

UNIVERSITY OF ZULULAND

BLACK ECONOMIC EMPOWERMENT IN RICHARDS BAY: CHALLENGES AND LESSONS FOR SMALL BUSINESSES

Mrs. P B Dlamini (19980304)

2014

Submitted in fulfilment of the requirements for the degree of Master of Commerce in the Department of Business Management in the Faculty of Commerce, Administration & Law at the University of Zululand

UNIVERSITY OF ZULULAND

BLACK ECONOMIC EMPOWERMENT IN RICHARDS BAY: CHALLENGES AND LESSONS FOR SMALL BUSINESSES

Mrs. P B Dlamini (19980304)

Supervisor

Prof E Contogiannis

.....

Co-Supervisor

Mr. C J Van Heerden

.....

DECLARATION

I declare that this research project is my own, unaided work. It is submitted in fulfillment of the requirements of a master's degree in business management, University of Zululand. It has not been submitted before for any degree at any other university.

.....

Mrs. P B Dlamini

.....

Date

DEDICATION

I would like to dedicate this dissertation to Jesus Christ as the truth and the light in my life, and thank the Lord for making me the person that I am today. To my mother Mrs. T J Mthembu for all the love, support towards the success of this dissertation and the pillar of my life and my family.

ACKNOWLEDGEMENTS

Many individuals played a role in ensuring the successful completion of this dissertation. I wish to express my sincere gratitude to the following individuals for their unwavering support assistance and encouragement:

- to the almighty God (in the name of Jesus) who gave me strength and power to go through and finish this dissertation in time.
- my supervisor Prof E Contogiannis and co-supervisor Mr Van Heerden for their time, guidance, continued encouragement and valuable advice during the course of this research.
- my two adorable kids (Amanda and Amandla) for their unconditional love and support.
- my mother, Mrs. T J Mthembu, and all the family members for their Love, support and motivation.
- thank you to all my study group members and fellow M Com students for all the knowledge we shared.
- to all the willing participants who took part in this study, for their support and information.

TABLE OF CONTENTS

DECLARATION.....	i
DEDICATION.....	ii
ACKNOWLEDGEMENTS.....	iii
TABLE OF CONTENTS.....	iv
LIST OF TABLES.....	vii
LIST OF FIGURES.....	viii
LIST OF ACRONYMS.....	ix
ABSTRACT.....	x

Chapter 1

1.1 Introduction.....	1
1.2 Problem Statement	2
1.3 Motivation of the Study.....	3
1.4 Objectives of the Study.....	3
1.5 Research Questions.....	4
1.6 Value of the Research.....	4
1.7 The South African Constitution.....	4
1.8 Research Methodology.....	5
1.8.1 Research Design.....	5
1.8.2 Population of the Study.....	6
1.8.3 Sampling.....	7
1.8.4 Data Analysis.....	7
1.9 Outline of the Chapters in the Study.....	8
1.10 Limitations of the Study.....	9
1.11 Summary.....	9

Chapter 2: LITERATURE REVIEW

2.1 Introduction.....	10
2.2 Black Economic Empowerment in South Africa.....	10
2.2.1 Black Economic Empowerment.....	10
2.2.1.1 Government's Definition of Black Economic Empowerment.....	13
2.2.2 Transformation from BEE to B-BBEE.....	14
2.2.3 Broad-Based Black Economic Empowerment.....	15
2.2.4 Qualifying Threshold for Small Enterprises.....	17
2.3 Progress of Black Economic Empowerment.....	17
2.4 Characterisation of Black Economic Empowerment.....	19
2.5 Black Economic Empowerment Compliance.....	21
2.5.1.1 Ownership.....	22
2.5.1.2 Management.....	24
2.5.1.3 Employment Equity.....	24
2.5.1.4 Skills Development.....	24
2.5.1.5 Preferential Procurement.....	24
2.5.1.6 Enterprise Development.....	24
2.5.1.7 Residual.....	25
2.6 Small Medium Enterprises.....	25
2.7 Challenges on Black Economic Empowerment.....	26
2.8 Empowerment Comparisons and Ownership.....	28
2.8.1 South Africa.....	28
2.8.2 United States.....	30
2.8.3 Malaysia.....	31
2.8.3.1 Malaysian Reforms.....	31
2.8.3.1.1 Definition of Bumiputra.....	32
2.8.3.1.2 The Malaysian New Economic Policy.....	32
2.8.3.1.3 The goals of the New Economic Policy.....	33
2.8.3.1.4 New Economic Policy Benchmarks.....	34
2.9 Government's Solution for Success.....	35
2.9.1 Justification for Government Intervention.....	35

2.9.2	Legal Framework.....	35
2.9.2.1	Constitution of the Republic of South Africa (1996).....	35
2.9.2.2	Competition Act (1998).....	36
2.9.2.3	Skills Development Act (1998) and Skills Development Levies (1999).....	36
2.9.2.4	Preferential Procurement Policy Framework Act (2000).....	36
2.9.2.5	Broad-Base Black Economic Empowerment Act 53 of 2003.....	37
2.10	Summary.....	37

Chapter 3

3.1	Introduction.....	39
3.2	Research Methodology.....	39
3.2.1	Research Design.....	41
3.3	Population and Sample.....	42
3.4	Instrumentation/Data Collection Methods.....	43
3.4.1	Questionnaire Design.....	44
3.4.2	Questions in the Questionnaire.....	44
3.5	Research Hypotheses.....	45
3.6	Research Questions.....	45
3.7	Data Analysis.....	46
3.8	Reliability and Validity.....	46
3.9	Ethical Considerations.....	50
3.10	Summary.....	50

Chapter 4

4.1	Introduction.....	52
4.2	Analysis of Data from the Questionnaire.....	52
4.3	Summary.....	69

Chapter 5

5.1	Introduction.....	72
5.2	Summary of the Research Findings.....	73

5.3 Conclusion.....	75
5.4 Recommendations.....	75
5.4 Limitations of the study.....	77
5.5 Summary.....	78
5.6 Suggestions for Future Research.....	78
References.....	79
Appendix.....	91

LIST OF TABLES

Table 1.1 Small Businesses in Richards Bay.....	6
Table 2.1 Seven Elements that Measure BEE Status.....	22
Table 3.1 Small Businesses in Richards Bay.....	43
Table 4.1 Gender Distribution of Respondents.....	53
Table 4.2 Age Range of Respondents.....	54
Table 4.3 Primary Language of Respondents.....	55
Table 4.4 Type of Business of Respondents.....	56
Table 4.5 Challenges Faced when Starting a Business.....	58
Table 4.6 Measuring of Success of Business.....	59
Table 4.7 BEE has a Positive Impact on my Business.....	60
Table 4.8 BEE has a Positive Impact on Richards Bay Small Businesses.....	61
Table 4.9 BEE has met Government objectives.....	62
Table 4.10 BEE has Rectified the Introduction of B-BBEE.....	63
Table 4.11 BEE has Rectified the Introduction of B-BBEE.....	64
Table 4.12 Training and Development Subordinates.....	64
Table 4.13 Delegate Authority to Subordinates.....	64
Table 4.14 Availability of Finance is a Constraint in your Business.....	65
Table 4.15 Challenges in complying with BEE Certification.....	66

LIST OF FIGURES

Figure 4.1 Gender.....	53
Figure 4.2 Ages.....	54
Figure 4.3 Primary Languages.....	55
Figure 4.4 Type of Businesses.....	56
Figure 4.5 Challenges Faced when Starting Businesses.....	58

LIST OF ACRONYMS

ABET	:	Adult Basic Education Training
ANC	:	African National Congress
B-BBEE	:	Broad-Based Black Economic Empowerment
BBC	:	Black Business Council
BEECOM	:	Black Economic Empowerment Commission
BEE	:	Black Economic Empowerment
DEB	:	Dasar Ekonomi Baru
DTI	:	Department of Trade and Industry
GDP	:	Gross Domestic Product
GDS	:	Growth and Development Summit
GNU	:	Government of National Unity
HICOM	:	Heavy Industries Corporation of Malaysia
ISI	:	Import Substitution Industrialisation
ISII	:	Import Substitutions Industrial Insertions
JSE	:	Johannesburg Stock Exchange
NEED	:	National Economic Empowerment and Development
NEP	:	New Economic Policy
NEF	:	National Empowerment Fund
NPAT	:	Net Profit after Tax
QSEs	:	Qualifying Small Enterprises
RDP	:	Reconstruction and Development Program
SA	:	South Africa
SACP	:	South African Communist Party
SDL	:	Skills Development Levy
SDT	:	Skills Development Act
SETA	:	Sector Education and Training Authority
SMEs	:	Small Medium Enterprises
SPVs	:	Special Purpose Vehicles
US	:	United States

ABSTRACT

Since 1994 the South African government introduced legislation to provide new economic opportunities to all people in South Africa, particularly those who were previously disadvantaged.

Black Economic Empowerment was introduced to substantially increase the number of Black people having ownership and control in enterprises and especially in the priority sectors identified by the government.

Promotion of small businesses is a key element in the government's strategy of addressing the imbalances of the past and to create employment and income generation.

The purpose of the study is to find out about the Black Economic Empowerment (BEE) progress in the fertilizer value chain in Richards Bay, the challenges they are facing and the lessons they have learned.

A major focus of the section on Black Economic Empowerment (BEE) was the codes governing qualifying small businesses in Richards Bay and to also find out what people think about Black Economic Empowerment (BEE).

Based on the findings the study reveals that the majority of BEE has a positive impact on small businesses in Richards Bay. Most of small business owners or managers have a little bit of understanding about BEE.

Practical recommendations were made to guide and support small business and encourage them to be registered and have the Black Economic Empowerment certificate, and comply at least with two of the seven elements.

CHAPTER ONE

INTRODUCTION AND BACKGROUND TO THE STUDY

1.1. Introduction

South African populace has over the years, especially pre-democratic period, experienced social, political and economic marginalisation (Meintjies, 2004). It became obvious after the democratically elected government that new policies to correct the disparities caused by apartheid rule were necessary. Black Economic Empowerment (BEE) is a specific government policy that was envisaged to advance economic transformation specifically by boosting the participation of blacks within the economy. Given the imbalances in the business sector has propelled government to focus on small scale businesses as these are seen to have the potential to drive economic growth and job creation. As such, the Department of Trade and Industry (DTI) made small business its initial Black Economic Empowerment (BEE) focus.

Black Economic Empowerment has a key role in the transformation process of re-balancing the society after years of apartheid. It has indeed become the government's policy to actively promote a more equitable distribution of wealth. This is believed to be necessary in order to secure the newly started democratic process in South Africa. Black Economic Empowerment policy has been transformed and is now called Broad-Based Black Economic Empowerment (B-BBEE) (Ackermann & Meyer, 2009). The study was conducted with an aim of determining the progress, challenges as well as the lessons for small businesses made through the Black Economic Empowerment (BEE) initiatives.

The South African government has been actively promoting BEE in a number of ways. Beyond enforcing empowerment through legislative measures, emphasis should also be placed on how well the business is compatible with the principles of Black Economic Empowerment when granting state contracts, licences (for example broadcasting, fishing, casino, radio and cellular telephone), and giving financial and other assistance to business. Therefore, it becomes essential for companies, and particularly those

which deal with the government in the course of business, to understand thoroughly the concept of Black Economic Empowerment and its progress on business in the South African economic environment today (Campbell, 2003).

The Small Businesses contribute significantly to the Gross Domestic Product (GDP) of South Africa, but even more so to employment. The essence in BEE is to achieve broad-based, grass-roots level empowerment of small scale businesses owned by the previously disadvantaged groups. These individuals are less likely to enter the enterprise sector without any hustles, and therefore, the small business sector holds the key to the success of Black Economic Empowerment (BEE) in South Africa (Ackermann & Meyer, 2009). Black Economic Empowerment (BEE), however, holds some serious challenges to the management of existing small and medium businesses, and this study further probed the impact of these challenges.

Richards Bay is a fast growing city rich in minerals. This has led to the establishment of different industries which are the major role players in boosting the economy of the country. This has made Richards Bay a well-known producer of different minerals in South Africa and abroad. Industries in Richards Bay area include BHP Billiton, Richards Bay Minerals, Ticor, Foskor, Tata, Richards Bay coal Terminal, Bell Equipment, Port of Richards Bay Transnet, Mondi, Kraft and others.

1.2 Problem statement

The South African government is serious about empowering black owned businesses and has further made a substantial commitment of people and resources to small business development. Despite the government's desire to achieve success in the area of developing small-scale businesses particularly those which are black owned, some businesses are still faced with numerous business-related problems which affect their sustainability. Among other challenges is access to finance which is often a source of difficulty for small medium enterprise.

The extent to which the financial system understands and supports the people starting and growing new businesses is critical to influence interest in entrepreneurship

(Rankhumise, 2010). Another issue surrounding small scale businesses is the inability to fulfill the BEE statutory requirements in order to be given preferences when doing business. However, these are not the only challenges faced by small scale businesses and establishing them through research engagement was necessary. The researcher opines that discovering the central constraining factors affecting the establishment and sustainability of small scale businesses through BEE is paramount. It was equally important to learn from the bigger businesses' experience in supporting the implementation of BEE.

1.3 Motivation for the study

In most cases BEE has been seen much as a charity made for black people in the event of ensuring their emancipation. The lack of information regarding the experiences of black owned small businesses around the industrial areas like that of Richards Bay propelled this study. This study filled in the information gap that has existed since the inception of BEE legislation, as several businesses as well as black business owners were consulted. In this study respondents provided comprehensive information that could be helpful in explaining the experiences of the black owned businesses in the market. By procuring this information proper recommendations were made.

1.4 Objectives of the study

The primary objective of the study was to determine and evaluate the challenges affecting the establishment and sustainability of small scale businesses through BEE.

Other secondary objectives of the study were:

- 1.4.1 To determine the strategies used by small scale businesses to support their business structure.
- 1.4.2 To establish the viability of any assistance mechanism available to support small scale businesses.
- 1.4.3 To investigate whether bigger businesses around Richards Bay support the implementation of BBEE through SMEs.

1.5 Research questions

- What are the challenges affecting the establishment and sustainability of small scale businesses through BEE?
- What strategies do small scale businesses adopt to support their business structure?
- Do bigger businesses around Richards Bay support the implementation of BBEE through SMEs?

1.6. Value of the research

The study shed some light for small businesses on government legislation in developing businesses. The information gathered in this study would be useful to assist the SMEs to know how to sustain their business interest. Black Economic Empowerment (Department of Trade and Industry, 2003) was not the alchemy that would transform any type of metal into gold. The cornerstone of the study was that the study was conducted in a small city of uMhlathuze called Richards Bay. The rationale for this study was based on promoting and encouraging small businesses to have BEE certificates in order to be assisted by government as well as bigger businesses.

1.7 BEE in reference to the South African Constitution

The BEE Act has been interpreted as an embodiment of the right to equality contained in section 9 of the South African Constitution of 1996. Section 9.2 of the Constitution says legislative and other measures can be taken to advance people disadvantaged by unfair discrimination in order to promote equality. Section 9.5 says discrimination was unfair unless it was established that it was fair. Affirmative action is seen as fair discrimination designed to advance people historically disadvantaged by the unfair discrimination that existed under Apartheid. Section 217 of the Constitution deals with public procurement and the use of state tenders to advance people disadvantaged by Apartheid.

Three main groups of Black people are generally considered to have been historically disadvantaged by Apartheid and these are Africans, Coloureds and Indians. Chinese South Africans were included in the definition of black people to benefit from BEE after a 2008 High Court ruling.

BEE beneficiaries, therefore include:

- Black South Africans who were born in the country.
- Black born in exile that has Black South African ancestors.
- Black South Africans who were not born here but became citizens before the new constitution became law in 1993. Examples are migrant workers from other African countries who worked in South African mines under Apartheid.

1.8. Research Methodology

Research methodology forms the foundation of any research project, as it directs the entire research endeavour (Leedy, 1997). The study subjects were small businesses in Richards Bay. Quantitative research method was used to properly analyse and give a clear picture of the study. The research methodology followed comprised of a case study where a questionnaire with five-point Likert scale was used.

