

The Macroeconomic Landscape of Post-Apartheid South Africa: A Critical Review of the Effect of the Broad-Based Black Economic Empowerment (BBBEE) Program on the Success of Female SMEs Operators

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Abstract

Previous business research has highlighted the impact of government policy in the processes of formulating business strategies and in the decision-making process of organizations. In the South African context, a review of this impact on organizational strategy is for the most part important especially after the fall of apartheid as businesses have been saddled with widespread institutional change the purpose of which is to redress historic inequalities that characterized the apartheid regime. Specifically, the introduction of a far-reaching B-BBEE policy aimed at increasing participation of PIDs in economic activities. Previous researchers have been focused on the impact of B-BBEE policy on mergers and acquisitions, strategic decisions and value chain structures, as well as ROEs. The current report from STATS-SA indicates that the failure rate for women-owned businesses remains at a high rate despite the implementation of the B-BBEE policy. Therefore, research on the impact of B-BBEE on business strategy and success of female SMMEs operators may provide an accurate and deep understanding that will be beneficial to policymakers because of the social pressures to emphasis more on a 'broad-based' BEE (B-BBEE) policy aimed at increasing the participation of the black population (and in particular women) in economic activities as well as increasing the number of black ownership in businesses or creating employment for the black population. This study used appropriate data tools and techniques to analyze the data drawn from a sample of female entrepreneurs in South Africa. The study applies culturally instantiated facets of the debate on gender entrepreneurship as part of a detailed and empirically sophisticated consideration of the status of female entrepreneurship within South Africa. This paper involves an in-depth survey using the ten dimensions of business performance as a basis to study small South African women-owned businesses given that the approach is useful in the development of a theory in fields where not much research has been undertaken. The businesses studied for this research are based on a setting where B-BBEE program is a principal factor in the strategic framework of the South African female business owner. This paper contributes to existing literature on the implications of the B-BBEE program on SMEs by studying the relationship between business strategies, outcomes, and the B-BBEE program.

Keywords: Women's entrepreneurship, B-BBEE, Businesses success, Macro-economic landscape.

1. Introduction

In 1994 the newly elected first democratic government in South Africa inherited an economic system that was characterized by low growth, high government debt, mass unemployment, poverty, and inequality with little worker protection, especially of African (Black) workers. Therefore, there was a need to address these socio-economic problems by combining a development path of job creation through macroeconomic stability, fiscal discipline, and export-oriented growth as well as a radical restructuring of the labour market with a focus on worker rights. Hence, during the 1990s South Africa was admitted back into the global market by the removal of sanctions and deliberate trade liberalizations; several reformist labour policies were also formulated to create a more inclusive labour market. The rationale of these regulations was to create an environment that would improve the quality of employment for South Africans, especially those most disadvantaged group under apartheid. Together these two broad policy changes presented a tension which firms had to cope with which was how to respond to a new set of labour regulations whilst at the same time facing increased global competition (Edwards et al. 2014).

1.1 Economic Restructuring of Post-Apartheid South Africa

As a result of the collapse of Apartheid in 1990 and the subsequent election of the first democratic ANC-led government in 1994, the South African government was faced with the task of rectifying past injustices with a sclerotic economy. The government has been burdened with high debt levels and other structural challenges arising from Apartheid. To tackle

these challenges, it introduced a major policy plan: The Reconstruction and Development Plan (RDP). The aim of which was to try and redress the imbalances of the past administration, socially, economically, and spatially by combining growth, development, reconstruction, redistribution, and reconciliation into a single unified strategy. The RDP contended that growth and development were not mutually exclusive ideologies and specifically, that development without growth would not be financially possible, while growth without development would simply reinforce existing problems and consequently not be socially and politically sustainable for South Africa (Reitzes 2009).

The RDP had a seven-fold agenda and the most notable one was the upgrading of infrastructure with a focus on resource-based industries, change in labour and worker rights, and a focus on industry, trade, and commerce. In parallel to the RDP the ANC adopted a conservative financial approach which entailed constrained government spending, appropriate tax reforms and a review of existing exchange controls – the abolition of the Financial Rand was the initial step in normalizing the currency controls (Corder 1997). This conservative macroeconomic approach was a consequence of the largely inherited debt burden and the new democratic government, therefore, lacked fiscal space. It was also an attempt to make South Africa a more competitive country in terms of global production and exporting behavior, whilst not neglecting smaller firms that have the potential to absorb excess labour¹. The RDP promised to attempt to alleviate the main constraints faced by SMMEs, specifically: the inaccessibility of resources such as start-up finance, markets, human resources, and utilitarian institutional provisions.

