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**PERCEPTIONS OF SMALL, MEDIUM AND MICRO ENTERPRISES IN
JOHANNESBURG, GAUTENG ON THE IMPACT OF PREFERENTIAL
PROCUREMENT POLICY FRAMEWORK ACT (ACT NO. 5 OF 2000)
AS A SUPPLIER DIVERSITY TOOL**

A Research Report

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CREATION**

by

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ABSTRACT

This research investigates perceptions of the SMME community in Johannesburg, Gauteng, on the impact of the Preferential Procurement Policy (PPP) Framework Act (Act No. 5 of 2000) as a Supplier Diversity (SD) tool. The research questions discussed are: 1) Are SMMEs directly benefitting from government as a result of PPP? 2) Are SMMEs indirectly benefitting through the private sector as a result of PPP? 3) How can PPP be improved? and 4) What are the problems with the implementation of PPP?

The Osiba Research (2011) found that there was minimal impact from government programs in supporting and improving the majority of black-owned SMMEs and integrating them into the mainstream economy. It was further found that the major shortcomings were not due to insufficient or inaccurate policy, but the government's inability to implement and support the very programs they designed. Other factors that work against SD in South Africa are corruption and nepotism which have led to lack of transparency in the awarding of tenders (Lodge T, 1998).

Weak policy coordination and implementation, funding constraints and the fact that policy benefits were leveraged almost exclusively by medium-sized enterprises, which were often white owned, meant that previously disadvantaged people continue to be economically marginalized (Rogerson, 2013). Another setback is that of set-asides. Government has not been practicing its own policy through public procurement and as a result the private sector has showed little commitment to these set-asides. This is partly because the National Treasury holds that set-asides will inflate the cost of procurement (Timm, 2011).

This is a qualitative study and as such an interpretivist research approach was used. Enterprises included in the sample were selected using the City of Johannesburg's Supplier Database, which is the City's official database that contains the list of accredited prospective suppliers of different goods and services that are required by the City.

The results of this research suggests that while there have been links to increased economic growth and rebalancing of socio-economic inequalities as a result of PPP, there are still major problems to overcome such as lack of transparency in awarding tenders, beneficiaries of government business employing non South African citizens/permanent residents,

despondency on set-asides, fronting, lack of access to funding, lack of information and lack of commitment to PPP by large corporates.

The study concludes with recommendations on policy, how the problem of rationalisation might be overcome, as well as how closer cooperation between SMMEs, government and large corporates can enhance PPP. Recommendations on potential future research are also made.

ACKNOWLEDGEMENTS

Robert Venter

DECLARATION

I, Ntuthuko Jerry Mahlangu hereby declare that this research project as submitted in partial fulfilment of the requirements for the Master's Degree in Business Administration at Wits Business School is my own work and has not previously been submitted to any other institution. I further declare that all sources cited or quoted are indicated and acknowledged by means of a comprehensive list of references.

Signed
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CHAPTER 1: ORIENTATION

1.1 BACKGROUND

Since coming to power in 1994, the democratic government of South Africa has introduced a number of policies aimed at addressing social challenges facing the country. Nevertheless, vast racial and gender inequalities in wealth distribution and access to wealth, income, skills and employment have persisted, arising from the system of apartheid which skewed business ownership patterns on racial lines.

In order to address these imbalances government introduced the Preferential Procurement Policy Framework Act (Act No. 5 of 2000). This Act is a means by the South African government to promote Supplier Diversity (SD). The objective of the Act is to utilise the purchasing power of government as an instrument of business development and to influence wealth distribution in favour of the historically disadvantaged individuals (HDI).

HDI are defined as South African citizens who, due to the apartheid policy that had been in place prior to 1994, had no franchise in national elections. An extension of HDI also includes women and the physically handicapped, regardless of race.

The Act prescribes that a preference point system must be used when organs of state award contracts. For a tender with a Rand value between R30,000 and R500,000 the 80/20 preference point system is used, where 80 is the maximum points for price and 20 is the maximum points for being an HDI and/or subcontracting with an HDI.

For a tender with a Rand value above R500,000 the 90/10 preference point system is used, where 90 is the maximum points for price and 10 is the maximum points for being an HDI and/or subcontracting with an HDI.

Over and above the awarding of preference points in favour of HDI, Regulation 17 of the Act identifies 'specific goals' to be considered, as they are regarded as a contribution towards achieving the goals of the Reconstruction and Development Programme (published in Government Gazette No.16085 dated 23 November 1994). These include:

- (a) The creation of new jobs or the intensification of labour absorption;
- (b) The promotion of enterprises located in rural areas;

- (c) The empowerment of the work force by standardising the level of skill and knowledge of workers; and
- (d) The development of human resources, including by assisting in tertiary and other advanced training programmes, in line with key indicators such as percentage of wage bill spent on education and training and improvement of management skills.

The Preferential Procurement Policy (PPP) Framework Act (Act No. 5 of 2000) is therefore a measure designed to widen local market access for businesses wholly or partially owned by the historically disadvantaged communities of South Africa.

1.2 PURPOSE OF THE STUDY

The purpose of this study is to determine the perceptions of small, medium and micro enterprises (SMMEs) community in Gauteng on the impact of PPP as a Supplier Diversity tool. Specific objectives of the study are to:

- 1) Determine perceptions of the SMME community in Gauteng on the effectiveness of PPP;
- 2) Determine perceived legitimacy of PPP; and
- 3) Develop a business case for supplier diversity.

The **research questions** are:

- 1) Are SMMEs directly benefitting from government as a result of PPP?
- 2) Are SMMEs indirectly benefitting through the private sector as a result of PPP?
- 3) How can PPP be improved?
- 4) What are the problems with the implementation of PPP?
- 5) Is PPP perceived to be legitimate?

1.3 CONTEXT OF THE STUDY

In the South African economy, where entrepreneurship and economic empowerment of the historically disadvantaged individuals have been identified as key elements in deepening democracy and realizing socio-economic equality, supplier diversity (SD) has become a dominant theme in the SMME environment. SD can be understood as the purchasing of

goods and services from businesses owned and operated by visible minority groups (Adobor & McMullen, 2007). PPP was intended to promote SD by building links to private and public sector supply chains through public procurement. PPP was followed by the Broad-Based Black Economic Empowerment (BBBEE) Act (Act No. 53 of 2003). The key objective of this Act was to ensure that any entities that wish to meet qualifying criteria for licenses or concessions, supply goods or services to any organ of the state or public entity, acquire state-owned enterprises and enter public-private partnerships would have to demonstrate their commitment to Black Economic Empowerment. The BBBEE policy was strengthened by the issuance of the BBBEE Codes of Good Practice in 2007 and the associated Balanced Score Card. The mandate of the Codes of Good Practice was to assist and advise both public and private sectors in their implementation of the objectives of the BBBEE Act by offering a set of principles and guidelines that might facilitate the implementation of BBBEE in a meaningful and sustainable manner (Botha & van Vuuren, 2006). On May 1, 2015 the Department of Trade and Industry started the implementation of amendments to the BBBEE Act of 2003 and the Codes (BBBEE Amendment Bill, 2012). The new Codes significantly change the manner in which a firm's BBBEE status (or level) will be calculated, as the number of BBBEE points required to achieve a particular BBBEE level has been increased.

Recently, small business research has been focused on understanding and measuring the effectiveness of economic development interventions directed at encouraging business growth through SD, public procurement, and private supply chains (Jenkins 2005, Rogerson 2012). In the South African context, SD has begun to dominate firms' business strategies because of the economic benefits that firms derive as well as the positive impact to socio-economic redress of previously disadvantaged groups (Rogerson, 2012). PPP, private procurement and SD are seen as powerful vehicles that government and entrepreneurs can utilise to not only achieve socio-economic redress but to also derive true economic benefits.

1.4 PROBLEM STATEMENT

The objectives of SD are to beneficiate SMMEs owned by HDIs directly through giving them preferential treatment in the awarding of government contracts and indirectly through giving preferential treatment to companies that subcontract these SMMEs.

However, it can be argued that SD works against supplier rationalisation. Adobor and McMullen (2007), suggest that the use of modern production systems and philosophies

such as 'Just-in-time' means that buying corporations are becoming even more dependent on a few preferred suppliers, which means supplier rationalisation. Pearson et al, (1993) found that in many situations, organisations are endeavouring to reduce the number of suppliers and establish longer term buyer-supplier relationships to achieve competitive advantage through more effective use of their supply base. This hinders growth of the SMME sector in terms of new entries.

Other factors that work against SD in South Africa are corruption and nepotism which have led to lack of transparency in awarding of tenders (Lodge T, 1998).

There is need for constant evaluation of PPP to determine firstly whether it is being implemented as it should and, secondly, whether it is making any impact on SMMEs owned or partly owned by historically disadvantaged individuals.

This study seeks to determine perceptions of the SMME community in Gauteng on the effectiveness of PPP as a SD tool as well as its perceived legitimacy, with a view to highlighting the challenges of PPP and recommending alternative and/or complementary approaches.

1.5 SIGNIFICANCE OF THE STUDY

As a result of the discriminatory nature of Apartheid practices of the past, a vast number of groups were either entirely excluded or had limited access to government contracts. Contracts offered by government and large corporates were aimed towards large and established contractors thus new contracts found it extremely difficult to participate in government procurement schemes (Bolton, 2006). Under the new dispensation, there have been major strives to uplift previously disadvantaged groups, boost SMME growth and utilise public and private procurement policies to boost SD and overall economic growth. There have been several key studies in these fields that focus on South Africa. Bolton, (2006), evaluated whether the South African government made adequate provisions for the use of procurement as a means to address past imbalances. He found that while various policies are not without controversy, there have been links to increased economic growth and rebalancing of socio-economic inequalities. Other key studies in this field include the work of Watermeyer (2003) who examined the implantation of preferential procurement policies in the public sector in South Africa, paying particular attention to the relevant legislation and its interpretation.

There has also been extensive work by Rogerson (2003-2013) where he examines SMME environment in South Africa and how various SD policies improve access to market opportunities and business linkages..

This study seeks to provide answers about the effectiveness of PPP on small and medium-sized enterprises, implementation of SD policy and the growth of the SMME environment in Johannesburg, Gauteng. The study examines unique insights and opinions derived from entrepreneurs and senior managers in the SMME environment on PPP.

It is envisaged that this study will stimulate further research into consolidating the ideas of supplier rationalisation with those of SD into a more improved and workable SD model.

1.6 SCOPE OF THE STUDY

This study is confined to the province of Gauteng in South Africa and to SMMEs owned by historically disadvantaged individuals and/or women and the physically handicapped. The National Small Business Amendment Act (Act No. 26 of 2003 and Act No. 29 of 2004), hereafter referred to as NSB Act, classifies these SMMEs in the following groups: survivalist, micro, very small, small and medium, hence the use of SMME for small, medium and micro-enterprises. For purposes of this study, survivalist and micro enterprises will be excluded. In line with the NSB Act, number of employees, annual turnover, and gross assets excluding fixed property will be used to define the very small, small and medium enterprises. Table 1 below defines SMME categories by turnover.

