

https://dspace.org/

Black economic empowerment within the SME engineering sector

Gaspari, Roberto.

2014-08-28
http://hdl.handle.net/10539/15321

Downloaded from a DSpace repository. https://dspace.org/

BLACK ECONOMIC EMPOWERMENT WITHIN THE SME ENGINEERING SECTOR

Roberto Gaspari

A research report submitted to the Faculty of Commerce, Law and Management, University of the Witwatersrand, in partial fulfillment of the requirements for the degree of Master of Business Administration.

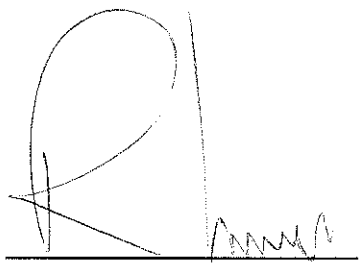
Johannesburg
December, 2006

ABSTRACT

Black economic empowerment has transformed the South African economic environment, and continues to be one of the most important issues a company has to deal with. In the past research into Black Economic Empowerment (BEE) has been qualitative in nature and been very generic in its focus, this research analysed BEE issues quantitatively and focused on the small medium enterprises (SMEs) within the engineering manufacturing sector. The research set out to identify the issues which were considered to be important for the successful implementation of BEE, and found that some issues considered important by general industry were not considered important by the SMEs in the engineering manufacturing sector. A significant finding was the importance of upfront planning and setting of objectives prior to implementation of BEE initiatives. The research also found a very low level of satisfaction with the outcomes of BEE initiatives. The findings of this research can prove to be valuable for policy makers and government officials as they review the progress made towards achieving the broader objectives of BEE.

DECLARATION

I, Roberto Gaspari declare that this research report is my own, unaided work. It is submitted in partial fulfillment of the requirements for the degree of Master of Business Administration in the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other University.



Roberto Gaspari

The 1st day of November, 2006.

DEDICATION

To my loving wife, Stefania, who has supported and encouraged me during my MBA studies and my father Renato who has inspired me from the heavens above

ACKNOWLEDGEMENTS

I would like to thank the following organisations and individuals:

- SEIFSA for their willingness to assist in the distribution of questionnaires;
- Professor John Luiz for his guidance and direction;
- Anthony Stacey for his assistance with the quantitative analysis, and advice regarding suitable research methodology;
- Laetitia Feldtmann for her inputs and editorial assistance; and
- my family, for their support and understanding.

TABLE OF CONTENTS

		Page no.
Chapter 1:	**INTRODUCTION**	1
1.1	Purpose of study	1
1.2	Background	1
1.3	Problem statement	4
	1.3.1 Main problem	4
	1.3.2 Sub-problems	4
1.4	Importance of the research	5
1.5	Limitations of the study	7
1.6	Delimitations of the study	8
1.7	Definition of terms	9
	1.7.1 Black economic empowerment (BEE)	9
	1.7.2 Broad-based black economic empowerment (B-BBEE)	10
	1.7.3 Small medium enterprise (SME)	10
	1.7.4 Manufacturing	11
	1.7.5 Engineering sector	11
1.8	Assumptions	11
1.9	Report structure	12

		Page no.
Chapter 2: LITERATURE REVIEW		13
2.1	Macro-economic overview	13
	2.1.1 Historical review	13
	2.1.2 The importance of the middle class and intended outcomes for South Africa	18
	2.1.3 Global empowerment lessons	22
2.2	Black economic empowerment	27
	2.2.1 Legislation	27
2.3	Issues related to the implementation of BEE	31
	2.3.1 BEE success factors	31
	2.3.2 Challenges facing the implementation of BEE	36
2.4	The definition of success	37
Chapter 3:	**RESEARCH METHODOLOGY**	38
3.1	Introduction	38
3.2	Research objectives	38
3.3	Population and sample details	40
3.4	Data collection	42
	3.4.1 Literature review	42

		Page no.
	3.4.2 Questionnaire survey	42
	3.4.3 Questionnaire structure	42
3.5	Measuring instruments	44
	3.5.1 Reliability	44
	3.5.2 Validity	44
3.6	Data analysis	45
	3.6.1 Data types	45
	3.6.2 Statistical data analysis	46
	3.6.3 Research questions and propositions	47
Chapter 4:	**RESULTS AND DISCUSSION**	50
4.1	Introduction	50
4.2	Sample details and responses	50
4.3	Research validity	53
4.4	Categorical data analysis	54
	4.4.1 BEE implementation rationale (Proposition 2)	55
	4.4.2 Status of BEE implementation	59

		Page no.
4.5	Open-ended questions	63
4.6	Rescaling of ordinal data – questions	64
	4.6.1 Beneficiaries of BEE (Proposition 1)	71
	4.6.2 BEE and control of SMEs (Proposition 3)	73
	4.6.3 BEE as an advantage (Proposition 4)	75
	4.6.4 Loss of personnel due to the implementation of BEE (Proposition 5)	76
	4.6.5 The role of government (Research Question 1)	77
	4.6.6 BEE awareness in the SMEs within the engineering manufacturing sector (Research Question 2)	79
4.7	Rescaling of ordinal data – issues and statements	81
4.8	Mapping of issues (Research Question 3)	86
	4.8 1 Less important issues – Not being Implemented	86
	4.8 2 Less Important Issues – Currently being Implemented	91

Page no.

4.8.3 Important issues – Currently not being Implemented 94

4.8.4 Important issues – Currently being Implemented 97

4.9 Satisfaction Levels 101

4.10 Summary of research findings 102

Chapter 5: CONCLUSION 106

5.1 Introduction 106

5.2 Research achievements 106

5.3 Research application 108

5.4 Recommendations for future research 109

REFERENCES 111

APPENDICES

		Page no.
APPENDIX 1:	QUESTIONNAIRE STATEMENTS	A1
APPENDIX 2:	QUESTIONNAIRE	A4

LIST OF TABLES

		Page no.
2.1:	The DTI's BEE scorecard	30
4.1:	Total number of respondents in relation to the number of valid respondents	51
4.2:	Profile of respondents	52
4.3:	Profile of respondents in terms of level of black ownership equity	52
4.4:	Profile of respondents in terms of business type	53
4.5:	Importance of BEE	54
4.6:	Frequency of responses for Q8–Q13 and Q17–Q20 for all respondents	65
4.7:	Summary output conversion from ordinal to interval scale for Q8–Q13 and Q17–Q20 for all respondents	65
4.8:	Frequency of responses to Q8–Q13 and Q17–Q20 on the Black ownership equity spectrum	67
4.9:	Summary output conversion from ordinal to interval scale for Q8–Q13 and Q17–20 on the Black ownership equity spectrum	68
4.10:	Frequency of responses to Q8–Q13 and Q17–Q20 on the family ownership spectrum	69
4.11:	Summary output conversion from ordinal to interval scale for Q8–Q13 and Q17–Q20 on the family ownership spectrum.	70
4.12:	Frequency of responses to Statements 1–23 for the existing situation of all respondents	82
4.13:	Conversion from ordinal to interval scale for the existing situation for all respondents	83
4.14:	Frequency of responses to Statements 1–23 in terms of the perceived importance of all respondents	84

Page no.

4.15: Conversion from ordinal to interval scale in terms of the perceived importance of all respondents 85
4.16: Issues Identified as Not Important and Not being implemented 86
4.17: List of statements and issues important for the successful implementation of BEE 87
4.18: Issues identified as Not important and Currently being implemented 91
4.19: Issues identified as Important and Currently not being implemented 95
4.20: Issues identified as Important and Currently being Implemented 98

LIST OF FIGURES

3.1: Methodological approach 40
4.1: Pressure to Implement BEE (All respondents) 55
4.2: Pressure to Implement BEE (BEE < 25%) 56
4.3: Pressure to Implement BEE (BEE > 25%) 57
4.4: Pressure to Implement BEE (family business) 57
4.5: Pressure to Implement BEE (corporate business) 58
4.6: BEE status (all respondents) 60
4.7: Period of BEE implementation (all respondents) 61
4.8: BEE status (family) 62
4.9: BEE status (corporate) 62
4.10: Perceptual map of Importance vs existing situation, as reflected in statement ratings 88

LIST OF ABBREVIATIONS

ANC	African National Congress
B-BBEE	broad-based economic empowerment
BEE	black economic empowerment
CEO	chief executive officer
COSATU	Confederation of South African Trade Unions
DTI	Department of Trade and Industry
FDI	foreign direct investment
GDP	gross domestic product
GEAR	growth, employment, and redistribution
GNU	government of national unity
HDI	historically disadvantaged individuals
JSE	Johannesburg Stock Exchange
MERG	Macroeconomic Research Group
NEM	Normative Economic Model
NP	National Party
RDP	Reconstruction and Development Programme
SACP	South African Communist Party
SEIFSA	Steel and Engineering Industries Federation of South Africa
SETA	Sector Education and Training Authority
SME	small medium enterprises
WTO	World Trade Organisation

Chapter 1: INTRODUCTION

This chapter introduces the research report. It provides the background to the research, as well as highlighting the importance of the research. The research objectives are clarified and limitations of the research outlined.

