

**SUBMISSION OF COMMENTS ON THE
DRAFT CODES OF GOOD PRACTICE FOR
QUALIFYING SMALL ENTERPRISES:
BROAD-BASED BLACK ECONOMIC EMPOWERMENT ACT**

SUBMISSION PREPARED BY

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IN CONSULTATION WITH

MEMBERS OF THE BUSINESS WARRIORS FORUM

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The Executive Officer
Department of Trade and Industry
By email to bee-cgp@thedti.gov.za

29th March 2006

Dear sir/madam,

Re: Comment on the Draft Codes of Good Practice for Qualifying Small Enterprises.

Please find set out in the following pages comments and proposals in relation to the Draft Codes of Good Practice for Qualifying Small Enterprises, together with addendums of relevant source information used to develop these inputs.

The goal of the submission is to help identify viable methods of activating a meaningful role for small business in achieving the stated objectives of Broad-Based Black Economic Empowerment.

These comments relate directly to the immediate viability of implementation of the codes within the operational parameters of small enterprises, together with the medium and long term consequences of the codes measured against the stated objectives and the small business environment.

This submission is possibly unique in that:

- It is drawn from collaborative input by small business owners only
- It focuses entirely on the codes for Qualifying Small Enterprises
- Extensive insight is given to the paradigms within which the small business owner functions.

Reviewing comments on elements of the broad-based black economic empowerment strategy that have already been reported in the media, it is clear that much of the organised comment on these matters fails to adequately recognise the essential differences between small and large enterprises, which in turn impacts materially on strategies to be considered.

The following major weaknesses have been identified in the draft QSE codes as presented:

- The disproportionate significance placed on ownership as compared to skills development
- The burden placed on organisations with very limited spare capacity
- The concept that turnover is relevant when the profile of personnel is the key measurable
- The flawed assumption that strategic measures developed around big business models can merely be modified to be applicable in the small business environment.

These and other issues are explored in depth in the pages that follow. In broadest terms, these inputs point to a strategy that takes advantage of the inherent churn within the small business sector by focusing on the critical levers of small business development. Such a strategy is more likely to achieve Broad-Based Black Economic Empowerment through the stated objective of expansion rather than redistribution.

Ultimately the efficacy of any legislation must be judged not by its intent, but its actual effect. This submission is motivated by a passion to make a meaningful contribution to the realisation of the potential of our magnificent country and all its people.

May it enjoy your serious consideration.

Yours faithfully

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Comment on Ownership and Management.
Relevant Codes: 1100 and 1200.

It is proposed that too great a significance is placed on the value of black ownership in determining the final score in the QSE scorecard. In the context of the normal small business structure, it would appear more appropriate if Codes 1100 and 1200 were merged and awarded a total of 20 Weighting Points.

The high significance of ownership as an overall factor in the QSE scorecard harms the value of other pillars, most importantly skills development, that arguably are more significant levers of genuine black economic empowerment in the small business sector.

There is an absolutely critical difference between big business models and those for small business in relation to ownership and top management. It could be argued that this difference is of such significance it could be a test as to which category a business should be classified.

A feature of large enterprises is that a separation of shareholding from top management is possible without damaging, and commonly even enhancing, the performance of the enterprise.

In small business the division between shareholding and top management is so tightly related as to be effectively inseparable. Contributing factors are:

- The foundation of every small business is a saleable skill. Almost without exception, this saleable skill lies in the hands of the owner and ultimately is the business's only key asset.
- Salary allocated to the management role and the distributable profits of the enterprise are inextricably entwined. The success of the enterprise is commonly measured purely on the financial return to the owners. Attributing a salary appropriate to the key role of the owner first and separately would invariably result in a nett loss for the enterprise.

Effectively, providing 20 Weighting Points for Ownership, and an additional 20 Weighting Points for management with shareholding, doubles the significance of ownership in the scorecard, even without taking into account the available bonus points and level bonus in this regard.

If a shareholder in a small enterprise is inadequately equipped to match the employed contribution of other shareholders, remuneration is commonly first awarded based on skill level and employed contribution to the enterprise. Only thereafter will a distribution of remaining profits be considered according to shareholding. Such distributable profits, if any, are likely to be so low that they are probably not worth the associated risks of ownership.

The reward for addressing ownership in relation to other pillars of BEE is set so high that this will be seen as the easy route to acceptable compliance scores in the small business environment, especially if the real value of this ownership is effectively a nett liability. Surely this is not the objective.

A further advantage of reducing the significance of ownership is this would encourage business with black ownership to continue advancing BEE objectives and not "rest on their laurels" gained purely by the good fortune provided by black ownership.

Tracking the development of black ownership in the small business sector is an important indicator of the progress of genuine black economic empowerment. Driving ownership as a method towards BEE in this sector could prove counter-productive. The draft QSE codes will produce the semblance of success in respect of black ownership, but without genuine economic empowerment to most of these new owners.

The inherent danger of using a key indicator as a lever is clearly illustrated in the Indonesian experience as set out in Appendix C.

**Comment on the capacity of small enterprises for additional non-productive burdens.
Relevant codes: 1000, 1100, 1200, 1500, 1600, 1700.**

Small business cannot sustain the same administrative burden as large business and still remain viable and competitive in the critical area of added value delivery to its client.

Every additional administrative and financial burden that does not add direct value to the small enterprise critically affects the capacity of that enterprise to grow. Even small changes may fatally affect the viability of a large number of marginal enterprises. Each additional burden also increases barriers to entry for new enterprises.

The general perception appears to be that small business may be considered a smaller version of big business. The reality is that small business is a stripped down version of big business to the point that the two are totally incomparable. This means that using models of big business to develop strategies results in plans that are often totally inappropriate when applied to small business.

A traditional assumption among managers has been that small businesses should use essentially the same management principles as big business, only on a smaller scale. Underlying that assumption has been the notion that small companies are much like big companies,, except that small businesses have lower sales, smaller assets and fewer employees.

We would argue, though, that the very size of small businesses creates a special condition - which can be referred to as *resource poverty* - that distinguishes them from their larger counterparts and requires some very different management approaches.

John A. Welsh and Jerry F. White – Harvard Business Review.
Full paper included in this submission as appendix B.

Large organisations are totally reliant on well developed systems integrated into the organisation to produce their results. Successful, efficient systems produce predictably successful results. The very presence of systems is critical to the larger organisation's ability to function. The leadership is directed towards the development of successful, efficient systems. These systems are then applied by the workforce to produce the organisation's result.

In smaller businesses many of these systems are absent. Even when present, the systems are far from formalised. The three major factors contributing to this is a lack of critical need, a lack of resources, and a lack of knowledge.

Nonetheless, small business has to add value in competition to larger organisations and therefore has to at least match the delivery of large business in areas critical to its success. Small business does this without formalised success systems by stripping out less critical activities and posts.

Time and energy are limited resources. The small business owner, faced with a wider demand on these resources than the large business counterpart, must give priority to activities critical to the survival and success of the enterprise. Accordingly, less critical activities must be ignored in the face of more critical demands. Of particular relevance here, the small organisation has to take the shortest available path to successful activities if it is to survive and thrive. This means that the smallest obstacle in a non-critical activity will result in it not being done.

These substantial differences between small and large enterprises impact critically on how small enterprises respond to legislated initiatives such as the Broad-Based Black Economic Empowerment strategy.

