

Factors deteriorating effectiveness of Broad-Based Black Economic Empowerment (B-BBEE) in South African: A Systematic Literature Review

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Abstract

One of South Africa's prominent policies aimed at addressing economic injustices that were created by apartheid is Broad-Based Black Economic Empowerment (B-BBEE). This policy encourages black ownership, participation, and skill development in business that wants to trade with the state. Even though the B-BBEE was meant to enhance the redistribution of economic wealth, evidence indicates that inequality, poverty, and unemployment on a large scale continues to rise. This systematic literature review integrates academic and policy discussions to uncover the fundamental factors that undermines the efficacy of B-BBEE. In this review, peer-reviewed papers, policy reports and book chapters published between 2003 and 2024 were examined. The emphasising was embedded on persistent challenges such as elite capture, fronting and compliance-driven practices, corruption and rent-seeking in public procurement, minimal effects on poverty alleviation, suboptimal skills development outcomes, policy ambiguity, and insufficient monitoring and enforcement mechanisms. The results suggest that B-BBEE has helped create a black middle class and encouraged some business growth, but it doesn't work as well as it could because of problems with its design and implementation. The review concludes that for B-BBEE to achieve genuine transformation, a shift towards inclusive, grassroots empowerment should be considered.

Keywords: *Broad-Based Black Economic Empowerment (B-BBEE), Economic inequality, Elite capture and Policy implementation.*

Introduction

The legacy of apartheid in South Africa has created significant economic inequalities that continue to hinder the country's development. To address these disparities, B-BBEE policy was legislated in 2003, aimed at increasing the participation of previously disadvantaged South Africans, especially African, Coloured, and Indian individuals in the economy (Littlewood & Holt, 2015). The B-BBEE framework is built upon five critical elements: ownership, management control, skills development, enterprise and supplier development, and socio-economic development (Dreyer et al., 2021).

Despite some progress, such as the emergence of a black middle class and notable empowerment initiatives in sectors like mining and finance (Herman, 2014), the B-BBEE's effectiveness is widely debated. Numerous scholars have highlighted that while the policy has led to some consolidation of economic power among previously disenfranchised groups, it has disproportionately benefited a political elite at the expense of addressing the underlying issues of poverty and unemployment that persist in South Africa today (Hurley et al., 2009; Dreyer et al., 2021). For instance, a significant body of research indicates that the benefits of B-BBEE transactions have often been misallocated, with the intended economic upliftment of the broader black populace remaining largely unfulfilled (Herman, 2014; Ayuk et al., 2013).

Furthermore, critics argue that B-BBEE has perpetuated a system where the elites leverage their 'blackness' for economic gains, leading to a phenomenon referred to as "symbolic inclusion but material exclusion" (Herman, 2014). These mechanisms have been criticized for fostering a culture where empowerment is more about enhancing corporate reputations rather than actual economic transformation (Ayuk et al., 2013). Thus, while B-BBEE was conceived as a radical response to apartheid's socio-economic injustices, evidence suggests that it may have inadvertently entrenched existing inequalities rather than dismantling them.

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Another concern is the operational complexity that businesses face regarding compliance with B-BBEE regulations. Various researchers have emphasized that corporations often perceive these reforms as burdensome, leading to varied implementations across different sectors (Wan et al., 2011). As a result, the effectiveness of B-BBEE is not only a matter of policy but also contingent upon the broader social and economic context within which it operates, which includes elements such as corporate governance and community engagement (Chonco & Rangiah, 2019).

Lastly, while B-BBEE was designed to address the entrenched economic inequalities of South Africa's apartheid legacy, its execution has generated significant debate. The policy's actual impact on reducing poverty and fostering equitable growth remains contested, indicating that further research is necessary to identify key strategies that could enhance its effectiveness and truly transform the economic landscape for the disadvantaged.

Theoretical Framework

The effectiveness of B-BBEE can be understood through multiple theoretical lenses. This study draws on Public Choice Theory, Agency Theory, Resource-Based View (RBV), and Institutional Theory to explain the factors deteriorating its implementation and outcomes. These theories provide a multidimensional lens to understand elite capture, compliance behaviours, corruption, and the structural limitations of empowerment initiatives.

