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### **ABSTRACT**

The post independent South African government in 1994 started operating in an environment that was characterised by racial discrimination, exclusion of the black majority from the economic activities of their country and were relegated to second class citizens by apartheid. The Black Economic Empowerment (BEE) became the main driver of the South African Government's effort to overcome the apartheid legacy and was seen as a tool address these imbalances. This article analyses the effects of the Broad-Based Black Economic Empowerment (B-BBEE) policy on the SMEs. This research contributes to the knowledge of African governments on how the indigenous policies can close the gap between the white minority who control the economy and the disadvantaged black majority who have been marginalised by their colonial masters. Methodologically, the study critically analysed the literature of B-BBEE policy and how it has been implemented in South Africa since it was put in place. The researcher drew insights from Black Economic Empowerment (BEE), which was later amended to Broad-Based Black Economic Empowerment (B-BBEE) and the findings of other researchers.

**Keywords:** apartheid, black empowerment, SME development, indigenous

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## INTRODUCTION

Before its independence in 1994, South Africa was ruled by the apartheid government. The main features of the apartheid system were a clear separation of power, wealth and status between the whites and the blacks. This demarcation was evident in every sphere of life. The apartheid government perpetuated the economic status of black people at a level below that of white people in South Africa (Dlanga, 2013). In its true essence, the apartheid policy was actually meant to disempower the black people; it was devised in such a way that black people were meant to provide the cheap labour, a process that deliberately crippled the entrepreneurship development of the black people (Dlanga, 2013). The sharp contrast in entrepreneurship development between white and black people were caused by the apartheid policies

The root of the apartheid policy was enshrined in the English Economic Empowerment (EEE), when Cecil John Rhodes was prime minister of the Cape Colony, crafted laws that favoured mines and industry, put in place educational reform and the Glen Grey Act to drive African people from their land (Meredith, 2007). The National Party followed suit when it introduced the Afrikaans Economic Empowerment (AEE). The Afrikaner nation was liberated from English rule in 1948, which was followed by the National Party's (NP) programmes that saw the disadvantaged Afrikaner fast tracked to enable them to participate in the economy (Meredith, 2007). In all these historical developments the blacks were not considered as equal partners in the development of the economy, in fact their participation was only as tools that were used to develop the apartheid agenda. It is against this backdrop that the post independent South Africa embarked on policies aimed at addressing racial, economic and social imbalances hence the crafting of the BEE and the B-BEE policies became the cornerstone of black empowerment.

### **The Indigenisation Policy to empower the black people**

The introduction of initiatives aimed at addressing racial, economic and social imbalances did not begin with South Africa only. Countries such as the United States of America, Brazil, and Malaysia for example, have introduced such redress mechanisms (Sanchez, 2011: 2). The policy of indigenisation has been successfully implemented by a number of countries and it has been used as the lens for the good performance of SMEs. Gang etl (2014) argues that many countries have introduced policies that aim to improve the relative economic, political or social position of disadvantaged groups and examples include "Affirmative Action" in the United States, "Reservation" in India, and "Indigenization" policies across the newly independent states formed after the collapse of the Soviet Union. While the degree, speed, and intensity of indigenization have varied greatly across the post-Soviet states, it usually involved a move away from the Russian language (Pavlenko, 2008), the reorientation of foreign policy towards the West or more recently towards China (Whitel, McAllister, Light, and Löwenhardt, 2002; Ipek, 2007), and a replacement of ethnic Russian elites by "local" ones (Kuzio, 2002).

With respect to affirmative action policies in the United States, Holzer and Neumark (2005:471) note that "there seems to be little doubt that racial or gender preferences redistribute certain jobs in the labour market away from white men toward minorities and women". In similar fashion, reservation in India has been shown to increase the access of disadvantaged groups to political decision making (Duflo, 2005), to raise the number of women who stand for and win elected positions (Beaman, Chattopadhyay, Duflo, Pande and Topalova., 2009) and even under certain circumstances to significantly reduce poverty (Gang, Sen and Yun, 2008 and Chin and Prakash, 2011). The indigenisation process is therefore regarded as an empowerment tool. CCSI (2014) alludes that motivated by the increase in local content from

49% to 63% between 2009 and 2010, Indonesia modified its legislation from an initial target of 35% to varied rates for different activities. For offshore oil and gas drilling, local content targets have been raised from 35% to 45% and for land drilling to 70%, to be implemented in 2016.

