

**A Study of current perceptions of Black SMME Suppliers to
State Owned Enterprises' on BEE policies**

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ABSTRACT

Much attention has been given in recent years to the development of small businesses in South Africa and challenging developmental objectives have been set. This research suggests that State Owned Enterprises (SOEs) have responded to these challenges and are in the forefront to realise these related objectives. A lot has been researched about the state of Small, Medium and Micro Enterprises (SMMEs) in general but little specific attention has been given to the role of state institutions that support SMMEs for growth and job creation through affirmative procurement. SOEs are important strategic financial actors in South Africa, and their restructuring has released significant financial resources for social and economic programmes throughout the country. SOEs have for example succeeded in escalating the procurement of goods and services from Black Owned companies, building a strategic supplier base and ensuring its long-term sustainability.

SMMEs represent an important vehicle to address the challenges of job creation, economic growth and equity in the country. Globally, one finds that SMMEs are playing a critical role in absorbing redundant formal labour, penetrating new markets and generally expanding economies in creative and innovative ways. This is in line with the Government's legislated Black Economic Empowerment (BEE) framework to address the injustices of the past and to bring Black people into the mainstream economy.

This research report assesses the perceptions of Black SMMEs regarding the level and type of support given by SOEs, particularly Eskom, through its implementation of affirmative procurement. The study reviews the merits of these perceptions through a review of appropriate literature, quantitative research methodology and research findings, which explore and review government socio-economic objectives.

The results suggest that, in general, most suppliers are satisfied with the level of support given by Eskom but more could still be done to promote Black Women Owned companies. The majority of Black Women Owned enterprises appear not to be aware of the range of services provided such as the Advice Support Centres. The reasons for this lack of awareness could be many and varied, but Eskom management will need to consider steps to remedy this situation. One recommendation is that Eskom initiate a monitoring and support system to ensure awareness and accessibility to support centres by all its suppliers.

The results find further that some Black SMMEs are not very conversant with financial matters. It is therefore suggested that Eskom embark on an educational campaign to raise the level of awareness in this regard.

In conclusion, Eskom's endeavours are viewed very favourably, and could be emulated by the private sector as a successful socio-economic strategy

DECLARATION

"I declare that the Research Report on **A study of current perceptions of Black SMME suppliers to State Owned Enterprises' on BEE policies** is my original work and that all sources I have used or quoted have been indicated and acknowledged as complete references, and has not been submitted for degree purposes previously".

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Signature:

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Eskom BEE Suppliers in the Generation Division

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Definition of Terms

- **Blacks** - generic term which includes African, Coloureds and Indians
- **Black Business** - a business with more than 51 percent Black ownership.
- **Black Economic Empowerment (BEE)** - is an integrated and coherent socio-economic process that directly contributes to the economic transformation of South Africa and brings about a significant increase in the numbers of Black people that manage, own and control the country's economy, and in turn potentially, significantly decreases income inequalities.
- **Black Owned Enterprises (BO)** – it an enterprises where at least 50% of the voting shares or interest are held and controlled by Black people
- **Black Women Owned Enterprises (BWO)** – it an enterprises where at least 50% of the voting shares or interest are held and controlled by Black Women
- **Board** - the board of directors of the company as constituted from time to time
- **Corporate Governance** - according to the King Committee corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals.... the aim is to align as nearly as possible the interest of individuals, corporations and society. The four pillars of corporate governance are fairness, accountability, responsibility and transparency.
- **Department of Trade and Industry (DTI)** - government department in charge of trade and business development including SMMEs
- **Industrial Development Corporation (IDC)** – it is a self-financing national development finance institution. Its primary objectives are to contribute to the generation of balanced, sustainable economic growth in Africa and the economic empowerment of the South Africa population, thereby promoting economic prosperity of all citizens.
- **LEs** - large enterprises
- **National Business Initiative (NBI)** – it is a business coalition focused on the broader role of business in sustainable development.
- **Republic of South Africa (RSA)** - the government of South Africa

- **Small Medium and Micro Enterprises (SMME)** - according to the Department of Trade and Industry (DTI), Small Medium and Micro Enterprises are privately, independently or co-operatively owned and managed companies with any of the following quantities as criteria:
 - Total annual turnover must be less than R40m
 - Total assets excluding fixed property must be less than R15m
 - Less than 200 full time employees
- **State Owned Enterprises (SOEs)** - national public entities as defined by the Public Finance Management Act (PFMA) where the government is the majority shareholder.
- **The Protocol** - the protocol on Corporate Governance in the public sector.

CHAPTER 1: ORIENTATION

1.1 Introduction

Small Medium and Micro Enterprises (SMMEs) are internationally acknowledged as vital to the country's socio-economic growth and stability (Snyman, 2006). According to the White Paper on National Strategy for the Development and Promotion of Small Business (1995), the contribution of small and medium sized enterprises to the South African economy is substantial. In South Africa, SMMEs account for about half of the country's annual Gross Domestic Product (GDP) and for the majority of new jobs currently created in the country (Snyman, 2006). In addition SMMEs also provide access to the formal economy especially for many entrepreneurs from historically disadvantaged communities.

SMMEs thus represent an important vehicle to address the challenges of job creation, economic growth and equity in our country. Throughout the world, one finds that SMMEs are playing a critical role in absorbing labour, penetrating new markets and generally expanding economies in creative and innovative ways (Republic of South Africa, Department of Trade and Industry, 2006). The stimulation of SMMEs must therefore be seen as part of an integrated strategy to take this economy onto a higher road – one in which our economy is diversified, productivity is enhanced, investment is stimulated and entrepreneurship flourishes (Republic of South Africa, Department of Trade and Industry, 1995)

The South Africa government identified SMME development as a priority in creating jobs to solve the high unemployment condition. The seriousness of this is depicted by the fact that there is evidence that the national unemployment level, currently estimated at 28.4 percent (Statistics South Africa 2004:1), is increasing at an alarming rate. According to the Ntsika Annual Review (2002:111), SMMEs constitute

97.5 percent of all businesses in South Africa. Given this statistic, the potential role of SMMEs in the fight against unemployment must be considered substantial.

Government's efforts to support small business have focused on assisting emerging entrepreneurs to overcome the multiple challenges that they face in establishing themselves as players in the mainstream economy. For most entrepreneurs, starting a small business represents all their hopes, dreams and aspirations for a better life yet are often stifled by a lack of finance. Many organisations like Business Partners, IDC, Khula Enterprise Finance, Ntsika, Banks, Umsobomvu Fund, and others have therefore focused their attention in increasing accessibility to investment financing for all categories of entrepreneurs, especially Black entrepreneurs wishing to start a new business or expand into a new direction.

Black Economic Empowerment (BEE) is an affirmative strategy designed to afford individuals, previously disadvantaged by apartheid, an opportunity to enter the mainstream economy. BEE is a relatively new concept in South Africa and consequently, little research has been possible around the success thereof or to identify ways to facilitate improvements to the process. Since government owned enterprises are the largest procurement houses for the private sector, one can postulate that the successful interaction of SMMEs with government institutions is vital for the growth of SMMEs.

1.2 Problem statement

It is suggested here that the impact of SMMEs in relation to government policy objectives including poverty alleviation, job creation and the enhancement of national economic growth is a critical part of the post-apartheid reconstruction programme. SOEs are instrumental in driving the government agenda of promoting and sustaining emerging Black SMMEs

to address the injustices of the past. SOEs must therefore design and implement policies that increase business opportunities for Black suppliers and maximise actual purchase of goods and services from these suppliers. On the other hand, Black SMMEs must have beneficial black ownership and control that participate in the day-to-day decision-making and management of such enterprises. Many commentators have however argued that the current BEE model handicaps entrepreneurship as it is seen as wealth distribution and not wealth and job creation (Muburgh, 2005). The basic question that needs therefore to be asked is – how do Black SMMEs perceive the BEE policies pursued by SOEs?

1.3 Purpose of the study

The primary purpose of this study is to explore the successful implementation mechanisms of SOEs' BEE policies within the SMME sector. This research will therefore specifically evaluate Black SMME's suppliers' perceptions of SOEs' BEE policies. This research will furthermore focus on the perceived effectiveness of the policy in the advancement of Black SMMEs. One criteria will therefore be to measure how sustainable SOEs' BEE policies are in meeting the government challenges of halving poverty and unemployment by 2014 and achieving the required average economic growth rate of 6 per cent.

1.4 Research Objectives

The primary objective of this research is to analyse the perceptions of Black SMME suppliers around SOEs' BEE policies and further determine if SOE's are enablers of growth and development. The assumption here is that SMMEs play a very important role in the South African economy as a developing nation by generating employment and economic growth.

Secondary Research objectives

- To evaluate current perceptions on the tender processes
- To establish the awareness levels of support advice centres
- To determine the perceptions of the effectiveness of BEE policies
- To assess the impact of government policies on the development of SMMEs
- To establish the sources and impact of funding for SMMEs
- To establish the training commitment in SMME development
- To determine the perceptions of the role of Non- Executive Directors
- To establish the availability or not of future plans of SMMEs

1.5 Relevance of the study

The SMME sector in South Africa, and globally, potentially plays a significant role in economic growth and job creation. To date the contribution of SMMEs to the economy is substantial and is estimated to contribute more than 50 percent of total employment and about 41 percent of the country's formal sector GNP (Free State Business, 2001:3). However, to develop the SMME sector requires purposeful structuring and direction.

Much has been said and written about the South African government's drive to promote and support BEE policies. The philosophy behind this drive is to ensure that Black people previously excluded from the mainstream economy, now have the opportunity to participate as equal citizens of the country. In addition the participation of Blacks in the South African economy is in the long-term interest and stability of the country. The success of Black SMMEs in particular is significant in the absorption of the unemployed labour force, but will also help to reduce government expenditure on social grants. The success of the SMME sector has therefore a direct impact on the national economy and this research report will present a balanced insight into the related issues.

SOEs form a significant portion of vital industries that drive the economy of South Africa and are instrumental in delivering many social goods and services to ensure a better quality of life. Corporate governance is one of the cornerstones of the strategic vision embodied in the SOE protocol, which seeks to provide guidance specifically to the public sector and takes into account the unique mandate of the SOEs. SOEs policies therefore seek to maximise and promote entrepreneurship in Black communities and give Black businesses access to the mainstream of business opportunities (Republic of South Africa, Department of Trade and Industry, 2002)

SOEs play a leading role in the economy by developing effective and sustainable programmes that enhance economic growth and increases competitive capacity. The importance of this study therefore, taking into consideration all the above-mentioned points, is to assess the current SOE policies (with Eskom as an example) in relation to the promotion and fulfilment of the Black SMME mandate. This research will establish the challenges Black SMMEs face in terms of growth and sustainability with particular reference to outsourcing. The results of this study will thus hopefully, act as a catalyst to the private sector to emulate SOEs with effective affirmative procurement policies.

1.6 Limitations of the study

- There is currently little literature that focuses on State Owned Enterprises' BEE suppliers and the success of their procurement policies. However, this did not hamper the quality of the research.
- The initial research scope was to survey the top three State Owned Enterprises (Transnet, Eskom and Telkom) but only Eskom responded positively in the time allowed.
- Eskom Ltd has four divisions (Generation, Distribution, Transmission and Eskom Enterprises) and only the Generation

Division (the “engine” of Eskom Limited) co-operated in agreeing to release information on Black SMME database.

- 50 SMMEs in Eskom Generation Division were surveyed and it is accepted that this sample may not be representative of the entire Eskom. The general comments and recommendations that will be drawn from this study may however, be more generally appropriate and helpful.
- The reliance on the perceptions of one key informant like the owner or manager may imply cognitive bias. Many studies have however demonstrated the validity of this methodology (MacGregor, 2004:67)

1.7 Assumptions

- It is assumed that all Black SMMEs in the sample frame are legitimate businesses as claimed in the survey.
- It is assumed that all participants have answered truthfully to the questions in the research report.
- It is assumed that since all State Owned Enterprises have adopted and implemented the government's 10-point procurement plan, the Eskom survey results can generally be said to reflect other SOEs policies (Transnet and Telkom).

CHAPTER 2: THEORETICAL FOUNDATIONS OF THE STUDY

2.1 Introduction

This chapter presents some of the models on which SMME development is based. Central to the growth of the economy is the development of a vibrant SMME sector, which development experts agree, is the key to resolving many societal challenges, including job creation (Entrepreneur SA, 2005). Small businesses contribute to the South African economy by providing job opportunities, introducing innovative products, stimulating economic competition, aiding big business and producing goods and services.

2.2 Framework

Since 1994, the South African government has invested significant political capital in the support of small, medium and micro enterprises (SMMEs) in recognition of the fact that SMMEs are key contributors to both growth and the combating of unemployment. This contribution is echoed in a report by the Department of Trade and Industry (Republic of South Africa, Department of Trade and Industry, 2003), categorically recognising that creating a community of entrepreneurs within the Black Economic Empowerment (BEE) framework is vital to broadening the South African economic base, developing the economy and ensuring the inclusion of previously disadvantaged individuals. No new economy can grow by excluding any part of its people, and an economy that is not growing cannot economically integrate its citizens in a meaningful way (Republic of South Africa, Department of Trade and Industry, 2003). Government support is epitomised in the passing of the Broad- Based Black Economic Empowerment Act 53 of 2003 as part of the economic transformation package of the government.

