

# DEVELOPING A SOURCING STRATEGY IN THE SOUTH AFRICAN POLICE SERVICE GARAGES

by  
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degree Master of Public Administration at the University of  
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## DECLARATION

By submitting this thesis electronically, I declare that the entirety of the work contained therein is my own, original work, that I am the authorship owner thereof (unless to the extent explicitly otherwise stated) and that I have not previously in its entirety or in part submitted it for obtaining any qualification.

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## ABSTRACT

This research study was about finding the right sourcing strategy that would work effectively for the South African Police Service (SAPS) garages. Its purpose was to help the SAPS garages deal strategically and effectively with their work load while repairing the SAPS vehicles, as the current evidence indicated that the garages might not have sufficient capacity to cope with the volume of repairs they were receiving.

The research was structured as a case study design, in which personal interviews were held with SAPS garage managers, SAPS strategy drivers (Head Office) and executive managers at the City of Cape Town, Western Cape Provincial Government Fleet, and Passenger Rail Agency of South Africa (PRASA). To follow up on these initial one-on-one interviews, a further questionnaire comprising similar, information-gathering questions was sent out to various SAPS garage managers to elicit more detailed information on the circumstances of their individual garages.

A literature review, which formed the basis of the study, explains the sourcing strategy, and explores different sourcing options including how to make the best sourcing decision. In this study, three models of sourcing strategy were considered, and were supported by the case study of the City of Cape Town, Western Cape Provincial fleet management, and PRASA. This study has proved that what the different authors have written and recommended about in-sourcing and outsourcing can still be considered in conjunction with the current legislative and policy framework. The cost analysis was conducted in order to be able to assess which option would be the more expensive between in-sourcing and outsourcing.

The fundamental finding of this research was that the SAPS garages could not handle all the work they were receiving, as they did not have the capacity, for various reasons, to deal with the volume of vehicle repairs that were coming in, and that the variety of sourcing strategies at the different garages were not effectively reducing the backlog.

There was no clear sourcing strategy in place from the National office to guide the garages. From these findings, the recommendation is that the big garages should handle all the services and minor repairs including some major repairs, with the majority of the major repairs being outsourced to service providers, while the smaller garages should focus on services and minor repairs only, and outsource all major repairs. The vehicles that are not within a 30km radius of the SAPS garages must be directly outsourced to providers using the RT46 contract, or similar arrangement.

Further research studies are needed regarding the demographic structure of the garages, and also regarding the effectiveness and efficiency of the actual running of the garages. A balance then needed to be found between in-sourcing and outsourcing, whilst ensuring that the garages were operating efficiently and outsourcing responsibly.

## OPSOMMING

Die navorsingstudie is gedoen om die effektiëste en geskikste verkrygingstrategie vir die voertuigwerkswinkels van die Suid-Afrikaanse Polisiediens (SAPD) te bepaal. Die doel was om die werksinkels te help om strategies en effektië te werk gegewe hulle werkslading, aangesien huidige bewyse getoon het dat hulle nie voldoende kapasiteit daarvoor het nie.

Die navorsing is gestruktureer as 'n gevallestudie, waartydens persoonlike onderhoude met SAPD-werksinkelbestuurders, SAPD- strategiese drywers (Hoofkantoor), en uitvoerende bestuurders van die Stad Kaapstad, die Wes-Kaapse Provinsiale Regering-vloot en die *passasier-spooragentskap van Suid-Afrika (PRASA)* gevoer is. Ter opvolging van die oorspronklike individuele onderhoude is 'n verdere vraelys gebruik waarin soortgelyke vrae aan SAPD-werksinkelbestuurders gestel is om meer inligting aangaande die toestand van hulle werksinkels te bekom.

'n Literatuuroorsig, wat die basis gevorm het van die studie, verduidelik die verkrygingstrategie en ondersoek verskillende verkrygingsopsies, asook hoe om die beste verkrygingsbesluite te neem. In hierdie studie is drie verkrygingstrategiemodelle oorweeg, wat ondersteun is deur die gevallestudie van die Stad Kaapstad, die Wes-Kaapse Provinsiale Regering-vlootbestuur en PRASA. Die studie het bewys dat dit wat die onderskeie outeurs oor in- en uitkontraktering bevind en aanbeveel het, steeds oorweeg behoort te word, aangevul deur die bestaande wetgewing en beleidsraamwerk. Die kosteontleding is gedoen om te bevestig watter in- of uitkontrakteringsopsies die effektiëste sou wees.

Die fundamentele bevinding van hierdie navorsing is dat die SAPD se voertuigwerkswinkels tans nie al die werk wat hulle ontvang, kan hanteer nie, omdat hulle om verskeie redes nie die nodige kapasiteit het om die groot aantal voertuie wat inkom, te herstel nie. Die uiteenlopende strategieë wat die onderskeie werksinkels volg sover dit uitkontraktering betref, verminder ook nie die agterstand nie.

Daar is nie 'n duidelike verkrygingstrategie van die nasionale kantoor wat riglyne aan die werksinkels verskaf nie. Die aanbeveling na aanleiding van hierdie bevindinge is dat die groot werksinkels al die versienings en kleiner herstelwerk, met inbegrip van sekere groot herstelwerk, moet hanteer, terwyl die kleiner werksinkels moet fokus op versienings en kleiner herstelwerk, en alle groot herstelwerk moet uitkontraakteer. Indien voertuie buite 'n 30 km-radius van 'n SAPD-werksinkel is, moet sodanige herstelwerk uitkontraakteer word deur gebruik te maak van die RT46-kontrak, of 'n soortgelyke reëling.