In Africa indigenisation policies were enacted by a number of nations to empower the local people. When Namibia attained independence in 1990, the government adopted policies to redress some of the apartheid legacies. Jauch, Edwards and Cupido (2009) postulate that Affirmative Action and Black Economic Empowerment (BEE) programmes were some of the measures taken to empower formerly marginalized blacks in Namibia. At independence in October 1964, Zambia adopted the socialist mode of economic development, ostensibly to redress colonial imbalances and bring about a more equitable distribution of wealth (OECD Investment Policy Reviews: Zambia (2012)).

Ramdoe (2015a) states that Nigeria's local content Act (LCA) of 2010 provides for specific categories of activities to be procured locally and local content targets for some goods and services are set between 80 and 100%. Oyelaran-Oyeyinka (1997) alludes that the indigenization laws reserved certain sectors of the economy to Nigerians made mandatory for foreign entrepreneurs to involve her citizens in the ownership and management of their companies. Ramdoe (2015a) confirms that in the oil sector in Ghana, companies must comply with specified minimum local content levels for goods and services: target are set at 10% at start, 50% at 5 years and 60-90% at 10 years. It is from such examples that South African government adopted the indigenisation policy through, black economic empowerment (BEE), in the 1990s and the subsequent Broad-Based Black Economic Empowerment (B-BBEE) Policy as the economic empowerment of all black people across the economic, political, cultural and social divide.

### ***Main Tenants of the B-BEE policy***

At independence the government of South Africa put in place policies that empower the black people. To accelerate the participation of the black people into the economic activities, the government introduced policies such as the preferential procurement policy framework Act of 2000, (RSA, 2000) which was a means to promote the support of SMEs. This was to encourage the Multinational Enterprises to do more procurement from the SMEs, and this would promote black participation in job creation. The second policy was the black economic empowerment (BEE) framework published by the Department of Trade and Industry (DTI) in 2003 (RSA, 2003), which focused on three pillars; ownership, human resources development and indirect empowerment. The BEE framework was followed by the B-BBEE Act 53 of 2003 (Sanchez, 2006).

B-BBEE was introduced to address inequality amongst other socio-economic issues that exist in South Africa (Arya, Bassi, & Phiyega, 2008). In terms of BBBEE, one of the objectives is to improve SMEs' access to finance (DTI, 2007) The B-BBEE Act (53/2003b:4) defines this term as: "...the economic [empowerment] of all black people including women, workers, youth, people with disabilities, and people living in rural areas through diverse but integrated socio-economic strategies that include, but are not limited to

- a) increasing the number of black people that manage, own and control enterprises and productive assets;
- b) facilitating ownership and management of enterprises and productive assets by communities, workers, cooperatives and other collective enterprises;
- c) human resource and skills development;

- d) achieving equitable representation in all occupational categories and levels in the workforce;
- e) preferential procurement; and
- f) investment in enterprises that are owned or managed by black people

The policy was adopted by the government to empower its citizens. Black Economic Empowerment is the key transformation tool of the South African Government's effort to overcome the legacy of the apartheid's racial discrimination and was a necessary government intervention to redress the programmed exclusion of the majority of South Africans from full involvement of the economic development of their country (Department of Trade and Industry, 2003: 6; Sanchez, 2011: 5).

### ***Role of B-BBEE on SMES***

For the economy of South Africa to develop and create jobs that are needed to alleviate poverty and unemployment SMEs need to be encouraged (Smit & Watkins, 2012). Maas and Herrington (2006) argued that SMEs play an important role in resolving South Africa's apartheid problems and the sustainability of these SMEs is key to the economic growth of South Africa. Within the South African economy, the role of SMEs is to alleviate poverty by means of providing jobs, facilitating transformation through the attainment of B-BBEE objectives. Through the B-BEE programme the government's major aim was to empower the blacks through provision of finance and this would in turn alleviate the unemployment problems as this gesture would create more employment opportunities.

