

# Assessment of Broad-Based Black Economic Empowerment Compliance in Enterprise and Supplier Development Through the Capability Approach

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## Abstract

The South African government introduced the Broad Based Black Economic Empowerment (B-BBEE) policy to drive empowerment and transformation to redress the past imbalances created by the apartheid government. This study assessed compliance in implementing the B-BBEE enterprise and supplier development through the capability approach, providing the perceptions and experiences of the government, corporates and Small, Medium and Micro Enterprises (SMMEs). The study applied the convergence parallel mixed methods research design. Semi-structured interviews were used to collect the qualitative data from two government officials in the Gauteng province and 20 participants from corporates in the manufacturing industry. A survey was used to collect the quantitative data from 401 SMMEs operating in manufacturing. The findings show that the government was cognisant that the implementation of the B-BBEE enterprise and supplier development would face challenges, such as resistance by corporates to open the market for SMMEs as well as the readiness and capability of SMMEs to take advantage of the enterprise and supplier development opportunities. Corporates indicated that they were B-BBEE compliant with enterprise and supplier development and cited challenges such as no consequences for SMMEs which abandon the program, and the lack of resources. However, the majority of SMMEs indicated that they had not benefited from enterprise and supplier development.

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## 1. Introduction and background

Like other countries with a history of segregation, South Africa has developed proactive policies to address the imbalances from the apartheid era with human rights provided for in the Constitution of the Republic of South Africa, 1996 [hereafter the Constitution, 1996], which is the supreme law of the country (McIntyre-Mills et al., 2019). The government enacted the B-BBEE Act 53 of 2003 to redistribute the control of the economy and create opportunities for the groups disadvantaged by the apartheid policies (South Africa, 2003). The B-BBEE Act supports black-owned Small, Medium and Micro Enterprises (SMMEs) (Jenkins, Gilbert & Baptista, 2014). GoLegal (2016) stated that the B-BBEE Act aimed at ensuring economic transformation and redistribution within the South African corporate sector by creating a platform for previously marginalised people.

The Act is fundamental to economic empowerment and transformation; it is aimed at integrating those previously excluded by the apartheid system into the mainstream economy. Musambayana and Mutambara (2022) indicated that B-BBEE was set to facilitate processes that can improve the state of SMMEs in South Africa. The implementation of B-BBEE is guided by the Codes of Good Practice, which were initially issued in 2007, amended in 2013, and subsequently implemented on 01 May 2015. Kgalema, Marock and Allais (2021) indicated that the codes were amended to put emphasis on transforming the economic landscape to ensure the valuable inclusion of black people. The amended codes present three priority elements: ownership, skills development, and enterprise and supplier development. Pooe (2016) indicated that enterprise and supplier development is a combination of two codes, from the 2007 codes, which are preferential procurement and enterprise development.

Dongwana (2016) opined that the 2013 amended codes required corporates to assess the degree to which they comply with the B-BBEE Act, particularly enterprise and supplier development because it carries 40 points. Sibiya and Barnard (2019) indicated that enterprise and supplier development aimed at fostering the integration of black-owned businesses within the supply chain of medium and large companies while strengthening and growing the capacity of black businesses to meet the present and future needs of large companies. Several studies have been conducted in the B-BBEE arena (Ponte, Roberts & Van Sittert, 2007; De Klerk, 2008) focusing on the 2007 codes. As such, this study focused on the 2013 codes with an emphasis on enterprise and supplier development elements.

Even though existing studies (Pooe, 2016; Shai, Molefinyana & Quinot, 2019; Sibiya & Barnard, 2019; Musabayana & Mutambara, 2022) enhanced our understanding of the B-BBEE and enterprise and supplier development concepts, these existing studies show some limitations, which necessitate further research. For example, existing studies (Pooe, 2016; Musabayana & Mutambara, 2022) explored the B-BBEE and enterprise and supplier development concepts using a literature-based approach which may limit our understanding of these issues unless an empirical study is conducted using the key stakeholders involved in enterprise and supplier development.

Specifically, a study by Poee (2016) focused on creating a framework that enhances the understanding of the difference between enterprise development and supplier development to inform policy, which differs from the scope of the current study. A gap identified by this study is that government does not have a strong framework that brings government, corporates and SMMEs together. Thus, the contribution of the current study is twofold. Firstly, this study adopted a multiple-stakeholder approach, by assessing the compliance of enterprise and supplier development from the government, corporate and SMMEs perspectives to develop a framework for best practices, an approach that has been lacking in existing literature. Secondly, this study used a mixed-method approach which enhanced the understanding of the phenomenon being investigated by obtaining balanced responses from key stakeholders in the enterprise and supplier development such as the government, corporate and SMMEs.

## **1.2 Problem statement**

Before the amended 2013 codes, corporates had adjusted to the 2007 codes and were attaining significant levels of compliance (BDO South Africa, 2019). The amended codes were effective on May 01, 2015 and require corporates to re-align how they implement and comply with B-BBEE, particularly on propriety codes which are ownership, skills development and enterprise and supplier development. Moreover, Van de Rhee (2022) pointed out that how B-BBEE points were allocated also changed as corporates need to earn more points on the priority elements than before. It has become more difficult to achieve an outstanding level of compliance. Furthermore, Makgetla (2021) indicated that the amended codes require corporates to prioritise compliance in enterprise and supplier development because they risk losing their current B-BBEE levels, or dropping a level or two, or even becoming non-compliant B-BBEE contributors.

The government is responsible for formulating the B-BBEE policy and plays a role in facilitating the B-BBEE policy implementation as well as monitoring compliance thereof. Even though the government is responsible for measuring the progress and success of the B-BBEE policy (Kgalema et al., 2021) it is worrying to note that it does not directly conduct monitoring as it is done through verification agencies. Shai, Molefinyana and Quinot (2019) indicated that the B-BBEE policy implementation lacks mechanisms because there are no monitoring and evaluation systems that outline how performance is monitored and how implementation and impact will be measured. As a result of this gap, there are no channels for corporates or the government to hold SMMEs accountable as beneficiaries of enterprise and supplier development programmes.

