

**HOW THE KWAZULU-NATAL DEPARTMENT OF  
TRANSPORT ACHIEVES BLACK ECONOMIC  
EMPOWERMENT THROUGH THEIR EMERGING  
CONTRACTOR DEVELOPMENT PROGRAMME  
(VUKUZAKHE)**

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requirements for the Degree of Bachelor of Administration,  
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## DECLARATION

I hereby declare that the work presented in this business report is original. Where material from different sources has been used, due acknowledgement is made. This business report has not been submitted to any other University for the purpose of award of a degree.

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Date

As research supervisor I agree to the submission of this business report.

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Mr. T. Tenza

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Date

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# TABLE OF CONTENTS

Declaration		
Acknowledgements		
Table of Contents		
<b>SECTION ONE</b>		
1.1	Background	1
1.2	KwaZulu-Natal Department of Transport	3
1.3	Black Economic Empowerment	5
1.4	Entrepreneurship	8
1.5	Vukuzakhe Programme	10
1.6	Structure of the report	13
1.7	Objectives and Method	14
<b>SECTION TWO</b>		
2.1	Advertising the Programme	16
2.1.1	Reaching out to small businesses	16
2.2	Redressing the imbalances of the past	17
2.2.1	Empowerment of small businesses	19
2.3	Survival in the business world	20
2.3.1	Are they sustainable?	20
2.4	Challenges and problems facing black economic empowerment	21
<b>SECTION THREE</b>		
3.1	Recommendations on Vukuzakhe Programme	24
3.2	Recommendations on how to fight fronting and window dressing	26
<b>SECTION FOUR</b>		
	Conclusion	27
REFERENCES		30
GLOSSARY OF TERMS		31
APPENDIX		32

## **SECTION ONE**

### **1.1 BACKGROUND**

The apartheid government introduced a school curriculum known as the Bantu Education. Mathematics and Science were not part of the curriculum although these subjects are considered essential for entry into the engineering profession and into the construction industry. This really contributed in securing white domination in the engineering and construction industries.

The construction industry has for a long time been giving contracts for the construction and maintenance of roads and bridges to big companies like for example, Rumdel, Stocks & Stocks and Murray & Roberts, which were white owned and well established companies. This needed to change to align it to the Government's strategy to overcome economic disparities of the past and to provide new economic opportunities to historically disadvantaged people.

The KwaZulu-Natal Department of Transport has pioneered considerable research such as the Community access roads needs study (CARNS) and The Road to Wealth and Job Creation documents. These have been used to inform programmes such as Vukuzakhe, Rural Road Transport Forums and Zibambele. Carns was adopted by Moving South Africa (a study that was conducted by the National Department of Transport, to look at the mobility needs in our country. This study concentrated on public transport and infrastructure) for their rural roads assessments, and The Road To Wealth and Job Creation was adopted Nationally at the October 1998 Job Summit as an important strategy to place the rural economy in South Africa on a labour absorptive growth plan.

The KZN Department of Transport is implementing road construction and maintenance programmes to create work, guarantee the emergence of small contractors and redistribute wealth to the rural populations that have the greatest need, for example through Vukuzakhe Programme.

The Vukuzakhe (Emerging Contractor Development Programme) is one of the KwaZulu-Natal Department of Transport's initiatives to achieve Black Economic Empowerment.

In their journal, Miller and Servas (1994) state that much effort is currently being expended on stimulating labour-based construction. If construction schemes, in the name of development and social responsibility, are only to address the issue of unemployment without giving attention simultaneously to the structural imbalances in the economy, all they will be doing is bolstering the unsatisfactory status quo. Black hands have always built roads in this country. These hands need to direct and own the operations as well.

For the black hands to direct and own operations, it is imperative that they have the necessary entrepreneurship skills. A comprehensive training programme for the emerging entrepreneurs in road construction needs to be implemented to assist them and thereby ensuring their success.

## **1.2 KWAZULU-NATAL DEPARTMENT OF TRANSPORT**

KwaZulu-Natal Department of Transport is a provincial government department headed by Minister Sbusiso Ndebele. Dr. KB Mbanjwa heads the department as the CEO. He has six chief directors under him. The directorates and people who head them are:

- Ms. V Cunliffe – Corporate Services
- Mr. J Mlawu – Strategic Planning
- Mr. C Hlabisa – Implementation
- Mr. T Chiloane – Public Safety and Communications
- Mr. G Mahlalela – Transport Enterprise Development and Logistics
- Mr. R Govender – Chief Financial Officer

The KwaZulu-Natal Department of Transport's core business is the construction and maintenance of the provincial road network. This includes both rural and urban roads, blacktop and gravel roads.

It has its head office in Pietermaritzburg and four super regions namely; Empangeni, Ladysmith, Durban and Pietermaritzburg. Each of the super regions is headed by a Regional Director. The super regions are responsible for the actual construction and maintenance of the provincial road network.