The BEE policy was regarded as a best tool to empower the indigenous black people of South Africa in order for them to participate in the economy of the country and eventually control the economy (Nieman, 2008). These sentiments were echoed by the former president of South Africa, Mr Thabo Mbeki who recognised SMEs as key drivers of the new economic dispensation in South Africa (Sanchez, 2006). In his 2003 state of the nation address, Mr Mbeki reiterated the critical role of SMEs in line with the B-BBEE strategy when he stated: "Development and support for Small and Medium Business, remains a priority for our government. Therefore, more financial and other resources will be committed to the development of this sector of our economy" (RSA, 2003, p. 18). Such type of commitment underlines the government's support of the small businesses and how it desires to empower its local people.

In terms of B-BEE, one of its primary objectives is to improve SMEs' access to finance (DTI, 2007). These sentiments were supported by Juggernath (2013), who stated that B-BBEE creates provisions for SMEs to access finance. In view of these two citations it implies that the government had a great vision of empowering the local people through the financial resources which are a major component for the running a business. SMEs were viewed by the government as a source of employment as stated by Rust (2006) that to combat increasing unemployment the creation and support of SMEs is needed and it is very evident that for B-BEE to succeed in South Africa a full support of small businesses has to be implemented.

### ***Contribution of SMEs to the economy of South Africa***

Rogerson (2011) emphasised the important role played by SMEs with regard to economic growth, job creation and poverty alleviation especially in developing countries. In this regard, the South African government has put high priority to supporting SMEs (Garwe & Fatoki, 2012). Therefore, SMEs have been established to be drivers for economic growth in most African countries.

Maas and Herrington (2006) argued that SMEs play a critical role in resolving South Africa's developmental problems and the sustainability of these SMEs is very important for the economy of South Africa. These sentiments are anchored on the reality that the pre independent apartheid government never gave the black people a chance to be entrepreneurs and participate in the economic activities of the country. The involvement of the black people during the apartheid period was through the provision of cheap labour and had no stake on ownership, decision making and creativity in the economy. The apartheid government took advantage of the disempowered voiceless black people.

In the post independent South Africa, over 90% of the businesses are in the SME sector and they contribute over 50% of the GDP and more than half of the country's labour force is in the SME sector (Kongolo, 2010,). In South Africa SMEs are responsible for employing a large number of workers and are also responsible of nearly 43% of the total salaries and wages paid (Lingthelm, 2013). Nieman and Neuwenuizen (2009) suggest that 55% of workers employed in the formal sector in South Africa are employed by SMEs. The value of SMEs in South Africa was further substantiated by Luiz, (2002); Olawale & Garwe (2010) and Rwigema & Karungu (1999) who stated that in South Africa, SMEs contribute an average of 56 percent towards employment and 36 percent towards GDP. The national statistic estimate provided in 2015 reveal that nearly three quarters of economically active South Africans are employed in the SME sector (SSA, 2014).

## **METHODOLOGY**

Methodologically, the study critically analysed the literature of Broad-Based Black Economic Empowerment (B-BBEE) policy of South Africa and how it impacted on SMEs. In investigating the Implementation of the B-BBEE policy, the researcher adopted the desk view approach which dealt with the analysis of the tenants of the policy, government implementation strategies, the execution of the policy framework, evaluating the impact of the policy and its impact on the intended beneficiaries. Desk research is the collection of secondary data from internal sources, the internet, libraries, trade associations, government agencies (Khotari, 2010). Blaxter et al. (2009 :63) distinguish two types of research, quantitative and qualitative or alternatively deskwork or fieldwork research, which involves study of journal papers, articles, reports and other conference papers on related literature. Podsakoff et al. (2003) elaborated that published articles in research journals, reports from trade associations, government departments on-line databases and statistics are important sources of information that has to be critically reviewed. The analysis of secondary sources of data from the internet, libraries, trade associations, government agencies was done through the extensive reading of the B-BBEE policy and all the related factors of the implementation of indigenous policies. The researcher drew insights from BEE and the B-BBEE policies and the findings of other researchers which provided the framework for the analysis of the policy and its effect on the indigenous people of South Africa.

