

CHAPTER 8

SUMMARY AND CONCLUSION

8.1. INTRODUCTION

The aim of chapter 8 is to describe the objectives of the thesis and to declare whether those objectives have been attained. The research study uncovered certain issues in relation to the use of preferential procurement in Local Government and its impact in local economic development.

In this chapter the literature research is reviewed, and the research objectives are revisited. As in all research studies, some limitations to the study were found. Recommendations are given for future research study and a final conclusion is given not to close the discussion, but to open the door for further debate on the topic discussed.

8.2. LITERATURE RESEARCH REVIEWED

There is extensive literature, which addresses the topic of preferential procurement and methods to implement its programmes in organisations.

The Department of Trade and Industry (DTI, 1995:1) and Ntsika, (Ntsika, 1997:1, 5,7) have written on the aspects addressed in the 1995 President's Conference. Sharp, Mashigo and Burton, (1999:12-16) have said that the importance of the local policy sphere and the potential role of local governments in SMME development are increasingly recognised. The Government Gazette (RSA, 1997:13-16, 131, 134) presented the Green Paper on Public Sector Procurement Reform, discussed the need for AP in South Africa, (RSA, 1997:134-136), and has published the regulations of the preferential procurement policy framework Act, (RSA, 2001:4). Watermeyer, discussed

the following topics: the Municipal Systems Bill, the Municipal Finance Management Bill, (Watermeyer, 2000:5, 6, 8) the memorandum on the objects of the preferential procurement policy framework Act (Watermeyer, 2000:4), the implication of the preferential procurement policy framework Act on procurement by local authorities, (2000:9), Government socio-economic objectives, (Watermeyer, 2000:7) Badenhorst, (1995:2) Nieman, (1997:1) Hugo, Van Rooyen, and Bandehorst, (1997:9) have discussed on the need for AP in South Africa. Morgan and Cruz (1997: 68s3) discussed the trends taking place in procurement.

The RDP discussed its national objectives, (RDP, 1995:7-12). Watermeyer, Letchmiah and Mnikati, (2000:1-3) discussed the use of procurement as an instrument of social policy, they argued that Governments need to deliver services and to construct and maintain infrastructure for the people they serve; and they also described BEE as the process of increasing the involvement of black people at the highest level of industry as owners and professional managers. Watermeyer, Hauptfleisch, Jacquet and Letchmiah, (2000:8) defined targeted procurement as a system of procurement which provides employment and business opportunities for disadvantaged individuals and communities enabling procurement to be used as an instrument of social policy.

Auskalinis, Ketchum and Carter, (1995:64) defined minority owned businesses. Heinritz, Farrel, Giunipero, and Kolchin, (1991:175) discussed the use of the purchasing function to achieve certain social objectives. Wallace, (1999: 77-79) argued that AP is necessary for the survival of minority firms. The White Paper Report, (1995: 91) discussed the Minority Supplier legislation. Moore, (1993:143), Pearson, Fawcet and Cooper, (1993:72) Morgan and Cruz, (1997:68s5) the White Paper Report, (1995:99), Murphy, (1998:64s7), Galt and Dale, (1991:17) have discussed trends taking place in procurement and logistics. Lovering, (1992: 223-227) argued that purchasing professionals need to support the growth of small businesses. Lindsey, Nichols, Rawls and Kraus, (1990:385, 386), discussed ways to create and maximise opportunities for MBE suppliers. Edwards, (1997:20,21) said that supplier diversity consists in ensuring that purchasing managers are getting the best value for money for their company and

using the best supply sources, by tapping into all the sources which are available. He said that there are certain barriers to supplier diversity: Minority owned firms are small and they are isolated from traditional business networks. Bullivant says that legality towards supplier diversity in the United Kingdom is not straightforward and will depend on the precise circumstance surrounding each case. In the United Kingdom, Marsh, (1997:22) says that the Race Relations Act has been applied primarily in the field of employment law. Oc and Tiesdell, (1999:1723) says that ethnic minority groups continue to face significant barriers to economic participation. Auskalinis, Ketchum and Carter, (1995:10, 16:31) said that definition of "success" was to be based on what percentage of the organisation's purchases were to be awarded to MBE suppliers. The White Paper Report, (1995:87, 88, 91, 92) say that supplier diversity has finally become an accepted activity in much corporate America. Murphy, (1998:64s19) discussed the future of supplier diversity programmes.

Dollinger, Enz and Daily, (1991:9) defined AP programmes as specific purchasing strategies implemented by corporation to small business firms owned by ethnic minorities. Heinritz, Farrell, Giunipero and Kolchin, (1991:176) said that AP programmes represent proactive efforts by government and corporations to increase the volume of goods and services purchased from minority owned businesses. Hugo and Badenhorst, (2000:1) say that the objective of corporate purchasing programmes is aimed at the empowerment of black business.