1.1 Purpose of study

The purpose of the research is to identify and analyse the issues that small medium enterprises (SMEs) in the engineering manufacturing sector are facing as they consider the implementation of broad-based black economic empowerment (B-BBEE). The analyses will look at how these issues are interpreted across different levels of ownership and will also look at the motivation for the introduction of B-BBEE within these companies. The level of satisfaction within companies that have embarked on B-BBEE initiatives will also be analysed

1.2 Background

On 27 April 1994, all South African citizens were permitted to vote in the country's first democratic elections, an event that resulted in the election of the first democratic government since 1910, headed up by the African National Congress (ANC).

This momentous occasion also spawned the start of dramatic political and economic changes in South Africa, at a time when the world was welcoming South Africa back into the global community. The process of political and economic transformation has still not yet fully run its course, with change remaining a part of the current political and economic environment

The ANC has had to deal with conflicting social and economic objectives, particularly as South Africa has had to adjust to a rapidly changing international

environment brought on by economic globalisation, a World Trade Organisation (WTO) free trade regime and resulting enhanced competition (Mabert, Soni & Venkataramanan, 2001). Despite these pressures, government has a commitment to its constituency to alleviate poverty and address disparities in the distribution of wealth (Habib & Padayachee, 2000), facilitating the creation of a middle class that is representative of the demographics of the country and which will advance its socio-economic development (Easterly, 2001).

In an attempt to address these diverse economic and social issues, the government in 1996 introduced a strategy called GEAR (growth, employment, and redistribution), aimed at restructuring the economy. GEAR was successful in improving economic performance and fiscal discipline, a feat applauded by international economists; however, social disparities nevertheless remained and the wealth of the nation still remained in the hands of the minority. In response to this perceived failure, government introduced a black economic empowerment (BEE) policy and targets that all businesses were required to meet. The latest Broad-based Black Economic Empowerment Act (2003) addresses issues of equity ownership, employment equity, affirmative procurement, and social/economic investment. Such objectives are considered to be worthy goals for which to strive, as future political stability will depend on the government's ability to address inequalities in the distribution of wealth (Easterly, 2001).

Two schools of thought exist as to how this disparity can be remedied. The first suggests that government continue on its path of legislative intervention, despite the negative perceptions that doing so might have on foreign investors, as well as and foreign direct investment (FDI). The second reverts to the underlying philosophy adopted by the GEAR strategy, where continued high gross domestic product (GDP) growth rates in excess of 5% are predicted for a decade, in order to halve the rate of unemployment. Furthermore, the freer an economy is from government intervention, the better off the poorest 10% of the population is bound to become (Van Wyk & Custy, 2004).

The government's decision to utilise B-BBEE as its primary tool for enabling participation of the black majority in the mainstream economy has so far created both indecision and complacency amongst investors and companies. This uncertainty has not, as yet, cut the unemployment rate, which is a key indicator in the fight against poverty (EIU Views Wire, 2005a). The unemployment rate as of March 2005 was 26.5%, an improvement from its peak of 31.2% in March 2003 (Statistics South Africa, 2005); however, such a high rate of employment continues as a source of concern for government. High levels of FDI should precede a reduction in unemployment rates; however, the FDI has also suffered and South Africa has thus far proved an under-performer in attracting FDI, which currently stands at 2.2% of the national GDP (EIU Views Wire, 2005a).

The failure of FDI to impact on unemployment rates significantly has burdened the local South African industry with having to create the necessary jobs. The manufacturing sector, which contributed 16.4% towards GDP in the third quarter of 2005 (Statistics South Africa, 2005), is considered to be a major role player in this regard. The SME sector within the South African economy also plays a vital role, having contributed 32% towards the GDP in 2001 (Statistics South Africa, 2005).

Concern is being raised by the manufacturing industry that, with prescriptive legislation such as the BEE policy, the ends are once again being defeated. The SMEs are feeling the impact of BEE policy as they have to deal direct with government enterprises or work within the preferential procurement sub-policy imposed by suppliers. At this stage, media focus and attention has been placed on BEE deals between larger companies, especially those companies listed on the Johannesburg Stock Exchange (JSE), due to the public exposure that they receive and the significant contribution that they make to the economy. As a result, we are well informed of the issues facing these businesses when implementing BEE initiatives. Very little understanding exists regarding the impact that BEE policy has on SMEs and, in particular, the privately owned businesses, including family businesses. As such, the issues facing the SMEs in the

implementation of BEE initiatives have not yet been well studied and, although we can make assumptions as to the extent, willingness and effectiveness of BEE policy in achieving its objectives within the SMEs, most of such assumptions are mere informed speculation.

The purpose of the current research is to create a better understanding of the issues affecting the implementation of BEE and its broader objectives, as represented by the Broad-based Black Economic Empowerment Act (2003), within the SMEs located in the engineering manufacturing sector. Such an understanding should create an opportunity for policy makers, economists and relevant stakeholders to refine their strategies in supporting the implementation of government's BEE initiatives.

1.3 Problem statement

1.3.1 Main problem

What are the current issues facing the SMEs in the engineering manufacturing sector as it implements or evaluates BEE and what are the relevant issues considered necessary for the successful implementation of BEE? Such are the main questions that this study intends to answer.

1.3.2 Sub-problems

First sub-problem

To analyse and identify a comprehensive list of B-BBEE issues that are currently facing companies in diverse industries through an extensive literature review

Second sub-problem

To identify which of these issues identified in the literature review are currently facing the SMEs in the engineering manufacturing sector, and further to identify which of these issues are considered to be important for the successful

implementation of B-BBEE in the SMEs within the engineering manufacturing sector.

Third sub-problem

To identify how well the SMEs in the engineering manufacturing sector are currently performing in terms of those issues considered to be most important.

Fourth sub-problem

To ascertain the composition of black ownership and family ownership within the SMEs in the engineering manufacturing sector and to analyse how the B-BBEE issues are interpreted across this spectrum of ownership.

Fifth sub-problem

To analyse the possible motivators for B-BBEE implementation and to discover which of these motivators are currently driving the implementation of B-BBEE within the SMEs in the engineering manufacturing sector.

Sixth sub-problem

To formulate a definition of success applicable to the SMEs in the engineering manufacturing sector with respect to the implementation of B-BBEE. To gauge this level of success within the SMEs in the engineering manufacturing sector and to identify whether any link exists between this defined success and the issues identified as relevant by companies that have already implemented B-BBEE initiatives.

1.4 Importance of the research

President Thabo Mbeki often speaks of South Africa's "two economies": the first, prosperous, developed and mostly white; the second, poor, underdeveloped and overwhelmingly black. "To build a unified nation based on equality and justice," Mbeki said last year, "we must ensure that the economy is in the hands of all our people " Based on this sentiment, government has adopted a more prescriptive

approach to achieving the set objective In some circles this approach has been applauded as the only viable way forward, as is noted by Sethi (2001: 27): "without black economic empowerment, growth and prosperity in South Africa cannot be sustained".

The impact of BEE policy has been profound for the South African economy; however, to date the majority of companies affected by this policy have been large public corporations listed on various exchanges and, more recently, large private corporations, evidenced by the announcement by De Beers that they concluded a B-BBEE deal at the end of 2005. As a result of the immense public exposure these "high profile" deals obtained, most scientific research that has been conducted on the topic of BEE has been unfocused in terms of Industry sector and size of company (Dlamini, 2001; Mathu, 1998; Rabinowitz & Teichner, 1998; Sithole, 1997; Thackwray, 1998). The research conducted to date has been exploratory and qualitative in nature and has added some valuable insights to the problems facing Industry at large; however, due to the small sample used for the research and the lack of focus on any specific Industry, it is difficult to apply these findings unilaterally. As a result, much of what is applicable to specific Industries consists of informed speculation.

A quantitative approach to BEE research, targeting SMEs in a specific industry, potentially holds immense value for policy makers, companies, and investors. It is of vital importance that government take cognisance of the issues facing the industry-specific sectors when drafting policy. Failure to understand the issues facing the SMEs in industry-specific sectors may otherwise have a devastating effect on the concurrent objective of achieving sustained GDP growth of 6% per annum (Lehohla, 2005).

The current research targets the SMEs within the engineering manufacturing sector, because of the significant contribution it has already made towards the GDP. The research further aims to:

- Contribute to the, as yet scarce, body of research available on BEE, with a particular focus being placed on SMEs within the engineering manufacturing sector. Such an expansion of information will assist industry, government and investors in future to make more informed decisions regarding BEE initiatives.

- Provide a reference for other sectors of the economy. The implications relating to issues that are identified as facilitating successful implementation of BEE initiatives within the engineering sector could be inferred for other sectors.

- Validate the issues identified by previous research, using a quantitative and empirical approach with a large sample size.

