

# “Retail black economic empowerment compliant companies: cultural renewal in South Africa”

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## Retail black economic empowerment compliant companies: cultural renewal in South Africa

### Abstract

Broad-based black economic empowerment (BBBEE) represents one of the largest voluntary shifts of assets in modern history. The South African process is extraordinary because of the government's proven skill at striking a balance between promoting social engineering and heeding the legitimate concerns of business. A decade after the first democratic elections, South Africa is still characterized by high levels of racial and class inequality, and increasing unemployment that places pressure on economic development. BBBEE is a way to stimulate economic development by releasing the economic potential of the black population. Secondary sources reveal that the process of BBBEE, has up till now largely created emergent black business elite, but has failed to generate far-reaching economic empowerment at the grassroots level and equitable economic development in South Africa. The aim of the research was to analyze whether BBBEE compliant companies enhance economic development in South Africa. Economic development and BBBEE compliance are complementary and related processes if applied effectively. The research established that BBBEE compliant companies do not enhance economic development in South Africa. If the principle of BBBEE is effectively applied economic development will be increased. Companies need to bring about significant increases in the number of black citizens that manage, own, and control the country's economy; it is only then that equitable economic development may be sustained.

**Keywords:** black economic empowerment, economic development, South Africa.

**JEL Classification:** M29.

### Introduction

Black South Africans were discriminated against in employment, skills development, in ownership and control of business as well as in access to basic social and physical infrastructures in the apartheid years. They were legally barred from any political participation. The oppression was extreme, and in many cases basic human rights were denied. Black economic empowerment was met with suspicion from the black community in the late 1980's, as they feared that it would only create a black middle class without fundamentally transforming the oppressive political system and give full political rights to all. It was not until in the early 1990's that ANC converted to the concept of black economic empowerment. The ANC position has thereafter BBBEE characterized by concepts such as de-racialization and democratization of the economy and economic emancipation of the black majority. After the 1994 elections, the ANC-led Government of National Unity (GNU) was focused on reconstruction and reconciliation. Emphasis was put on economic inclusivity, aimed at broadening the economic base of South Africa. This was done by promoting small, medium and micro enterprises (SMMEs) and through the Reconstruction and Development Program (RDP). Black economic empowerment was on the government's agenda from the very beginning, although not as strongly as it is today. The South African government is using black economic empowerment (BBBEE) as a process, aimed at redressing the imbalances in the ownership and control of

South Africa's economic resources by increasing black participation in companies (Banda et al., 2003).

Black economic empowerment (BBBEE) represents one of the largest voluntary shifts of assets in modern history. The South African process is extraordinary because of the government's proven skill at striking a balance between promoting social engineering and heeding the legitimate concerns of business. A decade after the first democratic elections, South Africa is still characterized by high levels of racial and class inequality, and increasing unemployment which places pressure on economic development. BBBEE is a way to stimulate economic development by releasing the economic potential of the black population. Secondary sources, such as Engdahl & Hauki (2001), reveal that the process of BBBEE has largely created emergent black business elite, but has failed to generate far-reaching economic empowerment at the grassroots level and equitable economic development in South Africa.

The purpose of this research is to understand what constitutes and qualifies a black economic empowerment company and whether the employees of these companies promote cultural renewal in South Africa. The legitimacy of the BBBEE status of companies will be established with the balance scorecard method.

BBBEE 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 in companies. Over the years, the government has expanded the parameters of its empowerment objectives in business to in-

clude training, affirmative action, affirmative procurement, and equity ownership. There is still an unresolved issue of when a company can be classified as a BBBEE company. When does a white-led or white-managed organization become a BBBEE company? Does that happen when it appoints a black director? Does it occur when it offers some of its shares to black shareholders, if so, what is the acceptable stake that entitles a company to call itself BBBEE compliant company – is it 5 percent or 15 percent? In the 1980's NAFCOC specified that any company that had less than 51 percent Black shareholders does not qualify as a Black company.

Cultural change can come about due to the environment, to inventions (and other internal influences), and to contact with other cultures. This article also aims to establish whether employees of BBBEE companies promote cultural renewal in South Africa.

The South African government promotes BBBEE compliant companies in a number of ways. Emphasis is placed on how well a business is compatible with the BBBEE principles when granting government contracts and giving financial and other assis-

tance and the importance of a healthy multi-culture in a business. Therefore, it is critical for companies that deal with government and government linked companies to understand the BBBEE concept and the route to qualify as a BBBEE compliant company. The introduction of BBBEE policies enticed some companies to take opportunistic measures to be considered BBBEE compliant companies to benefit from procurement policies.

