

The Impact of Black Economic Empowerment Policy on Turnover and Profitability of Businesses in Polokwane Area of Limpopo Province, South Africa

Olabanji A Oni

*University of Limpopo, School of Economics and Management, Department of Business Management,
Private Bag X1106 Sovenga 0727, South Africa
Email: Olabanji.Oni@ul.ac.za*

Olawale O Fatoki

*University of Limpopo, School of Economics and Management, Department of Business Management,
Private Bag X1106 Sovenga 0727, South Africa
Email: Olawale.fatoki@ul.ac.za*

Doi:10.5901/mjss.2014.v5n20p888

Abstract

The aim of this paper is to investigate the impact of Black Economic Empowerment (BEE) policy on turnover and profitability of businesses in Polokwane area of Limpopo Province, South Africa. Data was collected through the use of self-administered questionnaires in a survey. The study focused on businesses that have benefitted from BEE deals over the past 5 years. Because of the difficulty in obtaining the population of businesses that have benefitted from BEE deals over the past 5 years in the study area, purposive and snowball sampling methods were used. The questionnaires were distributed to a sample of business owners (N=38) to respond on the impact of BEE policy on turnover and profitability of businesses in the Polokwane area of Limpopo Province, South Africa. Descriptive statistics was used for data analysis. The findings revealed that BEE positively impacted on the turnover and profitability of businesses. 95% of the respondents indicated that their annual turnover increased over the past 5 years because of the BEE tender deals and 5% indicated that BEE policy did not impact on their turnover. Furthermore, 92% of the respondents indicated that their annual profit increased over the past 5 years because of the BEE tender deal and 8% indicated that BEE policy did not impact on their profit. Based on the results of this study, it is recommended that the South African Government should continue to support businesses using BEE policy to stimulate employment and economic growth.

Keywords: Black Economic Empowerment; Turnover; Profitability; Polokwane; South Africa.

1. Introduction

Juggernath, Rampersad & Reddy (2011) argued that Apartheid created economic disadvantages for several groups in South Africa including Black Africans, Coloureds, Indians, Chinese, women and people with disabilities who are referred to as 'Blacks' or Historically Disadvantaged Individuals (HDI). Furthermore, Sanchez (2011) points out that In South Africa, economic redress to correct the social imbalances and racial divisions of the past has been at the top of the government's agenda ever since the end of Apartheid in 1994.

Black Economic Empowerment (BEE) was created to address the systematic exclusion of the majority of South Africans from full participation in the economy (South Africa BEE commission report 2001). The Department of Public Service and Administration (1998) stated in the White Paper Gazette Notice 564 of 1998 that the South African Government inherited a public service which was strongly influenced by discriminatory employment policies and practices based on race, gender and disability.

The contribution and success of the Black Economic Empowerment policy is debatable and inconclusive. Fauconnier and Mathur-Helm (2008) argued that BEE dealings that meet the demanding expectations of government and society within realities of business are not easy and relatively low in success rate. Similarly, Kruger (2011) points out that the literature on transformation in South Africa is still relatively limited in depth and there are still many gaps in the BEE dealings.

On the other hand, Marais and Coetzer (2006) found that the contributions of concluding a BEE ownership deal are (1) ability to achieve preferential procurement; (2) obtain government concessions; (3) obtain licenses and financial

support from state owned enterprises. Furthermore, Arunjo, Denenga and Milovanovic (2007) argued that being BEE complaint provides a direct financial incentive for firms that want to do businesses with government or state owned entities as the complaint qualifies the businesses for lucrative government contracts (tenders).

A study by Kruger (2011) however found that that the literature on transformation in South Africa is still relatively limited in depth and there are still many gaps in the BEE dealings. The author elaborated that limited research has been done on the impact of BEE on the performance of businesses. This study therefore seeks to investigate the impact of BEE policy on turnover and profitability of businesses in Polokwane area of Limpopo Province, South Africa.

2. The Objective of the Study

The objective of the study is to identify the impact of black economic empowerment policy on turnover and profitability of Businesses in Polokwane area of Limpopo Province, South Africa.

