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**Broad-based Black Economic Empowerment: A Human Capital Development Approach**

Thesis presented for the degree of Doctor of Philosophy in Business Administration, at:



**THE  
GRADUATE  
SCHOOL OF  
BUSINESS**  
UNIVERSITY OF CAPE TOWN

*the international  
business school in Africa*

By

Loyiso Mzisi Mhabane

**November 2007**

Supervisor: Professor Frank Horwitz

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Alas, here but for the grace of God, I am!**

## DECLARATION

I declare that this research report is my own work and all references are reported. It is being submitted in fulfillment of the requirements for the degree of Doctor of Philosophy (Business Administration) at the University of Cape Town's Graduate School of Business.

Signed by candidate

.....  
Loyiso M. Mbabane

Signed this 28<sup>th</sup> day of November 2007

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## ABSTRACT

This study develops a theoretical framework for Broad-Based Black Economic Empowerment, using a Human Capital Development approach. This framework is then employed to evaluate the Codes of Good Practice on Broad Based Black Economic Empowerment (BBBEE) (Department of Trade and Industry, 2005; 2007). A ‘mixed methods research approach’ is utilized, in some kind of triangulation. Three research methods are used starting with focus groups; then content analysis and finally descriptive analysis. Phase one utilizes focus groups to construct the key elements of the Draft BBBEE Scorecard for Employment Equity; Skills Development and Organisational Transformation (2005). In phase two, content analysis (documentation analysis) is applied to compare and contrast the draft BBBEE Scorecard of 2005 with the final BBBEE Scorecard of 2007, using the human capital development framework for the propositions. The third phase is designed to test proposition three, which enquires into the actual implementation of BBBEE by employers. This phase utilizes secondary data from various official reports of the Commission for Employment Equity (2000-2007) to measure the nature and extent of progress on Employment Equity; Skills Development and Management Control by employers, in relation to the BBBEE policy and its targets. The BBBEE Scorecards for Employment Equity and Skills Development are found to be generally in line with human capital development principles. The Organisational Transformation Index that was in the 2005 Draft BBBEE Scorecard is found to be a useful mechanism for moving away from a transaction-based approach to BBBEE toward a transformation-based approach. To this effect, the absence of the Organisational Transformation Index in the final Codes and Scorecards of 2007 is lamented. A recommendation is made for more emphasis to be placed on the transformation of companies/ organisations. The leadership role of Chief Executive Officers and their top management in the BBBEE process is propagated. At the leadership level, the Transformational Leadership approach is posited as the one that holds a better chance of driving BBBEE successfully. *Quo Vadis*; the study recommends two different theoretical frameworks; a Human Capital Development framework for BBBEE at the macro-level (national policy and strategy) and the Transformational Leadership-Organisational Transformation one at the micro-level. BBBEE, it is held; ought to be integrated into the country’s new National Industrial Policy Framework. Conversely, the BBBEE targets and goals should also be aligned to the country’s long-term socio-economic growth strategies.

## Glossary of Terms

<b>BEE</b>	Black Economic Empowerment
<b>BBBEE</b>	Broad-Based Black Economic Empowerment (see full definition overleaf)
<b>Black empowered enterprise</b>	An entity 25.1% owned by black persons and where there is substantial management control (According to the Broad-Based Black Economic Empowerment Strategy Document (Department of Trade and Industry, 2003)
<b>BEE Com</b>	Black Economic Empowerment Commission. An independent, non-statutory Commission that was set up by black business groupings, under the auspices of the Black Business Caucus. It was chaired by Cyril Ramaphosa and its Executive Director was Loyiso Mbabane. The BEE Commission's Report came out in 2001 and it subsequently wound up.
<b>Black Enterprise</b>	An entity 50.1% owned by black persons and where there is substantial management control.
<b>Black People</b>	A generic term meaning Africans, Coloureds and Indians (According to the Employment Equity Act of 1998). The Amendments to the EE Act (2007) confine black people to South African citizens by birth and/or people who were citizens before the adoption of the new constitution of South Africa.
<b>Black woman-owned enterprise</b>	At least 25.1% representation of black women within the black equity and management portion (According to the Broad-Based Black Economic Empowerment Strategy Document, 2003).
<b>BBBEE Codes</b>	Broad-Based Black Economic Empowerment Codes which arose out of the BBBEE Act, No 53 of 2003. The generic codes came out in 2003; followed by the second phase in 2005. The final codes were released by the Department of Trade and Industry in February 2007.
<b>Broad based black economic empowerment (BBBEE)</b>	The economic empowerment of all black people including women, workers, youth, people with disabilities, and people living in rural areas through diverse but integrated socio-economic strategies (Broad-based Black Economic Empowerment Strategy Document, 2003; and Broad-Based Black Economic Empowerment Act, No. 53 of 2003).
<b>BBBEE Scorecards</b>	Summaries of the seven elements of BBBEE (from Ownership to Socio-Economic Development). Each Scorecard is governed by a code and there is a series of these codes. The final Codes, with their respective scorecards are in the Department of Trade and Industry's gazette (2007).
<b>Capital</b>	An asset that gives rise to an income stream.

<b>Commission for Employment Equity (CEE)</b>	A statutory Commission (of part-time, non-remunerated members); which represents various key stakeholders. The CEE is governed by the Employment Equity Act of 1998 and it advises the Minister of Labour on the implementation of same.
<b>Economic Development</b>	The process by which poor countries catch up to wealthy countries in terms of their per capita incomes
<b>Human Capital</b>	Investments made on people to increase or improve the quality of their lives; skills; productivity, etc. It is used in this thesis as an economic term (not a Human Resource Development or Human Resource Management term). It is used in the macro-sense.
<b>Management Control</b>	A construct defined in the BBBEE Codes and Scorecards to assess the extent to which black people (including women and people with disabilities) are represented at the top management levels of organisations; including their board-level representation, and their concomitant voting interests.
<b>Organisational Transformation</b>	A transition between organizational states that differ substantially in crucial features such as strategy and structure.
<b>Organisational Transformation Index</b>	A measure that was published by the Department of Trade and Industry as part of Phase II of the BBBEE Codes (2005). It consisted of elements that indicated some key principles of organizational transformation, including Board-level commitment; CEO buy-in; BBBEE vision; existence of an integrated BBBEE strategy; company structures, etc.
<b>Ownership</b>	Refers to equity participation and the ability to exercise rights and obligations that accrue under such ownership.
<b>Transformational leadership</b>	An approach to leadership (a paradigm) that is characterized by the creation of a strategic vision; communication of such vision; passion and enthusiasm in driving movement to attain the vision; the empowerment of people; and other similar values and principles. This style is viewed as the most conducive to successful BBBEE implementation at the company/ organizational level.

# CHAPTER 1

## INTRODUCTION

This chapter covers the following sections:

- Overview of apartheid-era induced racial inequalities and their effects;
- Non-statutory and other measures to attempt to deal with these inequalities;
- Aim of the study;
- Rationale for the study;
- The Broad-Based Black Economic Empowerment Policy Context;
- Definition of Black Economic Empowerment;
- Global perspective on empowerment;
- Detailed overview of socio-economic discrimination and its effects;
- Contemporary history of Broad-Based Black Economic Empowerment;
- Some key debates and controversies on Black Economic Empowerment;

In 1994, the democratically elected government of the Republic of South Africa inherited a country that had obvious wealth inequalities between Blacks and Whites; the economy excluded the vast majority of its people from ownership of productive assets and there was a lack of effective participation of the majority of South Africans in the economy (Broad Based Black Economic Empowerment Act; No. 53, 2003) (Department of Trade & Industry, 2003). This situation was a result of the structured exclusion of black people from economic power that began in the late 1800's with the first mass dispossession of land, continuing throughout the 20<sup>th</sup> century with repressive legislation being enacted such as the Mines and Works Act of 1911, followed by the Land Act of 1913 and the notorious Apartheid laws instituted in 1948 (Terreblanche, 2002). One of the main challenges of the first post-apartheid government (1994-1999), (the Government of National Unity) was to address the problems of poverty and gross inequality that resulted from the Apartheid system. In order to achieve this goal the Reconstruction and Development Programme (RDP, 1994) was introduced whose objectives, among others, was to eradicate the effects of Apartheid and build a democratic, non-racial and non-sexist future. The RDP was the result of the refined and contemporary version of the vision of an economy that would

meet the needs of the people as was documented in the Freedom Charter of 1955. Within the RDP, provisions were made where State and State-Owned Enterprises were to provide capital for the attainment of BEE objectives (RDP 4.4.6.3 – Black Economic Empowerment Commission Report, 2001).

However, four years after the election of a Democratic Government, many were of the opinion that virtually no change in the overall distribution of inequality and wealth had taken place with the result that black people remained in poverty and marginalised from ownership, control and management of economic activities (Terreblanche, 2002; Bhorat, 2004; Gqubule, 2006; Jack, 2007). The Black Economic Empowerment Commission (BEE Commission hereafter) (1998 – 2001) was formed due to the frustration that true empowerment (as defined by black people) did not exist, nor did a common definition or benchmark which served as a minimum requirement (BEE COM Report, 2001). The BEE Commission Report (2001) revealed an insight into the BEE process, together with the obstacles involved. It also provided recommendations on policies and developed benchmarks and guidelines to monitor the implementation of the National BEE Strategy. The Black Economic Empowerment Commission was an independent, non-statutory Commission. It was constituted by organised black business formations in South Africa, led by the Black Management Forum (BEE Commission Report, 2001). It originated from a resolution of a Black Management Forum Conference in Cape Town, in December 1997. The BEE Commission recommendations, whilst influential, did not carry any official status, as the Commission was non-statutory. It was left to the government, under the Department of Trade and Industry to follow up on the recommendations of the BEE Commission. The Department of Trade and Industry came under enormous pressure from organised black business formations (including members of the Black Economic Empowerment Commission) to develop and promulgate the necessary legislation as well as the official policy guidelines. Organised black business formations also received the support of the country's President as well as his Cabinet, through the Presidential Black Business Working Group, where all the latter parties would meet. The Department of Trade and Industry (DTI hereafter) was then mandated by the government to regulate black economic empowerment. It took another two years for the official, government-sanctioned, Black Economic Empowerment Strategy and Policy framework to be published (Department of Trade and Industry, 2003). This

was in the form of the Broad Based Black Economic Empowerment Strategy (DTI, 2003). Shortly thereafter the Broad Based Black Economic Empowerment Act (Act No 53 of 2003) was enacted by the Parliament of the Republic of South Africa. It was the above two policy instruments that officially introduced the concept of “Broad-based” to what had hitherto been simply referred to as “Black Economic Empowerment”. Subsequently all official references to Black Economic Empowerment were changed to Broad-Based Black Economic Empowerment (BBBEE).

The state also embarked on a process to regulate and guide the process of developing BBBEE strategies and plans. This was made necessary by the range of independent initiatives by different sectors of the economy (e.g. the Mining Sector in 2002; the Liquid Fuels Sector also in 2002; the Financial Services Sector in 2003; and the Information and Telecommunications sector in 2004) to self-regulate their Black Economic Empowerment. Most of the initial sectors that had to develop their own Broad-Based Black Economic Empowerment (BBBEE hereafter) strategies were compelled to do so by the lingering threat of having their licenses (e.g. Mining licences; gambling licences; gas exploration, banking, etc) either revoked by the government or not renewed when they expired (if they were found not to be compliant with black economic empowerment). Other sectors, including the government sector, were also in need of more detailed guidelines on how to implement BBBEE. The legislation and the strategy framework of 2003 were not seen as detailed enough in this regard. This then led to the development of BBBEE Codes of Good Practice. The first generic codes were embedded in the BBBEE Scorecard which accompanied the BBBEE Strategy document of 2003. Subsequent to this some more detailed Codes were developed on the Financing of BBBEE. This was later followed by the “Second Phase” of BBBEE, which culminated in the release of the Draft BBBEE Codes of Good Practice in December 2005. Broad Based Black Economic Empowerment arguably presents the last major transformation intervention in the private and public sectors of post-apartheid South Africa. As such it is a very significant intervention and it has major implications for industry and commerce, as well as for the public sector. It is important that it should be studied in detail and that working models of the construct should be developed further. This is one of the contributions that this study desires to make. This is also explained in the rationale section, which follows next.

## **Aim of the study**

The aim of the study is to explore a human capital development framework for Broad-Based Black Economic Empowerment and to test its applicability to two elements of the BBBEE Scorecard (Department of Trade and Industry, 2003; 2007), namely: Skills Development; Employment Equity (including Management Control). To do this, the study adopts three different methods. It firstly uses the focus group as a primary data-collection method to develop the Draft Codes of Good Practice for BBBEE in 2005. Secondly the study utilizes the content analysis method (documentation analysis) to analyse the final Codes of Good Practice on BBEEE (2007), including the Scorecards for Employment Equity and Skills Development; which are then compared to the Draft Scorecard of 2005. The propositions that are tested at this stage are the extent to which the two phases of the Codes (2005 and 2007) advance the human capital approach to BBBEE. The last method relies on the use of descriptive analysis to assess the link between national policy/ strategy and actual practice. To this end use is made of secondary data from the Commission on Employment Equity (2000-2007) in order to evaluate the actual progress made by employers on skills development; management control and employment equity over the period 2000 to 2005. In doing this, the study attempts to test the extent to which employers are putting the transformational and empowerment policies of the post-apartheid government into practice via their recruitment; promotion and skills development practices. The outcome of the above three steps are then discussed in relation to the need for a BBBEE approach that advances human capital development (in terms of the proposed framework).

The study adds value to the Broad-Based Black Economic Empowerment discourse in four ways:

- (a) Conducting original research in the development and drafting of Scorecards for Employment Equity; Skills Development and Organisational Transformation. This is pioneering research that makes use of focus groups constituted of subject matter experts (mainly senior policy officials) to generate a Draft BBBEE Scorecard from scratch for the three areas noted

above. This is the inductive component of the research and it generates the primary data.

- (b) Constructing a theoretical framework that links Broad Based Black Economic Empowerment to economic growth and that posits it as a Human Capital Development intervention. This is a crucial contribution from the academic point of view as there has been very little empirical and theoretical work on BBBBEE, given the novelty of the construct.
- (c) The study also reviews the subsequent BBBEE Scorecards which resulted from the above process. The Department of Trade and Industry issued Draft BBBEE Scorecards for public comment in December 2005. Subsequent to this, final Codes were released in February 2007. The study critically evaluates and contrasts the Draft Codes of 2005 with the Draft Codes of 2007 from the Human Capital Development perspective. This is the deductive component of the study, which utilizes secondary data sources (documentation).
- (d) The study also has a quantitative component; whereby the various employment equity annual reports of the Commission for Employment Equity (particularly 2005/6 and 2006/7) are subjected to empirical scrutiny. The data on the racial and gender profile of employers; their recruitment patterns as well as their promotion and skills development practices are analysed. The trends between 2000 and 2007 are analysed to determine the nature and pace of progress with skills development as well as employment equity. This component of the study enables the researcher to assess the actual practices of employers in relation to human capital development and equity and to draw inferences for the future of black economic empowerment at the given trends.

### **Rationale for the study**

The Codification of human capital development, in the form of BBBEE Codes and scorecards is a new concept in the South African (and global) equity and empowerment debate. Hardly any research has been conducted on this new phenomenon, largely because of its novelty but also due to its multifaceted nature. The available literature on equity and empowerment-related issues (e.g. Bowmaker-Falconer, Horwitz, Jain & Taggar, 1998; Human, 1991; Madi, 1993; 1997; Thomas, 1996) focuses on affirmative action, employment equity; discrimination and diversity

management. The Broad-Based BEE Strategy has widened BEE beyond the narrow confines of affirmative action, employment equity and anti-discrimination (Department of Trade & Industry (DTI), 2003). More clarity is needed on what the BEE Codes and Scorecards are and their true implications for human capital development. One of the shortfalls of the BEE Strategy document (DTI, 2003) is that it does not provide any justification for the use of the scorecard; it also does not offer any conceptual or theoretical framework to justify or motivate the elements chosen and their appropriation in relation to the main objective of BBBEE. In particular, the study examines theories of economic development within the context of equality and empowerment. BBBEE, it is then argued should be located within the framework of economic development. In particular, the impact of human capital development and its relation to BBBEE is used as the main proposition. The literature review commences with a critical review of the “human rights” and “equity/affirmative” action approaches. The section below reviews the policy context of Broad Based Black Economic Empowerment (BBBEE) in South Africa. This is followed by a discussion of the definition of BBBEE.

### **Broad-Based Black Economic Empowerment (BBBEE) Policy Context**

2003 saw the introduction of a national Broad-Based Black Economic Empowerment Strategy by the South African government (Department of Trade and Industry, 2003). This was preceded by a decade of policy-making and legislation aimed at redressing the effects of decades of systemic racial discrimination from previous apartheid and colonial regimes (Terreblanche, 2002). Some of the policies and laws that were passed since the advent of democracy in 1994 include (the White Paper on) Reconstruction and Development (1994); the National Small Business Act (1995); the Constitution of the Republic of South Africa Act (No.108 of 1996); the Green Paper on Public Sector Procurement Reform in South Africa (1997); the Employment Equity Act (No. 55 of 1998); the Skills Development Act (No.97 of 1998); the Competition Act (No 89 of 1998) as well as subsequent amendments; the Promotion of Equality and Prevention of Unfair Discrimination Act (No. 4 of 2000); the Preferential Procurement Policy Framework Act (No 5 of 2000); the Policy Framework of the Department of Public Enterprises, (2002) “An Accelerated Agenda towards the Restructuring of State Owned Enterprises”; the National Strategy: “South

Africa's Economic Transformation: a Strategy for Broad-Based BEE" (2003); the Broad-Based Black Economic Empowerment Act (No.53 of 2003); the Broad Based Black Economic Empowerment Codes of Good Practice (Department of Trade and Industry, 2003; 2005; 2007). In addition to the above policies and statutes, there are non-statutory bodies that have also made a contribution to BEE and BEE-related policy. Key among these was the Black Economic Empowerment Commission, which came up with its BEE Report in 2001. The Black Business Executive Circle (BBEC) also produced a comprehensive report on the state of BEE in South Africa in October 2005.

The above statutes and regulations are not the subject of any detailed analysis in this study. They constitute the overall framework of interventions by government and other independent bodies over the first decade of democracy. This study focuses on components of BEE that deal with human capital development; viz.; Skills Development and Employment Equity. BEE as it currently stands is too broad and it covers many unrelated areas. For any study to have some meaningful contribution theoretically and conceptually it must focus on a particular measurable component of BEE. The Skills Development, Management Control and Employment Equity ("Human Capital") elements of the BEE scorecard are interlinked in a number of ways. In fact, "Management Control" falls under the "top management" category of the Employment Equity reporting process. So, in a sense, there are two actual elements in question; Skills Development and Employment Equity. The Broad-Based Black Economic Empowerment Codes and Scorecards of 2005 and 2007 introduced the distinction between targets for "management control" and "employment equity" targets. This was made necessary in order to provide emphasis on the distinct and critical layer of "management control" which, unlike employment equity, specifically includes board level control and directorships (BBBEE Strategy Document; Department of Trade and Industry, 2003; 2005; 2007). The "human capital development" components of the BBBEE Codes and Scorecards are governed by statutes that were passed in 1998 (Skills Development Act and Employment Equity Act). The performance of employers has been continuously criticized by the Department of Labour, which is the custodian of the skills development and employment equity elements. In both cases employers have had to comply with a number of statutory obligations including setting up structures and submitting reports.

Most reports on Management Control; Employment Equity and Skills Development (e.g. Commission for Employment Equity, 2004- 2007) are still very critical of the lack of progress in redressing the inequalities of the past, particularly the racial; gender and disability inequalities. All this points to the need for closer scrutiny of the actual progress with the implementation of those policies. First we commence with an overview of the definition of concepts. The section below outlines the official definition of black economic empowerment. It also seeks to locate the discourse within the international literature on empowerment.

### **Definition of black economic empowerment**

The first attempt at a coherent definition of BEE came from the BEE Commission Report in 2001. The approach adopted then was rather broad and almost all encompassing. In 2003 the Department of Trade and Industry finalized the official policy on BEE and went for a less broad definition, whilst insuring that it was not too narrow.

According to the BEE Commission:

*“BEE is an integrated and coherent socio-economic process. It is located within the context of the country’s national transformation programme, namely the Reconstruction and Development Programme (RDP) ... ..BEE should be viewed within the broad scope of empowerment processes including, amongst others: job creation, rural development, urban renewal, poverty alleviation, land ownership, specific measures to empower black women, skills and management development, education, meaningful ownership and access to finance for households and for the purpose of conducting business ... .. BEE must impact on the lives of those purposely and systematically excluded from the economy. It must influence the life of a woman running a spaza shop in an outlying rural area, a worker in a factory in Germiston and the black manger in a corporate head office in Sandton.”*

(BEE Commission Report, April 2001)

The DTI’s definition of BEE; which is the official government policy, incorporated the BEE Commission’s context of socio-economic transformation as well as the need

for the transfer of ownership; management and control. It however departed from the socio-political context of the Reconstruction and Development Programme (RDP) and adopted a less redistributive angle. The government views Broad-based Black Economic Empowerment (BBBEE); as:

“an integrated and coherent socio-economic process that directly contributes to the economic transformation of South Africa and brings about significant increases in the numbers of black people that manage, own and control the country’s economy, as well as significant decreases in income inequalities” (DTI 2003).

The addition of “decreases in income inequalities” to the definition is also a significant departure and in fact improvement on the BEE Commission’s earlier definition. This broadens BEE beyond the de-racialisation of ownership; management and control and it makes it relevant to the lower-level employees in the economic sphere (they are the most to benefit from any decrease in income inequalities). This pertains to the South African policy context. Empowerment, in the broader socio-economic sense, is not necessarily a South African phenomenon. The term, for instance, has been the subject of some World Bank global studies. This broader, global context of empowerment is discussed below.

### **Empowerment : the global perspective.**

Empowerment has become a familiar term within many development agencies (Alsop; Bertelsen & Holland, 2006). Yet there are many different interpretations of what empowerment means, analytically and operationally and these interpretations are often inconsistent even within one organisation. In addition, limited material is available on the practicalities of measuring, tracking and evaluating progress made toward empowerment (Alsop *et al*, 2006:1). Alsop *et al* (2006:1) define empowerment as “the process of enhancing an individual’s or group’s capacity to make purposive choices and to transform those choices into desired actions and outcomes.” Alsop *et al* (2006) hypothesise that interventions to improve agency and enhance opportunity structures can increase people’s capacity to make effective choices and that this in turn can bring about other development outcomes. Alsop *et al* (2006:2) point out, with reference to Stern, Detheir *et al* (2005) that empowerment is

suggested both as a goal in itself and as a driver of development. Stern *et al* (2005) propose a dual strategy to development, firstly the building of a climate that encourages investment and growth while at the same time empowering poor people to participate in that growth. Alsop *et al* (2006) aver that the instrumental arguments for empowerment are simple. They point out that empowerment associates positively with achievements in other spheres of development, including growth, poverty alleviation, and realization of human rights. The term empowerment is commonly used to indicate both an outcome, in which a person or group enjoys a state of empowerment, and a process, an action that moves a group or person from a lower to a higher state of empowerment (Alsop *et al*, 2006:3). Indicators and interventions appropriate to one sector are unlikely to be appropriate to another. A person or group can experience different degrees of empowerment in different locations. The literature review, which follows, elaborates further on the foregoing concepts. It is considered necessary to locate the literature within the history of South Africa. One of the rationales for BBBEE is the elimination of the effects of the racially discriminatory policies of the apartheid era. In order to understand the extent and the nature of these policies and practices, it is necessary to examine the socio-economic history of South Africa. The following section seeks to do this. It also attempts to locate the development of BBBEE within the context of the transformation of South Africa, under the leadership of the African National Congress.

### **Historical background: socio-economic discrimination and its current effects**

This section seeks to provide a brief political and socio-economic context to the development of the national policy and strategy of Broad-Based Black Economic Empowerment (BBBEE) in South Africa. It commences with a summary of the historical context of inequality in the labour market. The racial nature of the discrimination under apartheid is highlighted in order to explain the need for a race-specific intervention, such as black economic empowerment, which is aimed at redressing the ongoing effects of such discriminatory policies and practices. While a detailed race versus class discourse is beyond the scope of this study, the particularly racial nature of the apartheid legacy should be apparent after the discussion below.

Gqubule (2006: 82-102) presents a history of black participation in the economy of South Africa before 1994. Gqubule argues that black business has not existed for the better part of the last century. It was stifled and legislated out of existence since the late 1880's. Gqubule traces the struggles of the black people from the 1652 arrival of Jan Van Riebeeck in the Cape as well as the 1806 British settlers, onwards. Gqubule (2006: 83) notes that "they found indigenous Africans (including the Khoi and the San) who had been in the country for at least 8000 years. The armed clashes that ensued between the Dutch and the British on the one hand and the indigenous Africans on the other started in the 17<sup>th</sup> century and continued uninterrupted for almost two centuries". Terreblanche (2002: 3-48), on the other hand, covers the colonial and apartheid history in detail, including the legacy of systematic exploitation of the black population by successful colonial and later apartheid regimes. In his book on Black Economic Empowerment, Jack (2007: 5-7) points out that during the apartheid era, which came to an end in 1994, social engineering resulted in a gross imbalance in socio-economic status between black people and white people. The exclusively white government engineered laws first through colonialism, and subsequently apartheid, to monopolize the economic resources in the country. Not only were black people specifically excluded from economic participation, but they were also denied the right to economic and intellectual growth through various destabilization mechanisms. Jack (2007: 5-7) then covers the various Acts and measures that were implemented which resulted in the racial disparities that the democratic government inherited in 1994. These range from the 1913 Land Act, which prevented Africans from owning land outside of "their designated areas" and which resulted in forced communal ownership of land in these places. This in turn destabilized black commerce. There was also the Native Act of 1923; which restricted "migrant labourers" to "locations" or townships. Other Acts included the 1950 Group Areas Act (Jack, 2007: 6). Terreblanche (2002) and Gqubule (2006) cover the nature of the racial discrimination against black people by successive white governments in detail. This will not be covered in this section. The main concern of this section is the consequences or effects of this discrimination on the South African economy and on racial inequality in the society.

The most effective instrument of racial discrimination was not necessarily the laws that segregated black people from white people and the social aspects of colonialism

and apartheid, although these were integral aspects of dispossession and exploitation. It was the discriminatory investment of the country's resources along racial lines that systematically created a very poor and uneducated black population, in relation to a white population that was deliberately empowered and advanced (Terreblanche, 2002). Terreblanche (2002: 389) notes, for instance, that it is alarming that per capita social spending (including spending on education) on Africans until 1975 was less than 12 percent of that on whites, and that on coloureds less than 40 percent of that on whites. Terreblanche (2002: 389) refers to Sadie's (1991) useful categorization of the workforce to illustrate the distortions that were created by the over-expenditure on the white population by successive apartheid regimes in direct contrast to the under-expenditure on black education. Sadie (1991) classifies the labour force into four categories. Category 1 represents the executive category (entrepreneurs, managers, and directors); category 2 the highly skilled category; category 3 the lesser skilled category, and category 4 the unskilled category (Terreblanche, 2002: 389). While, in 1985, only 5 percent of Africans and 13, 6 per cent of coloureds had the educational and skills qualifications to be classified into the first two categories, 50 per cent of whites were classified in that category (Terreblanche, 2002: 389). While only 1.2 per cent of whites were classified as unskilled workers, almost 65 per cent of Africans and 43 per cent of coloureds were classified as unskilled. Terreblanche (2002: 389) points out that, "the classification of the labour force was not substantially different in 1994" (when the non-racial and democratic government took over). The significance of the percentage of white people who occupied the first two categories (up to 1994 and beyond) is explained further by Terreblanche (2002: 413, footnote 44). He notes that "the extent to which whites have been privileged by educational spending during apartheid becomes evident when we compare the percentage of whites in the four skilled categories, with those of a highly developed country such as the United States. While, in 1985, 42 per cent of the labour force in the United States fell in the two top categories, 50 per cent of whites in South Africa fell in those two categories. The table below, from Terreblanche (2002: 390) summarizes the racial nature of the skills composition of the South African population, in comparison with the population of the United States of America.

**Table 1. The skills composition of the various South African population groups versus that of the entire population of the United States (1985)**

Categories	US %	Whites %	Asian %	Coloureds %	Africans %
I	12,6	13,1	4,2	0,6	0,1
II	29,4	36,8	18,4	12,6	4,9
III	51,0	48,9	63,4	44,2	30,2
IV	7,0	1,2	14,0	42,6	64,8
	100	100	100	100	100

Source: Sadie 1991: ch 7, cited in Terreblanche (2002: 390).

Terreblanche (2002: 391-393) presents more evidence of the effects of racial discrimination on the South African nation by 1996. He points out that these racial inequalities should largely be understood in systemic terms, i.e. in terms of deeply ingrained white power and black powerlessness. One of the tables that Terreblanche presents illustrates the very large inequalities in the distribution of per capita income during the 20<sup>th</sup> century and it expresses the per capita income of the black groups as a percentage of white per capita income (Terreblanche 2002: 393). This table is reproduced overleaf.

**Table 2: Estimated per capita personal incomes by race group relative to that of whites, 1917-95.**

	Whites	Coloureds	Asians	Africans	Average
Per capita income (in constant 1995 rands)					
1917	9 369	2 061	2 075	849	2 829
1936	13 773	2 151	3 185	1 048	3 842
1946	18 820	3 068	4 238	1 671	5 417
1960	22 487	3 568	3 828	1 815	6 006
1970	32 799	5 684	6 630	2 246	7 986
1980	34 655	6 623	8 821	2 931	8 472
1995	34 689	6 931	16 793	4 678	9 013
Relative per capita incomes (per cent of white level)					
1917	100	22.0	22.1	9.1	
1936	100	15.6	23.1	7.6	
1946	100	16.3	23.0	8.9	
1960	100	15.9	17.1	8.1	
1970	100	17.3	20.2	6.8	
1980	100	19.1	25.5	8.5	
1995	100	20.0	48.4	13.5	
Racial disparity ratios: number of times whites' per capita income was higher than that of other races					
1917		4.6	4.5	11.0	
1936		6.4	4.3	13.2	
1946		6.1	4.3	11.5	
1960		6.3	5.8	12.3	
1970		5.8	5.0	14.6	
1980		5.2	3.9	11.8	
1995		5.0	2.1	7.4	
Source: Van der Berg and Borat 1999: table 6 (cited in Terreblanche, 2002: 393).					

The racial nature of apartheid and its effects on the labour market are also covered in detail by Webster and Von Holdt (2005). It is the effects of these policies and practices that the study now turns to. The purpose of discussing the effects is to outline the rationale for black economic empowerment in South Africa and to also

illustrate why a race-based (as opposed to a class-based or poverty-based) intervention was called for. Terreblanche's exposition above should suffice to demonstrate the nature of South Africa's racial inequalities in the socio-economic sphere. The following section elaborates on the effects of this inequality, specifically on the labour market.

### **Effects of discrimination on the economy and the need for race-based redress**

Bhorat (2004: 940) notes that following the onset of democratic rule in South Africa in April 1994, it soon became clear that the transition was a political one, in the narrowest sense of the term. The new South African government has been, and indeed continues to be, beset with the longer and more inertial consequences of apartheid. According to Bhorat (2004), these consequences can be represented generically as the economic outcomes engendered by the policy of legislated racial exclusivity. "Nowhere is this challenge more acute than within the arena of the labour market" (Bhorat, 2004: 940). South Africa's Gini coefficient has always served as the starkest indicator of the country's unequal distribution of income. The Gini coefficient always has the value of between zero and one. The bigger the number, the more inequality exists (Bhorat, 2004: 941-942). For a very long time South Africa's Gini coefficient was the highest in the world; particularly when compared to other countries with similar income levels (e.g. Malaysia; Poland; Venezuela and Thailand). Bhorat (2004: 941) provides a racial breakdown of the levels of inequality in South Africa (within the various race groups) and he also compares and contrasts this with the average inequalities in other comparable economies. The Table overleaf is therefore another testimony to the very racial nature of the inequalities that South Africa still reflected by 1999, five years into its democracy.

**Table 3: Measures of Poverty and Inequality by Race and Gender of Household Head and International Estimates**

Household Head	Headcount	Poverty Gap Ratio (per cent)	Gini	Coefficient of Variation
<b>African</b>	38.22 (0.021)	14.2 (0.142)	0.53	1.80
<b>Coloured</b>	21.51 (0.022)	6.6 (0.066)	0.48	1.13
<b>Asian</b>	3.73 (0.006)	0.9 (0.009)	0.47	1.23
<b>White</b>	3.03 (0.030)	0.8 (0.008)	0.46	1.25
<b>Male</b>	26.39 (0.029)	9.2 (0.011)	0.60	1.81
<b>Female</b>	43.52 (0.027)	17.0 (0.012)	0.53	1.81
<b>Total</b>	32.02 (0.029)	11.8 (0.011)	0.60	1.91
<b>International Estimates</b>				
<b>Brazil</b>	17.4 (1990)		0.607 (1998)	
<b>Malaysia</b>	15.5 (1989)		0.492 (1997)	
<b>Venezuela</b>	31.3 (1989)		0.495 (1998)	
<b>Poland</b>	23.8 (1993)		0.414 (1998)	
<b>Thailand</b>	13.1 (1992)		0.316 (1998)	

Source: Income and Expenditure Survey, 1999 & World Development Indicators, 2002. In Borhat, H. (2004: 941).

**Notes:**

- Standard Errors are in parenthesis, and are corrected for according to frequency weights, the primary sampling unit and sampling stratification.
- Figures in parenthesis for international estimates refer to the share of the population below the national poverty line of the individual country.
- The Gini and Headcount indices are drawn from the Income and Expenditure Survey of 1999 (IES99): which is an update of the IES for 1995. Both estimates are based on household income figures. It represents the latest available data set, at the time of writing, on household income and expenditure accounts in South Africa.
- More recent labour market statistics, such as those provided for in the Labour Force Surveys (LFS), do not allow for the construction of inequality and poverty indices. Because of the variability in the date of data collection and differing methodologies, these figures should be taken as indicative only.

Bhorat (2004: 942).

Bhorat (2004: 942) explains, with reference to the above-noted table, that, “It is therefore evident that by race, higher levels of inequality are found amongst African households, where the Gini stands at 0.53. In comparison, the Gini for non-African households is significantly lower- ranging between 0.46 and 0.48. This yields the well-known fact about South African society, namely that in recent years it has been growing inequality amongst African households that is driving the national inequality measure”. Bhorat (2004: 940) insists that the extent of poverty and inequality in South Africa has been a legacy inherited as a result of the official policy of racial exclusion. This racial exclusion has been a major contributor to the imbalances in the South African society that ran the gamut of unequal access to education, differential coverage in and levels of welfare provision and the range of public social services, such as housing, water and utilities (Bhorat, 2004: 941). Let us now turn to the policy of black economic empowerment as the remedy for the legacy of discrimination. The section below places BBBEE within the historical context of apartheid and its discriminatory legacy. The section also covers the origins of black economic empowerment, in the context of the African National Congress (ANC) government’s National Democratic Revolution (NDR). Southall’s (2006) exposition is considered useful in this regard.

### **The appropriateness of BBBEE as the remedy for the historical inequalities**

Southall (2006) notes that black economic empowerment had become one of the most controversial policies of South Africa’s African National Congress (ANC) –led government. Criticism of black economic empowerment range from the argument that black economic empowerment constitutes a drag on the economy, notably by frightening away investments, to the widespread complaint that Black Economic Empowerment (BEE) has unduly favoured a small but remarkably wealthy, ANC-connected “empowerment elite” (Southall, 2006: 1). Southall (2006) points out however that such criticism tend to miss the point, which is that BEE policies constitute a logical unfolding of a strategy which has largely been dictated by the ANC’s own history, the nature of the democratic settlement of 1994, and by the structure of the economy. Southall (2004) presents a useful “political-economic” analysis of the choices that the new non-racial and democratic government was faced

with, under the leadership of the African National Congress (ANC) as a result of the apartheid legacy as well as in terms of the manner in which apartheid ended. This, as Southall elaborates, left the ANC with fewer options. It had to strike some compromise deal with white-dominated capital at the same time as it pushed for space for the integration of black people into the economy.

Southall (2006:1) posits certain propositions regarding the development of BBBEE under the ANC regime. His first proposition is that the ruling African National Congress (ANC) had to use its access to state power to assert greater ownership and control of the commanding heights of the economy and that this was politically necessary and inevitable, given the overwhelming extent of white domination of the economy in 1994. The use of state power to assert greater black ownership and control was consistent with the decolonizing principles of the ANC's theory of the National Democratic Revolution. To this effect, Southall (2006) refers to the quantity and quality of centuries of mostly racial discrimination in South Africa and the imperative that this placed on the liberation movement, which took over the government in 1994. In furtherance of his first proposition, Southall (2006) notes that the economy of apartheid was dominated by whites and skewed to their interests. 350 years of white hegemony had systematically deprived Africans and Coloureds of the possibility of independent economic existence, severely (geographically and socially) circumscribed business opportunity among Indians, and transformed blacks as a whole into a supply of cheap black labour. This, according to Southall (2006: 2), was leavened only by a small middle class of professionals (notably teachers, nurses, clerks and junior state functionaries), many of whom served the needs of their own immediate communities within the African reserves/ homelands or other Group Areas. Southall (2006) points out that the effect of this was that by 1996 the white minority (8.2 per cent of the population) enjoyed 51.9 per cent of personal incomes, while Africans (76.9 per cent) had to make do with just 35.7 per cent (South African Institute of Race Relations, 1996/ 97: 7 and Terreblanche, 2002: 392- 393). Southall also points to two features of the political economy that characterized apartheid South Africa. The first is that settler colonialism in South Africa had provided for the greater development of capitalism than in territories where peasant commodity production predominated under colonial rule. The second dimension is the extent to which white control and ownership of productive resources were monopolized. To this effect,

Southall (2006) points out that by 1981, over 70 per cent of the total assets of the top 138 companies in South Africa were controlled by state corporations and eight private sector conglomerates (with reference to Davies; O'Meara & Dlamini, 1984).

Furthermore, Southall (2006: 2) notes that by 1985, the top six conglomerates controlled 71.3 per cent of the total assets of non-state corporations and controlled over 80 per cent of the companies listed on the Johannesburg Stock Exchange (JSE). Southall (2006: 3) argues, with reference to the above statistics, that, "In these circumstances, the ANC had no option in 1994, but to use its access to state power to promote greater black ownership and control of the economy".

Southall also provides an overview of the political framework within which the ruling ANC approached the issue racial and class redress. He makes reference to the National Democratic Revolution (NDR), which is the political framework used by the ANC and its alliance partners (the South African Communist Party and the Congress of South African Trade Unions). The National Democratic Revolution (NDR) originally envisaged two clear stages of the revolution. The first would be the national liberation of the country and the overthrow of apartheid. The next stage would then be the economic overthrow of the capitalist system of exploitation and the ushering in of a socialist order (Southall, 2006). Like most political frameworks of the liberation era, the NDR had to undergo a radical review after the fall of the Soviet Union and the general collapse of regimes that purported to be socialistic-communistic. Southall (2006) points out that whilst the socialistic objectives of the NDR have since gotten blurred (if not unofficially abandoned), politically the ANC still pays allegiance to them (or to some sort of mixed economy). This therefore makes the NDR an essential framework from which to interpret the ruling party's approach to the transformation of the economy of South Africa, and to black economic empowerment, in the case of this study. The NDR, as far as Southall (2006) is concerned, theorized relations between whites and blacks in South Africa, as those of "internal colonialism". The objectives of the NDR, in this context, therefore become those of "internal decolonization":

- to overcome the legacy of racial oppression of the black majority;
- to achieve democratization;
- and to transform power relations as a basis for societal equality

The National Democratic Revolution (NDR) acknowledges that capitalist market forces will continue to play an important role, but the state will need to intervene to ensure that the economic growth is equitable, given the skewed structure of the economy (Southall, 2006: 4). Southall (2006) points out that, inevitably, the success of the NDR will lead to the development of a black capitalist class and black middle strata. This, Southall points out, is viewed as a welcome development, as black, notably African- people were denied education, wealth and upward mobility, during apartheid. On the other hand, notes Southall (2006: 4), part of the revolutionary mandate of the NDR, is to ensure that the new black middle class becomes a “patriotic bourgeoisie”. According to Southall (2004: 4), the theory of the NDR:

- (i) Legitimizes the “historic” role of the ANC in leading South Africa;
- (ii) Validates the need for an interventionist state to radically transform society;
- (iii) Justifies the existence, expansion, wealth and function of a black bourgeoisie and middle class so long as they play by the rules laid down by the party, and
- (iv) Endorses the need for cooperation with white capitalists whose objective interests may eventually lead to their incorporation into a patriotic bourgeoisie.

Southall’s second proposition (2006: 4-6) is that the essence of the negotiated settlement was that the ANC would secure political power, while simultaneously accepting the principles of the market economy. Southall points out that, in shorthand, translated into “black control” of politics and “white control” of the economy, large scale capital was nonetheless aware of the need to reduce its political exposure by developing alliances and class interests with aspirant black capitalists. In support of the above propositions, Southall (2006: 4) refers to a number of key features which structured the transition. One of these was that the Nationalist Party (which ruled South Africa until the end of apartheid in 1994), essentially lost the support of “big business”, from the mid-1980’s on. He also notes that “big business” increasingly looked to find accommodation with the ANC (even prior to the formal transition process) through “elite” meetings in Senegal; Lusaka; Geneva and elsewhere. The ANC, for its part, sought to present itself as a partner with which large capital could play. The new world order, post-communism, also militated in favour of

capital. The collapse of Soviet-style socialism in 1990 fundamentally changed the international landscape in favour of capitalism or the free market. Southall (2006: 5-6) argues that this then enabled those leaders within the ANC (notably Oliver Tambo and Thabo Mbeki); whose experiences in Eastern Europe had left them less enamored with state socialism, to shift the ANC's economies in a more pro-market friendly direction (Gumede, 2005). Southall (2006: 5) asserts that it was factors such as the above which underlay the ANC's leadership shift away from the "people-driven" Reconstruction and Development Programme (RDP) (the ANC's 1994 election manifesto) to the Growth, Employment and Redistribution Policy (GEAR) in 1996.

Southall (1996: 5) points out that a key aspect of the launch of black firms or joint ventures in the early 1990's was the political influence which it was assumed nascent black capitalists would hold with the new government. With reference to Randall (1996: 671- 675), Southall refers to a number of the initial black business ventures which were led by Thebe Investments, the investment arm of the ANC (which started in 1992 onwards). Some of these investments later matured into operational businesses and subsidiaries. Black investors also started linking their deals to procurement of certain goods and services from the partners that they had entered into black economic empowerment deals with. The issue of transformation and empowerment also became an aspect of some of the deals, which ushered in a few black people as directors and advisors of the corporate boards of the white corporations (the deal partners). According to Randall (1996: 675); such strategies flowed from the political insecurity of white capital and the recognition by white capitalists of the need to make fundamental adaptations if they were to operate successfully under black majority rule.

### **First decade of democracy and the phases of black economic empowerment**

Southall (2004: 6-24) elaborates further on his other eight propositions regarding his understanding of the development of black economic empowerment in South Africa. These other eight propositions will not be elaborated upon in detail in this study. They include proposition three on the role of state-owned enterprises or parastatals in the initial empowerment process, including the privatization of some of the state-owned enterprises. Proposition four deals with the specific empowerment interventions and

black economic empowerment charters in the mining; minerals; energy and finance sector: the “commanding heights” of the South African economy. Proposition five deals with the financial assistance measures that were developed to help create black business people from “black capitalists who had no capital”. In proposition six, Southall (2006: 13) covers the Asian crisis and its impact on the Stock Exchange in South Africa, during 1997/98 and the dampening of the BEE process that this resulted in; the BEE Commission which came with its report in 2001 and the revival of the BEE debate; and finally the “current phase” which Southall (2006) believes deals with criticisms that BEE has favoured a small elite and hence requires the broadening of BEE. Southall also alludes to cronyism and criticisms that BEE has benefitted only a small elite of black people who are connected to the ruling party. These criticisms will be covered in the last sub-section of this chapter. The next sub-section examines other “contemporary history” conceptualizations of the development of black economic empowerment during the first decade of democracy (1994- 2004).