### 1. South African economy before and after BBBEE

The emergence of BBBEE black players in the post-apartheid area is reminiscence of the emergence of influential and powerful Afrikaner players after 1948. After 1948 South Africa was ruled by dominant Afrikaans party, called the National party. The National party ruled until 1994 when Mr Mandela was released out of prison and became South Africa's first black president. The BBBEE players are a much focused elite group emerged since 1994. In Figure 1, the current BBBEE compliance companies' situation is indicated and compared with the scenario after BBBEE.

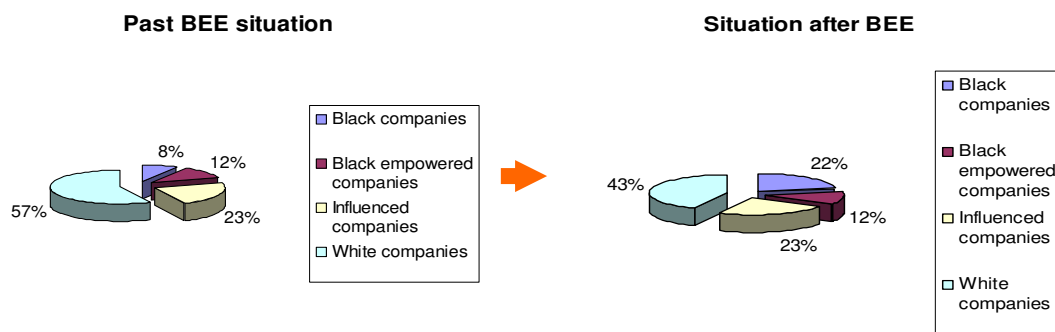


Fig. 1. BEE situation before and after

Figure 1 shows the composition of companies before and after the government's BBBEE policy application in South Africa. Before the BBBEE compliance policy only eight percent of the South African companies were black companies, compared to 22 percent after the government applied their determined BBBEE policy. Before 1992, 57 percent of South African companies were white managed ones as indicated in Figure 1. The BBBEE policy still needs to be applied more vigorously but with deals like the case of the R2 billion Pamodzi/Foodcorp (a large food company in South Africa) leverage buy-out in South Africa. In this case the majority shareholding was sold to previous disadvantages people, government is confident of achieving its target 25 percent black ownership in South African companies by 2014 (Business Report August 31, 2003).

EmpowerDEX, an empowerment rating and research agency, reported that the percentage of black directors on the boards of Johannesburg Stock Exchange (JSE) listed companies increased from 1,2 percent in 1992 to 14,7 percent in 2003. Contrary to public perception, however, almost 80 percent of BBBEE directors hold only one directorship and only 10 percent hold more than four (Business Report August 31, 2003).

Next, the literature review of the research will be discussed.

### 2. Literature review

The aim of the research is to analyze whether BBBEE compliant companies enhance economic development in South Africa. The literature review provides a broad sweep of literature and secondary research focusing on economic development,

BBBEE compliant companies, the agency theory, the balanced score card, Resource Dependence theory and BBBEE status determination of BBBEE compliant companies in South Africa.

**2.1. Economic development.** Economic development and BBBEE are complementary and related processes. The South African Government's approach is that the BBBEE process must be an inclusive process (DTI, 2003: 12). Pinda (1997) notes that no economy can grow by excluding any part of its people, and an economy that is not growing cannot integrate all of its citizens in a meaningful way. New, inclusive patterns of wealth accumulation must come from both existing economic activity and new economic activity. Thus, South Africa needs higher levels of investment that will generate a substantial amount of new economic activities. At the same time, ownership patterns must change. An effective and successful process of BBBEE and accelerated economic growth are mutually reinforcing objectives. The absence of shared economic development will continue to generate a lower rate of growth as it will continue to restrict levels of demand in the economy, in turn reducing the multiplier effects of investment and accelerator effects of higher levels of domestic consumption. BBBEE can also be seen as a way to deepen the economy and stimulate growth in the country by releasing the economic potential of the black population by forming BBBEE compliant companies.

**2.2. BBBEE compliant companies.** BBBEE compliant companies are formed to redress the imbalances in the ownership and control of South Africa's economic resources by increasing black participation at all levels of the economy. It seeks to ensure broader and meaningful participation in the economy by black people to achieve sustainable development and prosperity. A major effect of BBBEE compliance is that companies with a BBBEE element are given preference during the bidding process for state or parastatals' tenders (Engdahl, 2001). White companies, eager to win bids, generously offer black businessmen contracts to pose as empowerment partners. Once the bid is won, however, the black partners are bought out of the deal. Many of them become instant millionaires but this defeats the objective of sustainable black economic empowerment. The majority of South Africans, who were disadvantaged by the apartheid regime, need to become active participants in the domestic economy so that a socially stable South Africa may be created. Failure to create such a society will ipso facto have a negative bearing on various national security issues and places economic development in danger.