Table1: SMME definition by turnover

Industry	Micro	Very Small	Small	Medium
Wholesale trade, commercial agents and allied services	R0.2 M	R6 M	R 32 M	R 64M
Finance and business services	R0.2 M	R 3 M	R 13 M	R 26
Community, social and personal services	R0.2 M	R 1 M	R6 M	R13 M
Manufacturing	R0.2 M	R5 M	R 12 M	R 51 M

Source: NSB Act (Act No. 26 of 2003 and Act No. 29 of 2004)

1.7 DEFINITIONS AND TERMS

- *Historically Disadvantaged Individuals (HDIs)*. HDIs are defined as South African citizens who, due to the apartheid policy that had been in place prior to 1994, had no franchise in national elections. An extension of HDIs also includes women and the physically handicapped, regardless of race.
- *Supplier Diversity (SD)*: Supplier diversity can be understood as “the purchasing of goods and services from businesses owned and operated by visible minority groups” (Adobor and McMullen, 2007: P. 519). For purposes of this study, minority groups include historically disadvantaged individuals (HDIs).
- *Supplier Development/Rationalisation*: Supplier development is the process of long-term co-operative effort between the purchasing firm and its suppliers on a one-to-one basis to upgrade the supplier technical, quality, delivery and cost capabilities and to foster ongoing improvement (Watts & Hahn, 1993). Purchasing firms need to improve the performance of their suppliers by carrying out initiatives which transfer skills and knowledge such as lean production practices so that the supplier’s capabilities are aligned to the purchaser’s needs (Modi & Mabert, 2006).
- *Procurement*: Procurement can be understood as the process that creates, manages and fulfils contracts relating to “the provision of supplies, services or engineering and construction work; the disposal of property; the hiring of anything and; the acquisition or granting of any rights and concessions” (Watermeyer, 2003, p. 11)
- *Public Procurement*: Public procurement refers to the process of procuring goods and services on behalf of state organs/departments from the private sector. Public procurement includes the process that establishes, manages, and concludes contracts with the private sectors for the provision of goods and services (Watermeyer 2000).
- *Preferential Procurement* can be defined as “any government affirmative action policy that encourages government departments and agencies to buy goods and services from previously disadvantaged individuals or businesses” (South Africa. Office of the Presidency, 2000). Preferential Procurement is based on the Preferential Procurement Policy Framework Act (Act No. 5 of 2000) and provides for the implementation of a policy and a system where bids (tenders) are not only awarded on

the lowest price but also on a prescribed point system where preference is given to HDIs.

- *Private Procurement*: Private procurement refers to the process of procuring goods and services by private entities.
- *'Specific goals'*: Section 2 (1) (d) of the Procurement Act 108 of 1996 provides that any government entity may in its procurement policy aim for specific goals which may include: contracting with persons, or categories of persons, historically disadvantaged by unfair discrimination on the basis of race, gender or disability; and implementing the programs of the Reconstruction and Development Program as published in the Government Gazette No. 169085 dated November 23, 1994.
- *Legitimacy*: Legitimacy entails a general confidence among the public that a government's power to make binding decisions for the polity are justified and appropriate (Dahl, 1998).
- *BEE*: Black economic empowerment

1.8 ASSUMPTIONS

- (1) The sampling frame used is assumed not to be biased. All subjects for the population fall within the described scope of SMMEs.
- (2) This study assumes that the respondents have adequate knowledge and experience in the SMME sector to be able to successfully articulate responses which will make meaningful contribution to the study.

1.9 OUTLINE OF THE REMAINING CHAPTERS

Chapter 2: Literature review. This chapter begins with a brief definition and background of the notion of SD. It then examines literature relevant to the research questions as outlined in Section 1.2. Arguments for and against SD are presented and a case made for the adoption of SD initiatives.

Chapter 3: Research methodology. This chapter describes the research methods that are used in this study to address the research objectives and answer the research questions raised. The research methodology section outlines the entire approach that the research process will follow from the theoretical underpinnings to the collection and analysis of data.

Chapter 4: Findings. This chapter presents the research results according to the key themes that were identified in relation to the problem statement and the literature that was reviewed.

Chapter 5: Discussion. This chapter presents and discusses results under the themes identified in the problem statement, namely,

- 1) Perceptions on direct benefit of SMMEs from government
- 2) Perceptions on indirect benefit of SMMEs through the private sector
- 3) Perceptions on problems with implementation
- 4) Perceptions on how PPP can be improved

Chapter 6: Conclusions and recommendations. This chapter presents conclusions from the study as well as recommendations.

1.10 CONCLUSION

Supplier diversity (SD) is a proactive business process that seeks to provide historically disadvantaged individuals, women and the handicapped equal access to government and private sector supply management opportunities. This policy is being implemented in South Africa through the Preferential Procurement Policy Framework Act (Act No. 5 of 2000).

While discussions suggest that there is a strong business case for adoption of SD initiatives, SD is not without problems. Some authors have suggested that SD goes against supplier rationalisation, which in turn discourages new entries into the SMME sector. This policy framework also creates a challenge because SD is viewed as a compliance mandate rather than a business imperative.

This study seeks to determine perceptions of the SMME community in Gauteng on the effectiveness of the Preferential Procurement Policy Framework (PPP) in promoting SD as well as its perceived legitimacy, with a view to highlight the challenges of PPP and recommend alternative and/or complementary approaches.

CHAPTER 2: LITERATURE REVIEW

2.1 INTRODUCTION

This section delves into the literature relevant to the study. SD will be defined and examined in the context of the research questions and show why finding answers to these questions will provide insights into the implementation of PPP as a tool for SD in South Africa.

It has been over two decades since the change to democracy yet unemployment and insufficient livelihood opportunities are still major problems that plague South Africa. As a result, SMME development continues to prioritise the policy landscape (Ligthelm, 2012).

The National Development Plan (NDP) outlines a vision for 2030 which reaffirms the commitment to developing the SMME environment (NDP: Vision 2030, 2011). Many believe that the imperative is to identify and study a set of policies that will contribute to the strengthening of the South African urban economies and make them more inclusive (Turok, et al).

The challenge of overcoming problems surrounding market access for SMMEs has dominated the South African government's Post-Apartheid policy. From 1995, a new set of policies and institutions were formed with the sole aim of supporting the SMME economy based on "international best practice" (Rogerson, 2004). Institutions were created for the purpose of dealing with financial and non-financial arrangements as well as promoting business linkages and subcontracting arrangements for SMME's. Although the first decade after 1994 was where specific infrastructure supporting SMME's was developed, there were key disappointments. Very little of the funds targeting SMME development reached struggling black-owned enterprises in poor communities. Weak policy coordination and implementation, funding constraints and the fact that policy benefits were leveraged almost exclusively by medium-sized enterprises, which were often white owned, meant that previously disadvantaged people continue to be economically marginalized (Rogerson, 2013).

In 2004 the Department of Trade and Industry (the DTI) reviewed the ten years of small business support from 1994 to 2004. It was noted that the decade had been characterised by the systematic and profound expansion of small business support services through both private and public service suppliers. But there was lack of co-operation, duplication of

services, insufficient depth and professionalism among the staff of support agencies, and an almost erratic spatial coverage of needs (the DTI, 2004).

The failures of policies and institutions in the first decade post-1994 resulted in the re-evaluation of the existing policy framework and the functions of the existing institutions. The Small Enterprise Development Agency (Seda) was established in 2004, through the National Small Business Amendment Act (Act No. 29 of 2004) to implement government's small business strategy; design and implement a standard and common national delivery network for small enterprise development; and integrate government-funded small enterprise support agencies across all tiers of government.

The new support initiatives were reviewed in the five-year period between 2006 and 2011 and it was found once again that there was minimal impact from government programs in supporting and improving the majority of black-owned SMMEs and integrating them into the mainstream economy (Osiba Research, 2011). It was further found that the major shortcomings were not due to insufficient or inaccurate policy, but the government's inability to implement and support the very programs they designed. The report recommended that the implementation should focus on two key initiatives, namely, expanded application of public sector markets and public sector procurement as a lever for market access, and to promote greater business linkages with the private sector, with the aim of expanding its procurement contracts to SMMEs.

The following sections look at initiatives by the South African government to promote SD through PPP, problems and reactive policies, the perspectives of the international community on public procurement, and the role of the private sector in promoting SD.

2.2 PUBLIC PROCUREMENT AS A MEANS OF CREATING OPPORTUNITIES FOR MINORITY BUSINESS

One of the key roles of national government is to deliver crucial services and develop and maintain infrastructure throughout the country. In order for government to be able to carry out its duties expediently, it needs to enter into contracts with the private sector to provide goods and services, build infrastructure, and sometimes carry out certain tasks on behalf of government. In a developing country such as South Africa, the public procurement sector is often the largest domestic market which can account for up to 50%-70% of imports (Wittig,

1999). PPP is therefore of particular importance because it is a tool that the South African government can use to expand market opportunities, particularly for those entrepreneurs drawn from sections of the population disadvantaged under the apartheid regime (Watermeyer, 2000). Some have gone beyond to view PPP not only as a means of empowerment but also a means leading to reduction of reliance on foreign enterprises and the increase in the amount of project costs retained in the country in which such projects are executed (Govender and Watermeyer, 2000)

Scholars have recognized public procurement, which is a major function of governments, as an area of academic research that has been largely neglected (Thai, 2001; Mahood, 2010). Public procurement is widely utilized as a propeller or tool to stimulate SMME growth and strengthen the economy as a whole. Like countries such as the US, South Korea and Japan, the South African government has been called to increase support for SMMEs by applying set-asides with certain government contracts with mandatory provisions for SMME suppliers (Timm, 2011; Orser, 2009). As opposed to placing emphasis on procurement targets that relate to SMMEs, set-asides will reserve demarcated contracts for competition only among SMMEs or in the case of South Africa, previously disadvantaged owners of SMMEs (Orser, 2009). Historically, set-asides have been used in the U.S to aid SMME growth in its entirety as well as supporting specific targeted kinds of SMMEs such as minority-owned businesses, women-owned business and businesses owned by other previously disadvantaged groups (House-Soremekun, 2007). The effectiveness of set-asides has been widely debated and its impact criticized. However, scholars place emphasis on the fact that set-asides are “necessary to level the playing field and create opportunities for minority business creation and growth” (Sonfield, 2010, p. 12).

2.3 AN INTERNATIONAL PERSPECTIVE

Over the last century, there have been a number of examples of the use of procurement as a policy instrument (Watermeyer, 2003). Regional procurement was utilized in the 1930s to attempt to uplift areas hardest hit by the Great Depression; and following the Second World War, procurement policies were adopted in Europe, some of which were still in effect until 1991. In Northern Ireland unique policy was devised which provided for a 5% price preference for tenders that would benefit employment in the region. The Philippines also

enacted the Appropriation Act for Public Works in 1972 which required the use of labour-based methods wherever possible under favourable labour conditions.

President Lyndon Johnson said in 1965, "You do not take a person who, for years, has been hobbled by chains and liberate him, bring him up to the starting line of a race and then say you are free to compete with all the others, and still just believe that you have been completely fair." (Public Papers of the Presidents of the United States: Lyndon B. Johnson, 1965)

Implementation of affirmative action in the US started slowly, with the construction industry the site of one of the first tests. In the 1970s, The Vietnam Era Veterans Readjustment Assistance Act of 1972 called for "the preferential employment of disabled veterans and veterans of the Vietnam era ... who are otherwise qualified." The act was amended a year later to require federal agencies and contractors to take affirmative action in employment and promotion for people with disabilities. These changes underscored the use of affirmative action as a balancing of competitive interests. Affirmative action was understood to be the creation of opportunities to compete and not an assurance of outcome or success (Civil Rights 101 Leadership Conference on Civil Rights Education Fund, 2001).

In 1969 the Office of Minority Business Enterprise was established within the US Department of Commerce and launched a number of funding programs to offer individual and group assistance to minority businesses. Although initially hesitant, the private sector gradually built supplier relationships with minority-owned businesses with the formation of the National Minority Supplier Development Council (NMSDC) in 1972 seen as a major step towards providing increased procurement and business opportunity for minority-owned businesses of all sizes. The council's mandate was to aggressively seek viable minority suppliers for procurement opportunities with its corporate membership. The NMSDC was responsible for the astronomical expansion of supplier diversity in corporate America because it acted as an intermediary or bridging organization which helped to foster relationship building between corporates and minority business enterprises. The services and programs offered by NMSDC are certification of minority business enterprises, referrals to corporate buyers of minority suppliers able to supply quality goods and services, the establishment of a database of certified suppliers, provision of loan funding to certified minority business with contracts to NMSDC members, awareness raising and educational initiatives, the hosting of business opportunity fairs to introduce minority entrepreneurs to

prospective buyers, and a range of advocacy work including information dissemination about the dynamic nature of the minority suppliers and environment (NMSDC, 2000)

The business case for adopting supplier diversity became widely accepted and compelling as it was pointed out that minorities in the US represented the largest sales growth market for some products. A case was made that increasing the amount of purchasing from minority businesses may mean increased sales over the long term. As consumers became aware of the local development impact of corporate supplier decisions, they pressured companies to do business in local communities which necessitated working with minority enterprises (Ram & Smallbone, 2003).