In a large business tedious, time consuming paperwork such as that required for the measurement of procurement is delegated to personnel allocated to the activity. In small business, this task commonly falls to the business owner. Even if the small business owner allocated a member of staff to perform the function, this would represent the allocation of a large percentage of the total staff compliment towards a non-critical function. The slightest obstacle, such as difficulty in obtaining guidance toward interpreting practical implementation of the Codes, or the failure of a supplier to respond to a request for information, and the activity is instantly categorised as counter productive and is shed.

For example, a 50 employee firm has $50 \times 8 \times 22 = 7300$ hours/month to handle the 5 major business functions: sales & marketing, human resources, production, finance, administration.

Our 5 man SME competitor has just $5 \times 8 \times 22 = 730$ hours to handle almost the same level of admin.

And our entrepreneurial start-up SME is carrying the same load in just 160 hours!

Small business also has extremely limited financial capacity to outsource these functions.

Statistics from Michael E. Gerber's book "E-Myth Revisited" states that:

"Businesses start and fail in the United States at an increasingly staggering rate. Every year, over a million people in this country, start a business of some sort.

Statistics tell us that by the end of the first year at least 40 percent of them will be out of business.

Within 5 years, more than 80% of them will have failed.

And the rest of the bad news, if you own a small business that has managed to survive for five years or more, don't breathe a sigh of relief. Because more than 80 percent of the small businesses that survive the first five years, will fail in the second five."

Source: Department of Commerce(USA).

There is little prospect that the situation in South Africa is much better. The fact that approximately 95% of small businesses fail to keep their doors open for longer than ten years is grim testimony to the marginal health of the vast majority of small enterprises.

The exceptionally disproportionate cost of compliance between small and big business is highlighted in the SBP survey.

Big firms have the largest costs absolutely but, in relation to their size, small firms bear the heaviest burden. Compliance costs represent 8,3 per cent of turnover for enterprises with annual sales of less than R1 million, and 0,2 per cent of turnover for corporations with sales of R1 billion or more.

Counting the costs of red tape for business in South Africa.

Whilst it might be questioned that there should even be consideration for marginal enterprises for the purposes of BEE, the total contribution to the economy of these enterprises particularly in terms of employment, skills transfer and fertile breeding ground for new enterprises should not be ignored.

Comment on the relevance of turnover when the profile of personnel is the key measurable. Relevant Codes: 1000, 1100, 1200, 1300, 1400.

It is proposed that when the only key measurable is the profile of personnel, the determination of boundaries for BEE compliance purposes must be based on the total number of individuals in the measured enterprise. Turnover has no influence on the unreasonable difficulty in testing too small a measured group to determine acceptable equity.

The identification of exempt and Qualifying Small Enterprises needs to be entirely re-examined. Far more carefully considered thought is also required to determine reasonable compliance targets for smaller enterprises.

Comments set out in Appendix (relevant) clearly demonstrate that expecting compliance is entirely unreasonable in the one-person enterprise regardless of turnover. Even in enterprises with small numbers of staff, the challenges of compliance have little relation to the turnover of the enterprise.

The definitions of micro, small, medium and large businesses as currently seen in common use in South Africa were made to classify different levels of business by overall economic significance when compared to each other. The suitability of using this model is questionable as applied in these draft Codes.

The concept that there is a need for an association between total staff size of an enterprise and its turnover was borne from the difficulties in evaluating the relative economic significance in comparisons such as the following:

Company A: An enterprise comprising 4 individuals and an annual turnover of R250 000.00

Company B: An enterprise comprising 1 individual and an annual turnover of R2 000 000.00

Obviously Company A does not belong in the same economic category as Company B.

However, Company A is far closer to being a reasonably sized measured enterprise when assessing personnel equity when compared against Company B.

Examination of the application of affirmative practices in other parts of the world reveal that in most instances compliance was expected in organisations of 50 or more individuals. This is because of the inherent difficulties of ensuring the examined sample is large enough to reasonably expect compliance.

It is understandable that the high level of political will seeking BEE in South Africa would pursue strategies and measures that reach beyond such a small percentage of total enterprises as would fall within the ambit of these codes if the boundary was set at enterprises of 50 employees or more. The solution would be to ensure that any particular element being examined is of sufficient size to reasonably expect an acceptable equity result.

Essentially, the principals of statistical analysis need to be applied here. The smaller the sample being measured, the more allowance must be made for deviation from the norm. Any losses incurred by failing to implement turnover parameters as presented in the draft Codes should be more than recovered in the reach of BEE measures to smaller enterprises through the thoughtful application of these principals.

Comment on the assumption that strategic measures for the small business environment can be based on big business models.

Relevant codes: All.

It is proposed that there is a fundamental flaw in the government's development process for measures to be applied within the small business environment. The assumption that strategic measures developed around big business models can merely be modified and remain applicable in the small business environment is a fallacy.

Some insight into the material differences between small and large enterprises have already been presented in the Comment on Small Business Capacity, and these observations will not be repeated here. Additional insight into the life of a small business owner is also presented in Appendix E.

When developing measures for small enterprises, the departure point cannot be what has been identified as appropriate for big business. The departure point has to be the stated objectives.

From here, and with a clear understanding of the small business environment, appropriate strategies must be identified, and from there the measures and success indicators determined. At most, points learnt in the development process towards measures for big business models can help inform the process.

Applying this method, a closer examination would reveal that skills transfer is the most important lever in growing real Black Economic Empowerment from within the existing small business environment. It takes advantage of the churn inherent in this economic sector to ultimately develop genuinely empowered black ownership, and is also expansionary. This significantly impacts on employment and growth. Increased levels of skills development will also assist competitiveness both locally and abroad.

The identified critical importance of this lever thus informs the strategy, and from there appropriate measures can be developed. Only in this way will you ever unlock the massive potential within the small business sector to contribute to these objectives.

The failure of many government measures to effectively mobilise the small business sector to making a meaningful contribution towards identified government objectives is a matter of public record. Looking at the development process of the QSE Codes of Good Practice, it is clear that methods that address the cause of these failures have not yet been implemented. Perhaps the cause is not yet fully understood.

The importance of the small business sector to the economy is clearly appreciated amongst policy makers. One only has to look at the measures for small business introduced by our Minister of Finance, Mr. Trevor Manuel, to accept that this economic sector is of significant importance to the future of our country. In stark contrast, the limited effort taken to develop effective measures appropriate to the small business environment to achieve the stated objectives of the Broad-Based Black Economic Empowerment strategy does no justice to the significance of this economic sector.

The QSE codes as presented are a clear example of the inadequacy of simply adapting measures from big business models. The Codes for big business may effectively use the available levers to achieve the stated objectives. The QSE Codes, being an adaptation from the Codes for big business, actually diminish the use of the levers that would harness the potential of small business to achieve these same objectives. More critically, as presented there is massive potential for significant harm to the economy.

The fact that ownership has not been properly assigned as mainly a success indicator, and enjoys pre-eminence over skills development and knowledge transfer in the draft QSE Codes, clearly shows the fallibility of seeking a short cut approach.

The challenges of meaningful engagement with representatives from small business are understood. This new approach may also mean an investment must be made in identifying transitional solutions to the likely differences between small and big business measures. Nonetheless, the investment is more than worthwhile, it is critical. Mechanisms must be found to overcome these challenges if the true potential within the small business economic sector is to be realised.