The results from the research can be used to add clarity to the current biases around the issue of complacency by industry and impact on organisational success as a result of BEE policy

1.5 Limitations of the study

The study will concentrate on the SMEs within the engineering manufacturing sector of South Africa, therefore caution should be exercised when attempting to generalise the findings. The research:

- will utilise some perceptions to test the issues that are facing SMEs within the engineering manufacturing sector as they consider or implement BEE initiatives.

- not only includes respondents who have had actual experience of BEE implementation, but also perceptions of respondents who have not yet had any experience with the introduction of BEE initiatives. Although this

separation will be clearly identified in the research, it should be understood if any inference is to occur.

- specifically defines the outcomes for success, which need to be identically replicated if measures of success in future research are to be compared to the results obtained in this study.

- will limit itself to organisations within the formal economy and will not include consideration of any companies that form part of the informal economy.

In addition, further limitations may be due to possible research biases, such as:

- the biased selection of respondents, as supplier organisations will be asked to select respondents whom they feel would be appropriate subjects for the type of research to be conducted.

- the subjective assessment of the success of the various respondent organisations that have implemented BEE initiatives.

- the biased nature of the responses to questions, because respondents may not have wanted to comment on, or may have wanted to disguise, sensitive issues, although the assurance was provided that every attempt would be made in order to ensure their anonymity.

1.6 Delimitations of the study

The topic of BEE is very sensitive and in order to ensure a maximum number of respondents the study explicitly states that the intention of the research is not to:

- determine tactical level compliance by applying the B-BBEE scorecard to audit the companies, but rather in order to gain a higher strategic overview.

The study is aimed at obtaining an unbiased analysis of B-BBEE initiatives in SMEs within the engineering manufacturing sector and thus will not:

- take a position other than that determined by the outcomes of the empirical quantitative analysis, combined with the responses received from open-ended questions.

1.7 Definition of terms

Wherever possible, official government definitions of terms will be used, as the purpose of the report is to investigate the issues around the implementation of government's BEE policy.

1.7.1 Black economic empowerment (BEE)

The term 'Black economic empowerment' (BEE) is freely used in this report to indicate a general concept that is best described by the BEE Commission in the following terms:

"It is an integrated and coherent socio-economic process. It is located within the context of the country's national transformation program, namely the RDP.
It is aimed at redressing the imbalances of the past by seeking to substantially and equitably transfer and confer the ownership, management and control of South Africa's financial and economic resources to the majority of its citizens. It seeks to ensure broader and meaningful participation in the economy by black people to achieve sustainable development and prosperity." (Black Economic Empowerment Commission, 2001:11)

1.7.2 Broad-based black economic empowerment (B-BBEE)

The term 'broad-based black economic empowerment' (B-BBEE) is used more sparingly than is 'black economic empowerment' in the report, as specific outcomes are anticipated for this definition. For purposes of the current research the following definition, as outlined in the Broad-Based Black Economic Empowerment Act of 2003, will be used:

"Broad-Based Black Economic Empowerment (B-BBEE) means the economic empowerment of all black people including women, workers, youth, people with disabilities and people living in rural areas through diverse but integrated socio-economic strategies that include, but are not limited to
(a) increasing the number of black people that manage, own and control enterprises and productive assets;
(b) facilitating ownership and management of enterprises and productive assets by communities, workers, cooperatives and other collective enterprises;
(c) human resource and skills development;
(d) achieving equitable representation in all occupational categories and levels in the workforce;
(e) preferential procurement; and
(f) investment in enterprises that are owned or managed by black people "
Republic of South Africa (2003:Act 53: 4)

1.7.3 Small medium enterprise (SME)

The basis for classifying an SME is the National Small Business Act of 1996. The criteria for classifying an SME within the engineering manufacturing industry is thus taken to be a formally registered business with:

- more than 5 and fewer than 200 full-time equivalent of paid employees

- more than R0.15 million in turnover and less than R40 million (Republic of South Africa,1996).

Should anomalies exist that fall outside the above parameters, the turnover will be used as the final decision criteria. Although the Act also includes the assets of the organisation as a selection criterion, this criterion has been excluded, in case its inclusion might have discouraged respondents from completing the questionnaire.

1.7.4 Manufacturing

The definition found to be effective in describing the manufacturing industry comes from the Wikipedia (2006), which defines manufacturing as:

"Manufacturing is the transformation of raw materials into finished goods for sale, by means of tools and a processing medium, and including all intermediate processes involving the production or finishing of component parts (semi-manufactures)."

1.7.5 Engineering sector

The current research uses a relatively informal definition of the engineering sector. Qualification for inclusion in the engineering sector will be determined by membership of the Steel and Engineering Industries Federation of South Africa (SEIFSA).

1.8 Assumptions

The primary assumption was that the questionnaires would be answered with total honesty. The assumption was also made that the business language was English

and that the respondents would interpret the questions as they were intended to be answered.

1.9 Report structure

The report is structured as follows:

Chapter Two provides a brief outline of the literature relevant to the research. It includes a historical review of BEE in South Africa, reviews global experiences of economic empowerment and looks at the macroeconomic consequences of BEE. The heart of this chapter is focused on developing the statements used in the questionnaire, which represent the issues that potentially face SMEs in the engineering manufacturing industry.

Chapter Three describes the research methodology and techniques applied to address the research objectives. The chapter details the sample, data collection, research objectives and the types of statistical analyses used.

Chapter Four describes the analysis performed according to the prescribed methodology. The ordinal scale conversions, research questions and propositions are answered and interpreted. In order to facilitate analysis it was decided that the discussion of the results would be included in this chapter, preventing the need to refer back and forth between chapters. The results are evaluated with special reference to the literature review, and certain conclusions are reached.

Chapter Five concludes the research by discussing the research achievements and application, as well as by making recommendations for future research.

Chapter 2: LITERATURE REVIEW

This chapter reviews the literature relevant to this research. It starts with a macroeconomic overview, looking at the rationale and factors that are the precursors of the BEE Policy. As such, it identifies the lessons learned from other countries that have implemented similar policies. It proceeds to analyse the current policy, and the implications that the current policy has on organisations. The heart of the literature review lies in the third section, where documented issues are identified that face organisations as they implement BEE. Coverage of literature in this section will serve as the primary foundation for development of the questionnaire. The final section looks at deriving a definition of success in order to evaluate these success factors in companies that have already implemented BEE initiatives. A series of research questions and propositions are derived from the literature review.

2.1 Macro-economic overview

2.1.1 Historical review

Prior to the establishment of the government of national unity (GNU) in 1994, the National Party (NP), which was then in power, had identified the need for political, social and economic transformation. In response to this need and, in particular, in acknowledgement of the importance of reducing the huge economic disparities that existed between blacks and whites, the government in 1993 tabulated the Normative Economic Model (NEM). NEM highlighted the need for redistribution, but maintained that the benefits of privatisation and deregulation would ultimately trickle down the economy, reducing existing economic disparities

The redistribution of wealth has always been key to the ANC's post-apartheid economic strategy; Nelson Mandela spoke of nationalisation and redistribution in his post-release from imprisonment address in 1990. The ANC was also opposed to the NEM strategy adopted by the NP; however, after Mandela had delivered the aforementioned speech, the ANC changed its stance on nationalisation in order to minimise the fear of potential investors. In 1992 the ANC formally abandoned its take on nationalisation, despite increased pressure from the South African Communist Party (SACP) and the Confederation of South African Trade Unions (COSATU) to pull out of the tri-partheid alliance.

In anticipation of gaining power, the ANC started to develop its economic strategy, as formulated by the Macroeconomic Research Group (MERG). MERG became operational in late 1992 and focused on two phases: an "initial public investment led phase" from 1993 to1999, followed by a "sustained growth phase" up till 2004. MERG's proposal attempted to advance the interests of the victims of apartheid, as apposed to NEM's proposal, which advanced the interests of the business community and the white population (Habib & Padayachee, 2000). Leading up to the 1994 democratic elections the manifesto of the ANC alliance, was the Reconstruction and Development Programme (RDP). The RDP focused on meeting the basic needs of society, on developing human capital, on building the economy, on democratising the state and society and on implementing the RDP. The main catalyst of the RDP was intended to be state intervention through legislation and regulation. However, when the ANC-led government was voted into power in 1994 and the GNU was formed, the GNU acted against the recommendations of MERG and privatisation was now incorporated on the government's agenda.

In 1996 the GNU adopted the Growth, Employment and Redistribution Strategy (GEAR). GEAR acted against the principles of both the RDP and the MERG strategies, as its primary focus was on privatisation, deregulation and fiscal restraint GEAR was drawn up in observance of the Washington Consensus guidelines, in the understanding that doing so would result in access to cheaper

capital and significant inflows of FDI. GEAR was highly successful in addressing the macroeconomic objectives, including the reduction of inflation, the reduction of the budget deficit, some degree of BEE, and minor improvements in the GDP growth rate. However, the promises of huge FDI inflows never materialised and South Africa's FDI stands at 2.2% of the national GDP (EIU Views Wire, 2005a). Habib and Padayachee (2000) summarised the consequent disenchantment by saying that "the state elite were conned" into promises of huge inflows of FDI.