The KwaZulu-Natal Department of Transport's vision is: “ Prosperity through mobility”.

This means that all activities and the services rendered will increase the wealth and quality of life to all citizens of the province.

The strategic objectives of the KwaZulu-Natal Department of Transport are as follows:-

- Improving and ensuring road and public transport safety;
- Developing the people, the economy and the infrastructure of KwaZulu-Natal;

- Institutionalising public participation and strengthening democratic governance;
- Facilitating rural development, reducing poverty and inequality and ensuring an infrastructure balance;
- Facilitating the growth and development of the road construction industry in KwaZulu-Natal, so as to be fully representative of the demographic profile of the province;
- Ensuring financial accountability, value based resource management and development of integrated management systems. (KZN Department of Transport, 2002)

KZN Department of Transport (2002) states that:

“Our constitution, our mandate to govern and our African Renaissance are based on the principles of participatory democracy and that government uses its budgets, and devises innovative investment strategies, to secure equity and the abolition of poverty in a transparent and accountable manner... This is a non-negotiable. If our budgets are not reaching grassroots communities and making a real tangible difference in the lives of poor people – who are our majority citizens and our majority voters – then we, as government, will have failed in the mandate we have been given by the people of South Africa.” (p.27)



### 1.3 WHAT IS BLACK ECONOMIC EMPOWERMENT

During the apartheid era, black people were denied access to skills development and from participating in the economy. They were also deliberately prohibited from generating self-employment and from becoming business people. Race was used to restrict and control access to the economy by black people. The whole system, including the introduction of Bantu education, was designed in a way that it ensured that black people were merely suppliers of cheap labour.

A central objective of the Reconstruction and Development Programme adopted in 1994, was to completely de-racialise business ownership and control through focused policies of black economic empowerment. The policies must be aimed at making it easier for black people to access capital for business development.

The idea of a Black Economic Empowerment Commission arose out of a resolution taken at a conference of the Black Management Forum in November 1997. It was then formally established in May 1998 under the auspices of the Black Business Council. The Black Economic Empowerment Commission's terms of reference were as follows:-

- To develop a clear and coherent vision and strategy for BEE.
- To develop a clear and unambiguous definition for BEE.
- To locate the empowerment project as part and parcel of the transformation of South African society.
- To determine the role of black women in the empowerment process.
- To determine the role of black business in the transformation process.
- To examine ways in which the management skills of black people can be developed.
- To examine ways in which black business can speak with a united voice on issues that affected them directly.
- To examine ways in which black business can ensure that its actions are honourable as it conducts business.
- To determine practical ways in which small business can be developed.

The BEE Commission then came up with the following definition for BEE:-

“Black economic empowerment is an integrated and coherent socio-economic process. It is aimed at redressing the imbalances of the past by seeking to substantially and equitably transfer and confer the ownership, management and control of South Africa’s financial and economic resources to the majority of its citizens. It seeks to ensure broader and meaningful participation in the economy by black people to achieve sustainable development and prosperity.”

Government uses policy instruments to achieve Black Economic Empowerment. For example, legislation, regulation, preferential procurement, etc. These will serve as guidelines to proper implementation of Black Economic Empowerment. They are briefly discussed below:-

- The tabling of the national strategy for the development and promotion of small businesses in 1995. The key component was the creation of new black-owned and black-controlled businesses.
- The introduction of the National Small Business Act in 1996, which was to provide an enabling environment for small, medium and micro-enterprises (SMME’s). It also established institutions that were to provide financial and other support to entrepreneurs. These institutions were Khula, Ntsika and National Empowerment Fund.
- In 1997, a Green Paper on public sector procurement reform was issued. Mechanisms which were to give effect to preferential procurement policy were introduced. These were as follows:
  - The tendering process was made more accessible to black people.
  - Tenders were unbundled into smaller portions to allow smaller enterprises to tender for work.
  - A point system was introduced to award tenders on the basis of the combination of price and preference for targeted groups. (This was later enacted as “Preferential Procurement Act of 2000)

- Competition Act, 1998, was to increase the numbers of historically disadvantaged people who had a share in the economy. This act allows for exemptions from the anti-competitive practices. It promotes the ability of black-owned and controlled enterprises to become competitive.
  
- The Employment Equity Act, 1998, required all enterprises that had more than fifty employees to take affirmative action to ensure that all racial groups were represented in all occupations and organisational levels within a certain time period.
  
- In 1998, a trust fund called the National Empowerment Fund was created. This fund held equity stakes in state-owned enterprises and other private enterprises on behalf of the historically disadvantaged people. It was tasked with the following:-
  - To provide historically disadvantaged people with the opportunity to acquire shares directly and indirectly.
  - To encourage and promote savings, investment and meaningful economic participation by historically disadvantaged people.
  - To promote and support business ventures pioneered and run by historically disadvantaged people. (Department of Trade and Industry, 2003, pg.8-9).