### **The first-to-third waves of Black Economic Empowerment**

Gqubule (2006: 103- 122) notes two main waves of BEE in his book, the first being 1994 to 2001 and the second being 2002 to “present”. Jack (2007: 7- 14), on the other hand, refers to three waves of BEE. Jack’s three waves are not chronologically based, but are more along the areas of focus for BEE, rather than on a time-frame. For Jack, the first phase was from the commencement of BEE deals in 1993 up to the financing crisis of the late 1990’s. He views the debate around BEE, resulting from the Black Management Forum’s National Conference of 1997; which led to the formation of the Black Economic Empowerment Commission in 1998/99 as the second wave. Jack’s (2007: 12- 14) third wave; coincides with the second wave, chronologically, but it deals with a different type of BEE. The third wave deals with BEE that is based on procurement and the development of new black businesses, as opposed to the “leveraged buyout” of the economy which took place via debt and highly geared “special purpose vehicles” during the first and second wave of BEE. Gqubule (2006) deals with the first BEE deals in detail in his analysis of the first wave. He covers the very high hurdle rates that made it very difficult to raise capital in South Africa in the late 1990’s. Gqubule (2006: 104), points out for instance, that, hypothetically, if a BEE company had bought 25 % of South Africa Inc in 1994, the SPV (Special

Purpose Vehicle) would have been 'out of the money' at the end of 2004. The investment would have had to double in about 6.5 years to break even (assuming a real lending rate of about 11%) in an economy that was growing at 3%. With financial institutions demanding hurdle rates of returns of up to 20%, the investment would have had to double in about 3, 5 years. Gqubule (2006) notes that the only pockets of success in the first wave of BEE were in regulated sectors of the economy, such as telecommunication, gaming and broadcasting, where government created new industries (and in mining, where some new black companies came in). Gqubule (2006: 105) observes that New Africa Investment Limited (NAIL) and Real Africa, the pioneers of capital reform, failed to capitalize on the growth of the financial sector because of faulty funding structures, which limited their economic interest in Metropolitan Life and African life from day one. Jack (2007: 7) also singles out the Sanlam deal of 1993; whereby Sanlam (via Sankorp) sold its controlling interest in Metropolitan life to Metlife Investment Holdings Limited (Methold) (a consortium formed by prominent black business people and community leaders), as the commencement of the first wave of BEE. Jack (2007: 8) also singles out the main challenge of the first wave of BEE as "sustainability of the funding mechanism used in the deals, as most black people did not have sufficient capital or collateral to offer". Jack also discusses the Special Purpose Vehicles (SPVs) which were mechanisms that were created in order to allow black people to gain some control over companies, which they would not ordinarily have, from the purely financial interest point of view.

Jack (2007: 12) singles out the debate about the broadness of the ownership base of the economy as well as the question of debt-financing ("leveraged buyout of the economy") of BEE as the distinguishing feature of the second wave of BEE. This also constitutes Southall's 'current phase'. Jack (2007: 12) argues that, "During the heat of the second wave, the question arose as to whether the new approach would be able to deliver 25% of unencumbered ownership of the economy into black people's hands within ten years. The high debt brought on by the 'leveraged buyout' meant that the ownership element would not succeed on its own in reaching the target". Jack (2007) avers that it was the implication of this that led to what he terms the "third wave", which, he submits, dealt with the issue of procurement. Notes Jack (2007: 13), "The distinguishing factor about the third wave of BEE is that black people start their businesses from scratch and grow them through use of procurement and enterprise

development opportunities arising from Black Economic Empowerment”. This is a route that is more painful to black people, according to Jack as it is based on the ‘law of the farm’ which guarantees good results only after sustained hard work and dedication. Jack (2007: 14) insists however that, “in the long run, it is unquestionably the best way to accelerate economic empowerment in a sustainable manner. If the reward of creation is freely given, the art of creating will never be learnt”. Jack (2007: 14) maintains that, “enterprise development; preferential procurement and skills development are the powers behind growing the economy. Effective adoption of these elements by business will result in absorption of excess labour, thus incorporating a majority of the population as contributors as opposed to being recipients”. This is a point that will be returned to later in this study to link Black Economic Empowerment to human capital development and economic growth. More emphatically, Jack (2007: 14) insists that, “BEE is capable of generating a skills pool of effective employees for big business to draw on in future. It is the nursery of corporate South Africa and must be nurtured”.

Gqubule (2006: 122) traces the second wave to the release of the Black Economic Empowerment Commission report in 2001; which also coincided with improved fundamentals for world gold and platinum prices. This also coincided with the development of the first Black Economic Empowerment Charters in the mining industry as well as in the liquid fuels and energy industry (Both released by the same Ministry in 2002). Gqubule (2006: 123) singles out the story of Patrice Motsepe; who bought gold mines that had been mothballed and turned them into highly profitable businesses within a space of three years. One of the remarkable features of African Rainbow Minerals (ARM), Motsepe’s company, is that it did not have to resort to any Special Purpose Vehicle to finance its growth. For instance it used normal lending channels to borrow R800 million rand (just less than \$100 m) to enter into a 50/50 joint venture with Harmony gold, to buy the higher quality Freegold Mines from AngloGold. Gqubule (2006: 126) alludes to a negative factor about the second wave of BEE, namely, that, “funding periods have increased substantially (up to 20 years) which will expose black companies to unreasonable levels of risk”. Gqubule (2006: 126) also cautions that, “despite modest innovations, most funding models still depend on market performance in the case of capital reform on the JSE. Without a fast-growing economy, which results in rapid growth in dividends; black consortia

will still be slaves to the performance of the JSE because they will eventually have to sell shares to repay debt”. According to Gqubule (2006: 126), “As it was in the late nineties, the major risk to the second wave of capital reform is that the current bull-run in world and South African equity markets will unravel on the back of structural imbalances in the world economy”. Such a concern may not arise if Jack’s (2007) recommendations are followed. Jack (2007), as was noted above, recommends that the focus on BEE should shift away from the buying of stakes by some black people in some listed companies and toward the development of real businesses that are owned and managed by black people. The vehicles for facilitating this should not be “better financing” or other “financial capital vehicles”, but the opening up of more and better opportunities for new as well as established black small and medium enterprises to offer their goods and services to large and well-established corporations, including the various government organs. Jack (2007) also links this to the development and acquisition of skills as well as the creation of jobs. This is a critical aspect of the debate in South Africa and the latter two challenges (skills and jobs) have been missing in the BEE debate so far. This study will be paying more attention to the role of skills development; the creation of opportunities for employment (at professional and managerial levels) (via employment equity) as well as human capital development in general as the key drivers of black economic empowerment. It is the link between the quality skills; long-term human capital development; access to professional and managerial opportunities as well as access to entrepreneurial opportunities that ought to be explored. This study will later argue that the long-term sustainability of the empowerment project, as well as the development of the South African economy lies in getting the correct balance between the above three elements: quality skills; employment opportunities and entrepreneurship. Jack’s (2007) recommendations are therefore apposite in this regard and the study takes these further in the later discussion. To conclude the background section on BEE, the sub-section below reviews some of the key debates and controversies around BEE, particularly the first and the second waves.

## **Some of the key debates and controversy BBBEE**

Space does not allow for a detailed exposition of the numerous debates on BBBEE in South Africa. Gqubule (2006) and Southall (2006) cover some of these in detail. To a large extent, as Gqubule notes below, most of these are “hot air” and have more to do with the political affiliations of the individuals who are raising them than with the country’s transformation and empowerment programme. The tendency to dismiss BEE as serving the narrow interests of the elite and as benefitting only the few high-ranking members of the ANC is also at times influenced by the adoption of a narrow definition of BEE which ignores all the other “people-based” elements, such as employment equity; skills development; enterprise development and socio-economic development (previously known as Corporate Social Investment or the “Residual”). These latter interventions have been an integral part of BEE and were integrated into the first generic scorecard for BEE (Department of Trade and Industry, 2003). Employment Equity and skills development have also been legislated since 1998 and thousands of black employees; white women and other designated groups have benefitted from these interventions, in one way or another, over the last ten years (Commission on Employment Equity, 2004; 2005; 2007). These beneficiaries also include workers at all levels, especially in terms of skills development; access to equal opportunities and procurement/ enterprise development.

With reference to the “black middle class issue”, Southall (2006: 21) points out that, “much of the evolving debate about the black middle class involves a complex numbers game, this in turn following upon issues of definition”. Southall (2006) points out that estimates of the present size of the black middle class range from 1.6 to 3.6 million people out of a present population of around 44 million. In other words, whereas- taking a highly inclusive definition from top (professionals and managers) to bottom (white collar workers)- around 74 per cent of the white workforce can be said to be middle class, only about 27 per cent of the African formally employed workforce and only around 30 per cent of the entire black (African, Coloured, and Indian) formally employed workforce can be said to be middle class. Southall (2006:21) argues that whatever definition we take of the African or wider black middle class, there is not lack of evidence to say that it is growing rapidly. The concern, however, according to Southall (2006: 21) is that, “the gains of increased

upward class mobility have not been equally spread". Southall (2006: 21) claims that 'state managers' and the 'corporate black bourgeoisie' have done considerably better than the 'civil petty bourgeoisie' (the bulk of black civil servants and 'lower professionals') and the 'trading petty-bourgeoisie'. Southall (2006) argues that, "the latter, located in the SMME sector, has done particularly badly, despite BEE, in part because of the principal orientation hitherto of BEE towards transforming the formal and core economy, in part because of the limitations on growth imposed by GEAR and the persistence of the dramatically high level of unemployment.

The debate about the "black middle class" is full of contradictions and ironies. BEE , on one hand is damned for not benefitting the "working class" and the poor masses, alternatively, on the other extreme hand, it also gets condemned, by some, for not reaching out to the rest of the "middle class". These two concerns are mutually exclusive. They revolve around whether one perceives black economic empowerment in a broader context whereby it also includes other measures, besides the acquisition of ownership shares in large companies. The latter is inherently limited in its scope as it involves huge amounts of investment (capital) that would not be available to the poor (by definition) anywhere in the world. The need to ensure that BEE is broadened to include access to procurement opportunities (for entrepreneurs who may be outside of the employment situation); socio-economic development; skills development and other measures is well-acknowledged by now by many policy-makers and stakeholders in the field. In fact the "third wave" of BEE is characterized by the focus on the elements that have a long-term developmental impact that are linked to skills; jobs; entrepreneurship and procurement (Jack, 2007). It is therefore important that the BEE programme should not be criticized for doing what it never purported to do in the first place. BEE is not a poverty-reduction programme; nor the main employment/job creation programme of South Africa. There are specific programmes that have been developed for this. BEE is also not an instrument that will lead to the overthrowing of the capitalist system and that will transfer the ownership; management and control of the means of production to the workforce and the communities in the classical Marxist sense (Marx, 1967; 1971; 1976; 1981; Marx & Engels, 1947; 1968).

## **Call of a more interventionist state and approach**

The philosophical base of BBBEE ought to be radicalized and broadened. This does not just pertain to the scope elements covered or the number of beneficiaries, but also the vision of BBBEE in the country and its intentions. BBBEE should be used to usher in a radical and unique model of a South African mixed economy. A free-enterprise based economy with a very strong social and redistributive element. This radical and unique model should also include new values and principles. BBBEE should be based on the values of people development; African development and putting communities first. This is the transformational paradigm of BBBEE, which is different from the transactional paradigm. In the transformational paradigm the company/ organization's vision; mission; goals; values and culture are the subject of review and transformation. Empowerment is used to also bring about a new approach to doing business; new values and principles as well as a change in the racial; gender and disability profile. The Transactional approach tends to limit BBBEE to the technical aspects, such as ownership stakes; BBBEE partners getting on board and scorecards. The organizational transformational approach sees BBBEE as a change management programme, in addition to its other objectives. The company/ organization becomes the subject of transformation and empowerment, under the transformational paradigm, whereas under the transactional approach it is usually the "BEE beneficiaries" who are seen as the "subjects" of empowerment, with the company doing the "empowering", rather than the company being transformed. This way, the BEE programme can become more than a mere change in the race; gender and culture of the owners and managers of capital. It can usher in a transformation in the manner in which business is done; the leadership style as well as the quality of entrepreneurship in South Africa. Beyond this, we should look at other socio-economic interventions; that could be complimented by BEE at the economic sphere. BEE should focus on transformation and empowerment within the economy.

Gqubule (2006: 35) points out that, "it is indeed a tragedy that the brightest black South Africans all want to be Tokyo Sexwale or Cyril Rampaphosa; they believe that the only way to create wealth is through buying and selling shares in white companies. The problem is that the experience so far proves that the odds of building sustainable wealth buy buying and selling shares have been similar to those of

entering the lottery over the past decade”. Gqubule concludes by noting that most popular debates about BEE are trivial. “The BEE debate is really a debate about the kind of society we want to create and the path that we must take to achieve sustainable high rates of growth in GDP per capita; full employment and a Gini index of .30. To achieve these objectives, government must embrace a developmental mindset and introduce activist fiscal, monetary and industrial policies. If BEE is to deliver meaningful results over the next decade, it must be an integral part of the country’s growth strategy and not be an afterthought”.

Terreblanche (2002: 460-470) also arrives at similarly radical recommendations regarding the manner in which government and the ‘ruling elite’ ought to approach the economy, including the interaction between economic growth and social justice. Terreblanche (2002) points out in this regard that to achieve the urgently needed socio-economic transformation over the next 10 to 20 years, the governing elite should take the initiative and accomplish the following three closely related goals:

- (i) It should initiate a paradigm shift by rejecting the liberal capitalist and free market ideology of the BA (British-American) world as inappropriate for South Africa, and instead accept the social democratic ideology of the EC (European Community) countries;
- (ii) It should engineer another power shift by asserting itself vis-à-vis the corporate elite and by implementing measures to change the power relations in our politico-economic system from a distorted and neo-liberal system of democratic capitalism into a well-balanced, social democratic, and humane system of democratic capitalism.
- (iii) It should effect enough of a distributive shift to bring about the necessary redistribution of income, opportunities and property- over a reasonable period of time- to alleviate the worst poverty, restore social justice, and narrow the huge income and property gaps.

There seems to be a surprising convergence amongst a lot of the scholars in the field of human capital development as well as black economic empowerment (e.g. Horwitz 2007; Jack 2007; Bhorat 2004; Gqubule 2006; Terreblanche 2002; Southall, 2006) that the government ought to adopt an interventionist approach to the economy. There is a consensus on the need for a more “developmental state” in as far as human capital development and empowerment are concerned. Serious transformation and

empowerment scholarship therefore inevitably leads one to question the adequacy of the overall macro-economic and political framework and its ability to redress the serious inequalities that seem to be structurally engrained in the socio-economic fabric of South Africa. The studies reviewed so far seem to acknowledge the seriousness of the legacy that one is confronted with when attempting to empower black people. Most of the scholars end with a call for a long-term approach that is backed by an integrated developmental plan. This economic development strategy ought to be underpinned by an integrated human capital development plan; which is linked to long-term demand in terms of skills. This issue will be revisited later in the discussion on skills development and human capital development. For now we turn into an overview of the literature. The literature on affirmative action/ employment equity is reviewed first, followed by a review of economic development theory as well as human capital development theory. These frameworks are submitted as useful building blocks for a future theory of Broad-Based Black Economic Empowerment.

## CHAPTER 2

### LITERATURE REVIEW

The literature review is arranged into the following sub-sections:

- (i) Review of the development of Affirmative Action in South Africa;
- (ii) Overview of Economic Development Theory and its link to empowerment;
- (iii) Human Capital Theory;
- (iv) Skills development in South Africa in relation to Human Capital Theory;
- (v) Development of a BBBEE Strategy framework using the Human Capital Development approach and building on the literature surveyed.

#### **Review of the development of affirmative action in South Africa**

Leonard (2005: 63-92) offers a useful overview of the historical developments leading to the current black economic empowerment approach in South Africa. In this regard, Leonard (2005) identifies six phases which she terms “human capital development areas in South African history.” These are:

- (i) Paternalism (1652 – mid – 1970’s).
- (ii) Equal Opportunities (Late 1970’s to early 1980’s)
- (iii) Black Advancement (Early 1980’s to late 1980’s)
- (iv) Affirmative Action (1994 – beyond)
- (v) Bottom-up Affirmative Action (1990 – mid 1990’s)
- (vi) Top-down Affirmative Action (Emerging from 1994)

Leonard’s phases are covered below as a general overview of the field. It is argued later that the categories used by Leonard (2005) and even some of the terms and language are not necessarily the most appropriate. Her conceptual framework is considered useful however, as a basic guide. Later it is also submitted that affirmative action and equal opportunities, in the traditional sense of the terms are not the most appropriate domains for the discourse on Black Economic Empowerment. The human capital development approach, which is linked to economic development, is posited as a more useful paradigm. Nevertheless; Leonard (2005) attempts a useful overview.

**(i) Paternalism (1652 – mid – 1970's)**

Leonard (2005:64) refers to literature by De Beer (1998:3-11) and Van der Walt (1994: 21-24), which describes the paternalistic approach as resulting from the feudal system of the Middle Ages when workers (serfs) had to work for landowners. The primary belief was that such workers were not able to function independently and therefore needed someone who “knew best” (De Beer 1998:3; Van der Walt 1994:21-24) (all cited in Leonard, 2005:64). According to Leonard (2005:64) government’s migrant labour policies strengthened the perception that “non-white” employees were only acceptable as temporary in a “white environment”. During the Paternalistic era employee participation for both white and black employees was minimal, while the latter were never expected to be involved in decision-making (De Beer, 1998:9-10). Upliftment of the “poor whites” was the focus of government business. During this era, organisations rarely involved themselves in upliftment since their *raison d’être* was business and not society (De Beer, 1998:11). According to De Beer (1998) government developed infra-structure for self-development in the black homelands. However, this did not lead to the same degree of development regarding education, job creation and housing as was the case in white areas where “vast amounts of money was spent” (De Beer, 1998:11).

**(ii) Equal Opportunities (Late 1970's to early 1980's).**

According to Leonard (2005:65) the underlying philosophy of the equal opportunities approach originated from an increased awareness of community leaders about the moral right of all humans to be treated equally. This phase is traced to the Wiehahn Commission Report of 1979, which formalized the principle that all employees are equal before the law (Madi, 1993:4; Van Jaarsveld, 2000:17-18). Part of this phase included the introduction of the Labour Relations Act and the abolition of legislation pertaining to work restriction. This signalled improvements of human rights. According to Leonard (2005:66) the Equal Opportunities Era was also characterised by resistance to what she terms “special development programmes” for “non-whites”. This resistance was three-fold: training was seen as unrelated to the “business of business”; white managers feared a white backlash and both white and “non-white”

employees resented the notion of being singled out for such training or development efforts (De Beer, 1998:15; De Beer & Radley, 2000:28-40). According to Leonard this approach has also been referred to as the “peacock approach” since black appointees were more often than not appointed in client services; community relations; industrial relations and public affairs positions during this era. According to De Beer (1998:19) frustration about the limiting effects of apartheid laws regarding the involvement in “non-white” communities forced business to lobby with government to lift these laws.

### **(iii) Black Advancement (Early 1980’s to late 1980’s)**

The development from the equal opportunity approach was brought about by three factors: politicians’ realisation that the political and economic futures of all races are “interwoven”, enormous international pressure through economic sanctions and the realization that organisations should take responsibility for remedial and development programmes instead of government. According to De Beer (1998:21) most of the legislation that separated races in the workplace was abolished by now. However, notes Leonard (2005:67), “non-white” employees were not yet represented on managerial level. “Non-white”, employees therefore reached a glass ceiling relatively quickly. During this era, “non-white” appointees were very often sent on one development course after another without a clear career path that would usually be associated with training and development. On the other hand, compared to the previous approaches, inputs from “non-white” employees were actively sought for decision-making within the black advancement paradigm (Leonard, 2005:68). According to Leonard, participative management was introduced to South African organisations, but this failed in the majority of instances. De Beer (1998:35) ascribes this failure to the fact that too few managers were prepared to deal with these changed dynamics. Middle and lower level management often also misunderstood this approach and “manipulated employees to improve their productivity” (De Beer, 1998:35). Leonard (2005:68) also points out that Madi (1993:4) describes the mentorship programme of this era as being aimed at “taking the township out of the assigned protégés”. It was also during the “Black Advancement Period”, that the concept of social responsibility got replaced by social investment. According to Leonard (2005:69) investment was understood as investment in the future. De Beer

(1998:36) argues that most organisations came to the realization that they had to get directly involved with their dependent communities and improve the quality of life.

**(iv) Affirmative Action (1994 – beyond)**

Leonard (2005:69) cites literature that describes the era from 1994 as still reflecting deeply-rooted informal racial discrimination in South African organisations (Bissessar, 2002; Cassell, 1997; Gunderson, 1994; Human, 1993; Hutchings 2000; Jain & Ratman, 1994; Madi, 1993; Saigie & Weisberg, 2001; Sheridan 1998; Sloane & McKay, 1997; Thomas 1996; Upadhyaya 1998; Wiersma & Van den Berg, 1999). Leonard (2005:69) points out, with reference to above literature, that the advancement of black employees was hampered by these biased views, thus alternative means to achieve transformation of the employment environment had to be pursued purposefully. Thus, according to De Beer (1998:38) and Madi (1993), preferential treatment regarding recruitment, selection and promotion of all categories of black employees was the only realistic approach to address this situation.

**(v) Bottom-up Affirmative Action (1990 – mid-1990's).**

Leonard (2005:71), points out, with reference to De Beer (1998:40) that compared to the previous three development approaches, organisations were now aggressively implementing policies aimed at the advancement of black. Leonard (2005:71) notes that these policies encompassed two components, i.e. the elimination of forms of overt, indirect or direct discrimination against disadvantaged employees and the accelerated development of scholastic and work skills for both high and low potential black employees. According to De Beer (1998:41-43), two types of AA measures became prevalent. The first entailed short term preferential policies that focused on the recruitment and promotion of black employees in comparison to white employees with equal potential and ability for a limited period of time. According to De Beer (1998:45-46) this was the escalator model – black employees are promoted to managerial positions when white employees are promoted, retire, resign or when organisations expand naturally. The second measure entailed short term output policies that aimed to reflect the population composition of a specific region in an organisation's employee profile within a specific time limit (Leonard, 2005:71). All

was not yet well, however, under this approach. According to De Beer (1998:42; cited in Leonard (2005:72), “Afro-centric values were tolerated as long as these did not have a negative impact on organisational objectives and productivity; preference was thus still given to black individuals who adopted a strict Western modern work ethic.” On the other hand, organisations also learnt that AA could only succeed if and when the “white male” value system was not the dominating system (Leonard, 2005:72). Leonard also points out that resistance within organisations during this era took the form of malicious compliance and outright sabotage; “Under-ground resistance”, notes Leonard (2005:72) became a way of life in organisations. On the other hand, various means of consultation between managerial and non-managerial levels of staff took place. According to De Beer (1998:43) black employees were no longer merely individuals who had to be “developed”, but they were viewed as partners whose personal attributes and decisions were instrumental in modernisation. Participation in decision-making, profit-sharing and challenges to traditional leadership control through unionised strike actions characterised this era in South Africa (De Beer, 1998:46; cited in Leonard (2005:72)

**(vi) Top-down Affirmative Action (Emerging from 1994)**

According to Leonard (2005:73), the adoption of the Employment Equity Act in 1998, “effectively labels AA in South Africa as a top-down practice”. Citing De Beer (1998:47); Leonard argues that the rationale for what she terms the “top-down” approach was that organisations would not empower sufficient numbers of black employees, through their free will. Leonard (2005:74) also alleges (with reference to De Beer, 1998:53-54) that the “top-down approach”, as she terms it; “would have an unpredictable influence on corporate culture and the focus on modernisation.” Leonard (2005:75) also makes reference to resistance that she claims would emanate from a range of sources, to this approach. Among others Leonard (2005:75), refers to Edigheji (1999:2) who alleges that resistance toward this approach also came from the so-called “previously disadvantaged ranks”. Leonard (2005:75) seems to equate what she terms the “top-down approach” to a “minimalist approach”. In this regard, she asserts that a minimalist approach to AA often enabled the creation of a filthy rich black business class without addressing the extreme poverty of the majority of the black population (with reference to Edigheji (1999:2). Leonard (2005:75) then calls

for a “maximalist” approach, which she purports is made necessary by the concerns that she refers to. According to Leonard (2005:75), such a maximalist approach should focus on the collective empowerment of the majority of the black community. Leonard (2005:75) asserts that the black economic approach is viewed as potentially more successful than the previous approaches (with reference to Edigheji, 1999, *inter alia*).

The foregoing overview assists to put the evolution of the employment equity and Black Economic Empowerment policy in some context. As it will be argued next, the literature in South Africa on the various “domains of equality” as Schuck (2002) terms them, does not assist in either explaining the relationship between employment equity/ empowerment and organisational growth or performance, nor in creating an economic case for empowerment in general or black economic empowerment in particular. The foregoing overview can also be challenged on a number of fronts. Firstly it uses language that is not “transformational”. The use of terms like “non-white” in literature that deals with “black economic empowerment” may be viewed as offensive by some practitioners and researchers in this field. This would invoke the same negative response as the use of a term such as “non-males” or “non-blacks”. Besides issues of the use of “apartheid terminology” in the foregoing literature, one searches in vain for a theoretical framework or an attempt at one by Leonard (2005). Granted, Leonard’s thesis is about the communication of Affirmative Action strategies (and she places black economic empowerment within this context). The literature that she surveys is more on the descriptive side of the “measures” that were taken by various governments between the 1970’s up to the late 1990’s. The responses of employers are also alluded to. This however gives a simplistic impression of the various phases. It also assumes that the phases are neatly separated into cut-and-dried phases or eras. “Diversity management” for instance has been present in corporate South Africa for more than a decade now (e.g. Human, 1996; Thomas, 1996). Its various components have been espoused and attempted by a number of employers over the decade, even as the affirmative action – employment equity discourse was evolving. Yet, Leonard’s exposition ignores this co-existence of a number of domains of equality and it gives the impression that the various phases are mutually exclusive. These weaknesses in Leonard’s work do not damn her work however nor do they render it wrong or meaningless. Her work is by far the most

comprehensive synopsis of the very scant theoretical work on “affirmative action”/ “employment equity” that exists in South Africa. As such it makes a useful scholarly contribution to the debate; which is what such studies are expected to do. It is in this light that it was found useful for this study. At any rate, below it is argued that black economic empowerment requires new and different theories and a different “paradigm” from the approaches that were described by Leonard. This is elaborated on in the section below.

### **The need to move beyond the traditional “affirmative action” paradigm**

#### **BBBEE as ‘complex equality’**

The Black Economic Empowerment Commission Report (2001) gave a very broad definition of the concept of “Black Economic Empowerment”. The Black Economic Empowerment Commission’s (2001) approach encompasses ownership; management, control as well as economic growth. This was further elaborated upon by the Department of Trade & Industry in its BEE Policy Document and the related BBBEE Act (DTI, 2003) and later in the BBBEE Codes of Good Practice (DTI, 2005; 2007). BBBEE no longer encompasses one or two similar elements. It has become truly multi-disciplinary and multi-faceted. It is appropriate, at this juncture, to invoke Schuck’s (2002: 13) admonition for the adoption of a “complex equality”. Schuck (2002) reviews affirmative action in the United States and he concludes by echoing Michael Walzer who calls for a ‘complex equality’ whereby the different domains of equality can be catered for separately. Schuck (2002: 13) avers that with respect to studies of equity in its various forms, “a complex equality is called for, in which different domains are governed by different principles of justice, depending on the meanings and competing values implicated in each domain and the different balances that may be struck there among those values”.

There is a difficulty in coming up with a common approach or theory of equality in the empowerment context. Schuck (2002:11) in his critique of affirmative action refers to the various domains that it has been applied to (in the United States). These domains range from the US military; public and private contracting, set asides; the educational system; banks in their programmes, such as mortgages; community

reinvestment; public housing projects and so on (Schuck, 2002: 9-11). Schuck (2002) raises a critical point about whether there can be one principle of equality that can apply to all the domains above. This is a pertinent question for this study given the broad domains that BEE now covers. This study will therefore seek to put together the various elements of this “complex equality” that may help provide the framework for BEE.

### **Two major paradigms of affirmative action**

There are two major paradigms in the equality and affirmative action arena. At one end of the spectrum are individualistic approaches, which provide that an individual victim be compensated by the person at fault (Fredman, 2001). At the other end is a group-oriented approach, which moves away from individual merit and individual fault and instead aims to remove discriminatory barriers regardless of who or what has been responsible for causing the problem (Fredman, 2001). Schuck (2002) distinguishes affirmative action from a more passive practice, non-discrimination in which the normative principle is simply to refrain from treating people differently on the basis of their race or other protected characteristics. Fundamental in the common approaches to equality is the distinction between two types of discrimination, direct discrimination and indirect discrimination (Fredman, 2001:161). Indirect discrimination is often characterized as reflecting a results-based principle of equality, based on the important recognition that apparently equal treatment can have disparate impact as a result of past or institutional discrimination (Fredman, 2001:161). Indirect discrimination has an individualistic form as well as a group form. According to Fredman (2001:161) the individualistic form focuses on the effect to the group and not necessarily the individual. The group-based form on the other hand does not look at the equality of results. It focuses on diagnosing discrimination, whereby an under-representation of one group is taken as *prima facie* evidence that a discriminatory obstacle is probably in place (Fredman 2001:161).

The above approaches to discrimination have been challenged on the basis that the “effect” approach eventually “individualises” discrimination (Barnard & Hepple, 2001:568). They remain individualistic in that the individual is still required to bring the case and the remedy is by way of individual compensation. Fredman (2001)

argues that individual-based approaches to discrimination and their limitations mean that indirect discrimination as a concept will inevitably play a minor role in bringing about change. She then argues that proactive approaches symbolize the only genuine focus on equality of results and this is where we should be looking if real change is to be brought about (Fredman 2001:163). Below follows a brief consideration of these pro-active approaches.

### **Positive, pro-active approaches and “fourth generation rights”**

At the root of positive duty is recognition that societal discrimination extends well beyond individual acts of racial prejudice (Fredman, 2001:164). Equality can only be meaningfully advanced if practices and structures are altered proactively by those in a position to bring about real change, regardless of fault or original responsibility (Fredman, 2001:164). This proactive approach to equality has been viewed as an aspect of “fourth generation rights” (Hepple, Coussey & Choudhury, 2000). Fredman (2001:164) notes that a particularly important dimension of fourth generation equality laws is their potential to encourage participation by affected groups in the decision making process itself. “Because the duty is prospective, and can be fashioned to fit the problem at hand, it is not a static duty, but requires a continuing process of diagnosing the problem, working out possible responses, monitoring the effectiveness of strategies and modifying those strategies as required” (Fredman, 2001:164). It can be argued the Broad Based Black Economic Empowerment qualifies as a fourth generation proactive and positive approach to equality as adumbrated by Hepple *et al*, (2000) and expanded upon by Fredman, (2001). This then locates BBBEE within the ‘human rights’ domain, albeit under pro-active group rights, rather than under non-discrimination or individual rights. Cognizance ought to be taken of the fact that there are no rigid demarcations between the domains or ‘generations’. The concept of ‘fourth generation’ rights should therefore not be interpreted to mean that these rights are less fundamental or substantive than the so-called ‘first’ or ‘second’ generation ones. The opposite also does not apply, ‘fourth generation’ rights are not necessarily the ‘latest’ or the most relevant. The concepts are useful for heuristic purposes. The ‘generation’ concept also enables different approaches and paradigms to all be accommodated under the broad ‘human and socio-economic rights’ framework.

## **Radical critique of affirmative action/ employment equity paradigm in the USA**

Taibi condemns affirmative action and equality approaches on the basis that they do not aid in understanding how the structure of the economic system (with specific reference to the American financial system) disempowers (African-Americans) and other “non-elite” communities (Taibi, 1994:1466). The problem with the equality paradigm (in the banking context of the US) is that, “it assumes that to the extent that African-Americans and other people from disempowered communities have equal opportunity to compete for a capital investment with other credit seekers, the outcome of that competition is fair or at least efficient” (Taibi, 1994:1468). The affirmative action paradigm, on the other hand, incorporates the neo-classical assumption that capital allocations determined in particular market-places are in fact “market efficient” (Taibi, 1994). It also posits equity as a distinct and competing value from procedural fairness and efficiency and seeks to subsidise favoured groups to achieve a desired distributional outcome (Taibi, 1994:1468). The problem with this paradigm is that, “it never questions the structure of marketplaces that routinely produce unacceptable results. To the extent that it accepts as given the institutional structures (of American life) (but for racial disparity) affirmative action reinforces the legitimacy of the very institutions that effectively disempower African-American and other non-elite communities” (Taibi, 1994:1468). “Thus, affirmative action turns the aspirations of disempowered groups into mere special interest pleadings, and demands for justice into supplications of charity. It divides the disempowered along the lines of who does and does not benefit from “special treatment” instead of uniting them in a common struggle” (Taibi, 1994:1468). Taibi (1994) then calls for the creation of empowered communities instead of focusing on affirmative programmes and other schemes that benefit a few. In furtherance of this call, this study seeks to posit BBBEE as a key component of the economic development of the country. BBBEE is posited as an intervention that seeks to create more economic opportunities for the black majority; thereby contributing to the reduction of economic inequalities. In addition to reducing inequalities, it is later argued that the development of human capital via BBBEE, is in its own good for economic development and growth. This approach is adumbrated further in the study. It is later elaborated upon in the Discussion section (chapter 5). Taibi’s radical critique of affirmative action is continued below. The concept of community economic development is explained.

This concept constitutes a strong element of the South African model of black economic empowerment. In fact 'socio-economic development' is one of the elements of the BBBEE Codes and Scorecards (Department of Trade & Industry, 2005; 2007). The discussion on 'community economic development' and the principles behind it is therefore relevant to a discourse on BBBEE. This is particularly in view of Taibi's approach, whereby he presents 'economic empowerment' as a better option than traditional affirmative action and employment equity. It is 'structurally' more advanced. This is an argument that will later be made about the transformational approach to BBBEE that is proposed in this study, as opposed to the transactional one.

### **Structural economic approach to community empowerment**

Politicians now quote the old saying, "Give a man a fish and you feed him for a day. Teach a man to fish and you feed him for life". A community-empowerment approach argues that what really matters is who owns the fish pond, because skills and tools are not enough to ensure long-term community prosperity, and because man does not live by bread alone.

Taibi (1994: 1543).

Taibi (1994: 1520) points out that the larger issues of community empowerment lie in grappling with the structural forces that increasingly disempower local communities. Taibi (1994: 1533) asserts that, "a broad-based communitarianism must address structural economic issues: the undermining of the economic security of middle-class families caused by the consolidations of the gains of transnational business; the globalization of capital markets and such other structural economic shifts; the declining real wage of American workers; the rise of contingent and part-time, no-benefits, no-job-security employment; and the ability of multinational corporations to drive communities to a race to the bottom so that these communities can attract job-producing facilities." Taibi (1994: 1545) then calls for a structural economic approach to community empowerment rather than the equality and affirmative action paradigms. Although this study does not necessarily posit a "structural economic approach", per se, it endeavours to make an economic transformation case for BBBEE; whereby BBBEE also transforms the nature of the economy. It also attempts to locate BBBEE within the human capital development framework. The contribution

of BBBEE to economic development in South Africa and vice versa has been alluded to several times. The next section explains this link in detail. Firstly the construct of economic development is explained.

### **Overview of economic development theory**

A brief overview of the general subject of economic development and growth is necessary in order to lay the background for the rest of this chapter. The purpose of this section is not to conduct a detailed overview of the general theory of economic growth. This is beyond the scope of this study. What is of interest is how racial and other socio-economic inequalities relate to economic growth. But, in order to answer this question it is necessary to understand the concept of economic growth, hence this sub-section. This section also provides the necessary linguistic tools and concepts that should assist in deciphering the following sections. It provides the “Economics” context.

Stephen Kosempel (2004), in his ‘theory of development and long run growth’, refers to two engines of growth which have been emphasised in the literature, viz., technological progress and human capital accumulation. Kosempel (2004: 202) defines the concept of development, as “the process by which poor countries catch up to wealthy countries in terms of their per capita incomes”. Kosempel (2004) seeks to answer the question of why countries with similar levels of human capital accumulation and physical capital (technology) do not always converge to the same level and growth rate of per capita income. This is because it is assumed that the rate of human capital accumulation is positively related to both the amount of time spent learning and also the availability of learning opportunities (Kosempel, 2004: 201). The latter is approximated using the ratio of the state of technology to the existing stock of human capital. The introduction of new technology increases this ratio, that is, new technologies are assumed to create new opportunities in learning (Kosempel, 2004: 202). According to Kosempel (2004) the marginal product of physical capital (what a country gets out of its technology) is positively related to the stock of human capital, since this determines how effective workers are at operating capital goods; and negatively related to the stock of physical capital, since all inputs into the production function are assumed to have diminishing marginal products. There is a

limit to how much one can increase the number of people in order to operate the same amount of technology (hence the “diminishing marginal products” that are assumed for all inputs into the production function). Kosempel (2004) holds that when an economy reaches its balanced growth path, the rate of technological progress and human capital accumulation are the same. Kosempel (2004) seeks to explain why two countries can have the same income level, but due to differences in the composition of their capital stock, they can experience different growth rates. In Kosempel’s (2004) model, human capital accumulation is endogenous; since worker productivity in the learning sector rises the further behind knowledge is from the technology frontier. Technological change, however, will remain exogenous, since the inputs into it will be held fixed as a percentage of GDP (Kosempel, 2004: 204).

Kosempel (2004:211) establishes (via detailed empirical analysis and modelling) that, in the long run, the aggregate state of technology and the stock of human capital must grow at the same rate. “If technology grows faster than human capital then the Q/H ratio rises. This implies that more learning opportunities are becoming available, and therefore the marginal product of time devoted to learning is increasing, which in turn increases the rate of human capital accumulation. Eventually, the rate of human capital accumulation will catch up to the rate of technological change. The exact opposite happens if human capital initially grows faster than technology” (Kosempel, 2004: 211). If a country has a low stock of human capital, it will typically consist of unskilled workers. As a result the factors of production have low marginal products, and therefore the physical capital stock grows slowly relative to an economy that has a larger endowment of human capital. The effect that a low stock of human capital has on the rate of physical capital accumulation is offset somewhat, but not completely, by the fact that a low stock of human capital also leads to high growth rates of human capital, and therefore higher productivity levels (Kosempel, 2004: 215). According to Kosempel (2004: 215) when human capital is abundant:

- (i) Total Factor Productivity (TFP) is high, and therefore per capita output grows rapidly; and
- (ii) Productivity in the learning sector is low, and therefore human capital accumulates slowly.

Of critical significance for this study is Kosempel’s (2004) model which predicts a positive relationship between the initial level of human capital, the initial level of TFP

and the rate of GDP growth; and a negative relationship between the rate of human capital accumulation and the rate of GDP growth. Kosempel (2004: 216) attributes the unusually slow growth of Least Developed Countries (LDCs) to two factors. Firstly these countries may be poor at innovating and therefore their technology grows slowly. Specifically, these countries may be poorly endowed with human capital, a factor that is complimentary to physical capital. This is because the average growth rates of human and physical capital stocks were found to depend on the Human Capital Convergence Parameter ( $\epsilon$ ). “Specifically, the model predicts that economies with a low value of  $\epsilon$  will be the slowest to adapt to new technologies and will experience the slowest transitions to the steady state, *ceteris paribus*”. This brings us to the main purpose of the rest of this chapter. The centrality of “Human capital convergence” has been established by Kosempel (2004) and, more significantly for South Africa, is that this has been used to explain the slower economic growth rates of the Least Developed Countries, of which Southern Africa has got plenty. This study takes this matter up with respect to Human Capital Development from the BBBEE point of view. The issue of inequalities and how this impacts on growth is very pertinent to a study of BBBEE in South Africa, as it has been stated above. It is therefore important for this relationship to be understood so as to evaluate the extent to which economic empowerment can contribute to ameliorating it. The next section therefore deals with the issue of inequality and its relationship to economic growth.

### **How inequality affects economic growth; the various arguments/ factors**

There is ample research evidence that indicates the negative effect of inequality on economic growth. This research is of import to this study as it highlights the negative effects of ongoing racial inequalities, especially economic inequality, in South Africa. On the positive side, it also establishes the rationale for proactive measures to redress these inequalities. Ravallion & Datt (2002) note that a long-standing view, though for long periods a minority view among economists, has held that inequality is harmful to the pace of economic growth in poor countries. Ravillion *et al* (2002: 383) note that Gunnar Myrdal believed in the 1920's and 1930's already that an equalization in favour of the low-income strata was also a productive investment in the quality of people and their productivity. Ravallion *et al* (2002) summarize the arguments as to why inequality may impede growth as follows: credit market failures

meant that the poor are unable to exploit growth-promoting opportunities for investment in (physical and human) capital. As a result, the higher the proportion of poor (and hence credit-constrained) people in the economy, the lower the rate of growth. Conversely, Ravallion *et al* (2002: 384) assert that in an economy where inequality is persistently low, one can expect that the poor will obtain a higher share of the gains from growth than in an economy in which inequality is high. Asset distribution is likely to influence the extent to which poor people participate in economic growth (Ravallion *et al*, 2002, 384). The “credit-market failure argument” posits that it will be the asset poor who are most locked out of growth prospects (Ravallion *et al*, 2002). Greater initial asset poverty will then mean that the growth that does occur is less (income) poverty reducing (Ravallion *et al*, 2002). Land is clearly an important asset in this context, “so we might expect greater landlessness to entail that the poor share less in the gains from economic growth” (Ravallion *et al*, 2002: 384). To put it in “Economics’ speak”, higher income inequality entails lower (absolute) elasticity of poverty to average incomes. With regard to the general measure of inequalities in a nation, the Gini index, a country with a Gini index of 0.25 can expect an elasticity of the headcount-index-to-mean-household-income of around -3.3, while for a country with a Gini index of 0.60, the elasticity is -1.8 (Ravallion *et al*, 2002: 384). There are a number of other factors that are noted in the literature to explain why inequalities are bad for economic growth. Credit-constraints resulting from unequal access to assets (and hence collateral) are also noted in the literature.

A negative relationship between inequality and growth could emerge if investments in human or physical capital are lumpy and have to be financed through credit (Deininger & Squire 1998:267). Where information is costly and imperfect, equilibrium credit rationing will arise – that is, agents will be able to obtain credit only if they own assets that can be used as collateral (Deininger *et al*, 1998:267). A more unequal distribution of assets would then imply that, for any given level of per capita income, a greater number of people are credit-constrained. In an economy where individuals make indivisible investments – in schooling and education; for example, that have to be financed through borrowing, this would imply lower aggregate growth (Chatterjee, 1991; Tsiddon, 1992, cited in Deininger *et al*, 1998). Investment possibilities may be limited not only by individuals’ stock of collateralizable assets collateralable but also by neighbourhood effects on social capital

with even more pronounced effects in an intertemporal context through the possible impact on societies' ability to take advantage of exogenous technological possibilities. (Deininger, *et al*, 1998:267). There are a range of factors that, taken as a whole, and if found in a range of combinations, will militate against economic growth. Agency, discussed next, has also been mentioned as another factor that can be considered to have a negative impact on economic growth, under conditions of inequality. None of these factors "cause" lack of growth or impede it, on their own, but they are listed in the literature as part of a range of contributors.

"Agency is defined as an actor's or group's ability to make purposeful choices – that is the actor is able to envisage and purposefully choose options" (Alsop *et al*, 2006:10). Alsop *et al* (2006) caution that "agency cannot be treated as synonymous with empowerment." Even when people have the capacity to choose options, they may not be able to use that agency effectively. They are constrained by their opportunity structure, defined as those aspects of the institutional context within which actors operate that influence their ability to transform agency into action (Alsop *et al* 2006:10). In terms of both measurement of and action to enhance empowerment, a person or group's agency can be largely predicted by their assets' endowment. "Assets are the stocks of resources that equip actors to use economic, social and political opportunities, to be productive, and to protect themselves from shocks. The assets requiring measurement include psychological, informational, organizational, material, social, financial and human assets" (Alsop *et al*, 2006:11). Empowerment is based on tackling the differences in capabilities that deny actors the capacity to make transforming choices (Alsop *et al*, 2006:15). Prerequisite to empowerment is an opportunity structure that allows people to translate their assets base into effective agency, through more equitable rules and expanded entitlements.

"Rent-seeking" has also been identified as another potential negative influence on economic growth, particularly if it is based on racial/ ethnic polarization. In the South African context, racial polarization and ethnic polarization could end up influencing the government to behave in a particular manner, as far as expenditure is concerned, which may divert resources from productive to "rent-seeking" expenditure. Montalvo and Reynal-Querol (2005) explored empirically the indirect effects of ethno-linguistic and religious polarization on growth through their impact on civil wars, investment

and government consumption. They found an important effect of polarization in the explanation of economic development through its input on civil wars, the rate of investment and the proportion of government consumption over GDP. Montalvo, *et al* (2005:295) discovered that; “in fact, the indirect effect of polarization on economic growth is as large as the direct effect of fractionalization”. Montalvo *et al* (2005) base their findings on rigorous empirical and econometric data analyses using a well-researched Index of Polarization (an adaptation of the Ethno linguistic Fractionalization Index, developed by Easterly and Levine (1997)). Montalvo *et al* (2005) assert that, “when society is divided by religious, ethno linguistic or race differences, tensions emerge among these divisions.” (Montalvo *et al*, 2005:308). Rent-seeking models show that the resources spent by the groups in order to obtain political influence (time, labour, etc.) can be considered as a social cost with a negative effect on economic growth, because it implies a non-productive use of these inputs (Montalvo *et al*, 2005:308.) This clearly would reduce investment in the productive sector, according to Montalvo, *et al* (2005). Secondly, because religious and ethnic differences are important social cleavages, the social response to this heterogeneity could generate violence and civil war (Montalvo *et al*, 2005:308) In addition, even if this heterogeneity creates only the potential for conflict it can affect growth negatively because instability and uncertainty also reduce investment (Montalvo *et al*, 2005:308) Moreover, the government will increase government consumption in order to mitigate potential conflict, which also has a negative effect on growth (Montalvo, *et al*, 2005:308) Montalvo, *et al*, also cite Mauro (1995) in corroborating their thesis. Mauro (1995) assumes that ethno linguistic fractionalization is a proxy for ethnic conflict and argues that this conflict may lead to political instability and, in extreme cases, to civil war (cited in Montalvo *et al*, 2005:308). The foregoing discussion implies that for as long as racial, ethnic and other serious cleavages exist in society, government will be forced to skew their expenditure in order to minimize real or potential conflict, among other things. The long-term remedy therefore should be to embark on programs that seek to empower a significant percentage of the “underprivileged” groups, so as to reduce the extent of economic differences. Empowerment measures that are aimed at the growth of new skills; new industries and the expansion of the “cake” therefore pose as the best “win-win” solution. in the long run.