There were, however, several challenges to the development of supplier diversity in the US. A major challenge to the success of the program was whether senior private sector management regarded supplier diversity as a tactical program or embraced it as a strategic issue (King, 2009). However, according to Whitefield (2008), supplier diversity has become an important management practice at corporations around the US, and most Fortune 500 companies have supplier diversity programs (Whitefield, 2008).

The US experience has been highly influential in terms of encouraging the introduction of parallel supplier diversity programs in several other countries. The most high profile contemporary case relates to the procurement contracts awarded for London's hosting of the 2012 Olympic Games (Smallbone et al. 2009). The Olympic Delivery Authority (ODA), a procurement agency, was given the task to deliver the infrastructure for the 2012 Olympic Games. Their mandate included a 'sustainable legacy within the available budget' and expectations were raised for contracts to be awarded to local businesses including minorities. The ODA's policies and practices were evaluated as a significant attempt to increase supplier diversity despite various problems with pre-qualification criteria of minority businesses.

There has been a paradigm shift in small business research which has resulted in a surge in interest among governments, the corporate sector and donors in harnessing the true potential of corporate business management skills, knowledge, technologies and capital to strengthen the SMME sector (OECD, 2007). This new focus on supplier diversity as a strategy for strengthening enterprise development has resulted in international agencies, governments and donors establishing a variety of initiatives designed to advance business associations. A clear example is the support from the United Nations Conference on Trade and Development (UNCTAD) towards increasing awareness of foreign investors or transnational corporations

about stimulating linkages with local SMMEs and strengthening their role and contributions in global and local value chains (UNCTAD, 2010).

The United Nations Commission on International Trade Law: Model on Procurement of Goods, Construction and Services (UNCITRAL) is another organisation that supports SD (UNCITRAL, 2008). UNCITRAL states that the immediate objectives of procurement are:

- The maximization of the economy and efficiency in procurement
- Establishing and promoting participation in procurement processes by suppliers and contractors where international trade can be promoted
- Promoting fair competition among suppliers and contractors for the supply of goods, services, constructions and/or other services to be procured
- Ensuring fair and equitable treatment of all involved in the procurement process
- Safe-guarding the integrity, fairness and the public confidence in the procurement process
- Achieving transparency at all stages of the procurement process

These objectives are consistent with many of the objectives of other established international organizations such as the World Bank (Watermeyer, 2003). Procurement policies, as understood by the World Bank, have been used to support socio-economic and political objectives (McCrudden, 1995 in Watermeyer, 2003). These include:

- Stimulating economic activity
- Protecting the major national industries from international competition
- Increasing the competitiveness of certain industrial sectors
- Correcting regional economic disparities
- Achieving certain social policy functions such as: job creation, promotion of fair labour practices, elimination of unfair discrimination against certain groups, promotion of equality between men and women and the increased employment of the physically handicapped.

Countries like South Korea, India, the US and Japan set aside certain types of procurement for SMMEs. Recent legislation in Brazil now also requires that certain contracts be set aside for small businesses (Timm S. 2011).

2.4 CONSTITUTIONAL FRAMEWORK FOR PREFERENTIAL PROCUREMENT IN SOUTH AFRICA

As part of the national governments initiatives to build an all-inclusive South African economy, procurement reform began in 1995 with the primary focus being on good governance in procurement and the realization of socio-economic objectives (Bolton, 2008).

The government created a ten-point plan in 1995 which would create opportunities for SMMEs to benefit from public procurement thereby creating a market for their goods and services as well as opportunities to broaden their product and service ranges (Rogerson, 2012). The primary aim of the ten-point plan was to provide interim procurement reform until the enactments of various national legislations were promulgated. The ten-point plan was linked to the Reconstruction and Development (RDP) Programme. The plan comprised of the following measures:

1. The improvement of access to tendering information;
2. The development of tender advice centres;
3. The simplification of tender submission requirements;
4. The broadening of a participation base for small contracts (less than R 7 500);
5. The waiving of security/sureties on construction contracts with a value less than R 100 000;
6. The unbundling of large projects into smaller projects that can be taken on by multiple SMME's;
7. The promotion of shortened payment cycles by government;
8. The Development of a preference system for SMMEs owned by historically disadvantaged individuals;
9. The appointment of a procurement ombudsman; and
10. The classification of building and engineering contracts.

The ten-point plan was further strengthened by the Green Paper on Public Sector Procurement Reform (Notice 691 of 1997) which outlined the fundamental principles of the ten-point plan and further proposals such as drafting affirmative procurement policy and the use of targeted procurement as a means of achieving socio-economic objectives for specific target groups (Bolton, 2006).

The initiatives fostered by the ten-point plan were followed up with the Handbook of Procurement Guidelines for SMMEs and Service Providers by Ntsika, which related to conducting business with the public sector (Ntsika, 1997). Through government commitment to support SMME development, PPP continued to develop. In 2000, the Preferential Procurement Policy Framework Act (Act No. 5 of 2000), a piece of legislation designed to support and regulate PPP, was enacted. This legislation transformed procurement policy as a whole as it encouraged private sector firms to procure goods and services from businesses owned and/or controlled by previously disadvantaged groups (Bolton, 2008). The passing of this legislation meant that South Africa became one of the few countries that have procurement subjected to its Constitution (Herrington and Overmeyer, 2006). The Procurement Act was passed so that it can give effect to section 217 (3) of the Constitution of the Republic of South Africa (Act 108 of 1996). As a response to this Constitutional imperative, the Act provided a framework through which SMMEs and historically disadvantaged groups would be targeted as beneficiaries of the procurement system (Bolton, 2005).

In the previous dispensation, tenders were awarded only based on price, hence the tenderer who submitted the lowest tender, in terms of price, was only overlooked if there was clear evidence that they lacked the capacity or experience to successfully complete the work or the work became financially unsound (Ministry of Finance and Public Works, 1997).

In the case: *Cash Paymaster Services (Pty) Ltd vs Eastern Cape Province and Others* (1999 (1) SA 324 (Ck) 351G-H and *South African Post Offices Ltd v Chairperson, Western Cape Provincial Tender Board, and Others* 2001(2) SA 675 (C), the court found that although price is still a very important criterion for the procurement of goods and services, it is no longer the decisive criterion. This old practice is described in the Green Paper on Public Sector Procurement Reform as “inflexible” because it restricts the degree which SMMEs can access the procurement process. This reinforces the notion that public procurement has been recognized as a corrective tool for the past unfair discriminatory policies and practices that limited certain groups from full economic participation. As a result, the notion of “empowerment” has begun to play a pivotal role in the adjudicating and allocation of public contracts. Not only is price considered, but a contractor’s ability in respect to his contribution to achievement of socio-economic objectives plays a significant role in the selection process.

Although the 1993 Interim Constitution recognized public procurement as a constitutional principle, the express provision for utilizing procurement as a policy tool was stipulated in Section 217 of the 1996 Constitution. Subsection (1) states that when organs of state contract for goods or services, they must do so in accordance with a system which is fair, equitable, transparent, competitive and cost-effective. Subsection (2) further goes on to state that the first subsection does not prevent government entities from implementing a procurement policy providing for categories of preference in the allocation of contracts in the interest of the protection or advancement of persons, or categories of persons, disadvantaged by unfair discrimination. Subsection (3) addresses implementation and states that national legislation must set down a framework within which the aforementioned in subsection (2) must be implemented. This analysis of Section 217 highlights the broader notion of substantive equality in South Africa. Section 217 allows for government entities to utilize “affirmative procurement”, “preferential procurement”, or “targeted procurement” when awarding contracts. The aim is to use procurement as a means to address past discriminatory policies and practices as well as a means to uplift SMMEs.

2.5 ADVANCING SUPPLIER DIVERSITY

Supplier diversity has become increasingly prominent as firms have recognized the economic benefits of broadening their supplier base to include minorities (Adobor & McMullen, 2007). Supplier diversity has also been encouraged by large firms as a means of addressing corporate social responsibility and anti-discrimination issues (NMSDC, 1998). In South Africa, currently the creation of new market opportunities is one of the core challenges for building the SMME economy and a key policy commitment.

Following the introduction of the Preferential Procurement Policy Framework Act (Act No. 5 of 2000), the South African Supplier Diversity Council (SASDC), a corporate-led and driven organisation, was formed in 2011. SASDC promotes commitment to supplier diversity (SD) as strategic business objective and leveraging resources, lessons and experiences. In their official Website, SASDC defines SD as “the proactive business process of sourcing products and services from previously under-used suppliers ... to sustainably and progressively transform a corporation’s supply chain to reflect the demographics of the society in which it operates.”

According to the SASDC report released in 2013 (Joseph G, 2013), average BEE spend reported by top 50 JSE listed companies was 44% of discretionary procurement at an average value of R1.83 billion. Only 9% was for small business, 6% for black-owned and 1% for women-owned. These procurement practices showed bias towards larger businesses. According to the report, 2.1 to 2.5 million SA citizens generate or receive their income from SMMEs yet 5 out of 7 small businesses started in SA fail in their first year, i.e. only 2 out of 7 SMMEs survive beyond one year.

Among the reasons given by these companies for their biased procurement spend against SMMEs were:

- a) SMMEs did not have the capacity and capability to supply according to their requirements;
- b) SMMEs were risky and unreliable suppliers;
- c) SMMEs didn't have the financial muscle to compete; and
- d) There was no benefit derived from buying from SMMEs.

Despite the challenges that SMMEs face there is need to pursue SD. According to the SASDC report 2.8 million SMMEs contribute about 40% of GDP and more than 50% of employment in South Africa. Among the many recommendations made to make SD work is for the South African government to build more forums based on partnership with the private sector (Timm S. 2011).

Indeed, there are many who believe that there is increased responsiveness by corporations toward SD. The United Nations Conference on Trade and Development (UNCTAD) noted that transnational corporations and foreign investors have displayed increased responsiveness to the issue of encouraging business linkages with local SMMEs in order to boost their contribution to local and global value chains as well as the economy (UNCTAD, 2008).

The South African International Business Linkages Program – Phase II Cooperative Agreement (SAIBL2) was awarded on April 1, 2008 to the Corporate Council on Africa and its partners, ECIAfrica Consulting (Pty) Ltd, a South African economic development services company, and the National Business Initiative (NBI), a member of the World Business Council on Sustainable Development. The SAIBL2 program supports the US Government's Economic Growth Objective in South Africa to generate rapid, sustained and broad-based economic growth. It also directly complements South Africa's National Small Business

Development strategy, which seeks to create an enabling environment to encourage small business growth and development.

SAIBL2 seeks to promote the creation and development of a corporate-led movement that fosters supplier development as a national competitive advantage and priority. It also seeks to encourage systemic change in the way corporations, black suppliers and business service providers do business with one another, while following sound business practices and market forces.

The specific objective of the SAIBL2 program is to improve the competitiveness and capacity of black businesses to integrate them into domestic and international markets through increased productivity, improvements in corporate governance, and the development and adoption of modern technologies and marketing practices (USID, 2011).

Among the services offered by SAIBL are the identification of qualified suppliers of goods and services, screening of qualified business partners based on company criteria, import/export facilitation, supporting suppliers to meet buyer requirements and identifying trade and investment opportunities and financing programs (Corporate Council on Africa, 2010).