Since the introduction of the concept of BBBEE into the South African socio-economic and political lexicon

in the late 1980s, the concept has become an amorphous, slippery catch phrase for politicians, journalists and academics of various ideological persuasions (Edigheji, 1999). BBBEE is generating controversy amongst labor unions, business organizations, government officials and people in the street, invoking hopes, fears and scepticism from various quarters. Books, newspapers and magazine articles have BBBEE written on the subject and conferences, seminars and workshops have BBBEE organized on the theme of BBBEE. It has also found its way into a wide range of political parties and government's documents since the 1994 non-racial and non-sexist democratic elections. Yet, the concept has BBBEE elusive and ill defined as even the African National Congress and the government have not come up with a clear definition or a coherent BBBEE strategy. Embodied in its various usages, however, is a struggle for the heart and shape of the present and future transformation of the South African state and society.

**2.3. Broad-based BBBEE strategy.** South Africa needs a focused BBBEE strategy to achieve broad-based economic empowerment of black persons – a generic term, which means indigenous Africans, Coloureds and Indians – in South Africa. This will facilitate growth, development and stability in our economy (DTI, 2003: 12). The challenge in defining black economic empowerment is to find the appropriate balance between a very broad definition and an overly narrow one (DTI, 2003: 12). To define BBBEE too broadly equates BBBEE with economic development and transformation in general. The strategy is then commensurate with the totality of the government's program of reconstruction and development (RDP). To define BBBEE too narrowly limits it to a set of transactions transferring corporate assets from white to black ownership. Accordingly, government defines BBBEE as an integrated and coherent socio-economic process that directly contributes to the economic transformation of South Africa and brings about significant increases in the numbers of black people that manage, own and control the country's economy, as well as significant decreases in income inequalities.

The strategy is underpinned by three key principles (DTI, 2003: 13).

#### **BBBEE is broad-based**

Societies that are characterized by racial or ethnically defined wealth disparities are not likely to be socially and politically stable. The process of BBBEE seeks to accelerate the "deracialization" of the South African economy and fast track the re-entry of the historically marginalized communities into the mainstream of the economy.

**BBBEE is an inclusive process**

A more equitable economy will benefit all South Africans, individuals and enterprises. The process of BBBEE is an inclusive one, and all enterprises operating within South Africa can, and indeed should, participate in this process. This strategy will be implemented throughout all sectors of the economy and is not limited only to those enterprises that derive income from government procurement or those where the sector is regulated by government.

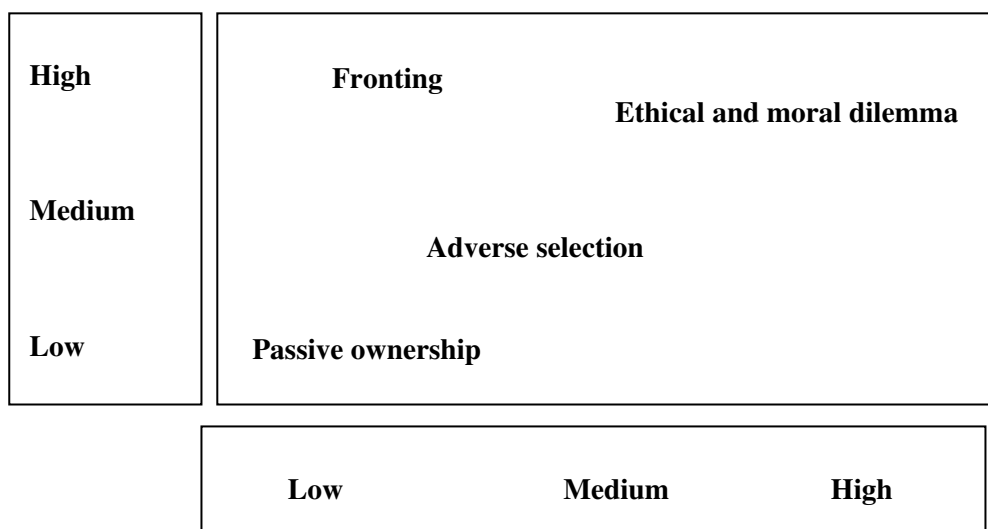
**BBBEE is associated with good governance**

