

PREFERENTIAL PROCUREMENT IN LOCAL GOVERNMENT: A CASE

STUDY IN THE CITY OF TSHWANE METROPOLITAN AREA

by

NADIR ALEXANDRA GAMA SIMÕES GOMES

Submitted in fulfilment of the requirements

for the degree

MAGISTER COMMERCII

in

BUSINESS MANAGEMENT

In the

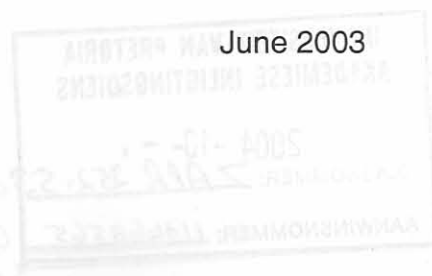
FACULTY OF ECONOMICS AND MANAGEMENT SCIENCES

at the

UNIVERSITY OF PRETORIA

SUPERVISOR: Professor G. H. NIEMAN

Pretoria



ACKNOWLEDGEMENTS

Thank you Lord, for this dissertation, may it glorify your most Holy Name and may it contribute to the upliftment of the most disadvantaged in any society.

There are many people who have contributed somehow to this endeavour. However, there are those who have directly contributed to and where a source of constant support. These are:

- The Ministry of Oil in Angola who financed my studies in South Africa
- Professor Gideon H. Nieman for his guidance, support and encouragement
- Ms Agnes Rahlogo for helping in the preliminary research
- Mrs Maria Ferreira for lending the recording device for the first interviews
- Mr Johan Du Prez for his support in transport during the initial interviewing process

DEDICATION

I dedicate this thesis to my parents Manuel Gomes and Maria da Gloria Pereira da Gama Gomes from whom I am was inspired to study to contribute for the good of the humanity.

1.1. INTRODUCTION	1
1.2. PROBLEM STATEMENT	2
1.3. RESEARCH OBJECTIVES	3
1.4. RESEARCH METHODOLOGY	4
1.4.1. Literature Review	5
1.4.2. Case Study	6
1.5. BENEFITS OF THE STUDY	3
1.6. OUTLINE OF THIS DISSERTATION	3
1.7. GENERAL	8
CHAPTER 2: BACKGROUND OF PREFERENTIAL PROCUREMENT IN LOCAL GOVERNMENT	
2.1. INTRODUCTION	10
2.2. THE 1995 PRESIDENT'S CONFERENCE	11
2.2.1. Business Support	11
2.2.2. Access to Markets	12
2.2.3. Access to Finance	13
2.2.4. Improving the Physical Environment	13

TABLE OF CONTENTS

2.2.5. Human Resources	14
2.2.6. Institution Building	14
2.2.7. Local Economic Development	15
CHAPTER 1: OBJECTIVES AND SCOPE OF THE STUDY	16
2.3. POLICIES GOVERNING PREFERENTIAL PROCUREMENT AT LEVELS OF GOVERNMENT	16
1.1. INTRODUCTION	1
1.2. PROBLEM STATEMENT	2
1.3. RESEARCH OBJECTIVES	3
1.4. RESEARCH METHODOLOGY	4
14.1. Literature Review	5
14.2. Case Study	6
1.5. BENEFITS OF THE STUDY	5
1.6. OUTLINE OF THIS DISSERTATION	6
1.7. GENERAL PROCUREMENT (ST 37)	9
2.4. THE TEN POINT PLAN	21
CHAPTER 2: BACKGROUND OF PREFERENTIAL PROCUREMENT IN LOCAL GOVERNMENT	21
2.1. INTRODUCTION	10
2.2. THE 1995 PRESIDENT'S CONFERENCE	11
2.2.1. Business Support	11
2.2.2. Access to Markets	12
2.2.3. Access to Finance	13
2.2.4. Improving the Physical Environment	13

2.2.5. Human Resource Development	14
2.2.6. Institution Building	14
2.2.7. Local Economic Development	15
2.2.8. Targeting Assistance	16
2.3. POLICIES GOVERNING PREFERENTIAL PROCUREMENT AT ALL LEVELS OF GOVERNMENT	16
2.3.1. Local Policy and SMME Development	16
2.3.2. The 1998 White Paper on Local Government	18
2.3.3. The State Tender Board Act of 1968	18
2.3.4. Provincial Tender Boards Acts	19
2.3.5. The State Tender Board General Directives and Procedures (ST 36)	19
2.3.6. The User Manual: Directives to Departments in Respect of Procurement (ST 37)	20
2.4. THE TEN POINT PLAN	21
2.4.1. Improvement of Access to Tendering Information	21
2.4.2. Development of Tender Advice Centres	21
2.4.3. Broadening of Participation Base for Contracts less than R7500	22
2.4.4. Waiving of Securities/Sureties on Construction with a value of less than	23
2.4.5. Unbundling of Large Projects into Smaller Projects	23

2.4.6. Promotion of Early Payment Cycles by Government	24
2.4.7. Development of a Preference System for SMMEs owned	24
2.4.8. Simplification of Tender Submission Requirements	24
2.4.9. Appointment of a Procurement Ombudsman	25
2.4.10. Classification of Building and Engineering Contracts	25
2.5. THE GREEN PAPER ON PUBLIC SECTOR PROCUREMENT REFORM IN SOUTH AFRICA	27
2.5.1. Aim	27
2.5.2. Procurement Reform: Key Principles	28
2.5.3. Procurement Reform: Objectives	29
2.5.4. Procurement Reform: Pillars of Reform	30
2.5.4.1. Socio-Economic Reform	30
2.5.4.2. Institutional Reform	31
2.6. PUBLIC FINANCE MANAGEMENT ACT AS AMENDED	32
2.7. MUNICIPAL SYSTEMS BILL	33
2.8. MUNICIPAL FINANCE MANAGEMENT BILL	34
2.9. THE PREFERENTIAL PROCUREMENT POLICY FRAMEWORK ACT	35
2.9.1. Memorandum on the Objects of the Act: Constitutional Provisions	35
2.9.2. Objectives of the Act	36
2.9.3. Framework for the Implementation of the Procurement Policy	36
2.9.4. Preferential Procurement Regulations	37
2.9.4.1. The Preference Point System	37

2.9.5. The Implication of the Preferential Procurement Policy Framework Act on Procurement by Local Authorities	39
2.9.6. The Procurement Environment in a Transformed Local Authority	40
2.10. THE USE OF AFFIRMATIVE PURCHASING IN SOUTH AFRICA	40
2.10.1. The need for Affirmative Purchasing in South Africa	41
2.10.2. Key Elements Associated with Affirmative Purchasing	43
2.10.3. The Components of Affirmative Purchasing	44
2.10.4. Objectives of Affirmative Purchasing	45
2.11. CONCLUSION	45
CHAPTER 3: THE USE OF GOVERNMENT PUBLIC PROCUREMENT TO ACHIEVE SOCIO-ECONOMIC OBJECTIVES	
3.1. INTRODUCTION	49
3.2. NATIONAL OBJECTIVES PROPOSED BY THE RDP	50
3.2.1. Meeting Basic Needs	51
3.2.2. Developing Human Resources	51
3.2.3. Building the Economy	51
3.2.4. Democratising the State and the Society	51
3.2.5. Implementing the RDP	51
3.3. GOVERNMENT SOCIO-ECONOMIC OBJECTIVES	52
3.4. THE USE OF GOVERNMENT PROCUREMENT AS A WAY	

TO ACHIEVE SOCIO-ECONOMIC OBJECTIVES	53
3.5. TARGETED PROCUREMENT AS AN INSTRUMENT OF SOCIO-DEVELOPMENT	55
3.5.1. Development of Targeted Procurement	57
3.5.1.1. Targeted Procurement Procedures and Resource Specifications	57
3.5.1.2. Contract Classification	61
3.5.1.3. Development Objective / Price Mechanism	62
3.5.1.4. Targeting Strategies	64
3.5.1.5. Monitoring and Evaluation	64
3.5.1.6. Recording and Reporting on Deliveries	66
3.5.1.7. Responsibility for Implementation	67
3.6. BLACK ECONOMIC EMPOWERMENT	67
3.6.1. Issues Surrounding BEE	68
3.6.2. Vehicles for BEE	69
3.6.3. Guiding Principles for BEE	70
3.6.4. Characteristics of a BEE Company	72
3.6.4.1. Ownership	72
3.6.4.2. Control	73
3.6.4.3. Independence	74
3.6.4.4. Size of the firm	74
3.6.5. Critical Success Factors	75
3.6.6. Procurement Strategy for BEE	76
3.6.6.1. Affirmative Purchasing Policy	76
3.6.6.2. The Rationale for Targeting Small Black Business	78

3.6.6.3. Supply Side Considerations	78
3.7. CONCLUSION	78
4.3.2.5. Competitiveness	100
CHAPTER 4: THE DEVELOPMENT OF COMPARATIVE PROGRAMMES IN OTHER COUNTRIES	
4.1. INTRODUCTION	82
4.2. MINORITY BUSINESS DEVELOPMENT IN THE USA	83
4.3. MINORITY SUPPLIER LEGISLATION	86
4.4. TRENDS TAKING PLACE IN PROCUREMENT AND LOGISTICS	88
4.4.1. Increased Use of the JIT System	89
4.4.2. Reduction of the Supplier Base	89
4.4.3. Increasing Reliance on Preferred Suppliers	92
4.4.4. Higher Quality Standards	92
4.4.5. Supplier Certification	92
4.4.6. Long Term Contracts	93
4.4.7. The Use of EDI	93
4.4.8. Supplier Selection	94
4.4.9. Award Systems	94
4.5. MINORITY BUSINESS OPPORTUNITIES	94
4.5.1. The Minority Business Liaison Officer Model	95
4.5.2. Creating Opportunities for MBEs	99
4.5.2.1. Networking	99
4.5.2.2. Active Participation in the Respective Industry	99

4.5.2.3. Seeking Leads/Referrals	99
4.5.2.4. Conference Techniques	100
4.5.2.5. Competitiveness	100
4.5.2.6. Pricing Structure	101
4.5.3. Maximising Opportunities for MBEs	101
4.5.3.1. Certification	101
4.5.3.2. Sourcing	101
4.5.3.3. Suitability and Requirements	102
4.5.3.4. Industry Knowledge	102
4.6. THE STATE OF MINORITY SUPPLIERS IN THE UK	103
4.6.1. Legislation towards Supplier Diversity	103
4.6.2. Problems Encountered in Developing Supplier Diversity	105
4.6.3. Addressing Barriers to Supplier Diversity	107
4.6.4. Ways to Support EM Businesses	109
4.6.4.1. Needs Identification and Assessment	109
4.6.4.2. Business Support Strategies	110
4.6.4.3. Accessing Business Support	111
4.7. PURCHASING FROM MBES: BEST PRACTICES	112
4.7.1. Formal Policy Regarding Minority Purchases	113
4.7.2. Degree of Support of Top Management	113
4.7.3. Tracking of MBE Purchases	113
4.7.4. Status Report	114
4.7.5. Sensitisation of Non-purchasing Personnel	115
4.7.6. Buyer's Training	115

4.7.7. Availability of Sourcing Directories	115
4.7.8. MBE as a Factor in Buyer's Performance Review	116
4.7.9. Participation in Trade Fairs	116
4.7.10. Publicity of MBE Programs in Minority/Other Publications	116
4.7.11. Provision of Company Resources to MBEs	116
4.7.12. Influence of the customer base in the MBE program	117
4.7.13. Government's impact in the MBE program	117
4.7.14. Full-Time MBE coordinator	118
4.7.15. Treatment	118
4.7.16. Targeted solicitations	119
4.7.17. The establishment of goals for MBE purchases	119
4.7.18. The Use of credit cards	119
4.8. THE STATE OF SUPPLIER DIVERSITY DEVELOPMENT	120
4.8.1. Minorities are seen as a potential market for expansion	120
4.8.2. Minorities are becoming an Influential rising voice	121
4.8.3. Law requirements	121
4.8.4. Good economic sense	122
4.8.5. Outsourcing Strategies	123
4.9. THE FUTURE OF SUPPLIER DIVERSITY PROGRAMMES	123
4.9.1. Business will likely be conducted more closely in terms of design efforts and sharing financial resources	123
4.9.2. More Customers will Seek Opportunities to Link	123
4.9.3. Customers will deploy the Business Imperative for Supplier Diversity to Improve their own Competitiveness	124

4.10. CONCLUSION	124
CHAPTER 5: METHODS FOR IMPLEMENTING PREFERENTIAL PROCUREMENT PROGRAMMES	
5.1. INTRODUCTION	127
5.2. DEFINITION OF AN AP PROGRAMME	127
5.3. THE USE OF AP PROGRAMMES TO ECONOMICALLY EMPOWER PREVIOUSLY DISADVANTAGED BUSINESSES	128
5.4. THE USE OF AP PROGRAMMES AS A STRATEGY TO FULFILL SOCIO-RESPONSIBILITY REQUIREMENTS	128
5.5. PROBLEMS ENCOUNTERED IN ESTABLISHING AP PROGRAMMES	129
5.5.1. Lack of Management Support	129
5.5.2. Inadequate use of Resources	131
5.5.3. Failing to Discuss with Internal customers as well as Suppliers about the program's goals and structure	131
5.5.4. Not Recognising what elements work Best for a Company	132
5.5.5. Loss of Momentum	133
5.5.6. Special Treatment	134
5.5.7. Small and Black-Owned Suppliers cannot compete on price	134
5.5.8. Small and Black-Owned Suppliers are not Reliable	134
5.5.9. Availability of Qualified AP Suppliers are not Reliable	135
5.5.10. Opportunism	136
5.5.11. Conflicting Policies that Influence the Purchaser	136

5.5.12. Complaints and the Attitude of Purchasers	136
5.5.13. Second Tiering	138
5.5.14. Lack of Access to Capital	139
5.5.15. Communication and information	141
5.5.16. Expectations	142
5.5.17. Lack of Credibility in the Market Place	143
5.5.18. Lack of Business Experience	143
5.5.19. Transaction Costs	143
5.5.19.1. The costs of a Negative Atmosphere	143
5.5.19.2. The costs of Opportunism	144
5.5.19.3. The Cost of Small Numbers	144
5.5.19.4. The costs of Information Asymmetry	144
5.5.19.5. The costs of Bounded Rationality and Complexity	144
5.5.19.6. The Costs of Business Uncertainty	145
5.5.19.7. The Costs of Production Uncertainty	145
5.5.20. Sole Reliance on Government	146
5.6. FACTORS PROMOTING AP PROGRAMMES	147
5.7. MODEL FOR A SUCCESSFUL AP PROGRAMME	148
5.7.1. The Objective of the Organisation, the origin of the idea and the Objective of the AP Programme	148
5.7.2. The Commitment of Top Management	149
5.7.3. The Staff Orientation	150
5.7.4. Planning	152
5.8.6. Pre Award Counselling	163

5.7.4.1. The analysis of the Current Set-Up and the Identification Suitable products/services	169 152
5.7.4.2. Determining Objectives	152
5.7.4.3. Adapting the policy for AP	154
5.7.4.4. Planning Resources	154
5.7.5. Organising the AP Programme	155
5.7.6. Publishing the Programme	156
5.7.7. Selection of Suppliers	157
5.7.7.1. The Tracing and Identification of Possible Disadvantaged Suppliers	157 157
5.7.7.2. Systematic Investigation and Evaluation of Possible Disadvantaged suppliers	157 157
5.7.7.3. Negotiation and entering into a contract with Suitable suppliers	162 162
5.7.7.4. Handling Supplier Relations	162
5.7.7.5. The Development of Disadvantaged Suppliers	165
5.7.8. Control Over Disadvantaged Suppliers	165
8. FRAMEWORK TO FIND AND DEVELOP SMALL AND EMERGING SUPPLIERS	166 166
5.8.1. Establish an Outreach Programme	167
5.8.2. Create a Database of Small and Emerging Suppliers	168
5.8.3. Set up a “help” desk for Small and Emerging Suppliers	168
5.8.4. Train the Small and Emerging Suppliers on the Database	168
5.8.5. Set Targets and Budgets for Involvement of Small and emerging suppliers	168 168
5.8.6. Pre Award Counselling	169

5.8.7. Establish Partnership on Mentoring Programme	169
5.8.8. Financial Support	169
5.8.9. Post Award Counselling	170
5.8.10. Evaluation, Feedback and Retraining	170
5.9. CONCLUSION	171
CHAPTER 6: RESEARCH METHODOLOGY	
6.1. INTRODUCTION	174
6.2. DEMARCATION OF THE STUDY	175
6.3. DEGREE OF RESEARCH QUESTION CRYSTALLISATION	176
6.4. METHOD OF DATA COLLECTION	176
6.5. RESEARCH CONTROL OF VARIABLES	176
6.6. THE PURPOSE OF THE STUDY	177
6.7. THE TIME DIMENSION	177
6.8. THE TOPICAL SCOPE	177
6.9. THE RESEARCH ENVIRONMENT	178
6.10. OBJECTIVES OF EXPLORATORY STUDY	178
6.10.1. The Use of Secondary Data	179
6.10.1.1. Sources of Secondary Data	179
6.10.1.2. Criteria for Evaluating Secondary Data	179
6.10.1.3. Classification of the Secondary Data	180
6.10.2. Qualitative Research	180
6.10.2.1. Personal In-depth Interviewing	181

6.10.2.2. Experience Surveys	184
6.11. CONCLUSION	184
CHAPTER 7: PREFERENTIAL PROCUREMENT IN LOCAL GOVERNMENT	
7.1. INTRODUCTION	186
7.2. OBJECTIVES OF LOCAL GOVERNMENT AT THE CITY OF TSHWANE	187
7.3. POPULATION BENEFITS IN TERMS OF LOCAL DEVELOPMENT	193
7.4. THE NEED FOR LOCAL GOVERNMENT TO GET MORE POWER IN TERMS OF FUNCTIONS AND INCOME	195
7.5. THE USE OF MUNICIPAL POWERS TO PROMOTE SOCIAL DEVELOPMENT AND ECONOMIC GROWTH	196
7.6. ALIGNEMENT BETWEEN PUBLIC AND PRIVATE INVESTMENT WITHIN THE MUNICIPAL AREA	197
7.7. DEMOCRATISATION OF DEVELOPMENT	200
7.8. EMPOWERMENT OF MARGINALISED GROUPS WITHIN THE LOCAL COMMUNITY	201
7.9. POLICY INTERVENTION TO SUPPORT THE EXPANSION OF LOCAL SMMES	202
7.10. PROCUREMENT POLICY FOR THE CITY OF TSHWANE	204
7.11. CHALLENGES ENCOUNTERED BY LOCAL GOVERNMENT	206
7.12. THE USE OF PREFERENTIAL PROCUREMENT AS AN INSTRUMENT OF LOCAL ECONOMIC DEVELOPMENT AND EMPOWERMENT	208
7.13. THE ROLE OF PREFERENTIAL PROCUREMENT TO THE DEVELOPMENT OF SMMEs	211

7.14. CURRENT IMPACT OF PROCUREMENT TRENDS IN LOCAL GOVERNMENT	212
7.15. THE CREATION, MAXIMISATION AND DISSEMINATION OF OPPORTUNITIES FOR AP FIRMS	215
7.16. SUPPLIER DEVELOPMENT	218
7.17. THE IMPACT OF PREFERENTIAL PROCUREMENT ON BUYING PROCEDURES	221
7.18. ACHIEVEMENT OF NATIONAL SOCIO-ECONOMIC OBJECTIVES	221
7.19. CASE STUDY ON THE USE OF PREFERENTIAL PROCUREMENT IN THE CITY OF TSHWANE	223
7.19.1. Introduction	223
7.19.2. Objectives of Local Government at the City of Tshwane	223
7.19.3. Local benefits in terms of local development	226
7.19.4. The need for Local Government to get extra power	226
7.19.5. The use of municipal powers to promote social development and economic growth	226
7.19.6. Alignment between private and public investment	226
7.19.7. Democratisation of development	227
7.19.8. Empowerment of marginalised groups	227
7.19.9. Policy intervention to support the local SMMEs	228
7.19.10. Procurement Policy for the City of Tshwane	228
7.19.11. Challenges encountered by Local Government	228
7.19.12. The use of preferential procurement as an instrument of LED	229
7.19.13. The role of preferential procurement to the development of SMMEs	229

7.19.14. Current impact of procurement trends in Local Government	229
7.19.15. The creation, maximisation and dissemination of opportunities for AP firms	230
7.19.16. Supplier development	230
7.19.17. The impact of preferential procurement on buying procedures	230
7.19.18. Achievement of national objectives	231
7.20. CONCLUSION	231
CHAPTER 8: LIMITATIONS, RECOMMENDATIONS AND CONCLUSION	
8.1. INTRODUCTION	235
8.2. LITERATURE RESEARCH REVIEWED	235
8.3. RESEARCH OBJECTIVES REVISITED	238
8.4. LIMITATIONS OF THE STUDY	242
8.5. RECOMMENDATIONS	242
8.5.1. Lack of infrastructure and information dissemination deficiencies	243
8.5.2. Lack of Human Resources	243
8.5.3. Cumbersome Administration	243
8.5.4. Provision of High Quality Service Delivery	243
8.5.5. Implementation of a Preferential Procurement Programme	244
8.5.6. Supplier Development	244
8.5.7. Purchasing/Buying Department	244
8.5.7.1. Training the Purchasing Officials	245
8.5.7.2. Performance Review	245

8.5.7.3. Preferential Procurement Coordinators	245
8.5.8. Early age awareness of entrepreneurial capacity	246
8.5.9. Monitoring of implementation of preferential procurement policy	246
8.5.10. Establishment of a linkage system	246
8.6. FUTURE RESEARCH	247
8.7. CONCLUSION	247
BIBLIOGRAPHY	249
APPENDIX	257

LIST OF FIGURES

FIGURE 3.1. Targeted procurement system	60
FIGURE 3.2. Targeting strategies	65
FIGURE 3.3. A model for black economic business empowerment	71
FIGURE 4.1. Minority business opportunities for purchasers and suppliers	96
FIGURE 5.1. Supplier development activities matrix	161
FIGURE 7.1. Skills index model	204

Abstract

It has been recognised in several countries that governments need to intervene in order to help socially and economically disadvantaged individuals in the society to compete in the economy with those who have gained historical advantage. Governments have changed Legislation in favour of the disadvantaged, so that to ensure that they participate in the economy in a more fairly manner and the standards of living of their communities are improved.

Local Government at the City of Tshwane Metropolitan Municipality has been given a greater responsibility in relation to Local Economic Development. A major challenge is encountered given that the new areas, which were, integrated recently, lack infrastructure and are rural in nature. Preferential procurement has been identified as a tool of socio-economic development in South Africa. However, a policy needs to be done, properly implemented, and monitored so that it can achieve the desired results.

could be used as an instrument to address imbalances (such as unequal distribution of income, poverty, unemployment, low productivity, low skills, and low levels of income growth faced by the majority of the population) arising from the system of apartheid, particularly the skewed business ownership patterns on racial lines. Following South Africa's first democratic elections in 1994, a procurement Forum was established by the Ministers of Finance and Public Works to initiate a process of Public Sector Procurement Reform in South Africa. A procurement task team was appointed to research and develop policy proposals. Procurement Reform in South Africa had two basic objectives: good governance and the attainment of socio-economic objectives through procurement. (Watermeyer, 2000:1)

Local Government in South Africa was assigned the task to promote local economic development (LED). Unlike National and Provincial Governments, Local Government is the nearest to the local community, and deals with it on a daily basis through the provision of services, which may involve the construction and maintenance of infrastructure. This may require buying goods and requesting services from the private

CHAPTER 1

OBJECTIVES AND SCOPE OF THE STUDY

1.1. INTRODUCTION

Procurement is described as the process, which creates, manages and terminates contracts. Procurement as such is concerned with establishing and documenting what is required; inviting enterprises to bid on providing goods and services, to construct or maintain infrastructure, awarding contracts to successful bidders, monitoring what was contracted to be provided, is indeed provided, and paying contractors for executing their contracts. (Watermeyer, 2000:1)

The African National Congress (ANC) in 1993 realised that public sector procurement could be used as an instrument to address imbalances (such as unequal distribution of income, poverty, unemployment, low productivity, low skills, and low levels of income growth faced by the majority of the population) arising from the system of apartheid particularly the skewed business ownership patterns on racial lines. Following South Africa's first democratic elections in 1994, a procurement Forum was established by the Ministries of Finance and Public Works, to initiate a process of Public Sector Procurement Reform in South Africa. A procurement task team was appointed to research and develop policy proposals. Procurement Reform in South Africa had two basic objectives: good governance and the attainment of socio-economic objectives through procurement. (Watermeyer, 2000:1)

Local Government in South Africa was assigned the task to promote local economic development (LED). Unlike National and Provincial Governments, Local Government is the nearest to the local community, and deals with it on a daily basis through the provision of services, which may involve the construction and maintenance of infrastructure. This may require buying goods and requesting services from the local

community and the private sector. More specifically Local Government may be involved in any procurement activities. In addition, Local Government may receive complaints about the poor services provided by the municipality, and is the first to know about the needs of the local community. One of the ways Local Government will promote LED is through the development of Small Micro and Medium Enterprises (SMMEs). From the experience of other more developed countries especially in Asia, it is proven that SMMEs can be an important motor for growth and development.

Preferential Procurement is a subject which other countries have been familiar with. In countries such as the USA and the UK, Governments saw the need to introduce legislation in favour of minority business enterprises, to promote socio-economic development among their communities. The legislation required majority firms to do business with minority firms in case of winning a contract to provide a service or supply goods to Federal Government.

As firms struggled to implement preferential procurement, many academics and business leaders formulated models to implement preferential procurement programmes. Although the circumstances are different, Local Government in South Africa may draw knowledge from those countries, and use it where it is beneficial for the community it serves.

1.2. PROBLEM STATEMENT

Given its great purchasing power, the South African Government identified public procurement as a tool to achieve certain socio-economic objectives. Local Government has been delegated the mission of promoting local economic development using the tools and infrastructure under its control.

Several preferential procurement policies have been drafted to facilitate the implementation of preferential procurement in Local Government. In this interim, various

councils and municipalities, which served the Greater Pretoria Area, were integrated into the City of Tshwane Metropolitan Municipality on the 5th of December 2001.

These events could open the debate on whether the City of Tshwane is able to cope with its new responsibilities regarding local socio-economic development in the new areas, which now fall under its control. One of the issues, which arise from this question, is whether the preferential procurement policies are being followed, and if so, whether they promote local economic development. Other points worth thinking about are whether the municipality has enough infrastructures and whether it needs specific policies adapted to the circumstances of each local area.

1.3. RESEARCH OBJECTIVES

1.3.1. Primary objective

The primary objective of this dissertation is to analyse the importance of preferential procurement in the Local Government as an instrument of socio-economic development. This will be done by firstly investigating the process of public procurement reform, which introduced laws into the New Constitution of South Africa. The analysis goes on by considering government's main socio-economic objectives and whether its purchasing power can help achieve them. To further consider whether preferential procurement can be used in Local Government as a tool to achieve its developmental objectives, the analyses looks at other countries, where governments saw it as an answer to promote economic development among minorities.

1.3.2. Secondary objectives

The secondary objective is to find out whether Local Government in the City of Tshwane is able to promote local economic development using preferential procurement policies. This will be achieved by formulating a case study based on structured interviews, which will be performed at the municipality.

1.4.2. Case Study

1.4. RESEARCH METHODOLOGY

Qualitative research in the form of a case study is used in order to provide insight for This research study consists of qualitative research through a literature review and the formulation of a case study on the implementation of preferential procurement in the metropolitan area of Tshwane.

Developing a case study the researcher intends to analyse the claim that the City of Council is able to promote local economic development using preferential procurement policies.

1.4.1. Literature review

There is extensive literature which addresses the topic of preferential procurement and methods to implement affirmative purchasing programmes in organisations. In South Africa, various researchers have already written reports on how enterprises can implement preferential procurement. For instance, Badenhorst, (1995:1-20) has written about challenges facing enterprises, Nieman, (129:132) has suggested a framework to find and develop small suppliers and Watermeyer, Letchmiah and Mnikati, (2000:1-24) have written on targeted procurement and Watermeyer, Hauptfleisch, Jacket and Letchmiah (2000:1-27) have written on the subject of black economic empowerment.

However, little or no research has been done on how far government can go in using its purchasing power to achieve socio-economic objectives. The present literature does not cover the use of preferential procurement policies by Local authorities to promote local economic development and true economic empowerment by previously disadvantaged businesses/individuals.

in Local Government, while in writing, may be unavailable to an outside researcher. Therefore the researcher will seek information from persons

The present research study will attempt to uncover the reality surrounding the use of preferential procurement in Local Government. The results of the case study will allow the researcher to make an analysis and recommendations on areas, which have problems.

1.4.2. Case Study THE STUDY

Qualitative research in the form of a case study is used in order to provide insight for problem solving, evaluation and strategy. This detail is secured from multiple sources of information. It allows evidence to be verified and avoids missing data.

Developing a case study the researcher intends to analyse the claim that the City of Tshwane Municipality Council is able to promote local economic development using preferential procurement policies.

process of preferential procurement:

In order to develop a case study, qualitative research will be conducted which consists of an exploratory research methodology based on a small sample providing insights and understanding of the problem setting. Two techniques will be used: in-depth interviews and experience surveys.

The greatest value of interviewing lies in the depth of the information and the detail that can be secured: by detailed probing of the respondent, discussion of confidential, sensitive topics, interviewing professional people, and detailed understanding of the situation.

(Cooper & Schindler, 1998:325)

The reason for using experience surveys is that a significant portion of what is known on Preferential Procurement in Local Government, while in writing, may be unavailable to an outside researcher. Therefore the researcher will seek information from persons experienced in the area of study, tapping into their collective memories and experiences. When interviewing the persons under this method, the researcher will seek their ideas about important issues or aspects of the subject and discover what is important across the subject's range. (Cooper & Schindler, 1998:136)

as well as describing the problem statement, the research objectives, the research methodology, the benefits of the study and the outline of the dissertation.

1.5. BENEFITS OF THE STUDY

Chapter 2

Several studies have already covered the topic of preferential procurement also known as affirmative purchasing. This particular study will be beneficial for:

To conclude, the chapter justifies the use of Preferential Procurement in South Africa.

- A point of reference for academics, who wish to expand their research on the topic; components and its objectives are discussed.
- Decision Makers (suppliers, large businesses) who wish to participate in the process of preferential procurement:
- Practical policy makers who wish to know the effectiveness of the adopted policies aimed at reforming the procurement process;
- The Local Government as it will help it determine the effectiveness of the implementation of preferential procurement policies in promoting local economic development (BEE).
- Non Governmental Organisations who work with the private sector and the Local Government in the promotion of SMMEs and the upliftment of local communities

1.6. OUTLINE OF THIS DISSERTATION

The structure for the dissertation is as follows:

Chapter 1

Describes the objectives and the scope of the study, as well as describing the problem statement, the research objectives, the research methodology, the benefits of the study, and the outline of the dissertation.

Chapter 2

Discusses the policies governing public procurement at all levels of government. To conclude, the chapter justifies the use of Preferential Procurement in South Africa. Affirmative Procurement is defined, as well as the need to implement it; its key elements, its components and its objectives are discussed.

Chapter 3

Analyses the use of public sector procurement by the South African Government in the achievement of certain socio-economic objectives. It describes government's national objectives, it explains the role of public sector procurement as a policy tool used to address socio-economic problems; it defines procurement and its use to achieve socio-economic objectives. It discusses Targeted Procurement as a developmental policy, which targets specific groups, and it looks at the some issues surrounding black economic empowerment (BEE).

Chapter 4

Looks at the use of preferential procurement in other countries. In chapter four it is discussed how governments in certain countries saw the need to introduce preferential procurement laws in legislation so as to remove the historical obstacles which made it difficult for minority business enterprises (MBEs) to compete in the market with majority firms. By removing these obstacles, the chances of surviving in the market for MBEs would be greater and as result, it would improve the standards of living of minority communities.

Concludes the dissertation reviewing its objectives and makes several recommendations to policy makers at the City of Tshwane. These recommendations are based on what the researcher has uncovered in the case study presented in chapter 7

Chapter 5 Theory behind preferential procurement discussed in the previous chapters, which make up this thesis.

Defines and discusses the use of AP programmes to economically empower previously disadvantaged individuals. It then discusses the use of AP programmes as a strategy to fulfil socio-economic responsibility requirements. It discusses various problems encountered in establishing AP programmes. It is followed by a discussion of factors, which can promote AP programmes. A model for a successful AP programme is given as well as a framework whose main objective is to find and to develop small and emerging suppliers.

Chapter 6

Describes the type of research design used in the thesis. Essentially, the research design is a plan for selecting the sources and types of information used to answer the research question. It is a framework for specifying the relationships among the study's variables. It is a blueprint that outlines each procedure from the hypotheses to the analysis of data.

Chapter 7

Investigates the role Local Government plays in local development, given the use of preferential procurement and the possibility to use its purchasing power to promote the development of previously disadvantaged businesses especially SMMEs. A case study is drawn on the use of preferential procurement in the City of Tshwane Metropolitan Council.

Chapter 8

Concludes the dissertation reviewing its objectives and makes several recommendations to policy makers at the City of Tshwane. These recommendations are based on what the researcher has uncovered in the case study presented in chapter 7

and the theory behind preferential procurement discussed in the previous chapters, which make up this thesis.

1.7. GENERAL

2.1. INTRODUCTION

The Harvard method was used as a standard method of reference.

The aim of chapter 2 is to look at the background of Preferential Procurement (PP) in South Africa. The concepts, Affirmative Purchasing, Preferential Procurement and Affirmative procurement will be used interchangeably, as they are synonymous.

Next, it discusses the policies governing public procurement at all levels of government. Under this topic, it looks at the role of the Local policy in the SMME development, the 1993 White Paper on Local Government is discussed, it works at the State tender Board Act of 1966, the Provincial Tender Board Act, the State Tender Board General Directives and Procedures; the Directives to Departments in respect of Procurement and the Ten Point Plan is discussed. In addition, it discusses the aim, key principles, objectives and pillars of reform of the Green Paper on Public Sector Reform in South Africa.

Furthermore, the chapter discusses at the Public Finance Management Act, the Municipal Systems Bill and the Municipal Finance Management Bill. The next topic discussed is the Preferential Procurement Policy Framework Act (PPPPFA). It discusses the objectives of the Act, Framework for implementation of the procurement policy, and the preferential procurement regulations.

The PPPFA has certain implications on procurement by Local authorities. Then a discussion is made on what would be like the procurement environment in a Transformed Local Authority.

CHAPTER 2

BACKGROUND TO PREFERENTIAL PROCUREMENT IN LOCAL GOVERNMENT

2.1. INTRODUCTION

The aim of chapter 2 is to look at the background of Preferential Procurement (PP) in the Local Government. The chapter looks at the essentials of the 1995 President's Conference, where delegates recognised SMMEs lack of market access;

Next, it discusses the policies governing public procurement at all levels of government. Under this topic, it looks at the role of the Local policy in the SMME development; the 1998 White Paper on Local Government is discussed; it looks at the State tender Board Act of 1968, the Provincial Tender Board Act, the State Tender Board General Directives and Procedures; the Directives to Departments in respect of Procurement and the Ten Point Plan is discussed. In addition, it discusses the aim, key principles, objectives and pillars of reform of the Green Paper on Public Sector Reform in South Africa.

Furthermore, the chapter discusses at the Public Finance Management Act, the Municipal Systems Bill and the Municipal Finance Management Bill. The next topic discussed is the Preferential Procurement Policy Framework Act (PPFPA). It discusses the objectives of the Act, Framework for implementation of the procurement policy, and the preferential procurement regulations.

The PPFPA has certain implications on procurement by Local authorities. Then a discussion is made on what would be like the procurement environment in a Transformed Local Authority.

To conclude, the chapter justifies the use of Affirmative Procurement in South Africa. AP is defined the need to implement it is discussed, as well as its key elements, its components and objectives.

2.2. THE 1995 PRESIDENT'S CONFERENCE

In March 1995, an international conference entitled the President's Conference on Small Business was held in Durban. In his keynote address, former President Mandela told delegates that the development of SMMEs was critical to the social and economic development of South Africa since they enhanced competitiveness of the kind which the economy needs. Furthermore, the development of this sector would assist in the economic empowerment of those previously disadvantaged. Concluding, former President Mandela affirmed that the stimulation of smaller firms could contribute a great deal to job creation. With appropriate support, small businesses could provide long-term jobs for millions. Moreover, barriers that have impeded the vast entrepreneurial potential amongst women should be removed. Equally, young people, especially in rural areas needed an option of migration to the cities. This process would need the support of big businesses. However, small businesses need to be the principal agent in their own expansion and development. (Department of Trade and Industry, 1995:1)

In order to provide maximum scope for discussion and the formulation of action proposals, conference delegates were split into eight parallel groups. Each group went through the following eight key support areas: (Department of Trade and Industry, 1995:4-10)

2.2.1. Business support

Local Business-service Centres (LBSCs) were identified in the conference as complementary and part of the RDP. Success factors for LBSCs relate to the quality and vision of their management, the focusing of efforts on clearly identified target groups, the balance between core services and additional activities, private and community "ownership" of the centres, and realistic fee and payment structure.

Individual LBSCs should operate on a self sufficiency and sustainability basis with clearly demarcated locational and functional boundaries and acceptance of a business orientation. The core activities of the LBSCs are to include the provision of appropriate information, advice, counselling, networking and experience management.

2.2.2. Access to markets

The 1995 President's Conference identified the lack of market access to SMMEs as one of the major constraints hindering their development in South Africa. Opening state markets to SMMEs therefore, is a major step to resolving this constraint. The government initiated a Ten Point Plan as an Interim strategy in 1995 to utilise the purchasing power of the government as an instrument of SMME development. (Ntsika, 1997:1).

In addition, at the conference, it was recognised that public-and-private-sector procurement markets, worth more than R6 billion each constitute a vital challenge for the SMME sector. Delegates accepted the challenge of an internationally competitive economy, integrally dependent on the vital contribution of the SMME sector.

In its contribution to the conference, Kelly, (1995:5) said that the problem faced by SMMEs in South Africa with regard to access to markets, is not unique and indeed is one of the most significant problems experienced by small business enterprises everywhere. In addition, a small margin preference may be given to emergent sub-contractors where the requisite quality and delivery requirements are met.

It is crucial that equity, transparency and the absence of prejudice on the procurement side is matched by competence, capability and competitiveness on the supply side.

International experience shows that in the long-term the best format for the development of private-sector business linkages is through voluntary and mutual benefit-type activities. Coercive programmes or reservation programmes by and large do not, in the long term work in the private sector. The emphasis should be on

the development and upgrading of supply-sector capabilities to address opportunities with the big business and export sector.

Human resource development and capacity building are felt to be critical areas in the supply sector. Quality and quantity training is viewed as important for entrepreneurship development. School curricula and extra-curricula activities related to entrepreneurship are also seen as important.

2.2.3. Access to finance

It was widely felt that lack of access to finance was the greatest hurdle, both for start-up entrepreneurs and for expanding enterprises. Patten, (1995:7) argued that a micro-enterprise needs continuing access to credit for operation and expansion, not just a once-off time credit. Such a financial institution must itself, be financially viable to be able to repeat loans, in response to increasing demand. "Stop-go lending" is highly disruptive to micro-enterprise businesses.

2.2.4. Improving the physical environment

Delegates felt that the focus should fall on three critical areas, viz. the role of local governments, the use of land and of premises and buildings, and the RDP spending in rural as well as urban areas.

Particular emphasis will have to fall on the needs of SMMEs in rural areas, given the past neglect of rural business-infrastructure facilities. This includes the communication system as well as the supply of water and electricity, which is critical for agro-processing. In the interim, mobile production centres and multipurpose structures are to be considered.

Local governments should make town planning, zoning and building standards more appropriate to SMMEs. They should facilitate the establishment of informal markets and micro-enterprise storage spaces.

Government authorities should facilitate access to land and business premises for black entrepreneurs; they should also help rehabilitate black land-ownership or registration and enable entrepreneurs to get access to under-utilised land and premises. Business premises owned by development corporations should be sold to SMMEs.

2.2.5. Human resources development

Human resource development and capacity building are felt to be critical areas in the support of SMMEs. Literacy and numeracy training is viewed as important for entrepreneurship development. School curricula and extra-curricula activities related to entrepreneurship and the business scene need more attention.

Training courses should be modular and relevant to the needs of sectors and target groups. Accreditation processes have to be carefully planned to overcome present problems, in particular with respect to the recognition of prior learning and experience and the role of training boards.

More attention needs to be given to the training of trainers, the better co-ordination of training services to avoid duplication and research on training methods. Healthy competition among training providers has to be promoted.

Special programmes also have to be developed for women, the youth, rural entrepreneurs, the disabled and other target groups. In this respect, inter-departmental co-operation is necessary between education, labour, trade and industry as well as agriculture.

LBSCs should be used as training networking agencies. The funding of training was felt to be a major concern. Public-sector funds should support training organisations, subsidise counselling and aftercare, and directly assist entrepreneurs through a coupon or voucher.

2.2.6. Institution-building

This focus area was felt to be the most important of all since it centres on the establishment and structuring of new organisations to implement, co-ordinate and fund small business support at national, regional and local level.

Delegates stressed the need for transparency in the planning process, clear demarcation of roles and responsibilities between national and provincial structures and effective communication between the DTI and the different support agencies.

Any new institutional framework should be lean and flexible, it should be representative of both small business and government's interests and its eventual shape should be discussed with stakeholders through provincial workshops.

All government departments should be SMME sensitive and the allocation of all funds should be a non-partisan and transparent basis. New institutions should be staffed with professional people who are sensitive towards the unique problems of entrepreneurs. The staff structure of support agencies should reflect the demographic composition of the population.

2.2.7. Local economic development

Participants were aware of the significance of local partnerships to improve conditions for SMME development. In order to succeed, there must be a process of consultation, participation and capacity-building with respect to the local stakeholders.

Existing organisations must be incorporated into new or amended structures. These should include local authorities, civic associations, local business chambers, stokvels and women's organisations, traditional authorities and churches.

Local economic-development (LED) initiatives can take many different forms; successful initiatives should be documented and the information made available as widely as possible. LBSCs can play a vital role in this process. Much of the focus in LED relates to the expansion of local business activities through more subcontracting from public as well as larger private enterprises.

2.3.1. Local policy and SMME development

The importance of the local policy sphere and the potential role of local governments in SMME development are increasingly recognised. The potential significance of local intervention is twofold viz. in terms of translating national-level (and potentially

2.2.8. Targeting assistance

The conference endorsed the White Paper's suggestion, that support to SMME has to be prioritised, in accordance with the availability of resources and the need to give particular attention to the demands of black economic empowerment, and the needs of women entrepreneurs, youth self-employment and rural SMMEs.

In addition to these target groups, support also has to be focused and integrated to suit the needs of specific economic sectors (e.g. tourism or agriculture), industrial niches, subregions and/or clusters of towns or suburbs. All of this calls for bottom-up grassroots planning of support, with government assisting rather than being responsible for all the actions.

The conference provided an opportunity for the widest possible spectrum of SMMEs and their representatives to air grievances, voice concerns and lay claim to state support.

However, it was impossible during the conference debates to translate demands or recommendations into affordable support programmes due to the absence of concrete budget proposals.

In order to address this, more NGOs have to be properly to be able to lend money to micro-enterprises. The proposed wholesale financing system and a national credit-guarantee system are ways to reduce the cost of funding and increase its ability

2.3. POLICIES GOVERNING PUBLIC PROCUREMENT AT ALL LEVELS OF GOVERNMENT

2.3.1. Local policy and SMME development

The importance of the local policy sphere and the potential role of local governments in SMME development are increasingly recognised. The potential significance of local intervention is twofold viz. in terms of translating national-level (and potentially

also provincial level) policies to local level and in providing support to a range of local-level initiatives, often operated by NGOs at the community level. (Sharp, Mashigo & Burton, 1999:13, 14)

The 1998 White Paper on Local Government stresses the vital significance of fostering a culture of developmental local government in South Africa. This would have four major characteristics: namely (1) exercising municipal powers and functions in a manner that maximises their impact on social development and economic growth; (2) playing an integrative and coordinating role to ensure alignment between public and private investment within the municipal area; (3) democratising development; and, (4) seeking to empower marginalised and excluded groups within the community. (Sharp *et al*, 1999:13).

The critical importance of SMME policy development as part of broader local economic development planning is a recurrent theme in several national government policy documents, including the White Paper on Local Government (South Africa, 1968). Local governments may introduce several kinds of policy intervention, either directly or indirectly, to support the expansion of local SMMEs. Among possible policy interventions are the following, (Sharp *et al*, 1999:13):

- The promotion or marketing of a local area;
- The collection of information/data on existing SMMEs;
- The encouragement of local SMMEs through affirmative procurement;
- The identification of local opportunities;
- Improving the availability or use of premises by SMMEs;
- Offering assistance with local training programmes.

An important role therefore exists for local strategies to complement national policies by making them more targets to provincial and local circumstances. A coherent layer of provincial and local level response to the need for a SMME development strategy has yet to appear. In light of the growing significance of local economic development planning, this missing level of policy is especially disturbing. (Sharp *et al*, 1999:14)

The 1995 White Paper on the National Strategy for the development and Promotion of SMMEs in SA identified government procurement as a vital instrument in ensuring market access for SMMEs. Since then, a number of guidelines have been laid down to ensure that the government system of procurement does not only award tenders to large companies, but instead ensures that SMMEs gain access to these tenders and contracts. The following are the major legislative and guideline documents that influence the procurement policy on national and provincial levels. (Sharp *et al*, 1999:14-16)

2.3.2. The 1998 White Paper on Local Government

A key feature of the 1998 White Paper on Local Government is that it highlights the importance of the new responsibilities of local government for local economic development. Although it is made clear that local governments are not responsible for job creation per se, there are a number of areas of policy intervention open to local governments. These include procurement reform and the contracting out of services which might have a positive impact on the SMME economy as well as on employment creation in particular. (Sharp *et al*, 1999:12)

In addition, one of the surprising features associated with globalisation is that it has re-asserted the significance of the local level of policy development. In particular, in matters pertaining to economic development, wide acknowledgment is now given to the critical role that can be assumed by the local layer in the policy environment, including SMME development. In a recent policy document issued by the Department of Constitutional Development, local government activity in respect of economic and social development was described as the “hands and feet” of reconstruction and development in South Africa. (Sharp *et al*, 1999:12)

2.3.3. The State Tender Board Act of 1968

2.3.3. State Tender Board general directives and procedures (ST36)

The foundation for the governmental procurement policy lies with the State Tender Board, Act of 1968, which was amended in 1987. This stipulates that the State Tender board should comprise between sixteen and twenty members, all of which

are appointed by the Minister of Finance. Within this legislative Act, there is no special mention made of SMMEs or small businesses in particular. The State Tender Board act was the legislation upon which all other acts were based. It is the act that National departments use, while Provincial acts are loosely based on it for the most part. (Sharp *et al*, 1999:15)

2.3.4. Provincial Tender Boards Acts

After 1994, each province passed its own provincial Tender Board Act, effectively repealing the State Tender Board Act within their respective provinces. These acts were based on the State Tender. The provincial tender boards have the power to determine their own conditions, regulations and procedures concerning procurement, subject to certain stipulations of the State tender Board Act and user manuals.