In 2007, the South African government approved the Ten Products Initiative, a set-asides policy which stipulated that the state may only procure certain products from SMMEs. The ten product categories identified as targets for SMMEs were advertising, media and communication; interior and exterior cleaning services and cleaning product supplies; clothing and textiles; computer equipment and consumable supplies; interior and exterior furniture and décor; events coordination and management; maintenance and repairs, construction, office space, furniture and vehicle body works; travel coordination and shuttle services; perishable food supplies (catering); and stationary supplies and printing (Kaiser Associates, 2010).

However this policy has had major setbacks with its implementation. The government has not been practicing its own policy through public procurement and as a result the private sector has showed little commitment to these set-asides. This is partly because the National Treasury holds that set-asides will inflate the cost of procurement (Timm, 2011). Because “organs of the state follow National Treasury prescripts, the BBBEE Act has largely been unused in state procurement” (Mesatywa, 2011: P. 9).

Some research has pointed out that resistance and lack of commitment to support BBBEE suppliers within the private sector has resulted in an inherently weak implementation of SD (Herrington and Overmeyer, 2006). According to the BBBEE Advisory Council, 75% of large South African firms neglect their obligations with regard to enterprise development (National Small Business Advisory Council, 2010).

The policy challenges with national development can also be attributed to their legitimacy, which is their leadership's ability to connect with the citizens and gain their confidence, trust and acceptance of the policies formed (Conteh, 2007). This is particularly true for South Africa where PPP has been inextricably linked to assisting the country overcome past discriminatory policies which not only segregated people based on race, but also limited certain group's participation in the economy. In order for the NDP's development goals to be taken seriously, the role of the executive cannot be ignored in acquiring legitimacy of PPP. Legitimacy will be promoted by the tacit or explicit support of executive leaders accompanied by their commitment and ability to protect implementing agencies from the turbulent nature of the relationship between policy makers and stakeholders (Williams, 2003).

2.6 CONCEPTUALISING LEGITIMACY

Studies of failures of policy have typically tried to understand the various causes in terms of effectiveness, efficiency and implementation. Wallner (2008) proposes legitimacy as a further dimension to the evaluation and assessment of policy failure. She identifies three procedural factors which shape the legitimacy of policy, namely, policy incubation, the emotive appeals utilised to gain support for an initiative, and stakeholder engagement.

Legitimacy is "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Suchman, 1995: p. 574).

As Peters argues, "legitimacy is largely psychological. It depends on the majority's acceptance of the rightness of government" (Peters, 1986, p. 6). If excluded from the process of policy development, affected stakeholders may protest against an initiative, arguing that it insufficiently responds to their goals and interests (Carmine, Darnall, & Mil Homens, 2003; King, Feltey, & Susel, 1998).

Intuitively critical to the justness and appropriateness of a policy is the content of the policy itself. Public policies are the tangible manifestations of conscious decisions by governments on behalf of their citizens. As such, governments should work to ensure that their instruments, ideas, and implementation strategies effectively align with the dominant attitudes of their populations (Bakvis & Skogstad, 2002).

Wallner (2008) argues that public policies are inextricably linked to the faith society has in the fairness and suitability of their policy makers. Although the enforcement of illegitimate policies rarely leads to a complete breakdown in the authority of policy makers, it does affect the successful implementation of policy and the social status of that policy. Legitimacy is therefore important because it can affect whether the specific goals and objectives of a policy and government are achieved and public stability and support is maintained to guarantee the success of not only the policy in question but future policy. Procedurally, factors such as policy incubation, the emotive appeals deployed to gain support for an initiative, and the processes of stakeholder engagement shape the legitimacy of public policies and the governments who promote them.

Webb, et al, (2009) illustrate legitimacy by looking at aspects of a complex value chain that includes informal economy participants. They look at the supply chain in residential home building and note that while a consumer interfaces with a general contractor (a SMME), that contractor often employs numerous sub-contractors. As market pressures mount on the general contractor to produce an attractively priced, quality home, the general contractor in turn pressures the sub-contractors to reduce costs. Labour is a variable cost sub-contractors can reduce. Under pressure, sub-contractors may turn to undocumented workers (Webb, et al, 2009). This affects legitimacy of PPP.

The substantive goals, instruments, and outcomes of policies should therefore align with the general sentiments present in the community, if not the common values of society. Added to this, the democratic principle of popular control raises the expectation of public participation and influence in the processes of government (Cooper, 1991; Kettering Foundation, 1991). Governments must therefore work to ensure that the development of their policies affords some degree of participation to the public and that the subsequent policy prescriptions are reasonably congruent with popular attitudes. If compromised, the government may reduce its authority and erode its legitimate status over time (Peters, 1986).

2.7 IMPLEMENTATION OF PPP

In 1995, procurement reform began to focus on good governance in procurement and the achievement of socio-economic objectives (Bolton, 2008). Since 2000, considerable progress has been made to establish a supportive policy and legislative environment for ‘targeted’ or ‘preferential’ procurement through the implementation of policies such as the Preferential Procurement Policy Framework Act (2000). South Africa is now recognised as one “of a few countries in the world to have procurement subject to its Constitution” (Herrington & Overmeyer, 2006, pg. 6).

The Broad-Based Black Economic Empowerment (BBBEE) Act (Act No. 53 of 2003) and its Codes of Good Practice were of particular importance to encouraging supplier diversity in South Africa. The BBBEE Act had the effect of turning the spotlight on corporate South Africa’s contribution to redressing the economic and social imbalances in the country. On May 1, 2015 the Department of Trade and Industry started the implementation of amendments to the BBBEE Act of 2003 and the Codes (BBBEE Amendment Bill, 2012). The amendments fundamentally change the current BBBEE framework and are a powerful expression of the government’s intention to promote and implement BBBEE. They indicate the more actively interventionist and prescriptive approach by Government to the implementation of BBBEE and introduce a number of new measures including to:

- establish a BBBEE Commission to play an oversight and advocacy role with regard to BBBEE and investigate complaints relating to BBBEE, BBBEE transactions and “fronting practices”;
- introduce various criminal offences for misrepresenting or providing false information regarding a firm’s BBBEE status or engaging in a “fronting practice”;
- introduce a statutory right for government and public entities to cancel any contract or “authorisation” awarded due to false information on BBBEE status;
- impose an absolute obligation on government and public entities to take the Codes into account in their procurement policies and in issuing licences and authorisations;
- impose an obligation on South African listed entities to provide a report to the BBBEE Commission on their compliance with BBBEE.

The new Codes significantly change the manner in which a firm's BBBEE status (or level) will be calculated, as the number of BBBEE points required to achieve a particular BBBEE level has been increased.

It is important to examine the mechanisms surrounding the implementation of key policies designed to support SMMEs in order to be able to point out the success and failure points. In this section South Africa's approach to implementing Supplier Diversity is examined, with special focus on how the Preferential Procurement Policy Framework Act (Act No. 5 of 2000) is implemented.

PPP requires that government entities design their preferential procurement policy and its implementation in line with the framework set out in the Preferential Procurement Policy Framework Act (Act No. 5 of 2000). For instance, municipalities are guided by the Municipal Service Delivery and PPP Guidelines of 2007 which are jointly issued by the Minister of Finance and the Minister for Provincial and Local Government, and apply to the municipalities described in section 2 of the Municipal Systems Act (Act No. 32 of 2000 as amended)

The Framework is as follows: For a tender with a Rand value between R30,000 and R500,000 the 80/20 preference point system is used, where 80 is the maximum points for price and 20 is the maximum points for being an HDI and/or subcontracting with an HDI. For a tender with a Rand value above R500,000 the 90/10 preference point system is used, where 90 is the maximum points for price and 10 is the maximum points for being an HDI and/or subcontracting with an HDI.

Over and above the awarding of preference points in favour of HDIs, Regulation 17 of the Act identifies 'specific goals' to be considered, as they are regarded as a contribution towards achieving the goals of the Reconstruction and Development Programme (published in Government Gazette No.16085 dated 23 November 1994). These include the creation of new jobs or the intensification of labour absorption and the promotion of enterprises located in rural areas.

Table 2 below is reproduced from iZikhulubee and compares the old BEE Codes with the new ones that came into effect on May 1, 2015 (iZikhulubee, August, 2014).

Table 2: Comparison of old BEE Codes with new ones that came into effect on May 1, 2015

BBBEE Status	2007 Qualification	Revised Qualification	BBBEE Recognition Level
Level 1	≥100 points	≥100 points	135%
Level 2	≥85 points <100	≥90 points <100	125%
Level 3	≥75 points <85	≥85 points <90	110%
Level 4	≥65 points <75	≥80 points <85	100%
Level 5	≥55 points <65	≥75 points <80	80%
Level 6	≥45 points <55	≥70 points <75	60%
Level 7	≥40 points <45	≥55 points <70	50%
Level 8	≥30 points <40	≥40 points <55	10%
Non-compliant	<30	<40	0%

Source: iZikhulubee, August, 2014

According to the new codes, if a company had previously obtained a score of 70 under the old codes this would qualify them for a Level 4 rating. However, on the new codes 70 points will result in a Level 6 rating instead. This is a drop from a 100% BBBEE recognition level to only a 60% recognition level. The results could be catastrophic and small to medium businesses are likely to lose accounts of the government and major corporates, who are themselves required to contract suppliers with a certain minimum BEE rating.

Equally worrying is the fact that enterprises that have 51% or more black ownership will not have to go through the verification process at all. They will automatically qualify for level 2 or level 1 ratings. This could be counterproductive to the goal of broad-based black economic empowerment, which is supposed to be about so much more than ownership.

2.8 CONCLUSION

In an effort to promote SD, the South African government introduced, in 2000, the Preferential Procurement Policy Framework Act (Act No. 5 of 2000). The objective of this Act is to utilise the purchasing power of government as an instrument of business development and to influence wealth distribution in favour of the historically disadvantaged individuals. This legislation transformed procurement policy as a whole as it encouraged private sector firms to procure goods and services from businesses owned and/or controlled by previously disadvantaged groups (Bolton, 2008). PPP was followed by the Broad-Based Black Economic Empowerment (BBBEE) Act (Act No. 53 of 2003). The BBBEE policy was

strengthened by the issuance of the BBBEE Codes of Good Practice in 2007 and the associated Balanced Score Card.

However, there have been problems with the implementation of PPP. Some research has pointed out that resistance and lack of commitment to support BBBEE suppliers within the private sector has resulted in an inherently weak implementation of SD (Herrington and Overmeyer, 2006). According to the BBBEE Advisory Council, 75% of large South African firms neglect their obligations with regard to enterprise development (National Small Business Advisory Council, 2010). This policy framework also creates a challenge because supplier diversity is viewed as a compliance mandate rather than a business imperative. In other words, short-term wins of compliance-driven behaviour detracts from recognizing real value of a long-term investment in SD as strategy that increases global supply chain competitiveness.

The Osiba Research (2011) found that the major shortcomings of SD in South Africa were not due to insufficient or inaccurate policy, but the government's inability to implement and support the very programs they designed. Other factors that work against SD in South Africa are corruption and nepotism which have led to lack of transparency in the awarding of tenders (Lodge T, 1998).

While studies of failures of policy have typically tried to understand the various causes in terms of effectiveness, efficiency and implementation, Wallner (2008) proposes 'legitimacy' as a further dimension to the evaluation and assessment of policy failure. Legitimacy of policies relates to their leadership's ability to connect with the citizens and gain their confidence, trust and acceptance of the policies formed (Conteh, 2007). This is particularly true for South Africa where PPP has been inextricably linked to assisting the country overcome past discriminatory policies which not only segregated people based on race, but also limited certain group's participation in the economy. In order for the NDP's development goals to be taken seriously, the role of the executive cannot be ignored in acquiring legitimacy of PPP.

CHAPTER 3: RESEARCH DESIGN AND METHODOLOGY

3.1 INTRODUCTION

This chapter describes the research methods used in this study to address the research objectives and answer the research questions raised. The research methodology outlines the approach that the research process has followed from the theoretical underpinning to the collection of data and how it is to be interpreted. The chapter also explores literature on advantages and disadvantages of different research methodologies. In this section the researcher will identify the methodology that underpins the research and provide a rationale for the chosen approach.