Lindsey, Nichols, Rawls and Kraus, (1990:387) Dollinger, Enz and Daily, (1991:9) and Heinritz, Farrell, Giunipero, and Kolchin, (1991:177) discussed the use of AP programmes as a strategy to fulfil socio-responsibility requirements. Murphy, (1998:64s14) said that establishing an AP programme can become a great task considering the obstacles that exist. Hugo and Badenhorst (2000:9) discussed the factors promoting AP programmes. Badenhorst, (1995:10-20) suggested a model for a successful AP programme. Nieman (1997:1-5) suggested a framework to find and develop small and emerging suppliers.

Cooper and Schindler (1998:130) said that research design constitutes the blueprint for the collection measurement and analysis of data. (Zikmund, (2003:116) said that a case study can provide a major challenge to theories and provide a source of new hypothesis and constructs simultaneously. Malhotra, (1996:86) says that exploratory research can be used to achieve the following objectives: to define the problem more precisely, to identify relevant courses of action, to gain additional insights before an approach could be developed, to isolate key variables and relationships for further examination and establish priorities for further research.

8.3. RESEARCH OBJECTIVES REVISETED

The first objective in this research study was to determine if preferential procurement could be used to achieve certain socio-economic objectives. Secondly, it intended to discover if the use of preferential procurement policies in Local Government can help the municipality achieve its goals of promoting local economic development.

In chapter 2 the research found that there was a need to implement preferential procurement in South Africa and consequently, several laws were included in the Constitution in favour of local economic development and the promotion of SMMEs (especially the previously disadvantaged businesses). Government created a legislative environment, which would give it the conditions to use preferential procurement as an instrument of socio-economic development.

In chapter 3 the research found that public sector procurement has internationally been used to stimulate economic activity to protect national industry, to improve competitiveness, to correct regional disparities and to create jobs.

In South Africa government (National, Provincial and Local) has an enormous buying power. Therefore, public sector procurement has been identified as a major tool by government to achieve economic ideals including socio-economic objectives.

The main result of the procurement reform is targeted procurement. Procurement strategy for black economic empowerment implies to have an affirmative procurement

policy which uses procurement as an instrument of social policy; by targeting small black businesses (SMMEs) as this sector is increasingly seen as the main creator of new jobs in the economy; by supply side interventions to ensure meaningful and effective participation in the market.

In chapter 4 the research found that in the US Public Law 95-507 in 1978 stated that any contractor doing business with Federal Government should engage too with MBEs. This law is self-explanatory: Government wants firms to participate in its efforts to integrate minorities in the economy. Though Federal Government has taken this initiative, there is a growing acceptance from majority firms in doing business with MBEs, because they want their growing ethnic communities to be part of their target market. More and more minority communities are becoming an influential voice in the US.

This can be taken as an example for the South African situation, where there is an urge to include the majority of the population into the economic activity especially through the promotion of previously disadvantaged SMMEs. Therefore, resistance against preferential procurement in South Africa is not acceptable. Companies in South Africa should be the most eager to do business with previously disadvantaged businesses.

In chapter 5, two models for implementing preferential procurement in firms are recommended. The first suggest a series of steps to ensure successful integration of preferential procurement in firms. And the second one suggests a framework to find and develop small and emerging suppliers. Every institution, be it private or governmental should consult those models for implementing preferential procurement programmes, as those are the result of research intended to find the best practices for preferential procurement implementation.

Chapter 6 explains how the research will be conducted. In order to collect information, a qualitative exploratory study would be conducted, where policy makers and other people involved in the implementation of preferential procurement policies would be interviewed so as to collect as much information as possible to build a case study on the topic.

In Chapter 7 a case study was formulated based on the results of the interviews performed at the City of Tshwane Metropolitan Municipality. The research found that the objectives of Local Government at the Municipality are to promptly deliver high quality services as well as to promote LED. However, Local Government is faced with certain challenges such as: lack of infrastructures, lack of human resources, information dissemination deficiencies, and cumbersome administration. There is a need to monitor preferential procurement policy, and it is struggling to get a proper structure and to make the Integrative Development Plan work.

The local population is benefiting in terms of local development through the creation of jobs. Local people are also empowered through the democratisation of development, where there are given the opportunity to say what their needs are, and to participate in the planning phase of projects. The department has also taken some steps to empower marginalised groups such as the women, the youth and the disabled.

In relation to gaining extra powers, the LED department saw a need for Local Government to have a policy, which would allow it to be more entrepreneurial and more responsive to the needs of AP firms, and also more money to finance those entrepreneurs who cannot afford the services offered by local business centres, as well as an extra capacity in terms of human resources. In relation to the use of Municipal powers to promote social development and economic growth this can only happen as long as the budget allocated, is sufficient to cover its developmental responsibilities.