The DTI claims that all enterprises, irrespective of the racial categorisation of its equity holders and management, can contribute towards the

elements of broad-based BEE processes. DTI has developed a scorecard for SMMEs that covers the following areas:

- Ownership
- Skills development
- Preferential procurement
- Employment equity
- Enterprise development
- Management control
- Corporate social responsibility

2.3 Strategy

In line with widespread literature on small business research, this report will adopt the National Strategy for the Development and Promotion of Small Business in South Africa, which uses the following categories as the basis for the definition of SMMEs. The Act defines four categories of small businesses as follows:

- Survivalist
- Micro
- Small and;
- Medium enterprises.

Survivalist enterprises - These are activities by people unable to find a paid job or get into the economic sector of their choice. This category generates income, which is less than the minimum income standard or the poverty line. Poverty, and the attempt to survive, are the main characteristics of this category of enterprises e.g. hawkers, vendors and subsistence farmers.

Micro enterprises - These are very small businesses, often involving only the owner, some family members and at most one or two paid employees. These enterprises usually lack formality in terms of registration. They include, for example, spaza shops and minibus taxis.

Small enterprises – They constitute the bulk of the established businesses, with employment ranging from five to about 50. These businesses are likely to operate from business or industrial premises and meet formal registration requirements.

Medium enterprises - The upper limit of employment on this sector is 200 people. This sector is still viewed as owner/manager-controlled, though shareholding does occur in more complex organisations. These enterprises are often characterised by the decentralisation of power to an additional management layer.

McMahon (1998) looked for a theoretically sound, and empirically validated, explanation of small and medium-sized enterprise growth, to serve as a broad conceptual framework for research and policy-making regarding the business growth phenomenon. He argued that consideration should be given to a conceptual framework that represents SME growth as a series of stages of development through which the business may pass in an enterprise life cycle.

Again, according to McMahon (1998:5), the growth and life cycle of stages framework has a substantial pedigree in the literature of economics and business generally, and in the literature focused specifically on SME development. A life cycle with four development stages is as follows:

- **Start up** – young, small enterprises with simple organisational structures. The organisation is highly centralised and quite informal. There is little functional specialisation.
- **Expansion** – slightly older and larger enterprises with more complex organisational structures. The organisation is still much centralised and is a little more formal than in the start-up stage. Functional specialisation is generally adopted.
- **Maturity** – although not necessarily older, on average, than those in the expansion stage, enterprises in this stage are typically more than

twice as large. Organisational structures are more complex. Centralisation is declining and formalisation is increasing.

- **Diversification** – enterprises are generally medium-sized with an increasing tendency to have divisionalised structures.

The above life cycle stages provide some evidence that businesses may, in some sense, progress sequentially through the stages as they evolve and develop. According to McMahon (1998:7), some critique of stage models of SME development, which acknowledges the weaknesses of business growth, are:

- Some stage models are inclined to address the symptoms of growth, rather than reveal the underlying processes of the phenomenon.
- Where attempts are made to empirically validate stage models, this is most often done with relatively small samples and cross-sectional data. Longitudinal data is more appropriate.
- Stage models tend to assume that all SMEs pass through each stage, or fail in the attempt to do so.
- Stage models typically fail to capture important early stages in the initiation of small enterprises, including prior start-up. The focus of attention, or emphasis, is most often on those concerns well on the path to becoming medium-sized.
- Stage models usually measure enterprises' size in terms of sales revenues or number of employees, and they usually disregard other measures or performance such as product mix, value added and rate of innovation.
- Stage models tend to focus on internal dynamics of growing concerns, and typically pay insufficient attention to the impact of external factors in the social, economic and business environments.

A study on SME growth trajectory by Bullock *et al*, (2004:6) carried out an analysis of growth at individual firm levels for those firms that survived over the period of 1997-99 and found that:

- Smaller SMEs grow faster than larger SMEs
- Younger SMEs grow faster than the older ones
- Owner-managed firms and firms with concentrated ownership appear to experience faster productivity growth than others.
- Chief executive's educational level does not show a significant impact on company growth.
- Innovation and training contribute significantly to SME output growth
- There is no evidence for a significant impact of external business advice on SME growth.
- The impact of financial constraints on SME growth is not statistically significant.

2.4 Resources and Capabilities

The importance of the SMME sector to the economy has been highlighted by numerous studies. Unlike large firms, smaller ones rely on a few individuals to carry out various managerial tasks, making it necessary for an owner/manager to acquire a number of skills to run such an enterprise successfully (Dawes, 1999:97). The main challenges facing SMME operators are highlighted in the following life cycle, starting with conception, through to survival, profitability and stabilisation, profitability and growth, and take-off to maturity. Managerial skills and competency development in small business are thus very critical. A number of important issues to be considered are leadership, team management, management self-development and personal competence (Dawes, 1999:98).

Many studies and surveys done in Africa, including South Africa, have confirmed that African entrepreneurs are very successful in overcoming

obstacles that would have severely tested even the most talented entrepreneurs elsewhere in the world (Fick, 2002). Entrepreneurship is therefore certainly alive in Africa despite often-hostile environments. Entrepreneurship has flourished best where supportive African governments have allowed relatively free markets to flourish. Despite its problems, Africa is responding to the 21st century and a "quiet renaissance is slowly transforming Africa" (Fick, 2002:218).

2.5 Summary

This chapter has attempted to identify some cardinal issues and develops a number of theoretical foundations of the study. In the next chapter i.e. literature review, expert literary contributions to the development of the SMME sector and other related topics will be discussed and where appropriate reference made to issues raised in the previous two chapters.

CHAPTER 3: LITERATURE REVIEW

3.1 Introduction

This chapter provides a critical review of the issues raised in Chapter 1 and 2 through the evaluation of appropriate literature. Where relevant the impact on the development of Black SMMEs will be explored.

3.2 Small Medium and Micro Enterprises

Self-employment is often seen as a way of increasing society's propensity for entrepreneurship, a view which is encouraged by governments' interest in small businesses that in turn is due to the hope that entrepreneurial activity will grow and contribute to the national economy (Baine, *et al*, 2003:455). SMMEs are therefore rightly seen as potential sources of wealth creation and as incubators of new entrepreneurship.

The challenges facing many entrepreneurs in South Africa today vary depending on the entrepreneur's level of education, financial resources and experience as a worker or business owner (Tati, 2006:7). Small business can be divided into the following two groups –

- Emerging entrepreneurs who may not have the advantage of a higher education, lack financial resources and have little or no entrepreneurial experience.
- The second group of entrepreneurs comprises people who have a definite advantage:
 - Having a higher level of education and can establish a business concept and articulate a business plan
 - With existing financial resources they can access finance
 - Many of them also have previous work or entrepreneurial experience

The small business sector contributes significantly to the South African economy through job creation and income generation and a general

improvement in the standard of living of the general population. However, the SMME sector faces a number of obstacles including access to start-up and expansion finance, lack of adequate training and lack of adequate support systems.

Research previously conducted demonstrates that the major factor that impedes the establishment and success of Black SMMEs is the lack of capital, which is described as the lack of own funds and assets. Own savings and assistance from relatives or friends are the most popular sources of start-up capital in SMMEs and only a small percentage makes use of loans from banks or private institutions. The full impact of the obstacle to start-up finance has therefore not been fully determined (Free State Business, 2006).

The financial needs of different types of SMMEs vary widely, with access problems particularly severe in rural areas. Many of these start up micro-enterprises include those owned or controlled by women as well as other formerly disempowered groups, and certainly higher risk business categories (Republic of South Africa, Department of Trade and Industry, 1995)

For SMMEs, access to finance presents a special issue that has recently received more attention from the financial community, the state and its agencies. Through their products and services offered to SMMEs, including consultancy, it would be expected that banks should treat SMMEs with consideration, taking into account the financial needs in their entire life cycle. Creditworthiness is becoming crucial for SMMEs and external ratings made by several agencies are a very important information commodity. SMMEs should however, be better prepared and ready to disclose their records (Cancer et al, 2005:146). The state and agencies should develop supporting schemes and foster other instruments to help SMMEs.

The government is committed to strengthen the link between small enterprises and existing, as well as evolving financial institutions, so that available funds are channelled to areas where they are most urgently needed. Areas for direct and indirect government and parastatals involvement in the financial sphere include the following: Commercial banks, SMME-focused financing institutions and micro-enterprise finance (Republic of South Africa, Department of Trade and Industry, 1995)

The Department of Trade and Industry has made proposals for consideration including non-tax support policies. Government has introduced concessions to SMMEs including depreciation allowances, rebates from some input products and industrial development incentives amongst others. The 2005 and 2006 budgets have also given support to SMMEs through the tax system, streamlining VAT procedures and raising qualifying tax threshold for small businesses (Napier, 2006:9). The South African Revenue Services (SARS) has been running a campaign for tax amnesty to SMMEs in order to educate and broaden the tax collection network (Napier, 2006). Many SMMEs were not aware of their tax obligations as legitimate businesses in the country.

State owned lender, the Industrial Development Corporation (IDC), eases access to funding SMMEs to a tune of R1 billion annually (Mashalaba, 2006:1). The funding scheme is set at rates below prime to stimulate economic activities in the depressed areas and boost employment creation. The IDC is focusing on depressed areas, townships, Black entrepreneurs and plans to deepen broad-based Black economic empowerment initiatives and to assist small enterprise (Mashalaba, 2006:1).

Market access for SMMEs is a major issue in South Africa and also elsewhere in the world. Voluntary action by large enterprises, parastatals and governments departments can go a long way towards better market access. According to the government Black Economic Empowerment

legislation, the preferential procurement element encourages and facilitates the adoption of broad-based BEE by aligning business imperatives to broad-based BEE; as opposed to the previous narrow measure that focused on shareholders only (Balshaw T & Goldberg J, 2005:79).

Access to information and advice is crucial to the survival of SMMEs. Due to past discrimination and lack of opportunities, this problem is most severe among Black entrepreneurs. In South Africa, some progress has been made with the preparation and dissemination of information material relevant for small enterprises (Republic of South Africa, Department of Trade and Industry, 1995).

The acquisition of relevant vocational, technical and business skills is generally regarded as one of the critical factors for success in small enterprises. In addition, literacy and entrepreneurial awareness are seen as particularly important to enable people to advance from survivalist activities into larger and better earning enterprises. Responsibility for the transfer of education, training and experience rests on a wide range of institutions including parastatals, GNOs, government and the private sector. According to Balshaw & Goldberg (2005:79) code 400 of the BEE codes outlines the various criteria to be applied in determining the actual level of skills development within an enterprise by considering skills spend for Black employees.

SMMEs play a very important role in contributing to Corporate Social Responsibility through working with other private, public, voluntary and charity organisations to create vibrant social networks within the local communities in which they are trading (Joseph, 2000:343). In most cases, Black SMMEs, also make available local products and services supported by flexible payment and credit terms. Many SMMEs are concentrated in deprived communities, and the contribution, which they make in such communities, is of specific significance. It has been shown that such

deprived areas are very dependent on a business community made up of SMMEs. The type of corporate social responsibilities that SMMEs engage in includes cash donations, in-kind donations, donations of surplus materials, the use of premises for community groups and fund-raising.

3.3 Black Economic Empowerment

Black Economic Empowerment (BEE) is an integrated and coherent socio-economic process that directly contributes to the economic transformation of South Africa and brings about significant increases in the number of Black people who manage, own and control the country's economy, as well as significantly decreasing income inequalities (Republic of South Africa, Department of Trade and Industry, 2003).

The challenge currently facing government and related enterprises is how to reach previously disadvantaged entrepreneurs to ensure skills transfer and the development of sustainable business models. There are a number of charters, frameworks and BEE codes laid out by various industries, which should not be used in isolation, to develop sufficient numbers of Black entrepreneurs. There is an increase and improvement in terms of the participation by Black entrepreneurs, yet there is still a need for increased impetus in critical areas (ITweb Brainstorm, 2006).

BEE was conceived as a narrow process, which was limited to equity participation as well as limited management control by Black individuals (Shubane, 2006:12). Growing the economy to meet the expectations of the newly liberated population has continued to tax the minds of the new policy makers. Where does the responsibility lie for development of BEE and entrepreneurs? For BEE and entrepreneurial development to be successful, there must be a partnership between government via its various agencies, large corporate business, educational institutions, developmental organisations and entrepreneurs themselves. Commitment from all economic sectors and players is perhaps the most relevant area when

discussing the growth and advancement of BEE and SMMEs (ITweb Brainstorm, June 2006). The question of whether or not BEE in its current form has boosted Black entrepreneurship is one not easily answered in corporate South Africa (Derby, 2004:1). It is hoped that BEE will develop a class of independent Black entrepreneurs, and its success will be measured by the impact it makes on the growth of the economy.

Many people have argued that the concept of instant ownership by Blacks in order to comply with different industry charters could easily be the downfall of the ideology of BEE as it has been conceived that Black individuals and corporates are exploiting BEE.

According to Yudelowitz, (2006), BEE is in danger of losing credibility because it does not recognise quality over quantity. For far too long criticism of BEE partners' performance has been veiled by fear of being labelled racist; BEE, therefore, remains stuck in a cycle of politeness, guilt, entitlement and defensive insecurity. Yudelowits (2006) argues that BEE needs to recognise and encourage those who contribute and add value to the process, and weed out those who do not. That would ensure that the old assumptions, which up to now have trapped and divided, many BEE exponents, are broken.

One of the shortcomings for BEE is the greediness by some of the very people intended as beneficiaries of the programme. Fronting by Black people for white companies is one of the most serious impediments to government's BEE initiative. Fronting, drawn out adjudication processes and delays in timeous payments to service providers, are severely damaging SMMEs and thus efforts to promote BEE. The government has now set in motion a legislation framework to ensure that BEE reaches and improves the lot of the formerly disadvantaged.