Each provincial Act has set up respective provincial Tender Boards with the same functions as the State Tender Board, but on provincial levels. A specific value is set by each province for adjudication, above which tenders are referred to the State Tender Board. Each Provincial board may delegate powers to committees, persons or bodies of persons or holders of posts designated by the Board. Provincially, the tender Board is where decision-making power is located, while the office of the Tender Board performs secretarial and administrative duties.

The Northern Transvaal Tender Board act provides that the Advisory Board is able to advise the MEC (Finance) responsible for making regulations on procedures, and in this way has been innovative in diverging from the national Act. The Northern Cape, Free State and Eastern Cape Acts, also provide for Advisory boards, while the North-West, Western Cape, Mpumalanga and Gauteng Acts do not. The KwaZulu-Natal Tender Board Act innovatively provides for representatives from the SMME sector in the composition of the Tender Board. (Sharp, *et al*, 1999:15)

2.3.5. State Tender Board general directives and procedures (ST36)

The State Tender Board Act was followed by the issuing of General Directives for the Board (ST36) that outlines procedures on the details of tender invitations, the

consideration of tenders and the administration of contracts. These directives clearly outline the absolute authority and necessary approval of the tender board throughout the process. ST36 forms the general directives for the board. Both ST36 and ST37 formed the basis for user manuals in the provinces although each retains the power to formulate the power to formulate their own policies to comply with the State Tender Board Act. (Sharp *et al*, 1999:15)

2.3.6. The User Manual: Directives to Departments in respect of procurement (ST37)

The State Tender Board's User Manual of Directives to departments in Respect of procurement (ST37), provided guidelines on the procurement process and procedures for National and Provincial Departments. It was designed specifically as a general user's manual to elucidate the policy and directives of the State tender Board to Departments and other user organisations, and has been used as the basis for the departmental and provincial user manual on procurement. Specifically, these directives inform departmental, provincial tender boards and tender committees on procurement policies and procedures. An important element of these guidelines is the proposal that tender results and awards be made available to tenderers (via the Government Tender Bulletin or Tender Advice centres) thereby ensuring transparency and evaluation.

The Directives also outline the advantage for SMMEs of the policy of dividing tenders into smaller manageable segments, (breakout procurement/unbundling) in order for these businesses to participate. In stimulating the participation of SMMEs within public sector procurement, all user departments are supposed to have a list of prospective suppliers, which should include SMMEs. The list should be maintained on a regional or central basis and be updated continuously to incorporate newly established businesses.

The Directives dictate that each of the nine provinces operates its own Tender Board, leaving the State Tender Board to render a procurement service to National Government Departments. These departments have the right to formulate specific procurement policies within the broader framework of the State tender Board Act and

to require authorisation by the State Tender Board Act and to require authorisation by the State Tender Board itself. (Sharp, 1999:16)

• To provide information on all matters related to public sector procurement and

2.4. THE TEN POINT PLAN

The reform of the government procurement process of services and supplies began with the Ten Point Plan in November 1995. The Ten Point Plan is directed at utilising the purchasing power of the government as an instrument of SMME development. It is aimed at removing some of the bottlenecks hindering the SMMEs' participation in supplying goods and services to the state. This outlined interim strategies and they are as follows, (Ntsika, 1997:16-20)

• To assist SMMEs in all matters related to public sector procurement, to inform SMMEs about procurement issues and to de-mystify the tendering system.

2.4.1. Improvement of access to tendering information

• To assist SMMEs in all matters related to public sector procurement.

This refers to obtaining accurate and timely information about tendering opportunities. The publication of tenders should be simplified so that SMMEs can easily identify their sectors. The Government Tender bulletin must be available on a subscription basis to all tenderers. Further information about tenders will be mailed to potential tenderers. The tenders will be included in a databank organised by government departments and service providers. (Ntsika, 1997:16)

• To assist SMMEs in all matters related to public sector procurement, to inform SMMEs about procurement issues and to de-mystify the tendering system.

2.4.2. Development of tender advice centres

• To assist SMMEs in all matters related to public sector procurement.

Public sector procurement is perceived by many SMMEs as a complicated and mysterious process. To increase the SMME share in these public sector markets, it is essential that assistance be provided in an effective manner. It is in this respect that the government should assist in the establishment of tender advice centres throughout the country. Non-Governmental Organisations (NGOs) that qualify to be Local Business Service Centres will form the backbone of the system to provide tender advice to SMMEs. A tender advice centre in each service provider will assist SMMEs with information regarding tenders. (Ntsika, 1997:17):

• Request businesses and trade organisations to inform their members about this process;

117468565
616443408

The functions of tender advice centres are the following (Ntsika, 1997:17):

- To provide information on all matters related to public sector procurement and maintain an active relationship with user departments;
- Where necessary, the centres will convene pre-tender recorded meetings for the purpose of obtaining details of prospective tenderers;
- To assist with preparing their submission forms;
- To organise workshops, seminars, lectures, to inform SMMEs about procurement issues and to de-mystify the tendering system;
- To assist SMMEs in all matters related to public sector procurement.

2.4.3. Broadening of participation base for contracts less than R7500

The present system of telephonic tenders for goods and services valued at less than R1500 or three quotations for contracts valued at less than R75000 tends to favour suppliers that are already known to departments. To improve this situation it is important to establish databanks of SMMEs from which suppliers can be sought. Due to their low overheads, SMMEs can be competitive in supplying small quantities. To involve them more the following measures have been proposed, (Ntsika, 1997:17):

- To categorise all goods and services in this market into easily identifiable sectors in this market;
- Develop an application form that enables prospective suppliers to submit relevant information for evaluation and listing on a database;
- Advertise widely over a period of time to invite suppliers in various sectors to submit applications;
- Request businesses and trade organisations to inform their members about this process;

University of Pretoria etd – Gomes, N A G S (2006)

- Prepare a databank of suppliers with details of business activities and regional location;
- This list should be used for suppliers valued at less than R 1 500. A separate list for supplies up to R20 000 must also be established;
- A monitoring system must be put in place to evaluate the effectiveness of this strategy and make any adjustments if necessary

2.4.4. Waiving of securities/sureties on construction contracts with a value of less than R100 000

Clause 60 of the State Tender Board's General conditions and Procedures (ST36) requires that the financial security sureties be provided by the tenderer after receiving a letter of acceptance. This is considered a major stumbling block for SMMEs wishing to enter the public sector procurement. The ten point plan, therefore requires that securities/sureties be waived for contracts with a value of less than R100 000. Contract estimates by user departments by user departments at less than R100 000 will automatically not require security. This mechanism facilitates immediate entry by SMMEs into the state tendering system. (Ntsika, 1997:18)

2.4.5. Unbundling of large projects into smaller projects

SMMEs regard market constraints and the inability to sell their products and services, as serious obstacles to their growth. By means of the tendering system, the government can assist developing SMMEs and so achieve some of the RDP objectives. Breaking large contracts into smaller ones where possible can be a method of removing these obstacles for growth of SMMEs. The following process has been accepted by the State Tender Board: Where possible, tenders must be packaged into suitably sized segments to target SMMEs. In addition, appropriate standards, specifications, delivery dates and related contractual obligations must be employed to ensure that small businesses will be able to cope and compete effectively. To achieve effectiveness, a complete review of all period contracts must

be undertaken in order to provide more opportunities for SMMEs in state markets. (Ntsika, 1997:18)

2.4.6. Promotion of early payment cycles by government

Besides the market constraints, SMMEs cite finance as another major obstacle to their growth. In particular reference is made to the problems regarding the delays in payments and the cash flow implications. These obstacles often result in entrepreneurs losing special discounts because they are unable to pay their accounts timeously and in some instances they have to absorb high financing costs. It is necessary for departments to improve and streamline their payment procedures in order to accommodate SMMEs. While large organisations can absorb the costs of delayed payment, these costs can be devastating for SMMEs. (Ntsika, 1997:18)

2.4.7. Development of a preference system for SMMEs owned by historically disadvantaged individuals

At times, preference or targeting can be used to develop policy measures directed at uplifting specific groups e.g. rural areas, women, youths, the disabled, etc. In this regard, preference is indicated by means of a point system. These points are then converted into a percentage price preference. All contracts below R2 million fall within the range in which such a preference system can be used. (Ntsika, 1997:19)

2.4.8. Simplification of tender submission requirements

The system of tendering can be complicated for SMMEs and needs simplification. Requirements for supporting information can be discouraging and should be kept to a minimum. Logistical problems in preparing and submitting tenders are often encountered by SMMEs. The ten point plan proposes that tender submission documentation be simplified and rationalised as much as possible. The process proposed by the ten point plan includes the complete review of the numerous submission forms presently in use. It aims at consolidating essential information and reformatting tender forms, minimising the number of pages and including other relevant information for SMMEs. The new restructured forms, which would be user

friendly, would then be submitted to the office of the state Attorney for approval prior to implementation. (Ntsika, 1997:19)

2.4.9. Appointment of a procurement ombudsman

There are continuous accusations and complaints that the State tender Board is unfair, biased, inconsiderate, and not transparent. Taking into account that the system of government procurement is still controlled by the existing conditions, procedures and regulations and perceived by SMMEs as favouring established businesses, a market arbiter is necessary. (Ntsika, 1997:19)

In the ten point plan it has been proposed that a procurement ombudsperson be appointed during the period of reform. This person will provide a mechanism for quick and effective intervention regarding complaints from businesses. The proposed process would be set in consultation with the office of the Ombudsperson or Public Protector; an appointment can be made for a person who would intervene in and report on matters related to procurement. In addition, to ensure independence, the person appointed should operate independently with easy and unrestricted access to information from State Tender Board and user departments. Then, eventually, this person could implement an effective monitoring system and a watchdog role to ensure that the government adheres to its proposed new procurement policy. (Ntsika, 1997:19)

2.4.10. Classification of building and engineering contracts

Contracts in the public sector have been structured in such a manner that well established manufacturers and suppliers have been favoured, particularly in the engineering sector. Traditionally contractors have been required to have all the necessary resources such as technical, managerial, administrative and commercial skills as well as finance for the various aspects of the project. They have also been expected to have sufficient credibility to raise sureties and obtain credit. A new view of contracts, aimed at empowering former disadvantaged communities, must be developed in South Africa. (Ntsika, 1997:20).

The ten point plan classifies contracts into the following categories (Ntsika, 1997:20):

- International contracts that large SA companies do not have the capacity to implement e.g. providing military planes, ships, etc.
- Major contracts are contracts that are onerous, e.g. construction of bridge, etc.
- Minor contracts can use SMMEs as suppliers. The following are characteristics of these contracts:
 - The potential risk involved is small;
 - The period of completion usually not more than six months but certainly less than twelve months;
 - The contract value usually less than R1 million but generally not more than 6 million;
 - The works are of a strategic forward nature in terms of complexity, quality and tolerances;
 - The site establishments requirements are not onerous;
 - Save for design work for which the contractor is responsible, the design of the work is complete before tenders are invited;
 - The contractor's responsibility for nominated or selected subcontracts is limited;
 - The contractor is not required to undertake work of a specialist nature

- Micro contracts are very small contracts with a value no less than R10 000.

2.5. THE GREEN PAPER ON PUBLIC SECTOR PROCUREMENT REFORM IN SOUTH AFRICA

2.5.1. Aim

The Green Paper explains that its aim is to give all South Africans the opportunity to contribute to the process of change that will have a profound effect on all. South Africa is currently facing enormous challenges, both locally and internationally, as it opens the economy to the combined impact of global investment and free trade regulation. (RSA, 1997: 131)

It is envisaged that a coherent and adequate resources procurement policy will contribute to the national objectives of: Developing and utilising the country's human resources potential to the full. This in turn would allow for a well-developed business sector capable of participating fully in the new South African economy; as a result there would be an improved quality of life for all and an improved international competitiveness for the South African economic activity. (RSA, 1997: 131)

The common features in the Green Paper include building on existing strengths and restructuring government policies and programmes to support the principles of the Growth Employment and Redistribution (GEAR) as outlined in the macro-economic strategy. The desired output of this process is to develop world class professional procurement policies and systems, while ensuring the productive participation of previously disadvantaged persons, in a manner that promotes entrepreneurship and the adoption of best practice within all South African businesses while improving international competitiveness. (RSA, 1997: 132)

The Green Paper sets out the key elements of the Government's new strategy for procurement. In addition, the evolving institutional framework through which the strategy should be implemented is also addressed. The Green Paper process should ultimately result in the formulation of new procurement Policy in South Africa, to be

published as a White Paper and the beginning of legislative reforms pertaining to procurement. (RSA, 1997: 131)

2.5.2. Procurement reform: objectives

2.5.2. Procurement reform: key principles

The Green Paper on Public Sector Procurement has two main reform objectives

It is argued in the Green Paper (RSA, 1997:13, 14) that there is a need in South Africa to change the procurement system in order to face the challenges presented by changes in both the local and international environments. As a result, the Ministry of Finance, in conjunction with the Ministry of Public Works has drawn up the Green Paper on procurement reform to initiate the process of reform. The government's aim is to transform the public procurement process in order to achieve its socio-economic objectives within the ambit of good governance. The document makes several proposals for the reform of the procurement process. At the heart of these proposals are *four key principles*:

The first principle is the recognition that previously public tendering system favoured the established and larger businesses, and it was very difficult for any newcomer to enter into the public sector procurement system. At present government recognised the importance of previously marginalised SMMEs and will use the procurement system free of unnecessary obstacles to those SMMEs, and eliminate the injustices of the past. Nevertheless, good value for money cannot and will not be negated. According to the constitution, the procurement system must be competitive, fair, transparent and cost-effective.

The second key principle is the attainment and maintenance of good governance. This includes good and sound financial control

Thirdly, consists in non-tolerance towards corruption within the government services and within the country as a whole

Fourthly, any principal doing business with the public sector must aim to make a profit; in addition, taxation and service charge obligations must be met.

2.5.3. Procurement reform: objectives

The Green Paper on Public Sector Procurement has two main reform objectives, which are: socio-economic and good governance. Achieving *socio-economic objectives* include the following, (RSA, 1997:15):

- To seek value for money on behalf of all taxpayers;
- To eliminate corruption in the procurement process;
- To make the public procurement process accessible to all by simplifying the process, and by encouraging fairness and transparency;
- To encourage greater competition in the public procurement process through the creation of an enabling environment for creation of an enabling environment for SMMEs while retaining quality and standards;
- To support participation of a broadened range of enterprises with appropriate inland revenue registration and acceptable labour practices in order to ensure sustainability;
- To revise the concept of value-for-money in the procurement process in terms of the new objectives which are to be applied;
- To set out targeting policies in order to create opportunities for the broadest possible participation in the public procurement process;
- To increase the volume of work available to the poor and to enhance the income generation of marginalised sectors of society

Achieving *good governance* objectives includes the following, (RSA, 1997:16):

- To promote effective procurement practice and systems to enable government to timeously decline the quantity and quality of services demanded by its constituents;
- To achieve continuing improvement in value for money based on life cost and quality;

- To enhance the competitiveness of suppliers through the development of world class procurement systems and practices;
- To ensure that control and accountability is maintained through comprehensive auditing;
- To achieve a uniform procurement system with standardised tendering procedures policies and contract documentation for implementation at national and regional level;
- To ensure that public sector procurement complies with the provisions of the constitution;
- To ensure consensus within government on the reform of the public procurement process and to encourage the adoption of the reformed process

2.5.4. Procurement reform: pillars of reform

In order to achieve socio-economic and good governance objectives, the Green Paper points to the need to implement two pillars of reform: Socio-economic and institutional. (RSA, 1997:135, 136)

2.5.4.1. Socio-economic reform

Socio-economic reform intends to promote economic reconciliation and competitiveness. This can be achieved by maximising SMMEs participation without compromising time, cost and quality. In addition, value for money should not be based on least cost alone; instead it should include well defined socio-economic criteria which can be evaluated in a transparent and measurable manner.

(RSA, 1997:135)

Another characteristic of socio-economic reform is the direct targeting of previously disadvantaged persons to existing opportunities. By targeting government intends to facilitate the development of SMMEs particularly those owned and operated by previously disadvantaged persons. If this is accomplished, there will be an increase of the volume of work available to the poor and the income generation of marginalised sectors of society. Targeting also includes the use of affirmative action

to address the deliberate marginalisation from economic, political and social power of black people, women and rural communities, and to empower communities and individuals from previously disadvantaged sectors of the society. (RSA, 1997:135)

tendering procedures and contract documentation. (RSA, 1997:136)

Most importantly the policy of targeting should not compromise the principles of fairness, competition, cost-efficiency and inclusion and should be subject to periodic review. In order to be effective, the procurement process should be made accessible to the target groups, and structured in a simplified and user-friendly manner. In addition the third tier of government should identify area bound targets and select associated delivery mechanisms. (RSA, 1997:135)

procurement officials and those engaged in providing goods, services and works

The role of international competition is particularly relevant; however it should not prejudice local enterprises and should be used as an opportunity to develop and advance local industry through technology transfer and human resource development. (RSA, 1997:135).

Procurement Framework. In the context of

incentive system for local content, or an offset policy with a view towards export competition. However, standards and specifications should result in appropriate

2.5.4.2. Institutional reform
Institutional reform must beforehand comply with the provisions of the constitution, support macro economic policies, be an instrument of the transformation process, promote tax morality and improve labour standards. (RSA, 1997:136)

do not impact negatively on the overall objectives of South African Socio-economic

National legislation should prescribe a procurement framework which regulates procurement procedures, practices, documentation, policies, preferences and control measures in all organs of State. In this context, it should be ensured that procurement agencies comply with the national procurement legislation and framework and associated regulations. This should be the procurement control and monitoring functions of a national procurement Compliance office. (RSA, 1997:136)

and provincial governments to ensure that all revenue, expenditures, assets and

The National Procurement Compliance Office should have five specialist arms, which have functional responsibilities in respect of registration, administration, socio-economic affairs, technical matters and education and training respectively. All enterprises which contract with organs of State, should be registered and all targeted enterprises certified. A comprehensive training and skills development programme

should be embarked upon to ensure that procurement officials have the necessary procurement skills. In addition, this office should regulate and prescribe all of this Act, documentation in order to achieve a uniform procurement system with standard tendering procedures and contract documentation. (RSA, 1997:136)

Offices of Tender Boards (as opposed to the Boards themselves) should be reconstituted as Procurement Offices responsible for central tendering and certain ad hoc contracts. Consumer organs of State should be authorised to act as stand Procurement centres in order to procure goods, services and works, based on predetermined criteria. A code of conduct should be drafted to govern the actions of procurement officials and those engaged in providing goods, services and works. (RSA, 1997:136)

Parastatals should not unfairly compete with the private sector and should comply with the provisions of a National Procurement Framework. In the interim, a preference system for local content, or an offset policy with a bias towards export promotion, should be used to support the local economy in the face of foreign competition. However, standards and specifications should result in appropriate quality being procured to satisfy user needs and should not be used to exclude emerging enterprises from participation. Measures should be taken to ensure that the effects of the World Trade Organisation's (WTO), Code on Government Procurement do not impact negatively on the overall objectives of South African Socio-economic reform. (RSA, 1997:136)

2.6. PUBLIC FINANCE MANAGEMENT ACT AS AMENDED

The Public Finance management Act, (PFMA) gives effect to section 216(1) of the constitution, i.e. it regulates "financial management in the national government and provincial governments to ensure that all revenue, expenditure, assets and liabilities of those governments are managed efficiently and effectively". (Watermeyer, 2000:5)

• Are competitive, fair, transparent, equitable and cost-effective;

The PFMA establishes a National Treasury "consisting of the Minister who is head of the treasury and the national department or departments responsible for

financial and fiscal matters". This Act permits the National Treasury to prescribe uniform treasury norms and to monitor and assess the implementation of this Act, including prescribed norms and standards. (Watermeyer, 2000:5)

Section 76(4) permits the National Treasury to make regulations or issue instructions applicable to all institutions to which the Act applies concerning, *inter alia*, the determination of a framework for an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective. The Act requires Accounting officers and accounting authorities to have: (Watermeyer, 2000:5)

- An appropriate procurement and provisioning system which is fair, equitable transparent, cost effective and competitive.
- Effective, efficient and transparent systems of financial and risk management and internal control; and
- A system for properly evaluating all major capital projects prior to a final decision on the project.

2.7. MUNICIPAL SYSTEMS BILL

The Municipal Systems Bill was introduced into Parliament during April 2000, to provide the core principles, mechanisms and processes that are necessary to enable municipalities to *inter alia*, move progressively towards the social and economic upliftment of communities. This bill allows municipalities to provide for municipal services itself (i.e. through an administrative structure within its administration or an internal trading entity) or by way of service delivery agreement must select the service provider through selection and pre-qualification processes which (Watermeyer, 2000:6):

- Are competitive, fair, transparent, equitable and cost-effective;
- Allow all prospective service providers to have equal and simultaneous access to information relevant to the bidding process;

- Minimise the possibility of fraud and corruption; and
- Make the municipality accountable to communities, residents and ratepayers about progress with selecting a service provider and the reason for any decision in this regard. Watermeyer, (2000:6)

2.8. MUNICIPAL FINANCE MANAGEMENT BILL

The intent of Municipal Finance Management Bill (MFMA) is to regulate financial management in the local sphere of government requiring that all revenue, expenditure, assets and liabilities of municipalities and municipal entities are managed efficiently and effectively and to determine the responsibilities of persons entrusted with local sphere financial management. This Act will apply to municipalities and municipal entities and empowers the national treasury established in terms of the Public Finance Management act, *Inter alia* to monitor their budgets, expenditure and revenue, to prescribe uniform treasury norms and standards, to monitor and assess compliance with the Act and standards of accounting practice and to address a serious or persistent breach of the Act. Watermeyer, (2000:6)

The basic philosophy underlying the approach to municipal finance in the Bill is to allow “managers to manage and be held accountable” while councillors are provided with information necessary to set overall policy and priorities for the municipality.

Here, accounting officers and accounting authorities are required to have an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective. They also have to use effective, efficient and transparent systems of financial and risk management and internal control, and a system for properly evaluating all major capital projects prior to a final decision on the project.

Accounting officers in addition must settle all contractual obligations and pay all monies owing within the prescribed or agreed period and must ensure that expenditure is in accordance with the budget of the municipality.

Accounting officers and accounting authorities may delegate powers entrusted to them to one of their officials or instruct one of their officials to perform any of the duties assigned in terms of the Act. Such arrangements, however, do not relieve them of any of their responsibilities in terms of the Act.

This Act also requires that risk is managed in contractor development programmes and capital works that may be executed through such programmes are properly evaluated before work commences. As a result, development programmes which are non-competitive, inefficient, and non-cost effective, exposing municipalities to undue risk, or producing inappropriate assets must be avoided. The use of fixed-price contracts and set- asides (i.e. a system whereby only certain contractors are eligible to tender for works) violate the requirements of the Act and section 217 of the Constitution and as such can not be used to promote development aspirations.

Watermeyer, (2000:8)

2.9. THE PREFERENTIAL PROCUREMENT POLICY FRAMEWORK ACT

The Preferential Procurement Policy Framework Act (PPPFA) dictates that organs of state should implement procurement policy providing for categories of preferences in allocation of contracts and advancement and protection of persons disadvantaged by unfair discrimination. Department of Public Works, (2000:1).

2.9.1. Memorandum on the objects of the Act: constitutional provisions

Watermeyer, (2000:4) explains that procurement is a subject of the constitution of South Africa. Section 217(1) requires that procurement be in accordance with a system which is fair, equitable, transparent, competitive and cost effective. Section 217(2) provides for preferencing policies in the allocation of contracts. The requirement for the legislation lies in section 217(3) of the constitution, which requires that national legislation must prescribe a framework within which preferential procurement must be implemented. Section 216(1) requires that national legislation “establish a national treasury and prescribe measures to ensure both transparency and expenditure control in each sphere of government, by introducing general

recognised accounting practice; uniform expenditure classifications; and uniform treasury norms and standards.

The above mentioned constitutional provisions have a profound effect on procurement by all levels of government. The constitution also gives everyone the right to access to information held by the state and the right to administrative action that is lawful, reasonable and procedurally fair. Everyone whose rights have been adversely affected by administrative action has the right to be given written reasons. Act 2 of 2000 gives effect to the right of access to information; Act 3 of 2000 gives effect to the right to just information. Both these Acts can impact on procurement processes.

2.9.2. Objectives of the Act

The objective of the Act is to give effect to section 217(3) of the Constitution. It does it, by providing a framework for the implementation of a preferential procurement policy, which is contemplated in section 217(2) of the Constitution as well as to provide for matters connected therewith. (RSA, 2000:2)

2.9.3. Framework for the implementation of the procurement policy

According to the requirements of the Act, each organ of state must determine its preferential procurement policy and implement it within a prescribed framework. That framework must include, (RSA, 2000:2):

- A 90/10 preference points system above a prescribed amount. That is, for contracts with a Rand value above a prescribed amount, a maximum of ten points may be allocated for specific goals provided that the lowest acceptable tender scores 90 points for price; the following formula is used to calculate tender prices in relation to the lowest acceptable tender

$$P_s = P_{min}/P * 90/1$$

Where P_s = points scored for price by tender under consideration;

P_{min} = tender price of lowest acceptable tender under consideration;

P = tender price of acceptable tender under consideration

University of Pretoria etd – Gomes, N A G S (2006)

- A similar 80/20 points system, but below a prescribed amount; that is, for contracts with a Rand value equal to or below a prescribed amount, a maximum of 20 points may be allocated for specific goals provided that the lowest acceptable tender scores 80 points for price.

Any other acceptable tenders which are higher in price must score fewer points, on a *pro rata* basis, calculated on their tender prices in relation to the lowest acceptable tender, in accordance with a prescribed formula. (RSA, 2000:4)

The specific goals may include RDP development principles and contracting with persons, or categories of persons disadvantaged by unfair discrimination. In this context, any specific goal for which a point may be awarded must be clearly specified in the invitation to submit a tender; and the contract must be awarded to the tenderer who scores the highest points, unless sound reasons justify the award to another tenderer. (RSA, 2000:4).

Any invitation to submit a tender as contemplated in subsection must clearly define: the categories of preference; the persons or categories of persons, disadvantaged by unfair discrimination to be protected or advanced; any goals must be measurable, quantifiable and monitored for compliance. (RSA, 2000:4).

In relation to *transitional provision*, any tender which was advertised before the date of commencement of this Act must be finalised as if it had not come into operation. In addition, the Minister may make *regulations* regarding any matter that may be necessary, or expedient to prescribe, in order to achieve the objects of the Act. (RSA, 2000:4).

2.9.4. Preferential procurement regulations

The Regulations were published in the Government Gazette, (RSA, 2001:4). These will enable the achievement of the objectives of the Preferential Procurement Framework Policy Act, 2000. The schedule comprises three main components: *Part one* addresses definitions and applications; *Part two* addresses the preference point system, evaluation of tenders, awarding of tenders not scoring highest points, cancellation and re-invitation of tenders; *Part three* addresses duty to plan, general conditions, principles, declarations, penalties, tax clearances and tender goals.

2.9.4.1. The Preference point system

The regulations comply with the requirements of the PPFPA in relation to its framework for the implementation of a preferential procurement policy. For instance, there are two preference points systems: the 80/20 and the 90/10. In the 80/20 the following formula must be used to calculate the points for price in respect of tenders/procurement with a *Rand value* (means the total estimated value of a contract in Rand denomination which is calculated at the time of tender invitations and includes all applicable taxes and excise duties) equal to, or above R30 000 and up to a Rand value of R500 000. Organs of State may, however, apply this formula for procurement with a value less than R30 000, if and when appropriate, (RSA, 2000:7):

$$Ps = 80 \left(1 - \frac{Pt - Pmin}{Pmin} \right)$$

Where

Ps = Points scored for price of tender under consideration

Pt = Rand value of offer tender consideration

Pmin = Rand value of lowest acceptable tender

In this point system, a maximum of 20 points may be awarded to a tenderer for being an HDI and / or subcontracting with an HDI and / or achieving any of the specified goals. The points scored by a tenderer in respect of the goals contemplated in this sub-regulation must be added to the points scored for price. Only the tenderer with the highest number of points scored may be selected.

When using the 90/10 preference point system the following formula must be used to calculate the points for price in respect of tenders/procurement with a Rand value above R500 000, (RSA, 2000:7):

$$P_s = 90 \left(1 - \frac{P_t - P_{min}}{P_{min}} \right)$$

Where

P_s = Points scored for price of tender under consideration

P_t = Rand value of tender consideration

P_{min} = Rand value of lowest acceptable tender

A maximum of 10 points may be awarded to a tenderer for being an HDI and / or subcontracting with an HDI and / or achieving any of the specified goals. The points scored by a tenderer in respect of the goals contemplated in this sub-regulation must be added to the points scored for price. Only the tender with the highest number of points scored may be selected.

2.9.5. The implication of the Preferential Procurement Policy Framework Act on procurement by local authorities

Watermeyer, (2000:9) explains that the Preferential Procurement Framework Act requires councils to establish their preferential procurement policies within the framework provided for in the Act. Thus the role of the Council is to set preferential procurement policies within the framework embodied within legislation while the role of the accounting officer is to execute such policies. Current tendering committees can, however, perform a monitoring function in the new regime to ensure that policy

intent is met during the execution of contracts and that due process has been followed. Their function as such, will be to monitor for compliance with both the provisions of the Act and preferential procurement policies made by the council. They can also set priorities within a preferential procurement policy as well as targets for a particular financial year. They can also monitor the targeting strategies, which are used within a programme to ensure that such strategies will enable targets which have been set to be achieved.

In addition, the Green Paper on Public Sector Procurement Reform in South Africa suggests that the third tier of government should define marginalised sectors of society, establish area bound targets, interface with and assist regional and national implementing departments in choosing the best contract strategy for a project, establish databases and perform a project co-ordination role. Tender Committees could possibly fulfil this function.

2.9.6. The procurement environment in a transformed local authority

Watermeyer, (2000:12) elucidates that while the Municipal Finance Management Act provides for good governance, the Preferential Procurement Policy Framework Act facilitates the use of procurement as an instrument of social policy.

Furthermore, he argues that the new legal framework requires a major change in thinking attitudes and procedures. The Local Government Ordinance (017 of 1939) empowers councils to “enter into contracts for the purpose of any work or service ...” whereas the Municipal Finance Management Act empowers and requires accounting officers to perform this function. This change in transferring accountability from the collective to the individual (or holder of a post) necessitates a major change in current procedures and the redefining of the role of tender committees and the role of councillors in procurement.

2.10. THE USE OF AFFIRMATIVE PURCHASING IN SOUTH AFRICA

Badenhorst, (1995:2) defines affirmative purchasing as “the active attempt on the part of organisations to purchase the materials and services they require from businesses belonging to individuals, who were formerly disadvantaged by the political and social system”. Nieman, (1997:1) says that the majority of these individuals or firms may be classified as small business enterprises.

The Green Paper on Public Sector Procurement Reform in South Africa (RSA, 1997: 133) describes affirmative procurement as participative programmes aimed at the engagement of SMMEs owned by previously disadvantaged persons and the increasing of the volume of work available to the poor and the income generation of marginalised sectors of society.

2.10.1. The need for affirmative purchasing in South Africa

The need for affirmative purchasing in South Africa came as a way to address a number of problems such as poverty, unemployment and growth. One of the ways of addressing the unemployment problem is through the development of SMMEs. It is recognised that affirmative procurement may be used as an instrument of government policy to assist in the development of SMMEs. Government can do it due to the principle that the power of government procurement can be used to address certain objectives (RSA, 1997: 13, 133)

The RDP describes in more detail, the main problems facing the majority of the population, which brings into perspective the need for affirmative purchasing.

In its problem statement in the chapter on building the economy, the RDP (ANC, 1994:75, 76, 77) states that the South African economy is in a deep-seated structural crisis and as such requires fundamental reconstruction. For decades, forces within the white minority have used their exclusive access to political and economic power to promote their own sectional interests at the expense of black people... the South African economy is also characterised by excessive concentrations of economic power in the hands of a tiny minority of the population.”

“Through the pyramid system and the resultant control over a vast network of subsidiary companies, a small number of very large conglomerates now dominate

the production, distribution and financial sectors... Not only does this create racial and social tension, but it is to be seriously doubted that such high levels of concentration can be economically beneficial.”

“A particular weakness of the economy, aggravated by racist and sexist policies, is the inability to maintain a dynamic small-scale and micro enterprises sector. Smaller firms, especially if owned by black people, can rarely develop productive linkages with the large-scale sector. Most people in the informal sector lack productive and managerial skills plus access to business sites, capital and markets.” “Only a quarter as many women as men hold jobs in the formal sector”...”The agricultural sector and rural economy are also in crisis, as many thousands of black rural households are crammed into tiny plots unable to produce or buy affordable food”.

Given the present disparity of standards of living among the various racial groups, the new Constitution allows government to implement affirmative purchasing to target the development of previously disadvantaged individuals. In order to highlight Section 217(2) there is the Preferential Procurement Framework Policy Act of 1997 and regulations were scheduled to be used as tool to achieve the objectives of the Act. RSA, (2000:1) & RSA, (2001:4). Therefore the use of affirmative purchasing is not a question of whether it should be used, instead it is a matter of how effectively and efficiently it can be implemented.

From the private sector perspective, the discussion for the need of affirmative procurement in South Africa is not without controversy. Purchasing in the private sector evolves around the principles of buying “... the right requirements (quality) in the right time and the right price from the right source, and with delivery at the right place” (Hugo, Van Rooyen & Bandehorst, 1997:9). In managing the purchasing function in the private sector, few purchasing managers can associate SMMEs with the various “rights” in the definition of purchasing above.

2.10.2. Key elements associated with affirmative procurement

New trends and development in procurement and especially logistics management leaves little place for SMME development. These trends are clear from the picture which Morgan and Cruz (1997: 68s3) paints of minority supplier development (or SMMEs) in the private sector in the USA:

- Large firms are reducing the number of suppliers they deal with resulting in minority suppliers being left in the cold;
- Corporations increasingly are relying on preferred suppliers;
- As corporations buy more from fewer suppliers, the average contract size increases putting small firms at a disadvantage;
- Increased use of just-in-time delivery reinforces the trend toward use of preferred suppliers;
- Corporations' requirements of Electronic Data Interchange (EDI) capability puts a financial strain on small suppliers' ability to compete;
- Higher quality standards place minority suppliers at disadvantage;

Nieman, (1997:3) argues that in South Africa the trends in procurement and logistics are the same although not yet at the same level as that of the USA firms.

Badenhorst, (1995:7) believes that the evidently conflicting policies of some organisations may cause purchasing managers to become negative towards the affirmative purchasing programme. On the one hand the procurement manager must eliminate suppliers and limit numbers, while on the other hand they are forced to find as many emerging suppliers as possible. It is doubtful whether the problem areas above can ever be addressed to everyone's satisfaction in today's market driven economy. A few major corporations in South Africa have embarked on programmes to involve SMMEs and in particular black enterprises in the procurement/tendering process. Involving SMMEs will require a mindset change, policy changes and a commitment from top management. The Green Paper, once converted into legislation will however, force many of the unwilling firms in the private sector to embark on such programmes if they wish to contract with the government. Therefore, the research findings of this paper may be of help of those firms setting up an affirmative purchasing policy.

2.10.2. Key elements associated with affirmative procurement

2.10.3. The components of affirmative procurement

The Green paper, (RSA, 1997:133) associates certain key elements to affirmative procurement. It recognises that, procurement may be used as an instrument of government policy; value for money need not be a measure of monetary cost alone;

goods, service and works can be procured both in terms of human resources and technical specifications; and participation of targeted individuals, groups of people, communities and enterprises can be secured by means of a development objective/price mechanism, a human resource specification or a combination thereof.

Another key element is the use of development objective/price mechanism (points scoring tender adjudication procedure) as a means of: measuring tenderers' human resources and financial offer (i.e. value for money); the adjudication of tenders; ensuring that premiums, if any, paid in respect of socio economic or development objectives are within acceptable limits; favouring certain targeted individuals, groups, communities or practices without excluding those who fall outside of such target groups from tendering; and encouraging the private sector to use their skill, knowledge and creativity in responding to socio-economic and development objective challenges in a cost effective manner.

The third key element is the use of human resource specifications in order to: define target groups; set goals, measured in monetary terms, which may be met by engaging the target groups in the pursuit of predetermined socio-economic/development objectives; provide for the measurement of key indicators to ensure that goals may be quantified and audited during the performance of the contract; and set out how goals can be achieved, and the penalties which are to be applied should a contractor fail to achieve the contractual goal.

The fourth key element is the classification of contracts in order to facilitate standardisation in approach and the targeting of business enterprises/local resources.

Lastly, it is the use of the third tier of government in order to effect area bound (specific) targeting relating to marginalised sectors of society in construction projects.

2.10.3. The components of affirmative procurement

Affirmative procurement has two main Legs: Firstly, a development component which ensures that the target group is capable of participation; secondly, a structured

participation component which ensures that the target group is engaged in the provision of goods, services and works. (RSA, 1997:134)

2.10.4. Objectives of affirmative procurement

Affirmative Procurement without resorting to set asides and price preferences can be used in an effective, efficient, transparent and cost effective manner to: Put in place, a programme of affirmative action to address the deliberate marginalisation from economic, political and social power of previously disadvantaged individuals and sectors of society; Develop small businesses, particularly those owned and operated by black entrepreneurs; Provide jobs in a targeted manner on engineering and construction contracts; Increase the number of employment opportunities per unit of expenditure; and promote acceptable labour practices and standards.

(RSA, 1997:134)

Affirmative procurement seeks to ensure that public funds are expended in such a way that all segments of the South African population benefit from such expenditure through job creation and commercial activity. It makes the tender process accessible to the target group without guaranteeing work and links the flow of money into targeted business enterprises with a commitment flow of responsibility.

(RSA, 1997:134)

In the long term it intends to promote development objectives with a focus on human resource development as well as to provide opportunities for skill transfer, and capacity building to acquire experience. It intends to encourage commitment to human resource development and social responsibility programmes within organisations to specifically, redress historical imbalances. It intends to facilitate growth in terms of the efficiency and effectiveness of delivery as well as numbers and size of business owned and controlled by previously disadvantaged individuals; and aims at ensuring that emerging enterprises contribute to the tax base, engage workers who are affiliated to labour associations, adhere to safety regulations and

reflect norms and standards in their business activities associated with those of developed countries. (RSA, 1997:134)

2.11. CONCLUSION

This chapter describes how government through legislation has intervened in the economy to promote the development of previously disadvantaged individuals. The New Constitution is a powerful tool being used by Government to reverse apartheid era legislation which promoted unfair discrimination hampering and retarding SMMEs growth.

In the 1995 Small Business Development Conference, (President's Conference) it was recognised that SMMEs have difficult access to markets. In order to remove obstacles of market access, several policies governing public procurement were drafted. Public Procurement is a tool being used by government since it has a great purchasing power.

Public Sector Procurement has historically been regulated at National and Provincial level through the State Tender Board Act. However, after 1994, each province passed its own provincial Tender Board Act, within their respective provinces. This fact gives more autonomy to the provinces in terms of decision-making and administrative duties.

Local policy is very important and local governments can play a potential role in SMME development. In addition, local intervention can be used to translate national and provincial level policies to local level and in providing support to a range of local-level initiatives. The 1998 White Paper on Local government highlights the importance of the new responsibilities of Local government for local development especially in areas of policy intervention.

A ten point plan was drafted in the 1995 President's Conference, which aims to facilitate public procurement reform in SA. It is a simplified tendering system that seeks to bring SMMEs into the system.

The Green Paper on Public Sector Procurement Reform in South Africa (Notice 691 of 1997) was published, simplifying tendering procedures so as to make tendering more accessible to the previously disadvantaged. The Green Paper specifically recognises that small businesses have in the past been discriminated against by the public sector, which favoured larger and more established businesses. The 10 point plan is embodied in the Green Paper.

At the heart of the proposals for the reform of the procurement process are four key principles: (1) the need to support SMMEs; (2) the attainment and maintenance of good governance; (3) zero tolerance towards corruption and meeting tax obligations and (4) the aim of any principal doing business with the public sector must be to make a profit. There are two reform objectives: socio-economic and good governance. There are two pillars of reform: socio-economic and institutional.

The Municipal systems Bill provides the core principles, mechanisms, and processes that are necessary to enable municipalities to inter alia, move progressively towards the social and economic upliftment of communities.

The Municipal Finance Management Bill intends to regulate financial management in the local sphere of government to require that all revenue, expenditure, assets and liabilities of municipalities and municipal entities are managed efficiently and effectively.

Government policy is governed by the Preferential Procurement Policy Framework Act, 2000. Government intends to regulate tender awards in such a way that preference will be given to promote historically disadvantaged business.

The Preferential Procurement Act affects local authorities in a way that it requires councils to establish their preferential procurement policies within the framework

provided for in the Act. The Government gazette has published the regulations which will enable the achievement of the objectives of the PPFPA, of 2000.

Watermeyer argued that in a transformed Local authority, the procurement environment requires a major change in thinking, attitudes and procedures.

Finally the chapter justified the use of AP in SA. Bandehorst defines AP as the active attempt on the part of organisations to purchase the materials and services they require from business belonging to individuals who were formerly disadvantaged by the political and social system.

Although it goes into contradiction with the private sector and challenges current logistical and procurement global trends, there is a need to implement AP in SA as a way to address problems such as poverty, unemployment and growth. One of the ways to address unemployment is the target of previously disadvantaged SMMEs

Key elements associated with AP are: the use of procurement as an instrument of government policy; the use of a price development objective/price mechanism; the use of human resource specifications; the standardisation of contracts; and the use of third tier of government.

The main objectives of AP are to reverse the effects of economic, political and social marginalisation, to develop SMMEs, to provide jobs, and increase employment opportunities among others.

Given these conditions, that brings the identification of a need to implement AP and the change of the Constitution in favour of previously disadvantaged businesses, chapter 3 discusses the use of government purchasing power to achieve certain socio-economic objectives.

CHAPTER 3

THE USE OF GOVERNMENT PUBLIC PROCUREMENT TO ACHIEVE SOCIO-ECONOMIC OBJECTIVES

3.1. INTRODUCTION

The previous chapter discussed the need to implement AP in South Africa. In order to do so, various pieces of legislation were amended, while introducing new ones into the New Constitution, so as to give the Government a legal environment, which facilitated and allowed it to use its purchasing power to promote socio-economic development.

Governments in several parts of the globe have found a need to intervene through public procurement, in the economy to balance the inequalities in wealth, standards of living and the level of income caused by unemployment and low business activity.

For example, according to the New South Wales (NSW) Government, (1999:1, 3) the Government injects \$10 billion into the State economy each, through the procurement of goods and services for NSW. With such a major investment, the procurement policies and practices of Government have the potential to influence the State's economy. The aim of the Government's new procurement policy is to achieve service, economic, environmental and social objectives whilst obtaining best value for the taxpayer's money through the effective application of the government's spending. In addition, the Policy also increases the agencies accountability for procurement outcomes, links procurement planning with business planning, encourages and supports the uptake of electronic commerce and encourages more effective contract management. By developing a consistent approach to procurement across all agencies, the government will consolidate its purchasing power. Agencies will share procurement information to improve the procurement process, which will reduce the cost of doing business and secure high quality performance.

In this context, this chapter analyses the use of public sector procurement by the South African Government in the achievement of certain socio-economic objectives.

It starts by describing the government's national objectives proposed by the RDP and then government's socio-economic objectives. Next we explain the role of public sector procurement as a policy tool used to address socio-economic problems. Then it defines procurement and its use to achieve socio-economic objectives.

Targeted procurement targets specific groups, which in South Africa are the historically disadvantaged groups: the blacks, the women and the disabled. The main objective towards these groups would then be to empower them economically. It looks at the some issues surrounding black economic empowerment (BEE), Vehicles for BEE, guiding principles of BEE, characteristics of a BEE company, critical success factors and procurement strategy for a BEE company.

3.2. NATIONAL OBJECTIVES PROPOSED BY THE RECONSTRUCTION DEVELOPMENT PROGRAMME

The Reconstruction Development Programme (RDP) is an integrated, coherent socio-economic policy framework, drawn up by the ANC-led alliance in consultation with other key mass organisations with the assistance of a wide range of non-governmental organisations (NGOs) and research organisations. It seeks to mobilise all the South African people and the country's resources toward the final eradication of apartheid and the building of a democratic, non-racial and non-sexist future.

(RDP, 1994:1).

For illustration purpose, Watermeyer, Letchmiah & Mnikati, (2000:1) argue that the RDP can be equated to the Roosevelt New Deal which was designed to pull the United States out of the Great Depression, and to the Marshall plan which was aimed at rebuilding the war ravaged economies of Europe after the second World War.

The RDP came as a need to eradicate poverty mainly among black people and in this way, improve their standard of living. To this effect, the following key programmes have been identified, (RDP, 1994: 7-12):

3.2.1. Meeting basic needs

This includes the provision of jobs, land, housing, water, electricity, telecommunications, transport, a clean and healthy environment, nutrition, health care and social welfare.

3.2.2. Developing human resources

This includes the involvement of black people in the decision-making process, in implementation, in new job opportunities requiring new skills and in managing and governing the South African society.

3.2.3. Building the economy

The main focus in building the economy is to assure that all the people benefit from the existent resources and strengths of the country. It also entails a balance in ownership, employment and skills.

3.2.4. Democratising the state and the society;

Democratisation is essential so that the full potential of all South Africans can be used to the fullest.

3.2.5. Implementing the RDP

The RDP raises many challenges in its implementation because it involves processes and forms of participation by organisations outside the government that are very different to the old apartheid order. To implement and coordinate the RDP will require the establishment of effective RDP structures in government at a national, provincial and local level.