Public Choice Theory

Public Choice Theory postulates that political and economic actors prioritize their self-interest, often at the expense of collective welfare, a premise established by Buchanan and Tullock in 1962 (Auriol et al., 2016). This theory finds relevance in the context of B-BBEE in South Africa, where elite capture and rent-seeking behaviours manifest significantly in procurement processes. Scholars note that political elites and business interests frequently exploit empowerment initiatives to gain personal or group advantages, which leads to the emergence of "tenderpreneurs"—individuals who profit disproportionately from state contracts rather than contributing to broad-based economic development (Rothschild & Scheuer, 2016). This manipulation compromises the objectives of B-BBEE and exacerbates corruption, ultimately undermining the policy's effectiveness (Kang-min & Kim, 2021).

The relationship between rent-seeking and public procurement is further demonstrated in various studies. For instance, Palguta et al. (2015) articulated the detrimental consequences of rent-seeking in public procurement, where resources are diverted away from productive uses to secure economic gains through manipulative practices. Similarly, Hillman and Long (2017) highlighted the persistent nature of rent-seeking activities, noting that such mechanisms create distortions that hinder both political accountability and economic equity. These findings resonate with concerns articulated by South African leaders, suggesting that ongoing issues of elite capture hinder the transformative promise of initiatives like B-BBEE, reverting the focus to a narrow base of empowerment rather than broad societal benefits (Ali et al., 2022).

The issues of corruption and inefficiency attributable to rent-seeking are underscored by various contemporary analyses. For example, research by Ali et al. (2022) critiqued the procurement processes in Malaysia, wherein administrative corruption and favouritism were found to flourish, echoing similar outcomes observed in the South African context. The impacts of entrenched elite interests stifle productive entrepreneurship and undermine governance, as discussed by Aidt (2016) who elaborated on how corruption feeds into the broader framework of political rent-seeking, wherein bureaucratic inefficiencies proliferate due to self-serving motives. Consequently, the literature consistently points to the urgent need for reform, asserting that without substantial changes to mitigate rent-seeking behaviours, policies aimed at empowerment remain largely ineffective (Asano, 2021; Kahana & Klunover, 2014).

In summary, Public Choice Theory provides a crucial lens through which to analyse the complexities of procurement processes in the context of B-BBEE, illustrating how self-interested behaviours lead to elite capture and systemic corruption. As highlighted by recent studies, the perpetuation of these dynamics has

significantly hampered the effectiveness of economic empowerment initiatives, reinforcing the necessity for reform to achieve genuine societal benefits.

Agency Theory

Agency Theory elucidates the dynamics between principals, such as the state and its citizens, and agents, typically corporations and policymakers. In the context of B-BBEE in South Africa, the government acts as the principal, enforcing mandates for transformation while businesses serve as agents responsible for implementing these empowerment initiatives. A critical problem arises from the information asymmetry inherent in this relationship, particularly when businesses engage in "fronting" — misrepresenting compliance with B-BBEE requirements to enhance their scores without effecting genuine transformation (Dreyer et al., 2021). This practice underscores a fundamental integrity issue wherein corporations may prioritize fulfilling regulatory metrics over making substantial contributions toward economic and social empowerment (Rooi et al., 2023).

Research indicates that the effectiveness of B-BBEE is often undermined by weak oversight mechanisms, which allow firms to exploit gaps in monitoring and compliance (Mathebula & Odeku, 2023). For instance, Dreyer et al. (2021) highlight that meaningful interactions between businesses and their shareholders can promote authentic B-BBEE practices, suggesting that increased scrutiny and engagement during corporate governance activities, such as annual general meetings, may enhance compliance. Such engagements may induce businesses to enact more profound changes rather than only superficial compliance (Rooi et al., 2023). The failure to adequately monitor fronting practices highlights a broader issue within the corporate governance framework in South Africa, which necessitates a comprehensive re-evaluation to ensure that B-BBEE serves its intended purpose of transforming socio-economic conditions (Forbes & Rust, 2019).

Furthermore, Dempere and Abdalla (2023) discuss the impact of women's empowerment within corporate settings, linking it to enhanced corporate social responsibility and governance practices. This intersection illustrates how empowerment policies can create an environment where companies are less inclined to engage in fronting, as diverse and inclusive practices contribute to improving corporate reputation and stakeholder trust. Comprehensive frameworks, such as those outlined by Rooi et al. (2023) assert that businesses must adopt transformative corporate social responsibility practices aligned with B-BBEE objectives to facilitate true empowerment and organizational integrity.