Verdere navorsingstudies is nodig oor die demografiese struktuur van die werksinkels, asook die doelmatigheid en effektiwiteit betreffende die werklike bedryf van die werksinkels. 'n Balans moet gevind word tussen in- en uitkontraaktering, terwyl daar verseker moet word dat die werksinkels effektief bedryf word en uitkontraaktering op 'n verantwoordelike wyse geskied.

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# CHAPTER ONE

## 1. INTRODUCTION

### 1.1 BACKGROUND

The South African Police Service (SAPS) relies heavily on the availability of vehicles when policemen are deployed simultaneously in many sectors. The SAPS vehicles are traditionally maintained by the SAPS garages and the maintenance of these vehicles is of strategic importance, as a vehicle out of action has a great impact on service delivery. Therefore, in alignment with the SAPS strategic plan, there needs to be a good, effective sourcing strategy in place for the vehicle maintenance in order to ensure that service delivery is not hampered. This research has used the word 'maintenance' and 'repairs' as referring to all type of repairs performed in a vehicle including services (scheduled maintenance).

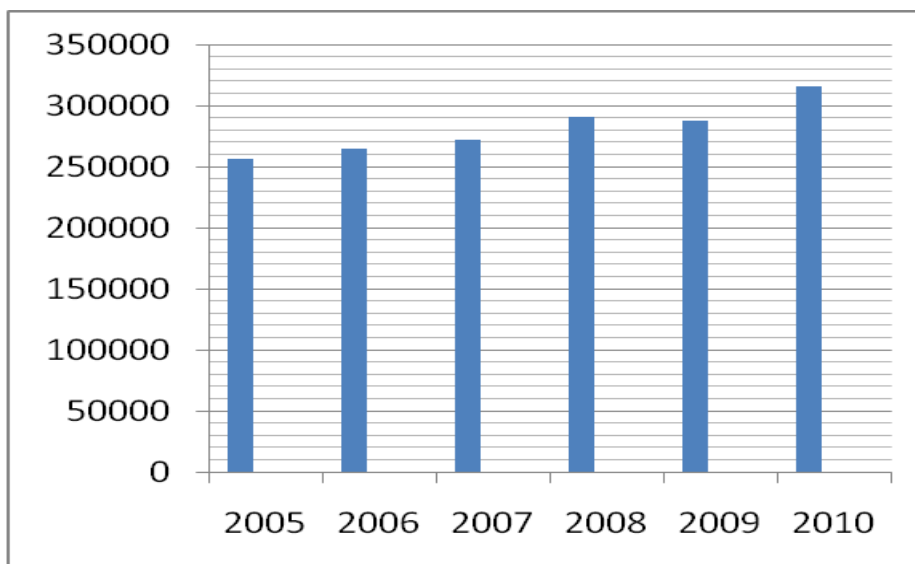
Section 205(3) of the Constitution of the Republic of South Africa, Act No 108 of 1996 (RSA, 1996:101) states the responsibility of the SAPS as being, to 'prevent, combat and investigate crime, to maintain public order, to protect and secure the inhabitants of the Republic and their property, and to uphold and enforce the law'. In order to fulfil this responsibility, the police must have sufficient vehicles as one of their major tools, mainly to attend to complaints, to patrol neighbourhoods as part of crime prevention, and to investigate crime. A police vehicle plays a very big role in helping a policeman to fulfil his or her constitutional responsibilities.

In line with other commercial garages in South Africa, the SAPS garages do not undertake all types of work in-house. Carrying out all types of work on a vehicle under one roof is complicated, which is the reason there are companies specialising in the machining of engine parts (engineering shops), auto electrical work (auto electricians), glass fitting and gearbox repairs, etc. It is common practice for mechanical workshops to buy these services from specialists and this practise is referred to as the 'outsourcing' of services. Each field requires specialised equipment and specialised knowledge.

Some makes of vehicles used by the SAPS have a complex technology which requires that vehicle repairs be outsourced to manufacturer-approved agents (dealers). We see the SAPS using high-powered vehicles such as BMW, Volkswagen GTI, Chevrolet Lumina and Ford Focus ST. Repairs to these complex performance technology vehicles are usually outsourced to dealers, as most modern vehicles are fitted with a computerised engine management system that must be outsourced when malfunctioning.

The number of vehicles repaired by the police garages in 2005 was 256,461 and, by the end of 2010, this total had reached 315,703, as shown in Figure 1.1 below (SAPS, 2011b).