3.3. GOVERNMENT SOCIO-ECONOMIC OBJECTIVES

According to Watermeyer, (2000:7) the White Paper on Reconstruction and Development in chapter 3 (the economic Policy Framework) states that the Government's central goal for reconstruction and development is to meet the social and economic needs of the people and to create a strong dynamic and balanced economy, which will:

- Create jobs that are sustainable and increase the ability of the economy to absorb new job-seekers in both the formal and informal sectors
- Alleviate poverty, low wages and extreme inequalities in wages and wealth generated by the apartheid system, to meet the basic needs and thus ensure that every South African has a decent living standard and economic security.
- Address economic imbalances and structural problems in industry, trade, commerce, and mining agriculture and in the finance and labour markets.
- Integrate into the world economy utilising the growing home base in a manner that sustains a viable and efficient domestic manufacturing capacity and increases the country's potential to export manufacturing products
- Address uneven development within the regions in South Africa and between the countries of Southern Africa
- Ensure that no one suffers discrimination in hiring, promotion or training on the basis of, race or gender
- Develop the human resource capacity of South Africans so the economy achieves high skills and wages
- Democratise the economy and empower the historically oppressed particularly the workers and their organisations by encouraging broader participation in decisions about the economy in both the private and the public sector

University of Pretoria etd – Gomes, N A G S (2006)

In essence, employment creation is a central priority. However, government recognises that SMMEs need to play a substantially larger part in the economy. At the same time it is essential to ensure a less concentrated, greater participation, more racially and gender inclusive ownership patterns. This would be achieved, by targeting and setting goals in respect of enterprises, which enjoy equity ownership or are controlled by historically, disadvantaged individuals; labour defined on the basis of gender disability, age, unemployment, residency and low wage earners; local content as opposed to foreign content; local businesses as opposed to foreign businesses; to promote businesses in areas of uneven development and ensuring quality standards.

3.4. THE USE OF GOVERNMENT PROCUREMENT AS A WAY TO ACHIEVE SOCIO-ECONOMIC OBJECTIVES

Watermeyer, Hauptfleisch, Jacquet and Letchmiah, (2000:1-3) argue that Governments need to deliver services and to construct and maintain infrastructure for the people they serve. This responsibility often results in the purchase of goods from, and payment to the private sector to render services and perform works on their behalf. Poverty alleviation and job creation is often regarded as being the responsibility of a government. Growth in an economy frequently, but not always, leads to the creation of jobs. Governments are often called upon to address unemployment and underemployment in a visible manner, particularly where growth in the economy is slow or negative.

Watermeyer, Letchmiah and Mnikati (2000:9) explain that procurement constitutes an integral part of logistics and supply chain management and may in its simplest form, be regarded as being the process, which creates, manages and terminates contracts. Procurement is as such concerned with activities that both precede and follow the signing of a contract and may involve activities such as:

- The supply of goods, services or works or any combination thereof;
- The disposal of moveable property;

- The hiring or letting of anything; and
- The acquisition or granting of any rights.

How goods, services and works must be procured, and how rights should be granted or letting should take place is usually regulated and controlled within an organisation. It is not common practice to define the resources, whether individuals or businesses, which have to participate in the procurement process. Who ought to benefit through procurement is not usually considered.

According to Watermeyer Letchmiah and Mnikati, (2000:9, 10) public sector procurement has internationally been used to achieve one or more of the following in addition to obtaining the immediate objective associated with procurement:

- The stimulation of economic activity;
 - The protection of national industry against foreign competition;
 - The improvement of the competitiveness of certain industrial sectors;
 - The remedying of regional disparities; and
 - The achievements of certain more directly social policy functions such as to foster the creation of jobs, to promote fair labour conditions, to promote the use of local labour, to prohibit discrimination against minority groups, to improve environmental quality, to encourage equality of opportunity between men and women, or to promote the increased utilisation of the disabled in employment.
- Procurement interventions for engaging specific types of enterprises have usually involved one or more of the following:
- A price preferencing policy (certain enterprises are granted direct price preferences over their competitors);
 - Set asides (a specified market segment or sub-segment is set aside for particular enterprises);

- A step-in mechanism (certain enterprises are granted the opportunity to step in once the cheapest bid has been established provided that they match the terms and conditions of this bidder, without necessarily having to submit a bid in the first instance); or
- The prescribing of fixed contract participation goals (a fixed percentage of the contract price), wherever possible, must, in terms of the contract, be contracted out to specified enterprises.
- Procurement interventions relating to objectives other than the engagement of specific types of enterprises either make compliance with a set of requirements, a precondition for the award of contracts, place restrictions on the manner in which contracts may be executed or grant preferences to companies which have embraced certain practices.

According to the Green Paper on Procurement Reform, (RSA, 1997:13) National, Provincial and Local Governments departments in South Africa have an enormous collective buying power. Total government procurement was estimated to amount to R56 billion for the 1995/96 financial years at current prices. This amount constitutes approximately 13% of gross domestic product and represents some 30% of all government expenditure.

In this context, public sector procurement has been identified as a major tool by government to achieve economic ideals, including certain socio-economic objectives. At the same time, an effective and efficient procurement system will permit government to deliver the quality and quantity of services demanded by its new constituency in accordance with the RDP principles and other policy objectives.

3.5. TARGETED PROCUREMENT AS AN INSTRUMENT OF SOCIO-ECONOMIC DEVELOPMENT

Watermeyer, Hauptfleisch, Jacquet & Letchmiah, (2000:8) define 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 in a fair, equitable, competitive, transparent and cost-effective manner; and permitting social objectives to be quantified, measured, verified and audited.

Lowe, (2000:1) a committee member of the construction employment development Forum explains that, *targeted procurement* is a system of procurement which enables categories of people to be identifiably targeted, and to be offered preference in the awarding of tenders. The system creates an enabling environment so as to achieve a significant involvement by the emerging sectors of the economy, at very marginal increases in cost.

Watermeyer, (2000:9, 10) explains that targeted procurement is an innovative form of procurement developed in South Africa by the procurement Task Team to provide employment and business opportunities for marginalised/historically disadvantaged individuals and communities. It enables social objectives to be linked to procurement in a fair, transparent, equitable, competitive and cost-effective manner. It also permits these social objectives to be quantified, measured, verified, and audited. This system of procurement, which was developed to enable the ten-point plan to be implemented, satisfies the framework provided in the Preferential Procurement Policy framework Act. Targeted Procurement as such allows preferential procurement policies to be implemented.

Targeted procurement, through a variety of techniques, provides opportunities for participation by targeted enterprises, even to those who may not have all the necessary resources, capacity or expertise to perform contracts in their own right. This is done without a guarantee of contracts to such enterprises. On small contractors having a value below a predetermined financial threshold, direct preferences are accorded to target enterprises to tip the scale in their favour. On contracts above a financial threshold, tenders are required to compete on the basis of both that which is to be provided or maintained (the product) and the social benefits, which target groups may derive in the execution of the contract (social deliverables).

- Determine the means by which progress towards the attainment of the deliverables is to be quantified at discrete intervals;

3.5.1. Development of targeted procurement

An independent assessment (2002:24) on targeted procurement in South Africa, explains that the development of TP, starts off with the development of the ten-point plan (discussed in chapter 2) as an interim procurement strategy.

While the ten point plan provided interim strategies for increasing the participation of the previously marginalised sector of the society, it could not be used within the conventional procurement systems, and even the current procurement regime without the necessary specifications to accommodate the strategies, hence the need to develop TP procedures and resource specifications.

3.5.1.1. Targeted Procurement procedures and resource specifications

According to independent assessment (2002:24) targeted procurement (TP) procedures were developed for use within a PPP to provide employment and opportunities for marginalised and/or disadvantaged individuals and communities, referred to as the “target groups”, in a fair, transparent, equitable, competitive and cost-effective manner. It also permits the social objectives to be quantified, measured, verified and audited as required by the PPPF.

Watermeyer, Letchmiah and Mnikati, (2000:11) say that an innovative aspect of targeted procurement is the use of resource specifications to define, measure and quantify the amount of participation of targeted enterprises in a contract. These specifications require contractors/suppliers to “unpack” or “unbundled” their contract into smaller contracts in order to procure the services of targeted enterprises. Standardised TP resource specifications were developed to: (independent assessment, (2002:24)

- Define the required socio-economic deliverables (resource goals, e.g. the percentage of the contract price that represents the participation of targeted enterprises and/or targeted labour in the performance of a contract);
- Set out the methods by which deliverables may be obtained and verified;
- Determine the means by which progress towards the attainment of the deliverables is to be quantified at discrete intervals;

- Measure, quantify, verify and audit the engagement by a contractor of targeted enterprise and/or targeted labour in the performance of a contract

In order to establish a set of procedures for implementing TP within the DPW, a task team was set up in 1995, consisting of in-house staff and external consultants. Using the 10-point plan, six standard specifications (TP 1-6) were drafted. They provide a range of TP options and address different policy areas that can be available in an APP setting. The specifications are used by many other entities implementing TP infrastructure projects, and provide a structured mechanism for managing the TP process. These specifications are:

TP1: Targeting of affirmable business enterprises

TP1 (APP1) establishes procurement specifications for the provision of goods, services and works. It provides for affirmative participation targets to be set by the employer, which a contractor could meet by virtue of being an ABE, entering into a joint business venture with one, or engaging one or more such enterprises to perform sections of the contract. It also gives formulae for the establishment of the credit, in rand value, to be given to the complying firms. Watermeyer, Hauptfleisch, Jacquet and Letchmiah (2002:16) say that the socio-economic objective is the development of sectors of an industry, e.g. small business, women owned business and local industry development. It is the same for TP2.

TP2: Structured joint ventures (affirmable partners)

TP2 (APP2) sets ground rules for facilitating joint ventures in the provision of goods and services. It is primarily targeted at the prime (main) level. The specification provides for the setting of joint venture participation targets, the measurement of key performance indicators and auditing participation performance in contract execution.

TP3: Structured joint ventures (targeted partners)

TP3 (APP3) is similar to TP2 (APP2), but applies to joint ventures specifically in building and construction contract. It defines affirmable business enterprises in construction and establishes the method of calculating credits for participating entities. As in the case of TP1 (APP1), the employer sets joint venture participation goals. Watermeyer, Hauptfleisch, Jacquet and Letchmiah (2000:16) say that the

development of subcontractors to Prime contractors and the development of management capacity of small businesses can be socio-economic objectives.

TP4: Targeting of local resources

TP4 (APP4) deals with the setting of affirmative action targets for the procurement of local resources in contracts. It specifies credits to be awarded to contractors if formal contracts were executed with local labour or enterprises, and establishes the method of determining the value of such credit. Watermeyer Hauptfleisch, Jacquet and Letchmiah (2000:16) says the socio-economic objectives are local economic development, job creation, poverty alleviation and community-based development

TP5: Engagement of targeted labour

This specification deals with the engagement of targeted labour in the general locality and requires the contractor to engage labour in accordance with the contract rules. The value of the engaged labour and related services (expressed in rand) as a percentage of the total value (expressed in rand) should not be less than the target goal defined for the engagement of local labour. Watermeyer Hauptfleisch, Jacquet and Letchmiah (2000:16) say that the socio-economic objectives are job creation and poverty alleviation.

TP6: Targeting of affirmable professional service providers

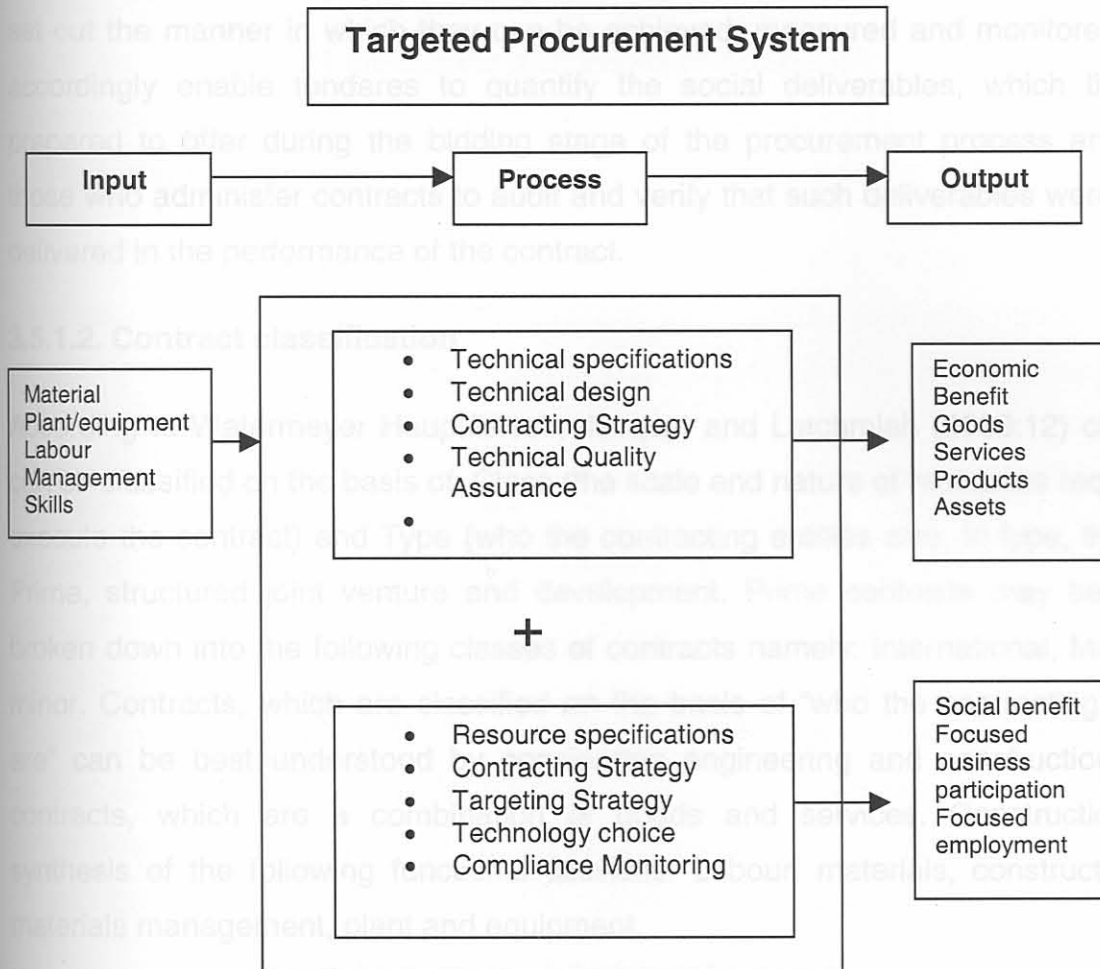
TP6: (APP6) is used for the appointment of professional service providers (PSPs). It sets affirmative participation targets and includes key indicators for evaluating tenders and auditing contract compliance during the execution of the PSP contract.

Source: Watermeyer Hauptfleisch, Jacquet and Letchmiah (2000:7)

Watermeyer Hauptfleisch, Jacquet and Letchmiah (2000:9, 10) explain that in the targeted procurement system a specification is a procurement document, which defines in a comprehensive, precise and verifiable manner, and the essential characteristics of a deliverable. In the conventional procurement system contract deliverables relate to outputs such as products, goods and assets. Technical and management specifications are used to define these deliverables.

The following diagram (Figure 3.1) is a representation of a targeted procurement system:

Figure 3.1: Targeted Procurement System



Source: Watermeyer Hauptfleisch, Jacquet and Letchmiah (2000:7)

Watermeyer Hauptfleisch, Jacquet and Letchmiah (2000:9, 10) explain that in the targeted procurement system a specification is a procurement document, which defines in a comprehensive, precise and verifiable manner, and the essentials characteristics of a deliverable. In the conventional procurement system contract deliverables relate to outputs such as products, goods and assets. Technical and management specifications are used to define these deliverables.

Technical specifications are used to define the product and to set out the acceptance criteria relating thereto. Resource specifications are used to define social deliverables and the acceptance criteria relating thereto. These specifications not only define the social deliverables which are to be realised through the process of delivery, but also set out the manner in which they can be achieved, measured and monitored. They accordingly enable tenderers to quantify the social deliverables, which they are prepared to offer during the bidding stage of the procurement process and allow those who administer contracts to audit and verify that such deliverables were in fact delivered in the performance of the contract.

3.5.1.2. Contract classification

According to Watermeyer Hauptfleisch, Jacquet and Letchmiah (2000:12) contracts can be classified on the basis of: Class (the scale and nature of resources required to execute the contract) and Type (who the contracting entities are). In type, there are Prime, structured joint venture and development. Prime contracts may be further broken down into the following classes of contracts namely: International, Major and minor. Contracts, which are classified on the basis of “who the contracting entities are” can be best understood by considering engineering and construction works contracts, which are a combination of goods and services. Construction is a synthesis of the following functional activities: Labour, materials, construction and materials management, plant and equipment.

Within prime contracts, international classes are the ones, which contract the bulk of goods and services are likely to be provided by foreign contracting entities and the domestic content is likely to be relatively insignificant.

In prime major classes, contracts are of significant scope and size to warrant the attainment of socio-economic objectives by means of resource specifications.

In prime minor classes, contracts generally have a lower financial value than major contracts and direct preferences are utilised to achieve socio-economic objectives.

In structured joint ventures a contract awarded to a joint venture is structured to meet specific objectives of the employer. The four functional activities are shared between

University of Pretoria etd – Gomes, N A G S (2006)

parties, which constitute the contracting entity in response to the Employer's requirements to do so.

In development, a contract in terms of which the employer appoints third parties to provide certain resources which a contractor lacks, the contracting entity is responsible for some of the functional activities and the employer provides third party management support for the remainder, through the appointment of a Construction and/or Materials Manager.

Targeted enterprises depending upon the targeting strategy, which is adopted, may participate in contracts as prime contractors, joint venture partners, subcontractor's service providers, manufactures or suppliers. Targeted labour may be employed as employees or project specific workers.

The targeted procurement approach of making the social benefits just one of the criteria relevant to the contract award, which must be balanced against other criteria such as price and quality) ensures that social benefits obtained with the minimum possible costs to the government. It can also restrict any potential financial premium to within predetermined limits. Furthermore, contractors can be given the flexibility to decide exactly how the targeted groups should be involved. This enables local authorities to make use of private sector expertise and knowledge of the makers concerned to use the targeted groups in the most effective way possible.

The output of conventional procurement is the acquisition of goods, services and works the disposal of property, the letting of property and facilities and the granting of rights. Targeted Procurement is no different to conventional procurement in this respect. It adds to the process by targeting those who ought to benefit and does it in a regular manner. Targeted Procurement provides business opportunities for the targeted enterprises and employment for targeted labour.

3.5.1.3. Development objective/price mechanism

According to Watermeyer Hauptfleisch, Jacquet and Letchmiah (2000:11) the adjudication of bids are usually based on price in the conventional procurement system. Contracts are normally awarded to the bidder who complies with all the bid

University of Pretoria etd – Gomes, N A G S (2006)

requirements, has sufficient capacity to execute the contract and submits the lowest bid price. However, the adjudication of bids in the Targeted Procurement System is performed using the development Objective/Price mechanism. Here, the adjudicator awards points to all responsive bids in terms of their price offer, as well as their development objective offer. In this way value for money is not based on price alone.

Development objective points are awarded for the resource goal offered in terms of a resource specification (percentage of the bid value representing the participation of Targeted Enterprises and/or Targeted Labour), and in the case of low value contracts, for their enterprise status. (The development Objective/Price Mechanism is a form of direct preference when it is used to award points for Targeted Enterprise status). (Watermeyer, Hauptfleisch, Jacquet and Letchmiah (2000:11)

Responsive bids are usually awarded points in terms of the following criteria:

3.1.5. Monitoring and evaluation

Total Adjudication Points	=	Points for price	+	Points for development
Maximum=100		Maximum=90		Maximum=10

In addition a risk analysis is performed on bidders with the highest number of adjudication points, as is the case for the conventional procurement system. If the risk analysis is acceptable, the bidder with the highest number of adjudication points is recommended for the award of the contract. The successful bidder is accordingly, the one who submitted the most competitive bid when evaluated in terms of social and economic factors. (Watermeyer, Hauptfleisch, Jacquet and Letchmiah, (2000:11)

Direct preferences are usually provided for in contracts involving the disposal of property and the letting of property and facilities in order to attain social objectives. In some instances, particularly in the case is concessionary contracts where there are many other factors to consider in the adjudication of bids, resource goals may be set

at a fixed value. In such cases the Development Objective/Price Mechanism falls away. (Watermeyer, Hauptfleisch, Jacquet and Letchmiah, (2000:11).

3.5.1.4. Targeting strategies

Watermeyer, Hauptfleisch, Jacquet and Letchmiah, (2000:14) suggest that specific targeting strategies for a selected contracting strategy can be developed to realise particular policy objectives. Targeted Procurement through resource specifications and the classification of contracts provides a comprehensive toolbox to do so. This is illustrated on Figure 3.2. which is presented on the following page.

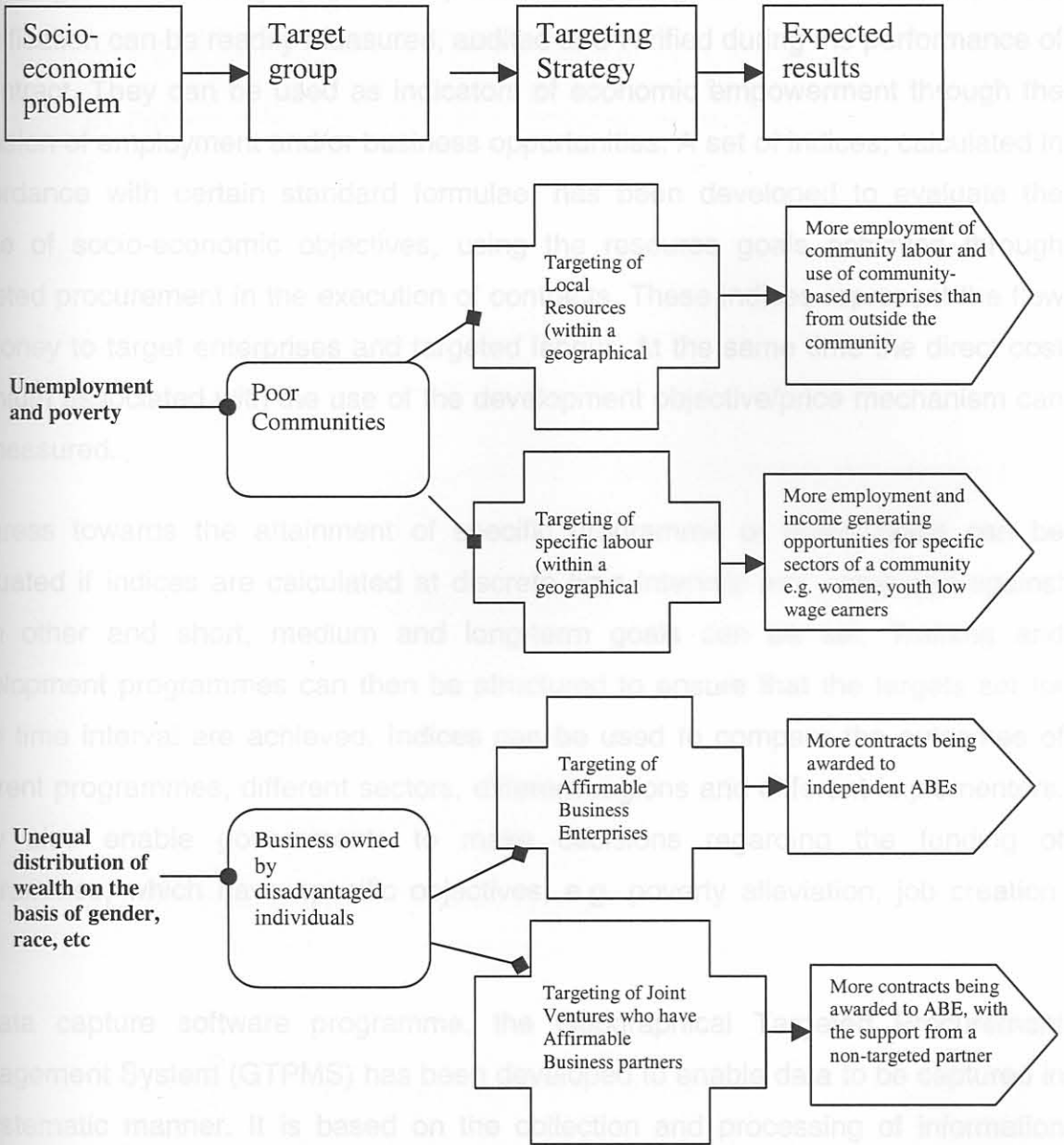
3.5.1.5. Monitoring and evaluation

According to Watermeyer, Hauptfleisch, Jacquet and Letchmiah, (2000:16) the monitoring of the attainment of socio-economic deliverables cannot commence until:

- All aspects of the deliverables have been clearly defined and accepted by all the parties to a contract;
 - The criteria for measuring and quantifying the attainment of deliverables is understood; and
 - The method by which the deliverables can be audited and verified is laid down
- targeted procurement provides a framework within which all of the above can be achieved before the award of a contract is made. This enables monitoring for compliance in respect of development objectives to commence as soon as the contract is affected.

Any evaluation of the degree of success achieved in providing deliverables is dependent on effective monitoring. Evaluation is an ongoing process and should not be deferred. This is necessary to ensure that any adequate provision of deliverables is detected at an early enough stage to remedy the situation. Targeted procurement, because of its inherent monitoring systems facilitates this.

Figure 3.2: Targeting strategies



Source: Adapted from Watermeyer Hauptfleisch, Jacquet and Letchmiah, (2000:15)

3.5.1.6. Recording and reporting on deliverables

According to Watermeyer, (2000:17) the resource goals associated with each specification can be readily measured, audited and verified during the performance of a contract. They can be used as indicators of economic empowerment through the provision of employment and/or business opportunities. A set of indices, calculated in accordance with certain standard formulae, has been developed to evaluate the range of socio-economic objectives, using the resource goals achieved through targeted procurement in the execution of contracts. These indices represent the flow of money to target enterprises and targeted labour. At the same time the direct cost premium associated with the use of the development objective/price mechanism can be measured.

Progress towards the attainment of specific programme or policy goals can be evaluated if indices are calculated at discrete time intervals and compared against each other and short, medium and long-term goals can be set. Training and development programmes can then be structured to ensure that the targets set for each time interval are achieved. Indices can be used to compare the outcomes of different programmes, different sectors, different regions and different implementers. They also enable governments to make decisions regarding the funding of programmes, which have specific objectives, e.g. poverty alleviation, job creation, etc.

A data capture software programme, the Geographical Targeted Procurement Management System (GTPMS) has been developed to enable data to be captured in a systematic manner. It is based on the collection and processing of information relating to all contracts awarded and completed, or cancelled. Standardised reports are produced in the form of charts and tables. The system allows the user to browse and search the database and seek responses to user-defined queries.

Targeted Procurement as such, provides a framework within programme monitoring and evaluation can take place. More importantly, targeted procurement facilitates the gathering of data which can be used to defend a policy position and provides a means by which a policy may be assessed, modified where necessary or fundamentally changed if it is appropriate. It also permits any cost premiums to be

capped and monitored. This is important as losses due to inefficiencies can work against development objectives as economic activity is reduced.

3.5.1.7. Responsibility for implementation

According to Watermeyer, (2000:17) the implementation of targeted procurement depends on inputs from the following groups:

- Implementing agents, i.e. the decision makers/senior managers in a client body;
- Responsible Agents, i.e. those professionals responsible for the administration of a contract (internal project managers and external consultants).
- Contracting agents, i.e., those who are responsible for the execution of contracts.

Each of these groups requires competencies to successfully implement targeted procurement as a discipline.

3.6. BLACK ECONOMIC EMPOWERMENT

Watermeyer, Letchmiah and Mnikati (2000:2) say that black economic empowerment (BEE) is much talked about in the media within South Africa. References to BEE in the media include:

- The involvement of black people at all levels of business management;
- Black control of market capitalisation on the Johannesburg stock exchange;
- Having a stake in the economy
- The appointment of high profile black personalities to senior positions in parastatals organisations and the corporate world;
- The acquisition of shares both individually and collectively;
- The affirmation of black businesses in the award of contracts.

The media in essence described BEE as the process of increasing the involvement of black people at the highest level of industry as owners and professional managers. BEE as such includes changing patterns of the ownership of capital and management in general.

3.6.1. Issues surrounding BEE

Watermeyer, Letchmiah and Mnikati, (2000:4) argue that the main debate around BEE is no longer focused on its merits and demerits as much, but rather on how to bring blacks with limited resources and experiences into the main stream of the economy. There is a need to bring black people into business with entrepreneurial and management skills and flair i.e. those with the attributes that are required to run a business. The system of apartheid, however led to substandard levels of education and limited exposure to commercial activities along racial lines. Accordingly, these legacies of apartheid in addition to the lack of intergenerational transfer of wealth and continuing discrimination along racial lines need to be overcome.

Some companies have claimed to be BEE companies, on the basis of employment policies and programmes and have on this basis secured tender preferences. Whilst these internal practices represent forward thinking and are commendable, they represent actions, which all companies should embark upon as a matter of course. With the introduction of the Employment Equity Act, the value of rewarding such companies for compliance with the law needs to be reconsidered. (Watermeyer Letchmiah and Mnikati, 2000:5)

The concept of entitlement, both in respect of employment appointments and business transactions, has also undermined the credibility of both Affirmative action and BEE programmes. Awarding of business and employment contracts on the basis of race alone, inevitably leads to failure to perform/deliver and inefficiencies, which translate into increased costs. Such practices discredit the transformation process. (Watermeyer Letchmiah and Mnikati, 2000:5)

Increasingly, institutional investors, the main founders of black empowerment deals, are starting to ask probing questions about the deals themselves and what empowerment partners bring to the party. It is no longer taken for granted that if an empowerment partner finds the assets, there will be an institutional investor ready to

finance the deal. Some would-be empowerment partners have had to walk away empty handed. What has complicated the situation is the fact that the quality of some deals has BEE so suspected, that one could hardly find an element of empowerment. There is no doubt that black empowerment groups have to be selective as there are companies trying to find ways of ridding themselves of non-performing assets and looking for naïve empowerment partners. In some instances, joint ventures have been established in terms of which the “black empowerment partners” have been left holding “straw investments” while the other party grabbed half of the profits, after charging huge turnover and management fees. (Watermeyer, Letchmiah and Mnikati, 2000:5)

In this line thinking, the most important is that empowerment initiatives should clearly add value by the black investor groupings participating in the transactions countering any allegations of tokenism. (Watermeyer, Letchmiah and Mnikati, 2000:5)

3.6.2. Vehicles for BEE

Watermeyer Letchmiah and Mnikati, (2000:6) argue that both the private and public sector can and must play a role in BEE. The public sector has the potential to be an incubator of BEE. The private sector had the potential to sustain BEE, it has in fact a vested interest to do so; a successful BEE programme is the engine for the growth of the SA economy as whole.

The vehicles for BEE in SA include the following:

- Affirmative Action employment policies;
- Procuring goods and services from black-controlled SMME businesses
- The sale of shareholding of partial control in new or established businesses to black investor groupings/consortiums
- The granting of licenses/concessions to consortiums which have significant black business participation;
- Giving preference to potential buyers with involvement by black investor groupings in the process of privatisation or disposal of state owned assets.

Figure 3.3: A model for Black Economic Businesses Empowerment

3.6.3. Guiding principles for BEE

According to Watermeyer, Letchmiah and Mnikati, (2000:6) BEE has two thrusts, namely employee empowerment and business empowerment. They (Watermeyer et al, 2000:6) argue that BEE should strive for the removal of disparities in employment practices and business ownership along racial lines so that all segments of the South African society ultimately have the same opportunity to participate in the economy, on the basis of open competition and to advance according to their relative ability.

In addition, Watermeyer, Letchmiah and Mnikati, (2000: 6) argue that in general employee empowerment should be pursued through legislative instruments and business empowerment through procurement practices and internal programmes within corporate companies. Employment equity should be linked to procurement, only in instance where it can be adequately defined, quantified, measured, verified, audited and be implemented in a manner in which companies of different sizes are equitably treated.

Watermeyer, Letchmiah and Mnikati, (2000: 6, 7) says that business empowerment has three basic elements, namely, Equity, Control; and Operational responsibilities

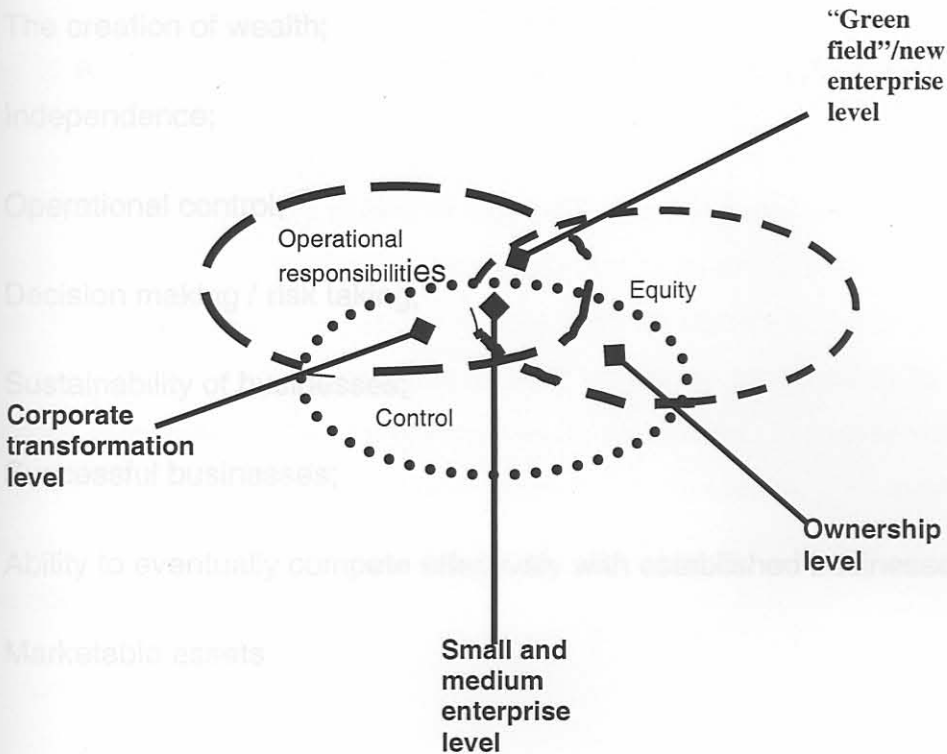
Business empowerment operates at the following four levels:

- Ownership (with equity and control) level;
- Small and medium enterprise level;
- Corporate transformation level; and
- “Green field”/ new enterprise level.

Each level of business empowerment must embrace at least two of the basic business empowerment elements for BEE to occur. The following diagram

(Figure 3.3) illustrates this reasoning.

Figure 3.3: A model for Black Economic Businesses Empowerment



Byproducts of BEE include job creation, skills development and the broadening of the tax base.

3.6.4 Characteristics of a BEE company

According to Watermeyer, Letchmiah and Mnikati, (2000: 16, 17, 18), the main

Source: Adapted from: Watermeyer, Letchmiah and Mnikati (2000:7)

3.6.4.1. Ownership

Watermeyer, Letchmiah and Mnikati, (2000: 7) argue that real empowerment occurs when somebody has control, especially insofar as financial matters are concerned. Without control, even with all the share certificates, genuine empowerment will not happen. The objective of BEE should be the reducing of the ownership gulf and increasing black participation to the extent that black business has the ability to make business decisions without having a disproportionate dependence on financial institutions. Genuine BEE should result in sufficient income (profit) being derived that will allow significant accumulation of financial assets.

The business component of BEE should as such lead to the following:

- The ability to influence income generation;
- The creation of wealth;
- Independence;
- Operational control;
- Decision making / risk taking;
- Sustainability of businesses;
- Successful businesses;
- Ability to eventually compete effectively with established businesses; and
- Marketable assets

By-products of BEE include job creation, skills development and the broadening of the tax base.

3.6.4. Characteristics of a BEE company

According to Watermeyer, Letchmiah and Mnikati, (2000: 16, 17, 18) the main characteristics of a BEE company are: ownership, Control, and Independence.

3.6.4.1. Ownership

Ownership, including the right of disposition and sharing in the risks and profits commensurate with the degree of ownership, from a procurement point of view, is particularly important in privately owned companies as this issue lies at the heart of BEE. Ownerships in public listed companies, except where concessions are granted, are usually not a relevant characteristic as such companies are rarely able to exercise control over who acquires shares. In public sector concessions, however, ownership is often used to allow blacks to acquire shares in different new ventures, particularly in fields in which no BEE companies are operating. This often presents

challenges to empowerment consortiums to raise the necessary capital to purchase up front such shares. Various innovative mechanisms, including “buy back” options and the financing of such shares, until such times as dividends and earnings from operating the concession can redeem loans made for such shares are frequently required to enable BEE companies to take advantage of the opportunities, which are presented.

It is important to adequately define in any BEE company definition what constitutes ownership for a given situation. It is also important to examine interlocking ownership between BEE companies to establish factors such as control and independence. The level of ownership, which constitutes a BEE company also needs to be carefully established as well as how it can in practice, be monitored. The level should be such that it is meaningful and is not readily open to manipulation. For example women ownership set at 51% is difficult to monitor, where a business is co-owned by a married couple.

3.6.4.2. Control

Control lies at the heart of BEE. Black control of a company is fundamental to BEE. Ownership can often be linked to control, but this is not however in all instances desirable. In public listed companies this may not be possible and in consortia arising from concessions, too onerous. Control over a company from a BEE perspective results in policies being effective in their application, both in terms of business and employee empowerment.

In addition control should centre on the authority and power to manage assets, the good will and daily operations of a business, the determination of policies and the directing of business operations. Indicators of controls include ownership, management responsibilities and the assuming of risks. In smaller companies, factors that make financial decisions (e.g. those pertaining to major purchases and acquisitions and the acquisition of lines of credit) and management decisions (e.g. those pertaining to hiring and firing of management personnel and supervision of office control) demonstrate control. In larger companies, the majority of voting rights on boards in the hands of blacks can demonstrate control.

3.6.4.3. Independence

Another critical issue in BEE companies is the question of whether or not companies are independent i.e. are they free of direct and indirect control from another company, particularly by a non-BEE company. Over-dependency of another company is usually indicative of fronting. (Some measure of control by financial institutions may however be acceptable). The practice of some companies which set up their employees in front companies, which they effectively manipulate and control in order to access contracts undermines BEE.

Interdependence should not be confused with independence. In franchises for example the franchiser can bring in the brand, the management systems and promotional resources, while the franchisee will put the capital and the actual operating resources. In this arrangement the relationship revolves around interdependence. If, however the “franchisee” is merely a conduit and adds limited value, the relationship is based on dependency. The acid test for independence in such instances is the value the franchisee’s business, should it be sold.

3.6.4.4. Size of the firm

The Small Businesses Act classifies SMMEs in terms of the number of employees, annual turnover, and total gross asset value, excluding fixed property. Whilst this sectoral classification represents a significant milestone in the definition of SMME in South Africa, it has limitations because of its broadness, which includes non-profit organisations. Furthermore, no sub-sector refinements, which are considered to be critical to industries such as the construction industry, have been attempted. For example, in the definition of SMMEs in the construction sector, general contractors, domestic sub-contractors, labour-only sub-contractors and professional consultants are all classified similarly. This distorts industry sub-sectors as the turnovers, number of full time employees and total asset values vary widely between sub-sectors and cannot be lumped together for procurement purposes. It is hoped that in the development of sector-specific strategies for SMMEs, appropriate sub-categorisation will be forthcoming.

• Ensure that clear and unambiguous deliverables are in fact being achieved;

• Strictly monitor outcomes and compliance with stated requirements;

3.6.5. Critical success factors

Watermeyer, Letchmiah and Mnikati, (2000:20) argue that BEE through procurement will, not just happen, it must be made to happen. It is necessary to consider firstly those factors over which those bodies/corporations wishing to embark upon Affirmative procurement policy have no control: the external factors. These include motivating target groups to take advantage of the opportunities presented; to have human resources who are conversant with and competent in implementing policies; and to promote a culture of entitlement.

In addition, it is also necessary to consider those factors, which are within the control of the bodies/corporations: the internal factors. These are mainly:

- Commitment by boards and highest levels of management to BEE;
- Comprehensive and unambiguous supporting documentation and work procedures to enable specific objectives to be achieved;
- Effective monitoring and reporting systems;
- A means by which the bona fides of any BEE companies can readily be established;
- Resistance to change

If the procurement system is to be effective and efficiently executed it is necessary to:

- Systematically measure the achievements towards socio-economic objectives;
- Evaluate the cost effectiveness of the measures which are adopted on an ongoing basis;
- Ensure that clear and unambiguous deliverables are in fact being achieved;
- Strictly monitor outcomes and compliance with stated requirements;

- Enforce requirements;
- Minimise any cost premiums incurred in creating a demand for BEE company participation so as to maximise available funding for supply side interventions; and
- Provide for remedies for non-compliance, which are sufficiently punitive to encourage compliance.

Procurement creates the demand for services and products of BEE. Procurement accordingly provides access to markets for such companies. Supply side interventions are however required to ensure that the demand is balanced by the supply i.e. impediments rising from past discrimination are overcome.

Apart from the technical aspects of procurement, the commercial sense in the use of procurement as a vehicle of BEE must be understood and communicated. Each organisation wishing to embrace an affirmative procurement policy should have a clear understanding as to why they should do so i.e. apart from meeting national imperatives to do so. Organisations should see added value in the short and long term in doing so e.g. increasing supplier bases, increasing competition, decreasing input costs and the eventual increase in revenue and consumer bases. It makes business sense to embrace BEE as an economic imperative rather than a welfare intervention.

3.6.6. Procurement strategy for BEE

3.6.6.1. Affirmative procurement policy

Watermeyer, Letchmiah and Mnikati, (2000:12) define an affirmative procurement policy (APP) as a procurement policy which uses procurement as an instrument of social policy in South Africa to affirm the changed environment, government's socio-economic objectives and the principles of the RDP program

The process of effecting a fundamental change in the business ownership patterns of enterprises participating in the South African economy may result in two situations:

The empowerment processes presently operating in the South African economy, whereby changes are occurring in the structure of equity ownership of large firms (corporate transformation, “green fields”, new enterprise and ownership level).

This option is shaped more by high-level financial mechanisms that are structured by operating factors in the economy. The results of changes in ownership tend to manifest at company board level and are rarely felt in the company operating structures at the lowest levels. The numerical majority of companies that participate in business transactions resulting from procurement processes are privately owned as opposed to being publicly listed. Significant changes in the structure of participation in the economy would thus be slow and limited if passive reliance is placed on changes that are driven primarily by exogenous financial factors. The potential to manage change would be severely limited under this option. This option in so far as procurement is concerned, should nevertheless be pursued in the granting of licenses and concessions and in the sale of state owned assets.

The second option is the establishment and nurturing of significant numbers of SMMEs under the effective ownership by previously disadvantaged individuals for example, Affirmable Business Enterprises (ABEs) (small and medium enterprise level). This case provides for the management and adjustment of some of the factors, which have a direct bearing on the participation and performance of companies in a wide spectrum of the economy. The potential contribution of the procurement system as an incubator of enterprises with these characteristics is recognised in the Affirmative Procurement Policy as set out in Government’s Green Paper on Public Sector Procurement reform in South Africa. This option should be pursued in general procurement activities.

An affirmative procurement Policy should be used to provide access to business opportunities and to create a demand for the goods and services of black owned businesses in South Africa, as well as the skewed distribution of skills and access to business opportunities. The primary focus of such a policy should be to redress the skewed business ownership patterns in South Africa. This should be achieved by pursuing both options as outlined above; The Affirmative Procurement Policy should be continually applied until such time as the skewed business patterns in all sectors of the economy are redressed.

3.6.6.2. The rationale for targeting small black business

Watermeyer, Letchmiah and Mnikati, (2000:13) argue that internationally, the small and medium enterprise (SME) sector is increasingly seen as the creator of new jobs in an economy. They are generators of employment opportunities at relatively low capital cost, and can be more competitive than larger firms on some spatially dispersed projects because of their relatively low overheads, and provide an entry point into the economy for persons with limited capital or technical skills. Their flexibility enables them to exploit niche markets both locally and internationally. SMEs provide, within the global trends towards outsourcing, a basis for subcontracting by larger enterprises, thereby realising higher order efficiencies in some sectors of the economy.

3.6.6.3. Supply side considerations

Watermeyer, Letchmiah and Mnikati, (2000:14) argue that procurement, when used as an instrument of BEE creates a demand for the services of black businesses however they may be defined. Procurement as such creates access to markets. Supply side interventions may, however, be required to ensure that the demand is balanced by the supply.

Accordingly, interventions may be necessary to ensure meaningful and effective participation in the market. Supply side interventions should, inter alia, address: Skills information, access to information, legislative and regulatory impediments and access to finance.

3.7. CONCLUSION

The aim of this chapter was to look at the Government's intention to use public sector procurement to address certain socio-economic objectives. After the 1994 elections the new government came up with a socio-economic policy framework, the RDP.

The RDP came as a need to eradicate poverty among black people. The following key programmes have been identified: meeting basic needs; developing human

resources; building the economy; democratising the state and the society; and implementing the RDP.

These programmes form the basis of government socio-economic objectives. Watermeyer describes the main ones as being: to create jobs, to alleviate poverty, to address economic imbalances, and structural problems in the industry; to integrate the South African economy into the world economy, to even development within the regions; to develop the human resources capacity of the people; to democratise the economy and to empower historically disadvantaged individuals/businesses.

The South African government is currently using procurement as a tool for socio-economic development. Watermeyer describes procurement as the process, which creates, manages and terminates contracts. It may also involve activities such as the supply of goods, services or works, the disposal of moveable property, the hiring and letting of anything and the acquisition or granting of any rights.

Given its nature, 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. Watermeyer, Hauptfleisch, Jacquet and Letchmiah 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 in a fair, equitable competitive, transparent and cost-effective manner.

Watermeyer classified targeted procurement as an innovative form of procurement developed in South Africa to provide employment opportunities for historically disadvantaged individuals. It enables social objectives to be linked to procurement in a fair, transparent, equitable, competitive, cost-effective manner. It also permits these social objectives to be quantified, measured verified and audited.

Lowe's definition of targeted procurement does not differ much. He says that targeted procurement is a system of procurement, which enables categories of people to be identified, targeted and to be offered preference in the awarding of tenders.

This system of procurement was developed to enable the 10-point plan to be implemented and satisfies the framework provided in the Public Preferential Procurement Act. In order to accommodate the interim strategies provided by the ten-point plan, there was a need to formulate and to develop TP procedures and resource specifications.

The adjudication of bids in the targeted procurement system is performed using the development objectives/price mechanism. Here the adjudication awards points to all responsive bids in terms of their price offer as well as their development objective offer. In this way value for money is not based on price alone. In addition to these criteria, a risk analysis is performed on bidders with the highest number of adjudication points, when evaluated in terms of social and economic factors.