GEAR did manage to make relatively minor improvements in reducing the disparities between blacks and whites; however, such improvements were either limited to a small bourgeoisie class that benefited from the unbundling of state assets, or to the affirmative action policy adopted by government. The failure of GEAR to address socioeconomic justice and redistribution adequately served to undermine the long-term prospects for democratic consolidation. This clash between economic and social objectives is not new in South Africa: In the 1970s, the 'Verligtes' (enlightened) and the 'Verkramptes' (conservatives) debated in similar fashion, a debate that was eventually won by the 'Verligtes', who represented big business. Van Wyk and Custy (2004) argue that the freer an economy is from government intervention, the better off the poorest 10% of the population will become (Van Wyk & Custy, 2004).

Sethi (2001), on the other hand, finds that the majority of white business says that BEE should come about as a result of the growth of the economy. Sethi claims that this argument is flawed because of the disparity in ownership of business, with 85% of business being owned by six groups. Consequently, Sethi urges government intervention.

The discussion about the role that government should play in addressing the economic inequalities of whites and blacks continues to this day and is as heated as ever. Peter Vundla (Chairman HerdBuoys McCann Erickson), in an interview with Mangaliso and Nkomo (2001), commented on how young democracies like South Africa need legislative intervention, while mature economies, like that of the

USA, can afford to do without government interference. The following ***research question*** is thus tabled:

- ***Research Question 1:*** What are the perceptions of the SMEs within the engineering manufacturing industry regarding the role that government should play in addressing the economic disparities that exist between blacks and whites? How do these perceptions differ across the spectrum of ownership?

By early 2000, the newly re-elected government of the ANC had identified the shortcomings of the GEAR strategy and had embarked on a more prescriptive strategy of redistribution. This approach is supported by Sethi (2001:27), who states that "without BEE, growth and prosperity in South Africa cannot be sustained". The first intervention by government was the Preferential Procurement Policy Framework Act (2000), which outlined the criteria that all government, parastatal and government-owned agencies should apply when awarding contracts. The aim of the policy was to advance the development of SMEs and historically disadvantaged individuals (HDI): to promote the role of women and physically handicapped people; to create new jobs; to promote local enterprises in designated provinces; and to support local products. The policy was instrumental in sending a clear message to businesses that they needed to transform; however, it was only in 2002, when government leaked the fact that 51% of mining companies had to be sold to blacks within a ten-year timeframe that the business community and investors realised the seriousness of government's commitment to transformation and in one day millions of dollars of stock were wiped off the JSE (Robinson, 2004). This resulted in a flurry of negotiations with government and revised targets on equity ownership were established, including the formation of the first BEE charter, the so-called mining charter.

The new impetus in BEE transformation focused on equity deals and a target of 26% was established in the market based on the mining charter. Critics charged that BEE was enriching a small elite, all politically connected to the ruling

government. In support of their claim they cited the fact that in 2003, 80% of the value of the 10 largest transactions involved just three men, Cyril Ramaphosa, Tokyo Sexwale, and Patrice Motsepe. Desmond Tutu further voiced his dissatisfaction with the outcomes of BEE by stating that it benefits "a small elite that tends to be recycled" (Nduru, 2004). As a result of mounting pressure regarding the shortfalls of the BEE policy, government introduced the most significant piece of BEE legislation to date, the Broad-Based Black Economic Empowerment Act (2003). The B-BBEE Act emphasised that BEE not only consisted of equity ownership but also of human resource and skills development, employment equity in the workplace, preferential procurement and social and economic investment. The B-BBEE Act also highlighted the need for the business community to take a more proactive role in facilitating the transformation of the economy by allowing for the publication of "codes of good practice". One of the first big deals fully to embrace the objectives of the B-BBEE Act is the De Beers BEE deal, the beneficiaries are the employees themselves and their beneficiaries, key employees, disadvantaged women, people with disabilities and the communities living around the De Beers mines (Nevin, 2005).

- ***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 introduction of the B-BBEE Act (2003) is still in its infancy and two years are insufficient time in which to evaluate the effectiveness of the amended policy in its entirety. This research attempts to provide valuable insights into the extent and awareness of SMEs within the BEE engineering manufacturing sector. At this early stage, Green (2005) indicates that the disparities, which still remain as stark as ever, are further complicated by the high levels of HIV/AIDS prevailing within the black communities.

- ***Research Question 2:*** What is the awareness of BEE in the SMEs within the engineering manufacturing sector and to what extent has BEE affected the industry?

The adoption of a more prescriptive BEE approach has not meant that government has abandoned its macro-economic strategy Government still intends to attract investment into the mainstream economy by sticking to strict macro-economic discipline and by lowering the cost of doing business in South Africa (Schoofs, 2004). Masland (2005), however, notes that 74% of American companies cite BEE policy as the primary reason for their not investing in South Africa, for fear of diluting ownership.

2.1.2 The importance of the middle class and intended outcomes for South Africa

The importance of an established representative middle class is fundamental to the successful socio-economic outcome of any nation. As early as 306 BC, Aristotle showed awareness of this truth, when he noted, "Thus it is manifest that the best political community is formed by citizens of the middle class, and that those states are likely to be well administered, in which the middle class is large.....where the middle class is large, there are least likely to be factions and dissention" (Easterly, 2001).

More recently, Easterly's (2001) empirical study concurs with Aristotle's thoughts and conclusively shows that a high share of income for the middle class, together with a low level of ethnic divisions, is conducive to increased income levels and increased economic growth. This, in turn, leads to higher education levels across the population; improved health care; increased investment in infrastructure; improved economic policy; decreased political instability; reduced risks of civil war; reduced risk of ethnic minorities at risk; increased social modernisation; and an increased level of democracy South Africa, with its 'rainbow nation'

composition, does not constitute a country with low levels of ethnic divisions; however, Easterly (2001) in no way suggests that some form of ethnic rationalisation should take place in order for success to be attained, but rather blames politicians for exploiting ethnic divisions in order to maintain and secure their own power.

An increased homogenous middle classis conducive to democracy and would be more likely to grant universal suffrage (Easterly, 2001). A consensual society favours economic growth in terms of future production as a means of redistribution rather than favouring the redistribution of existing assets; this has been evidenced by the demise and downfall of the Zimbabwean economy South Africa can be considered a low-income nation, which makes the establishment of a middle class even more important (Adelman & Morris, 1967). Galor and Zeila (1993) further identified that a small middle class results in low levels of human capital accumulation.

Randall (1996:663) is very sceptical of governmental attempts to build a Black middle class in South Africa, and warns that "in place of a self standing, viable capitalist class, an unproductive group of pseudo capitalists has emerged, dependent on political connections and rent seeking activities for their survival", Randall's comments should serve as a warning to government that they must address such shortcomings.

Indigenisation policies pursued in Nigeria during the 1970s failed to empower African entrepreneurship. Multinational corporations, in an attempt to keep their Nigerian partners out of the day-to-day management of the companies, were appointing sleeping partners with stature and money (Randall, 1996). The beneficiaries of this policy were political heavyweights who manipulated the bureaucracy and offered protection for a share in the profits. Guest (2004:10) warns that the insidious side effect of BEE policy has been "the sort of cronyism that has wrecked the rest of Africa". The counter argument is that the empowerment beneficiaries will act as agents of transformation and act as role

models; however, the issue of wealth creation is sidelined (Guest, 2004). This practice, as adopted in South Africa, is commonly referred to as 'fronting'. Thus two issues are identified that potentially could face SMEs in the engineering manufacturing industry, these are worded for the questionnaire as follows:

- ***Statement 1:*** BEE partners should be politically well connected.

- ***Statement 2:*** BEE partners should perform the functions of genuine ownership.

The Kenyan government in 1989 failed to create a black middle class in commerce and Industry, primarily because of a shortage of managerial skills and experience. Randall (1996) highlights the importance of transferring skills in place of 'fronting'.

- ***Statement 3:*** A transfer of managerial skills and business acumen should take place.

Myers and Samuel (1995:7) sternly warned the United Sates government that "Capitalism would thrive, and if it did not correct internal maladjustment, it would because of its own excesses, self destruct". The maladjustments to which they refer are the extreme inequalities in distribution of income that are growing ever larger in the United States.

Randall (1996) warns that South Africa is heading for the same fate as the rest of Africa, should it not ensure adequate transfer of skills. Business has opted out by offering 'soft positions', which are not considered core to the business to BEE incumbents in the realm of human resources and public relations

- ***Statement 4:*** Affirmative action appointments should be made to important executive positions and not just to 'soft portfolios', such as those in the human resources or public relations field.