1.8.1 Research Design

According to Penman (2006), a research design is a plan for selecting the sources and types of information used to answer research questions, the results of which provide a framework for assessing results and presenting relationships between the variables being considered. Zikmund (2003) calls a research design a master plan that specifies the methods and procedures for collecting and analysing the needed information. He continues that it is a framework or blueprint that plants the action for the research project.

The questionnaires were piloted to the respondents and then reworked. A quantitative approach was adopted; getting the data ready for analysis, coding, data entry, frequencies and charts was adopted. Cross-sectional study will be employed where data was gathered just once. A Survey method was chosen for it required a sample of respondents to reply to a number of questions, self-completion questionnaires; good co-operation from the respondents was required.

1.8.2 Population of the study

The study was originally conceived with the idea of investigating solely the Small Business. Strictly on this basis, the population of relevance would have consisted of the following groupings.

- All small enterprises in South Africa with a maximum of 50 employees
- All medium enterprises in South Africa with a maximum of 100 employees, of 200 for the mining, electricity, manufacturing and construction sectors.

The population comprised of the SMEs in Richards Bay.

Table 1.1 Small Businesses in Richards Bay

Types of SMEs	Number of SMEs
Manufacturing	17
Communication	11
Transport	20
Construction	15
Retail	21
Beverages and liquor stores	10
Finance and business services	12
Other	14
Total	120

Source: DTI (2010)

1.8.3 Sampling

Probability sampling technique was employed. The type of probability sampling which used was the simple random sampling. It was the simplest case of random sampling, each member of the population had the same chance of being included in the sample and each sample of a particular size had the same probability of being chosen, Welman & Kruger (2001).

1.8.4 Data Analysis

The data collection and analysis was straightforward in that an electronic version of the survey was emailed to companies and all responses were mailed directly back to the researcher. A pilot study was conducted using five volunteers, each of whom was known to the researcher and run their own business. Data was analysed using the SPSS programme.

The survey was mailed with a message that introduced the researcher and outlined the purposes of the study and the academic institution with which the study was associated.

An in depth analysis was performed on the responses received. The analysis sported into two distinct areas, the first being descriptive statistics and frequency distribution, and the second being the Spearman correlation coefficient and normal distribution fitting algorithm.

1.9. Outline of the chapters in the study

The Study has five chapters structured in the following way:

Chapter one

This chapter presents the background framework of the study and brings the reader into understanding the concept of BEE. The research methodology synopsis is also presented in this chapter. A full research methodology is presented in chapter three.

Chapter two

This chapter provides a historical justification of Black Economic Empowerment in South Africa (as a case study in Richards Bay) on small business and experiences from other countries.

Chapter three

This chapter presents the methodological steps that were undertaken in carrying out the study. In this process the chapter highlights the population, sample and sampling technique and collection as well an analysis of the collected data.

Chapter four

This chapter presents the data and the findings of the study.

Chapter five

In this chapter the researcher provides the summary of the findings against the objectives of the study. Furthermore, the chapter has the conclusion and some recommendations.

1.10. Limitations of the study

The study only focused on small businesses in Richards Bay; that means large companies will not be included in the study. The study focused on Black Economic Empowerment (BEE) before its transformation to Broad-Based Black Economic Empowerment (B-BBEE). Richards Bay was used as a case study with the hope that the findings that would be obtained would be common to all small businesses in South Africa. Responses were limited only to those who could be reached. All the responses were from Richards Bay. Geographically, the study was conducted in the Kwa-Zulu Natal province. Thus, it would not be a full representation of the whole of South Africa.

1.11 Summary

The first chapter has given a summary of the study and some insight as to what to expect in the following chapters. The concept of Black Economic Empowerment emerged soon after the elections of 1994. It is easy with the benefit of 20 years of hindsight to be critical of the policy and to suggest smarter mechanisms and implementation strategies. The next chapter will include a literature review on Black Economic Empowerment on small businesses and the empowerment comparisons.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter outlines critical discussions of previous findings on BEE, as well as the significance of policy to this country which has experienced deep deprivation of resources among the black society. However, the scope of reviewed literature is limited to scholarly articles, as other documents like government legislation and related material do encompass the concept of BEE. Notwithstanding this limitation, the literature review for this study is extensive with much reference being made to articles appearing in financial publications such as the Economist magazine and information obtained from numerous informative websites such as that of the Department of Trade and Industry which contains the relevant Black Economic Empowerment (BEE) policy documents, Bills and Acts. Some views on the origins of Black Economic Empowerment (BEE) as well as on similar initiatives in other countries (particularly the Malaysian experience) are briefly highlighted.

The essence in the discussion on this chapter is on the challenges surrounding BEE implementation and those which are experienced by small business entrepreneurs. The literature outlining the importance of SMEs of Richards Bay and the reasons for government's focus on this sector are then presented.

2.2 Black Economic Empowerment in South Africa

2.2.1 Black Economic Empowerment (BEE)

The BEE is not a new concept to South Africa. Innes (2007) reveals that BEE started during the period of colonialism in South Africa and the development of the Kimberly diamond fields in 1870. During this period Black people staked their claims alongside White people in the diamond fields so as to benefit from the global diamond market. Innes further states that, contrary to the current BEE, the one during that period was self-driven as Black people spontaneously took advantage of opportunities for wealth

creation and competed on equal terms with White people. However, the government soon ended the Black people's initiatives. In terms of Innes opinion if the process of early BEE was allowed to continue the role of Black people would have been significant to the economic development of the country.

Discriminatory legislation against the economic emancipation of the Black people intensified in the twentieth century with the natives' land Act of 1913. Furthermore, in terms of the Native Consolidation Act, 1945, Black businesses were restricted to selling essential products in urban Black townships. Restrictions on Black people intensified immensely during the 1950s with the creation of Apartheid. This was the official government policy that regulated social segregation of all citizens on the basis of race with White people having a superior standing to African, Indian and Coloured people who were regarded as second-class-citizens (Lucas-Bull, 2007).

In this brief history, it is simple to realize that BEE in South Africa is deeply motivated by the legacy of apartheid which excluded most of the society from attaining business opportunities due to their ethnicity. The Apartheid regime in South Africa restricted and controlled access to the economy by Black people. It restricted wealth creation and imposed underdevelopment on Black community, thereby ensuring a supply of cheap labour. By suppressing wealth as skill endowments in Black community, Black people were prohibited from generating self-employment and entrepreneurship (DTI, 2005).

It can be further argued that the practice of exclusion has had a negative impact of in terms of the black society accessing business opportunities. The South African government's strategy towards BEE was then developed with an aim of addressing such previous imbalances within the South African society (DTI, 2005).

The first democratic government of South Africa in 1994 had an obvious mandate to redress the political, social and economic inequalities of the past. Among various governmental initiatives was a comprehensive program to provide a legislative framework for the transformation of the economy (DTI, 2005).

According to the Black Economic Empowerment Commission (2001) the Reconstruction and Development Program (RDP) served as a guideline for transformation and clearly

encapsulated the vision and values of BEE. A central objective of the RDP was to deracialise business ownership and control through policies focusing on BEE. The aim of this policy was to make it easier for Black people to gain access to capital business development. The government and parastatal institutions committed to provide capital for BEE objectives and introduced tendering procedures to facilitate BEE. The RDP emphasises training, upgrading and participation in ownership (BEEComm, 2001). It was hoped that through these initiatives, more black people could enter into small business and get access to government funding in order to sustain their businesses.

Ndedi (2004) divides the empowerment strategy into two elements. The first element is the breaking down of social barriers as the income of Black people increases, leading to change in lifestyles. This will enhance communication between Black and White people and ease the process of political change. The second element is the creation of wealth within the Black community. This would provide Black persons with opportunities and enable them to create a sustainable economy within their own community.

According to Jack (2007) South Africa has experienced two waves of BEE and a third wave is on the horizon. Historically, 1993 marked the beginning of the first wave of BEE in South Africa during which the private sector embarked on several BEE initiatives. In 1993 New Africa Investments limited was established, which was the first black company to be listed on the JSE (Jack, 2007). However, in most instances Black people did not have sufficient capital or adequate collateral to fund the BEE transactions. The sustainability of the funding mechanisms and problematic transaction structures are still a cause for concern (Jack, 2007). Black owners were removed from the control, management and operations of the companies of which they were BEE partners, indicative of the superficial nature of many BEE transactions (Black Economic Empowerment Commission, 2001).

This prompted the establishment of a BEE Commission to develop a clear and coherent vision and strategy for BEE in South Africa. According to the Black Economic Empowerment Commission (2001) all sectors of the economy remained in the control of White companies and White skilled people, leaving black companies to dominate the lower end of the small business spectrum, particularly the survivalist and micro

categories. De Wet (2005) states that the majority of South Africa's citizens generates and earn a low level of income and this leads to South Africa's economy to perform below its potential. In order to increase the effective participation of the previously disadvantaged and majority Black population in the country's formal economy, further steps such as Black Economic Empowerment (BEE) had to be taken.

The overall approach to BEE lacked focus at first (DTI, 2005). For BEE to become a programme of delivery in a meaningful sense, it required a uniform policy with guidelines and targets to encourage broader private sector participation in businesses (Black Economic Empowerment Commission, 2001).

The Broad-Based Empowerment Act, 2003 (Act No. 53 of 2003), hereafter referred to as the Act, or the Broad Based Empowerment Act, promotes the achievement of the 37 constitutional right to equality, as well as the aim to increase broad-based and effective participation of historically disadvantaged persons (prioritizes the Black community) in the economy, in the effort to promote a higher growth rate, to increase employment and to achieve a more equitable income distribution. The Act also establishes a national policy on broad-based Black Economic Empowerment in order to promote the economic unity of the nation, as well as to protect a common integrated market and to promote equal opportunity and access to government services.

2.2.1.1 Government's Definition on Black Economic Empowerment

Government defines BEE as an integrated and coherent socio-economic process that directly contributes to the economic transformation of South Africa by bringing about significant increases in the numbers of Black people who would manage, own and control the economy of the country, and reduce income inequalities (Department of Trade and Industry, 2003). Empowerment can be defined as a process of enhancing feelings for self-efficacy among organisational members by identifying conditions that foster powerlessness and removing them through formal organisational practices (Conger & Kanungo, 2009).

For a company dealing with state entities in the course of its business, it is an essential but difficult task to elucidate the government's approach to Black Economic

Empowerment. Whereas there should not be any obscurity about the government's objectives with the transformation process overall, the varying emphasis put on empowerment aspects in different situations can be perplexing.

In the absence of a BEE-blueprint stating the essence of Black Economic Empowerment, government departments and state entities have developed their own empowerment conducts. This implies differing empowerment policies between the state empowerment requirements are also enforced with varying emphasis depending on the procedure in question. This means that the empowerment obligations differ between, licence application at a local authority and a tender procedure at state level.

In order to ensure that the government's approach to Black Economic Empowerment is homogeneous, legislation has recently been passed for instance in the procurement area where small businesses ought to be developed through preferential procurement. In this practice, in case small businesses experience challenges the procuring business has the responsibility of providing mentorship in order to develop struggling smaller business. However, until this practice is followed throughout the public sector, it will be difficult to determine what aspects of empowerment are considered most relevant in doing business with public entities.

Generally, the elements that are most frequently looked at are equity ownership management representation, skills development and training as well as small business and community support. Usually, bidders for any government contracts have to show that they have considered empowerment in all these aspects (DTI, 2006).

2.2.2 Transformation from BEE to B-BBEE

The BEE has evolved over the years to become even broader, in that it is now known as B-BBEE. The fundamental crisis in terms of the broader definition of B-BBEE is that Black people remain excluded from financial and economic resources, Black Economic Empowerment commission (2001). In terms of the definition of B-BBEE, new opportunities should be promoted for Black people and the levels of participation of Black people in ownership management and control of economic activities should be increased (Black Economic Empowerment Commission, 2001).

According to Jack (2007), the ownership element would be more likely to be achieved due to the high debt leverage of BEE transactions. Jack, (2007) viewed that a third wave of BEE is to emerge. It is apparent that Black businesses are not merely a post 1994 phenomenon. Black business history runs long and deep in South Africa. The political and economic environment in South Africa has become conducive to Black business in the past twenty years.

2.2.3 Broad-Based Black Economic Empowerment (B-BBEE)

Broad-Based Black Economic Empowerment means the economic empowerment of all Black people, this include women, workers, youth, and people with disabilities and people living in rural areas through diverse but integrated socio-economic strategies that include, but are not limited to increase the number of Black people that manage, own and control enterprises and productive assets. The Black Economic Empowerment Commission (2001) first made reference to B-BBEE and defined it as an integrated and coherent socio-economic process. It is aimed at redressing the imbalances of the past by seeking to substantially and equitably transfer the ownership, management and control of South Africa's financial and economic resources to the majority of its citizens. It serves to ensure broader and meaningful participation in the economy by Black people to achieve sustainable development and prosperity.

B-BBEE is described as: the economic empowerment of all South Africa's financial and economic empowerment of all Africans. This also includes Indians and Coloured through diverse but integrated socio-economic strategies (DTI, 2007). It is seen as how Government positions B-BBEE beyond the redress of past imbalances as a powerful tool to broaden the country's economic base and accelerate growth, job creation and poverty eradication (DTI, 2007).

Jack (2007) states that the third wave of BEE commenced with the preferential procurement strategy as it is preferential procurement that makes B-BBEE a business imperative. Preferential procurement encourages transformation throughout the entire economy. It is done in the following manner: government, a large spender, will prefer to conduct business with companies that have a high BEE score. However, for a company

to have a high score, it must in turn do business with companies that have high BEE scores. This has a cascading effect putting pressure on all companies, including the companies that have no government business. It increases the market access of Black companies and ensures their sustainability by decreasing reliance on the public sector (Jack, 2007).

Jack (2007) confirms that this model is driven by the following factors, namely:

- The immediate cash flow arising from procurement opportunities rather than cash flow ownership transactions that could take a long period before it accrues to Black people.
- The hands on involvement of Black people in the operations of the enterprises that they start which enables them to create their own cultures.
- The increased ability to unleash the entrepreneurial potential of Black people who start and run their own enterprises, and
- The operational and financial assistance of new enterprises through opportunities during the start-up phase to become sustainable.

It is imperative that existing companies become receptive towards new Black enterprises during this phase of BEE. This phase should also contribute to job creation and the development of Black skills, especially for the younger Black generation who may not have business or political networks (Jack, 2007).

Luhabe (2007) summarises six values that should form the core of B-BBEE:

- firstly integrity which evokes the value of Ubuntu based on the basic tenet of 'I am because you are' and a culture of dialogue to communicate the B-BBEE strategy and goals;
- secondly, the value of a social conscience to ensure that resources are distributed in a sustainable manner;
- thirdly the value of contributing to the lives of the less fortunate people;
- fourthly, the sense of building towards a shared destiny and a shared understanding of the legacy we leave for our descendants;

- fifthly the fact that political freedom without full economic rights may ultimately result in civil unrest and political instability and
- Lastly the importance of education to enable all citizens to become enterprising, responsible and independent.

A trend of Black professionals leaving the corporate world for entrepreneurial, consulting and empowerment opportunities of their own has started to emerge recently. It has been stated that for B-BBEE to succeed, it must be infused with a strong element of entrepreneurship to expand from the existing economic base (Radebe, 2007).

2.2.4 Qualifying threshold for Small Enterprise

Qualifying small enterprise (QSE) means a business that qualifies for measurement under the qualifying small enterprise scorecards with a turnover of between R5 million and R35 million (Jack, 2007). A QSE may choose any 4 out of the 7 elements on the Broad-Based Black Economic Empowerment Scorecard (B-BBEE Scorecard). According to the Department of Trade and Industry guideline (2007), self-assessed scorecards will not be recognised seeing that self-assessed scoring does not provide sufficient proof of a supplier's B-BBEE status. A QSE is one of the categories from which South African businesses as per the Broad-Based Black Economic Empowerment Act can be ascertain whether they qualify for a B-BBEE.

2.3 Progress of Black Economic Empowerment

Different people and constituencies define BEE in different ways as it means different things to different people. According to Adam (2000) the definition of BEE may vary over time. Black Economic Empowerment (BEE), Affirmative Action, National Economic Empowerment and Development (NEED) are different terms used from the late 1980s to describe mainly the same thing. In the late 1980s White business regarded Black Economic Empowerment as a mechanism to create a Black middle class with interests in the economy. The initial thought was that by partly re-arranging the racial composition of the ownership structure of the economy, the market economy and political stability would accordingly be ensured (Adams, 2003).