The other way in which inequality could possibly affect future growth is through political channels (Deininger, *et al*, 1998; Persson and Tabellini, 1994; Bertola, 1993). The degree of inequality could affect the median voter's desired pattern of policies or it could determine individual's ability to access political markets and participate in costly lobbying. According to Deininger, *et al* (1998), empirical models that have utilized this argument generally rely on some version of the median voter theorem. The median voter theorem, in its simplest (and most widespread version) relies on democratic determination of tax rates: "As the median voter's distance from the average capital endorsement in the economy increases with the aggregate inequality of wealth, he or she will be led to approve a higher tax rate. This in turn could reduce incentives for (productive) investment, resulting in lower growth" (Deininger, *et al*, 1998:267). From their study, Deininger, *et al*, (1998:272), conclude that initial land inequality has a significant and quantitatively important effect on future growth performance in developing countries while the variable is insignificant if only OECD or if higher income countries are considered. The conclusion is that "there is tentative support for a credit-market mediated link between the initial distribution of assets and subsequent growth." (Deininger *et al*, 1998). Deininger *et al* (1998:274) make three points from the findings of their study. Initial inequality in the distribution of land (but less so of income) appears to be associated with lower subsequent growth – a one-standard deviation decrease in inequality decreases the average annual growth by about half a percentage point. There is no support for a redistributive median-voter-based explanation of initial inequality's effect on growth. On the contrary, support was found for an explanation based on imperfections in financial markets for credit and insurance. Such imperfections appear to be more relevant for investment in human capital rather than physical capital.

The foregoing section dealt with the rationale for the elimination of inequality in society. This is apposite in the South African socio-economic arena which is still largely characterised by racial; gender and other inequalities (see Gqubule 2006; Terreblanche 2002, *inter alia*). The sum total of the discourse from foregoing sections is that the Broad-based Black Economic Empowerment policy and strategy is an essential part of the economic development of the country, particularly in as far as it seeks to redress the economic inequalities. The foregoing section also illustrates other reasons for a BBEE-type of an intervention, including its potential to increase the

“Agency” of the disempowered communities. The next section turns to the significant field of Human Capital Development. Given the centrality of Human Capital Development to this thesis, it behoves the study to elucidate the concept further. The following section consequently examines various approaches to Human Capital Development and it also explores its relationship with economic development.

## **HUMAN CAPITAL DEVELOPMENT**

### **Human Capital – Defined**

I continue to be amazed by the way the human capital field has grown from being highly controversial to one that has gained acceptance not only in economics; but also in other disciplines and among the general public. This is a tribute to the foresight and influence of the pioneers in this field- especially Theodore W. Schultz; Milton Friedman and Jacob Mincer- and to the fact that from the very beginning, the analysis of human capital combined theory with attention to major real-world problems and issues.

Gary Becker (1993: xx).

Fisher (1930) defined ‘capital’ as an asset that gives rise to an income stream. According Mincer (1993: x), “accumulated human work capacity qualifies as a capital asset in the same sense as physical capital even if it cannot be bought or sold (it is, of course, rented), and even though investments in such capital often involve non-market activities, such as education”. Mincer points out that when wages are viewed as the rental price of a unit of human capital, differences in accumulated human capital can account for a great deal of wage heterogeneity. According to Mincer (1993: x), the traditional measurement of labour inputs in terms of “man-hours” is clearly inadequate. The shift of focus from homogeneity, from short run wage and employment decisions are the major contributions of human capital theory to labour economics. Mincer points out that human capital analysis does not represent a revolution in economic theory, even if it is a major redirection in labour economics and in related fields. He points out that the concept of human capital is ancient and it has been eloquently stated by Adam Smith. “However, its analytical power becomes

implicit in Fisher's definition of capital, and explicit in the rigorous and elegant treatment of Gary Becker (1964)" (Mincer, 1993: x).

Becker (1993) points out that what has been termed the 'human capital revolution' began about three decades ago. Its pioneers include Ted Schultz; Jacob Mincer; Milton Friedman; Sherwin Rosen and several others associated with the University of Chicago. So what is included under human capital? Becker (1993: 16) explains that, "schooling; a computer training course; expenditures on medical care and lectures on the virtues of punctuality and honesty are capital too in the sense that they improve health; raise earnings; or add to a person's appreciation of literature over much of his or her lifetime". Becker notes that it is fully in keeping with the capital concept as traditionally defined to say that expenditures on education; training; medical care, etc., are investments in capital. Becker (1993) notes that such investments produce human, not physical or financial capital, because you cannot separate a person from his or her knowledge; skills; health, or values the way it is possible to move financial or physical assets while the owner stays put. Becker cautions that the concept of human capital remains suspect within academic circles that organize their thinking about social problems around a belief in the exploitation of labour by capital. Becker (1993: 16) notes that the above would raise the question, "if capital exploits labour, does human capital exploit labour too- in other words, do some workers exploit other workers? And are skilled workers pitted against each other in the alleged class conflict between labour and capital?" Becker goes on to pose the question, "if governments are to expropriate all capital to end such conflict, should they also expropriate human capital, so that governments would take ownership of workers as well?" Becker (1993: 16-17) dismisses the above concerns and he counters that human capital, as a concept, has been popular in communist countries. He notes that even before the recent reforms, economists and planners there had no trouble with the concept of investing capital in people.

### **Life cycle chronology for various categories of human capital investments**

Mincer (1993: xi) presents four stages of human capital in a "life cycle":

- (i) Resources in child care and child development represent preschool investment;

- (ii) These overlap and are followed by investments in formal school education;
- (iii) Investments in job training and learning, job search and labour mobility and work effort occur during the working life; while
- (iv) Investments in health and other maintenance activities continue throughout life. Mincer notes that the concept of “depreciation”, the distinction between gross and net investment, is relevant in human capital as in other capital theory applications, hence the need for “maintenance activities”.

### **The significance of education and training in human capital development**

Becker (1993: 17) asserts that, “education and training are the most important investments in human capital. High school and college education greatly raise a person’s income even after netting out direct and indirect costs of schooling and after adjusting for the better family backgrounds and greater abilities of more educated people. Similar evidence is now available for many points in time from over one hundred countries with different cultures and economic systems”. According to Becker (1993) the earnings of more educated people are almost always well above average, although the gains are generally large in less-developed countries. Becker (1993) points out that human capital analysis assumes that schooling raises earnings and productivity mainly by providing knowledge, skills and a way of analysing problems. An alternative view, however, denies that schooling does much to improve productivity and instead it stresses “credentialism”- that degrees and education convey information about underlying abilities, persistence, and other valuable traits of people (Becker, 1993: 19). According to extreme versions of this line of analysis, earnings of, for example college graduates, exceed those of high school graduates not because college education raises productivity, but because more productive students go on to college (Becker, 1993: 20). In his counter argument, Becker acknowledges that “credentialism” exists, but he points out that many kinds of evidence suggest that credentialism does not explain most of the positive associations between earnings and schooling. The main problem with credentialism is that companies do not want information on success at schoolwork, but on abilities and performance in the context of working life: the discipline imposed by factories, the need to please customers and get along with fellow employees, and so forth. Success in the flexible; individualistic and rather undisciplined university atmosphere, in most countries, and in high schools in the United States, does not convey much relevant information (Becker 1993: 20).

### **The significance of learning, in general, for human capital (beyond schools).**

Becker (1993) points out that learning and training also occur outside of schools, especially in jobs. He points out that even college graduates are not well prepared for the labour market when they leave school and they are fitted into their jobs through formal and informal training programs. According to Becker (1993: 20), “the limited information available indicates that on-the-job training is an important source of the very large increase in earnings as workers gain greater experience at work. And recent bold estimates by Jacob Mincer suggest that the total investment in on-the-job training may be almost as large as the investment in education”. Mincer (1993: 101) is more emphatic about the significance of on-the-job training. He notes that, “formal schooling instruction is neither an exclusive nor a sufficient method of training the labour force. Graduation from some level of schooling does not signify the completion of a training process. It is usually the end of a more general and preparatory stage, and the beginning of a more specialized and often prolonged process of acquisition of occupational skill, after entry into the labour force” (Mincer, 1993: 101). For Mincer this is the “second stage” in the lifecycle of human capital, it consists of a range of activities, including formally organized activities, such as apprenticeships and other training programs to the informal processes of learning from experience. Mincer (1993: 123) also singles out “learning from experience” as an investment, in the same sense as are the more obvious forms of on-the-job training, such as, say, apprenticeship programs.

### **Definition of training**

According to Mincer (1993: 102), “the term training denotes investments in acquisition of skill or in improvement in worker productivity. The concept therefore includes schooling and training obtained on the job”. Mincer points out that the latter is a much broader concept than what is conveyed by the common use of the word “on the job training”. It includes formal and informal training programs in a job situation, as well as what is called “learning from experience” (Mincer, 1993: 102). “Specific training” can be described as, “an investment which increases the worker’s marginal product in the firm in which he is trained more than elsewhere” Mincer (1993: 123). According to this theory, marginal products of specifically trained workers exceed their wages, but the latter are higher than in alternative employment. Hence employers

have more incentive to retain such workers, and these have more incentive to remain with the firm. Becker (1993: 21) points out that nothing in the concept of human capital implies that monetary incentives need be more important than cultural and nonmonetary ones. “Many studies show that education promotes health, reduces smoking, raises the propensity to vote, improves birth control knowledge, and stimulates the appreciation of classical music” (Becker, 1993: 21).

### **Human capital and economic development**

Mincer (1993: 285) provides a useful background to the role of human capital in economic development, from the economic theory point of view. He points out that as an economic concept, human capital is at least two centuries old, but its incorporation into the mainstream of economic analysis and research is a new and lively development of the past two decades. Mincer (1993) argues that the development of human capital theory was a response to the following twin challenges:

- (a) The observed growth of conventionally measured inputs of labour and capital was far smaller than the growth of output in the US and other countries for which long-time series data were available;
- (b) Data on personal income distribution, which began to appear with greater frequency and detail, showed that the variance of labour incomes, rather than the “functional” differences between returns to labour and to capital, represented the major component of personal income inequality.

Mincer (1993: 285) submits that the above response did not require a revolution in economic theory or a resort to extra-economic explanations. It merely involved the abolition of two simplifying, but, as it turned out, unduly inhibiting assumptions. The first was the restriction of the concept of capital to physical capital, even after a more general definition was provided by Fisher (1930). The second was the assumption of homogenous labour, which underlies both the concept of functional income distribution and the measurement of labour input in man-hours (Mincer, 1993: 285). Mincer emphasizes the point that Fisher’s definition of capital as, “any asset that gives rise to an income stream” requires the inclusion of human capital, even if it cannot be bought or sold, and even though investments in such capital often involve non-market activities. Mincer points out that the contribution of human capital theory

to economic theory does not lie in a reformulation of economic theory, but in pushing back the boundaries of economics beyond the sphere of market transactions. Mincer (1993: 286) notes in this regard that, “the payoff is now apparent in both of the problematic contexts. Firstly, at the macro-economic level, the social stock of human capital and its growth are central to the process of economic growth; and secondly, at the micro-economic level, differences in individual human capital stocks and in their own growth can explain much of the observed variation in the wage structure and in the personal distribution of income. Becker (1993: 24) asserts that, “it is clear that all countries which have managed persistent growth in income have also had large increases in the education and training of their labour forces”. Becker acknowledges that such correlation does not equate to causation and he points out that economists have developed rather straightforward methods for determining how much of income growth is caused by a growth in human capital. Becker (1993) points out that the outstanding economic records of Japan; Taiwan; and other Asian economies in recent decades dramatically illustrate the importance of human capital to growth. “Lacking natural resources- e.g. they import practically all their sources of energy- and facing discrimination from the West, these so-called Asian tigers grew rapidly by relying on a well-trained, educated, hard-working, and conscientious labour force (Becker 1993: 24).

### **Human capital and personal income/ earnings**

The human capital approach to lifetime earnings growth holds that (Mincer, 1993: 289):

- (i) the wages of a worker are proportionate to the size of his/ her human capital stock;
- (ii) thus, wage differentials among workers are due primarily to differences in the sizes of human-capital stocks, not in the “rental price” employees pay per unit of stock;
- (iii) The individual’s human capital stock grows over the life cycle by means of investment, which is initially in schooling, later in job choice, job training; work effort and job mobility, and in health.
- (iv) At any stage, the level of earnings depends on the size and utilization of the human capital which accumulated up to this point, and its growth

depends on the rate of net additions to the stock, that is, on the net investment rate.

- (v) The deceleration in the rate of growth which is observed in individual earnings reflects the rate of decline of investments as the worker ages;
- (vi) Investments diminish over time because:
  - a. Benefits decline as the payoff period (remaining work life) shortens; and;
  - b. The opportunity costs of time, which is an input in the learning process, are likely to rise over the working life.

Mincer (1993: 289) explains further that while gross investment proceeds at a slackening rate throughout working life, net investments (gross minus depreciation) vanish or turn negative earlier. This happens when depreciation (including obsolescence) begins to outstrip maintenance, a progression which eventually brings about retirement.

### **Link between human capital and technology**

Compelling evidence of the link between human capital and technology comes from agriculture (Becker, 1993). Education is of little use in traditional agriculture because farming methods and knowledge are readily passed on from peasants to children. Farmers in countries with traditional economies are among the least educated members of the labour force. By contrast, modern farmers must deal with hybrids, breeding methods, fertilizers, complicated equipment and intricate futures markets for commodities. Therefore it is no surprise that farmers are about as well educated as industrial workers in modern economies (Becker, 1993: 25). Becker also points out that education and training are helpful in coping with changing technologies and advancing productivity in the manufacturing and service sectors.

### **Human capital versus physical capital**

In Economics or Labour Market Economics, the human capital construct must be understood in the context of the traditional construct of physical capital. The relationship between the growth of physical capital (including finance and assets) and the growth of human capital is of particular interest and import in Black Economic Empowerment. It basically talks to the relationship between skills and production;

including technological know-how. The two are closely related and they influence each other. This, in essence, is the argument for a human-capital-driven approach to BEE, as opposed to an *ad hoc* approach that is not directed at growing the economy and where the growth of “the economy” in turn does not relate to human capital stock. Mincer (1993: 294) explains that the view of human capital as a factor of production coordinate with physical capital implies that its contribution to growth is greater the larger the volume of physical capital, “this relation is symmetric: the contribution of physical capital is larger the higher the average level of human capital”. Mincer (1993) points out that while physical, plant and equipment can be acquired or built quite rapidly, “the development of a significant and broadly-based level of human capital of a nation is a lengthy process which involves profound social and cultural changes” (Mincer, 1993: 294). This has implications for the development of skills in South Africa; which, itself, is a critical area of Broad-Based Black Economic Empowerment. The role and significance of skills development is discussed in the next section. For now, let us complete the overview of human capital theory and its key facets. It is the connection between human capital and economic development and/ or growth that is of significance to this study, in view of our BBBEE proposition.

### **The complementarity hypothesis: human capital versus physical capital**

The importance of skills development and access to opportunities (occupational equity) in the economic development equation is also made clear by Mincer’s (1993) assertion that the framework of an aggregate production function makes it clear that the growth of human capital is both a condition and a consequence of economic growth. “The growth of human capital raises the marginal product of physical capital, which induces further accumulation of physical capital, thus raising total output both directly and indirectly. Conversely and symmetrically, the growth of physical capital raises the marginal product of human capital. This produces an increased demand for human capital relative to unskilled labour, if human capital is more complimentary with physical capital than is unskilled labour” (Mincer, 1993: 294). The latter is the “complementarity hypothesis”. In the labour market context it then holds that the resulting increase in the skill-wage differential exceeds the increase in (opportunity) costs, so the acquisition of human capital by students and workers becomes more profitable (as supply then responds to growing demand). According to Mincer (1993:

294), the differential shifts in demand for skilled and unskilled labour implied by the complementarity hypothesis also tend to produce the well-known skill differentials in unemployment rates observable in most countries which experience economic growth. Mincer (1993: 295) also points out that, “The greater cyclical stability of employment of skilled labour is also consistent with the hypothesis that skilled labour is complementary with fixed plant and equipment”. The tenets of the complementarity hypotheses are linked to Kosempel’s (2004) earlier model and his construct of the Human Capital Convergence Parameter ( $\epsilon$ ). Mincer (1993) explains that for a sustained growth of human capital we must look to increasing market demands for skills and technology. This is the “nice problem” that South Africa is facing in 2007 (and probably for the next ten to fifteen years!). The growth rate of physical and financial capital has far outstripped the growth rate of human capital accumulation, resulting in the serious skills shortage that the country is experiencing. This has been exacerbated by the racially skewed distribution of high level skills and the effect of decades of under-investment in the black majority as far as science; engineering and technology are concerned. So, South Africa is a perfect case of the applicability of the complementarity hypothesis (Mincer 1993) as well as the Human Capital Convergence Parameter of Kosempel (2004). This is because; put simply, “the capacity to absorb and adapt new technology requires an increasingly specialised and sophisticated labour force, backed by a broadly educated population” (Mincer, 1993: 296). The latter is what South Africa lacks, as is explained below.

Lastly on the issue of complementarity, Mincer explains the difference between human capital accumulation as a standard factor of production, versus the accumulation of a “stock of knowledge” as a source of technology. Mincer (1993: 295) submits that “few will argue against the view that growth of technology is the ultimate force which propels all factors of production by increasing their productivity”. Mincer (1993: 295) however emphasizes that, “once again the driver behind technology is human capital”. Mincer then draws the distinction between the stock of human capital as a standard factor of production and the stock of knowledge as a source of technology. Mincer (1993: 295) argues that, “Human capital activities involve not merely the transmission and embodiment of available knowledge in people, but also the production of new knowledge, which is the source of innovation and of technical change”. Furthermore, Mincer observes that, “without new

knowledge it is doubtful that larger quantities of existing physical capital and more widespread education and health would create a continuous growth in productivity on a global scale” (Mincer, 1993: 296). This is because, as Mincer notes, in a fundamental sense, modern economic growth is a result of the scientific revolution, that is, of the growth of systematized scientific knowledge. Therefore, it can be concluded that, “human capital as embodiment of skills is a convenient conceptualization of its role as coordinate factor of production in its contribution to national economic growth” (Mincer, 1993: 296). In the BBBEE context, skills development ought to be linked to Employment Equity and Management Control. Skilled people need to be provided access to employment opportunities where they can gain experience, whilst applying their skills. For this reason, employment equity requires skills development (of one sort or another). But skills development, in the BBBEE sense, also needs employment equity, so that it does not become an end in itself. The skills that are developed need to be ‘efficiently allocated’ at the right levels. The sub-section below takes up the discussion on this need for articulation.

#### **Interaction between human capital and occupational choice: the skills development; Equal Opportunities and Employment Equity connection**

Mincer (1993: 290) emphasizes the significance of opportunities for learning and growth as part of human capital investment. This brings in the critical connection between the skills investment in employees and the need to afford them opportunities to actually practice their skills. This experience; including managerial experience, is not just an “employment equity” issue; it is actually a critical part of the “life cycle” of human capital investment. Mincer (1993: 290) explains that, “one may also interpret the shape of the earnings profile as a “learning curve” or a reflection of growth in skills with age and experience known as “learning by doing”. Mincer points out that the latter view is not at all inconsistent with the human capital investment interpretation as long as opportunities for learning are not costless. With regard to the “equal opportunities” point, Mincer (1993: 290) observes that, “it is not merely learning on the job (formal or informal), but also the processes of occupational choice that give rise to investments beyond schooling”. Employment Equity is meant to facilitate increased occupational choice and options, especially in the context of the history of discrimination whose effects are still evident in the labour market today. In

this regard employment equity and skills development are two sides of the same human capital development coin (the one deals with the acquisition of skill, whilst the other with its application). Mincer (1993: 290) also adds “geographic mobility” and other “labour turnover in search of higher real earnings” as investments in human capital. Mincer (1993: 290) makes the case for the link between employment equity (including the elimination of unfair discrimination) and skills development even more abundant when he states that, “it follows that barriers to occupational choice and job mobility reduce the opportunity for investment in human capital. The elimination of such barriers increases individual economic growth and the overall efficiency of allocation of resources in the economy, hence total product”. Employment equity, coupled with relevant skills development therefore form an integral component of human capital investment in the country from the economic point of view, in addition to other rationales. Economically-speaking, the two interventions also enhance the “worker allocative effect” that was propagated by Schultz (1975, cited in Mincer, 1993: 290). So far economic development and human capital have been dealt with at the macro level. The next section turns to the company/ organizational level; where the roles and responsibilities of managers and other stakeholders are explored.

### **The role of employers and managers in the development of human capital**

Samstad and Pipkin (2005) conducted their empirical research on a section of the Mexican population (the “Maquiladora sector”). Samstad *et al* (2005) point to “Human Capital Development” as the single aspect of production that is critical toward ensuring equitable growth, for three reasons. The first is that human capital can be a strong contributor to long-term growth insofar as the skills attained are life long and can have positive effects across generations. The second is that it is an endogenous growth factor providing opportunities for local growth strategies in virtually any geographic setting. Lastly, investments in human capital development can be targeted directly to benefit the poor, potentially allowing for more equitable growth. According to Samstad *et al* (2005:816), “For optimists and pessimists alike the market determines technology implementation which then determines skills acquisition and workplace education”. From their study of Mexico’s Maquiladora sector, Samstad *et al* (2005) develop a model that elaborates the relationship of markets, technology and human capital development. Their model highlights the

central role of local management's decision making process. Samstad *et al* (2005) point out that local managers do much more than passively implement the formal training policies of parent firms and even under similar market conditions, different managers can choose radically distinct training policies. Samstad *et al* (2005:817) point out, in this regard, that "the decisive importance of management's perceptions and ideology is particularly relevant for those who wish to consider government policies to encourage greater in-firm training and education. Similarly to South Africa, the Mexican government has established a multi faceted system through which it supports enhancement of workforce skills. According to Samstad *et al* (2005) this system includes several tiers of public technical training (operating with varying degrees of requirements for previous educational attainment) a national system of labour skills certification (the labour Competency Standards, SNL) and special development programs for the unemployed (the Labour Training Programs for Unemployed Workers, PROBECAT). This regime is similar to the Skills Development framework of South Africa and its Sector Education and Training Authorities (SETA's), as well as the entire National Qualifications Framework (NQF) (see Department of Labour 2005). The purpose of covering some of the features of the Mexican skills development regime is to illustrate the parallels with South Africa. Samstad *et al* (2005:817) for instance point out that "probably most pertinent to worker training in the Maquiladora sector is the skills certification system, in which federal skills centres train, test and certify workers' skills". Similarly to South Africa and as captured in Samstad *et al*'s (2005) model, is the critical role played by unions and civil society in the skills development process. Samstad *et al* (2005) note with regard to Mexico, that civil society (foreign and domestic) and progressive unions are both highly active in lobbying for the improvement of work conditions and the protection of labour rights countrywide. "These phenomena alone are enough to be important in a model of human capital, even if they do not normally touch directly on intra-firm worker training and education. As it stands, both groups can be contributors to human capital in that they are well positioned and often inclined to seek worker awareness and self-assertion". (Samstad *et al*, 2005). Samstad *et al* (2005) make a separation between skills development and human capital development. This is an important distinction which is of significance in this study. The significance, inter alia, lies in the need to broaden the view of human capital beyond "human resource management" so as to capture its significance for the other

elements of the Broad-based Black Economic Empowerment Strategy (Department of Trade and Industry 2003; 2005; 2007). Samstad *et al* (2005:819) make it very clear that a “management –centred model” does not mean that workers and unions play a less important or a less significant role. In fact the model recognises the role of “pressure/incentives from State, Labour Unions, and Civil Society.” To put it more succinctly “a management-centred model for how workers increase their skills and become more educated therefore helps to illuminate the need for a wide variety of social actors to push for the adoption of productive practices that will help to develop the country’s human capital base”. Samstad *et al* (2005:819) aver that their model “suggests that worker training does not emerge automatically from a competitive market situation.” Worker training therefore requires a Human Capital Development strategy, which is the point of this study. It cannot just happen by itself and it ought to be strategic and properly managed. This point is critical for this study as it argues that Broad-Based Black Economic Empowerment ought to be underpinned by an integrated HCD-based strategic framework. This point is revisited in the Discussion section of this thesis.

The foregoing discussion has elaborated on the general theory of human capital. A number of key points have been made that are pertinent to this study. Firstly, human capital, in this study, is approached as an economic factor of production and not as in “human resource management”; which is a mere function of management. As a factor of production, human capital is a “stock” or an asset, just like finance is a stock or equipment. Its development is a critical component of economic growth. The point has also been emphasized that there is a dynamic and complimentary link between the quality and quantity of human capital as well as the quantity and quality of physical capital. At this point the outline of human capital theory “converges” with the general economic development model of Kosempel. The rate of accumulation of capital stock has to grow at a symmetrical rate to the rate of accumulation of physical stock, in line with Kosempel’s (2004) Human Capital Convergence Parameter. Mincer (1993) refers to this as the “complementarity hypotheses”. This is the opportune point to start examining the skills situation in South Africa. The economic theory of growth; coupled with the human capital theory explain the skills situation that South Africa has been experiencing over the past decade; which is bound to get worse as the rate of physical capital accumulation (including construction of stadia for the 2010 Football

World Cup) accelerates (at a much faster pace than that of human capital accumulation). This is a situation which could have been predicted, in terms of the theories covered above. More importantly, it is a problem that can only be solved via a serious programme of skills development. The programme will have to be aligned to the actual “physical capital” needs of the economy. These issues are discussed in the section below.

## **THE CHALLENGE OF SKILLS DEVELOPMENT IN SOUTH AFRICA**

The Department of Labour’s ‘State of skills in South Africa’ report (Department of Labour, 2005:31), notes that there was a dramatic decline in both apprenticeship and enterprise-based training in South Africa during the late 1980’s and 1990’s. The report points out that this decline provided a very low base off which to build and reflected a historically evolved enterprise culture that remained unconvinced of the merits of widespread training. This is part of the legacy of apartheid and the consequences of the discriminatory policies and practices that were discussed in the earlier section of this study. Borat (2004: 940) states that, “following the onset of democratic rule in South Africa in April 1994, it soon became clear that the transition was a political one, in the narrowest sense of the term. The new South African government has been, and indeed continues to be, beset with the longer and more inertial consequences of apartheid”. These consequences, maintains Borat (2004); can be represented generically as the economic outcomes engendered by the policy of legislated racial exclusivity. Nowhere is this challenge more acute than within the arena of the labour market (Borat, 2004: 940). Borat notes that the extent of poverty and inequality has been a legacy inherited as a result of the official policy of racial exclusion. This racial exclusion has been a major contributor to the imbalances in the South African society that ran the gamut of unequal access to education, differential coverage in, and levels of, welfare provision and the range of public social services (Borat, 2004: 941). Borat (2004: 941) insists that, “it is the combination of restricted access on the basis of race that, over time, has engendered this significant challenge that the society faces today”. Borat (2004) summarizes the post-apartheid trends in the labour market, to illustrate how the apartheid-engineered racial inequalities have continued to characterise the South African skills situation way beyond the demise of apartheid. Borat (2004: 944) points out, in this regard, that, the

democratic government inherited a labour market that had been subjected to the long-run effects of both structural shifts and technological change in the domestic economy. The structural shifts were represented by the shift in output away from the primary sectors, towards the services sectors. Technological change, on the other hand, has been manifest in the onset of the microelectronics revolution as well significant increases in capital-labour ratios (Bhorat, 2004).

### **Demand for highly skilled workers**

With regard to scarce skills, the Department of Labour (2005:55) notes that it is now generally accepted that skills shortages in key occupational areas are hindering future economic growth. The Department of Labour's methodology for determining "scarce skills" involved the clustering of skills according to their basic functions and common areas of economic activity (Department of Labour, 2005.) In this manner a 'scarce skills' list was developed in 2003. This involved the classification of the skill/occupation as 'in high demand' by the relevant Sector Education and Training Authority (SETA). If the skill/occupation was classified as "in high demand" it would then be classified as a 'scarce skill' (Department of Labour, 2005:55). This 'signalling method' then produced a list of scarce skills for the period 2004-2009. In the 'main occupational category' of 'Senior Officials and management' the following were found to be scarce skills for 2004 - 2009:

Experienced and qualified managers:

- Project managers
- Financial managers
- Sales and marketing managers
- General managers
- Business leadership
- Entrepreneurs

Department of Labour, (2005:56.)

Bhorat (2004: 945) argues that the labour market consequences of the changes (referred to above), have been to increase the demand for highly-skilled workers,

combined with large-scale attrition at the bottom-end of the labour market. The following two tables summarise the nature of this shift and are reproduced from Borat (2004: 952- 954).

University of Cape Town

Table 5: Sectoral Share of Employment, 1995 and 2002

Main sector	1995	Share	2002	Share	% Change
<b>Agriculture, Fishing and Forestry</b>	1184712	0.12	1477255	0.13	24.69
<b>Mining and Quarrying</b>	593000	0.06	481343	0.04	-18.83
<b>Manufacturing</b>	1420956	0.15	1596496	0.14	12.35
<b>Utilities</b>	84041	0.01	84550	0.01	0.61
<b>Construction</b>	433492	0.05	527678	0.05	21.73
<b>Internal Trade</b>	1650017	0.17	2191347	0.20	32.81
<b>Transport and Communication</b>	469200	0.05	550918	0.05	17.42
<b>Transport</b>	329194	0.03	434613	0.04	32.02
<i>Post and telecommunications</i>	140006	0.02	116305	0.01	-16.93
<b>Finance, Real Estate and Bus. Services</b>	582897	0.06	1023373	0.09	75.57
<b>Community, Social and Personal ...</b>	2952269	0.31	3117365	0.28	5.59
<i>Domestic services</i>	800887	0.08	1132666	0.10	41.43
<i>Community Services (excl. domestic)</i>	2151382	0.23	1984699	0.18	-7.75
Other producers	186601	0.02	107493	0.01	-42.39
<b>Total</b>	<b>9557185</b>	<b>1.00</b>	<b>11157818</b>	<b>1.00</b>	<b>16.75</b>

Sources: October Household Survey, 1995 and Labour Force Survey, February 2002.

Notes:

1. For 2002, community services is sum of community service and employment in private households;
2. "Other producers" refer to those not classified, exterior organisations, foreign governments and other producers.
3. Mining figures for 1995 adjusted using official Chamber of Mines figures, given the exclusion of hostel dwellers in the 1995 OHS.

Bhorat (2004: 952).

More significantly for this section, Bhorat (2004) also compares the shifts in the demand (in terms of the sectoral growth trends above) to the shift in the skills demand. This confirms the human capital thesis that was adumbrated in the earlier section, particularly the need for human capital to be aligned with the growth or demand in physical capital accumulation. The shift in the sectors of growth in South Africa has not been matched by a concomitant shift in the supply of the relevant skills. The above table is important in illustrating the nature of the skills problem that South Africa is facing at the moment. It is only a detailed and correct understanding of the nature and extent of this problem, including its root causes that will allow for the development of long-lasting solutions. This study argues that black economic empowerment should be used as the vehicle for linking up the skills development programme of the country with measures to create more and better opportunities for

the majority of the country's workforce, particularly the black employees. For this reason, this analysis by Borat (2004) warrants further consideration. Borat (2004: 952) observes the following, from the data:

- (i) That all sectors witnessed an increase in employment, with the exception of Mining and Quarrying; Community Services and Post and Telecommunications. The latter, is predominantly represented by the public sector;
- (ii) The fastest growth was in the, "Finance, Real Estate and Business Services" sector. This sector registered 75.57 per cent change between 1995 and 2002. The number of employees in this sector grew from 583 000 to 1, 234, 000.
- (iii) Although the above sector registered the highest percentage change, it still accounted for only 0.09 per cent of the total workforce by 2002.
- (iv) "Internal Trade" and "Transport" were both at second and third place (32.81% and 32.02% respectively), in terms of percentage change between 1995 and 2002.
- (v) The largest employer, percentage-wise, was, "Community, Social and Personal Services" (0.28 share) (with 3.1 million workers); followed closely by Internal Trade (0.20 share of total employment and some 2.2 million employees);
- (vi) The above was out of a total of 11.15 million employees (by 2002); which grew from 9.56 million in 1995 (a 16.75 per cent change over the seven years).

The point of the discussion is to illustrate the extent of the changes in the nature of employment and the resultant shift in the type of skills that the country needed. Borat (2004: 953) observes that while most sectors yielded unchanging shares of employment since 1995, there was clearly a reallocation of employment away from Community Services (from 23 per cent to 18 per cent); and Mining and Quarrying (6 per cent to 4 per cent) toward "Internal Trade" (17- 20 per cent) and "Finance, Real Estate and Business Services" (6 to 9 per cent). Borat notes that the restructuring exercise within the public sector as well as the continued pressure on the viability of a number of mining enterprises contributed to the declining

contribution to aggregate employment (with respect to Community Services as well as Mining and Quarrying).

- (vii) The “Finance, Real Estate and Business Services” sector is an example of the economy’s long-run pattern of output expansion in the services sectors. Employment close to doubled over the seven year period in this sector.

Bhorat (2004: 953) concludes, from the foregoing analysis that, “differential output expansion at the sectoral level therefore is one of the key reasons that aggregate economic growth will deliver an uneven growth in employment. The long-run labour demand trajectory of the economy will thus hinge on the nature and extent of long-run output expansion at the sectoral level”. Bhorat (2004) also makes the point that together with output expansion at the sectoral level, what is also relevant in terms of labour demand patterns is the particular configuration of skills needed that can be identified within each sector. In the table below, this is illustrated by plotting the shift in sectoral demand against the corresponding shift in skills demand. The table overleaf is important in demonstrating the connection between human capital accumulation and physical capital accumulation. It also corroborates earlier points on the need for the country to align the skills that it is producing, particularly at higher education level, to the changes in the demand globally. These demand-side changes also signal some significant shifts in the nature of industry and commerce and therefore some re-alignment is imperative.

Table 6. Share of Employment by Three Skills Categories and Main Sector

Main Sector	Year	Skilled	Semi-skilled	Unskilled
<b>Agriculture</b>	1995	0.01	0.22	0.77
	2002	0.01	0.56	0.43
<b>Mining and Quarrying</b>	1995	0.04	0.77	0.19
	2002	0.04	0.89	0.07
<b>Manufacturing</b>	1995	0.06	0.74	0.19
	2002	0.10	0.75	0.15
<b>Utilities</b>	1995	0.06	0.79	0.13
	2002	0.09	0.82	0.08
<b>Internal Trade</b>	1995	0.14	0.66	0.20
	2002	0.10	0.60	0.30
<b>Transport &amp; Communication</b>	1995	0.15	0.73	0.11
	2002	0.22	0.67	0.11
<i>Transport</i>	1995	0.19	0.69	0.12
	2002	0.23	0.64	0.12
<i>Communication</i>	1995	0.05	0.83	0.10
	2002	0.17	0.78	0.05
<b>Finance</b>	1995	0.17	0.77	0.06
	2002	0.25	0.67	0.08
<b>Community Services</b>	1995	0.13	0.71	0.15
	2002	0.19	0.70	0.11
<b>Private Households</b>	1995	0.00	0.03	0.97
	2002	0.00	0.16	0.84
<b>Unspecified</b>	1995	0.07	0.35	0.17
	2002	0.05	0.17	0.04
<b>Total</b>	1995	0.09	0.59	0.31
	2002	0.11	0.61	0.27

Sources: October Household Survey, 1995 and Labour Force Survey, February 2002.

Notes:

- "Skilled" refers to ISOC codes 1 and 2;
- Semi-skilled refers to ISOC codes 3-8;
- "Unskilled" refers to ISOC code 9, excluding code 9999;
- 1995 Unspecified includes armed forces who numbered 17 399
- For 1995 and 2002, elementary occupations includes domestic workers
- Private Households for 2002, and domestic services for 1995 were treated as synonymous

**Bhorat (2004: 954).**

In terms of the Table above on the skills distribution of the workforce, Borat (2004: 954 – 955) makes the following salient observations:

- Output growth continues to be skill-biased, hence, despite the evidence of aggregate employment growth, the share of unskilled workers in the labour force declined by 4 percentage points, from 31 per cent in 1995 to 27 per cent in 2002; while the share of skilled and semi-skilled employment both increased by two percentage points;
- In manufacturing, the share of skilled workers in employment increased from 6 to 10 per cent, while that of unskilled workers declined from 19 to 15 per cent;
- There was then eventually a redistribution of jobs (within manufacturing) away from unskilled workers, toward skilled workers. This pattern replicated noticeably in sectors that recorded a reduction in aggregate employment. Hence, in Mining and Quarrying; Communication and Community Services; there has been a movement away from unskilled workers, toward semi-skilled and/ or skilled employees.
- The “Internal Trade” sector was the exception to this rule. In seven of the 12 sectors, there was actually a decline in the share of unskilled workers.

The “State of Skills Report” (Department of Labour 2005:31) also notes that the above factor is compounded by the generally low level of education acquired by the South African workforce. The Report notes that the educational background of the current workforce remains low with the vast majority of African workers possessing less than a matriculation certificate (Department of Labour, 2005:31.). With regard to scarce skills, the Department of Labour (2005:55) notes that it is now generally accepted that skills shortages in key occupational areas are hindering future economic growth. From the above observations it becomes clear what lies behind the current skills crisis that the country is facing. This analysis ought to be factored into strategies for the empowerment of women and black people; which is what the “Skills Development” and employment equity components of Broad-Based Black Economic Empowerment seek to do. Once again, Borat (2004: 955) describes the situation aptly when he notes that a dual challenge for the domestic economy is to produce an adequate economic growth strategy. Borat identifies three elements that should go into this strategy. The first challenge is converting the current low and

erratic levels of economic growth to higher and more consistent rates of output expansion. Secondly, it remains likely that the nature of labour demand uptake as a result of economic growth will continue: namely the disproportionate uptake of semi-skilled and skilled workers, relative to unskilled workers. Thirdly, observes Bhorat (2004: 974), the labour market challenge cannot be overcome purely through the growth process. South Africa appears to be at the beginning of a growing graduate unemployment problem. This warrants some closer examination, given its significance. It seems counter-intuitive and in fact counter-productive for the higher education sector to be producing graduates and post-graduates who are not able to find employment. For those who pursue education for its own sake and who do not want to link it to employment, this may not be a crisis. But to the seemingly thousands of graduates who invested thousands of rands and years on education and who cannot find employment, in spite of very serious efforts, this presents a major crisis. The lack of alignment between the demands of employers (who claim skills shortages) and the supply from higher education, if this is indeed the problem, is discussed further below. In the last section of the study, where the actual practices of employers (in terms of recruitment; skills development; promotion, etc. are analysed.); the practices of employers are questioned in relation to the skills shortage problem. The employers themselves do not seem to be investing their training in the areas and levels where there are alleged shortages. This indicates that there is more to the “skills shortage” crisis than meets the eye. Organizational Transformation (OT) and Transformational Leadership (TL) are submitted as a possible “missing link” in the equation. It is argued, later, that with a bit of OT and TL, more innovation and radical solutions could be found by employers. Sadly, but not surprisingly for some, race and its effects rears its ugly head again, when one examines the trends. The details on unemployed graduates, below, could be submitted as a case in point. They point to a dire OT- and TL- deficiency.

### **Graduate unemployment**

Bhorat (2004:974) presents a table that shows that there are far more degreed Africans who are unemployed than any other race group, among the “tertiary qualified” who are unemployed. He points out that for African participants with a degree or post-graduate degree, the unemployment rate stood at 16.41 per cent in 2002; compared to

a 26 per cent unemployment rate for “all tertiary qualified” African participants. The figures for whites are 3.15 per cent and 4.63 per cent respectively. Bhorat (2004: 960) points out that the rate of increase in the numbers of unemployed was greater for degreed workers. The number of unemployed white people increased 141 per cent over the seven year period and more than quadrupled for African graduates (from an already very high base). Bhorat (2004: 960), observes, with concern, that, “the labour market is being marked not only by a growth in tertiary unemployment levels, but also, as a subset, by a growth in the number and rates of unemployed individuals with a degree or post-graduate degree”. Bhorat (2004) notes therefore, in this regard, that, “there can be no doubt that we are witnessing the beginning of a graduate unemployment problem in South Africa”. The aggregate (total) figures indicate that the majority of the “unemployed with degrees” are in the “Education, Training and Development” field. This, according to Bhorat (2004), matches with the public sector restructuring process, as it suggests that teachers have borne the brunt of the restructuring in the public sector. But also worrying is the fact that the aggregate data (for all race groups) showed the “unemployed with degrees” in “Business, Commerce and Management” studies constituted a fairly significant share of degreed unemployed within those cohorts. In fact, the largest number of “degreed unemployed” white people (30.32) are in the “Business, Commerce and Management” field. Bhorat (2004: 961) concludes by noting that, “ultimately then, the data suggests that of the unemployed with degrees or post-graduate degrees, - those in education; training; and development; business, commerce and management studies and health sciences- account for about 63 per cent of the sample of degreed unemployed individuals”. Bhorat argues that the data points, provisionally, to the importance of ensuring that the institutions of supply, namely the universities and technikons, produce graduates with a skills profile that matches current demand trends. Bhorat (2004) arrives at the above observation with specific reference to the high number of graduates in Business, Commerce and Management, who are increasingly unemployed. “Hence this tentative evidence suggests that institutions of higher education are ostensibly not matching their curriculum design effectively enough with the labour demand of employees” (Bhorat, 2004: 961). So, what are the implications of all this for this study? This should be clear from some of the recommendations below, with respect to national policy as well as BBBEE strategy.

### **Calls for more intervention in the human capital market by the state**

Bhorat (2004) calls for a “fair degree of intervention” from the supply side. This is a call that is also echoed by Horwitz (2007) and others (e.g. Gqubule 2006; Jack 2007 and Southall 2006). “Given the unevenness of the economy’s growth generation- both in terms of sectoral expansion and skill requirements- a fair degree of intervention is clearly required on the labour supply side” (Bhorat, 2004: 975). Bhorat (2004) argues that the simultaneous existence of a skilled labour shortage and unskilled labour surplus points to the importance of adhering to a policy framework that emphasizes both the need to kick-start economic growth as well as ensuring that the characteristics of the suppliers of labour match those in demand by growing sectors.

Horwitz (2007) also recommends a multi-pronged human resource development approach. Horwitz (2007) points out, in this regard, that it is an over-simplification to argue that universities need to simply increase their intake on the assumption that after four or five years, the outputs will match this increase. Rather a stronger focus on two related areas is considered necessary (Horwitz, 2007: 3). The first is improved preparation of high school learners for a university education. This includes more emphasis on appropriate subjects for university study, career counselling and subject choices or streaming pertinent to university education. The second relates to the quality of the university educational process itself, with improved teaching and learning and student support. These may well have a more productive impact on both the quantity and quality of graduates produced by institutions of higher learning. This, Horwitz (2007) emphasizes, is critical in improving throughput rates. Horwitz (2007) raises other critical elements in the skills debate. The issue of the attraction and retention of skills for instance, needs to be considered. Employers have a responsibility to create environments that are conducive for the attraction; development and retention of skills. They cannot abrogate this responsibility to the government; the higher education sector or even the employees themselves. In this regard, Horwitz (2007) points out that, “While improving the supply side production of graduates, technicians, artisans and health care professionals from South Africa’s tertiary education institutions is critical for corporate leaders, the challenge lies in attracting, motivating and retaining intellectual capital”. This and the study by Booysen (2007) on the barriers to employment equity implementation and retention of blacks (which is cited by Horwitz, 2007) point to the need to bring the debate back to

black economic empowerment. The Employment Equity Act as well as the Skills Development Act are two sides of the same coin, as far as empowerment is concerned. One seeks to open up opportunities to previously excluded groups, whilst the other seeks to develop skills and human capital, amongst these groups, *inter alia*. None of this will happen mechanistically or automatically (e.g. Samstad & Pipkin, 2005). Strategies are required to make sure that the skills that are acquired match the skills that are required and that this takes place in a working environment where employees can actually practice the skills that they have acquired. Without this “BEE” component; the process will remain a mere numbers game, done for other purposes, besides the real development and empowerment of people. The issues raised by Horwitz (2007) bring in the roles and responsibilities of Chief Executive Officers as well as senior management in companies. This has not been forthcoming, as the figures on the actual progress by companies (on Employment Equity and Skills Development), in the analysis section, demonstrate. All these points are revisited in the analysis and discussion section in relation to propositions that are submitted.

The last section of the literature review seeks to put an integrated framework for a human-capital-based approach to BBBEE. The section puts together the various elements of the foregoing literature and seeks to link them to broad-based black economic empowerment. It is from this theoretical framework (which is not yet a theory according to Bacharach, 1989) that the findings of the study are later analysed, after the research method and the research analysis section. The thesis will therefore revert to the following section, at the end, to link the findings of the study to the literature that has been reviewed, based on the following framework.