Sibiya and Barnard (2019) concurred that South African companies spend millions of rands on enterprise and supplier development programmes; however, the outcome remains marginal. In support of this view, Makgetla (2021) asserted that corporates spend billions of rands on enterprise and supplier development to meet the requirements of the amended codes but there are no significant changes in the state of SMMEs in South Africa. Following the aforementioned discussion, it is important to assess the

compliance of enterprise and supplier development from the government, corporate and SMMEs perspectives to develop a framework for best practices.

### **1.3 Objectives of the study**

- To evaluate the extent to which the B–BBEE policy is benchmarked with international empowerment and transformation policies.
- To assess the B–BBEE implementation challenges from the perspectives of key stakeholders in the enterprise and supplier development ecosystem.
- To analyse B–BBEE compliance with enterprise and supplier development using the capability approach based on the South African government, corporates and SMMEs perspectives.
- To develop a framework for the implementation of enterprise and supplier development incorporating all key role players (government, corporates and SMMEs).

## **2. Literature review**

The study built on the capability approach and the empowerment theory, in understanding and explaining the B-BBEE enterprise and development supplier. According to Mäki-Opas, Pieper and Vaarama (2022), the capability approach is a moral framework that proposes that social arrangements should be evaluated according to the extent of the freedom that people have to promote or achieve the functioning which they value. Robeyns (2005) opined that the capability approach is a broad normative framework for evaluating individual well-being and social arrangements and investigates the design of social policies and proposals for social change. The B–BBEE aims to achieve economic empowerment and transformation through the participation of previously disadvantaged people.

The B–BBEE scorecard currently measures inputs and outputs but does not extend to measuring the outcomes of B–BBEE initiatives on direct beneficiaries and the impact thereof on society (B-BB Economic Commission 2018). The capability approach perceives that economic growth and expanding goods and services are necessary for human development. However, poverty is regarded as an impediment to the capacity to live a good life, whereas development is regarded as capability expansion. The empowerment theory on the other hand advocates the empowerment of marginalised individuals or communities to exert control and influence in order to transform their personal and communal lives (Weidenstedt, 2017). Since democracy began in South Africa, empowerment has been paramount to the government’s plans (Mosala et al., 2017). The road to empowerment necessitates inclusive growth and the inclusion of previously disadvantaged people in the mainstream economy to foster empowerment at all levels: individual, community and institutional.

## **2.1 Empowerment and transformation approaches and policies used internationally and in South Africa**

### **2.1.1 International approach and policies of Empowerment and Transformation**

Inequality is a significant challenge in many countries (Gradin et al., 2021). In almost every country in the world, people of different races and ethnic groups have experienced some form of marginalisation or oppression, mainly in economic, political, and social activities. The study drew from international experiences and policies that were meant to empower previously disadvantaged groups. Some of these international policies, which were aimed at reducing poverty and eradicating discrimination and inequality, are explained below:

Malaysia implemented the New Economic Policy (NEP) in 1970 in order to eradicate poverty in the country among all races and to restructure the economic imbalances and income distribution among the different ethnic groups (Mokhtar et al., 2013). Ravallion (2019) indicated that the policy narrowed the income gap between the different ethnic groups, and Malays experienced higher growth rates in income. However, Ramli et al. (2013) pointed out that the NEP did not incorporate all races. Other ethnic groups were marginalised in aspects such as economic planning, scholarships, and employment in areas ranging from the agriculture sector to industrial enterprises and from contracts and licensing to foreign investment. As such, the Malaysian government has been accused of practising economic discrimination towards non-Bumiputeras.

Namibia implemented the New Equitable Economic Empowerment Framework (NEEEF) in 2011 in order to bring about socio-economic transformation, thus empowering the previously disadvantaged majority, promoting higher economic growth, increasing employment, ensuring more equitable income distribution, and fostering national economic unity (Government of the Republic of Namibia, 2015; Janisch, 2017). NEEEF promoted the revitalization of previously disadvantaged Namibian mining companies (Nangolo, 2017). Namibia Chamber of Commerce and Industry (2016) raised concerns that the NEEEF is a tool for corruption at all tiers since the state is being looted through empowerment tenders, therefore bearing high government costs.

Brazil implemented the New Developmentalism Policies in 1980 to promote inclusive growth in the home economy, engaging the international economy in underpinning national development, sustaining long-term growth, and pursuing internal and external objectives through the collaboration between a strong state and a strong market (Carrillo, 2014). Bertelsmann Stiftung (2016) indicated that New Developmentalism led to social development and that millions of people were lifted from poverty. However, Carrillo (2014) pointed out that the new developmentalism policy had disproportionately used industrial policy tools to privilege firms in traditional sectors and foster increased reliance on commodities.

### **2.1.2 Empowerment and transformation policy in South Africa**

To deal with the legacy of apartheid and redress the past imbalances, the government introduced Black Economic Empowerment (BEE), which later became known as B-BBEE and enacted as the B-BBEE Act 53 of 2003 (Mofokeng, Giampiccoli & Jugmohan, 2018). Balshaw and Goldberg (2014) pointed out that the implementation of the B-BBEE Act was complemented by the Codes of Good Practice in 2007. The codes were amended in 2013 and became effective on May 01, 2015. The amended codes imposed strict measures, with the government playing a critical role and having more control over the transformation approach, which strongly emphasise black ownership. GoLegal (2016) indicated that compliance with B-BBEE is measured through a scorecard. It determines the B-BBEE level, with Level 1 being the highest ranking and Level 8 being the lowest. Thus, companies awarded a Level 1 B-BBEE rating are considered top performers and those that score less than 30% are considered non-compliant. Although companies are not obliged to participate, companies that do not meet a particular B-BBEE contributor level find it challenging to operate in South Africa.