Comment on the use of consultants.

Relevant codes: All.

Reliance on consultants has already proved troublesome in the implementation of the National Skills Development Strategy. Somehow, the introduction of consultants seems to increase the complexity rather than simplify and it certainly drains considerable financial resources from the achievement of the ultimate objectives.

Reports seem to indicate that consultants are expected to form a major part of the implementation of the Codes. This seems to be driven by two factors:

- Awareness of the difficulties business will have in interpreting and applying the Codes
- A form of independent third party verification for compliance.

In this instance, it appears that business will be expected to carry the costs of these consultants. This may be in the hope that the consultants will improve efficiencies, therefore producing a better yield than the money spent on their services. This return on investment has not been apparent in the National Skills Development Strategy. The system has become bogged down in complexity and red tape, increasing reliance on consultants rather than reducing it.

Perhaps the root of the problem is that the consultants are building reliance on their skills into the system.

It seems a far more sensible solution to invest in expertise up front that is commissioned to simplify measures and systems that ultimately will reduce reliance on consultants in the future. There must be simple key measurable actions that ultimately generate all the desired downstream consequences so minutely measured in the existing draft Codes.

Comment On Code 1000: Framework For The Measurement Of Broad Based Black Economic Empowerment For Qualifying Small Enterprises.

Based on information provided in the Business Warrior forum, the main concern relevant to this Code and not fully covered in the cross-cutting comments relates to requirements to be exempted, or classified as a QSE.

Most obvious is that the compliance difficulties faced by the One Person Enterprise have absolutely no relation to turnover.

This lack of capacity to comply, even on a simple measurable such as the equity of the total staff compliment, could easily be extended to any enterprise consisting of 5 individuals or less. Again, these difficulties have no relation to turnover.

Allowance for the family business, a very common phenomenon in the small business environment, does not seem to have been considered at all.

One of the suggestions was a graduated requirement to comply according to the size of the enterprise. The concept is recorded here as valid. However, implementation of such a concept must be balanced against the significant concern about the complexity of these Codes for QSE's.

Attaching a boundary such as the lower limit for VAT registration seems inappropriate. A far more appropriate criterion would be the total annual payroll of the enterprise. If payroll is considered a factor, a relevant indicator is the lower threshold for the Skills Development Levy currently set at an annual payroll of R500 000.00.

The most significant indicator in determining the upper threshold of a QSE is the relationship between ownership and management. Compliance with the Codes for Big Business as currently contemplated can only be reasonably expected once the enterprise has the capacity to separate ownership from executive management.

If a turnover boundary is demanded, the proposed criterion for a Black New Entrant, which is currently set at R20 000 000.00 as per Code 100 Statement 100, seems to form a possible point of reference in this regard.

The most appropriate simple boundary definition would seem to be based on the total number of employees in the enterprise. Based on international precedents, an enterprise of 50 or less employees would appear to be the lowest practical boundary between expecting full compliance and allowing qualified compliance.

Comment On Code 1100: Measurement Of The Ownership Element Of Broad-Based Black Economic Empowerment For Qualifying Small Enterprises.

The financial reward derived from a QSE based purely on ownership is extremely limited at best. Remarkably few QSE's declare dividends based on ownership alone. Returns to owners are more aligned with their employed contribution to the enterprise.

Media reports indicate that there is already concern about the financial viability of some Black Ownership Schemes in the Big Business arena. The question has been raised as to whether the dividends paid out will be sufficient to purchase the shares allocated to these schemes.

In the small business arena, the lack of dividends in the majority of enterprises means that participating employees will have to make a financial contribution to acquire these shares. Given the realistic market value of most QSE's, this in itself is probably not too significant an issue.

A far greater consequence is that the shareholding seldom yields a real financial return based purely on its own merits. Ownership on its own is highly unlikely to add economic value to shareholders in QSE's. In most instances, a shareholding in a QSE is effectively a liability.

This becomes truly apparent when one examines the treatment of smaller enterprises by financial institutions. Effectively, whilst the financial institution will finance in the name of the enterprise, it will not do so without attaching the liability for the debt to the owners or directors. This is due primarily out of concern for the lack of real value inherent in the enterprise when considered in isolation from its owner.

Given the overall importance given to ownership, QSE's driven to achieve acceptable BEE levels are likely to apply measures that will achieve compliance, but in most instances these measures in respect of ownership are unlikely to be of real economic benefit to the intended recipients.

Comment On Code 1200: Measurement Of The Management And Control Element Of Broad-Based Black Economic Empowerment.

This Code gives value to Owner-Management only. The Nett consequence is that the presence of this Code merely doubles the importance of ownership in the overall scorecard.

Even if the Code was amended to include Other Top Management, such a level of management without ownership is non-existent in the vast majority of QSE's.

The very presence of this Code has to be questioned in light of the realities of the normal QSE structure.

Perhaps a better mechanism to promote meaningful Black Top Management participation in QSE's would be to assign value to this element within Code 1100 and completely remove Code 1200 from the QSE Codes.

Comment On Code 1300: Measurement Of The Employment Equity Element Of Broad-Based Black Economic Empowerment For Qualifying Small Enterprises.

The Manager-Controller level is entirely absent in the vast majority of QSE's. Measurement of this level should be of far lesser importance if Code 1300 is to become truly appropriate in the QSE environment.

Expecting equity consistently in enterprises with a very small total staff compliment is difficult. In particular, the consequences of adding or losing one member of staff should be closely examined. This issue was well made in the following post in the Business Warriors forum:

My concern is for the slightly larger company. Given smaller staff sizes, the percentages spoken about have a far greater effect. So, in a four person business, you decide to take on another staff member, and in an attempt to meet requirements hire a black woman.

You comply: "Black women representation at Manager-Controller level = 6 weighting points Compliance target here is 20% "

How long does this compliance last? You bid for a tender with this personnel data and the staff member giving you compliance decides to leave, or gets hit by a bus, or gets a better offer or is fired or

Are you still "compliant" in that you will try to replace the individual with another suitably qualified and compliant person, or is your tender now void? Do you have to inform the potential client?

My concern revolves around the issue of the % targets, especially in things as transient as employees. Ownership is more stable, procurement generally more long-term, CSI is also often more long-term, but in smaller businesses employment percentages can change in a heartbeat.

posted by Gordon.

Allowance should also be made for Family Businesses with very small total staff compliments.

These challenges may be addressed by a change in the exemption criteria. If not, appropriate graduated compliance targets are indicated based on total staff compliment of the enterprise.

Some industries have extreme difficulty in achieving the desired female equity targets. This challenge is faced within Big Business too and no doubt will be raised in other industry specific submissions.

Comment On Code 1400: Measurement Of The Skills Development Element Of Broadbased Black Economic Empowerment For Qualifying Small Enterprises.

This Code seems exceptionally poorly considered. This is remarkable as it is probably the area where QSE's can make the most meaningful contribution to the objectives of BEE.

The very notion that a QSE is capable of making a valid application to the National Skills Fund is so far removed from possibility; one can only hope that the actual intention was to require an application to a SETA.

It would be helpful if the nature of qualifying applications were included in Code 1400.