3. Literature Review

For the purpose of this study, the impact of the BEE policy on turnover and profitability of businesses is briefly discussed from the international and South African perspectives, with emphasis on Limpopo Province. The literature on the turnover relates to the growth of businesses while that of profitability relates to the sustainability of the businesses.

From the international perspective, in the USA, it was argued that, the enormous growth of Black owned Banks lead to a consequent growth of Black businesses. The Black Banks provided capital and credits for Black Businesses between 1888 and 1934, 134 Black banks were established in USA while from 1867 and 1917 the number of Black businesses increased from 4000 to 50 000. More than 200 Black newspapers were being published at the turn of century and by 1920 there were almost 75 000 Black Businesses in the United States of America (USA) (The New York Amsterdam News, 1999: 22).

In South Africa, the Limpopo Business Support Agency (LIBSA) annual report (2011) indicated that LIBSA assisted SMMEs to compile 883 business plans of which 47 were approved to the loan value of R8 708 134. In terms of co-operatives development, 49 funding proposals valued at R11 308 837 were approved by Department of Trade and Industry (DTI) under the co-operative incentive scheme (CIS) and 22 grant funding proposals valued at R5 399 016 were approved by various funding institutions. In addition, the Limpopo Economic Development Enterprise (LimDev) Annual Report (2011: 2) amplified that "LimDev and local businessman Mr Eddie Ratsoma formed a breath taking partnership to develop a shopping centre in one of the fastest growing areas in Limpopo". The development of the Bopedi Shopping Centre in the Fetakgomo Local Municipality of Sekhukhune District brought economic stability in the area and a number of people received sustainable employment. Jackson, Alessandria and Black (2005: 29) argued that "one vehicle that has arisen to help facilitate an increase in corporate ownership has been BEE transactions". BEE transactions are essentially private placement of equity. The authors point out that BEE transaction can be associated with significant positive increase in market value of equity of the firm. There are also positively abnormal returns associated with BEE transactions which are positively correlated to the proportion of the firm equity acquired by the BEE group.

In conclusion, it was reported that the National Empowerment Fund (NEF) launched the Enterprise Development Fund (EDF) in 2011 with the intention of supporting black businesses. The NEF is another organ of the DTI and has put up R75 million for the EDF and intends getting another R50 million from private companies. The report elaborated that Khula will lend about R3 billion to SMME's in the period to 2013 via a subsidiary called Khula direct. It was also amplified in the report that ABSA bank has a R250 million fund that supports SMME's who have contracts to do work for provincial or national government. The report augmented that all major projects in Limpopo Province under the control of the government will have triple localisation procurement thrust to assist SMME's and co-operatives to become sustainable (Department of Trade and Industry, 2011/12:4)

4. Research Methodology

The survey was conducted in Polokwane, Limpopo Province of South Africa. The empirical approach consisted of data collection through the use of a self-administered questionnaire survey. The study focused on businesses that have benefited from BEE deals over the past five years. Because of the difficulty of obtaining the population of businesses that have benefitted from BEE over the past 5 years in the study area, purposive and snowball sampling methods were used. The questionnaire was divided into two sections. The first part focused on the demographic information of the respondents. The second part of the questionnaire assessed the impact of BEE policy on turnover and profitability of

businesses. Descriptive statistics was used for data analysis.

5. Findings and Discussions

Out of 50 questionnaires distributed, 38 were returned. This gives a response rate of 76%. Table 1 below shows the distribution of the demographic characteristics of the business owners that participated in the survey.

Table 1: Demographic information of respondents

		Frequency No	Percent %
Race	Black	32	84
	Indian	6	16
	Coloured	0	6
	Chinese	0	0
	White	0	0
	Total	38	100
Gender	Male	20	53
	Female	18	47
	Total	38	100
Age	18-35 years	27	71
	36 -50years	11	29
	Total	38	100
Education	No formal	0	0
	Primary	0	0
	Secondary/Matric	22	58
	Tertiary	16	42
	Total	38	100

Source: Author's Field work (2014).