### **2.1.3 Broad-Based Black Economic Empowerment's Enterprise and supplier development**

New Generation Mindset (2017) indicated that enterprise and supplier development is a process whereby large companies include black-owned businesses within their supply chain and operations. This process involves investing resources such as time and capital in assisting people in establishing, maintaining, or improving their businesses. Furthermore, Van de Rheede (2022) opined that enterprise and supplier development has the potential to drive South African corporates to cooperate and play its role in rectifying the imbalances of the past by creating an environment in which black South African businesses can participate and benefit from economic activities.

Compliance with enterprise and supplier development is measured on the B-BBEE scorecard. All companies must comply except for Exempted Micro Enterprises (EMEs) (South Africa, DTI, 2015). Companies must score 40% on the B-BBEE scorecard to meet the compliance criteria. Furthermore, corporates must spend 2% of their net profit annually after tax on supplier development and 1% of their net profit after tax on enterprise and supplier development. That amounts to a total of 3% of their net profit after tax. Conversely, Qualifying Small Enterprises (QSEs) are expected to spend 1% of their net profit on supplier development, 1% on enterprise development, and 2% after tax (New Generation Mindset, 2017). Ismail (2017) added that enterprise and supplier development entails monetary and non-monetary contributions that contribute to the development, sustainability and financial and operational independence of EMEs and QSEs that are at least 51% or more black-owned. Also, enterprise and supplier development compliance will also facilitate the transfer of skills from established corporates to new businesses (Ismail, 2017). Large companies will contribute effectively to

black-owned businesses by ensuring that they acquire business skills that will enhance their businesses (Ismail, 2017).

## **2.2 Approaches by the South African government and corporates to implement enterprise and supplier development**

### **2.2.1 Approaches by the South African government**

Jordaan (2013) indicated that the role of the government is to regulate rules for both the public and private sectors to ensure that the system is fair to all role players and protects the rights of individuals and institutions. Werkmans Attorneys (2018) indicated that the B-BBEE Commission is responsible for supervising and promoting adherence to the B-BBEE Act to ensure that the objectives of B-BBEE are achieved and that there is collaboration between the public and private sectors. Furthermore, the Commission oversees matters relating to complaints on issues that obstruct the objectives of the B-BBEE such as fronting and other infringements. Broad-Based Black Economic Empowerment Commission (2019) added that the Commission was established as a subsidiary of the DTI to enhance government oversight.

Apart from being a regulator, the government plays the role of an enabler. The government ensures a conducive environment that supports SMMEs through the B-BBEE policy (Department of Small Business Development (DSBD), 2022). The formation of the DSBD further indicates the commitment to developing SMMEs and growing existing SMMEs with a strong emphasis on supporting previously disadvantaged groups (Kelly et al., 2021).

### **2.2.2 Approaches by the Corporate**

Corporations have greater resources and market networks. Consequently, they are able to build and strengthen SMMEs (Jenkins et al., 2014). Broad-Based Economic Empowerment Commission (B-BBEE Comm) (2021) indicated that implementing the B-BBEE enterprise and supplier development entails the presence of financial and non-financial support. Inyosi Empowerment (2016) indicated that through enterprise and supplier development, corporates make direct and indirect contributions to SMMEs through non-financial and financial business support programmes. Some of the direct financial support provided by corporates include loans which are repayable with low interests, grants to SMMEs that are not paid back by the SMMES and early payment terms to help SMMEs keep cash flow afloat (Sibiya & Barnard, 2019). Sibiya and Barnard (2019) pointed out that corporates can offer non-financial support to SMMEs in various ways such as training of new skills, mentorship, provision of equipment and machinery to expand on production, infrastructure for improved operations, competitiveness and market access. Enterprise and supplier development beneficiaries receive support through training,

mentorship, business development, access to the market and collaborations in the form of joint ventures with large corporates to assist SMMEs with exposure and capacity to execute big tasks.

### **2.3 Challenges facing corporates in Enterprise and Supplier Development implementation**

The Randburg Chamber of Commerce and Industry (2017) pointed out that enterprise and supplier development has been received with mixed reactions by the different industries (the industry type and the size of the company mainly influence this). This is because not all industries will succeed in implementing enterprise and supplier development. Khupe (2022) added that enterprise and supplier development is affected by the fact that corporates already have existing relationships with suppliers and particularly those in specialised industries, who are reluctant to work with SMMEs because they doubt the capability, capacity and quality of a new SMMEs that they have to entrust with their service and delivery.

Carew (2017) added that apart from the industry reactions, enterprise and supplier development is also confronted with implementation and governance challenges. Van Rooyen (2014) indicated that the insufficient capacity of SMMEs is among the major challenges affecting corporates because preferential procurement is not always favourable to their procurement needs as it dictates which suppliers to be sourced for providing goods and services, whereas SMMEs are constrained due to capacity. Therefore earning 40 points on the enterprise and supplier development scorecard is not easy. Also, Carew (2017) added that inadequate meaningful collaboration between large and small companies affects corporates because they struggle to source relevant or experienced black-owned QSEs and EMEs, particularly corporates that require specialised goods and services with specific standards. It is challenging to find black-owned SMMEs that have the resources to scale up to meet the demands of goods and services. This becomes a barrier to the implementation of enterprise and supplier development. Furthermore, Shai et al. (2019) pointed out that enterprise and supplier development is confronted with fronting, where black people are recorded as business directors for companies in return for a small percentage of the profit. This practice takes away any impact enterprise and supplier development could have on the SMMEs because it is counterproductive and the effort to assist black entrepreneurs is rendered insignificant when black people front for white counterparts. This, therefore, hinders the development of capable and sustainable black-owned SMMEs that can effectively participate in the economy.