Any enterprise that has a payroll of less than R500 000.00 per annum essentially has no target.

The target for training spend for enterprises with an annual payroll in excess of R500 000.00 is remarkably low.

If your total payroll is under R500 000.00 per annum, your contribution is obviously nil. Spend a provable phone call being put on hold to your favourite SETA and getting nowhere and claim 15 points. (I'd like to suggest that you at least spend something on worthwhile training. Also, the maths associated with dividing a positive number by zero is pretty exciting enough without getting into dividing zero by zero).

Now let's look at a payroll of R500 000.00 per annum.
Your leviable amount is R5 000.00.
The target is R100.00 (or more if you can spare the cash)!!!
Posted by Dave A

Basically 15 easy points (and 5 hard ones). In some ways this just doesn't make any sense to me, and reinforces the lack of broad-based empowerment that will actually be achieved by these codes.

Surely the way to empower people is to give them skills that they can turn into economic empowerment (give him a fish/teach him to fish)? This code is practically irrelevant due to its ease of application. If you have one black employee and spend a small amount on training all the points are there to be had. There is no incentive for a QSE to provide any real value to black employees on this basis

I know this may not be a liked suggestion, but I'd like it if there was at least some sort of drive to develop employees (from an empowerment perspective).

What concerns me here is that this is another indicator of the interest of putting equity into black hands, instead of really trying to achieve a broad based economic empowerment.

To put that in other words, it is easy to get the points, but the goal is missed.
Posted by Duncan Drennan

The target should be in direct relation to the annual payroll.

A target training spend of 0.5% of total payroll would not be too onerous, would be of real value to the enterprise and form a far more meaningful contribution to BEE.

A well considered Code and target for QSE's may compensate for the National Skills Development Strategy's failure to mobilise smaller enterprises to actively pursue meaningful skills development.

Comment On Code 1500: Measurement Of The Preferential Procurement Element Of Broad-Based Black Economic Empowerment For Qualifying Small Enterprises.

The complexity and administrative burden in this Code is a real challenge for QSE's.

The thread relating to the analysis of this Code is set out in Appendix D and should be read in its entirety to fully understand the extent of the difficulties here.

The post that sums up the challenge was this one:

A big concern of mine here is the amount of admin that this can add to a QSE - the whole BEE process rests on this code.

If all QSE's decided to not apply this code as one of their pillars then the whole process of QSE BEE falls flat. Why, because the only thing that your BEE level counts towards is your procurement recognition level. Your BEE level will only matter to enterprises that have to apply the Generic Scorecard.

It would be nice if the government could see that **the more restrictive legislation that exists the more difficult it is for business owners to focus on growing their business the fewer jobs are created.** i.e. less broad-based empowerment
Posted by Duncan Drennan

The following extracts from a post in another thread also adds perspective to this Code:

The DTI sees the heart of the economy resident in medium and large businesses.

and

The killer observation for the evening: 90% of Mvelepande's (sp?) suppliers are micro and white! They are feeling the heat like the rest of us.

Posted by Mark Corke. A summary of points made by Lionel October, Deputy Director of the DTI. The full post can be found on Page 17 of this submission.

Obviously, the value of this Code is that it extends the reach of BEE beyond the immediate directives of government. However, the cost of compliance is going to be massive.

Legislative compliance costs are already relatively severe in the QSE environment when compared to those of Big Business. Forced application of this Code will critically affect small business's ability to compete against their Big Business counterparts.

It seems far more beneficial that an easy target is set that might be attempted, rather than one so far removed from realistic expectation that no attempt to achieve the target is made. The mechanism to measure this target would have to be radically simplified if it is to be used by QSE's.

Currently, it appears that the actual process to calculate Procurement is very similar to Code 500 Statement 100; the main dispensation granted to QSE's is a lower target. Whilst a lower target might seem a step in the right direction, the main obstacle is the QSE's administrative capacity to interpret and implement this Code, and the availability of prospective BEE suppliers.

Given a large metro's difficulties in the area of Procurement, there seems to be a severe capacity problem. Improving the availability of Black Supplier Enterprises is not going to happen overnight. A Black Supplier, given the range of client options and preferential treatments available, is likely to be available to the smaller business segment as a preferred supplier only once larger, better client types are no longer readily available.

Given the low significance attributed to smaller enterprises by the DTI in contributing to the economic direction of our country, perhaps the value of having smaller businesses assist in the ripple effect of this Code is not worth the associated compliance cost.

Required implementation of this Code by QSE's is best contemplated only after meaningful progress has been made towards procurement targets by government and Big Business.

Comment On Code 1600: Measurement Of The Enterprise Development Element Of Broadbased Black Economic Empowerment.

The direct concern with this Code is that it fails to take advantage of simplicity when setting measures for smaller businesses.

In this instance there seems to be an unnecessary desire to complicate.

The first difficulty with this Code is that it is impossible to interpret Qualifying Enterprise Development Contributions without an analysis of Code 600 Statement 100. The criteria for such contributions should be simple and set out in their entirety in Code 1600.

The second, totally unnecessary complication is to measure against EBITDA. Rather set a target in relation to profits after taxation similar to the calculation used in Code 1700.

The only remaining concern is just how meaningful a diffused contribution towards external enterprise development is likely to be. The spend would seem far more effective if applied to development within the QSE. This would result in growth, additional employment, additional training and ultimately more candidates that might commence enterprises of their own.

A suggestion was that such contributions might be more effective if pooled and applied into industry specific projects. This would place a responsibility on industry associations to develop and administer such programs. However, if pooling of funds and efforts was the intention, surely it would have been more effective for government to develop such projects.

Perhaps encouraging QSE participation in mentoring programs might be the best way forward in relation to an effective enterprise development goal.

Comment On Code 1700: Measurement Of The Residual Element Of Broad-Based Black Economic Empowerment.

This Code was well supported in the Business Warriors forum in respect of both the proposed target and the perceived recipients of contributions.

The concerns for this Code are very similar to those for Code 1600. Improved simplicity in defining the recipients is encouraged. A clear understanding of the practical application of the Code without having to resort to an analysis of Code 700 Statement 100 would be more likely to elicit a positive response from QSE's.

It could prove beneficial to focus the QSE contribution under this Code on support for education for family of staff members.

Insightful Business Warriors forum posts.

During the discussion on BEE in the Business Warriors forum, there were a number of posts that deserve special mention. They are included here as they add value to the process of developing changes to the draft Codes for QSE's.

I would like to see this code (1300) make it easier to obtain points.

Let's say there is a 5 person company under the VAT limit. They need to hire another person so they are going to have to start complying with the QSE. Under the 5 person mark they got 100% compliance - now they have zero unless a black person is hired, preferably a black woman (how do black men feel about this??)

So they hire 1 black woman: black employees % and black woman % = 16.6% (1/6). So score is $(16.6/70)*4 + (16.6/35)*4 = 2.85$.

Basically not many points for employing someone (assuming that you find a black women who can do the job and fits in properly with the company).

The main reason I want to see more points be allocated here is because I believe that employing people carries the most real and broad based economic value. Selling equity tends to result in people who already have some degree of wealth getting more (how many of you are planning ownership deals with shack dwellers??)

Employment (I think) will tend to have the greatest ripple effect - more people can afford to put their kids through school, resulting in higher skills level, resulting in more job creation etc etc.

