45% of the respondents did not believe that BEE had been beneficial to their businesses, 16.8% could not agree or disagree and only 27.4% could confirm it had been beneficial, however no further explanation was given as to why the companies found it beneficial or not (Irene, 2017).

SME's within South Africa

In 2004, Rogerson (as cited by Ederlöv & Ring, 2017) identified that South Africa had very few successful SME's which were able to grow and provide job opportunities, they also had very little support from the government. According to Olawale and Garwe (2010), approximately 75% of SME's fail to become established firms, as they are unable to move from stage one (existence) of the business growth stages, these being existence, survival, success, take-off and resource maturity. Olawale and Garwe (2010), further identified a number of business environment factors, both internal (I) which is controlled by the firm and external (E) which are uncontrollable by the firm, and has contributed to many SMEs failure; these are as follows:

- (I) Financial Support – many SMEs are unable to get access to loans, with 75% of applications being rejected by banks (Foxcroft et al. as cited by Olawale & Garwe, 2010)
- (I) Managerial Skills and Experience – there is a lack of education and training which is reducing a firms capabilities (Herrington and Wood as cited

by Olawale & Garwe, 2010); according to Radipere and van Scheers (as cited by Rogerson, 2008) 90% of the respondents which were surveyed believe SMEs fail due to lack of managerial skill

- (I) Inability to invest in information technology – due to the lack of capital SMEs are unable to invest in crucial technology (hardware and software) which can assist with production costs
- (E) Economic Variables – fiscal and monetary policies, inflation, interest rates and foreign exchange rates all have an impact. Managers need to be able to read and understand the market environments which can be connected back to lack of managerial skills within a business
- (E) Labour, infrastructure and Regulations – it is expensive to hire skilled and motivated labour as well as comply with the Employment and Minimum Wage Regulations, furthermore, they are required to obtain registration licences and pay taxes which is costly. Many SMEs perceive the government to be doing very little to assist them (Maas and Herrington as cited by Olawale & Garwe, 2010).

Christianson (as cited by Rogerson, 2008) argues that the regulations (labour regulations, skills development levies) imposed on businesses are more geared towards larger enterprises, therefore creating more problems for SMEs. It was also determined that these regulations add significant costs, relative to the size of the firm, which "discouraged business growth in the formal economy" (SBP as cited by Rogerson, 2008). Chiloane-Tsoka and Rasivhetshele (as cited by Ederlöv & Ring, 2017) highlight the fact that the changes being made to legislation, is making it harder for SME's to run companies of this size as they are not able to adequately comply with the new regulations.

The South African Government has come to the realisation that the high unemployment cannot be solved by large corporations but rather through small and medium-sized enterprises (Rogerson as cited by Dongwana, 2016). According to Ruzzier et al. (as cited by Ederlöv & Ring, 2017) the economic change and growth of a country are heavily influenced by SME's.

As of 2017 it was reported by the Banking Association of South Africa that 91% of formalised businesses within South Africa were SME's who employed about

60% of the available work force (Pike, Puchert, & Chinyamurindi, 2018). Without the contribution of SME's there is a risk for the economy to become stagnant (Cant & Wiid, 2013). SME's have the potential to bring innovation, new products as well as technology to the existing markets, thereby creating competitive pressure on the organisations already operating with the markets (Olawale & Garwe, 2010).

In 2016 the President, Jacob Zuma, launched the CEO initiative, a collaboration between government and the private sector to help grow the economy. This initiative so far has set up a Youth Development Scheme which allows 1 million youths to gain work experience in order to assist them in job opportunities, as well as raise R1.5 billion for the small business fund which encourages entrepreneurship and self-employment activities in order to improve small business development within South Africa (Department of National Treasury, 2017). The government has also established the National Informal Business Upliftment Scheme as well as the Black Business Supplier Development Programme, and these two will help informal, small and medium businesses become more competitive through financial support (Department of National Treasury, 2017).

The government as of 1 April 2017 has revised the preferential procurement policy regulations, these changes aim to allow more transformation within the business environment and give small businesses better opportunities. According to the Budget Review released by the Department of National Treasury (2017), the following is now permitted:

- Tenders can be targeted to empower specific groups, such as black women
- Bids up to R50 million will be evaluated regarding the 80/20 preference point system (the previous threshold was R1 million), which will help smaller, black-owned firms to compete
- Public entities will be allowed to negotiate prices and value for money with preferred service providers
- Procurement of locally manufactured goods will be supported
- Preference points will be allocated in line with broad-based black economic empowerment status

- Compulsory subcontracting of at least 30 per cent for tenders above R30 million will be implemented, where feasible, to advance designated groups

RESEARCH DESIGN

Research Design

The original intent for this study was to utilise a web-based survey (21 multiple choice questions and 2 feedback questions) in order to gather information on the identified gaps within the literature as well as provide an updated perspective on what the SME environment looked like and the BEE compliance rate including any positive or negative associations organisations may have been experiencing with the policy. The non-participation by respondents, due to lack of access, led to this research being reframed as an exploratory study, where the methodology can be replicated at a later stage with more participants.

The sample collected comprised of respondents who identified as being part of an Exempted Micro Enterprise or Qualifying Small Enterprise, all others were discarded. The information of the respondents who received correspondence, via email, were gathered from personal connections such as family, friends and colleagues from the MBA programme as well as the SME database online which provides contact information for different SME's within South Africa. The original intent was to access as many respondents as possible outside the authors personal connections, however due to the lack of participation and the reliance on those connections, there is a risk that any positive or negative biases the author may have held could have affected the responses as a result of 'group think'. 'Group think' refers to a type of social conformity whereby people closely associated or in regular contact can begin to form similar opinions regarding specific topics, whether through intentional or unconscious influence of one another (Atran, Badcock, Guy, & Stalder, n.d.).

Participants were invited to distribute it to others who they thought may be able to assist, a technique known as snow-ball sampling. The survey data was collected using Qualtrics, an online software which provides a secure platform for research, and exported into a excel format for analysis.

The topic of BEE can be complex, due to the past history associated with its inception, which is why it was critical for this study to be ethically sound. The proposal as well as survey was provided to an ethical committee for clearance before commencing with data collection. To ensure confidentiality, the survey did not ask for any identifiable information, and only focused on the data required regarding the BEE policy. In order to ensure consent in participating with the study, respondents were to select if they agree to participate before starting the survey, if they selected no, the survey was terminated. The software mentioned above also did not record any personal information such as web addresses or email addresses.

Sample Demographics

The total usable respondents was 39, of these 77% were from EME's and 23% QSE's from across all provinces within South Africa. There was a relatively even distribution between male (54%) and female (46%) participants, with positions ranging from CEO/CFO/COO (49%), to directors (33%) and managers (18%). A limiting factor however to the data is the uneven distribution of respondents according to race, with 77% white, 15% black, 8% Indian/coloured and 0% Asian.