### **2.4 Perceptions of SMMEs on enterprise and supplier development**

Enterprise and supplier development will benefit SMMEs by providing them with access to financial and non-financial support such as incubation and access to finance, increased exposure to the mainstream market and access to the value chain, and supplying goods and services that meet the required standards that can add value to the growth and sustainability of SMMEs (Sibiya & Barnard,



2019). Vuba (2019) pointed out that exposure to the market naturally comes with lower distribution costs and an increased customer base. Market exposure will push SMMEs to enhance their products to remain competitive and attract more customers. Furthermore, working with corporates increases the likelihood of promoting a more vibrant and diverse local economy. Sibiya and Barnard (2019) pointed out that a platform for partnerships between SMMEs and corporates has the potential to grow industries and the economy at large. Matekenya and Moyo (2022) opined that SMMEs would obtain new skills and expand their knowledge by working with large businesses. Thus, enterprise and supplier development can potentially develop innovative SMMEs that are competitive and sustainable.

## **2.5 Challenges facing SMMEs**

Katua (2014) indicated that small businesses are affected by several challenges that hinder their chances of survival and growth, limiting their ability to contribute to economic development. This study focuses only on three key challenges (the lack of skills, access to finance and access to the market). One of the challenges SMMEs face is the lack of access to finance. According to Khaleque (2018), access to finance refers to a person's capacity to obtain loans and other forms of capital for their firm. Access to financial capital is a critical resource needed for a business' establishment, operation, growth and for realising its development and innovation activities (Adomako & Dans, 2014). A company's ability to obtain funding from various sources is essential to its success (Metu & Nwogwugwu, 2022). Borat et al. (2018) pointed out that a lack of finance, assets and limited capabilities hinders SMMEs because they have limited access to finance or credit. The difficulty in accessing finance is exacerbated by the conservative practices of financial institutions and the fact that small businesses generally have unsustainable incomes. This results in financial institutions being reluctant to lend money to SMMEs. Nonetheless, most SMMEs either finance their ventures themselves or rely on government incentives (McWalter, 2021). Chinomona and Maziriri (2015) pointed out that limited access to education and training, skills and experience are some challenges SMMEs encounter when they run their businesses. Leboea (2017) indicated that skills impact how entrepreneurs perform tasks or activities. These skills include planning, administrative and technical skills, knowledge of competitors, insight into product quality, distinguishing between income and profit, and spending income wisely. In addition, Borat et al. (2018) indicated that it is not easy for SMMEs to enter the market because they must compete with competitors that already have a footprint in the market and with the probability of low production costs compared with SMMEs. Furthermore, large businesses also protect their market share and exclude competitors from the market.

## **3. Research Methodology**

The study adopted a convergence parallel mixed methods research design. Doyle et al. (2009) indicated that in convergence parallel, the qualitative and quantitative phases are conducted simultaneously, but

data is collected separately. The research focused on the manufacturing industry subsectors: the manufacturing of Coke, refined petroleum products, and nuclear fuel; manufacturing of chemicals and chemical products; manufacturing of rubber and plastic products; manufacturing of electrical machinery and apparatus; manufacturing of basic metals, fabricated metal products, machinery and equipment, and office, accounting, and computing machinery; and manufacturing of transport equipment. The study focused on these sub-sectors because the South African government identified manufacturing as a key sector for growth, with the potential to increase job creation and economic growth, yet transformation in terms of the B-BBEE implementation has been slow (Avenyo et al., 2021). Thus, focusing on this sector enhances the effectiveness of the enterprise and supplier development initiatives to sustain such businesses. Qualitative data was collected through semi-structured interviews. The interviews were held with two government officials based in the Gauteng province and in senior roles who were experienced in B-BBEE, precisely enterprise and supplier development. Furthermore, qualitative data was collected from 20 corporates in the Gauteng, Mpumalanga and Western Cape provinces. The participants from the corporates held varying managerial positions according to the different structures of the organisations. Non-probability, purposive sampling was used for the qualitative research as it allowed the researcher to select corporates that operate businesses in the manufacturing sector (Clark et al., 2021). The qualitative data was analysed using NVivo software. Quantitative data was collected through an online survey. The respondents for the quantitative research were selected using, simple random sampling. 401 SMMEs completed the survey in the Gauteng, Mpumalanga, North-West, KwaZulu Natal, Western Cape, Eastern Cape and Northern Cape provinces. Quantitative data was analysed using the Statistical Package for the Social Sciences (SPSS). Majority of the participants were black owned businesses, who are the targeted beneficiaries of the B-BBEE.

### **3.1 Ethics**

Ethical clearance was gotten from the General Human Research Ethics Committee (GHREC) at the University of the Free State, Bloemfontein, South Africa.

## **4. Results**

The respondents for the qualitative research were from the government. They consisted of two officials, an executive manager with more than 15 years of work experience and a senior manager with more than ten years of working experience in B-BBEE. There were 20 participants representing corporates. Ten respondents were senior managers, five were procurement and supply chain managers, one was a legal manager, one was a finance manager, two were transformation managers, and one was an engineering manager. The number of years of experience of the participants from the corporates ranged from two to 20 years within the various companies, but all had more than ten years of work experience in B-BBEE. All 20 corporates operated within the manufacturing sector and were all B-BBEE compliant.

For the quantitative research, 401 SMMEs completed the survey, of which 103 were owners of the SMMEs, and 298 were managers. Most of the respondents were females (56.86%). Males constituted 43.14%. The majority of SMMEs were black people (59.85%), whereas 25.19% of the respondents were represented by their white partners. The majority of the respondents (75.56%) were professionals with tertiary qualifications (diploma, undergraduate degree and postgraduate qualification).