A fundamental part of our economic reform and transformation is improving the quality and transparency of all economic activity. Accordingly, BBBEE must be associated with and ensure the highest standards of corporate governance. Concerted efforts will be made to ensure that the quality of corporate boards and governance is improved to avoid the agency problem. The Agency theory explains how to best organize relationships in which one party (the principal) determines the work, which another party (the agent) undertakes (Eisenhardt, 1985). The theory argues that under conditions of incomplete information and uncertainty, which characterize most business settings, two agency problems arise: adverse selection and moral hazard. Adverse selection is the condition under which the principal cannot ascertain if the agent accurately

represents his ability to do the work for which he is being paid. Moral hazard is the condition under which the principal cannot be sure if the agent has put forth maximal effort (Eisenhardt, 1989).

When the agency model is applied to the BBBEE compliance companies' situation it describes the principle (original directors' activities to include the BBBEE directors) and the agency (BBBEE directors' involvement). Under most BBBEE conditions incomplete information and uncertainty exist which give rise to the following agency problems, namely adverse selection (selecting directors with inadequate managerial skills and competencies, with this action harming the profitability and the company's ability to continue as going concern), moral hazard (appointing directors to benefit from the governments procurement policies), fronting where a company issues shares to black persons without any reasonable value changing hands and passive ownership where the BBBEE directors are only directors on paper and have no corporate governing responsibilities which increases agency costs.

The research used the adopted agency model (see Figure 2) to explain some of the main issues of BBBEE compliance companies. The agency model describes the principle (original directors' activities to include the BBBEE directors) on the y-axis and the agency (BBBEE directors' involvement) on the x-axis.



**Fig. 2. The adopted agency model**

The main parts of the four-field model are:

**Fronting**

Fronting involves a high level of principle directors' activity and a low level of involvement of the BBBEE directors' activity.

**Adverse selection**

Adverse selection of BBBEE directors involves a medium/high level of principles directors' activity and a me-

dium level of involvement of the BBBEE directors' activity.

**Ethical and moral dilemma**

Ethical and moral dilemma involves high BBBEE directors and principle directors' involvement.

**Passive ownership**

Passive ownership involves low levels of BBBEE involvement and high levels of principle directors' involvements.

The research used the government's total scores estimates (DTI, 2003) to establish whether BBBEE compliant companies comply with broad-based BBBEE categories, namely:

- ◆ total score of **65%** and **above** – **good** contributor to broad-based BBBEE;
- ◆ total score of **40%-64.9%** – **satisfactory** contributor to broad-based BBBEE;
- ◆ total score of **below 40%** – **limited** contributor to broad-based BBBEE.

The research will use the above mentioned scores to categorize the researched companies. The core elements of BBBEE compliant companies will be discussed next.

**2.3.1. Black shareholding.** Black shareholding as mentioned above refers to direct empowerment of black persons. According to Pinda (1997), the BBBEE process needs to result in an increase in the ownership and control of the economy by black persons. This means that a significant proportion of black persons' ownership of assets and enterprises must be a controlling interest, reflecting genuine participation in decision-making at board, executive management and operations levels, and the assumption of real risk.

Engdahl (2001) emphasizes control but control does not detract the focus from the important role that passive ownership of assets through pension and provident funds, unit trusts, and other collective investment schemes can play in BBBEE. However, passive ownership by black people is in itself not sufficient to bring about a real transformation of our economy. Without active participation in managing worker-owned funds, and similar investment instruments, investors have very little control over the direction of investment decisions made by fund managers. Passive ownership of enterprises can also lead to another form of 'fronting' and this needs to be guarded against.

**2.3.2. Employment equity.** Employment equity components focus on the development of the employees of an enterprise or sector, as well as employment equity. Companies are required to comply with the provisions of Employment Equity Act to bring about an equitable representation of black persons in all occupations and at all levels of the organization over a period of time (DTI, 2003). The involvement of black persons in operational, professional cadres and executive decision-making is a critical aspect of BBBEE. Given the legacy of systematic labor market discrimination and inferior education, accelerated skills and advanced professional skill development is also important.

**2.3.3. Procurement.** This last category is indirect empowerment through procurement and company development. Economic development can only be achieved if companies are engaged in productive activities (Banda et al., 2003). Preferential procurement is an effective instrument to promote BBBEE in the South African economy. The government is reviewing its preferential procurement policy in order to enhance its impact on BBBEE. Clear targets will be set to increase the levels of preference to black-owned and black-empowered enterprises which could be explained by using the Resource Dependence Model. The Resource Dependence model is a theory of organization(s) that seeks to explain organizational and inter-organizational behavior in terms of those critical resources which an organization must have in order to survive and function. As an open-systems theory, the resource dependence argument suggests that a given organization will respond to and become dependent on those organizations or entities in its environment that control resources which are both critical to its operations and over which it have limited control (DTI, 2003).