Corporate social responsibility programs and Black advancement initiatives were introduced to achieve Black Economic Empowerment. The creation of a small influential Black business class was part of the goal. Blacks were to gain access to the formal economy while at the same time the underlying structures of the economy were to be left unaffected (Edigheji, 2006). During that time Black people were mostly put in middle management positions without any managerial responsibility. The Black people who had managerial responsibility were mainly appointed for business reasons, and not for empowerment reasons. This was when Black people were needed to give the company insight into Black peoples' consumption needs and habits (Campbell, 2003).

Banda & Mahabane (2003) state that post 1994 corporates in South Africa responded by appointing Black non-executive directors and by selling businesses to black empowerment groups. Financial institutions provided funding to the so called Special Purpose Vehicles (SPVs) which enabled black people without capital to go into business (Batchelor & Dunne, 1999). At that point, Black Economic Empowerment was largely a function of the White businesses' efforts to change themselves. Emphasis was put on economic inclusivity, aimed at broadening the economic base of South Africa. Black Economic Empowerment was on the government's agenda from the very beginning, although not initially as strongly as later (Charlton & Van Niekerk, 1994).

In 1995 the Black Business Council (BBC) was formed as a response to the need for a Black voice in business. The Council is made up of 11 Black business organisations with a common aim of shaping the economic policy debate raging in the country. In 1997, in the absence of an enabling policy framework for empowerment, Black business that had emerged on the back of Special Purpose Vehicle financing with the established business sector, felt the collapse of the south-east Asian economies. Unable to pay back loans provided by established businesses many big Black players listed on the JSE fell by the wayside and a renewed debate on empowerment and development followed. In 1998 the Black Business Council (BBC) formed the Black Economic Empowerment and Development Commission (BEECOM) with a mandate to redefine the concept of empowerment, investigate the state of empowerment in South Africa,

identify the hurdles to empowerment, and recommend a policy to the government (Dludlu, 2001).

According to Brown, (2004) Black Economic Empowerment in the early stages can be described as a process aimed at redressing the imbalances in the ownership and control of South Africa's economic resources by increasing Black participation at all levels of the economy. This would be done by job creation, poverty alleviation, specific measures to empower Black women, education, skills transfer and management development, meaningful ownership and access to finance to conduct business.

Buthelezi, (2003) states that over the years, the government expanded the parameters of its empowerment objectives in business to include training, affirmative procurement and equity ownership. The empowerment requirements varied between different state departments, agencies and governments on local, provincial or national level. Several government departments, for example, articulated their own specific policies for empowerment. Subsequently, it is difficult to determine what aspects of empowerment are most relevant in doing business with these public entities. Black Economic Empowerment can also be viewed as a way to develop the economy and stimulate growth in the country by increasing Black's participation at all levels.

Former President Thabo Mbeki in his February 2003 State of the Nation Address, as quoted by (Fourie 2005), confirmed that *development and support for small and medium business, remains a priority for government. Accordingly more financial and other resources will be committed to the development of this sector of our economy.* One of the major issues around BEE remains the difficulty to accurately measure the effectiveness of policies.

2.4 Characterisation of Black Economic Empowerment

What is Black Economic Empowerment (BEE) and Broad-Based Black Economic Empowerment (B-BBEE)? The following definition was adopted by the Black Economic Empowerment Commission (2001). It defines BEE as a joint and coherent socio-economic process. BEE is located within the context of the country's national transformation programme, namely the Reconstruction and Development Programme

(RDP). The aim of BEE is to redress the imbalances of the past by seeking to substantially and equitably transfer and confer the ownership, management and control of South Africa's financial and economic resources to the majority of its citizens. BEE seeks to ensure broader and meaningful participation in the economy by Black people, who represent the majority of South African citizens, in order to achieve sustainable development and prosperity (Innes, 2007).

According to the BEE Executive Summary (2001), BEE was adopted at the Growth and Development Summit (GDS), including strategies to ensure the broad and equitable ownership of productive assets and resources, to increase the levels of employment in the formal economy, to increase household incomes, to expand literacy and skills development and to extend basic services to historically disadvantaged communities. *The Growth and Development Summit took the view that BEE should benefit all socio-economically marginalised people, including women, youth, people with disabilities and those living in rural areas.*

According to De Wet (2005), Government consulted with various interest groups in South Africa, in order to formalise the B-BBEE program of the government, which was promulgated into the Broad Based Empowerment Act, 2003 (Act No. 53 of 2003). The Broad Based Black Economic Empowerment Act extended or broadened the concept of BEE into the Broad Based Black Economic Empowerment (B-BBEE) program, which is defined as the economic empowerment of all Black people (which is all encompassing), as well as women, workers, youth, people with disabilities and people living in rural areas, through the implementation of diverse but integrated socio-economic strategies that include, but are not limited to:

- increasing the number of Black people that manage, own and control enterprises and productive assets;
- facilitating ownership and management of enterprises and productive assets by communities, workers, cooperatives and other collective enterprises;
- human resources and skills development;

- achieving equitable representation in all occupational categories and levels in the workforce;
- preferential procurement and
- Investment in enterprises that are owned and managed by Black people.

De Wet (2005) also mentions that Black Economic Empowerment can be described as a method that aims at increasing the number of Black people that participate in and manage the South African economy. This involves economic ownership by previously disadvantaged individuals and implies economic interest, profit sharing and risk sharing, which includes the sharing of cost and the creation of wealth.

Black Economic Empowerment is seen as an external factor that influences any entity that intends to do business in South Africa. An entity is defined as something with a distinct and independent existence (Jack, 2007). So, Black Economic Empowerment influences any independent existence such as, and not limited to a company, close corporation, sport organisation and non-profit organisation. Furthermore, this external factor has a certain impact on the country and its enterprises. If Black Economic Empowerment is seen as an economic entity, the economic entity must, as with any external factor, adjust to be competitive in the market.

2.5 Black Economic Empowerment Compliance

Many people in business assume that to become BEE compliant they need to make dramatic changes to the infrastructure of their organisation. While this can be true, it is often the case that a business already possesses some of the important attributes of BEE compliance, which can simplify the process of BEE verification.

The fundamental principle for measuring B-BBEE compliance is that a business possesses significant enough attributes in seven key areas of the enterprise. However, smaller businesses may not be required to qualify in all seven areas. Moreover, those with a turnover of less than R5 million (a micro enterprise) only require an exemption certificate.

Table 2.1 The Seven Elements that Measure BEE Status:

1.	Ownership	Who owns your company?
2.	Management Control	Who is the senior management that controls your company?
3.	Employment Equity	Do you have junior/middle and senior managers? What percentages of your employees are Black? Do you employ Black females at junior/middle or senior management?
4.	Skills Development	Do you spend money on training your staff? Is your training logged and calculated on an annual basis?
5.	Preferential Procurement	Are your suppliers BEE compliant? Who does the business make purchases from?
6.	Enterprise Development	What efforts does the business have in place to develop enterprises external to it?
7.	Residual	What contributions does the business make for social causes?

Source: DTI, (2007)

2.5.1.1 Ownership

The target shareholding by Black people should be 25.1 percent. According to the abridged version of the scorecard (Kgomoewana, 2007) multinational firms are allowed to apply for exemption where minority shareholding is prohibited. Indirect ownership may count up to 40 percent of the ownership score and refers to empowerment ownership through a participation of another structure. These participations may be in the form of a fund administrator or other schemes.

According to Kgomoewana (2007), the indirect ownership would not be recognised as Black ownership where Black people represented by the intermediary do not receive any benefits, such as dividends, or enjoy any rights, such as voting rights. He further states that BEE Warehousing Funds such as the National Empowerment Fund (NEF) will count as indirect ownership when shareholders are found and the shares transferred as the NEF is normally established on behalf of shareholders to be identified. The principle of “once empowered-always-empowered” has to prevail for the ownership to be recognised and should companies lose their status as a BEE contributor they would have some time to replace their Black shareholders. Kgomoewana (2007) also states that organisations such as the IDC will amount to indirect ownership should the benefits flow to black shareholders. Government will always be excluded from the ownership calculations where it is a beneficiary as they cannot be defined in terms of race.

According to an article in the Business Report (2007), the codes of good practice is not only restricted to local firms as even multinationals will now be able to claim ownership points through their contribution via the proposed equity equivalent programme. Motor manufacturers who are major contributors to the South African gross domestic product (GDP) will now adopt a generic scorecard based on the recommendations by the BEE task groups.

According to Petersen (2007), the equity equivalent programmes could involve skills development and enterprise development industry projects that support government initiatives such as the following:

- accelerated and joint growth initiatives;
- joint initiatives on priority skill acquisitions;
- the national skills development strategy;
- programmes that promote the creation of enterprises and
- programmes that promote socioeconomic advancement.

For these multinationals to score maximum ownership points, their participation in equity equivalent programmes should be no less than 25 percent of local operations Kgomoewana (2007).

2.5.1.2 Management

The target is at least 40 to 50 percent Black representation at board and executive management, with women to constitute a 50 percent of the total Black representation.

2.5.1.3 Employment equity

The target is 40 to 80 percent Black representation with Black women to account for 50 percent of the Black component at all applicable levels.

2.5.1.4 Skills development

The target spending on Black focused learning programs should be 3 percent of annual payroll of which 0.3 percent must be spent on disabled Black employees. Small and Medium Enterprises (SMEs) with turnover between R5 Million and 35 million would only require 2 percent spending. Although the training will no longer be required to be accredited with the Sector Education and Training Authority (SETA), the training should be linked to career development and may include Adult Basic Education Training (ABET) learning programmes.

2.5.1.5 Preferential procurement

Small businesses with turnover less than R5 million will be exempted and automatically awarded level 4 Contributor-status. The procurement for other enterprises is targeted at 70 percent of the total procurement expenditure Kgomoewana (2007).

2.5.1.6 Enterprise development

The target is the highest of 3 percent of Net Profit after Tax (NPAT) and 0.75 percent of turnover to be spent on developing Black businesses.

2.5.1.7 Residual

The target is the higher of 1 percent of net profit after tax (NPAT) and 1.125 percent of turnover on qualifying development programmes.

2.6 Small medium enterprises (SMEs)

Both the importance and the plight of SMEs in South Africa have been acknowledged by government and the private sector for many years. In 1994, the ANC-led government made a substantial commitment of people and resources and small business development was the first high-profile new programme of the Department of Trade and Industry. They went on to say that the programme was prominent because it fitted into the ANC's view that the economy was unbalanced in favour of the giant conglomerates, and that small business development was a key strategy for the economic advancement of historically disadvantaged individuals and communities.

Despite the attention and focus being placed on the small business sector, an ongoing challenge facing SMEs and their development, there is a difficulty of finding an acknowledged definition of a small or medium business. Perhaps the most widely accepted definition is that provided by the National Small business Act of 1996 that defined SME as a separate and distinct entity that cannot be part of a group of companies. In addition, the Act states that such businesses are managed by their owners, and can be sole proprietorship, partnership, a closed corporation, co-operative or a company, (Arnold, Liedholm, Mead and Townson, 1994).

Survivalist enterprises: are those that generate income that is less than the minimum standard or the poverty line, they are considered pre-entrepreneurial and include hawkers, vendors and subsistence farmers and often categorised as part of the micro-enterprise sector.

Micro enterprises: The turnover in this category is less than the VAT registration limit. These enterprises are usually not formally registered. They include spaza shops, minibus taxis and household industries. They employ no more than 5 people.

Very small enterprises: These employ fewer than 10 paid employees, except in the mining, electricity manufacturing and construction sectors, where the figure is 20 employees. They operate in the formal market and have some access to technology.

Small enterprises: The upper limit in this category is 50 employees. Small enterprises are generally more established than very small enterprises and exhibit more complex business practices. Carland, Hoy, Boulton & Carland (2007) confirm that small business owners are primarily concerned with securing income and not usually engaged in innovation. A small business is independently owned and operated; it is not a dominant player in its industry and does not engage in innovative practices (Megginson, Byrd & Megginson, 2000).

Rwigema & Venter (2004) state that a small business focuses predominantly on generating an income stream to replace employment, and it also generates profits over the lifetime of the owner. Medium Enterprises: These include enterprises with a maximum of 100 employees, or 200 for the mining electricity, manufacturing and construction sectors. These enterprises are often characterised by an additional management layer. According to Sanchez (2006) medium enterprises in South Africa shared most of the general characteristics of the sector elsewhere, but also face some challenges which are specific to the South African context. Sanchez, (2006) says these are related to the imbalances left by the legacy of Apartheid when the majority of Blacks were prevented from running a business. A particular consequence is that the rate of Black ownership in bigger enterprises is low.

2.7 Challenges on Black Economic Empowerment

The distortion of class formation amongst Black people is regarded as an outcome of the Apartheid era. In liberating South Africa from Apartheid and its distortions, a multiplicity of social classes, including a Black business class, must be developed. BEE has been criticised for unjustly focusing on the creation of such a Black business class, thereby neglecting the poor (Shubane, 2007).

The broad thrust of much criticism is that BEE is creating unjustifiably enriched Black elite. The increase in inequality amongst Black people due to BEE has also been criticised publicly. The South African Communist Party (SACP) is of the view that BEE can only be seen to be acceptable if it contributes to the development of the forces of production and to transformation benefiting the majority of the citizens (Nzimande, 2007). A convergence exists between the Black politicians and Black elites who may become less overt as the Black entrepreneurial and Black business class expand. Currently, BEE constitutes Black investment into existing business rather than the creation of new business (Southall, 2006).

Shubane (2007) criticises BEE on the basis that it does not promote the real driver of economic growth namely, entrepreneurship. It is argued that BEE distracts entrepreneurs by creating opportunities to make money in a BEE environment without assuming the attendant risks involved in business ventures. In order to succeed economically, it may be politically dangerous to rely on people from a single race group, the energies of people across the race spectrum are required (Shubane, 2007). Another view is that empowerment is concentrated in the hands of too few people. It is usually the politically, well connected Black people that are party to that benefit from BEE transactions. Furthermore, although large BEE transactions are met with great approval by the media, little is known about what will finally be owned by the Black people who are party to the BEE transactions (Shubane, 2007).

According to Mahabane (2007), government has been facing the challenge of building Black capitalism within the paradigm of a liberal market approach. A contradiction in government's approach is that it expects a broad based outcome from a market environment where capital is centralised in a few hands. Mahabane (2007) is of the view that only the smartest and those with the most political power and intellectual capital are able to thrive on BEE in the manner that empowerment is currently structured.

From the above, it is apparent that B-BBEE became a core driver of the social and economic transformation in South Africa. B-BBEE may be an adequate short term measure but over time, it cannot be relied upon to build sustainable Black owned

business. It is in the hands of the aspirant Black business leaders of South Africa to progress beyond B-BBEE by starting their own businesses. It is this relationship between BEE and entrepreneurship and the resulting business outcomes in South Africa that the study sought to explore.

2.8 Empowerment Comparisons and Ownership

According to Brown, (2004) Black Economic Empowerment is not a unique phenomenon. Various forms of affirmative action have, and are, taking place around the world. In Malaysia, a programme similar to the one in South Africa was launched in 1969. South Africa has learned a lot from their experiences. Likewise, Malaysia is a country where affirmative action targets a majority of the population. Affirmative action is also used to achieve gender equity in several countries. South Africa's history makes it unique from other nations where affirmative action has or is taking place. In South Africa the majority, approximately 87 percent, of the population has been disadvantaged and is now subject to affirmative action. The gravity of suppression also makes South Africa unique in that the empowerment process has to be very extensive (Friedrich, 2003).

The greatest challenge facing empowerment today is that few companies recognise the benefits of BEE beyond meeting tender or licence criteria and filling in charter scorecards. Its implementation is mainly viewed as a compliance issue. Effective monitoring and review of empowerment performance and of the policy framework itself are therefore imperative. However, in the context of low levels of reporting inconsistent standards and methodologies as well as inadequate systems to monitoring, progress is almost impossible (Brown, 2004).