Thus, the overarching challenge persists in reconciling compliance with genuine socio-economic transformation under B-BBEE. The role of government oversight is pivotal in ensuring that the agents (corporates) fulfil their duties authentically and are not merely ticking boxes. There is an urgent need to bolster monitoring and enforcement mechanisms to close the gaps exploited by fronting practices, thereby aligning agency interests more closely with the principles of B-BBEE (Mathebula & Odeku, 2023; Forbes & Rust, 2019).

Resource-Based View (RBV)

The Resource-Based View (RBV), articulated by Barney in 1991, posits that sustainable competitive advantage is achieved through the strategic utilization of resources that are valuable, rare, inimitable, and non-substitutable. In the context of South Africa's B-BBEE, initiatives such as skills development and enterprise capacity-building are intended to generate long-term competitive advantages for both businesses and their beneficiaries. However, challenges in achieving effective training outcomes and ensuring the sustainability of small, medium, and micro-enterprises (SMMEs) indicate that empowerment initiatives often fail to cultivate valuable resources for beneficiaries (Herman, 2014). This inconsistency aligns with findings that insufficient investment in human capital and SMME development significantly undermines the effectiveness of B-BBEE initiatives, thereby limiting the potential benefits for the intended beneficiaries (Bongomin et al., 2018).

Moreover, recent literature underscores the importance of robust human capital investment in enhancing organizational performance. For instance, Roziq et al. (2021) emphasize that aligning human capital

investment with organizational strategies considerably boosts performance and competitive advantages. This underpins the relevance of effective training programs and sustainable practices within the B-BBEE framework, as they create human capital vital to operational success. Onkelinx et al. (2016) also contribute to this discourse by connecting investments in employee development with productivity and the ability for SMMEs to navigate international markets, suggesting that neglecting these investments stifles growth opportunities.

Furthermore, the perspective that human capital should be treated as an investment rather than a mere cost has gained traction in recent studies, highlighting that well-planned education and training programs can yield high returns over time (Vithana et al., 2021). Bai (2024) asserts that investments in human capital enhance core competitiveness and organizational performance, particularly when management practices effectively harness this investment. These insights affirm that a strategic focus on developing human capital through B-BBEE programs is crucial for fostering enduring competitive advantages.

Despite the theoretical underpinnings supporting the value of human capital, practical challenges remain. Numerous studies, including those conducted by Zhang et al. (2024) and Amran et al. (2016) demonstrate that without adequate management and support systems, the potential of human capital investments to drive performance remains unrealized. As such, the failure to convert training and development into tangible outcomes reveals a fundamental misalignment between B-BBEE objectives and the implementation of skills development and enterprise sustainability initiatives. This observation echoes critiques surrounding the B-BBEE framework, indicating a need for strategic realignment to ensure that empowerment translates into sustainable resource development for beneficiaries (Herman, 2014).

Lastly, while the RBV provides a strong foundation for understanding the significance of human capital in securing competitive advantages, prevailing issues in training effectiveness and SMME sustainability highlight gaps in the execution of B-BBEE initiatives. A concerted effort to prioritize human capital investment as a strategic asset within the framework is essential for advancing both organizational performance and the economic empowerment of beneficiaries.

Institutional Theory

Institutional Theory posits that organizations often conform to external pressures, regulations, and norms as a means of achieving legitimacy, a concept articulated by Berrone et al. (2013). In the context of B-BBEE in South Africa, many businesses adopt a compliance-driven approach, focusing primarily on meeting requirements for scorecards rather than genuinely embedding transformation into their core strategies (Aharonson & Bort, 2015). This behaviour aligns with the concept of isomorphic behaviour, where firms mimic the practices of peers to appear legitimate, leading to superficial empowerment initiatives rather than substantive structural changes (Berrone et al., 2013). Empirical studies illustrate how institutional pressures can induce firms to prioritize compliance over meaningful outcomes, a dynamic observed in corporate social responsibility (CSR) and environmental management, where merely meeting regulatory standards can often overshadow pursuit of innovative practices that foster genuine improvement (Bananuka et al., 2021).