The Resource Dependence theory focuses on the following: the flow or exchange of resources; dependencies and power differentials created as a result of unequal resource exchange, the constraining effects such dependence has on organizational action; and the efforts by organizational leaders to manage dependence. When applying the Resource Dependence model to the BBBEE compliance companies' situation it is observed that dependencies and power differentials are created as a result of unequal resource exchange in the BBBEE companies. The BBBEE directors depend on the principle directors for resources while the BBBEE directors are in most cases not allowed to corporate governing and are used only for window dressing purposes. This increases the constraining effects the dependence has on BBBEE company actions. The directors attempt to manage dependence by applying government policies and affirmative procurement in their companies.

The high amount of state expenditures together with the emphasis put on equity ownership by Historically Disadvantaged Individual (HDI) make affirmative procurement one of the government's most powerful tools to promote BBBEE. At the same time, the economical values involved have made abuse of the system lucrative, thus hampering the empowerment effects. Due to institutional weaknesses and insufficient monitoring of performance by the government, the procurement system has left scope for companies to evade the requirements of substantial involvement by the HDIs. Therefore, contracts have BBBEEEn won by registering black persons as owners in white companies, or

setting up a black-owned company to tender on behalf of the white-owned company, which would then be subcontracted to perform the contract obligations. Further, black persons have seen their opportunity to profit by posing as 'empowerment' partners during a tender procedure and then leaving the scene. These kinds of token conducts have raised concepts called window-dressing, fronting, mobile black executives, rent-a-black, rent-a-face etc. The reasons for these conducts vary, but the common denominator for companies to create an artificial empowerment profile can be said to be the wish to qualify for government contracts. The phenomenon is usually associated with procurement procedures, but can also take place, for instance, within affirmative action.

The government has BBBEE blamed for encouraging window-dressing by focusing on requirements on HDI-ownership without ensuring that the BBBEE compliance company is adequately monitored. The Draft Regulations now state that an organ of state may require, at any time in the tendering process, a bidder to verify its claims for preference points. It is questionable whether this will be sufficient to address the problem, which has given rise to negative connotations to the empowerment process in its entirety.

As mentioned before, the core component of the BBBEE strategy is the creation and nurturing of new enterprises by black people. The first element of indirect empowerment, preferential procurement by both the government and the private sector is an effective and efficient instrument to drive BBBEE as it provides emerging black enterprises with opportunities to expand their output, or for new black owned companies to enter the market. A second element of indirect empowerment is enterprise development. This can take two forms, namely:

- ◆ **Investment in black-owned and black-empowered companies.** Investment in black-owned and black-empowered companies is a crucial step in the provision of financial and intellectual capital. The key elements to be taken into account when making these types of investment are that there must be real economic benefit flowing to the recipient enterprise to enable it to be set up and run on a sustainable basis; effectively there must be resultant operational capacity from the investment into the enterprise; and, there must be active participation by black people in the recipient enterprise. In 2003 alone, 189 BBBEE companies with a rand value of R42 billion were formed. This is a strong signal that the government's BBBEE program could be on track

and approaching an element of normality (Business Report August 31, 2003).

- ◆ **Joint ventures with black-owned and black-empowered companies that result in substantive skills transfer.** Joint ventures with black enterprises may involve processes such as outsourcing parts of the established company's projects or jointly contracting for certain projects that will result in a transfer of skills to the black company. The measure of the effectiveness of joint ventures is whether or not the black company is able to perform the core elements of the joint projects on a stand-alone basis without compromising the competitive advantage contributed by either company.

**2.3.4. Cultural renewal.** Culture generally refers to patterns of human activity and the symbolic structures that give such activities significance and importance. Different definitions of "culture" reflect different theoretical bases for understanding, or criteria for evaluating, human activity. Cultural changes embrace and resist change, depending on culture traits. For example, men and women have complementary roles in many cultures. One gender might desire changes that affect the other, as happened in the second half of the 20th century in western cultures. Thus, there are both dynamic influences that encourage acceptance of new things, and conservative forces that resist change.

Three kinds of influence cause both change and resistance to it:

- ◆ forces at work within a society;
- ◆ contact between societies;
- ◆ changes in the natural environment.