I think a way must be found to put the emphasis on employment.

Posted by Duncan Drennan.

Expecting small enterprises measured individually to consistently reflect the demographics of our country at all participation levels is unreasonable. Given the rapid cycle of rebirth in the small business sector it is inevitable that in time, when considered as a whole, the small business sector will closely approximate the broader demographics of our country.

Posted by Dave A

In their current form, the Codes could add significantly to the compliance costs of business in general. A recent study of regulatory compliance costs conducted by the Small Business Project¹ reveals that the "Total resources spent by formal business in South Africa on regulatory compliance are high by international standards, and represent a significant slice of the country's overall economic output." The SBP report estimates regulatory compliance costs in South Africa to be about R79 billion annually or about 6.5% of GDP. And SME's incur the largest costs of compliance.

¹ Small Business Project, "Counting the Cost of Red Tape for Business in South Africa, June 2005.

On Thursday last week I attended a meeting of the Black Management Forum in Sandton. I have been a member for some time, but only occasionally attend their meetings. The reason for my attendance in this instance was that the meeting was to be addressed by Lionel October, Deputy Director of the DTI on the subject of the new BEE codes. The other speaker was Jerry Vilakazi, the outgoing CEO of BMF.

October was at great pains to point out that the codes are not cast in stone, representations are being made, and will continue to be made until the end of this month. They expect then to have them finalised by end June.

At the end of the evening, and amongst a press of bodies all clamouring for attention, I managed to speak to October. I told him about the Business Warriors Forum, and the fear that BEE precipitates in so many of our members. He chuckled at the name, and said that he would not forget it. I told him how so many of our members are one and two man operations; to which he responded that they are all exempt. "Well Sir, here is the problem" I reponded. "Many of them fall well above the R300,000 watershed". His answer was heartening "We are looking closely at that limit".

I then asked him how much attention would be given to submissions. He said again that he would not forget the name, and that he would make sure the submission received attention.

My point in reporting this to you guys: I think that the question of the R300,000 limit should receive special attention in the submission, to the point of almost down playing other considerations which may be interpreted as being unfounded or even scurrilous in their concerns.

Other than that, here are some of my notes:

- They want the BEE process to be commercially driven, and to shift procurement. Issuing of licences in the future will be based on score cards. Procurement is a powerful tool. Businesses are expected to find creative ways to drive procurement.
- 25% of listed companies have done empowerment deals, 15% have done 25,1% deals. Women directors are running very low.
- IM workers now own shares in their businesses.
- The retail sector is way out of balance, probably because customers are placing little pressure on them to provide scorecards, understandably. (to my mind this proves that the BEE proces will be driven by the procurement chain). In general discussion, Woolworths was singled out for special mention as non conforming.
- The agricultural sector is even worse than the retail sector.
- The manufacturing sector is "uneven".
- As opposed to the BBBEE Act which causes the government and huge organisations to be forced to comply, and smaller organisations to comply through the need to supply these organisations, there may be some legislation contemplated in the future if retail and agriculture do not enter the spirit of the movement. However, they would prefer not to pass laws when they can be successful through the creation of economic imperatives.
- Micro businesses will be exempt. This note was made before my one on one dicussion with October. Seems to me that the question of the limit is crucial.
- The DTI sees the heart of the economy resident in medium and large businesses.
- They see a black management class developing nicely, and want to facilitate the development of a black entrepreneurial class.
- Business by its nature requires certainty, otherwise it will become very adept at finding and exploiting loopholes. Hence the need to finalise the codes as soon as possible.
- The people who control the economy, call the shots.
- Creating a super rich is very dangerous, politically, which is why the concept of "broad based..." came into being.
- Members of the BMF will be expected to be the voice of reason.
- Eventually they expect that "Joe Soap" and "Bra Stix" will end the race debate and get on with making money and growing the economy. The NEF and IDC are now offering 100% funding on VIABLE BUSINESS DEALS.
- Not everybody is an entrepreneur. We still need professionals - managers, CAs, engineers, etc.
- To enter the race you will be expected to have some level of ownership.
- Multinationals have been very uncooperative until recently. However, Deutsche Bank and Merrill Lynch have now started the ball rolling.

The killer observation for the evening: 90% of Mvelepande's (sp?) suppliers are micro and white! They are feeling the heat like the rest of us.

Posted by Mark Corke

Economic Empowerment

I would like to suggest that we give the gov a workable alternative altogether.

Economic Empowerment.

With two pillars : Black Economic Empowerment and Small Business Economic Empowerment.

Black Economic Empowerment along the lines that we are developing a proposal for now - with low level cut-off points pertaining to turnover, number of staff and years in trade.

Small Business Economic Empowerment with a number of the following filling the scorecard.

- 1) 20 Points per annum for education of black people, including domestic workers as well as black children. (A percentage of turnover can be related to this)
- 2) 20 Points per annum for compliancy in the terms of VAT, Tax and Provisional Tax, UIF as well as CIPRO returns, PAIA and other industry related bodies.
- 3) 20 Points per annum awarded on the basis that the immediate past financial year has shown a 15% increase in annual profits.
- 4) 10 Points per annum awarded on the basis that 1 additional job has been created A further 10 points if the encumbent is black.
- 5) 20 Points per annum awarded on the basis that the Small Business's overall debt has decreased by 20% during the past financial year.

Once a Small Business is compliant with the Economic Empowerment Legislation, that scorecard seamlessly integrates with the current BEE scorecard, meaning that corporates get awarded equally well under their procurement pillar when using the services of a Small Business.

Debbie

The vast majority of "small businesses" should not be described as businesses at all, but rather as "vehicles to house the self employed".

By taking on the mantle of "business" these self employed, very productive people have inadvertently condemned themselves to the commitments of the larger business world, only for them they are confined very often to their spare bedrooms, dining room tables or converted garages.

It hardly seems fair that they should share the burden of ownership in competition with better suited candidates.

Perhaps also add a reference to the hardship small businesses already experience in administering their taxes and payments, and the not inconsequential contributions from the "self employed".

Mark Corke

Possibly

Is it not a commonly known fact that many small businesses fail due to disagreement between partners?
These stats must be available somewhere?

I remember reading an article posted by a group of accountants years ago where a partner was quoted as the number 1 reason for failure in small business.

Debbie

The success of any enterprise comprises of many factors. However, the main driving force is the emotional enthusiasm of the enterprise's leaders. This is the essential ingredient that breathes life into any organisation and is critical to its very existence, let alone its success.

The small enterprise can compete successfully against larger organisations and survive despite its lack of formalised systems and resources primarily because the emotional enthusiasm of the leadership is a lot closer to the delivery point of the organisation. This drives the owner and perhaps those in the immediate sphere of influence to work longer hours and try harder than their big organisation counterparts.

Dave A

SA Fact a Day - Perceptions of BEE

This from SA Fact a Day...

72% of South Africa's new black middle class believe that 'only a few privileged people are benefiting from the BEE process'. 72% agree that 'change is too slow and that the benefits of BEE have not yet reached ordinary South Africans'. (Black Diamond 2006)

Lerynne Verster

Stepped back and scanned the world a bit today. It's hard to believe the quality of information you folk dug up over the past few days.

There's some pretty impressive hard evidence supporting our positions. My congratulations to all the ferrets.