**Figure 1.1: The increase in vehicles received by all SAPS garages**

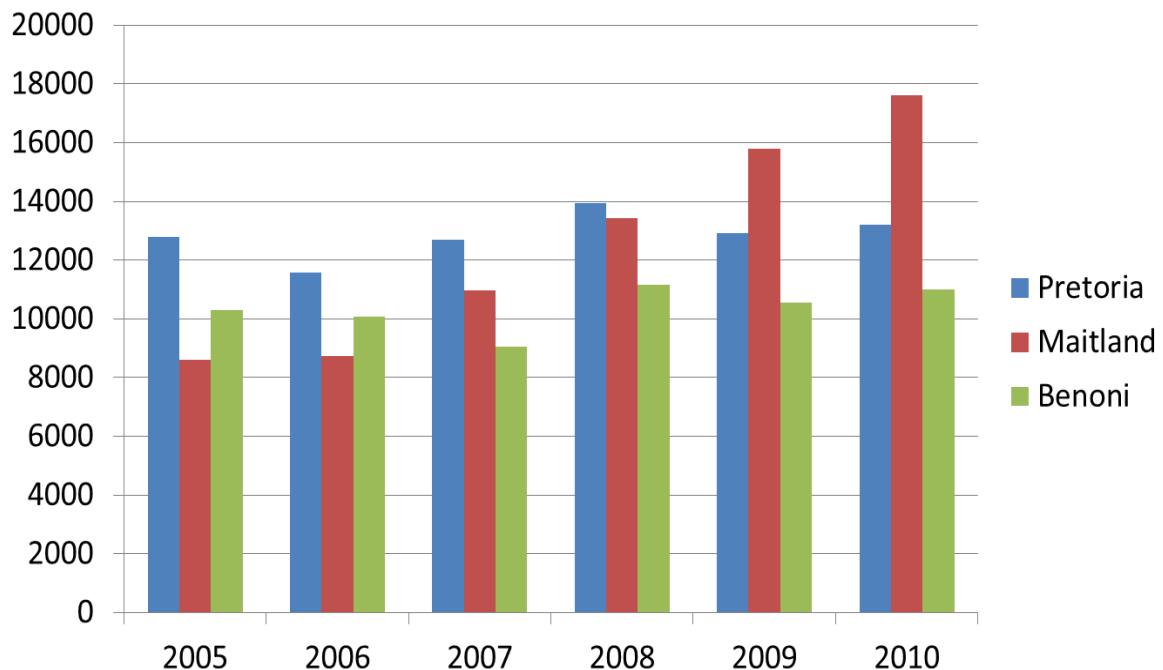


**Source: Compiled by Author, 2011**

Some examples of leading garages with a high intake of vehicles are the Maitland SAPS Garage, the Pretoria Central Garage (referred to as the Silverton Garage), and the Benoni Garage. In Figure 1.2, which illustrates the increase in the number of vehicles received by these three garages, the Pretoria Central Garage is shown to be in the lead, followed by the Benoni SAPS Garage, but, from 2009, it was outstripped by the Maitland SAPS Garage where the number of received vehicles increased more than at any other SAPS garage (SAPS, 2011b). A contributing factor to this phenomenon is that the SAPS retains their vehicles for a longer period, that

is, until their expenditure for repairs reached 100% of the purchase price (SAPS, 2011d).

**Figure 1.2: A comparative graph showing the growing number of vehicles received by the three leading garages with workload**



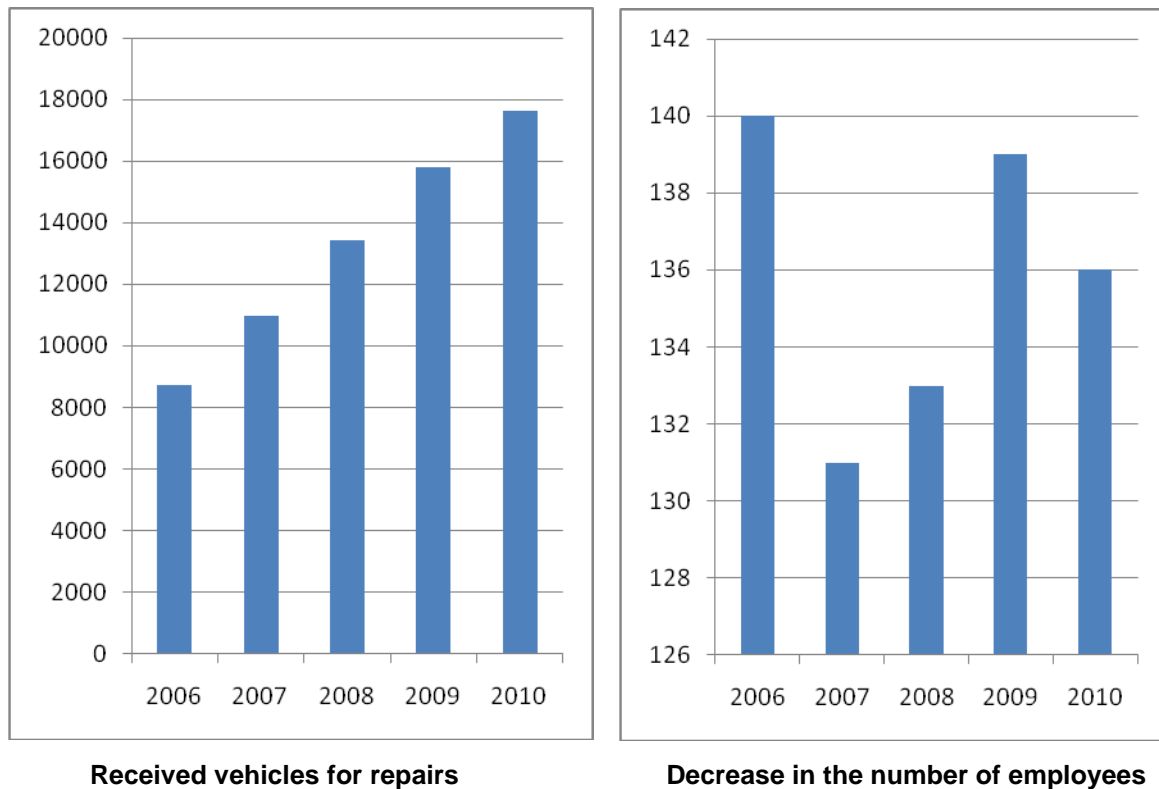
**Source: Compiled by Author, 2011**

As a consequence, these very old vehicles break down more often and, in addition, the Cape Town SAPS garage closed down, thus increasing the workload on the Maitland SAPS garage. The considerable combined effect of these circumstances is reflected in the significant increase in Maitland SAPS Garage's intake of vehicles from 2006 to 2010 for maintenance, concurrent with a decrease in the work force, as illustrated in Figure 1.3 (SAPS, 2011a).