## **A human capital development framework for BBBEE: summary of the literature**

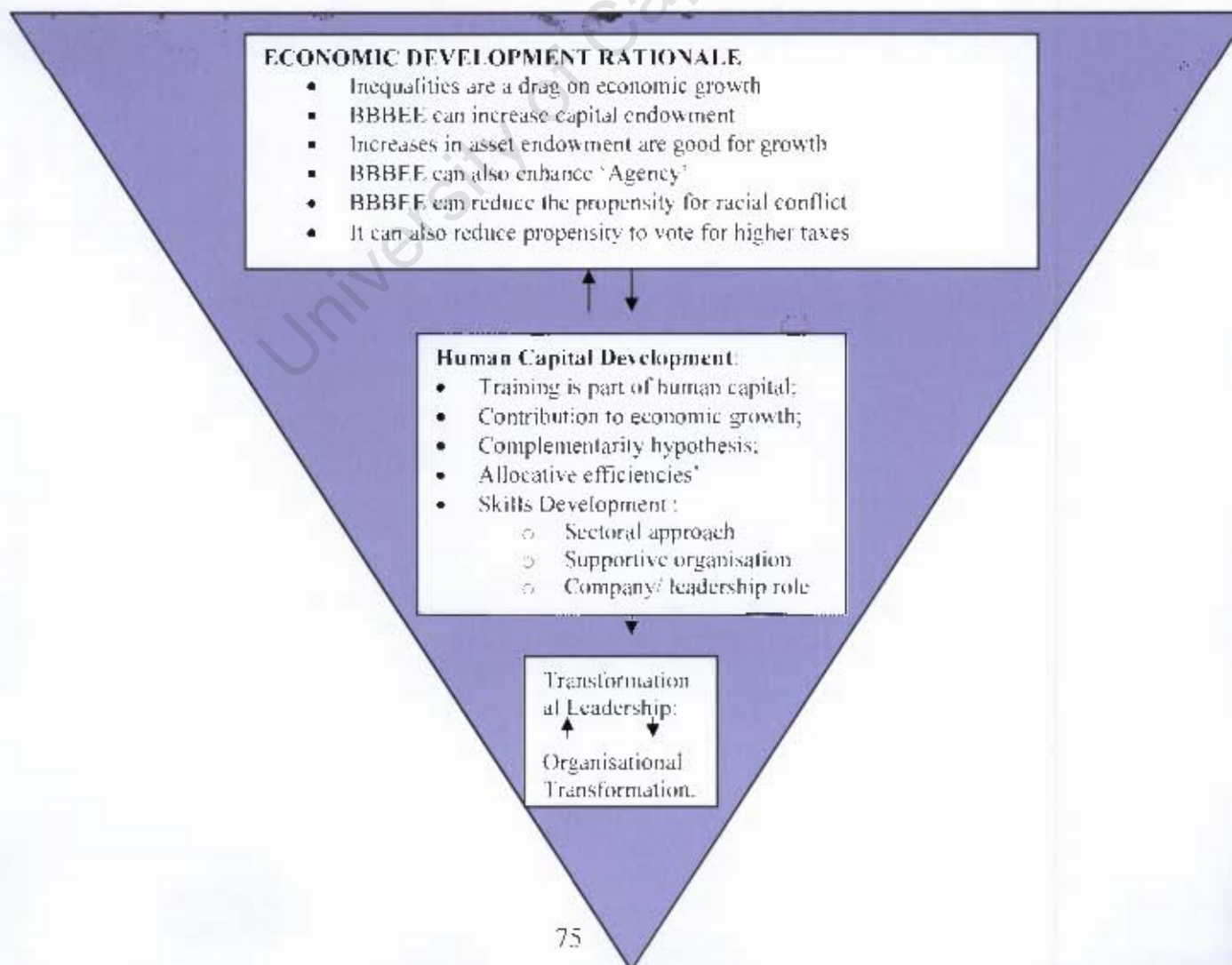
In this section an attempt is made to construct a strategy framework for Broad Based Black Economic Empowerment based on the fundamental principles of Human Capital Development and in line with the findings of the study. The fundamental tenets of the Human Capital Development approach are gleaned from the literature that was reviewed, and these are discussed in the backdrop of the study's findings. Broad-based Black Economic Empowerment, it is submitted, should be driven by a coherent, organisation-wide strategy that is based on the principles of Human Capital Development. Whilst the economic development and human capital approach suffices for the overall macro-economic context, it is not adequate to assist leaders at the organisational level to understand the dynamics of transformation and empowerment. Broad-based black economic empowerment is not just a national policy and strategy, designed for national economic transformation; redress and growth; it is also an organisational transformation strategy. The elements of BBBEE (DTI, 2003; 2005; 2007) have a direct impact on the way in which companies and organisations conduct their business. BBBEE impacts on the long-term strategies of companies and organisations. The skills development; management control; employment equity and other elements of the BBBEE Scorecards entail interventions at the company level. For this reason, a BBBEE theoretical and strategy framework ought to also include a strong organisational transformation base. In this sense, BBBEE is viewed as a major organisational change process. Later in this section, organizational transformation and transformational leadership theories are reviewed in order to link them to BBBEE.

The Human Capital Development (HCD)-based BBBEE organisational strategy framework is arranged into the following five sub-sections:

1. The economic development rationale for BEE in South Africa, nationally.
2. The Human Capital Development basis for BBBEE at the national level.
3. Skills Development and its link to BBBEE.
4. Transformational Leadership and its role in BBBEE
5. Organisational Transformation principles that should underpin BBBEE.
6. Summary of above in a BBBEE Mill model.

The discussion may be summarised in the 'inverted pyramid' below. At the macro level (socio-economic level) BBBEE is premised on economic growth and development. This is based on the economic rationale for the elimination of racial and other inequalities (which BBBEE seeks to do) as well as on the enhancement of the capital and wealth among black people. At the meso (or national policy and strategy level) the human capital approach is posited as an essential rationale for BBBEE. This is unbundled in the discussion that follows, to include training and 'skills development'. At the company/ organisational level (micro-level) the Transformational Leadership as well as the Organisational Transformation approaches are adumbrated. The former is recommended in order to drive the latter. At the end of the section, an integrated model, the "BEE Mill" is suggested to illustrate the actual contribution of each of the element to the broader picture, and the relationship (cause-effect) between the various elements.

#### INVERTED PYRAMID: THEORETICAL FRAMEWORK FOR BBBEE



## **The economic rationale for BBBEE in South Africa**

The essence of the economic rationale is that the ongoing socio-economic inequalities, primarily between the previously disadvantaged black majority and other race groups, need to be seriously addressed and redressed. These inequalities should be addressed not merely for human rights and equity reasons, but also because it makes economic sense to do so. It has been established above that such huge wealth and economic disparities are a drag on the economic growth of nations (e.g. Gqubule 2006; Ravallion & Datt, 2002). It has also been established that any major moves toward more equity between groups, particularly the creation of more wealth and other forms of capital (including human capital) among groups (particularly the black majority) constitute a push on economic development (e.g. Gqubule 2006; Ravallion *et al.*, 2002). It is submitted that the economic rationale and benefits of BBBEE should be made explicit in all BBBEE policies.

### **BBBEE is necessary in order to reduce the glaring socio-economic inequalities**

The inequalities between people who possess wealth and those who do not are glaring in South Africa and they continue in the main, and to a large extent are even increasing (Gqubule, 2006; Bhorat, 2004). The common measure of these inequalities (the Gini coefficient), consistently places South Africa as the country with the highest such inequalities in the world, hovering around the 0.60 mark (which is only .40 basis points below 1, viz., total inequality between the poor and the rich). A Gini index of 1 means literally that one person has got all the wealth in the country and the rest of the population has got absolutely nothing (Gqubule 2006). South Africa (at around 0.60) is therefore not very far from this state of total inequality. This is a global distinction that the country vies for with Brazil (Bhorat, 2004; Terreblanche, 2002). On the other hand, a lower Gini Coefficient has been found to have a direct impact on the extent to which economic growth positively impacts the increase in household incomes. This is because, “the lower the level of inequalities in a country the greater the elasticity of the headcount-index-to-mean-household income” (Ravallion *et al.*, 2002). The lowering of these inequalities should be one of the key outputs of the BBBEE strategy of the country. A Gini Coefficient of about .30 would be a good indicator of the reduction of inequalities over the next decade or so (Gqubule, 2006). A Gini coefficient of .25 has been found to have a far greater (-3.3) elasticity of the

headcount-index-to-mean-household income than a Gini index of .60 (viz., -1.8) (Ravallion *et al.*, 2002).

### **BBBEE should increase human as well as physical capital endowment**

BBE should seek to increase the ‘average human capital endowment’ of South Africans generally and within the black community in particular. This, in turn, will increase the Human Capital Convergence Parameter ( $\epsilon$ ), which should bring about a balance between the growth rate of physical capital and that of human capital (Kosempel, 2004). Such balance is good for the economic growth of countries and its absence has been found to be the main factor behind the slow growth rates of Least Developed Countries (Kosempel, 2004). The sum effect of the various elements of the BBBEE strategy should be to increase the asset distribution among the affected communities (black employees; managers; communities, etc). Employment Equity and Skills Development should therefore not be an end in themselves. They should constitute some of the means of assisting black people (and other designated groups) to access higher level skills; jobs and positions, which, in turn, should assist them with increasing their asset distribution. Increased asset distribution will lead to less credit constraints (Deininger & Squire, 1998). Greater asset distribution and lower credit constraints, in turn, have a positive effect on increasing the aggregate economic growth rate (Ravallion *et al.*, 2002). BBBEE should lead to increases in the general ‘state of endowment’ among the BBBEE target groups and communities.

### **BBBEE increases asset endowment which also enhances Agency among blacks**

An increase in the ‘state of endowment’ of black people should, in turn have a positive effect on the ability of the said black communities to make ‘transforming choices’ (e.g. Alsop, Bertelsen & Holland, 2006). BBBEE should therefore increase the propensity by black people to use ‘agency’ and this, in turn, should equip them to make greater and better use of economic and other resources to be productive (e.g. Alsop *et al.*, 2006).

### **The empowerment of black people reduces the propensity for racial conflict**

BBBEE measures are also necessary in order to reduce the possibility of conflict between the disadvantaged black majority and other racial groups. Even the possibility or threat of such conflict has been found to be a factor that would have a negative effect on the country's economic growth (e.g. Montalvo & Reynal-Querol, 2005). Among other things, the lingering possibility of such conflict (let alone its real existence) is the likelihood of the government increasing its consumption expenditure in order to compensate for the inequalities and to appease the disgruntled communities. This would constitute unproductive use of resources for rent-seeking, which, in turn, would reduce investment in the productive sectors of the economy (Montalvo *et al*, 2005). This would, of course, negatively impact economic growth. Therefore such inequalities need to be reduced.

### **BBBEE may reduce the propensity for the poor majority to vote for higher taxes**

BBBEE should also seek to increase the "average capital endowment" of the black majority so as to avoid the possibility of low average capital endowment resulting in an increase in the propensity to approve higher tax rates (e.g. Deininger & Squire, 1998). Access to land can be used as a proxy for "average capital endowment", (Deininger *et al*, 1998). Increasing black peoples' access to land (as a proxy for "average capital endowment") can be viewed as one of the BBBEE measures (BEE Commission, 2001). If this succeeds it would reduce the chances of the black majority and its "median voters", approving higher tax rates. The "median voter" is more likely to approve higher tax rates the farther they are from the "average capital endowment" in the economy (Deininger *et al*, 1998). Such higher tax rates can, in turn, reduce incentives for investment and thereby result in lower growth (Deininger *et al*, 1998).

Apart from the reduction of inequalities, which should be a very serious aim and output of BBBEE, there is also an economic development case that arises out of the development of human capital, particularly amidst the black majority who traditionally have been lacking in this regard. The Human Capital Development (HCD) objective is therefore good for economic growth, on its own. The arguments

for this are summarised below. HCD, it is submitted, should be the engine behind the country's BBEE strategy.

## **Human capital development and its significance for BBEE**

### **Concept of human capital: definition and scope**

The idea of human capital is best understood in the context of the idea that 'capital' is an asset that gives rise to an income stream (Fisher, 1930). In this regard, 'accumulated work capacity' is a 'capital asset' in the same sense as physical capital (Mincer, 1993). Expenditure on education, training, medical care and so on, are investments in human capital (Becker, 1993). That is because the latter produce human, not physical or financial capital. The literature also illustrates that human capital investments, are lifelong. Mincer's lifecycle chronology (Mincer, 1993) plots investments in human capital from child care and child development in the beginning, to investments in health and other 'maintenance activities'. Mincer (1993: xi) also cautions that human capital is subject to 'depreciation', like all other capital, and it requires 'maintenance activities'.

### **Training and its significance**

Training denotes investments in acquisition of skill or in improvement in worker productivity (Mincer, 1993: 102). 'Specific training' is "an investment which increases the worker's marginal product in the firm in which he is trained more than elsewhere" (Mincer, 1993: 123). Becker (1993: 17) confirms that "education and training are the most important investments in human capital". However, it is acknowledged that, "even college graduates are not prepared for the labour market when they leave school" (Becker, 1993: 17). Formal schooling instruction is neither an exclusive nor a sufficient method of training the labour force (Mincer, 1993: 101). On the job training is thus viewed as an important source of the very large increases in earnings as workers gain greater experience at work. There is more to human capital investment than on the job training, however, experience and opportunities count.

## **Human capital development also contributes to economic growth**

At the macro-economic level, the social stock of human capital and its growth are central to the process of economic growth (Mincer, 1993: 286). At the micro-economic level, differences in individual human capital stocks and in their own growth can explain much of the variation in the wage structure and in the personal distribution of income. Mincer (1993) asserts that, “it is clear that all countries which have managed persistent growth in income have also had large increases in the education and training of their labour forces”. Human capital is a factor of production coordinate with physical capital and therefore its contribution to growth is greater the larger the volume of physical capital, “this relation is symmetric: the contribution of physical capital is larger the higher the average level of human capital” (Mincer, 1993: 294). Human capital requires a long-term investment strategy and approach. Mincer (1993: 294) insists that, “while physical, plant and equipment can be acquired or built quite rapidly, “the development of a significant and broadly-based level of human capital of a nation is a lengthy process which involves profound social and cultural changes” (Mincer, 1993: 294).

### **Complementarity hypothesis: HC and economic growth reinforce each other.**

“The growth of human capital raises the marginal product of physical capital, which induces further accumulation of physical capital, thus raising total output both directly and indirectly. Conversely and symmetrically, the growth of physical capital raises the marginal product of human capital. This produces an increased demand for human capital relative to unskilled labour, if human capital is more complimentary with physical capital than is unskilled labour” (Mincer, 1993: 294). The latter is the “complementarity hypothesis”. In the labour market context it then holds that the resulting increase in the skill-wage differential exceeds the increase in (opportunity) costs, so the acquisition of human capital by students and workers becomes more profitable (as supply then responds to growing demand). According to Mincer (1993: 294), the differential shifts in demand for skilled and unskilled labour implied by the complementarity hypothesis also tend to produce the well-known skill differentials in unemployment rates observable in most countries which experience economic growth. Mincer (1993: 295) also points out that, “The greater cyclical stability of employment

of skilled labour is also consistent with the hypothesis that skilled labour is complementary with fixed plant and equipment". The implications of the complementarity hypotheses are linked to Kosempel's (2004) earlier model and his construct of the Human Capital Convergence Parameter ( $\varepsilon$ ). Mincer (1993) explains that for a sustained growth of human capital we must look to increasing market demands for skills and technology. The above points to the need to align South Africa's BBBEE to the demands of the country in terms of its National Industrial Policy Framework (Department of Trade and Industry (2007)

### **Employment equity and access to opportunities are significant for HC**

Training, in the human capital sense, goes beyond, 'on the job training' to include learning from experience' (Mincer, 1993: 102). Mincer (1993: 290) argues that it is not merely 'learning on the job' (formal or informal), but the processes of occupational choice that give rise to investments beyond schooling. This is a very important connection between Broad-Based Black Economic Empowerment; Skills Development and Employment Equity. It is the proverbial "missing link" that continues to see a South Africa that produces graduates who cannot find employment, whilst some of those who do find employment cannot gain access to real and meaningful jobs. It is also the link that connects the supply of skills that the higher education sector is producing to the availability of opportunities (the demand). At the macro-level this talks to the need for the country's human resource development strategy (which is under finalization) to be linked to BBBEE. It also implies that the two policies, integrated as they should be, ought also to be aligned to the long-term economic and industrial growth needs of the country, including the new National Industrial Policy Framework of the government (Department of Trade and Industry, 2007). The significance of Employment Equity in the human capital development discourse becomes more apparent when the issue of skills is linked to access to opportunities to acquire the necessary experience. Mincer (1993: 290) summarises this 'articulation' aptly, "It follows that barriers to occupational choice and job mobility reduce the opportunity for investment in human capital. The elimination of such barriers increases individual economic growth and the overall efficiency of allocation of resources in the economy, hence total product".

## **Skills development and its link to BBBEE**

### **The need for a sectoral approach to skills development**

Bhorat (2004: 953) demonstrates the nature and extent of the racial inequalities in the allocation of skills within the South African labour market. He also breaks the skills supply and demand into various sectors. He concludes that “differential output expansion at the sectoral level therefore is one of the key reasons that aggregate economic growth will deliver an uneven growth in employment. The long-run labour demand trajectory of the economy will thus hinge on the nature and extent of long-run output expansion at the sectoral level”. Bhorat (2004) also makes the point that together with output expansion at the sectoral level, what is also relevant in terms of labour demand patterns is the particular configuration of skills needed that can be identified within each sector. This recommendation is also linked to the one above on the need for an alignment between the country’s BBBEE strategy and goals; its national human resource development strategy as well as its national industrial strategy. This is where the skills needed per sector should be prioritized. Companies/ organisations should also focus their investments in these sectors, as should the higher education sector. This way, the country will not keep producing graduates who cannot find employment or where there is said to be a ‘mismatch’ between their skills and the key areas of demand in industry and commerce. BBBEE targets for skills development and employment equity should also demonstrate a link with these sectoral trends. The sectors that have BBBEE Charters should be focusing on producing the skills that are most needed in their respective sectors, via the Sector Education and Training Authorities (SETA’s) as well as via their in-house training programmes. As argued earlier, it is no use to produce these skills if the “graduates” are not afforded the opportunity to practice them. Bhorat (2004: 961) concludes by noting that, “ultimately then, the data suggests that of the unemployed with degrees or post-graduate degrees,- those in education; training; and development; business, commerce and management studies and health sciences- account for about 63 per cent of the sample of degreed unemployed individuals”. Bhorat argues that that the data points, provisionally, to the importance of ensuring that the institutions of supply, namely the universities and technikons, produce graduates with a skills profile that matches current demand trends.

This is where the link with Employment Equity comes in. The opportunities that black people get, via EE, should be meaningful in relation to the key skills that are required by companies, and the country. Tokenism and window-dressing are therefore a drag on the development of human capital. By implication, these counter-productive practices are also a drag on the long-run economic growth and development of the country.

### **The organisational environment and culture needs to support people**

Horwitz (2007) raises other critical elements in the skills debate. The issue of the attraction and retention of skills for instance, needs to be considered. Employers have a responsibility to create environments that are conducive to the attraction; development and retention of skills. They cannot abrogate this responsibility to the government; the higher education sector or even the employees themselves. In this regard, Horwitz (2007) points out that, “While improving the supply side production of graduates, technicians, artisans and health care professionals from South Africa’s tertiary education institutions is critical for corporate leaders, the challenge lies in attracting, motivating and retaining intellectual capital”. This and the study by Booysen (2007) on the barriers to employment equity implementation and retention of blacks, corroborate the need for organisational transformation. The issues raised by Horwitz (2007) bring in the roles and responsibilities of Chief Executive Officers as well as senior management in companies. This challenge is linked to the following one, transformational leadership.

### **The Transformational Leadership paradigm for CEO’s and top management.**

Broad-Based BEE, it is submitted stands a better chance of succeeding if it is based on a Transformational Leadership (TL) style of management. It is also submitted that the CEO (or her equivalent) in a company/ organisation, ought to drive the BBBEE strategy, using Transformational Leadership. The general principles of TL should permeate the entire organisation, from top management downward as they are found to be good for BBEEE and to be in line with the values and principles that true empowerment ought to be based on. Some of these TL principles and attributes, that

are recommended for top management are summarised below (adapted from Bryman (1992: 111)).

1. Vision/ mission (developing one for BBBEE and getting buy-in into it)
2. Infusing vision
3. Motivating and inspiring
4. Creating change and innovation
5. Empowerment of others
6. Creating commitment
7. Stimulating extra effort
8. Interest in others and intuition on the part of the leader
9. Proactive approach to the environment

BBBEE should also be driven by leaders who create a strategic vision; communicate that vision through framing and use of metaphor, model the vision by “walking the talk” and acting consistently, and who also build commitment towards the vision (see Avolio, 1999; McShane & Von Glinow, 2000). Whilst these are “intangible” it is the considered view of the researcher that in the long run the TL style, as summed up in this section has the potential to improve the quality of the every day lives and opportunities of people, rather than mere BEE targets; expenditure and scores. Transformational leaders are people who create conditions for the empowerment of employees within their organizations (e.g. Covey, 2004; Collins 2001; Humphries and Einstein, 2003: 86; Pounder, 2001: 6; Hinkin & Tracey, 1999: 105). This, it is submitted, should be even more relevant and sought as part of the BBBEE strategies of organisations than has been the case. The TL and OT paradigms should create the environment and the conditions that should ensure that BBBEE is positively implemented in terms of the culture; policy; quality of experience of designated groups; level and depth of exposure. The lack of attention to the key role of leadership in the BBEE policy debate, particularly the transformational role of leaders, is seen as one of the greatest weaknesses of the BBBEE policy in South Africa. A strategy that seeks to transform organisations in substance and not merely in form ought to recognise and reward the demonstration and practice of TL values and behaviours. These may be impossible to “Codify” and to “Score”, but it is submitted that companies ought to embrace TL as the best approach, whether governments put it in BBEE Codes or not.

Transformational Leadership styles are more intellectually stimulating, inspirational and charismatic. The latter have been found to be good TL styles (e.g. Avolio, Bass & Jung, 1999; Bass, 1997; Bass & Avolio, 1993). The necessary (behavioural) characteristics that enable transformation include the ability to:

- (a) Recognise the need for change and to persuade other key people in the organization to understand the seriousness of the need for change;
- (b) Manage the transition process by effectively diagnosing and addressing problem areas and dealing with people resisting the change and who find it hard to reject old beliefs and values and;
- (c) Create new vision and find ways to inspire people with this vision of a better future (Yukl (1994: 360).

The above intangible behaviours can still be encouraged and recognised in a BBBEE strategy. This can happen at Board level and at other company executive levels. Such recognition does not have to depend on government putting it on Codes or national policy scorecards. It should constitute part of a desirable culture of transforming organisations so that their cultures and systems become more empowering of employees in general and black people in particular. If the Codes and Scorecards recognise such moves, this would assist and the study would hope that the Codes would at least make a statement to encourage TL and its principles. Companies can then be expected to make their own efforts in this regard. The lack of reference to such an important element (in BBBEE national policy, including the Codes and Scorecards) would be regrettable. The TL approach should also result in the adoption of a particular paradigm or philosophy for organisational transformation. The Organisational Transformation (OT) philosophy is viewed as the one that is the most conducive to the implementation of BBBEE in an organisation.

#### **4. Organisational Transformation principles should underpin BBBEE**

The Transformational Leadership approach that has been recommended for BBBEE strategy ought to be complemented by an organisational transformation approach to BBBEE. An Organisational Transformation (OT) approach ensures that the BBBEE process is founded on solid principles and values and that it is an organisation-wide

process. It is therefore recommended that BBBEE strategy should be underpinned by OT principles. In fact, it is submitted that good Transformational Leadership (TL) would, in any event, be more inclined to implement BBBEE according to OT principles. TL should lead the BBBEE process (under the CEO and top management). This, in turn, should influence the adoption and implementation of an OT approach to BBBEE. The more an organisation is transformed, the better the quality of its approach to EE and SD should be, it is assumed. This can only hold if the true principles of TL and OT are espoused. Under the TL paradigm, a BBBEE vision would already have been developed. This should include a business case for BBBEE. The OT approach would then build on this vision and business case. The TL guidance would also create the empowering environment and climate that would facilitate the effective implementation of BBBEE as an OT strategy. Some of the factors that would distinguish an OT-based approach are summarised below.

An OT-based approach to BBBEE, would view the BBBEE transformation process as, “A transition between organizational states that differ substantially in crucial features such as strategy and structure” (Wischnevsky and Damanpour, 2006: 104). Changes in Management Control; EE and SD would then be means of bringing about such a transition. It is for this reason that the OT- based paradigm of BBBEE necessarily renders it a radical strategy. The BBBEE intervention should not be an endless, open-ended process. In fact, the OT approach should see it as a revolutionary change intervention, which has a specific purpose; including goals and objectives that have to be fulfilled within a specific period of time. In terms of OT theory then, the BBBEE strategy should be viewed as, “simultaneous major changes in key activity domains, such as strategy, structure and power distribution, which typically occur during a brief time interval” (based on Romanelli and Tushman, 1994). Isolated, piecemeal changes, over a long period of time, with no specific strategy, time-frames and goals would therefore not qualify as a BBBEE intervention, within an OT paradigm. The BBBEE regulatory environment, including BBBEE Charters; Codes; Scorecards and other government requirements (e.g. licensing and tenders) have provided the necessary environmental shifts and regulatory pressures that should encourage the adoption of a revolutionary approach to BBBEE. This would be in line with the “performance-gap” argument for OT interventions. Actual performance pressures increase the chances that firms will undertake organisational transformation

(e.g. Zajac & Kraatz, 1993; Webb & Dawson, 1991). These performance pressures can also be created by major “environmental shifts”, such as new technologies or regulatory changes (Rindova & Kotha, 2001). The pressure from Charter Councils; larger customers (and their BBEE/ tender requirements; the minister of labour; labour courts; professional bodies, etc.) is good for an Organisational Transformation approach to BBEE. Stakeholders should use such pressure to advance a radical BBEE agenda and this, in turn will speed up the attainment of the BBEE objectives. The OT literature recognises the role of these pressure points in general, and their presence in South Africa is good for BBEE. This has been referred to as “isomorphism” and it takes different forms. Isomorphism is described as, “a constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions” (DiMaggio & Powell, 1983: 149). Three specific forms of isomorphism are recognized. Coercive isomorphism (resulting from organizational and social pressures over dependent organizations that need resources and legitimacy); mimetic isomorphism (arising from adoption of responses utilized by successful organizations and/or by organisations that face conditions of high uncertainty and lack of clarity regarding goals, technologies and so on), and; normative isomorphism (resulting from pressures related to professional standards) (DiMaggio *et al*, 1983, cited in Wischnevsky *et al* (2006 : 109). The principles outlined above should help to guide the BBEE strategy process so as to ensure that the organizational transformation that results from BEE is not merely to “mimic” other companies in the same sectors (“mimetic isomorphism”), but that it is driven by a clear vision; clear strategies; goals and end result. The end result should be in relation to the purposes of the policy and regulation and in furtherance of each company/ organization’s competitive advantage; business success and “environmental fit”. This explains the critical role of OT as the overall organisational approach to BBEE. The principles of TL and OT should be combined to deliver a BBEE strategy; one that will lead to the attainment of HCD and economic growth.

## **Summary of the overall theoretical framework for BBBEE**

### **The BBBEE Theoretical Framework**

The theoretical framework for BBBEE that has just been discussed can be summarised in the following “thesis”:

1. Economic growth and economic development are good for the overall empowerment of all people, particularly black people in the wake of the subject matter of this study. On the other hand the empowerment of the black majority in South Africa (via BBBEE) is good for overall economic growth as well as development. This is so if the empowerment is backed by human capital.
2. Human capital development in particular is good for economic development and economic development, in turn, is good for human capital development (The complementarity hypothesis). In the South African context of racial inequalities in access to jobs; skills distribution and so on, investment in black people’s education; skills and opportunities is an essential component of human capital development.
3. The development of skills is important in the human capital investment scenario, as per above point. Such skills should be aligned to the overall macro-economic as well as sectoral demands. The investment in black people’s skills, in the South African context, is a critical element of economic growth; which in turn will have positive effect on the future demand for skills and so on (in an iterative, positive upward spiral).
4. Discrimination in the labour market needs to be eradicated. It is bad for long-run economic growth for a number of reasons. It constrains the development of people; deprives black people of the opportunity to apply their skills and hence to contribute to the development of their organisations; robs people of the opportunity to acquire assets; to invest and to be credit worthy and therefore re-creates poverty. The corollary is that equal opportunities and employment equity are good for the economic development of the country. Among others, employment equity aids the attainment of allocative efficiencies.
5. On their own, skills development; management control and all the other BBBEE targets are not sufficient conditions for the attainment of BBBEE. They can

become piecemeal and isolated “transactions” that are not integrated into the organisation. To be sustainable BBBEE requires a holistic and integrated Organisational Transformation approach. The principles of Organisational Transformation, when applied to BBBEE, entail the development of an overall strategy that is linked to the business strategy; the articulation of a long-term vision for BBBEE; the development of clear long-term goals for each element of BBBEE with targets and time-frames; the development of action plans for the implementation of the goals; the allocation of clear roles and responsibilities; the allocation of adequate resources and so on. BBBEE ought to be managed like other serious organisational interventions. It ought to transform the values and principles of the organisation. This is the difference between a transactional approach to BBBEE and a transformational approach. In the transformational approach, the company or organisation itself (its leadership style; business strategy in the South African context; policies; values; diversity; equity profile, etc.) are the target of transformation. In the transactional approach, ‘black people’ or some black community group or consortium are viewed as the target of transformation (they are accommodated in one way or another and are seen as ‘beneficiaries’). In the organisational transformation approach to BBBEE it is the company that should benefit from the BBBEE experience in the long run; not only the individual black people or the community/ consortium with whom the “deal” was ‘done’.

6. The transformational approach to BBBEE ought to be driven by a new and progressive paradigm of leadership (namely Transformational Leadership). The leadership of a transformation project ought to be transformed itself in its attitudes; values; principles and orientation. Otherwise one ends up with a transformed company with untransformed leaders if one only has organisational transformation or else one ends up with transformed leaders in a non-transformed organisation. The two must work together and reinforce each other for the good of BBBEE. Transformational Leadership should drive an OT-based approach to BBBEE.
7. All of the above elements can be viewed as part of some big “BBBEE Mill”, in which they are all linked and the mill illustrates the connection, including the key drivers behind BBBEE. This is in view of the ‘complex equality’ that BBBEE is, as alluded in the literature review. In turn this ‘model’ is summarized

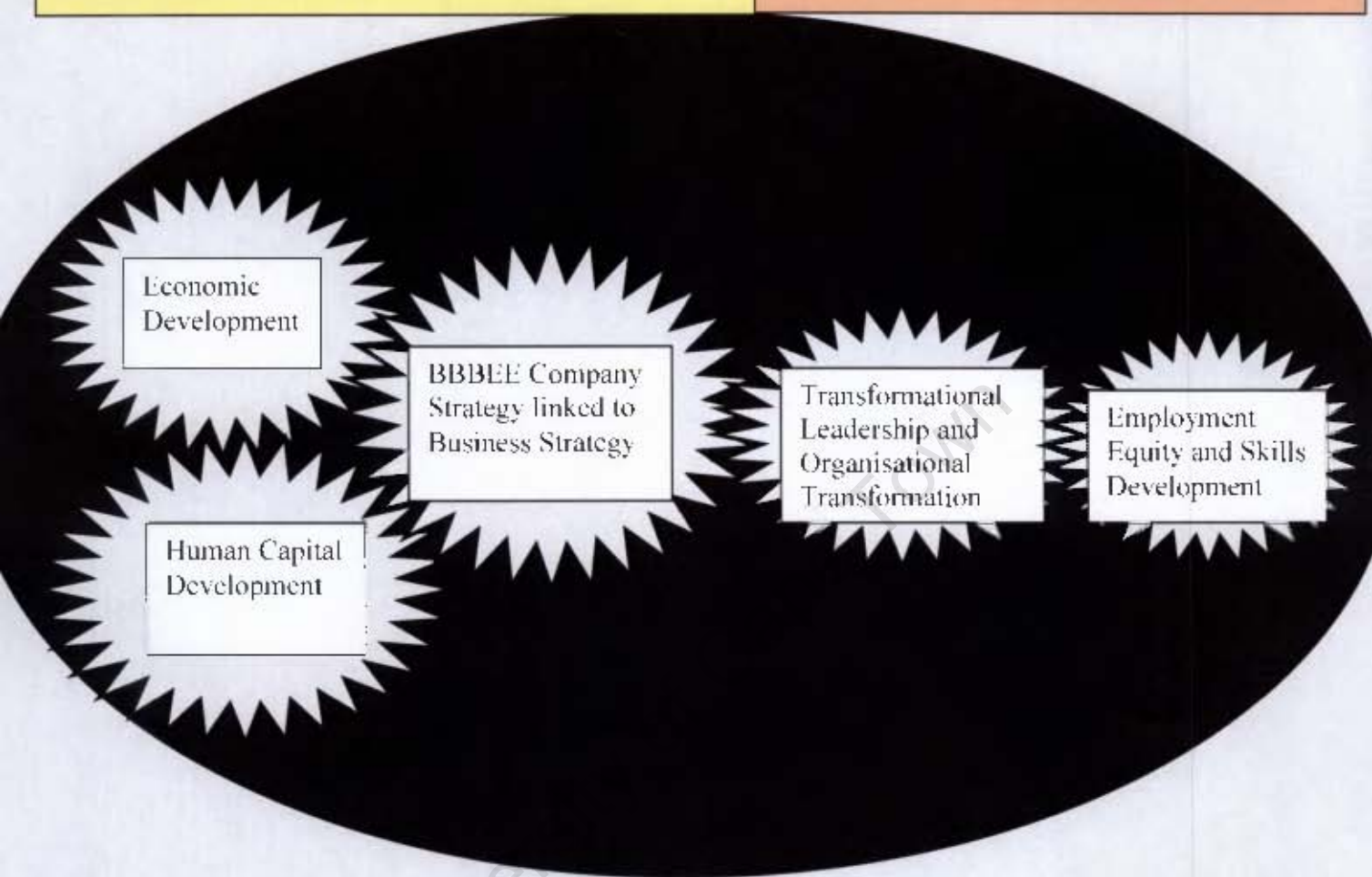
graphically overleaf. It is the complexity of the equality that BBBEE is that can lead to perceptions that it is some juggernaut designed by the ANC to gobble up the economy. This, of course, would be the uninformed view; which can be easily dispelled by a closer look at the framework overleaf. The largest components (drivers) of 'the BBBEE mill' are economic development; working in tandem with Human Capital Development. These two should drive the BBBEE strategy of the company. This sums up the theoretical framework for a human-capital driven BBBEE, which is also linked to overall economic development. BBBEE is therefore one of the drivers of growth.

University of Cape Town

## BBBEE Theoretical Framework

MACRO-LEVEL (SOCIO-ECONOMIC POLICY LEVEL)

MICRO-/ ORGANISATIONALAL- LEVEL



### TRANSACTION-DRIVEN BBBEE APPROACH *VERSUS* TRANSFORMATION-DRIVEN APPROACH

Loyiso M. Mbabane (UCT GSB, 2007)

The foregoing concludes the theoretical component of the thesis, particularly the conceptual framework which, it is submitted, ought to guide the approach to BBBEE. These concepts are revisited again in the analysis of the results. They are particularly invoked during the discussion of the results, where recommendations are made. What remains now is the fieldwork on the subject matter. The next section deals with the research methodology. Firstly the theory around research and research methods is covered. The section ends with the discussion of the specific research methods that were employed in the study.

## CHAPTER 3

### RESEARCH METHODOLOGY

#### **Definition of “research method”**

“When people speak of research methods, they are referring to processes and instruments used for gathering information” (Thomas 2003: 57). With specific reference to “empowerment” research methodology, Narayan (2005:25) cautions that “no one method is always superior; methods must be matched to the questions of interest and must be credible to the end users; often policy makers”. She goes on to advise that it is important to distinguish between methods and tools of data collection (Narayan 2005). Narayan (2005:25) asserts that “in most situations a mix of data collection tools provides a more reliable and complete picture of the phenomenon under study, as the tools balance out each other’s weaknesses”. The traditional approach to research methods divides research methods, generally into two main (broad) categories (viz. qualitative research methods and/or quantitative methods) (Thomas, 2004; Saunders, Lewis & Thorndill (eds) (2003); Yin, 1994; Miles & Hubberman, 1994; Silverman, 1993; Bryman, 1998; Robson, 2002; Glaser & Strauss, 1967; Sparrow, 1989; Silverman, 2000; Mason, 2002; Leedy & Ormond, 2005; Eisner, 1998; Moss, 1996; Wolcott, 1994; Schram, 2003; Cresswell, 1998; Cooper & Schindler, 1998). More recently the above general and traditional dichotomization has been challenged. More and more calls have been made for a “blending” of qualitative and quantitative methods or some integration or combination of various methods (e.g. Thomas, 2003; Titscher, Meyer, Wodak & Vetter (Eds) 2000; Narayan, 2005; Rao & Woolcock, 2005). For this reason, this study uses a ‘mixed research methods’ approach that attempts some ‘triangulation’ (Bryman & Bell, 2007).

With reference to the broad and traditional quantitative versus qualitative dichotomy for the time being, a brief overview of the strength and weaknesses of each may be apposite. Cooper and Schindler (1998) explain circumstances under which the qualitative approach is the most appropriate. They aver that, “Where you are undertaking an exploratory study or a study that includes an exploratory element; it is

likely that you will include qualitative research interviews in your approach” (Cooper *et al*; 1998:250). Cooper *et al* (1998) recommend the adoption of a qualitative approach when it is necessary to understand the reasons for the decisions that the research participants have taken or to understand the reasons for their attitudes or opinions. Mason (2002) also approaches “qualitative research methodology” along the same lines as Cooper *et al* (2002). Mason (2002) adds the flexibility dimension to the “exploratory” and “understanding of reasons behind” criteria that Copper *et al* (1998) allude to. Mason (2002:24) asserts that: “Qualitative research is characteristically exploratory; fluid and flexible, data-driven and content-sensitive.” According to Copper *et al* (2002) in qualitative research, decisions about design and strategy are ongoing and are grounded in the practice, process and context of the research itself. Leedy and Ormond (2005) warn against a simplistic characterisation of “qualitative research”. Leedy *et al* (2005:133) warn that, “The term qualitative research encompasses several approaches to research that are, in some respects, quite different from one another.” Leedy *et al* (2005) point out however that “all qualitative approaches have two things in common; they focus on phenomena that occur in natural settings – in the ‘real world’ and they involve studying those phenomena in all their complexity”.

Lastly, Thomas (2003) introduces another useful dimension in the characterisation of qualitative research (viz. the distinction between measurements or amounts and ‘kinds of characteristics’). “Qualitative methods involve a research describing kinds of characteristics of people and events without comparing events in terms of measurement or amounts” (Thomas 2003:1). Quantitative methods, according to Thomas’ (2003:1), “focus attention on measurements and amounts (more or less; larger and smaller; often and seldom; similar and different) of the characteristics displayed by the people and events that the research studies.” Of significance also is Thomas’ (2003) caveat that “researchers are not of the same mind in defining qualitative and quantitative methods”. Silverman (1993) also offers a useful summary of the distinction between qualitative and quantitative data. A brief review is conducted overleaf of this “categorisation.”

Whilst offering a useful tabulation of the main differences between the qualitative and quantitative approaches, Silverman (1993: 378) also adds to warnings against a

simplistic bipolarisation. In this regard he cautions that, attempts to define the distinctiveness of qualitative research and therefore the way in which it can be distinguished from quantitative research can be problematic. Silverman (2000:11) views the qualitative versus quantitative dichotomy as ‘highly dangerous’. Silverman (2000:11) points out that, “the fact that simple quantitative measures are a feature of some good qualitative research shows that the whole ‘qualitative/quantitative’ dichotomy is open to question”. Nevertheless, Silverman (1993) offers a useful tabulation of the main differences between qualitative and quantitative research data. These are summarised in the table below:

**DISTINCTION BETWEEN QUALITATIVE AND QUANTITATIVE DATA**

<b>QUANTITATIVE DATA</b>	<b>QUALITATIVE DATA</b>
Based on measuring derived from numbers.	Based on measuring expressed through words.
The collection results in numerical and standardised data.	The collection results in non-standardised data requiring classification into categories.
Analysis conducted through the use of diagrams and statistics.	Analysis conducted through the use of conceptualisation.

Source: Silverman, 1993; pg.378 (Table 12.1)

**Combination of qualitative and quantitative methods**

Rao and Woolcock (2005) recommend the integration of qualitative and quantitative approaches in the measurement of empowerment. They point out, in this regard, that, “Integrating qualitative and quantitative approaches in the measurement of empowerment can help yield insights that neither approach would produce on its own.” (Rao *et al.*, 2005:285). With reference to the empowerment of poor people, Rao *et al* (2005) advise that researchers should recognise that both quantitative and qualitative methods have some important limitations when used in isolation and that

some of these can be overcome by incorporating complimentary approaches. Rao *et al* (2005) offer three ways in which qualitative and quantitative methods can be integrated. These are parallel; sequential and iterative (Rao *et al* 2005:291). In parallel approaches, the quantitative and qualitative research teams work separately but compare and combine findings (during the analysis phase). Rao *et al* (2005) note that parallel approaches are best suited for “very large projects” (e.g. national level poverty assessments) (Rao *et al*, 2005:291). Sequential and iterative approaches (also referred to as “participatory econometrics”) “seek varying degrees of dialogue between the quantitative and qualitative traditions at all phases of the research cycle and are best suited to projects of small scale and scope” (Rao *et al*, 2005:292). While the present study adopts a qualitative approach, as adumbrated earlier, some elements of the “iterative approaches” that are proposed by Rao *et al* (2005) are worth noting.

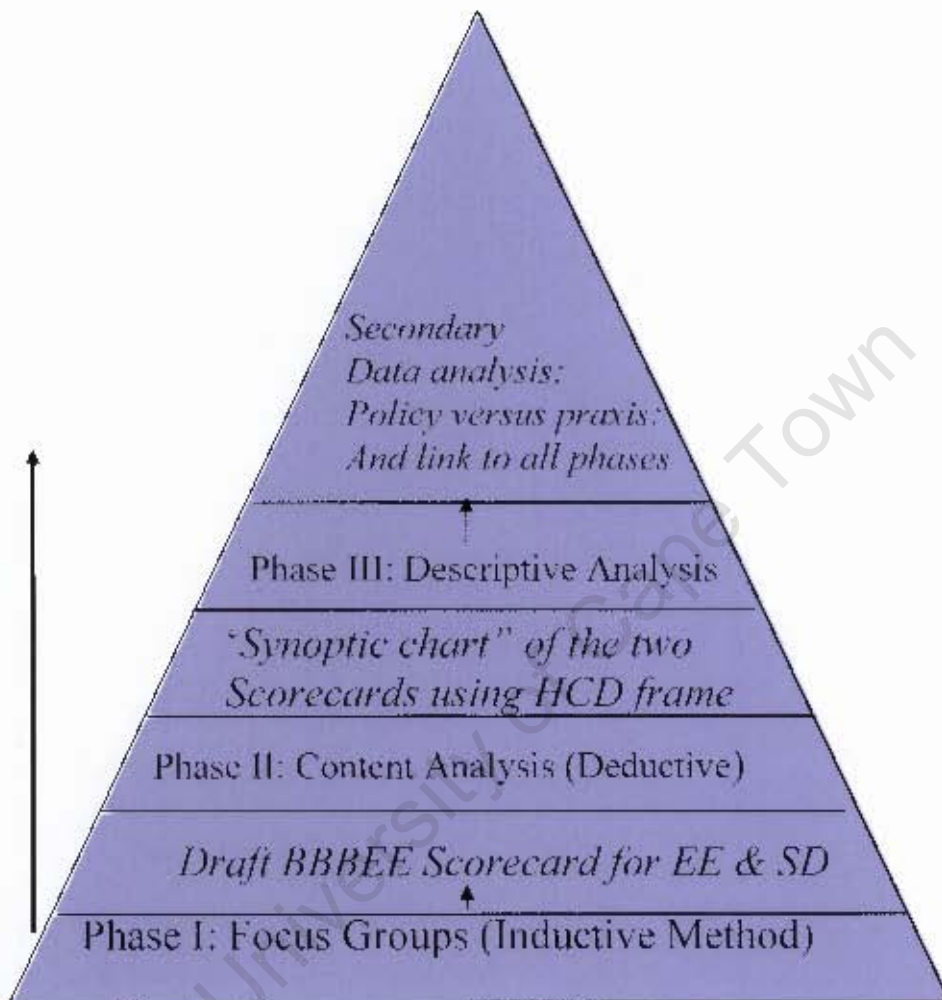
Before we get into the discussion of the approach adopted in this study a final word on the importance of a “combination approach” is necessary. The World Bank’s Narayan (2005) issues three important warnings in connection with this debate. She warns that first, no one method is always superior, methods must be matched to the questions of interest and must be credible to the end users, often policy makers (Narayan, 2005:25). Secondly she advises that it is important to distinguish between methods and tools of data collection. Thirdly, Narayan (2005) asserts that in most situations a mix of data collection tools provides a more reliable and complete picture of the phenomenon under study, as the tools balance out each other’s weaknesses. It can be concluded therefore that there should be no rigidity as far as the divide between qualitative and quantitative is concerned. There is merit in the use of both techniques in various forms and combinations. It is for this reason that this study makes use of three different approaches. The first two are clearly qualitative (focus groups and content analysis). The last one, “descriptive statistics” has a strong quantitative element. The three methods can be viewed as three phases of a cycle that commences with the formulation of the draft Codes of 2005. This is then followed by a critical and independent review of these Codes, focusing on the final Codes of 2007; via the use of content analysis. Finally, the last phase is the examination of practice or application of the Codes by employers.