#### **4.1 Qualitative results from the interviews with the government**

##### **4.1.1 Benchmarking the B-BBEE policy with international empowerment and transformation policy**

It was crucial to examine if the B-BBEE policy was being implemented consistently with other similar international empowerment and transformation policies where the success of such a policy was recorded. This was intended to uncover the root cause of the implementation problems of this policy in South Africa. Thus, a question was asked whether B-BBEE was benchmarked against international approaches to empowerment and transformation. The findings showed that the government is informed by international empowerment and transformation policies from countries such as Malaysia, South Korea and Singapore. Below are the excerpts from the participants.

##### **Government 1 commented:**

*“Yes, we engaged with Malaysia. Two years back, they were here. Malaysia’s policy was implemented long ago compared to B-BBEE, but they are also battling. It is not an easy journey. You have other countries like South Korea and Singapore that are successful. The common denominator is that you need to skill people [and] focus on support for SMMEs, government support of the manufacturing sector”.*

##### **Government 2 commented:**

*“That is something we do all the time. We undertake study tours to countries like Malaysia and other countries that are the best example of the path that we are taking as a country. If you go through the Black Industrialist Policy, it acknowledges that this practice we get from Malaysia with their Bumiputera instrument is responsible for economic redistribution. This introduced equality in employment patterns, changed ownership in the corporate sector, created the Bumiputera commercial and industrial community, and established growth centres in the rural areas. We follow what is happening out there in the world so that we fine-tune our instruments. We have also met with the Malaysian High Commission, and they have shown us how they do financing for women-owned businesses. One of the lessons for us was the low-interest rate and not similar to what you would get from the banks here.”*

The study established that the B-BBEE policy is a product of the lessons which the South African government adopted from countries that implemented empowerment and transformation policies.

Govender (2021) believes that government needs to improve the support provided to uplift SMMEs. The participants of the study acknowledged that more needed to be done to get B-BBEE implementation to a level where the B-BBEE objectives are realised.

#### **4.1.2 Compliance**

A question about how the government monitors implementation and compliance with enterprise and supplier development was posed to the two government officials. The question sought to ascertain how a point-based system is used to award B-BBEE compliance levels to corporates and the penalties imposed to non-compliers. Although compliance is not mandatory, the government imposes penalties on corporates that do not comply. Furthermore, the government is aware that a successful B-BBEE implementation is highly dependent on the flexibility of corporates in opening the economy for SMMEs. Below are the excerpts from the participants.

##### **Government 1 commented:**

*“To strengthen implementation, we had to make sure that we put some measures to make the Codes even more robust. We had issues around making sure that we have what we call compulsory elements to make sure that certain elements of the codes like ownership, enterprise and supplier development and skills development are now compulsory, and if you don't have a certain threshold of achievement, you will be in a way penalised or have your B-BBEE level dropped”.*

##### **Government 2 commented:**

*“Some are doing it, and some are not. But overall, there is not much investment into the process; it is not given much attention compared to other programmes. We have observed that most successful companies in B-BBEE have integrated it into their strategy. Once we reach a level where most companies do this, the results will start to show”.*

The participants indicated that the government is responsible for enforcing compliance. This entails enforcing penalties for corporates that fail to implement the policy or to meet the minimum benchmark. Literature on B-BBEE suggests that B-BBEE compliance is not compulsory for companies (Shai et al., 2019; Kanjere, 2021). However, from the interview with the participants, it can be confirmed that the government indirectly makes compliance obligatory because companies that do not comply are penalised and excluded from doing business with the government and its entities.

#### **4.1.3 Implementation challenges**

A question on the government's awareness of the challenges facing enterprise and supplier development was asked to ascertain if the government acknowledged that there were implementation challenges. Despite the clear goals to achieve economic equality, implementing the B-BBEE legislation has been

negated by several challenges. The resistance by corporates to open the market for SMMEs indicates the resistance towards transformation.

Below are the excerpts from the participants.

**Government 1 commented:**

*“There is still resistance to open up opportunities [and] give market access to small enterprises so that they can supply to big corporates. They are told that they do not have the right quality and so forth”.*

**Government 2 commented:**

*“It must be an undertaking by those respected companies to play their part in economic transformation. As for SMMEs, their participation in the economy cannot be isolated from the mainstream economy”.*

The findings revealed that the government is cognisant of the implementation challenges facing B-BBEE, particularly the enterprise and supplier development Code. These are challenges such as resistance by corporates to open the market for SMMEs and the readiness and capability of SMMEs to take advantage of the enterprise and supplier development opportunities. Mokgobinyane (2017) indicated that even with the existence of the B-BBEE policy, some companies still resist transformation because they do not consider its benefits.

#### **4.1.4 Recording performance**

A question was posed on whether the government had a mechanism to record companies' enterprise and supplier development performance. This question was aimed at establishing how the government tracks progress on the implementation in order to keep a record of corporates making a meaningful contribution and the SMMEs that have benefited. If there is no formalised process for reporting value derived from enterprise and supplier development by corporates and SMMEs, it becomes difficult to follow through on actual achievements and future planning. Below are the excerpts from the participants.

**Government 1 commented:**

*“We do not have a formal channel for companies to report what is working and what is not working. However, companies are free to contact us at any time to address any challenges”.*

**Government 2 commented:**

*So far, we monitor corporates. The indication that we look for is the compliance levels among corporates to see those that have improved and attained a high level of compliance and those that have*

*dropped to a lower level. Additionally, corporates are free to engage with us at any given time. We do not monitor SMMEs.*

The findings indicated that the government was not highly visible and provided limited support for implementing B-BBEE, despite it being a government policy. Furthermore, the government was not playing a significant role in overseeing B-BBEE implementation. Government support was lacking as there were no communication channels or feedback between the government and corporates.