Black economic empowerment seeks to substantially and equitably transfer and confer the ownership, management and control of South Africa's financial and economic resources to the majority of its citizens. The legislative framework, strategies, policies and programmes that have been introduced, provide an environment where all its citizens can share South Africa's economy in a fair and just manner.

With the National Small Business Development Promotion Programme people are encouraged to start their own businesses. Thereby ensuring broader and meaningful participation in the economy of South Africa.

## 1.4 ENTREPRENEURSHIP

Black economic empowerment is not only concerned with poverty alleviation but also with the development of entrepreneurship capabilities which will accelerate growth in emerging businesses thereby bringing about the much needed economic growth.

Miller and Servas (1994) state that:

“It is common for black business to be based on technical skills, which are used to satisfy needs in the community. However, technical competence is no guarantee of business success. Operational (e.g. scheduling and ordering) and business (e.g. planning, financial control and budgeting) skills are vital to the success of any enterprise. It is precisely these skills which are often lacking in black business, and it is thus imperative that these are developed if industries are to expand to accommodate the meaningful black presence that is necessary for the economic growth.” (p.109)

For sustainable economic growth, we need business lessons that we can depend on, and that is entrepreneurship. The four fundamental practices of the world’s great entrepreneurs are high purpose, absolute focus on customer and product, a lot of action and self inspired people. All these are necessary to achieve growth.

The entrepreneur must first determine the corporate strategy – what is it that he/she is doing- and the corporate culture – how to go about doing it. The goal is being smart at what you do and good at how you do it. The ‘what’ means – what customers and what products to pursue? The corporate strategy is about being right on choosing the products and markets.

The entrepreneur approaches the setting of the corporate strategy based on picking the right products and markets.

- The goal is to survive.
- The plan is to grow the business, so keep it simple.
- The focus is on the customers and products, the best product consultants are your customers.

Defining the corporate culture is about deciding the how the entrepreneur will go about doing business. The entrepreneur sets the values and reinforces them through the way he behaves. “The entrepreneurial culture is based on two no-nonsense criteria: what behaviour will give us competitive advantage and what behaviour am I personally committed to – without compromise”. (Farrell, 1993)

The way the entrepreneur does business must give it a competitive advantage and this requires the personal commitment of management and the workers and is demonstrated in their behaviour.

Entrepreneurs see their customers as their means of putting food on the table. This informs the way they behave towards their customers. The following are the most important behaviours practiced around customers:

- Knowing the product
- Responding immediately
- Being courteous and competent
- Keeping current customers forever

Entrepreneurs are known for loving their products, but what matters most is what the customer thinks of the product. After all, beauty is in the eyes of the beholder. Listed hereunder are the practices of people who care about their product and the people who want and need them.

- Knowing the customer
- Feeling proud about what you do
- Making it better than the next guy
- Making it faster than the next guy

William Hesketh Lever, the founder of Lever Brothers, said, “the conduct of successful business merely consists in doing things in a very simple way, doing them regularly and never neglecting to do them”.

“The truth is that the successful entrepreneur is made, and not born, and he is made by his willingness to respect each sound and basic business principle enough to master it.” (Bekker and Staude, 1998)

## **1.5 DESCRIPTION OF THE VUKUZAKHE PROGRAMME**

“Central to the lasting eradication of poverty is the creation of a growing business sector that creates sustainable jobs which in turn, increases the productivity of our country. The small business sector must reflect the economic empowerment of ordinary citizens and not just the upper echelons of society.” (KZN Department of Transport, 2002)

The KwaZulu-Natal Department of Transport is using the Vukuzakhe Programme which is an Emerging contractor development programme as its engine to achieve black economic empowerment. The direct translation for Vukuzakhe means, “arise and build yourself”. This programme defines emerging contractors as enterprises that are owned, managed and controlled by previously disadvantaged individuals.

The Department has arranged a “protected environment” in which the emerging contractors can compete. In creating this “protected environment” the department has set aside a substantial portion of work to be allocated to emerging contractors. The African Renaissance Roads Upgrading Programme is also an example of a protected environment in which emerging contractors can compete for work. Through the Vukuzakhe Programme, contractors are being given the opportunity to get into the construction industry and eventually compete with larger established firms in an open market.

The objectives of the programme are as follows:-

- Promote and support affirmable businesses.
- Promote equity in the civil contracting sector.
- Promote sustainable business development.

The Vukuzakhe programme is a 4-staged advancement programme in which each advancement entails higher levels of risk to the contractor in business and plant management. It also entails progressive removal of support mechanisms as the contractor progresses through the stages. (KZN Department of Transport, 2002)

This is how it works:-

**Stage 1(a)**

Contractors are required to provide only small hand tools and labour. The department supplies plant and materials. The maximum contract value is R50 000.00

**Stage 1(b)**

The contractor is required to supply labour and transport. The maximum contract value is R200 000.00.