An increase in the number of mechanics and panel beaters would require more space, while the administrative personnel could still be accommodated in the existing available space. In addition to this, some of the SAPS garages outsource normal repairs which do not need specialised knowledge. They do this for various reasons, for example a lack of man power, and insufficient space in the workshop accommodation. It is not currently clear whether the garages are sufficiently effective when excluding the work that is to be outsourced. Bearing these points in mind, and

that the SAPS deals with the outsourcing of a large fleet, it is clear that this generates a highly complex situation.

**Figure 1.3: Comparative graphs showing the growing number of vehicles booked in at the Maitland garage, with the related decrease in the work force.**



**Source: Compiled by Author, 2011**

The complexity of the situation should not be overlooked or taken lightly, as an ineffective outsourcing decision can seriously hamper service delivery. This research study will refer to repairing in-house (in-sourcing) and outsourcing in the combined term of 'sourcing'.

## 1.2 RESEARCH PROBLEM

When a vehicle is in the maintenance process and a strategic sourcing decision of whether to in-source or outsource must be made, the cost-efficient way to spend public money must be pursued. In this research the efficiency has not been judged solely on costs but has taken into account other, non-cost factors as well. These have included all identified advantages and disadvantages of both in-sourcing and/or



outsourcing of vehicle repairs, such as the quality of repairs, how quickly the vehicles can be repaired so as to be back in use timeously for crime prevention efforts, and the risk involved. It was not clear at the time whether there were any uniformity of method or clear guidelines for SAPS garages to follow regarding making the choice to either outsource or in-source. As discussed in Chapter three, the Mechanical Services Maintenance Manual of 2007 does not give a guideline on what to outsource or in-source and the SAPS Circular on obtaining goods and services in the Mechanical Services dated 2011/03/06 gives a limited guideline. However, it is clear that the more the SAPS fleet grows, the more the SAPS garages are not coping with the repairs.

One implication of this is that the fleet needs more in-house personnel to maintain it, and additional work space. Another possible alternative to address the overload at the SAPS garages, is to make use of outside providers. Some of the new vehicles are purchased on a standard motor plan, others with a standard service plan which, to a very limited extent, attempts to reduce the demand on the SAPS workshops. However, the standard maintenance plan does not make a significant difference in the reduction of the workload, as the number of new vehicles is always a mere fraction of the number of existing vehicles which are not on the maintenance plan. Furthermore, a maintenance plan is soon exhausted, as the 100,000 kilometre limit is quickly reached by the operational components, usually before the three-year term expires. On a maintenance plan and service plan the expiry depends on which comes first - the 100,000 kilometres or the three-year term, and according to the SAPS mechanical services report (SAPS, 2011d) the evidence shows that the more the fleet grows, the greater the volume of vehicles booked into the SAPS garages.

It was evident, particularly in the Pretoria, Johannesburg, Cape Town and Bisho areas, that there is a decrease in police deployment in these areas as a direct result of vehicles spending time in the workshops for maintenance, and parked in police station premises, waiting for maintenance service appointments. In this current situation an improved sourcing strategy is important, to ensure that vehicles are repaired as quickly and as efficiently as possible, to keep them continually available for using in fighting crime. The point of departure of this research will be to determine the nature of sourcing vehicle maintenance at the various SAPS garages. The aim of

this research is to assist the SAPS in the development of a good sourcing strategy for deciding when to outsource and when to in-source the repairs to its vehicles, so as to improve the availability of its police vehicles.

### **1.3 RESEARCH QUESTION**

This research must be able to provide answers to the following questions:

- What is the current sourcing strategy used by the SAPS?
- What are the available sourcing strategies that can be explored?
- What are the factors that must be considered when developing a sourcing strategy?
- What would be the most efficient sourcing strategy for the SAPS garages?

### **1.4 OBJECTIVES**

The following objectives helped to find the answer(s) to the research question.

- To explore the sourcing strategy currently used by the SAPS garages.
- To explore different alternative sourcing strategies.
- To evaluate the factors that can be considered when developing a sourcing strategy.
- To develop a sourcing strategy that can be used by the SAPS garages.

### **1.5 RESEARCH DESIGN AND METHODOLOGY**

The researcher has used a case study research design, a literature review and document content analysis. The case study was an empirical research of a qualitative nature. According to Morra-Imas and Rist (2009:271), a case study design assists the researcher to achieve an 'in-depth understanding of a process, event, or situation'. This type of design is described as being able to answer questions about how something works, and they further describe it as being able to investigate individual choices. However, this design is described by Morra-Imas and Rist (2009:283) as time consuming with many threats to its validity. The researcher did

his best to strengthen the sampling by extending the interviews' data with extra self-administrated questionnaire as in annexure A and B.

The researcher made use of personal interviews to collect data in order to explore the current strategy, and find out the opinions of different managers regarding which strategies might work better, according to their experiences. The managers have potentially given valuable input about factors that might influence a sourcing decision. These factors included the possible risks of either sourcing choice. During these interviews the researcher attempted to get unrestricted answers by using semi-structured questions (see annexure B). The content analysis was used to analyze the collected data, linking it to the literature review.

The non-empirical research was done by reviewing the literature in order to understand what is referred to as strategic sourcing, including the decision-making process, to understand the theory behind it, and how the public money should best be used. This literature review was helpful for exploring different alternative sourcing strategies. It has further assisted with developing a sourcing-strategy model that can be used by the SAPS garages. The researcher has also used content analysis on government documents when exploring the current outsourcing strategies and various alternative sourcing strategies.

In addition, the researcher has used secondary data to conduct a cost benefit analysis in order to evaluate the financial cost factors that might influence the decision to outsource or in-source a vehicle when it is booked for maintenance. This data includes tariffs used by private garages, costs for running the SAPS garages, and the cost to outsource the co-ordination.