Lauwrence Schlemmer of the Helen Suzman Foundation notes that a recent opinion poll found that 14% of South Africans of all races believed that government economic policies favour the poor. No less than 65% of black people and 70% of other population groups were found to believe that the main beneficiaries of government economic policy are 'crony capitalists', politically well connected, rich businesspeople, as well as officials and politicians. In other words, there is no real consensus on whether or not government is succeeding in creating a new affluent black middle class (EIU Views Wire, 2005c)

Randall (1996) proposes that there are two primary reasons why companies introduce BEE: firstly, companies that want to expand their markets to incorporate the black market implement BEE policy and, in particular, affirmative appointments in order to leverage the knowledge of the black appointments in developing this new market; secondly, companies implement BEE policies when they require political capital and influence in order to secure existing or new business for which BEE is a requirement. Rabinowitz and Teichner (1998) further validate Randall's (1996) proposal for why companies introduce BEE.

- ***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

Despite the warnings sounded by Randall (1996), he does identify significant differences that could favour the successful implementation of BEE in South Africa. These include the realisation by whites of the inevitable transfer of economic wealth to other racial groups in order to reflect the demographics of the country; extensive promotion of BEE policy by the policy-making regime; mobilisation against 'fronting' by prominent politicians and trade unions, and the relative sophistication of the South African economy, banking sector and infrastructure, allowing for multiple entry points into the economy for BEE companies.

"White capitalists who have opted to enter into arrangements which enable their black partners to wield substantial leverage, and those who manage to tilt the balance of power in joint ventures in their favour are undoubtedly creating more opportunities for the development of a viable black middle capitalist class in South Africa " (Randall, 1996:686).

2.1.3 Global empowerment lessons

Nigeria, Kenya and South Africa are not unique in their attempt to address economic disparities by means of the adoption of economic empowerment policies: Brazil and Malaysia have both adopted some form of empowerment policy. Interestingly enough, their empowerment policies have met with the same controversial socio-political debate that South Africa is currently experiencing around the issue of BEE.

Of particular importance for South Africa is the lessons that can be learned from the Malaysian empowerment experience, as the consequence of empowerment policy implemented in the early 70s can now be evaluated after a period of more than thirty years. South Africa's BEE policy, especially its B-BBEE policy, is still in its infancy, thus the full impact of decisions being made now can only be effectively evaluated decades from today. The availability of Malaysia as a case study is invaluable and can help direct the taking of decisions towards more effective BEE outcomes in the future. This section analyses the empowerment policies adopted in Brazil and Malaysia and summarises the key issues faced in implementing the policies.

The case of Brazil

Brazil is known to have one of the largest economic discrepancies between the rich and poor of any country. The majority of the rich are white European

immigrants who have benefited from policies that benefited neither the Afro-Brazilians nor the indigenous people. The abolition of slavery in 1888 left the Afro-Brazilians at a complete disadvantage with respect to the whites, the legacy of which still remains today (Osava, 2006).

The Brazilian government, under much social pressure, has proposed two draft laws promoting the marginalised ethnic groups, reducing salaries and increasing the number of Afro-Brazilians hired as public employees, and introducing mechanisms to foster their advancement in their careers, as well as incentives for companies to employ and award managerial positions to Afro-Brazilians (Osava, 2006).

The structure and form of the policies proposed for Brazil are very similar to those advanced by the South African government. However, despite equity ownership not yet having been targeted by the Brazilian government, the debate is heated, with the case both for and against the implementation highlighting similar issues.

Detractors from the implementation of these empowerment policies claim that the policies deny the constitutional equality of citizens and that they possibly could fuel 'conflict and intolerance', which would defeat the objective of eliminating racism and inequality

The proponents who argue in favour of the introduction of empowerment policies point out that black people in Brazil had a lower average number of years of schooling in 2000 than did blacks in South Africa during the apartheid years. In addition, only 1% of professors at Brazilian universities are black, which again is lower than the corresponding figure for South African blacks during the apartheid era (Osava, 2006).

Racial equality as such does not yet exist in Brazil and, as Brazil embarks on its course of Afro-Brazilian empowerment, South Africa and Brazil must take the opportunity to learn from each other's respective experiences.

The case of Malaysia

In 1971, Malaysia took steps towards improving the economic welfare of the majority ethnic Malays. Ethnic Malays were at that stage wielding political power The empowerment policies that they implemented are now undergoing review more than three decades later. The huge income disparities that existed between the majority Malays and the minority Chinese and Indians largely remains today, despite the implementation of policies directed at reducing these differences. Fears of economic inefficiency and political instability have been found to be largely unfounded and Malaysia has prospered as a developing country, despite the implementation of their empowerment policies. This section aims to highlight the lessons that South Africa can use to tailor its own policies in order to achieve the intended outcomes of the BEE policy.

The problem that Malaysia was facing in 1970 was that the majority ethnic Malays were wielding the political power and the minority Chinese were controlling the business that was not foreign owned. Accordingly, the Chinese were often referred to as the "Jews of Asia" (Klitgaard & Katz, 1983).

The differences between the various ethnic groups were vast. In ***Education*** Malay students comprised only 43% of all students at university, and the comparative percentage was even less in the sciences. In ***Employment*** the majority of professional, technical and managerial positions were held by Chinese. ***Ownership*** of business was primarily in the hands of foreign entities (62%), with the Chinese owning 22.8% and Indians less than 1%, but the majority Malays only owned 1.5%. ***Income*** disparities were also high, with an average monthly income for Malays of $70, $122 for Indians and $158 for the Chinese; as a result, more than 65% of Malays were living below the poverty line, compared to 26% of the Chinese (Klitgaard & Katz, 1983).

The coalition government prior to 1971 had directed its policies towards rapid economic growth and measures directed towards the rural poor who were Malays,

with their aim being to remove the existing ethnic inequalities. This approach is similar to that for the adoption of GEAR by the GNU in South Africa; unfortunately, as was the case in South Africa, the level of inequality remained unacceptably high. This unhappiness culminated in the worst ethnic violence in the country's history; as a consequence, the Malay government introduced a New Economic Plan (NEP), primarily aimed at correcting economic imbalances between the various ethnic groups.

The NEP introduced policies that brought in the following reforms:

- ***Education:*** University admission was no longer solely based on academic qualification, but quotas were imposed and ethnic preference was given to those seeking financial assistance.

- ***Employment:*** A 40% Malay employment quota was instituted in all commercial firms, which is essentially the equivalent of that instituted in the South African affirmative action programme.

- ***Credit:*** Commercial banks were encouraged and pressurised to increase credit lines to Malays and government organisations were mandated to facilitate access to capital for Malays. The South African government has followed a similar approach, where the Industrial Development Corporation (IDC) has a mandate to make loans available preferentially to businesses that comply with BEE guidelines

- ***Ownership:*** The Malaysian government took ownership equity one step further than the South African government, by legislating that any new business created had to have at least 30% Malay ownership equity. The intention was that by 1990 total Malay ownership would be 30%.

- ***Government procurement:*** Quotas were established for Malay suppliers of various goods, which, in some government departments, was stipulated

to be as high as 30% of contracts awarded. South Africa has a similar policy in place, as legislated by the Preferential Procurement Framework Act (2000).

Klitgaard and Katz (1983) reviewed the progress made towards achieving the objectives of reducing racial inequality. The biggest impact of the adopted policies was seen in the enrolment of Malays at university, the percentage had increased to 75% by 1983. Malay ownership increased, but primarily due to public agencies investing on behalf of the Malay people. Absolute growth in ownership was much larger for other ethnic minority groups. Distribution of income improved only marginally across the diverse ethnic groups.

Despite the moderate success achieved by the Malaysian empowerment policies, the real achievement lay in the fact that there was no further inter-ethnic conflict during the period of implementation. Klitgaard and Katz (1983) attribute the dramatic decrease in conflict to two primary factors: firstly, the political skill of the leaders; and secondly, the period of surging economic growth that left the Chinese minority with the same proportion of wealth as it had experienced before the implementation of empowerment policies. South Africa finds itself in a similar situation, where strong political leadership and a decade of strong economic growth has left the white minority in a situation where they are not worse off than before the implementation of BEE policy.

In 2004 the Malaysian government revoked all quotas applicable to the enrolment of students within institutions of higher education. The government acknowledged that the application of ethnic quotas cost Malaysia in lost skills especially in the field of science and technology. Thousands of the brightest students abandoned the local education system and went abroad to study, with very few returning to Malaysia on graduation (Cohen, 2004).

The controversy and debate around whether the NEP in Malaysia has been successful continues, data for 2002 supports the findings of Klitgaard and Katz

(1983). One of the findings in 2002 is the culture of cronyism that has been engendered, as the beneficiaries turned out not to be struggling Malay entrepreneurs, but rather former officials of the Ministry of Trade (EIU Views Wire, 2005b).

The literature review has highlighted that one of the biggest failures of empowerment policies is the culture of cronyism that is created. If South Africa follows in the footsteps of Nigeria, Kenya and Malaysia in this area, a similar fate is likely, The South African government has introduced its B-BBEE policy aimed at broadening the benefits of empowerment across the spectrum of the black population in South Africa.

2.2 Black economic empowerment

The BEE policy adopted by the government is made up of various acts that work in synergy to achieve the objectives of BEE. The following section identifies the objectives and spells out the requirements of the various acts.