Data Analysis

This study made use of a quantitative approach, which consists of utilising numerical representation of data (Sukamolson, 2007). This data was analysed using descriptive statistics, as it created a clear and logical way of summarising data simplistically using graphical representation, such as through tables and graphs (Jaggi, 2003). This was the most effective form of analysis considering the limited amount of data available. The descriptive statistics was utilized in identifying any possible patterns which may have been present within the data sample.

Validity of Data

According to Mann (2003, p. 55) validity should have "demonstrated what it says it has", therefore the "conclusions can be logically drawn from the results" (Mann, 2003, p. 55). There are two forms of validity which exists, namely internal and external. External validity refers to whether the study has represented the situation or conditions accurately and can be applied to others, whereas internal validity refers to the reasons or variables which may have affected the outcomes of the study (Roberts & Priest, 2006).

This study lacks external validity due to the short time frame available for data collection as well as the limited number of sample respondents who participated. The respondents are not an accurate representation due to limited amount collected and uneven distribution across the ethnic groups as noted above.

The web based survey also allowed for anonymity, as organisations did not need to disclose their name or any identifying factors, however the internal validity may still have been affected by a respondents unwillingness to participate in the study. This may have been a result of their own biases, own experiences in the past in relation to BEE or not knowing the appropriate information to answer the questions.

The risk to this study, due to the lack of validity, include skewness of data which directly affects the conclusions drawn from the findings, therefore causality is weak. This can be attributed to not having received an accurate representation of the current situation.

Reliability of Data

Reliability is the "extent to which results are consistent over time and an accurate representation of the total population…and if the results of a study can be reproduced under a similar methodology" (Joppe as cited by Golafshani, 2003, p. 598).

The methodology undertaken for this study was structured in a manner which should be easily replicable in future research as it was based off similar studies previously conducted on the topic of BEE within South Africa. However, as the study relates directly to the South African legislation, it may need to be adjusted as and when the specific legislation is amended by government. This may affect the studies overall reliability.

As this study relates only to SME's, a key component to assisting with reliability, was the inclusion of a question whereby the respondent was required to identify the type/size of the organisation in which he/she was from, thereby allowing the author to exclude responses from persons who indicated they were from large enterprises. Furthermore, respondents were required to answer every question before being able to advance to the next, in order to limit missing data, those who left the survey before completing were also excluded from the results presented below.

The risk of bias needs to be mentioned within this study, initially this would not have been an issue as the study was designed for the general public, however due to the lack of success with respondent participation, it is now an aspect which affects the overall results of the study, nevertheless the framework by which this study was conducted is still viable.

RESULTS

This research sought to understand how BEE was aiding or hindering the growth of SME's within South Africa, across all racial groups, especially taking into consideration the PDI's (those who are meant to directly benefit from the policy), however due to the distribution discussed above, definitive deductions cannot be made, but within this sample the below results were realised.

Respondents were asked a series of questions relating directly to the BEE policy and the extent to which they were able to comply with the regulations as well as their ability to cover the costs associated with it. As seen in Figure 1, 51% of the respondents were unable to comply with the policy whereas 31%

indicated they were. The purpose for this question was to understand the level of compliance associated with the sample group.

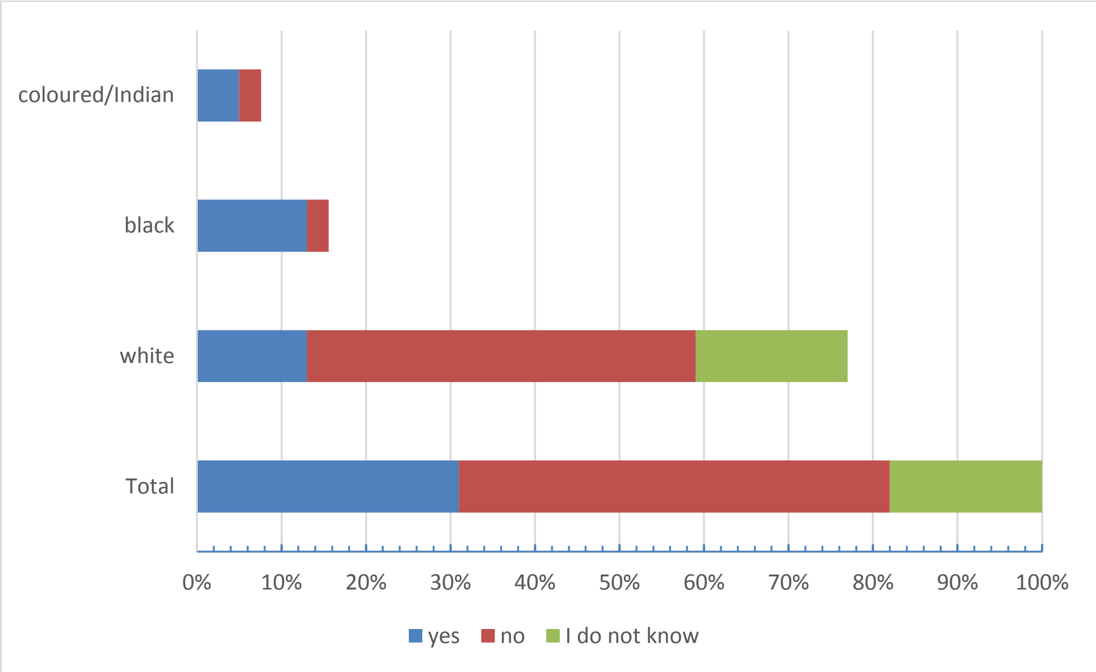

Figure 1: Can organisations comply with BEE regulations for maximum benefit

Within the literature it was established that there was difficulty for some to obtain accurate information on the policy requirements as well as the amendments if released. According to this sample (Figure 2), 30% of respondents indicated that it was difficult to get information, whereas 41% indicated it was easy, the remaining 28% were neutral. This data does not indicate that there is a major problem in regards to gaining access to information, however, the participants which indicated it was difficult could be affected by biases and the unwillingness to comply, especially when compared to the results in Figure 3 where 42% of respondents did not spend money on the policy requirements.