Effective monitoring and ongoing evaluation are important for any degree of success achieved in providing deliverables. The resource goals associated with each specification can be readily measured audited and verified during the performance of a contract. They can be used as indicators of economic empowerment through the provision of employment and business opportunities.

The implementation of targeted procurement depends on the inputs from: implementing agents, responsible agents and contracting agents.

The outputs of conventional procurement and targeted procurement do not differ but targeted procurement adds to the process by targeting those who ought to benefit, by providing business opportunities for the targeted enterprises and employment for targeted labour.

Watermeyer, Letchmiah and Mnikati describe BEE as the process of increasing the involvement of black people at the highest level of industry as owners and professional managers.

Watermeyer, Letchmiah and Mnikati, argued that there is a need to bring black people into business with entrepreneurial and management skills and flair i.e. those

with the attributes that are required to run a business. However, there is a need to add value to the transformation process, favouring someone just because of the race. They have also said that the private business sector can be the incubator and a potential contributor for the empowerment of black businesses.

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 this chapter procurement strategic policies such as targeted procurement and black economic empowerment were discussed. The next chapter looks at comparative programmes used in other countries (USA and UK) where their governments saw the need to introduce certain laws in legislation, in favour of minority business enterprises.

In several countries, governments have made some efforts towards helping (through legislation) historically disadvantaged ethnic business groups and small business. However, given the extensivity of the topic and the inability to cover all of it in this thesis, the researcher chose to analyse the state of minority development in the United States of America (USA) and in the United Kingdom (UK) in a more brief form.

Even though the issues discussed here are specifically important to the development of minority business enterprises in those countries, they can also be relevant to South Africa, taking into account the historical, political, social and cultural differences which exist from country to country.

To start off the chapter defines Minority owned businesses and then discusses pieces of legislation pertaining to minority businesses enterprises. It looks at the trends taking place in procurement and logistics, which affect minority suppliers.

It looks at minority business opportunities, discussing ways of creating and maximising opportunities for MBEs.

CHAPTER 4

THE DEVELOPMENT OF COMPARATIVE PROGRAMMES IN OTHER COUNTRIES

4.1 INTRODUCTION

In the previous chapter, the use of preferential procurement by the government in South Africa was regarded as an effective strategy to combat the obstacles encountered by previously disadvantaged individuals/businesses.

Some regard the use of public procurement to achieve socio-economic objectives with reserve. Nevertheless, South Africa is not the only country in the world where there is a need to introduce certain pieces of legislation in favour of historically disadvantaged businesses.

In several countries, governments have made some efforts towards helping (through legislation) historically disadvantaged ethnic business groups and small business. However, given the extensivity of the topic and the inability to cover all of it in this thesis, the researcher chose to analyse the state of minority development in the United States of America (USA) and in the United Kingdom (UK) in a more brief form.

Even though the issues discussed here are specifically important to the development of minority business enterprises in those countries, they can also be relevant to South Africa, taking into account the historical, political, social and cultural differences which exist from country to country.

To start off the chapter defines Minority owned businesses and then discusses pieces of legislation pertaining to minority businesses enterprises. It looks at the trends taking place in procurement and logistics, which affect minority suppliers.

It looks at minority business opportunities, discussing ways of creating and maximising opportunities for MBEs.

The chapter also looks at the state of minority suppliers in the United Kingdom. It discusses legislation, problems encountered in supplier diversity; ways to address barriers to supplier diversity; and ways to support enterprise minority business. The next topic addresses suggested best practices, which organisations can consider using when they decide to purchase from MBE.

To conclude the chapter looks at the state of supplier diversity development in the 1990's and the future of supplier diversity programmes.

4.2. MINORITY BUSINESS DEVELOPMENT IN THE USA

Auskalinis, Ketchum & Carter, (1995:64), the National Minority Supplier Development and the Federal government, (White Paper Report, 1995:88) define minority owned businesses (referred in this study as minority business enterprises), as those businesses in which at least 51% of the ownership interest, stock or other is held by one or more minority members and whose management and daily business operations are controlled by one or more of such individuals.

For the purpose of this definition, traditional minority group members are: Black Americans, Hispanic Americans, American Orientals, American Indians, American Eskimos, American Aleuts, and native Hawaiians. Women and the physically or mentally disabled are separate protected classes.

According to Heinritz, Farrel, Giunipero & Kolchin, (1991:175) the use of purchasing power as a tool in the achievement of certain social objectives came into prominence in the late 1960s and early 1970s. The social unrest of those decades, the growth of consumerism, the awareness of industry leaders that social health was linked to economic health, and the growing intervention of the government in the private sector all contributed to complicating purchasing decisions that had been based primarily on economic considerations. Wallace, (1999:77-79) argues that without affirmative purchasing, minority business enterprises would not be able to survive when competing with majority firms.

Throughout American entrepreneurial history, government has always been a prominent player in economic development and success. Through various federal, state and local legislative initiatives (procurement programs), grants of monopoly, land grants, permits, licenses, loans and favourable Supreme Court opinions, government aided the growth of multinational and national scale industries, prior to, during and after segregation. Many minority owned businesses were able to penetrate markets outside their communities; however, larger, better-financed, more diverse, and racially restrictive non-minority-owned companies, which enjoyed favourable tax, regulatory and competitive positions not accessible to minority-owned business, met them.

The Federal Government attempted to level the playing field by enacting a series of economic development and restructuring programs targeted at racial minorities mostly through housing and small-business loan programs. This developmental approach dominated federal urban initiatives soon after President Johnson's declaration on the War on Poverty in 1965, when forces of entrepreneurship were recruited into the revitalisation process.

Economic development has emerged in such forms as public programs to develop minority-owned businesses through managerial training and subsidised financing, business incubators, procurement "set-asides" for firms owned by minorities or located in areas of high unemployment, corporate placement of branch plants in inner cities, public private partnerships between commercial firms and local governments, enterprise zones, commercial real estate development and business ownership by community development corporations, self-employment for recipients of public income support and so on.

In spite of all the political and social debates surrounding the validity of these economic development programs, they provided in the decade 1960-1970, tremendous upward mobility to a significant number of aggressive and talented racial minorities. The programs were designed to appeal to its urban constituency by encouraging residents to participate in defining and supervising neighbourhood improvement and by funding multifaceted rejuvenation. Each program had to have CEOs, managers and professional

staff to implement them. Thus, a new source of managerial talent was tapped. For many minority entrepreneurs, the “poverty” programs were the point of entry for a number of managers and entrepreneurs who otherwise would never have had the opportunity to gain the administrative experience of managing firms and agencies.

However, overtime, while larger white business have historically accumulated sufficient land, work force, capital and political influence, smaller white businesses have basically thrived on ethnic markets and selective networks that overlap but transcend many minority communities. As a result, while government has anchored the position of majority-owned multinational and large-scale businesses, minority-owned business especially African American businesses have steadily lost traditional and selective markets to their larger white-owned counterparts.

Therefore, continued minority procurement activity is necessary for overall community economic development, (economic development to mean the process whereby individuals and organisations engage in the production, distribution, and consumption of goods and services).

The context of community economic development and the realisation of participatory democratic principles are important to understanding minority procurement activity as a possible economic development strategy instead of a preferential treatment for MBEs. In order for the community to be rejuvenated, there must be an integral plan that will allow for community participation in decision-making capacities for long-term economic development. Understanding and incorporating the views and needs of minority entrepreneurs input into the formal decision-making process underscores long-term stability for the community and economic development

Supporting MBEs makes good economic sense. Profitable MBEs operations build additional capital and reinvestment, resulting in further creation of income and jobs. Successful small businesses create jobs. Thus, successful minority owned business permit further business expansion and job creation for minorities. Minority entrepreneurs, have a direct stake in their community's long-term stability. Acceptance

of these facts would permit government to remove fundamental and institutional barriers to fair competition of MBEs.

4.3. MINORITY SUPPLIER LEGISLATION

According to White Paper Report, (1995: 91) and Auskalinis et al (1995:10, 177) Public Law 95-507 in 1978, stated that any contractor doing business with Federal Government should engage too with appropriately qualified small and disadvantaged business, owned and controlled by socially and economically disadvantaged individuals. Socially disadvantaged persons are those persons whose ability to compete in the free enterprise system has been impaired. Economically disadvantaged persons are those persons who have been subjected to racial, ethnic, or cultural bias because of their identity as members of a group.

This law requires that prime contractors who wish to obtain government contracts in excess of \$500,000 (\$1 million for construction) establish minority-sourcing programs. The law mandates that percentage goals for minority involvement be established prior to contract award. It also requires that prospective bidders submit to the relevant Federal agency a subcontracting plan incorporating percentage goals and methods to accomplish those goals. Public law passed in 1987, requires that the Department of Defence strive to reach a goal of 5% of purchases from socially and economically disadvantaged business.

The following is a chronology, which gives a picture of how legislation has developed over the years in shaping governmental minority business programs:

1968: Small Business Administration's 8(a) program established to channel federal purchases to socially or economically disadvantaged owners of small businesses

1969: Executive Order 11485 established the U.S. Office of Minority Business Enterprise within the Commerce Department to mobilise federal resources to aid minorities in business

1971: Title 41, Federal Regulations required all federal contracts exceeding \$500,000 to contain a clause encouraging contractors to use minority businesses as subcontractors on a best-effort basis

1971: Executive Order (EO) 11625 expanded on EO 11405, giving the authority to implement federal policy in support of MBE programs; provide technical and management assistance to disadvantaged businesses, and coordinate activities between all federal departments to aid in increasing minority business development

1977: The Public Works Employment Act was amended, requiring that 10% of each federal Construction Grant be awarded to minority businesses

1977: Public Law 95-89 increased loan authorisations and surety bond guarantee authority to minority businesses

1977: The Railroad Revitalisation and Regulatory Reform Act requires that recipients of financial grants and their subcontractors establish a goal of 15% of purchases to be awarded to minority businesses

1978: Public Law 95-507 mandates that bidders for federal contracts in excess of \$500,000 for goods and services and \$1 million for construction, submit prior to contract award, a plan that includes percentage goals for the use of minority businesses.

1982: Section 105(f) of the Surface transportation Assistance Act is a set-aside provision mandating that not less than 10 % of all funds appropriated in years 1982-86 be spent with small business that are controlled by socially and economically disadvantaged individuals

1983: Executive Order 12432 directs all agencies of the federal government to develop specific goal-oriented plans for expanding procurement opportunities to minority businesses

1985: H.R. 1961 establishes criminal penalties for “front” companies aimed at siphoning off business from legitimate minority and disadvantaged business

1986: Public law 99-661 requires affirmative efforts by all government contractors toward a 3-year goal of 5 % minority and disadvantaged business participation in defence Department purchases.

1989: California General Order 156 calls for setting goals for use of minority suppliers by utilities regulated by the state public utilities regulated by the state public utilities commission and threatens withholding action or utility rate cases where utilities fail to how compliance with the order. Order is seen as a forerunner of other state-mandated minority supplier programs

According to Auskalinis et al, (1995:10) early pioneer organisations were motivated largely from a sense of corporate social responsibility. The Public Law increased corporate awareness of the need to establish MBE buying program. In more recent years, however there is a growing recognition, accelerated by changing demographics that such programs result in a larger customer base for the corporation’s goods or services. In addition, there is clear evidence that as minorities become economically successful, the entire nation benefits from that success.

4.4. TRENDS TAKING PLACE IN PROCUREMENT AND LOGISTICS

Trends taking place in procurement and logistics can affect MBEs by increasing or reducing their chances to successfully compete with well-established firms. MBEs may or not have the means to face present trends.

According to Moore, (1993:143) the structure of Corporate America has undergone major changes during the past ten years. Total quality management has replaced buyer beware, Just-in-Time (JIT) has replaced economic order quantity and downsizing is an annual corporate exercise in good management. To worsen the situation, these changes are framed within a global recession. The universal response has been cutbacks and

outsourcing coupled with benchmarking and customer driven strategies.

In recent years, companies are developing smaller supply bases for a number of reasons. A White Paper Report, (1995:99-103) and Morgan & Cruz (1997:68s3) say that new trends in supplier development are affecting minority firms in the USA. These are discussed below:

4.4.1. Increased use of the Just-in-Time system

According to Pearson, Fawcett & Cooper, (1993:72) in response to competitive pressure from global manufacturers, many U.S. firms have adopted just-in-time (JIT) production techniques including JIT purchasing. The cornerstone of JIT purchasing is the development of long-term partnership relationships between buyer and supplier. Within these relationships, the buyer's purchasing organisation takes an active role in helping the supplier overcome performance obstacles to achieve "world class" standards. Likewise, the supplier plays a proactive role in meeting the buyer's needs.

According to Morgan and Cruz, (1997:68s5) (in a study based on in-depth interviews at 128 minority firms operating in the Chicago area) 54% of the companies said that increased use of JIT delivery, is resulting in greater minority supplier responsibility for delivery and reinforces the trend toward use of preferred suppliers and reduced numbers of them, with the remaining suppliers being certified with respect to quality and delivery performance.

4.4.2. Reduction of the supplier base

The most common problem in MBE development is the trend toward supply base reduction. This is a practice developed by the Japanese, postulated that there is great value in working with a small number of suppliers and treating them more like partners. To many Americans this proposition does not make good business sense. In fact, many purchasing executives whose companies have practiced downsizing cite quantum improvements in quality control and responsiveness of suppliers. (White Paper Report, 1995:99)

In recent years, companies are developing smaller supply bases for a number of reasons. One is that purchasing departments themselves are smaller and need to reduce the supply base for control purposes. Another is a reflection of the business trend for larger companies to concentrate more business with a small core of allied suppliers to achieve better market leverage. For example, with this increasingly diverse and shrinking supply base, Ford chooses MBEs that it can work with for the long term. Once that decision is made, the company makes sure that the supplier does not fail, by investing in it, rather than to split business into more numerous short-term contracts. (Murphy, 1998:64s7)

Companies are also entering into alliances with suppliers in order to defray costs of doing business outside a core competency. Alliances cost less and companies with complementary products can reach a wider range of markets. These closer working relationships require fewer suppliers since the businesses are growing closer together and sharing information, development and other resources. (Murphy, 1998:64s7).

In a study of the supplier development process in ten British firms Galt and Dale, (1991:16), find out and analysed trends, which influence the purchasing function.

They say that, traditionally, the established purchasing practice has for years been able to buy the required materials from at least several sources. The result of this practice typically has been to create a large supplier base, with frequent switches between suppliers to keep them competitive- and the purchasing decision, more often than not has been based on price. In this approach, to dealing with suppliers, communications tended to be guarded for fear of revealing information that one side might turn to its advantage when dealing with the other.

This reactive, adversarial relationship is thought by many to be no longer economically viable: The quality of the purchased materials is critical to the firm's finished product and in most cases materials account for at least 50% of a firm's manufacturing costs. For these reasons, the purchasing function is taking a more proactive role in the development of supplier relationships. (Galt and Dale, 1991:16)

All but two of the firms studied, planned a continued reduction in their supplier base. The reduction ranged from 20 % to 50% over a period of three to five years. This trend for a reduction in the number of suppliers used, in all probability will result in the survival of only those firms prepared to adapt to the buying firm's needs. Additionally, large organisations will likely, absorb or drive out of business the smaller concerns as they seek to obtain an increasing share of the business awarded by major purchasers. (Galt and Dale, 1991:17)

The main reason for the reduction in the number of suppliers is the desire of the buying organisations to increase product and service quality. By decreasing the number of suppliers, buyers are able to devote more time to a smaller number of suppliers and also to reduce the number of variables at the input end of the process. This happens especially in industries where demand requirements can be forecasted with reasonable accuracy. For example the automotive industry has decided to pursue a single sourcing policy. They believe that single sourcing in conjunction with the application of statistical process control and failure mode and effects analysis will enable them to achieve high percentage of correct "first time builds". (Galt and Dale, 1991:17)

The outcome of these trends is that small MBEs are cut from the supply base as large companies start to restrict the numbers of suppliers capable of bidding for the business. The reason may be that the MBE is too small to handle the volume of business for the customer, that is, to provide all of the goods required and financially too weak to offer the reliability required of a prime contractor, especially if other suppliers are eliminated. For example, a small company that could supply fasteners to one or two plants often, is not able to bid for a national contract for fasteners or to go a step further in supplying a product made up of a number of assembled components. (White Paper Report, 1995:99)

In some instances, small MBEs are eliminated from some small supply base because they do not have access to capital necessary to expand. Smaller supply bases often require that each supplier grow with the customer. (Murphy, 1998:64s7)

The three most used strategies for micro businesses faced by supply base downsizing are (1) consolidations with one or more other companies, (2) creation of a joint venture, (3) development of a product or service that is so unique that even though the producer is small, its output is highly valued in the marketplace. (White Paper, 1997:68s8)

4.4.3. Increasing reliance on preferred suppliers

According to Morgan and Cruz, (1997:68s5) corporations are increasingly relying on preferred suppliers. As a result, 84% of the suppliers interviewed, report lack of access to contract opportunities and that tender documents are often written in a way that hurts them. In addition, 74% of minority suppliers believe that corporate “old boy” networks continue to operate in purchasing. In their research, Galt and Dale, (1991: 22) say that the majority of the companies studied believe in rewarding good suppliers with preferred status. Preferred suppliers typically are utilised, even when they are at a slight cost disadvantage, because they have proved their quality assurance systems to the buyer.

4.4.4. Higher quality standards

Higher quality standards place minority-owned suppliers at a financial disadvantage and hurt sales. (White Paper, 1997:68s5)

4.4.5. Supplier certification

According to Galt and Dale, (1991:17) five of the firms studied in their research relied totally on their own evaluation of suppliers. Three more firms considered third party accreditation to be only a good starting point for their own subsequent evaluations. Only two firms accepted outside third party recognition, as being adequate for their supplier evaluation purposes. In general the view held was that the ISO 9000 standard was a good starting point from which to build. But most of the firms considered their own quality standards to be above those required for ISO 9000 certification. In their view the standard should constantly be reviewed in light of changing work practice. The standard

should be more specific in some of its requirements, and it should encourage companies to improve quality requirements.

4.4.6. Long-term contracts

The emerging new trends reflect the need to develop long-term supplier relationships. Substantial changes in terms of behaviour and attitude are required from both the buyer and the supplier, with both making a commitment to learn more about each other's business. The relationship must be based on common aims, trust, cooperation, and dependency and a joint problem-solving approach. (Galt and Dale, 1991:17)

Annual contracts lead to mutual suspicion and lack of cooperation. If a supplier has no tangible evidence of a long-term commitment from the buyer then the firm may be extremely unwilling to make changes in its operation to accommodate the desires of the buyer. (Galt and Dale, 1991:18)

To develop a supplier base, a buyer must make it attractive for a supplier to do business with his or her firm. An organisation needs to show its commitment to suppliers to have any hope of generating reciprocal action. Evidence of this commitment and sincerity, can be achieved by the award of long-term contracts to suppliers. (Galt and Dale, 1991:18)

4.4.7. The Use of Electronic Data Interchange

Some firms believe that EDI is one of the key elements required in the development of an effective JIT system; Managers believe that by creating an open system, they can develop the trust required to support a successful JIT operation. For example, by using EDI, firms intend to give suppliers access to their production forecast and their daily production schedules. (Galt and Dale, 1991: 20). However, corporations' requirements of EDI capability put a financial strain on small supplier's ability to compete, due to the financial costs involved in the process. (White Paper, 1997:68s5)

4.4.8. Supplier selection

All the firms studied in Galt & Dale research are using or plan to use various types of supplier assessment and rating schemes to evaluate supplier performance. While the format and content of the individual approaches vary, the goal of all of them is to select the best supplier for the job. (Galt and Dale, 1991:22)

4.4.9. Award systems

In Galt & Dale research firms running award schemes for their suppliers generally are the ones who have progressed the farthest on the supplier development continuum. The awards for meritorious performance are deliberately designed to be difficult to achieve, so they remain prestigious and can be used to the advantage of the supplier in marketing its operations and products. (Galt and Dale, 1991:22)

4.5. MINORITY BUSINESS OPPORTUNITIES

According to Lovering, (1992:223) says that the most fundamental and challenging concept in the 1990's is that purchasing professionals need to support and stimulate the growth of small business owned by minorities and other disadvantaged groups. For this to happen, the author argues that it is required by both purchasing and minority business to establish a framework to organise their planning and day-to-day tasks to allow the traditional buyer-seller interaction to occur.

Lovering, (1992:223) says that despite competitors and obstacles, minority firms must develop a positive attitude towards customer satisfaction, referred as "customer focus". They must recognise that their role in the process, is to sell a quality product or service, which is aggressively marketed, in which process the buyer is treated as the important customer.

4.5.1. The Minority business liaison officer model *buyers and suppliers*

At the same time, purchasing departments need to organise in order to clearly reach out to minority firms with a number of initiatives that will move the process along. To accomplish this, many purchasing organisations have created an internal role in the department called the “minority business liaison officer”, (MBLO). 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 minority firms. (Lovering, 1992:223)

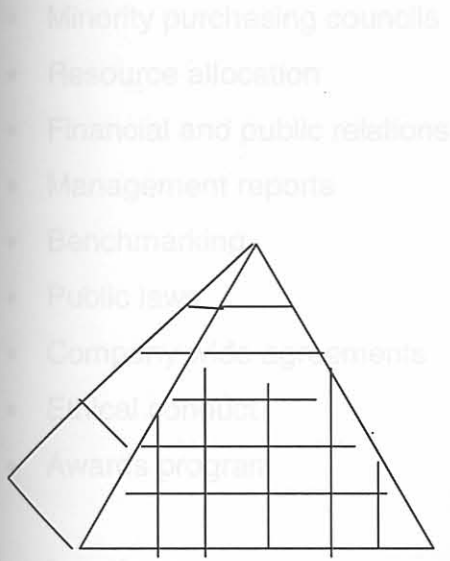
MBLOs and purchasing professionals need to adopt a customer focus as well. This focus is different from the focus described for minority firms. MBLOs should view their role as one which serves four (4) customers: Management; Other functions in the firm; Purchasing Department Peers; and Minority Business suppliers. To achieve success in developing minority business each of these very different constituents need to be served professionally. (Lovering, 1992:224)

A model, which provides a vehicle that focuses on the various customers of the MBLO, is called minority business opportunities for purchasers and suppliers (MOPS). This model has the potential to organise the company’s thinking along customer lines. (Lovering, 1992:224)

The four customers of purchasing can be seen in the four-sided pyramid, in figure 4.1. Each face of the pyramid (customer) is made up of individual building blocks, which provide strength, and stability to the structure. These blocks are the tasks, programs, projects and initiatives put in place to provide service to each customer. By organising programs along customer lines, the MBLO can ensure that all service and necessary purchasing support is in place and working. (Lovering, 1992:224)

- Statutes and regulations
- CEO support, involvement and commitment
- Cost Improvement
- Data collection System

Figure 4.1: Minority business opportunities for purchasers and suppliers



Source: Adapted from Lovering, (1992:225)

Management

Service by the MBLO to the management customer in the firm tends to be dominated by corporate, legal policy and community considerations. These are:

(Lovering, 1992:225)

- Company goal
- Company Plan
- Socio-economic policy
- Statutes and regulations
- CEO support, involvement and commitment
- Cost Improvement
- Data collection System

- Documentation of plans and goals
- Minority purchasing councils
- Resource allocation
- Financial and public relations
- Management reports
- Benchmarking
- Public laws
- Company wide agreements
- Ethical conduct
- Awards program

Other functions

Service by the MBLO to the “other functions” customer, in the firm tends to be dominated by marketplace data, education and training, joint participation in trade fairs, technology development and recognition of the importance of teamwork. Quality, Manufacturing and engineering, impact of the introduction of new minority firms into the business of the organisation needs careful review. The MBLO must assist in this process, recognising that it is often a “political process” in the true sense of the term. Frequently, barriers to increased minority business must be overcome by the use of teamwork and the seeking out of coalition support within the organisation to make things happen. (Lovering, 1992:226)

Purchasing peers

Service by the MBLO to the “purchasing peers” customer is critical. People and human interface skills are very important. This is an area where purchasing professionals do not always excel. The MBLO must work closely with each purchasing professional in the department to set individual goals and objectives. Early involvement in new projects is essential. The buyer needs to be given ample time, freedom and resources to interface with minority firms either through attendance at trade shows or by scheduled supplier visits. Another resource that can be of assistance is the availability of the SBA “PASS

system”, an automated computer-based system that tracks minority firms’ names, locations and capabilities. Buyers need recognition and feedback from management for their minority business efforts including reference to this task as part of official job descriptions. The MBLO must find ways to sell the program to purchasing management as well as the total buying force in the department. Incentives such as an Award Program can be of assistance in this regard. (Lovering, (1992:226)

4.5.2.1. Networking

Supplier’s customer

Service by the MBLO to the minority supplier customer takes place when the MBLO becomes the advocate for the minority firm internally. The MBLO needs also to provide feedback, information, advice, constructive comment, and so on, to the minority 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 minority firms is also most helpful. Both the MBLO and the buyers need to be “accessible” to minorities 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 minority firm is treated as a customer. (Lovering, (1992:227)

The complete list of service ingredients or building blocks creates a challenging agenda. The four customers need to be served and the building blocks need to be put in place. Each goal, each building block, requires a separate objective set in writing that is measured, monitored and periodically reported through Management By Objectives (MBO). The MOPS model provides to the MBLO and the purchasing professional, a vehicle to identify the important service areas of the firm and to institute a set of objectives designed to ensure that the minority business process is working effectively and in an integrated manner. (Lovering, (1992:227)

4.5.2. Creating opportunities for MBEs

4.5.2.4. Conference techniques

More than maximising opportunities, interfacing must be viewed as a primary means to create opportunities for MBEs. Some of the areas where interfacing could prove to be vital when dealing with majority corporations and other MBE companies are: (Lindsey, Nichols, Rawls & Kraus, 1990: 385, 386,)

4.5.2.1. Networking

Networking is the interaction with others with the purpose of sharing information in such a way that makes the activity mutually beneficial to the parties involved.

4.5.2.2. Active participation in the respective industry

One of the more beneficial areas for an MBE to network is within their industry, because it gives the chance for the company to meet and talk with the competitors. It also provides the MBE with that much needed industry knowledge. Active participation in the activities of the industry provides opportunities for exposure. That means more opportunities for business, are likely to develop since majority corporations know what industry they need to follow to identify the types of MBE suppliers they are in need of.

4.5.2.3. Seeking leads /referrals

When networking with industry peers, marketing to potential customers, or when researching new potential customers, it is important not to overlook the opportunity to discover leads or referrals. This could prove to be a very fertile source of identifying those majority corporations unaware of their existence. Even if a potential customer cannot provide the MBE with a business opportunity, they may be able to provide a referral to a counterpart in another corporation or a lead they may be aware of in the industry.

4.5.2.4. Conference techniques

Due to the high costs spent to attend a conference MBEs should take full advantage of this investment.

Before arriving at a conference MBEs should have researched the companies that would be attending in advance to decide whom it is that they would like to meet. That includes companies that are exhibiting and those who may have just registered to attend. Sometimes MBEs get more information and maybe business from a company that it is not exhibiting. Usually those companies that are not exhibiting are looking for companies that they want to do business with.

4.5.2.5. Competitiveness

Competitiveness consists in trying to improve oneself and be better than the competitor. However it is important to know the rules. The same is true when trying to satisfy the needs of a potential customer. The MBE must be able to find out their requirements and demonstrate that the company can meet them.

Once the MBE has convinced a majority corporation that its company can be competitive they will often times offer the MBE the opportunity to quote on some of their business.

Once it is being offered the opportunity to quote on someone's requirements the MBE would make a mistake by thinking that it knows better than the firm about their needs. To avoid this it is advisable to always try to respond to exactly what the request for quotation requires. If the MBE know of a better solution, it can propose it as an alternative solution. The MBE should never try to substitute their alternative solution for their original requirement. Not only this gives the impression that the MBE is not concerned about what the customer wants, but also that the MBE does not do what the customer asks from the MBE.

4.5.2.6. Pricing structure

Pricing is one area where most suppliers have difficulty being flexible and that is most probably one of the most important areas of flexibility for majority corporations. For the MBE it is extremely important to be able to flex the pricing, so it can fit the internal constraints of the majority corporations. However, that is not to say that the MBE should ask for any less for its products/services, but it should always be willing to tell the customer its pricing real latitude.

4.5.3. Maximising opportunities for MBEs

Lindsey, et al (1990: 383, 384, 385) suggest that some of the areas where MBEs can maximise opportunities to do business with majority corporations and other minority corporations are:

4.5.3.1. Certification

Certification is one of the most beneficial things MBEs can do for themselves, so that they meet the criteria, which defines an MBE supplier.

Certification is a necessary process to help the corporations feel more comfortable that they are dealing with authentic MBE suppliers. It provides enough assurance for majority corporations to feel confident that their programs are reaching the community of suppliers for which there are intended. This means that majority corporations are still able to view these programs as “good business” and not as mainly “social responsibility”.

4.5.3.2. Sourcing

Sourcing is a term often used to refer to the process by which suppliers are identified. Sourcing is important because that is often how a majority firm will discover that a MBE exists.

In order to make the MBE available to as many majority corporations as possible, it is very important to be listed in the many different references. It is also important not to overlook other avenues of making the company known.

4.5.3.3. Suitability and requirements

MBEs must determine whom and how many, they can actually provide their product/service to. MBEs must take into account that they may not be able to service the entire several majority firms as they may not all need what is being offered. If the MBE does not come to this realisation, it may not be successful in its business.

For instance, when a customer tells a MBE that does not have a business opportunity for the company, and they have had the benefit of reviewing the MBE's capabilities as well as the product/service, it is advisable not to waste time by trying to convince them they should reconsider. Instead, it is wise to ask them if they could recommend the MBE to someone else who will be able to utilise the product/services being produced and offered respectively.

Another aspect of making the right customer match is to narrow down the MBE's prospects. There is no point in making the world one's market if one is not equipped to service it. To be prepared there is a need to know the size, basic needs, industry, structure and even culture of prospective customers. That means that the MBE will need to do some research on corporations before trying to service them.

4.5.3.4. Industry knowledge

The knowledge that the MBE has about the industry it is in, and the knowledge it has about the industry of the customers it is trying to service, will give the leverage it needs to distinguish the company from the others who may basically offer the same thing.

Another concern is to make the MBE itself a resource for a potential customer. Buyers

for majority corporations need suppliers who can make their job easier. The more the MBE knows and can use this knowledge to better serve the company, the better resource the company will be to the majority firm. As a result the MBE can build a potential customer's confidence without having actually to supply its product/service.

The term quality is very important in the sense that in the present time the sensitivity to quality has grown dramatically and is now a major focal point for any corporation. The first glimpse of the company's quality will be the way the MBE interfaces with the potential customer's company. In order to maximise opportunities it is necessary to have both quality interface and product/service quality.

4.6. THE STATE OF MINORITY SUPPLIERS IN THE UK

According to Edwards, (1997:20) supplier diversity consists of 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. A large proportion of those sources are managed, owned or led by people from the ethnic minorities, (EM) and they should be accessed and considered equally. In other words, missing out on a whole section of the supply base is bad for business. Although, there are many other potential benefits like turning new suppliers into new customers and improving public image, better-quality supply is what really matters.

4.6.1. Legislation towards supplier diversity

According to Bullivant, (1997:22) legality towards supplier diversity in the U.K is not straightforward and it will depend on the precise circumstance surrounding each case. The primary influencing factor would be the Race Relations Act 1976 but where public bodies or public funding are involved, the Treaty of Rome and the relevant Economic Community (EC) procurement directives are almost certain to be a major factor.

Marsh, (1997:22) says that the Race Relations Act has been applied primarily in the field of employment law, although it also makes discrimination unlawful in the provision of

goods and services, and in the publishing of advertisements. The question of whether there could be discrimination in the award of a purchase contract by a firm in the private sector does not appear to have come before the courts as yet.

It seems clear that an advertisement of a tender, which was discriminatory, would contravene the act. The question, however of the validity of the issues of an inquiry limited, says, only to firms owned or managed by an ethnic minority group, while clearly discriminatory, is more difficult. Although it is thought the Court would probably find the issue of such an inquiry, and the subsequent award of a contract were not contrary to the act, it is possible that the court might hold that it was contrary to public policy.

Equally, it would appear probable that the adoption of a policy of giving preference, or awarding a certain proportion of business to firms owned or managed by ethnic minorities would not contravene the act. However, any arrangements by two or more firms to accept restrictions in this way could be subject to the Restrictive Trade Practices Act.

While the act does not refer specifically to procurement practices, it does outlaw the practice of showing favour, on racial grounds, to one group of potential suppliers to the disadvantage of others. Discrimination is described in the following way: "A person, (which includes a body of persons, corporate or not) discriminates against another if on racial grounds, he treats that other less favourably than he treats or would treat other persons". On the face of it, the act would apply to those firms disadvantaged by positive discrimination by a purchasing organisation in favour of ethnic minority firms. An act of discrimination can ring an award of damages.

Where the purchasing organisation is a public body, several further obligations may apply in addition to compliance with the act:

- To act impartially in awarding contracts;
- To comply with the EC rules for public procurement (i.e. e. in not discriminating against firms on the grounds of nationality);
- Where applicable, a fiduciary duty to obtain value for money.

Some public bodies have tried to circumvent the problem by specifying that contractors must employ a certain proportion of local residents. This is in fact been found to infringe the provisions of the Treaty of Rome.

There is a need, however to differentiate between 'positive discrimination' and "positive action". It will not be unlawful to take positive action to ensure that certain types of supplier, which may be under-represented, are made aware of trading opportunities and encouraged to pursue them.

This could be particularly pertinent to public bodies, some of which have a positive duty under the Race relation Act to ensure that various functions are carried out with due regard to the need to eliminate unlawful discrimination. Public bodies may well have an obligation to check whether any particular types of supplier are under-represented on their supplier and contractor panels and if so, to take steps to ascertain why this is the case, with a view to removing any unnecessary barriers

4.6.2. Problems encountered in developing supplier diversity

In looking at the campaign for diversity and the benefits it can bring, Edwards, (1997:21) says that, there are certain barriers to supplier diversity. Many ethnic-minority-owned companies are small to medium enterprises (SMEs), and often relatively new as well. They will therefore, face the same problems as other small suppliers in meeting the requirements of larger purchasing companies, an issue of increasing emphasis as supplier criteria become more exacting. In addition, their SME status is compounded to be the second barrier: their isolation from traditional business networks. For instance, in conferences, purchasing managers just do not come into contact with these suppliers.

Although tackling these problems will be important, the most significant barrier is purchasing manager's scepticism that supplier diversity is an issue in which it is worth investing time and effort. Even when diversity is acknowledged, there is often an assumption that it affects only the big supermarkets and their contracts with ethnic-food

suppliers. Location of businesses in some of Britain's most disadvantaged locations. As a

ethnic minority firms are subject to a hostile commercial environment with low-

According to Oc and Tiesdell, (1999:1723) ethnic minority groups continue to face significant barriers to economic participation and therefore there is a special need to support ethnic minorities. In addition, ethnic minority businesses face all the problems and barriers to growth and survival of small businesses generally and in particular, of small businesses in inner-city locations. The most important issues are the following: Access and availability of finance; adequate and affordable premises; lack of managerial resources; shortage of skilled staff; finding and developing new markets; the ability to increase market size; competition; and the prevailing economic climate.

and white counterparts, ethnic minority entrepreneurs have seized the opportunity and

The shortage of available finance is a major hindrance to business development and particularly for ethnic minority firms. British mainstream financial institutions are often more risk averse than those in other countries and their insistence on, property-based loan guarantees (i.e. home ownership) and their unfavourable treatment of ethnic minority groups provide major barriers. (Oc and Tiesdell, 1999:1730)

usually provide the lowest rewards (Oc and Tiesdell, 1999:1727)

African-Caribbean entrepreneurs face greater difficulties compared to their Asians counterparts. Asians enjoy comparative advantage of minority groups, through their ability to raise informal equity finance from the extended family, or networks of family and friends or from other Asian businesses. African-Caribbean entrepreneurs appear to not only lack the facility of informal networks, but also use bank finance to a lesser degree than other groups. This was attributed to poorly prepared business plans rather than bias on the part of the banks. (Oc and Tiesdell, 1999:1730)

"ethnic entrepreneurship" (Oc and Tiesdell, 1999:1725, 1727)

Location choices for ethnic minority businesses may be more restricted where they need direct access to a co-ethnic market. In general however, the needs of ethnic minority business for premises are similar to those of all businesses.

(Oc and Tiesdell, 1999:1732).

through the use of some form of measurement of the current supplier base, as well

Ethnic minority businesses tend to suffer the problems mentioned above to a greater degree than that of their white counterparts. There is, for example, a significant

concentration of businesses in some of Britain's most disadvantaged locations. As a result, ethnic minority firms are subject to a hostile commercial environment with low-income markets, poor premises and widespread security and insurance problems. The problems inherent in such locations often limit the potential for business development and can often prove a major constraint in securing high-quality markets outside the immediate locality. (Oc and Tiesdell, 1999:1726)

In this context, ethnic minority business is often sited in locations abandoned by large mass-marketing organisations. For example, where out of town shopping centres have made the survival of neighbourhood and city-centre convenience retailers difficult for small white retailers; ethnic minority entrepreneurs have seized the opportunity and persisted in poor circumstances. These businesses operate with low economies of scale, with 'self-exploitive' owners working longer hours and offering more services than their native counterparts. Indeed, many ethnic minority businesses particularly those operated by Asians, survive due to the exploitation of cheap family (usually female) labour. Such businesses may need the least resources in terms of skill and finance, but equally provide the fewest rewards. (Oc and Tiesdell, 1999:1727)

Ethnic minority businesses also face a number of specific problems including language fluency and various forms of racial discrimination. For example, Asian entrepreneurs were found to be reluctant to recruit from outside the extended family or ethnic community, particularly for managerial positions. In addition, racism created a high level of Asian involvement in the West Midlands clothing industry where self-employment was the only way in which Asians could hope to earn a decent living. This is referred to as "ethnic entrepreneurship". (Oc and Tiesdell, 1999:1725, 1727)

4.6.3. Addressing barriers to supplier diversity

Edwards, (1997:21) suggests that the first stage in breaking down existent barriers can be through the use of some form of measurement of the current supplier base, as well as a definition of what constitutes an Enterprise Minority (EM) business. Very few UK companies have this kind. For instance, a decent purchase-order system might tell

whether a supplier is an SME, but most would not be able to recognise ethnic origin. Another way is to add simple measurement tools to its range of purchasing systems.

To decrease scepticism, some firms are selling the benefits of supplier diversity internally. Outlining in detail the benefits for the supply chain can do this. The topic is new, but once it is explained firms would appoint a diversity champion and report back. One of the central areas, which will need attention, is the tendering and contracting process. As stated above, a major barrier for EM suppliers is large companies' reluctance to use SMEs without a track record of financial stability. Although this criterion may have a sound business base its legitimacy may be questioned. (Edwards, 1997:21)

Another barrier is the overly complex process. For instance requests for quotation documents should be simplified (for example, where a 100-page request for a quotation document can be cut to 20 pages). Reviewing procedures also means recognising that not all EM suppliers will be familiar with complex tendering processes or know what is required of them. A certain amount of supplier development by individual purchasing managers may be inevitable. This may be a difficult argument to sell but given the demands on practitioner's time; however, it is a case of soberly balancing effort with potential benefits. (Edwards, 1997:21)

Part of the problem in developing supplier diversity, is finding suppliers in the first place. Local initiatives are being developed to make it easier for purchasing managers to access new networks. Regional groups will be co-ordination work to bring both sides together and exchange information. Access can also be made easier with the kind of ethnic-specific supply directories that exist in the US, making it easier for purchasers to find the right supplier, rather than being inundated with inquiries. (Edwards, 1997:21)

At present, few large companies give significant business direct to small companies. To address this issue, the notion of diversity is being popularised among first-and-second-tier suppliers. Some firms such as Littlewoods say that contractual and tender specifications already include the company's general equal opportunities policy.

However, another firm, Millineux claimed that this is not enough, and that there is a need to make greater demands from their bigger suppliers. For instance, at Millineux, suppliers are beginning to be told that the diversity issue will be part of standard performance measurement. This would include the ability to monitor the ethnic origin of their supplier base. If suppliers refuse to support this project, they would most surely be classified as not the most appropriated partner to do business with. (Edwards, 1997:22)

The final element of any new policy would be the accurate measurement of the benefits. Understandably, there is concern within the campaign that quotas or positive discrimination should not be encouraged. However, it is important to set a target. The firm could measure how many businesses have been contracted, how many responded and how many contract were awarded. This would indicate whether procedures are being followed and gives one something to benchmark against. (Edwards, 1997:22)

4.6.4. Ways to support EM businesses

Both the providers and the recipients of business support stressed the necessity of achieving better dialogue and communication between business support agencies and ethnic minority business. Most agencies see the need to foster networks between local businesses to provide mutual support, assistance and advice. (Oc and Tiesdell, 1999:1735)

4.6.4.1. Needs identification and assessment

Many commentators argue that a business support strategy must be based on detailed knowledge and analysis of the local industrial structure; characteristics of local firms (for example age, size, ownership, stage of development); and the existing capacity for enterprise support (for example capacity, quality, take-up by area business, impact). In areas of ethnic minority concentration, this should have an ethnic dimension. (Oc and Tiesdell, 1999:1727)

4.6.4.2. Business support strategies

Business support measures are usually directed at one or more of the following: enabling new firms to start up successfully; enabling existing firms to grow, become more viable and perhaps enter the mainstream economy; and/or attracting new firms to locate in the area. Given limited resources, it is important to adequately identify and target the types of firm to whom assistance and support is to be provided, so that the impact can be maximised, additionally increased and displacement minimised. Agencies responsible for regeneration need to target those in greatest need but also those that offer the greatest opportunities. Potential for growth and employment creation are obvious criteria for short-life regeneration initiatives required to demonstrate their impact on the locality. This can, however, be hazardous. Growth is not the norm for many businesses, particularly inner-city businesses. It may however be that inner city firms need to grow in order to survive. (Oc and Tiesdell, 1999:1727)

The strategic choice for Challenge business support was either to encourage job creation directly or to assist businesses to grow and the growth of the local economy generally and thereby enable job creation. There are two levels of targeting: first, a general targeting and secondly a more specific targeting.

(Oc and Tiesdell, 1999:1728)

In general targeting, a fundamental issue concerning business support was its precise purpose. Business support strategies tend to focus on all or any of the following: support for new business starts; support for established businesses new to the area. However, in highly localised markets the start, growth and expansion of one business may often be at the expense of another local business. Therefore, business support especially financial support usually needs to be directed at increasing the total amount of economic activity within the area, that is to consolidate and strengthen existing business. This may offer a greater return than initiatives promoting start-ups. (Oc and Tiesdell, 1999:1728)

Specific targeting is addressed in terms of ethnicity. In this regard it is important to distinguish between initiatives directly solely at those from ethnic minorities and those

which, while not provided exclusively for those from ethnic minorities would in practice benefit them. (Oc and Tiesdell, 1999:1728)

4.6.4.3. Accessing business support

According to a study conducted by business support agencies, most small firms did not use enterprise agencies. Established research finding also discovered that established businesses consult external sources of business advice and support, relatively infrequently. (Oc and Tiesdell, 1999:1732, 1733)

Business support providers suggested that ethnic entrepreneurs regarded the use of such support as shameful, and even the suggestion that it may be needed as insulting. Some local entrepreneurs had a self-exclusion barrier to business support, based on their assumption that they were running the types of business that did not receive support. Many business, particularly Asian, were reluctant to receive outside help and were not prepared to go through the bureaucratic procedures necessary to access it.

An apparent lack of interest by ethnic minority firms can stem from a number of issues: business may resist acknowledging the existence of a problem or be unwilling to involve outsiders for fear of losing control or concerns about confidentiality; business may perceive a lack of sensitivity to ethnic minority needs, problems and opportunities; businesses may lack knowledge about what is available; businesses may have low expectations about the quality and relevance of skills available; the service itself may lack credibility in the eyes of ethnic entrepreneurs.

17. PURCHASING FROM MBES: BEST PRACTICES

However, it is acknowledged that external assistance may help small entrepreneurs to start or/and grow faster than they might otherwise have done and with fewer mistakes. The research identified three issues, which are awareness, sensitivity and credibility, which are considered of particular importance for business support to ethnic minority firms. These are discussed below:

Awareness. As well as a reluctance to engage with external business support services,

there is often a lack of awareness of what services are actually available. The channels of communication used by providers of business support often fail to alert many ethnic minority firms about their services and to clearly map the range of business support initiatives available to local business.

Sensitivity. The style and presentation of delivery of business support services were regarded as important for ethnic minority groups. These both involved a user-friendly approach and the provision of business support in local settings. The benefits of proactive outreach to ethnic minority firms were emphasised, particularly if outreach workers were sensitive and unprejudiced to the special needs of ethnic minority business

Credibility. Credibility within the ethnic minority business community was an important issue for business support services. On some occasions, business advisors considered that their support services had initially suffered from a lack of credibility fuelled by the knowledge that the service was free, which gave people the mistaken perception that it could therefore not be of a high standard. As a result, businesses only approached the business support services when they perceived it as a way of obtaining cheap finance or they were struggling to survive. Similarly some businesses believed they were doing well enough not to need business support when they may well have needed support. Thus the providers accepted that the credibility factor created a resistance for potential users. They also recognised that it had to climb a steep learning curve in order to develop sufficient credibility and to be responsive to the needs of local entrepreneurs.

4.7. PURCHASING FROM MBES: BEST PRACTICES

Auskalinis et al, (1995: 10, 16-31) conducted a research which came as a result of a desire for a comprehensive study that identified what practices organisations follow in support of a MBE buying program. In addition, attendees at the 1994 Center for Advanced Purchasing Studies (CAPS) Executive Roundtable wanted to learn if there were possible correlations between these practices and the degree of success of the program. The definition of "success" was to be based on what percentage of the

organisation's purchases was to be awarded to MBE suppliers. An ad-hoc committee of eight individuals representing six different organisations developed a list of the elements that should be present or considered in any viable MBE program. A consensus was reached that 12 organisations from 12 different industries would be interviewed. The following results came out of this research:

4.7.1. Formal policy regarding minority purchases

Organisations having policy statements, achieve more than double the average percentage of purchases from MBEs (4, 03% vs. 1, 69%). The high percentage of affirmative responses suggests that while the existence of a formal policy is a necessary foundation to a minority-buying program, it is more important how that policy is translated into actual procedures and practices. A policy statement by itself becomes meaningless unless there is further tangible evidence of support from the upper-management level of the organisation.