**Stage 2**

Construction and maintenance contracts will be carried out at this stage. The contractor will have to provide his own labour, transport, plant and equipment and also the purchase of materials. The maximum contract value is R500 000.00

**Stage 3**

This stage also carries out construction and maintenance contracts. The contractor also has to provide his own labour, transport, plant and equipment and the purchase of materials. Stage3 work is the same as stage 2 except that all types of structures and a number of different maintenance activities are covered in stage 3. The maximum contract value is R1 000 000.00.

**Stage 4**

Contractors in this stage carry out construction and maintenance contracts. Contractors provide their own labour, transport, plant and equipment and also the purchase of materials. Work carried out at this stage includes all ancillary works including headwalls, storm-water culvert and causeways for all road types. The maximum contract value is R5 000 000.00.

**TABLE 1**

**SUMMARY OF THE DIFFERENT VUKUZAKHE STAGES**

<b>STAGE</b>	<b>MAXIMUM CONTRACT VALUE</b>	<b>ITEMS SUPPLIED BY CONTRACTOR</b>	<b>NATURE OF WORK CARRIED OUT</b>
1 (a)	R50 000	Labour & small hand tools	Mostly labour intensive. e.g. Grass cutting
1(b)	R200 000	Labour & transport	Labour intensive and concrete repairs, signpost erection. etc
2	R500 000	Labour, transport, plant & equipment	Construction and maintenance contracts
3	R1 000 000	Labour, transport, plant & equipment	Construction and maintenance contracts and all types of structures.
4	R5 000 000	Labour, transport, plant & equipment	Construction and maintenance contracts, all ancillary works for all road types.

**ADVANCEMENT WITHIN THE PROGRAMME**

The contractor may be upgraded to the next stage if :-

- The contractor has met a required level of competency for the next stage.
- The contractor has successfully carried out the required number of projects, or projects amounting to the required value of exit to the next stage.
- A report from the project manager confirming the above and also supplying proof thereof.

“Our Vukuzakhe programme is about unlocking a massive but undeveloped potential to create new jobs, new business opportunities and to diversify the region’s economy so that our children need not have to leave home to find work.” (Annual Report, 2002, p.28)



## **1.6 STRUCTURE OF THE REPORT**

### **SECTION ONE**

An overview of the KwaZulu-Natal Department of Transport and the studies that took place that informed the Vukuzakhe programme. Black economic empowerment and the South African government's intervention through policies and legislation are discussed. Entrepreneurship and the details of the Vukuzakhe Programme are being dealt with and finally the objectives and methodology of this research.

### **SECTION TWO**

How the department advertises the programme when trying to reach out to small businesses. Redressing the imbalances of the past through the empowerment of small businesses. In the business world, it is all about the survival of the fittest. Are these small businesses sustainable? Challenges and problems that are facing black economic empowerment are also discussed in this section.

### **SECTION THREE**

This section details recommendations for the Vukuzakhe Programme and on how to fight fronting and window dressing.

### **SECTION FOUR**

Having done this research, what conclusions can be drawn?

## 1.7 OBJECTIVES AND METHOD

### Objectives

- To find out if the emerging contractor development programme (Vukuzakhe) is able to reach everyone and not just few people.
- To find out whether, through this programme, emerging contractors acquire skills and resources that are necessary to thrive in an open civil contracting market.
- To determine whether, through the programme, emerging contractors are enabled to become sustainable businesses.
- To highlight the challenges and problems of ‘false’ empowerment, the so called fronting and window dressing.

The aim of these objectives is to evaluate the Department of Transport’s black economic empowerment tool, Vukuzakhe Programme, to see how much it is contributing in overcoming economic disparities of the past and the empowerment of the targeted people.

### Research methodology

Twenty (20) questionnaires were sent out to emerging contractors. These were sent out to emerging contractors in stages three (3) and four (4) on the Vukuzakhe Programme, see Table 1.

Contractors in stages three and four in the Vukuzakhe Programme are considered to be more experienced than the ones in stages one and two, as they have progressed through the stages. Due to the value of the contracts that they get, they are expected to be more established compared to the other stages. It therefore makes sense to analyse their progress when evaluating the Vukuzakhe Programme.

Out of the twenty questionnaires that were sent out, there were thirteen responses. The reason that not all of them were received back is because some emerging contractors

are doing work out in the field and were unable to respond before or by the due date. Another reason could be due to the fact that the researcher is working for the Department of Transport, some people may have thought that they are being set up, and their answers might be taken to management and they might not be able to get tenders from the Department again.

Out of the 20 questionnaires sent out, 13 responses were received. This means that more than half responded. Since there are only 22 stage 4 emerging contractors on the Vukuzakhe Programme, therefore the sample is representative enough for one to be able to draw conclusions on.

## SECTION TWO

### 2.1 ADVERTISING THE PROGRAMME

According to the Concise Oxford dictionary (1995), to reach is to make a motion or an effort to get hold of. The various ways that can be employed when trying to reach a particular target market are, print media, television, radio, Internet, personal marketing and word of mouth. Depending on the target market among other things, one would have to choose the media type that can best reach the target market. It is important that the message is clear and straight to the point so that people can easily understand what is being communicated.