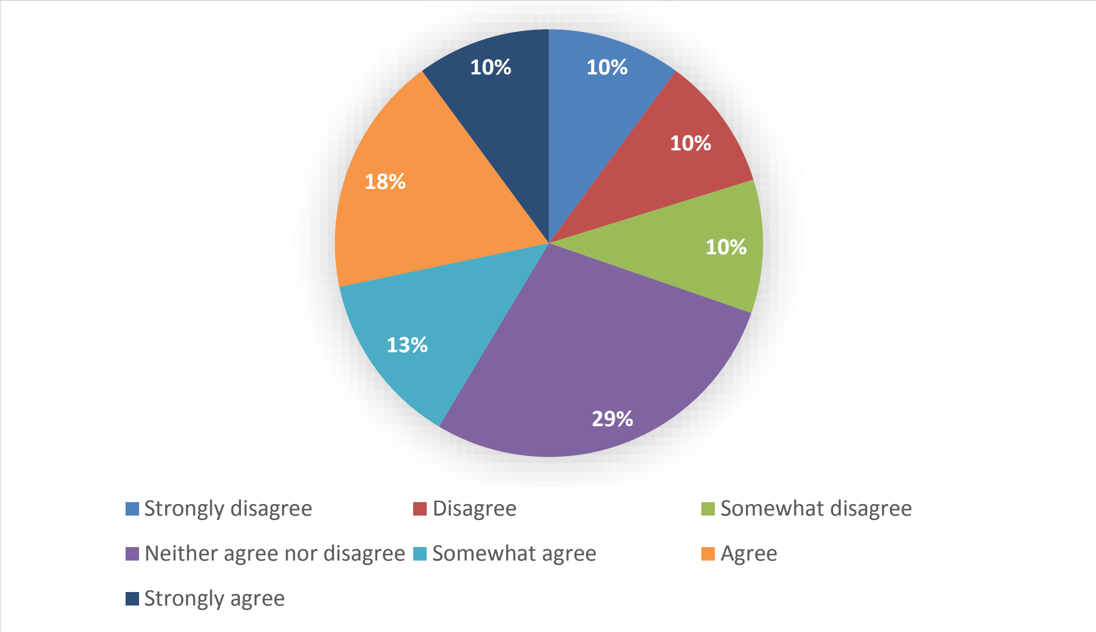

Figure 2: Easy access to policies and amendments

When we consider the costs associated with the implementation of BEE, as seen in Figure 3, 44% stated they were able to cover the costs whereas 36% weren't able to, however 20% stated they did not know, which is interesting when considering the demographics of the respondents, namely CEO's, directors and managers, the individuals who should be aware of whether or not their organisation is able to cover certain costs. This indicates a possible misunderstanding of the policy and the requirements thereof, or the lack of interest to comply. If we consider Elton Mayo's Human Relations Theory, how are leaders able to properly invest, empower and develop their employees on a personal level if they are not aware of the costs required to do so, for those individuals, without generalising.

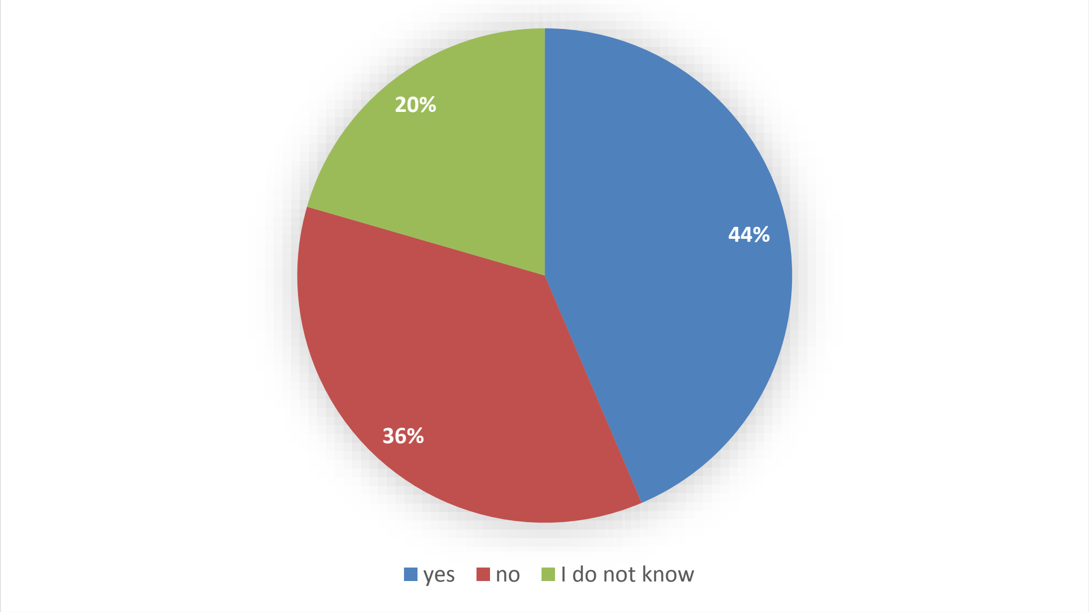

Figure 3: Can organisation comfortable cover BEE costs

In addition to asking whether the organisation was able to cover the costs of BEE implementation, respondents were requested to specify how much they currently spend as well as how much they require in order to receive the maximum benefits from the policy, this data is presented in Figure 4. 42% of respondents, of which all were white, indicated they did not spend money on BEE compliance and would not spend money on it if they had the financial position to do so. The rest of the data is relatively sporadic across a wide range of values. 8% of respondents, made up of 3% black and 5% white, indicated they only spend between R0 and R1 000 on compliance and would not require more. This is difficult to believe considering the number of items an organisation needs to meet in order to become fully compliant. 47% (18% black or coloured/indian; 29% white) indicated that they spend between R1 000 and R150 000, this figure dropped to 34% (13% black or coloured/indian; 21% white) when indicating how much they require to cover all costs. Only 5% (2.5% coloured/indian; 2.5% white) of respondents stated they spend R500 000 and above on compliance. Lastly, 25% (10% black or coloured/indian; 15% white) stated they require between R150 000 and above to comply effectively, of that 25%, only 10% (3% white; 3% black; 4% coloured/indian) required R500 000 and above.

The information presented here indicates that there is a lack of understanding in regards to what is required in order to fully comply with the different policy categories. Furthermore, as SME's are limited to their size, one would expect some consensus or grouping of data around a certain value range. If we compare this data to the prior question whereby only 41% of respondents stated that they were able to gain access to the policy information, there should be an understanding of the requirements and costs associated with them. If we assume the respondents who stated they experienced difficulties retrieving the policy information do not necessarily know or understand what is required, how could they possibly know what the costs are, this could potentially mean they were guessing, and not being accurate in their response.