4.7.2. Degree of support of top management

The responses to this question indicate a clear correlation between the various degrees of support and actual MBE performances. 44% of all respondents received strong to very strong support and that group achieved a much higher performance percentage than the group answering none or slight. Defining support from top management takes on many forms ranging from a consistent display of interest in the program to a commitment of company resources. In any event, support takes top management's role to a tactical level from merely issuing policy statements. The efforts by management are recognised at every operating level and serve to establish the program as part of the culture of the organisation.

4.7.3. Tracking of the MBE purchases

The ad hoc committee determined that tracking of MBE purchases was a basic prerequisite for supporting a viable MBE buying program. There is little way that an MBE

program can be effectively implemented and administered without the ability to record and measure performance. 93% of the respondents said that they track MBE purchases.

The word *sensitise* was intentionally used instead of *training*, since it suggests a less formal process. The areas most frequently tracked were total dollars 99%, number of suppliers 85% and number of dollars by buyer 52%. Supplier location and dollars by individual commodity or service were tracked by less than 50% of the responding companies. The element tracked by the fewest organisations was the total number of awards by buyer 31%. The tracking dollar awards by buyer had the highest MBE percentage is 5, 11%. This was consistent with the top performers in which tracking dollar awards by the buyer had the highest MBE percentage 5, 11%. This was consistent with the top performers in which tracking dollar awards by buyer not only had the highest MBE performance percentage but the organisations tracking that element increased to 74%. This indicates the recognition by successful organisations of the relative importance of monitoring buyer performance compared to the tracking of other elements.

4.7.4. Status report

The researchers wanted to know if status reports were disseminated to buyers and management. The result shows that buyers were receiving reports in 81% of the organisations. This number increases to 100% for the top performers and drops to 67% for the bottom group. These results strongly suggest that MBE performance reports, when disseminated to buyers and management correlate to successful programs.

Reports are distributed on a monthly basis. Management receives reports less frequently than buyers. However, for the top performers, monthly reports are distributed to management in higher percentages than buyers. Those distributing monthly reports to management also have the highest MBE percentage. This suggests that organisations that involve their managers in reviewing MBE program activities more frequently are in fact more successful.

It follows that in order to support an MBE program, directories listing MBE sources must also be available to the buying staff. 85% of respondents said that they had such directories available and this group awards an average of 4.08% of their purchases to MBEs while the 15% that do not have MBE directories average only 1.

4.7.5. Sensitisation of non-purchasing personnel

The word sensitise was intentionally used instead of training, since it suggests a less formal or structured approach. Nearly three-fourths of the respondents attempt to sensitise non-purchasing personnel on the value of supporting the MBE program. This group spends 4,3% of their dollars with MBEs while those organisations that ignored non-purchasing personnel average only 1,80%. When comparing top and bottom performers, 94% of the top group involve their requisitions while only 26% of the bottom performers do so. This indicates that successful organisations recognise the importance of having the support of users of the purchasing department's services when it comes to the MBE program. Involving the entire organisation makes the program a company-wide effort and not simply a purchasing program. It enables management to inform employees why the organisation has an MBE buying program, its benefits, and the reasons why it should engender the support of everyone.

4.7.6. Buyer training

71% of the respondents train their buyers to support the program and this group's average is double the MBE percentage that does not train buyers (4,29% vs. 2,15%). 89% of the top performers train their buyers while only 37% of the bottom group do so. The responses to this question suggest that active and continuous support of individual buyers who are responsible for actually making purchase awards is important and therefore, there is a very high correlation of buyer training to program success.

4.7.7. Availability of sourcing directories

Sourcing directories are a necessary and integral part of any purchasing department's resources. It logically follows that in order to support an MBE program, directories listing MBE sources must also be available to the buying staff .85% of respondents said that they had such directories available and this group awards an average of 4,08% of their purchases to MBEs while the 15% that do not have MBE directories average only 1,

49%. 100% of top performers have MBE sourcing directories available to their buyers.

4.7.8. MBE as a Factor in buyer's performance review

Only 47% of respondents factored in buyer's performance with regard to the MBE program in their annual performance reviews. This group doubled the dollar award percentages (2, 54% vs. 5, 02%) placed with MBEs when compared to the 53% that did not factor this element into annual reviews. A much greater percentage, 68% of top performers factor buyer performance in their reviews, while 84% of the bottom performers do not. The success rate in the overall response and the top group indicate the importance of this practice.

4.7.9. Participation in trade fairs

Participation in trade fairs serves two purposes. It affords the participating company an opportunity to expand their number of potential MBE suppliers and, at the same time, informs the MBE community what products and services it regularly purchases. The nine percent that never participate in trade fairs average only 1, 14% while that attending four or more shows 43%, award an average of 5.40% of their dollars to MBEs. This strongly suggests a direct correlation with the frequency of participation in trade fairs or the lack thereof, and the percentage of business awarded to MBEs.

4.7.10. Publicity of MBE programs in minority/other publications

The researchers have seen a definite practice to performance relationship for this outreach incentive, particularly when one looks at those that never place ads 42% and their MBE award percentage 2,32%, versus those that place four or more ads per year 23% and their MBE award percentage 5, 13%.

4.7.11. Provision of company resources to MBEs

The researchers found that providing buying company resources to MBEs is not a

widespread practice. Several organisations participating in mentoring programs, observed that many MBEs hesitate to request assistance, because in doing so, it may suggest a degree of inadequacy. This was frustrating to the majority of the companies who sincerely wanted to assist MBEs in developing their skills in certain specific areas such as human resources, Marketing, and Cost Analysis. On the other hand the companies that offer seminar-type programs or management-skill sessions conducted in a general forum have excellent response from the MBE community. This method reaches a wider audience and tends to mitigate any negative perceptions.

4.7.12. Influence of the customer base in the MBE program

In an effort to determine if customers influence the organisation's MBE program, 60% indicate at least some degree of influence. There is a wide gap between those reporting no influence 21% and their performance 2, 39% and those reporting very much influence 24% and their performance 5, 83%. The results of this question supported by the case studies indicate that customers are a factor in an organisation's MBE program. The influence comes from two directions. For those producing or offering goods or services to customers, there is a growing recognition that an economically stronger minority community can result in increased sales of the organisation's products or services. There is also an increased awareness of the logic that if an organisation expects to sell its products or services to the minority community it should not ignore purchasing from the same minority.

4.7.13. Government's impact in the MBE program

The responses indicate a decreasing degree of influence as one goes from Federal to State to Local Governments. There is some notable influence on those respondents who checked the "very much" Federal and State categories with regard to MBE performances.

4.7.14. Full-time MBE coordinator

Slightly less than one-half of the respondents have a full time MBE coordinator; however, this group has a much higher average MBE-award percentage than those organisations not having a full-time coordinator (4, 82% vs. 2, 72%). 68% of the top performers have a full time person assigned to this responsibility and only 16 % of the bottom performers do so. The result of this question suggests that having a dedicated individual responsible for the program increases its potential for success. This is one of the areas in which management support or commitment is necessary because of its obvious financial impact.

86% of full-time coordinators report to Purchasing-related functional areas. The response indicates that organisations recognise that the MBE coordinator must interface on a regular basis with the buying staff, which requires some understanding of purchasing policies and procedures. Organisations do recognise the importance of the MBE coordinators' responsibility. The title manager or director appears in 60 percent of the responses.

4.7.15. Treatment

63% of the respondents said they do not treat MBEs differently in the area of pricing and 5% said yes. There is little difference with the top performers in which 56% said no and 6% said yes. The group that said yes has the lowest MBE award percentage. This suggests that the relaxation of price policies is not correlated with doing a greater amount of business with MBEs.

With regard with the level of service, 86% of respondents said they do not treat MBEs differently while 2% said they did. When asked about quality, 95% of respondents answered no to differing treatment. 90% of respondents answered that they do not give special treatment in relation to delivery. 76% of respondents answered no and 11% said yes in relation to EDI capability. 84% answered no and 6% percent answered yes.

This series of questions regarding company requirements show that a vast majority of organisations ranging from 63% for pricing to 95% for quality do not relax their requirements at any time and do not treat MBEs differently. In addition, treating MBEs differently is not correlated with increased business for MBEs. Consistent relaxation of company requirements in order to do business with MBEs is not a common practice. What is especially noteworthy is that those that do treat MBEs differently are not doing as well in awarding business to MBEs.

4.7.16. Targeted solicitations

The use of targeted solicitations or set asides exclusively reserved for MBEs is a recognised and acceptable practice within the Federal Government and those working under major government contracts. The use of this method is not as widespread in private industry; the researchers' results indicate that 72% of organisations reported that they do not use targeted solicitations exclusively reserved for MBEs.

4.7.17. The establishment of goals for MBE purchases

With regard to whether organisations establish goals for MBE purchases, 76% said yes, and that group achieved a much higher MBE award percentage than those not setting goals, (4, 08% vs. 2, 60%). This result suggests that goal setting is a critical factor in administering a successful MBE buying program.

4.7.18. The use of credit cards

While the vast majority of respondents were neutral on the subject 74%, it was noteworthy that the 11% who said such usage would have a positive effect had one of the highest MBE award percentages for any question in the survey, 6, 45%. These results indicate that the top performers are viewing credit card usage as an opportunity and not a threat to the MBE program.

In making statistical comparisons between practice and actual performance the

researchers have been able to conclude that certain practices correlate to the potential success of an MBE buying program.

The minority market is increasingly vocal about where it is willing to spend its money.

4.8. THE STATE OF SUPPLIER DIVERSITY DEVELOPMENT

They have become increasingly vocal in recent years about their

According to a White Paper Report, (1995:87, 88, 91, 92) supplier diversity, says that those on the front line of minority supplier development, have finally become an accepted activity in much of corporate America. This will have a major impact in the whole world, including South Africa. Where once minority sourcing was sold hard by small numbers of reformers as “the right thing to do”, it is now being championed by a growing number of corporate CEOs as the “smart thing to do”. Corporate CEOs in these days are more likely than not, to stress supplier diversity and goals for bringing minority and suppliers into the active supply base.

and better minority supplier programs to start

There are a multitude of factors which make it possible for chief executives to readily accept these programs and which helps minority supplier development take off. These are explained below:

to white Western Europe and North America. Companies marketing

4.8.1. Minorities are seen as a potential market for expansion

to Africa, Asia, and Latin America are being asked questions similar to those raised by

Minorities and women now comprise the biggest sales growth market available for many competitive minded businesses. It is estimated, for instance that minorities will constitute close to 40% of the total population within the next 20 years or so. A lot of consumer-based companies, expansion among minorities is the only expansion they have got left. And that is where their margins of profit are.

reformers' attempts to deal with them. Public

In order to gain minority members as accounts, firms are coming to understand that they need to show them that they have got to be able to say to customers that the money they invest in the business is reintroduced back into the broader society. In this way they are able to claim that MBEs are important as employees, shareholders, stakeholders, and community neighbours.

government contractors were involved in minority sourcing

than on

4.8.2. Minorities are becoming an influential rising voice

4.8.2.1. Good economic sense

The minority market is increasingly vocal about where it is willing to spend its money. Many outspoken members of minority communities are demanding a greater recognition in the market place. They have become especially vocal in recent years about their support for companies that sell to them.

In one case this selective use of market power by minorities almost turned into a marketing disaster for a large brewing company. A conflict between minorities and the company escalated into threats of boycott and a generally bad scene for the company marketers. The conflict eventually ended with the brewing company setting up a supplier outreach program that included minorities and women.

This vocalisation of the need for more and better minority supplier programs is also beginning to play a part in global marketing. Leaders in the minority supplier development movement, note that many multinational companies are only now beginning to understand that they cannot work in the global marketplace and pretend they are only selling to white Western Europe and North America. Companies marketing in Africa, Asia, and Latin America are being asked questions similar to those raised by minorities in the U.S.

4.8.3. Law requirements

As it was discussed in paragraph 4.2 the recent advances into the consumer market by the minority supplier development movement started as an outgrowth of social upheaval on the late '60s and early '70s, and social reformers' attempts to deal with them. Public law 95-507 promulgated in 1978, required those doing business with government to include minorities in their requests for quotation and in their overall supplier tool. In addition, under the law major contractors must pre-identify those small businesses that they intend to do business with, if awarded government contracts. This figured prominently in the government's review of prime contractor quotes. The result of public law 95-507 was that most government contractors were involved in minority sourcing from then on.

4.8.4. Good economic sense

There are also many corporations that were not government driven that were real advocates for supplier diversity. Three that got involved early and deeply were the Equitable Companies, General Motors and AT&T. The old Western Electric Division of AT&T began extending contacts to minorities and women as early as 1969.

Most of these efforts essentially started out as “the right thing to do” efforts. Then in 1982, minority sourcing began to evolve as the “smart thing to do”. Government again was the initiator. This time Chairman Perrin Mitchell of the House Small Business Committee pushed through an amendment to the Surface Transportation Assistance Act. The result was that for the first in order to be considered competitive, all quotes for contracting for government transportation highways and byways must include “utilisation by minorities”.

As a result of this stipulation many companies that had two sides to their business, being commercial and government, decided not to run two different companies. If they were required to seek and use qualified minority suppliers on the government side of their business, it also made good sense to seek, use and document the use of qualified minority suppliers on the commercial side. Companies expanded this thrust to cover all their business, even where the government did not mandate it. Starting with the construction industry, these companies could aspire to be driven by considerations of the market.

4.8.5. Outsourcing strategies.

Outsourcing and searching for new talent are becoming very important factors for the growing use of minority suppliers by large companies. Currently there is a shortage of good ideas, new technology, and entrepreneurialism. The major benefit for companies tapping in to the minority supplier pool is that it is an under exploited pool of highly educated people. When firms are dealing with a minority or small business, they are

dealing with the CEO of the company not a salesperson. If there is something that needs to be changed in any way it is easier in terms of response time, turnaround time, and in meeting specific needs. For instance Lotus Development has a whole philosophy about dealing with smaller suppliers based on their own small business beginnings. They believe smaller suppliers can meet their needs a lot quicker than larger corporations where they have to go through layers to get any action. Bank that owned a building house decided to sell this part of the company to an MBE and continued to grow. For a growing number of companies minority supplier programs offer windows on the talent ideas, and entrepreneurialism.

4.9. CONCLUSION

4.9. THE FUTURE OF SUPPLIER DIVERSITY PROGRAMMES

This chapter looked at the state of minority supplier development in the US and in some other countries. According to Murphy, (1998:64s19) there are three conditions that supplier diversity programme managers and MBE suppliers expect will emerge in the future:

4.9.1. Business will likely be conducted more closely in terms of design efforts and sharing financial resources

Customer sense that M/WBE suppliers are becoming more intertwined in terms of engineering and finance; merging these two priorities, companies appear to be finding more ways to finance improvements in the customer's product and direct to capital.

4.9.2. More customers will seek opportunities to link their businesses with MBEs

Another condition that is becoming slightly more common is that customers look for opportunities to link their business more closely to M/WBE suppliers. This appears to make transitioning M/WBE into the mainstream of the supply base easier since the suppliers are working more closely with the customer.

4.9.3. Customers will deploy the business imperative for supplier diversity to improve their own competitiveness

In several instances companies look for ways to focus on their core business by turning over certain functions to suppliers. This is an opportunity for competitively positioned MBEs. For instance Procurement Resources Williams says that a bank that owned a printing house decided to sell this part of the company to an MBE and continued to outsource its business to the MBE.

4.10. CONCLUSION

This chapter looked at the state of minority supplier development in the US and in some aspects in the UK. The main purpose of it is to compare the situation there with the one in South Africa. From the chapter, valuable lessons can be taken and may serve as examples to encourage the acceptance of AP in South Africa. Acceptance can happen if one compares the situation in both countries. The United States and the United Kingdom governments saw the need to intervene in the economy and introduce legislation in favour of minority business enterprises. Being that way, it is fair that in South Africa government embraces this policy and previously advantaged major companies collaborate towards the integration of the PDI/businesses, which are part of the majority of the population.

Auskalinis, Ketchum and Carter defined minority owned business as those businesses in which at least 51% of the ownership interest, stock or other is held by one or more minority members and whose management and daily business operations are controlled by one or more of such individuals. This definition serves, as a basis to determine the level of control the law requires MBEs must have in order to empower economically minority people

Wallace argued that without AP, MBEs would not be able to survive when competing with majority firms. The researcher found the argument valid in the sense that she showed that in the United States that, government through the granting of subsidies

helped the white majority. This indirectly created a situation where minorities struggle to compete with these well-established firms unless there are helped in some way by the government.

The White Paper Report says that 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.

Present trends taking place in procurement and logistics affect the performance of MBEs. The impact of those trends in South Africa is not as strong as in the US and UK, but with globalisation sooner or later AP firms in South Africa will have to be ready to face them.

Lovering argued that although challenging, it is fundamental that purchasing professional support and stimulate the growth of MBEs by creating and maximising opportunities. At the same time MBEs must develop a positive attitude towards customer satisfaction referred to as "customer focus".

Edwards explained that supplier diversity consists in ensuring that purchasing managers are getting the best value for money by the tapping into all the available supply sources. This concept is very much relevant to the situation in South Africa where there is an urgent need to make use of all the potential, which has was previously devalued and needs to be used. In this way, if there was exclusion once, now is the time to unleash the potential in everyone.

Bullivant said that legality towards supplier diversity in the UK is not straightforward and it will depend on the precise circumstances surrounding each case. This fact shows that there is a need for government to take a more significant action in relation to the integration of enterprise minorities.

Oc and Tiesdell said that some of the problems encountered in developing supplier

diversity in the UK are: the size of EMs (small), lack of networking, access to finance, adequate premises, lack of managerial resources, shortage of skilled staff, finding and developing new markets, the ability to increase market size, competition and the prevailing economic climate. These problems are no different from the problems experienced by MBEs in the US and in South Africa.

Auskalinis Ketchum and Carter conducted a research, which came as a result of a desire for a comprehensive study that identified what practices organisations follow in support of buying from MBEs. From the study they have conclude that certain practices correlated to the potential success of an MBE buying program. Some of these practices could be adapted in firms who have no clue on how to deal with purchasing from AP firms.

The White Paper report notes that where few once accepted minority sourcing as the right thing to do today it is championed by a growing number of corporate CEOs as the smart thing to do, because the minority community represents a potential growing market. In a greater extent this is happening in South Africa where there is a need to buy from AP firms so that more jobs can be created.

Murphy predicts that 3 conditions relating to supplier diversity will emerge:

- There will be more sharing of financial resources among business;
- More customers will seek opportunities to lurk their business with MBEs;
- Customers will divest some of their business to focus more on their capabilities.

Firms, which are directly, or indirectly helping MBEs financially know that they will benefit from this practice especially when they intend to divest some of their businesses and want to assure that their suppliers are reliable.

The next chapter addresses various issues relating to AP programmes and suggesting frameworks for its implementation.

CHAPTER 5**METHODS FOR IMPLEMENTING PREFERENTIAL PROCUREMENT PROGRAMMES****5.1. INTRODUCTION**

In the previous chapter, the researcher addressed how the issue of minority business enterprises came into being in the US and the state of disadvantaged business enterprises in the UK. In this chapter, the researcher takes a step ahead by analysing some of the ways to introduce and implement minority business programs in corporations.

To start off, the chapter defines AP programmes. The next point discusses the use of AP programmes to economically empower previously disadvantaged individuals. It then discusses the use of AP programmes as a strategy to fulfil socio-economic responsibility requirements.

It discusses various problems encountered in establishing AP programmes. It is followed by a discussion of factors, which can promote AP programmes. Having considered problems and factors promoting AP programmes the next point discusses a model for a successful AP programme. To conclude, a framework where the main objective is to find and to develop small and emerging suppliers, parallel to the implementation of AP programmes is discussed.

5.2. DEFINITION OF AN AFFIRMATIVE PURCHASING PROGRAMME

Dollinger, Enz, and Daily, (1991:9) define affirmative purchasing (AP) programmes as specific purchasing strategies implemented by corporations to attract small business firms owned by Blacks, Hispanics, Asian-Americans, and Native Americans and women as suppliers, as part of their ongoing practice of developing new suppliers.

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. A business should qualify for AP programmes if 51% of the ownership or shares are owned by socially, economically and politically disadvantaged groups.

5.3. THE USE OF AP PROGRAMMES TO ECONOMICALLY EMPOWER PREVIOUSLY DISADVANTAGED BUSINESSES

Hugo and Badenhorst, (2000:1) say that the objective of corporate purchasing programmes is aimed at the empowerment of black business to use the purchasing power of large established corporations to buy their requirements from disadvantaged business. In this manner entrepreneurship in disadvantaged communities can be promoted, giving disadvantaged businesses access to the mainstream of business opportunities in South Africa and at the same time, advancing corporate strategies.

With the above paragraph in mind, they argue that the primary task of the purchasing function is to find or develop reliable suppliers for the corporation. In this way corporate procurement affords the corporate world an excellent opportunity to become involved in the development of disadvantaged communities. In South Africa the Black people are the largest and the most single disadvantaged group. Therefore these purchasing programmes are a powerful tool to empower black business.

5.4. THE USE OF AP PROGRAMMES AS A STRATEGY TO FULFILL SOCIO-RESPONSIBILITY REQUIREMENTS

Lindsey, Nichols, Rawls & Kraus (1990:387) say that there is a need to discuss the function of AP programmes in most firms, as there often appears to be some confusion on the part of suppliers as to what the function in place is supposed to accomplish.

University of Pretoria etd – Gomes, N A G S (2006)

Dollinger *et al*, (1991:9) argue that AP programs encourage the development of a strong and independent previously disadvantaged business sector, (since they are given more business opportunities), while demonstrating the corporation's sense of *social responsibility*. Likewise, they respond to increasing demands from community groups and the government to stimulate previously disadvantaged small business entrepreneurship.

Heinritz, *et al*, (1991:177) argue that corporate social responsibility implies that corporations should be good citizens within the community. And buying from the disadvantaged communities helps in selling to it. In addition, the competitive benefits that firms realise from AP sources are not unlike those traditionally experienced when developing a new supplier. More competition for existing business can eliminate sole-source situations thus improving price.

5.5. PROBLEMS ENCOUNTERED IN ESTABLISHING AP PROGRAMMES

According to Murphy, (1998:64s7) though great progress has been made toward supplier base diversity, problems still adversely affect the success of AP programmes. Establishing an AP programme can become a great task considering the number of obstacles that exist and which often waylay even the most competitive programme for including AP firms in the supply base. The most immediate challenge is to view implementation of AP in the same way as other programmes. Since an AP programme immediately affects the purchasing function most attention is directed to the buyers. However buyers are not the only ones involved. In many cases obstacles involve departments that directly or indirectly contribute to sourcing decisions. Finance and engineering are two such departments where obstacles crop up. The following, are obstacles that companies deploying an AP programme often encounter:

5.5.1. Lack of Management Support

According to Morgan, (1995:52) many program heads concede top management's long-term support and involvement continues to be a major problem for most program administrators. A manager of minority supplier development at Pillsbury

University of Pretoria etd – Gomes, N A G S (2006)

says that the initiative must be strongly supported by the CEO and top officers, but it is often generated at a lower level of purchasing. Firstly, it must be sold to the organisation. Once the top management buys in, endorses the concept, and invests the necessary resources, the initiative can begin in earnest.

Murphy, (1998:64s18) says that there is a need to synchronise corporate goals with AP programmes. Management support is one element that directors of successful supplier diversity programs agree is critical to the success of the program. To get the AP program off to a strong start, those involved find it is helpful to align the goals of this program with corporate objectives.

This idea is supported at Ford. Ford's goal is to become the automaker of choice of the minority communities to whom the company sells. AP programmes communicate to previously disadvantaged communities that the company is interested in the community as a customer base. Without synchronisation of corporate goals with AP programs, once the programs are running, the rift may widen till one initiative is viewed as counterproductive. Two areas where this often occurs are in supply base reduction and individual business unit goals. Supply base reduction is carefully planned in order to keep the best number of suppliers. As a result suppliers are consolidating to compete more effectively for certain customers. When, AP specialists align their strategies with those of the business unit and commodity team it ensures diverse efficient sourcing and enables the matching of elements of an established AP programme with corporate goals. (Murphy, 1998:64s15, 64s18)

In Morgan, (1995:52), V. A. Phillips, special supplier development director, Cummins Engine Co., argues that although senior management gives its support, often the same degree of commitment is not there at lower levels. In order to assure commitment from lower levels she proposes the following: (1) awareness training; (2) a strong corporate policy; (3) establishment of an advisory board that seeks out input from a wide cross-section of the company.

In Morgan, (1995:52) C. Button, manager of minority business development strategy at Texas Instruments, argues that truly successful programs depend on getting

information and ideas following all the way down to the buyer/requisitioner level so that they take ownership of the program.

5.5.2. Inadequate Use of Resources

Another obstacle for companies establishing supplier diversity programs is learning which resources to use at certain times during program development. The initial step is locating an organisation that assists companies in defining policies and procedures for a diverse supply base. In addition, companies must have a structure, which includes measurement of AP supplier performance as well as the money the customer spends with this segment of the supply base. Cold recruiting is not consistent with many supplier selection processes. Successful programs appear to attract suppliers that earn business based on “technical competence” not just a special supplier status. (Murphy, 1998: 64s15)

5.5.3. Failing to discuss with internal customers as well as suppliers about the program’s goals and structure

Murphy, (1998: 64s15, 64s16) argues that sometimes, in the rush to get an AP programme started, customers also overlook the importance of discussing the reasons for and implications of a diverse supply base with internal customers. This oversight often triggers concerns about the purpose of the program with internal customers and can derail progress.

Discussing the shift in the supplier base with those internal customers that are even indirectly affected appears to be the key to acceptance of the AP programme. An example is communicating with engineering; which often designs products with supplier participation. Purchasing is already involved in the design stage in order to track the best source, so discussing the parameters of AP supplier choices with engineering ensures that the company is prepared to meet corporate goals for quality and cost-effectiveness through supplier diversity.

University of Pretoria etd – Gomes, N A G S (2006)

Internal customers in engineering, finance and manufacturing also appear to be more supportive of an AP programme if they know their roles. After all, in addition to procurement and supply, sourcing from AP suppliers takes time from other departments.

The education of suppliers' top management also is increasing as companies recognise that they need supplier understanding for program success. Customers communicate to suppliers what opportunities are available through the supplier diversity program, as well as how the policies and performance measurements support corporate goals.

Another benefit to discussions with supplier management is that customers that want to start second-tiering programmes seem to experience more success if the first-tier suppliers know the goals of the customer's AP programme and how to implement it.

5.5.4. Not recognising what elements work best for a company

Murphy, (1998: 64s15, 64s16) says that a fourth challenge for companies starting AP programmes is recognising what elements work best for their type of organisation. Certain elements of AP programmes that are successful in automotive or a large company may not work the same way for a medium-size firm in telecommunications or a process industry.

For instance, second tiering is not the answer for every AP programme. The practice is used often by companies that want to trim their supply bases since AP small businesses can work with first-tier suppliers and not directly to the customer. Second tiering may even be ideal for AP small suppliers that find working with a medium-sized company more realistic than just targeting large customer companies.

Moreover, second tiering represents some serious problems for AP programmes. One big problem is that first-tier suppliers do not necessarily view their customer base as diverse. This can undermine the business case for diversifying their supply base. It most often occurs for suppliers that do not have a consumer customer base or serve consumer-oriented customers. The result is that some of these suppliers are

unwilling to participate in the measuring, mentoring, and communication that foster AP.

According to Tam (1997: 6) whenever the question of affirmative purchasing is raised

5.5.5. Loss of momentum

managers object that small suppliers require too much special treatment. Tender documents and contracts must be simplified to

According to Murphy, (1998: 64s17) Harriet Michel, the president of National Minority Supplier Development Council, there are a number of reasons that enthusiasm for AP programmes fades slightly after they have been established. One is that the process of evaluating AP firms is not integrated with everyday sourcing practices. As Anderson notes, linking diverse supply sourcing to the mainstream purchasing function is the primary obstacle for a number of programmes.

As to the benefits of the

In contrast to most customer intentions, the lack of mainstream often leads to internal customers associating the program with affirmative action. Those that are responsible for working directly with suppliers may see their role as contracting with AP firms in a limited capacity. That in turn lowers the opportunity for competition and partnering with established, majority suppliers.

to be a normal and desirable way of doing business.

Another reason that programmes often lose momentum is that after the start-up effort, the programmes do not change. This can be detrimental to the effectiveness of diversifying the supply base. Companies with successful AP programmes, plan for change, but they also take into account the company climate and internal customer preparation when they launch certain elements of the program. For instance companies plan when and how to conduct external or internal training to provide the appropriate information for the shifts in supply base interaction.

pay overheads and pay lower wages than larger companies. However, through focus, specialisation, and

Recognition of supplier performance, for instance is usually added to an AP programme after the programme is already running. However, the qualification and recognition process for suppliers can affect future perception of the programme. AP programmes appear to be more successful if the recognition of AP suppliers is based on criteria that also apply to previously advantaged suppliers.

According to Tam, (1997:7) corporate procurement managers object that Small and black-owned suppliers are not reliable. Corporations that consider small and black-owned businesses to be unreliable may have developed that view because they have

5.5.6. Special Treatment

According to Tarr (1997: 6) whenever the question of affirmative purchasing is raised corporate procurement managers object that small suppliers require too much special treatment. Tender documents and contracts must be simplified to accommodate the small company; training is needed; some companies even need financing.

While it is frequently heard, this objection is ironic. American experience has been that support and mentoring is required from most suppliers, large and small, black and white. Furthermore, such support and mentoring, rebounds to the benefits of the corporations offering it. It is an opportunity, not a cost. Through support, the corporations encourage suppliers to mould their operations, products and cost and quality standards to the corporation's specialised needs.

What is often cited as an objection to buying from small and black-owned businesses is in reality thought by successful companies, to be a normal and desirable way of doing business.

5.5.7. Small and black-owned suppliers can not compete on price

According to Tarr, (1997: 6) corporate procurement managers object that small and black-owned suppliers cannot compete on price. It is true that small businesses often have higher materials costs than larger companies, since they cannot gain large quantity discounts. On the other hand, they generally have low overheads and pay lower wages than larger companies. However, through focus, specialisation, and attention to customer needs, they often achieve a quality and responsiveness that cuts all-in costs.

5.5.8. Small and Black-Owned Suppliers are not Reliable

According to Tarr, (1997:7) corporate procurement managers object that Small and black-owned suppliers are not reliable. Corporations that consider small and black-owned businesses to be unreliable may have developed that view because they have

been unwilling to enter into the supportive partnership with their suppliers that so many successful corporations have found to be essential. Without such support small suppliers may indeed be unreliable. The solution, the corporations are finding, is to build reliability through building supportive partnerships.

5.5.9. Availability of Qualified AP Suppliers

According to Tarr, (1997: 7) corporate procurement managers object that there are insufficient numbers of qualified small businesses to source from and this perception is in both the United States and South Africa. In the USA a possible solution is to use the supplier as partner, approach to form an ongoing collaborative relationship. The prospect of an extended partnership also justifies searching for and assisting small businesses to deliver a quality product.

According to Clark, (1994:9) the availability of qualifying disadvantaged suppliers and specific suppliers with potential is extremely limited. As a result of the exclusion of women and blacks from the mainstream economy and the low expectations that others had of these groups in the past, few women or blacks have considered entrepreneurship as an option. The situation exacerbated by the exaggerated emphasis on affirmative action in employment in the government sector and large corporations.

In South Africa this problem can be alleviated by using organisations like BLUE to make available their data bases of accredited entrepreneurs who are already interacting with corporations and parastatals. Other objections expressed by corporate procurement managers are that AP suppliers are difficult to communicate with; offer no service, product or skills which big business can use; The quality of goods are not up to standard; Buyers have established and proven suppliers; and administrative systems are inadequate to handle them.

The problem of availability means that organisations with affirmative purchasing programmes must aggressively search for entrepreneurs and that high costs and effort are associated with tracing and developing suppliers.

5.5.10. Opportunism

According to Hugo and Badenhorst, (2000:7) study, disadvantaged suppliers regard opportunism as the most important impediment of Disadvantaged Business Buying (DBB) programmes. This statement is indeed an indictment against corporate South Africa, since opportunism as a variable constitutes items such as false affirmative action front, lack of commitment, political motivation, small numbers, impacted information, atmosphere, and pressure, “white” front organisations and social responsibility motives as factors inhibiting DBB programmes.

5.5.11. Conflicting policies that influence the purchaser

According to Lowry, (1992:230) conflicting policies of some organisations may cause purchasers to become negative towards the AP programme. As it was mentioned, many organisations follow the trend of reducing the number of suppliers and tendering into long-term relations with reliable suppliers. On the one hand, the purchaser must eliminate suppliers and limit numbers, while on the other hand he is forced to find as many affirmative suppliers as possible. The qualification “reliable” is found to be conflicting. Buyers feel comfortable dealing with well-known companies and appreciate the constant contact they receive from established firms; disadvantaged suppliers often do not meet the traditional definition of reliable.

In addition, purchasers have existing suppliers who have often rendered good service for decades and with whom good long-term relations have been fostered. It is difficult for the purchaser to offer the AP firm a market opportunity.

In other instances, the cost of doing business with AP firms is too high. This may be linked to small businesses that are less automated and does not have the resources to ramp up capacity when it’s needed or deliver to the customer’s exact expectations.

5.5.12. Complaints and the attitude of purchasers

According to Williams, (1990:392-396) and Morgan, (1995:54), purchasers have certain objections to the principle of AP. Some common objections are:

- According to Morgan, (1995:54), purchasers object that most AP companies are relatively small and inexperienced. McQuilkan, the coordinator-minority vendor development at American Airlines, decided to meet these concerns with a program called "internal advocates". The program has identified individuals in each department interested in supporting the program and willing to deal with legitimate concerns about minority supplier qualifications.
- It costs the organisation more than any advantages obtained. It is a fact that the initial cost of developing suppliers is high, but once a small supplier has been developed and has the ability and capacity to deliver the required product quantity with the correct quality at the correct time, the price should be lower than for large suppliers, because the overhead costs are lower. The cost of training and developing the supplier must be regarded in the context of a long-term relationship.
- Disadvantaged suppliers have an attitude that the purchasing organisations owe them something. In reality participants must know that affirmative suppliers will have to compete with other suppliers on an equal footing. Disadvantaged suppliers who are not able to do so, but who show potential, will be developed so that they will also be able to compete independently on the open market within a reasonable time.
- The affirmative purchasing programme makes existing suppliers dependent on the organisation instead of independent. This problem is not unique to affirmative purchasing programmes. Many small and large businesses are dependent on the organisation that purchase from them. When one organisation accounts for a large part of the supplier's capacity, such supplier is captive and dependent on the purchasing organisation for its continued existence.
- Reverse discrimination: affirmative purchasing programmes discriminate against other small business organisations. The fact remains the inequalities

that were created by the socio-economic and political systems of the past must be eliminated. In the meantime, non-affirmative small business organisations are still in a strong position (as a result of former advantages) and can compete on the open market and with larger suppliers for the business of the purchasing organisation.

- “The purchaser does not really have the time to trace and develop affirmative suppliers”. It is the purchaser’s task to trace suppliers, irrespective of their size. Although the need to develop suppliers arises in the purchasing department, the staff of the affirmative purchasing programme and the purchasers will share the responsibility for tracing and developing suppliers.
- Affirmative supplier could cause interruption in the activities or production of the organisation as a result of poor performance. This is just as true of any other supplier who does not perform and the problem rather lies with the question of using “one or several” suppliers. A developing affirmative supplier should not be the only source. A developing affirmative supplier should at first only receive a small part of the total order (for example 10%) as a trial run. If the affirmative supplier performs as expected, a larger percentage of the total order can be awarded to him/her.

5.5.13. Second tiering

According to a White Paper Report, (1995:99) the most significant response to the supplier downsizing trend has been the use of second tier programs. In such programs, where a major supplier has reduced its base to a single supplier for volume requirements, that supplier may be required to consider the use of AP firms as subcontractors to a project or support for goods and services.

However, second tiering often gives AP firms and ultimate customers a false sense of supplier diversity. The main perception problem is that the customer and AP firms may nurture a false sense of security, that supplier diversity is making progress when the opposite may be occurring. One problem with a number of second-tiering efforts is that companies often miss opportunities to educate their supply chain about

diversifying the supply base. Another perception problem linked to the practice of second tiering is that some customer companies may view second tiering as a way to shift responsibility for supplier diversity exclusively to their prime suppliers.

Nevertheless, this practice has some benefits for AP firms. For instance, AP suppliers are forming their own alliances to become more marketable. In addition, AP firms are merging with organisations, to compete for contracts that otherwise might be out of reach due to lack of resources or product lines. Second tiering can also be successful when first-tier suppliers are required to report their numbers to the customer company. That gives the first tiers impetus to focus on their AP programmes.

5.5.14. Lack of access to capital

Huck and Townsend, (1999:10) say that one reason access to capital is an important policy issue, is because business owners may face funding limits known to economists as liquidity constraints. Access to capital continues to be a very serious obstacle to getting started and to expanding for many AP suppliers or would-be suppliers.

The main reason for the existence of this problem is that banks are adverse to risk; the biggest part of business risk is the unknown; the track record of most AP suppliers is null. As heads of businesses that fall into the small business/unknown business category, they also find themselves heading up businesses that are seen as too risky for the average bank lender. As a result, some banks are not interested in lending until the suppliers have contracts in the marketplace. However, suppliers often cannot fulfil as many or as large a contract as they wish to, unless they have capital. (White Paper Report, 1995:97)

Lindsey, Nichols, Rawls and Kraus (1990:388) suggest that one of the ways to minimise this problem is to encourage AP suppliers to look at possibilities of working jointly with one another as partners. Partnerships can be a new direction for AP suppliers; when one AP supplier is unable to meet the requirement of a majority corporation, a combined effort between two or more may be exactly the right mix.

Another way to minimise AP firms capital problems is by companies loaning to AP firms, even though corporations are relatively restricted in the types of help they can or want to extend to AP firms. For example, at Chrysler if a supplier needs it, the company will buy the raw materials and allow the supplier to pay them back in six months or a year. (The researcher calls this type of help as “*direct supplier strategic financial help*”). In addition, if a supplier needs instant or advanced payments, that is arranged as well. (White Paper Report, 1995:98)

In addition to direct help, firms may help suppliers indirectly as well, to get the capital necessary to continue operations and expand business. A good example comes from minority business development and procurement at Polaroid Corporation. Polaroid notes the case of a heating oil supplier that was hard hit during the recession. Polaroid suggested then that the company move totally into wholesale supply. The company agreed but did not have working capital. Polaroid responded by giving the company a letter stating that it would be buying X amount of fuel oil from the company. The company took the letter to a bank and got a loan for the needed capital. Today, this company is Polaroid’s sole supplier of heating oil. Polaroid remarks that they did not get the business because they were an AP firm. They bid for the business because they showed, that they could deliver. All that Polaroid provided was the kind of help any company would extend to a valued supplier. (White Paper Report, 1995:99). (The researcher calls this type of help as “*Indirect Supplier Strategic Help*”).

According to Huck and Townsend, (1999:10), in a study conducted in two Chicago ethnic neighbourhoods, surveys revealed that black owners start their business with significantly less capital than those of Hispanic owners.

The Black-Hispanic gap, in total start-up funding, is due to differences in the use of non-personal sources of funding rather than disparities in the amount of personal savings put up by the owner. On average, Black owners use a higher proportion of formal financing and a lower proportion of informal and other sources of funding compared to Hispanic owners. This evidence suggests that less use of funding from

informal and other sources may play a role in accounting for lower levels of start-up funding for Black-owned business relative to Hispanic-owned businesses.

Given this state of affairs, owners meet the challenge of obtaining capital to start and run their businesses by using informal sources of capital as well as personal assets and loans from formal sources. Informal financing via networks can thus substitute for borrowing in the informal sector, either because formal credit is not offered or because informal financing is preferred. Credit offered by a supplier, which is known as trade credit, is another source of financing. Business may form networks with their suppliers, and there may be an informal dimension to these networks, in that the supplier relationship, including ethnic ties, may be important for some transactions. Thus, trade credit may share some of the features of informal financing.

The importance of informal sources of funding suggests that this type of funding has some features that meet the needs of small businesses in these communities. Informal funding may be more flexible and better suited to providing relatively modest amounts of capital compared to the formal sector. However, an important advantage of formal credit institutions is their ability to efficiently mobilise large amounts of capital. Recognition of the strengths of both informal and formal sources of financing should be a part of programs and policies aimed at encouraging the flow of capital to minority small business.

5.5.15. Communication and information

According to Williams (1990:391) it was found that lack of interpersonal communication is one of the greatest obstacles to the success of affirmative purchasing programmes. Poor communication goes hand in hand with prejudice, distrust and unmet expectations.

5.5.17. Lack of credibility in the market place

In analysing the opportunities available to AP firms in the defence subcontracting market, Davidson, (2001:67) says that AP firms suffer from a serious lack of information about how to locate and contract the purchasing agents of prime contractors. Many AP firms have no knowledge of those directories, which contain listing of prime contractors. Moreover, the directories do not include specific plant

locations, names of contacts, or telephone numbers. Often AP firms have considerable difficulty locating the right person at the prime contractor site. To counteract this problem firms may establish a central source of subcontracting information to expedite routine problems.

In addition, AP firms need contract information in the planning and negotiation stages. For example General Electric (GE) often knows several months in advance if it is likely to receive a Department of Defence (DOD) procurement contract to produce a given product. If GE were to contact some AP firms during the planning stages, they could be better prepared to supply crucial products and services. Moreover if an AP firm supplying a crucial product or service could obtain the long-term plans of primes or selected projects, it could in turn utilise this information for long-term planning. AP firms should also obtain information about the nature of the work being subcontracted.

5.5.16. Expectations

Expectations are closely related to communication. As a result of a lack of communication and prejudices, the parties involved in an affirmative purchasing programme have certain expectations, which are often not met. There is often an accusation of opportunism between the parties. Disadvantaged suppliers accuse the purchasers of false promises with regard to contracts, loans and technical assistance. Purchasers accuse disadvantaged suppliers of frequently insisting on being awarded a contract simply because they belong to a formerly disadvantaged group. There are also suppliers who do not really qualify for the program and who make false statements in an attempt to be given preference in terms of the programme. (Dollinger and Day, 1989:27).

5.5.17. Lack of credibility in the market place

While many small firms appear to move from start-up to established supplier status relatively rapidly, many AP small firms appear to be hindered all along the way. The origin of this problem is cultural. They do not know where available funds are and how to get them. In addition, since minority enterprises have not grown up in the

business establishment, they often do not know where to get help and advice until it is too late. (White paper report, 1995:98)

5.5.18. Lack of business experience

For many small minority businesses, the real problem is lack of financial and business skills and experience. The main areas where minority entrepreneurs have more deficiencies are the ones of financial and accounting planning.

(White paper report, 1995:98)

In addition to having financial management skills, Davidson, (2001: 70) argues that AP firms must also have a clear marketing concept, i.e. a clear definition of what he or she is offering, the business he or she is in, and the market that is being served. This will direct the company on how to make the most of its strengths and to identify areas, which need improvement.

5.5.19. Transaction costs

According to Dollinger, Enz, and Daily, (1991:9) the results from field surveys of small minority firms and corporate purchasing personnel, indicate that program participants face differences in transaction costs and in their preferences of ways to overcome these costs. In the majority of the situations, AP firms face higher transaction costs than their corporate purchasing counterparts do.

In their study, (Dollinger, *et al*, 1991:10, 11) identified seven transaction costs impediments that both corporate buyers and AP suppliers found to be significant in the implementation of AP programmes.

5.5.19.1. The costs of a negative atmosphere

These are the personal costs of doing business that sometimes occur in what can be a hostile, unfriendly, or discriminatory environment. Many AP suppliers responding to the study reported that at times they felt they were being patronised or not taken

seriously. Some said that they felt socially ostracized because of their race during the buyer-seller interaction.

5.5.19.2. The costs of opportunism

These are the costs associated with opportunistic, unethical, or illegal behaviour in a purchasing transaction. Like many small businesses that are anxious to compete, the AP supplier may intentionally or unintentionally misrepresent its capabilities in order to win a corporate contract. And on the other side, corporate purchasing people sometimes encourage AP suppliers to expend significant time and energy qualifying and bidding, even though their prospects for winning contract are slim at best. These situations can occur simply because “going through the motions” looks good on the buyer’s performance review.

5.5.19.3. The cost of small Numbers

These are the costs of attempting to contract for goods and services in a market with a small number of sellers. The simple fact that there are not a lot of AP suppliers actually hurts the AP supplier. This is especially true in manufacturing and high technology businesses. Corporate buyers are not always confident that there are enough minority suppliers, or that the AP suppliers that do exist, are qualified enough to allow them to depend on a reliable flow of purchased materials.

5.5.19.4. The costs of information asymmetry

These are the costs of obtaining information that one side to a negotiation has available, but the other side does not. Some AP suppliers complain they do not receive them as early as other firms do and that they are not always given enough time to respond.

5.5.19.5. The costs of bounded rationality and complexity

University of Pretoria etd – Gomes, N A G S (2006)

These are the costs of dealing with complex rules, large bureaucracies and inconsistent procedures. Like many small businesses, minority suppliers sometimes have trouble peeling through the corporate red tape and deciphering who is really in charge in the corporation or who they can ask for help or information. This can be a lot of work for the average supplier, especially since it has to work through this maze for every corporation it wants to sell to.

5.5.19.6. The costs of business uncertainty

These are the costs of maintaining a firm's performance and survival. Many minority suppliers are plagued by all the traditional problems of small businesses, including inexperienced management, under capitalisation and strong competition from larger firms.

5.5.19.7. The costs of production uncertainty

These are the costs of achieving, maintaining, and ensuring high quality output. Again, like many small businesses, AP suppliers do not always have a refined and reliable quality control system. They often face a special dilemma if they are recruited to produce a product that is either new or different to them, and therefore run the risk of greater variation and subsequent rejection during the production process.

According to transaction costs economic theory, under conditions where the transaction costs of the marketplace are high for both, the corporate buyer and the AP supplier, both parties should select some form of internal administration that tends to minimise the costs. In other words the buyer and the seller go through some sort of merger or integration, or the larger firm simply absorbs the smaller firm. This alternative to the existing market is termed "*internalisation*" in the language of the theory. However, that option is not feasible in this case. In order to meet social objectives and federal guidelines, the corporate buyer and the minority supplier must exist as separate and distinct entities, and AP suppliers must flourish independently. This is the paradox of AP purchasing programs.