In summary, the interviews, the literature review, the document content analysis and the cost benefit analysis are appropriate tools for developing a good, appropriate sourcing strategy.

## **1.6 DATA COLLECTION TECHNIQUES AND SAMPLING**

The researcher collected data by means of personal interviews and self-administered questionnaires. In choosing whom to interview, the researcher used a non-probability sample design. The probability sampling is often referred to as a

random sampling which would probably represent the population that is observed. However, the researcher did not choose the sample elements on the basis of probability, but opted rather to use his judgement in choosing experienced people, with specifically relevant experience in this field, who would have pertinent and therefore more valuable responses to any questions. Since this non-random selection is direct and specific, it becomes a purposive sampling (Saunders, Lewis & Thornhill, 2009:237).

The sections of the population observed by the researcher are the SAPS garage managers and the SAPS executive management and, from outside the SAPS, the researcher focused on government and semi-government institutions management that own a large fleet. Of the SAPS population, the top four SAPS Garages in Gauteng Province and the numbers of vehicles they received, all of the Eastern Cape, Western Cape and Free State, the SAPS Mechanic Services, the SAPS Vehicle Fleet Management, and the SAPS Acquisition Management, were used for the sample in the study. Of the other government and semi-government institutions population, the Passenger Rail Agency of South Africa (PRASA) Vehicle Fleet Management, City of Cape Town Garage Electric Department Vehicle Fleet Management and Western Cape Provincial Fleet Management were included.

The researcher deliberately chose to interview the SAPS Garage commanders from the larger SAPS garages in the Western Cape, which are the Bellville SAPS Garage, the Maitland SAPS Garage, the Oudtshoorn SAPS Garage and the Stellenbosch SAPS Garage. The interview in Gauteng was held with the manager of Silverton SAPS Garage, the biggest SAPS Garage in Gauteng, and by telephonic interview only, with Diepkloof SAPS Garage and Vereeniging SAPS Garage. On the same day, the researcher interviewed the SAPS strategy drivers from National Mechanic Services head, National Acquisition Management, and National Fleet management. The budget and time did not allow a personal interview with the other bigger garages in Gauteng. Further interviews have been conducted with the PRASA Engineering Services City of Cape Town fleet manager, and the Western Cape Provincial Government vehicle fleet manager.

Subsequently, a self-administered questionnaire was drawn up and sent to all Eastern Cape, Western Cape and Free State Province SAPS garage managers. Five out of nine garage managers responded from the Free State (Bloemfontein, Welkom, Bethlehem, Mafube and Philippolis), seven out of ten managers responded from the Western Cape (Stellenbosch, Bellville, Oudsthoorn, Worcester, Malmesbury, Vredendal, Swellendam and Beaufort West), and eight out of sixteen managers responded from the Eastern Cape (East London, Mthatha, Graaff Reinet, Cradock, Mount Road, Uitenhage, Algoa Park and Grahamstown). The questionnaire was based on major points extracted from the initial personal interviews and was designed to elicit the type of information necessary for fulfilling the requirements of this research study. This type of sampling is useful only if the researcher has acquired knowledge of the population that is observed, before he can draw a sample (Burger & Silima, 2006:662). These garages were therefore chosen strategically, from three provinces of different financial strengths. The time frame did not allow the researcher to interview more experts from outside the SAPS. The three interviews from outside the SAPS were from expert executive managers. It was evident that this sampling was strong as it revealed a sourcing strategy that is not consistent. In chapter four, these findings have been elaborated further.

## **1.7 TIME FRAME**

This study was planned as follows:

- Chapter 1 was done from May to 15 June 2011.
- Chapters 2 and 3 were done from 15 June to 30 August 2011.
- Chapters 4 and 5 were done from 1 September to 20 October 2011.
- A completed thesis was submitted in November 2011.

## **1.8 CHAPTER OUTLINE**

The chapters for this thesis have been presented as follows:

### *Chapter One – Introduction*

Chapter 1 is the current chapter, and it gives the background and context of the study. It describes the aim of the study, the research question and its objectives, the research design and methodology, and the data collection techniques and sampling.

### *Chapter Two – Literature review*

In this chapter the subcomponents are as follows:

- The use of public money
- Outsourcing
- Strategic sourcing
- The sourcing process and risk management
- The decision-making process

### *Chapter Three – Legislative and policy framework*

In this chapter the researcher used content analysis on government policies to explore the current outsourcing strategies and different, alternative sourcing strategies.

### *Chapter Four – Data presentation*

This chapter presents the findings and an analysis of them, linking them to the literature review.

### *Chapter Five – Recommendation and conclusions*

This chapter recommends the option offering the best vehicle maintenance sourcing strategy for the SAPS garages, and ends with a conclusion to the study and suggestions for future research.

# CHAPTER TWO

## 2. LITERATURE REVIEW

### 2.1 INTRODUCTION

This chapter covers the use of public money as being an important issue, since the repairs to SAPS vehicles are maintained using public funds. Procurement of spares or any material to run the garage is taken as the acquisition of goods, and the act of repairing a vehicle is a service. The use of public money is clarified as a question of spending public money in the fulfilment of public interest when using it to procure goods and services. This chapter further clarifies the different sourcing options that can be used in which one would decide either to outsource or to in-source.

It illustrates the importance of strategic sourcing when deciding when to outsource or in-source, and discusses the aspect of strategic sourcing that includes a decision making process. The elements of this process are: assessment; technology; defining core activities; strategic analysis; conducting total cost analysis; non-cost factors to be considered, and determining a service agreement. This process includes risk consideration. The writer decided to further explore risk management as a topic. An understanding of risk management helps with the making of sound sourcing decisions. Risk factors are taken into consideration at every stage of the decision making process when coming to a sourcing decision. Risk is seen as a non-cost factor, which must be taken into consideration, and is a threat in strategic analysis. This literature review includes guidelines for deciding whether the outsourcing method should be used.