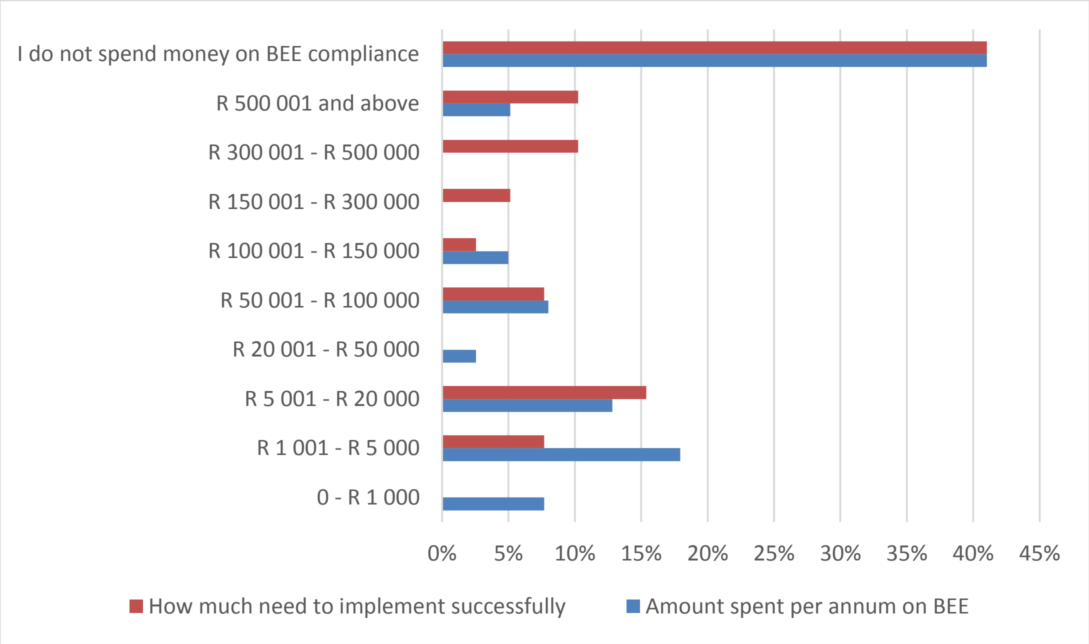

Figure 4: Cost required to Implement BEE effectively

An organisations BEE level status is a good indication as to whether they are complying with the policy. In this sample (Figure 5), the black or coloured/indian respondents held a level 3, 2 or 1 respectively, whereas majority of the white respondents indicated they were either non-compliant (21%) or Level 4 (46%). It is important to note that to receive a level 4 status an organisation, whether a QSE or EME, only need to meet minimum requirements (simplified scorecard), which indicates that management is not actively pursuing compliance but rather using the policy as a tick box exercise. This in turn relates back to Elton Mayo, whereby it is important to treat people as people, instead of tools for accomplishing economic or political gains. If they applied the Human Relations Theory, the organisations could develop a more sustainable approach to BEE implementation by leveraging off their employees in a more holistic and team orientated manner.

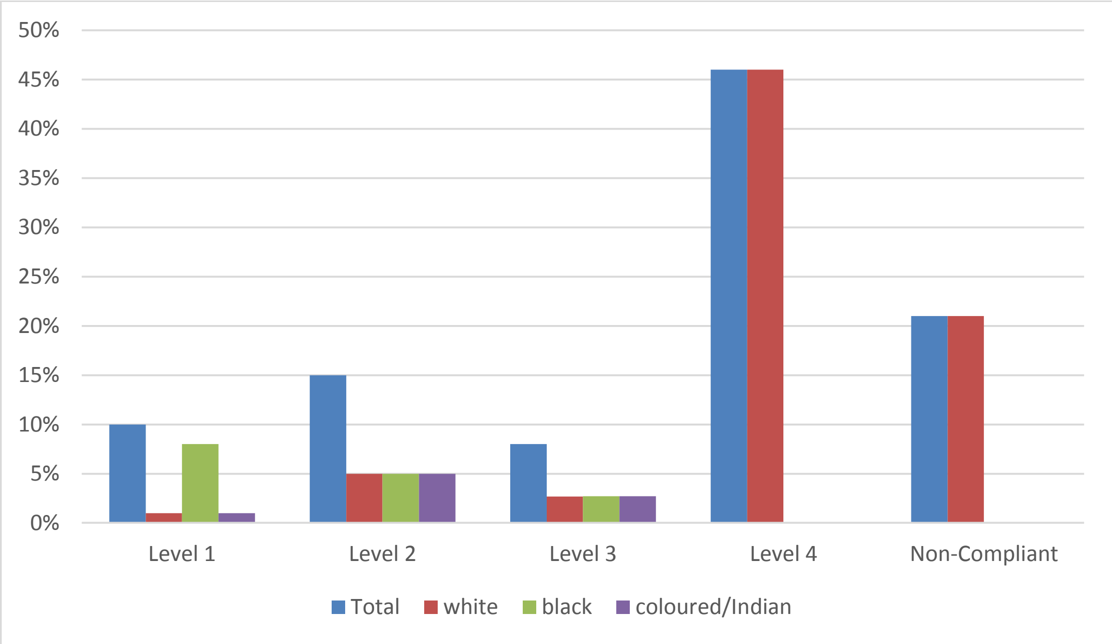

Figure 5: BEE status vs. Race

The BEE policies are meant to assist with the growth of an organisation and the PDI's associated with them, the data displayed in Figure 6 indicates the degree to which respondents agree that the policy assisted with the growth of their organisations. The numbers indicate that majority of respondents (58%) disagree that the policy assisted their businesses, however this data is skewed due to the number of white respondents represented, if we isolate the PDI's, namely the black and coloured/indian respondents (intended beneficiaries of the policy), most indicated that they did experience assistance due to the policy. If we consider the previous data whereby many of the organisations were not compliant or only met minimal requirements to obtain a level 4 status, it is plausible for many of the respondents not to have experienced growth. If they were to apply Mayo's Theory and integrate the policy into the organisational structure, using employees as an asset and gaining their input, it could lead to more interest and better retention, and potentially experience an increase in their organisational growth.

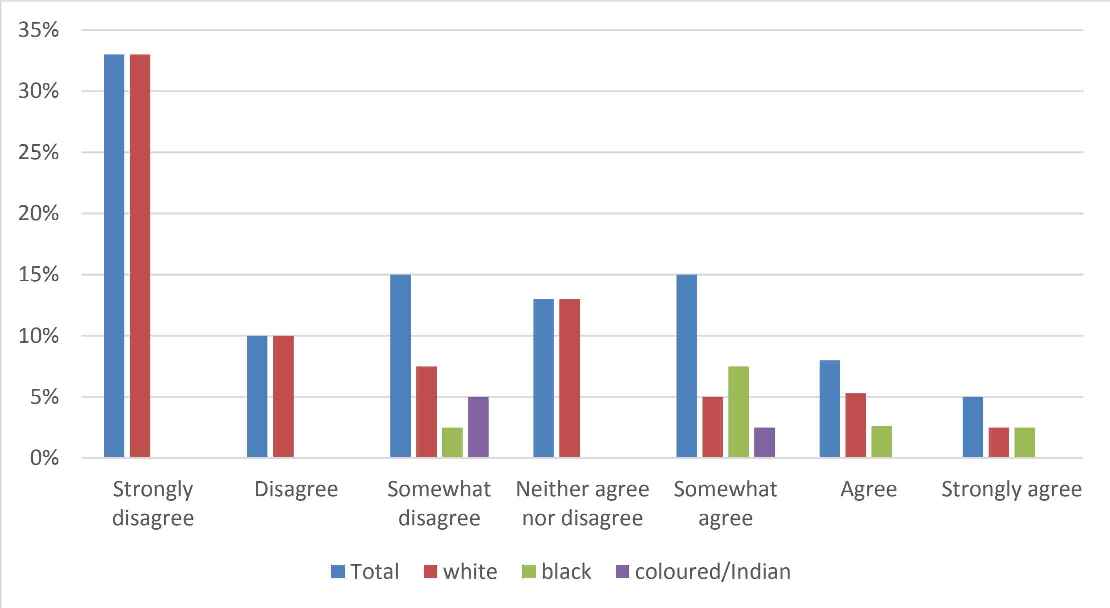

Figure 6: The policy has assisted with growth of the organisation

In addition to identifying if the organisation had experienced any growth, respondents were asked to identify the specific areas of the growth, this distribution can be seen in Figure 7. 64% indicated they experienced no assistance, of which 58% were white and the remaining 6% were black or coloured/indian respondents, which relates back to the non-compliance and willingness to make an effort towards the requirements. In regards to those organisations which did experience growth, they did not experience it in one specific area, there is a fairly even distribution between the different options. 13% of respondents were able to expand their business operations, 10% were able to increase their annual revenue as well as ability to hire more employees, 8% were able gain access to external financing, 5% were able to increase their market share, and lastly 3% were able to develop new products or services as well as increase their net profits. If we consider the demographics of the respondents in relation to the growth items, majority of the PDI's (black and coloured/indian) experienced growth in at least three to five of the areas identified, which positively shows that if implemented correctly, BEE has the potential to assist organisations in multiple ways.