2.8.1 South Africa

In South Africa, the vision of an economy that addresses the needs of the majority of people in a fair and equitable manner is by no means something new or novel. This vision dates as far back as 1955 to the Freedom Charter by the ANC. There is a declaration that the national wealth of our country, the heritage of all South Africans, shall be restored to the people. Gqubule, (2009) noted that all other industries and trade

shall be controlled to assist the well-being of the people and people shall have equal rights to trade where they choose, to manufacture and to enter all crafts and professions.

Empowerment has successfully taken place in South Africa before. Starting in 1948, the Afrikaners were subject to economic empowerment. However, the Afrikaners began their process of economic empowerment from a far better position than Blacks did in 1994. The Afrikaners were on average relatively more educated than the average Black in South Africa and they had the advantage of a major capital base in the form of land. The labour market was also substantially different from today, with focus on manual labour force (Hays & Reeves, 2004).

Black Economic Empowerment (BEE) has become synonymous with transformation in South Africa; transformation does not commence and concludes with BEE rather, it starts with a change of perceptions and attitudes (Xate 2006). BEE has become a regular feature since South Africa became a democracy, when a token few conglomerates sold controlling stakes to Black empowerment consortiums (Coulsen 2004). Companies in South Africa were also required to drastically increase the number of previously disadvantaged individuals (PDIs) in their employ when the Employment Equity Act (Act No.55 of 1998) was passed into law in 1998. Renewed impetus has been placed on empowerment since the promulgation of the Broad-Based Black Economic Empowerment (B-BBEE) Act (Act No. 53 of 2003). The B-BBEE Codes of Good Practice (Codes) were gazetted on 9 February 2007, and this significant piece of legislation has provided a framework to guide and measure transformation activities.

Transformation in South Africa is an ongoing process, and companies across industries are still coming to terms with the volumes of complex BEE legislation that has been promulgated. There has been a distinct lack of information or investigation on the extent to which companies have embraced transformation, the challenges that they face and the benefits that they receive from implementing BEE (Duffett, Van der Heever & Bell, 2009) measurement in small businesses.

The transformation process in South Africa has been long and complicated, and the researcher predicts that this situation will persist for another decade. The government has progressed slowly but steadily in the promulgation of legislation, whereas the small business progress has been slightly more rapid in striving to attain goals that are prescribed by the legislation. Smart (2006) affirms that the delays in the dissemination of BEE legislation have had a negative impact on economic growth.

2.8.2 United States

In the early 1970s, shortly after the Civil Rights movement, there was a conscious decision by the government in the United States to create a class of Black capitalists. The government was proactive in trying to create equal opportunities for Blacks in employment, education, housing and business. To facilitate Black business development special government structures were set up for the delivery of loans, grants, and technical assistance to Black entrepreneurs. In government procurement policies special preferences were granted to Black owned businesses (Hudson, 2003).

The efforts in the United States had a material effect; from 1972 to 1992 the number of Black owned businesses grew from 188,000 to 621,000. The situation in the United States was significantly different from the one in South Africa today. Empowerment in the United States was focused on a minority group, just as the Afrikaners' empowerment in South Africa was, whereas the now ongoing empowerment in South Africa has the majority of the population as its target. Another difference is the economy; the fiscal resources of South Africa cannot be measured against the much greater ones of the United States at the time. The United States also had a number of good Black universities that produced a well-educated Black managerial and entrepreneurial class (Human, 2003).

The economic position of Blacks and whites in the United States still, after some 30 years of various initiatives, remains unequal. Affirmative action is now stigmatised as

reverse racism. What South Africa can learn from this is that measures beyond affirmative action are needed and that various efforts are required to make real empowerment progress (Katzenellenbogen, 2009).

2.8.3 Malaysia

Given the population and income statistics, Malaysia is the most relevant example for South Africa. In 1969, the Malaysian government launched the New Economic Plan (NEP), which aimed at eliminating poverty and promote greater economic equality between the different racial groups. Specifically the Bumiputra (indigenous groups, principally Malaysia) were empowered through expanded educational opportunities, employment quotas and incentives for corporate restructuring. If a non-Malaysian company wanted to bid for government contracts, for example, or if they wanted to go public, they had to restructure the company and 30% of their stocks were to be sold to Bumiputra at a discount. In order to promote the growth of an industrial and commercial Bumiputra community the government also used the allocation of contracts, quotas and licenses (Klinger, 2000).

The New Economic Plan worked very well in Malaysia for the Bumiputra, which previously were the disadvantaged group. In 1970 the Bumiputra share of corporate equity ownership was 2.4%. Twenty years later this had risen to 20.3%. The criticism against the NEP is that the Malay elite is seen to have benefited disproportionately, and the Chinese and Indians, the more successful ethnic minorities, feel the playing field is stacked unreasonably against them. At the same time Malaysians, from all ethnic groups, acknowledge that the empowerment focus in the NEP has helped the country to avoid racial turmoil (Klein, 2000).

2.8.3.1 Malaysian reforms

Malaysia experienced the worst ever racial rioting in 1969 and the New Economic Policy was perceived as a means of preventing such outbreaks in the future. The Malaysian reforms can be likened to South Africa's endeavours on redressing the ills of the past

and ensuring that all communities have opportunities to participate in the national economy.

2.8.3.1.1 Definition of Bumiputra

The history of Malaysia (2005) states that it is generally considered that all Malays are Bumiputra and that all Bumiputra are Malay. This is incorrect as there are non-Malays 44% who are declared as Bumiputra and similarly non-Muslims who are considered Bumiputra. The definition of Bumiputra clearly excludes ethnic Chinese, as well as non-Muslim Indians. Treatment of Bumiputra versus other races is built into the Malaysian Constitution. Racial policies were a major key of the Prime Minister Mahathir bin Mohamad, who was prime minister from 1981 to 2003. His policies were disclosed in his book named 'the Malay Dilemma'.

The concept of Bumiputra was discussed. The term Bumiputra was created to collectively address the group described in article 153 of the Malaysian Constitution. Article 153 of the Malaysian Constitution stipulated the following: *The Yang di-PertuanAgong (The King of Malaysia) shall exercise his function in such a manner as may be necessary to safeguard the special position of the Malays to ensure the reservation of such proportion in the public service and of scholarship and other similar educational privileges or special facilities given by the Federal Government* (Bumiputra policy 2005).

2.8.3.1.2 The Malaysian New Economic Policy

Malaysia's New Economic and National Unity (2005) states that the Malaysian New Economic Policy (NEP), also known as DasarEkonomiBaru (DEB) in Malay, was developed as a restructuring program. This policy was to be implemented from 1971 to 1990 through a series of four five-year plans. A Brief History of the Malaysian Economy before the New Economic Policy follows below. Malaysia began its first stage of Import Substitution Industrialisation (ISI) in 1960. The ISI consisted of high tariffs, with the purpose to promote domestic investments. Furthermore, the prices of fuel and utilities

were set below market value in order to keep production costs down, while tax and interest rate incentives were offered to pioneering industries.

Bumiputra policy (2005), states that in 1970 there was a huge underclass of Bumiputra, whose economic conditions had remained largely unchanged under the ISI. In 1970, the Malaysian Government estimated that Bumiputras comprised roughly 2.4 percent of Malaysia's economy, compared to 33 percent owned by other races and 63 percent in foreign ownership.

2.8.3.1.3 The Goals of the New Economic Policy

Bumiputra Policy (2005), states that the new economic policy had two objectives. One of the objectives was to eliminate poverty, particularly rural poverty, and the other objective was to eliminate the identification between race and economic function. An agriculture policy was used to tackle poverty, which resettled Malays on newly cleared farms. The agriculture policy also caused investments in rural infrastructure, as well as the creation of free trade zones in rural areas, which are used to create manufacturing jobs.

Poverty declined during the 1970s and the 1980s with the poorest rural villages in Malaysia being Sabah and Sarawak. The second part of the government policy was to transfer economic power to Malays. Prime Minister Mahathir expanded the number of secondary schools and universities throughout the country, as education was seen as a way to transfer the economic power to the Malays. As far as the economic restructuring is concerned, the initial target was to change the ratio of economic ownership for Malaysians from 33 to 40 percent.

The history of Malaysia (2005), states that the above restructuring programme aimed at redistributing the wealth of the country, through the change of ownership ratios of business enterprises by specifically targeted population groups. Economic growth was to be increased, mainly in the form of ISI. Industries were targeted and policies were built around the government incentives of 1975 to expand large-scale manufacturing

industries and energy-intensive industries. Export incentives were initiated and at the same time the Heavy Industries Corporation of Malaysia (HICOM) was formed in order to assist the manufacturing of pig-iron, aluminum die casting, pulp and paper, steel, cement, motorcycle and heavy engineering.

2.8.3.1.4 New Economic Policy benchmarks

The history of Malaysia (2005) states, that the distribution of wealth remains unequal under the NEP. In 1997, 70.2 percent of households in the bottom 40 percent income group were Bumiputra. 62.7 percent of households in the top 20 percent income bracket were non-Bumiputra. The NEP increased the national debt and economic inefficiencies due to dramatic government intervention, causing worry among private sector investors.

The NEP was mostly accepted by the Malaysian Chinese as a necessary evil for cessation of Malay aggression. Occasional anti-Chinese rioting in Indonesia often drew stark contrast to their situation in Malaysia. The Chinese community generally moved away from the public sector and set up businesses in the private sector, where the actual impact of the NEP was one of convenience rather than an actual paradigm shift.

The national wealth owned by the non-Bumiputra races has increased over time, beyond the 40 percent mark in spite of the policies implemented under the NEP. Certain segments of the population live in direct poverty, particularly a large number of the Malaysian Indian population. Malaysia and India are similar to South Africa in that all these countries have had to deal with difficult pasts which meant that they had to undergo a period of reformation. These were done with the intention of normalising these societies and provide economic opportunities for the citizens.

2.9 Government's solution for success

2.9.1. Justification for government intervention

BEE is aimed to redress the inequalities from Apartheid and create a more economically active society representative of all cultures (Janisch, 2006). B-BBEE reflects the broad-based nature of BEE by creating opportunities for those disadvantaged. The justification therefore is to prevent social or political instability through addressing racially or ethnically defined wealth disparities (Janisch, 2006).

2.9.2 Legal framework

A common misnomer is that there is no obligation for businesses to conform or commit to BEE as the legislation is only legally binding on the state and state-owned entities. Organizations are still compelled to abide to legislation that still relates to BEE, such as Skills Development Act and Employment Equity (Janisch, 2006). The following existing acts, including the Broad-based Black Economic Act 53 of 2003, are customised to fit the empowerment objective and promote growth in the economy to some extent (Janich, 2006). Businesses are therefore already a part of BEE without them even being aware.

Black Economic Empowerment legislation is only binding on the state and state owned entities. However, although organisations are not compelled to commit, the cascade effect of B-BBEE will be felt through the business supply chain (Balshaw & Goldberg, 2005).

2.9.9.1 Constitution of the Republic of South Africa (1996)

The Constitution is designed to address the issues of the past and prevent discrimination of any sort in future. To promote the achievement of equality, legislative and other measures designed to protect or advance persons or categories of people, disadvantaged by unfair discrimination may be taken.

The BEE Act has been interpreted as an embodiment of the right to equality contained in section 9 of the South African Constitution of 1996. Section 9.2 of the Constitution says legislative and other measures could be taken to advance people disadvantaged by unfair discrimination in order to promote equality. Section 9.5 says discrimination was unfair unless it was established that it was fair. Affirmative action is seen as fair discrimination designed to advance people historically disadvantaged by the unfair discrimination that existed under Apartheid. Section 217 of the Constitution dealt with public procurement and the use of state tenders to advance people disadvantaged by apartheid.

Three main groups of Black people are generally considered to have been historically disadvantaged by Apartheid and these are Africans, Coloureds and Indians. Chinese South Africans were included in the definition of Black people to benefit from BEE after a 2008 High Court ruling.

2.9.2.2 Competition Act (1998)

The Competition Act does make provision for the relaxation on anti-competitive practices where these actions would promote BEE organizations to become competitive.

2.9.2.3 Skills development Act (1998) and skills development levies (1999)

The Skill Development Act (SDT) is aimed at developing skills and in some instances is compulsory for certain employers. Various training learning programmes, training programmes or learnerships are motivated via the Skills Development Levy (SDL).

2.9.2.4 Preferential procurement policy framework Act (2000)

Preferential procurement is a framework that prescribes categories of preference in the allocation of contracts and the protection or advancement of persons, disadvantaged by unfair discrimination. This forms the foundation of procurement activities for state and state-owned agencies as to how contracts will be awarded for products and/or services. The Act aims to advance the development of SMEs and historically disadvantaged

individuals, promote women and handicapped persons, create new jobs, promote local enterprises wherever they may be located and support the local product. The codes of Good Practice form the cornerstone as a guideline and to measuring B-BBEE. The Codes of Good Practice is discussed in the sections below.

2.9.2.5 Broad-Based Black Economic Empowerment Act 53 of 2003

The purpose of the Act is to facilitate B-BBEE by promoting transformation (Balshaw & Goldberg, 2005). Black persons to have a meaningful participation in the economy, deracialising of ownership and management structures and in the skilled occupations (existing and new enterprises). Increasing the extent to which black women, communities, workers, co-operatives and other collective enterprises own, manage existing and new enterprises and increasing their access to economic activities, infrastructure and skills training. Promoting investment programmes that lead to B-BBEE and meaningful participation by Black people in the economy. Empowering rural and local communities (provide access to economic activities, land, infrastructure, ownership and skills development) that are promoting BEE to small business.

According to the DTI's (2005) Black Economic Empowerment Strategy Document, the government has set strategies and structures to implement such investments through various DTI agencies as well as other financial development institutions, including the land bank and the development bank of Southern Africa. Besides the fact that Government has some funding, other financial assistance and mechanisms further promote BEE and the researcher is of the opinion that these may be of more relevance to the Qualifying Small Enterprises.

2.10 Summary

The purpose of the literature review was essentially two-unfold. The first objective was to sketch a picture of Black Economic Empowerment (BEE). What became clear is that there is no universally accepted definition of BEE and little consensus on the exact pedigrees of BEE. A common criticism of BEE is that it has been narrow in its reach, as such; the concept of broad-based Black Economic Empowerment (B-BBEE) has

emerged. The small business sector of the South African economy contributes significantly to the gross domestic product and even more so to the employment. The potential for this growth lies with the previously disadvantaged population and therefore these growth programmers are linked with Black Economic Empowerment to create the necessary stimulus for the growth of the small business sector.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the research methodology that was used in the investigation. The chapter highlights research design, population of the study, research instrument, sample and sampling technique, reliability of and validity of the instrument, method of data collection and method of data analysis.

The study focused on a quantitative research method which uses questions. Quantitative research seeks statistical perceptions, the collection of facts, and studies the relationship of one set of facts to another (Bell, 1993). According to Hopkins (2000), quantitative research is about quantifying relationships between variables, statistics such as correlations, relative frequencies, and difference between means or medians. The study focus was on the challenges of SMEs on Black Economic Empowerment in Richards Bay. The research methodology comprised procedures and strategies used in collecting and analysing data in a research investigation, in order to obtain information (Polit and Hunger, 1991). The main study targeted small businesses from Richards Bay.

A pre -test was conducted by sampling from the Small businesses in Richards Bay, in order to determine the effectiveness of the measuring instrument. The pre-testing of a measuring instrument consists of trying it out on a small number of participants having characteristics similar to those of the target group of respondents (Singleton, Straits, Straits, and McAllister, 1988).

3.2 Research Methodology

Research methodology is a technique for collecting data (Bryman & Bell, 2007). Research methodology has two primary functions, to control and dictate the acquisition of data and to correlate the data after its acquisition and to extract meaning from it (Leedy & Ormond, 2005). Primarily, there are two distinct approaches that inform the

gathering of data in any research project, namely the qualitative approach and the quantitative approach (Babbie, Mouton & Jennings, 2001).

Qualitative forms of investigation tend to recognise the importance of the subjective, experiential life world of human being. Such reflection is the province of phenomenology reports Babbie *et al.*, 2001: Blanche & Durrheim, 1999. Gilbert (1993) notes that qualitative methodologies provide avenues that could lead to the discovery of the deeper levels of meaning. This kind of research draws on data collection methods such as participant observation, in depth interviews and focus groups (Babbie *et al.*, 2001). As a consequence of its underlying paradigm, qualitative research is subjective since it relies on the texts and discourses of participants and involves small numbers of participants in the research process, as a result of gathering in-depth information (Gilbert, 1993; Sekaran, 1992).