Many Black people are setting up companies thanks to the government's transformation policies and the consumer-spending boom. Industries that

pioneered BEE charters have outperformed sectors without charters (Ntingi 2006:1). As the largest buyer in the country, government has the responsibility to ensure that its procurement policy supports its overall economic objectives, and serves as an instrument for attaining those objectives. One of the key elements in Government's strategy for employment creation and income generation is the promotion of small, medium and micro enterprises (SMMEs). Government therefore embarked on a reform process to make the tendering system more accessible to SMMEs.

The following seven criteria as adopted by Government's procurement reform initiatives will determine if companies are truly Black-owned:

- Legal entity
- The enterprise must be registered with the Department of Inland Revenue
- Independent and continuing enterprise for profit
- Provides a commercially useful function
- At least two-thirds owned by one or more HDI's (Historically Disadvantaged Individuals)
- Managed and controlled by one or more HDI's
- Has an average annual turnover within prescribed limits

The government has established a Black Business Supplier Development Programme (BBSDP), which is an 80:20 cost sharing, incentive scheme, which offers support to Black-owned enterprises in South Africa (Republic of South Africa, Department of Trade and Industry, 2006). The scheme provides such companies with access to business development services in order to assist them in improving their core competences, upgrading managerial capabilities and restructuring to become more competitive (Republic of South Africa, Department of Trade and Industry, 2006).

Who qualifies for the grant?

- Companies that are majority Black-owned (51%) and which have a significant representation of Black managers on their management team
- Companies must have had a minimum trading history of one year – this is a key criterion for selection
- Companies accessing the scheme will also be required to comply with commercial regulatory requirements applicable to their areas of business, e.g. SARS

The scheme aims to:

- Fast-track existing SMMEs that exhibit a good potential for growth into the mainstream of the formal economy
- Foster linkages between Black-owned SMMEs and corporate and public sector enterprises
- Complement current affirmative procurement and outsourcing initiatives in the corporate and public sector enterprises
- Help recipient companies build capacity to successfully compete for corporate and public sector tenders and for outsourcing opportunities.

3.4 State Owned Enterprises

The following highlights from the literature review touches on issues related to State Owned Enterprises (SOEs) mandate to support Small, Medium and Micro Enterprises (SMMEs) as part of the government overall strategy of job creation. SOEs play a significant financial role in the country's economy and are instruments of Black Economic Empowerment. Transnet, Eskom and Telkom have a combined discretionary procurement budget of approximately R45-billion, of which just under R15-billion was BEE-centred (South Africa information, 2006).

SOEs are a reflection of the economic priorities of the government, and have led the business sector to implement important state policies. For the first decade of democracy, policy priorities of SOEs were characterised by the need for transformation and economic empowerment to promote a wider economic participation in the South African economy (Lunsche, 2005:2). The emphasis has now changed and with a clear mandate from the top. SOEs are expected to be efficient and cost-competitive infrastructure providers for the private sector. Most SOEs have reached a certain level of maturity (to a large extent they have been transformed and empowered). Therefore, SOEs are using their combined financial strength (Asset base - R300-billion with a R50-billion procurement budget) to effect transformation in the private sector. A look at the employment equity and affirmative procurement at Transnet, Eskom and Telkom confirms the fundamental change that has taken place in public sector companies.

At Transnet, more than R5-billion of its procurement budget was spent on BEE companies in the 2004/2005 financial year and about three-quarters of its middle to senior and executive management is Black (Transnet, 2006). Telkom spent almost 60% or R5 billion of its procurement budget on BEE and more than 60% of its employees are Black. Being partially privatised, Telkom has also brought 100,000 mostly Black retail shareholders into the fold and is looking at selling a further 5% to BEE companies (Telkom, 2006). In 2005, Eskom spent more than R10 billion of its total R19 billion-procurement budget with Black companies, the majority of them SMMEs. Almost 60% of Eskom's managerial, professional and supervisory staff is Black. (Lunsche, 2005:1). The SOEs have been tasked with spending more than half of the R400 billion government is setting aside to improve public infrastructure over the next few years (Lunsche, 2006:1).

Affirmative procurement has had a huge effect on the supplier base of SOE, particularly with SMMEs. On balance, many SOEs are spending at least half of their procurement budget with Black Owned companies, particularly SMMEs.

The Eskom supplier database lists more than 20 000 active SMMEs, some of which have been developed by the energy utility and rely almost exclusively on work received from Eskom. Telkom's affirmative procurement programme launched in 1996 now accounts for more than half of its spending on products and services using 3000 companies (Telkom, 2006). The supplier databases meet strict BEE criteria in terms of employment equity, ownership, procurement and socio-economic spend. Once on the database, BEE suppliers often receive pricing benefits ahead of more established companies. Many of the SMMEs are provided with support including tendering guidelines, special payment terms and price matching. SOEs also insist that large companies tendering for their business have a BEE ownership of at least 10%, a strong Black management presence, an extensive socio-economic programme and that they procure goods from Black suppliers. Affirmative procurement remains an important catalyst for transformation among the wider economy, and has enhanced empowerment among large and small companies.

The following are some of the plans by SOEs to promote access to Black enterprises:

- Access to tendering information
- Tender advice centres
- Review of procurement procedures for contracts less than R10 000
- Waiver of security/sureties
- Break-out procurement (packaging into smaller contracts)
- Early payment cycles
- Preferences/ targeting
- Simplification of tender submission requirements

- Appointment of a procurement ombudsperson

Many critics of affirmative procurement believe that it has not yet fully achieved another key objective of the programme, which is to inculcate a business-like efficiency among the supplier base that ensures full compliance with high-quality requirements at all times. This is demonstrated by the fact that many of the SMMEs suppliers still rely heavily on SOEs like Eskom, for the bulk of their work. However, it is hoped that this will eventually give them financial strength and capacity to expand into the rest of the economy. Eskom offers business training to start-up companies and are required to accelerate and deepen their involvement with their supplier base (Lunsche, 2005:2).

One of the shortcomings to SOEs' BEE procurement is that some Black suppliers that are awarded tenders lack the skills to successfully carry out the contracts' obligations. It is also not easy to detect companies that are less than honest about their performance capacity (Motsoeneng, 2006; 10)

Eskom, as an example, will in the near future introduce a formula to show how much it has helped the development of Black business by revealing the BEE shareholding of its suppliers (Shubane, 2006:12). This will show the amount of money that ends up in the hands of its Black business partners. The initiative will show the progress preferential procurement had made in enhancing the government's efforts to boost Black business.

SOEs have aligned themselves to Accelerated Shared Growth Initiative of South Africa (ASGI-SA) and are working with the department of Public Enterprises (Republic of South Africa, Department of Public Enterprises, 2006) to develop strategies and models that will further enhance the companies' ability to influence the ASGISA objectives. SOE's contribution to this initiative is, amongst others, to set local content, Black Economic Empowerment (BEE, BWO and SMME) and skills development targets, as key evaluation criteria in tenders it awards (Republic of South Africa,

Department of Public Enterprises, 2006). The ASGI-SA scorecard comprises the following:

TABLE 1

CRITERIA	WEIGHT
BEE	20%
BWO	15%
SMME	15%
LOCAL CONTENT	25%
SKILLS DEVELOPMENT	25%
ASGISA	100

National Business Initiative (NBI) commissioned a study to explore whether Larger Enterprises (LE) can increase and strengthen its existing contributions to enterprise formation in South Africa through doing business with smaller enterprises on commercial merits rather than through social or philanthropic initiatives. A further objective of the project was to highlight the contribution that South African companies are already making to small enterprises' growth in the country, based on the linkages LEs have with SMMEs within the core business process. Four large enterprises, namely Anglo America Corporation, Eskom, Dimension Data and South African Breweries participated in the study together with selected SMMEs that have linkages with them. The analysis confirmed that:

- Creating and strengthening supply linkages in the entire value chain between large corporations and small business is critical for ensuring sustainability of small businesses in the long term.
- There is a need for providing a coherent and consistent rationale or economic logic for large enterprise engagement with small enterprises in core business activity, in terms of competitive advantage, reducing costs and strengthening the supply chain.
- This economic rationale should have broader socio-political appreciation of the fact that

- o Dedicated and clear support for SMME development is critical and important for the country and the attainment of shared economic growth aspirations.
- o There is a need to reduce risk, related to dependence on Les, as a job creator.
- o LEs can strengthen their local licence to operate in particular communities through SMME engagement.

3.5 Corporate governance

Corporate Governance is all about how companies ought to be run, directed and controlled. For SMMEs, it is about the respective roles of the shareholders as owners and managers. It is about setting rules and procedures as to how the company is run. It is about putting checks and balances in place to prevent abuses of authority and ensure integrity of financial results (Chan, 2003:1).

State-owned enterprises often have to engage in a higher level of corporate governance than those in the private sector, as stakeholders conceive them as having a greater duty of accountability and transparency. According to the State Owned Enterprises protocol (2004: 15), good governance is good business and helps promote the credibility of public sector organisations. It must be remembered that the practices within state-owned enterprises may be viewed as a reflection of government's commitment to implementing good governance. Public sector entities are subject to additional regulation, such as the Public Finance Management Act and guidelines from government departments, such as the Protocol on Corporate Governance for the public sector.

Code of Corporate Practise and Conduct applies to the Public sector enterprises and agencies that fall under the Public Finance Management Act and the local Government. The Municipal Finance Management Act includes any department of State or administration in the national,

provincial or local sphere of government, or any other functionary or institution (King II Report, 2002). While it is acknowledged that certain forms of State enterprises may not lend themselves to some of the principles set out in this code, it is recommended that the principles should be adapted appropriately by such enterprises. To assist entities falling within this category, national Treasury issued a "Good Practice Code" as official directives in line with the overall framework for financial management for the public sector. (King II Report, 2002).

Corporate governance in SOEs is covered in the protocol that was first published in 1997 with a view to inculcate the principles of good governance. The protocol seeks to provide guidance specifically to the public sector, taking into account the unique mandate of the SOEs, which includes the achievement of socio-politico-economic objectives of the government (Republic of South Africa, Department of Trade and Industry, 2002).

The board of directors constitute a fundamental base of corporate governance in the SOEs. Each SOE should be headed and controlled by an effective and efficient Board, comprising executive and Non-Executive Directors (NEDs), of whom the majority should be NEDs, to ensure independence and objectivity in decision-making. Given the diverse background of the South African population and the requirements for constant and effective interaction among directors, the unitary board structure is regarded as being appropriate for SOEs (Republic of South Africa, Department of Trade and Industry, 2002:8).

SOE boards also have the mandate to carry out socio-economic responsibilities as part of their corporate governance mandate:

- The restructuring of SOEs,
- Black Economic Empowerment,
- Employment Equity

- Information, Public education and awareness
- Code of Ethics.

Good corporate governance does not guarantee business success. However, poor governance is often a symptom of a business failure (Chan, 2003:1). Good systems also help to prevent abuses of authority. More importantly, lifting the confidence of existing owners and potential new ones is a worthy goal. The main corporate governance themes that are currently receiving attention are:

- Adequately separating management from the board to ensure that the board is directing and supervising management including the separation of roles
- Ensuring that the board has an effective mix of independent and non-independent directors
- Establishing the independence of the auditor and therefore the integrity of financial reporting

The establishment of good corporate governance at Eskom for example has been a function of effective leadership. According to Khoza and Adam (2005), the three important pragmatic reasons why Eskom prioritised good governance were:

- Eskom's capacity to raise capital through international markets depends largely on good credit rating by international rating agencies.
- Good governance is of critical importance to the Eskom board because it recognises the need to exercise its duties in a responsible and lawful manner.
- The position of a director in a state-owned enterprise brings with it the responsibility of being a custodian of a national asset.

Similarly, Telkom has over the past years undergone significant transformation and has opened its doors to international traders and

investors. Today Telkom has evolved into Africa's biggest integrated communications group listed both on the Johannesburg Securities Exchange (JSE) and on the New York Stock Exchange.

Good corporate governance also has benefits to SMMEs:

- It will allow SMMEs to take advantage of what is regarded as best practice from larger companies. SMMEs are free to choose whether its rules are strict or have a less restrictive set of rules. The added benefits are often a better system of internal control and this leads to greater accountability and better margins.
- It will free up the owners/managers from operational duties as well as prevent sources of disputes.
- It will pave the way for possible future growth or a sale. A consistent track- record of good governance will greatly assist corporate credibility in a competitive environment. (Chan, 2003:1).

The SMMEs therefore have to play their role in ensuring that they play according to the rules of the game. Proposals on good governance by SMMEs include aspects such as value for money, good financial control, countering corruption, meeting tax and service charge obligations and adhering to prescribed labour practices.

3.6 Non-Executive Directors in SMMEs

Many SMMEs are family-owned or run by a small team of directors. There is a need for SMME's to embrace the role played by non-executive directors (NED). According to Berry & Perren (2000), there is a break point at around 50 employees when SMMEs become more likely to engage a non-executive director. Smaller-scale SMMEs are likely to source their own personal networks for non-executive directors while larger-scale SMMEs tend to go for their bankers or accountants.

Skills and human resource development are logically important for business growth. The skills of the board and the skills of the senior managers and staff should therefore be complementary and possibly interchangeable (Bennett RJ & Robson PJA, 2004:98).