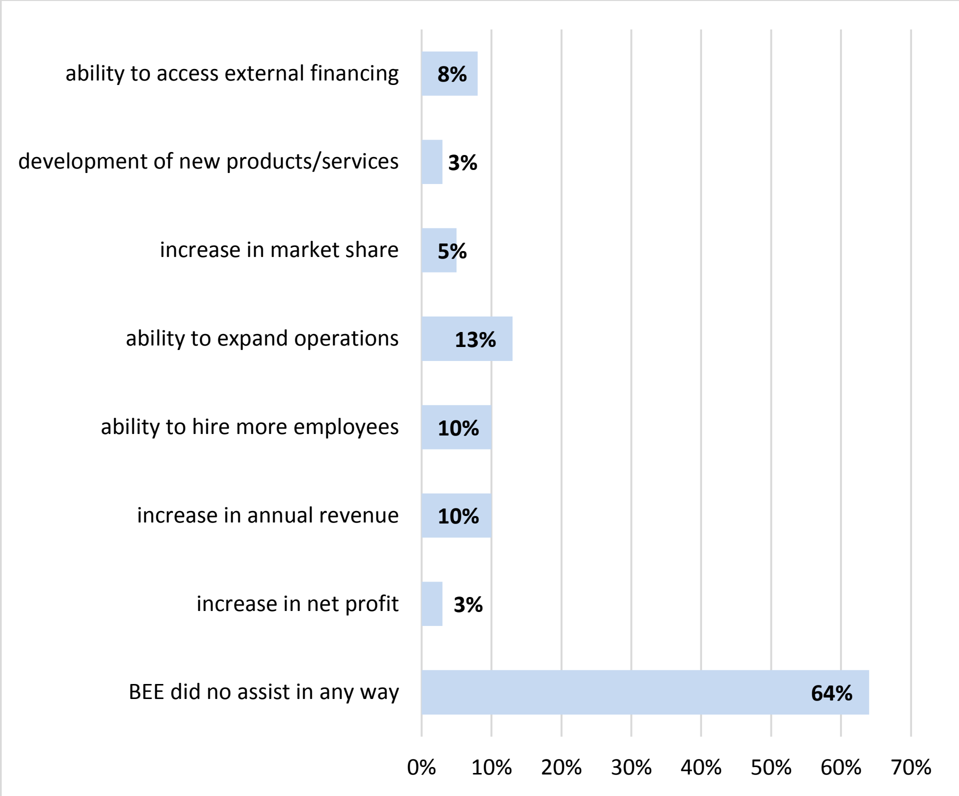

Figure 7: Assistance with organisational growth

Participants were also asked to state whether the policy had assisted with providing additional business opportunities which may not have been accessible before. As can be seen in Figure 8, the data is similar to previous questions, with 54% disagreeing that the policy had provided any opportunities, with most being of the white demographic (49%), 31% agreed, and the remaining 15% were neutral. When the respondents indicated the areas in which they received business opportunities (Figure 9), it is unexpected that only 23% eluded to not having any opportunities, considering 54% stated that the policy did not provide assistance. This indicates there may be some uncertainty by respondents regarding the policy as well as their own organisations business operations. For those who indicated that they had experienced assistance, 31% of respondents were able to partake in or win tenders, 10% were able to sign joint venture agreements with other businesses, 5% gained access to external financing or loans and 3% were able to receive licences as well as the ability to fund acquisitions. This data provides an indication that if organisations are willing to actively participate with the BEE policy and implement it appropriately, they would most likely see an increase in business opportunities.