A quantitative research approach is grounded in the positivist social sciences paradigm, which primarily reflects the scientific method of the natural science (Creswell, 1994). A qualitative methodology abstracts data from the participants into statistical presentations rather than textual pictures of the phenomenon. The entire research process is objectively construed and findings are usually representative of the population being studied. The main strength of the quantitative approach lies in its precision and control (Babbie & Mouton, 2001). Furthermore, hypotheses are tested through a deductive approach, and the use of quantitative data permits statistical analysis (Welman & Kruger, 2001). One of the limitations of quantitative research, as reported by critics, is that many researchers are concerned that scientific qualitative approach denigrates human individuality and ability to think (Massey, 2003).

According to Collis & Hussey (2003), the two main research methodologies, identified above, can be linked to positivistic and phenomenological study approaches, or to a combination of both.

The approaches include:

- Surveys which involves selecting a representative and unbiased sample of subjects drawn from the group you wish to study.
- Longitudinal studies which are studies over an extended period to observe the effect that time on the situation observed and collect primary data of these changes.
- Cross-sectional studies which are studies involving different organizations or groups of people to look at similarities or differences between them at any on a particular time.

3.2.1 Research Design

Research design provides a framework for collection and analysis of data. The research reflects decisions about the priorities being given to a range of dimensions of the research process (Bryman & Bell, 2007). According to Penman (2006), a research design is a plan for selecting the sources and types of information used to answer research questions, the results of which provide a framework for assessing results and presenting relationships between the variables being considered. Zikmund (2003) calls a research design a master plan that specifies the methods and procedures for collecting and analysing the needed information. He continues that it is a framework or blueprint that plants the action for the research project.

Structured questionnaires were piloted to the respondents and reworked for validity and reliability. According to Cohen & Manion (1980), quantitative research is defined as social research that employs empirical methods and empirical statements. Quantitative approaches were adopted, getting the data ready for analysis. Coding, data entry, frequencies and charts were adopted. Cross-sectional study was also employed where data is gathered just once. A survey method was chosen for it requires a sample of respondents to reply to a number of questions in self-completion questionnaires. Good cooperation from the respondents was required.

3.3 Population and Sample

A population is the study objects or study units that are the focus of the research project (Babbie *et al.*, 2001). Sampling begins with precisely defining the target population. The target population must be defined in forms of elements, geographical boundaries and time. The targeted population of the study was small businesses in Richards Bay which fall under the category of being BEE.

In a probability sampling the researcher has a significant measure of control over who is selected and on the selection methods for choosing them (Blaxter, Hughes & Tight, 2001). Probability sampling technique was engaged. The type of probability sampling which will be used was the simple random sampling. It is the simplest case of random sampling, each member of the population has the same chance of being included in the sample and each sample of a particular size has the same probability of being chosen (Welman & Kruger, 2001). Sampling is to draw a sample or select a subset of elements from a population, Freedman (2000). According to Doherty (2004), the first step for probability sampling is to decide on the population of interest, then establish in a framework using geographic parameters.

The study was originally conceived with the idea of investigating solely the Small Business. Strictly on this basis, the population of relevance would have consisted of the following groupings.

- All small enterprises in South Africa with a maximum of 50 employees
- All medium enterprises in South Africa with a maximum of 100 employees and of 200 for the mining, electricity, manufacturing and construction sectors.

The population comprises of all the SMEs in Richards Bay, where unit of analysis comprises all the owners.

Table 3.1 Small Business in Richards Bay

Types of SMEs	Number of SMEs
Manufacturing	17
Communication	11
Transport	20
Construction	15
Retail	21
Beverages and liquor stores	10
Finance and business services	12
Other	14
Total	120

Source: DTI (2010)

The respondents are used to determine the validity and reliability of instrument items. Sample will be from all small businesses in Richards Bay. The study focuses on small business with BEE certificates, their opinions and lessons.

3.4 INSTRUMENTATION/ DATA COLLECTION METHODS

A structured questionnaire was used to collect all information from the respondents and participants of the study. The purpose of conducting a pre-test was to validate the items of the present study instrument. English has been used as the preferred language as it is most often used by all companies for communication during learning. English was also the official medium of communication in small businesses in Richards Bay. Each participant was asked the same questions and all participants responded to the same questions. Responses were designed in a 5-point Likert scale with 1= Strongly Disagree, 2= Disagree, 3= Neutral, 4= Agree, 5= Strongly Agree. Final responses were on a 5-

point semantic differential scale: range 1= Poor to 5=Excellent. Only quantitative data was collected and analysed.

3.4.1 Questionnaire design

Introduction of the research topic

A letter introducing the researcher was included in the questionnaire and submitted to all the respondents in small businesses in Richards Bay.

Section A: Biographical information

Section B: Black Economic Empowerment progress, challenges and lessons in the small businesses.

The questionnaire was divided into three sections, displayed in the Appendix 1.

3.4.2 Questions in the questionnaire

The first page of the questionnaire introduced the research topic and sets out the reasons for conducting the study. The guidelines to administer the questionnaire were stated to the respondents. Some of the questions asked are given below:

Section A: Biographical Information

Question 1: Gender

Question 2: Age

Question 3: Primary language

Question 4: Type of your business

Section B: Challenges faced by small business, their opinions and lessons

This section asked questions on the change made by the government by introducing BEE to Black people and whether it redressed any imbalances. These questions were closed-end questions responding on a 5-point Likert scale. Other questions were open-

ended questioners because the researcher wanted to know the views of business owners and to know whether there are any changes that BEE did in their businesses.

Distribution of questionnaires: The questionnaire was distributed and emailed to all small businesses in Richards Bay.

3.5 Research Hypotheses

According to Zikmund (2003) the best expression of a research objective is a well formed, testable research hypothesis, a hypothesis being a statement that can be refuted or supported by empirical data.

H0: Black Economic Empowerment has positive impact on SMEs.

H1: Black Economic Empowerment has negative impact on SMEs.

3.6 Research Questions

The following research questions were raised:

- What is needed for SMEs in order to comply with Black Economic Empowerment policies and regulations?
- What size of SMEs to be empowered by Black Economic Empowerment elements?
- What are Black Economic Empowerment effects on SMEs in Richards Bay?
- Are Black Economic Empowerment policies and regulations providing guidelines to manage SMEs in Richards Bay?
- What is the Impact of Black Economic Empowerment (BEE) in Richards Bay SMEs?
- Did the government redress the imbalances by Black Economic Empowerment in small businesses in Richards Bay?

- What are the lessons learned by small businesses who adopted Black Economic Empowerment in their businesses?

3.7 Data Analysis

The data analysis techniques are step-by-step procedures which are followed in order to gather data, and analyze them for the information they contain (Jankowic, 2005). Data collection and analysis was straightforward in that a soft copy of the survey was emailed to selected companies and all responses was mailed directly back to the researcher. The researcher went and distributed the questioners with a message that introduced the researcher and outlined the purposes of the study and the academic institution with which the study was associated using Richards Bay as a case study.

A pilot study was conducted using five research assistants, each of whom was known to the researcher and run their own business. Data collected was quantitative in nature, summarized in tables and graphs. Data will be analysed using the SPSS package for calculating and analysing descriptive statistics, median test / Wilcoxon's signed rank test.

Descriptive statistics are described as procedures used for reducing information by set of measurements (Bless and Kathuria, 1993), and quantitative data was summarized in the form of tables and bar graphs. Descriptive statistics are used to summarize information and tabulate them to be more readable and accessible. Inferential statistics assist the researcher to draw conclusions from his or her observations about population of the study (Babbie, 1992)

The analysis was divided into distinct areas, being descriptive statistics and frequency distributions.

3.7 Reliability and Validity

It is generally agreed that good data collection methods must be reliable and valid. Babbie (1995) describes reliability as a condition in which that same result will be achieved whenever the technique is repeated to do the same study. Reliability is usually

concerned with stability over time (Caramines & Richard 1997). It is important to test the reliability before the validity is examined. Specificity contributes to reliability (Summerhill and Taylor, 1996). The researcher ensured consistency by keeping the anonymity and confidentiality of the respondents.

According to Welman & Kruger (2001), validity is a mechanism that ensures that the process implemented to collect data has collected the intended data successfully. Validity refers to the extent to which an empirical measure adequately reflects the real meaning of the subject under investigation (Babbie *et.al.*, 2001). According to Struwig & Stead (2001), validity comprises external and internal validity for research design:

- Externally validity – which refers to the extent to which one can generalize the results of a study to other populations.
- Internal validity – which refers to the extent to which conclusions which are free from bias, can be formulated.

External validity concerns whether the results could be applied to other contexts or situations and to what extent this might be possible. In a quantitative study the representativeness of the sample is the issue in generalizing about a larger population (Smallbone & Quinton, 2007).

Cooper & Schindler (2003) subdivide internal validity into three types:

- Content validity: does the measuring instrument represent the definition of what is to be researched?
- Criterion validity: it measures how good is the measuring instrument when compared to other instruments if results are compared?
- Construct validity: to what degree do different measurement indicators correspond to results from these indicators?

The validity of a sample depends on two considerations namely accuracy and precision. Accuracy is the degree to which bias is absent from the sample (Cooper & Schindler, 2003).

According to Babbie (1992), validity and reliability are two very important aspects of any research work. Validity refers to the degree to which an empirical measure adequately reflects the real meaning of the concept under consideration. There are different kinds of validity: face validity, expert jury validity, criterion validity, construct validity and content validity. Of particular importance in the study was content validity and construct validity.

Construct validity refers to testing the linking between measuring instrument and the overall underlying theoretical framework. If the test has a construct validity it ensures that the measurements are actually and logically related to other concepts in the framework. Construct validity is usually measured using the correlation coefficient. When the correlation is high, the tool can be considered as valid (Twycross & Shields, 2004).

For the study to achieve construct validity, firstly it was important to develop a theoretical framework on how the study variables are related. Secondly, it is important to understand what each hypothesis is attempted to test, so statements were positively and negatively worded and the scores were arranged as follows in a Likert scale: 1= strongly disagree, 2= disagree, 3= neutral, 4= agree, and 5= strongly agree. The advantages of using the Likert scale are the ease with which we can develop the scale, and the fact that reliability can be measured at the same time as the data is collected (Clason & Dormody, 1994).

The other part of the study items in the instrument was in a semantic differential scale ranging: 1 = poor to 5= excellent. The semantic scale measures people as reactions to growth and activity (stimulus) words and concepts in terms of rating on bipolar scales defined with contrasting adjectives at each end. Semantic differentials are reliable measures of a person's overall response to something (David, 1970).

Content validity refers to the degree to which a measure covers the range of meanings included within the concept (Babbie, 1992). In order to achieve content validity for the

study, questions were carefully chosen. They were designed to address each hypothesis, which means that each hypothesis had a set of questions in order to ascertain relevant importance.

Reliability refers to the extent which the measure will produce trustworthy and consistent results (Hopkins, 2000). Data collection for the work involved the use of a well-structured questionnaire design with closed-end questions only to conduct and administer the questionnaire. Gendall (1998) indicates that a questionnaire design is a clear and carefully considered process of designing the instrument for data collection, but it has always remained elusive. The fundamental principle of a questionnaire design is that a respondent defines what you can do: the type of questions you can reasonably ask, the type of words reasonably used, the concepts that you can explore and the methodology you can employ as a researcher. With factors such as gender, age, socio-economic status, race, location and mobility impact on the respondents, ability to act or respond in a specific way to the physical aspects of respondents, lives and environments.

Triangulation is defined as a combination of data or methods so that diverse viewpoints or standpoints cast light upon a topic under consideration. Validity and reliability can be maximised through the employment of qualitative and quantitative approaches to strengthen the study results and measures. It could be argued that these two approaches need not be separated, but have equal status, and should interact in any research study (Olsen, 2004).

Niglas (2000) states that there are four types of triangulation: data triangulation, theory triangulation, investigator triangulation and methodological triangulation.

Of particular importance to the present study was the concept of theory triangulation as different theories supporting the study were reviewed. Theory triangulation refers to the use of different theoretical viewpoints for determining the complete hypothesis as well as for interpreting the single set of data (Niglas, 2000).

The study could also fit with the concept of methodological triangulation as the research instrument was designed, piloted and compared to others of previous studies for validity. Methodological triangulation refers to the use of multiple methods to study a single problem or phenomenon. It may also involve the use of the same methods on different occasions and situations (Niglas, 2000).

3.9 Ethical Considerations

Research involves collecting data about a given subject directly from the respondent. It involves close and open communication among people. It includes details about interviews, questionnaires and analysis. This section includes information on what research is, how to get started, ethics involved with primary research and different type of research you can do.

The researcher was granted permission by the research committee in the faculty of commerce in order to conduct the study. Nothing should cause physical or emotional harm to the subject. The researcher should be very careful on how sensitive or difficult questions are presented during the interviews and the information provided by the respondent will remain private and confidential. Many interviews however, were done under the condition of anonymity.

The development of work would remain visible and open for suggestions and descriptions of other's work and points of view must be negotiated with those before being published. Researchers were explicit about the nature of the research process from the beginning. There is equal access to information generated by the process for all participants.

3.10 Summary

In Chapter 3 we discussed the methodology used for the study, sample size, questionnaire distribution and design, and lastly the data analysis techniques

adequately supporting the data analysis of results in the following chapter. The whole population will be used as a sample because they were few small businesses in Richards Bay which were qualifying small enterprises and exempted. As Richards Bay has become a city and it is hoped future research would find more small businesses.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

Chapter four presents the data and analyses the responses of respondents to the research of Black Economic Empowerment progress in Richards Bay on the challenges and lessons in small businesses. In accomplishing this task, a quantitative research approach which made use of a questionnaire was designed to elicit data from respondents. The Chapter is made up of four Sections namely: Section A, biographical details; Section B, Black Economic Empowerment Challenges and the impact in Richards Bay, small business; Section C, Impact of Black Economic Empowerment (BEE) progress in the fertilizer value chain. Section D, Training and Development in the Black Economic Empowerment plan.

It therefore becomes imperative that the researcher analysed and interpreted the 120 questionnaires administered and retrieved from respondents. The response rate of questionnaire administered/retrieved from respondents was done using a quantitative approach whereby the researcher had to ask the respondents to fill the questionnaire. While responding to the questions raised in the questionnaire, the researcher had to also explain some of the issues that were not too clear to the understanding of respondents.

4.2 Analysis of data from the questionnaire

Section A: Biographical details

The characteristics of the respondents cut across variables like gender, age, primary language and types of business engaged in. The gender distribution of respondents is in Table 4.1. and illustrated in Figure 4.1.

Table 4.1 Gender distribution of respondents

Gender	Frequency	Percentage
Male	50	41.7
Female	70	58.3
Total	120	100.0

Fig 4.1

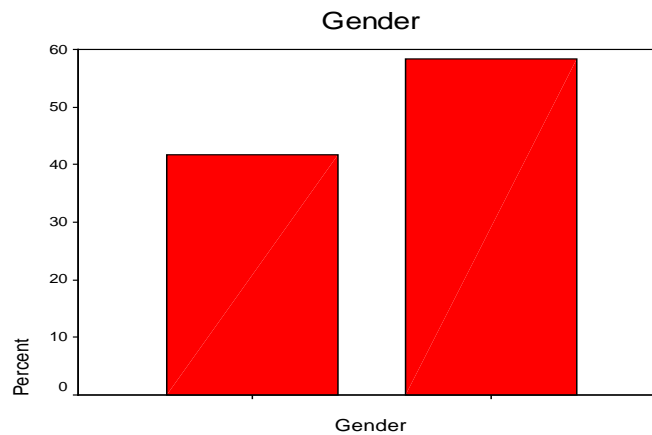
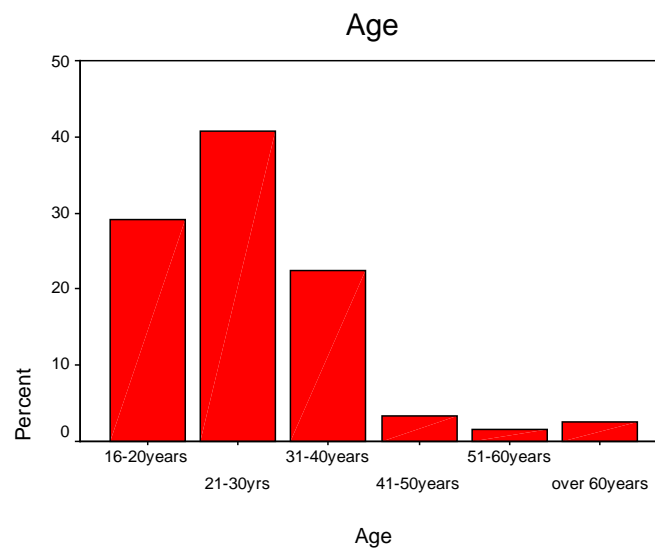


Table 4.1 above shows analysis and bar chart representation of the data retrieved from respondents towards Black Economic Empowerment. It was revealed therefore that there were more female 70 (58.3%) to male of 50 (41.7%). This means that female respondents make the majority in the study.