## **Approach adopted in this study**

The study uses a three-phased approach with three different methods (it therefore utilizes a “mixed methods research” approach, which can also be viewed as some sort of triangulation, as explained below). Use is made of the inductive and qualitative focus group method, for the first phase. Then the deductive content analysis method is used for the second phase. Lastly use is made of descriptive analysis, using secondary data. The last method has some quantitative elements in the form of descriptive statistics (tabulation of data into tables; calculation of percentages; frequency distributions and so on; which are later summarised in graphs and histograms) (see Zikmund, 1997; Bless & Kathuria, 1993). As such the study can be said to have made use of “mixed methods research” (Bryman and Bell, 2007: 642). Bryman *et al* (2007) explain that “mixed methods research” is a more appropriate term than “multi-strategy research” to describe investigations combining quantitative and qualitative research. ‘Mixed methods research’, “has increasingly become the preferred term and in many ways better expresses the fact that in many cases, using both quantitative and qualitative research should involve a mixing of the research methods involved and not just using them in tandem” (Bryman *et al*, 2007: 642). The latter note that the quantitative and the qualitative data deriving from mixed methods research should be mutually illuminating (with reference to Bryman 2006a and Bryman 2006b). The concept of “mixed methods research” is closely linked to the notion of triangulation. “Triangulation entails using more than one method or source of data in the study of social phenomena” (Bryman *et al*, 2007: 412). According to Bryman *et al* (2007: 413); the triangulation metaphor was originally conceptualized by Webb, Campbell, Schwartz & Sechrest (1966); as an approach to the development of measures of concepts, whereby more than one method would be employed in the development of measures, resulting in greater confidence in the findings. As such, triangulation was very much associated with a quantitative research strategy (Bryman *et al*, 2007). Bryman *et al* (2007: 413) point out; however, that triangulation can also take place within a qualitative strategy. They also note that triangulation is increasingly being used to refer to a process of cross-checking findings derived from both quantitative and qualitative research. The approach can be summarised in the model overleaf.

Illustration of the mixed methods research approach / triangulation used:

**'TRIANGLE OF TRIANGULATION'**



During the first phase, a qualitative approach is adopted to develop the draft Codes for Employment Equity; Skills Development and Organisational Transformation. This is done in association with the national Department of Trade and Industry. During this phase the researcher is involved in the primary generation of ideas and constructs which later constitute the Draft Code for Employment Equity; Skills Development and Organisational Transformation (Department of Trade & Industry, 2005). During the second phase of the research, the researcher uses the content analysis method, particularly documentation analysis, to review the final Code and Scorecard of 2007 (for Management Control; Employment Equity and Skills Development). The final Codes and Scorecards are compared to the Draft Codes and Scorecards of 2005, using the human capital development framework as the yardstick. The last phase of the research makes use of descriptive analysis. In this phase data from various Annual Reports of the Commission for Employment Equity (e.g. 2005 and 2007) are analysed to determine the nature and extent of compliance with skills development; management control and employment equity by employers. This phase therefore utilizes descriptive analysis, using secondary data. Use is also made of frequency distributions; percentages; graphs and histograms to present the data from this phase. The phases above and their corresponding methods are discussed in detail in the section below. The section seeks to provide an overall theoretical review of the literature behind each method and the appropriateness of the method for this study. Later, during the analysis, each of the methods is applied to the field work. This is done in line with the three propositions that are discussed later in this section.

This study is exploratory in nature. As such it lends itself more to the “qualitative” rather than the quantitative side (see Cooper *et al.*, 1998; Mason, 2002). It is exploratory in the sense that the research involves the original and pioneering development of a Scorecard for Employment Equity (EE); Skills Development (SD) and Organisational Transformation (OT) at the national level. This has not been done before anywhere else and there is no research or study that has been conducted on this before. The study itself is part of the process of the development of such a Broad Based Black Economic Empowerment (BBBEE Scorecard). The development of a draft Scorecard for Broad Based Black Economic Empowerment (BBBEE), focusing on the three areas (EE; SD and OT) necessitates an understanding of the opinions and recommendations of subject matter experts (or expert informants); policy-makers and

key stakeholders. Qualitative research is ideal for situations where reasons behind decisions and opinions are needed (Cooper *et al*, 1998). The approach required flexibility in the initial construction of the themes and the key elements of the draft scorecard. Flexibility is one of the criteria that characterise “qualitative methods” (Mason, 2002). In such research, “decisions are ongoing and they are grounded in the practice process and the context of the research itself (Mason, 2002: 24). The study also complies with Leedy and Ormond’s (2005) criteria for qualitative research. These are that the approach should involve the study of phenomena that occur in natural or “real world settings”, and that these phenomena should be studied in all their complexity. Lastly, the study also lends itself more to the qualitative approach in terms of Silverman’s (1993) criteria. These include meanings expressed through words as well as the use of conceptualisation. The elements of the BBBEE Scorecard (EE; SD and OT) are all expressed through words (even though each has got some recommended weightings and targets). The main elements (e.g. “Skills Development Spend”; “Black women in senior management”; “Existence of BBBEE strategy at board level”, etc), are expressed in words, which would be in line with Silverman (1993). The recommendations that will be analysed in the research analysis will also be expressed through words. In line with Silverman’s (1993) other criterion, much “conceptualisation” also went into the choice of Scorecard elements and the finalisation of BBBEE Scorecards for the three components. It must however be noted that the choice of one particular approach is not mutually exclusive and the advice about flexibility in approaches and the caution against the creation of rigid walls between qualitative and quantitative methods needs to be heeded (Thomas, 2003; Narayan, 2005; Rao & Woolcock, 2005). It is for this reason that some basic quantitative analyses of tables and graphs are conducted in the last section of the research. This is in line with the complementarity argument that Rao *et al* (2005) espouse, between qualitative and quantitative indicators. The next section explores the qualitative approach; which was Phase One of the field work.

## **PHASE ONE: PRIMARY DATA ANALYSIS- FOCUS GROUPS**

### **The qualitative approach**

Saunders, Lewis and Thornhill (2003) issue an important warning to researchers that use the qualitative approach in the analysis of their data. They caution that, “the analysis of qualitative data involves a demanding process and should not be seen as an easy option” (Saunders *et al*, 2003: 379). Furthermore Saunders *et al* (2003: 379), aver that, “there is not a standardized approach to the analysis of qualitative data”. They note that there are many qualitative research traditions with the result that there are also different strategies to deal with the data collected (Saunders *et al*, 2003).

There are several ways of categorising research methods, these include how they are structured and whether they are inductive or deductive (Saunders *et al*, 2003). Some approaches may be highly structured whereas other approaches adopt a much lower level of structure. On the other hand, some approaches may be formalised (in their data analysis) and “proceduralised”, whereas others rely much more on the researchers’ interpretation (Saunders *et al*, 2003). Some approaches begin deductively, while others begin inductively. According to Saunders *et al* (2003) highly structured and formalised approaches are associated with some analytical strategies that commence deductively. Strategies that have lower levels of structure and that rely more on the researcher’s interpretation commence inductively, without predetermined or *a priori* categories and codes. Highly structured and formalised approaches commence deductively, as noted above, and the data categories and codes to analyse data are derived from theory and from a predetermined analytical framework (Saunders *et al*, 2003: 379).

A further elaboration of the above approaches is necessary. Below follows a brief elucidation of the difference between deductive and inductive approaches. This is followed by a discussion of the preferred methodology for the study. A deductive approach generally uses existing theory to shape the research method, whereas an inductive approach starts with the data (Yin, 1994). Yin (1994) explains that where the researcher has made use of existing theory to formulate their research question and objectives, they may also use the theoretical propositions that helped them to do

this as a means to devise a framework to help them organise and direct their data analysis.

The inductive approach involves the initial collection of data and their exploration to see which themes or issues need follow up and which ones require concentration on (Yin, 1994). The inductive approach has however been critiqued on a number of challenges that it poses. Yin (1994) for instance cautions about the difficulty of the inductive strategy. He warns that to use an inductive approach successfully may involve a lengthy period of time and it may prove to be resource-intensive.

Proponents of the inductive approach, on the other hand, point out to the potential limitations of the deductive approach. Bryman (1998: 81), for example, argues that, “the prior specification of a theory tends to be disfavoured because of the possibility of introducing a premature closure on the issues to be investigated as well as the possibility of theoretical constructs departing excessively from the views of participants in a social setting”. Saunders *et al* (2003) then recommend a mixture of approaches. They point out that, “even though you may incorporate an inductive approach, commencing your work from a theoretical perspective may have certain advantages; ... it will link your research into the existing body of knowledge in your subject area, help you get started and provide you with an initial analytical framework” (Saunders *et al*, 2003: 389).

There are researchers who caution against a simplistic separation between deductive and inductive approaches. Rao and Woolcock (2005), for instance, call for an “iterative approach”. Other researchers propose a combination of the two approaches. Saunders *et al* (2003: 389) argue that, “even though you may incorporate an inductive approach, commencing your work from a theoretical perspective may have certain advantages. It will link your research into the existing body of knowledge in your subject area, help you to get started and provide you with an initial analytical framework”. Accordingly, this study will combine some elements of the deductive approach as well as the inductive approach. In line with the advice from Saunders *et al* (2005), the initial framework will be developed using “deductively-based analytical strategies”. The sub-section below will consider qualitative research methods in more detail.

The advice given by Marshall and Rosman (1999) is considered apposite at this juncture. Marshall *et al* (1999) assert that the use of a qualitative approach should not lead to a lack of rigour in relation to the process- if anything, they assert, greater rigour is required to overcome the views of those who may be wedded to the value of quantitative research to the exclusion of any other approach. Thomas (2003) offers a useful overview of the main methods of qualitative research. He singles out three methods, viz.; interviews, observations and content analysis. A brief discussion of these is conducted below. The section below explores various types of interviews. It commences by utilising the circumstances under which qualitative interviews are appropriate. It then reviews the various types of interviews. Finally “group interviews” are discussed. Thereafter a more detailed outline that is adopted in this study is conducted. It ought to be borne in mind that the focus group approach, which is used in Phase One of the research, is actually a type of an interview; albeit in group format. The following discussion (interviews) is therefore also applicable to focus groups.

## **Interviews**

The “interview method” refers to “techniques that are used to gather information (from talking with informants)” (Thomas, 2003: 2). Leedy and Ormond (2005: 146) state that interviews in a qualitative study are rarely as structured as the interviews conducted in a quantitative study. They point out that instead they are either open-ended or semi-structured, in the latter case evolving around a few central questions (Leedy *et al*, 2005: 146). This study makes use of qualitative group interviews in the development of a Broad Based Black Economic Empowerment (BBEE) Scorecard for Skills Development, Employment Equity; and Organisational Transformation. Accordingly the appropriateness of “qualitative interviews” is considered below. It is important to note that the “focus group” method is essentially a form of “group interview”. As such the general principles of conducting an interview apply to it. Cooper and Schindler (1998: 250) explain that, “Where you are undertaking an exploratory study or a study that includes an exploratory element; it is likely that you will include qualitative research interviews in your approach”. This assertion is consistent with the advice provided earlier regarding the appropriateness of a qualitative approach in general, with regard to exploratory research. It was

consequently pointed out above that this study is of an exploratory nature and the appropriateness of a more qualitative approach was justified on these grounds. Cooper *et al* (2005) then recommend the use of “qualitative interviews” on the same grounds as the use of a “qualitative approach” was made. Qualitative interviews are used essentially where it is necessary to understand the reasons for the decisions that the “research participants” have taken, or to understand the reasons for their attitudes and opinions (Saunders *et al*, 2003). Qualitative interviews therefore present a better prospect for use in the empirical component of this study. Qualitative interviews can in turn be divided into structured, semi-structured and unstructured (Saunders *et al*, 2003). In structured interviews questionnaires are used, based on a predetermined and standardized or identical set of questions. Semi-structured or unstructured interviews, on the other hand are non-standardized (Saunders *et al*, 2003: 246). Saunders *et al* (2003) note that in semi-structured interviews the researcher will have a list of themes and questions to be covered. Unstructured interviews, on the contrary, are informal and they are used to explore in depth the general area of interest. For the above reasons, unstructured interviews are referred to as “in-depth interviews” (Saunders *et al*, 2003: 247). This is because, “there is no pre-determined list of questions to work through although you need to have a clear idea about the aspect or aspects that you want to explore” (Saunders *et al*, 2003: 247). The unstructured interview is also viewed as “non-directive” and it has also been labelled an “informant interview”. This is because the interviewee is given the opportunity to talk freely about the phenomenon under investigation and the interviewee’s perceptions guide the interview (Saunders *et al*, 2003: 247). The latter is in contrast to the “respondent interview”, where the interviewer directs the interview and the interviewee responds to the questions of the research (Easterby-Smith; Thorpe & Lowe, 2002; Ghaun & Gronlaung, 2002; Healy & Rawlison, 1994; Robson, 2002) (all cited in Saunders *et al*, 2003: 247). Interviews can also be characterised by type. The two most common types are one-to-one and one-to-many (or “group”) interviews (Saunders, *et al*, 2003). One-to-one interviews and one-to-many may, in turn be structured; semi-structured or unstructured, as the case may be. This discussion then leads us to the approach that is adopted in this study as far as the form of data gathering and the rationale thereof. In the study semi-structured and in-depth, group interviews were used. In line with earlier justification for the use of a qualitative approach, in general, the above method was considered to be the most appropriate. Specifically, semi-structured and in-depth,

or non-standardised interviews are used in qualitative research in order to conduct discussions not only to reveal and understand the “what” and the “how” but also to place more emphasis on exploring the why (Saunders *et al* 2003:249). Other good characteristics of “semi-structured” and “in-depth” interviews are that they “provide you with the opportunity to probe answers, where you want your interviewees to explain or build on their responses” (Saunders *et al* 2003:250). Saunders *et al* (2003) view this prospect for probing as a good thing in the sense that it may also lead the discussion into areas that the researcher had not previously considered but which are significant for their understanding, and which help the researchers to address their research question and objectives. “The result should be that you are able to collect a rich and detailed set of data.” (Saunders *et al* 2003:250). The “group interview” as a “form of interview” warrants some further elaboration. Interviewing people in a group has its own dynamics that are very different from conducting interviews (with the same people) on a one-to-one basis.

## **PHASE ONE: THE FOCUS GROUP SESSIONS**

### **The focus group method**

Leedy and Ormond (2005:146) explain the focus group method thus:

To conduct a focus group, the researcher gathers several people (usually not more than 10 or 12) to discuss a particular issue for one to two hours. A moderator (who may not be the researcher) introduces the issues to be discussed, makes sure no one dominates the discussion, and keeps people focussed on the topic.

According to Leedy *et al* (2005:146) focus groups are especially useful when:

- Time is limited;
- People feel more comfortable talking in a group than alone;
- Interaction among participants may be more informative than individually conducted interviews;
- The researcher is having difficulty interpreting what he or she has observed.

(See also, Cresswell, 1998 and Leedy & Ormond, 2005).

The term “focus group” is sometimes loosely used to refer to “group interviews” (Saunders *et al*, 2003). More strictly speaking however, the term applies, “where group interviews are being used for a specific purpose”. Saunders *et al* (2003) point out that in the latter case a higher level of interviewer-led structure and intervention can be expected. It ought to be pointed out that the principles that were covered above, with respect to the various interviews, apply to most focus group approaches. In other words, “focus groups” are interviews with groups of people. It is the “group dynamics” element that is additional in a focus group session.

### **Constitution of the focus groups in this study and the rationale thereof**

In order to draw up the Draft Balanced Scorecard for Skills Development; Employment Equity; and Organisational Transformation, a Focus Group was established. Members of the group were chosen on the basis of their direct involvement in policy development and implementation in the areas concerned. It was a “technical” group of experts in the policy formulation and implementation of

Employment Equity and Skills Development. It is important to emphasize the point that the main reason behind the constitution of the Focus Groups was to generate an official BBBEE Scorecard for Employment Equity and Skills Development. The political debate and trade union bargaining (if any) around the scorecard would be a separate process which the researcher was not involved in (it did not constitute part of the study). The members of the focus groups were therefore chosen on the basis of their direct involvement in the formulation and implementation of policy on employment equity and skills development as well as on Black Economic Empowerment in general. In a sense, it was an “expert informant’s group”, from the national policy point of view. Employment Equity and Skills Development fall under the jurisdiction of the Department of Labour (in the South African National Government.) The drafting and finalisation of BBBEE codes falls under the Department of Trade and Industry (national government). Members of the Focus Group were therefore directors; deputy directors and chief directors from the Department of Trade and Industry as well as the Department of Labour (see table overleaf). The Focus Group was put together at the recommendation of the researcher. From the Department of Trade and Industry (the main custodians of BBBEE Codes) it constituted of the then Acting Chief Director for BEE (Ms Polo Radebe). Her two Deputy Directors also constituted part of the Reference Group (although the two would mostly alternate in attending the sessions). The Department of Labour had senior officials from the Employment Equity (EE) Directorate as well as the Skills Development Directorate. The Director of EE (Mr Vangeli) was a member of the Focus Group, together with one Deputy and one Assistant Director- for Employment Equity. The Skills Development Director (from the Department of Labour) (Dr Vosloo); also participated with one of his deputies. The main Focus Group held three sessions of half a day each (four hours) over a three month period (between April and June 2005). The group was then joined by some representatives from professional bodies and non-governmental organisations for the third session. These representatives came from organisations that deal directly with issues related to Organisational Transformation and empowerment (e.g. the Black Management Forum); Human Resource Development (e.g. South African Board of Personnel Practitioners) and Skills Development (Sector Education and Training Authorities). The Focus Group’s membership (constitution) is summarised in the table below.

<b>FOCUS GROUP MEMBERSHIP/ PARTICIPANT BREAKDOWN</b>
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Department	Participants
Trade and Industry	<ul style="list-style-type: none"> <li>• Acting Chief Director – BBBEE Policy</li> <li>• Deputy Director – BBBEE Policy</li> <li>• Assistant Director – BBBEE Policy</li> </ul>
Labour	<ul style="list-style-type: none"> <li>• Director – EE Division (DOL)</li> <li>• Deputy Director – EE Division</li> <li>• Assistant Director – EE Division</li>   <li>• Director – Skills Development Division</li> <li>• Deputy Director – Skills Division</li> </ul>
Professional bodies	<ul style="list-style-type: none"> <li>• Black Management Forum (BMF)</li> <li>• SA Board of Personnel Practitioners</li> <li>• Sector Education and Training Authorities (SETA's):</li> </ul>

The above group and its constitution is in line with the general guidelines for the constitution of such groups (Saunders *et al*, 2003). It is important to note that the core members of the Focus Group remained the same throughout in order to maintain consistency as the various versions of the Draft Scorecard were debated and finalised. Saunders *et al* (2003:271) note that, “typically a group interview may range from about four to eight participants or perhaps even ten depending on the envisaged level of complexity that is likely to arise from the use of this means.” The Focus Groups consisted of between eight and ten members, with at least six of these members remaining the same during the course of the three months (from April to June 2005).

The use of the Acting Chief Director as the moderator, instead of the researcher is also sanctioned by Leedy & Ormond, (2005). They note that, “to conduct a focus group the researcher gathers several people (usually not more than ten or twelve) to discuss a particular issue for one or two hours. A moderator who may not be the researcher introduces the issues to be discussed, makes sure no one dominates the discussion and keeps people focused on the topic” (Leedy *et al*, 2005:146). It was also necessary to use the Chief Director as the moderator so that the researcher could focus on noting the main suggestions; themes and recommendations as they emerged. The framework for the initial and subsequent discussions, including the themes as

they evolved was always provided by the researcher. The framework was based on the deductive approach to research, as adumbrated by Yin (1994) above. The group itself consisted of senior government officials (from Assistant Director to Chief Director) who were experts in the policy and issues under discussion. It was therefore a group of “expert informants”. The group identified the key issues that should go into a Scorecard for BBBEE, based on their expertise and experience, under the facilitation of the researcher. This was the “inductive” part of the research. The BBBEE policy framework on the generic BBBEE Policy and Codes (DTI, 2003) were used as the starting point of the discussion. The basic framework was therefore the existing policy and Draft Codes that were released by the Department of Trade and Industry in 2003.

<b>SUMMARY OF FOCUS GROUP SESSIONS (Participants and dates)</b>
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<b>Session</b>	<b>Date</b>	<b>Place</b>
1. Initial meeting to finalise the approach and members of the Reference Group	April 2005	Pretoria (DTI campus)
2. First Focus Group (FG) meeting	May 2005	Pretoria
3. Second FG meeting	June 2005	Pretoria
4. Third FG meeting, including BMF; SA Board of Personnel Practitioners and two SETA representatives	June 2005	Pretoria
5. Meetings with DTI and special team of other consultants/ researchers who were working on other Codes (cross-Scorecard verification; standardisation and alignment).	July & August 2005	Pretoria

## Sample

As mentioned above, Phase One made use of the 'group interview' method, specifically the focus group. As per literature on focus groups, covered above, these were used to conceptualise the Draft Codes on Skills Development; Employment Equity and Organisational Transformation from scratch, using the original or "generic scorecard" as the basis. Focus groups, as the literature has shown, are most appropriate when the researcher seeks to explore new themes; important constructs and to arrive at recommendations (e.g. Leedy *et al.*, 2005; Saunders *et al.*, 2003.)

The participants served as "expert informants" and the core group consisted of senior officials (Deputy Director, up to Chief Director) from the Units that were responsible for the various components of the Codes. The Department of Labour was represented by a Deputy Director and a Director from the Skills Development Division and by an Assistant Director; Deputy Director and Director from the Employment Equity Division, respectively. The Department of Trade and Industry was represented by a Deputy Director (at times alternating with another Deputy Director) and the Acting Chief Director from the BEE Division. The national Department of Education also sent a Director to one of the three sessions. Unfortunately this Department could not secure continuous representation or membership of the focus group, but they were able to make an input at one of the major sessions. At the last session (in June 2005) some professional organisations that deal with Skills Development; Employment Equity and Organisational Transformation were invited to join the focus group. The Black Management Forum sent a representative from the Johannesburg branch. Two Sector Education and Training Authorities (SETAs) also sent representatives. The South African Board of Personnel Practitioners also sent two senior representatives. This last session provided an excellent opportunity to bounce off the draft elements of the scorecard and to obtain feedback from key stakeholders. Unfortunately the process could not be opened up to the wider public due to the sensitivity of the process of developing new Codes; new targets and concerns about the possibility of a premature leak of the proposals to the public. The public was later given an opportunity to comment on the Draft once it had been finalised (the Drafts were officially released in December 2005 for public comment. The public was given until the end of March 2006 to make inputs).

## **Primary data analysis (Phase One)**

“Empowerment of the poor and other disadvantaged groups – the less educated, rural, women and members of certain ethnic groups – can be measured in part through data collected by government and donor agencies.”

Rao & Woolcock (2005)

There are two main sources of data in research viz., primary data and secondary data (Thomas, 2004:190). “Primary data have been constructed by the researcher in the context of his or her own research project. Secondary data have been constructed by others” (Thomas 2004:190). The Focus Group (referred to above) was used as the main source of generating the primary data. The initial meeting took place in April 2005. The researcher had recommended that the Department of Trade and Industry (DTI) should help facilitate the convening of Focus Group, in the manner described in the sample section. The membership of this group was recommended by the researcher, based on the person’s direct involvement with the two main element of BBBEE in question (Employment Equity, which includes elements of Management Control) and Skills Development (which included the Organisational Transformation Index). The Focus Group was not a bargaining forum or a broad consultation forum. Its purpose was to look into the technical aspects of employment equity and skills development and how these could be captured in a Code of Good Practice for BBBEE. For this reason its membership was confined to senior policy officials from the Department of Labour (EE and SD) as well as Trade and Industry (BBBEE).

This group met two times in a closed session (during May and June). In July the session was opened to some select professional groups who gave valuable feedback and validation. The original or generic scorecard was used as the basis for the initial discussions. The focus group developed the initial Draft Scorecards using the members’ expertise and policy development areas (e.g. the Department of Labour’s Skills Development Unit made specific input on what should go into the Skills Development Scorecard, based on their direct and immediate experience with Skills legislation, policy and enforcement). The group as a whole would then debate the inputs, which the researcher would have categorised and formatted in between the sessions, using the ‘generic scorecard’ as the main framework. The respective

legislation and policy documents would be consulted by the respective “informants” as they made their inputs. The main issues that came out of the focus group discussions are summarised in the table (see Analysis section).

### **Reliability, bias and validity**

Reliability, in relation to qualitative research is “concerned with whether alternative researchers would reveal similar information” (Easterby-Smith, Thorpe & Lowe, 2002; Healy and Rawlison, 1994). Lack of standardization may lead to concerns about reliability (Saunders *et al*, 2003). The approach adopted in this study however minimised any such concerns. Firstly the primary data was generated from “subject-matter experts” or “expert informants” over a three month period, involving three closed focus group sessions (of three to four hours each). The outcome of each session was documented and circulated to members of the group a few days (less than a week) after each session. Each member of the group was encouraged to review the outcome and to verify its reliability, in relation to the proceedings of the session in question. This verification process went on until the final session. Members of the focus groups therefore had the opportunity to validate the outcome and to make whatever corrections; additions or amendments were necessary. This ensured reliability of the final product. The fourth session opened up the product to review by independent stakeholders from the Black Management Forum; South African Board of Personnel Practitioners and two Sector Education and Training Authorities (SETAs). This provided another opportunity for the constructs to be reviewed and evaluated, using independent practitioners and policy-makers who were not part of the focus group process. This process also minimised bias, a construct discussed below.

Interviewer bias and response bias do not really apply to the analysis of “secondary data”. The researcher may choose which observations or findings to capture and which ones to leave out (see discussion under the “Validity” sub-section, below). This is where some possible bias may creep in (in documentary analysis). But, as pointed out below, this would be in the nature of qualitative research (Marshall & Rosman, 1999). In addition, the final outcome, in the form of the Draft Codes and Scorecard (DTI, December 2005), as well as the final Codes and Scorecard (DTI, January 2007)

can be re-analysed by any other researcher, using the same categories, themes and sub-themes. All this should minimise any potential bias. This will also help to ensure validity. Validity, in turn, is enunciated further in next section.

Validity refers to, “the extent to which the researcher gains access to their participants’ knowledge and experience and is able to infer a meaning that the participant intended from the language that was used by this person” (Saunders, *et al*, 2003). In the case of the focus groups, this potential concern was addressed by the regular reproduction of the outcome of each session (for the expert informants’ perusal). The researcher circulated the record of the previous focus group session to all the members of the Reference Group (a few days after each session, and a few weeks before the following one). Reference Group members (who constituted the Focus Groups for purposes of the study) were provided with ample time to make corrections to the record, thus ensuring an internal validation of the outcome.

Whilst the above measures were taken to minimise any concerns about reliability; bias and validity, it must be noted that there is a body of opinion that does not consider such concerns to be of significance at all with regard to qualitative research. One of the arguments against such concerns is that, “findings, using non-standardized research methods, are not necessarily intended to be repeatable; since they reflect reality at the time they were collated (Marshall & Rosman, 1999; in Saunders *et al*, 2003: 253). Marshall *et al*, (1999), point out that the assumption behind this type of research is that the circumstances to be explored are complex and dynamic. It is averred that the value of using this non-standardized approach is derived from the flexibility that the researcher may use to explore the complexity of the topic (Marshall *et al*, 1999). In view of this, “an attempt to ensure that qualitative non-standardized research could be replicated by other researchers would not be realistic or feasible without undermining the strength of this type of research” according to Marshall *et al*, (1999) (in Saunders *et al*, 2003: 253).

Notwithstanding the above rejoinder, efforts were made to ensure that the data were captured in an empirical and methodical fashion, utilising well-established and generally accepted techniques of content analysis. This becomes even more necessary in view of the admonition by Saunders *et al* (2003: 253), that “the use of a qualitative

approach should not lead to a lack of rigour in relation to the research process- if anything, greater rigour is required to overcome the views of those who may be wedded to the value of quantitative research to the exclusion of any other approach”.

This study uses the content analysis method for this purpose. The following section discusses the content analysis technique in more detail.

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## **PHASE TWO: CONTENT ANALYSIS**

### **Secondary data analysis (Phase Two)**

Thomas (2003; 2004) cautions that the term 'secondary' when applied to data may give the misleading impression that they are 'of lesser importance' than primary data or even that they are 'second rate'. Yet, notes Thomas, "it is often possible to carry out original and important research projects using 'old' data that have already been collected by others" (Thomas, 2004:191). Working with such secondary data is sometimes known as secondary analysis (Thomas, 2004). Documents, in turn have got a number of advantages in research. Thomas (2004:191) lists some of these as:

- Readily available and low cost
- Non-reactive nature
- Possibility of using large samples
- Appropriateness of longitudinal research
- Appropriateness of historical studies
- User-friendliness

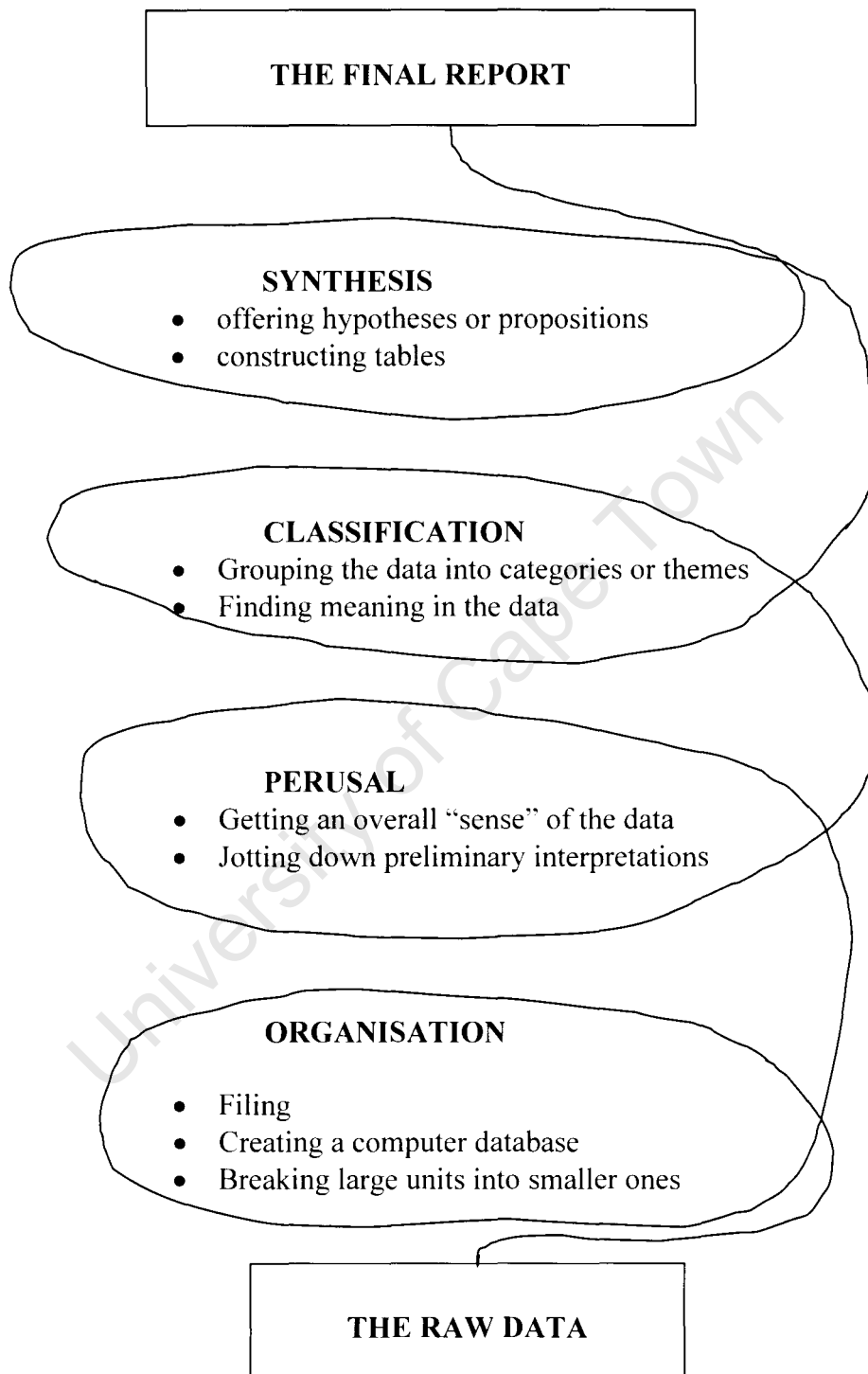
### **Data Analysis Method**

It is apposite to also commence with another rejoinder by Saunders *et al* (2003: 379) namely that, "the analysis of qualitative data involves a demanding process and should not be seen as an 'easy option'. Saunders *et al* (2003) also point out that there is not a standardized approach to the analysis of qualitative data. They note that there are many qualitative research traditions, with the result that there are also different strategies to deal with the data collected. Schram (2003) (cited in Leedy & Ormond, 2005: 150) notes that qualitative inquiry is fundamentally interpretive, "experiences do not speak for themselves, nor do features within a research setting directly or spontaneously announce themselves as worthy of your attention". Schram (2003) advises that, "as a qualitative fieldworker, you cannot view your task simply as a matter of gathering 'facts' about what happened. Rather you engage in an active process of interpretation: noting some things as significant, noting, but ignoring others

as not significant, and missing other potentially significant things altogether...” The foregoing discourse indicates the complicated nature of data gathering within the qualitative framework context. Generally there are certain steps that are generic to the qualitative data analysis process. Cresswell (1998) presents a useful summary of these steps. Cresswell’s data analysis spiral is accordingly presented below.

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## DATA ANALYSIS SPIRAL



Adapted from Cresswell, 1998 (p. 151, Figure 7)

Cresswell's (1998) spiral above depicts the general process that is involved in qualitative research. There is still the need for the researcher to choose a specific approach to conduct the actual analysis process. In the case of the second phase of the study, the content analysis method was utilised. Consequently this method is described below.

With regard to the applicability of content analysis to a study of this nature, Thomas (2003: 59) asserts that, "content analysis is the lone technique suitable for gathering information about what communications contain". Thomas (2003) also insists that content analysis is "the only appropriate method for answering a great host of research questions". Below follows a more elaborate discussion of the technique, commencing with an overview of the definitions. Thomas (2003: 2) describes content analysis as a "technique used for gathering information (analysing printed information)". Berelson (1954: 489) (cited in Thomas, 2004: 218) defines content analysis as a research technique for the objective, systematic and qualitative description of the manifest content of communication. Another useful definition of content analysis is that of Leedy and Ormond (2005: 142) who view it as, "a detailed and systematic examination of the contents of a particular body of material for the purpose of identifying patterns, themes or biases". Leedy *et al.*, (2005) note that content analyses are typically performed on forms of human communication, including books, newspapers, films, television, art, music and transcripts of conversations".

Thomas (2004) also presents a useful distinction between analyses of "manifest" content versus those of "latent" content. Thomas (2004) explains that content analysis typically deals with the surface or "manifest" features of a text and involves classifying and quantifying content. This would be in line with the process that is outlined in Cresswell's (1998) 'spiral' (discussed above). Content is classified according to units of classification defined in terms of the purpose of the study. In addition to such "classification", content can also be "quantified" in units of enumeration, such as words, sentences, paragraphs and items. Thomas (2004: 218) asserts that, "clearly constructed and unambiguous classification schemes that are well-fitted to the particular subject matter are essential to any rigorous scheme for content analysis". According to Thomas (2004), documents can also be analysed in

terms of “latent content”. Whereas, latent features of a document include such things as space usage, style of expression and content emphasis; manifest content, on the other hand, refers to the characteristics of the medium itself (Thomas, 2004). Where an analysis of “manifest content” is conducted, “in order to draw conclusions about matters outside the text”, this refers to the “latent content” of the text (Thomas, 2004: 219).

With regard to the earlier discussion on validity, Thomas (2004) provides an assurance that the internal validity of a content analysis is relatively unproblematic when it simply describes manifest content. He notes that the assessment of latent content is more troublesome because the same text can be interpreted in different and even opposite ways (Thomas, 2004: 219). In order for this research to avoid falling foul of the latter tendency, care will be taken to confine the analysis of the data to its “manifest content”. This will be in the form of a tabulation of the exact elements and items that appear in the BBEE Scorecards for Skills Development; Employment Equity and Organisational Transformation (DTI, December 2005; 2006). No other inferences or potential motives/ meanings will be imputed from the manifest text.

### **Content Analysis Process: steps taken**

Leedy *et al* (2005: 142) point out that in content analysis, “the researcher typically defines a specific research problem or question at the very beginning (e.g. Do contemporary television commercials reflect traditional gender stereotypes? What religious symbols appeared in the early Byzantine architecture, and with what frequency, during the years 527 – 867?)”. The specific process that was adopted in the study used the four steps that are identified by Leedy and Ormond (2005: 142) as the guideline. These steps are discussed below and the specific approach that was adopted in the study is explained under each step. Leedy *et al* (2005) note that as a general rule a content analysis is quite systematic, and measures are taken to make the process as objective as possible. They in turn, identify the four steps below, which were followed in the study:

- 1. The researcher identifies the specific body of material to be studied. If this body is relatively small, it is studied in its entirety. If it is quite large, a sample is selected.**

The study focuses on three very specific components of the BBBEE Codes and Scorecard (DTI, December 2005; February 2007). It is therefore very specific and the elements of Skills Development; Organisational Transformation and Employment Equity are studied in their entirety. In terms of the above step, the researcher used the Draft BBBEE Scorecard that was published in 2005 (the official Phase II) as well as the final Scorecard that was published in February 2007. These two constituted a “relatively small body of material” and were studied in their entirety, as outlined further below.

- 2. The researcher defines the characteristics or qualities to be examined in precise, concrete terms. The researcher may identify specific examples of each characteristic as a way of defining it more clearly.**

The researcher used the Generic Scorecard of the Broad-Based Black Economic Empowerment Act and Strategy (2003) as the starting framework (See Appendix for details). This generic scorecard already possesses the various elements of BEE; including the “Employment Equity”-related elements, such as Management Control (which is about the number of black people and women in top management positions); Employment Equity as well as Skills Development. It was this “generic scorecard” (Department of Trade & Industry 2003) that officially introduced the construct of a BEE Scorecard in South Africa and it was considered appropriate that the legal framework of the scorecard, on which all subsequent scorecards are based, should be used as the main framework. With the generic scorecard as the main framework, the content analysis then focused on the three elements that are related to Employment Equity; Management Control and Organisational Transformation (with respect to Phase Two of the Codes). The questions that were formulated were designed to probe for Thomas’ (2004), “manifest” content. The researcher asked the following questions as he compared the two sets of Codes:

- (i) What is the element of BBBEE that is measured, e.g. Management Control or Skills Development?
- (ii) What are the criteria set in the generic scorecard?
- (iii) What are the criteria (for the elements in question) in the Draft Code?
- (iv) What specific words or constructs are used to define the criteria (e.g. people with disabilities or black women).
- (v) What specific “formula” is used to define the “target group”; e.g. “People with disabilities” as a percentage of the total number of people with disabilities in the workforce of the employer concerned”; “skills development spend as a percentage of total spend on payroll” and such specifics.
- (vi) What target is set for the attainment of the criteria and how is this set (e.g. as a percentage of people at a particular level or as a percentage of money that should be spent in relation to profits; turnover; etc).
- (vii) What year is set for the attainment of the given target.
- (viii) How do the codes differ from each other with respect to each of the criteria above? Here the study examined each element; descriptor; measuring formula; weighting (in relation to other elements); target percentage set; target year in which the percentage should be attained.
- (ix) The variation/ changes or omissions between the Codes (2005 and 2007) were plotted in detail (and noted for further examination).
- (x) Omissions; additions; contradictions and other changes in content were then tabulated and analysed, as described further below.

The latter guidelines were followed in the sense that the items and elements that were used in the BBBEE Scorecards (for Management Control (**MC**); Employment Equity (**EE**); Skills Development (**SD**) and Organisational Transformation (**OT**)) were used as the basis for the empirical analysis.

- 3. If the material to be analysed involves complex or lengthy items (e.g. works of literature, transcripts of conversations) the researcher breaks down each item into small manageable segments that are analysed separately.**

The above guide was accommodated by the approach that is described in 2 above. It was not a concern for this study as the material reviewed was not complex or lengthy.

- 4. The researcher scrutinizes the material for instances of each characteristic or quality.**

This was the actual process of analysing the data that was captured as described above. Use was also made of Thomas' (2003: 58) six-step approach to content analysis. Most of Thomas' steps are similar to Leedy *et al's* (2005) four steps. The one additional practical step that Thomas (2003) adds, that was found to be useful, is that, "key words and phrases should be generated to guide the search..." and that "...useful information is recorded as handwritten notes (or note cards or tablet paper; or as notes keyed into a computer file)". This practical advice was followed in respect of the coding and tabulation of the specific elements of the Codes and Scorecard.

- (i) The researcher developed a table with the two scorecards next to each other.
- (ii) The draft Scorecard of 2005 and the final Scorecard of 2007 (both in the Appendix) were then compared and contrasted as described in point 2 above.
- (iii) The comparison and contrasting was done along the lines of the given structure of the Draft Scorecard (which is similar and it based on the official generic scorecard that the Department of Trade and Industry released in 2003, with the BBBEE Act).
- (iv) The elements; weights; targets and time-frames are all reported in the same format, and this makes it easy to compare them.
- (v) Most of the work involved the analysis of the differences; similarities and variations in each element (e.g. Skills Development for black women in the Draft Codes of 2005; versus the exact same element in the final Codes of 2007). The questions were; is it included in both? Is it reported in the same manner? What is added

or different? Is the difference in favour of the “target group’s” advancement or has it reduced their target/ spend, etc?

For a Business School thesis, such as this one, it would not be sufficient to merely analyse policy and national strategy in relation to Broad Based Black Economic Empowerment (or any other strategy for that matter). The actual practices of business (and government) would need to be investigated empirically, in relation to the policy or strategy concerned. It is for this reason that the following methodology was added. It looks at the actual progress that has been made by employers (primarily, but not exclusively, between 2000 and 2005) with respect to the elements of Management Control; Employment Equity and Skills Development. More significantly, it also examines the link between the Skills Development and the movement of black people up the company/ organisational hierarch (as reflected in their promotion statistics as well as their representation at senior levels). In other words, it probes into whether the amounts of money and time that companies are investing in skills (as reflected in the Annual Reports) bear any relationship to the skills levels and categories that need the training most (in terms of the skills shortage data that was discussed in the literature). Also, another question that is contemplated is whether the skills investment, over the five years, is beginning to bear any fruit in terms of upward-movement of people (from lower levels to higher levels). The latter probes the crucial link between skills development and employment equity, including “management control”.

## **PHASE THREE: DESCRIPTIVE ANALYSIS**

The third phase of the study makes use secondary data to analyse actual trends in the implementation of skills development; employment equity and management control by employers in South Africa. In this regard, reliance was made on the extensive research that was produced for the Commission on Employment Equity (between 2004 and 2007) in its Annual Reports, which used data from thousands of Employment Equity Reports that companies and other employers had to submit to the Department of Labour, as part of the legal requirements of the Employment Equity Act (Act 55 of 1998). The processes used to analyse the data and the techniques are covered in the section below. The use of secondary sources of data (particularly huge data sets from official reports, such as the national census; household surveys, etc.) is a highly acceptable form of analysing trends, for the reasons that are also explained below. For this study in particular, it enabled the researchers to compare the policy and strategic frameworks on Management Control; Employment Equity and Skills Development (under the umbrella of Broad-Based Black Economic Empowerment) to the actual practices of employers in the implementation of the above Acts; policies and scorecards. This provided the essential link between policy and praxis, with very telling results.

### **Descriptive Analysis**

According to Zikmond (1997: 533), descriptive analysis refers to, “the transformation of the raw data into a form that will make them easy to understand and interpret”. Zikmond (1997) explain that describing responses or observations is typically the first form of analysis. The calculation of averages, frequency distributions, and percentage distributions is the most common form of summarizing data.

### **Tabulation**

Tabulation refers to the orderly management of data in a table or other summary format (Zikmund, 1997). Counting numbers or responses to a question and putting them in a frequency distribution is a simple or marginal tabulation (Zikmund, 1997: 533). According to Zikmund (1997), simple tabulation of the responses or

observations on a question-by-question or item-by-item basis provides the most basic form of information for the researcher and in many cases the most useful information. It tells the researcher how frequently each response occurs. This starting point of analysis requires the counting of responses or observations for each of the categories or codes assigned to a variable. When this tabulation process is done by hand, it is called tallying. Large sample sizes generally require computer tabulation of the data (Zikmund, 1993: 533).

### **Percentages**

Zikmund (1997: 533-534) explains that, “whether the data are tabulated by computer or by hand, it is useful to have percentages and cumulative percentages as well as frequency distributions. Zikmund cautions however that when discussing percentages, researchers must speak or write with precise language. “For example, the difference between 40 per cent and 60 per cent is not 20 per cent, but 20 percentage points; this represents an increase of 50 per cent” (Zikmund, 1997: 534).