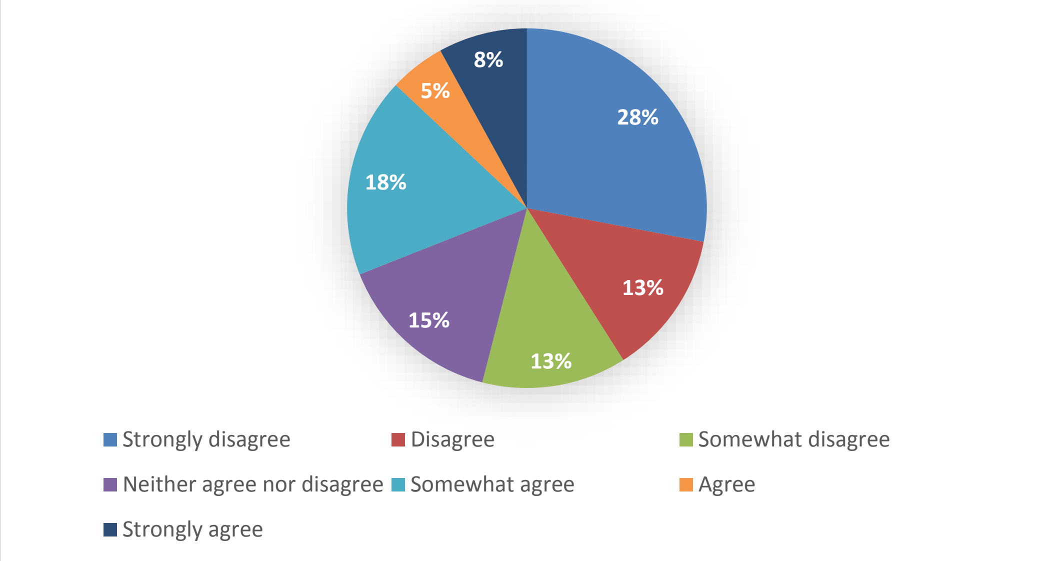

Figure 8: BEE provided additional business opportunities

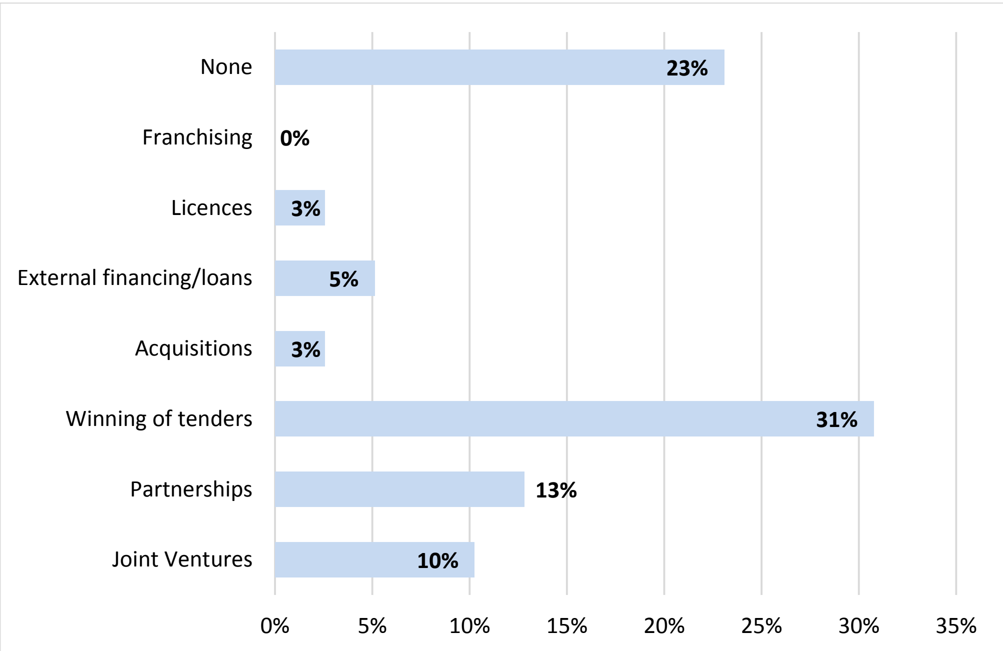

Figure 9: BEE Assistance with business opportunities

The BEE policy consists of seven areas of compliance (according to the scorecard). Respondents were asked to identify which of these they could and could not comply with successfully. As can be seen in Table 1, the findings are inconsistent, as those who did not select certain items under the can comply question, did not select the corresponding item under the cannot comply. This could be a result of not completely understanding the questions presented or alternatively the policy itself. For the purpose of the study, these results need to be read and interpreted as is, but does not necessarily represent an accurate breakdown of the situation.

According to the data, 26% of respondents identified that they were unable to meet any areas of the policy whereas only 15% are able to meet all the areas, both of which are only represented by white participants. According to the data, skills development (49%) seems to be the area most organisations are able to comply with, followed by employment equity (41%). The remaining areas, ownership, management, preferential procurement, enterprise development and socio-economic development, are relatively even in the ability to comply with 21% and 26% respectively. In terms of not being able to comply, the highest ranking item was ownership at 46%, followed by management, preferential procurement and enterprise development at 29%. If the table results are taken at face value, it can be stated that ownership is the most challenging area to comply, whereas skills development and employment equity are the least difficult.

	Can meet the following areas				**Cannot meet the following areas**			
	White	Black	Coloured/ Indian	**Total**	White	Black	Coloured/ Indian	**Total**
Ownership	15%	5%	5%	**25%**	41%	5%	0%	**46%**
Management	10%	13%	3%	**26%**	23%	3%	3%	**29%**
Employment Equity	28%	8%	5%	**41%**	15%	3%	3%	**21%**
Skills Development	33%	8%	8%	**49%**	13%	0%	5%	**18%**
Preferential Procurement	10%	8%	3%	**21%**	21%	3%	5%	**29%**
Enterprise Development	13%	3%	5%	**21%**	23%	3%	3%	**29%**
Socio Economic Development	18%	3%	5%	**26%**	21%	3%	3%	**27%**
unable to meet any areas	26%	0%	0%	**26%**				
can meet all areas					15%	0%	0%	**15%**

Table 1: Areas of the BEE policy respondents can and cannot meet

The BEE policy is not only associated with organisational growth but also personal growth of individuals within those organisations. Figure 10 outlines the respondent's level of agreement as to whether the policy assisted with their own personal growth. 21% were in agreement that the policy had assisted them, 21% were neutral, with majority (58%) stating that they disagreed with this statement, of this 58%, 32 participants are of the white demographic, 2 are black and 1 is coloured/indian. This result is not unexpected when considering majority of the respondents are not compliant or identifiable as a PDI. When asked to identify where they had experienced personal growth (Figure 11), 82% identified that they did not get any access from the policy (relates back to the demographics of the respondents), with 15% gaining access to additional training and mentoring and 3% benefiting from access to promotions within their organisations. These figures highlight that the policy may not necessarily be assisting with personal growth and development as much as it could, and should be considered moving forward. Mayo's Human Relations Theory could potentially be applied to this situation, as management can establish ways to more effectively incorporate the policy in order to allow individuals to grow and establish themselves within the organisation and experience a greater personal growth and develop a sense of self-worth and accomplishment.