1.2 The macroeconomic framework in post-Apartheid South Africa

While the pre-democratic apartheid government spent considerably on economic infrastructure particularly on energy, the post-apartheid government inherited social infrastructure which reflected the racial inequalities that characterised the Apartheid system. The democratic governments, therefore, allocated expenditure on two different types of infrastructure: social and economic. Consequently, in line with the Reconstruction and Development Program (RDP), infrastructure spending of the 1990s and early 2000s concentrated on health, education and community services including connecting informal settlements to electricity and water networks (Presidency 2014).

However, it has become apparent over the years that the investment in the economic infrastructure is severely lacking as continuous economic growth and overall social improvements have placed a substantial burden on the old infrastructure. Therefore, in 2006, in line with the 'Accelerated Shared Growth Initiative South Africa'(ASGISA), the South African government pledged to refocus its infrastructure spending on economic infrastructure (Presidency 2014). Small businesses contribute approximately 57% to the South African GDP, and are responsible for approximately 61% of South African employment, showing that SMMEs have only grown in importance over the years (Abor and Quartey 2010). Women-owned businesses have been on the rise also, thereby stimulating a surge of scholarly interests in women entrepreneurship in South Africa (Botha 2006; Irene 2016).

1.3 The Broad-Based Black Economic Empowerment (B-BBEE) Agenda

The growth strategy of the DTI² for the country "includes a focus on broadening participation, equity and access to redress for all economic citizens, particularly those 'previously disadvantaged individuals' (PIDs) or marginalised" (DTI 2007). This strategy informed the creation of a special so-called 'B-BBEE unit' within the department to "work towards ensuring, through equity and empowerment policies and strategic interventions, that the South African economy is restructured, to enable the meaningful participation of black people, women and rural or under-developed communities in the mainstream economy, in a manner that has a positive impact on employment, income redistribution, structural re-adjustment and economic growth" (DTI 2007). The DTI describes the B-BBEE (broad-based black economic empowerment) as "a specific government policy to advance economic transformation and enhances the economic participation of black people in the South African economy" (DTI 2007).

The B-BBEE strategy which heralded the declaration of the B-BEE Act clearly explains its rationale (specifically for transformation), its purpose (i.e. dismantling the economic legacy of apartheid) and its strategy as well providing clear definitions, policy objectives and instrument, main principles, funding provisions and various adjuncts, which contain, for example, the "balanced scorecard", definitions and draft regulations (DTI 2011a). A "balanced scorecard" is to measure

¹ Micro, small and medium enterprises (SMMEs) formed an integral part of the RDP, with increased emphasis on individuals creating survivalist enterprises.

² The South African Department of Trade and Industry

B-BBEE by using scores for empowering the black people directly and indirectly, as well as the development of human resource. The B-BBEE Act, essentially encompasses measures for “the economic empowerment of all black people including women, workers, [the] youth, people with disabilities and people living in rural areas through diverse but integrated socio-economic strategies”. The term ‘Black people’ generically refers to Africans, coloureds and Indians. The main aims of article 2 of the B-BBEE Act are to facilitate:

- ❖ The promotion of economic transformation and enabling the participation of PIDs in the economy;
- ❖ The achievement of a significant change in the racial configuration of business management and ownership structures in SMEs (existing and new);
- ❖ Enhancing a surge in the number of businesses created by community members, employees, joint venture, and joint ownerships (for new and existing enterprises) as well as improving the access of PIDs to economic activities, infrastructure, and skills training;
- ❖ Increasing the rate of black men and women-owned businesses and increasing the number of the black population in the management structure of existing and new initiatives as well as increased access to financial and human resources;
- ❖ Promoting investment programs with the aim of achieving broad-based and impactful participation of the black population in the South African economy the purpose of which is ensuring sustainable development and wealth creation for the populace;
- ❖ Empowering rural and local communities by empowering access to economic activities, land, infrastructure, business ownership and skills development; and
- ❖ Promoting financial access for the economic empowerment the black population.