## **4.2 Qualitative results from the interviews with the corporates**

### **4.2.1 Corporates understanding of B-BBEE**

A question was posed to determine the extent to which corporates understand B-BBEE and how they currently implement it. Corporates need to understand what the B-BBEE policy requires from them and that their contribution to B-BBEE is important in transforming the economy. Below are the excerpts from the participants.

#### **Corporate 1 commented:**

*“My understanding of Broad-Based Black Economic Empowerment is that it is government legislation to drive economic transformation within the economy. When applying it in the context of our company, B-BBEE for us is about prioritising the employment of previously disadvantaged groups, black people, and their advancement, especially black females within the manufacturing sector. Another important element is the element of preferential procurement sourcing from black-owned suppliers and the development of black suppliers, which is enterprise development”.*

#### **Corporate 4 commented:**

*“Obviously, with South Africa and our past injustices, it is about time for the economy to be open to everybody fair and square, which incorporates the South Africa B-BBEE implementation strategy. We know nowadays that women are recognised for having an attempt to enter the market and be successful. There is no more certain work restricted to women because we are sexist; women can do anything. So, B-BBEE within our company has focused on women-owned businesses, not only physical[ly] able[d] women but also disabled women. It has now brought women into the physical space, so broad-based is focusing on women as well”.*

It was evident that corporates understand the B-BBEE legislation and their critical role in assisting the government in meeting B-BBEE objectives. The level of the undertaking towards B-BBEE implementation by corporates and their B-BBEE compliance levels depicted that there was compliance. To meet B-BBEE compliance, corporates indicated that they developed and implemented B-BBEE

strategies within their organisations, embedding the B-BBEE Act within their business practices. The empowerment and transformation of previously disadvantaged racial groups have been slow.

#### **4.2.2 Implementation challenges**

Corporates were asked about the challenges encountered in implementing enterprise and supplier development and how it has affected their ways to conduct business and their procurement processes. One of the key challenges noted was the disconnect between the objectives of enterprise and supplier development and the reality in terms of the expectations and needs of small businesses. As a result, the type of assistance offered by corporates may have a little transformative impact on SMMEs. Below are the excerpts from the participants.

##### **Corporate 3 commented:**

*“There is no guidance for SMMEs on selecting the best support for their business, and as a result, they join programmes without focus”.*

##### **Corporate 9 commented:**

*“SMMEs leave before completing the enterprise and supplier development programme, thus abandoning the contract. For this, there are no implications, and SMMEs are free to join any other programme”.*

Corporates indicated that there were some SMMEs that were willing to be on the programmes whilst some SMMEs who did not want to spend time under any form of incubation abandoned the programmes, and there were no consequences imposed on them. Although government clearly articulates the obligations to be met by corporates, there are no explicit obligations for SMMEs. As such, it is not easy to manage SMMEs. This also affects the success rate of enterprise and supplier development programmes. This ultimately affects the programmes that corporates provide to SMMEs.

##### **Corporate 2 commented:**

*“This happens when an SMME is given a purchase order but lacks the tools and people to deliver on the project”.*

Furthermore, procuring from SMMEs also presented challenges, particularly in the specialised goods where quality and standards were critical. The lack of resources for SMMEs impedes their capacity to deliver projects. This has a huge impact on corporates since they are required to procure from SMMEs; however, SMMEs do not have adequate funding to source quality materials required to produce specialised goods that meet the quality standards required by corporates.

##### **Corporate 5 commented:**

*“The biggest challenge for SMMEs, they are living from hand to mouth. In some instances, SMMEs are unable to do the work and require an upfront payment”.*

The research findings revealed that SMMEs that are poorly funded struggle to develop a good working relationship. Furthermore, they ask for upfront payments before commencing the work with the corporates and often cannot fulfil contracts due to the lack of equipment such as machinery. This presents a precarious situation where the SMME can collapse. A report by the DPME, South Africa (2020) indicated that SMMEs are limited in their work because they do not have funds.

#### **4.2.3 Support provided to SMMEs**

The researcher asked corporates about the type of assistance they provide to SMMEs. The questions also sought to verify if corporates thought the support they provided was adequate and had the potential to improve the state of SMMEs. The main support corporates provided to SMMEs involved funding, incubation, mentorship, and infrastructure capacitation. Below are the excerpts from the participants.

Corporate 1 commented:

*“We give funds and have established grants and interest-bearing and non-interest-bearing loans to our black-owned suppliers. By doing that, we [address] their working capital issues and any CapEx [Capital Expenditure] requirements they may have to become competitive suppliers”.*

Corporate 2 commented:

*We do incubation through a third party. In the past three years, we have provided interest-free loans. We allow them to participate in our business. We provide training through our incubation, [and] we then take them through our business process so that they can see the business and how they can participate in our supply chain.*

The findings showed that the corporates supported SMMEs through funding, incubation, early payment, mentorship, and infrastructure capacitation. However, funding is available in various forms such as grants and low-interest loans. Some of the corporates indicated that they hosted SMMEs in their business premises so that SMMEs could operate without incurring physical space rental. Incubation effectively allowed the SMMEs to be self-sufficient after the incubation period. Nevertheless, the effectiveness of such initiatives remains indistinct as the recorded spending does not reflect the actual transformation that has taken place among SMMEs.

#### **4.3 Quantitative results from the SMMEs**

The results indicated that there were more females (56.86%) than males (43.14%) in the SMMEs that completed the survey. Also, 75.56% of the participants were professionals with tertiary qualifications (diploma, undergraduate degree and postgraduate qualification), while 22.69% had completed



secondary education. 96.1% of businesses were in operation for more than five years and very few SMMEs (1.3%) have been operating for less than three years. Furthermore, all the 401 SMMEs operated in the manufacturing sector, within the various sub-sectors.