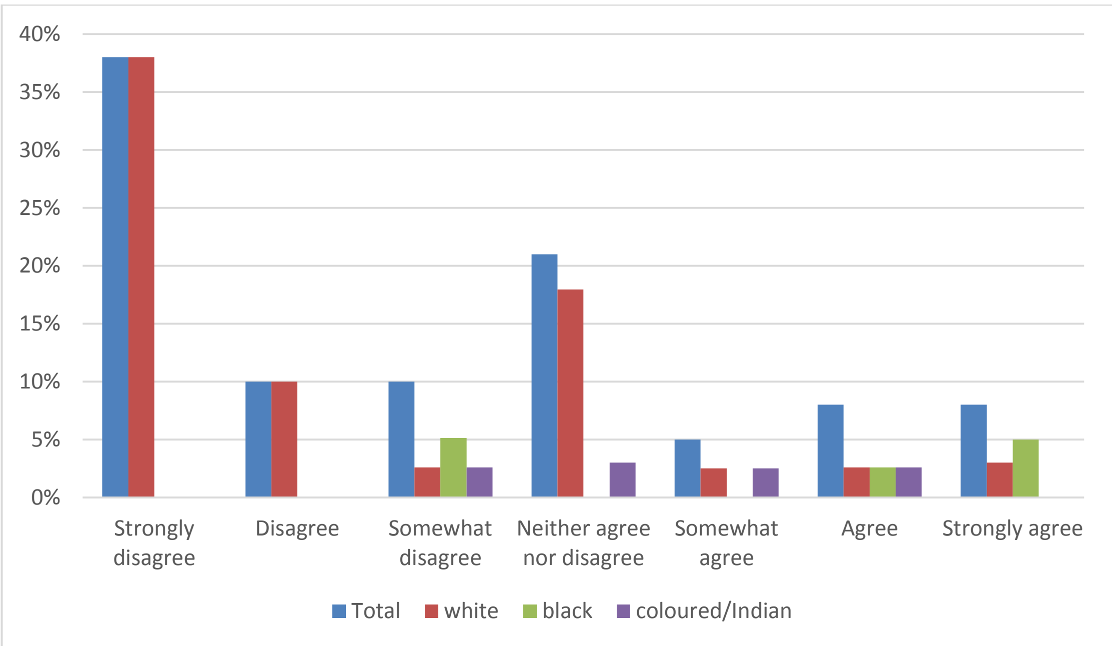

Figure 10: BEE assisted with personal growth in organisation

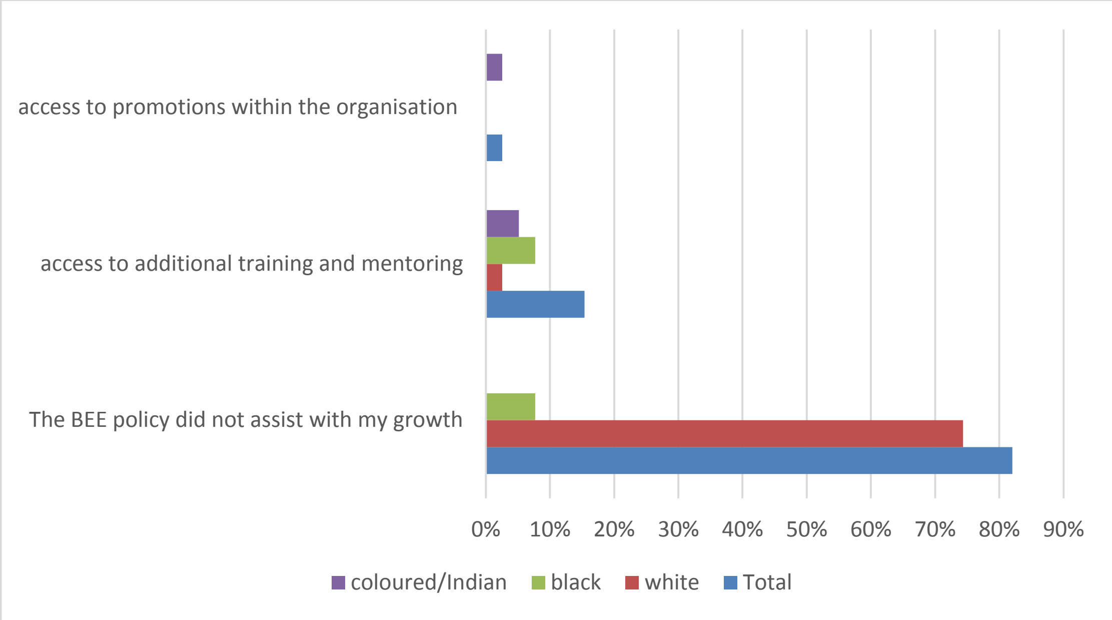

Figure 11: Areas of personal growth assisted by BEE

Respondents were asked to identify if they agreed that the BEE policy assisted SME's within South Africa. Although majority of the participants previously stated that they were not getting assistance from the policy, 61% agree that the policy does assist SME's in general, with 18% being neutral and only 21% disagreeing with this statement (Figure 12). These responses can be interpreted in two ways, firstly respondents may not completely understand the policy and its intentions, therefore not being completely aware of how one is meant to benefit. Secondly, they may be approaching this question not on a granular level but rather generally, in the sense that the policy assists SME's when properly complied with. For the purpose of this study, the generalist view will be favoured, as the respondents who are classified as PDI's, have been experiencing some form of assistance from the policy whether it be the organisation or themselves.

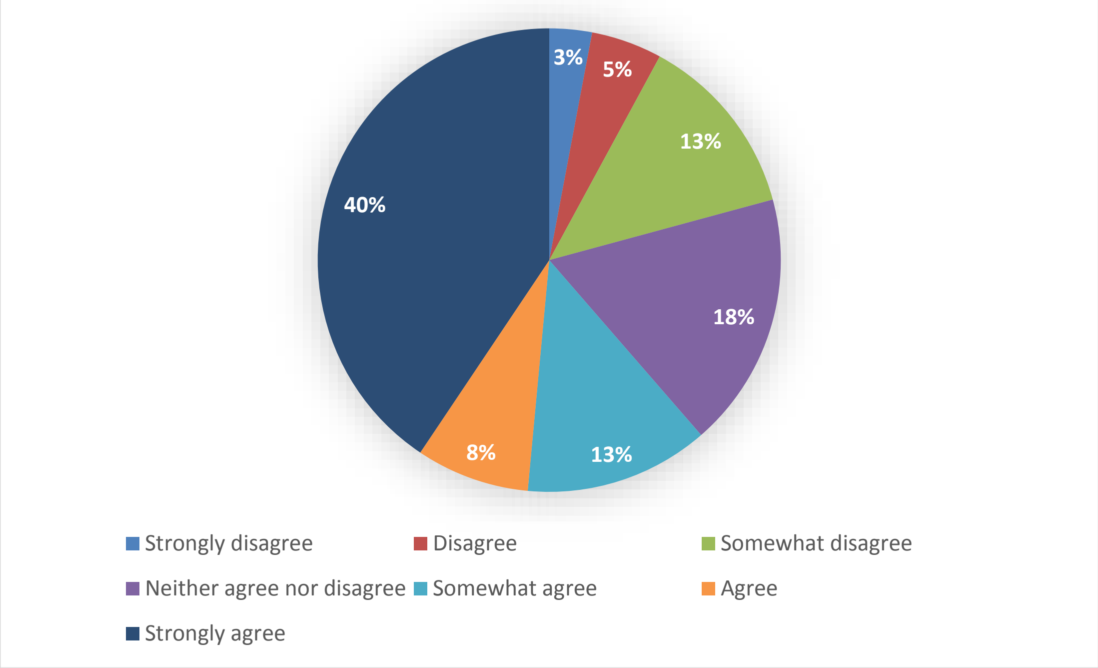

Figure 12: Does the BEE policy assist SME's?

Lastly, participants were asked if they would change or remove any areas of the current policy as well as to identify these areas accordingly. When we look at Figure 13, there is a relatively even distribution between the different components of the policy with only 16% stating that they would not change or remove any items, which is in line with the previous data where only 42% of respondents are compliant. The two highest ranking items at 17% were ownership and preferential procurement, which is also consistent with the previous information whereby respondents identified them as being difficult to comply with. 12% of respondents indicated that the management and employment equity criteria should be adjusted, which additionally is in accordance with the previous question, being identified as difficult to comply, followed closely with enterprise development at 10%. The two lowest ranking items were socio economic development at 9% and skills development at 7%. As these two were identified as being relatively achievable in terms of compliance, it is not unforeseen for them to receive the lowest percentages, however considering all the other data collected as well as Elton Mayo's Human Relations Theory, it would be favourable to relook at the criteria associated with these items and possibly consider readjusting to make it less generalised, so too benefit individuals further.