As suggested by Remenyi et al. (1998), there are several major questions that require significant consideration by researchers such as: “How to research?” and “What to research?” But central to the researcher’s answers is their perspective on “Why research?” There are many practical reasons why a researcher chooses to engage in research and, in many cases, they may have already decided upon their methodology, namely qualitative, quantitative, or a combination of both. Similarly, the selected topic and what to research may have been selected for various reasons, such as a researcher’s own academic interests. The sections that follow

3.2 OBJECTIVISM VS SUBJECTIVISM

Objectivism and subjectivism have been described as a continuum’s polar opposites with varying philosophical positions aligned between them. Objectivism and subjectivism have been labelled differently in the literature. For example, Easterby-Smith et al. (1991) described them as positivism and phenomenology and Hughes and Sharrock (1997) described them as positivism and interpretive alternative. The method chosen for this research study is the interpretivist approach and is described below.

3.3 THE INTERPRETIVIST APPROACH

The aim of the interpretive research method is to ensure a clear understanding of the meaning of events and the intention of human actions. White (1999) pointed out that the common concern for interpretivists is not to explain human behaviour, but to understand actions. White (1999) noted that “instead of seeking causal explanations of behaviour, interpretive

research enhances our understanding of, among other things, the beliefs, meanings, feelings and attitudes of actors in social situation” (p. 48)

Interpretivism attempts to understand human behaviour through each participant’s individual circumstances and context. The researcher places himself in the natural setting of the field and attempts to make sense of the subject and his responses by keeping the overall context in mind. Often the researcher will strive to remain undistinguishable within the field of research and to the participants in order to avoid behaviour modification through what is known as reactivity. However, the assumption is that the social reality is within the research and therefore the act of research in itself has an effect on that reality (Denzin and Lincoln, 2000:3; Babbie, 2007:290; Collis and Hussey, 2003:53; Van Maanen, 1983:9).

What the information above essentially points to about qualitative research is that it makes use of a naturalistic approach through which the aim is to understand phenomena in context-specific settings, such as “real world setting [where] the researcher does not attempt to manipulate the phenomenon of interest, even though the very presence of the researcher in the field already affects the research outcome” (Patton, 2001 p. 39). However, the key theme of the interpretivist approach is that research findings are reached upon without the usage of statistical procedures or quantification because the aim is to allow the research interest to unfold as would be expected without the usage of formulae and mathematical processes. The researcher observes and extracts what is in the field and analyses this without the usage of statistical methods and processes as would be the case in quantitative research (Patton, 2009; Strauss and Corbin, 1990). This view is reinforced by Anderson (2010) who defines the key theme of qualitative research as that which involves the collection, analysis, and interpretation of data that cannot be easily reduced to numbers.

3.4 POPULATION AND SAMPLE

3.4.1 Population

A research population is the “entire group of entities sharing a common set of characteristics” (Zikmund, 2003). Also Busha and Harter (1980) defined a population as “any set of persons or objects that possesses at least one common characteristic”. The target population for this study is all SMMEs in Johannesburg, Gauteng. SMMEs interviewed will fall within the

definition provided in Chapter 1. In 2006, Gauteng was estimated to have 184,992 registered small businesses.

3.4.2 Sample and sampling method

A sample is a subset of a population. McCracken (1988) states that the sample of interviewees should have key similar traits which are related to answering the research questions. Participants in this study were selected by means of a non-probability purposive sampling technique. The non-probability purposive sampling technique involves selecting units (e.g. institutions, individuals) based on the specific purpose linked to answering the research questions (Welman, Kruger and Mitchell, 2005).

In this study the sample was selected as follows: The researcher first decided to include very small, small and medium enterprises in the sample as indicated in section 1.6 - Scope of the study. Next, the researcher identified enterprises in the Johannesburg area using the City of Johannesburg's Supplier Database, which is the City's official database that contains the list of accredited prospective suppliers of different goods and services that are required by the City. The companies were then selected such that they were not far from where the researcher was based in order to minimise costs. The researcher included information derived from the managing directors, financial directors, executive directors, procurement managers and sales managers from these SMMEs. Tables 3 and 4 below give the breakdown of the sample of respondents as well as the demographics of the companies included in the study:

Table 3: Description of respondent type

Description of respondent type	Number to be sampled
Financial Director	2
Executive Director	3
Managing Director	6
Procurement Manager	3
Sales Manager	4
Financial Manager	2

Table 4: Description of sampled SMMEs

Lifespan of company (Years)	Economic sector	Annual turnover	Number of employees
74	Manufacturing	48M	34
60	Construction	44M	43
16	Transport and Logistics	7M	13
7	Wholesale Trade	14M	12

Lifespan of company (Years)	Economic sector	Annual turnover	Number of employees
11	Retail	23M	15
18	Wholesale Trade	54M	50
3	Wholesale Trade	12M	13
6	Personal Services	13M	7
9	Wholesale Trade	34M	33
3	Wholesale Trade	6M	12
8	Business Services	4M	5
5	Business Services	18M	4
2	Manufacturing	4M	6
13	Wholesale Trade	36M	52
22	Business Services	25M	3
17	Business Services	22M	6
10	Personal Services	4M	4
4	Personal Services	5M	3
12	Manufacturing	12M	10
17	Transport and Logistics	24M	7

3.5 ASSUMPTIONS OF THE STUDY

It was assumed, in this study, that those selected to be interviewed were capable of providing meaning insight into the research questions.

3.6 INTERVIEW QUESTIONS

The list of semi-structured interview questions is shown in Appendix A. The interview questions were designed to cover the following aspects which are considered to be critical to the relationship between SMMEs, PPP and SD:

1. Are SMMEs directly benefitting from government as a result of PPP?
2. Are SMMEs indirectly benefitting through the private sector as a result of PPP?
3. What are the problems with the implementation of PPP?
4. How can PPP be improved?

3.7 CONDUCTING THE INTERVIEW

The researcher conducted interview sessions in each subject's office where the interviewee was most comfortable and had access to company information. The researcher used a voice recorder during the interviews in order to avoid distracting the subjects and also not to disrupt the flow of the interview. All interviews were transcribed to ensure that no data was lost during the collection process. During the interview sessions, the researcher avoided agreeing or disagreeing with the subjects or influencing the respondent in any manner.

3.7 LIMITATIONS OF THE STUDY

The SMMEs that will be examined will be strictly in the Gauteng area. Gauteng is only one of the major economic hubs in South Africa and as a result the population to be studied may not accurately represent the South African SMME environment as whole.

This study does not consider SMMEs in rural areas, whose issues might be different from those of urban areas. The study also does not classify SMMEs as black or white, or female or male owned.

3.8 DATA ANALYSIS PROCEDURE

According to Leedy and Ormrod (2014), the analysis of qualitative research involves aiming to uncover or understand the big picture by using the data to describe the phenomenon and what it means. However, data analysis of qualitative research has been identified as the most complex phase of the case study as the researcher needs to examine, categorise and test information in order to respond to the research questions.

Content analysis was used to identify themes that were present in open narrative or textual data (Joffe, 2011). The purpose here was to discern the meaning in the narrative so that the result of a qualitative content analysis was expressed as ideas rather than numbers as expressed by the quantitative content analysis.

Transcription was done by an independent scribe to ensure accuracy of transcriptions for appropriate inferences and interpretation.

An Excel spreadsheet was used to summarise the data, code the responses and determine the dominant themes.

3.9 RELIABILITY AND VALIDITY

Although the term 'Reliability' is a concept used for testing or evaluating quantitative research, the idea is most often used in all kinds of research. However, Patton (2001) states that validity and reliability are two factors which any qualitative researcher should be concerned about while designing a study, analysing results and judging the quality of the study. This corresponds to the question of "How can an inquirer persuade his or her

audiences that the research findings of an inquiry are worth paying attention to?" (Lincoln & Guba, 1985, p. 290).

While the terms Reliability and Validity are essential criteria for quality in quantitative research, in qualitative research the terms Credibility, Neutrality or Confirmability, Consistency or Dependability and Applicability or Transferability are to be the essential criteria for quality (Lincoln & Guba, 1985). Lincoln and Guba (1985, p. 300) use "dependability" in qualitative research to closely corresponds to the notion of "reliability" in quantitative research. They further emphasize "inquiry audit" (p. 317) as one measure which might enhance the dependability of qualitative research. This can be used to examine both the process and the product of the research for consistency (Hoepfl, 1997). In the same vein, Clont (1992) and Seale (1999) endorse the concept of dependability with the concept of consistency or reliability in qualitative research. The consistency of data will be achieved when the steps of the research are verified through examination of such items as raw data, data reduction products, and process notes (Campbell, 1996).

In order to ensure credibility in this study, all participants were chosen by employing the purposive sampling approach which guaranteed that those individuals would be able to adequately serve the objectives of the research (Poole et al. 2015). To ensure Confirmability, Poole et al. (2015) expresses how an audit trail of sorts must be completed throughout the process of conducting the study to illustrate how each decision was made. In terms of this research, the interview process has been fully documented from the letter outlining research objectives and requesting time for an interview, to recordings and transcripts. To ensure transferability, the researcher must, through noting the precise details of the research situation and methods, compare them to similar situations in other municipalities, countries or in the case of this research, provinces (Poole et al. 2015). Dependability (trustworthiness) relates to how accurately the researcher can substantiate his/her findings and the method utilised to arrive to these conclusions from a social context (Poole et al. 2015). In this study dependability was ascertained by the use of triangulation, which refers to the collecting data from two or more sources in order to develop a comprehensive picture of a fixed point of reference (Poole et al. 2015). Information from SMMEs in a wide variety of sectors was utilised to paint a consolidated picture of the SMME and PPP environment as a whole. Also include the irrelevance of locality within the city in the results of the subject matter,

3.10 ETHICAL CONSIDERATIONS

According to Leedy and Ormrod (2001), when research involves human beings, firstly, they should be given a choice to participate or not to participate in the study. In essence participants must give informed consent to voluntarily be part of the study. Secondly, the participants should be assured of anonymity as some sensitive information might be shared in this study promoting the right to privacy. The researcher commits to report the research findings in a complete and honest fashion, without misleading others about the nature of the findings. Under no circumstance will the data be fabricated to support a particular conclusion.

Giving appropriate credit to the use of another person's ideas is mandatory (Leedy and Ormrod, 2001). In this regard, all materials belonging to another person or organisation have been duly acknowledged.

Finally, the researcher took all appropriate measures to ensure the research does not cause any physical or psychological harm to research participants. However, it should be noted that this particular study and the questionnaire developed does not raise any specific ethical concerns in these areas at all.

Participants were duly informed about the general nature of the study as well as any potential risks the study may have. There were no financial enticements or other forms of inducements given to respondents to encourage participation. It was made clear to them that they were free to participate or not to participate in the study.

The researcher thus adheres to the disclosure policy regarding the purpose and nature of this study as guided by the Wits Business School.

3.11 CONCLUSION

In this chapter the following aspects were discussed: The aim of this empirical investigation, the sample from which the data will be collected, a synopsis of the study, limitations of the study, the design and method followed as well as the ethical considerations taken into account. The results or findings of the study will be comprehensively presented in Chapter 4.

CHAPTER 4: FINDINGS

4.1 INTRODUCTION

In this chapter, the research outcomes are summarised in the light of the research questions as follows: 1) Are SMMEs directly benefitting from government as a result of PPP? 2) Are SMMEs indirectly benefitting through the private sector as a result of PPP? 3) How can PPP be improved? and 4) What are the problems with the implementation of PPP? These results are discussed in chapter 5.

4.2 SUMMARY OF RESULTS

4.2.1 Perceptions of SMMEs on direct benefit from government as a result of PPP

Respondents were divided on whether SMMEs are benefitting directly from government as a result of PPP or that PPP has allowed SMMEs to secure long term steady business with the state. However, they tended to agree that the updated BEE codes show that policy is developing to meet the changing needs of business and also that the process has been made as transparent as possible.