John Smithson, in his book on the role of non-executive directors in the small to medium sized business argues that it is not enough for non-executives of SMMEs to ensure good governance, which is the primary role in large companies. Non-executive directors in SMMEs must be prepared to get their hands dirty when this becomes necessary. According to the King 2 report, non-executive directors should be " individuals of calibre and credibility, and have the necessary skills and experience to bring judgement to bear, independent of management, on issues of strategy, performance, resources, transformation, diversity and employment equity, standards of conduct and evaluation of performance".

Smithson, 2003:431 continues to argue that the competencies that distinguish successful non-executive directors are:

- Initiative
- Strategic influence
- Self-development
- Positive self-image
- Flexibility

Flexibility is particularly necessary for SMMEs' non-executive directors as opposed to non-executives of large firms. The roles that a non-executive may need to play in the course of his or her duties are leader, mentor, confidant, thinker, doer, evaluator, networker, terminator and mole (Smithson, 2003:431). A good balancing act is required between remaining detached from day-to-day operations and being too involved. SMME non-executive directors must sometimes decide to be very involved in operational matters to prevent disaster, and at other times

must remain a mentor rather than a doer so that the executives can learn by doing.

According to a survey done in the UK on the need for non-executive directors, a questionnaire was designed to collect relevant data to provide a general overview of NEDs and mentor involvement in SMMEs and to allow the following questions to be answered:

- How many SMMEs have non-executive directors (NED), and are there any firm size patterns?
- Are there firm age patterns?
- Are there firm sector patterns?
- Does firm size influence the formality of NED procedures?
- What does the managing director consider as NED contributions?
- Are firms with NEDs more successful than those without NEDs?
- Does the profile of the managing director matter?
- Does a firm size influence NED involvement?
- How do firms acquire NEDs?
- Why do some SMMEs not have NEDs?

The results of the survey showed that it was not possible to demonstrate a significant difference in the performance of SMMEs that have NEDs against those that do not. However, those managing directors that have NEDs valued their input and listed a range of contributions they brought to the board including, amongst others, outside objectivity, a network of contacts and financial expertise.

3.7 International experience

The lessons that the South African SMME sector can learn from other countries are many and varied. The following are some lessons on the role that government can play in SMME development in transition economies.

One of the issues facing Central and Eastern European countries in the transformation from centrally planned to market economy, is the need to develop small and medium sized enterprises as part of the wider social and economic restructuring (Smallbone & Welter, 2001). The potential role of SMMEs in transformation includes:

- Generating employment and thereby contributing to absorbing labour surpluses which result from economic restructuring;
- Contributing to the development of a diversified economic structure;
- Contributing to the development of a supply base to serve the needs of large firms;
- Being a source of innovation.

At the early stage of transformation, the development of the SMME sector becomes one of the most effective instruments in the re-orientation of social awareness. Without liberating social awareness, the emergence of the private sector and the market economy are impossible (Smallbone & Welter, 2001:63). Self-employment and small business ownership may also provide a means of self-help support for many former employees of state-owned enterprises who either have lost their jobs – through the restructuring in state-owned enterprises or have been forced to for other reasons.

Whether or not the potential contribution of SMMEs to the process of economic transformation is in reality fulfilled in practice is partly influenced by the policy stance taken by the state; this is so since the state is one of the key influences on the external environment in which businesses develop in any economy; acting as an enabling and/or a constraining force (Smallbone & Welter, 2001:64).

According to Smallbone and Welter (2001), it is important to stress the variety of ways that government can affect the nature and pace of SMME

development rather than narrowly focusing on direct support measures and programmes.

- One of the ways in which the state can influence SMME development in any economy is through its influence on the macro-economic environment in which the business is conducted. The issues of interest rates and taxation are key factors influencing the development of SMMEs.
- A second way for government to influence the nature and pace of SMME development is through the differential impact of government legislation on firms of different sizes, e.g. compliance costs of meeting particular legislative requirements. Compliance costs results from the time needed to understand the legal requirements of legislation, to deal with the necessary paperwork and to train and pay staff to carry out any additional task that results.
- A third and perhaps the most obvious way in which the state can influence SMME development is through direct support policies and programmes that are designed to assist small firms to overcome size-related disadvantages.
- A fourth way in which the state can influence SMME development is through its influence on the development of those economic institutions that are a necessary part of a market economy, such as the business support infrastructure, banks and other financial intermediaries.
- The final role for the state in relation to SMME development is through its influence on the value placed on enterprise and entrepreneurship within society. This includes the characteristics of the educational system (curriculum and teaching methods).

Private enterprises and SMMEs have developed more quickly in countries where economic and political reforms proceeded smoothly and quickly. In summary, the role of the state in SMME development is the commitment

to create the necessary institutional, legal and cultural conditions. This includes basic reforms such as reviewing registration and reporting procedures, reforming the banking and tax system, eliminating corruption, which in turn impedes entrepreneurship and contributes to negative image in the society (Smallbone & Welter, 2001:75).

The Chinese government attaches great importance to the development of SMMEs and has integrated issues of small business development into its overall strategic planning for national economic and social development. (Chen, 2006). In order to promote the development of SMMEs, the government adjusted related legislation and policies systematically, and launched a series of policies and initiatives.

The study on SMMEs in Malaysia by Abdullar (1999:102) put forward recommendations to the Malaysian government, which resonates well for consideration by our own RSA government. The recommendations on SMME policy were to:

- Set realistic objectives over the medium and long term, and should be backed by adequate financial resources
- Identify potential areas of growth for both domestic and export markets
- Encourage the private sector and particularly the banks to be less reactive and more pro-active towards SMMEs, marketing themselves more effectively
- Promote inter-firm linkages and strategic alliances between large and small firms

The objectives of the above recommendations are to improve the efficiency, productivity and state of modernisation of SMMEs in Malaysia in order to facilitate both their overall contribution to the economy and to achieve a more balanced industrial structure.

CHAPTER 4: RESEARCH DESIGN AND METHODOLOGY

4.1 Introduction

This chapter details the development of the research design and methodology upon which this study is based. The research design constitutes the blueprint for the collection, measurement and analysis of data. It poses crucial choices: Does the research include experiments, interviews, observations, analysis of records, simulation, or some combination of these? Are the methods of data collection and the research situation to be highly structured? Is an intensive study of a small sample more effective than a less intensive study of a large sample? Should the analysis be primarily quantitative or qualitative? (Cooper & Schindler, 2003:146)

Methodology more specifically relates to the overall approach to the research process, from the theoretical groundwork to the collection and analysis of data (Hussey and Hussey, 1997). Methodology is concerned with:

- Why the researcher collected certain data
- What data the researcher collected
- From where the researcher collected the data
- When the data was collected
- How the data was collected/what technique would be used to gather data?
- How will the researcher analyse the data
- What kind of sampling will be used?

4.2 Target population

The population is defined as a collection of all observations of a random variable under study and about which one is trying to draw conclusions from the research data. A sample is a division of a population that represents the main interest of the study. This study was limited to one of Eskom's divisions – Generation, targeting their Black SMME suppliers. The target population was classified as SMMEs with less than 200 employees according to the Department of Trade and Industry definition. The sample covered three ranges of SMME sizes from very small, small through to medium-sized enterprises. The sizes were

- Less than 20 people
- Between 21 – 50 people
- Between 51 – 100 people
- Between 100 - 200 people

4.3 Sampling Design

A sample size of 50 small, medium and micro enterprises were used from a database of 200 national Black SMMEs provided by the Eskom Generation Division. The 200 companies were made up of Black Owned (BO), Black Empowered, Black Women Owned (BWO) and Black Women Empowered enterprises. Random sampling was applied to ensure proportional representation of the different BEE classification. The objective was first to get Black Owned enterprises followed by Black Women Owned enterprises and the balance to be Black Empowered enterprises. The list contained the name of the company, the telephone number and the contact person. The contact person is typically the owner/manager, a top-level manager, or an equivalent person who has a thorough knowledge of the business. An additional requirement applied to the sample selection was conformity to the South African National Small Business Act definition. In typical SMMEs, most business decisions relating to any major investment are made by the owner/manager; hence,

the questionnaire is targeted at a single respondent (usually the owner/manager or a key financial decision-maker).

4.4 Research technique

A quantitative methodology using telephones was used to obtain information. A simple 15-25 minute structured and close-ended questionnaire was used. Prior to the commencement of the study, a letter (e-mail and fax) from Eskom Generation Division management was sent to the 200 SMMEs informing them about this research project (See appendix C).

Telephone interviewing was selected because it is cheaper to execute than personal interviews and it potentially reduces bias (caused by the physical appearance, body language, and actions of the interviewer), is less labour intensive, has the fastest completion time, and is generally convenient. Telephones are especially economical where respondents are widely scattered, as was the case with this survey. Using this technique it was possible to interview respondents nationally at a reasonable cost. It was also accepted that all businesses in the total population, would have some form of telephonic communication thus reducing the potential for selection bias.

Some of the disadvantages of using the telephone for interviewing included:

- Inaccurate or non functional numbers (either missing digits or number not working)
- Limitation on interview length – a general view was that 10 minutes was an upper limit. Most interviews in the survey were however, successfully completed within 20 minutes with very few respondents complaining of interview length (there was generally an interest in the subject under discussion from most respondents and hence the concern with interview length was not a major limitation).

- Difficulty in terminating the interview with some respondents who wanted to talk about general issues or complain about the organisation being researched.
- The person to be interviewed was not always available during office hours (the value of mobile telephones were realised in cases where interviews by necessity were done after hours.)

Telephone interviewing was considered appropriate for the purposes of this study. Assurance was given to respondents that information they provided would be kept strictly confidential and it was further made clear to respondents that firms would not be identified in any reports pertaining to the study, as only aggregate data will be reported.

4.5 Research Instrument

A 15-25 minute structured questionnaire (See appendix A) was developed based on the study objective and the data collection method (i.e. telephone method). The questionnaire contained:

- Administrative questions (to identify the interviewer, respondents and conditions of the study).
- Classification questions (these covered demographic variables about the organisations, where located, company size, turnover with Eskom, type of contracts with Eskom, manager-owner educational levels and BEE classification. This also allowed the opportunity to group answers as patterns emerged during analysis.
- Target questions (addressing the specific study objectives). These questions were mainly comprised of closed ended questions – providing respondents with a fixed set of choices. These questions attempted to probe subjects such as perceived drivers, barriers to getting business and future plans, respondents' perceptions on issues like the tendering processes, Eskom advice support centres,

Eskom BEE policies, funding & finances, training & development, Non Executive Directors and SMMEs future plans.

A Likert-scale type with values of 1-5 and the dichotomous questions were adopted to measure the importance level of each item on the questionnaire.

4.6 Pilot study

In order to refine the questionnaire, a pilot study was done with four SMMEs (referred to as respondent testing). This was to help test the questionnaire length, the actual flow of questions, and specifically some questions to see if they were easily understood and to train the interviewers.

The questionnaire was slightly modified based on feedback from the pilot study. The modification was mainly on the questionnaire flow and using simpler words for some questions to ensure ease of understanding by respondents. It was established that the interview took between 15 – 25 minutes.

4.7 Limitations of the research design

- The project's starting date was delayed due to difficulties in obtaining the database of SMMEs from Eskom. This resulted in fieldwork only starting about two months from the initial project plan date. However, fieldwork was completed within two weeks (13 – 26 October 2006).
- Some respondents could only be reached on their cellular phones and not on the landline thus increasing the cost of data collection by giving the benefit of convenience (reaching them after hours).
- The usual problems that are normally encountered with databases were also experienced (problems such as incorrect telephone numbers / non-existent numbers/ missing digit/ company had moved / only fax line number available).

4.8 Data Analysis

This phase involved the reduction of collected data through the use of statistical manipulation and the displaying of data and the drawing of conclusions. The responses were collected and each questionnaire was checked as part of quality control before processing. After quality control, data was coded and captured. This was done by compliance to the following criteria (Tustin et al, 2005:454)

- Adherence to sample requirements
- Relevance
- Completeness of each questionnaire
- Legibility of responses
- Comprehensibility of responses
- Consistency in the response
- Uniformity in the unit of measure in the responses
- Accuracy in responses in order to eliminate bias.

The following are the brief descriptions of some statistical analysis that was typically used to analyse the data.

- **Basic tabulations**

All results were collated and presented as computer tabulations. This took the form of frequency counts represented by numbers and percentages. For all questions that contain ratings, means and standard deviations are also calculated as a standard procedure.

- **Factor and cluster analysis**

Attitudes were subjected to a factor analysis in order to understand groups of attitudes that were more commonly associated together. These groups of attitudes were then subjected to a cluster analysis, which allowed a better understanding of the various classifications.

- **Statistical software**

All statistical analysis was completed using the Statistical Package for Social Sciences (SPSS) for Windows.

CHAPTER 5: RESEARCH RESULTS

5.1 Introduction

This chapter presents the empirical research findings of the study, the focus of which was on assessing Black SMMEs' perceptions regarding their client, Eskom. The analysis is based on the 50 responses received. The first section of these results presents the structure of this sample in terms of the demographic profile of the sample. The second section provides the profile of the business operations of the Black SMMEs. Results from the two classifications: Black Owned and Black Women Owned enterprises will be analysed separately.

The arithmetic mean or average is defined as the sum of a set of values divided by their number. The mean is an approximate measure of central location for metric data (Tustin *et al*, 2005). The Standard deviation summarises how far away from the average the data values typically are. It is perhaps the most frequently used measure of spread and it is affected by extreme scores (Cooper and Schindler, 2003). A standard deviation less than 1 is considered low and thus accepted here as a measure of consistency, implying unanimous agreement amongst respondents. A standard deviation greater than 1 is considered high and a measure of inconsistency thus implying non- agreement amongst respondents.