Table 1 above indicates that 84% of the respondents were black, 16% Indian, 6% Coloured, Chinese and White were not represented. The table also shows that 53% of the respondents were males and 47% were females. Furthermore, 71% of the respondents belong to the age group of 18-35 years, 29% belong to the age group of 36-40 years, the age group of 51-65 years and the age group of over 65 years was not represented. The table also points out that 58% of the respondents were secondary/matric graduates and 42% were University graduates. The category of no formal education and primary education were not represented.

Table 2: The Impact of Black Economic Empowerment on profitability and turnover of Businesses

Variables & Questions	Frequency No	Percent %
BEE tender deal		
Did you get a BEE tender deal over the past 5 years?		
Yes	38	100
No	0	0
Total	38	100
Do you think your annual profit increased over the past 5 years because of the BEE deal?		
Yes	36	95
No	2	5
Total	38	100
Income		
Do you think your annual profit increased over the past 5 years because of the BEE deal?		
Yes	35	92
No	3	8
Total	38	100

Source: Authors Field work (2014).

Table 2 shows the impact of BEE policy on profitability and turnover of businesses. The table shows that all the respondents (100%) got a BEE tender deal over the past 5 years. 95% of the respondents indicated that their annual turnover increased over the past 5 years because of the BEE tender deal and 5% did not. Furthermore, 92% of the respondents indicated that their annual profit increased over the past 5 years because of the BEE tender deal and 8% indicated did not.

6. Conclusion

The objective of the study was to identify the impact of BEE policy on turnover and profitability of businesses in Polokwane area of Limpopo Province, South Africa. The results suggest that BEE impacted positively on turnover and profitability of businesses. Based on the results of this study, it is recommended that the South African Government should continue to support businesses using BEE policy to stimulate employment and economic growth.

7. Limitation of the Study

The study focused only on the owners of businesses that benefitted from the BEE deal in Polokwane area of Limpopo Province, South Africa over the past 5 years. Other research can extend the study by looking at the impact of BEE policy on profitability and turnover in other provinces and on the key sectors in South Africa.

References

- Araujo, J., Denenga, M.; & Milovanovic, A. (2007). Section 6: Broad based Black Economic Empowerment. Investing in South Africa, 40-44.
- Department of Public Service and Administration (1998). White Paper Affirmative Action in the Public Service: General Notice 564 of 1998. Government Gazette, 394, 23 April 1998-No 18800.
- Department of Trade and Industry 2011/12. A guide to the Department of Trade and Industry incentive schemes. Pretoria: Department of Trade and Industry.
- Fauconnier, A.; & Mathur-Helm, B. (2008). Black Economic Empowerment in South African mining industry: A case study of EXXARO Limited. *South African Journal of Business Management*, 39 (4), 1-14.
- Jackson, W.E.; Alessandri, T.M.; & Black, S.S. (2005). The price of corporate social responsibility: The case of black economic empowerment transactions in South Africa. (Working Paper Series No 29, December 2005). Federal Reserve Bank of Atlanta, GA, pp1-30.
- Juggernath, S.; Rampersad, R.; & Reddy, K. (2011). Corporate responsibility for socio economic transformation: A focus on broad based black economic empowerment and its implementation in South Africa. *African Journal of Business Management*, 5 (20): 8224-8234.
- Kruger, L.P. (2011). The impact of Black Economic Empowerment on South African Businesses: Focusing on ten dimension of business performance. *Southern African Business Review*, 15(3), 207-233.
- Limpopo Business Support Agency (2011). Limpopo Business Support Agency (LIBSA) Annual Report. Limpopo: LIBSA Head Office.
- Limpopo Economic Development Enterprise (2011). Limpopo Economic Development Enterprise (LIMDEV) Annual Report. :Limpopo: Review Printers.
- Marais, F.L; & Mirvis, P.H. (2001). Making mergers and acquisitions work. *Strategic Management Journal*, 27, 247-267.
- Sanchez, D. (2011). The Economic Empowerment of African Descendants; lessons from South Africa's Black Economic Empowerment Strategy (Sub-theme: Economic Empowerment: Obstacles and Opportunities).
- South Africa. (2001). The Black Economic Empowerment Commission Report. Johannesburg. Scottville Press. Chairman: Cyril Ramaphosa.
- South Africa BEE policy worries investors. (1999). The New York Amsterdam News. 22-28 August: 2.