The black economic empowerment (BEE) program and even the modified B-BBEE is not short of critics. For instance, Moeletsi Mbeki³, contends that “it [BEE] strikes the fatal blow against the emergence of black entrepreneurship by creating a small class of unproductive but wealthy black crony capitalists made up of ANC politicians, some retired and others not, who have become strong allies of the economic oligarchy” (Mbeki 2009). He further argues that “BEE and its subsidiaries – affirmative action and affirmative procurement – have metamorphosed ... they have become both the core black ideology of the black political elite and, simultaneously, the driving material and enrichment agenda which is to be achieved by maximising the process of reparations that accrue to the political elite” (Mbeki 2009).

1.4 Women Entrepreneurs and the B-BBEE policy

The report from Stats SA (Labour Force Survey, 2008) reveals that the data for 2001 to 2006 indicates that the number of women in small business ownership is in the 40 percent region with about 47 percent reported in 2005 and slightly less in 2006. The Study by the Global Entrepreneurship Monitor shows that a higher percentage of women entrepreneurs (as compared to men) operate in the informal sector (80 percent of female-owned businesses are informal, compared to 65 percent of male-owned businesses). Of this number, Black women have a much higher share in business ownership (just above 50 percent) compared to other race groups, whose share is below 30 percent (Maas and Herrington 2006). The division in the small business sector is evident as established formal SMMEs have mainly white and some Indian ownership and are predominantly located in the urban settings while the emerging SMME economy has mainly black and Coloured ownership and are situated in the townships, informal settlements, and rural areas. The Small Enterprise Development Agency (SEDA, 2006), reports that the share of women in small-business ownership is approximately 40 percent. However, there are different trends underlying this (DTI 2011b):

- ❖ A higher percentage of women entrepreneurs (about 80 percent) are involved in the informal sector, while about 65 percent of the male-owned businesses are in the informal sector.
- ❖ Only 20% of women-owned businesses are in the formal businesses (though SEDA notes an upward trend during the period 2001 to 2006).
- ❖ African women have a much higher share in business ownership (just above 50%) compared to the other groups, whose share is below 30 percent.
- ❖ The entrepreneurial motivation of most black women is influenced by the B-BBEE policy of financial assistance.

³ Brother of the former South African president, Thabo Mbeki and premiership from 1999 to 2008, was probably most instrumental in enacting legislation to ‘formalize’ BEE.

2. Methodology

2.1 Research design and sample demographics

This research utilized the survey research design and considered the perceptions of individual beneficiaries of the B-BBEE program. The sample of 500 female-owned businesses was drawn using the following selection criteria (based on DTI Codes of Compliance and Good Practice) and, where possible, businesses from all nine provinces in South Africa:

- ❖ SMEs with turnover of less than R5 million (also referred to as EMEs – exempted micro-enterprises in the BBBEE code of compliance)
- ❖ SMEs with turnover of between R5 million and R35 million (also known as QSEs – qualifying small enterprises).
- ❖ Large multinational companies earning more than R35 million

The businesses were selected by simple random selection from a database of the top 500 enterprises in South Africa. The researcher contacted participants via telephone to enlighten them of the scope and purpose of the survey with a view to secure the informed consent of participants to partake in research project. Upon their acceptance, a link was emailed to each participant for the online survey.

The research instrument comprised of a ten-part questionnaire which utilized 5 point Likert scale, ranging from 'strongly agree', to 'agree', 'neutral', 'disagree', 'strongly disagree' and an additional option of 'don't know'. The study used existing measures that have been used in similar studies which included both male and female business owners. The final research questionnaire was compiled after a pilot study that involved 15 participants, and the survey instrument modified based on the data from the pilot study.

3. Findings and Discussions

In addition to basic demographic information, the participants were asked to indicate unambiguously whether the B-BBEE had been beneficial to their businesses in any way. The results are shown in Table 1.