### **Grouped Frequency Distributions**

Bless and Kathuria (1993: 4) explain that the purpose of grouping data is to reduce the number of figures or scores presented in a distribution so as to enable the reader to group the main features of the data and to present the information more effectively. They advise that the grouping must be done in accordance with some rule, without the distortion or loss of too many items of information contained in the set of data. The grouping is effected by determining some classes within which a set of data is contained (Bless *et al.* 1993).

### **Graphic representation**

Once raw data has been organized into a frequency distribution, it can usually be presented by various types of graphs, bars, pies and other pictorial presentations (Bless & Kathuria, 1993: 19). According to Bless *et al.* (1993), “graphical representations have the great advantage of allowing one to grasp immediately the main characteristics of the information”. The latter authors point out, for instance,

that comparison of the different components or fluctuations of numbers or percentages in time (like the annual fluctuations of production or investment in certain industries over a period of ten years) are clearly visible without the use of numbers. The main idea underlying visual representation is that a certain value, together with its frequency of occurrence, can be depicted- either by a point within a two-dimensional framework, or by a bar (or other figure) where its height or area is proportional to the frequency and indicates the relative size of the category (Bless *et al.*, 1993: 19). Joining the different points into a curve or placing the various bars together near one another describes the fluctuation of the frequency for the different values (be it nominal, ordinal or interval scale) and allows them to be computed.

## Graphs

Bless and Kathuria (1993: 19-20) note that graphs refer to graphic representations by a continuous line within a two-dimensional framework, whether by means of “stepped” line as is the case for histograms, by means of a line “with corners” as is the case for polygons, or by means of a smooth curve. A more precise definition of a graph is, “a representation of data by a continuous line within the framework of two orthogonal axes, the horizontal axes or abscissa (or x-axis) and the vertical or ordinate axis (or y-axis). The line might not necessarily be smooth, but it is nevertheless called a curve.” In terms of usage, graphs can be used in a general way to illustrate the variations of any two variables  $x$  and  $y$  indicated on the orthogonal axes (Bless *et al.*, 1993: 20). Bless *et al.* (1993: 20) note that social scientists in particular tend to need one specific kind of graph, the one where the variable  $y$  denotes that frequency of the variable  $x$ , i.e. graphs depicting frequency distributions.

With respect to the actual manner in which graphs are constructed, there are some basic rules to be observed (Bless *et al.*, 1993: 20). Among others, they note the following seven:

- i. Graphs must have a clear and comprehensive title as well as a number;
- ii. The two axes must be clearly labeled with an indication of the unit of measurement;

- iii. The horizontal axis is used to represent the independent variable  $x$ , the vertical axis represents the dependent variable  $y$ ;
- iv. The intersection of the two axes is the origin (0.0); but if the scale is only partly shown (i.e. if part of the scale is omitted or shortened) this should be indicated either by stating the new coordinates or by a definite break in the axis;
- v. The scales must be chosen to give a correct impression. Inadequate scales will distort the representation by under- or over- representing the fluctuations, i.e. in showing a very flat curve or a curve with very pronounced peaks and drops.
- vi. When many curves are represented within the same frame, they must be indicated by different types of lines (continuous, dotted, different colours, etc.), and a key should be provided, identifying precisely the nature of each curve.
- vii. When many graphs are represented within the same frame, overcrowding by too many curves should be avoided.

### **Histograms**

Bless and Kathuria (1993: 22) explain that a histogram (particularly a frequency histogram), is used to illustrate a frequency distribution by representing its class-intervals and their respective frequencies in the following way:

- i. The two orthogonal axes are used as a frame, the horizontal axis is used to represent the length (or size) of the intervals, whereas the vertical axis refers to the frequencies ( $f$ )
- ii. Corresponding to each interval and its frequency is the surface or a rectangle or bar. The length of the interval forms the base of the bar and the bar's height is the given frequency.

In turn, three steps can be identified in the construction of a histogram (Bless *et al*, 1993: 22):

- i. The real limits of each interval should be marked on the horizontal axis, or else the midpoint of the intervals should be marked here. There must be no

gap between the successive intervals, thus the use of stated limits is not appropriate.

- ii. The scale of the frequency should be marked on the vertical axis.
- iii. The bars are then constructed over each interval, depicting the height (i.e. the frequency) above the real lower and upper limit and these points are then joined. No gaps should exist between bars unless the frequency of a class-interval is zero.

### **Bar charts**

Bar charts, whether simple, component or multiple, are not very different from histograms in their construction (Bless *et al*, 1993: 25). Bar charts illustrate the magnitude of certain values measured usually on a discrete nominal scale, whereas histograms represent the frequencies of values measured usually on a continuous interval scale. Therefore, “whereas the bars of a histogram have common limits of class-intervals and thus touch one another, the bars of a bar chart are of arbitrary width and separated from one another. Only in the case of a multiple bar chart are things organized into sets which are spatially separated” (Bless *et al*, 1993: 25). The latter note that bar charts are very useful for comparison of categories, their quantities at a certain time, or their variation in time.

### **Diagrams**

Diagrams refer to any other type of graphical representation such as the various kinds of bar charts as well as pie charts and also pictograms (Bless *et al*, 1993: 20).

The above are specific methods of presenting data after it has been summarized. The data itself may be gathered by the researcher personally (e.g. via a survey) or it may originate from other reliable sources. This speaks to the issue of whether the data is primary or secondary. This study made use of secondary data sources. The word “secondary” has nothing to do with “second-rate” or less than; it merely indicates that the researcher did not go out and collect reports from thousands of companies on employment equity; skills development and management control. Use was made of data from reports that have already been compiled for official purposes. This is the

type of analysis that is conducted by economists (e.g. on world financial markets) and many other respectable professionals all over the world. More is said about secondary data analysis and its benefits below.

### **Secondary Analysis**

Bryman and Bell (2007: 326) note that secondary analysis is the analysis of data by researchers who will probably not have been involved in the collection of these data. Bryman and Bell (2007: 325) explain the various advantages of using secondary data and secondary analysis, as opposed to gathering primary data, especially for students. They argue, in this regard that, “many organisations, most notably government departments and their various representatives, collect data that are presented in statistical form and that may be usable without change by students and university researchers. Would it not be a good idea to analyze such data rather than to collect raw data? It would have the additional advantage for managers and employees that they would not be bothered by interviewers and by questionnaires popping through their letter boxes” (Bryman *et al*, 2007: 325). With respect to the distinction between qualitative and quantitative data, Bryman *et al* (2007: 326) point out that secondary analysis may entail the analysis of either quantitative data (with reference to Dale, Arber and Procter, 1988) or qualitative data (with reference to Corti, Foster and Thompson, 1995). Bryman *et al* (2007: 326) point out that “to some extent it is difficult to know where primary and secondary analysis starts and finish. Typically secondary analysis entails the analysis of data that others have collected, but this need not necessarily be the case”.

### **Advantages of secondary analysis**

Bryman *et al* (2007: 328) list the following as some of the advantages of secondary analysis:

#### **Cost and time**

Secondary analysis offers the prospect of having access to good-quality data, for a tiny fraction of the resources involved in carrying out a data collection exercise yourself.

### **High quality data**

Many of the data sets that are employed most frequently for secondary analysis are of extremely high quality (Bryman *et al*, 2007: 328):

- the sampling procedures have been rigorous, in most cases resulting in samples that are close to being representative as one would like to achieve;
- While the organisations responsible for those studies suffer the same problems of survey non-response as anybody else, well-established procedures are usually in place for following up non-respondents and thereby keeping this problem to a minimum;
- The samples are often national samples or at least cover a wide variety of regions. The degree of geographic spread and the sample size of such data sets are invariably attained only in research that attracts quite substantial resources;
- Many datasets have been generated by highly-experienced researchers, and, in the case of some of the large datasets, the data have been gathered by research organizations that have developed the structures and control procedures to check on the quality of the emerging data;
- Secondary data analysis can offer the opportunity for longitudinal research, which is rather rare in business and management research because of the time and cost involved;
- While secondary data analysis invariably entails a lot of data management- the fact that you are freed from having to collect fresh data means that your approach to the analysis of data can be more considered than it might otherwise have been

(Bryman & Bell, 2007: 333).

### **Reanalysis may offer new interpretations (Bryman *et al*, 2007: 334):**

- A secondary analyst may decide to consider the impact of a certain variable on the relationships between variables of interest. Such a possibility may not have been envisaged by the initial researchers.
- The arrival of new theoretical ideas may suggest analyses that could not have been conceived by the original researchers. In other words the arrival of such new theoretical directions may prompt a reconsideration of the relevance of such data.

- Thirdly, an alternative method of quantitative data analysis may be employed and offer the prospect of a rather different interpretation of the data.
- New methods of quantitative data analysis, such as meta-analysis, are continuously emerging. As awareness of such techniques spreads, and their potential relevance is recognized, researchers become interested in applying them to new data sets.

### **Limitations of secondary data analysis**

Bryman *et al* (2007: 334) note that there are far more benefits to using secondary data (if available) than to attempting to generate your own “original” data. However they do sound some caution regarding a number of potential limitations, depending on the nature and source of the data concerned. These limitations, among others, may include (Bryman *et al.*, 2007: 334):

#### **Lack of familiarity with the data**

With data collected by others, a period of familiarization is necessary. One needs to get to grips with the range of variables, the ways in which the variables have been coded, and various aspects of the organization of the data. The period of familiarization can be quite substantial with large complex data sets and should not be underestimated.

#### **Complexity of the data**

Some of the best-known data sets that are employed for secondary data analysis are very large in the sense of having large numbers of both respondents and variables. Sometimes the sheer volume of data can present problems with the management of the information at hand, and, again, a period of acclimatization may be required.

#### **No control over data quality**

Secondary analysis offers the opportunity for students and others to examine data of higher quality than they could collect themselves. However this point applies mainly to datasets from a regulated source. These tend to be commissioned by a government department and conducted by researchers who are regarded as being independent or at

least somewhat distanced from the issues that are being investigated. With other datasets, somewhat more caution may be necessary in connection with assessment of data quality. This may be of particular concern when using data that are the result of commonly commissioned research, as is the case in market research or when using surveys that have been conducted in-house by a company that wants, for example, to measure the effectiveness of its HRM strategy (Bryman, *et al*, 2007: 336).

### **Absence of key variables**

Because secondary analysis entails the analysis of data collected by others for their own purposes, it may be that one or more key variables may not be present. This is likely to happen when one conducts multivariate analyses.

The foregoing section dealt with the methodology and the various techniques that were utilized in the study. These are then re-visited later in the discussion section, after the analyses of the results have been discussed. The analysis of the results is done in accordance with the propositions that were developed. The following section deals with these research propositions.

## RESEARCH PROPOSITIONS

*Created within the context of specified boundaries and built from abstract constructs or their more concrete manifestations (variables), theoretical systems take the form of propositions and proposition-derived hypotheses. While both propositions and hypotheses are merely statements of relationships, propositions are the more abstract and all-encompassing of the two, and therefore relate the more abstract constructs to each other. Hypotheses are the more concrete and operational statements of these broad relationships and are therefore built from specific variables.*

Bacharach (1989: 500).

### **Proposition 1:**

The draft Codes of 2005 (Phase II) and the final Codes of 2007 (pertaining to Management Control; Employment Equity, Skills Development and Organisational Transformation) are expected to be in line with the principles of human capital development that are articulated in the study. To this extent, no major differences are predicted between the two Codes.

**P 2:** If there are any serious variations in the two “phases”, with respect to advancing human capital development principles, the final version should be more progressive than the first version in accelerating the speed; quantum or quality of empowerment. In other words, it is not predicted that the final version, which came after extensive consultation, would propose targets; elements or measures that are more conservative or less progressive than the first version. Any additions; omissions or contradictions will therefore be evaluated with the expectation that the final Scorecards (2007) will be more progressive in advancing the development of skills and employment equity.

**P 3:** A descriptive analysis of the actual progress made by companies in Management Control; Employment Equity and Skills Development (between 2000 and 2005) is expected to indicate steady progress towards the attainment of the policy goals of Broad-Based Black Economic Empowerment. The period between 2000 and 2005 was not only the promulgation of the Skills Development Act and the Employment

Equity Act (both of 1998); but also the publication of the Black Economic Empowerment Commission Report (2001) as well as the national strategy on Broad Based Black Economic Empowerment (2003). This was also the period that saw the finalization of the first four industry charters on BBBEE (Mining in 2002; Liquid Fuels and Energy in 2002; Banking and Financial Services in 2004 as well as the Information and Communications Technology Charter in 2004). These external pressures as well as internal industry initiatives are expected to have created the necessary momentum for radical change and transformation which is expected to be reflected in the actual movement and progress of black people (as reflected in the Reports of the Commission for Employment Equity for 2004 up t 2007).

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## CHAPTER 4

### ANALYSIS

This section outlines the outcome of the group interview process (focus groups) that was discussed in the Research Methodology section. The primary data were generated via four focus group sessions with expert informants in the three areas of focus: Employment Equity (EE); Skills Development (SD) and Organisational Transformation (OT). This process resulted in the finalisation of the Draft Statement 300 and Statement 400 by the Department of Trade and Industry (DTI). This Draft was released in December 2005 for public comment. Content analysis was used to critically review these draft “Statements” on EE; SD and OT using the BBBEE Strategy Framework that was developed in this research. The outcome of the content analysis (documentation analysis) of the Codes against the strategic framework (developed in this study) is also outlined in the following sub-sections.

The Focus Group sessions primarily focused on three aspects of the drafting of the Codes:

- (i) The general principles that should be followed in the drafting of each Code;
- (ii) The contentions issues or key concerns that ought to be addressed;
- (iii) Additional sources or policy documents that the researcher and the Reference Group ought to consult.

The main outcomes of the sessions are summarized in the table below.

## OUTCOME OF THE INDUCTIVE FOCUS GROUP PROCESS (Phase One):

### Key principles; concerns; source documents from Focus Group Sessions

<b>Employment Equity (EE)</b>	<b>Skills Development (SD)</b>	<b>Organizational Transformation (OT)</b>
<b>Please refer to the EE Draft Scorecard (2005) in the Appendix</b>	<b>Please refer to the SD Draft Scorecard (2005) in the Appendix</b>	<b>The OT Index appears as part of the Skills Development Draft Scorecard (2005) (in the Appendix)</b>
<p>(a) The principle of complementarity between the policies of the various Government Departments was agreed. An example that was given was the Code of Good Practice on Human Resources that the Department of Labour was finalizing. This was still going through the internal consultation process at the Department of Labour. This HR Code was later made available to the Researcher and the Focus Group (on a strictly confidential basis). Its main recommendations were considered in the subsequent drafting.</p>	<p>(a) The real skilling of (black) people was emphasized as the main long-term output that should be sought or desired in a BBBEE Scorecard. The Draft Code should be measured against this objective.</p> <p>“Real skilling” was later unpacked to mean the focus on “core skills” as well as critical skills. These definitions were added into the later code, with reference to the Scarce Skills Project that the Department of Labour was going through at the time (April- November 2005).</p>	<p>(a) The same principle of complementarity was agreed. The Draft Code of Good Practice on Human Resources applied to Employment Equity as well as to the Organizational Transformation Index.</p> <p>The OT Index came from a review of the literature that the researcher had conducted (see later section on Organisational Transformation). The Focus Group agreed that more was needed to transform the legacy of the past than Skills and EE targets. Organisational measures were also required.</p>

<p><b>(b)</b> It was agreed that an effective Scorecard for Employment Equity (EE); would also need to measure the existence or otherwise of unfair discrimination (at the Measured Entity`s workplace). The need to find a way of scoring the “qualitative” aspects of EE was therefore agreed. There was extensive debate on how to do this. One view was that a range of questions should be asked (in the scorecard) about whether the Measured Equity had ever been fined for discrimination; whether it had lost any cases in the Commission for Conciliation, Mediation and Arbitration (CCMA) for discriminating, etc. A dissenting view was that this would effectively punish companies twice (They would be penalized in their BEE ratings when the CCMA and/or the Labour Court had already ruled against them). It was also pointed out that the mere lack of cases or rulings against a particular employer (from the CCMA; Labour Court/s; Constitutional Court) was not, on its own, evidence that</p>	<p><b>(b)</b> The National Skills Development Strategy (NSDS) of 2005 - 2010 was viewed as a key source that should guide the Draft Code for Skills Development. Once again, the need for complementarity was emphasized.</p>	<p><b>(b)</b> The O.T. Index was proposed as the solution to the “qualitative aspects” of Employment Equity. It would encapsulate the main indicators that the Measured Entity had put in place: strategies; policies; structures and resources to deal with Human Resources strategically. The O.T. Index, it was agreed, would also probe for policies against unfair discrimination.</p>
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<p>the entity concerned was not practicing discrimination. It could mean that no employee has been bold enough (or reach enough) to take the entity concerned to the courts. A measure that rewarded great effort in dealing, pro-actively, with discrimination, was therefore considered most appropriate. Consequently, the Organizational Transformation Index was proposed. It would contain all the qualitative measures that an entity would have to demonstrate it had in place that would effectively ensure that discrimination was strategically dealt with (see more under the O.T. Index (Column Three)).</p> <p>(c) The O.T. Index was viewed as the ideal instrument for recognizing measures such as the valuing of diversity, which are covered in the EE Act, but which are not the subject of normal “compliance” enforcement by the state. It was also agreed that not all the key elements would be “codifiable”. The main goal</p>	<p>(c) The various Charters were considered with regard to the setting of BEE targets for Skills Development. The Financial Sector Charter, it was noted, had set a target of an additional 1% to spend on black people by employees in addition to the 1,5% that they were already required to spend on skills development (by the Skills Development</p>	<p>(c) It was agreed that the Department of Labour would still be the main custodian of the Employment Equity Act. The BBBEE Codes would therefore not become instruments for enforcing the detailed compliance with the EE Act.</p>
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<p>of the Scorecard would be to encourage Measured Entities to adopt good practice. This, it was hoped, would then improve policies and practices, in general, not necessarily for the sake of BEE scoring.</p> <p><b>(d)</b> The role of specific sectoral Charters was also recognized. It was hoped that these Industry-specific Charters would encourage good practice in the qualitative aspects of Employment Equity. The Charters would therefore compliment the Codes and reinforce them.</p>	<p>Act). On the other hand, the Information &amp; Communications Technology (ICT) Charter had set a skills spend targets of 5% (additional spend by companies on black employees).</p> <p><b>(d)</b> The principle of staggering the roll-out of the skills spend (and other targets) was agreed. This principle dealt with a serious dilemma in the BEE scoring process thus far. This is created by the fact that most BEE Charters simply state a percentage that employers need to spend on skills, etc., for black people (women and people with disabilities). The original, generic Codes (of 2003) and the subsequent charters do not specify the year or target time period by which this target should be met. Some employers therefore seek to comply with the set target immediately, while those who cannot do this (e.g. due to serious skills shortages in their sectors) find the process frustrating. Staggering the roll-out and breaking the</p>	<p><b>(d)</b> The existence of a comprehensive HR strategy, whose elements would be outlined in the Codes, was viewed as a good measure. Consequently, the first Draft O.T. Index had a detailed HR Strategy component that had a number of elements. This would be trimmed down later, as it was found to be too detailed and on the “rigid” side.</p>
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<p>(e) The principle of complementarity was adopted with respect to the levels that would be used in the BEE Scorecard for EE. The same levels that are used for reporting on EE (to the Department of Labour) would be used for setting targets for BEE.</p>	<p>targets into year 1; year 3; year 5; etc, solves this problem. It also allows for long-term planning by measured entities.</p> <p>(e) The main challenge around skills development was seen as the actual outcome or desirable output of all the spending. Serious concerns were raised that some employers were claiming rebates (in terms of the Skills Levies Act) mainly for disbursements, out of proportion to the actual training. Huge proportions of the levy were being spent on “learning costs” including meals; accommodation; retreats; etc. The desired increase in the number of black people in core and critical skills did not always correspond to the huge amounts that were claimed (for “Learning costs”).</p>	<p>(e) One of the challenges that were identified during the discussion on Skills Development, as well as EE, was the retention of people. This is a cross-cutting concern (e.g. Retaining skilled people and retaining EE candidates). It was therefore agreed that the O.T. Index would have an element that would specifically recognize Measured Entities that took specific measures to retain black employees, women and people with disabilities. A formula for retention was later attempted. Among others, this would measure the average rate at which an entity retained its workforce. This, and other similar measures, was later abandoned. They were found to be too cumbersome and complicated. The principle of retention however was retained and it was later reflected in the Draft Code (O.T. Index; 2005).</p>
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<p><b>(f)</b> The principle of staggering the rolling out of the targets (discussed in the Skills Development Column) was found applicable and useful to EE as well. Measured Entities should be able to plan their targets for 3 years; 5 years; 7 years (2007-2010; 2010-14) because the Codes would specify the ideal targets that should be aimed for, over this seven year period. (2007 – 2014).</p>	<p><b>(f)</b> This brought about the need for focus, in terms of the quality of “skills spend”. The National Skills Development Strategy (NSDS) (2005 – 2010) was used as a reference point in this regard. It was agreed that the BEE Codes should encourage Measured Entities to focus their spend on “scarce skills” as well as “critical skills”. These constructs were then defined in the Draft Code (DTI 2005).</p>	<p><b>(f)</b> The need for the BBBEE process to be taken seriously by the Measured Entity’s Board of Directors; the CEO and Top Management was recognized and agreed. The EE Act, it was pointed out, already required that the CEO of a “designated employer” should sign the EE Report before it got submitted to the Department of Labour. The O.T. Index therefore added a requirement that the HR Strategy of an entity (with all its given components, which were outlined) should be approved by the Board. It also required that the Board should measure the CEO’s performance (Elements to measure this were added in the Draft Scorecard for OT-see Appendix).</p>
<p><b>(g)</b> The same designated groups that are outlined in the EE Act would be retained for BEE Scorecard purposes. This would be for reasons of consistency and articulation (principles that were already agreed). The Scorecard would merely emphasize certain levels and place emphasis where needed (in view of the progress or lack thereof that the Focus Group perceived).</p>	<p><b>(g)</b> The link was therefore made between the NSDS (above); the National Qualifications Framework; the scarce skills of the country and critical skills (as identified by industries). The Department of Labour’s “State of Skills” in South Africa Report (2005) was referred to. The NSDS’s definition of scarce skills and critical skills was adopted. Essentially, a skill may still be available in a sector (i.e. it may not be “scarce”) but it may be critical and may face</p>	

<p>(h) As “Top Management” was the subject of a different Code/ Scorecard; it was left out of the EE Code/ Scorecard development. The same principles would be applied to it, though.</p>	<p>the prospect of running out in a few years’ time. For this reason, the Draft Codes had to focus on both “scarce” as well as “critical” skills. It was noted, for instance, that the most “critical skills” that were needed in South Africa (2005) were “Tools and Dyes”.</p> <p>(h) Linked to the above concern was the need for the Codes to find a way of probing the actual “learning programme”. This would be difficult to specify in a Code, but it was recommended that this requirement should be stated so that the Verification Agencies (who would conduct the detailed scoring of each entity’s BEE) would be able to ask for evidence of the actual “learning” that took place.</p> <p>(i) The need for articulation between the EE targets and related plans, and the skills targets and plans was recognized. This principle, it was noted was already embedded in the NSDS. There should be a relationship between the demand that the EE targets</p>	
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	<p>create and the supply of skills from the SD process. A practical example of how the “articulation” principle could be enforced would be for the Codes to require “cross-signing” of the EE Plans and targets, as well as the Skills Plans and targets, by both the EE Committees and the Workplace Skills Committees. This requirement was already being used for purposes of the NSDS. This was a good principle, but once again, the Codes are not able to deal with all these key principles and challenges, without becoming too laborious: cumbersome and over-rigid.</p>	
<p>The principles agreed to above were then summarised and they were used in the development of the attached Draft Scorecard for EE; SD and OT.</p> <p>There was no specific formula for the setting of targets. The generic scorecard of 2003 was used, in conjunction with some of the Charter targets as the guide.</p>		

## **ORGANISATIONAL TRANSFORMATION**

The Organisational Transformation (OT) component is included under the Skills Development Scorecard (DTI, 2005: 400-5). This was one of the most radical additions by the DTI to the original or “generic” BBBEE Scorecard (DTI, 2003). The OT Index was added under Skills Development as the latter had more points (20) to play around, as opposed to Employment Equity (that had only 10 points). OT obviously does not fit under SD, but the exact location is not of material significance for purposes of this study. In the BBBEE framework that is developed in this study, OT a critical aspect of BBBEE. It is the one that makes the difference between a ‘transaction-driven BBBEE and a ‘transformation driven’ one. Be that as it may, the inclusion of the OT elements in the 2005 Draft Code was a great development that is firmly in line with the literature on OT (e.g. Wischnevsky and Damanpour, 2006; Romanelli and Tushman, 1994; Zajac & Kraatz, 1993; Webb & Dawson, 1991; DiMaggio & Powell, 1983). The Organisational Transformation Index is summarized below.

## Organizational Transformation Index

Category	Skills Development Element	Weighting Points	Compliance Target
5.1.3	<b>Organisational Transformation Index</b>		
5.1.3.1	Existence of a comprehensive Black Economic Empowerment strategy, that integrates all the elements of the BEE Scorecard, assigns clear executive responsibilities, creates appropriate functioning representative committees and which has been approved by the Board of the Measured Entity and which is being implemented.	Yes	1
5.1.3.2	Employment of a Skills Development Facilitator.	Yes	1
5.1.3.3	Existence of a policy of non-discrimination widely published within the Enterprise and which emphasizes the promotion of racial, gender, religious and cultural diversity which is being implemented. An element of this implementation must be the regular and ongoing facilitation of external diversity management training.	Yes	1
5.1.3.4	Compliance with all relevant employment related legislation.	Yes	1
5.1.3.5	Implementation of an effective human resource management plan which emphasizes retention, career development and long-term career planning of all employees including learners and which is being implemented. Such plan must include targets against which performance is measurable.	Yes	1
5.1.3.6	Existence of a programme designed to give practical effect to the policies and programs in the items in paragraphs 5.1.3.1 to 5.1.3.5 through routine organizational social environmental audits the outcomes of which are published widely within the Measured Entity	Yes	1
<b>TOTAL</b>			<b>6</b>

Source: Department of Trade and Industry (2005). Statement 400: The Recognition of Skills Development and Organisational Transformation Contributions to Black Empowerment: 400-1; 400-8.

All the elements that are noted in 5.1.3.1 of the OT Index are found to be in full compliance with the literature on Transformational Leadership as outlined in this study (e.g. Covey, 2004; Collins 2001; Humphries and Einstein, 2003; Pounder, 2001; Hinkin & Tracey, 1999; Den Hartong, Bass, 1990; Avolio, Bass & Jung, 1999; Bass, 1997; Bass & Avolio, 1993; Yukl, 1994). Sub-section 5.1.3.1 recognises several OT initiatives or measures that organisations ought to take as part of their BBBEE efforts. A “Yes” to all the measures in the sub-section results in a possible score of 1. This is quite a high weight considering that the entire OT sub-section has only got 6 total points. This is 6 points out of the total Skills Development element of 20 points. The OT element in the 2006 Scorecard therefore accounts for 30% of the SD element. This, in its own is a significant contribution. The OT Index measures of 5.1.3.1 include: “Existence of a comprehensive Black Economic Empowerment strategy that”:

- Integrates all the elements of the BEE Scorecard;
- Assigns clear executive responsibilities;
- Creates appropriate functioning representative committees;
- Which has been approved by the Board of the Measured Entity;
- And which is being implemented

The above criteria are in line with most of the principles of Transformational Leadership that were outlined earlier (e.g. Covey, 2004; Collins 2001; Humphries and Einstein, 2003; Pounder, 2001; Hinkin & Tracey, 1999; Den Hartong, Van Muijen & Koopman, 1997; Bass, 1990; Avolio, Bass & Jung, 1999; Bass, 1997; Bass & Avolio, 1993; Yukl, 1994). It is pointed out in the literature, for instance that BBBEE strategies ought to be driven by strategic vision; and that there should be clear communication of such from the CEO (through framing and use of metaphor, modelling the vision by “walking the talk” and acting consistently, etc) (e.g. Avolio, Bass & Jung, 1999; Bass, 1997; Bass & Avolio, 1993). The necessary (behavioural) characteristics that enable transformation include the ability (on the part of the CEO) to recognise the need for change and to persuade other key people in the organization to understand the seriousness of the need for change; manage the transition process by effectively diagnosing and addressing problem areas and dealing with people resisting the change and who find it hard to reject old beliefs (e.g. Yukl, 1994: 360, cited in Viljoen & Klopper (2001). The measures in 5.1.3.1 of the SD Scorecard (DTI, 2005)

call for a Transformational Leadership approach where the Board of Directors takes responsibility for the change process and where the CEO and executive management put in place measures; structures and processes to ensure that the BBEE process takes place. These are important steps in ensuring that the process has got goals and objectives; takes place within a specific time period and that it generally complies with the main principles of OT (The radical approach) (e.g. Wischnevsky and Damanpour, 2006; Romanelli and Tushman, 1994; Lant & Mezias, 1992; Zajac & Kraatz, 1993; Webb & Dawson, 1991; DiMaggio & Powell, 1983).

Sub-section 5.1.3.3 also requires transformational measures that deal with discrimination; promotion of racial and cultural diversity as well as the facilitation of external diversity management training. These measures are in compliance with the general principles of OT, which go beyond the changing of numbers or demographics (e.g. Rosmarin, 1993; Human, 1996; Thomas, 1998). OT is defined to include major changes in the strategy and/ or culture of the organisation (Wischnevsky and Damanpour, 2006: 104). The requirement for specific measures to value diversity and external input for training are critical in ensuring that the organisation consistently checks its progress and performance against the environment that it operates in (e.g. Rosmarin, 1993; Human, 1996; Thomas, 1998). In OT theory, the latter measures would assist the organisation to identify the “performance gap” and also enable the organisation to ensure “environmental fit” (e.g. DiMaggio & Powell, 1983; Wischnevsky *et al* (2006). All these are important push factors that facilitate the OT process. The external diversity sessions can also assist the organisation to “benchmark” its values; principles; policies and practices against other organisations. This would be part of the “normative mimetic isomorphism” factor that was discussed earlier (DiMaggio & Powell, 1983). Sub-section 5.1.3.4 of the OT Index (DTI, 2005) also awards companies/ organisations a point for “compliance with all relevant employment equity legislation”. Such legislative compliance is a key element of “regulatory” environmental fit. Such regulations are also an essential aspect of the “coercive isomorphism” that can assist in speeding up the transformation process (DiMaggio *et al*. 1983, cited in Wischnevsky *et al* 2006). The alignment with EE legislation also conforms to this study’s recommendation for linkage and articulation between the various elements of BEE. Paragraph 5.1.3.4 creates a direct link between OT and EE. This articulation and linkage was one of the key principles that came out

of the focus group sessions. The remaining sub-paragraphs of the OT Index (5.1.3.5 and 5.1.3.6) recognise the importance of an HR Plan as well as a program to ensure the implementation of the various BBBEE policies. This requirement is also an important aspect of an OT-driven approach to BEE. It renders the BBBEE process a planned intervention, with specific measures to ensure implementation (e.g. Jick & Peiperl 2003:218; Romanelli and Tushman, 1994). This is in line with the punctuated equilibrium perspective of OT, wherein it takes place in a revolutionary fashion, involving rapid, simultaneous major changes in multiple organizational features that are implemented in a brief time interval (Wischnevsky & Damanpour (2006: 105). The existence of plans and implementation programmes for OT is also consistent with the “Management-centred” model of Human Capital Development that was discussed earlier (Colombo & Grilli, 2005). According to the Competency-based model, “local managers” are held to account for progress with HCD interventions (Colombo & Grilli, 2005). It is therefore submitted that the measures that are outlined in the OT Index of the SD Scorecard (DTI, 2005) are in line with most of the tenets of a HCD-driven BBBEE strategy. They also comply with the specific principles of Transformational Leadership as well as Organisational Transformation. In fact, the OT Index, it is submitted, could become the most significant catalyst for real BBBEE transformation (beyond numbers and legal compliance) if it were retained by the DTI. The OT Index symbolizes the difference between a transaction-based and a transformation-based approach to BBBEE. It seeks to measure actual progress with the “softer” and yet more important elements of the “internalization” of transformation. It seeks to create empowered and empowering environments.

In terms of Proposition One; the OT Index of the Phase One Codes (DTI 2005) is a radical step towards the advancement of a transformational approach to BBBEE. Its inclusion in the 2005 Codes and its exclusion in the final codes (2007) renders the former codes more in line with the spirit of human capital development and transformational leadership than the final codes. As far as the advancement of an “organisational transformational approach to BBBEE” the Codes and scorecards of 2005 are found to be more in line than the final codes. This can also be interpreted to mean that the inductive process of the focus groups and the outcome of that (in the form of the Draft BBBEE Codes of 2005, for Employment Equity; Skills Development and Organisational Transformation) led to a more “transformation-driven” approach to

BBBEE than was evident in the independent processes of the Department of Trade and Industry, which led to the final codes and scorecards of 2007. Whilst the latter are found to have a lot of strengths (in favour of Human Capital Development); they are more on the “transactional side” of BBBEE than the transformational side. The final codes are discussed in the next section.

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## PHASE TWO

### COMPARATIVE ANALYSIS OF THE CODES: 2005 VERSUS 2007.

This phase utilised content analysis (specifically ‘documentation analysis’) to critically review the Draft Codes of 2005 and to conduct a comparative analysis with the final Codes of 2007. The results of this documentation analysis (secondary data) are outlined below in relation to the first two propositions of the study.

#### **Proposition 1:**

The draft Codes of 2005 and the final Codes of 2007 (Employment Equity and Skills Development) are expected to be in line with the principles of human capital development that are articulated in the study. To this extent, no major differences are predicted between the two Codes.

**P 2:** If there are any serious variations in the two “phases”, with respect to advancing human capital development principles, the final version should be more progressive than the first version in accelerating the speed; quantum or quality of empowerment. In other words, it is not predicted that the final version, which came after extensive consultation, would propose targets; elements or measures that are more conservative or less progressive than the first version. Any additions; omissions or contradictions will therefore be evaluated with the expectation that the final Scorecards (2007) will be more progressive in advancing the development of skills and employment equity.

The table below summarises the differences/ similarities between the Draft Scorecards of December 2005 and the final BBBEE Scorecards of February 2007. The comparative analysis is aimed at outlining the areas of improvement/ regression between the two Scorecards in relation to Human Capital Development theory and in relation to the above propositions.

## SYNOPTIC CHART OF THE TWO SCORECARDS (2005 & 2007)

BBBEE Element	Draft Scorecard : DTI 2005	Final Scorecard: 2007
<b>EMPLOYMENT EQUITY</b>		
1. Principle of separation of targets for different levels (higher targets at lower levels and lower targets for higher levels).	This principle was adhered to in the Draft Scorecard for EE (DTI, 2005). This was found to be in compliance with Human Capital Development principles of: - Planning the development of people so that they “grow” from lower levels to higher levels; -Staggering the targets in a progressive manner, with higher targets at the lower levels (the broader base) and lower targets at Senior levels, where skills are scarce).	The final Scorecard for EE (February 2007) adheres to the same principle: - the targets for black employees in Junior Management are higher (68%) than the targets for black employees in Senior Management (43%) (See EE Scorecard in the appendix). - the Scorecard has got two time periods for compliance, Years 0-5 and Years 6-10. The above principle is also reflected in the fact that the targets for the “second five year term”, (i.e. Years 6-10) are higher than the targets for the first five year term.
2. An “OT”-based BBBEE approach should have specific time-frames for the attainment of goals (in line with the radical approach and the punctuated equilibrium paradigm).	The 2005 Draft Codes did not have suggested time frames for the achievement of the various targets. This was critiqued in the analysis as it does not comply with the “radical” approach to BBBEE, which is based on the OT paradigm and which sees BBBEE as a “time-specific” intervention.	The 2007 final Scorecards address this principle. They have got two, five-year, time periods within which Measured Entities ought to achieve the various targets. The time periods are referred to above. This is a very welcome development as it assists employers to develop long-term plans for achieving targets. It also assists in reviewing progress.
3. More recognition should be given to “scarce skills” or the	The Draft EE Scorecard of 2005 was critiqued for its lack of	This principle is still not addressed in the final

<p>skills that are most in need as far as the economy is concerned. The EE targets, in this regard, ought to be linked to the Skills Development demands and requirements (and the reverse also ought to be the case; the skills that companies focus on should assist in meeting EE targets).</p>	<p>focus on the key areas of management. It specifies the “levels” that companies ought to plan for as far as EE targets are concerned, but it does not give priority to the “areas” that are critical.</p>	<p>Scorecards of 2007. The assumption still seems to be that any “senior manager” is fine, irrespective of whether they are confined to the “services fields” or to the core fields of the business (e.g. operational or technical). The Draft Code for “Management Control”, which is not covered in this study, seeks to address this concern. It splits the type of “top management” that should be measured for control. In the principles, examples are given that suggest that more emphasis should be placed on getting black (and women) executive directors and in the core areas of the business. This same principle that is used by the DTI for the “Control” Scorecard ought to be used for EE.</p>
<p>4. A BBBEE strategy ought to be underpinned by a clear theoretical framework or a conceptual framework that clearly links it to the long-term goals that are desirable (e.g. Economic growth, Human Capital Development, etc).</p>	<p>The Draft Codes of 2005 were found wanting in this regard. This is not necessarily an EE issue, but one that ought to be articulated in the overall BBBEE strategy or within the principles of BBBEE.</p>	<p>The final Scorecards of 2007 have a number of principles for measuring the various indicators. In the case of EE, these do not necessarily address the overall conceptual framework. However, the reference to the EE Act and the need for Measured Entities to seek to first meet their EE targets (before they get bonus points for BBBEE) targets is a welcome addition. This links the attainment of EE objectives in the BBBEE</p>

		process to the original EE legislative requirements. To a large extent this will help to ensure that the EE components of the BBBEE Scorecards are not viewed as mere “point scoring” devices (for government tenders, etc).
<b>SKILLS DEVELOPMENT</b>		
1. The SD interventions should focus on “scarce” skills as well as on “critical skills” so that the Human Capital that is developed is that most needed by industry and the country as a whole.	The Draft Scorecard for Skills Development (DTI, 2005) was commended for its definition of “scarce skills” and “critical skills” and for linking this to the National Skills Development Strategy.	The final Codes (Statement 400) include some “Key Measurement Principles” (para: 3, p: 55). Among these principles is that Measured Entities must implement programmes “targeted at Priority Skills”. This is a welcome principle and it is in line with the need for focus. The 2007 Scorecard also introduces a new concept the Learning Programme Matrix. This will enable the Minister to specify the types of programmes that will be recognized for BBBEE purposes. This is another welcome development which will further assist in ensuring that the most needed skills are the main focus.
2. Learnerships that are focussed on critical skills and that are linked to industry needs.	This principle was lacking in the 2005 Draft Scorecard for Skills Development. Its absence was critiqued on the basis that Learnerships could continue being used as mere “skills rebate” collection instruments, and not linked to industry skills	The final Code of 2007 effectively addresses this principle. It refers to the Learning Programme Matrix where the various skills that will be recognised for Learnerships (for BBBEE scoring purposes) will be

	needs and to priority skills.	specified. The categories of Learnerships that are encouraged and recognised (see point 2.1.2 of the new codes, Code 400), are also specified. Priority will be given to Categories D-B. Categories C and B are the most professional categories, with A requiring a degree and D requiring some accredited qualification.
3. Skills Development needs to be broad-based and to include people who are outside of the “formal labour market”. This will assist with employment creation and the enhancement of the general competence.	The Draft Scorecard of 2005 was commended for including “formerly unemployed” people and people from rural areas as target groups for skills development. This way companies would be encouraged to go beyond their immediate workforce to assist the nation as a whole.	The 2007 Scorecard for Skills Development makes no reference to the training of “formerly unemployed people” or to people “formerly living in rural areas”. This is an unfortunate omission in view of the facts mentioned under the 2005 column. The greater emphasis on gender is welcomed (e.g. through the Adjusted Recognition for Gender) but the need for skills in the country is more pronounced in the rural areas.
<b>3. Organisational Transformation</b>		
The Organisational Transformation approach was recommended as a useful paradigm for approaching BBBEEE. Its various components were elucidated.	The 2005 Draft Scorecard for Skills Development included an Organisational Transformation Index. This was found to be commendable as it was seen to be in line with the literature that was reviewed. The OT approach to BBBEE was seen as touching on the “qualitative aspects” of empowerment as an	The final codes of 2007 omitted the Organisational Transformation Index. This is unfortunate as it takes away the “qualitative” aspects of BBBEE. Without the OT dimension, BBBEE risks becoming a reductionist and mechanical numbers game. The OT Index introduced the

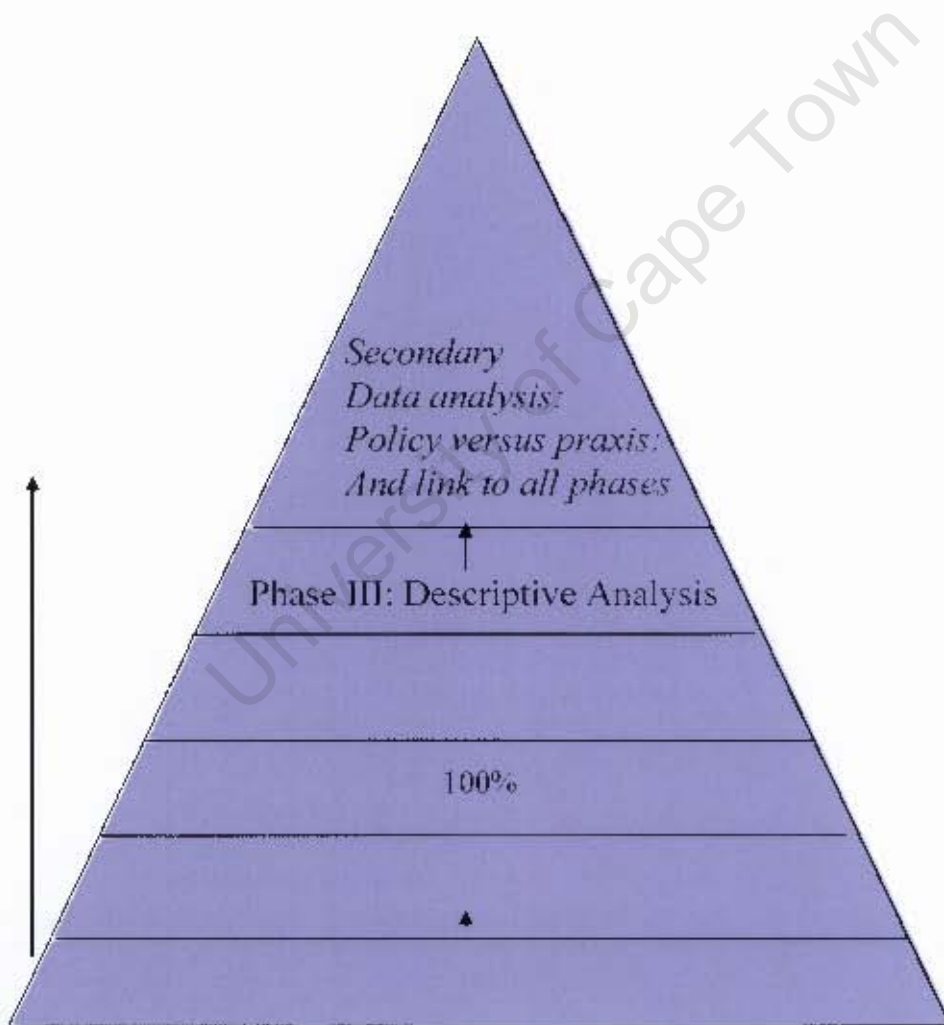
	Organisational Transformation intervention.	need for Board involvement; CEO commitment; Integrated HR strategies; Enforcement and Monitoring mechanism, etc. The omission of the OT index, with all its components is found to be a set back for BBBEE.
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## CONCLUSION OF COMPARATIVE ANALYSIS

The final Codes (DTI, 2007) introduce a few critical components or aspects which are good for a Human Capital-based approach to BBBEE. The EE targets, for instance are split into two five-year time frames. These time-frames are good for long-term planning and they also introduce some “exit” point for the process. The 2007 Scorecard (for Skills Development) also introduces the concept of a Learning Programme Matrix. This is a welcome introduction as it will assist to ensure that there is more focus on the critical skills and at the most important levels. The 2007 Scorecard is found wanting, however, in its omission of the Organisational Transformation Index. Without this qualitative element, BBBEE risks becoming a mere legal compliance matter. The OT Index of 2005 was a very welcome instrument as it introduced the important “Organisational Transformation” element to the BBBEE debate. At the end, BBBEE will have to be driven by organisations themselves. Its long term success depends on the buy-in by the Board; CEO commitment; a clear vision and all the elements that were in the 2005 OT Index. It is therefore hoped that companies will continue to use the OT Index (DTI, 2005) as a reference point in developing and implementing their BBBEE strategies. The implications of the above findings are discussed further in the Discussion section that follows. The Discussion section makes reference to the literature on Human Capital Development and it analyses the findings with this literature in mind. Recommendations are then made for a HCD-based Strategy for BBBEE. All this pertains to the policy and strategy, it still does not say anything about what organisations and companies have been doing ‘on the ground’. The next section looks into the actual performance of companies on skills development and EE.