At present, there is no proper alignment between private and public investment. There is not really a system which coordinates all the different resources available and which permits an efficient relationship with Local Government

The procurement policy for the City of Tshwane presently being drafted at the department; the policy has certain economic development aspects and will look at the Small Business Act definition of SMMEs but still needs to look at BEE. In relation to a

policy intervention to support the local SMMEs the department has developed a strategy for local enterprise development and is planning to introduce a number of policies to support informal trading. The use of preferential procurement as an instrument of LED has been recognised at the Department as a tool to empower previously disadvantaged individuals/businesses. However, this process has to be implemented correctly as a policy, having at the same time a mechanism to monitor its implementation. The department needs a system of targets for SMMEs. When the Department sets targets and funds for SMMEs in a monitored system then preferential procurement can be used to the development of SMMEs.

Current procurement trends do not really have an impact on Local Government. The Department intends to: establish longer-term contracts with AP suppliers and to increase the supplier base to include historically disadvantaged individuals. The Department believes that it is not possible to use an EDI system presently, because this would constitute a barrier of entry to AP firms.

Preferential procurement does not have an impact on buying procedures at present. There is no tracing of AP firms; formal training is not given to buyers in support of Preferential Procurement policy implementation; buyer's performance review does not include AP program effectiveness as a factor of evaluation; there are no goals established for AP firms and there are no full-time AP coordinators.

The creation of opportunities at the Municipality is difficult because there are insufficient funds to cater for the development of the whole Tshwane area. However, some opportunities have been created through the unbundling of projects, which gives the chance for small firms to participate in projects they would not be able to participate in alone. Maximising opportunities also involves an increase in the availability of finance. Dissemination of opportunities needs a greater awareness and support from local business centres towards AP firms and SMMEs.

researcher has some recommendations, which she believes are feasible, practical, actionable and directly usable as inputs into managerial decision-making.

The Department does not have a supplier development program in place. However, it has an automotive component supplier development program due to the growth of the automotive industry.

It is recommended that Local Government should first build a communication. National objectives proposed by the RDP have not been achieved as yet. The department regards this as a continuous process and not as a once off achievement. Although many job opportunities are being created the level of unemployment is still high. The other objectives described by the RDP are still to be achieved to the majority of the population.

8.4. LIMITATIONS OF THE STUDY

All research studies have certain limitations caused by time, budget and other constraints. Some of the limitations encountered during this research study are discussed below.

In addition, Universities and schools should include the issue of preferential procurement. Some respondents failed to answer certain questions during interviews. And others could not be reached, as there were never available. Some of them simply did not return the invitation and the appeal to participate in this research study, although working at the City of Tshwane municipality.

There is little literature on the implementation of preferential procurement in South Africa. As yet there is no literature about how Local Government is using preferential procurement to promote local economic development, and not all the areas which now make part of the City of Tshwane were visited, due to time and budget limitations.

8.5. RECOMMENDATIONS

Given the results of this research study, the researcher has some recommendations, which she believes are feasible, practical, actionable and directly usable as inputs into managerial decision-making.

8.5.1. Lack of infrastructures and information dissemination deficiencies

It is recommended that Local Government should first build a communication infrastructure so as to improve the dissemination of information. For example, the municipality could have a host system, which communicates with all the areas serving the municipality. This system would enable future contractors to be informed about invitations to bid without having to travel all the way from their far away places to the municipality. This would save costs to them and to the municipality.

8.5.2. Lack of human resources

The municipality should train all the employees which are linked to procurement on the issues, which affect the implementation of the preferential procurement Act. Employees should be familiar with the Regulations and any laws, which are relevant in this process. In addition, Universities and schools should include the issue of preferential procurement in their logistics syllabus, so as to increase awareness and investigation about the subject.

8.5.3. Cumbersome administration

To avoid cumbersome administration, the municipality should eliminate unnecessary layers of management as much as possible, eliminate unnecessary bureaucratic procedures which do not add value, and make preferential procurement documentation more simplified, especially the price mechanism.

8.5.4. Provision of high quality service delivery

Given the budget limitations and the duty to deliver high quality services the municipality should prioritise the areas, which lack basic infrastructure and then upgrade the areas, which are more developed. This investment would create jobs, increase the standard of

living of the people as well as encourage the young members of those communities to stay in their mother lands instead of immigrating to big cities and practice (such as Johannesburg and Pretoria) illicit activities, because there are not always job opportunities for illiterate people.

8.5.5. Implementation of a preferential procurement programme

The researcher recommends the placement of supplier development programmes at the municipality, so as to build its supplier base. There should be tracing of preferential procurement firms so as to analyse their performance, especially those who struggle the most. There are many models, which may help the municipality to succeed in establishing an AP programme. These models have common elements and do not differ much from one another. The framework recommended here for reference, is the “model for a successful Affirmative purchasing Programme” (as discussed in chapter 5) compiled by Badenhorst.