There are certain activities, which can reduce the buyer-seller transaction costs since internalisation is not always an attractive course of action. The top nine cost reduction activities as ranked by the combined groups of buyers and sellers in the study are: monitoring of AP suppliers, searching for corporate Purchasing Personnel, managerial and financial assistance, searching for AP suppliers, cultural interaction, internalisation, and monitoring the corporate purchasing personnel

5.5.20. Sole reliance on government

Bates and Darrel, (1996:294-297) discuss how damaging it can be for small firms to rely heavily on sales to the State. They argue that selling to government has several drawbacks.

The study reveals that AP firms heavily reliant upon government customers were more likely to discontinue operations, than were those for which government sales represented less than 25% of total sales. In addition, their study revealed that AP firms selling to government have the same survival prospects as MBEs not selling to government. The subset of AP firms most reliant upon sales to government however, sharply reduces survival prospects relative to all MBEs. Analyses indicated that the youngest firms were particularly to go out of business if they relied heavily upon sales to government.

There are two situations, which may cause this to happen. The first situation is when AP businesses are used as subcontractors and close down when the project ends. Problems can also arise when small AP firms are awarded large procurement contracts that they do not have the capacity to handle.

The findings of this study suggest that preferential procurement programs often promote AP businesses dissolution when large contracts accrue to small young AP firms. Reliance upon a diversified clientele, rather than heavy reliance upon sales to government appears to be a prudent strategy for AP firms seeking to remain in business.

Corporate assistance programmes aimed at technology transfer, supply management assistance and access to corporate training programmes for the technical staff of disadvantaged suppliers are clearly methods which may contribute to bridging the resource dependence gap of disadvantaged

5.6. FACTORS PROMOTING AP PROGRAMMES

According to Hugo and Badenhorst, (2000:9) their study revealed that disadvantaged suppliers expressed what they think are factors promoting disadvantaged business buying (DBB) programmes.

Disadvantaged suppliers regard *information* as the most important factor promoting DBB programmes. The specific items, which provide a focus for *communication*, are directories of disadvantaged suppliers, publicising DBB programmes, performance evaluation of suppliers, advertisements in various publications and sensitising all corporate personnel. Communication is followed closely by *training and development, assistance, government policy incentives, structural and managerial initiatives*. The mean value in this study revealed that suppliers neither strongly agree nor disagree that *cultural interaction* can be a factor that promotes DBB programmes.

Furthermore, from the results of their study, they suggest several practical activities, which could enhance the development of DBB programmes in South Africa:

- Corporate South Africa should expand its DBB programmes. In the present these programmes are currently still on limited scope but also, expansion of the programmes into second and third tiering is important. In addition there are clear indications that current programmes have lost momentum.
- It is essential that corporate South Africa should take immediate steps to counter the prevailing perception among disadvantaged suppliers that DBB programmes are implemented for reasons of opportunism including “affirmative action”, politically correct actions and social responsibility motives. Establishing corporate supplier forums is one way addressing this issue.

University of Pretoria etd – Gomes, N A G S (2006)

- Corporate assistance programmes aimed at technology transfer, supply management assistance and access to corporate training programmes for the technical staff of disadvantaged suppliers are clearly methods which may contribute to bridging the resource dependence gap of disadvantaged suppliers.
- There is a general lack of information regarding disadvantaged suppliers. This can be addressed by establishing central information centres in an organisation such as the Corporate SMME Development Forum. It is however imperative that such “Disadvantaged Suppliers Guide” should be managed on a commercial basis.

5.7. A MODEL FOR A SUCCESSFUL AFFIRMATIVE PURCHASING PROGRAMME

There are many models, which help corporations succeeding in establishing AP programmes. The researcher found that these models have common elements and do not differ much from one another. The framework here is taken from the model compiled by Badenhorst, (1995:10-20).

5.7.1. The objective of the organisation, the origin of the idea and the objective of the affirmative purchasing programme

Moore, (1993:143) argues that AP programmes can be profitable to corporations. However, these programs will become an integral part of corporations only when it can be documented, that such programs are corporate assets rather than a drain on limited resources. The implementation of AP programmes must still be justified evaluated and motivated in terms of its benefits to the organisation. If an affirmative purchasing programme is to succeed in the long term, the programme must be regarded as an organisational asset and not as a liability. To qualify as an asset, AP programmes must contribute to overall corporate performance. Four key performance indicators are:

- Customer service;
- Quality assurance;
- Corporate Citizenship; and
- Profitability

According to Williams, (1990:398:399), the idea for an affirmative purchasing programme usually arises in the following way:

- The liberal attitude of management which is worried about the social responsibility of the organisation;
- Pressure from the authorities or customers;
- Pressure to follow in the footsteps of similar institutions, (corporate peer pressure)
- A progressive purchasing department that identifies opportunities in the marketplace

Whatever the origin of the idea of affirmative purchasing, the point of departure must still be that it is a business opportunity not a welfare programme. The objective and mission of the affirmative purchasing programme must thus revolve around “the identification of opportunities and the purchase of high-quality products and services from qualified suppliers from formerly disadvantaged communities, to the benefit from organisational profitability in the long-term”.

5.7.2. The commitment of top management

According to Williams, (1991:72) affirmative programmes can only be successful with the full commitment of top management. Mooney, (1992:374) says that this commitment must be honestly written and form part of the organisational policy. The intention and commitment may be announced by means of informational material and letters to the internal employees and external community. The commitment must also be verbally conveyed and emphasised, both internally and externally. Commitment must further be shown through the resources which top management is prepared to make available for the implementation of such programme. Williams, (1990:399)

University of Pretoria etd – Gomes, N.A.G.S. (2006)

argue that obtaining corporate management support is vital. It will result in having the necessary time, resources and approvals required for the program to operate unfettered.

5.7.3. The staff orientation

According to Williams, (1990:392) there are three important steps that must be taken at the start on an affirmative purchasing programme:

- The orientation of the entire staff (management and workers) and their support;
- The orientation of the purchasers, sensitivity to their mission and the clarification of conflicting objectives;
- Contact, communication and visits to other organisations that already have an affirmative purchasing programme.

The orientation of the staff and their support is a difficult task because affirmative purchasing programme entails change, and there is often resistance to change in organisations. Williams, (1991:75, 76) found that that resistance to change can be overcome by a strong communication plan, the awareness of human factors and a good “change manager”. The change manager is an important role player in the orientation of the staff. The change manager may be a respected manager from any department of the organisation being a person who knows the organisation, organisational policy, organisational culture, power structures the product or service of the organisation and who is committed to the aim of economic equality of parties to whom this was formerly denied. Normally, this person will not become the head of the affirmative purchasing department. This person would be responsible for the orientation and training of the staff and for forming a committee to implement the programme. Participative management techniques would be used to change the staff's attitude. The committee may consist of representatives of the purchasing department, management, the trade union and consumers. It would be wise also to involve a representative from the accounts or financial department as well as being the person who will be responsible for managing the programme.

University of Pretoria etd – Gomes, N A G S (2006)

A fourth step that is often omitted is the orientation of the organisation's other suppliers. The prospective affirmative purchasing programme must be communicated to the other suppliers because it affects them. The reasons for the programme, the influence of the programme on the existing suppliers of the organisation and the commitment from top management must be communicated to them as positively as possible.

According to Lindsey et al, (1990:387) the following people play key functions, which help establish AP programmes in the organisation:

The role of the *program coordinator/manager* is supposed to be a key resource for both the corporation and the AP supplier. As an intermediary, this person can effectively help accomplish the goals of the corporation while providing opportunities to AP suppliers. That individual should assist the AP when they need information guidance and advice. They also serve to cultivate the attitude toward doing business with AP internally within the company. This promotes the benefits to the corporation of doing business with AP, and helps to dispel the myths about welfare programs and give-aways. This individual also has the duty of telling AP if no business opportunities exist for them.

The role of the *buyer* is no different when dealing with AP suppliers. A buyer in most corporations is directly responsible for trying to get the best buy for their company. AP firms have to be competitive, and not compromise quality and other predicaments that any supplier must be in order to do business with the corporation. The buyer may sometimes be in a position to create an opportunity for an AP supplier, but most of the time they are trying to meet the needs of those for whom they are buying products/services, the end users.

The *end-user* is the ultimate consumer of the product/service, which a purchasing organisation is seeking to buy. They are most often the ones that must be convinced that AP suppliers do not by nature provide less than satisfactory products/services. For that reason it is very important to give them good experiences. When customers have bad experiences they tend to alert more people than when they have good ones.

management in determining objectives will make a positive contribution to the acceptance of the programme and will lead to more realistic objectives. Objectives must be quantitative, (without establishing quotas as these can be manipulated and do not take qualitative aspects into account) and can be determined per purchaser, per unit or per product or service. It can also be expressed in percentages in monetary value. (For example 20 % of all purchasing must be supplied by

5.7.4. Planning

Mooney, (1992:373) argues that good planning of what is to be achieved in the future is an important requirement for successful affirmative purchasing programmes. Moore, (1993:144) argues that the affirmative purchasing programme should form part of the long term or strategic plan of the organisation.

The planning of an affirmative purchasing programme should incorporate components such as determining the objectives, policy formulation, analysing the current set-up in purchasing, identifying affirmative opportunities and planning resources.

5.7.4.1. The analysis of the current set-up and the identification of suitable products/services

Firstly, it must be determined to which extent the organisation already buys from affirmative organisations and these contracts can already serve as a basis for the formal programme. Products and services that are technological simple should be the point of departure of any affirmative purchasing programme. Programmes should be kept simple until the data system support capability has been proven. Affirmative purchasing should be limited to non-strategic products or services, for example, maintenance and support services (such as cafeteria services) and products or materials for which there is no strong competition on the market.

5.7.4.2. Determining objectives (targets)

Objectives and timetables are necessary so that the affirmative purchasing programme has goals towards which it can work, and so that it can serve as a barometer to measure the success or performance of the programme. Participative

University of Pretoria etd – Gomes, N A G S (2006)

management in determining objectives will make a positive contribution to the acceptance of the programme and will lead to more realistic objectives. Objectives must be quantitative, (without establishing quotas as these can be manipulated and do not take qualitative aspects into account) and can be determined per purchaser, or per department or per product or service. It can also be expressed in percentages or in monetary value. (For example 20 % of all purchasing must be supplied by affirmative suppliers) the setting of objectives is closely related to an analysis of the current situation and the identification of affirmative opportunities.

17.4.3. Adapting the policy for affirmative purchasing

Tarr, (1997:9) argues that corporations that set specific performance goals outperform those that do not. These goals should be smart, i.e. specific, measurable, actionable, realistic, and timely.

U.S corporations employ the following techniques in this process:

- Analyse purchases: this involves drawing up a list of products and services procures outside the company over the last several years. Reviewing the list for volume, value, specifications, origination, point of delivery, capital intensity VS labour intensity and other relevant criteria.
- Look for trends: this involves analysing the list for patterns, such as growth areas and atypical purchasing opportunities;
- Develop a short list: compile a list of goods and services that buyers could most easily procure from small business. Over time, items that are more difficult to source are added to this list;
- Set goals in consultation with users and buyers; these are expressed as a dollar value of purchases, sometimes as a percentage;
- Communicate: inform corporate officials and get their approval for the objectives;
- Report results. Clear concise reporting about accomplishments is critical to effective programme operations. Reports should be consistent, accurate, timely and available.

Funds are particularly required for the following:

This information is used to:

- Evaluate performance at the buyer, unit and corporate levels;
- Identify and analyse failures, successes, new opportunities;
- Promote internally and externally;
- Reward or discipline at appropriate levels;
- Establish new buyer, unit and corporate goals;
- Evaluate corporate policy, procedures and mechanisms.

5.7.4.3. Adapting the policy for affirmative purchasing

The adaptation of the purchasing, policy is frequently necessary to accommodate the affirmative purchasing programme into the purchasing policy. With the adaptation of the purchasing policy, the staff will also realise how serious the management is about affirmative purchasing.

In the policy aspects such as the choice of a method for determining process, must be adapted according to normal criteria because negotiation is the most suitable method for affirmative purchasing, which is not the case with other suppliers of the same product or service. There must be a greater emphasis on value or future value instead of price when awarding transactions. The policy must also make provision for rewarding performance with for example a larger follow-up order; evaluation criteria and the period in which an affirmative supplier must fully qualify or be dismissed as a supplier. The extent of involvement during the development of suppliers, the percentage preference given to qualified affirmative suppliers, as well as that given to other suppliers who also have an affirmative purchasing programme.

5.7.4.4. Planning resources

Mooney, (1992:377) and Tarr, (1997:9) argue that in order to facilitate the affirmative programme there must be available resource's, in the form of people and facilities. Adequate funds are required for the implementation and operation of an affirmative purchasing programme. Funds are particularly required for the following:

- A qualified, committed programme coordinator and supportive administrative staff;
- Data processing support;
- A professional marketing and communication programme that is internally and externally oriented;
- Reach out actions such as seminars and trade fairs;
- Printed material such as brochures and guides;
- Travelling costs to hold network meetings with other affirmative purchasing specialists and affirmative suppliers;
- Accessories and equipment to support the above mentioned activities;
- Development aid to suppliers who do not fall into any of the above-mentioned expenditure categories, for example making available facilities or financial aid (such as the lending or advancing of operating capital to purchaser larger material quantities).

Williams, (1991:76) argues that one of the most important aspects in planning the resources is the training of the staff, particularly the purchasers and the other people who would directly be involved in the affirmative purchasing programme. Training is a requirement for the motivation of the programme staff. Training eliminates all uncertainties and fears.

5.7.5. Organising the affirmative purchasing programme

Moore, (1993:144) argues that the affirmative purchasing programme is commercially oriented and therefore does not belong in the human resources department or the affirmative action committee. Rather, it should be a specialised department within the purchasing department. "The minority business program must be viewed as an integral part of the procurement program with the purchasing program serving as a nucleus.

There should be an affirmative purchasing programme manager who would be responsible for the smooth operation of the programme, strive to achieve the objectives of the organisation, while creating opportunities for affirmative suppliers.

The manager would assist the affirmative supplier with information, guidance and advice if required, as well as with the cultivation of a positive attitude towards affirmative purchasing within the organisation. In addition the manager will take the responsibility for the correct perceptions about the programme both within and outside the organisation, (for example making it clear if there are no business opportunities for them).

The selection of affirmative suppliers mainly consists of the following phases:

According to a Law Review Project, (1995:5) the purchasing procedures must be adapted to accommodate the affirmative purchasing programme in the purchasing department. There should be a procedural manual adapted, printed and distributed to all staff, so that they may know exactly how to tackle affirmative purchasing. Some of the aspects to which attention must be paid when adapting procedure to make provision for disadvantaged suppliers is the simplification of the description of specifications, the more aggressive search for suppliers, the determination of prices, follow-up and facilitation, as well as the handling of errors and deviations by rendering increased assistance and the more speedy settling of accounts. Documentation and procedures must be simplified to decrease the higher transaction costs of small suppliers.

The availability of qualifying disadvantaged suppliers appears to be an important factor in the success of an affirmative purchasing program and it requires some what more effort than the trading of other suppliers.

5.7.6. Publishing the programme

Once the staffs have been oriented, the programme planned and the necessary internal adaptations made, publicity for the program must be obtained as widely as possible. In the publicity material, the objective of the programme, as well as what is expected of the affirmative suppliers must be known and an invitation issued to prospective disadvantage suppliers. The publicity may serve as a further motivation for the acceptance of the programme, may improve the image of the organisation and may encourage affirmative suppliers to contact the organisation for possible consideration, certification and placement on the list or register of disadvantaged suppliers. This publicity must constantly be given to the programme, if it is well underway. The successes of the programme may be good for the image of the organisation.

Supplier are trade magazines such as "Black Enterprises" and "Entrepreneur"; "Sowetan", publications of and enquiries at institutions such as the SDCI; enquiries in response to publicity and advertisements about the AP

5.7.7. Selection of suppliers

The selection of affirmative suppliers mainly consists of the following phases:

- The tracing and identification of possible suitable disadvantaged suppliers;
- The systematic investigation and evaluation of identified potential suppliers;
- Negotiation with and entering into contracts with suitable suppliers; and the maintenance of good relations with suppliers.

A further step that forms an integral part of the selection of disadvantaged suppliers is the development of the affirmative supplier.

5.7.7.1. The tracing and identification of possible disadvantaged suppliers

The availability of qualifying disadvantaged suppliers appears to be an important problem in the affirmative purchasing program and it requires somewhat more effort than the tracing of other suppliers.

According to Hugo and Van Rooyen, (1990:393) disadvantaged suppliers may possibly be traced through certain *traditional sources*, such as the knowledge of staff in other departments of the organisation; visiting representatives from other organisations; visits to trade fairs and industrial exhibitions; business contacts; participation in organised trade, industry and associations; existing suppliers interviews with people who visit the organisation and the organisation's, own records.

The identification of disadvantaged suppliers frequently needs following *non-traditional* channels. Other sources that concentrate more specifically on the disadvantaged supplier are trade magazines such as "Black Enterprise" and "Entrepreneur"; "Sowetan", publications of and enquiries at institutions such as the KSOK; enquiries in response to publicity and advertisements about the AP

programme of the organisation; the small business departments of banks and the small business bureaux of universities.

In addition, there are a number of firms whose main function is to link small business enterprises with large firms. Erwin, (1996:1) argues that the development of linkages is important, particularly today when South African companies face international competition. The global experience, in countries that have demonstrated high economic growth, shows that the linking of SMMEs and big enterprises is critically important for empowering SMMEs, stimulating competitiveness and a vibrant economy.

The Business Opportunity Centre (BOC) is a Section 21 company and its principal occupation is linking emerging business with big business. The centre bridges the gap between the current capacity of SMMEs and their capacity to enter the mainstream economy. It arranges training in business skills, tendering, productivity and adherence to quality standards by the Foundation for Business and economic Development the National Productivity institute, the SABS, the CSIR and other institutions. Trainees are issued with certificates, when they complete their courses.

5.7.7.2. Systematic investigation and evaluation of possible disadvantaged suppliers

The suppliers who have been identified must be investigated and analysed to determine their suitability. The first step in the evaluation is the verification that the supplier is really an affirmative supplier. Of the other factors that must be taken into account during the evaluation, the most important is certainly the entrepreneurship, technical and management ability of the owners/managers, the physical facilities, the condition and type of equipment, quality control methods, capacity and the financial capacity of the organisation. The importance of each of the factors will depend on the importance and nature of the product/service.

According to Williams, (1990:390) disadvantaged suppliers can be divided into three categories upon evaluation:

University of Pretoria etd – Gomes, N A G S (2006)

- *Qualifying.* The qualifying supplier is independent and fully able to supply certain products and services as part of the daily activities of the organisation in quantities that naturally fall within the capacity range of the organisation. This type of supplier is able to meet obligations without assistance. It is very probable that a contract will be concluded with such a supplier for the provision of a product or service or a portion (percentage) of the total demand, depending on the capacity of the supplier.
- *Qualifiable.* Qualifiable suppliers are those who are able to or have the potential to render a certain product or service but who require some or other type of assistance. These suppliers must be helped to develop into qualifying suppliers. The support should only be temporary because the disadvantages supplier must develop into an independent supplier. Most disadvantages suppliers will fall into this category.
- *Unqualifiable.* The unqualifiable suppliers are not suitable for any contract for the provision of products or services. The supplier must be made aware of his/her shortcomings so that he/she knows where development is necessary for possible future qualification.

Qualified and Qualifiable suppliers would be placed on the so-called “affirmative supplier list or register”. Those suppliers who continued to fare poorly without any indication of improvement would eventually be scrapped off the supplier list.

The evaluation of the suitability of affirmative suppliers may be established by means of personal visits to the plant/factory/office of the prospective supplier. During the visit, the purchaser will attempt to monitor the type and condition of the equipment, the quality control methods, the extent to which the layout is sensible, the general neatness, the productivity and motivation as well as the relationship between management and workers. In addition, the financial state of the supplier may be analysed, a bank report undertaken and references for other customers checked.

Hahn, Watts and Kim, (1990: 4, 5) argue that the supplier development activity typically is triggered by an evaluation of the supplier, either performance evaluations

for existing suppliers or preliminary assessments of potential new suppliers. When the buying firm is not satisfied with current performance level of an existing supplier, or recognises the need for further improvement, it may initiate selected supplier development activities with the supplier. If the firm has new or modified requirements that cannot adequately be satisfied by existing suppliers, it may proceed to evaluate new vendors. Such an evaluation facilitates the final selection of new suppliers and can further identify the developmental areas that must be worked with on each of them. Suppliers typically are evaluated on the basis of their technical, quality, delivery, cost and managerial capabilities. Evaluation results subsequently are compared against the buying firm's requirements or future objectives and serve as a basis for launching an ongoing improvement program.

Once the supplier evaluation process is completed, the next step is to identify the areas for improvement. Supplier evaluation results provide valuable information about general areas of weakness, but the results are usually still too general to be useful. For example the supplier evaluation process may show that a supplier is weak in his/her ability to maintain quality. However, the buyer still does not know the exact causes of the quality problem. Clearly, a classification of the supplier's performance problems would facilitate the analysis. Supplier performance problems can be classified in terms of required supplier capabilities: technical, manufacturing, quality, delivery, financial or managerial. Such a classification narrows the area to be investigated. Supplier problems can also be classified in terms of their sources: things such as product, process or operating systems. When these two classifications are combined, a supplier development activities matrix can be constructed. The matrix defines more precisely the nature of a supplier's problem and it also identifies the types of supplier development activities that should be considered by the development team. (Hahn, Watts & Kim, 1990: 4, 5) Figure 5.1. presented on the next page, is an example of a supplier development activity matrix.

Source: Adapted from Hahn, Watts and Kim, 1990:6

For example, when company experiences product quality problems in dealing with a supplier, the problem could be related, to inadequate design. Or it could be related entirely to the supplier's manufacturing processes, such as machine capability. Or the problem might be traced to an operating system, such as unreliable quality

Figure 5.1: Supplier development activities matrix.

Related areas Capabilities	Product Related	Process Related	Operating Systems Related
Technical Capability	Capabilities in: Design New Product introduction Feasibility testing Product improvement	Process Capability Process design Automation Reconfiguration	CAD/CAM CIM/FMS JIT/MRP
Quality capability	Specifications Limits Incoming Materials Control	Process capability Testing Equipment Workmanship	Quality Assurance program Quality circles S.P.C Program Worker training
Delivery Capability	Product Mix Materials Lead-time	Capacity level Process flexibility Setup times	Order Entry system Scheduling flexibility Transportation/ Inventory system
Cost Capability	Value Analysis R & D expenditure Cost Reduction programs	Process Efficiency Capital Investment Rationalisation of work place	Work productivity Indirect costs Control

Source: Adapted from Hahn, Watts and Kim, 1990:6

For example, when company experiences product quality problems in dealing with a supplier, the problem could be related, to inadequate design. Or it could be related entirely to the supplier's manufacturing processes, such as machine capability. Or the problem might be traced to an operating system, such as unreliable quality

assurance program. It is also possible that several of these elements are interacting to create the problem.

At this point in the process the supplier's management should be invited to participate in the analysis; the objective is to achieve a consensus diagnosis involving both the supplier and the buying firm. The supplier's input should facilitate the problem identification process and subsequent determination of the areas for supplier development effort. It must be emphasised that early supplier involvement in the analysis is critical for successful program implementation.

5.7.7.3. Negotiation and entering into a contract with suitable suppliers

Once the disadvantaged supplier has been qualified by means of evaluation, negotiation will be used to conclude a contract between the purchasing organisation and the affirmative supplier. If a disadvantaged supplier qualifies to supply a certain product or service without assistance, the supplier is able to compete with other suppliers, and a percentage preference will be awarded to the disadvantaged supplier for purposes of price comparison.

If a disadvantaged supplier should be qualifiable, the organisation will take more trouble with the development of the supplier if the organisation can benefit a great deal in future, such as in the case of insufficient competition in that specific market. The type of assistance, the obligations of the parties and the assistance period would be discussed during negotiations, along with the other normal aspects such as quantities, quality, delivery and price.

The conclusion of a contract with affirmative suppliers must still fall within the organisational policy and other stipulations. There should not be in contradiction.

5.7.7.4. Handling supplier relations

Moore and Stoneham, (1991:180) and Moore, (1993:143) say that it is generally accepted that good long-term relationships with the organisation's various suppliers is beneficial for both parties. As good dependable suppliers (minority and Non-

University of Pretoria etd – Gomes, N A G S (2006)

minority) are at premium, developing long-term relationships with qualified minority suppliers becomes critical to the success of any minority supplier development program. These relationships facilitate improved quality, sharper pricing and stronger buyer/seller relationships.

In addition, Hugo and Van Rooyen, (1990:191) say that a good long-term relationship is based on communication, understanding, loyalty, mutual respect and trust. Supplier relations are not incidental, but the result of purposeful action on the part of the purchasing organisation. In the case of disadvantaged supplier's, a long term relationship is also necessary because it often goes together with supplier development, and benefits are only obtained in the long term, therefore, developing long term relationships with qualified minority suppliers becomes critical to the success of any minority supplier development program. The role of the minority supplier is the same as that of any other supplier, that is, to provide quality goods and services at competitive prices on a timely basis, or provide value to the corporation. Poor communication with the associated prejudices, distrust and unrealistic expectations, have been singled out as great obstacles to the success of an affirmative purchasing programme.

To avoid this kind of situation, the following purposeful actions can promote the relationship between the purchasing organisation and affirmative suppliers:

- Employees and disadvantaged suppliers must understand the objective and mission of the programme from the very beginning with the aid of information sessions, workshops, publicity and written information. The expectations of each party must be clearly set out during the orientation session: The disadvantaged supplier is expected to have the ability or potential to be competitive with regard to the value to the organisation (the optimal combination of quality, delivery, service and price). The purchasing organisation is expected to identify possible opportunities for the disadvantaged supplier and to render managerial and technical assistance to a disadvantage supplier who has the potential to develop into a competitive supplier.

University of Pretoria etd – Gomes, N A G S (2006)

- Affirmative suppliers must be trained or oriented to understand the way, which a large organisation and its purchasing process work; (Lowry, (1992:232)
- An intimate knowledge of the other organisation, products, services, customers, strong and weak points, organisational structures and climate is necessary for a mutual understanding between the purchasing organisation and the affirmative supplier; (Lindsey:1990:385)
- The purchasers and disadvantaged suppliers may follow a project or team approach. The team must meet on a regular basis to discuss changed needs, the competitiveness and cost reduction of as well as new opportunities for the affirmative supplier; (Lowry, 1992:234)
- The selection of disadvantaged suppliers must be used to improve relations between the parties by pointing out the supplier's shortcomings; (Williams, 1990:397)
- The purchasing organisation must be friendly, open and frank with the reasons for the non-awarding of a transaction. (Williams, 1991:180).

As a result of the necessity for close involvement and a long-term relationship between the purchasing organisation and the affirmative supplier, one could refer to a "partnership" between the parties. Like most partnerships, programs will succeed only when the partners share the following:

- A commitment to a goal
- An understanding of their respective roles and responsibilities
- An ability to carry out those roles and responsibilities
- A genuine concern for the long term success of their partner

The common goal is the corporation's customer satisfaction. It may be measured in terms of quality, innovation, pricing, or service, but the bottom line is customer

satisfaction. If the partnership is to be successful, minority suppliers must share the corporation's pursuit of customer satisfaction.

The roles and responsibilities of buyer/seller, corporation/supplier must be clearly understood in this partnership. The role of the corporation is to procure quality goods and services at competitive prices. It is the responsibility of the minority supplier development program to facilitate minority access to this process through the tools available.

5.7.7.5. The development of disadvantaged suppliers

Moore & Stoneham, (1991:189) and Moore, (1993:146) argue that the development of suppliers must necessarily go hand in hand with a long-term relationship. The primary purpose for the development of a disadvantaged supplier is to increase the supplier's ability to meet the standards of the organisation, rather than to accept the lower standards of the disadvantaged supplier. The cost of training the suppliers would be recouped in the long term through the benefits of a long-term source of quality products or services at competitive prices. In addition the development process makes it possible for organisations to expose the disadvantaged supplier to the unique internal environment and the culture of the organisation

In addition the training and assistance provided to the disadvantaged supplier will depend on the shortcomings of the supplier and the availability of other qualified suppliers. If there is little or no competition in the supplier market, or that the product cannot be obtained at all on the local market, it would serve the purchasing organisation well to become intensively involved in the development of a supplier, for example by helping to build up the organisation, offering financial assistance (such as research and development). Assistance can also take the form of training management and workers, technical training, helping with the manufacturing process, purchasing and marketing.

5.7.8. Control over disadvantaged suppliers

Mooney, (1992:376) says that just as the organisation and the organisational functions must be controlled, so the affirmative purchasing programme must be controlled to determine whether the set objectives have been achieved. This type of control requires a reporting system that rapidly provides accurate and detailed information.

Normal criteria for evaluating suppliers can also be used when evaluating disadvantaged suppliers, for example the number of rejected order. The number of late orders, a price comparison with prevailing market prices or historical prices.

5.3.1. Establish an outreach programme

The performance of disadvantaged suppliers should not be measured against that of others, but against the supplier's own performance to determine whether there has been progress. Constant feedback is important for the long-term success of the programme, as it would serve two main purposes: giving recognition where it is due and emphasising areas where additional effort has to be made.

and make small and emerging suppliers aware of the corporation's effort to establish linkages:

To conclude this section, an affirmative purchasing programme will only make a contribution towards economic equality and be successful on the basis of sound business principles if it is (1) well organised; (2) that it is managed in accordance with accepted management principles; and (3) fully supported by each person within the organisation, in particular within the purchasing department. Affirmative purchasing programmes must constitute a team effort on the part of the entire organisation.

• Visiting townships in the supply area of the corporation and doing a skills audit

5.8. FRAMEWORK TO FIND AND DEVELOP SMALL AND EMERGING SUPPLIERS

being involved with the communities by organising fairs and trade shows with entrepreneurial associations in townships:

Nieman, (1997:1) says that literature on the subject relating the implementation of AP programmes do not offer solutions or a framework to address or bridge the constraints or obstacles encountered by small businesses. Therefore, he suggests a framework whose goal and objectives is: to 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 corporation; and to match small and emerging supplier's capacity with large

corporation's opportunities, needs and requirements, and support ongoing linkages. The framework is the result of a literature study, field research, and interviews with AP coordinators of major firms. It would require a concerted effort and not only lip service to the support and development of the emerging black businesses. (Nieman, 1997: 1-5).

Major private sector firms and government to find and develop small and emerging suppliers can use the following steps or a framework:

5.8.1. Establish an outreach programme

Finding suppliers is a first step of forming an ongoing collaborative relationship with small and emerging suppliers. It is not an easy task and management will have to establish an outreach programme in a concerted effort to establish a database of SMME vendors. The following methods can be used to find and make small and emerging suppliers aware of the corporation's effort to establish linkages:

- A national advertising campaign especially in publications such as "Enterprise" and the "Sowetan" which are read and aimed at the previously disadvantaged communities;
- Local advertising campaign using billboards and pamphlets to create an awareness of the programme in townships;
- Visiting townships in the supply area of the corporation and doing a skills and capability "audit" of enterprises that possibility could become suppliers;
- Becoming involved with the communities by organising fairs and trade shows with entrepreneurial associations in townships;
- To develop and distribute suppliers guides for small and emerging contractors;
- Contact organisations with existing databases and or linkage programmes to broaden the base of suppliers. The Black Integrated Commercial Support Network (BICSN) and Business linkages for under utilised Enterprises (BLUE) have databases of black enterprises and have an objective to

encourage South African businesses to source goods and services from these firms. (Tarr, 1997:1).

5.8.2. Create a database of small and emerging suppliers

Nieman argues that it is imperative to collate the data collected in the first phase on a database. Buyers as well as circulars can use this for easy reference or newsletters to the small and emerging contractors to keep them informed of the progress and/or success of the programme.

5.8.3. Set up a “help” desk for small and emerging suppliers

This can be an existing person in the procurement office or a new position who would be working closely with the Affirmative Purchasing Coordinator. A toll-free number could be considered and would be of great help to small suppliers in the townships. The objective of the help desk would be to handle all enquiries from small suppliers and to help them in preparing quotation. It would help to bridge the communication problem experienced by small suppliers.

5.8.4. Train the small and emerging suppliers on the database

The small suppliers on the database should be trained in the purchasing and quality procedures of the corporation as well as management principles. This training could be done on the premises of the corporation or in the townships. The aspects in the suppliers' guides could be covered and working handbooks could be supplied. The affirmative purchasing programme should be discussed and that would be an opportunity to rectify misplaced perceptions or expectations on both sides. These trainings sessions should help in identifying those small suppliers who are capable and competent to meet the requirements of the corporation.

5.8.5. Set targets and budgets for involvement of small and emerging suppliers

University of Pretoria etd – Gomes, N A G S (2006)

Together with the procurement department, management should identify purchasing opportunities, needs and requirements for the business, projects and undertakings. These opportunities should be translated into targets and budgets for involving small and emerging suppliers in the procurement programme. The creation of breakout tenders or subcontractors, which can be allocated on a “round robin” basis, could be considered. In the USA, the AP programme is often extended to the first tier (prime suppliers) by encouraging them to buy from the second tier (in this case small and emerging) suppliers. This can be a consideration in the awarding of major contracts.

5.8. Post award counselling

5.8.6. Pre award counselling

In dealing with prospective small suppliers it is suggested that potential suppliers be identified from the database and that the buyers meet with them before inviting quotations. The various buyers can satisfy themselves as to the suitability of the candidate to meet the requirements or to perform.

5.8.7. Establish partnership or mentoring programme

It might be necessary in most case to provide assistance and advice to small suppliers who have contracted with the organisation. A mentorship programme where someone from the organisation is assigned as a mentor to the suppliers can be used. In the case of major items a partnership can be established until the suppliers has acquired the necessary skill and expertise to manage projects on his/her own. This step should measure prompt and satisfactory fulfilment of the contract.

5.8.8. Financial support

Although it is not the objective of large corporations to supply finance to small businesses, some form of financial assistance would be required to get the programme operative. Any (or all) of the following methods could be considered:

- Faster processing and payment of invoices to assist them in their cash flow management;

University of Pretoria etd – Gomes, N A G S (2006)

- Advance payments in respect of the material and labour content of their contract. This method was used to a great extent and with great success by Armscor in the 1960s and 1970s to develop suppliers, many of which are now listed;
- Supplying letters of intent to small suppliers to help them in obtaining finance from banks;
- Supplying or guaranteeing equipment loans of the small suppliers

5.8.9. Post award counselling

Communication seems to be one of the major problems encountered by small and emerging suppliers. It is therefore suggested that post award sessions be held with these suppliers on a monthly basis. These sessions can be used to give feedback to suppliers who were not successful and even to use the successful bidders as role models. These sessions can serve as a step to discuss the corporations' expectations with successful bidders before they proceed with production or delivery of service and goods.

5.8.10. Evaluation, feedback and retrain

The purchasing department or the Affirmative Purchasing Coordinator should prepare reports on activities, progress and problems identified at meetings on predetermined dates. Small and emerging suppliers should be invited to attend and participate in these meetings.

The evaluation of individual suppliers is also necessary. At such meetings the buyers can discuss and give feedback and advice to suppliers on price, quality, delivery and other aspects of their individual contracts. From the reports and these evaluations the corporation can decide where to adjust or adapt its small and emerging supplier development programme as whole.

Nieman (1997:5) alerts that there are many SMMEs in the black townships of South Africa who can take part in the tendering/procurement process but government and private business will need to improve their communication and their efforts in bringing

them into this process. This will, however require a mindset and policy change in most organisations if they wish to implement an affirmative purchasing programme successfully.

To conclude, Nieman, (1997: 5) argues that the vast purchasing power of government, parastatals and South Africa's large corporations can be a force in bringing previously disadvantaged enterprises to their rightful place in the economy, and lead to normalising South Africa's economy. The affirmative purchasing programme can create alliances between experienced white managers and previously disadvantaged black entrepreneurs which provides an ideal point of departure for harnessing and integrating the creative potential of the informal sector, with the business structure from the formal sector.

5.9. CONCLUSION

The aim of this chapter is to look at methods or frameworks where certain aspects must be considered when corporations intend to implement AP programmes. However, certain issues which affect their success where discussed.

Dollinger *et al* defined AP programmes as specific purchasing strategies implemented by corporations to attract small business firms by corporations to attract small business firms owned by minorities and women.

Heinritz *et al* says that AP programmes represent proactive efforts by government and corporation to increase the volume of goods and services purchased from MBEs.

Those definitions complement each other and involve two distinct phases one following the other in implementing AP programmes, because to define the first one uses the words "to attract small businesses" (the first phase) and the second one "to increase the volume of goods and services" (the second phase). Both definitions involve words such as strategies, efforts, which mean that there are certain procedures, which should be considered to implement an AP programme.

Hugo and Badenhorst said that the objective of corporate purchasing programmes is aimed at the empowerment of previously disadvantaged businesses (PDB). This is a valid argument as long as the AP programme is efficiently and effectively implemented and the corporation's genuine objective is to help the integration of PDBs in the economy.

Dollinger et al argued that MBE programmes serve to comply with social responsibility requisites, but at the same time it makes good business sense. It also provides a structured means of facilitating the utilisation of AP suppliers. This argument is one that can be difficult to argue against because as it was seen in the previous chapter, disadvantaged groups are becoming a powerful voice whether there minorities or majorities.

Some of the problems encountered in implementing AP programmes, where discussed. These problems have been experienced by firms trying to implement them and by the AP firms. Therefore, careful consideration should be given so that corporations and AP firms find ways to counteract it.

Factors which disadvantaged supplier's regard as promoting AP programmes are: diffusion of information, good communication, training and development, assistance and government policy incentives.

Hugo and Badenhorst suggest that the following could enhance the development of DBB programmes: the use of second and third tier, corporate supplier forums, corporate assistance programmes and the establishment of central information centres.

Badenhorst suggested a model for a successful AP programme. The following items are part of the model framework: firstly, the objective of the organisation, the origin of the idea and the objective of the AP programme should be addressed when starting to implement an AP program. The next elements addressed are: commitment of top management; the staff orientation; planning; organising the AP programme; publishing the programme; selection of suppliers and control over disadvantaged suppliers.

Nieman suggested a framework to address the obstacles encountered by small businesses relating to the implementation of AP programmes. The following elements were discussed: the establishment of an outreach programme; the creation of a database of small and emerging suppliers; the setting up of a help desk for small and emerging suppliers, the training of small and emerging suppliers on the database; setting up targets and budgets for involvement of small and emerging suppliers; pre-award counselling; the establishment of partnerships or mentoring programmes; financial support; post award counselling; evaluation; feedback and retrain.

In his conclusion, Nieman urges the creation of alliances between white managers and previously disadvantaged black entrepreneurs through the implementation of AP programmes. In his viewpoint this would be the point of departure to integrate the potential of the informal sector into the formal one.

The models presented above can complement each other. Badenhorst's model is a clear strategy to implement the AP programme. Nieman's model describes steps to be implemented to ensure the success of the AP programme. This model can be very helpful especially in South Africa where big corporations are starting to integrate previously disadvantaged small businesses in their business operations. It is important to ensure the maximum success of the implementation of AP programmes because there is a need to comply with government legislation, but at the same time ensure that the resources invested in those previously disadvantaged businesses/individuals rewards the firms in terms of future profits and the sense of having contributing for the development of the local community.

CHAPTER 6

RESEARCH METHODOLOGY

6.1. INTRODUCTION

According to Cooper and Schindler, (1998:130) the research design constitutes the blueprint for the collection, measurement and analysis of data. It aids the scientist in the allocation of his limited resources by posing crucial choices. It is the blueprint to include experiments, interviews, observations, and the analysis of records, simulations or some combination of these. It chooses the methods of data collection, the length of the sample, the relationship among variables, in the writing of the hypotheses; it expresses both the structure of the research problem and the plan of investigation used to obtain empirical evidence on relations of the problem.

Essentially, the research design is a plan for selecting the sources and types of information used to answer the research question. It is a framework for specifying the relationships among the study's variables. It is a blueprint that outlines each procedure from the hypotheses to the analysis of data.

(Cooper and Schindler, 1998:130)

The aim of this chapter is precisely to describe the type of research design used in the thesis. In the chapter the following aspects are discussed: the degree to which the research question has been crystallised; the method of data collection; the power of the researcher to produce effects in the variables under study; the purpose of the study; the time dimension; the topical dimension; the topical scope; the research environment; and the subject's perceptions of the research.

6.2. DEMARCATION OF THE STUDY

On the 5th of December 2001 several municipalities and councils that previously served the Greater Pretoria Area were integrated into a new administration. This administration has become the City of Tshwane Metropolitan Municipality. This ushered in an executive type of city management aimed at streamlining decision-making and improving service delivery. (The City of Tshwane, 2001:13)

The City of Tshwane Metropolitan Municipality today is a category "A" municipality with a mayoral executive system, combined with a ward participatory system. It has 152 councillors of whom 76 are proportionally elected councillors and 76 are ward councillors. (The City of Tshwane, 2001:13)

The following areas now fall under the jurisdiction of the City of Tshwane Metropolitan Municipality: Pretoria, Centurion, Akasia, and Soshanguve. Other areas that are also included are: Mabopane, Ga-Rankuwa, Winterveldt, Hammanskraal, Temba, Piennar's River, Crocodile River, portions of the Eastern and Western Gauteng Services Council and the Eastern District Council. (The City of Tshwane, 2001:13)

The City of Tshwane Metropolitan Municipality is positioned in the economic heartland of the Gauteng Province. It is strategically situated only 50 kilometres from Johannesburg along the N1, one of Africa's busy traffic routes. South Africa's main railway line also runs through Tshwane. It is this strategic positioning that makes Tshwane the urban anchor of Gauteng giving it excellent access to the major road and air routes linking all areas of the country. It has an exceptionally large municipal area. It is in excess of 3200 square kilometres in size and has a population of approximately 2, 2 million people. (The City of Tshwane, 2001:13, 64). Its comparative strengths include its growing economy, natural resources, excellent rail, road and other infrastructures, affordable labour, the availability and affordability of its municipal services in general, its competitively-priced property market (industrial, commercial and residential) as well as its investment potential. (Mkhatshwa, 2001:8)

With so many government departments and institutions, the City of Tshwane can truly be said to be South Africa's seat of administration. It is also the diplomatic heart of foreign representation in South Africa. In addition it has some of the best research facilities, hospitals, schools and tertiary institutions in the country.

(The City of Tshwane, 2001:64).

As it was discussed in chapter 2, globalisation has re-asserted the significance of the local level of policy development in particular in matters pertaining to economic development. Wide acknowledgment is now given to the critical role that can be assumed by the local layer in the policy environment, including SMME development.

6.3. DEGREE OF RESEARCH QUESTION CRYSTALLISATION

This research study is exploratory, due to the degree of the structure and the immediate objective of the study. Exploratory studies tend toward loose structures with the discovering of future research tasks. The immediate purpose of exploration in this thesis is to develop questions for further research in relation to the use of preferential procurement in Local Government in the City of Tshwane Metropolitan Municipality. The results of this thesis may permit the start of a formal study where hypothesis are tested through precise procedures and data source specifications. (Cooper and Schindler, 1998:131) Exploration will be discussed in more detail in 6.10.

6.4. METHOD OF DATA COLLECTION

The interrogation mode/communication mode was used to question the subjects and to collect their responses by personal or impersonal means. The collected responses resulted from personal and telephone interviews. (Cooper and Schindler, 1998:131)

6.5. RESEARCHER CONTROL OF VARIABLES

In this research study, an ex pos facto design was used as there was no control over the variables in the sense of being able to manipulate them. The study was only able

to report what has happened or what is happening in relation to the topic. (Cooper and Schindler, 1998:131)

6.6. THE PURPOSE OF THE STUDY

This study is descriptive. (Cooper and Schindler, 1998:132). The research is concerned in analysing the use of preferential procurement in Local Government as an instrument of socio economic development. In addition, it investigates whether Local Government can promote Local Economic development using preferential procurement policies.

6.7. THE TIME DIMENSION

This is a cross-sectional study as it is carried out once and represents a snapshot of one point in time, which objective is to investigate at this point in time through literature study and a case study the use of preferential procurement in Local Government. (Cooper and Schindler, 1998:132)

6.8. THE TOPICAL SCOPE

In this thesis the researcher formulates a case study of the Local Government of the City of Tshwane Metropolitan Council. This places more emphasis on a full contextual analysis of fewer events or conditions and their interrelations. It relies on qualitative data making support or rejection more difficult. An emphasis on detail provides valuable insight for problem solving, evaluation and strategy. This detail is secured from multiple sources of information. It allows evidence to be verified and avoids missing data. (Cooper and Schindler, 1998:132)

The primary advantage of the case study on the use of preferential procurement in Local Government is that the topic under study has been investigated in depth and with meticulous attention to detail. This highly focused attention enabled the researcher to carefully study the order of events as they occurred on the use of preferential procurement policies at Local Government at this stage. There was a need for flexibility, creativity and alertness as to collect as much information

possible. Intensive interviews and discussions were conducted so as to obtain an understanding of the current situation from employees from various positions and job functions at the Municipality. (Zikmund, 2003:116).

A case study of the use of preferential procurement policies in Local Government in the City of Tshwane can provide a major challenge to theories and provide a source of new hypothesis and constructs simultaneously. Therefore, the results of such a case study should be seen as tentative, without generalising it because most situations are atypical in some sense. (Cooper and Schindler, 1998:132) and (Zikmund, 2003:116).

6.9. THE RESEARCH ENVIRONMENT

The research design occurred under environmental conditions and no simulations are used in the research. (Cooper and Schindler, 1998:133)

6.10.1. Sources of secondary data

6.10. OBJECTIVES OF EXPLORATORY STUDY

In choosing exploratory research the main objective here is to provide insights into and an understanding of the research problem. The researcher has used exploratory research 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. (Malhotra, 1996:86)

Exploratory research was done by, gathering background information through investigating secondary data. A case study was created involving intensive investigation on preferential procurement in Local Government and conducting experience surveys. Personal interviews were performed with employees of the City of Tshwane Municipality. The sample was selected to generate maximum insights. (Zikmund, 2003:132).

6.10.1. The use of secondary data

The first step in this exploratory research study was the search of secondary literature. These are the studies made by others for their own purposes. (Cooper and Schindler, 1998:135). Secondary data is data that has already been collected for purposes other than the problem at hand. (Malhotra, 1996:117).

The reasons for the use of secondary data in this study were: This data could be located quickly and inexpensively. In addition, the use of secondary data was helpful in: (1) identifying the problem (the use of preferential procurement in Local Government); (2) Better defining the problem (which preferential procurement policies are in place which support Local Economic Development); (3) developing an approach to the problem (this is a non-conclusive research study. (Malhotra, 1996:117).