5.2 Demographics

A tabulated summary of the demographics of the participants is provided in Table 2 below.

TABLE 2

Description	% Black Owned	% Black Women Owned
Region		
<i>Mpumalanga</i>	36	66.7
<i>Gauteng</i>	60	23.8
<i>Other</i>	4	9.5
Type of business ownership		
<i>Close corporation</i>	64	71.4
<i>Pty Ltd</i>	36	23.8

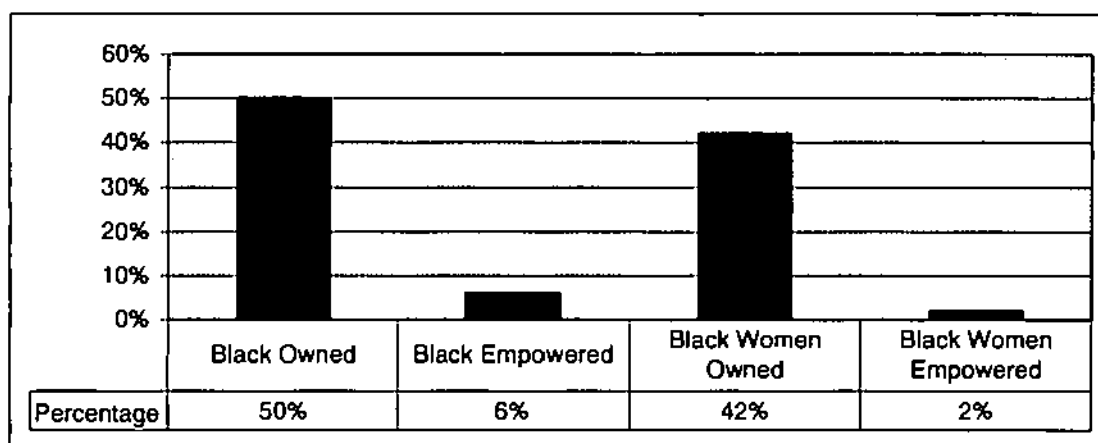
Description	% Black Owned	% Black Women Owned
<i>Sole Proprietor</i>	0	4.8
<i>Listed company</i>	0	0
BEE Classification		
<i>Black Owned</i>	50	
<i>Black Empowered</i>	6	
<i>Black Women Owned</i>		42
<i>Black Women Empowered</i>		2
Job Title		
<i>Owner</i>	56	33.3
<i>CEO</i>	4	14.3
<i>Manager</i>	20	47.6
<i>Other</i>	20	4.8
Gender		
<i>Male</i>	76	61.9
<i>Female</i>	24	38.1
Period – company operation		
<i>Less than a year</i>	0	4.8
<i>1 – 5 years</i>	36	47.6
<i>More than 5 years</i>	64	47.6
Period – Interviewee length of service		
<i>Less than a year</i>	4	0
<i>1 – 5 years</i>	48	76.2
<i>More than 5 years</i>	48	23.8
Type of Eskom contracts		
<i>Engineering and construction</i>	4	42.9
<i>Engineering and construction short</i>	8	0
<i>Plant contracts</i>	4	0
<i>Supply of goods – short contracts</i>	20	14.3
<i>Professional services</i>	8	9.5
<i>General services</i>	16	19
<i>Low value / low risk purchases</i>	0	0
<i>Other</i>	40	14.3
Markets served by the company		
<i>Local (RSA)</i>	92	95.2
<i>Africa</i>	0	0
<i>International</i>	4	0
<i>All</i>	4	4.8
Number of employees		
<i>1 – 20</i>	60	66.7
<i>21 – 50</i>	20	14.3
<i>51- 100</i>	12	19
<i>101 – 200</i>	8	0
Career background		
<i>Finance / Accounting</i>	20	23.8
<i>Marketing</i>	20	33.3
<i>Sales</i>	24	9.5
<i>Other</i>	36	33.3
Education level		
<i>Primary</i>	0	0

Description	% Black Owned	% Black Women Owned
<i>Secondary</i>	16	0
<i>Matric</i>	36	33.3
<i>Degree/diploma</i>	36	57.1
<i>Post graduate</i>	12	9.5
Number of company customers		
1 – 5	24	19
6 – 10	16	28.6
11 – 20	12	9.5
More than 20	48	33.3
Total sales value from Eskom		
Less than 100k	4	0
R100k – 500k	12	19
R500k – R1 million	0	0
R1 million – R5 million	60	23.8
Over 5 million	24	38.1

In summary, the data in table 2 depicts that about 92% of the SMME surveyed are Black and Black Women Owned. Ownership is considered a key determinant in assessing the success of the government BEE policies. The majority of businesses are small closed corporations run mainly by male owners who have many years of business experience. The majority (92%) of the respondents serve the local South African market, get good business from Eskom but do not rely solely on it as a customer.

5.3 Results classification (tables and graphs)

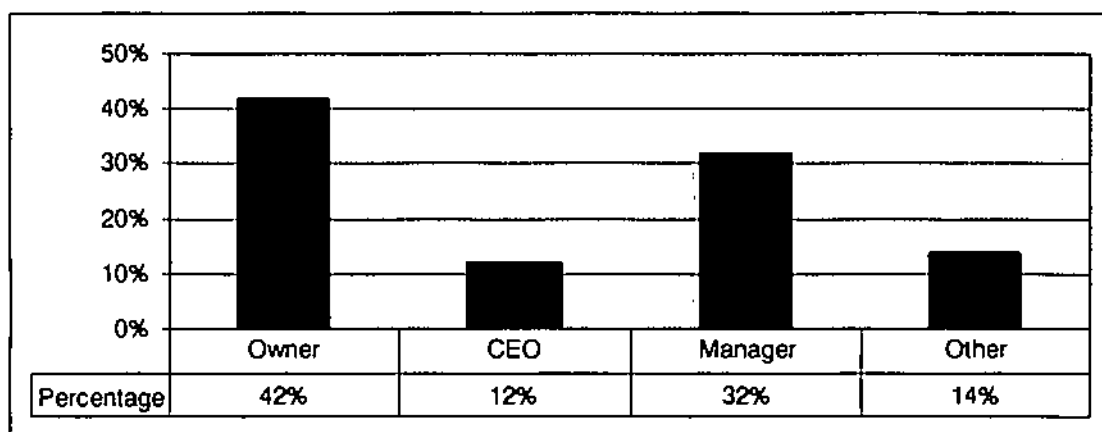
FIGURE 1 - COMPANY BEE CLASSIFICATION



The aim of the research was to focus on Black Owned and Black Women Owned SMMEs as the target market and the results reflect an acceptable balance between the two categories (50% and 42% respectively Figure 1).

These results are also in line with the fact that Eskom BEE policy is focused on Black ownership as the key imperative to addressing the economic imbalances of the past. The remainder of the surveyed companies (8%) were Black empowered rather than Black Owned, implying that they had less than 50% Black ownership as stipulated by the government regulations.

FIGURE 2 - JOB TITLE



The majority of the participants were either owners, CEO's or senior managers in line with the research design decision to interview owners or senior personnel. SMMEs in general are owner driven companies and this survey has confirmed that reality in that 42% of respondents were owners and 32% business managers. These results can also be interpreted as reflecting the importance of entrepreneurship capacity building (56% for Black Owned and 33% for Black Women Owned). It is also noteworthy that throughout the survey, owners declared themselves reachable and open to communication. The remaining participants (14%), were CEO,s, directors, senior administrators or accountants/bookkeepers who had a thorough understanding of the business.

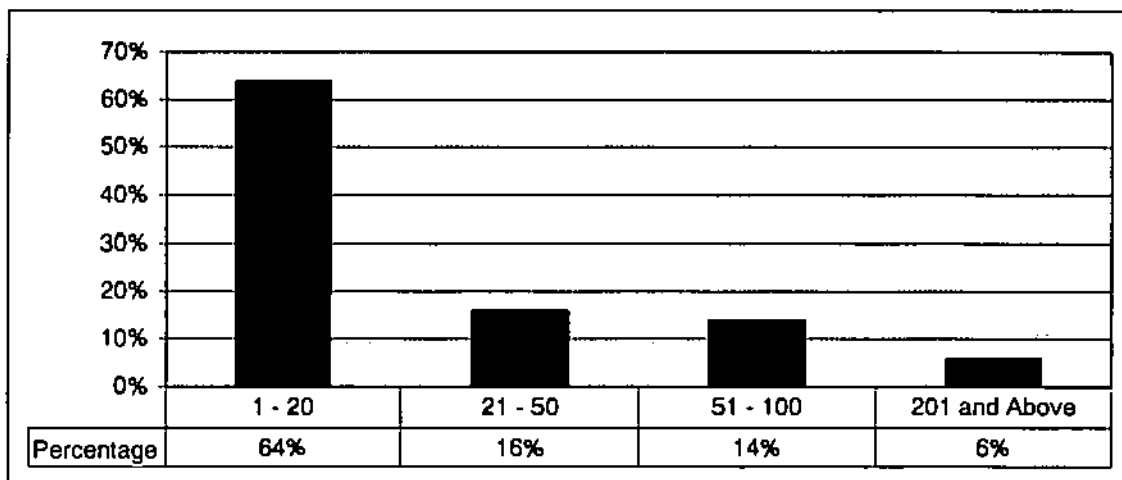
FIGURE 3 - GENDER



The data reflected in Figure 3, depicts that the majority of respondents were male (70%) and only 30% were female. Men (62% - (Table 2) also run the majority of Black Women Owned enterprises. This suggests, although the results cannot be considered as confirmation, the view that business is still male dominated and male managed.

The number of employees of the various companies represented in the study varied from below 20 to over 200 (See Figure 4.)

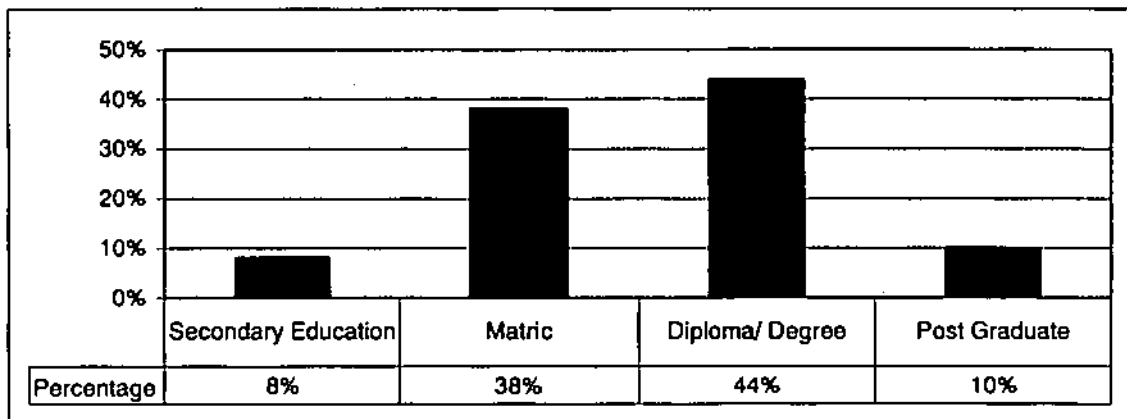
FIGURE 4 - NUMBER OF EMPLOYEES



In line with the small business act, the majority of businesses from our sample fell within the micro and small business category (80%) in terms of the number of employees. Only a small group (20%) can be classified as medium

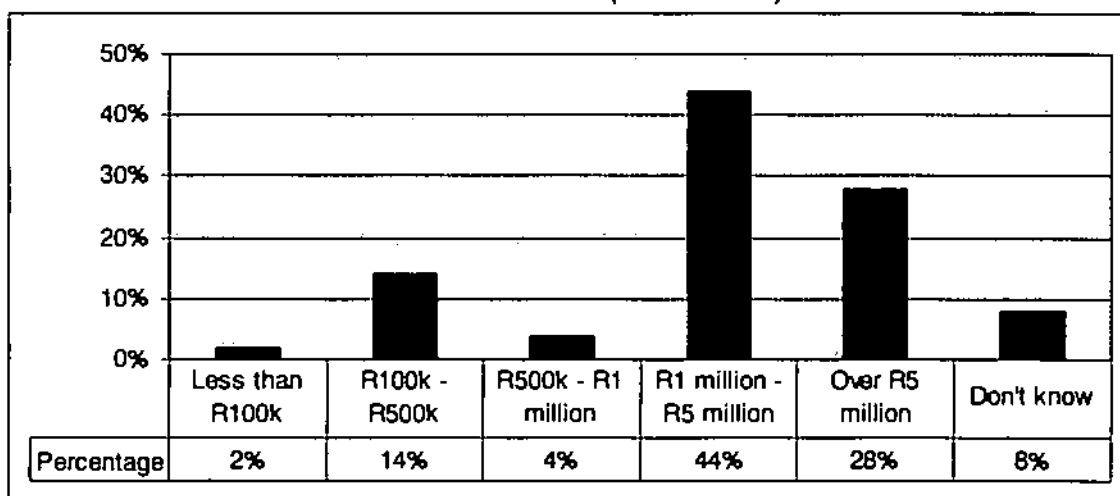
enterprises. The data presented in Figure 4 correlates well with the number of years in business by SMMEs' operating for less than five years - Black Owned (48%) and Black Women Owned (76%).