The following sections look at the above results in more detail.

4.2.1.1 Perceptions of SMMEs on whether they are benefitting from public procurement policies and have seen considerable growth in terms of profit

Respondents were divided on whether SMMEs are benefitting from public procurement policies and have seen considerable growth in terms of profit. In the words of one of the respondents:

“Yes, SMMEs benefit from public procurement but the problem is that it is short-lived. I would not say that we have seen considerable growth in profits as a result of public procurement policy.”

Another stated: “We have to be registered in the supplier data base and government uses a system of rotation. This means that we don’t get business from government all the time.”

“Yes. I will say that we are benefitting from public procurement policies. Our company has grown as a result.”

4.2.1.2 Perceptions of SMMEs on whether PPP has allowed them to secure long term steady business with the state which has allowed them to expand our product offering

Overall, respondents were divided on whether PPP has allowed SMMEs to secure long term steady business with the state. In the words of some of the respondents:

“It is not easy to secure long term business from government.”

“Only their comrades secure long term business. It is only those who are connected that you find supplying this thing to government today and tomorrow they are supplying something else.”

“Our business comes mainly from government so I would agree with the statement.”

4.2.1.3 Perceptions of SMMEs on whether the updated BEE codes show that policy is developing to meet the changing needs of business

Most of the respondents tended to agree that the updated BEE codes show that policy is developing to meet the changing needs of business.

One respondent said: “It is about time. I think that government is showing that it is serious about BEE. This will also ensure that big private companies procure from SMMEs owned by black people.”

“I think it is just a PR exercise. The jobs are still going to their comrades”, said another.

“Let’s wait and see”, said another

4.2.1.4 Perceptions of SMMEs on whether the process has been made as transparent as possible

Overall, respondents tended to agree that the process has been made as transparent as possible.

“We are happy about the latest developments. We think it will help”, said one respondent.

“I agree that theoretically the process is as transparent as possible. But they could not even get the first one right. How can we believe that anything has changed? There will still be corruption. Business is still going to go to a select few”, said another.

“Let’s hope it is as transparent as it looks. Then we think SMMEs will benefit.”

4.2.2 Perceptions of SMMEs on indirect benefits of PPP through the private sector

Respondents were divided on whether PPP forces large corporates who are awarded tenders to work with smaller SMMEs or that PPP has allowed for SMMEs to benefit indirectly through partnering with large corporates.

The following sections look at the results in more detail.

4.2.2.1 Perceptions of SMMEs on whether PPP forces large corporates who are awarded tenders to work with smaller SMMEs

Respondents were divided on whether PPP forces large corporates who are awarded tenders to work with smaller SMMEs.

The following were the major themes:

“We agree that the policy, as it stands, forces large corporates to work with smaller SMMEs. Our problem is that large corporates are not forced to use a rotating system when they work with smaller SMMEs.”

“The policy is good. It makes it easier for SMMEs to get business from large corporates.”

4.2.2.2 Perceptions of SMMEs on whether PPP has allowed for them to benefit indirectly through partnering with large corporates who are mandated to deal with smaller firms when completing large government project.

Respondents were divided on whether PPP has allowed for SMMEs to benefit indirectly through partnering with large corporates who are mandated to deal with smaller firms when completing large government project.

One of the respondents stated: “We think that the new BEE codes, in particular, will help SMMEs to benefit from large corporates.”

“Government is going in the right direction. But there is still room for improvement. Large corporations should also use a rotating system to ensure that there is fairness in the awarding of business to SMMEs.”

“I don’t think that government is doing enough to use public procurement policies to encourage the private sector to procure from SMMEs”, said another.

4.2.3 Perceptions of SMMEs on how PPP can be improved

Respondents suggested that procurement of goods and services below certain thresholds should be sources of targeted procurement only for SMMEs, and that policy needs to be reviewed often to ensure that it is serving SMMEs in their current economic environment and also that PPP should be constantly re-evaluated.

These results are discussed in more detail below.

4.2.3.1 Perceptions of SMMEs on whether procurement of goods and services below certain thresholds should be sources of targeted procurement only for SMMEs

Respondents agreed that procurement of goods and services below certain thresholds should be sources of targeted procurement for SMMEs.

According to one respondent:

“We strongly believe that this should be the case. Another rating should be introduced which rates SMMEs’ eligibility for business from large corporates. It is also important that established SMMEs help emerging SMMEs by partnering with them.”

4.2.3.2 Perceptions of SMMEs on whether policy needs to be reviewed often to ensure that it is serving SMMEs in their current economic environment

All respondents strongly agreed that policy needs to be reviewed often to ensure that it is serving SMMEs in their current economic environment.

4.2.3.3 Perceptions of SMMEs on whether they have the problem of accessing funding

Respondents were divided on whether SMMEs have a problem of funding.

According to one respondent:

“It depends on what the funding is for. A good business plan will always get you funding.”

“We, as black-owned SMMEs find it hard to access funding. White-owned SMMEs have a wider base of options for funding such as loans from family.”

4.2.3.4 Perceptions of SMMEs on whether constant re-evaluation of PPP helps to keep it aligned with what is really happening in the market

All respondents agreed that constant re-evaluation of PPP helps to keep it aligned with what is really happening in the market

4.2.4 Perceptions of SMMEs on problems with implementation of PPP

Respondents were divided on whether PPP is meeting its intended purpose in terms of set-asides and on whether there is lack of access to information, especially on available opportunities in the private sector. They, however, agreed that corruption is rife in the tendering process and that the tendering process is not designed to deal with real dynamic business situations. These results are discussed in more detail below.

4.2.4.1 Perceptions of SMMEs on whether corruption is so rife that these policies never benefit who they are intended.

Respondents agreed that corruption is so rife that policies never benefit who they are intended.

According to one respondent:

“Corruption will never end in government. But it is for us as SMMEs to come together with government and large corporates to seek ways of ensuring fairness.”

“I think that the new BEE codes help but it is always difficult if you don’t know anybody inside”, said another.

4.2.4.2 Perceptions of SMMEs on whether the tendering process is not designed to deal with real dynamic business situations

Respondents tended to agree that the tendering process is not designed to deal with real dynamic business situations. The most recurring theme was that tenders tend to be leaked. In the words of one of the respondents:

“I know a friend who received tender documents two weeks before the compulsory briefing. He also had the municipality’s budgets on each of the tenders even though they were not disclosed to the rest of those who were at the compulsory briefing. This is how tenders are manipulated. The main problem of the tendering process is corruption. It does not matter how transparent they can try to make it.”

4.2.4.3 Perceptions of SMMEs on whether there is adequate access to information

Respondents were divided on whether there is adequate access information. While many indicated that there is adequate information about government tenders, the most recurring theme amongst those who indicated lack of access to information was lack of information regarding business from large corporates. In the words of one of the respondents:

“More still needs to get done to ensure access to information regarding business from large corporates. SMMEs, large corporates and government must address this, among other issues.”

4.2.4.4 Perceptions of SMMEs on whether PPP is meeting its intended purpose in terms of set-asides

Overall, respondents were divided on whether PPP is meeting its intended purpose in terms of set-asides.

“I would say that PPP is not meeting its intended purpose when it comes to set-asides for low skilled labour. Even if this happens the tenders are usually awarded to companies of comrades and in turn they employ black semi-skilled workers who are paid peanuts”, said one respondent.

Another said: “It doesn’t help even if set-asides are for low skilled work. Companies that get the tenders employ outsiders who are willing to work for very little. A company gets a tender to build houses and they employ outsiders.”

4.3 CONCLUSION

This chapter presented interview results in the light of the research questions. The following chapter (Chapter 5) presents a discussion of the results.

CHAPTER 5: DISCUSSION OF RESULTS

5.1 INTRODUCTION

This chapter discusses the research findings in line with the research questions as follows: 1) Are SMMEs directly benefitting from government as a result of PPP? 2) Are SMMEs indirectly benefitting through the private sector as a result of PPP? 3) How can PPP be improved? and 4) What are the problems with the implementation of PPP? The findings will further be discussed under the broader topic of perceived legitimacy of PPP.

5.2 BACKGROUND

In South Africa vast racial and gender inequalities in wealth distribution and access to wealth, income, skills and employment have persisted, arising from the system of apartheid which skewed business ownership patterns on racial lines. In order to address these imbalances, in 2000 government introduced the Preferential Procurement Policy Framework Act (Act No. 5 of 2000). PPP was intended to promote SD by building links to private and public sector supply chains through public procurement by utilising the purchasing power of government to influence wealth distribution in favour of the historically disadvantaged individuals (HDIs).

In order to actualize PPP, government introduced, in 2003, the Broad-Based Black Economic Empowerment (BBBEE) Act (Act No. 53 of 2003). The key objective of this Act was to ensure that any entities that wish to meet qualifying criteria for licenses or concessions, supply goods or services to any organ of the state or public entity, acquire state-owned enterprises and enter public-private partnerships would have to demonstrate their commitment to Black Economic Empowerment. The BBBEE policy was strengthened by the issuance of the BBBEE Codes of Good Practice in 2007 and the associated Balanced Score Card.

Following the introduction of PPP, the South African Supplier Diversity Council (SASDC), a corporate-led and driven organisation, was formed in 2011. SASDC promotes commitment to supplier diversity as strategic business objective and leveraging resources, lessons and experiences. Internationally, support for SD has come from, among others, the United Nations Commission on International Trade Law: Model on Procurement of Goods,

Construction and Services (UNCITRAL, 2008), and the United Nations Conference on Trade and Development towards increasing awareness of foreign investors or transnational corporations about stimulating linkages with local SMMEs and strengthening their role and contributions in global and local value chains (UNCTAD, 2010).

However, SD is not without problems. It can be argued that SD works against supplier rationalisation. Adobor and McMullen (2007), suggest that the use of modern production systems and philosophies such as 'Just In Time' means that buying corporations are becoming even more dependent on a few preferred suppliers. Pearson et al, (1993) found that in many situations, organisations are endeavouring to reduce the number of suppliers and establish longer term buyer-supplier relationships to achieve competitive advantage through more effective use of their supply base. This hinders growth of the SMME sector in terms of new entries.

Bolton (2006) evaluated whether the South African government made adequate provisions for the use of procurement as a means to address past imbalances and found that while various policies are not without controversy, there have been links to increased economic growth and rebalancing of socio-economic inequalities. However, corruption and nepotism have led to lack of transparency in awarding of tenders (Lodge T, 1998). Secondly, contracts offered by government and large corporates were aimed towards large and established contractors thus new contracts found it extremely difficult to participate in government procurement schemes (Bolton, 2006).

The new support initiatives were reviewed in the five-year period between 2006 and 2011 and it was found once again that there was minimal impact from government programs in supporting and improving the majority of black-owned SMMEs and integrating them into the mainstream economy (Osiba Research, 2011). It was further found that the major shortcomings were not due to insufficient or inaccurate policy, but the government's inability to implement and support the very programs they designed. Other factors that work against SD in South Africa are corruption and nepotism which have led to lack of transparency in the awarding of tenders (Lodge T, 1998).

Weak policy coordination and implementation, funding constraints and the fact that policy benefits were leveraged almost exclusively by medium-sized enterprises, which were often white owned, meant that previously disadvantaged people continue to be economically

marginalized (Rogerson, 2013). Another setback is that of set-asides. Government has not been practicing its own policy through public procurement and as a result the private sector has showed little commitment to these set-asides. This is partly because the National Treasury holds that set-asides will inflate the cost of procurement (Timm, 2011).

Among the many recommendations made to make SD work is for the South African government to build more forums based on partnership with the private sector (Timm S. 2011). Some research has pointed out that resistance and lack of commitment to support BBBEE suppliers within the private sector has resulted in an inherently weak implementation of SD (Herrington and Overmeyer, 2006).