This last phase of the research represents the Apex of the 'Triangle of Triangulation'. It seeks to match policy with practice. Its aim is to use the analysis of data on the actual performance of companies to evaluate the extent to which the aims and objectives of the BBBEE policy; codes; scorecards and targets are being met. This is also in view of the fact that the Employment Equity Act of 1998 and the Skills Development Act of 1998 preceded the BBBEE Act (of 2003) and the BBBEE Codes of 2007. By 2007 all major employers would have had at least seven years (since 2000) to implement employment equity and skills development. So, what's the score?

### 'TRIANGLE OF TRIANGULATION'



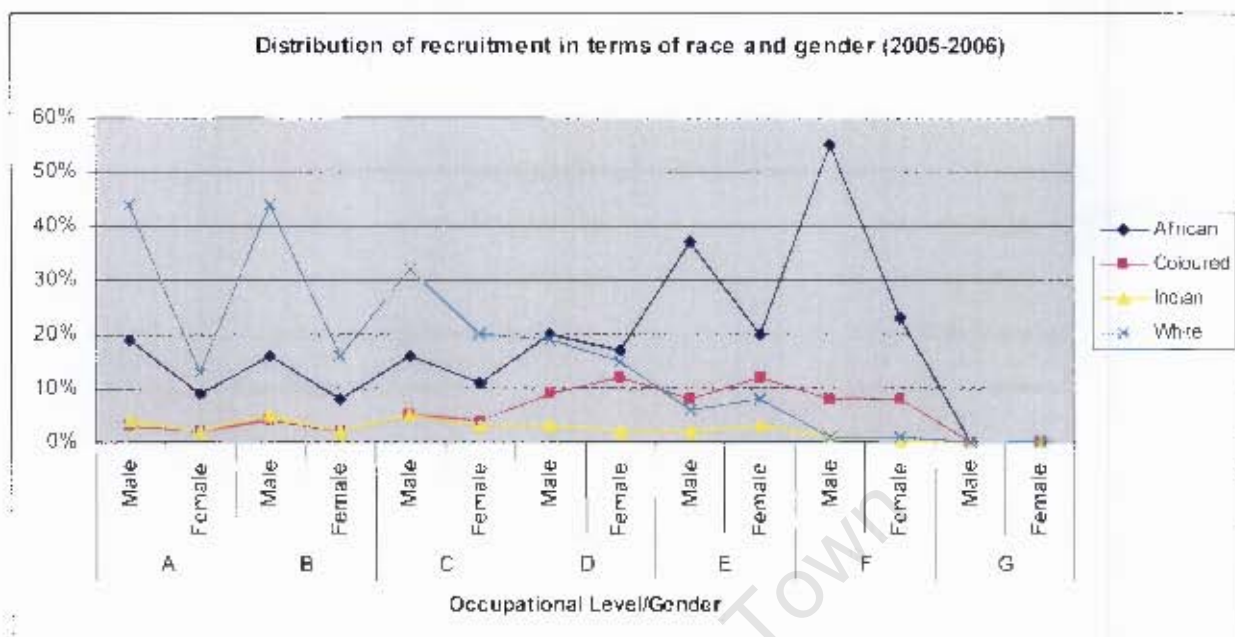
### PHASE THREE: DESCRIPTIVE ANALYSIS

This section reviews the extent to which the professional-to-management echelon in South Africa is beginning to reflect the targets set in the BBBEE Scorecards for Management Control; Skills Development and Employment Equity. The point of all this legislation; charters and scorecards is to create a truly diverse and non-racial workforce, which should reflect a move away from the racial labour policies of apartheid. It is pertinent therefore for an enquiry into BBBEE in South Africa to examine the actual practices of employers. It is the practices that matter in the long run. If the recruitment; training; development; promotion and such practices do not change to advance racial and gender equity, the country will continue to replicate the apartheid colour bar in its distribution of skills, and in its profile of managers. Not only would this be against the constitution and the laws of the country, but it would be a counter-productive tendency from the human capital development point of view. The tables and graphs below were based on the analysis of the various Annual Reports of the Commission for Employment Equity (CEE); particularly the latest that was available at the time of the study (2006/7). This is in line with the descriptive analyses method that was described in the research methodology section (Bryman *et al*, 2007; Zikmond, 1997; Bless *et al*, 1993). The analysis was also done in accordance with the principles of secondary data analysis (e.g. Bryman *et al*, 2007).

#### Method

The original source of data is the various reports that companies and other employers are legally obliged to submit to the Department of Labour (on the first day of October); in terms of section 21 of the Employment Equity Act of 1998. These reports are then analysed by the Department of Labour as part of its employment equity compliance process. The Commission for Employment Equity, which advises the Minister of Labour on Employment Equity matters, then prepares several annual reports on employment equity progress. These reports make use of these data. The researcher, in turn conducted further analysis of these data, using tabulations; percentages and frequency distributions (according to the guidelines described in Bless & Kathuria, 1993, *inter alia*). The outcome of this secondary data analysis was the generation of graphs and histograms (as outlined in Bryman *et al*, 2007; Zikmond, 1997; Bless *et al*, 1993). The details on these descriptive analysis methods were covered in the section on methodology. The main data sets and population characteristics can be found in the Commission for Employment Equity Reports of 2002 - 2007. Only the demographics that are applicable to each figure are summarised.

**FIGURE 1 : Recruitment by race and gender in 2005 and 2006**



### Occupational Levels

- A – Top Management
- B – Senior Management
- C – Professionally qualified and experienced specialists and mid-management
- D – Skilled technical and academically qualified workers, junior management, supervisors, foreman and superintendents
- E – Semi-skilled and discretionary decision making
- F – Unskilled and defined decision making
- G – Total Permanent
- H – Non Permanent employees

### Source:

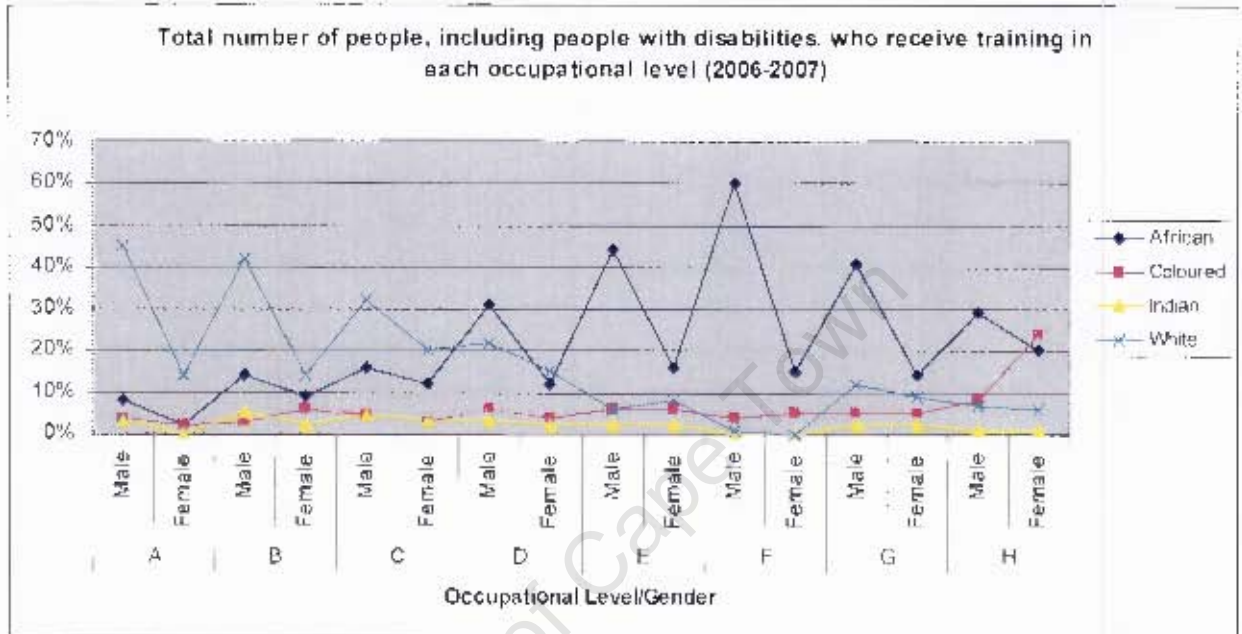
Commission for Employment Equity Annual Report 2005-2006 (Table 8, p. 34).  
 Demographics: 930 individuals, includes all races; males and females (South African citizens).

The following observations can be made from the graph above:

There was limited recruitment of people into the top three layers of management during the period 2005 to 2006. The little recruitment that took place seems to have been of black (African) males, in the main. This would constitute a few posts in real number terms. The representation base is very low, to begin with. At the lower levels, the “Irish Coffee” syndrome continues to be replicated (with white people on top – and black people at the bottom). The overwhelming proportion of people who were recruited into the lowest three levels is black people (almost exclusively Africans). These are the semi-skilled to unskilled levels. At the lowest level, “Unskilled Occupations”, African women dominate. This is the only category where there are more black African women than any other group. In other words, black African women are still going to dominate the lowest levels of employment for the foreseeable future. Claims that this group is the most disadvantaged of all groups in

South Africa are therefore corroborated by the statistics that employers submitted to the Department of Labour on their actual recruitment practices for 2005 and 2006. So, in terms of the most recent trends, black people constitute the largest recruits at the lowest levels. Black African women are at the bottom of the employment hierarchy and this trend is being reinforced.

**FIGURE 2: Number of people who received training in 2006/7 by race and gender**

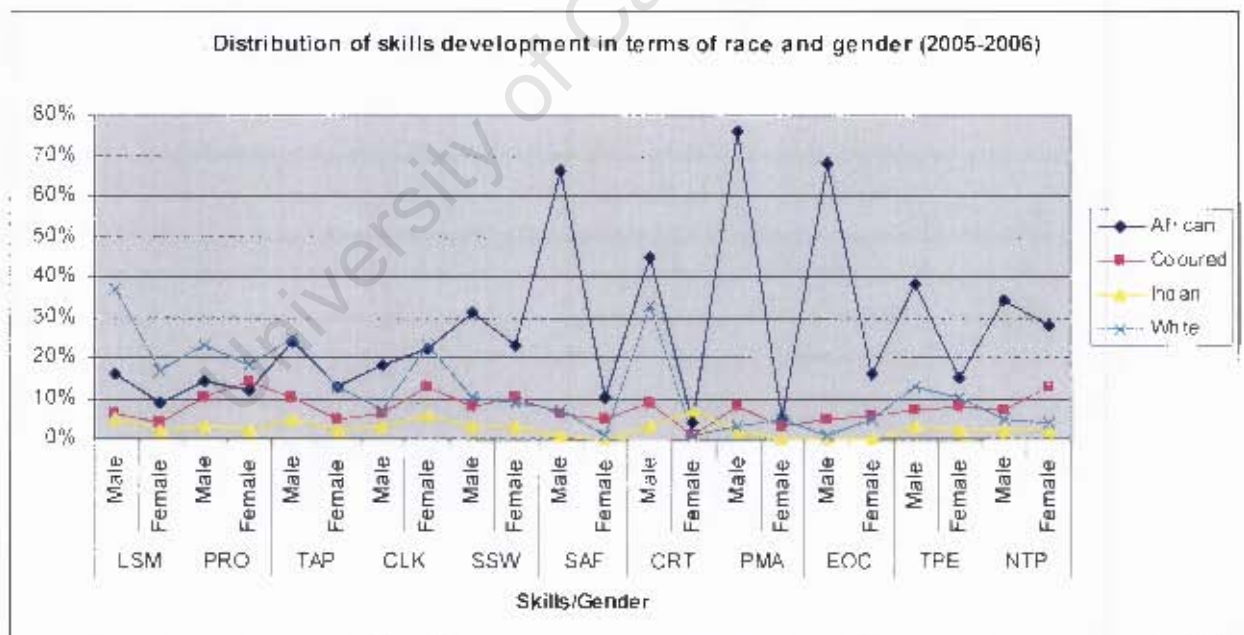


Source: Commission for Employment Equity Annual Report 2006-2007, Table 12, p. 39. Demographics: 649127 individuals, includes all races; males and females; excludes foreign males and females.

The percentage of employees who received training between 2006 and 2007 mirrors the percentages of employees who were recruited between 2005 and 2006. The highest number of people who received training was at the lower levels of the organisational/ employment hierarchy. Levels E and F above represent “Semi-skilled to Unskilled” workers. This trend is not going to assist the country to develop the scarce and critical skills that are in short supply. It smacks of a tendency to spend money on the lower levels, where there are huge quantities, but where the returns on that investment are not likely to result in improvements in the quality of skills. This may raise suspicions regarding the actual motives behind such training, including the hypothesis that such training is done in order to claim rebates on skills development (according to the Skills Development Act of 1998 and the Skills Levies Act). The motive may therefore be financial rather than that of human capital development. This flies against the face of the recommendations by Horwitz (2007) and Borat (2004)

on skills development. If anything, the disjuncture between the skills that employers claim are missing or in short supply and the reality that most of the skills development is targeting very low levels, points to the need for organisational transformation. It points to the need for a different view of skills development and its purpose. As argued earlier, skills development ought to be linked to long-term human capital development. There also should be a direct link between the level of skills that are being targeted and the skills needs of employers. The opposite is the case in South Africa. The next graphs also probe into the connection between the levels into which people are recruited versus their race and gender. It also enquires as to whether there is any "movement" upward based on the proverbial "growing our own timber" mantra. If this mantra is being observed, then visible or demonstrable progress should be observed, over the years, of people moving from middle ranks to higher ranks. This would prove the link between skills development and employment equity.

**FIGURE 3: Skills development levels by race and gender**



Source: Commission for Employment Equity: 2005-2006 Table 15 pg 50  
 Demographics: 1,532,207 individuals, includes all races; males and females.

### Skills

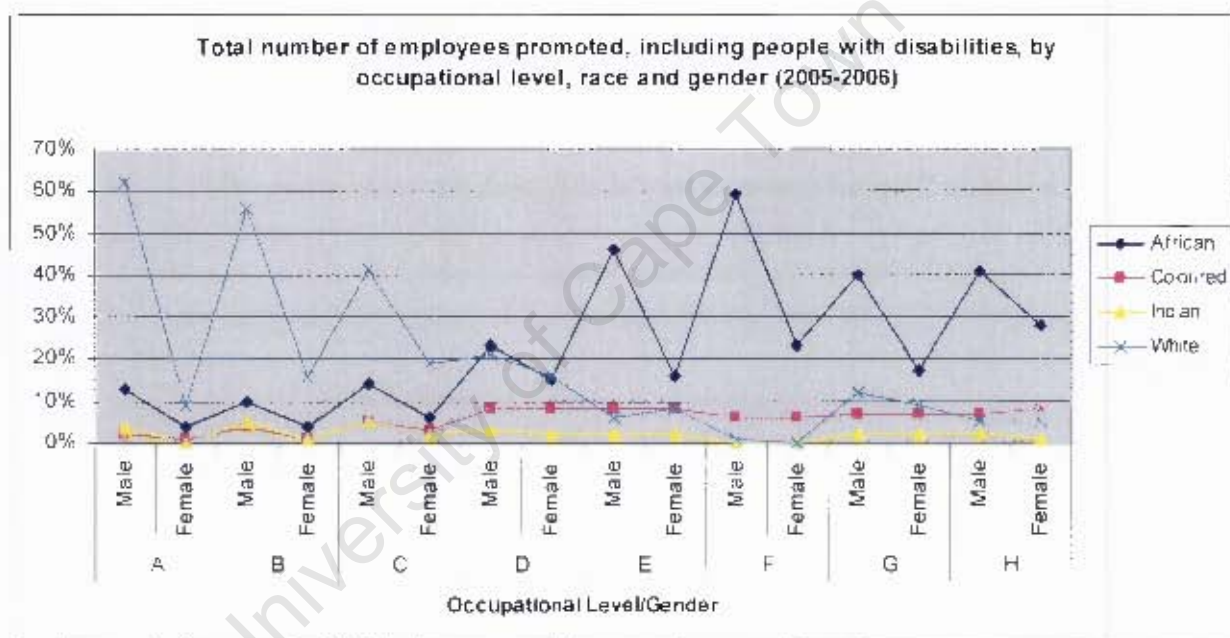
LSM – Legislators, Senior officials and Managers  
 PRO – Professionals  
 TAP – Technicians and Associate Professionals  
 CLK – Clerks

SSW – Sales and Service Workers  
SAF – Skilled Agricultural and Fishery Workers  
CRT – Craft and Related Trade Workers  
EOC – Elementary Occupations  
PMA – Plant and Machine Operators and Assemblers  
TPE – Total Permanent Employees  
NTP – Non Permanent Employees

Only about 12 % of the total number of people who received training in 2005-2006 was in “higher levels” in the occupational hierarchy (i.e. “Professionally-qualified employees, including middle managers”). This is a concern that is in line with the observations made in the graph before. The “middle layers” are the potential sources of future managers, including “Top Management”. The “Top Management” layers are still predominantly white and male in their racial profile. The majority of skills, in terms of the country’s racial demographics (as well as its transformation project) are expected to come from the black population. It is therefore ironic that the percentage of black people who received training in 2005-2006 is exactly the same as that of white people at the “middle management” level. This does not bode well for the diversification of this level; as well as the next level (Top Management) in the foreseeable future. At the “Skilled Agricultural and Fishery Workers” category, there are some notable positive bumps in the number of black people (overwhelmingly male) who received training. This is a declining sector however, in terms of the labour market trends’ analysis that was conducted earlier (See Borhat, 2004 in the literature review section). A welcome finding is the amount of skills development that went into “Plant and Machine Operators and Assemblers” (PMA in above graph). The fact that some 75% of the skills development went into this is good for the development of technological and operational skills. This is one area where there is a serious skills shortage in the country. A cause for concern though is the almost exclusively male nature of the training that went into this category (dominated by black African males). The above is in stark contrast with the lower level (Elementary Occupations) where we start noticing some female employees. Once again the huge percentage of skills development that goes to Elementary Occupations (70%) calls into question the intended purpose of such skills development. The huge volumes of people at “Elementary Occupations” who receive skills development cannot be justified on the basis that they do not have skills. By definition, “Elementary Occupations” do not require much skill. More research would need to be

done to probe into this, but for now the most obvious incentive or motive would be skills development levy rebates. It is not the human capital development motive and definitely no proof of any link to the attainment of BBBEE targets. Maybe the situation is better when it comes to promotions. It could be that a lot of black people and women are being promoted ('fast tracked') up the corporate ladder. So, looking at the training or skills development statistics may be unnecessary. Perhaps it is true that most black people are ready and they do not need to be 'perpetual trainees'. So, let us proceed immediately to examine the promotion stats, in great anticipation.

**FIGURE 4: Total promotions in 2005-6 by race; gender and disability**



Source: Commission for Employment Equity 2005-2006 Table 6, p. 22.

Demographics: 2,365,259 individuals, includes all races; males and females.

### Occupational Levels

A – Top Management

B – Senior Management

C – Professionally qualified and experienced specialists and mid-management

D – Skilled technical and academically qualified workers, junior management, supervisors, foreman and superintendents

E – Semi-skilled and discretionary decision making

F – Unskilled and defined decision making

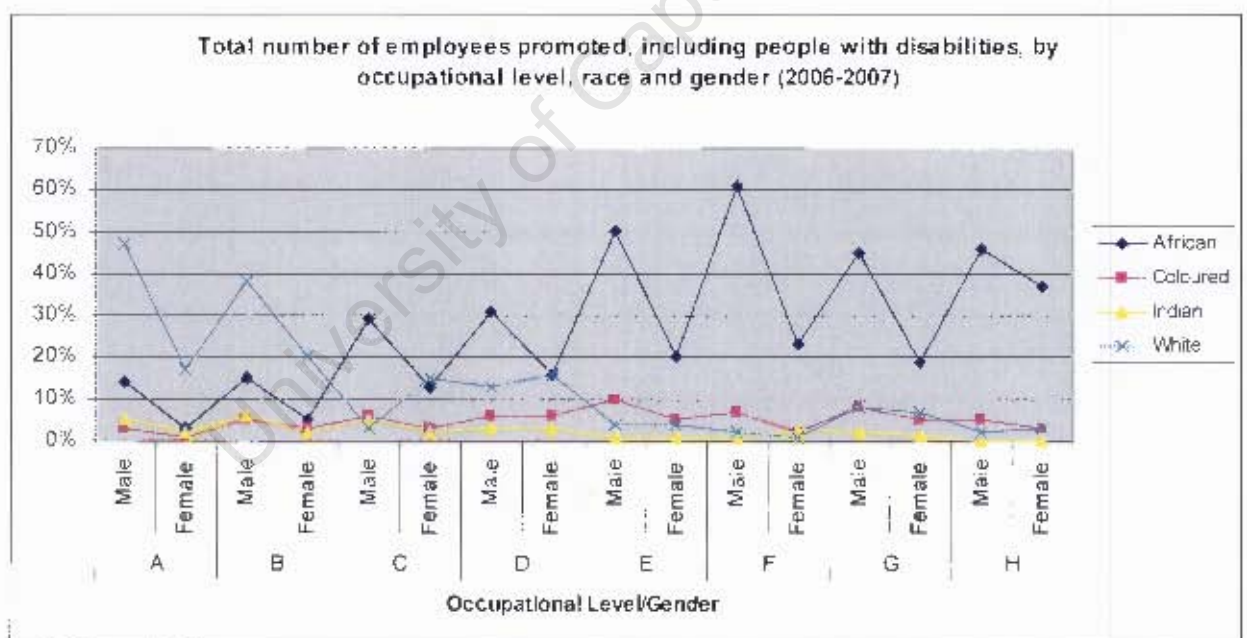
G – Total Permanent

H – Non Permanent employees

The largest number of promotions are in the “Unskilled” levels; and the majority of such promotions are black and African. Of all the promotions that were reported in

2005-2006, the majority were in the “Semi-skilled to Unskilled levels”. So the picture is that of a country that is spending money on elementary employees (when in fact the shortage is at higher levels) and also promoting semi-skilled and unskilled employees. The critical levels of “Skilled Technical and academically-qualified workers; junior management; supervisors; foremen and superintendents” (D in the above graphs) are not the focus of training nor are people being promoted from this level. This again begs the question of how the country will ever solve its alleged skills shortage. The above trends do not make any sense whether viewed in terms of human capital development (where investment is needed in scarce and critical skills); employment equity (where diversity is required at the senior levels) nor competitiveness (which is linked to the improvement of critical skills; particularly at level D). This was the case for 2005-2006; it could have changed by 2007. Let us look at 2007 figures below.

**FIGURE 5: Promotions by occupational level in 2006- 2007**

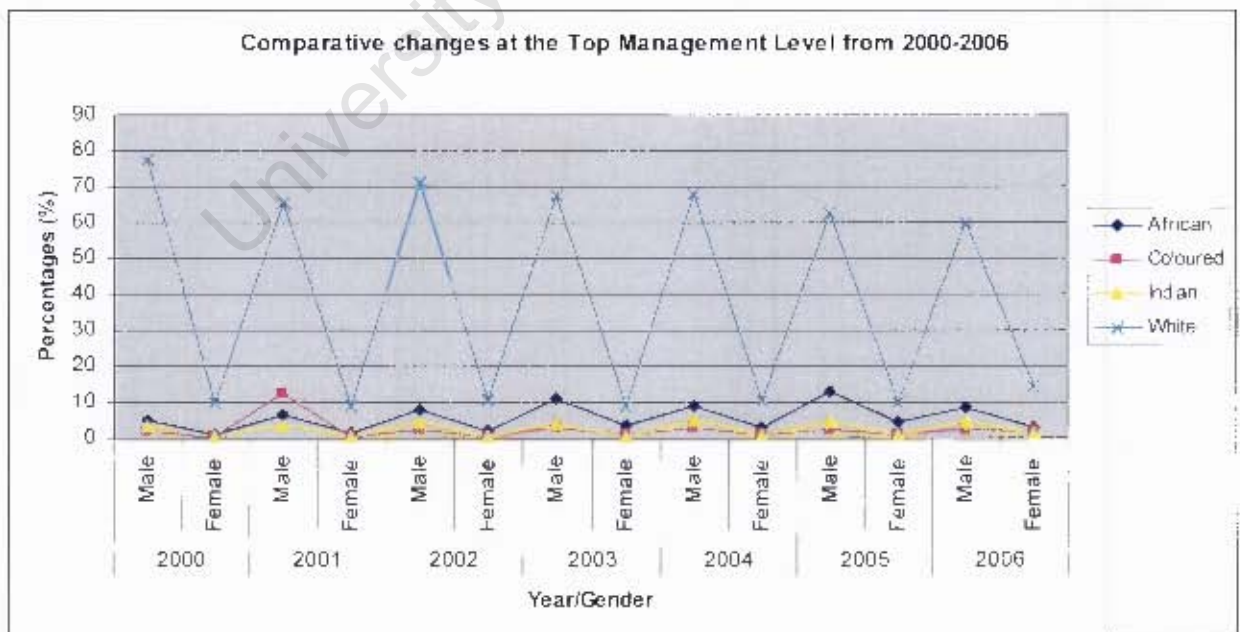


Source: Commission for Employment Equity Annual Report: 2006-2007 Table 10, p. 31. Demographics: 156700 individuals, includes all races: males and females

The “lower-level” promotions of 2005-2006 are repeated in the reports for 2006-2007. This means that it is an established trend to focus on the very low levels; where promotions have no impact on the management of the company; or on the acquisition of high level skills by the incumbents. The slight increase in the number of black people who were promoted at level C (“Professionally qualified and experienced

specialists and mid-management”) in 2006/7 is a very welcome development. More promotions are required at this level (e.g. 60%) rather than the reverse, where they only account for 30%; whilst level F (“Unskilled and defined decision-making”) accounts for a staggering 60% of “employees promoted”. In terms of the points raised by Mincer (1993) earlier on “allocative efficiency”; it appears that there is a bottleneck in terms of promotions. Black people may therefore not be getting opportunities to practice their skills or to gain experience at the levels that matter. Once again, this ought to change if a BBBEE strategy that is driven by human capital and organisational transformation is to be successful. The “BBBEE Mill” is not turning, as far as the foregoing statistics are concerned. But why worry about skills and promotions? Employment Equity has been the law since 1998 and companies have been applying their own measures before then anyway. So, maybe most employers already have racially and gender representative management teams (and may just be focusing on disability). So, what do the figures on the actual racial and gender representation at top management level look like? Perhaps we do not need all this BBBEE intervention; the Scorecards; Department of Labour intervention after all?

**FIGURE 6: Changes at Top Management level (2000 – 2006), by race & gender**

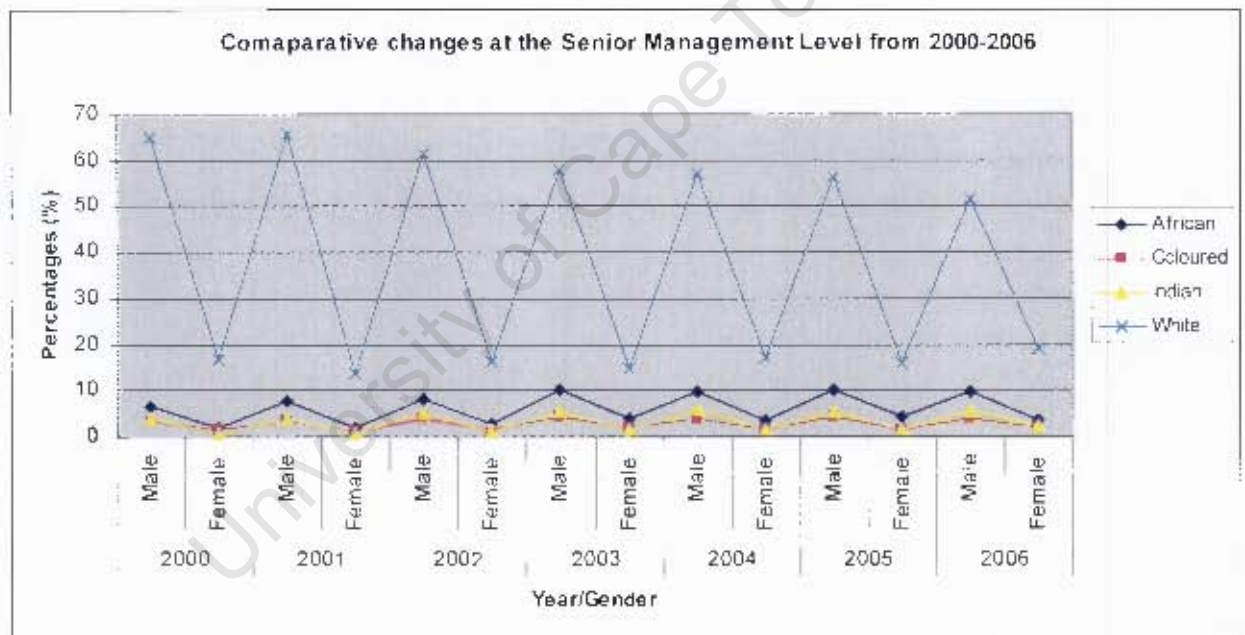


Source: Commission for Employment Equity Report: 2005-2006 Table 17, p. 56

The graph on “comparative changes at Top Management Level” indicates that the quantum of change in the racial and gender profile of “Top Management” has hardly

shifted between 2000 and 2006. This is in spite of the Employment Equity Act of 1998; the Skills Development Act of 1998; the Black Economic Empowerment Act of 2003; the Black Economic Empowerment Codes of Good Practice of 2003; 2005 and 2007 and the numerous BEE charters and scorecards that almost every industry has got. These policy and strategy interventions are not bearing fruit in the actual numbers. This goes for Top Management, as well as the next level, Senior Management, discussed below. This finding, as well as most of the other observations, is diametrically opposite the one that was predicted in the propositions (Proposition 3). Proposition three is therefore not confirmed as evidence indicates no effort by employers to redress the racial and gender imbalances in their practices.

**FIGURE 7: Senior Management demographics between 2000 up to 2006**



Source: Commission for Employment Equity Report 2005-2006 Table 18, p. 57

The Senior Management level also experienced negligible improvement in terms of race and gender diversification between 2000 and 2006. White males are by far the most dominant group at Top Management as well as Senior Management levels, hovering between 65% in 2000 and 50% in 2005. It is noteworthy that white females are far higher in number than all the black groups. This is the case at Top Management level (although the various black groups are on par with white women from time to time); but it is more stark at Senior Management level. It is interesting to

observe that white females have been hovering around 15 % at the Senior Management level since 2000 and they have maintained this share of management. The share of black managers has remained below 10 % during this period, with black males locked at 10% for the entire period; whilst Coloureds and Indians stayed at about 5 % for males and less than 2% for females. It is the static nature of this graph that should be of most concern. One would have expected a radical de-racialization of this particular layer, given the laws and charters noted above. The fact that black women's representation has remained so low also means that the country (or some sectors!) is not shifting from its apartheid employment practices. The radical change in the policies is not matched by the practices. This once again goes directly against the anticipated change as in P3.

**FIGURE 8: “Professionally Qualified ...including middle managers”: 2000-06**



Source: Commission for Employment Equity Report: 2005-2006; Table 19, p. 58.

At the “Professionally qualified levels, including middle management”: the ratio of black people to white people has actually been narrowing, but in the wrong direction (in terms of Proposition 3). One would expect the number of black professionals and middle managers to increase at a faster or higher rate than that of white people (given the demographic over-representation of white people, at these levels, which the country is seeking to correct). Instead, from 2003, the number of black people started

to decline and this worsened in 2005. The Commission for Employment Equity Report (2007) reveals that the number of black “Professionally-qualified employees, including middle managers” has actually gone down by half between 2003 (where blacks constituted just above 20%) and 2006 (down to 10%). This has not been due to a decline or reduction in the “level” in general because the number of white people at the same level has not gone down in a similar manner. On the contrary, the decline in the number of black males (at professionally qualified and middle management levels) in 2006; was offset by the increase in the number of white males. So, in 2006, the country experienced virtually the same percentage change in the number of black people at the middle management level as the change in the number of white people at the same level. At this rate it should be obvious that the transformation; diversification and empowerment process will take a few more decades before anything like racial parity is approached at the middle to senior levels of employment, particularly in the private sector. The skills that will be developed will continue to mirror the apartheid colour bar at work, unless something drastic happens. It is not just the training and promotion practices that ought to change; but the quality of these practices and the levels that they are targeting would need to improve radically. In this regard, the more targeted approach of the Broad-Based Black Economic Empowerment Codes for Management Control; Employment Equity and Skills Development seems to hold promise for introducing the much-needed focus. It is only through a targeted and focused approach to employment equity and skills development that we are likely to see any major change in the racial and gender profile at the key levels of employment. The statistics also call into question the commitment of the leadership of companies and organisation in South Africa. If the foregoing percentages were for their “Return On Investment” in black people or their “Performance Bonus Targets” for equalizing opportunities, many a head would roll. Horwitz’ (2007) assertion that companies ought to take more responsibility for transformation and empowerment therefore appears to be an understatement. This also confirms this thesis recommendation of a new leadership style and approach, backed by a transformational approach to BBBEE instead of a transactional one. This leads us into the final section of the thesis; the Discussion and recommendations.

## CHAPTER 5

### DISCUSSION AND RECOMMENDATIONS

#### **Organisational Transformation and Transformational Leadership**

The inclusion of the Organisational Transformation (OT) Index under the Skills Development Scorecard (DTI, 2005) was found to have been an appropriate step, in line with human capital development. It was submitted that if this element were retained it would assist companies and organisations to understand the seriousness of the qualitative aspects of BBBEE. The OT Index formalises the critical role of strategy; top management commitment; supportive policies; enforcement mechanisms and all the other “leadership and managerial” responsibilities (DiMaggio & Powell, 1983; Miller & Friesen, 1984; Tushman & Romanelli, 1985). The inclusion of the “leadership and managerial” responsibilities for BBBEE success also assists in putting the onus for organisational transformation where it belongs; with the Board of Directors; the CEO (who should be guided by the Board) and top management (who should be led by the CEO or her equivalent). The study found that all the behavioural characteristics of a Transformational Leader are also encapsulated in the OT Index. Transformational Leadership is not explicitly referred to in the OT Index or in the BBBEE Scorecard (DTI, 2005), but the elements that are in the OT Index are in line with the literature and theory on Transformational Leadership. It is recommended that more emphasis should be made of the critical role of the Board of Directors in taking responsibility for the BBBEE process. This should be done for good and proper reasons. These reasons are articulated in the rationale section of the BBBEE framework that is recommended in this study. The BBBEE framework ought to constitute the basis for the development of a tailor-made BBBEE strategy for each company. The Rationale for BEE; vision for BEE and business case should be part of this strategy. Furthermore, Boards of Directors should ensure that the CEO and her top management team embrace the Transformational Leadership approach to BBBEE in particular and to leadership in general. This includes seeking the true empowerment of employees and the creation of an empowered environment, beyond mere compliance with BEE targets. Such an approach should also lead to the enhancement of the quality of the empowerment experience, as discussed earlier. CEO’s should

take accountability for the success or failure of the BBBEE strategy. Their performance and rewards should be linked to this, like all other key indicators of company success or performance.

The OT element of the BBEEE Scorecard is also the excellent place where the interaction between the various components the BBBEE strategy can be illustrated. The OT Index (see Code 400, DTI, 2005 in Appendix) makes specific reference to the need for an HR Plan; Policies and Procedures; Implementation and Enforcement Mechanisms; Appropriate Structures; Communication processes and so on. This is found to be a critical and a missing angle in the whole BBBEE strategy and policy process so far. Most companies stumble upon BBEE when they suddenly find that they have to comply in order to access one economic opportunity or another. BBBEE then becomes a quick fix intervention that is done in a reductionist and mechanical manner, with the focus being on sorting out the “minimum compliance requirements”. This approach, needless to say, results in “malicious compliance”; fronting; tokenism and playing the numbers game. An OT approach to BBBEE requires a radically different approach. It requires the organisation to understand what BBBEE is about. The company or organisation needs to develop a long-term strategy for BBBEE. This strategy must have a clear vision and rationale for BBBEE. The organisation must establish a clear and strong case for BBBEE. An integrated and multiple-outputs approach must then be followed. The elements of this are outlined in the BBBEE strategy that is proposed in this study. This then requires CEO and top management responsibility for driving and the Transformational Leadership approach ought to under gird such driving. The omission of the OT element in the final Codes of 2007 is therefore found to be a huge set-back towards the attainment of a Human-Capital Development Based approach to BBBEE. It is the recommendation of this study that this omission ought to be reviewed by government policy-makers. However, it is also the strong contention of this study that economic empowerment should not be seen as the responsibility of government alone. Given the significance of the HCD-based approach to BEE, each company ought to develop its own strategy and to take the implementation of same seriously. The OT and TL aspects should therefore be the company or organisation’s own contribution and this does not need to depend on the government “codification” process. Companies should embrace the OT approach.

### **Implications of an HCD-based BBEE strategy for EE; SD and ED.**

The Human Capital Development principles are indivisible in the sense that the development of skills is good for the economy as a whole (e.g. Becker, 1993; Mincer, 1993; Samstad *et al*, 2005). The economic development rationale for BBEE holds, whether the human capital concerned is developed for Employment Equity (EE); Skills Development (SD) or Enterprise Development (ED) purposes. In the HCD model, the latter areas or elements are mere fields of application. Skills should not be developed for just one or two of the elements of BBEE. In fact it should be an integral part of the BBEE strategy to have a broad perspective of the potential gains and outputs of each of the elements. The findings of the last phase: descriptive analysis are particularly telling in this regard. The experience that black people and other designated groups can acquire via EE should be viewed as part of their preparation to be leaders as well as potential suppliers of goods and/ or services to the company or industry (Preferential Procurement).

Skills Development should not be viewed merely as a tax or levy that needs to be paid in order to get some rebate (or because it is a legal requirement) (e.g. Lee, 2002). This opportunity to develop skills, via the elaborate SD process ought to be used strategically to develop the core and critical skills that will assist both the concerned company; the industry and thereby the whole of South Africa (see Borhat, 2004 and Horwitz, 2007). BBEE therefore needs to have a strategic approach to SD, which, *inter alia*, identifies the various skills that are required and develops a long term plan of addressing these. The “need” or demand should not only be based on the current requirements of the industry or company, but it should also take care of Employment Equity and Enterprise Development requirements. The Department of Labour’s National Skills Development Strategy (NSDS) (Department of Labour, 2005) also has ‘Strategic Objective Three’ which is aimed at stimulating and supporting skills development in small businesses. The Skills Development strategy should therefore incorporate plans for Enterprise Development and the development of skills for other BBEE elements/ outputs as part of the company/ organisations integrated BBEE strategy. With regard to scarce skills, the Department of Labour (2005:55) notes that it is now generally accepted that skills shortages in key occupational areas are hindering future economic growth. The challenge of the BBEE strategy is to recognise that the scarce skills that the Department of Labour refers to are not only

important for EE and SD purposes, but that they are also important for SME development. For this reason the skills development process should be seen as an integrated package with multiple outcomes.

Employment Equity should not be viewed as the mere compliance with targets for “representativeness” at professional and top management levels. The experience and exposure that designated group members can get from the outcomes of the EE process are very important for the economic development of the country. This is in terms of both the “wealth effects” as well as the “competence effect”. According to the “competence-based” literature the distinctive capabilities of New Technology-based Firms (NTBFS) are closely related to the knowledge and skills of their founders. For a new, high-technology firm, the primary assets are the knowledge and skills of the founders (Colombo *et al.*, 2005). Any competitive advantage the new firm achieves is likely to be based upon what the founders can do better than others. For this reason, EE should seek to expose “designated group members” (a term used in the Employment Equity Act, No. 53 of 1998, to refer to Africans, Coloureds; Indians; and people with disabilities) to skills and experiences that will increase their “competence effect” and also enable them to be successful entrepreneurs if they choose this route. Approached in the integrated manner discussed above, BBBEE can then create the necessary human capital that will assist in the development of successful entrepreneurs for the country (not merely “EE Managers” and BEEE Skills targets). This is because what founders (of new businesses) know and can do is very much related to what they learned in the organization by which they were formerly employed (Cooper and Bruno, 1977; Cooper, 1985). For this reason, tokenism and window-dressing should be viewed as serious disabling forces against successful BBBEE. Tokenism and window dressing are therefore a drag on the economic development and growth of the country. A BBBEE strategy ought to recognise this and take measures to prevent it. It is the quality of the skills and the quality of the experience that should be the focus of the BBEEE strategy. Mere filling of posts for EE and mere training of designated group members for SD is not going to assist the country to achieve the economic development that a HCD- based BBBEE strategy seeks to achieve. Both the education and the work experience of founders were found to differently affect firms’ growth according to their specific nature (Colombo *et al.*, 2005:801).

## Skills Development

The focus on “core skills” and/ or “critical skills” is found to be very appropriate and useful for a BBBEE that is aimed at enhancing the “competence effect” of black people; women and black people with disabilities (See Samstad & Pipkin, 2005; Colombo & Grilli, 2005; Jung & Thorbecke, 2003, etc). This “focus” is important in Skills Development; for the same reasons that it is important in Employment Equity. The SD Scorecard is therefore commended for attempting to focus the “skills spend” on areas that matter for the industry. This, it has been argued, is good for enterprise development and for other elements of the BBBEE process (e.g. preferential procurement). The issue of the articulation between the various elements of BBBEE also goes for SD. The principle of articulation was emphasised in the focus groups that were reported on earlier. This way, the increase in the amount of spend on critical and core skills should be directly related and result in the increase in the number of designated group members who can fill up the posts in those critical and core skills-levels. An increase in one, should result in an increase in the other, if our BBBEE strategy is to be logical and articulated. The SD spend on the critical areas should therefore increase in order to meet the demand in EE targets (which should increase with time, concomitantly). Unfortunately this issue is not addressed in the final Codes of 2007, as far as Skills Development is concerned. The findings of phase three (descriptive analysis) in relation to proposition three, corroborate the above recommendations.

The above logic should apply to Learnerships. Learnerships targets in the Skills Development Scorecard (DTI 2005) are not linked to “core skills” or “critical skills”. The Learnership targets also do not have any time frames for their attainment. The rationale for the focus on the quality of Learnerships, in relation to the industry concerned, is the same as that of EE and SD. If Learnerships are used as mere means of complying with the Skills Levy requirements, so that organisations can claim their rebates, then industries will not reap the human capital benefits that such Learnerships should enhance. As a result the country will continue importing artisans and other skilled professionals whilst the Sector Education and Training Authorities (SETAs) continue to spend millions of rands on Learnerships and other skills development initiatives. The Learnerships ought to be integrated into the overall BBBEE strategy

and be linked to EE; Enterprise Development; Preferential Procurement and also Socio-Economic Economic Development objectives. Integration; focus and multiple outcomes should also be the guiding principle. The BBEE Scorecard of 2007 introduces the concept of a Learning Programme Matrix. This is a welcome development in as far as it helps to focus the country on the skills that are most needed. It however does not go far enough in addressing the above concerns. The BBEE strategic framework that was developed from the literature emphasizes the need for a focused approach to both skills development and employment equity. This study argues for the link between the scarce and cores skills that ought to be the target of Skills Development interventions and the EE targets that ought to be the output of such skills interventions, *inter alia*. Reasons for this were provided in the study, including the need to ensure that the skills development process is not an end in itself, but that the financial resources that are expended on skills assist in the development of the necessary “competence effect” that will create the an adequate supply of black and women professionals (including senior managers) This articulation between the skills development input and the EE outputs also goes for enterprise development. (See Colombo, 2005; Colombo & Grilli 2005; Cressy, 2000; Romanelli & Tushman, 1994; Shane & Venkataraman, 2000). Enterprise Development, it was argued, is very much a function of the type of education that new venture creators have received; the type and quality of experience that they received in their previous employment (which assists in their new ventures).

It is important to note that is the “quality” of the Skills that are acquired (including how core and critical they are to the industry concerned) and the quality of the experience that the black/ woman or person with disability incumbent obtains (in relations to the skills that they have got and to the industry they are in) that matter. “Competence Effect” is more than “Skills Spend” or training. It includes a person’s entire skills and qualifications profile, including their talents and abilities.. The Employment Equity side also includes more than the mere holding down of a job (for a number of years). It includes the challenges and responsibilities that the incumbent is exposed to in that job, in relation to the competence that she has got and in relation to the industry she is in. This is in line Mincer’s (1993) notion of allocative efficiency, via employment opportunities.

## **Employment Equity**

The fact that the 2007 Scorecard for Employment Equity includes two different time periods, is a welcome development. This is in line with the recommendations from the literature (e.g. DiMaggio & Powell, 1983; Miller et al, 1984; Wischnevsky et al, 2006). This addresses the omission in the 2005 Draft Scorecard for EE. The above principle is recommended for all the Scorecards where certain targets or percentages ought to be achieved (i.e. all the elements of BBEE, including Skills Spend; Preferential Procurement and Enterprise Development). This approach is also consistent with the Organisational Transformation definition of transformation, whereby it is seen as a “punctuated equilibrium” process (e.g. Miller and Friesen, 1984; Tushman & Romannelli, 1985; Wischnevsky & Damanpour, 2006; Cyert & March, 1963; Manns & March, 1978). OT also views transformation as a radical process that ought to take place over a specific period of time. The staggering of the compliance targets also enables employers and other organisations to build up their equity profile over the next seven years. This would be a good organisational transformation strategy as competence would be built up gradually. It would also enable learning and growth to occur over a period. This approach is backed up by Cooper and Bruno, 1977; Cooper, 1985; Colombo *et al*, 2005, among others. The dismal performance that was discussed in phase three (Proposition Three) of the analysis also corroborates these recommendations.