Cultural Renewal is designed to facilitate positive change within the culture of an organization. Constructive cultures – where everyone's hearts and minds are engaged in the business – are essential in today's rapidly changing world. The increases in revenue, stock prices and net income clearly demonstrate the effect of a constructive culture on bottom-line performance.

**2.4. Balanced scorecard.** The government uses a balanced scorecard to measure progress made in achieving BBBEE compliant companies (DTI, 2003: 12). The use of a common scorecard provides a basic framework against which to benchmark the BBBEE process. The scorecard further facilitates the process of setting measurable targets for BBBEE, for ratings and other measurement purposes. The aim of the balanced scorecard is to provide a benchmark to companies aiming at forming BBBEE compliant companies. A company should have a plan to improve ownership status, employ-

ment equity status, skill development status, affirmative procurement status without affecting its product offering. The scorecard allows for measuring the flexibility so that it can be adapted to the particular circumstances of specific sectors or a company.

**2.5. BBEE status determination.** The aim of the research was to analyze whether BBEE compliant companies enhance economic development in South Africa. The legitimacy of the BBEE status of companies will be established using the South African government's criteria for company compliance. The government promotes BBEE compliant companies in a number of ways. Emphasis is placed on how well a business is compatible with the BBEE principles when granting government contracts and giving financial and other assistance. Therefore, it is critical for companies that deal with government and parastatals to understand the BBEE concept and the route to qualify as a BBEE compliant company. The DTI (2003) classifies the different degrees of BBEE compliant companies as follows:

A "black company" is one that is 50,1% owned and managed by black people. Ownership refers to economic interest. Management refers to executive directors. A black company should receive an "A" rating for accreditation purposes, allowing it to qualify for set-asides and a 15% price preference.

A "black empowered company" is one that is at least 25,1% owned and managed by black people. Ownership refers to economic interest. Management refers to executive directors. This is whether the black company has control or not. Such a company should receive a "B" rating for accreditation purposes, allowing it to qualify for set-asides and a 10% price preference.

A black influenced company is one that is 5-25% owned and managed by black people. Such a company should receive a "C" rating for accreditation purposes and a 5% price preference. Such a company would not qualify for set-asides.

An "engendered company" is one with at least 30% representation of black women within the black equity and management portion. Companies in any of the above three categories, with at least 30% representation, will receive another 5% price preference. Therefore, an "engendered black company" will get 20% price preference. An "engendered empowered company" will get 15%, etc.

To qualify for any of the above preferences and ratings, companies must submit a number of regulatory documents and policies such as SA tax returns, Employment Equity Plans and Proof of adherence to bargaining Council Agreements.

The research review prepared the background for the primary research of the study. During the secondary research phase of the research, the hypotheses have been considered from the viewpoints of the principle and agency of BBEE compliant companies.

### 3. Research methodology

Secondary and primary sources were used to gather information to analyze what constitutes and qualifies a BBEE compliance company in South Africa, whether there is a relationship between these companies and economic development. The main secondary sources used were journals, articles, press reports, and books.

A quantitative research study was conducted that created an opportunity to generalize about the population. The population of the study included all the BBEE compliant companies in South Africa. The sample frame of 350 JSE listed BBEE compliance companies was obtained and probability sampling was used to select 330 BBEE companies systematically.

A structured questionnaire was distributed electronically to the Directors of the 330 BBEE compliant companies between January 2, to August 31, 2007. Of the 330 questionnaires e-mailed, on January 2, 120 replies were received, which mean a response rate of 36.6 percent. August 30, 2007 was considered as the cut-off date and no questionnaires were accepted after this date. This may be considered a good response rate, according to Kroon & Moolman (1999: 34), considering the sensitivity of the topic, the nature of the problem under investigation and the inhibitions that management might have regarding the survey.

Next the importance of the research will be clarified.

### 4. The importance of the research

The South African Government believes that a coherent BBEE strategy is needed to address the social imbalances caused by ages of colonial and apartheid oppression. The government is also pursuing a BBEE strategy to encourage economic development. The majority of South Africans, who were disadvantaged by the apartheid regimes, need to become active participants in the domestic economy so that a socially stable South Africa may be created. Failure to create such a society, in which every citizen feels he or she has some stake will, ipso facto, have a negative bearing on various issues of national security and has the potential to lessen economic development. Empowerment policies, therefore, seek to identify the previously disadvantaged and give them preferential access to job opportunities, managerial skill programs, and procurement activities. Next the findings, conclusions, and recommendations of the research will be delineated.