### 2.2 THE USE OF PUBLIC MONEY

Heald and McLeod (2002) define public money as 'all money that comes into the possession of, or is distributed by, a public body, and money raised by a private body where it is doing so under statutory authority'.

According to Pauw, Woods, Van der Linde, Faurie and Visser (2009:1), public managers are entrusted with public money to render services to the people of South Africa. They therefore refer to public money as the 'people's money'. It is expected of

public managers that they meet the needs of the people, just as, in the private sector, managers must meet their clients' needs and demands in order to stay in business. The competitiveness of the situation is not about being among leading companies in the Johannesburg Stock Exchange but, rather, it is about pleasing the public by providing excellent service delivery. The better the public funds are managed, the greater will be political support for the government of the day. If vehicles are repaired on time, they can be returned promptly for policemen to use and thereby render a better service to the communities. When in the pursuit of having government vehicles quickly and efficiently repaired, public money must still be used efficiently.

A democratic government is a government of the people by the people (Qvortrup, 2005:1). Money is collected by the government for the people in order to render services to them. According to Pauw et al. (2009:3), the people of a country are the beneficiaries of its money and it is therefore theirs. The population vote a particular political party into government in order to meet their own needs, and it is therefore of great importance that the managers of public funds manage their financial budgets as responsibly as they would in the private sector, in order to survive. The maintenance of public safety and security is a priority, and if there are not enough police vehicles to help combat crime, the economy of the country and the social living standards and lifestyle would all be adversely affected. The managers of public funds are responsible for ensuring that the best use is made of public money when considering the sourcing strategy that will keep these vehicles running.

In the view of Pauw et al. (2009:6) it is important to note that the public's money belongs not only to the government, the voters, the heads of state, and the tax payers. It belongs rather to all citizens of South Africa, irrespective of whether they are currently tax payers. People are defined as an 'enduring society that underlies the manifest structures of the state'. In their view, 'people' are made up of 'all generations, races, communities and all classes that have a stake in public life' (Pauw et al., 2009:7).

The public must receive value for its money, which means that goods and services that have been purchased by managers of public funds must be of benefit to the



people. The government must be held accountable for the way in which the public funds are used, including the spending of public funds for resources used which 'requires the demonstration of Value for Money (VFM)' (Heald & McLeod, 2002). Heald (2003:345) relates the concept of Value for Money to concepts of efficiency and effectiveness.

Section 38(1)(b) of the Public Finance Management Act, 1 of 1999 (PFMA) promotes the effective and efficient use of public money, where public managers must commit to and reach their goals according to the business plan and budget (RSA, 1999:37; Pauw et al., 2009:23). Effectiveness is easily measured by the outcome and impact of government intervention. The concept of effectiveness applies also to the way in which public money should be managed. As the purpose of repairing a vehicle is to keep it in regular, reliable use when fighting crime, an efficient way to repair it must be sought and, furthermore, the effectiveness of the repair must be reported. The PFMA views ineffectual activities as fruitless and wasteful expenditures.

### **2.3 OUTSOURCING**

In his book *Profitable buying Strategies*, Buchanan (2008:87) defines outsourcing as 'the act of transferring services or manufacturing activities, which the organisation previously performed in-house to one or more external organisations', while Schniederjans M.J., Schniederjans A.M., and Schniederjans D.G. (2010:283) define it as allocating or reallocating business activities to an external source. Chopra and Meindl (2007:417) view sourcing as a process of procuring goods and services.

According to Greaver II (1999:3), outsourcing is 'the act of transferring the company's recurring internal activities and decision rights to outside provider as set forth in contract.' Although his definition is similar to Buchanan's, Greaver emphasises that when activities are transferred the provider will have to make certain decisions to bring about success. Taking as an example, an activity of guarding a business complex that is transferred to a security company without decision-making powers, would make success difficult to achieve.

After analysing the literature, Van der Walt (2007:23) offers a combination of the above definitions from Buchanan and Greaver II by defining outsourcing as the

‘procurement of custom made goods and/or services from an external source, previously offered in-house, as forth set in a contract.’

Leenders, Johnson, Flynn and Fearon (2006:476) view outsourcing as the act of reversing the decision of making a product or providing a service in-house, to that of purchasing from an outside provider. They further view in-sourcing as a reversal of the decision to purchase a product or a service to that of providing in-house. Their view is that in-sourcing and outsourcing must be treated as twins because organisations often think and talk about outsourcing, more than they do with in-sourcing. This means that outsourcing and in-sourcing must both be brought to the table as options, to be equally considered, so that the right decision can be made when choosing between them.

Meredith and Shafer (2007:286) define outsourcing as ‘the process of contracting with external suppliers for goods and services that were formally provided internally, and offers an important benefit for SCM...’ and regard it as a major strategic element in the supply chain environment. It is even promoted by the fact that companies do not have competencies in all environments, whereby outsourcing can become the solution by allowing external professionals do what they are good at, for the benefit of an organisation.

For the purposes of this research study, and after analysing the above definitions, outsourcing is defined as the procurement of goods and services in a contractual form from an external provider for better supply chain benefits. The main aim of outsourcing repairs to vehicles is to ensure the most cost-effective and efficient way of repairing them within a predetermined, acceptable time. If outsourcing produces these results, it fulfils the so-called ‘better supply chain benefits’. It is not necessary for repairs to have been done in-house previously in order to be considered as outsourcing. If the SAPS decides to purchase vehicles that are turbo charged, the SAPS garages can outsource the turbo charger repairs, but not as a reverse of what was performed in-house. Any repairs that are sent to be repaired by an ‘outside’ provider are referred in this research as ‘outsourced’ repairs.