## **DISCUSSION AND FINDINGS**

The advent of the post independent south Africa saw the democratically elected ANC government embark on policies that reverse the effects of the apartheid government. The main issue of the government was to redress the imbalances of the apartheid and bring transformation under the new political dispensation through the Broad-Based Black Economic Empowerment (B-BBEE) Act, No. 53 of 2003. Initially the tool that was used to implement the transformation and redress the imbalance by the South African government was the Black Economic Empowerment (BEE), followed by Broad-Based Black Economic Empowerment (B-BBEE).

The BEE programme and the amendments that followed aimed at transforming (all sectors of the economy) inequalities that were the legacy of the apartheid injustices by according previously disadvantaged black's economic privileges which were initially not available to them (Horwitz and Jain, 2011: 298).

Moneyweb (2013) points out that all the Government measures that have been implemented to support SMEs in South Africa are deemed as completely ineffective and so far they have changed nothing. A survey conducted in 2004 revealed that 68% of B-BBEE deals benefited only six black-owned businesses, which belonged to the top members of the African National Congress Party (Baldauf, 2006). These results are supported by the sentiments of Chabano, Goldstein & Roberts (2006) who state that the black elite who are benefitting from B-BBEE are not the ordinary men on the street but are the politically connected individuals who were exiled or imprisoned during the apartheid regime.

Sartorius and Botha (2008) advocates that B-BBEE only benefits the politically connected black elite class. Tangri and Southall (2008) concurred with this view and highlighted that the majority of previously disadvantaged black people, who are the masses, have not yet benefitted from the B-BBEE policies. Kim (2010) commented that since its inception B-BBEE has only benefitted those who have the political connections; therefore the principle of B-BBEE redressing the inequality of the black majority is still to happen. These effects result in the fuelling of the problems created by apartheid like poverty, unemployment and inequality (Krüger, 2011). The findings that have been recorded defeat the purpose of the noble programme and this failure has been associated with corruption as the main drawback.

One of the economic issues that the B-BBEE was earmarked to address was unemployment. However, literature reveals that South Africa has high levels of unemployment, which have recently risen to 25.5 percent (Stats SA, 2014); this correlates with the diminishing number of businesses and formal employment. The unemployment rate stood at a staggering 26.7% in the first 2 quarter of 2018; it further soured to an increased rate of 27.2% at the end of the second quarter (Stats SA, 2018). The trend show that the rate of unemployment is on the rise.

The survey conducted by SBP titled 'Counting the cost of red tape for business in South Africa' in 2012 revealed that despite SMEs being recognised as the key drivers for employment creation by the Government, South Africa's strict policy framework and legislations are demonstrating to be more difficult for them to grow in (Mahlaka, 2014). This indicates that despite the efforts by the government to reduce the rate of unemployment, the problem is growing and the national percentage of unemployment is ever increasing. Therefore, this objective is far from being achieved.

Even though more than twenty years have elapsed since the collapse of apartheid, the South African labour market continues to reflect racial inequalities across the labour, power relations and the general economic field (Tlhatlosi, 2010: 1; Mputa, 2016: 1). The B-BBEE has failed to address the issue of inequality within the society. Ford, (2017) states that South Africa is one of the most unequal societies in the world and furthermore, this inequality is divided along racial lines. This implies that the apartheid system is being perpetuated. In 2015 Statistics South Africa revealed that the average income per household was R138 168, and more severely the black South Africans earned an average of R92,898 (\$6,875) annually in comparison with R444,446 (\$32,895) for their white counterparts (Ford 2017). The gap between the rich white minority and the poor black majority is very big.

The process of accessing the funds from B-BBEE is rigorous and time consuming. The funding mechanism of the SMEs has a lot of procedure and strings attached to it for the people to access the money. According to the funding mechanisms, it is clear that the majority of the funding that is available is specifically for B-BBEE accredited companies, hence in terms of accessing finance, B-BBEE creates a barrier for the majority of SMEs to access finance (Juggernath, 2013). This was echoed by Jeffery (2014) who lamented that achieving the required minimum B=BBEE rating to access the finances from the government is a tall order. The majority of the black entrepreneurs could not access the funds.