Reaching the target market in this particular context means reaching the people that were systematically and purposely restricted from participating fully in the economy due to their race. These people were also denied access to skills and self-employment. This refers to all blacks generally (Asians, Coloureds and Africans) and to black women, youth, the disabled and rural communities.

#### 2.1.1 REACHING OUT TO SMALL BUSINESSES

The Department of Transport has community structures through which it communicates with the communities. Those are *rural road transport forums* and *community road safety councils*. These serve as liaisons between the Department and communities. The structures are also being used to communicate information about the Vukuzakhe Programme to the communities out there.

The Department of Transport also uses *Igalelo* as its official newspaper through which it communicates with the public. This is also another way of letting the public know about the Vukuzakhe Programme. There is also has a slot in Ukhozi Radio where officials address the listeners regarding any issues relating to the Department. This is also another way to advertise the Vukuzakhe Programme.

Out of the responses received fifty four percent of the emerging contractors got to know about the Vukuzakhe Programme through the department and its structures. Forty six percent got to know about it through the media.

The communication channel combination that the Department is utilizing is proving to be effective. As a government department the mandate is to serve the people, it is therefore imperative that the communities out there are aware of the services that are being offered so they can take advantage of opportunities.

## **2.2 REDRESSING THE IMBALANCES OF THE PAST**

Black economic empowerment is aimed at redressing the imbalances of the past. The following are some of the imbalances of the past:-

- The school curriculum known as Bantu education, which did not offer much Mathematics and Science as part of the curriculum. As these subjects are essential for entry into the engineering and construction industries, not offering them secured the exclusion of black people from participating in the industries, as they did not have the necessary skills. They were therefore only ‘hewers of wood and drawers of water’.
- Due to apartheid, the majority of African people were confined to homeland areas. These places were the poorest when it comes to living conditions, business opportunities and infrastructure.
- The Group Areas Act enforced racially segregated areas, which also contributed in destroying black small business as people were moved from their places of residence.
- It was impossible for black people to acquire assets, which could have been used as collateral for loans due to the property ownership rights.

In redressing the imbalances of the past, the government embarked on a programme to lay down legislative framework for the transformation of the economy. The legislation included several pieces of legislation, for example the Promotion of Equality and Prevention of Unfair Discrimination Act, 2000, Extension of Security of Tenure Act, 1997, Restitution of Land Rights Act, 1994, and Employment Equity Act, 1998.

It also introduced active measures to overcome distortions in the labour market and to provide new economic opportunities to historically disadvantaged people. These included the National Empowerment Fund Act, 1998, Competition Act, 1998, Preferential and The Procurement Policy Framework Act, 2000, and the National Small Business Act, 1996.

Various policies, programmes and strategies aimed at overcoming the economic inequalities and underdevelopment were implemented. These include:

- The Urban Renewal Programme (URP) and the Integrated Sustainable Rural Development Programme (ISRDP), which are concerned with poverty targeting and alleviation in the rural and urban areas. Both these programmes are being coordinated and facilitated by the Department of Provincial and Local Government.
- National Small Business Development Promotion Programme, which is being looked after by Ntsika under the auspices of Department of Trade and Industry. The role of Ntsika is to render an efficient and effective promotion and support service to small, medium and micro enterprises (SMMEs) in order to contribute towards equitable economic growth in South Africa.

With the above framework having been laid down so as to make it possible for small businesses to partake in the economy of this country, owners of these small businesses also need to have particular qualities that will help them to be successful in their ventures.

Listed hereunder are some of the personal qualities of a successful entrepreneur. The entrepreneur must:

- be a reasonable risk-taker and have a willingness to make more than ordinary effort to achieve what he/she wants.
- be decisive and face problems head-on and therefore should not be afraid of making decisions.
- be versatile and not focus the business activities on one area and constantly strive to be competent in more than one area.

- be a finisher and be strong enough to endure and finish what he/she has started.
- be innovative.

### **2.2.1 EMPOWERMENT OF SMALL BUSINESSES**

Emerging contractors in stages 3 and 4 are expected to be able to do the following:

- Calculate tender rates and production rates.
- Acquire and manage construction material.
- Manage a project.
- Manage risks of leasing or buying construction equipment.
- Manage cashflows.
- Increase their asset base.
- Complete a tender document.

They are also expected to have business management skills.

Sixty nine percent of the emerging contractors that responded have been able to acquire construction equipment, namely tip trucks, bakkies, graders, excavators, TLB's, water tankers, dozers, rollers and tractors. Thirty one percent have not been able to acquire any equipment.

All of the emerging contractors that responded have been able to acquire skills and knowledge through their involvement in the Vukuzakhe Programme. These skills range from tendering, pricing, estimating, business management, loss control, project management, administration, financial management and other construction related skills.