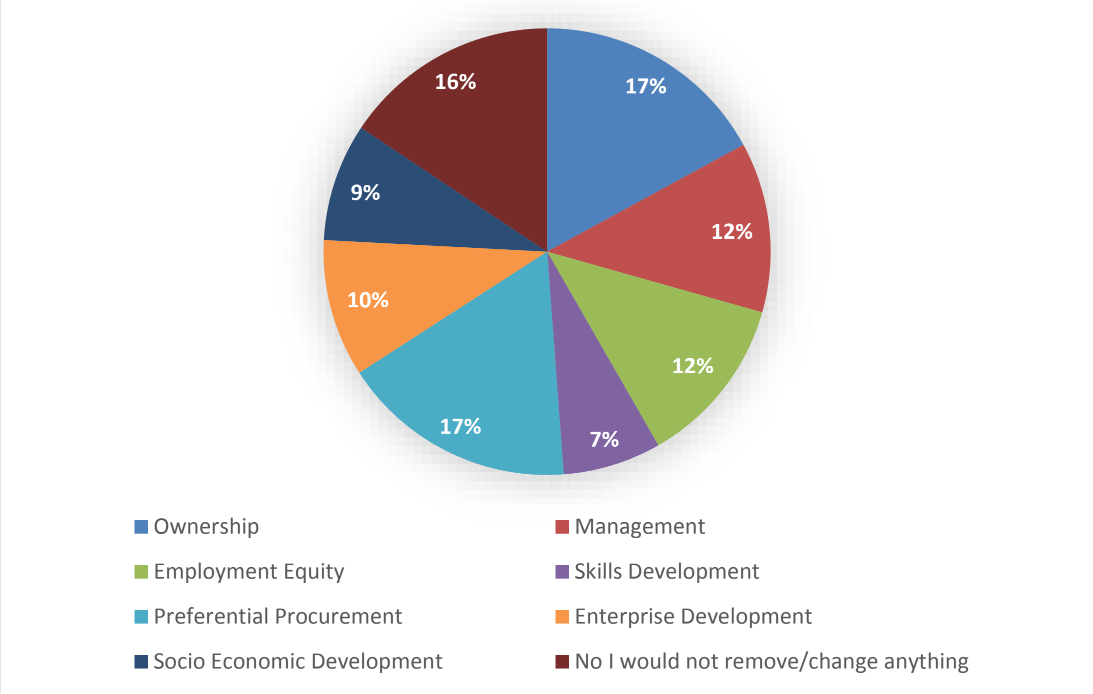

Figure 13: Areas of policy that should be changed/removed

Limitations of Study

The limitations of this study need to be considered in regards to the conclusion and recommendations presented. The first limiting factor is the lack of participation (39 respondents) due to inability to gain access to the general public successfully. This small sample size caused an uneven distribution according to race classification, in order to have had a more accurate representation of the current situation regarding the BEE policy, an even amount of black, white and coloured/indian participants were needed.

In addition, there is a risk that respondents own biases may have affected their ability to accurately answer the questions presented to them, this includes the fear of being truthful, therefore they were not fully transparent with their experiences or current situation, even though the study stated it was anonymous.

CONCLUSION

As mentioned previously, the data, conclusions and recommendations are only applicable to this study and cannot completely be applied to the general public or used as an accurate representation of the current situation pertaining to the success or failure of the BEE policy within South African organisations.

The perceptions of the majority of respondents appear to be relatively negative towards BEE and the need to comply within their own organisations, this is accentuated by the fact that majority of them indicated they were not compliant or only met the minimum requirements in order to receive a level 4 status, and were unwilling to spend money on implementing the policy in its entirety even if they had the financial means to do so. As majority of the respondents were from the white demographic (77%) the negative association with BEE could be a result of an individual's own biases and reluctance to give away what they consider to be theirs, such as certain positions within an organisation or ownership stakes. This is further enhanced by their possible misunderstanding or confusion about the policy and its requirements, which is evident within the data, due to the large amount of contradictions.

Furthermore, if we isolate the PDI's (23%) responses (the individuals for which the policy was intended), majority were compliant with level 3, 2 or 1 statuses and indicated that they had in one or more ways benefited from the policy, whether it be the organisation through growth or new business opportunities, or alternatively on a personal level. It is therefore evident that those who are willing to comply and actively interact with the policy are able to experience gains. These findings are similar to studies mentioned within the literature, where active participation is required by organisations, however there is a lot of resistance overall which is not creating the intended change.

With the data available in this study it is not plausible to accurately declare whether the BEE policy is hindering or assisting SME's development within the South African economy. Even though 61% of respondents agreed that the policy assists SME's, the data particulars contradict this statement with majority of them not being able to adequately apply or gain growth. In addition, if the policy is working as intended, respondents should not want to adjust it. However, according to this study, every single category associated with the policy was selected by respondents to be changed or altered in some way, with only 16% stating they would keep it as is. This indicates a level of dissatisfaction for the policy, especially in regards to the ownership, management, employment equity and preferential procurement categories. Although skills development received the least amount of recognition as a problem area, it is still one to be considered, especially when compared to the other data whereby many of the PDI's only received a small amount of growth from the policy. The policy should be assisting with skills as it is the foundation of organisational management, which is clearly stated by Olawale and Garwe (2010), who are in support that majority of SME's fail within South Africa due to the lack of managerial skills. Furthermore, it is clear within the literature that education is an important aspect of being able to meet BEE policy requirements, however due to the lack of emphasis placed on improving the educational system, from primary school phases, within South Africa, it is difficult for organisations to meet quotas as there is a lack of available talent at the required levels. This further enhances the need to allocate more resources to training and mentoring within businesses.

It is evident that the policy as a whole still needs to be reconsidered by government and readjusted to the current business environment, taking heavily into consideration the lack of compliance by many organisations. Although lack of understanding of the specific requirements may attribute to the non-compliance, it still does not appear to be the most effective way of assisting with SME growth within South Africa, nor the development and advancement of previously disadvantaged individuals.

RECOMMENDATIONS

SME's play an important role when it comes to the future of South Africa's economy, therefore government should strive to make it as easy as possible for them to succeed. Although the BEE policy is meant to assist, it does not appear to be accomplishing its targets, which is why it should be reanalysed and restructured. As identified in the literature in conjunction with the realisation that mismanagement and lack of knowledge and understanding is a key component to SME's failures as well as the inability to properly comply with the policies, more emphasis should be placed on the skills development of BEE. The category should be catered more towards individuals, therefore a more personalised focus, instead of just generalised, focusing on developing individuals to be able to properly manage organisations, rather than just sending people on training courses just to tick a box. In addition, the government could consider making reference to the Malaysia's affirmative action policy whereby they not only focused on businesses but also the educational system, which ensured a proper foundation was created for all the intended individuals, leading to them becoming more successful a lot quicker within the business environment.

This alternative view on development should be viewed in conjunction with Elton Mayo's Human Relations Theory, whereby management, instead of resenting the policy, rather embrace it and integrate it into the organisational structure, relying on their own employees to assist with the development of sustainable solutions to implementing BEE to assist the business. This requires treating people as people instead of tools to get ahead either economically or politically.

As this study was unable to fully establish an accurate account of the BEE environment and organisational buy in, it is recommended for this study to be replicated, using the same framework, on a larger sample group which is evenly distributed according to demographics. In addition, further studies are advised on the BEE policy and the effects thereof, looking at the finite details of each category and pin pointing exactly where the issues lie, as well as the SME environment in general. It is important to understand how the business environment can be adapted to make it easier for SME's to establish and flourish, especially during economically difficult times.

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