## 5. Research findings, conclusions and recommendations

The aim of the research was to analyze whether BBBEE compliant companies enhance economic development in South Africa.

**5.1. Defining a BBBEE compliant company.** The research established that the challenge in defining a BBBEE compliant company is to find the appropriate balance between a very broad definition and an overly narrow one. In the broad definition emphasis is placed on a comprehensive restructuring of institutions which would effectively alter power relations in the political and economic spheres, rather than the simple replacement of white directors with black ones. The research recommends a definition which entails the generation and redistribution of resources to the vast majority of South African citizens, ranging from skills and educational training to land redistribution. South Africa needs a focused BBBEE strategy to achieve a broad-based economic empowerment of its black citizens. This will facilitate growth, development, and stability in our economy. To establish economic development South Africa needs an overall democratization and transformation of institutions and organizational culture, rather

than the mere inclusion of few individuals from the previously disadvantaged communities in the ownership and management structures of the economy.

**5.2. BBBEE status determination.** The research used the following criteria to establish BBBEE compliant company, namely: (1) black shareholding; (2) human resource development and employment equity; and (3) preferential procurement. Keeping these in mind, the research tried to establish which of the companies researched are really BBBEE compliant companies. With companies aiming to be eventually BBBEE compliant companies with a 50,1% black ownership, the research evaluated how many of the so called BBBEE companies comply.

*5.2.1. Black shareholding.* One of the primary methods of facilitating economic empowerment is to encourage suppliers to involve black individuals or companies at equity shareholding level. Suppliers who do not have black shareholding are at a tremendous disadvantage because equity ownership carries the highest points within the Economic Empowerment tendering evaluation system. The research established that Black shareholding is an important aspect. Figure 3 summarizes the results.

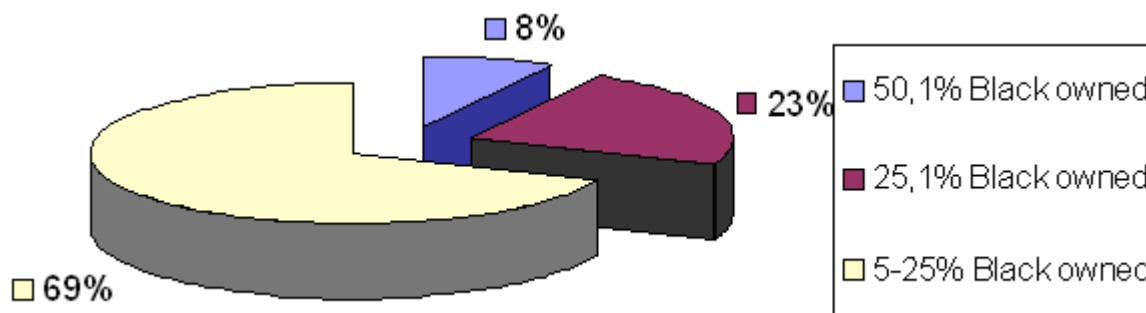


Fig. 3. Black shareholding

As indicated in Figure 3, only eight percent of the respondents claimed that they are 50.1 percent owned and managed by black people and, therefore, can be classified as a “black company”. Ownership refers to shareholding and management refers to executive directors. A black company could receive an “A” rating for accreditation purposes and a 15 percent price preference.

23 percent of the respondents (see Figure 3) maintained that they are a “black empowered company” which has at least 25.1 percent owned and managed by black people. The important fact here is that the company must be controlled by black management. Such a company could receive a “B” rating for accreditation purposes, and a 10 percent price preference.

A black influenced company is one with 5-25 percent owned and managed by black people and the research established that 69 percent of the respondents believe that their company falls in this category. Such

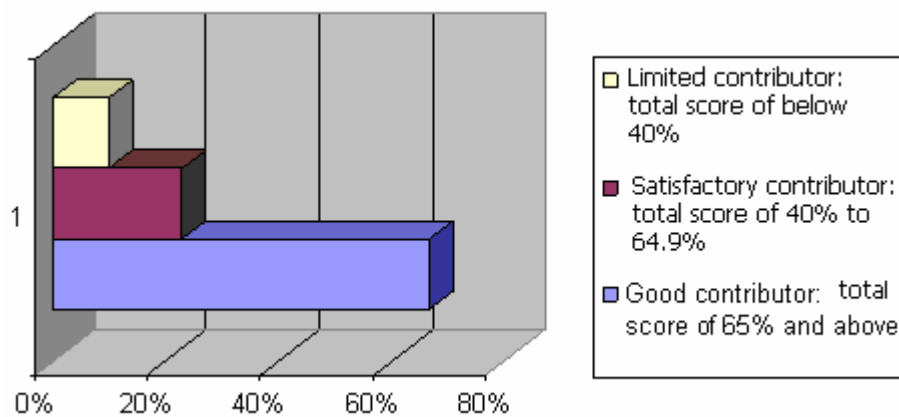
a company could receive a “C” rating for accreditation purposes and a five percent price preference.