The importance of having entrepreneurial skills should really be emphasized on the emerging contractors. Operational (scheduling their work, ordering of materials) and business (planning, financial control and budgeting) are vital to have for the business to succeed. As the support by the Department is removed, the above skills will play a big role in the survival of the emerging contractors.

## **2.3 SURVIVAL IN THE BUSINESS WORLD**

For small businesses to be able to compete in an open market system, they will have to be able to be sustainable. This means that they have to look out for new opportunities of doing business, and when they have spotted the opportunity, they must react on it in order to create wealth. “Opportunity is where you find it; says an old proverb. It does not say, ...where it finds you.”(Bekker and Staude, 1998). After all, business is about taking chances and having the guts to take that risk. Emerging contractors do not necessarily need to focus on one type of business, if there is an opportunity to diversify then the entrepreneur must go for it.

The entrepreneur has to keep re-investing in the business for it to be sustainable. The rules say that if the cash stops going around, you go out of business. The main focus for the entrepreneur should be to make the business grow and that is by making profits. It has been said that profit is like health. You need it, and the more the better.

### **2.3.1 ARE THEY SUSTAINABLE?**

Emerging contractors in stages 3 and 4 are supposed to be better-established businesses as compared to the ones in stages 1 and 2. This means the following:-

- They should at least have permanent staff (e.g. Administrative, technical).
- They should have some turnover.
- They must be able to compete for tenders in the open market.

Emerging contractors in these stages should not be reliant only on tenders from the Department of Transport, they should go out there to look for work in the open market and compete with established companies. The local councils, municipalities and other government departments also let out tenders which emerging contractors can tender for.

Seventy percent of the emerging contractors that responded said they have competed in the open market and have been awarded tenders. Fifteen percent have tried tendering in the open market but have not been awarded any tenders. Fifteen percent have not tried at all.



The high percentage of emerging contractors who have tried tendering in the open market is the evidence that they have been empowered through the Vukuzakhe Programme and they now feel that they have what it takes to make it. Emerging contractors should be encouraged to look for opportunities of doing business outside the support that they get from the department. After all, this is the only way they will know if they have what it takes and also their strengths and weaknesses.

## **2.4 CHALLENGES AND PROBLEMS FACING BLACK ECONOMIC EMPOWERMENT**

### **Fronting and Window Dressing**

Sathie Gounden (2003) states that:

“Fronting or window dressing is when:

- White-owned enterprises team up with black partners so as to meet the criteria of being defined as black economic empowerment companies, but when the contract is awarded, the black partners are excluded.
- Black employees are allocated shares in a business without being briefed on the requirements, duties and responsibilities being a shareowner entails.
- Companies fraudulently use the names of black individuals in order to meet the definition of black economic empowerment entities.
- Black individuals knowingly allow companies to issue shares in their names. When the contract is awarded, the black shareowner merely collects a commission for lending his name to the contract”.

As we have seen, the objectives of black economic empowerment which are to substantially and equitably transfer and confer the ownership, management and control of South Africa’s financial and economic resources to the majority of its citizens and to ensure meaningful participation by black people in the economy. Fronting then works directly against the whole purpose of black economic empowerment in that black people are only used as baits for securing government contracts. The black faces that are being used in fronting normally do not play a role in the company operations and their participation is not at levels of real ownership, control or management. In fronting, black people that are being used do not

necessarily derive benefits that will assist them to win contracts requiring empowerment credentials, nor do they gain any entrepreneurial skills.

“They (big business) are willing to offer some pseudo majority shareholding to black entrepreneurs, because in the end it counted for nothing while they smiled all the way to the bank. In desperation to secure lucrative government contracts, they are even willing to provide funding for an empowerment company’s stake”. (Sowetan, 2003)

At times the return on investment is not enough to service a loan obtained through such fronting. It then means that there is debt to be paid, and then at the end of the contract the empowerment company has no money and has not benefited from the relationship, while the other partners have benefited.

Fronting is bolstering the structural imbalances in the economy and is working against empowerment and the development of entrepreneurial skills that are vital in launching South Africa’s economy onto a course of sustained growth.

The Vukuzakhe policy defines the emerging contractor as an enterprise owned, managed and controlled by black previously disadvantaged individuals. It also states that fronting will not be tolerated under any circumstances and if discovered a company may be blacklisted. In spite of the above, the Vukuzakhe Programme is not immune from the problem of fronting.

The following are the ways in which fronting and window dressing can be detected.

- **Word of mouth**

When other contractors find out that another contractor is fronting and they report him to the Department, and that particular contractor is investigated to confirm the allegations.

- Information supplied on the Vukuzakhe database application form.

**Work carried out** – when the contractor is called in for an interview and is unable to give details of work carried out, and it is clear that they do not know anything.

**Plant and equipment** – when the contractor has indicated on the application form that he/she owns a number of construction equipment yet the company

has never done any work. When asked to produce log books for the equipment to prove ownership and is unable to.