Table 1: B-BBEE recipients and the perceived benefit of the program

	No. of responses	%
Those who considered the B-BBEE to be beneficial	350	70
Those who did not consider the B-BBEE to be beneficial	110	20.2
Those who could not say whether B-BBEE was beneficial or not	40	9.8
Total	500	100.0
Mean	1.38	

Giving that the qualifying criteria for the B-BBEE is that the beneficiary falls under the category regarded as 'Previously Disadvantaged Individual' (PIDs), participants were asked if they consider themselves to be PIDs. The essence of this question was to gauge the effectiveness of the program in redressing the imbalance that was identified in the policy document released by the DTI and evaluate the perception of the recipients on the issue of redress. The results are shown in Table 2

Table 2: Previously Dis-advantaged Individuals (PIDs) – B-BBEE qualification matrix

	No. of responses	%
Those who considered themselves PIDs and therefore candidate for the B-BBEE program	360	72
Those who do not considered themselves PIDs and therefore unqualified to be B-BBEE beneficiaries	100	20
Those who are unsure of their qualifying status	40	8
Total	500	100.0
Mean	1.38	

The above measures were used to determine the percentage of the sample population who were beneficiaries of the B-BBEE program at one point or another in their entrepreneurial career, as well as determine the qualification criteria giving that the program was aimed at redressing the ills of the Apartheid government and empowering PIDs economically. As the main aim of this research was to evaluate the influence of the policy on the business success of the beneficiaries, a

high percentage in both instances was arguably deemed to be beneficial in improving the validity of the findings vis-à-vis the probable impact that B-BBEE policy on the strategic decisions, strategic positioning and consequently the business performance of female SMEs operators.

This study used the ten dimensions of business diagnostics prescribed by Du Toit et al. (2010), to determine the influence of the B-BEE on the business success of female South African SMEs operators. These dimensions covered areas of great importance and other areas considered as traditional functional areas such as general operations and business strategy, market positioning, management of financial and human resources. Nonetheless, certain overarching shared constructs such as competitive advantage, productivity, ethics/good business practices, entrepreneurial mindset, and innovation, were also incorporated. Tables 3 is a summary of the results and the measures used a 6-point Likert scale for the ten dimensions of business performance ranging from 'strongly agree' to 'don't know'.

Table 3: The 10 dimensions of business performance measured in this study

	Frequency	Percentage
Strongly agree	6	1.2
Agree	131	26.2
Neither agree nor disagree	84	16.8
Disagree	225	45.0
Strongly disagree	53	10.6
Don't know	1	0.2
Mean	3.388	
Standard deviation	1.052	
Variance	1.108	
Minimum	1	
Maximum	9	

Test value = Strongly agree				
t	df	Sig. (2-tailed)	Mean difference	95% Confidence Interval of the difference
				Lower Upper
50.736	499	.000	2.38800	2.2955 2.4805

The results show that while all participants in this study are beneficiaries of the B-BBEE program, 45% do not believe the program has been beneficial to their businesses and 16.8% could neither agree nor disagree that the program has been beneficial. Only 27.4% could categorically confirm that the program has been beneficial. This then raises the question of the effectiveness of the program and confirms the argument of critics such as Mbeki (2009) who argue that:

"The B-BBEE strikes a fatal blow against the emergence of black entrepreneurship by creating a small class of unproductive but wealthy black crony capitalists made up of ANC politicians, some retired and others not, who have become strong allies of the economic oligarchy" (Mbeki 2009).

It could also explain why many women-owned businesses still fail at an annual rate of 20% and confirm the suggestions that over-dependent on the B-BBEE program and other grant/initiatives effectively take away the ability of the female entrepreneurs to be creative and innovative.

4. Conclusions and Recommendations

Based on the findings from this study, it is evident that while all of the participants can be regarded as beneficiaries of the B-BBEE program at one point or another in their entrepreneurial career, their general perceptions of the impact of the programme on business success using the ten dimensions of business performance measures were largely adversarial. While most of the 500 participants in this study operated predominantly in MMSEs and SMMEs sector, SMEs and larger multinational companies, similarly differed with the notion that the adoption of B-BBEE policy has a positive impact on their businesses performance in relation to the ten dimensions of business performance utilized in this study. It should be noted that most the respondents in this study were black female (PIDs), individuals for whom the B-BBEE was specifically intended to redress the economic marginalization created by the Apartheid government and improve their lot by empowering them economically. However, more than 20 years after the fall of the Apartheid regime, and the election of a democratic government, the success of the policy in balancing the economic scales remain largely to be seen.

It is, therefore, imperative that the government needs to reconsider its transformation agenda and precisely the adoption of the B-BBEE program, which appear to have little impact on the success of women-owned businesses in South Africa. It is therefore recommended that policy makers consider the personal development and capacity building of women entrepreneurs as part of the intervention process rather than focusing solely on economic/financial incentives.

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