2.2.1 Legislation

A company that wishes to contest the BEE policy as unconstitutional is prevented from so doing by the Constitution of the Republic of South Africa (1996). The Constitution recognises that South Africa's past was built on prejudice. Chapter 9.2 of the Constitution states that "Equality includes the full and equal enjoyment of all rights and freedoms. To promote the achievement of equality, legislative and other measures designed to protect or advance persons, or categories of persons, disadvantaged by unfair discrimination may be taken."

The Employment Equity Act (1998) is still a fundamental component of the latest B-BBEE policy. The Employment Equity Act was also the first act to prescribe to companies that they must remove all forms of discrimination and start to put plans

in place to transform their composition to reflect the demographics of the country. This act was the catalyst for the implementation of the affirmative action campaigns.

The Competition Act (1998) is also grounded in the Constitution, and makes provision for the relaxing of anti-competitive practices, if they promote the competitiveness of black-owned and controlled business.

The Skills Development Act (1998) and the Skills Development Levies Act (1999) are important in ensuring that a transfer of skills and development of skills occur in the designated sectors. These two acts go a long way to ensuring that the ANC Government empowerment initiatives do not endure the same fate as those of the Nigerian and Kenyan governments (Masland, 2005). The Skills Development Act provides for the imposition of the skills development levy (SDL). The SDL is currently 1% of the Organisations Labour Bill, and is administered by the relevant Sector Education and Training Authorities (SETAs). The objectives of these funds are to assist with the development of Industry-specific skills requirements, as well as to increase the level of skills across South Africa.

The Preferential Procurement Policy Framework Act (2000) introduces the concept of adjudicating contracts, as well as the rules for such adjudication, based on an 80/20 or 90/10 principle, where either 80% or 90% of the contractual price is evaluated, with the balance being evaluated in terms of equity ownership. The Act is only enforceable in government, parastatal and government-owned agencies. The Act is a major component of the current B-BBEE legislation, and companies often take this route first for scoring points on the B-BBEE scorecard

The Broad-Based Black Economic Empowerment Act (2003) is the most significant piece of BEE legislation to be tabled. Its broader aims include:

- increasing the number of black people who manage, own and control enterprises and productive assets;

- facilitating ownership and management of enterprises and productive assets by communities, workers, co-operatives and other collective enterprises;
- human resource and skills development;
- achieving equitable representation in all occupational categories and levels in the workforce;
- preferential procurement; and
- investment in enterprises that are owned or managed by black people.

The BEE policy in totality is a very powerful mechanism – although legislation only dictates that government institutions implement BEE policy, the pressures of empowerment are pushed down the value chain in this way. Colin Reddy, BEE research director at Business Map Foundation, best expressed the policy by stating "A few key players demand suppliers be empowered and because business is interdependent, you start a snowball effect. Pretty soon, no one can afford to sit and do nothing".

The B-BBEE Act does not specify how companies should go about achieving BEE, but does allow for publication of codes of good practice and Industry-specific charters for the guidance of companies. Companies without an industry-specific BEE charter should use the guiding principles of the codes of good practice published by the Department of Trade and Industry (DTI). In particular, the DTI's scorecard should be used as a measurement of BEE compliance. The BEE elements identified in the scorecard are derived from the aims of the B-BBEE Act of 2003. Table 2.1 illustrates the DTI's B-BBEE scorecard.

Table 2.1: The DTI's BEE scorecard

BEE elements	Weighting	Targets
Direct Empowerment		
Equity Ownership	20%	25% + 1 vote
Management	10%	50% of executive management
Human Resources Management		
Employment Equity	10%	50% of staff across all levels
Skills Development	20%	3% of payroll on skills development spend
Indirect Empowerment		
Preferential Procurement	20%	50% of eligible procurement
Enterprise Development	10%	1% of profit before tax
Residual (corporate social investment)		
To be determined by Sector	10%	1% of profit before tax
Total Score	**100 %**	

- ***Statement 5–9:*** Each element on the DTI's scorecard is important in achieving the broader objectives of the BEE policy and in ensuring its successful implementation.

The effectiveness of government's BEE policy to date, as defined by the various acts that have already been promulgated, has been criticised, as the ultimate measure of success, namely the gap between the rich and the poor, is actually widening (Masland, 2005). This can be considered to be premature criticism, as the modified all-encompassing B-BBEE Act only came into effect in 2003, and two

years is too short a period to allow for effective measuring of the full impact that the Act has had on macro-economic indicators

2.3 Issues related to the implementation of BEE

This section focuses on the development of additional statements whose applicability and relevance to the SMEs within the engineering manufacturing industry will be tested by means of application of a questionnaire. The statements are drawn from past research and general sentiments that have so far been expressed in the marketplace.

2.3.1 BEE success factors

Dlamini (2001) conducted exploratory research, interviewing the representatives of fourteen companies that had been involved in BEE equity deals. His findings for the conditions of success were:

The provision of own capital by Black investors: The greatest motivator is ownership. By providing a portion of their own capital, BEE partners will be motivated by the financial risk involved.

- ***Statement 10:*** BEE investors should put more of their own capital into the deal.

No room for broad investment-holding companies: BEE groups that have a diversified shareholding across a spectrum of industry sectors will be unfocussed and often are not involved in the executive management of companies, thus reducing the effectiveness of any BEE deal (Dlamini, 2001).

- ***Statement 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. Such negative effect is as a result of the widespread focus by the BEE partner on all investments, rather than focusing on a single investment.

Conservatism: The more the emphasis on long-term financial gains that the BEE equity partner has rather than short-term financial gains, the more successful a BEE deal is likely to be.

- ***Statement 12:*** BEE equity investors should focus on long-term financial gains rather than on short-term 'quick cash' gains.

Track Record: The historical disadvantages that black businesspeople had to endure in the past makes the resource pool of experienced black businesspeople very small, therefore business is often forced to enter into doing equity deals with BEE partners who lack business acumen. The more track record a BEE partner exhibits, the more likelihood there is that a deal will succeed.

- ***Statement 13:*** Companies should select BEE equity partners based on their track record.

Management capacity: Randall (1996) highlights the importance of South Africa having the right business skills; otherwise, it could face a similar fate as its African counterparts. Dlamini (2001) also identified the importance of having business skills in order for BEE to succeed.

- ***Statement 14:*** BEE equity partners need to have good business skills and acumen.

Addition of value: Dlamini (2001) identified the addition of value as one of the most important issues affecting the successful implementation of BEE. He highlights the need for both partners to identify the addition of value that a BEE

partner can bring to the table and to document it upfront. Failure to do this can lead to infighting afterwards, which might compromise the operational effectiveness of the organisation.

- ***Statement 15:*** Business and BEE equity partners need to determine upfront what the targets and measures of value add will be.

Dominant established institutional investor: Dlamini (2001) recognises the important role that an institutional investor can play when it is able to play an executive role and provide strategic advice to the BEE partner who might lack the necessary skills.

- ***Statement 16:*** A large institutional investor can add value by acting in an executive role and as a mentor to BEE partners.

Owner management role: Black control should not exist exclusively at board level, but should be present throughout the organisation at senior management level as well. Although Statement 2 alludes to this point, an additional separate statement will be included that is aimed at checking for consistency in respondents' answers. Sithole's (1997) research further recognises the importance of the involvement of BEE partners in the day-to-day running of a company.

- ***Statement 17:*** Black control should exist throughout an organisation at senior management level as well.

Funding structure: The funding structure put in place for the BEE equity transaction should not depend on the stock market, but upon the fundamentals of the targeted company.

- ***Statement 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.

Corporate governance: One of the reasons identified as a cause of the perceived failure of BEE initiatives was poor corporate governance. Van Zyl and Lazenby (2002) also identified that BEE incumbents who were in positions of stress and power were more likely to act unethically.

- ***Statement 19:*** The adherence to corporate governance guidelines and ethical business conduct is important in achieving successful BEE outcomes.

Rationale for introducing BEE initiatives: Dlamini (2001) identified as being of critical importance the rationale for introducing a BEE partner. The more companies that examined the need for a BEE investor, the more the likelihood of success was.

- ***Statement 20:*** Analysing and planning upfront the implementation of BEE initiatives is important in achieving successful BEE outcomes.

Sithole (1997), in his research findings, identified that incentives played a major role in ensuring the transfer of skills and the achievement of BEE objectives.

- ***Statement 21:*** The linking of incentives for managers to BEE objectives is important in achieving successful BEE outcomes.

Mathu (1998) identifies that the factors contributing to a successful alliance with any business partner are no different from the factors contributing to a successful alliance with a BEE partner. They include a clear logic and intent for the alliance, time spent on partner selection and assessment, the quality of planning and

contract negotiations and the regular evaluation of the performance of the BEE partner These findings concur with those of Dlamini (2001).

- ***Statement 22:*** Companies need to set milestones and constantly to monitor the progress of BEE initiatives against such milestones.