Employment equity details – when some owners have been ticked as not being racially disadvantaged individuals.

**Company registration certificate (CK1/2)** – the percentage shareholding and the ownership details are showing that the majority shareholder is not a racially disadvantaged individual.

The big question is: Why would emerging contractors involve themselves in fronting and window dressing when the Department is awarding them a chance to start their own businesses and is actually putting aside work that will only be done by emerging contractors?

The possible reasons could be that:

- The white partner can complete the tender document and is able to do calculations. Therefore the fronting partner is then convinced that they will definitely win tenders.
- The fronting partner still has the idea that a white person can do it better than he/she can. He/she has no self-confidence.
- There are perceived benefits, for example, more contracts will be won and therefore they will have more money quicker than other emerging contractors who are not fronting.
- Plain ignorance.

## **SECTION THREE**

### **3.1 RECOMMENDATIONS FOR THE VUKUZAKHE PROGRAMME**

When conducting the research, the researcher had a problem getting hold of the emerging contractors. The reason was that they change their contact details too often and they do not advise the database section of their new contact details. The department should encourage the emerging contractors to have a permanent point of contact for example an office where one can call them, fax them something or visit them. This will contribute to the good image of the company, as one would assume that the company is well organized and in touch with its customers.

All the contractors have mentioned that they have gained some skills and knowledge through their involvement in the Vukuzakhe Programme. The skills and knowledge gained are different from one contractor to another. The examples are, tendering, technical and business management skills.

The Department of Transport should have a structured programme for the training of emerging contractors. This programme should have modules like, for example, financial management, business administration and the basics of contracts including the hiring of plant and machinery. The training would then be offered to all the emerging contractors thereby equipping them all with the same basic skills that they require in order to manage their small businesses successfully.

Only twenty three percent of the emerging contractors that responded answered correctly when asked how much their annual turnover was. The others responded to the question by giving the total value of the projects they have completed. This also reiterates the need for the Department to offer the emerging contractors training on the basics of financial management.

One of the objectives of black economic empowerment is to transfer and confer the ownership, management and control of South Africa's financial and economic resources to the majority of its citizens. Therefore, for emerging contractors to

successfully own, manage and control the financial and economic resources, they need to have the necessary entrepreneurship qualities. It is also suggested that the Department considers offering entrepreneurship support to emerging contractors.

The department should have a section that will be responsible for the training and support of emerging contractors. Where they will conduct an audit to see what skills and knowledge emerging contractors possess, what skills and knowledge they need for them to manage their small businesses successfully and therefore decide what can be done to ensure that the emerging contractors actually get the necessary skills and knowledge.

The labour-intensive road construction schemes that are being run should be in conjunction with programmes to develop managerial and ownership capabilities in emerging contractors.

Emerging contractors must be encouraged to purchase their own construction equipment. They should not unnecessarily rely on plant hire companies for all their construction equipment requirements. Purchasing their own construction equipment is on its own an investment on the part of the small business as these are assets that belong to the business.

The Department of Transport should encourage emerging contractors to also make use of the offerings by the Department of Trade and Industry and not only rely on the business that they get from the Department. The examples of the offerings are emerging entrepreneur scheme and empowerment scheme, both offerings are credit guarantee schemes. These schemes can be utilized in purchasing construction equipment.

One of the personal qualities of a successful entrepreneur is that he/she must be versatile and not focus his/her business activities on one area. The entrepreneur must constantly strive to be competent in more than one area. With this in mind emerging contractors need to be encouraged to widen their nets in search for opportunities to do business. All emerging contractors in stages 3 and 4 should already be taking advantage of other opportunities in the market and making a success of them. After

all, this is the goal of the programme, that they ultimately become well-established, sustainable businesses.

### **3.2 RECOMMENDATIONS ON HOW TO FIGHT FRONTING AND WINDOW DRESSING?**

Due to the fact that emerging contractors are mostly illiterate, it is therefore possible that some of them do not even know what fronting is and they are not aware that they are fronting. First and foremost, the Department needs to educate emerging contractors about fronting, especially the reasons as to why it is not allowed. Specifically emphasizing the fact that the perceived benefits are probably much less as compared to what the emerging contractor can gain if they owned the company and not worked as employees.

Workshopping emerging contractors on all the details including contract terms of the Vukuzakhe Programme, could help highlighting the training available to contractors that is to equip them with the necessary skills and also the importance of believing in themselves to do what they set out to do. Black economic empowerment is also an important issue to cover especially highlighting the urgency to empower the emerging contractors.

When admitting emerging contractors on the database, all the details regarding the ownership and registration of the company, plant and equipment ownership and work carried out by the company, must be thoroughly checked so that any queries or unclear information can then be addressed as early as possible.

Details on the company registration documents (CK1&2) need to be obtained to verify the ownership and membership. Share certificates must also be inspected to verify shareholding.