Table 4.2 Age range of respondents

Age Range	Frequency	Percentage
16-20 years	35	29.2
21-30 years	49	40.8
31-40 years	27	22.5
41-50 years	4	3.3
51-60 years	2	1.7
over 60 years	3	2.5
Total	120	100.0

Fig 4.2



The results from Figure 4.2 of age range also show that 16-20 yrs was 35 (29.2%), 21-30 yrs 49 (40.8%), 31-40 yrs 27 (22.5%), 41-50 yrs 4 (3.3%), 51-60 yrs 2 (1.7%), over 60 yrs, 3 (2.5%). From the response rate obtained, one could see that the age range of 16-20 yrs and 21-30 yrs was 35 (29.2%) and 49 (40.8%) were the majority in the study.

Table 4.3 Primary language of respondents

Language	Frequency	Percentage
English	12	10.0
Zulu	93	77.5
Afrikaans	1	.8
Other	14	11.7
Total	120	100.0

Fig 4.3

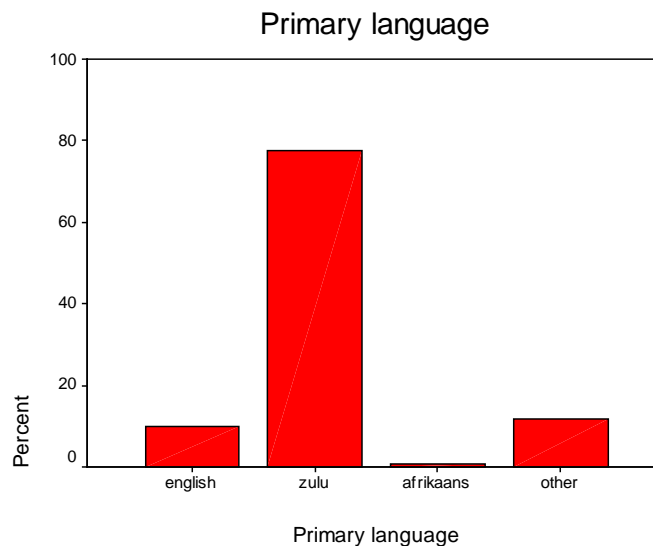
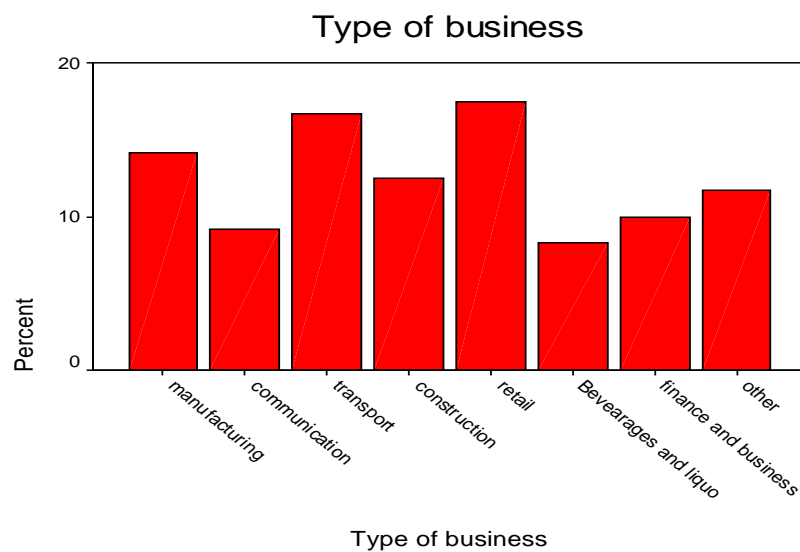


Table 4.3 regarding the primary language of respondents shows the following result: English speaking 12 (10%), Zulu 93 (77.5%), Afrikaans 1(0.8%), and Others 14 (11.7%). It therefore means that respondents were dominated with Zulu speaking language, as the Zulu language was the highest among the listed ones 93 (77.5%). This could be as a result of the fact that this province is in Zululand.

Table 4. 4. Type of business of respondents

Type of business sector	Frequency	Percentage
Manufacturing	17	14.2
Communication	11	9.2
Transport	20	16.7
Construction	15	12.5
Retail	21	17.5
Beverages and liquor stores	10	8.3
Finance and business services	12	10.0
Other	14	11.7
Total	120	100.0

Fig 4.4



The presentation of types of businesses shows that respondents were involved in different businesses. For example in manufacturing 17 (14.2%), communication 11(9.2%), transport 20 (16.7%), construction 15(12.5%), retail 21 (17.5%), beverages and liquor stores 10(8.3%), finance and business services 12 (10%) and others 14 (11.7%) which were not mentioned in the questionnaire but were part of some respondents' engagement. From the findings, it shows that the respondents were involved more into transport business 20 (16.7%), and retail 21 (17.5%) as they make the majority.

Section B: Challenges faced when starting a business

This part comprised of questions raised in the questionnaire regarding the challenges faced when starting a business. The questions raised were as follows:

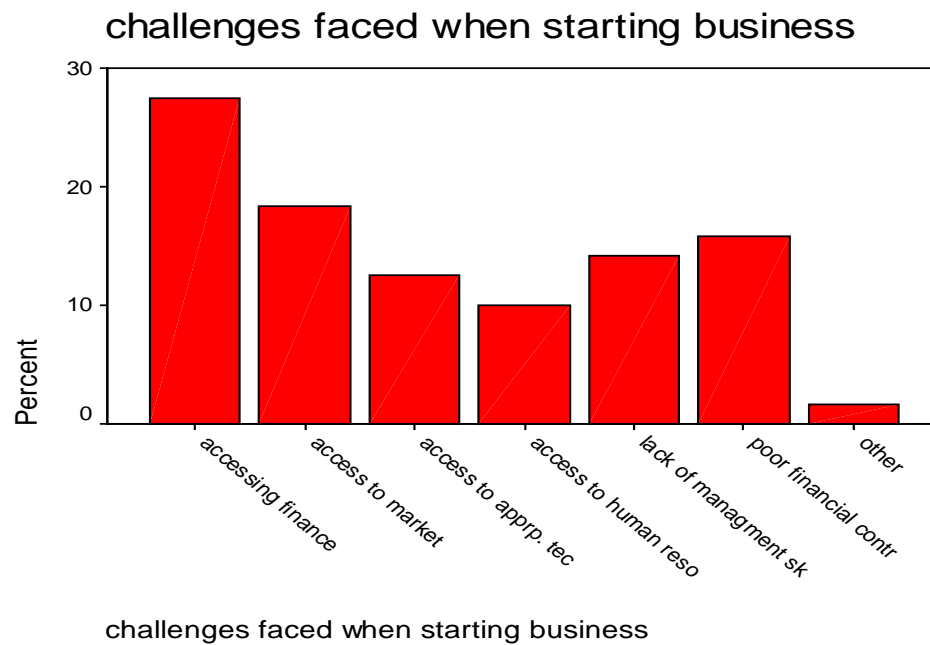
Question one: What are the problems and challenges faced when starting a business? The challenges faced when starting a business are presented in Table 4.5 below.

Table 4.5: Challenges faced when starting a business

Challenges faced when starting business	Frequency	Percentage
Accessing finance	33	27.5
Access to market	22	18.3
Access to appropriate Technology	15	12.5
Access to human resources	12	10.0
Lack of management skills	17	14.2
Poor financial control	19	15.8
Other	2	1.7
Total	120	100.0

From Table 4.5 of the challenges faced when starting a business, it is shown that firms faced several challenges such as accessing Finance 33 (27.5%), access to market 22 (18.3%), access to appropriate technology 15 (12.5%), access to human resources 12 (10%), lack of management skills 17 (14.2%), poor financial control 19 (15.8%), while other 2 (1.7%). From the above, it can therefore be seen that the challenges respondents faced most were accessing finance 33 (27.5%), access to market 22 (18.3%), and poor financial control 19 (15.8%). It becomes important to plan very well as to where to source for funds, the type of business to embark on and a market feasibility study in order to achieve set goals. Starting a business requires a concrete planning and decision making even though the funds are available.

Fig 4.5



Question two: How do you measure the success of the business?

Table 4.6 Measuring the success of the Business

Measuring the success of Business	Frequency	Percentage
Profits	37	30.8
Growth	47	39.2
Cash balances	30	25.0
Other	6	5.0
Total	120	100.0

Table 4.6 of measures success of the business as shown by respondents reveals that success of business could be measured in the following ways: profits 37 (30.8%), growth 47 (39.2%), cash balances 30 (25%) while other 6 (5%). This therefore means that businesses could best be measured in terms of growth 47 (39.2%) considering the profits made and experience gained. It therefore becomes important that business owners should have basic education level and they should be trained in order to make a success of the business.

Question three: Does Black Economic Empowerment have a positive impact on my business?

Table 4.7 BEE has a positive impact on my business

Response	Frequency	Percentage
Strongly agree	21	17.5
Agree	46	38.3
Neutral	31	25.8
Strongly disagree	10	8.3
Disagree	12	10.0
Total	120	100.0

From Table 4.7 which indicates whether BEE had a positive impact on their business shows the following results: Strongly agree 21 (17.5%), Agree 46 (38.3%), Neutral 31 (25.8%), strongly disagree 10 (8.3%), while disagree 12 (10%). Results reveal that

those who agreed 46 (38.3%) make the majority saying BEE has had a positive influence on their businesses.

Question four: Does Black Economic Empowerment have a positive impact on the Richards Bay small businesses?

Table 4.8 BEE has a positive impact on Richards Bay small businesses

BEE has an impact on South African small businesses	Frequency	Percentage
Strongly agree	18	15.0
Agree	52	43.3
Neutral	34	28.3
Strongly disagree	7	5.8
Disagree	9	7.5
Total	120	100.0

Results in Table 4.8 show that BEE had an impact on Richards Bay small businesses as follows: Strongly agree 18 (15.0%), Agree 52 (43.3%), Neutral 34 (28.3%), Strongly disagree 7 (5.8%), and Disagree 9 (7.5%). From respondents' views, it reveals that those who agreed 52 (43.3%) made the majority.

Findings indicate that BEE has a positive impact on their businesses. The following result reveals that those who agree (58%) make the majority saying Black Economic Empowerment had influenced their businesses. As it is the government's aim to see the positive impact on small businesses done by Black Economic Empowerment it is of encouragement to find out that they agree.

Question five: Has BEE met the government objectives?

Table 4.9 BEE has met government objectives

BEE has met government objectives	Frequency	Percentage
Strongly agree	10	8.3
Agree	35	29.1
Neutral	50	41.7
Strongly disagree	14	11.7
Disagree	11	9.2
Total	120	100.0

Table 4.9 which dealt with BEE meeting government objectives, result revealed the following: strongly agree 10 (8.3%), agree 35 (29.1%), neutral 50 (41.7%), strongly disagree 14 (11.7%), while disagree 11 (9.2%). From the analysis above, one could see that respondents were not certain as to whether BEE had met government objectives because majority stood at the neutral position of 50 (41.7%).

Question six: Has the introduction of Broad-Based Black Economic Empowerment rectified the fault of Black Economic Empowerment?

Table 4.10 B-BBEE has rectified the fault BEE

Responses	Frequency	Percentage
Strongly agree	12	10.0
Agree	42	35.0
Neutral	46	38.3
Strongly disagree	8	6.7
Disagree	12	10.0
Total	120	100.0

The introduction of B-BBEE had rectified what BEE was meant for. As shown in Table 4.10: neutral 46 (38.3%), agree 42 (35%), strongly agree 12 (10%), strongly disagree 8 (6.7%) and disagree 12 (10%). This signifies that the introduction of B-BBEE had rectified the fault of BEE but not to large extent as much orientation and awareness needed to be created and modalities put in place in seeing that issues were channeled to the right source and are well handled by government authority.

Question seven: Do you engage in training and development of subordinates?

Table 4.11 Training and development in the Black Economic Empowerment

Training and Development of subordinates	Frequency	Percentage
Yes	94	78.3
No	26	21.7
Total	120	100.0

From Table 4.11 regarding training and development of subordinates in Black Economic Empowerment, shows that those who attest to “yes” 94 (78.3%) while those who said “No” 26 (21.7%). This signifies that the majority 94 (78.3%) had trained and developed their subordinates in their different job specialisation and trading.

Question Eight: Do you delegate authority to your subordinates?

Table 4.12 Delegate authority to subordinates

Delegation of authority	Frequency	Percentage
Yes	84	70
No	36	30
Total	120	100

Results presented in Table 4.12 of delegating authority to subordinates, shows that respondents attested to the fact that they were being trained and given responsibility to

handle matters so as to increase their level of efficiency and experience. Yes 84 (70%), while No” 36 (30%).

Question Nine: Is availability of finance a constraint on your business?

Table 4.13 Availability of finance is a constraint in your business

Availability of finance is a constraint in your business	Frequency	Percentage
Yes	75	62.5
No	45	37.5
Total	120	100.0

Respondents' view are represented in Table 4.11 gave an overview of why they said availability of fund is a constraint in their business plan. Those who said “yes” 75 (62.5%) while “No” 45 (37.5%). This means that those who said yes made the majority. This could be as a result of not being focused, as some do had money but are not sure of how to spend it. Others had diverted plans whenever money came in. While to some they did not seek counsel from others on what to do or how to plan. These and many others could act as constraints even if finance was available to start a business.

Question Ten: Is your business facing any challenges in complying with Black Economic Empowerment Certification?

4.14. Challenges in complying with BEE Certification

Is your business facing challenges in complying with BEE Certification?	Frequency	Percentage
Yes	35	27.5
No	85	72.5
Total	120	100.0

Results reveal that 72.5% of the respondents are not facing challenges in their small businesses in complying with BEE Certification. This is a positive response which means the government does not have a lot of improvement to do in engaging small business to comply.

Question eleven: What do you think of Black Economic Empowerment?

With reference to the question raised in the questionnaire of what respondents thought of Black Economic Empowerment (BEE), different views emerged such as:

- *BEE is there to improve black people's access to economy.*
- *It is a good government initiative which improves for the previously disadvantage group and which really helps in terms of economic growth and not focus on one group only.*
- *BEE only provide an efficient service to those people who are already developed or people who are well known in business area.*
- *It measures the ownership status of the disadvantaged groups. It is a mechanism for transformation in the business world of South Africa.*

- *I like South Africans to address the inequalities of Apartheid by giving previously disadvantaged groups.*
- *Encourages the well economised companies to spend their fortune in supporting Black small enterprises.*
- *It improves skills for small medium enterprises by providing proper training for them.*
- *I think it will help the Black individuals in order to start their business.*
- *An act which was implemented to correct the inequalities of the past in terms of business ownership.*
- *BEE was made to readdress the imbalances of the past.*
- *BEE was the policy introduced by government in order to ensure that those people who were disadvantaged by Apartheid are empowered.*
- *It should support people to achieve business goals.*
- *Uplifts Blacks from lower positions in the business world to higher positions.*
- *Blacks owned enterprises are being funded on the bases of this act.*
- *Empowerment of the Blacks more especially the women to manage and own their businesses.*
- *It was introduced to uplift the standard of Blacks in business and close the gap between the races.*
- *Improving the status of management of Black owned companies.*
- *Empowerment of previously disadvantaged enterprises more especially for Black people.*

In a nutshell, the essence of the BEE as stipulated by respondents was to empower the less privileged of the Blacks to own their personal business and being supported financially so as to eradicate poverty and be self-dependent. Though, it was evident from findings that only few had benefitted from BEE and that there was a need for people to be more involved.