Montsho (2001) confirmed that within the BEE SMEs that were targeting to supply the national carrier South African Airways, the following issues were identified as facilitating the implementation of BEE: the need for target setting; the introduction of incentives; and the transfer and development of business skills These issues all concur with those identified in the literature review and, because the research was specifically aimed at the Small Medium and Micro Enterprises (SMME), we expect that the issues identified as important in the SMME research will also be highlighted as being of importance in the SMEs in the engineering manufacturing industry.

The general sentiment in the engineering industry is that direct incentives will accelerate the implementation of BEE initiatives.

- ***Statement 23:*** Tax incentives are important motivators for the implementation of BEE.

In total, 23 issues, which are listed in Appendix A, have been identified in the literature review as being of importance to the successful implementation of BEE.

The following research question, which accounts for the core of the research, is thus tabled:

- ***Research Question 3:*** How relevant to the successful implementation of BEE within the SMEs in the engineering manufacturing industry are the 23 statements identified in the literature review? How well is the SME in the

engineering manufacturing industry currently scoring on the issues considered to be important?

2.3.2 Challenges facing the implementation of BEE

As already discussed, Dlamini (2001) identified the importance of a BEE partner putting up his or her own capital. Thackwray (1998) and Rabinowitz and Teichner (1998) identified the lack of Black capital as serving as a major impediment to the implementation of BEE. Although such a finding holds true regarding the raising of the complete capital required, it is still suggested that a relative portion be put in by the BEE partners. Thackwray (1998) and Rabinowitz and Teichner (1998) further identified the existence of a grossly undereducated black populace and a lack of managerial skills as major impediments to the implementing of BEE. The issue of transfer of skills, as highlighted by Randall (1996), can in this way be seen as of importance. Thackwray (1998) condemned the attitude of white businesspeople as forming the leading impediment to the implementation of BEE initiatives, in light of the fact that major corporations in South Africa are controlled by whites who are generally perceived to be unwilling to relinquish power voluntarily. Rabinowitz and Teichner (1998) further add that there is a prevailing fear of losing control.

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

- ***Proposition 4:*** White-owned SMEs within the engineering manufacturing sector believe that BEE does not advantage them.

Rabinowitz and Teichner (1998) identified that the fear of losing experienced white personnel was an impediment to the implementation of BEE.

In a statement made by Sasol in late 2003, a local company involved in the petrochemical industry, the impression was created that BEE is viewed as a potential risk factor. Government responded by saying that BEE should rather be seen as an opportunity for companies to contribute towards social transformation (De Jongh, 2004).

2.4 The definition of success

The intended outcomes of BEE are broad and go beyond the measurement of financial return, as they include both social outcomes and political outcomes. It is thus very difficult to pin down a definition of success that objectively can conclude whether the BEE policies, indeed, are successful. Decades could pass before the first impact of policies on social structures is seen. Klitgaard and Katz (1983) attempted to evaluate the success of the Malaysian empowerment policies a decade after they were first implemented, yet were unable conclusively to state whether they had, indeed, been successful. Today, three decades later, we are still unable conclusively to state whether or not the Malaysian empowerment programme has been successful, in light of the valid arguments coming from both sides.

With the above sentiment in mind, a decision was taken to measure the level of satisfaction within the SMEs in the engineering manufacturing industries regarding the implementation of BEE. Government's success in achieving its broader BEE objectives depends on the willingness and capabilities of companies to implement BEE initiatives. If companies are dissatisfied with the process, such dissatisfaction will jeopardise the ultimate success of the set programme.

Chapter 3: RESEARCH METHODOLOGY

This chapter describes the research methodology and techniques applied to address the research objectives. It details the sample, data collection, measuring instruments, research objectives and types of statistical analyses utilised.

3.1 Introduction

A detailed literature review covering the macro-economic implications of BEE, the history of BEE, global empowerment lessons, the definitions of BEE and issues surrounding the implementation of BEE all helped to form the theoretical basis of this study. The information gathered from the literature review assisted in the compilation of the questionnaire that will be used to measure the perceptions of the respondents with regard to the identification of issues that are important for the implementation of BEE initiatives within the SMEs in the engineering manufacturing sector. The questionnaire will also simultaneously identify the current status of these issues in the organisation

The results of the questionnaire were analysed statistically in order to evaluate the general details of each respondent and the feasibility of propositions, as well as to answer research questions identified in the literature review. Figure 3.1 outlines the methodology to be followed.

3.2 Research objectives

The objective of this research is to identify and analyse the issues that SMEs in the engineering manufacturing sector are facing as they consider the

implementation of B-BBEE. The analyses will look at how these issues are interpreted across different levels of ownership and will also look at the motivation for the introduction of B-BBEE within these companies. The level of satisfaction within companies that have embarked on B-BBEE initiatives will also be analysed.

Specific objectives of this research are:

- to establish the conditions regarded as important for the successful implementation of B-BBEE in the SMEs within the engineering manufacturing sector.

- to discover how well the SMEs in the engineering manufacturing sector currently score against the issues considered to be important.

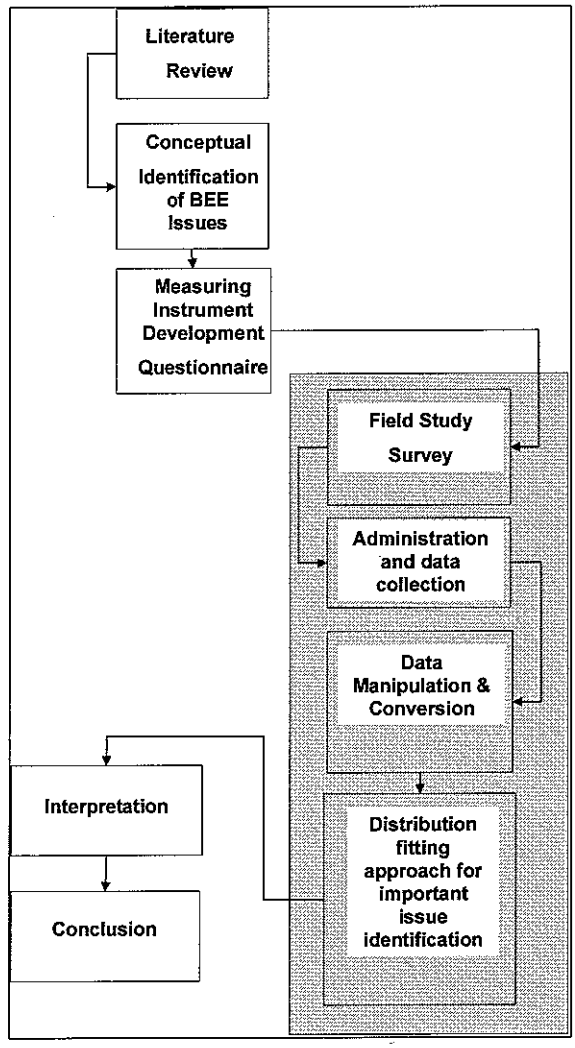
- to ascertain the composition of black ownership and family ownership within the SMEs in the engineering manufacturing sector and to analyse how the B-BBEE issues are interpreted across this spectrum of ownership.

- to analyse the possible motivators for B-BBEE implementation and to discover which of these motivators drive the implementation of B-BBEE within the SMEs in the engineering manufacturing sector.

- to gauge the level of satisfaction within the SMEs in the engineering manufacturing sector with regard to the implementation of B-BBEE initiatives.

- to validate perceptions regarding the mindset of SMEs in the engineering manufacturing sector regarding the implementation of B-BBEE.

Figure 3.1: Methodological approach



3.3 Population and sample details

The population researched comprises SMEs, as defined in terms of the National Small Business Act of 1996, that are operating in the engineering manufacturing sector.

The sample was drawn from the Steel and Engineering Institute of South Africa's database, the supplier/customer lists supplied by previous employers, and the author's network of contacts in the engineering field. Some questionnaires were distributed electronically via the SEIFSA database, while other questionnaires were administered directly by fax. In addition, workshops on BEE-related topics held by the Institute were used as opportunities for completing questionnaires. Respondents had the option of faxing completed questionnaires back to the author or of entering their responses online at www.BEE-ENG.speedsurvey.com. The majority of respondents opted to return their completed questionnaires directly to SEIFSA.

The respondents were expected to be chief executive officers (CEOs), general managers, managing directors, or, in the absence of a formal hierarchy, the person charged with making the strategic decisions in the organisation. Those organisations that did not meet the qualifying criteria were eliminated from the sample. The qualifying questions were asked early on in the questionnaire

The SEIFSA electronic database comprises 3 500 companies. However after filtering for SMEs and manufacturers, the number of companies was substantially reduced. Nevertheless, the database is large and presented an excellent opportunity for obtaining a high response rate, which allowed for validation of the research.

The distribution-fitting approach (Stacey, 2005) was the primary statistical tool used to analyse the results, Stacey (2005), rather than specifying the minimum sample size, utilises the χ^2 statistic to determine whether the model adequately fits the survey data. A value of χ^2 that is not significant will be targeted in the analysis. If the χ^2 value is found to be significant, the application of the distribution-fitting approach to ordinal scale conversion will not be considered appropriate. For this research, a minimum sample size of 30 was targeted.