FIGURE 5 - EDUCATION LEVEL OF CEO/ OWNER/ MANAGER



The basic understanding of the market and economics can conceivably be embedded in one's experience in the industry either over time or in academic qualifications. Reviewing this relationship was one of the underlying reasons for requesting respondents' academic qualifications. Respondents' general academic qualifications indicate that they have a good understanding and have developed the necessary aptitude to reach the goals of small business. Only 46% of respondents had studied up to matric level. Conceivably this may suggest that education per se is not a pre-requisite for entrepreneurial motivation. Furthermore the 54% level of post matric qualification possibly reflects the government's BEE drive to give Blacks the opportunity to run and own enterprises is effective, in that even those with education are also motivated to start their own business.

FIGURE 6 - TOTAL SALES VALUE FROM ESKOM (PER ANNUM)



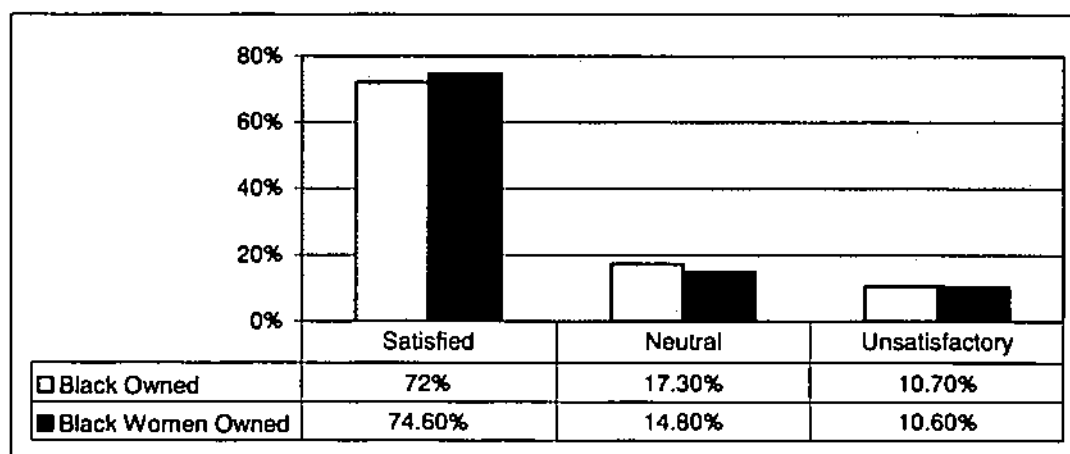
The sales revenue generated from Eskom by SMMEs reflects the complex technical (and therefore mostly expensive) nature and type of businesses tendered for within the Generation Division. The majority of the contracts in this division are in the engineering and electrical supplies. This is reflected by 72% of the respondents making more than a million Rand from Eskom alone.

The other significant result depicted in Figure 6, is that most businesses are not reliant on Eskom alone for their income. The majority of the respondents have more than twenty customers (48 % Black Owned and 33% Black Women Owned businesses – Table 2). It could be that Eskom is their biggest supplier but this question was not asked.

TABLE 3 – ESKOM TENDER PROCESSES

STATEMENT	Max 5	Min 1	Mean score (Black Owned)	Mean score (Black Women Owned)	Std dev (BW)	Std Dev (BWO)
Eskom's tender process	5	1	3.77	3.89	0.85	0.93
1. I get good business from Eskom	5	1	3.64	4.10	1.08	1.00
2. Information on tenders is easily accessible from Eskom	5	1	3.36	3.67	0.99	0.97
3. I understand Eskom's procurement procedures and practices	5	1	4.08	4.24	0.57	0.70
4. Tenders documents are simple, clear and Understandable	5	1	4.12	3.90	0.78	1.00
5. I am aware of Eskom's price matching System	5	1	3.92	4.00	0.95	0.89
6. Eskom's price matching system works	5	1	3.48	3.38	0.71	1.02
7. I always supply all the tender information Required	5	1	4.04	4.43	0.84	0.60
8. Eskom's tender timelines are reasonable	5	1	3.64	3.57	0.86	1.08
9. Eskom's tender qualification process is fair	5	1	3.68	3.76	0.85	1.09

FIGURE 7 - TENDER PROCESSE

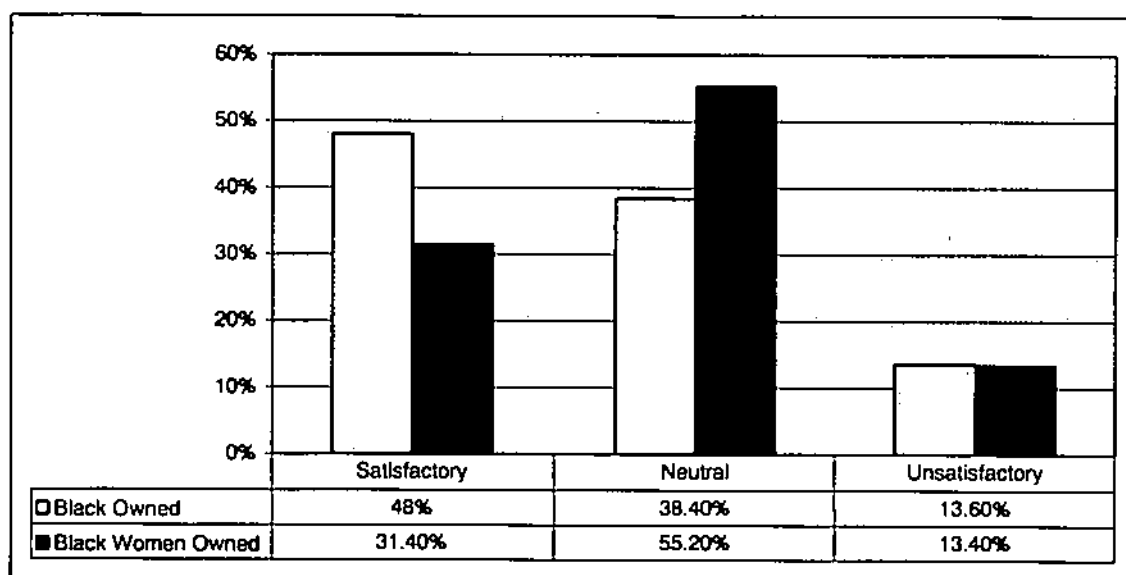


The majority of respondents are satisfied with the Eskom tender process (this figure is even between the two categories – 72 % Black Owned and 75% Black Women Owned enterprises). When asked if they get good business from Eskom, the Black Women Owned respondents scored a mean of 4.10 compared to Black Owned respondents with 3.64 (Table 3).

TABLE 4 – ESKOM SUPPORT CENTRES

STATEMENT	Max 5	Min 1	Mean score (Black Owned)	Mean score (Black Women Owned)	Std dev (BO)	Std dev (BWO)
About Eskom support centres	5	1	3.48	3.23	0.89	0.96
1. Eskom supports my business very well	5	1	3.72	3.86	1.02	1.01
2. I am aware of Eskom's tender support centres	5	1	3.32	2.81	0.85	1.25
3. I make use of Eskom tender support centres for advice	5	1	3.28	2.95	0.79	1.07
4. The advice from Eskom's tender support centres is beneficial to my business	5	1	3.40	3.19	0.87	0.87
5. The people at Eskom support centres are friendly and helpful	5	1	3.68	3.33	0.90	0.58

FIGURE 8 - SUPPORT CENTRES OF ADVICE

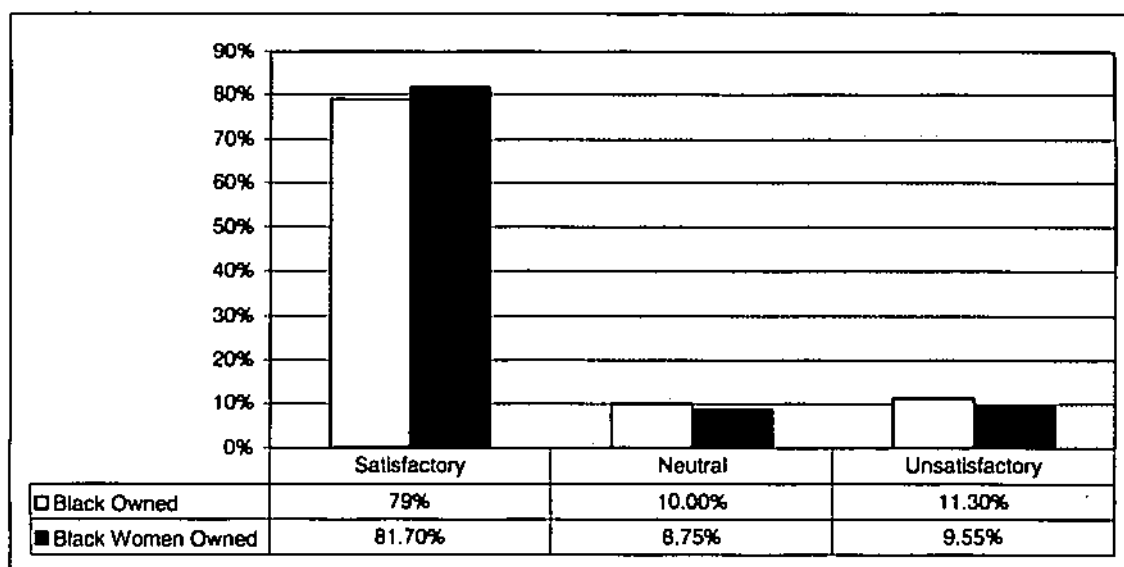


The Eskom support advice centres are not well known or used by the respondents (more than 50% of Black Women Owned enterprises) (Figure 8). When asked if they were aware of the company's advice support centres, Black Women Owned enterprises scored a mean of 2.81 – the lowest in this category (Table 4). The mean average for Black Owned enterprises was 3.32. One can conceivably extrapolate from these results that the long established Black Owned enterprises were at least aware and using the support centres (48%).

TABLE 5 –ESKOM BEE POLICIES

STATEMENT	Max 5	Min 1	Mean score (Black Owned)	Mean score (Black Women Owned)	Std dev (BO)	Std dev (BWO)
About Eskom BEE policies	5	1	3.92	4.08	0.84	0.86
1. I am aware of Eskom's BEE policies	5	1	4.12	4.33	0.67	0.58
2. Eskom's BEE policies have helped my business to grow	5	1	3.80	4.14	0.82	1.06
3. As a supplier, I always deliver good services to Eskom	5	1	4.36	4.48	0.70	0.75
4. My supplies are performance guaranteed	5	1	4.08	4.33	0.81	0.58
5. Eskom has never complained about my service delivery	5	1	3.84	3.90	0.90	1.04
6. I experience an unfair competition from white/big suppliers	5	1	3.32	3.29	1.11	1.15

FIGURE 9 - BEE POLICIES

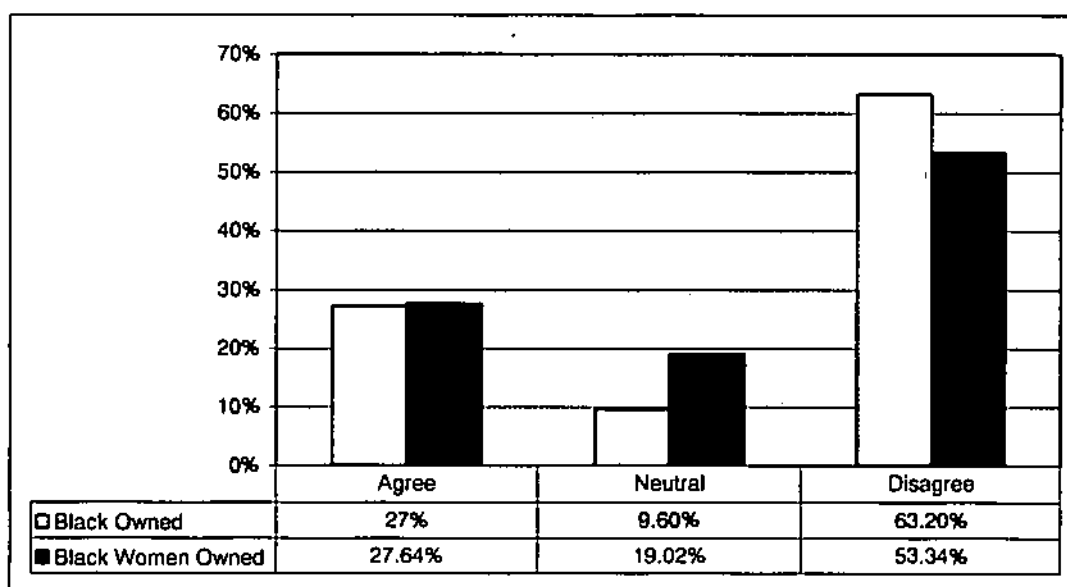


Most respondents were aware of Eskom's BEE policies and believed that the policies helped their businesses to flourish (79% of Black Owned and 81% of Black Women Owned) (Figure 9).