8.5.6. Supplier development

A framework suggested by Nieman, (as discussed in chapter 5), can be used by the municipality to find and develop small and emerging suppliers. This framework would help establish business relationships with small or emerging suppliers of goods and services; to assist these small and emerging suppliers to efficiently and effectively manage supply/service links with the municipality; and to match small and emerging supplier’s capacity with municipality opportunities, needs and requirements, and support ongoing linkages.

8.5.7. Purchasing/ Buying department

Inside the municipality, purchasing departments need to organise in order to clearly reach out to AP firms with a number of initiatives that will move the process along.

Purchasing professionals need to support and stimulate the growth of small businesses owned by AP firms.

8.5.7.1. Training the purchasing officials

Formal training should be given to buyers in support of Preferential Procurement policy implementation; this would enable them to be more aware of the policy; as buyers would be more “literate” on the preferential procurement they would be able to give more input to the problems, which the municipality is encountering and there would be less resistance towards various issues, such as the unbundling of projects or the awarding of longer term contracts.

8.5.7.2. Performance review

Buyer’s performance review should include preferential procurement program effectiveness as a factor of evaluation. This measure would incentive them to cooperate even more in the implementation of the preferential procurement policies and offer their inputs to solve problems relating to this issue. Goals should be established for AP firms, this would help the municipality to track their performance and to encourage them to raise their standards of service delivery.

8.5.7.3. Preferential procurement coordinators

Full-time AP coordinators should be nominated to monitor the implementation of the preferential procurement policies and their effectiveness. The municipality can create an internal role in called the “*minority business liaison officer*”, (MBLO) (as discussed in chapter 4). Typically this is the lead designated person, who organises the internal resources, and interfaces with the outside world to assist in the award of new businesses to AP firms. Services by the MBLO to the AP suppliers take place when the MBLO becomes the advocate for the AP firm internally. The MBLO needs also to provide feedback, information, advice, constructive comment, and so on, to the AP firm

in order to maximise opportunities for new business. The MBLO needs extensive supplier contact. A commitment to provide technical, financial, administrative and engineering support to AP firms is most helpful also. Both the MBLO and the buyers need to be "accessible" to AP firms when needed. Their actions need to be timely and without confusion or delay. Partnership programs, Mentor-protégé Programs, and joint ventures should be considered by the MBLO. In this model, the AP firm is treated as a customer.

8.5.8. Early age awareness of entrepreneurial capacity

8.7. CONCLUSION

One of the respondents said that there is a need in the department to create an awareness of future entrepreneurs. The recommendation is for Local Government to work with the education department and instil at an early age the entrepreneurial spirit into children, not only when they are already grown up and find themselves unemployed. The media should also play a bigger role in changing the culture of fear of failure and of taking risks as well as exploring in-born (natural) talents.

8.5.9. Monitoring of implementation of preferential procurement policy

The Department needs to establish a proper monitoring system, so as to ensure the preferential procurement policy is properly implemented. This will enable the department to see whether the policy is effective in achieving its objectives and to identify problems.

8.5.10. Establishment of a linkage system

The Department needs to establish a linkage system with the private sector where the public knows where to go to solve a certain problem and do not need to recur to secret networks, which encourage corruption and the awarding of privileges to some people

8.6. FUTURE RESEARCH

A recommended future research study would be to determine the effectiveness of the preferential procurement policy, which is being drafted at the present at Local Government. The main objective would be to find out if such a policy helps Local government to promote LED, to minimise the problems it is experiencing now and supports the development of SMMEs since they are considered the main motor for development.

8.7. CONCLUSION

Preferential Procurement can be used to achieve certain socio-economics. Literature review revealed that the New Legislation pertaining to Public Procurement and Local Government allow Government to use its purchasing power to promote the development of disadvantaged SMMEs. In relation to the second objective Local Government can use Preferential Procurement to promote local development. However, Local Government faces a major challenge, which is the achievement of its objectives with an insufficient budget. The Department needs more finance to promote development especially on the poorest sections of the Tshwane area. Certain issues should be reviewed such as the lack of infrastructure, lack of human resources, poor dissemination of information and awareness, cumbersome administration, the need for an AP programme implementation, supplier development programmes/activities, the need to train the purchasing officials on preferential procurement, to introduce achievement in preferential procurement in buyers' Performance Review and to nominate Preferential Procurement Coordinators.

To conclude, this research study intends to open the debate in relation to the effectiveness of a preferential procurement policy in Local Government. The research study has already considered that Preferential Procurement can be used as an instrument of socio-economic development. However, the all support system, in the form

of human and financial resources, the provision of infrastructures and institutional support needs to be regulated so that the City of Tshwane Metropolitan Municipality can use them as efficiently and effectively as possible to achieve its objectives.

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