Peter has already mentioned the power of the net and his mailing systems as they kicked in for the survey. I'd like to add to this "power of the net" idea for just a moment.

This is not the first project of this type I've ever been involved in. This one has some rather special differences that kind of blow me away:

Normally, you end up in a room with folk flown in from all over to thrash the project - we're thrashing this in cyberspace - the financial savings are massive.

Normally, when research is needed the process is set back weeks - here there was top class material within half an hour of each request.

Normally, if you need to conduct a survey it takes weeks to get back results at about R250.00 per response - here we had workable results within 24 hours at 35c per response.

Normally, when what is needed is work everyone starts diving for cover - here, as the demands became known, people were jumping in to help.

Normally, after a couple of meetings you know what everyone has for lunch - here we've never physically met.

There is more research, more thought and wider consultation for way less money put into this proposal than government's effort to produce the QSE codes in the first place.

When will government learn from us?

Viva the net
Viva small business
Viva Viva Viva

Dave Alcock

I come from the perspective that I believe there can be redress of the inequalities and that there are ways to achieve this - I just don't believe that the government can actually ever achieve the goal, definitely not the way they are going about it. It becomes repressive instead of freeing - in a lot of ways compounding the issues.

Politically the ANC has a problem - they are not providing what they promised. To maintain their power they have to at least look like they are working towards this (whether this is good or bad for the country). Problem is that generations will have to pass (not 10 years) to reach some sort of stability. You know what they say about the road to hell and good intentions...

How willing are small businesses to address the inequality of our current situation? Do you enjoy seeing people living in shacks and begging for a living? It is not the kind of world I want (it results in crime, poverty and reduces human dignity). I may not be able to achieve much, but I want to do my bit towards making the place I live a better place.

Sure - I am an optimist (which I need to regularly douse with a bout of realism). I don't want to be a cynic, even though it is easy to go this way.

What is the new paradigm? We live in a post-modern framework, what framework are we working from? Is our reality an "old" reality and do we not have the tools and words of the "new" reality? Where is the money going? How do I position myself to gain from the current reality? How do I start to see the future reality and get ready for what that brings? What is changing that I am not aware of? Do I understand how a 15 year old thinks? What does this all mean to me, and my context?

At the end of the day, I want to be able to spend time with my family, make money and enjoy doing it, and contribute to building the community that I am part of.

Duncan Drennan

Analysis of Survey Results.

A survey was conducted using the readership of Pete's Weekly, an ezine distributed to about 20 000 business owners in South Africa. The survey was conducted using the web based service Survey Monkey. Recipients of the Pete's Weekly edition of 14th February 2006 were invited to take the survey. A total of 3017 responses were received, the bulk of which was received within 48 hours.

Survey Monkey is a very professional means of carrying out such surveys, particularly as only one return is allowed per computer, avoiding potential duplication.

The method of conducting the survey was, in itself, a filter. All respondents will have e-mail addresses and regular access to a computer. This means that exceptionally few respondents are likely to be from the informal sector.

The full results of the survey are attached as Appendix A1. The response of Black business owners is set out in Appendix A2.

1. What is your annual turnover (sales)?

23.5% of all respondents had turnover of less than R300 000.00 per annum.

35.75% of black respondents had turnover of less than R300 000.00 per annum.

11.4% of respondents had turnover in excess of R10 000 000.00 per annum.

10.1% of black respondents had turnover in excess of R10 000 000.00 per annum.

Comments:

Approximately 65% of all respondents fall in the QSE category (above R300 000.00 and below R10 000 000.00 turnover per annum).

2. What colour would you classify yourself as?

94.8% classified as non black.

4.3% classified as black.

Comments:

At first we were surprised we got any black owner response. Having got the response, we questioned how relevant the percentage black response was. At this point, the only indicator we have is that only 10% of suppliers to a major metro are black owned. Given the priority metros give to black owned suppliers, this means that the 4.3% black response could be reasonably representative.

No wonder government is concerned. Black owners seem to make up an inordinately small percentage in the formal smaller business environment. Given that there were already black owners present in 1994, there seems to have been very little progress.

3. What is your main trading entity?

44.9% of respondents stated CC.

30.6% of respondents stated Pty Ltd.

16.9% of respondents stated sole proprietor.

Comments:

The overwhelming majority of respondents have formally constituted business vehicles.

4. What is your highest education level?

2.4% below Matric.

17.7% with Matric or equivalent.

79.8% had some level of tertiary education.

Comments:

Obviously Matric and tertiary education are major factors in the profile of business owners. A focus on education must play a critical role in building the pool of likely candidates for small business ownership.

5. Where did you gain the knowledge you used to start your business?

47.8% of all respondents reported Study/Self paid

49.6% of black respondents reported Study/Self paid

45.7% of all respondents reported Previous employer(s)

50.4% of black respondents reported Previous employer(s)

Comments:

It should be noted that for this question, respondents could select more than one option.

There seemed to be little evidence of business training support programs making a meaningful impact. The importance of the experience gained with a previous employer should be noted. This became an even greater factor when breaking down the overall results into groups. The demographics of larger enterprises were compared to smaller enterprises to try and establish the extent of employment equity, the goal of question 8. This breakdown analysis also showed that a far greater percentage of owners of larger companies were attributing their understanding of business to their previous employer than those owning smaller companies. Previous workplace experience seems an important precursor to own business success.

6. How many times have your business efforts resulted in closure of the then business?

- 72.7% of all respondents reported Never.
- 68.2% of black respondents reported Never.
- 16.5% of all respondents reported One business failure.
- 13.2% of black respondents reported One business failure.
- 10.7% of all respondents reported Multiple business failures.
- 18.6% of black respondents reported Multiple business failures.

Comments:

As anticipated, approximately 30% of current business owners had experienced at least one business failure.

7. Choose the sector below that best describes your current business.

- 36.5% reported Service industry
- 20.4% reported Professional
- 12% reported Manufacturing
- 8.8% reported Retail
- 6.3% reported Trade

Comments:

Probably the most alarming figure here was the 6.3% return of Trade. There appears to be a massive shortage of skilled artisans. Alternatively, skilled artisan business owners have not yet engaged the internet to the extent of other industry groupings. This used to make up a far more significant portion of the economy.

8. How many staff do you employ?

This question was hoped to reveal a profile of employment but in hindsight the format failed to give much coherent data. An attempt was made to achieve some sort of interpretative result by looking at the results of the larger employment groupings as compared to the smaller employment groupings, but without much success. Probably the only surprise was the extensive use of part-time staff by larger enterprises.

9. What is your total staffing bill each month?

- 35.8% of all respondents reported less than R10 000.00 per month.
- 38.9% of black respondents reported less than R10 000.00 per month.
- 32.7% of all respondents reported more than R10 000.00 but less than R50 000.00 per month.
- 36.5% of black respondents reported more than R10 000.00 but less than R50 000.00 per month.

Comment:

The thought that at least 35% of smaller business owners are earning less than R10 000.00 per month is truly disturbing, particularly against the background of the education quality of the sample in this survey. This figure could be significantly higher, as there may be more business owners earning less than R10 000.00 per month hidden in the higher total payroll brackets.

10. Where is your business located?

- 40% reported Gauteng
- 33.4% reported Western Cape
- 14.2% reported KwaZulu Natal

Comments:

This seems to fairly reflect the regional small business demographics.