### **CONCLUSION: Theoretical and policy considerations**

The Draft Scorecards for Employment Equity; Skills Development and Organisational Transformation (DTI, 2005) are, in the main, aligned to the BBEE Strategy framework that was developed in the study. The analysis therefore finds in favour of the first proposition (P1). The final Codes and Scorecards of 2007 are also found to be broadly in line with the principles espoused in the literature as well as with the Human Capital Development approach. The omission of the OT index in the final Codes is found to be a negative development. For this reason the second Proposition, that the final Codes would be more compliant with a HCD-driven approach cannot be accepted. The Draft Codes of 2005 are found to be more compliant with an HCD-based approach than the final codes, especially in as far as Organisational

Transformation is concerned. There are a number of gaps and areas that require attention in future. These are discussed at length in the above section and in the implications. The next sub-section deals with the implications of the study as well as with areas for future research. There is virtually no coherent theory of BBBEE in existence in South Africa. This is understandable in view of the novelty of the policy and the approach. The development of such a theory is made even more difficult by the complex nature of the BBBEE policy and the related scorecard. They involve a number of normally unrelated interventions. This research has attempted a model that puts all of these interventions together under a coherent theoretical framework. It is hoped that future research will build on this study's findings and recommendations and that an integrated theory of BBBEE that explains the link between all its elements will be developed.

The BBBEE policy and its accompanying scorecards are still a new phenomenon (the Codes were only finalised in February 2007). A lot of review; amendments and even transformation is envisaged in the national and sectoral BBBEE policies and Scorecards. This research and its recommendations should certainly assist policy makers and implementers with a coherent framework and model to review BBEE. This should assist policy makers to better understand the implications of BBBEE at organisational (and not only at national) level, which in turn will ensure effective implementation of BBBEE. The study should hopefully assist in developing a common BBBEE language and this, in turn, should assist in professionalising the field. So far the BBBEE process has been very thin on scholastic constructs/paradigms. The study should also help to bridge the gap between the policy making process (which is state-driven) and the intellectual discourse (academically-driven).

Business, in the main, is the key "target" of BBBEE policy and scorecards. It is "business" that stands to lose licences; tenders; access to Public Private Partnerships (PPPs) and so on, if it fails to comply with BBEEE requirements. In the main, the government acts as the "contractor" or the party that issues licences or PPPs. The private sector is mostly the recipient or potential beneficiary of the licences and tenders. Most organisational leaders have been left without recourse to any independent resource to refer to in order to understand the phenomenon of BBBEE. This study, it is hoped, will assist concerned leaders in the private and public sectors

to review their philosophies and strategies for BEE. It should help them with the intellectual tools to think about BBBEE. The BBBEE strategy framework that is proposed should be of specific value and benefit in this regard. The specific recommendations on the various components of BBBEE and how they should fit together should also assist organisations to engage more effectively with BBBEE. This should ultimately assist the country to achieve the good objectives of BBBEE. These include the long term Human Capital Development and the resultant economic development and growth that is linked to this. It is recommended that the new National Industrial Policy Framework of the Department of Trade and Industry should ensure a stronger integration of BBBEE in every sector. In turn, all sectors should align their current and future human resource strategies to BBBEE objectives.

BBBEE is broader than the elements that were the focus of this study. It also includes Ownership; Control; Community Economic Development; Preferential Procurement and Enterprise Development. This study could not deal with all of these elements. It is recommended that future research should pay close attention to the issue of ownership. Ownership of companies will remain the key cornerstone of the capitalist system for the foreseeable future. The significance of black ownership of the South African economy can therefore never be sidestepped or downplayed in terms of its significance as a BBBEE barometer. This study looked briefly at how ownership relates to human capital accumulation. It explored the issue of the relationship between the “wealth effect” and the “knowledge effect”. This relationship warrants specific attention in future research. This goes for other important elements, such as Preferential Procurement and Community Economic Development. These warrant further in-depth study and analysis. Future research should also develop the BBBEE theoretical framework that was presented in this study further. The BBBEE Strategic framework that was developed in this study also requires further empirical testing and re-testing. The study has therefore provided a basis for future research at three levels; theoretically; policy-wise and practically/ empirically. An iterative process whereby such research feeds back to the BBBEE policy development process and whereby such process is improved as a result (which can then lead to further research) is envisaged and hoped for. Empirical research, including company case studies, should also assist in the exploration of successes and challenges in implementing the BEE Strategy and model. Future research should also examine the implementation strategies among the

various sectors of the economy. The performance of these sectors and the companies within them should be evaluated against the proposed strategic framework. This will in turn assist in the further development and refinement of a coherent BBBEE organisational strategic framework that will be based on theory as well as practice.

University of Cape Town

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## **APPENDIX ONE**

**BROAD BASED BLACK ECONOMIC EMPOWERMENT ACT, NO. 53 OF 2003**

University of Cape Town

12 JAN 2003



REPUBLIC OF SOUTH AFRICA  
REPUBLIEK VAN SUID-AFRIKA

Vol. 463 Cape Town, 9 January 2004 No. 25899  
Kaapstad, 9 Januarie 2004

THE PRESIDENCY

No. 17 9 January 2004

It is hereby notified that the President has assented to the following Act, which is hereby published for general information:—

No. 53 of 2003: Broad-Based Black Economic Empowerment Act, 2003.

MOPRESIDENTE

No. 17 9 Januar 2004

Go itsisiwi fano gore MoPresidente o saenne Molao o o latelang o o phasalediwang kitso ya botlhe fano.—

No. 53 wa 2003: Molao wa Katoloso ya go Nonotsha ikonomi ya Bantsho, 2003.



AIDS HELPLINE: 0800-0123-22 Prevention is the cure

*(English text signed by the President.)*  
*(Assented to 7 January 2004.)*

## ACT

To establish a legislative framework for the promotion of black economic empowerment; to empower the Minister to issue codes of good practice and to publish transformation charters; to establish the Black Economic Empowerment Advisory Council; and to provide for matters connected therewith.

### PREAMBLE

**WHEREAS** under apartheid race was used to control access to South Africa's productive resources and access to skills;

**WHEREAS** South Africa's economy still excludes the vast majority of its people from ownership of productive assets and the possession of advanced skills;

**WHEREAS** South Africa's economy performs below its potential because of the low level of income earned and generated by the majority of its people;

**AND WHEREAS**, unless further steps are taken to increase the effective participation of the majority of South Africans in the economy, the stability and prosperity of the economy in the future may be undermined to the detriment of all South Africans, irrespective of race;

### AND IN ORDER TO—

- promote the achievement of the constitutional right to equality, increase broad-based and effective participation of black people in the economy and promote a higher growth rate, increased employment and more equitable income distribution; and
- establish a national policy on broad-based black economic empowerment so as to promote the economic unity of the nation, protect the common market, and promote equal opportunity and equal access to government services,

**B**E IT ENACTED by the Parliament of the Republic of South Africa, as follows:—

### ARRANGEMENT OF ACT

#### *Sections*

1.	Definitions	5
2.	Objectives of Act	
3.	Interpretation of Act	
4.	Establishment of Black Economic Empowerment Advisory Council	
5.	Functions of Council	
6.	Composition of Council and appointment of members	10
7.	Constitution and rules of Council	
8.	Remuneration and reimbursement of expenses	
9.	Codes of good practice	

10. Status of codes of good practice
11. Strategy for broad-based black economic empowerment
12. Transformation charters
13. Support services and funding of Council
14. Regulations 5
15. Short title and commencement

### Definitions

1. In this Act, unless the context indicates otherwise—
- “**black people**” is a generic term which means Africans, Coloureds and Indians;
- “**broad-based black economic empowerment**” means the economic empowerment of all black people including women, workers, youth, people with disabilities and people living in rural areas through diverse but integrated socio-economic strategies that include, but are not limited to—
- (a) increasing the number of black people that manage, own and control enterprises and productive assets; 15
  - (b) facilitating ownership and management of enterprises and productive assets by communities, workers, cooperatives and other collective enterprises;
  - (c) human resource and skills development;
  - (d) achieving equitable representation in all occupational categories and levels in the workforce; 20
  - (e) preferential procurement; and
  - (f) investment in enterprises that are owned or managed by black people;
- “**Council**” means the Black Economic Empowerment Advisory Council established by section 4; 25
- “**members**” means members of the Council;
- “**Minister**” means the Minister of Trade and Industry;
- “**organ of state**” means—
- (a) a national or provincial department as defined in the Public Finance Management Act, 1999 (Act No. 1 of 1999); 30
  - (b) a municipality as contemplated in the Constitution;
  - (c) Parliament;
  - (d) a provincial legislature; and
  - (e) a constitutional institution listed in Schedule 1 to the Public Finance Management Act, 1999 (Act No. 1 of 1999); 35
- “**prescribe**” means prescribe by regulation;
- “**public entity**” means a public entity listed in Schedule 2 or 3 to the Public Finance Management Act, 1999 (Act No. 1 of 1999);
- “**strategy**” means a strategy for broad-based black economic empowerment issued in terms of section 11; and 40
- “**this Act**” includes any code of good practice or regulation made under this Act.

### Objectives of Act

2. The objectives of this Act are to facilitate broad-based black economic empowerment by—
- (a) promoting economic transformation in order to enable meaningful participation of black people in the economy; 45
  - (b) achieving a substantial change in the racial composition of ownership and management structures and in the skilled occupations of existing and new enterprises;
  - (c) increasing the extent to which communities, workers, cooperatives and other collective enterprises own and manage existing and new enterprises and increasing their access to economic activities, infrastructure and skills training; 50

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- (d) increasing the extent to which black women own and manage existing and new enterprises, and increasing their access to economic activities, infrastructure and skills training;
- (e) promoting investment programmes that lead to broad-based and meaningful participation in the economy by black people in order to achieve sustainable development and general prosperity; 5
- (f) empowering rural and local communities by enabling access to economic activities, land, infrastructure, ownership and skills; and
- (g) promoting access to finance for black economic empowerment.

**Interpretation of Act** 10

3. Any person applying this Act must interpret its provisions so as—
- (a) to give effect to its objectives; and
  - (b) to comply with the Constitution.

**Establishment of Black Economic Empowerment Advisory Council**

4. The Black Economic Empowerment Advisory Council is hereby established. 15

**Functions of Council**

5. The Council must—
- (a) advise government on black economic empowerment;
  - (b) review progress in achieving black economic empowerment;
  - (c) advise on draft codes of good practice which the Minister intends publishing for comment in terms of section 9(5); 20
  - (d) advise on the development, amendment or replacement of the strategy referred to in section 11;
  - (e) if requested to do so, advise on draft transformation charters; and
  - (f) facilitate partnerships between organs of state and the private sector that will advance the objectives of this Act. 25

**Composition of Council and appointment of members**

6. (1) The Council consists of—
- (a) the President, who is the chairperson of the Council;
  - (b) the Minister, with the Minister's Director-General as an alternate; 30
  - (c) three other Cabinet Ministers, appointed by the President, with their respective Directors-General as alternates;
  - (d) no fewer than 10 and no more than 15 other members appointed by the President.
- (2) When appointing members in terms of subsection (1)(d), the President shall have regard to the need for the Council— 35
- (a) to have appropriate expertise;
  - (b) to represent different relevant constituencies including trade unions, business, community-based organisations and academics.
- (3) In appointing members in terms of subsection (1)(d), the President shall follow an appropriate consultative process. 40
- (4) The President shall appoint a Cabinet Minister who is also a member of the Council to act as chairperson of the Council in the President's absence.

**Constitution and rules of Council**

7. (1) The Minister must establish a constitution for the Council. 45
- (2) The Minister may amend the constitution of the Council from time to time, after consultation with the Council.
- (3) The Council may, by resolution, and after consultation with the Minister, make rules to further regulate the proceedings of the Council.

**Remuneration and reimbursement of expenses**

8. Council members will not be remunerated for their services, but will be reimbursed for expenses incurred by them in carrying out their duties, as determined by the Minister, with the concurrence of the Minister of Finance.

**Codes of good practice**

5

9. (1) In order to promote the purposes of the Act, the Minister may by notice in the *Gazette* issue codes of good practice on black economic empowerment that may include—

- (a) the further interpretation and definition of broad-based black economic empowerment and the interpretation and definition of different categories of black empowerment entities; 10
- (b) qualification criteria for preferential purposes for procurement and other economic activities;
- (c) indicators to measure broad-based black economic empowerment;
- (d) the weighting to be attached to broad-based black economic empowerment indicators referred to in paragraph (c); 15
- (e) guidelines for stakeholders in the relevant sectors of the economy to draw up transformation charters for their sector; and
- (f) any other matter necessary to achieve the objectives of this Act. 20

(2) A strategy issued by the Minister in terms of section 11 must be taken into account in preparing any code of good practice. 20

(3) A code of good practice issued in terms of subsection (1) may specify—

- (a) targets consistent with the objectives of this Act; and
- (b) the period within which those targets must be achieved. 25

(4) In order to promote the achievement of equality of women, as provided for in section 9(2) of the Constitution, a code of good practice issued in terms of subsection (1) and any targets specified in a code of good practice in terms of subsection (3), may distinguish between black men and black women. 25

(5) The Minister must, before issuing, replacing or amending a code of good practice in terms of subsection (1)— 30

- (a) publish the draft code of good practice or amendment in the *Gazette* for public comment; and
- (b) grant interested persons a period of at least 60 days to comment on the draft code of good practice or amendment, as the case may be. 30

**Status of codes of good practice**

35

10. Every organ of state and public entity must take into account and, as far as is reasonably possible, apply any relevant code of good practice issued in terms of this Act in—

- (a) determining qualification criteria for the issuing of licences, concessions or other authorisations in terms of any law; 40
- (b) developing and implementing a preferential procurement policy;
- (c) determining qualification criteria for the sale of state-owned enterprises; and
- (d) developing criteria for entering into partnerships with the private sector. 40

**Strategy for broad-based black economic empowerment**

11. (1) The Minister— 45

- (a) must issue a strategy for broad-based black economic empowerment;
- (b) may change or replace a strategy issued in terms of this section. 45

(2) A strategy in terms of this section must—

- (a) provide for an integrated co-ordinated and uniform approach to broad-based black economic empowerment by all organs of state, public entities, the private sector, non-governmental organisations, local communities and other stakeholders; 50

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- (b) develop a plan for financing broad-based black economic empowerment;
- (c) provide a system for organs of state, public entities and other enterprises to prepare broad-based black economic empowerment plans and to report on compliance with those plans; and
- (d) be consistent with this Act.

5

**Transformation charters**

12. The Minister must publish in the *Gazette* for general information and promote a transformation charter for a particular sector of the economy, if the Minister is satisfied that the charter—

- (a) has been developed by major stakeholders in that sector; and
- (b) advances the objectives of this Act.

10

**Support services and funding of Council**

13. (1) The Department of Trade and Industry must provide the Council with the necessary support services and funding out of money appropriated by Parliament for that purpose.

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(2) The funds referred to in subsection (1), must be utilised for—

- (a) the establishment and operating costs of the Council; and
- (b) the development and implementation of a communication plan on broad-based black economic empowerment.

**Regulations**

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14. The Minister may make regulations with regard to any matter that it is necessary to prescribe in order to ensure the proper implementation of this Act.

**Short title and commencement**

15. This Act is called the Broad-Based Black Economic Empowerment Act, 2003, and comes into operation on a date to be determined by the President by proclamation in the *Gazette*.

25

## **APPENDIX TWO**

### **EMPLOYMENT EQUITY DRAFT CODE OF GOOD PRACTICE (2005)**

#### **STATEMENT 300**

University of Cape Town



REPABOLIKI YA AFERIKA BORWA

REPUBLIEK VAN SUID AFRIKA

## **BROAD-BASED BLACK ECONOMIC EMPOWERMENT ACT**

### **Section 9(5): Codes of Good Practice**

It is hereby notified that the Minister of Trade and Industry hereby issues the following draft Code of Good Practice for public comments under section 9(3) of the Broad-Based Black Economic Empowerment Act 53 of 2003. Interested persons are invited to furnish the Minister with comments on this proposed code within 60 days of the date of publication.

**CODE 300: MEASUREMENT OF THE EMPLOYMENT EQUITY ELEMENT OF BROAD-BASED  
BLACK ECONOMIC EMPOWERMENT**

**STATEMENT 300: THE RECOGNITION OF EMPLOYMENT EQUITY CONTRIBUTIONS**

Issued under section 9(5) of the Broad-Based Black Economic Empowerment Act 53 of 2003 for public comment. Interested persons are invited to furnish the minister with comments on this proposed code within 60 days of the date of publication.

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**1 DEFINITIONS**

In this statement, unless the context otherwise indicates, a word or expression to which a meaning has been assigned in the Act bears the same meaning, and:

- 1.1 **"Act"** means the Broad Based Black Economic Empowerment Act, Act 53 of 2003;
- 1.2 **"black people with disabilities"** shall have the same meaning as defined in Code 100 Statement 100;
- 1.3 **"Element"** shall have the same meaning as defined in Code 000 Statement 000;
- 1.4 **"employee"** bears the meaning as defined in the Employment Equity Act;
- 1.5 **"Enterprise"** shall have the same meaning as defined in Code 100 Statement 100;
- 1.6 **"Measured Entity"** means an Enterprise as well as any organ of state or public entity subject to measurement under the Codes;
- 1.7 **"Occupational Levels"** are as outlined in the EEA9 form issued as a regulation under the

Employment Equity Act. For ease of reference, the Occupational Levels relevant to this statement are those specified below and exclude any of the other Occupational Levels specified in EEA9:

- 1.7.1 **"Senior Management"** as per the EEA9 Form issued as a regulation under the Employment Equity Act;
- 1.7.2 **"Professionally Qualified, Experienced Specialists and Mid-management"** as per the EEA9 Form issued as a regulation under the Employment Equity Act; and
- 1.7.3 **"Skilled Technical and Academically Qualified Workers, Junior management, Supervisors, Foremen, Superintendent"** as per the EEA9 Form issued as a regulation under the Employment Equity Act;
- 1.8 **"the Employment Equity Act"** means the Employment Equity Act of 1998; and
- 1.9 **"the Employment Equity Scorecard"** means the scorecard used for the measurement of employment equity contributions in this statement.

## **2 INTERPRETATION OF THIS STATEMENT**

- 2.1 When interpreting a provision of this statement, any reasonable interpretation that is consistent with the objectives of the Act and those set forth in paragraph 4 must be preferred over any other interpretation that is inconsistent with such objectives.
- 2.2 To the extent that any provision of this statement is inconsistent with the Act, the Act shall prevail.

## **3 APPLICATION OF THIS STATEMENT**

This statement is to be used in the measurement of the employment equity Element of broad-based black economic empowerment in respect of all Measured Entities.

## **4 OBJECTIVES OF THIS STATEMENT**

The objectives of this statement are as to:

- 4.1 specify the scorecard for the measurement of the employment equity contributions to BEE;
- 4.2 define the key measurement principles for the measurement of the employment equity contributions to BEE; and

4.3 define the formula for the calculation of the score for employment equity.

## 5 EMPLOYMENT EQUITY SCORECARD

5.1 The following table represents the criteria used for the purposes of deriving a score for employment equity in terms of this statement:

Criteria		Weighting points	Compliance targets
5.1.1	Black people with disabilities employed by the Measured Entity as a percentage of all full-time employees	2	4%
5.1.2	Black people employed by the Measured Entity at Senior Management level as a percentage of employees at Senior Management level	2	60%
5.1.3	Black women employed by the Measured Entity at Senior Management level as a percentage of employees at Senior Management level	2	30%
5.1.4	Black people employed by the Measured Entity at Professionally Qualified, Experienced Specialists and Mid-management level as a percentage of employees at Professionally Qualified, Experienced Specialists and Mid-management level	2	75%
5.1.5	Black women employed by the Measured Entity at Professionally Qualified, Experienced Specialists and Mid-management level as a percentage of employees at Professionally Qualified, Experienced Specialists and Mid-management level	1	40%
5.1.6	Black people employed by the Measured Entity at Skilled Technical and Academically Qualified Workers, Junior Management, Supervisors, Foremen, and Superintendents as a percentage of employees at Skilled Technical and Academically Qualified Workers, Junior Management, Supervisors, Foremen, and Superintendents level	1	80%

5.2 Where a Measured Entity attains a score in respect of any one of the criteria specified in the employment equity scorecard that is in excess of the corresponding Weighting points, then that Measured Enterprise shall only be entitled to the corresponding Weighting

points.

## 6 KEY MEASUREMENT PRINCIPLES

- 6.1 In measuring any of the criteria in the Employment Equity scorecard, the principles contained in the Employment Equity Act will apply and any reporting to the Department of Labour may be used as a basis for the purpose of reporting in terms of this statement. Data and facts may however be collated afresh for BEE planning and verification purposes. For the purposes of measurement and reporting:
- 6.1.1 the percentage of black people at each of the Occupation Levels relevant to the Employment Equity scorecard as well as the percentage of black people with disabilities may be based upon the applicable statistics contained in the Measured Entity's EEA9 and EEA10 forms as contemplated in the Employment Equity Act or may be collated in accordance with the guidelines set out in those forms; and
- 6.1.2 claims in respect of black people with disabilities may be supported by a duly completed declaration as contemplated in the Measured Entity's EEA1 form as contemplated in the Employment Equity Act.
- 6.2 Notwithstanding the foregoing, any Measured Entity not subject to the applicable provisions of the Employment Equity Act shall be required to compile the statistics contemplated in the Employment Equity scorecard using the guidelines set out in the Employment Equity Act for the purposes of this statement.

## 7 MEASUREMENT OF THE EMPLOYMENT EQUITY CRITERIA

The different indicators of employment equity in the scorecard are calculated on the following basis:

$$A = \frac{B}{C} \times D$$

Where

**A** is the score achieved in respect of any given criteria as referred to paragraphs 5.1.1 to 5.1.6.

**B** is the percentage of category of black people being measured

**C** is the percentage compliance target in respect of that criteria

**D** is the weighting points allocated to the applicable criteria being measured.

## **APPENDIX THREE**

**SKILLS DEVELOPMENT CODE (DRAFT, 2005) AND;  
ORGANISATIONAL TRANSFORMATION INDEX (2005)  
PART OF SKILLS DEVELOPMENT CODE  
STATEMENT 400**

University of Cape Town



REPABOLIKI YA AFERIKA BORWA

REPUBLIEK VAN SUID AFRIKA

## **BROAD-BASED BLACK ECONOMIC EMPOWERMENT ACT**

### **Section 9(5): Codes of Good Practice**

It is hereby notified that the Minister of Trade and Industry hereby issues the following draft Code of Good Practice for public comments under section 9(3) of the Broad-Based Black Economic Empowerment Act 53 of 2003. Interested persons are invited to furnish the Minister with comments on this proposed code within 60 days of the date of publication.

**CODE 400: MEASUREMENT OF THE SKILLS DEVELOPMENT ELEMENT OF BROAD-BASED  
BLACK ECONOMIC EMPOWERMENT**

**STATEMENT 400: THE RECOGNITION OF SKILLS DEVELOPMENT AND ORGANISATIONAL  
TRANSFORMATION CONTRIBUTIONS TO BLACK ECONOMIC EMPOWERMENT**

Issued under section 9(5) of the Broad-Based Black Economic Empowerment Act 53 of 2003 for public comment. Interested persons are invited to furnish the minister with comments on this proposed code within 60 days of the date of publication.

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**1 DEFINITIONS**

In this statement, unless the context otherwise indicates, a word or expression to which a meaning has been assigned in the Act bears the same meaning, and:

- 1.1 "ABET" refers to adult basic education and training as determined by the National Qualifications Authority in accordance with Success Indicator 2.7 of the National Skills Development Strategy;
- 1.2 "**black people with disabilities**" shall have the same meaning as defined in Code 100 Statement 100;
- 1.3 "**black unemployed people**" shall have the same meaning as defined in Code 100 Statement 100;

- 1.4 **"Board"** shall have the same meaning as defined in Code 200 Statement 200;
- 1.5 **"Core Skills"** means skills that are related to any of the following:
- 1.5.1 value-adding activities of the Measured Entity in line with its core business;
  - 1.5.2 in areas that the Measured Entity cannot outsource; or
  - 1.5.3 within the production/operational component of the Measured Entity's value-chain; as opposed to the supply-side; services or downstream operations;
- 1.6 **"Critical Skills"** are those skills to be identified by each SETA in accordance with Success Indicator 1.1 (Lever 1.1) of the National Skills Development Strategy. The Critical Skills for each Measured Entity will be determined by reference to Critical Skills identified by the relevant SETA having jurisdiction over each of the Measured Entity's spheres/areas of operation;
- 1.7 **"Element"** shall have the same meaning as defined in Code 000 Statement 000;
- 1.8 **"employee"** bears the meaning as defined in the Employment Equity Act;
- 1.9 **"Enterprise"** shall have the same meaning as defined in Code 100 Statement 100;
- 1.10 **"Learnerships"** refer to the skills development programs approved by the relevant SETA having jurisdiction over each of the Measured Entity's spheres/areas of operation and which are fully certified in accordance with the National Qualifications Framework maintained in terms of South African Qualifications Authority Act;
- 1.11 **"Leviable Amount"** bears the meaning as defined in the Skills Development Levies Act of 1999 as determined in accordance with the provisions of the Fourth Schedule to the Income Tax Act;
- 1.12 **"Measured Entity"** means an Enterprise as well as any organ of state or public entity subject to measurement under Codes;
- 1.13 **"National Skills Development Strategy"** means the national skills development strategy referred to in section 5(1)(a)(ii) of the Skills Development Act as further qualified in the strategy released by the Department of Labour in March 2005, covering the period 01 April 2005 to 31 March 2010;

- 1.14 "**SETA**" means a sector education and training authority, established by section 9(1) of the Skills Development Act having jurisdiction over Measured Entities;
- 1.15 "**Skills Development Spend**" comprises the amount of money that a Measured Entity spends on skills development that is over and above any of skills development levy payable in accordance with the Skills Development Levies Act determined in accordance with the provisions of the Fourth Schedule to the Income Tax Act;
- 1.16 "**the Act**" means the Broad-Based Black Economic Empowerment Act of 2003;
- 1.17 "**the Codes**" means all Codes of Good Practice issued in terms of section 9 of the Act, including without limitation, this statement;
- 1.18 "**the Employment Equity Act**" means the Employment Equity Act of 1998, as amended or substituted;
- 1.19 "**the Income Tax Act**" means the Income Tax Act of 1962;
- 1.20 "**the Skills Development Act**" means the Skills Development Act of 1998;
- 1.21 "**the Skills Development Levies Act**" means the Skills Development Levies Act of 1999;
- 1.22 "**the Skills Development Scorecard**" means the scorecard used for the measurement of skills development contributions in this statement; and
- 1.23 "**Workplace Skills Plan**" is the plan of a Measured Entity that is approved by the relevant SETA in accordance with Success Indicator 2.1 (Lever 2.1) of the National Skills Development Strategy.

## 2 INTERPRETATION OF THIS STATEMENT

- 2.1 When interpreting a provision of this statement, any reasonable interpretation that is consistent with the objectives of the Act and those set forth in paragraph 4 must be preferred over any other interpretation that is inconsistent with such objectives.
- 2.2 To the extent that any provision of this statement is inconsistent with the Act, the Act shall prevail.

### 3 APPLICATION OF THIS STATEMENT

This statement is to be used in the measurement of the skills development Element of broad-based black economic empowerment in respect of all Measured Entities.

### 4 OBJECTIVES OF THIS STATEMENT

The objectives of this statement are to:

- 4.1 specify the scorecard for the measurement of the skills development Element of BEE;
- 4.2 define the key measurement principles associated with the skills development Element;
- 4.3 specify the formula for measuring the skills development Element of BEE; and
- 4.4 specify the basis for the measurement of the organisational transformation contributions to BEE.

### 5 THE SKILLS DEVELOPMENT SCORECARD

5.1 The following table represents the criteria used for the purposes of deriving a score for skills development in terms of this statement:

Category	Skills Development Element	Weighting points	Compliance Target
5.1.1	Skills Development		
5.1.1.1	Skills Development Spend on black employees as a percentage of Leivable Amount.	4	3%
5.1.1.2	Skills Development Spend on Critical Skills and/or Core Skills for black employees as a percentage of Leivable Amount.	2	2.6%
5.1.1.3	Skills Development Spend on Critical Skills and/or Core Skills for black women employees as a percentage of Leivable Amount.	2	1.4%
5.1.1.4	Skills Development Spend on black employees with disabilities as a percentage of Leivable Amount.	1	0.3%
5.1.2	Learnerships		
5.1.2.1	Number of black employees on SETA-accredited Learnerships as a percentage of total employees	2	5%
5.1.2.2	Number of black women employees on SETA-accredited Learnerships as a percentage of total employees	2	2.5%
5.1.2.3	Number of formerly black unemployed people and/or black people formerly residing in rural areas on Learnerships as a percentage of	1	1%

		total employees		
5.1.3	Organisational Transformational Index			
	5.1.3.1	Existence of a comprehensive Black Economic Empowerment strategy, that integrates all the elements of the BEE Scorecard, assigns clear executive responsibilities, creates appropriate functioning representative committees and which has been approved by the Board of the Measured Entity and which is being implemented	Yes	1
	5.1.3.2	Employment of a Skills Development Facilitator	Yes	1
	5.1.3.3	Existence of a policy on non-discrimination widely published within the Enterprise and which emphasises the promotion of racial, gender, religious and cultural diversity which is being implemented. An element of this implementation must be the regular and on-going facilitation of external diversity management training	Yes	1
	5.1.3.4	Compliance with all relevant employment related legislation	Yes	1
	5.1.3.5	Implementation of an effective human resource management plan which emphasises retention, career development and long-term career planning of all employees including learners and which is being implemented. Such plan must include targets against which performance is measurable.	Yes	1
	5.1.3.6	Existence of a program designed to give practical effect to the policies and programs in the items in paragraphs 5.1.3.1 to 5.1.3.5 through routine organisational social environmental audits the outcomes of which are published widely within the Measured Entity	Yes	1
TOTAL				6

5.2 Where a Measured Entity attains a score in respect of any one of the criteria specified in the skills development scorecard that is in excess of the corresponding Weighting points, then that Measured Enterprise shall only be entitled to the corresponding Weighting points.

5.3 For the avoidance of doubt, the calculations in paragraphs 5.1.1.1 to 5.1.1.4 are not intended to be cumulative.

5.4 Any Skills Development Spend by a Measured Entity which is related to an ABET program may be recognised at a multiple of 1.25 to the actual level of such Skills Development Spend.

## **6 QUANTIFIABLE SKILLS DEVELOPMENT SPEND**

Quantifiable skills development spend includes:

6.1 Direct training costs (which must represent at least 50% of all such spend) such as:

6.1.1 internal training initiatives that are quantifiable and verifiable;

6.1.2 external training initiatives that are quantifiable and verifiable;

6.1.3 training courses that are structured and recognised by the applicable SETA;

6.1.4 costs of training materials;

6.1.5 costs of trainers;

6.1.6 costs of external training facilities including costs of catering; and

6.1.7 scholarships and bursaries.

6.2 Indirect Training Costs such as:

6.2.1 costs of internal training facilities including catering;

6.2.2 external costs such as course fees;

6.2.3 other costs such as accommodation and travel; and

6.2.4 Administration costs such as organization of training.

## **7 KEY MEASUREMENT PRINCIPLES**

7.1 Measured Entities shall be entitled to be awarded points on the Skills Development Scorecard in accordance with the provisions of paragraphs 8.1 and 8.2 below provided that:

7.1.1 they are compliant with the requirements of the Skills Development Act and the Skills Development Levies Act;

7.1.2 they are registered with the applicable SETA;

- 7.1.3 they have developed a Workplace Skills Plan; and
- 7.1.4 they have implemented programs targeting the development of Critical and/or Core Skills generally, and specifically, in relation to black employees.
- 7.2 Training initiatives must meet the criteria specified in paragraph 6. In this regard:
  - 7.2.1 Scholarships and bursaries: Where scholarships and bursaries are awarded on a non-recoverable basis, those initiatives will be recognisable;
  - 7.2.2 Internal training initiatives: Internal training initiatives must be quantifiable and verifiable to be recognised as Skills Development Spend. Proof of identifiable outcomes, training schedules, attendance registers and course content must be provided to verification agencies;
  - 7.2.3 External training initiatives: External training initiatives must be quantifiable and verifiable to be recognised as Skills Development Spend. Invoicing or identifiable outcomes, training schedules, attendance registers and course content must be provided to verification agencies; and
  - 7.2.4 Other costs: Other costs such as accommodation, travel and other costs associated with training initiatives must be quantifiable and verifiable to be recognised as Skills Development Spend.

## 8 MEASUREMENT OF SKILLS DEVELOPMENT INDICATORS

- 8.1 The skills development element of the Scorecard is calculated on the following basis:

$$A = \frac{B}{C} \times D$$

Where

**A** is the score achieved in respect of any given criteria in the Skills Development Scorecard specified in paragraphs 5.1.1.1 to 5.1.1.4

**B** is the percentage of Skills Development Spend on the relevant target groups specified in paragraphs 5.1.1.1 to 5.1.1.4

**C** is the percentage compliance target in respect of that criteria

**D** means the weighting points allocated to the applicable Skills Development criteria being measured.

8.2 The Learnership element of the Scorecard is calculated on the following basis:

$$A = \frac{B}{C} \times D$$

Where

**A** is the score achieved in respect of any given criteria in the Skills Development Scorecard specified in paragraphs 5.1.2.1 to 5.1.2.3

**B** is the percentage of black registered accredited learnerships as a percentage of total number of employees in each of the relevant target groups specified in paragraphs 5.1.2.1 to 5.1.2.3

**C** is the percentage compliance target in respect of that criteria

**D** means the weighting points allocated to the applicable Skills Development criteria being measured.

# **APPENDIX FOUR**

**FINAL CODES OF GOOD PRACTICE, 2007.**

**EMPLOYMENT EQUITY**

**SKILLS DEVELOPMNENT**

University of Cape Town

**CODE SERIES 300: MEASUREMENT OF THE  
EMPLOYMENT EQUITY ELEMENT OF BROAD-BASED  
BLACK ECONOMIC EMPOWERMENT**

**STATEMENT 300: THE GENERAL PRINCIPLES FOR MEASURING  
EMPLOYMENT EQUITY**

Issued under section 9 of the Broad-Based Black Economic Empowerment Act of 2003

**Arrangement of this statement**

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5	<i>Measurement of the employment equity criteria</i>	3
6	<i>Annexe 300(A)</i>	4

## 1 Objectives of this statement

The objectives of this statement are to

- 1.1 specify the scorecard for measuring Employment Equity contributions to B-BBEE
- 1.2 define the key measurement principles for measuring the Employment Equity contributions to B-BBEE; and
- 1.3 define the formula for calculating the score for Employment Equity.

## 2 Employment Equity Scorecard

- 2.1 The following table represents the criteria used for deriving a score for Employment Equity under this statement:

Measurement Category & Criteria	Weighting points	Compliance targets	
		Years 0 - 5	Years 6 -10
2.1.1 Black Disabled Employees as a percentage of all employees using the Adjusted Recognition for Gender	2	2%	3%
2.1.2 Black employees in Senior Management as a percentage of all such employees using the Adjusted Recognition for Gender	5	45%	60%
2.1.3 Black employees in Middle Management as a percentage of all such employees using the Adjusted Recognition for Gender	4	63%	75%
2.1.4 Black employees in Junior Management as a percentage of all such employees using the Adjusted Recognition for Gender	4	65%	80%
2.1.5 Bonus point for meeting or exceeding the EAP targets in each category under 2.1.1 to 2.1.4	3		

- 2.2 The Weighting points in the Employment Equity scorecard represent the maximum number of points possible for each of the criteria.

## 3 Key Measurement Principles

- 3.1 Wherever possible a Measured Entity must use the data that it files with the Department of Labour under the Employment Equity Act in calculating its score under the employment equity scorecard.
  - 3.1.1 No Measured Entity shall receive any points under the Employment Equity Scorecard unless they have achieved a sub-minimum of 40% of each of the targets set out on the Employment Equity Scorecard in respect of the both five year periods.

- 3.2 In order for a Measured Entity to achieve bonus points at a particular level, the entity needs to meet or exceed the EAF targets
- 3.3 A Measured Entity exempt from filing returns must compile its data for calculating its score under the Employment Equity Scorecard using the guidelines set out in the Employment Equity Act and its EE Regulations.
- 3.4 If the organisational structure of a Measured Entity does not distinguish between Middle Management and Junior Management, it can consolidate those Measurement Categories against the targets for Junior Management. The weighting points for the Measurement Categories must be adjusted as follows:
- 3.4.1 Senior Management – 8 points;
- 3.4.2 Junior Management – 6 points.
- 3.5 Black women employees in each Measurement Category qualify for enhanced recognition using the Adjusted Recognition for Gender

#### **4 Calculating the Adjusted Recognition for Gender**

The Adjusted Recognition for Gender is calculated in terms of the formula set out in Annex 300(A).

#### **5 Measurement of the Employment Equity Criteria**

The criteria in the Employment Equity scorecard is measured in terms of the formula set out in Annex 300(A).

## ANNEX 500 (A)

## A: CALCULATING THE ADJUSTED RECOGNITION FOR GENDER

The calculation of the Adjusted Recognition for Gender is as follows:

$$A = \frac{B}{2} + C$$

**C** is limited to a maximum of 50% of the target.

Where

**A** is the Adjusted Recognition for Gender

**B** is the percentage of employees in the measurement category that are black people

**C** is the percentage of employees in the measurement category that are black women

## B: Measurement of the Employment Equity Criteria

This equation explains the method of measurement of the criteria in the Employment Equity scorecard

$$A = \frac{B}{C} \times D$$

Where

**A** is the score for measurement category indicator

**B** is the Adjusted Recognition for Gender calculated in paragraph 4

**C** is the target for that measurement category as per paragraph 2

**D** is the Weighting for measured indicator as per paragraph 2

## CODE SERIES 400: MEASUREMENT OF THE SKILLS DEVELOPMENT ELEMENT OF BROAD-BASED BLACK ECONOMIC EMPOWERMENT

### STATEMENT 400: THE GENERAL PRINCIPLES FOR MEASURING SKILLS DEVELOPMENT

Issued under section 9 of the Broad-Based Black Economic Empowerment Act of 2003

#### Arrangement of this statement

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## 1 Objectives of this Statement

The objectives of this statement are to specify:

- 1.1 the scorecard for measuring the Skills Development Element of B-BBEE;
- 1.2 define the key measurement principles associated with the Skills Development Element; and
- 1.3 the formula for measuring the Skills Development Element of B-BBEE.

## 2 The Skills Development Scorecard

- 2.1 The following table represents the criteria used for deriving a score for Skills Development under this statement:

Category	Skills Development Element	Weighting points	Compliance Target
2.1.1	Skills Development Expenditure on any program specified in the Learning Programmes Matrix:		
	2.1.1.1 Skills Development Expenditure on Learning Programmes specified in the Learning Programmes Matrix for black employees as a percentage of Leviable Amount using the Adjusted Recognition for Gender	6	3%
	2.1.1.2 Skills Development Expenditure on Learning Programmes specified in the Learning Programmes Matrix for black employees with disabilities as a percentage of Leviable Amount using the Adjusted Recognition for Gender.	3	0.3%
2.1.2	Learnerships		
	2.1.2.1 Number of black employees participating in Learnerships or Category B, C and D Programmes as a percentage of total employees using the Adjusted Recognition for Gender	6	5%

- 2.2 The Weighting points in the Skills Development scorecard represent the maximum number of points possible for each of the criteria.

## 3 Key Measurement Principles

- 3.1 Measured Entities receive points on the Skills Development scorecard only if:
  - 3.1.1 they are in compliance with the requirements of the Skills Development Act and the Skills Development Levies Act;
  - 3.1.2 they have registered with the applicable SETA;
  - 3.1.3 they have developed a Workplace Skills Plan; and
  - 3.1.4 they have implemented programmes targeted at developing Priority Skills generally and specifically for black employees.
- 3.2 Expenses on scholarships and bursaries for employees does not constitute Skills Development Expenditure if the Measured Entity can recover any portion of those expenses from the employee or if the grant of the scholarship or bursary is conditional. Despite the afore going, if the right of recovery or the condition involves either of the following obligations of the employee, the expenses are recognisable:
  - 3.2.1 the obligation of successful completion in their studies within the time period allocated; or

- 3.2.2 the obligation of continued employment by the Measured Entity for a period following successful completion of their studies is not more than the period of their studies.
- 3.3 Any Skills Development Expenditure by a Measured Entity that is an ABET programme is recognisable at a multiple of 1.25 to the actual value of such Skills Development Expenditure.
- 3.4 Skills Development Expenditure includes any legitimate expenses incurred for any Learning Programme offered by a Measured Entity to its employees evidenced by an invoice or appropriate internal accounting record.
- 3.5 Skills Development Expenditure arising from Uncertificated Learning Programmes or from Category G Learning Programmes under the Learning Programmes Matrix cannot represent more than 15% of the total value of Skills Development Expenditure.
- 3.6 Legitimate training expenses includes:
- 3.6.1 costs of training materials,
  - 3.6.2 costs of trainers,
  - 3.6.3 costs of training facilities including costs of catering;
  - 3.6.4 scholarships and bursaries;
  - 3.6.5 course fees;
  - 3.6.6 accommodation and travel and
  - 3.6.7 administration costs such as the organization of training (including, where appropriate, the cost to the Measured Entity of employing a skills development facilitator or a training manager).
- 3.7 Salaries or wages paid to an employee participating as a learner in any Learning Programme only constitute Skills Development Expenditure if the Learning Programme is a Learnership or falls within Category B, C, or D of the Learning Programme Matrix.

#### **4 Calculating the Adjusted Recognition for Gender**

The calculation of the Adjusted Recognition for Gender is set out in formula 'A' in Annex 400(B).

#### **5 Measurement of Skills Development Indicators**

The formula that explains the method of measurement of the criteria in the Skills Development scorecard is in terms of formula 'B' in Annex 400(B).

#### **6 The Learning Programme Matrix**

The Minister may from time to time, by notice in the gazette, revise or substitute the Learning Programme Matrix. Any changes will only be applicable to Compliance Reports prepared for a Measured Entity for the first 12-month period following the gazetting of a revision or substitution.

## Annex 400A - Learning Programme Matrix

Cat	Narrative Description	Delivery Mode	Learning Site	Learning Achievement
A	Institution-based theoretical instruction alone - formally assessed by the institution	Institutional instruction	Institutions such as universities and colleges, schools, ABET providers	Recognised theoretical knowledge resulting in the achievement of a degree, diploma or certificate issued by an accredited or registered formal institution of learning
B	Institution-based theoretical instruction as well as some practical learning with an employer or in a simulated work environment - formally assessed through the institution	Mixed mode delivery with institutional instruction as well as supervised learning in an appropriate workplace or simulated work environment	Institutions such as universities and colleges, schools, ABET providers and workplace	Theoretical knowledge and workplace experience with set requirements resulting in the achievement of a degree diploma or certificate issued by an accredited or registered formal institution of learning
C	Recognised or registered structured experiential learning in the workplace that is required after the achievement of a qualification - formally assessed by a statutory occupational or professional body	Structured learning in the workplace with mentoring or coaching	Workplace	Occupational or professional knowledge and experience formally recognised through registration or licensing
D	Occupationally-directed instructional and work-based learning programme that requires a formal contract - formally assessed by an accredited body	Institutional instruction together with structured, supervised experiential learning in the workplace	Institution and workplace	Theoretical knowledge and workplace learning, resulting in the achievement of a South African Qualifications Authority registered qualification, a certificate or other similar occupational or professional qualification issued by an accredited or registered formal institution of learning
E	Occupationally-directed instructional and work-based learning programme that does not require a formal contract - formally assessed by an accredited body	Structured supervised experiential learning in the workplace which may include some institutional instruction	Workplace and some institutional as well as ABET providers	Credits awarded for registered unit standards
F	Occupationally-directed informal instructional programmes	Structured information sharing or direct instruction involving workshops, seminars and conferences and short courses	Institutions, conferences and meetings	Continuing professional development, attendance certificates and credits against registered unit standards (in some instances)
G	Work-based informal programmes	Informal training	Workplace	Increased understand of job or work context or improved performance or skills

## ANNEXE 400(B)

**A: Calculating the Adjusted Recognition for Gender**

The calculation of the Adjusted Recognition for Gender is as follows

$$A = \frac{B}{2} + C$$

C is limited to a maximum of 50% of the target

Where

A is the Adjusted Recognition for Gender

B is the percentage of employees in the measurement category that are black people

C is the percentage of employees in the measurement category that are black women

**B: Measurement of Skills Development Indicators**

This formula explains the method of measurement of the criteria in the Skills Development scorecard:

$$A = \frac{B}{C} \times D$$

Where

A is the score for any given criteria as referred to in the scorecard under statement 400

B is the Adjusted Recognition for Gender calculated under the calculation of the adjusted recognition for gender

C is the target for the applicable criteria as referred to in the scorecard under statement 400

D is the Weighting for the applicable criteria as referred to in the scorecard under statement 400