Question twelve: Do you think the government programs have played the role in improving the standard of small businesses, particularly BEE in Richards Bay?

From the above question respondents gave different assertions as to whether the government program had played a significant role in the accomplishment of this task most especially in Richards Bay. The responses are as follows:

- *Yes, by improving young adults and women with training in enterprises skills*
- *Yes, by developing and making change healthy progress for small businesses.*
- *Yes, Thuthuka programs have helped to improve business standards.*
- *Yes, Seta has improved the standard of small businesses.*
- *Yes, by improving small business loans and professional support services to create a solid platform for future development and growth.*
- *Yes, by ensuring that the needs of the community are shape by the types of enterprises that are established with the sustainability of demand.*
- *Yes, the government programs have helped many small medium enterprises.*
- *Yes, the programs have been helpful in the following way: employment, skill development, ownership of business, management and socio-economic development.*
- *Yes, it has helped some individuals that were suffering from unemployment to start their own businesses.*
- *No, you find out that people who benefit from rural BEE projects being implemented are those who did not come from that community.*
- *No, only few small businesses are benefiting from the government programmers in Richards Bay.*
- *No, only those individuals that are close to the guys in the front corridors have benefited in this government programmers.*
- *No, the government programmers are striving to improve the standard of small businesses.*
- *No, because the government programs are available to those that can be reached and have businesses.*

- *No, there is no accountability in their activities.*
- *No there is still lack of technological communications*

Comparing those who said “yes” and “no”, one can see that the programmes have partly helped in the livelihood of the citizens in Richards Bay.

Question thirteen: What were the lessons learned by your business since the introduction of Black Economic Empowerment (BEE)?

- The business need to have the CIDB number in order to be able to apply for government tender.
- Women are in an advantage to get more work.
- Businesses need to comply with black economic empowerment in order to be able to have access to government funding.
- Businesses must be owned by back people.
- When small businesses comply with BEE they have the same chance as companies to be selected by government officials to do work for them.
- Government wants to work with certified small businesses.
- Government promotes access to finance for blacks.
- Businesses can be developed if they are owned by blacks

4.3 Summary

This chapter discussed the results of 120 of questionnaires administered to respondents in Richards Bay on issues of Black Economic Empowerment. Results revealed that 57% of females dominate in this research and that the age range of respondents was between 21-30 years. Their primary language was Zulu, and that they were involved more in businesses such as retail, transportation and manufacturing of goods. Results

showed that most of the respondents can measure the successes of their businesses by growth; this reveals that small businesses in Richards Bay are reaching their target market and it would be easy for them to expand. It was evident that they face more challenges when starting a business regarding accessing finance, access to market and poor financial control.

As the researcher was interested to find out whether Black Economic Empowerment has positive impact on small businesses 38.3% agreed and 17.5% strongly agreed the introduction of Broad Base Black Economic Empowerment had a positive impact on small businesses.

This means that the government objectives have been met as they said it has assisted them financially, as it is government's goal to access finance for small businesses as blacks were previously disadvantaged, and also to increase the extent to which black women own and manage existing and new enterprises.

Impact of Black Economic Empowerment on small business also shows that it has been possible for the Government to redress the imbalances. However, there was no minimum and maximum for compliance. As BEE was aimed at women having more power in owning businesses in the study reveals most of the businesses are owned by women which is positive for the rectification of BEE.

B-BBEE had also rectified the fault of BEE but not as much orientation and awareness needed to be created and modalities put in place in seeing that issues were channeled to the right source and well handled by government authority.

The result showed that (70%) of subordinates were being trained, developed and delegated for future execution of job performance so as to be efficient and effective in the practices of their business. Government objective was met as it is to promote human resource development of black people. With issues regarding what they thought of BEE, respondents said it was meant to empower the less privileged of the Blacks to own their personal business and being supported financially so as to eradicate poverty and be self-dependent.

Considering other views as seen by respondents on the role of the government regarding improving the standard of small business particularly, one can see that the programme has not fully shed much light in the livelihood of the citizens, as very few who are close to the corridors of power and were the only ones who have benefitted. There is much need for creation of awareness of the people and especially with regards to those in remote rural areas. The finding above was supported by the view of Mahabane (2007) who states that the government has been facing the challenge of building Black capitalism within the paradigm of a liberal market approach which in turn negates the populace expectations. He went on to say that, the view is seen from the perspectives of only the smartest and those with the most political power and intellectual capital that are likely to thrive on Black Economic Empowerment in the manner that empowerment is currently structured.

The overall results reveal some positive aspects on all the question that were provided by the research and this reveals that some government objectives have been met.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter is a summary of the findings on the results of progress of Black Economic Empowerment for small businesses in Richards Bay with emphasis on looking at the challenges facing business men and women as well as the lessons they had learned. The aim of the research was to assess the Black Economic Empowerment (BEE) challenges on small businesses, that is, whether Black Economic Empowerment had been adopted by small businesses in Richards bay. We had further determined whether BEE capabilities had useful functions for small businesses.

Some recommendations and ways to improve on small businesses at Richards Bay on Black Economic Empowerment are also suggested. The accomplishment of this task, chapter one of the research looked at problem statement, motivation, objectives, research hypotheses, value of the research and research methodology. Other issues pertaining sampling, data analysis, chapter summary, limitation and summary of the chapter were considered.

Chapter two presented a literature of current findings that were tested and analysed for consistency and significance in the study. Chapter 3 looked at the methodology approach. Chapter 4 presented the data analysis using SPSS statistical tools. Chapter 5 gave a summary of the research and its findings, conclusions and recommendations on the improvement of Black Economic Empowerment.

5.2 Summary of the research findings

South African is widely acknowledged to have robust political democracy and Black Economic Empowerment as it was meant to be one of the tools to achieve equity. The evidence showed that there were still major challenges with Black Economic Empowerment even if it had been transformed but had not brought much change to the small businesses in Richards Bay.

Biekpe (2008) posits that small businesses are very important to the development of any economy and this creates more employment than big businesses. Richards Bay as an industrial area has enough reasons to address distribution of goods and services. But there is underdevelopment of business growth as a result of inefficiencies and constraints in distributive allocation of goods (Enterprise 2003).

The research findings revealed from the study were:

- That there were more female dominated in this research and that the age range of respondents is between 21-30 years. This is reflecting in the positive way for Black Economic Empowerment as it is the government's objective to have more females in small enterprises.
- Primary language of respondents was Zulu as it is known that the study was done in the Kwa-Zulu Natal in Richards Bay area.
- Those respondents were involved more in businesses such as retail, transportation and manufacturing of goods.
- It was evident that the challenges they faced more when starting a business were accessing finance, access to market and poor financial control. It is not easy to get a loan if you do not have a stable income, as such, most of businesses failed because there were no funds to sustain the business.
- When asked about their business success, respondents' views were that, there was growth and profit making in their businesses and that BEE has had a positive impact on their business.

- Respondents said Black Economic Empowerment has met government objectives, which empowers more black people to own and manage enterprises, to promote human resources and development of blacks.
- B-BBEE had also rectified the fault of BEE but not to a large extent as much orientation and awareness needed to be created and modalities put in place in seeing that issues were channeled to the right source and well handled by government authority. Partly it has rectified the fault by having most of the businesses to comply with BEE Elements or Scorecards.
- Respondents are not facing challenges in their small businesses in complying with BEE Certification. This is a positive response which means the government does not have a lot of improvement to do in engaging small business to comply.
- Results show that subordinates are being trained, developed and delegated for future execution of job performance so as to be efficient and effective in the practices of their business.
- Non availability of funds had always been a pivoted emphasis in decision making and planning as this did affect so many firms.
- Funds if not well managed could become a problem as they were indecisive of how to plan and manage their business when they had made some money.
- With issues regarding what they thought of BEE, respondents said it was meant to empower the less privileged of the Blacks to own their personal business and to be supported financially so as to eradicate poverty and be self-dependent.
- Considering other views as seen by respondents on the role of the government regarding improving the standard of small business particularly, one could see that the programmes had not fully shed much light in the livelihood of the citizens.

5.3 Conclusion

Black Economic Empowerment (BEE) is a government initiative aimed at increasing equity and uplifting Black business owners, stakeholders and employees. BEE is referred to by the ANC as a positive discrimination. BEE is the process by which previously disadvantaged South Africans have been empowered through the transfer of ownership. Compliance with BEE principles are regulated by Codes, which provide details on how BEE should be implemented.

When Black Economic Empowerment (BEE) was first implemented in the nineties, there was no coherent strategy towards its implementation. When the South African government gazette updated Codes of Good Practice at the beginning of 2007, it made the implementation of Black Economic Empowerment a legal reality. Even though most think of Black Employment Equity as BEE, as the process was refined, its name changed to Broad-Based Black Economic Empowerment Equity (B-BBEE) in order to encompass not just Blacks, but Coloured, Indians and the Chinese populations of South Africa.

5.4 Recommendations

The following recommendations are made from the research:

- It is imperative that the government gets more involved in BEE dealings in order to assist the small businesses that might not have the expertise to succeed. The Government institutions, like IDC, should be more involved in the financing of BEE deals.
- Government must investigate the possibility of defining a qualifying small enterprise by the number of employees or by net income. Turnover can be misleading because a business with five employees can have a 5 million turnover and therefore have no capacity to implement Black Economic Empowerment.
- Government must establish advisory services that will help small businesses to comply with Black Economic Empowerment. Consultants that are paid by the

Department of Trade and Industry can be appointed in every industry to help businesses to comply.

- When judging the progress of Black Economic Empowerment up to date and giving suggestions on the appropriate way forward, the complex reality where the first empowerment initiatives were led off must be considered. Several good BEE initiatives came to nothing due to the fact that the economic environment was not structurally geared to accommodate them.
- An extensive drive must be implemented to educate small businesses about the other BEE elements and Black Economic Empowerment scorecard. The reasons why small businesses are against BEE they think it is about giving away money to Black people.
- The skills development element should weigh more than ownership and management control in the scorecard. In the final analysis Black people need skills far more than some promotions and share ownership that might be fronting.
- The obsession of ownership must be gradually discontinued as it is helping neither the aspirant Black business owners nor the White-owned businesses.
- The government must ask itself if Black Economic Empowerment is still needed to foster a culture of entrepreneurship
- Through the Department of Trade and Industry, White people do not want to start businesses because they think they will have to give their shares to Black people. Black people are also hesitant to start businesses because of the culture waiting for BEE deals.
- Government did well by introducing the codes only for qualifying small enterprises but some acceleration is needed in ensuring that small business are also included from the exempted businesses to the industry.
- There is much need for creation of awareness of the people most especially with regards to those in remote rural areas of the Black Economic Empowerment.
- Small businesses should familiarise themselves further with Black Economic Empowerment and B-BBEE requirements, particularly the codes that deal with qualifying small enterprises.

- Small businesses should develop their own strategy around Black Economic Empowerment taking into account they only have to comply with four of the seven elements.
- As much as it is possible small businesses should make use of the services provided for business associations with regard to Black Economic Empowerment.
- Small businesses owners and managers should not exclusively focus their energies on the ownership element of the scorecards; small businesses do not have to give away their shares in order to comply with Black Economic Empowerment.
- Elements of the scorecards like skills development, enterprises development, preferential procurements and social-economic development are often ignored by small businesses, yet they have the same benefits as ownership and employment equity. Small businesses must develop themselves in these elements.
- Transfer of skills is more important than ownership, if small businesses owners give shares without the necessary skill to Black people; all sides will eventually lose.
- Small businesses may find it much easier to improve their BEE rating from the other elements under the scorecard and this may result in far less empowerment transactions.
- Government should draw up an agreement as to which deals will be suitable for which sector.

5.5 Limitations of the study

The study collected only quantitative data, which was analysed and presented in tables and figures, no qualitative data was collected. The study focused on small businesses in Richards Bay; that means large companies were not included in the study. The study focused on Black Economic Empowerment (BEE) before its transformation to Broad Based Black Economic Empowerment (B-BBEE). Richards Bay was used as the case study with the hope that the findings obtained would be common to all small

businesses in South Africa. Responses were limited only to those who could be reached. The responses were from Richards Bay. Geographically, the study was conducted in Kwa-Zulu Natal province thus it is not a full representation of the whole of South Africa.

5.6 Summary

The main aim of the study was to establish the challenges of SMEs on Black Economic Empowerment. The results were presented and future recommendations being made.

5.7 Suggestions for further Research

The researcher suggests that more research be carried out to look at the following:

1. Training and Development of black citizens on Black Economic Empowerment businesses in the KwaZulu-Natal Province.
2. Problems and Prospects of government initiatives for proposing Black Economic Empowerment business enterprises in selected rural areas in KZN.

REFERENCES

Ackermann, P.L.S & Meyer, P.G (2009).The identification of credit risk mitigation factors in lending to Black Economic Empowerment (BEE) companies in South Africa. *Southern African Business Review*.

Adam, K. (2000), *Affirmative Action and Popular Perceptions: the Case of South Africa*, Society, Jan/Feb2000, Vol.37, Issue2, 48-55, New Brunswick, USA.

Adams, C. (2003). *Affirmative Action in a Democratic South Africa*, Juta& Co. Ltd, Kenwyn.

Arnold, J., Liedholm, C., Mead, D. & Townson, I.M. (1994). *Structure and growth of small enterprises in the forest sector in Cape Town*. Occasional paper no 47, Oxford Forestry Institute, University of Oxford.

Babbie, E. (1992). *The Practice of Social Research*. California. Wadsworth.

Babbie, E, Mouton, J. and Jennings B., (2001). *The practice of Social Research*. Cape Town: Oxford University Press..

Balshaw, A. S & Goldberg, J., (2005). *Cracking Broad-Based Black Economic Empowerment*. Codes and Scorecards Unpacked. Paarl.

Banda, L. & Mahabane I., (2003). *Black Economic Empowerment: Addressing Socio-Economic Empowerment in South Africa*. Toshkryll Publishers, South Africa.

Bardien, G., Mohamed, L.G. & Roberts, S. (2008). *An investigation into BEE in the metals sector of the economy*. Johannesburg: University of Witwatersrand.

Batchelor, P. & Dunne, P. (1999). *TIPS Annual Forum, Industrial Participation, Investment and Growth: The Case of South Africa's Defence Related Industry*.

Blaxter, L. Hughes, C. & Tight, M. 2001. *How to Research* 2nd edition. Buckingham UK: Open University Press.

Black Economic Empowerment Commission (2011). *BEE Commission Report*
<http://www.beeecom.org.za/Documents/BEE.pdf>

Black Economic Empowerment Commission (2001). *BEEC Black Economic Empowerment project, Draft Report* March 2001, 19-21.

Black Economic Empowerment Commission. (2001). *A national integrated Black Economic Empowerment strategy*. Johannesburg.

Black Economic Empowerment Commission. (2001). *Black Economic Empowerment Commission Report*. Johannesburg.

Blanche, T & Durrheim, K. (1999). *Research in Practice. Applied Methods for the Ethical Issues in Social Science Research*.

Bell, J. (1993). *Doing your Research Project: A Guide for First Time Researchers in Education and Social Science*. USA. St Edmundsbury Press Ltd.

Biekpe, N. (2008). *The Economics of Xenophobia*. Afrigrowth Agenda.

Bless, C. and Kathuria, R. (1993). *Fundamentals of Social Statistics: An African Perspective*. South Africa: JUTA and Co. Ltd.

Broad-Based Black Economic Empowerment Act (53/2003). *Codes of Good Practice on Black Economic Empowerment* was gazetted on 9 February 2007.

Brown, A. (2004). Black Ownership: Risk or Opportunity, *Measuring empowerment ownership*, EMPOWERMENT .35-37.

Bryman, A. & Bell, E (2007). *Business Research Methods*. 2nd edition. New York: Oxford University Press.

Buthelezi, M. (2003). *Sharing the same vision, was speaking in one voice*.

Bumiputra Policy (2003) Information from answers.com

[Http://www.answers.com/topic/bumiputra](http://www.answers.com/topic/bumiputra) (accessed 1 October 2012).