Moreover, Bananuka et al. (2021) highlighted that both institutional pressures and environmental management practices significantly predict environmental performance in organizations, indicating that such pressures can lead firms to adopt practices that maintain legitimacy without necessarily enhancing their performance. Furthermore, findings from Tian et al. (2022) emphasize the mediating effects of institutional pressure on firm performance, suggesting that external expectations can drive companies to undertake actions that may appear beneficial but lack depth and authenticity.

Additionally, the alignment of strategic responses with institutional pressures is critical, as demonstrated by Aharonson and Bort (2015) who found that firms balance conformity and resistance in response to these pressures. This balancing act often results in organizations adopting practices that are perceived as enhancing legitimacy rather than those fostering actual change, which helps explain the persistence of "tick-box" compliance behaviours in various sectors, including B-BBEE (Aharonson & Bort, 2015).

In summary, the reasons behind superficial empowerment initiatives in B-BBEE contexts can be comprehensively explained through the lens of Institutional Theory, which illustrates how pressures to conform compel organizations to prioritize legitimacy over meaningful transformation. Consequently, while firms may engage in activities that align with institutional demands, the underlying motivations often reflect a desire for legitimacy rather than a genuine commitment to empowerment and transformation (Tian et al., 2022).

Methodology

A systematic search was conducted across academic databases including Scopus, Web of Science, Google Scholar, and Sabinet. Keywords included “B-BBEE effectiveness,” “challenges of Black Economic Empowerment,” “South Africa empowerment policy,” “fronting in BEE,” and “economic transformation South Africa.” Peer-reviewed journal articles, policy reports, and book chapters published between 2003 (the introduction of the Act) and 2024 were considered. Following PRISMA guidelines, 52 publications were initially identified; after applying relevance and quality criteria, 28 sources were included for full analysis.

Findings: Factors Deteriorating the Effectiveness of B-BBEE

Elite Capture and Narrow-Based Empowerment

A consistent finding across the literature is that B-BBEE has disproportionately benefited politically connected elites rather than the broader black population. This concentration of benefits undermines the “broad-based” intent and fosters perceptions of inequity.

Fronting and Compliance-Driven Practices

“Fronting” practices—where companies misrepresent black ownership or management to secure B-BBEE points—remain widespread. This compliance-oriented behaviour reduces the transformative impact, as firms focus on scorecard optimisation rather than substantive empowerment.

Corruption and Rent-Seeking in Public Procurement

The integration of B-BBEE into state procurement has generated opportunities for black-owned firms but also created fertile ground for corruption and “tenderpreneurship”. Such practices weaken public trust and erode efficiency in service delivery.

Limited Impact on Poverty and Inequality

Although a black middle class has emerged, evidence suggests B-BBEE has had limited impact on structural poverty and inequality. Large segments of the population, especially in rural areas, remain excluded from economic opportunities, highlighting the policy’s limited reach.

Weak Skills Development and Employment Outcomes

While companies often fund bursaries and training to meet scorecard requirements, studies show that these efforts have not consistently translated into sustainable employment or career mobility. Skills mismatches and high unemployment persist.

Policy Uncertainty and Business Confidence

Shifting targets, frequent amendments, and lack of policy clarity around B-BBEE codes have created uncertainty for investors. Businesses often view B-BBEE as an administrative burden rather than a developmental tool, undermining its legitimacy.

Weak Monitoring and Enforcement

The Department of Trade and Industry and related regulatory bodies often face capacity constraints in monitoring compliance and sanctioning offenders. Weak enforcement allows fronting and superficial compliance to persist.

Discussion

The review reveals that the deterioration in B-BBEE's effectiveness is driven by not only design flaws (overemphasis on ownership transfers) but also by implementation weaknesses (fronting, corruption, and weak monitoring). Moreover, structural challenges such as unemployment, poor education systems, and persistent inequality dilute its transformative capacity. A key insight is that while B-BBEE has facilitated the emergence of a black middle class, it has not sufficiently addressed the economic marginalisation of the majority.

Conclusion

This systematic review demonstrates that the effectiveness of B-BBEE in South Africa is undermined by elite capture, fronting, corruption in procurement, weak skills outcomes, policy uncertainty, and inadequate monitoring. For the policy to achieve genuine transformation, scholars recommend a shift towards developmental approaches that integrate grassroots empowerment, capacity-building for small enterprises, and stronger enforcement mechanisms.

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