## SECTION FOUR

“South Africa’s high and growing unemployment problem is the most important economic challenge currently facing policy-makers. KwaZulu-Natal accounts for 17,9% of employment in South Africa. This is disproportionate to the province’s share of the country’s population, which is 21%. (Department of Economic Development and Tourism, 2002).

The provision of road infrastructure is a necessary tool for achieving economic and social growth. The KwaZulu-Natal Department of Transport utilizes the provision of road infrastructure in its endeavors to contribute in the upliftment of the people of KwaZulu-Natal. Thereby contributing to the government’s strategy to substantially and equitably transfer and confer the ownership, management and control of South Africa’s financial and economic resources to the majority of its citizens.

It was seen in section 2.1.1 that the various channels that the Department utilizes to communicate with the public regarding the Vukuzakhe Programme, are proving to be quite effective. Currently the Vukuzakhe database has registered about 20000 emerging contractors.

“While KwaZulu-Natal has the highest proportion of tertiary education institutions, it has the lowest participation rates. Moreover, these institutions appear to be operating in isolation from the patterns of skill demand emerging from the growing sectors and industries within the KwaZulu-Natal economy”. (Department of Economic Development and Tourism, 2002).

It is imperative that the economic opportunities being provided to emerging contractors are in conjunction with the transfer of skills that are necessary to be able to thrive in the construction industry. An accredited skills training will attempt to bridge the gap that the above quotation is highlighting. This is necessary for a meaningful participation in the economy.

The Vukuzakhe Programme's strengths are in giving the emerging contractors an opportunity to become sustainable businesses. It has also set aside a substantial portion of work that will only be allocated to emerging contractors. Thereby creating a 'protected environment' in which emerging contractors can compete for work.

The tenders that are awarded are broken down according to each Vukuzakhe stage. The support mechanisms that are provided systematically get removed as the contractors progress through the stages, thereby encouraging them to stand on their own.

As can be seen in section 2.2.1, contractors have been able to purchase their own equipment through the Vukuzakhe Programme. Re-investing in the business and increasing the asset base are some of the most important things that the entrepreneur should do in ensuring the business' sustainability. This is an indication that emerging contractors are starting to look beyond just being 'emerging contractor' but to entrepreneurship.

Fronting hinders the process of empowerment of emerging contractors thereby reinforcing the economic imbalances of the past. This is working against the objectives of black economic empowerment and therefore should be stamped out at all costs.

Emerging contractors need to adopt a capitalist approach and not wait to be spoon fed in order for their businesses to be sustainable. This will ultimately ensure that South Africa's economy is entrusted in capable hands.

In conclusion, we have seen that the emerging contractor programme (Vukuzakhe) does reach the targeted black economic empowerment groups and individuals. Furthermore, even though emerging contractors are acquiring skills through the programme, there is still a need for the department to have a structured and accredited training programme and also provide support mechanisms for entrepreneurship.

A number of emerging contractors have also been able to acquire construction equipment through their involvement in the programme. Although we have seen that some emerging contractors have tried tendering in the open market but they still do



need to acquire entrepreneurial skills, which will help them to become sustainable businesses. As we have seen, the Vukuzakhe Programme is also faced with the problem of fronting and window dressing and strict measures have to be put in place in order to deal with this problem.

A further research in this area is recommended especially in terms of the progress being made by emerging contractors in their endeavors of partaking in the ownership, management and control of South Africa's economic resources.

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## **GLOSSARY OF TERMS**

Black people:	South Africans previously classified as African, Asian, Coloured
Community road safety council:	A structure made up of community members that are elected by the community to liaise with the department on behalf of the community regarding road safety issues.
Emerging contractors:	An enterprise owned, managed and controlled by black previously disadvantaged individuals or group.
Fronting:	When black people are being called partners or shareholders in a white-owned company in order for that company to secure government contracts.
Open market:	A situation where everyone competes for work, big and small companies, where economic empowerment depends on competition.
Rural road transport forum:	A structure made up of community members that are elected by the community to liaise with the department on behalf of the community, regarding the construction and maintenance of rural roads.
Sustainable:	Continuous growth and the strength to pull through the pressures of the business world.
Window dressing:	It is when a white-owned company employs black people to management positions, where their participation is not of real operational control or management but in order for that company to meet the definition of black economic empowerment entity.

## APPENDIX

### RESEARCH QUESTIONS

#### No. Question

1.	How did you get to know about the Vukuzakhe programme?
2.	Has your involvement in the Vukuzakhe programme brought about any improvement in your life? If it has, in what way?
3.	Have you been able to acquire any resources since being involved in the programme? If yes, what are they?
4.	Through your involvement in the Vukuzakhe programme, have you gained any skills or knowledge? If yes, what are they?
5.	Have you got any permanent staff?
6.	What is your annual turnover?
7.	Have you been able to tender on the open market? If yes, were you awarded any tenders and what was the value?