#### **4.3.1 SMMEs awareness on B-BBEE's Enterprise and Supplier Development**

SMMEs were asked to indicate the level of familiarity with B-BBEE's enterprise and supplier development. It was observed that 89.53% of the SMMEs were familiar with B-BBEE and in a position to respond to the B-BBEE questions. However, 8.73% of the respondents had little knowledge of B-BBEE, and 1.75% indicated they were unfamiliar with B-BBEE.

#### **4.3.2 Beneficiaries of Enterprise and Supplier Development**

SMMEs were asked if they were beneficiaries of enterprise and supplier development. Of the 401 SMMEs that participated in the survey, only 32.2% of the SMMEs have benefited from implementing enterprise and supplier development, and 68.8% have not benefited. The findings indicated that although enterprise and supplier development is being implemented, only a few SMMEs have benefited. Wiid and Cant (2021) pointed out that SMMEs are a key influence in driving economic growth, and there is need to support them. However, most respondents had not benefited from enterprise and supplier development. This shows a gap between the compliance levels of corporates with the enterprise and supplier development element and the actual progress on the ground. This poses a significant challenge to enterprise and supplier development objectives, particularly concerning black-owned SMMEs since they are already disadvantaged. Furthermore, this raises the question regarding the model required to encourage a dense population of SMMEs to participate.

Moreover, the SMMEs were also asked about the process they followed to become beneficiaries. 61.5% of the SMMEs indicated that they could join enterprise and supplier development programmes through their networks. This means that those without networks were disadvantaged.

#### **4.3.3 Challenges facing SMMEs**

SMMEs were asked about the challenges they experience in running and operating their businesses. 66.8% of the SMMEs identified access to finance as one of the key challenges they encountered. This finding is supported by extant research (Adomako & Dans, 2014; SME South Africa, 2018;) that showed that SMMEs lacked access to finance due to a short operating history, inadequate cash flow, lack of collateral and bad or non-existent credit scores. This, therefore, impedes the start-up phase or growth of SMMEs. Moreover, it was established that 47.81% of the SMMEs had no resources to conduct research, develop the products, or make any changes to meet customers' needs. The findings

of this study suggest that SMMEs lack sufficient resources to remain competitive in the market, and thus, it may be difficult to take advantage of opportunities that are linked to enterprise and supplier development. Regarding skills and training, the study revealed that 65.84% had not received any business-related training. Weidenstedt (2017) opined that individuals must be empowered to control their surroundings and implement business change. This view is supported by extant research (Chinomona & Maziriri, 2015; Leboea 2017), which also found that SMMEs access to education and training, skills, and experience were some of the challenges which SMMEs encounter when they run their businesses. Furthermore, 74.31% of SMMEs indicated that they required access to the market. Bhorat et al. (2018) pointed out that the entry of SMMEs into the market is constrained by competitors already operating.

#### 4.4 The Potential of Enterprise and Supplier Development to develop and empower SMMEs

SMMEs were asked to provide their perspective on the potential benefits of enterprise and supplier development as an empowerment tool to develop sustainable and capable SMMEs.

**Table 2: Potential benefit of Enterprise and supplier development**

<b>Do you think empowerment can significantly improve innovation capabilities for SMMEs?</b>	<b>Frequency</b>	<b>Percentage</b>	<b>Cumulative</b>
No	259	64,59	64.59
Yes	142	35,41	100.00
<b>Total</b>	<b>401</b>	<b>100.00</b>	

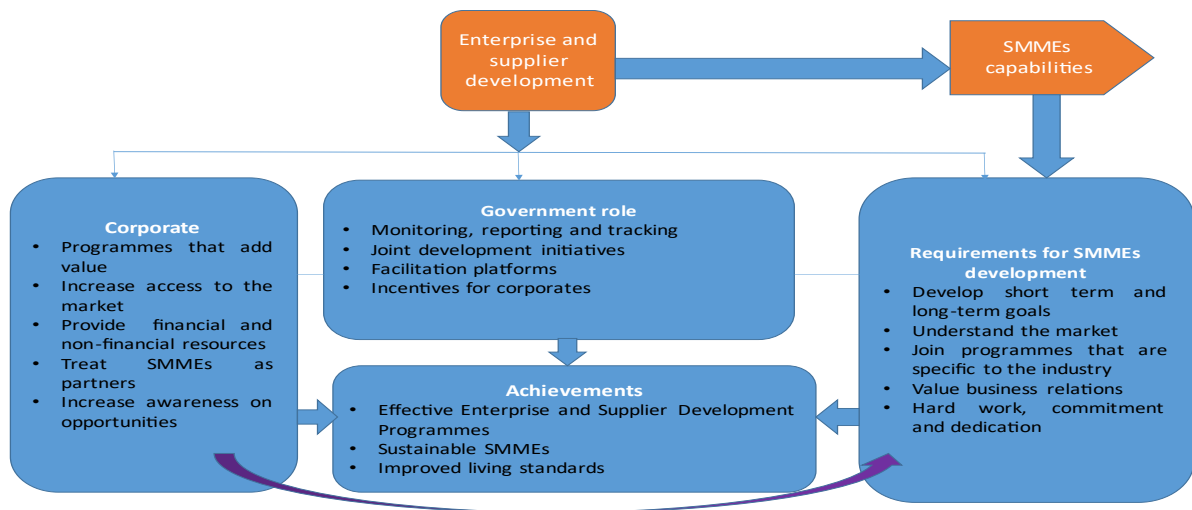
From *Table 2* above, it is observed that 35.4% of SMMEs held the perception that if they are given the opportunity to participate, there could be improvements in the status of their SMMEs. However, most SMMEs (64.59%) believed that enterprise and supplier development would not empower and capacitate their businesses.