6.10.1.1. Sources of secondary data

The first source for the collection of secondary data was to search for reports of prior research studies, relating to the topic under study. Those reports have revealed an extensive amount of historical data. In addition, by reviewing prior studies, the research study has identified potential subjects for further study. The second source of secondary data were published documents in the form of books, periodicals, booklets, documents, special catalogues, prepared by authors from inside and outside the City of Tshwane Municipality. (Cooper and Schindler, 1998:135).

6.10.1.2. Criteria for evaluating secondary data

In this research study the quality of secondary data was evaluated using certain criteria. Firstly, the methodology used to collect the data was examined to identify possible sources of bias. Such methodological considerations included the size and the nature of the sample, response rate and quality, and reporting procedures. For instance the size and the nature of the sample included policy makers, chief buyers and managers involved in the drafting and implementation of preferential procurement policies in Local Government in the City of Tshwane Municipality. The

response rate was satisfactory as most questions asked during interviews were answered. The conclusion of the research study was obtained from the interviews. These checks provided information on the reliability and validity of the data and helped determine whether they could be generalised to the problem at hand. The reliability and validity were further ascertained by an examination of the accuracy of the data, currency objectives, nature and dependability associated with the secondary data. The accuracy of the data collected was ensured by tape recording the interviews performed. The currency of the data was evaluated in a way that all sources of information are no older than ten years. This ensured data to be updated and relevant to the topic being investigated. The objective for collecting data was established and this ultimately determined the purpose for which that information is relevant and useful. The content of the data was examined to test its relevance to the topic. In order to be relevant, the data obtained had to address the issue of preferential procurement in Local Government. The dependability of the data was obtained by examining the expertise, credibility, reputation and trustworthiness of the respondents. (Malhotra,1996:121,122).

6.10.1.3. Classification of the secondary data

Secondary data is classified as internal and external. Internal data was collected within the City of Tshwane Municipality. In addition, external data, that is data published outside the council, was also collected. (Malhotra,1996:122)

6.10.2. Qualitative research

This study used qualitative exploratory research. Qualitative research is an unstructured, exploratory research methodology based on small samples that provide insights and understanding of the problem setting rather than to provide precise measurement or quantification. The objective is to gain a qualitative understanding of the underlying reasons and motivations behind the implementation of preferential procurement in the area of study. The focus on this qualitative research has been on words and observations: stories, visual portrayals, meaningful characterisations, interpretations and other expressive descriptions. Any source on information was formal or informally investigated to clarify which qualities or characteristics were

University of Pretoria etd – Gomes, N A G S (2006)

associated with the situation. The reasons for the use of qualitative research in this research study are: (1) it was not desirable to use fully structured or formal methods to obtain information from respondents. (2) Respondents were few, which consisted of those involved in the drafting and implementation of preferential procurement policies in Local Government. (3) Respondents were unwilling or unable to answer certain questions. (4) Respondents were unwilling to give truthful answers to questions that invaded their privacy, embarrassed them, or had a negative impact on their ego or status. (Zikmund, 111:2003) and (Malhotra, 1996:164)

There are two approaches to qualitative research: the direct and the indirect approach. This research study used a direct approach. The direct approach is not disguised: the respondents knew the purpose of the project. The techniques, which were used, were in-depth interviewing and experience survey. (Malhotra, 1996:165) and (Cooper and Schindler, 1998:135, 136)

6.10.2.1. Personal in-depth interviewing

Personal interviewing (i.e. face-to-face) is a two way conversation initiated by an interviewer to obtain information from a respondent. (Emory and Cooper, 1991:320) The use of in-depth interviewing in this research study encouraged respondents to share as much information as possible in an unconstrained environment. (Cooper and Schindler, 1998:325).

In order to achieve success when conducting the interviews three conditions were watched: (1) that there was availability of the needed information from the respondent; (2) that there was an understanding by the respondent of his/her role, and (3) and that there was a motivation by the respondent to cooperate. In order to motivate the respondent the researcher has thoroughly explained the importance of the topic and the relevance of the results of the research for Local Government at the City of Tshwane Municipality. (Cooper and Schindler, 1998:292).

The first goal in the interview was to increase the respondent's receptiveness. This was achieved by establishing a friendly relationship with the respondent. Three factors helped with respondent receptiveness. The respondents: (1) believed the

University of Pretoria etd – Gomes, N A G S (2006)

experience would be pleasant and satisfying, (2) thought answering the survey was an important and worthwhile use of their time, and (3) had any mental reservations satisfied. In order to achieve those goals the interviewer has given some explanation of the study's purpose, how the information would be used, and suggested what was expected of the respondent, so that the respondent perceived that answering the survey was important and worthwhile. For the sake of introduction, the interviewer immediately identified herself by name and the educational institution where she studies, at same time displaying friendly intention and stimulating the respondent's interest. The interviewer also established good relations with intermediaries who were helpful in the setting up of interviews. (Cooper and Schindler, 1998:293, 294)

The interviewer followed the exact wording of the questions, asked them in the order presented, and asked every question to every respondent although they were not able to answer all of them. When questions were misunderstood or misinterpreted they were repeated. The interviewer made sure that answers satisfied the questions' objectives. (Cooper and Schindler, 1998:295)

In order to stimulate respondents to answer more fully and relevantly the interviewer made use of probing in a neutral way and as natural part of the conversation. Probing was used by: *showing understanding and interest* to respondents answers (comments such as yes and uh-huh were thoroughly used); *giving brief pauses* before the following questions were asked, thus creating expectancy for a more satisfying answer; *repeating the question* when respondents appeared not to understand it or strayed from the subject or to promote revisions or further comments; *asking neutral questions* to obtain more information such as: "what do you mean", "can you tell me more about your thinking on that?", "why do you think that is so?" "Anything else?" To *clarify the questions* when answers were unclear or inconsistent with something already said, the interviewer would suggest that the respondent failed to understand fully. To do so the following probes were used: "I am not quite sure I know what you mean by that, could you tell me a little more?" or "I'm sorry, but I'm not sure I understand. (Cooper and Schindler, 1998:295). The use of these probing styles was helpful in obtaining the maximum amount of information from respondents interviewed at the City of Tshwane Municipality.

University of Pretoria etd – Gomes, N A G S (2006)

All interviews were recorded, from the start to the end. All respondents felt comfortable in being recorded and there was no time constraint, as of the duration of the interviews for all respondents. (Cooper and Schindler, 1998:296).

Although there were limitations, there were certain benefits gained in using personal in-depth interviews to create a case study about preferential procurement in the City of Tshwane Municipality. The face-to-face interaction between the interviewer and the respondents had several characteristics that helped obtain complete and precise information. (Zikmund, 200:2003).

For instance, the use of personal interviews during this research study, allowed for *feedback*. Respondents were given additional information concerning the purpose of the study as well as clarifying any questions a respondent had about the interview. During the interviews, a certain depth of information and detail could be secured as well as following it up by detailed *probing* of the respondent. Probing was used mostly in situations where the respondent's answers were brief, unclear or complex, needing a more comprehensive explanation, when there was discussion of confidential, sensitive topics, and when interviewing professional people. In addition, the interviewer had *control* during interrogation, as she was able to observe the problems and effect the interview had on the respondents. Also, the interviewer was able to conduct *lengthy* interviews (45 minutes to two hours) increase the likelihood of respondents answering all the questions for the sake of *completeness* and ensured a *high participation* of the people involved in preferential procurement in Local Government by conducting the interviews in their work places, at an agreed time to meet. (Zikmund, 199, 200, 201:2003), (Cooper and Schindler, 1998:291) and (Malhotra, 1996:177)

There were certain limitations regarding the interviews. It was costly in terms of time in relation to hard-to-reach persons and also respondents who were reluctant, unmotivated, to talk about the topic, or did not have the available information or knowledge to answer the questions. In relation to money costs, there were considerable costs relating to recording devices, telephone calls and transport as all interviews were conducted in the respondent's workplaces. (Cooper and Schindler, 1998:177).

This research study is cross-sectional and was carried out once and represents a

A non-response error occurred when the interviewer could not obtain an interview with the general manager for Local Economic Development, Mrs Kgomotso Matlala, who was unavailable for any interviews relating to this research study. To solve this nonresponse problem, the interviewer made callbacks at varied times of the day and days of the week, although unsuccessful. As Mrs Matlala could not be accessed at all, the interviewer looked for the managers who worked in her office in the three key areas of Local Economic Development. They were able to answer all the questions relating to their job functions. Response errors occurred when some respondents failed to report fully and accurately, especially when they found some of questions sensitive. (Cooper and Schindler, 1998:297, 298).

Unconstrained environment. The research sought information from persons

6.10.2.2. Experience surveys

The reason for the use of an experience survey in this research study is that the existing knowledge of the topic under discussion, that is, the use preferential procurement in Local Government is mostly concentrated in the City of Tshwane Municipality. A significant portion of what is known on the topic is proprietary to the Municipality and is not easily found in university and public libraries archives. The research study has benefited in seeking information from persons working in the Municipality and who are involved in policy making. As a result, important issues were discussed during the interviews giving valuable information to the research study. (Cooper and Schindler, 1998:136).

6.11. CONCLUSION

The aim of this chapter is to describe the methods, which have been used to investigate preferential procurement in the City of Tshwane. An exploratory study was conducted to find future research tasks/questions. This can lead to a formal study, which begins with developing hypothesis or research questions and involves precise procedures and data source specifications.

University of Pretoria etd – Gomes, N A G S (2006)

This research study is cross-sectional and was carried out once and represents a snapshot of one point in time by conducting a case study in Local Government. No simulations were used in the research. There was no manipulation of variables. Instead the researcher was merely descriptive about the topic under study.

RESEARCH FINDINGS IN THE CITY OF TSHWANE METROPOLITAN

This is an exploratory research study, which is qualitative in nature consisting of a methodology based on a small sample, which provided insights and understanding of the problem setting. Secondary data was collected to complement this fieldwork. Two techniques were used in qualitative research: in-depth interviews and experience surveys. In-depth interviews consisted of direct personal interviews where respondents were encouraged to share as much information as possible in an unconstrained environment. The research sought information from persons experienced in Preferential Procurement working at level of Local Government.

developmental responsibilities.

The procedure to get the information for the case study was to conduct interviews at Local Government with the Department of Local Economic Development policy makers, the people involved in the implementation of preferential procurement policies and in the buying process at the Municipality. The following people were interviewed:

- Mr Graham Gumbo, Acting Manager for the procurement Section in Tshwane Municipality;
- Mr Dirk Strydom, Contracting Officer at Tshwane Municipality;
- Mr Raessie Erasmus, Chief Buyer at Tshwane Municipality;
- Mr Stein Joubert, Senior Accounting Officer at Tshwane Municipality;

Various attempts were made in order to interview the General Manager for Local Economic Development Mrs Kgomoiso Matlala, who was always unavailable, but as she was never able to talk on the phone, or to concede an interview on the topic.

CHAPTER 7

RESEARCH FINDINGS IN THE CITY OF TSHWANE METROPOLITAN MUNICIPALITY

7.1. INTRODUCTION

The objective of this chapter is to do a case study to determine the use of preferential procurement in Local Government, and whether the City of Tshwane Metropolitan Municipality is able to promote local economic development, (LED) given its new developmental responsibilities.

The procedure to get the information for the case study was to conduct interviews at Local Government with the Department of Local Economic Development policy makers, the people involved in the implementation of preferential procurement policies and in the buying process at the Municipality. The following people were interviewed:

- Mr Graham Gumbo, Acting Manager for the procurement Section in Tshwane Municipality;
- Mr Dirk Strydom, Contracting Officer at Tshwane Municipality;
- Mr Rassie Erasmus, Chief Buyer at Tshwane Municipality;
- Mr Stein Joubert, Senior Accounting Officer at Tshwane Municipality

Various attempts were made in order to interview the General Manager for Local Economic Development Mrs Kgomotso Matlala, who was always unavailable, that is, she was never able to talk on the phone, or to concede an interview on the topic.

However, the persons who work in the three key areas of her office were interviewed.

They were:

- Mr Andre Gouws Acting Manager for Policy and Research;
- Mrs Nomgqibelo Mdlalose Manager for Enterprise Development; and
- Mr Hendriks Kleynhans Acting Manager for Industrial Development

The questions asked were the same for all respondents and they constitute the headings of the case study. Respondents were not able to answer all the questions, as some of them were not part of their expertise area.

7.2. OBJECTIVES OF LOCAL GOVERNMENT AT THE CITY OF TSHWANE

Gumbo, (2002) argues that Local Government in the City of Tshwane has a major task to accomplish, which is the development of areas, which lack basic infrastructure and have a poor economic activity. This was the main objective for the amalgamation of the areas into one Metropolitan council.

The main aim of Local Government is to provide prompt high quality service delivery.

An important aspect, which cannot go unnoticed, is that Local Government deals directly with the local community. Local Government is more aware of the needs and advances of the community it serves. This is one of the reasons why the Local Government White Paper put the Local Economic Development under the responsibility of Local Government.

Local Government in the City of Tshwane intends to remove certain backlogs in the most adversely affected areas. For example, given two areas: Pretoria and Soshanguve; Local Government would prioritise the construction of roads in Soshanguve where there is a shortage of this important infrastructure, rather than constantly repair roads in

Pretoria. This does not mean that more developed areas would be neglected, and left on their own up to total degradation. What Local Government pretends to achieve here is to allocate scarce resources to the places where it is needed the most. Where there is a shortage of finance Local Government can get grants from National Government. In this way, more developed areas such as Pretoria would help areas such as Soshanguve to have basic needs met such as the provision of housing, water and electricity, roads, hospitals, schools, and other amenities.

Strydom, (2002) argues that although there was a need to centralise the provision of services in the City of Tshwane, there is a need to develop adequate regulations and rules for a bigger metropolitan service delivery.

The provision of services such as water and electricity supply, the construction of roads and housing, hospitals, schools and other developmental initiatives for the local community becomes viable once there are economies of scale. Economies of scale will allow for cross-subsidisation. This means that the most economically developed areas such as Pretoria may subsidise the provision of services mentioned above in areas such as Soshanguve which economic activity is still unable to produce the capital needed to fund its infrastructural projects. In addition, since money can cross geographical barriers, there would be no overdrafts for a particular area.

Joubert, (2002) says that the City of Tshwane is working hard towards the upliftment of rural areas, however, more discipline and cooperation (that working with previous officials) is needed. He argues that although the amalgamation of areas into one Metropolitan area is seen by many as necessary, he believes that cross-subsidisation will not cover the existent gaps. Places like Wintersweld and Soshanguve are very far away from the municipality. For instance, when it comes to supporting SMMEs, suppliers have to come from these far away places whenever they have to be aware of contract opportunities. Many AP firms do not have the means to effectuate these long trips on a regular basis. Even the use of the Internet is unlikely for those who do not have the means to own a computer. Unless the municipality creates an infrastructure capable to

cover the deficiencies of these far away places socio-economic objectives will take a longer time to be achieved.

Mdlalose, (2003) says that one of the main objectives of Local Government is to promote Local Economic Development. Her job function as manager for enterprise development involves micro and small enterprise development, and also covers trade promotion. At a micro and informal level people lack skills and therefore these are the ones who need more assistance for business development and orientation to be more formalised. In addition, it looks for the setting of business support centres. Trade promotion looks at promoting exports, ensuring that local businesses have a local broad market.

Tshwane is capable of doing the work previously done by councils before amalgamation. However, during the current transformation, there is a lot of instability. This is affecting everyone involved in this process where people are being changed and confirmed into positions in Local Government. In addition, there is a bigger challenge at the City of Tshwane Municipality because it is a bigger area to cater for. It is a fact, only three of the councils that were amalgamated into the City of Tshwane had economic development strategies. There is a need at present to include the other councils into the development plans of the Municipality. There is a need for the department to be boosted to be able to provide the services to the local community.

Kleynhans, (2003) says that Industrial Development and Technology as a function of LED has a number of sub-functions. One of them is to promote industrial development and attracting investment towards the Tshwane Area, promoting specific industrial clusters such as the automotive cluster. This cluster is going to become a very prominent part of the department's task. The idea in the entire process is to do it in a very integrative manner. The idea is not only to develop the cluster, but also to develop the supportive infrastructure needed to develop the cluster. That kind of approach needs to be done within all the clusters and networks that the department is going to seek. The department is in the LED inverted commerce and new responsibility within Local

Government, although in the Greater Pretoria and new Tshwane Area, the former Greater Pretoria Metropolitan Council had a Metropolitan economic Development department and they started some initiatives. The City of Tshwane Metropolitan Municipality is on the one side going to start to build on what was done in the past, although a lot of new things will have to be done, one of the focus is basically to establish a reference for the work that the Department has done. There is a good idea on what the Department needs to do, being that they still need to finalise within that frame, and that is going to be done towards the beginning of April 2003 when the department has a strategic session and there it is going to clarify "job descriptions". However, the department has noticed that within the industrial development component, a proper industrial development strategy will have to be put in place. The following will have to be looked at, where it will have to analyse the different industrial areas in terms of its composition, the kind of economic activity taking place there, the strains of the clusters being developed there and to look at the spatial distribution of those industrial areas located all over Tshwane. Some are going quite well, while others are experiencing extreme economic growth problems. The department will have to go with business retention/development strategies, just as a method to maintain what is already there, because it is a big loss if industries are going to move; then the Department would lose quite a number of economic growth opportunities. Once the Department starts working with these strategies it will have to go to those industrialists and try to find out, what problems they experience, what support the Local Government can give them to promote growth. The Department has to look at the possibility of offering incentive programs; incentive programmes have been implemented over the past 5 years and are working extremely well.

can bring a lot of new investment opportunities as long as it is done in an integrative manner through development facilitation.

The Department has to look at industrial clusters, evaluate the different clusters and at the end of the day part of the process will also be to compile an industrial list directory so that the department can make information available on all manufacturing activities and manufactures in the area.

rent functions, as well as to evaluate the functions and projects as agreed upon within the council

On the development facilitation side there are basically four to five main focuses. The first one being able to identify large-scale development projects, analyse those projects, and putting together business plans for implementation. The second part would be to get funding for those projects in other words, development funding to form an element of that function. Then the third element of that function would be to lead to the old concept of project management or project implementation and then to the Spatial Development Initiatives projects of both national and provincial Governments. Local Government needs to take part in initiatives and analyse the economic impact of those initiatives, like deciding how it is going to make use of opportunities that are brought towards Tshwane, putting together implementation strategies enough to make decisions on how the municipality is going to promote economic growth within industrial areas. This is something that has not been done yet. There is a need from Local Government to find what kind of support Local Government can provide to promote economic development within Tshwane. The last one, also making part of this initiative is the entire principle of industrial clustering which needs to be invested in this initiative through this function.

The other part of the function is development facilitation. It is a new concept within Local Government. The department is trying to use this function to coordinate the expenditure from different government departments both at national and provincial level. The Department has succeeded in co-ordinating a governmental expenditure of close to R1 billion. The turnover from buying the construction material can create income revenue for Local Government. People working on that project, will get more disposable income, jobs will be created, and Local government will gain financial benefits from service revenues. This function can bring a lot of new investment opportunities as long as it is done in an integrative manner through development facilitation.

Tshwane Municipality is capable of coping with its new developmental responsibilities but given the proper human capacity, the proper allocation of its financial resources, as being creative within the different functions, as well as to execute the functions and projects as agreed upon within the council

Gouws, (2003) says that there are two aspects concerning his job function at Local Government in the department of Local Economic Development. These are: (1) policy and research and (2) information. Information is partly marketing and partly the information the enterprise would need to do business. He coordinates the linkages among the businesses. Trade points look after trade promotion and Enterprise South Africa Tshwane look more after entrepreneurial development. This section co-ordinates the information for their clients as well as information meant for investors on the business side. On the marketing side this section needs to inform people about the functions involving place marketing, internal communications. The policy and research side is doing an overall economic development strategy and as soon as it is ready, the section the implementation plan will be put into place. There are a number of issues, which are going to be look at such as BEE, procurement access to markets, availability of finance and HIV-AIDS.

The objectives of the Municipality can be analysed through its vision statement, which says: "to be the international acclaimed African capital city that empowers its people to prosper in a safe and healthy environment. The first part of the vision means that it must be a first world. There are already first world things that the City has and those things need to be maintained and developed. For example, South Africans are world leaders in car assembly. South Africa has the Bureau of Standards, which had a big role to play in the adoption of ISO 9000, therefore being on the cutting edge of creating standards. There is a need to maintain these and other infrastructures, through proper support mechanisms.

If one looks at the second part of the vision statement that says, to empower its people to prosper in a safe and healthy environment, it is not referring to the social development, the department is not in the business of doing handouts, instead the department is in the business of getting people that are focused to move up, and covers a lot of issues such as: information, training, mentoring and networking. This is the strategy there. The main draft has been done on the strategy: some of the things are on legislation and others in terms of the needs of the City of Tshwane. The Strategy has

been set up into certain goal areas and the structure is set up according to that. From goals and objectives the department is coming up with tactics at the work place for a five-year plan. There are a lot of policy documents, which were framed and they form the backbone of what happens. The policy document has been refined by Mrs Kgomotso Matlala to a certain extent and just needs legs to become a proper implementation policy document.

The following person was unable to discuss this topic: Erasmus (2002)

7.3. POPULATION BENEFITS IN TERMS OF LOCAL DEVELOPMENT

Mdlalose, (2003) says that the department of Local Economic Development has initiated quite a number of projects, which have created jobs for the local people. However, it is not easy, because some of the people have never worked before. Therefore, it is a challenge to create someone who can work and create something sustainable. Nevertheless, the department has projects, which are sustainable, where people are making a living on a daily basis. A number of them are still on a developmental stage, where they are still learning entrepreneurship, in training. The department is also looking at poverty alleviation through agricultural projects where its main purpose is to feed one's family and be able to sell the surplus to get an extra income.

Kleynhans, (2003) says that local benefits differ from function to function, and from project to project. For example in the Mabopane Centurion Development Corridor project (Isindingi project) the department facilitated the construction of roads to the value of R150 million. Within the implementation of those projects, labour intensive methods were used to a large degree. So the local communities benefited in terms of job creation and gain of revenue during that period. In addition to creating jobs and after compiling the necessary business plans, proper investigation is necessary to make sure projects are feasible. The families that were involved in those projects started to receive a monthly income of R2200, which was of great benefit to them. One of those projects was for disabled people, just South of the Pretoria Station, and they ended up with a

monthly income of approximately R10 000 a month for the entire unit. The local people use this success story as a basis to get additional funding to expand the operations. Some of the other work that the department does is to appoint a consultant referred to as business development champion. That consultant company went to the corridor area and they identified different business development opportunities. The department took some of these opportunities, and categorised and prioritised them. Eventually from a list of more or less 150, the department selects those, which have a good bankability opportunity, and then starts to compile business plans and to link possible private sector jockeys who will start the necessary investment funds.

Some of the other initiatives, which are linked to the automotive clusters for example to the land incentive over a four to five year period, negotiated a contractual investment value in the vicinity of R2.5 billion and also with the contractual possibility of establishing 50 000 new jobs within the Rosslyn area. So there is definite benefit in terms of job creation for local people and revenue for Local Government.

Gouws, (2003) says that there has been a certain amount of jobs and markets created by the municipality in the past. The new policy is an extension of what has been done in the Greater Pretoria Metropolitan Council. The department has started to look at some training aspects, for example Ford and BMW have re-invested into the area; this is part of the department interventions.

However, on the ground, in townships and rural areas, it becomes more difficult to prove the Department's success and there are a lot more failures, and projects do not have such a good record.

The following people were unable to discuss this topic: Gumbo, (2002) Strydom, (2002) Joubert, (2002) and Erasmus, (2002).

7.4. THE NEED FOR LOCAL GOVERNMENT TO GET MORE POWER IN TERMS OF FUNCTIONS AND INCOME

Mdlalose, (2003) said that the department needs policies that will allow it to be entrepreneurial, just like the entrepreneurs themselves. If the department sees an opportunity, it should be able to take advantage of it whilst it is still there, but the procedures are as such, that it becomes difficult to achieve this. So, there is a need for a separate institution that will be able to act speedily to capture opportunities as they come. If one comes and says that they want to attend a training program, the department may not respond as quickly and the entrepreneur may miss it at the time when it needs it. Currently the department is not able to respond as soon as possible to entrepreneurs. LED hopes that local business centres should do that, but again most of the people in need for these services cannot afford to pay for it. So the ideal situation would be for the LED department to cover the costs in one way or another, having some kind of relationship to say if one has made some intervention, from this level to that level and these are the results that came out from those interventions. In terms of the LED plans, goals and objectives, they should be in line and in one way or another should be able to provide the people with the services they cannot afford, not to say that people should get services for free. But there are cases where a person needs to attend a training program worth R3000 and clearly that person does not have the capital. Therefore the LED department must be flexible on how those services are provided so as to avoid excluding the people.

In relation to income, Local government needs to be active in setting up the small financial institutions. From the LED perspective there is a need to identify real entrepreneurs and assist them setting up their businesses. Legislation should help reduce the interest rates to a level that would be more affordable for SMMEs.

Kleynhans, (2003) says that it is difficult to determine whether Local Government needs extra power at this point in time. The reason is that there are new local economic policies and through the new municipal structures Act and Assistance Act there are new

functions and responsibilities to Local Government and they still need to work exactly whether those functions and responsibilities are going to work.

Gouws, (2003) says that there is a need to define the department's role if it is going to do the projects, whether it is going to act as entrepreneur or as a facilitator. At this point the department's role is better as a facilitator and getting other agencies to do the work.

In addition, in a way it is good many micro businesses do not know about the role of Local Government so as to not create false expectations, as the department needs extra capacity to meet them. There are not enough qualified people and at the moment, money insufficient.

The following people were unable to discuss this topic: Gumbo, (2002) Strydom, (2002) Joubert, (2002) and Erasmus, (2002)

7.5. THE USE OF MUNICIPAL POWERS TO PROMOTE SOCIAL DEVELOPMENT AND ECONOMIC GROWTH

Mdlalose, (2003) says that Local Government is an independent entity from other spheres of Government, and its responsibility is to have its impact on the ground, that is why it comes out with policies. But its main focus should be making sure that services are delivered and this is what gives it all the power and the authority to be just that. It then depends on how the Department implements those programs, what processes and procedures are put in place to be able to do that as well as how much provincial and national support resources are tapped on, because there are different funds and programs available from National and Provincial Governments. The Department is in a much better position to make the impact right on the ground, because the Legislation allows it, although depending on how the Municipality set itself up to ensure that they deliver.

(2003) says that coordination is necessary so that the department can tackle all the different resources and put them together, and have that much needed impact. This should be the Department's major role rather than starting from scratch.

Kleynhans, (2003) says that LED has been in place within Tshwane since October 2002. The Department is still struggling trying to get the necessary budget in place. The issue of money allocated in LED is a big problem. Only once there are the necessary resources, the department will be able to promote proper economic growth and therefore social development. But in regard to the work that has been done so far in terms of job creation, housing and infrastructure development, there have been some steps towards social development within a number of regions.

Gouws, (2003) says that the Department's strategic document often refers to the bill to justify the existence of LED. Several municipalities do not have the capacity, and Tshwane was probably one of the first to promote LED. The development aspect ought to be done under the RDP and there is a lot of debate about what development is. The old definition of Local Government involves the three "R's": roads, rubbish and rates. These are the biggest divisions in the Local Government and they get the biggest share of resources. In LED the share of the budget that the Department takes is very small: the Department asked for R15 million but was only given R5 million. The Department has been told to cut costs and expenses. However, the department needs to provide infrastructure and facilitation. When the department builds roads it creates short-term jobs and the question arising is how many long-term jobs are going to be created. So there is a need to develop those models, but there is still a big debate of what developmental is.

The following people were unable to discuss this topic: Gumbo, (2002) Strydom, (2002) Joubert, (2002) and Erasmus, (2002)

7.6. ALIGNMENT BETWEEN PUBLIC AND PRIVATE INVESTMENT WITHIN THE MUNICIPAL AREA

Mdlalose, (2003) says that coordination is necessary so that the department can tackle all the different resources and put them together, and have that much needed impact. This should be the Department's major role rather than starting from scratch.

The department has projects, which are being implemented with the private sector. On the other hand, both National, and Provincial Governments were not really in a position or they were not ready to start working with Local Government as yet. There is not really an established system at Provincial and Local Government that says, "That is how we are going to work". Presently the departments of Provincial and Local Government are setting a system in relation to working in projects, in conjunction, but eventually the end result should be such that when working in Local Government one should be comfortable in working in another Government department.

There should be a specific, simple procedure, something like when two cities or two countries have a relationship where specific issues are defined. The department has defined, that from the beginning it would reduce the time individual's waste finding the right people to talk to, because at the moment time is lost by the wrong people being consulted. It also has a lot to do with connections and how well one is networked instead of being an established system that says: "this is how one relates to Local Government". If that had been in place, it would have been much easier. Most of programs that National Government supports have to be done via Local Government, but the problem is that it depends on how clued up one is, and what there is. It is not something that is given directly to the Municipality to say if you are in LED these are the channels or this is how it is done.

Although Legislation says that Local Government should assist Local Business Support, it does not say how. So it is a matter of constantly defining and being creative around it. It should be more straightforward, because it is meant to be used by the Municipality and all the other things like reducing the amount of time in just trying to establish just one project.

Kleynhans, (2003) says that in order to discuss this topic, there is a need to understand the kind of projects that the Department is implementing. For example the Isindingi project has basically five legs: the first one is referred as over-rural restructuring. The

second one is referred as transport integration. The third one is direct investment. The fourth one is referred as coordinated investment attraction and the fifth one is referred as human resources development.

7.7. DEMOCRATISATION OF DEVELOPMENT

The Department is dealing with those pillars on a simultaneous basis. One of the projects must focus on the development of a new central business district in the nearest area of Soshanguve. Through an integrated approach the department convinced the South African railway commuted corporation transportation, to build a new station. The local council developed a road master plan whereby all the major routes lead towards the station area in terms of the public transports. Therefore, the department is creating a benefit in terms of economic development as a result of the people that are working together. Now the rest of the planning has been done in such manner that for example the provision of library facilities, police facilities, buying points are being developed simultaneously.

The human resources development side will be captured within the provision of those facilities but also during the construction of infrastructure. There is some training and skill development taking place and emergent contractors from the area benefit greatly.

The kind of economic development that takes place is being rocketed simultaneously so the entire initiative is being done in a very integrative manner. To do this the necessary institutional structures are put together and within these institutional structures there are different Local Government department's councillors on board and community representatives also form part of the constitutional structure.

Planning is being done with the community and the department is trying to accommodate their needs as well. However, there are certain strategic elements, planning principles, and integrative transport planning, which need to be accommodated into the concept to ensure that there is a feasible economic growth at a specific location benefiting the entire community.

The following people were unable to discuss this topic: Gumbo, (2002) Strydom, (2002) Joubert, (2002) Erasmus (2002) and Gouws (2003)

7.7. DEMOCRATISATION OF DEVELOPMENT

Mdlalose, (2003) says that the democratisation of development at the Local Government has been done through the integrative development plan, where Local Government is using that model prescribed by the law. Since people have choices and preferences, Local Government cannot do things without involving them. Democratisation is a way of saying, “come tell me what you would like to see happening”; it is about giving a voice rather than something being imposed on someone. So if the department says that it wants to develop Tshwane it needs to get the people of Tshwane to come in and say exactly what they think their priorities are. The Department will take a direction according to what the majority of the people want. Local Government uses the Integrative Development Plan (IDP) where there are established structures, which permit it to communicate with the people and the people to communicate with Local Government. Those structures also provide for all serious of activities that one goes through to enable them to meaningfully participate because he/she may be in a situation in which they cannot give a meaningful input because they operate far below a required level. The plan allows one to go further down to a certain level and understand what the people say, and as a professional one is able to assess and try to put it in a manner which enables implementation thereof.

Kleynhans, (2003) says that in the case of the Isindingi project, it is being done entirely with the community's participation, especially during the planning process. The Department accommodated more than 10 different institutions during that process and the project is being done on a step-by-step basis. It is important to note that the technical part is separated from the participation part. There is a specific reason for that, being the fact that the department decided to investigate new development strategies within strategic planning; this is a difficult area to involve communities because, they do not understand that kind of concept. However, as the department finishes the technical

aspect, the community is involved through an empowerment process and before the department proceeds to the next step it is confirmed that the community has supported what has been done within the first step. It took the department 14 months to complete the planning process.

Gouws, (2003) answered that democratisation is definitely being done. There are 76 wards in communities, and each ward has economic development subcommittees. Some of them are more active than others. The less active ones are in rural areas. The more active are in wealthier areas and that is always going to be a problem. The all system feeds from grass roots all the way up. The department's strategic document has grouped together 20 to 30 meetings that will leave with SMMEs to discuss the department's strategic document.

The following people were unable to discuss this topic: Gumbo, (2002) Strydom, (2002) Joubert, (2002) and Erasmus (2002)

7.8. EMPOWERMENT OF MARGINALISED GROUPS WITHIN THE LOCAL COMMUNITY

Mdlalose, (2003) said that their LED strategy is specifically designed to target the youth, the women and the disabled, though they do not have many of those. There is however a belief in the department that the disabled must be treated like any other person; so other people would say that they would rather not have a special project for the disabled but would make sure they participate in the projects organised for normal people.

Kleynhans, (2003) said that inclusion of marginalised groups has been done in different ways during the Department Marketing activities. The department provided continuous information to the group referred to as "women in the construction group" which are basically being managed by the Development Bank of Southern Africa. Several opportunities were made. The industrial development section will not always be aware of their involvement because implementation often is the responsibility of another

department for another line functioning. And his section does not often get involved within those projects. But at least the Department has opened up the possibilities for them to become part of projects. A large percentage of the construction cost went to emerging companies. Some of them went to woman groups and some of them went to disabled people, as this is an existing policy that the Department has. What local Government also did was to create a motivational company, which provides the necessary training, mentorship, financial management assistance, and monitoring of the quality of the work for emerging contractors to make sure they work according to the programs that need to be implemented. Also the company will take the responsibility that the work has been done according to the necessary specifications.

Gouws, (2003) says that with the BEE policy there will be other training and human resources development strategic framework. For achieving social development the department will focus on trade areas such as business skills.

The following people were unable to discuss this topic: Gumbo, (2002) Strydom, (2002) Joubert, (2002) and Erasmus (2002).

7.9. POLICY INTERVENTION TO SUPPORT THE EXPANSION OF LOCAL SMMEs

According to Mdlalose, (2003) the department has Developed a strategy for local enterprise development, but that would have to be supported by various policies. The department previously had policies, but they are not on paper. But with the new strategies that have been developed the Department is planning to introduce quite a number of policies like for instance for informal trade. The Department wants to come up with a proper definition on who they are, how can they be classified, and how the Department can actually start grading them, because once they have graded them it can say: "you have started here, so you have to grow and go further". The Department also has a policy that promotes industrial development were it offers industrial incentives in Northern Pretoria, Rosslyn; so if an entrepreneur is starting business the Department would entice him/her to start business in those areas because of the incentives being

offered there. Another policy, which is being used, is that, interventions will be based in the growth industries. The Department is not just to take anything and work on that; it has to look at the trends in favour of development. But it still has to tighten up all its policies and ensure SMMEs are supported. The Department realised those SMMEs lack infrastructures, and therefore this is going to be the main focus.

Gouws, (2003) says that the easiest way to empower people is through awareness. People need to be aware that they can start a business. What the department needs is a method to identify the best potential for each individual. The next step is information. Information is cheap and easy to get people to a level where they can do business.

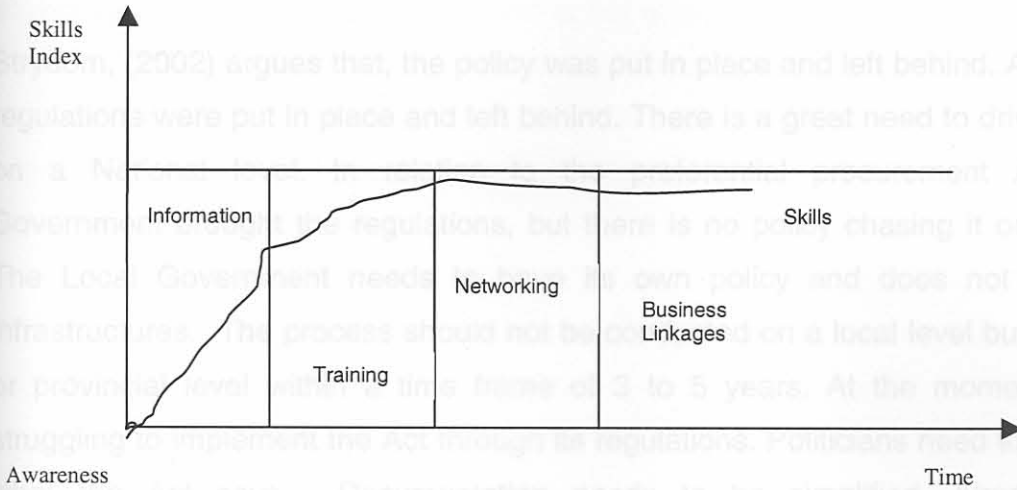
However, before any business can survive there is a need of a certain amount of skills, some of them being the hard skills. As people get skills they will be moving through a learning curve, which is initially steep and then stabilises. Information can be obtained through libraries, the Internet and other means. The department has publications, so that is going to be its strategy to inform. The next step is training, followed by mentoring to ensure the emergent firms are not making mistakes, and mistakes are being corrected; finally, business linkages will be established where emergent firms will get tender opportunities, export, and be involved in foreign missions. This can be represented in the following diagram (figure 7.1).

7.10. PROCUREMENT POLICY FOR THE CITY OF TSHWANE

Gumbo, (2002) says that the Municipality does not have an IT system to follow the achievement of goals pertaining to the implementation of the preferential procurement policy. The guide used for the implementation of the policy is the manual for implementation of preferential procurement. The 90/10, 80/20 price mechanisms are applied according to the Regulations of the Preferential Procurement Framework Policy Act.

In respect of the tender adjudication procedure, price review is done by estimating the study on job feasibility. A benchmark against prices being offered in the market is conducted. Risk analysis is conducted minimally: ratings at the bank are considered and previous work experience is evaluated. The waving for sureties is a common practice at

Figure 7.1: Skills Index Model



Source: Adapted from Gouws, 2003

The following people were unable to discuss this topic: Gumbo, (2002) Strydom, (2002) Joubert, (2002) Erasmus (2002) and Kleynhans (2003)

7.10. PROCUREMENT POLICY FOR THE CITY OF TSHWANE

Gumbo, (2002) says that the Municipality does not have an IT system to follow the achievement of goals pertaining to the implementation of the preferential procurement policy. The guide used for the implementation of the policy is the manual for implementation of preferential procurement. The 90/10, 80/20 price mechanisms are applied according to the Regulations of the Preferential Procurement Framework Policy Act.

In respect of the tender adjudication procedure, price review is done by estimating the study on job feasibility. A benchmark against prices being offered in the market is conducted. Risk analysis is conducted minimally: ratings at the bank are considered and previous work experience is evaluated. The waving for sureties is a common practice at

the Municipality because many small businesses do not have the capacity to present them. This measure will help SMMEs to develop, become more independent and financially strong.

Strydom, (2002) argues that, the policy was put in place and left behind. A year later the regulations were put in place and left behind. There is a great need to drive the process on a National level. In relation to the preferential procurement Act Provincial Government brought the regulations, but there is no policy chasing it or monitoring it. The Local Government needs to have its own policy and does not have enough infrastructures. The process should not be conducted on a local level but on a national or provincial level within a time frame of 3 to 5 years. At the moment people are struggling to implement the Act through its regulations. Politicians need to be trained on what the Act says. Documentation needs to be simplified. Already, quotation documentation has been simplified by reducing the number of pages from 80 to 15. Risk analysis is conducted when contracts involve amounts above R500 000. Here the municipality conducts financial analysis, reputation, bank status, and legal position. In contracts below R500 000 the decision to tender is based on a more subjective opinion. The reason for this procedure is that at the beginning SMMEs are not as strong financially and are subject to a lot of difficult challenges to establish themselves in the market, they have to compete with major companies and ultimately survive. The preferential procurement policy is still cumbersome. Many people still do not understand the meaning of preferential procurement. In addition black officials who draft policies without considering the consequences are replacing the previous white officials.

Mdlalose, (2003) argues that the procurement policy is a good policy but it is a very cumbersome process in terms of the requirements of user-friendliness to SMMEs. For instance the payment method affects their cash flow negatively because they have to wait for 30 days or more before getting paid. There are still small business people, which cannot qualify for loans from commercial banks. So there is a need for a bridging fund, for entrepreneurs who have won a tender.

Kleynhans, (2003) says that in relation to a new policy, Kgomotso Matlala has already compiled a strategic development framework and she is now in the process of working towards a participative approach, whereby the business sector can take part in the economic development strategy. There is not a proper strategy in place at this point in time. But she is working towards that process and the idea is to have something ready towards the end of April 2003. However, the department will need approximately two years to put detail and specific strategies in place, which will provide support for the implementation of the policy.

Gouws, (2003) says that the Local procurement policy will be still debated in future and needs to be enhanced, but the Department already has seven to eight businesses information centres set up. The department is busy drafting a policy. The policy that it has is a little old and policy makers are working on the national and provincial legislation. They allowed certain economic development aspects but it is more specially related and more South African related. Very little is being done in relation to BEE. The policy does not cater at the moment for BEE and certainly does not cater for SMMEs. So it will look at the Small Business Acts definition of SMMEs it will be acceptable but emergent businesses and BEE still needs to be addressed.

The following people were unable to discuss this topic: Joubert, (2002) and Erasmus, (2002)

7.11. CHALLENGES ENCOUNTERED BY LOCAL GOVERNMENT

Gumbo, (2002) says that the main problem encountered by the Municipality is limited budget. Also, the New Legislation requires established companies to have business with AP firms. However, there is significant resistance towards AP from established companies. In addition there is too much fronting in companies, for example some companies employ previously disadvantaged people for posts other than managerial. In addition, they may appoint employees to posts they are not fit for, just to comply with the law. The municipality does not blacklist companies, which have practiced fronting in the

past. Instead it demands them to eliminate fronting practices and once they are reorganised, can apply for contracts with government. There are still institutional arrangements, which act as a barrier to AP enterprise development. Lack of education is one of the blocks.

Strydom, (2002) says that there is resistance from both established companies and AP firms. The first in several instances demonstrate racism, and the second displays a desire for enrichment. Other major challenges Local Government encounters are the problems facing AP firms, which are: access to finance, complicated documentation, cumbersome bureaucracy, and lack of skills to understand Regulations pertaining to the implementation of the Preferential Procurement Policy Framework Act. In addition joint ventures are not catered for. In many instances the legal requirements are not completed and guarantees are not supplied.

Gouws, (2003) says that the Municipality is barely able to cope with its current responsibilities given the new development framework. The Municipality is trying but it is difficult because of insufficient funds and a lack of human resources capacity. Many people from the previous councils have left and have been replaced by new people who do not understand Local Government or developmental government. The challenges the department encounters are mainly to get a structure, and to get the integrative development plan to work as such.

Mdlalose, (2003) says that problems in implementing preferential procurement policy are present and there are certain challenges. The area, which the Municipality has to cater for is bigger than before. The very people that Local Government is targeting have a problem just filling in the forms and making sure that they comply so that they are considered. The way the information is disseminated is inefficient. Information is not readily available. For example people come and ask where the Municipality display the tender. The municipality should have a situation where everyone could have access to tender information. Because of the fact that monitoring is not done in an effective way, it becomes difficult to trace within the system the problems encountered by the people,

because some of the problems involve situations where the work has not been done, the standards are low and they are no corrective measures in place. Another major challenge is the availability of capital, where the Municipality has a budget, which is not sufficient enough to cover its developmental projects. There is resistance towards preferential procurement at Local Government, in the sense that no one wants to be the one who is empowering others and there will be always doubting about whether the AP firm will be able to do the job or not.

The following people were unable to discuss this topic: Joubert, (2002); Erasmus (2002); and Kleynhans (2003)

7.12. THE USE OF PREFERENTIAL PROCUREMENT AS AN INSTRUMENT OF LOCAL ECONOMIC EMPOWERMENT AND DEVELOPMENT

Gumbo, (2002) argues that there is a need for preferential procurement in South Africa in order to reverse past racial discrimination, which brought about socio-economic disparities among racial groups in South Africa. Preferential procurement can be used as a powerful tool to promote economic development because government buys goods and requests services worth millions and millions. Therefore, when government buys from AP firms, it promotes their economic empowerment.

Strydom, (2002) argues that preferential procurement can be used as an instrument of empowerment. However, the policy itself is worth nothing if the people responsible for it do not implement it correctly. There is a need to place the right people in key posts and to use the right tools to measure the results that is whether the previously disadvantaged people have gained or lost with the implementation of AP.

Erasmus, (2002) argues that preferential procurement is very important to give those who have never had a chance in the past.

Mdlalose, (2003) says that preferential procurement can be used as an instrument of economic empowerment. She argued that if one looks at the kind and amount of work that local municipality has in a year that is when one sees a lot of impact. That is why for Local Government, BEE is one of its key issues because just through the procurement process it could have quite a large impact and definitely could go a long way.

With respect to Tshwane, it is difficult to evaluate the impact of preferential procurement, because there is not a mechanism in place that would measure or monitor the impact. However, looking at the Department's database one would see several historically disadvantaged individuals (HDIs) or businesses have got certain kinds of jobs. But by getting a certain job, one cannot say that this is the impact of preferential procurement because eventually one must verify whether that business has grown from that particular job and if it is able to get repeated business.

The Department needs to look at a preferential procurement policy as a way of also allowing HDIs access to markets. And as they provide those services they need to be growing in terms of their service delivery that is, they need to improve. But because they only get jobs or tenders once in a while, when they get a second tender at a later stage they are still at low-level skills as much as when they have started. So unfortunately, there is not that much impact, mainly because the department does not monitor it. In relation to targeted procurement she is not aware of anyway that this has been measured. In service delivery there would be a training program that HDIs would go through for an awarded tender for example. The department is not fully following up, to an extent to say that this person with this job started here and then moved on and acquired these skills or that these person started with these much assets and the assets have grown this much. The department does not have this kind of data, which gives that information. Also, there is no single department that has targets for BEE, although each department should, because of the amount of work, which is outsourced. If service delivery would have targets, one could easily ask to show the results achieved by targeting and if not, ask why they have not been achieved. Therefore one would be able

to identify the problems encountered in the implementation of the policy and that prevent the department from meeting its targets.