11. What 'triggered' you starting your own business?

- 26.7% of all respondents reported Frustrated with previous job.
- 23.8% of black respondents reported Frustrated with previous job.
- 6.3% of all respondents reported Couldn't find a job.
- 2.4% of black respondents reported Couldn't find a job.

23.8% of all respondents reported Needed financial independence.
43.7% of black respondents reported Needed financial independence.

Comments:

It should be note that for this question, respondents could select more than one option.
Poor job satisfaction is an important trigger in starting one's own business.
Inability to find employment seems to be a poor trigger to starting one's own business.
The fact that 43.7% of black business owners indicated the need for financial independence against the 23.8% overall deserves more investigation.
Opportunity did not score well overall.
Exceptionally
Ultimately, a good understanding of the 'trigger mechanisms' to entrepreneurial activity is key to growing meaningful black ownership in the small business sector.

12. Have you read the BEE draft codes for small business?

69.7% reported No.
26.2% reported Yes.

Comments:

Very few business owners have taken the effort to actually understand the content of the draft Codes.

13. Where have you gleaned most of your information regarding these codes from?

43.4% reported Newspapers.

Comments:

Direct communication between government and business seems virtually non-existent.

14. How do you feel about this BEE legislation, based upon your current understanding?

Clearly, black business owners are far more secure about their future prospects than their non-black counterparts.
43% of black business owners thought BEE will hurt small business!

15. Which of the following alternatives have you seriously considered when thinking about BEE?

48.4% of all respondents reported Do nothing, carry on as before.
54.7% of black respondents reported Do nothing, carry on as before.

Comments:

It should be note that for this question, respondents could select more than one option.

Overall, level of education and lessons learnt from previous employers are the best indicators of how the small business sector can add value to the objectives of broad based black economic empowerment.

One of the burning questions is why there has been so little formal economy penetration by black ownership in the smaller business sector when compared to gains in employment equity. Possibly the answer lies in the fact that there is still a massive shortage of the required skills in black hands. This means that skilled blacks are still very much in demand by larger enterprises that provide secure incomes. There is little likelihood of skilled individuals willingly leaving the safety net of well paid secure employment to risk the arduous of self-employment or small business ownership.

Summary.

A summary of points raised in this submission is set out below:

- The Qualifying Small Enterprise's greatest potential for meaningful contribution to Broad Based Black Economic Empowerment (BBBEE) lies in skills development and knowledge transfer.
- Ownership is made far too important in the Qualifying Small Enterprise (QSE) scorecard, particularly when compared to the assigned importance of skills development.
- Very few QSEs deliver financial returns based purely on ownership. In most instances, if the owners paid themselves a market related salary for their employed contributions, the enterprise would prove entirely unprofitable.
- Ownership and strategic management is inseparable in the QSE sector. This doubles the value of ownership on the scorecard. It is recommended that ownership and strategic management is incorporated into one element on the QSE scorecard.
- This will result in QSEs adopting forceful measures to address ownership even when ownership is in reality a nett liability.
- QSEs are impacted far more severely by compliance costs than their big business counterparts.
- QSEs are mostly marginal, survivalist enterprises with limited capacity to bear additional expenses and administrative burdens.
- Turnover is not the key measurable to identify a QSEs capacity to implement BBBEE measures. A far more appropriate factor is the total staff compliment of the enterprise.
- The QSE Codes have obviously been adapted from the Codes for big business. The QSE cannot be considered as a little "big business". They operate on a totally different basis, requiring measures that are developed from a totally different paradigm to big business models if they are to be relevant and effective.
- Reliance on consultants has historically proved to add to complexity, not reduce it.
- It seems more prudent to invest in obtaining simplicity up front, rather than massively increase implementation costs by using consultants to compensate for system design inadequacies during the development phase.
- The definition of exempt enterprises should be set as businesses with an annual payroll of less than R500 000.00 per annum, or alternatively enterprises that employ 5 or less employees.
- Enterprises with 50 or less employees and which do not qualify as exempt enterprises should be considered QSEs. Alternatively, enterprises with a turnover of less the R20 000 000.00 per annum and which do not qualify as exempt enterprises should be considered QSEs.
- Code 1300 on employment equity has as the most important measurable equity at the Manager-Controller level, a level totally absent in most QSEs. Focus should rather be placed on overall employment equity.
- Code 1400 on skills development refers to an application to the NSF; a totally unrealistic expectation. Target training spend is set too low. The target training spend should be set as a percentage of total payroll and participation in the National Skills Development Strategy through a relevant SETA should be encouraged.
- Code 1500 on procurement places a massive administrative burden on QSEs. Most QSEs do not have the financial or organisational capacity to carry this burden.

- There appears to a severe shortage of suitable BEE compliant enterprises to satisfy BEE procurement demand. QSEs are unlikely to be able to compete against large enterprises and government procurement in obtaining goods and services from highly BEE rated enterprises, placing QSEs at a distinct disadvantage in the marketplace. Accordingly, it is recommended that procurement is only introduced as a QSE requirement once big business and government have made substantial progress towards meeting their BEE procurement targets.
- The target for Code 1600 Enterprise Development should be set as a percentage of profit after tax.
- Programs should be developed by government that will enable QSE participation in Enterprise Development.
- The Codes for QSEs should be written so as to enable interpretation and application without the need to refer to the big business Codes for clarification.
- The QSE Codes should primarily encourage employment growth, skills development and knowledge transfer in the QSE sector.
- It is highly unlikely that well paid and satisfied employees will leave their jobs to risk commencing their own business. Affirmative action in government and big business is effectively reducing the likelihood of highly skilled Black individuals commencing their own businesses.
- Whilst a person that has recently lost employment may consider starting their own business, the chronically unemployed appear unlikely to do so.
- Tertiary education appears an important precursor to functional QSE ownership.
- The likelihood of business success seems to improve when the owners have benefited from relevant previous employment experience.

Development process of this submission.

This submission was first suggested in the Business Warriors Forum.

Business Warriors is a web-based small business support subscription site started by Peter Carruthers. Essentially, members help each other resolving business issues that most big businesses take for granted.

Obviously, Broad Based Black Economic Empowerment is a significant factor in the small business landscape. One of the greatest difficulties small business has is interpreting and understanding the consequences of such complex regulatory efforts.

It was decided to make a team effort to interpret and understand the consequences of the Codes for QSEs. Once understood, it became quite clear that there was room for improvement. Ultimately, the multitude of posts and on-line research was analysed and the comments that make up this submission became self-evident.

Each submitted comment has been posted on the Business Warriors forum for input and refinement. This has produced a marvellous record of the different views held in the small business sector. It has also produced comments that reflect the true voice of small business in South Africa.

During the final stages, it was decided to conduct a survey to test some of the concepts raised. This proved to be an amazing exercise, particularly in respect of speed and low cost. Two hundred responses were received in the first 15 minutes. Over two thousand responses were received within 48 hours at a total survey cost of R1050.00. The only other material cost in the development process has been time.

Contributors to this submission come from all walks of life with only one thing in common; they are small business owners. The entire process has used the power of the internet. Almost all have never met 'in the flesh'.

List of contributors.

The following contributors added their signature to the credits roll for this proposal.

David W. Alcock - CEO of the Alcocks Services Group, a co-operative of three small enterprises in the service industry.