Bumiputra Policy (2005) Available online <http://www.bumiputra.biography.ms> (accessed date 30 August 2012).

Business Report. (2007) Porter's New Look at Competition. Business Report 25 February.

Campbell, A.W. (2003). *Affirmative action from a labour law related perspective*. Published manuscript – Sixth Annual gathering of Town Secretaries of Transvaal, Town Council, Randburg.

Caramines, E.G. and Richard, A.Z. (1997). *Reliability and Validity Assessment*. Beverley Hills: University Press

Carland, J. W. Hoy, F. Boulton, W.R. & Carland, J.C. (2007). Small Business owners. *Academy of Management Review*. Vol.4 (4)

Chalmers, R. (2001) Markets value information. *Business Day: May 12*.

Charlton, G. D. & Van Niekerk, N. (1994). *Affirmative Action – Beyond 1994*. Juta & Co, Ltd, Kenwyn.

Clason, D.L. and Dormody T.J. (1994). Analysing Data Measured by Individual Likerttype Items. *Journal of Agricultural Education*, (online). 35(4):31-35. Available WWW: <http://search.ebcohost.com> (Accessed date 11 February 2012).

Cohen, L. & Manion, L. (1980). *Research Methods in Education*, London: Groom Helm.

Collis, J. & Hussey, R. (2003). *Business Research*. 2nd edition. New York: Palgrave Macmillan.

Conge, J.A. & Kanungo, R. N. (2009). *The Empowerment process: Integrating Theory and Practice*. The Academy of Management Review, 13 July.

Conger, J.A. & Kanungo, R.N. (2009). The Empowerment Process: Integrating Theory and Practice. *The Academy of Management Review*. July 13.3

Cooper, D.R. & Emroy, C.W. (1995). *Business Research Methods*. New York: McGraw-Hill.

Cooper, D.R. & Schindler, P. (2003). *Business research Methods*. 8th edition. Boston: McGraw-Hill.

Coulsen, M. (2004). *Tale of two empowerments: A decade of democracy*, Financial Mail, May 7: 19-20.

Creswell, J.W. (1994). *Research Design: Qualitative and Quantitative Approaches*. USA: SAGE Publications, Inc.

David, R.H. (1970). *Attitude Measurement. Edited by Gene F. Summers. Chicago: Rand McNally*: available WWW: <http://indiana.edu/socpsy/papers/AttMeasure/attitude.htm> (Accessed date 31 March 2012).

Department of Trade and Industry (DTI), South Africa (2003). *South Africa's economic transformation: A strategy for broad based Black Economic Empowerment.* <http://www.dti.gov.za> (Accessed 31 May 2012).

Department of Trade and industry (DTI), South Africa (2005) *South Africa's Economic Transformation: A Strategy for broad-based Black Economic Empowerment.* <http://www.dti.gov.za/bee>. (Accessed 14/02/12)

Department of Trade and Industry (DTI), South Africa (2006) *Code of Good Practice for Broad-Based Black Economic Empowerment.* <http://www.dti.gov.za> summary Emex. (Accessed 25/05/2012)

Department of Trade and Industry (DTI), South Africa (2007) *Code of Good Practice for Black Economic Empowerment.* <http://www.dti.gov.za>. (Accessed 28/10/2012)

Department of Trade and Industry (DTI), South Africa (2010). *Provides information for business owners* www.thedti.gov.za. (Accessed 12 May 2011).

De Wet F.R. (2005). *Strategic Management. Concepts and Cases.* 9th Edition. New York: Pearson Education.

Dludlu, J. (2001). *Delay in Report Threatens Black Empowerment.* Business Day. March 26:11.

Doherty, M (1994). *Probability versus Non-probability Sampling in Sample Surveys*, The New Zealand Statistics Review.

Du Toit, M. (2007), *Daily Independent*, 13 May, Johannesburg.

Duffett, R.G. Van der Heever & Bell, D. (2009). *Black Economic Empowerment progress in the advertising industry in Cape Town: Challenges and benefits*. Cape Town.

Edigheji, O. E, (2006). *The Evolution of Black Economic Empowerment in South Africa: From the Lenses of Business, the Tripartite Alliance, Community Groups, and the apartheid and post-apartheid governments*. NALEDI,6-8.

Enterprise, A, (2003). *Bright Young Things in Art South Africa*, Vol 1, No 120, Johannesburg.

Executive Summary *Black Economic Empowerment Commission* (2001) Report Available online www.bmfonline.co.za Accessed 12 June 2012.

Fourie, S.E. (2005). *Turning the tides of economic empowerment*, The impact of the 2005 Presidential State of the Nation Address on Economic Empowerment. EmpowerDex.

Freedman,D.A (2000). Sampling Department of Statistics Currently of California Berkeley (online) available:[www: http://stat.berkeley.edu/condu/sample](http://stat.berkeley.edu/condu/sample) Accessed 5 June 2012.

Friedrich, C. (2003). *Small is beautiful*. This Day May 22:11

- Gendall, P. (1998). A Framework for Questionnaire Design: Labaw Revisited. *Marketing Bulletin* (online), 9(3):28-39. Available WWW:<http://marketing-bulletin.massey.ac.za> (Accessed date 14 May 2012).
- Gilbert, J. (1993). *Analysing Tabular data: Loglinear and Logistics Models for Social Research*. London: UCL Press.
- Gqubule, D. (2009) *Time to Take Stock*. Financial Mail, March, 20.
- Hays, S.W. & Reeves, T. Z. (2004). *Personnel Management in the Public Sector*_Allyn & Bacon, Boston, MA: 358.
- Hudson, J. (2003). *Finance isn't the only factor*. Enterprise, 120.
- Human, L. (2003). *Affirmative Action and the Development of People*_Juta & Co. Ltd., Kenwyn.
- Hirsch, A. (2005). *A Season of Hope: Economic Reform under Mandela and Mbeki*. Cape Town.
- History of Malaysia. (2005). *The crisis of 1969*. Available online WWW. http://en.wikipedia.org/wiki/History_of_Malaysia (Accessed date 30 September 2012).
- Hopkins W.G., (2000). *Quantitative Research Design*. *Sportscience* (online), 4(1): 12-21. Available [WWW.http://www.sportsci.org/2000/wghdesign.htm](http://www.sportsci.org/2000/wghdesign.htm) (Accessed date 30 July 2012).
- Innes, D (2007). History and Structure of the South African Economy. In: Mangcu, X, Marcus, G., Shubane, K. and Hadland, A. (ed) (2007). *Visions of Black Economic Empowerment*. Pretoria: Jacana Media (Pty) Ltd.

Jack, V. (2007). *Broad-Based BEE: The complete guide*. Johannesburg: Frontrunner Publishing.

Jacnkowicz, A.D. (2005). *Business Research Projects* 4th edn. London. Thomson Learning.

Janisch, P. (2006). Keep in Step. *Broad-Based BEE for small Business*. Paarl: Paarl Print.

Katzenellenbogen, J. (2009). *There is no Quick Fix for Unemployment Problems*. Business Repot December 10.

Kgomoeswana, V. (2007). BEE Specialist with <http://www.moneybiz.co.za> Email interview, 19 July.

Khumalo, B. (2003). *Figures Show Skilled Black Going Down*, the braindrain Sunday Times.

Klein, D. (2000). *Empowerment Companies no Longer there for the Picking* Business Day July 22

Klinger, D.E. (2000). *Public Personnel Management*. Prentice-Hall, Englewood Cliffs,NJ, page 355.

Leedy, P.D. (1997). *Practical Research Planning and Design*. New York: MacMillan.

Leedy, P.D. & Ormond, J.E. (2005). *Practical Research Planning and Design*. Upper Saddle River: Prentice Hall.

Lucas-Bull, J. (2007). Black Economic Empowerment and Funding Mechanisms In: Mangcu,X., Marcus, G., Shubane. And Hadland, A. (2007). *Visions of Black Economic Empowerment* Pretoria: Jacan Media Pty (LTD).

Luhabe, W. (2007). The moral bases of a stakeholder society. In: Mangcu, X., Marcus, G., Shubane, K and Hadland, A. (2007) *Visions of Black Economic Empowerment*. Pretoria.

Mahabane .I. (2007). *Black Economic Empowerment and its implementation by SMEs*. Available on line [WWW.http://www.ntsika.org.za](http://www.ntsika.org.za) (Accessed date 28 February 2012).

Malaysian New Economic & National Unity (2005). [Online] Available www.en.wikipedia.org Access date 12 December 2012

Massey, K. (2003). *Interest Rate impact on debt*. WWW: <http://.finweek.com>.Access date 13 July 2012.

Meintjies, F. (2004). *Black Economic Empowerment: Elite Enrichment or Real Transformation*, Isandla Development Communiqué Johannesburg.

Megginson, W.I. Byrd,M.J. & Megginson, L.C. (2000). *Small Business Management* 3rd edition. The McGraw Hill Companies Inc.

Mohamed,G. & Roberts,S. (2008). *Weak Link in the BEE Chain*. University of The Witwatersrand, Johannesburg.

Ndedi, A.A. (2004). *Entrepreneurship and Black Economic Empowerment (BEE). An alternate way*. Black Forum conference, University of South Africa, Pretoria.

Niglas, K. (2000). Combining Quantitative and Qualitative Approaches. *Paper presented at the European Conference on Educational Research, Tallinn Pedagogical University* (online). 20-23: Available WWW: <http://karin@tpu.ee> (Accessed date 30 June 2011).

Nzimande, B. (2007). The ethos of Black Economic Empowerment. In: Mangcu, X., Marcus, G., Shumane, K. & Hadland, A. (ed) (2007) *Visions of Black Economic Empowerment*. Pretoria: Jacana Media (Pty) Ltd.

Olsen, W. (2004). Triangulation in Social Research: Qualitative and Quantitative Methods Can Really be Mixed. *Developments in Sociology, 2004*, ed. M. Holborn, Ormskirk: Causeway Press (online), 1-30. Available [WWW.http://www.ccsr.ac.uk/staff/triangulation.pdf](http://www.ccsr.ac.uk/staff/triangulation.pdf). (Accessed date 21 July 2012).

Penman, N.(2006). *Research Methods*. Gordon Institute of business Science, Johannesburg.

Petersen, E. (2007). *Those codes raise concerns about narrow-based BEE*. BEE Law

Polit, D.F. & Hunger, B.P. (1991). *Essentials of Nursing Research: Methods, Appraisal, and Utilization 4th edition*. Philadelphia: JP Lippincott.

Radebe, S. (2007). *Black Economic Empowerment Entrepreneurs*. Financial Mail.

Rwigema, H. & Venter, R. (2004). *Advanced Entrepreneurship*. Oxford University Press, Cape Town.

Sanchez, D. (2006). Socio-Economic Transformation in South Africa: *Black Economic Empowerment and Small, Medium and Micro Enterprises*, Working Paper, Denmark

Sekaran,U. (1992). *Research Methods for Business: A Skill Building Approach*, John Wiley, New York.

Shubane, K. (2007). Business Report, 3 April, Johannesburg.

Singleton, R., Straits, M.M., Straits, B. & McAllister, R.J. (1988). *Approaches to Social Research. USA*. Oxford University Pr (Sd).

Smallbone, T. & Quinton, S. (2007). *Post Graduate Research in business*: London: Pergamon Press.

Smart, L. (2006) *Affirmative Action and BEE*: Are they unique to South Africa? Management Today, 22(4):48.

Southall, R. (2006). *Everyone's Guide to Black Economic Empowerment and how to implement it*. Cape Town: Zebra Press.

Struwig, F.W. & Stead, G.B. (2001). *Planning, Designing and Reporting research*. Cape Town: Pearson.

Summerhill, W.R. & Taylor, C.L (1996). *What We Have Learned about Collecting Data Using Two Popular Publications*. A paper presented at an annual meeting of the American Evaluation association, Kansas City Missouri, October 29, 1986.

Twycross, A. & Shields, N. (2004). *Validity and Reliability* – What it all about? Part 1
Validity in Quantitative studies. *Paediatric Nursing* (online), 16(9):1. Available WWW:
<http://search.ebcohost.com> (Accessed date 10 June 2012).

Vecchiatto, P. (2004). BEE: Adapt or die_ [On-line] Available
<http://www.itweb.co.za/sections/business> (Accessed 8/02/12).

Welman, J.C. & Kruger, S.J (2001). *Research Methodology for the Business and administration Sciences*. 2nd Edition. Cape Town: Oxford University Press

Xate, N. (2006). *The Word Game*, Financial mail: Ad Focus, 12 May: 14.

Zikmund. W. G. (2003). *Business Research Methods*. 7th Edition South Western, Thomson.

APPENDIX

QUESTIONNAIRE

Department of Business Management
Faculty of Commerce, Administration & Law
University of Zululand, Kwadlangezwa.

Research Title: Black Economic Empowerment in Richards' Bay: challenges and lessons for small businesses

Dear Respondents,

I am a master's student of the above-named department conducting a research on "Black Economic Empowerment progress in Richards Bay: challenges and lessons for small businesses". The purpose of this questionnaire is to collect information regarding Black Economic Empowerment progress in the fertilizer value chain in Richards Bay by way of looking at the challenges and lessons for improvement of the small businesses.

You are kindly requested to spend a few minutes of your time to fill this questionnaire. Information given will be treated with strict confidence and your anonymity is assured. This information will be used for the purpose of research only at the University of Zululand, Kwadlangezwa.

Thank you so much for participating in this research process. If you have any difficulties with this questionnaire, please feel free to contact me.

Mrs. P B Dlamini (Research Student)

dlaminiboni@gmail.com

Cell phone: 076 7522 533

Researcher: Mrs. P B Dlamini (0767522533)

Co-Supervisor: Christo Johann van Heerden (082 570 5352)

Supervisor: Prof. Terry Contogiannis (082 940 2345)

Research Office: Faculty of Commerce, Administration & Law

CONSENT

I _____ (full names of participant) hereby confirm that I understand the contents of this document and the nature of the research project, and I consent to participating in the research project. I understand that I am at liberty to withdraw from the project at any time, should I so desire.

Signature of Participant

Date: _____

Section A: Biographical details

Kindly answer each question by filling an X in any of the suitable box provided

A. What is your gender?

Male	
Female	

B. What is your age?

16-20 years	
21-30 years	
31-40 years	
41-50 years	
51-60 years	
Over 60 years	

C. What is your primary language?

English	
Zulu	
Afrikaans	
Other	

D. What is the type and location of your business?

Manufacturing	
Communication	
Transport	
Construction	
Retail	
Beverages and liquor stores	
Finance and business services	
Other	

If other please specify.....

Section B: Black Economic Empowerment in Richards Bay

Please, kindly answer the following questions by ticking X in any of the suitable box provided.

A. What are the problems and challenges faced when starting a business?

Accessing finance	
Access to markets	
Access to appropriate technology	
Access to human resources	
Lack of management skills	
Poor financial control	
Other	

B. How do you measure the success of the business?

Profits	
Growth	
Cash balances	
Other	

Please, kindly answer the following statements by ticking X in any of the suitable box provided.

	Statement	Strongly Agree	Agree	Neutral	Strongly Disagree	Disagree
A	Black Economic Empowerment has a positive impact on my business					
B	Does Black Economic Empowerment have a positive impact on the Richards Bay small businesses?					
C	Has Black Economic Empowerment met the government objectives?					
D	The introduction of B-BBEE has rectified the fault of Black Economic Empowerment					

Section C: Training and development of Subordinates in the Black Economic Empowerment (BEE).

Please, kindly answer the following questions by ticking X in any of the suitable box provided. You are to choose “yes” or No for any option.

	Question	YES	No
A	Do you engage in training and development of subordinates?		
B	Do you delegate authority to your subordinates?		
C	Is availability of finance a constraint on your business?		
D	Is your business facing any challenges in complying		

	with Black Economic Empowerment Certification?		
--	--	--	--

C. What do you think of Black Economic Empowerment? Please give some explanation.

--

D. Do you think the government programs have played a role in improving the standard of Small Businesses, particularly Black Economic Empowerment (BEE) in Richards Bay? Please explain.

--

E. What were the lessons learned by your business since the introduction of Black Economic Empowerment (BEE)? Please Explain.