TABLE 6 – ISSUES ON GOVERNMENT REGULATIONS

STATEMENT	Max 5	Min 1	Mean score (Black Owned)	Mean score (Black Women Owned)	Std dev (BO)	Std dev (BWO)
SA Government regulation	5	1	2.74	2.93	1.02	1.18
1. Government regulations are an obstacle to the success of my business	5	1	2.52	2.71	0.92	1.23
2. I spend a lot of time doing administrative paperwork to conform to government regulations	5	1	3.24	3.62	1.09	1.12
3. The country's labour laws are hampering my business' growth	5	1	2.68	2.76	1.07	1.22
4. It is difficult to get a Tax clearance certificate	5	1	2.44	2.76	1.00	1.14
5. The government tax system is a limit to my business success	5	1	2.84	2.81	1.03	1.21

FIGURE 10 - GOVERNMENT REGULATION

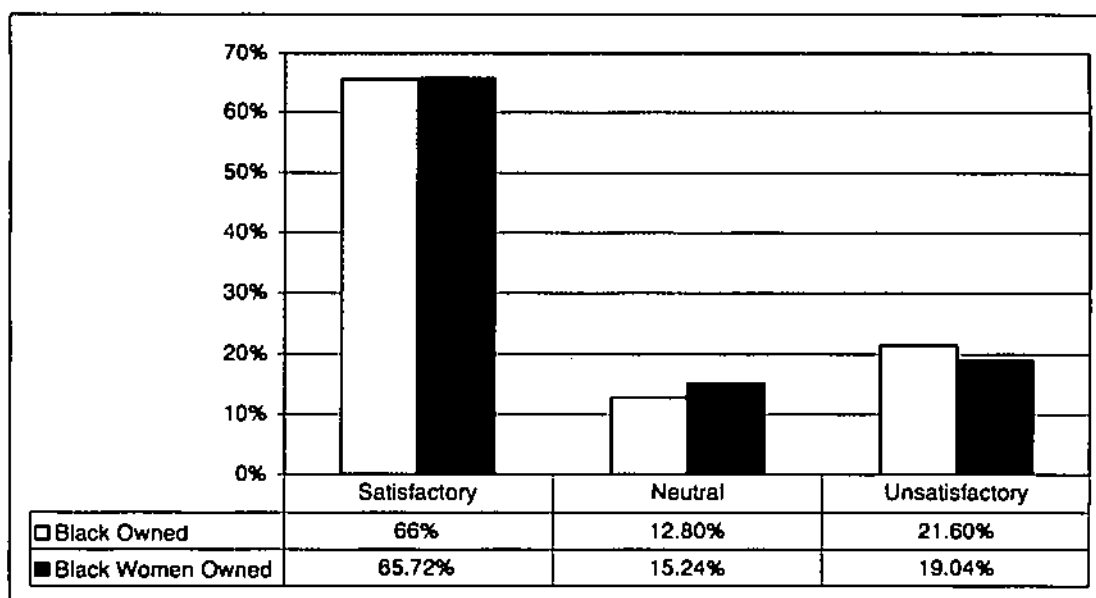


The question asked (in the negative) was whether the government regulations and procedures were an obstacle to businesses' success. The overwhelming majority disagreed with this notion (Figure 10). The respondents (63 % Black Owned and 53 % Black Women Owned) believe that government supports BEE and Black SMME in particular.

TABLE 7 – RESULTS ON FINANCIAL ISSUES

STATEMENT	Max 5	Min 1	Mean score (Black Owned)	Mean score (Black Women Owned)	Std dev (BO)	Std dev (BWO)
About finance issues	5	1	3.58	3.68	0.93	0.94
1. Eskom pays me within the agreed Timelines	5	1	3.92	4.10	0.76	0.83
2. Cash flow is an obstacle in my business	5	1	3.04	3.00	0.98	1.10
3. My organisation has financial resources to sustain itself during the difficult times	5	1	3.32	3.81	0.95	0.75
4. The increases in petrol price affects my business	5	1	3.92	4.05	0.95	0.92
5. Transportation/delivery costs severely affect my business operations	5	1	3.68	3.43	0.99	1.08

FIGURE 11 - FINANCIAL ISSUES



The results relating to financial issues (Figure 11), including whether the SMMEs were being paid on contracted timelines was very positive with both categories scoring a 66% satisfaction level.

TABLE 8 – CAPITAL ISSUES

Statement	Yes	No	Don't Know
The CEO/ Owner supplied the start-up capital? Manager			
Black Owned	92%	4%	4%
Black Women Owned	85.7%	14.3%	0%
I can secure/ raise all the finance required for my business			
Black Owned	64%	32%	4%
Black Women Owned	76.2%	23.8%	0%
Banks and other financial institutions discriminate against SMMEs			
Black Owned	36%	40%	24%
Black Women Owned	23.8%	76.2%	0%
The cost of borrowed capital is too high			
Black Owned	33.3%	66.7%	0%
Black Women Owned	80%	20%	0%
Eskom has done away with customary guarantees, deposits or retention money requirements			
Black Owned	40%	28%	32%
Black Women Owned	28.6%	52.4%	19%
Employees of the company belong to a union			
Black Owned	36%	60%	4%
Black Women Owned	42.9%	57.1%	0%

Most companies started operations with own and secured funds (Table 8). The respondents still did not feel that they were being discriminated from securing financing from financial institutions (40% Black Owned and 76% Black Women Owned enterprises). The respondents were unsure about Eskom policy on guarantees, deposits and money requirements. This is an innovative policy initiated by Eskom and other SOEs to fast track the process for SMMEs from tendering to final acceptance. The company has done away with these requirements and the majority of Black Women Owned (52%) did not agree.

It is interesting to note that the majority of SMME employees belonged to unions (Black Owned 60% and Black Women Owned 57%) even though most companies (80%) had less than 50 employees.

TABLE 9 - NON-EXECUTIVE DIRECTORS

Statement	Yes	No	Don't Know
The business has non-executive directors			
Black Owned	21.7%	78.3%	0%
Black Women Owned	23.8%	76.2%	0%
Non-executive directors bring value to the business			
Black Owned	0%	20%	80%
Black Women Owned	60%	40%	0%
The business plans to have non-executive directors in future			
Black Owned	27.8%	50%	22.2%
Black Women Owned	25%	37.5%	37.5%

The majority of SMMEs do not have Non Executive Directors (78% of Black Owned and 76% Black Women Owned enterprises) (Table 9). The Black Owned companies that have NED did not believe that they added any value to their operations. The future prospects for NED in their businesses looks bleak as most businesses had no intentions of bringing NED's on board in the future (Black Owned -50% and Black Women Owned - 37%).

TABLE 10 - TRAINING AND DEVELOPMENT

Statement	Yes	No	Don't Know
My business contributes to the skills development levy			
Black Owned	92%	8%	0%
Black Women Owned	71.4%	28.6%	0%
Employees attend training/ workshops			
Black Owned	84%	16%	0%
Black Women Owned	81%	19%	0%
CEO/ Owner/ Manager attends management or leadership training			
Black Owned	64%	32%	4%
Black Women Owned	71.4%	28.6%	0%

The overwhelming majority of SMME contribute their skills development levy as required by law (92% and 71% respectively) (Table 10). Training for employees

is highly regarded (84% in Black Owned and 81% Black Women Owned enterprises respectively). Management is also taking their knowledge building capacity very seriously by attending management and leadership training (64 % of Black Owned and 71% of Black Women Owned enterprises).

TABLE 11 - SMMES FUTURE PLANS

Statement	Yes	No	Don't Know
I plan to sell my business in the future			
Black Owned	16%	76%	8%
Black Women Owned	9.5%	90.5%	0%
I plan to list my company on the JSE in the future			
Black Owned	36%	60%	4%
Black Women Owned	33.3%	66.7%	0%

The majority (90%), of Black Women Owned companies do not plan to sell their businesses in the foreseeable future as compared to 76% Black Owned. The future listing on the JSE is also not a priority to most SMMES. (60% Black Owned and 67% Black Women Owned respectively)

CHAPTER 6: DISCUSSION OF THE RESULTS

6.1 Introduction

It is clear from the results that both Black Owned and Black Women Owned companies perceive Eskom BEE policies in a very positive light. The profiles of the 50 Black companies surveyed reflect both the general nature of SMMEs and the Eskom Generation Division in general. The Generation Division deals with engineering and technical suppliers for the supply and maintenance of power stations. The expensive technology required is reflected by the large total amount of money paid to SMMEs, i.e. more than R1 million.

The majority of SMMEs surveyed are from Mpumalanga. This is consistent with the Generation business as most power plants are based in that province. The logical conclusion would be that most of the suppliers are also from the surrounding areas thus re-enforcing the notions of local SMME support. Only companies that fulfil the Eskom BEE requirements are awarded business and it would appear that Eskom has done very well in promoting the government agenda of bringing Black people into the mainstream economy. The majority (92%) of the Black Owned, and 95% of the Black Women Owned, enterprises only serve the local South African market. The survival of Black enterprises in the country therefore depends on facilitating a business climate that includes the successful implementation of BEE policies throughout the country i.e. beyond the Eskom boundaries.

The research has also shown that deprived areas are very dependent on a business community made up of SMMEs. The type of corporate social responsibilities that SMMEs engage in includes cash donations, in-kind donations, donations of surplus materials, the use of premises for community groups and fund-raising.

6.2 Research objectives

- **Eskom tender processes**

The Black SMMEs are satisfied with Eskom tendering processes. Respondents believe that the procurement and tender qualification process is fair, the tender documents are simple and understandable and the price matching system works. This high satisfaction level especially within Women Owned businesses (74%) fits in very well with Eskom's drive in ensuring parity and drive to promote women entrepreneurs. Eskom has helped develop sustainable companies that do not rely only on them for long-term survival.

- **Eskom Advise Support centres**

Eskom's Black SMME supplier companies are satisfied with the business they get although the majority of Black Owned enterprises do not use the advice support centres. These results suggest that this is an area of concern as the majority of Black Women Owned enterprises (55%) and Black Owned (38%) were ambiguous on the questions regarding support centres. The majority of Black Women Owned enterprises seemed not to be aware of their existence (mean 2.81). The reasons for this lack of awareness could be many and varied, but it does indicate that Eskom management needs to consider steps to remedy this situation if they wish to support a wider spread of black owned SMME's. These support centres are crucial especially for new business entrepreneurs who may need nurturing at the early growth stages.

- **Eskom BEE policies**

There is a high level of awareness about the company's BEE policies (mean 4). This bodes well for management and the company's image in general. There are still a number of Black SMMEs that perceive the existence of unfair competition from the well-established white and other large businesses. The majority of these large businesses satisfy the

minimum requirements of being Black empowered (25%) and also offer mainly services and products not available from Black Owned suppliers. On the other hand Eskom has on its part already allocated a lion's share of money to BEE and conceivably, there will always be some services that cannot be met by Black suppliers.

- **Government regulations**

Government regulations were not seen as obstacles to the success of Black SMMEs (58% agreed with this statement). Most enterprises pay their skills levies, get the tax clearances without much hassle and generally do not see the labour laws as hampering their business growth even though their employees are unionised. These results are in contrast to the general mood of businesses in the country depicted by the constant complaints about government bureaucracy and new legislation. Black SMMEs perceive government regulations and BEE in general as an enabler to enter and participate in the mainstream economy.

- **Finance Issues**

Research that has been conducted shows that the major factors impeding the success of Black SMMEs include the lack of capital, which is described as the lack of own funds and assets. This is considered the biggest start-up obstacle for SMMEs. Own savings and assistance from relatives or friends are the most popular sources of start-up capital in SMMEs. Only a small percentage makes use of loans from banks or private institutions.

The majority of Black Women Owned businesses (80%) found the cost of borrowing too high as compared to only (33%) of Black Owned enterprises. One implication is that BWO enterprises do not have the financial support to approach banks correctly or the means of putting forward their businesses cases to institutional lenders.

Eskom like most SOEs has done away with customary guarantees, deposits or retention money requirements as a way of encouraging new aspirant entrepreneurs. The research shows that 32% of Black Owned enterprises and 19% of Black Women Owned enterprises do not know about this arrangement. This could be due to a lack of communication from Eskom.

- **Training and Development**

The majority of Black SMME take Training and Development for both staff and management very seriously. This is a positive development in SMME capacity building in response to the ever-changing business environment.

- **Non-Executive Directors**

The concept of Non Executive Directors in the Black SMME sector is still in its infancy and foreign to most companies. It is suggested that through education into the concept, skills transfer and knowledge sharing by NEDs can add value and enhance business development. The majority of respondents in the survey did however have less than 50 employees, which is the benchmark for enlisting Non- Executive Directors.

- **Black SMME future plans**

Most Black SMMEs are not planning to sell or to list their businesses in the future. No reasons were asked or given, as this was not the focus of this research. A possible explanation for this is conceivably that most businesses are comparatively new, and owners do not see any reason to sell what they consider their nurtured "babies". One can therefore postulate that questions on selling and listing are perhaps at this stage inappropriate for people who have just tasted the freedom of owning and running their own business. From a business perspective the long-term value of wealth generation though lies in starting a business and then selling at a premium to bigger players in the market. Again conceivably, the concept of buying and selling will probably become a reality in Black

business once the playing fields are levelled and the market more conducive to Black entrepreneurs.

Eskom BEE strategy of increasing Black participation at all levels in the economy is showing signs of success. Business today cannot ignore BEE, which is here to help create wealth at all levels of the society over the long term.

CHAPTER 7: CONCLUSION AND RECOMMENDATIONS

7.1 Conclusion

There is some substantiation that the findings from this research could be applicable to all SOE as it can be postulated that similar issues exist in other such large organisations. However, from an academic viewpoint this must still be confirmed by further research.

Unleashing the growth potential of the SMME sector is seen as one solution to South Africa's job crisis and a means of increasing the growth rate. The government's effort to support this sector especially Black SMMEs has been welcomed. The acquisition of relevant vocational, technical and business skills is generally regarded as one of the critical factors for success in small enterprises. In addition, literacy and entrepreneurial awareness are seen as particularly important to enable people to advance from survivalist activities into larger and higher earning enterprises.