The policy challenges with national development can also be attributed to their legitimacy, which is their leadership's ability to connect with the citizens and gain their confidence, trust and acceptance of the policies formed (Conteh, 2007). This is particularly true for South Africa where PPP has been inextricably linked to assisting the country overcome past discriminatory policies which not only segregated people based on race, but also limited certain group's participation in the economy.

The sections that follow discuss the findings of this research study in line with the research questions.

5.3 DISCUSSION OF THE RESEARCH QUESTIONS

5.4.1 Are SMMEs benefitting directly from government as a result of PPP?

Overall, respondents were divided on whether SMMEs are benefitting directly from government as a result of PPP or that PPP has allowed SMMEs to secure long term steady business with the state. However, they agreed that the updated BEE codes show that policy is developing to meet the changing needs of business and also that the process has been made as transparent as possible. These results are discussed in more detail below:

5.4.1.1 Perceptions of SMMEs on whether they are benefitting from public procurement policies and have seen considerable growth in terms of profit

Respondents were divided on whether SMMEs are benefitting directly from government business. This is consistent with the Osiba Research (2011), which concluded that there was minimal impact from government programs in supporting and improving the majority of black-owned SMMEs and integrating them into the mainstream economy.

From 1995, a new set of policies and institutions were formed with the sole aim of supporting the SMME economy based on “international best practice” (Rogerson, 2004). Although the first decade after 1994 was where specific infrastructure supporting SMME’s was developed, there were key disappointments. Weak policy coordination and implementation, funding constraints and the fact that policy benefits were leveraged almost exclusively by medium-sized enterprises, which were often white owned, meant that previously disadvantaged people continue to be economically marginalized (Rogerson, 2013).

Some respondents mentioned the rotation system of awarding tenders as the reason for lack of growth in terms of profit. This suggests dependency on government business for some SMMEs as opposed to also looking to benefit from the private sector. According to the South African Supplier Diversity Council’s report released in 2013, 5 out of 7 small businesses started in SA fail in their first year, i.e. only 2 out of 7 SMMEs survive beyond one year (Joseph G, 2013). This means that while SMMEs do benefit from PPP there is not enough evidence that it has resulted in considerable growth of SMMEs in terms of profit.

5.4.1.2 Perceptions of SMMEs on whether PPP has allowed them to secure long term steady business with the state which has allowed them to expand their product offering

Overall, respondents were divided on whether PPP has allowed SMMEs to secure long term steady business with the state. Those who responded that PPP has not allowed them to secure long term steady business with the state mentioned that it is not easy to secure long term business with government.

As noted in section 5.4.1.1 the South African Supplier Diversity Council’s reported in 2013, 5 out of 7 small businesses started in SA fail in their first year (Joseph G, 2013). Under these

circumstances, it is not easy for most of the SMMEs to grow to a point where they are able to expand their product offering as a result of PPP.

5.4.1.3 Perceptions of SMMEs on whether the updated BEE codes show that policy is developing to meet the changing needs of business

Respondents agreed that the updated BEE codes show that policy is developing to meet the changing needs of business. On May 1, 2015 the Department of Trade and Industry started the implementation of amendments to the BBBEE Act of 2003 and the Codes (BBBEE Amendment Bill, 2012). The amendments fundamentally change the current BBBEE framework and are a powerful expression of the government's intention to promote and implement BBBEE.

The new Codes significantly change the manner in which a firm's BBBEE status (or level) will be calculated, as the number of BBBEE points required to achieve a particular BBBEE level has been increased. According to the new codes, if a company had previously obtained a score of 70 under the old codes this would qualify them for a Level 4 rating. However, on the new codes 70 points will result in a Level 6 rating instead. This is a drop from a 100% BBBEE recognition level to only a 60% recognition level. The results could be catastrophic and small to medium businesses are likely to lose accounts of the government and major corporates, who are themselves required to contract suppliers with a certain minimum BEE rating.

Equally worrying is the fact that enterprises that have 51% or more black ownership will not have to go through the verification process at all. They will automatically qualify for level 2 or level 1 ratings. This could be counterproductive to the goal of broad-based black economic empowerment, which is supposed to be about so much more than ownership.

5.4.1.4 Perceptions of SMMEs on whether the process has been made as transparent as possible

Overall, respondents agreed that the process has been made as transparent as possible but corruption and nepotism remained major obstacles. The more actively interventionist and prescriptive approach by Government to the implementation of BBBEE (BBBEE Amendment Bill, 2012) includes a number of new measures including to:

- establish a BBBEE Commission to play an oversight and advocacy role with regard to BBBEE and investigate complaints relating to BBBEE, BBBEE transactions and “fronting practices”;
- introduce various criminal offences for misrepresenting or providing false information regarding a firm’s BBBEE status or engaging in a “fronting practice”.
- introduce a statutory right for government and public entities to cancel any contract or “authorisation” awarded due to false information on BBBEE status;
- impose an absolute obligation on government and public entities to take the Codes into account in their procurement policies and in issuing licences and authorisations;
- impose an obligation on South African listed entities to provide a report to the BBBEE Commission on their compliance with BBBE.

5.4.2 Are SMMEs indirectly benefitting through the private sector as a result of PPP?

Respondents were divided on whether PPP forces large corporates who are awarded tenders to work with smaller SMMEs or that it has allowed for SMMEs to benefit indirectly through partnering with large corporates. These perceptions are discussed in more detail below.

5.4.2.1 Perceptions of SMMEs on whether PPP has allowed for them to benefit indirectly through partnering with large corporates who are mandated to deal with smaller firms when completing large government project.

Respondents were divided on whether PPP has allowed for them to benefit indirectly through partnering with large corporates. According to the National Small Business Advisory Council (2010), PPP (and the associated BBBEE Codes) creates a challenge because supplier diversity is viewed as a compliance mandate rather than a business imperative. Some research has also pointed out that resistance and lack of commitment to support BBBEE suppliers within the private sector has resulted in an inherently weak implementation of SD (Herrington and Overmeyer, 2006).

Some research has pointed out that resistance and lack of commitment to support BBBEE suppliers within the private sector has resulted in an inherently weak implementation of SD

(Herrington and Overmeyer, 2006). According to the BBBEE Advisory Council, 75% of large South African firms neglect their obligations with regard to enterprise development (National Small Business Advisory Council, 2010).

According to the SASDC report released in 2013 (Joseph G, 2013), average BEE spend reported by top 50 JSE listed companies was 44% of discretionary procurement at an average value of R1.83 billion. Only 9% was for small business, 6% for black-owned and 1% for women-owned. These procurement practices showed bias towards larger businesses.

5.4.2.2 Perceptions of SMMEs on whether PPP forces large corporates who are awarded tenders to work with smaller SMMEs.

Respondents neither agreed nor disagreed that PPP forces large corporates who are awarded tenders to work with smaller SMMEs. They mentioned that while they agreed that the policy, as it stands, forces large corporates to work with smaller SMMEs the problem was that large corporates were not forced to use a rotating system when they work with smaller SMMEs. They suggested that a rotation system of awarding business similar to that used by government should also be used by large corporates.

As research suggests, the problem is that of rationalisation. Adobor and McMullen (2007), suggest that the use of modern production systems and philosophies such as 'Just-in-time' means that buying corporations are becoming even more dependent on a few preferred suppliers. Pearson et al (1993) found that in many situations, organisations are endeavouring to reduce the number of suppliers and establish longer term buyer-supplier relationships to achieve competitive advantage through more effective use of their supply base.

5.4.3 How can PPP be improved?

Respondents agreed that procurement of goods and services below certain thresholds should be sources of targeted procurement only for SMMEs; that policy needs to be reviewed often to ensure that it is serving SMMEs in their current economic environment; and also that PPP should be constantly re-evaluated. These perceptions are discussed in more detail below.

5.4.3.1 Perceptions of SMMEs on whether procurement of goods and services below certain thresholds should be sources of targeted procurement only for SMMEs

Respondents agreed that procurement of goods and services below certain thresholds should be sources of targeted procurement for SMMEs.

In 2007, the South African government approved the Ten Products Initiative, a set-asides policy which stipulated that the state may only procure certain products from SMMEs. However, this policy has had major setbacks with its implementation as the government has not been practicing its own policy and as a result the private sector has showed little commitment to these set-asides. This is partly because the National Treasury holds that set-asides will inflate the cost of procurement (Timm, 2011). Because “organs of the state follow National Treasury prescripts, the BBBEE Act has largely been unused in state procurement” (Mesatywa, 2011: P. 9).

Respondents suggested that another rating be introduced which rates SMMEs’ eligibility for business from large corporates and also that established SMMEs help emerging SMMEs by partnering with them on set-asides. The issue of set-asides requires attention as it has potential to create employment.

5.4.3.2 Perceptions of SMMEs on whether policy needs to be reviewed often to ensure that it is serving SMMEs in their current economic environment

All respondents strongly agreed that policy needs to be reviewed often to ensure that it is serving SMMEs in their current economic environment.

5.4.3.3 Perceptions of SMMEs on whether they have the problem of accessing funding

Respondents neither agreed nor disagreed that SMMEs have a problem of funding. Among the major perceptions expressed by those who perceive funding to be a problem was that there is a smaller base into which black-owned SMMEs could tap, as opposed to white-owned SMMEs that have a larger base consisting of, among others, relatives and friends.

A perception expressed by those who did not see funding as a problem related to lack of skill to prepare business plans. These argued that ‘It depends on what the funding is for. A good business plan will always get you funding’.

According to Rogerson (2013) very little of the funds targeting SMME development reached struggling black-owned enterprises in poor communities. Weak policy coordination and implementation and the fact that policy benefits were leveraged almost exclusively by medium-sized enterprises, which were often white owned, meant that previously disadvantaged people continue to be economically marginalized.

These are suggestions in the responses that something needs to be done to encourage black-owned SMME directors to acquire skills to prepare business plans.

5.4.3.4 Perceptions of SMMEs on whether constant re-evaluation of PPP helps to keep it aligned with what is really happening in the market

All respondents strongly agreed that constant re-evaluation of PPP helps to keep it aligned with what is really happening in the market.

5.4.4 What are the problems with the implementation of PPP?

According to the results respondents neither agreed nor disagreed that PPP is meeting its intended purpose in terms of set-asides or that there is lack of access to information (especially on available opportunities in the private sector). They agreed, however, that corruption is rife in the tendering process and that the tendering process is not designed to deal with real dynamic business situations. These results are discussed in more detail below.

It has been over two decades since the change to democracy yet unemployment and insufficient livelihood opportunities are still major problems that plague South Africa. As a result, SMME development continues to prioritise the policy landscape (Ligthelm, 2012).

The National Development Plan (NDP) outlines a vision for 2030 which reaffirms the commitment to developing the SMME environment (NDP: Vision 2030, 2011). Many believe that the imperative is to identify and study a set of policies that will contribute to the strengthening of the South African urban economies and make them more inclusive (Turok, et al).

5.4.4.1 Perceptions of SMMEs on whether corruption is so rife that these policies never benefit who they are intended

Respondents agreed that corruption is so rife that policies never benefit who they are intended. The main perception was that ‘Corruption will never end in government’. However, some respondents proposed the coming together of SMMEs, government and large corporates to seek ways of ensuring fairness in the awarding of business to SMMEs. This might go a long way towards minimising fraud and corruption.

5.4.4.2 Perceptions of SMMEs on whether the tendering process is not designed to deal with real dynamic business situations

Respondents agreed that the tendering process is not designed to deal with real dynamic business situations. The most recurring theme was corruption. The suggestion that SMMEs, government and large corporates must come together to seek ways of ensuring fairness in the awarding of business to SMMEs also applies to this case.

5.4.4.3 Perceptions of SMMEs on whether there is adequate access to information

Respondents neither agreed nor disagreed that there is adequate access information. While they agreed that there was enough information about government tenders, they disagreed that there was enough information regarding business from large corporates.

Again, the suggestion by respondents of closer cooperation between SMMEs, government and large corporates hold in promoting access to information.