Schniederjans et al. (2010:284) view outsourcing nowadays as based on outsourcing non-core activities, with the organisation moving towards outsourcing almost all its

activities in the future. This prophecy is being fulfilled as we see that most government garages have been closed down, leaving, in the main, the police garage, Public Works and the military still maintaining their fleets. Schniederjans et al. (2010:150) are more focused on the concept of outsourcing the non-core activities, and are of the opinion that strategic outsourcing has certain benefits such as cost savings, gaining outside expertise, service improvement to meet the client's demand, helping an organisation to focus on core competencies, and having access to outside technology which is becoming more sophisticated by the day. Their conviction is that the main driving force is cost, i.e. the cost saving possibilities.

According to Hugo, Bandehorst-Weiss and Biljon (2006:74), outsourcing originates when a manager realizes that some products and services are cheaper to buy than to make. According to Loader (2006:212), outsourcing is commonly used for cost saving and to achieve strategic goals. By achieving strategic goals, an organisation can achieve output and outcome that is above its internal resource capacity. When there are these advantages, organisations must be able to meet changing service demands by outsourcing only that which is beyond their capacity. Outsourcing has survived for many decades, and is now becoming the most considered way of doing business. Buchanan (2008:87) remarks that, although outsourcing seems to have been focused on cost reduction, it opens a gateway to achieving more objectives. He looks at outsourcing as an added advantage, referring to it as a 'plus' in the economy because of its benefits. He refers to it as 'a new way of doing international trade'.

In addition, Burt, Dobler and Starling (2003:301) view outsourcing as a strategy that is used to increase an enterprise's flexibility, to be in line with changing market conditions. This frees up the enterprise to pay more attention to its core competencies and its ability to develop a competitive advantage. This makes sense in that non-core services within a company can side-track management's focus. In a company that manufactures vehicles, focusing on innovation, technology, quality and clients' expectation will bring future benefit to the company if the non-core activities are outsourced. Outsourcing other activities like cleaning, transportation, payroll and maintenance of equipment will free up more time for improving a company's core competencies.

However, looking at outsourcing over the last two decades, it can be the result of market pressure, where an enterprise has decided to focus on its core function (activity) and buy specialized services from other suppliers. As an example of what these authors are expressing, a large security company could decide to outsource its fleet management and maintenance, or even hire vehicles on contract for a period of time. This would help them to concentrate on security innovations. Therefore, an enterprise can focus on a limited number of in-sourced services, products and technology and place emphasis on quality, time delivery and improvement of technology (Hugo et al., 2006:74).

The fact is that another company can have more advanced technology because it is producing large quantities of its own particular product. Buying products and services from such a provider would be better in the sense that this enables the enterprise to decrease its overheads. A major advantage of outsourcing is that it is able to boost the production of an enterprise, but with lower overheads. Having lower overheads comprises less stock levels, fewer employees and less space requirement. To produce more in-house will require more space and more risk of stock. What could have been made in-house over two weeks can be produced in one week through buying the product or service. In these ways the enterprise can easily meet the increasing service demands (Hugo et al., 2006:74).

According to Thompson and Strickland (2003:184), outsourcing increases the organisation's ability to assemble different and necessary expertise that is available in the market in a quicker and more efficient way. It increases the flexibility to meet changing demands. They are further of the opinion that outsourcing allows an organization to focus on activities which it performs much better than do outsiders.

The benefits of outsourcing outlined by the various authors above would suitably apply to the needs of the SAPS garages on the following points:

- The advanced technology in new vehicles demands new, upgraded technology for maintenance purposes, and external providers can provide access to any new technology required, such as for the skimming of brake discs and drum, and flywheels (Leenders et al., 2006:478). The SAPS can acquire some of this technology, but cannot

be expected to keep pace with the many on-going advances and changes.

- The external providers also provide access to expertise that is not available in the SAPS, and for which referral is made to experts who specialise in dealing with C.V. joints, gearboxes, differentials, engine rebuilding, steering boxes, diesel pumps and injectors, and more (Leenders, et al., 2006:478; Thompson and Strickland 2003:184).
- Outsourcing becomes an opportunity that can be exploited as it provides the flexibility to accommodate ever-changing demands (Thompson and Strickland 2003:184; Burt et al., 2003:301). Changing demands can be attributed to: the demand of changing or unavailable technology, a shortage of work space, a shortage of manpower, or a sudden increase in the number of vehicles that need to be repaired.

In Greaver's (1999:5) opinion, the outsourcing of activities can take place on three different levels, namely the individual, functional, and process levels. If an individual cannot perform in a position for some reasons, a company's success may require that that activity be outsourced. At the functional level, if the functioning of the internal payroll system is weak, the best decision might be to outsource the activity. In the same way, at the process level a process of producing quality service can be improved by outsourcing certain supporting administrative processes, e.g. human resource management and recruitment management.

Considering Leenders et al.'s (2006:463) views, it will be important to look at both outsourcing and in-sourcing from a strategic sourcing point of view. Decisions to outsource must be made more carefully and be given more consideration as they pose strategic implications (Hugo et al., 2006:74). Wrong decisions can severely affect the financial health of an enterprise and they might be a determinant of its profitability. While concluding his literature review on the strategic impact of outsourcing, Arendse (2002:89) viewed outsourcing as 'a strategic management tool to outperform competitors and sustain efficient cost structures'. He further views it as a highly strategic decision that can have damaging effects on an enterprise.