All the necessary policies on small business development and promotion are in place (Eskom affirmative action and procurement policy). The policies enforced and pursued by Eskom and other SOEs appear to have benefited SMMEs especially Black Owned and Black Women Owned enterprises. As demonstrated in the study, the government BEE policies are having a trickle-down effect to companies like Eskom. Eskom has in effect fully embraced the government's effort to support the development of Black entrepreneurs. The company is targeting 67% of its budgeted discretionary expenditure to BEE suppliers by 2006 financial year-end.

Eskom is continuing to transform its supplier's base to reflect the demographics of the country. However, according to Eskom management, there are not enough active Black suppliers in the market. The biggest challenge faced by Eskom is the lack of skills among BEE suppliers. This

is especially significant in highly technical aspects like the Generation Division, which is where a high percentage of Eskom's spending goes. The company is working towards moving away from the general BEE to the broad-based BEE. This will be done once the Department of Trade and Industry finalises guidelines on broad-based BEE.

The perceptions of Black SMMEs on Eskom BEE policies are very positive and well founded given the company's track record and implementation plans pursued in the last decade. Eskom can thus hold its head high as a company to be emulated by the private sector and other business as a role model in implementing and supporting government BEE initiatives in alleviating poverty, promoting Black SMMEs and stimulating economic growth in general.

7.2 Recommendations

Eskom and the other two State Owned Enterprises (Telkom and Transnet) have adopted and implemented the government's 10-point procurement plan. The following recommendations emanating from Eskom SMME survey can therefore possibly be assumed to reflect a general view of other SOE as they have implemented similar policies and have the same objectives of achieving sustainable BEE targets. The findings of this research, using Eskom as the reference site, has however still to be substantiated before they can be generally accepted for all SOEs

The following recommendations are made in order to supplement the development and success of Eskom Black small business:

- **Educating SMMEs on financial matters**

During the survey, it was established that some Black SMMEs are not very conversant with financial matters (this includes understanding Eskom's financial strategies like guarantees, deposits and retention requirement information, which was found to be lacking from the respondents' replies). Management could look at offering basic financial

courses like bookkeeping, introduction to basic finances and other relevant courses. Knowing the different financial packages available will also help the business owners in approaching financial institutions for assistance. Issues such as tax, borrowing, and capital management could be addressed in such meetings.

Eskom could organise workshops and improve SMME communication through newsletters and other related communication media. Ongoing support is very important to the sustenance and growth of SMME from survivalist to medium enterprises. Improvement of SMMEs' managerial skills will go a long way in enhancing the profiles of the companies.

- **Eskom advice support centres**

The main area that needs attention from the survey is the lack of awareness of Eskom's support centres. There could be many reasons why Black SMMEs, especially the Women Owned companies, remained evasive when asked about the support centres. Eskom could therefore consider embarking on an educational campaign to raise the level of awareness in this regard. It is recommended that Eskom should have a monitoring and support system to ensure awareness and accessibility to support centres by all its suppliers. Black SMMEs must be encouraged to attend the Eskom Small Business Development Expo to market their companies to corporate procurement departments, big business and other interested parties.

It is also recommended that Eskom should consider segmenting their suppliers according to size (e.g. small from medium sized, or new from established enterprises) to address communication to each group separately taking into account the different skills and communication levels in each group.

It is further recommended that specific attention should be given to Women Owned Businesses. Separate strategies could be devised to

address specific women issues in business given the historic traditional patriarchal society where women were intimidated.

- **Tenders**

In order to alleviate the short supply of Black SMMEs to tender for businesses and improve efficient service delivery, Eskom could look into ways in which tenders could be broken down into smaller components that will be manageable and deliverable for smaller business entities.

- **Government support**

Although the research has shown that government is not an obstacle to Black SMME development, there is still room for refinement and improvement as government continues to address and communicate its processes and systems to the small business community. The government could consider incentivising banks to support Black SMMEs by giving them rebates to encourage lending and reduction of borrowing costs, waiving interest rates or providing tax incentives.

South Africa needs decision makers who can start their own businesses in a responsible manner, which in turn will create sustainable employment. The long-term strategy of SOEs is to help create greater buying power among South Africans and to bring more people into the mainstream of the economy.

BEE is a programme that now affects the entire economy and contributes significantly to it. Empowerment has benefited the entire society by raising the bar for the whole economy. In the short to medium term, the goal for empowerment must be to increase the middle-income group and to foster future business people. In general, Black SMMEs perceive Eskom very favourably and this can be emulated by the private sector.

It is recommended that future research be undertaken to explore the areas of:

- The extent of fronting and how to contain it

- Failure rate of Black suppliers (especially new start-ups)
- Misrepresentation of companies, which could negatively influence or even eliminate the principles of Black Economic Empowerment

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APPENDICES

Appendix A - Questionnaire

☐ Questionnaire number

This survey information will be handled with utmost confidentiality

PART 1: General Information

1. Contact Details

Name of respondent _____

Company name _____

Physical address _____

Telephone number _____

2. Interviewer details:

Date of interview -----

3. The type of your business ownership

- ☐ Close Corporation ☐ Pty Ltd
☐ Sole Proprietor ☐ Listed company
☐ Other (please specify)

4. Company BEE classification

- ☐ Black Owned ☐ Black Empowered ☐ Black Women Owned
☐ Black Women Empowered ☐ Other (please specify)

(if Black Owned or Black Women Owned then continue with interview)

5. What is your job title?

- ☐ Owner ☐ CEO ☐ Manager ☐ Other (please specify)

6. Gender

- ☐ Female ☐ Male

7. For how long has the company been operating?

- ☐ Less than a year ☐ 1-5years ☐ More than 5 years

8. For how long have you been with the company?

- ☐ Less than a year ☐ 1-5years ☐ More than 5 years

9. Type of Eskom contracts

- ☐ Engineering and Construction Contracts
☐ Engineering and Construction Short Contracts
☐ Plant Contracts
☐ Supply of Goods Short Contract
☐ Professional Services Contracts
☐ General Services Contracts
☐ Low value/Low Risk Purchases

☐ Other

Other (please specify): _____

10. Which market does your company mainly serve?

☐ Local Market (South Africa) ☐ Africa ☐ International ☐ All

11. Number of employees?

☐ 1-20 ☐ 21-50 ☐ 51-100 ☐ 101 – 200 ☐ 201 and above

12. CEO, owner or manager's career background

☐ Finance/Accounting ☐ Marketing ☐ Sales

☐ Other (please specify): _____

13. Education level of the CEO / Owner / Manager

☐ Primary education ☐ Secondary education ☐ Matric

☐ Degree/diploma ☐ Post graduate

☐ Other (please specify): _____

14. How many customers does your company have?

☐ 1 – 5 ☐ 6 – 10 ☐ 11 – 20 ☐ More than 20

15. Total value of sales from Eskom (per annum)

☐ Less than R100k ☐ R100k - 500k ☐ R500k - R1 million

☐ R1 million - R5 million ☐ Over R5 million

PART 2: SMME issues

Please indicate the extent to which you agree with each statement as best reflecting your company by ticking on the appropriate check box using the following rating scale.

1. Rating Scales:

5 = Strongly Agree, 4 = Agree, 3 = Neither agree nor disagree 2 = Disagree, 1 = Strongly Disagree

STATEMENT	Strongly Agree	Agree	Neither agree nor disagree	Disagree	Strongly Disagree
A. Eskom's tender process	5	4	3	2	1
1. I get good business from Eskom	☐	☐	☐	☐	☐
2. Information on tenders is easily accessible from Eskom	☐	☐	☐	☐	☐
3. I understand Eskom's procurement procedures and practices	☐	☐	☐	☐	☐
4. Tenders documents are simple, clear and understandable	☐	☐	☐	☐	☐
5. I am aware of the Eskom's price matching system	☐	☐	☐	☐	☐
6. Eskom's price matching system works	☐	☐	☐	☐	☐
7. I always supply all the tender information required	☐	☐	☐	☐	☐
8. Eskom's tender timelines are reasonable	☐	☐	☐	☐	☐
9. Eskom's tender qualification process is fair	☐	☐	☐	☐	☐
B. About Eskom support centres					
1. Eskom supports my business very well	☐	☐	☐	☐	☐
2. I am aware of Eskom's tender support centres	☐	☐	☐	☐	☐
3. I make use of Eskom tender support centres for advice	☐	☐	☐	☐	☐
4. The advice from Eskom's tender support centres is beneficial to my business	☐	☐	☐	☐	☐
5. The people at Eskom support centres are friendly and helpful	☐	☐	☐	☐	☐

STATEMENT	Strongly Agree	Agree	Neither agree nor disagree	Disagree	Strongly Disagree
C. About Eskom BEE policies					
1. I am aware of Eskom's BEE policies	☐	☐	☐	☐	☐
2. Eskom's BEE policies have helped my business to grow	☐	☐	☐	☐	☐
3. As a supplier, I always deliver good services to Eskom	☐	☐	☐	☐	☐
4. My supplies are performance guaranteed	☐	☐	☐	☐	☐
5. Eskom has never complained about my service delivery	☐	☐	☐	☐	☐
6. I experience an unfair competition from white/big suppliers	☐	☐	☐	☐	☐
D. About SA Government regulation					
1. Government regulations are an obstacle to the success of my business	☐	☐	☐	☐	☐
2. I spend a lot of time doing administrative paperwork to conform to government regulations	☐	☐	☐	☐	☐
3. The country's labour laws are hampering my business' growth	☐	☐	☐	☐	☐
4. It is difficult to get a Tax clearance certificate	☐	☐	☐	☐	☐
5. The government tax system is a limit to my business success	☐	☐	☐	☐	☐
E. About finance issues					
1. Eskom pays me within the agreed timelines	☐	☐	☐	☐	☐
2. Cash flow is an obstacle in my business	☐	☐	☐	☐	☐
3. My organisation has financial resources to sustain itself during the difficult times	☐	☐	☐	☐	☐
4. The increases in petrol price affects my business	☐	☐	☐	☐	☐
5. Transportation/delivery costs severely affect my business operations	☐	☐	☐	☐	☐

2. Rating Scales:

Yes / No

STATEMENT	Yes	No
1. The start up capital was supplied by the CEO / owner / manager	☐	☐
2. Start up capital was sourced from family or friends	☐	☐
3. It is difficult to raise business finance	☐	☐
4. I can secure/raise all the finance required for my business	☐	☐
5. Banks and other financial institutions discriminate against SMMEs	☐	☐
6. The cost of borrowed capital is too high	☐	☐
7. I sought outside advice before starting the business	☐	☐
8. The company is managed by the owner	☐	☐
9. Is there succession planning in your business	☐	☐
10. Eskom has done away with customary guarantees, deposits or retention money requirements	☐	☐
11. Employees of the company belong to a union	☐	☐
12. The business has non-executive directors (IF answer is NO SKIP Q 15)	☐	☐
13. Non-executive directors bring value to the business	☐	☐
14. The business plans to have non-executive directors in the future	☐	☐
15. The business supports and participates in community projects	☐	☐
16. The business makes cash donations to charity / community	☐	☐
17. The business donates materials and goods to charity / community	☐	☐
18. My business contributes to the skills development levy	☐	☐
19. Employees attend training/workshops	☐	☐
20. CEO / Owner / Manager attends management / leadership training	☐	☐
21. Crime is impacting my business	☐	☐
22. I plan to sell my business in the future	☐	☐
23. I plan to list my business on the JSE in the future	☐	☐

Appendix B – Permission Request Letter to Eskom

Letter to Eskom requesting research permission:

43 Wellington Park
3 Rooitou Avenue
Weltevreden Park
Roodepoort
1709
June 2006

Mr. Vule Nemukula
GM – Procurement & Supply Chain Management
Eskom
Sunninghill
Postal code

Dear Sir

Permission request to use Eskom information for my Research Report

I am a final year MBL student from Unisa School of Business Leadership. One of the requirements to complete my studies is to do research on a selected topic of interest and contribute to the current body of knowledge.

The proposed title for my research is: **The effect and impact of Eskom BEE policies on the development of Black SMMEs as an enabler for growth and sustenance.** The aim of the research is to gain an understanding on how Eskom help enhance the government's agenda in delivering meaningful empowerment to the majority of South Africa's people.

Eskom is an important player in the South African economy and its procurement policy helps in enhancing and growing the Black SMMEs sector. In order to make a success of the research and meet all the requirements, I would kindly request the following from the Eskom management in order of priority:

- Approval to use Eskom as a research topic
- Making information available to complete the research. Example of information required include:
 - BEE information
 - Procurement policies
 - Access to Eskom Black SMME database
 - Access to Eskom BEE and Procurement managers

- **What is not required is information considered to be of confidential nature by Eskom**

The research will include information gathered from Eskom and its Black SMME suppliers and will make use of both interviews and questionnaires. All the information gained through this process will be treated with the strictest confidentiality.

The benefits of this research to Eskom are to highlight the company's commitment to BEE in meeting the social investment objectives.

Your permission in this regard will be much appreciated.

Yours sincerely

Mokgethi Selebogo

Appendix C – Letter of Permission from Eskom

Date:
2006-10-09

Enquiries:
Tel +27 13 693 3012
Gabriel Mkhonza

Dear Valued Supplier

ESKOM BEE PROGRAMME - MBL STUDENT RESEARCH

You are kindly requested to assist Mokgethi Selebogo with information that he may need for his research on Eskom's BEE Programme. He is conducting this research for the purposes of his MBL studies with UNISA. He will contact you, either through the phone or in person.

Your co-operation will be highly appreciated.

Yours sincerely

Gabriel Mkhonza
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