3.4 Data collection

Data collection was conducted primarily by means of a literature review and questionnaire, although the opinions of industry experts were used to tailor the research to some extent.

3.4.1 Literature review

The main objective at this stage is to create a theoretical base for the compilation of the survey questionnaire.

3.4.2 Questionnaire survey

A copy of the questionnaire is attached as Appendix 2.

3.4.3 Questionnaire structure

Qualification questions (Questions 1–5). These questions were designed to determine whether respondents formed part of the population. If they fell outside the predefined parameters for SMEs in the engineering manufacturing industry, they were eliminated from the research. Questions 1 and 2 determined whether the respondent was a manufacturer within the engineering sector, while Questions 3 to 5 were used to determine whether the respondent and the respondent's organisation were correctly targeted, as per the definition outlined earlier in the research.

Categorisation questions (Questions 6–7). These questions were designed to classify respondents' organisations across the spectrum of black ownership and family ownership. The information obtained in this way was then used to do a comparative analysis to see how perceptions differ across these categories of ownership.

Testing external validity of the research (Questions 8–9). These questions were used to authenticate the importance of the research, as well as to confirm the importance of BEE to the engineering manufacturing industry. Leedy and Ormond (2001) emphasise the importance of the research question and indicate that the outcomes must "make a difference" in some way.

Investigative questions (Questions 10–16). These questions were designed to identify the organisation's current BEE status and also to discover what the rationale for implementing BEE is. These questions further seek to answer research question two and propositions one through to five.

Questions relating to support of governmental strategy for reducing inequalities between whites and blacks in the economy. (Questions 17–19). These questions tested the perceptions of the SMEs within the engineering manufacturing industry regarding the best strategy to adopt for reducing inequalities in the economy, thus answering research question one.

Questions relating to the level of satisfaction achieved. (Question 20). This question tested how satisfied respondents were with the implementation of BEE within their organisations.

Statements relating to the issues facing the organisation in implementing BEE (Statements 1–23). These statements tested the perceptions of respondents in regard to issues identified in the literature review and theory as important considerations in implementing BEE. The respondents were also asked to rate their organisational performance against these statements. The frequency tables of the responses to these statements were processed using the distribution-fitting algorithm developed by Stacey (2005), then the results were analysed and research question three was answered.

Some questions allowed for the respondents to add additional comments and thoughts. These were used to validate the research and to see whether additional issues of importance were raised that were omitted from the questionnaire and not identified in the literature review.

3.5 Measuring instruments

3.5.1 Reliability

The questionnaire was constructed by applying the Kelly Repertory Grid technique (Kelly, 1955), as well as by means of the literature survey and the customisation of issues according to the input provided by Industry experts (De Vellis, 1991). A six-point Likert scale was chosen to measure respondent agreement with the statements provided A six-point scale was judged to be the optimal trade-off between brevity and reliability, as decreasing the scale puts less of a burden on respondents, whilst also decreasing reliability and *vice versa* (De Vellis, 1991).

Unlike the factor analysis, which requires that the variables (statements) are correlated with each other (Malhotra, 1996), the distribution-fitting algorithm developed by Stacey (2005) has the advantage that the variables (statements or questions) need not be correlated with each other. The only important measurement of reliability is the χ^2 value; as long as the χ^2 value was not found to be significant, the results of the ordinal scale conversion were accepted as being reliable.

3.5.2 Validity

Since the research was one of the first to use quantitative analysis to evaluate BEE issues, no existing proven measuring instrument could be used. Care was, however, taken to include all the concepts regarded as important and which were

identified in the literature survey Such a procedure formed the foundation for ensuring face validity.

A section at the end of the statements was added to provide respondents with the opportunity to identify additional issues that they found important to the successful implementation of BEE. The issues identified as important, as obtained from the distribution-fitting algorithm were to be subjected to content analysis in order to determine whether they included all the important issues in order to ensure content validity. In addition, the assistance of industry experts was utilised to tailor the questionnaire before distribution. Morgan (1988) identifies the use of such a methodology as adding validity to the measuring instrument

3.6 Data analysis

3.6.1 Data types

The data collected form the questionnaire contains the following data types:

- Qualification Questions (Q1–Q5) *Nominal/Ordinal*
- Categorisation Questions (Q6–Q7) *Nominal/Ordinal*
- Testing External Validity of the Research (Q8–Q9) *Ordinal*
- Investigative Questions (Q10–Q16) *Nominal/Ordinal*
- Questions relating to support of the government's strategy for reducing economic inequalities between whites and blacks (Q17–Q19) *Ordinal*
- Questions relating to the level of satisfaction achieved (Q20) *Ordinal*
- Statements relating to the issues facing the organisation in implementing BEE (Statements 1–23) *Ordinal*

3.6.2 Statistical data analysis

The first seven questions were used to determine whether respondents formed part of the population, as well as to determine the category of ownership of each respondent. Such categorisation was necessary so that a comparative statistical analysis could be performed on the data.

Questions 8 and 9 were included to add an element of external validity to the research and to justify why such a study should, indeed, take place. A simple descriptive parametric analysis was used for presenting the results.

A decision was taken to use the distribution-fitting algorithm as developed by Stacey (2005) to convert the ordinal data responses into an interval scale to allow for further analysis of results. The traditional conversion of ordinal scale data into interval scale data by means of correspondence analysis (Bendixen & Sandler, 1995) was not applicable, due to the lack of correlation between the variables concerned. The 'horseshoe effect' noted by Bendixen and Sandler (1995) and discussed by Greenacre (1984) was also not present in any of the data sets. Stacey (2005) found that of all the methods available for conversion of ordinal data into interval data, the distribution-fitting approach was found to be superior to the alternative approaches in regards to both accuracy and validity.

Questions 14, 15 and 16 were aimed at identifying the current status of BEE within the organisation, for how long it had been implemented and for identifying the primary source of pressure to implement BEE. The nominal responses were analysed using simple descriptive statistics.

Three primary sets of results were rescaled using the Stacey (2005) distribution fitting approach. The first set of data that was rescaled collectively consisted of the responses received from all respondents for Q8–Q13 and Q17–Q20. Further rescaling was done on the same questions for the subset consisting of both high-

level and low-level black equity ownership. The rescaling was also done for the subset broken down into family ownership and non-family ownership.

The second primary rescaling was done to the responses received for statements 1 through to statements 23 as to how all the respondents rated the importance of the individual statements. The final primary conversion was done for the same 23 statements as to how the respondents' organisation fared in regard to the statements at the time of responding to the questionnaire.

3.6.3 Research questions and propositions

The following propositions and questions were derived from the literature to assist with the meeting of the objectives set. A description of which of the above statistical techniques was used is also outlined.

PROPOSITIONS

- ***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.

Q11 was used to address proposition 1, Simple descriptive statistics were used. In addition, the results of the associated distribution-fitting algorithm were used to determine the relative significance of the responses.

- ***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.

Q16 was used to address proposition 2. Simple descriptive statistics were performed on the nominal data

- ***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 proposition 3. Simple descriptive statistics were used. In addition, the results of the associated distribution-fitting algorithm were used to determine the relative significance of the responses.

- ***Proposition 4:*** White-owned SMEs within the engineering manufacturing sector believe that BEE does not advantage them.

Q10 was used to address proposition 4. Simple descriptive statistics were used. In addition, the results of the associated distribution-fitting algorithm were used to determine the relative significance of the responses.

RESEARCH QUESTIONS

- ***Research Question 1:*** What are the perceptions of the SMEs within the engineering manufacturing industry regarding the role that government should play in addressing the economic disparities that exist between blacks and whites? How do these perceptions differ across the spectrum of ownership?

Q17, Q18 and Q19 were used to answer research question 1. Simple descriptive statistics were used. In addition, the results of the associated distribution-fitting algorithm were used to determine the relative significance of the responses.

- ***Research Question 2:*** What is the awareness of BEE in the SMEs within the engineering manufacturing sector and to what extent has BEE affected the industry?

Q8, Q9 and Q14 were used to answer research question 2. Simple descriptive statistics were used. In addition, the results of the associated distribution-fitting algorithm were used to determine the relative significance of the responses.

- ***Research Question 3:*** How relevant to the successful implementation of BEE within the SMEs in the engineering manufacturing industry are the 23 statements identified in the literature review? How well is the SME in the engineering manufacturing industry currently scoring on the issues considered to be important?

Statements 1 through to 23 were used to answer research question 3. The results of the ordinal scale conversion for the respondent's perception of what the important issues are, and the respondent's organisation's current performance against these issues were plotted on a two-dimensional map. The plotting facilitated the discussion and allowed for grouping of the issues into four quadrants, namely:

1. Important issues currently being addressed by the industry
2. Important issues not being addressed by the industry
3. Less -important issues currently being addressed by the industry
4. Less-important issues currently not being addressed by the industry