Duncan Drennan - soon to be small business owner in the electronics and business solutions industry

Judith Taylor, co-director, Software Africa, currently rethinking our strategies!

Vine - MD - design development and manufacturer of electronic controls company

Wynn, sole member of cc doing business in the civil field, work from home, no stock, no staff.

Andre' Morgenrood - Franchise owner - currently in the process of deploying three new small businesses in the IT and Tourism Industries in KZN.

Albert J. Sjoberg, Electronic Design Engineer, sole member of a CC which is now 9 years old. And tickled pink to be associated with the rest of these folk.

Heather Birney - 50% member of expanding Interior Design Company & Corporate Space Planners

Brett Maytom - 51% shareholder of a life coaching company with and aim to bring people back into business.

Renier Richter - Facing the daily challenges of doing business in South Africa.

Chantelle Weston - soon to be partner in a small building and construction business in KwaZulu Natal. Responsible for Sales and Marketing. Currently studying the Corey Rudl's Insider Secrets learning everyday ... and loving this group of business warriors!

Steven - trying to eke out a living supplying safety equipment to heavy industries and mining. Frantically busy setting up one - soon maybe even two - Internet businesses. Love life in SA!

David Young - Bringing the power of Open Source Software to South African businesses!

More BEE posts.

Real Life Stories

A B&B perspective just sent to me:

I found the BEE meeting in Bloemfontein on 6th October both interesting and provocative. There is no doubt in my mind that the principal of BEE is correct, but I do have doubts as to whether or not the spread sheet with the eight weightings is really relevant in some cases.

Rather than fill in the form at this stage I thought it might be constructive if I made some comments about a part of the hospitality industry in which I am particularly involved; namely B&B's and Guest Houses at the small end of the market. By this I mean establishments with up to 5 bedrooms

I think there is a serious misconception that the B&B industry is "money for old rope" The truth of the matter is that it is much harder work than people realise and there is not that much money to be made at the small end of the market. This is born out by the fact that a large number of B&B's change hands each year. Another fact that is not generally recognised is that many people enter the industry on retiring from their lifetime jobs in order to supplement their pensions and/or to keep them occupied. This explains, in part, the previous point on turnover as hard work and precious little profit is not necessarily conducive to a happy retirement.

At the very small end of the market you often find that the proprietor might very well not employ any inside staff and certainly not on a full time basis. A gardener is however likely to be employed. Whilst this fact might seem rather depressing in regard to empowerment it is still excellent in respect of local area support and improvement. Money generated will be spent in the local shops, thus helping employment and the establishments gardens will tend to be smarter than the average because of the employment of a gardener. Anything that gives tourists a better impression of stability when visiting an area has to be considered, in my opinion, as a serious plus.

Moving up the scale in terms of size, I would submit that the number of inside staff would range in number from 1-4 and the number of gardeners might rise from 1 to 2. This obviously makes a greater contribution to the improvement of the local area as a number of families are being supported, more provisions are being bought and inevitably the part-time employment of local artisans will be greater in sorting out odd jobs in and around the house and garden. Even at this level there is virtually no scope for ownership or directorship amongst the staff; 2 of the more important principals of BEE. This size of establishment does however offer managerial improvement to a greater or lesser extent and obviously should be encouraged. In all cases of small business's you will find that black employees and managers are in the vast majority. I would also submit that black women employees are already in a great majority in such establishments

Training takes place in one form or another wherever personnel are involved but will almost always be done "in-house" as sending staff away from a small establishment would be totally impractical and could seldom be justified.

Many of the smaller establishments are situated in the country, in or around small dorps and I would suggest you will find that an enormous amount of time and effort is expended by proprietors on community and conservation projects and general tourism in the area. In most cases no monetary value can be put these efforts. A very different case to much larger establishments and hotels where you are hardly likely to find general managers or directors having a "hands-on" approach, rather they would make a monetary contribution which could ofcourse be valued as a percentage of income. I would further suggest that if you could value the proprietor's efforts in monetary terms their contributions would be a much higher percentage. This is all part and parcel of life in a well- balanced small community.

Without in any way wishing to sound patronising, I think you will find small employers do much more than they are given credit for in terms of helping staff with the education of their children, whether it be monetary contributions towards school fees, uniforms or school books. Sadly I do not think that full-blown bursaries would be a starter for the small operator unless it was treated purely as a charitable donation and that is not part of this discussion.

I see no reason why a larger amount of money should not be spent with black owned companies, but the onus MUST be on those companies to promote themselves as indeed the onus is on any company so to do. As far as local content is concerned, I am of the opinion that small business's probably use local products way and above imported goods. The main reason being that small operations seldom undertake large capital projects requiring expensive imported materials.

I trust my remarks will be taken in the spirit that they are given, ie. as constructive comments, but such they do leave me with the uneasy feeling that the spreadsheet for small B&B's and Guest Houses is neigh on impossible to complete in a way that would give the Department or the participants any meaningful analysis.

In conclusion, I would like to say how important I think it is for as many establishments as possible to be graded by the Tourism Grading Council. In this way people will be focused on how best to present themselves within their own constraints and strive to make improvements, thus always helping direct and indirect employment. I believe serious education and encouragement should be given in order to achieve this end. In order to satisfy ownership and directorship, I earnestly suggest that government find a way to finance suitable previously disadvantaged people. There is absolutely no point in attaching onerous repayment terms on loans as this will only lead to failures and inevitably give the industry a bad name.

Bee

I don't know if BEE has anything to do with the well-know expression 'BEE IT EVER SO BUMBLE, THERE IS NO PLACE LIKE COMB".....

I have recently been approached by a BEE company to buy 51% of my company. They are prepared to pay (slightly) over the odds for their share, and are bringing benefits which, on the face of it, look attractive to say the least.

On the other side, I have a good business, like working from home in new offices I built, and face having to re-enter the rat-race to the office every day...

It is a case of the Head vs the Heart, I guess - need to decide by next Wednesday.
SIGH

7) Black economic empowerment

This is huge. The BEE codes for small business have just come out. They seem so complicated that consultants might need consultants to explain it to them. Can you imagine how grateful a business owner will be if you decipher the code for him?

Nearly every white-owned business in South Africa is looking to establish BEE credentials. And black-owned businesses constantly get offers for partnerships. This is very fertile ground for business advisors who like deal-making.

Don't worry about being last on the band-wagon. There is such a huge need for advice about BEE that there will be a shortage of consultants in this field for a long time to come.

Some of the roles that business advisors can play include:

- Setting up a rating agency to rate BEE credentials in businesses
- Setting up an auditing agency to audit BEE ratings
- Advising business owners on how to improve their BEE rating
- Facilitating BEE partnerships
- Designing self-help BEE packages for business owners, who are do-it-yourselfers by nature.

From SEDA newsletter.

Broad-based growth

BEE is not affirmative action, although employment equity forms part of it. Nor does it aim to merely take wealth from white people and give it to blacks. It is simply a growth strategy, targeting the South African economy's weakest point: inequality.

"No economy can grow by excluding any part of its people and an economy that is not growing cannot integrate all of its citizens in a meaningful way," the DTI says.

"As such this strategy stresses a BEE process that is associated with growth, development and enterprise development, and not merely the redistribution of existing wealth."

From DTI website