An “engendered company” is one with at least 30 percent representation of black women within the black equity and management portion. Only two percent of the respondents judge their company also as an engendered company.

*5.2.2. Employment equity.* Companies are required to comply with the provisions of Employment Equity Act to bring about an equitable representation of black persons in all occupations and at all levels of the organization over a period of time. The involvement of black persons in operational, professional cadres and executive decision-making is a critical aspect of BBBEE. Given the legacy of systematic labor market discrimination and inferior education, accelerated skills and advanced professional skill development are also important.

The research established that 65 percent of the respondents do not apply the Employment Equity Act contrarily to 26 percent who do apply the act. Nine percent of the respondents did not respond to this question and the opinion of the researcher is that they probably do not comply.

**5.2.3. Procurement.** Procurement is an effective instrument to promote BBBEE in our economy (DTI, 2003: 15). Government is reviewing its preferential procurement policy in order to enhance its impact on BBBEE. According to DTI (2003: 23), preferential procurement refers to procurement from black-owned and empowered enterprises as a proportion of total procurement. Government realized that its procurement budgets could be utilized as a powerful mechanism to promote the development of small and medium businesses. The objective is to identify, develop, and promote the sustainability of BBBEE businesses through procurement with the ultimate purpose of fostering entrepreneurship in black communities and increasing participation of BBBEE suppliers in the mainstream of the resource industry.



**Fig. 4. BEE compliant companies complying with Broad-based BEE categories**

Figure 4 indicates that only 10 percent of the companies had a total score of 65 percent and above. These companies were considered as good contributors to broad-based BEE. Out of the companies researched 23 percent had a total score of 40 percent to 64.9 percent. These companies classified as satisfactory contributors to broad-based BEE. 67 percent of the companies had a total score of below 40 percent which indicated a limited contributor to BBBEE.

The research recommends that to ensure successful implementation of the BBBEE strategy the following policy objectives should be in place:

- ◆ an increase in the number of black people who have ownership and control of existing and new companies;
- ◆ an increase in the number of new black companies, black-empowered and black-engendered companies;

Most respondents (84 percent) stated that they are unable to find a BBBEE supplier for a particular product needed in the production process. Only 12 percent use BBBEE suppliers with little knowledge of a product and are developing them instead of sticking to their traditional suppliers. Four percent of the respondents stick to their traditional supplier and made no effort to change to a BBBEE compliant company.

Many companies opt to combine the BBBEE supplier lacking requirements with their traditional suppliers. The research established that 86 percent of the respondents aimed at a target procurement of 12 percent of their total procurement. However, 14 percent of the respondents procure less than three percent from BBBEE compliant companies.

**5.2.4. BBBEE compliant companies.** The companies researched were ranked and categorized using the government's total scores estimates to establish whether BBBEE compliant companies comply with broad-based BBBEE as mentioned in paragraph 1.2. Figure 4 indicates the total scores achieved by the different BBBEE compliant companies.

- ◆ an increasing proportion of the ownership and management of economic activities vested in community and broad-based companies (such as trade unions, and employee trusts); and
- ◆ shared economic development.

**5.2.5. Cultural renewal.** The importance of Cultural Renewal in the BBBEE compliant company can not be emphasized enough because it facilitates positive cultural change. The research established that unfortunately BBBEE does not directly promote cultural renewal because BBBEE does not really influence culture at grassroots levels.

### Concluding arguments

The aim of this research was to understand what constitutes and qualifies a black economic empowerment company and whether the employees of these companies promote cultural renewal in South Africa. The research established that BBBEE does promote cultural renewal. It has been confirmed that

a BBBEE compliant company should have more than 50.1 percent black shareholders. The research also established that most BBBEE companies in South Africa do not really qualify as BBBEE compliant companies. Companies need to bring about significant increases in the number of black citizens that manage, own, and control the country's economy; it is only then that equitable economic devel-

opment may be sustained. The research recommends that BBBEE compliant companies need to integrate and deploy coherent socio-economic processes that directly contribute to the economic transformation of South Africa. There is still a long way to go before this concept of BBBEE is sold to companies as a social responsibility.

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