The rate of SME failure in South Africa is very high. Over 63% of the SMEs in South Africa fail in the first two years of trading (South Africa.info, 2010). Also, according to the Forum SA, 71% of SMEs are out of business by year 5. A recent study conducted by the Global Entrepreneurship Monitor (GEM) 2014 has shown that the SMEs in South Africa are performing poorly. These sentiments were also shared by Business Insight of Gem data for 2014 that shows that South Africa has one of the high failure rates. Over the previous five years, about 440,000 small businesses ceased operations in South Africa (Adcorp, 2012). Despite the implementation of B-BBEE the failure rate of SMEs in south Africa is very high which is a cause of concern for the economic development of the country.

Turton and Herrington (2013) point out that, as measured by the Total Early-Stage Entrepreneurial (TEA), the South African activity rate of new SMEs is one of the lowest in the world. The TEA rate of South Africa has declined from 9.1% to 7.3% from 2011 to 2012, which is considerably underneath the average of 14.3% for efficiency driven countries. In addition, it is also projected that SMEs' failure rate in South Africa ranges between 70% and 80% (Adeniran and Johnston, 2011). These views are clear indicators of the challenges being faced by the black owned SMEs in South Africa.

The black South Africans are not willing to operate small businesses. According to the 2014 GEM Report, the percentage of adult South Africans participating in entrepreneurial activity has declined by 34% since 2013. The percentage of adults in South Africa involved in a business that are less than three-and-a-half years old (also known as early-stage entrepreneurs) fell to 6.97% last year from a 13-year high of 10.6% in 2013. South Africa does not provide the appropriate incentives for its people to undertake entrepreneurship as a viable career choice (Mail & Guardian, 2013). This implies that the South Africa's economy today continues to be dominated by large, established companies, mostly white or foreign-owned (Siyaya, 2017: 1). The former President of south Africa, Mr Zuma (2013) lamented that South Africa faces a huge challenge in fostering black business ownership and developing an entrepreneurial culture among black people. The black people of South Africa have no intentions to own a business and that is not even un their dreams as they have settled to work for other people or companies.

The gap between the big white owned multi-national companies and the SMEs is too big and the SMEs cannot match them in terms of competition since the white established companies already have brand names in the market. The economy is controlled by big corporations which makes it difficult for entrepreneurs to enter into the business sector of their choice and contributing to the small number of supposed business opportunities among South Africans, as revealed in the GEM report of 2012 (Mail & Guardian, 2013). The South African Supplier Diversity Council (2013: 3) highlights the following perceptions held by large private sector businesses regarding procurement from small black-owned businesses:

- We can't find these SMME's;
- They do not have the capacity to supply according to our requirements;
- SMME's are risky and unreliable suppliers;
- They do not have the financial muscle to compete;
- Our role is to procure for our internal customer and not to develop suppliers; and
- There is no benefit that we derive from buying from SMME's

These are the barriers that limit the black owned SMEs to effectively participate in the economic development of the country. The citation that over 90% of the businesses are in the SME sector and they contribute over 50% of the GDP (Kongolo,2010), does not reflect the empowerment of the black people, in fact 90% of the successful SMEs are owned by the white elite class and the blacks still have to make inroads into the economical spheres of the South African top businesses.

### **Recommendations**

The crafting of the B-BBEE to redress the apartheid system was a noble idea but the implementation of the policy failed to produce the intended results. It implies that there is need to refocus and re-strategise on the implementation process of the policy. The government should engage an independent body of professionals who will be mandated to grow the SMEs through a fair, informative and research oriented approach. The black entrepreneurs should have a lot of training in many areas, bottleneck policies to access funds should be abolished and the government should motivate the black people to venture into serious business operations. The gap between the SMEs and the established white owned multi- national companies has to be closed through bringing on board black entrepreneurs who can challenge and compete at high levels. South Africa has the capacity to avert the situation and the break the apartheid jinx but it lacks the cutting edge in reaching out for the poor black people. What is required currently is to come up with a new implementation strategy that focus on helping the black masses to control the economic activities of their country.

### **CONCLUSION**

From the presented facts it can be concluded that the implementation of the B-BBEE policy is still a myth. To a larger extent it failed to overcome the legacy of the apartheid's racial discrimination in SMEs in South Africa. The black owned SMEs continue to underperform and struggle in their daily operations and the white dominance in all aspects of economic contributions are being perpetuated. However, South Africa has great potential to improve the plight of the black people through the SMEs if a more logical and well planned implementation strategy is implemented harnessing on its rich resources that can be channelled to its intended beneficiaries.



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