#### 4.5 Support provided to SMMEs by corporates

SMMEs were asked whether the support they received from corporates was relevant to their business needs. The findings revealed that SMMEs had different preferences on how they felt they needed to be supported versus the forms of support corporates provided. Corporates provided them with different forms of financial support which was disbursed either as grants, low-interest loan or early payment to a supplier. Non-financial support was also provided in the form of incubation, mentoring, procurement of equipment for SMMEs and providing operating space. Most SMMEs (66.9%) indicated that they needed financial support.

## 4.6 Proposed framework for implementation of Enterprise and Supplier Development through the capability approach

Figure 2 presents the proposed framework for the implementation of enterprise and supplier development. The framework guides the implementation of B-BBEE's enterprise and supplier development for the key role players (government, corporates and SMMEs). The proposed framework suggests steps and dispositions that the government, corporates and SMMEs ought to take for enterprise and supplier development to bring valuable change in their respective environments and into the businesses and lives of those that are being empowered.



**Figure 2: Framework for implementation of enterprise and supplier development.**

As depicted in Figure 2, it is essential that the government vigorously monitor implementation to determine the achievements and challenges. In addition, the government needs to capture value derived from enterprise and supplier development. This requires a system that combines information on spending and effort by corporates, experiences and achievements in the form of a database that will assist to track SMMEs even after receiving support, to monitor their sustainability. The government should provide support to both corporates and SMMEs. This support should include providing platforms for SMMEs to access opportunities with corporates through keeping rapport with both SMMEs and corporates. Government must emphasise the development of SMMEs and ensure that SMMEs are included in the production of specialised material. Also, the government should introduce incentives to complying corporates by allowing certain tenders to be applied for only by corporates that meet the compliance requirements and by also giving them preference when awarding tenders.

As presented in Figure 2, corporates should not regard enterprise and supplier development as a tick box exercise but rather as a natural process that is value-adding. The programmes should add value for both corporates and SMMEs. Corporates have established footprints in the market and brand

credibility; therefore, they should provide market access to SMMEs through working within them in their value chains because this offers SMMEs market access opportunities to participate in global and local markets. As indicated in Figure 2, corporates should provide financial and non-financial resources to SMMEs. The financial mechanisms should include loans, grants and early payments while the non-financial support mechanisms should include incubation and skills training that are specific to industry survival and coping with business challenges. Furthermore, corporates should not view SMMEs as burdens but as partners that can deliver professional services when given the opportunity.

Lastly, as depicted in Figure 2, it is crucial for SMMEs to set short- and long-term goals to help them assess their progress, plan for the future and remain on track. Tracking progress will assist SMMEs in realising if the actions taken are making an impact in the business. Since corporates have systems and processes that determine the products and how they should be delivered, therefore SMMEs need to fully understand how corporates work in order to succeed as a supplier. Therefore, SMMEs should position themselves to be credible suppliers producing products that fit into the procurement needs of corporates. SMMEs ought to join enterprise and supplier development programmes that are in the industry that they want to infiltrate. SMMEs should value the business relations by being responsive to the needs of the clients, showing integrity when they deliver goods and services, making efforts to meet clients and maintaining continuous contact. Business relations need to be valued in order to build rapport. There must be some willingness to work hard, commitment and dedication which should include obtaining new skillset and enhancing existing knowledge.

## **5. Managerial Implications**

This study offers managerial implications for government, corporates and SMMEs. The findings indicate that the government is cognisant of the implementation challenges. However, the government is not adequately involved in implementing enterprise and supplier development because it does not directly monitor the progress made by corporates nor the benefits to SMMEs. It is recommended that the government improve coordination between the role players by creating a formal feedback mechanism through a formalised systematic process through which corporates can provide government with feedback regarding their performance, achievements and challenges. Nevertheless, the government should avoid overregulation and treat collaboration with corporates as a natural process that is aimed at adding value instead of a tick box and irritation for the corporates. Regarding corporates, the results revealed that corporates are compliant with enterprise and supplier development. However, a key emerging issue is that the enterprise and supplier development programmes are not structured to address economic transformation and the empowerment agenda. Therefore, the executives must understand that enterprise and supplier development is not a tick-box exercise but an economic transformation and empowerment strategy. On the other hand, SMMEs need to have sustainable growth plans because the development of their businesses also depends on the enthusiasm of the individual. SMMEs must align

their offerings with the corporates' demands and become competitive. In terms of improving the B-BBEE legislation, policymakers are tasked with increasing black people's participation in major productive business activities through strengthening partnerships, increasing awareness of the B-BBEE enterprise and supplier development, and monitoring implementation. Also, policymakers should focus on strengthening the local manufacturing industry to invest in skills, technology, and capabilities to increase local production prospects.

## **6. Conclusions, Limitations and Future Research**

This study analysed the amended 2013 codes and focused specifically on the enterprise and supplier development code within the manufacturing sector. A gap identified by this study is that government does not have a strong channel that brings government, corporates and SMMEs together. The government needs to ensure that enterprise and supplier development is systematically supported. Corporates have the capabilities to assist SMMEs because they have the skills, capacity and resources required to change the landscape and present opportunities to SMMEs. SMMEs must understand their clients and what is needed because B-BBEE will not replace business needs. The study proposed a framework for implementation which is limited to corporates and SMMEs within the manufacturing sector and the sub-sectors selected for this study. The study also provides an avenue for future studies to examine the enterprise and supplier development across different sectors to see if the findings are similar or different. Moreover, because the focus of the study was solely on enterprise and supplier development, future research can also look at other Codes of Good Practice within the manufacturing sector to assess if empowerment and transformation are effective. Another limitation of the current study is that it only considered 2 government officials in one province and 20 corporates in three provinces which may not be sufficient in providing balanced responses about the subject. Thus, future studies can improve this by increasing the number of government officials and corporates from all the provinces in South Africa.

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