5.4.4.4 Perceptions of SMMEs on whether PPP is meeting its intended purpose in terms of set-asides

Respondents neither agreed nor disagreed that PPP is meeting its intended purpose in terms of set-asides. Problems with set-asides were discussed in section 5.4.3.1.

Another perception by respondents was that sometimes companies that get government business employ non South African citizens/permanent residents at a cheap price and the business does not benefit local blacks. This brings us to the issue of ‘legitimacy’ discussed in the next section.

5.5 LEGITIMACY

Wallner (2008) proposes legitimacy as a further dimension to the evaluation and assessment of policy failure. Legitimacy is “a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions” (Suchman, 1995: p. 574). He argues that public policies are inextricably linked to the faith society has in the fairness and suitability of their policy makers. If excluded from the process of policy development, affected stakeholders may protest against an initiative, arguing that it insufficiently responds to their goals and interests (Carmine, Darnall, & Mil Homens, 2003; King, Feltey, & Susel, 1998). As such, governments should work to ensure that their instruments, ideas, and implementation strategies effectively align with the dominant attitudes of their populations (Bakvis & Skogstad, 2002).

Perceptions expressed by respondents, such as beneficiaries of government business employing non South African citizens/permanent residents, fraud and corruption, dependency on set-asides as well as fronting, all work to diminish the legitimacy of PPP. As a result cooperation between SMMEs, government and the large corporates is not as it should be.

5.6 CONCLUSION

From the above discussion, it is clear that PPP is not viewed with confidence by the SMME community. There are mixed perceptions on whether SMMEs are benefitting directly from government and indirectly from the private sector as a result of PPP. While many agree that the new BBBEE Codes go a long way towards enforcing compliance with PPP, there are perceptions that corruption in the awarding of tenders from both the public and private sectors is still a major problem.

CHAPTER 6: CONCLUSIONS AND RECOMMENDATIONS

6.1 INTRODUCTION

This chapter presents conclusions on perceptions of the SMME community in Gauteng on the impact of PPP as a Supplier Diversity tool, as well as recommendations on its implementation and future research.

6.2 CONCLUSIONS

While various policies to make adequate provisions for the use of procurement as a means to address past imbalances are not without controversy, there have been links to increased economic growth and rebalancing of socio-economic inequalities (Bolton, 2006). However corruption and nepotism have led to lack of transparency in the awarding of tenders (Lodge T, 1998).

While Regulation 17 of PPP identifies ‘specific goals’ to be considered, including creation of new jobs or the intensification of labour absorption, results of this study reveal that there is poor implementation of this Regulation as evidenced by concerns of fronting and beneficiaries of government business employing non South African citizens/permanent residents.

While the introduction of the new BBBEE Codes goes a long way towards addressing the issues of compliance, there are those who believe that corruption and nepotism as well as fronting are still major obstacles to transparency. Concerns of beneficiaries of government business employing non South African citizens/permanent residents, fraud and corruption, dependency on set-asides and fronting reveal weaknesses in the implementation of PPP as well as its tainted legitimacy.

The study also suggests dependency on government business for some SMMEs as opposed to also looking to benefit from the private sector. According to the South African Supplier Diversity Council report released in 2013, 5 out of 7 small businesses started in SA fail in their first year, i.e. only 2 out of 7 SMMEs survive beyond one year (Joseph G, 2013).

From the private sector side, PPP is not viewed in the light in which government views it. PPP creates a challenge because supplier diversity is viewed as a compliance mandate rather

than a business imperative. Another problem is that of rationalisation. Modern production systems and philosophies such as 'Just-in-time' and more effective use of their supplier base means that buying corporations are becoming even more dependent on a few preferred suppliers (Adobor and McMullen, 2007; Pearson et al, 1993).

Respondents mentioned that while they agreed that PPP, as it stands, forces large corporates to work with smaller SMMEs the problem was that large corporates were not forced to use a rotating system when they work with smaller SMMEs. They suggested that another rating be introduced which rates SMMEs' eligibility for business from large corporates and also that established SMMEs help emerging SMMEs by partnering with them on set-asides.\

There was a suggestion of closer cooperation between SMMEs, government and large corporates to promote access to information (especially on opportunities in the private sector), encourage black-owned SMME directors to acquire skills to prepare business plans, improve transparency, address fronting and find ways of implementing the set-asides policy.

6.2 RECOMMENDATIONS

6.2.1 Recommendations of future research

In section 3.7 under: Limitations of the Study, it was mentioned that this study only looks at SMMEs in Johannesburg, Gauteng. It is recommended that a similar study be conducted in all provinces in South Africa so that a generalisation can be made on perceptions of the SMME community in South Africa.

Secondly, this study does not consider SMMEs in rural areas, whose issues might be different from those of urban areas. It is recommended that the larger study conducted in all provinces classify SMMEs into urban and rural to determine to what extent PPP is reaching its objectives of empowering rural communities.

Lastly, and most important, the study also does not classify SMMEs as black or white owned as well as male or female owned. In order to determine perceptions on whether PPP is achieving its objectives of addressing racial and gender inequalities in wealth distribution and access to wealth, income, skills and employment, it is recommended that the larger study suggested also incorporate race and gender classifications of SMMEs.

6.2.2 Policy recommendations

6.2.2.1 Regulation 17 of PPP

The results of this study indicate that there is poor implementation of Regulation 17 of PPP, which identifies ‘specific goals’ to be considered, including creation of new jobs or the intensification of labour absorption. It is recommended that this Regulation be amended to address the problem of fronting. SMMEs should be rated not only on ownership but also on race composition of their employees across the entire organogram. SMMEs should provide proof and the Regulations should specify verification measures.

6.2.2.2 Rationalisation

Respondents also mentioned problems with acquiring business from large corporates as a result of rationalisation and lack of information. They suggested overcoming rationalisation by using a rotation system similar to the one used by government in awarding tenders to SMMEs. It is recommended that the feasibility of a rotation system in the awarding of tenders by large corporates be investigated with the aim of amending PPP.

6.2.2.3 Beneficiaries of government business employing non South African citizens/permanent residents,

In order to discourage beneficiaries of PPP from employing non South African citizens/non permanent residents, it is recommended that PPP be amended to take employment and race issues into account. Follow-up should also be made to ensure compliance.

6.2.3 Cooperation

Other problems identified such as lack of access to information, lack of access to funding, lack of transparency, fronting and despondency on set-asides it is recommended that a body be set up that will foster closer cooperation between SMMEs, government and large corporations. An approach similar to the National Minority Supplier Development Council (NMSDC), which was formed in the US in 1972, is proposed. The NMSDC helped to foster relationship building between corporates and minority business enterprises. The services and

programs offered by NMSDC were certification of minority business enterprises, referrals to corporate buyers of minority suppliers able to supply quality goods and services, the establishment of a database of certified suppliers, provision of loan funding to certified minority business with contracts to NMSDC members, awareness raising and educational initiatives, the hosting of business opportunity fairs to introduce minority entrepreneurs to prospective buyers, and a range of advocacy work including information dissemination about the dynamic nature of the minority suppliers and environment (NMSDC, 2000).

6.3 OVERALL CONCLUSION

This study looked at perceptions of the SMME community in Johannesburg, Gauteng, on the impact of the Preferential Procurement Policy (PPP) Framework Act (Act No. 5 of 2000) as a Supplier Diversity (SD) tool. The research questions discussed were: 1) Are SMMEs directly benefitting from government as a result of PPP? 2) Are SMMEs indirectly benefitting through the private sector as a result of PPP? 3) How can PPP be improved? and 4) What are the problems with the implementation of PPP? The study also looked at whether PPP is perceived to be legitimate.

The study only looked at SMMEs in Johannesburg, Gauteng. Johannesburg and as a result the population to be studied may not accurately represent the South African SMME community as a whole. The study also does not consider SMMEs in rural areas, whose issues might be different from those of urban areas, and does not classify SMMEs as black or white owned as well as male or female owned. Future research is recommended to conduct a bigger study incorporating these left out classifications.

Overall, respondents were divided on whether SMMEs are benefitting directly from government as a result of PPP or that PPP has allowed SMMEs to secure long term steady business with the state. However, they agreed that the updated BEE codes show that policy is developing to meet the changing needs of business and also that the process has been made as transparent as possible.

Respondents were divided on whether PPP forces large corporates who are awarded tenders to work with smaller SMMEs or that it has allowed for SMMEs to benefit indirectly through partnering with large corporates.

On set-asides, respondents agreed that procurement of goods and services below certain thresholds should be sources of targeted procurement for SMMEs.

Perceptions expressed by respondents, such as beneficiaries of government business employing non South African citizens/permanent residents, fraud and corruption, despondency on set-asides as well as fronting, all work to diminish the legitimacy of PPP. As a result cooperation between SMMEs, government and the large corporates is not as it should be.

Major recommendations include the amendment of Regulation 17 of PPP to address the problem of fronting, investigating a rotation system similar to the one used by government in awarding tenders to SMMEs in order to overcome the problem of rationalisation, amendment of PPP to take employment and race issues into account, and closer cooperation between SMMEs, government and large corporates.

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APPENDIX A - QUESTIONNAIRE

1. Perceptions on direct benefit from government

1.1 SMMEs are benefiting from public procurement policies and have seen considerable growth in terms of profit.

Strongly disagree	Disagree	Neutral	Agree	Strongly agree

Please substantiate your score here:.....

1.2 PPP has allowed us to secure long term steady business with the state which has allowed us to expand our product offering

Strongly disagree	Disagree	Neutral	Agree	Strongly agree

Please substantiate your score here:.....

1.3 The updated BEE codes show that policy is developing to meet the changing needs of business

Strongly disagree	Disagree	Neutral	Agree	Strongly agree

Please substantiate your score here:.....

1.4 The process has been made as transparent as possible

Strongly disagree	Disagree	Neutral	Agree	Strongly agree

Please substantiate your score here:.....

2. Perceptions on indirect benefit through the private sector

2.1 PPP has allowed for us to benefit indirectly through partnering with large corporates who are mandated to deal with smaller firms when completing large government project.

Strongly disagree	Disagree	Neutral	Agree	Strongly agree

Please substantiate your score here:.....
.....

2.2 PPP forces large corporates who are awarded tenders to work with smaller SMMEs.

Strongly disagree	Disagree	Neutral	Agree	Strongly agree

Please substantiate your score here:.....
.....

3 Perceptions on how PPP can be improved

3.1 Procurement of goods and services below certain thresholds should be sources of targeted procurement only for SMMEs

Strongly disagree	Disagree	Neutral	Agree	Strongly agree

Please substantiate your score here:.....
.....

3.2 Policy needs to be reviewed often to ensure that it is serving SMMEs in their current economic environment

Strongly disagree	Disagree	Neutral	Agree	Strongly agree

Please substantiate your score here:.....
.....

3.3 SMMEs have the problem of accessing funding

Strongly disagree	Disagree	Neutral	Agree	Strongly agree

Please substantiate your score here:.....
.....

3.4 Constant re-evaluation of PPP helps to keep it aligned with what is really happening in the market

Strongly disagree	Disagree	Neutral	Agree	Strongly agree

Please substantiate your score here:.....
.....

4 Problems with implementation of PPP

4.1 Corruption is so rife that these policies never benefit who they are intended

Strongly disagree	Disagree	Neutral	Agree	Strongly agree

Please substantiate your score here:.....
.....

4.2 The tendering process is not designed to deal with real dynamic business situations

Strongly disagree	Disagree	Neutral	Agree	Strongly agree

Please substantiate your score here:.....
.....

4.3 We do not know where to access meaningful information. We lack the business network that can provide us with accurate information

Strongly disagree	Disagree	Neutral	Agree	Strongly agree

Please substantiate your score here:.....
.....

.....

4.4 Set asides are normally for low skilled portions of any contract but this is not happening with PPP

Strongly disagree	Disagree	Neutral	Agree	Strongly agree

Please substantiate your score

here:.....

.....

*Thank you so kindly for your time. The answers you provided will be used for the **sole purpose** of this current research.*