Another issue is the one of targeting local companies. Different departments do it differently, and there is not much monitoring on how things are done. Therefore it is quite a loose process, where there are many ways of not complying with the legislation pertaining to the preferential procurement regulations, because the mechanism to ensure that the process is measured is not there.

There has been a compliance office in the Office of the Executive Mayor, which has been suggested to take all the statistics on preferential procurement, and in her opinion this office would have to ensure that all the departments set the target and should be able to identify problems and assist as necessary by providing training. So LED should have information in relation to preferential procurement, and problems encountered by companies. The LED department has made a recommendation for that an office to be established and they are still waiting for its outcome.

Kleynhans, (2003) says that preferential procurement is part of the policy in Local Government and that it is being organised through specific legislation. There is a system, whereby all consultants can list themselves and if the department wished to appoint someone it would take at least three companies from that list asking from project scopes. The department has a system whereby the previously disadvantaged and emerging companies receive the benefits in terms of the allocation of specific points when the bigger evaluation of the project proposal is being done. Preferential Procurement is necessary in some cases depending on the situation in Local Government. In some of the cases where there is a need for specialised expertise, it is often most probably necessary, to appoint two companies: an experienced one when specialised input is required and another one that can develop under training, thus promoting LED.

not sure if the Department has to come to that point. The Department of Public Works
The following people were unable to discuss this topic: Joubert, (2002) and Gouws
(2003) people. In the case of Local Government, if packages projects has they come
and then start classifying which of those are suitable for SMMEs and which are not.

7.13. THE ROLE OF PREFERENTIAL PROCUREMENT TO THE DEVELOPMENT OF SMMEs

a certain amount allocated for SMMEs. Targets are necessary because they
would allow Local Government to evaluate the impact it is causing, for example by
Gumbo, (2002) argues that one of the ways Local Government sought to promote LED
was through the promotion of SMMEs. Targeted procurement plays an important role in
the development of SMMEs. For instance, if one looks at target markets, one can notice
the development of joint ventures with HDIs and the disabled. Joubert, Erasmus (2002),
Gouws, (2003) and Kuyubang (2003)

Furthermore, BEE is a policy, which promotes the development of SMMEs. Some of the
tools used to achieve this are the establishment of tender advice centres, the ten-point
plan, the waving of securities, simplification of forms, the use of quotations for contracts
less than R12000. Gouws (2003) argues that regardless of current global trends, the main objective of

Tshwane is for contracts to be sustainable. Longer contracts can be beneficial to AP
Strydom, (2002) argues that there is a need to monitor the process in order to assess
the role of targeted procurement on the development of SMMEs. For instance, people
do not give the correct information because of the revenue section. Therefore, it is
difficult to assess this aspect at this point.

In the construction industry Government found the easiest form to promote BEE.
However, the resources are quickly getting exhausted and therefore there is a need to
identify other industries, which can offer opportunities for empowerment. In addition
government is too involved in the process and the industry should strive to regulate
itself. contracts. In order to assure high quality standards, the municipality trains the staff
and reviews the procedures and processes.

Mdlalose, (2003) argues that the department's targeted procurement system should
have specific targets. The department has the preferential procurement system but does
not have the target system, because in the target system there are set asides and she is

not sure if the Department has to come to that point. The Department of Public Works has a targeted procurement system, where they know which kinds of jobs go to a certain kind of people. In the case of Local Government, it packages projects as they come and then start classifying which of those are suitable for SMMEs and which are not. There are no targets and one cannot say for example that for the procurement system there is a certain amount allocated for SMMEs. Targets are necessary because they would allow Local Government to evaluate the impact it is causing, for example by looking at the value of the jobs it is providing. The next step would be to measure this impact and evaluate whether objectives are being met.

The following people were unable to discuss this topic: Joubert, Erasmus (2002), Gouws, (2003) and Kleynhans (2003)

7.14. CURRENT IMPACT OF PROCUREMENT TRENDS IN LOCAL GOVERNMENT

Gumbo, (2002) argues that regardless of current global trends, the main objective at Tshwane is for contracts to be sustainable. Longer contracts can be beneficial to AP firms to give them the time to buy machinery, have a positive cash flow, experience, a good credit rate at the bank and acquire the needed capital to expand the business. At the end of the third year the HDI would be more independent, and capable to compete with established companies

The reduction of the supplier base is not felt in Local Government. The database includes all suppliers including SMMEs. The municipality intends to differentiate between databases for SMMEs and for other suppliers. This system does not promote preferred suppliers. Instead AP suppliers are rotated to avoid one firm from getting all the contracts. In order to assure high quality standards, the municipality trains the staff and reviews the procedures and processes.

Strydom, (2002) argues that there is a need to regenerate the mind sets in companies, for the inclusion of AP suppliers in their supplier bases.

Joubert, (2002) says that as a result of the amalgamation of municipalities into the city of Tshwane, there is a bigger supplier base, which caters for all suppliers. There are more and more AP firms being part of the supplier base and as a result more money is flowing to them.

Buyers have sole suppliers instead of preferred suppliers. This means that certain items such as cables, these suppliers are the sole importers and no one else can provide these goods. JIT is not used at present as a requirement for a contract, mainly because the municipality is a services provider not a producer of goods.

In relation to high quality standards the municipality demands suppliers to deliver goods promptly. Certain AP firms are still struggling in providing goods of acceptable quality standards. When this happens buyers, contact and inform them that they have to upgrade their standards before their services will be requested again. When it comes to delay delivery, the municipality will send three warning letters before cancelling the contract.

In relation to cost reducing activities it is difficult to cut costs because the area the Municipality has to cover is so big. At the time, transaction costs are high, when it comes to the collection of orders, cost of delivery, and so on. A factor, which could help reduce these transaction costs, would be the installation of a computer system that would link one area to another.

Erasmus, (2002) argues that the awarding of longer-term contracts is not efficient. Instead he believes in the awarding of yearly contracts to show whether a supplier is really working and to spot illegalities. A contract longer than a year is economically unhealthy. For instance, a bad supplier may be given a three to five 5 years contract and perform badly in all of those years, where a better supplier could have won the contract in the second year. In relation to high quality standards, the buyers adjudicate contracts

according to sample and in this way storekeepers must assure goods supplied satisfy those specifications.

Mdlalose, (2003) says that it is currently difficult to say whether Local Government is moving to that trend or not, because most of the time the Department deals with people who get small jobs all the time and do not get bigger jobs. The market should dictate and the trend should be for people to get bigger projects than they previously did, and make an impact on customers, so that they request services again. The preferential procurement system should lay the foundation, so that AP firms can compete at market rates. At this point this is not happening and very few people get repeat jobs. The department does not have documentation that gives a synthesis or analysis of Local Government's procurement system right now.

Kleynhans, (2003) says that certain trends are already taking place and are being especially driven by the private sector. For example, there is a very strong automotive cluster in the City of Tshwane Municipality. The Municipality, in conjunction with the Provincial Government is busy with the development of a supplier park. The development of a supplier park is focused to accommodate specific component manufacturers as to improve the logistical chain between those component manufacturers and then through the logistical centre provide the necessary local component to the local manufacturer. This is being driven by globalisation. Tshwane accommodates approximately 90% of all research and development taking place within South Africa. Innovation at Tshwane is becoming extremely prominent. The Department is busy with a project referred to as the Tshwane Global Digital Program. Again this can only work on a long-term contract basis incorporating numerous partners taking globalisation into account. There is a need to consider performance targets with those contracts, and if one cannot meet them, then, it is going to create problems. The awarding of contracts, which are too short, can cause a loss of continuity. This is part of the department's existing problems within the municipality. The Department works on a financial year basis starting on the 1st of July up to the end of June. If a consultant is appointed to identify business development opportunities for someone and then

establishes a process whereby these opportunities are identified, business plans are compiled and this is a process that takes more than a year. Therefore, there is time to get the necessary funds on a 3-year basis, avoiding losing continuity and having to start from the beginning. The municipality would not allow the use of preferred suppliers.

Gouws, (2003) says that the EDI system is a complex system that needs to be put in place. If one is going to set an EDI system we are looking at a few millions for a company. That would certainly help to do a better job but at the same time, create barriers of entry in the industry.

In terms of the Municipal Finance Act the Department is looking at longer-term budgets. So it is not going to do budgets in a year. The Department will opt for longer-term contracts. In terms of preferential procurement it will be beneficial because it will allow making some interventions on trading and setting the AP firms into a standard and permit assistance towards their growth. This has not been done but would be beneficial. At this stage, in relation to supplier base reduction, the municipality is going to widen its supplier base rather than reduce it and it is going to start looking more in that areas where there were found pockets.

7.15. THE CREATION, MAXIMISATION AND DISSEMINATION OF OPPORTUNITIES FOR AP FIRMS

Gumbo, (2002) says that the creation of AP opportunities is at the moment difficult, because the budget is limited. Currently, the budget does not have set-asides for AP firms. The municipality intends to allocate a certain percentage of the budget for example 25% for SMMEs and AP firms.

Strydom, (2002) says that the municipality attempts to create opportunities for AP firms. For instance, the unbundling of projects give AP firms the opportunity to participate in contracts, which they would not be able to win on their own. The unbundling of contracts

requires contractors to use more labour intensive practices, so those small firms, which do not have yet the infrastructure, can start with what they can do.

In relation to the maximisation of opportunities AP firms will not be able to do it on their own. It is difficult to maximise opportunities without the necessary support from the banking system, well-established companies, Government institutions, and all other entities which can contribute to this effect.

Joubert, (2002) argues that the unbundling of projects as a way to create opportunities for AP firms, will not work. For instance, one cannot put apples with bananas. In real terms, what may happen is that a part may not perform as required and sabotage the whole project. As a result the chain will be broken, and the contract may be fulfilled. At the moment previously disadvantaged individuals/businesses need more discipline.

Erasmus, (2002) believes that unbundling is an effective way to give opportunities to AP firms. In doing so, the municipality is giving AP firms a chance to be part of the economy by producing goods and the offering of services. In order to improve supplier-buyer relationships it is essential that representatives visit companies and show new lines of supplies and at the same time be interested on the types of services the municipality's requests. After winning a contract, suppliers must be able to perform promptly.

Mdlalose, (2003) believes that the Department has not been active in assisting AP firms at all. It has been more active with those companies that buy services from Local Government. What the Department normally does is to respond in terms of what it has at that point, if it does have an enquiry. This is an area where the Department has been lacking action, and has not been proactive, assisting as and when. For example, in case Anglo-American Corporation wants to buy from AP firms the Department should prepare them adequately. In order to maximise opportunities for AP firms the Department needs to get in touch with firms and find out exactly what kind of products they would like to buy, the quality, standards and then find a way to assess if AP firms are capable of providing them, and then prepare them as well as finding whether firms are able or not

to support AP firms. The creation of opportunities is actually one of the functions, which is allocated to the Department's proposed Assistant manager for BEE.

In relation to the unbundling of projects the Department has been implementing it, not without experiencing some problems. Problems in projects occur when people are given jobs which they are not capable of doing, and when the project manager is not briefed properly. Project managers must be told that empowering people is part of their functions, because they have certain kind of skills; this means that the project manager has to be there if the AP firms make mistakes and be able to correct them. So it is a matter of taking or not responsibility for empowering others. An empowerment group means that it lacks certain skills; therefore the project manager has to be there to monitor and identify where there are gaps in skills and fill those gaps as soon as possible. By the time the project is finished the AP firm should be able to accomplish the tasks involved in the allocated job description. Also if AP firms are constantly given small jobs, it will take longer for them to improve; however, if they are given bigger jobs it would be possible to measure improvement in terms of skills and complexity levels required. The ultimate success depends on managing the whole process, in a way that the contractual relationship is nurtured. Unfortunately, these aspects are not spelled out and many project managers do not see themselves as playing a monitoring role.

Kleynhans, (2003) says that part of the Insingidi project is to identify business development opportunities and then involve such as the Ga-rankuwa case. For example, the Department has a proposal for a business development center, and that opportunity will be for emerging people. The municipality through the major's cruise is busy with the Department of Public Works program and the initial construction of a glass plant has been launched. That initiative will be for emerging people and there is definitely some action being taken by Local Government to benefit those people.

Opportunities can only be maximised firstly if backed by the necessary funds and secondly through public partnerships. Presently, the Department is going to work towards public and private partnerships, within the automotive sector, which can also be

private-to-private partnerships whereby the idea is to identify within the automotive cluster specific subcomponents forming part of a component manufacturer. And the idea is to use that subcomponent as an opportunity for an emerging SMME development. In some cases it has been done already, but the Department would like to enhance that process.

Gouws, (2003) says that opportunities are created in an ad hoc basis. When this happens the system is always vulnerable to corruption, so what the Department did was to put firms together to form consortiums, and the Department has been involved where it is been located. But it is difficult to do it as a policy. The sooner there is a policy to form a consortium, the better. However, what would be better is to have a structure in place where people could be trained to get up to speed. What the Department also does is to form tender advice centres. They all have the tender opportunities and they have a bulletin board where they have notices displayed. There is also a service that helps the person complete the tender forms.

In order to maximise opportunities there is a need for more awareness. The problem with micro firms in Soshanguve in the period of three months is that a third of them are gone. Firms start and die; the reason for this is that a lot of enterprises start out of need; they are very survivalist, they are hungry for food, and as soon as the person gets a job they leave the enterprise and move to fixed employment. So, there is a need to create awareness. There is a need to identify potential in people with entrepreneurial characteristics that would want to take the risk to make a profit. In addition, the Department will start working with awards and give them to real entrepreneurs recognising real excellence.

7.16. SUPPLIER DEVELOPMENT

Gumbo, (2002) says that the municipality does not have a supplier development program in place. There is no supplier development department or team, instead the buying department deals with all suppliers. Supplier performance is evaluated in terms

of prompt delivery. If the supplier does not perform accordingly the municipality can cancel the program according to the contract. Successful suppliers are required to deliver goods promptly and when necessary, be reliable in the provision of services.

When AP firms start their businesses, they are not ready to be supplier contractors yet, and there will be another five to ten years for AP firms to become world class suppliers. Instead, AP firms can start as subcontractors, because they do not have the infrastructure, the capital and the skills to assume more onerous contracts. Contracting firms can subcontract AP firms enabling them to acquire the experience and to grow its financial and infrastructural capabilities. Therefore, subcontracting can be used as an instrument of economic development. In addition, subcontracting can also be seen as a form of strategic alliance through unbundling. In unbundling, the parts involved in the contract depend from one another to deliver the final good. For example, in a contract the contractor may have the task to build the foundations since it has the machinery and the capital for that; the subcontractor, being the AP firms would have tasks such erecting the walls or paving the floor. These tasks do not require the employment of heavy machinery, but would give the small firms to start growing.

The major advantages from this strategic alliance would be capacity and skills transfer, the ability to grow into a more independent business. For the contractor, the major advantage would be the expansion of its supplier base and the fulfilment of social responsibility requirements namely economic empowerment of previously disadvantaged individuals.

Supplier development in the 1990s was characterised by the introduction of the New Legislation pertaining to preferential procurement. The predictions for supplier development include the increase of the municipality's supplier base to make room for AP suppliers. In addition, the future may open doors for more previously disadvantaged individuals in directorships. There will be more state intervention in relation to supplier development.

Joubert, (2002) says that a growing state intervention is not desirable to avoid dependency. He says that successful AP suppliers must have a reliable infrastructure in the form of human, finance and other resources necessary to grow

Mdlalose, (2003) says that the only programme that the Department has so far is the automotive component supplier development program, mainly because it is driven by the growth of the automotive industry. The objective is to now study other activities and see what clusters could be there and start developing right away.

The suppliers that are already established just come and enquire. What LED does is to go out and encourage people to come and reach LED as service providers or suppliers, for the City of Tshwane. There is no specific criterion, but each Department would identify the services that they need and then go and encourage people who provide those services to be on the municipality's list of suppliers.

As service providers, good suppliers it would be those who have the willingness to learn, although they may come to offer a skill, as well as the capacity to improve their services and grow their businesses. The ones that give other people opportunities as they benefit from the process and as they get more opportunities, for example by employing more people as they grow. In addition, a successful supplier uses efficient cost-effective methods. The end result should be a positive impact in the society and not just to make money. A good supplier is the one that in situations in which the money is not sufficient still tries to deliver the results.

Kleyhans, (2003) says that his job is not involved in buying at this time therefore cannot evaluate supplier's performance.

Gouws, (2003) says that the Department does not have a supplier development program but needs one and if there are no suppliers that can supply the municipality competitively then it is going to pay much more than it should.

The following people were unable to discuss this topic: Erasmus, (2002) and Strydom (2002).

7.17. THE IMPACT OF PREFERENTIAL PROCUREMENT ON BUYING PROCEDURES

According to Gumbo, (2002) the formal policy used in the municipality is targeted procurement and there is no tracking of AP firms in the municipality. The municipality participates in trade fairs where it makes SMMEs aware of the opportunities available and the services it can offer. Tenders do appear in Sowetan, Pretoria News and Web sites.

According to Joubert, (2003) preferential procurement has the following effect on the buying process at the Municipality, formal training is not given to buyers to support AP programmes. Buyers' performance review does not include AP programme effectiveness as a factor for evaluation. At present the municipality does not provide resources such as finance or information system, or technical assistance to improve AP supplier's capabilities. The municipality does not establish goals for AP firms. There is no full-time AP coordinator.

All the other respondents were unable to comment on this point

7.18. ACHIEVEMENT OF NATIONAL SOCIO-ECONOMIC OBJECTIVES

According to Gumbo, (2002) the GEAR programme was not imposed on Local Government, and therefore it has never been used. It merely consists of a framework, which is applicable at a national level. Local Government is currently guided by the objectives sought by the RDP. One of the socio-economic objectives the municipality is trying to achieve is the creation of employment opportunities. The way it sought to achieve this objective is through the encouragement of the practice of labour intensive methods and the unbundling of projects.

Strydom, (2002) argues that several socio-economic objectives have not been achieved yet, at a ground floor level. In relation to Government socio-economic objectives, some basic resources have been placed in the hands of Government. Since deregulation, Local Government is now responsible for the provision of water electricity, housing. He argues that structurally Government should have considered a 10-year plan step-ladder. It is a mistake to consider this goal as a once-off project, instead it should be considered as a continuous process. Politically, no one would accept this 10-year plan. In his opinion the RDP must be a continuous process. The GEAR programme was not politically acceptable. For unions its implementation meant layoffs, privatisation, and enrichment of individuals. On the other hand they perceived the RDP as a way to empower the people economically.

Joubert, (2002) argues that at the moment several AP firms have the knowledge on how to get empowered economically but do not have the right infrastructures to accomplish their goals. Government must therefore become more involved in the development of the community and monitor procurement policies and evaluate and measure results.

Erasmus, (2002) argues that many socio-economic objectives have not been achieved yet. However, the municipality is moving in this direction, making this a continuous process.

Mdlalose, (2003) says that the RDP is a broad program involving housing, job creation and there has been a lot done in those spheres but not everything has been achieved. For instance, job creation is still at very low levels. A lot has been done but there is still a long way to go to be able to provide employment opportunities that would be meaningful and that would have an impact on the economic growth of the country. There are mitigating effects that are out of the Department's control.

Kleynhans, (2003) says that the principles of the RDP were incorporated in the Isindingi project and into the Garsfontein CBD development project. It is incorporated by innumerous activities.

Gouws, (2003) says that the objectives are still far from being achieved. When one looks at the RDP principles and its focus areas developed from the mission and vision statement, economic development is one of them. But any project, which is done in Local Government, has got an economic developmental aspect. So, what needs to be done is partly aligning it to meet national objectives: it must create jobs, it must create wealth and when relating to tenders it must include economic empowerment and unless there are funds available it will not happen. If an engineer is going to build a road as an engineer he /she has to empower the AP firms so that the standards to build the road are maintained.

7.19. CASE STUDY ON THE USE OF PREFERENTIAL PROCUREMENT IN THE CITY OF TSHWANE

7.19.1. Introduction

On the 5th December 2001 several municipalities and councils were integrated into the City of Tshwane Metropolitan Municipality, giving Local Government a greater role regarding local economic development. Local Government intends to use its purchasing power in the form of preferential procurement to develop SMMEs from disadvantaged background.

7.19.2. Objectives of Local Government at the City of Tshwane

The objectives of the Municipality can be analysed through its vision statement, which says: "to be the international acclaimed African capital city that empowers its people to prosper in a safe and healthy environment.

The City of Tshwane intends to promote local economic development in areas, which lack infrastructure and have poor economic activity, because it deals directly with the local community and it is more aware of its needs. In doing so, Local Government has to provide high quality service delivery as well as maintaining the first world infrastructure which already exists in the most economically developed areas. The LED department is made of three main functions, which are enterprise development, industrial development and technology and policy research and information.

The enterprise development function involves micro and small enterprise development, covers trade promotion, assistance for business development and orientation, setting of business support centres and trade promotion.

Industrial Development and Technology as a function of LED has a number of sub-functions. One of them is to promote industrial development and attracting investment towards the Tshwane Area, promoting specific industrial clusters and to develop the supportive infrastructure needed to develop the cluster. The Department sees that within the industrial development component, it will have to do proper industrial development strategies. It will have to analyse the different industrial areas in terms of its composition, the kind of economic activity taking place there, the strains of the clusters being developed there, and to look at the spatial distribution of those industrial areas located all over Tshwane. The Department has to look at industrial clusters, evaluate the different clusters and at the end of the day, part of the process will be to compile an industrial directory list so that the department can make information available on all manufacturing activities and manufactures in the area.

On the development facilitation side there are basically four to five main focuses. The first one is to identify large-scale development projects, analyse those projects, and putting together business plans for implementation. The second part would be to get funding for those projects in other words, development funding to form a common element of that function. Then the third element of that function would be to lead to the old concept of project management or project implementation and then to the Spatial

Development Initiatives projects of both National and Provincial Governments. Local Government needs to take part in initiatives and analyse the economic impact of those initiatives, like deciding how it is going to make use of opportunities that are brought towards Tshwane, putting together implementation strategies, enough to make decisions on how the municipality is going to promote economic growth within industrial areas. This is something that has not been done yet. There is a need from Local Government to find out what kind of support Local Government can provide to promote economic development within Tshwane. The last one, which will also make part of this initiative, is the entire principle of industrial clustering, which needs to be invested in this initiative through this function.

The other part of the function is development facilitation. It is a new concept within Local Government. The Department is trying to use this function to co-ordinate the expenditure from different Government departments both at national and provincial level. This function can bring a lot of new investment opportunities as long as it is done in an integrative manner through development facilitation.

The policy research and information section co-ordinates the information for clients as well as information meant for investors on the business side. On the marketing side this section informs people about the functions involving place marketing, internal communications. The policy and research side is doing an overall economic development strategy taking into account issues such as BEE, procurement access to markets, availability of finance and HIV-AIDS.

Although it is a bigger area to cater for, Local Government intends to use subsidisation as a strategy to avoid overdrafts. This means that scarce resources will be spread evenly throughout the area, where the most economically developed areas, which produce the most capital, will finance the ones that lack development. This in turn will improve the standards of living of its inhabitants. However, there is some scepticism towards cross-subsidisation as whether it will be capable to cover the existent gaps due to lack of discipline and cooperation as well as the fact that SMMEs which stay far away

from the Municipality may miss opportunities due to poor awareness high transport costs, and computer illiteracy.

7.19.3. Local benefits in terms of local development

The kind of projects, which were initiated by the municipality created job opportunities. For example, in the Isindingi project labour intensive methods were used to a large extent to create job opportunities. Creating sustainable jobs are not easy because some of the people have never worked before. Sustainability depends on the nature of the projects and the training, which is given to the local people.

7.19.4. The need for Local Government to get extra power

The LED department sees the need for policies, which allow the Department to be more entrepreneurial and to respond quickly to the entrepreneurs needs. Local Government also needs more money in order to finance potential entrepreneurs which cannot afford to pay for the services the local business centres offer. Local government needs to set up small financial institutions and assist entrepreneurs. Local Government needs extra capacity in terms of human resources who understand about Local Government and developmental Government.

7.19.5. The use of municipal powers to promote social development and economic growth

As an independent entity, Local Government is creating policies, which will allow it to have its impact on the ground, making sure it delivers its services. However, it needs National and Provincial Governments support in terms of funds and programmes. Only when Government has the needed budget will be able to promote proper economic growth and social development. There is also a need to create long-term jobs.

7.19.6. Alignment between private and public investment

There is not a system at Local Government which co-ordinates all the different resources available and which permits an efficient relationship with Local Government where people do not waste time going to the wrong offices or have to recur to unlawful connections. In addition, Legislation does not say how Local Government should assist local businesses. However, there are some projects, such as the Isindingi project where Local Government Department councillors and community representatives form part of the constitutional structure.

7.19.7. Democratisation of development

Democratisation of development at Local Government has been through the integrative development plan, where there are established structures, which permit it to communicate with the people and the people to communicate with the Local Government. For example the Isindingi project is being done with the community participation especially during the planning process, except for the technical part where a certain kind of expertise is needed. There are 76 wards in communities and each one has economic development subcommittee. The less active wards are in the rural areas.

7.19.8. Empowerment of marginalised groups

The LED strategy is specifically designed to target the youth, the women and the disabled though the department do not have many of those. The inclusion of marginalised groups has been done in different ways during the Department Marketing activities. The Department has opened up possibilities for women and the disabled to become part of projects.

The main challenge the Municipality has to face is the insufficient budget it has to use in order to promote development in local communities in the Tshwane area. The municipality struggles to cope with its new developmental responsibilities due to both

7.19.9. Policy intervention to support the local SMMEs

The Department has developed a strategy of local enterprise development and is planning to introduce a number of policies to support informal trading. Another policy, which can support SMMEs, is industrial development where it offers industrial incentives in growth industries. The Department realised that SMMEs lack infrastructure and policies will be designed to support them. The Department needs a method to identify potential entrepreneurs that is, people willing to start a business and grow it at a risk for a profit. The Department must create the awareness that people can start a business. The people need information and a certain amount of skills. In this process, people need to be trained and mentored and establish business linkages.

7.19.10. Procurement policy for the City of Tshwane

At the present, the guide used for the implementation of the policy is the manual for implementation of preferential procurement. In relation to the preferential procurement Act, there are the Regulations to implement it, but there is no monitoring policy. There is a need for local Government to have its own policies, but it does not have enough structures for it.

7.19.13. The role of preferential procurement to the development of SMMEs

The actual procurement policy is said to be cumbersome and not user friendly. The Department is at the present drafting a local procurement policy, which has certain economic development aspects. At the moment there is a need for catering for BEE and SMMEs. The actual drafting will look at the Small Business Act definition of SMMEs so as to develop a strategy, which benefits the development of SMMEs.

7.19.11. Challenges encountered by Local Government

7.19.14. Current impact of procurement trends in Local Government

The main challenge the Municipality has to face is the insufficient budget it has to use in order to promote development in local communities in the Tshwane area. The municipality struggles to cope with its new developmental responsibilities due to both

insufficient finance and human resources capacity. Another challenge is to get a proper structure and to get the integrative development plan to work. The Municipality has to improve both information dissemination and monitoring of the implementation of preferential procurement policies.

7.19.12. The use of preferential procurement as an instrument of LED

Preferential procurement can be used by Local Government to promote LED and to empower economically the local communities. Disadvantaged people can be empowered when Government buys goods and services from them through the process of preferential procurement. However, this process must be implemented correctly as a policy. At the moment, it is difficult to evaluate the impact of preferential procurement because there is not a mechanism in place to monitor and measure it. There is no documentation that gives a synthesis or analysis of the Local Government procurement system. There are no targets for BEE or monitoring system improvements achieved by SMMEs. It will not always be possible to use AP firms for expertise work, instead, the Department will have the request the services of both an established firm and the AP firm.

7.19.13. The role of preferential procurement to the development of SMMEs

Two policies can be used to promote SMMEs development: target procurement and BEE. Target procurement set asides projects and funds for SMMEs. BEE enables previously disadvantaged people to participate in a more competitive way in the economy. Again the process needs to be monitored and Local Government needs to find various industries where it can promote BEE instead of one or two.

7.19.14. Current impact of procurement trends in Local Government

The Municipality looks forward for awarding longer term contracts to AP firms as this will give them time to acquire the necessary finance experience and other resources to

expand the business. There are no signs of reduction of the supplier base at the municipality. Instead, there is been an increasing of the supplier base with more AP suppliers and SMMEs included. There are preferred suppliers. Quality is evaluated from prompt delivery. Quality standards are to be kept at a certain level. It is difficult to keep costs down because the Municipality has a greater area to cater for making transaction costs high.

7.19.15. The creation, maximisation and dissemination of opportunities for AP firms

The creation of opportunities is difficult at the present because there are insufficient funds to have set-asides for AP firms. However, the Municipality intends to allocate a certain percentage of its budget to AP firms and SMMEs. The Municipality intends to create opportunities through the unbundling of projects. This is beneficial because it requires contracts to use more labour intensive practices thus creating more job opportunities and giving experience to AP firms. In order to maximise opportunities, there is a need for a greater banking system support. The Department needs to be in touch with firms and know the kind of products they offer and assess whether they are able of providing them.

There is a need to form a policy of consortium of firms to maximise the opportunities offered to them. Tender advice centres display the tender opportunities available. More awareness is needed to maximise opportunities and to identify real entrepreneurs. A system of rewarding excellence will be established through the creation of an awarding system.

7.19.16. Supplier development

The Municipality does not have a supplier development program. However, it has an automotive component supplier development program driven by the growth in the automotive industry.

7.19.17. The impact of preferential procurement on buying procedures

At the Municipality, no formal training is given to buyers to support AP programmes. Buyer's performance review does not include AP programmes as a factor for evaluation. There is no full time AP coordinator.

7.19.18. Achievement of national objectives

Local Government is currently guided by the objectives sought by the RDP. The achievement of these goals do not constitute a once-off project, instead it is considered a continuous process. At the present unemployment is still high but many job opportunities have been created through the projects implemented by Local Government.

7.20. CONCLUSION

The objective of chapter seven was to present the results of a research study conducted at the City of Tshwane Metropolitan Council. The topic of the research study was the use of preferential procurement in Local Government. The method used to collect the information was by conducting structured interviews and from there formulate a case study, whose subtitles are essentially the topics covered in the previous chapters, as well as issues surrounding how Local Government uses preferential procurement to promote LED.

With this in mind various policy makers and implementers (Chief buyers) were interviewed at the municipality. The questions posed attempt to uncover real problems encountered and success achieved in using a preferential procurement policy in LED.

The issues discussed in the interviews were related to the use of preferential procurement in Local Government as a way to promote LED. These are summarised below:

The objectives of Local Government at the Municipality are to promptly deliver high quality services as well as to promote LED in the local communities especially in the poorest areas. However, it encounters challenges such as insufficient money, inefficient monitoring and dissemination of information, lack of human resources, resistance towards preferential procurement and it is struggling to get a proper structure and to make the Integrative Development Plan to work

The local population is benefiting in terms of local development through the creation of jobs when Local Government implements a project. Local people are also empowered through the democratisation of development where there are given the opportunity to say their needs 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 get 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 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 the 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. Legislation says that Local Government should assist local business but does not say how it should do it.

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 as been recognised at the Department as a tool to empower previously disadvantaged people. 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, where the Department intends to establish longer-term contracts with AP suppliers, to increase the supplier base to include historically disadvantaged individuals. The Department believes that presently it is not possible to use an EDI system because this would constitute a barrier of entry to AP firms.

Preferential procurement does not presently have an impact on buying procedures. For instance buyer's performance review does not include preferential procurement achievements and the buyers do not receive training in relation to the implementation of the regulations of the preferential procurement Act.

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 to small firms to participate in projects they would not be able to participate alone. Maximising opportunities also involve 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.

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.

SUMMARY AND CONCLUSION

National objectives proposed by the RDP have not been achieved 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.

The next chapter concludes and presents the summary of the research study. It reviews the literature research, the objectives, and limitations as well as gives recommendations for future research study concerning the topic addressed in this thesis.

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

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

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.

ANC. 1994. *The Reconstruction Development Programme*. Johannesburg: Umnyano Publications.

Auskalnis, R. J. Ketchum, C. L. & Carter, C. R. 1995. *Purchasing from Minority Business Enterprises: Best Practices*. Arizona: Center for advanced Purchasing Studies

Badenhorst, H. 1995. *Affirmative Purchasing: Challenges for Enterprises*. South Africa: UNISA.

Bates, T. & Williams, D. 1995. Do Preferential Procurement Programs Benefit Minority Business? *American Economic Review*, May, vol.8 no 2:294-298.

Bullivant, B. 1997. What the Lawyers Say: The Legality of Diversity. *Supply Management* 10, April: pg.22.

City of Tshwane. 2001. *A Pictorial Journey*. Pretoria.

Clark, I. 1994. *Feed the Champions*. *Finance Week* April 7-13:pg.9

Cooper, D. R. & Schindler, P. S. 1998. *Business Research Methods*, 6th edition. Singapore: McGraw-Hill International Editions.

Davidson, J. P. 2001. *Minority Business Enterprise: Penetrating the Defense Subcontracting Market*. *Small Business News & Views*. Falls Church, VA: INR Systems Corporation.

BIBLIOGRAPHY

- ANC. 1994. **The Reconstruction Development Programme**. Johannesburg: Umanyano Publications.
- Auskalinis, R. J. Ketchum, C. L. & Carter, C. R. 1995. **Purchasing from Minority Business Enterprises: Best Practices**. Arizona: Center for advanced Purchasing Studies
- Badenhorst, H. 1995. **Affirmative Purchasing: Challenges for Enterprises**. South Africa: UNISA.
- Bates, T. & Williams, D. 1996. Do Preferential Procurement Programs benefit Minority Business? American Economic Review. May, vol.8 no.2:294-298.
- Bullivant, B. 1997. What the Lawyers Say: The Legality of Diversity. Supply Management.10, April: pg.22.
- City of Tshwane. 2001. A Pictorial Journey. Pretoria.
- Clark, I. 1994. Find the Champions. Finance Week April 7-13:pg.9
- Cooper, D. R. & Schindler, P. S. 1998. **Business Research Methods**. 6th edition Singapore: McGraw-Hill International Editions.
- Davidson, J. P. 2001. Minority Business Enterprise: Penetrating the Defence Subcontracting Market. Small Business News & Views. Falls Church, VA: IMR Systems Corporation.

Department of Trade and Industry. 1995. **The President's Conference on Small Business.**

2000. *Fast tracking Black Economic Empowerment.* Financial Mail, 28, January: pg.36-37.

Dollinger, M.J. Enz, C.A. & Daily, C. M. 1991. Purchasing from Minority Small Businesses. National Association of Purchasing Management, Inc. April.

Program: A conceptual Model. Journal of Purchasing and Materials Management, Spring.

Dollinger, M. J. & Daily, C.M. 1989. Purchasing from Small Minority-Owned Firms: Research Report. Arizona: Centre for Advanced Purchasing Studies.

Hendriks Kleyntjens. 2003. *Interview on Preferential Procurement to Local*

Edwards, N. Casting the Net Wide. 1997. Supply Management. 10 April: pg.22-23

Egan, L. The Flexible Organisation. 1993. Productivity SA. Jul/Aug: pg.22-25.

Principles and Applications. 8th edition. USA: Prentice-Hall.

Enterprise. 1997. The Power of State Buying. Enterprise. June: pg.59-60.

Huck, P. Townsend, R. *How Do Minorities Fund Small Businesses Start-ups?* 1998

Erwin, A. 1996. Support Programme. Enterprise. July, 1996: pg.81-83

Galt, J. D. A. & Dale, B.G. 1991. Supplier development: a British Case Study. National Association of Purchasing Management. January: pg.16-22.

Gounden, S. 1996. Procurement Reform within the Construction Industry. The Civil Engineering Contractor. April: pg.42-45.

Business Programmes, 12th Annual Conference.

South Africa, Southern Africa Institute for Management and Leadership, 31 October-2
Government Gazette. 1999. Publication for Public Comment: Preferential Procurement Policy framework Bill, 1999. Notice 2520 of 1999.

Kelly, D. P. 1995. *Access to Markets and Tenders: input paper to the President's*

Gouws, A. 2003. Interview on the use of Preferential Procurement in Local Government. Pretoria: **The City of Tshwane Metropolitan Municipality**.

Law Review Project, 1995. *Proposal that tendering systems should promote smaller*

Gumbo, G. 2002. Interview on the use of Preferential Procurement in Local Government. **The City of Tshwane Metropolitan Municipality**. Pretoria.

- Levin, S. 1997. *Runners and Loggors: Why Small Manufacturing Firms Succeed in*
- Haffajee, F. 2000. Fast tracking Black Economic Empowerment. Financial Mail. 28, January: pg.36-37.
- Lindsay, T. A. Nichols, S. Rawls, M. A. Ramon, S. Kraus, C. 1990. *Minority and Women*
- Hahn, C.K. Watts, C.A. & Kim, K.Y. 1990. The Supplier development Program: A conceptual Model. Journal of Purchasing and Materials Management, Spring, Vol. 26.no2: 2-7.
- Loving, A. J. 1992. *Minority Business opportunities for purchasers and Suppliers*
- Hendriks Kleynhans. 2003. **Interview on Preferential Procurement in Local Government**. Pretoria: The City of Tshwane Metropolitan Municipality.
- Lyne, N. & Oberholzer, K. 2000. *Targeted Procurement enables new Job Growth*
- Heinritz, S. Farrell, P.V. Giunipero, L. Kolchin, M. 1991 **Purchasing: Principles and Applications**. 8th edition. USA: Prentice-Hall.
- Huck, P. Townsend, R. How Do Minorities Fund Small Businesses Start-ups? 1999. Region. September.Vol.13 no.3:10-13 *Proceedings, National Association of purchasing Management, 3-6 May*
- Hugo, W. M. J. & Van Rooyen, D.C. 1990. **Aankoop en Materiaalbestuur: Beginsels in Perspektief**. 2nd ed. Pretoria: Van Schaik, *Large Firms: Current Prospects, Proceedings of the Conference: Partnerships between small and large firms*
- Hugo, W.M.J. & Badenhorst, J.A. The Economic Empowerment of Black Business through Corporate Disadvantaged Purchasing Programmes. 12th Annual Conference. South Africa: Southern Africa Institute for Management and Leadership. 31 October-2 November 2000.
- Kelly, D. P. 1995. **Access to Markets and Tenders**: Input paper to the President's *Conf* Conference on Small Business. Durban: pg. 9.
- Law Review Project. 1995. Proposal that tendering systems should promote smaller businesses, the disadvantaged, women and the disabled. 30 Jun.

- Levin, S. 1997. **Runners and Laggards: Why Small Manufacturing Firms Succeed in South Africa**. NEPA. September. In: 77th Annual International Purchasing Conference Proceedings, Florida, National Association of Purchasing Management, 3-6 May.
- Lindsey, T. A. Nichols, S. Rawis, M. A. Ramon, S. Kraus, C. 1990. Minority and Women Owned Business Enterprise: Maximise and Create Opportunity. Arizona: National Association of Purchasing Management: pg. 383-388.
- Lovering, A. J. 1992. **Minority Business opportunities for purchasers and Suppliers**. Lexington: Raytheon Company: pg.223-228.
- Lowe, N. & Oberholzer. K. 2000. Targeted Procurement enables not Just Socio-economic Delivery but Meaningful Contractual Performance. Urban Management: pg.1-2.
- Lowry, J.H. 1992. Minority Purchasing: Importance of Cultural diversity. In: 77th Annual international Purchasing Conference proceedings. National Association of purchasing Management. 3-6 May.
- Maier, H. 1988. Partnerships between Small & Large Firms: Current Prospects. Proceedings of the Conference: **Partnerships between small and large firms**. Brussels 13 & 14 June 1988.
- Malhotra, N. K. 1996. **Marketing Research: An Applied Orientation**. New Jersey: Prentice Hall, Inc.
- Marsh, P. 1997. What the Lawyers say: The Legality of Diversity. Supply Management. 10 April: pg.22.
- Mkhathshwa, S. 2001. **Special Message: A word from Tshwane's first Executive Mayor**. Pretoria: The City of Tshwane

Mooney, R. L. 1992. What it takes to make Business Affirmative Action Successful: Attributes of Successful programs. In: 77th Annual international Purchasing conference Proceedings. Florida: National Association of Purchasing Management. 3-6 May.

Moore, R. G. 1993. **Making Minority Purchasing a Corporate Asset**. Chicago: Ralph G. Moore & Associates, Inc: pg.143-147.

Moore, R. G. and Stoneham. 1991. Minority Purchasing: Cultivating a Key Corporate Resource. In Proceeding 76th International Purchasing Conference. National Association of Purchasing Management. San Francisco, California, 5-8 may.

Murphy, E. E. 1998. Problems Persist, Yet Payoff Can Mean Business. Purchasing. 13, August: pg.64s3-64s19.

Morgan, J. 1995. Problems and solutions in corporate programs. Purchasing. 17, August: pg.51-56.

Morgan, J. & Cruz, C. 1997. In the Wake of Henry Ford's 'Craziness'. Purchasing. August 14, 1997: pg.68s1-68s23.

New South Wales Government. 1999. **NSW Government Procurement at a glance**. New South Wales.

Nieman, G. N. 2000. **The Development of Small and Emerging Suppliers through the Purchasing and Supply Function of Government and Large Corporations**. ESBS Conference. Belgium September, 20-22

Nomgqibelo Mdlalose Manager for Enterprise Development. 2003. **Interview on the Use of Preferential Procurement in Local Government**. Pretoria: The City of Tshwane Metropolitan Municipality.

Stewart, J. 1985. State as Buyer. Business Week, 2-8 February: pg.20-21.

Ntsika Enterprise Promotion Agency. 1997. **The State of Small Business in South Africa.** RSA. Pretoria: City of Tshwane Metropolitan Municipality.

Ntsika Enterprise Promotion Agency. 1999. **Assessment of Public Sector Procurement to Small, Medium and Micro-Enterprises.** RSA.

Oc, T. & Tiesdell, S. 1999. Supporting Ethnic Minority Business: A Review of Business Support for Ethnic Minorities in City Challenge Areas. Urban Studies, vol.36 no.10:1723-1747.

Patten, R. 1995. **Access to finance and Joint Ventures.** Input Paper for the President's Conference on Small Business. Durban.

Pearson, J. N. Fawcett, S. E. Cooper, A. 1994. Challenges and Approaches to Purchasing from Minority-Owned Firms: A longitudinal Examination. Entrepreneurship: Theory and Practice. Winter: pg.71-78

Pereira, P. 2001. Black Economic Empowerment: Where We're Heading. Finance Week 11 May: pg.8-10.

Rassie, E. 2002. Interview on the Use of Preferential Procurement in Local Government. **City of Tshwane Metropolitan Municipality**

Republic of South Africa. 1997. **Green Paper on Public Sector Procurement Reform in South Africa.** Pretoria: Government printer

Sharp, D. Mashigo, P. Burton, P. 1999. **Assessment to Public Sector Procurement to SMMEs.** NEPA.

Stewart, J. 1995. State as Buyer. Finance Week. 2-8, February: pg.20-21.

- Stein, J. 2002. **Interview on the Use of Preferential Procurement in Local Government.** Pretoria City of Tshwane Metropolitan Municipality. National Association of Purchasing Management, 3-4 May, 1991
- Strydom, D. 2002. **Interview on the Use of Preferential Procurement in Local Government.** Pretoria: City of Tshwane Metropolitan Municipality.
- Tarr, G. P. 1997. **Corporate Procurement Reform.** . Sandton: AIC Conference
- Wallace, S. L. 1999. Minority Procurement: Beyond affirmative Action to Economic Empowerment. The Review of Black Political Economy. Summer: pg.73-98.
- Watermeyer, R. B. 2000. **Procurement in Local Government: Quotation and Tendering Procedures.** Institute of Municipal Finance Officers Conference. Sept.
- Watermeyer, R. B. Hauptfleisch, A. D. Jacquet, A. C. M. Letchmiah, D. R. 2000. **An Introduction to Targeted Procurement.** Johannesburg: Strategic Procurement Systems.
- Watermeyer, R. B. Letchmiah, D. R. Mnikati, W. S. 2000. **An introduction to the use of Procurement as an instrument of Black Economic Empowerment.** Sandton: South African Breweries.
- White Paper Report. 1995. 'Do good' won't do it on the supply front. Purchasing. 16, February: pg. 87-107.
- Wilhelm, P. 2000. Legislating for basic change. Financial Mail. 28, January: pg. 36-37.
- Williams, R. 1990. Doing business with minority vendors. In: Proceedings 75th Annual International Purchasing Conference. Louisiana: National Association of purchasing Management , 29 Apr-2 May, 1990

APPENDIX

Williams, R. 1991. Doing Business with minority vendors. In Proceedings 76th Annual International Purchasing Conference. San Francisco, California: National Association of Purchasing Management. 5-8 May, 1991

GOVERNMENT

1. What are the objectives of Local Government in the City of Tshwane Municipality?
2. How is the local population benefiting it at the local government?
3. Does Local Government have extra power in some of its services (water)?
4. In what ways have municipal powers maximised their impact for better development and economic growth?
5. In what ways have Local Government played an integrative and coordinating role to ensure alignment between private and public investment within the municipal area?
6. In what ways have Local Government democratised development?
7. In what ways have Local Government sought to empower historically disadvantaged organisations/individuals within the community?
8. Which kinds of policy interventions have been introduced to support the development of local SMEs?
9. Does the City of Tshwane Municipality have a procurement policy in place?

APPENDIX

INTERVIEW ON THE USE OF PREFERENTIAL PROCUREMENT IN LOCAL GOVERNMENT

1. What are the objectives of Local Government at the City of Tshwane Municipality?
2. How is the local population benefiting in terms of local development?
3. Does Local Government need extra power in terms of functions and finance?
4. In what ways have municipal powers maximised their impact on social development and economic growth?
5. In what ways have Local Government played an integrative and coordinating role to ensure alignment between private and public investment within the municipal area?
6. In what ways have Local Government democratised development?
7. In what ways have Local Government sought to empower historically disadvantaged businesses/individuals within the community?
8. Which kinds of policy intervention have been introduced to support the development of local SMMEs?
9. Does the City of Tshwane Municipality have a procurement policy in place?

10. What challenges are encountered in Local Government on the use of a preferential procurement policy?
11. What is the use of preferential procurement in Local Government as an instrument of Local economic empowerment and development?
12. What is the role of preferential procurement in the development of SMMEs
13. What is the current impact of trends taking place in procurement and logistics in Local Government?
14. How does Local Government create, maximise and disseminate opportunities for AP firms?
15. Does Local Government have a supplier development program in place?
16. What is the impact of preferential procurement on buying procedures at the Municipality?
17. Have national objectives proposed by the RDP been achieved in Local Government?