## **2.4 SOURCING STRATEGY**

In his research on outsourcing at Sasol Mining, Van der Walt (2007:93) found that results show that outsourcing has not been successful at all times. The writer is of the opinion that, if Sasol Mining prioritises outsourcing in its strategic plan and links it with a good theoretical framework, it would yield better results.

Referring to the state as a guarantor, Obermann (2007:479) is of the opinion that if the state cannot function properly on certain public needs, it must outsource the activity. Even when services are outsourced, the state still bears the responsibility to ensure good service delivery, the implication of this being that outsourcing cannot be used as a way to avoid accountability for the standard of service delivery. The state, as the guarantor of service delivery, must still account to the public for its financial and service delivery performance. In fact, sourcing decisions must be done in a strategic manner so that the most effective and successful option is taken. The recommended way to go about this is to formulate a strategy for how to deliver the best possible service. As part of preparing the strategy, consideration must be given to what can still be done in-house, and what can practically be done through a service provider, depending on available budget.

Obermann's theory can relevantly be referred to in the possibility that if the police garage capacity cannot handle some of its repairs it might be wisest to outsource such repairs. This could be in the case where the SAPS garages are capable of doing such repairs but do not have enough personnel or it might be that the SAPS garages do not possess the skill and technology as discussed later in section 4.2.3 of Chapter four. Where there is a lack of skill or technology to carry out some of the repairs to the vehicles, the SAPS garages must outsource to suitable network suppliers who are available to fulfill the SAPS vision of repairing its vehicles as a matter of urgency while maintaining a high standard of workmanship.

Good relationships with these providers must be built on the premises that the SAPS vehicles are emergency vehicles and that they must be given priority. This means that these companies must themselves encompass the strategic vision of the SAPS garages which is to have, at all times, sufficient patrol vehicles servicing its communities. Therefore, Hugo et al (2006:71) defines strategic sourcing as 'a

management strategic process whereby commodities and suppliers are analyzed and relationships are formed and managed according to the best practices and appropriate strategies in support of long term organizational goals.'

According to Moncka, Trent and Handfield (2005:188), the biggest driver of outsourcing is cost reduction. They make an example of American companies that are outsourcing to developing countries such as China, India and Eastern Europe. These countries produce goods at very low labour rates, making their products more cheaply available worldwide. What Moncka et al. (2005:189) have noticed is that most companies make important outsourcing decisions without first analyzing the costs and strategic implications. The example given is the risk of outsourcing a core performance to a company that fails to produce, and thus creates a big loss of company consumer trust. In their view, strategic sourcing is linked to strategic supply management, which is based on 'developing the strategies, approaches, and methods for realizing a competitive advantage and improvement from the procurement and sourcing process, particularly through direct involvement and interaction with suppliers' (Moncka et al., 2005:xxv).

The decision to outsource (Burt et al., 2003:302) should not be taken as a simple one. It should be analyzed strategically, and at operational level. In their case study of the Muenster Pump Company which manufactures agricultural pumps, the manager worked out that to buy the housing of the L-1012 pump cost \$90, whereas they made it in-house for \$180. He presented his finding to the Company President, but the President found some difficulty in coming to a decision to outsource. His reasons were first, that their own case housing was known to be of a high quality. Second, their employees responded quickly to product demand and, finally, there was the matter of social responsibility, because fourteen men from that small city worked in the Muenster Pump Company's housing section. Closing the housing section would lower employment in that small city, while boosting employment in another city.

## **2.5 SOURCING STRATEGY PROCESS**

According to Hugo et al. (2006: 72), the process must start by analysing the amount that has been spent by the organisation in the purchase of goods and services. The

total expenditure must be divided into categories, taking into consideration the risk and amounts involved. The risk calculation depends on the type of product or service that must be purchased, and related supply market challenges. There may be a big pool of suppliers of a certain product whereas another product or service may have limited suppliers or a sole supplier. Expenditure itself can be divided into categories such as routine, bottleneck, leverage, and critical. The relationships of these categories will differ in their formation.

### **2.5.1 Routine items**

Hugo et al. (2006:73) describe routine items are those items where both the risk and the amount spent are low. The easy sourcing of these items is due to the fact that the specifications are standard and the price list can be used to determine which suppliers to choose. Their availability and the fact that there are many available suppliers is an advantage. Decisions to purchase such items are made at a lower level due to low risk.

### **2.5.2 Leverage items**

For leverage items large amounts are spent but the risk is low because of availability of specifications and suppliers (Hugo et al., 2006:73). More than one quotation must be obtained, from different suppliers, to obtain a competitive price and reduce the risk of being overcharged. The author uses an example of the computer industry which is competitive because of its many suppliers. A computer is an expensive item, for which you can get many quotations specifying the capacity, dimensions and speed of processing information needed.

### **2.5.3 Bottleneck items**

Hugo et al. (2006:73) describe bottleneck items as items with a low purchase amount, but having a high acquisition risk. They may be monopolized because of restrictions concerning the use of particular suppliers, due to political and geographical complexity. According to these authors this situation is happening practically with fuel supply where medium-term contract with a close relationship is essential. In fact, giving a contract to a supplier means that emerging suppliers with better technology and prices will not compete with that supplier for many years. Over a period of five years, a lot of advances and changes would take place



technologically, and the supplier with a longer term contract might not be unduly concerned about keeping abreast of advancing technology, or bringing prices down in line with more favorable changes and improvements.

#### **2.5.4 Critical items**

According to Hugo et al. (2006:74), critical items require large amounts to be spent, with high risk involved, due to the lack of suppliers available to compete. This is true, as market competition is not about price only, but also about service delivery times, and quality. Another problem is that these items are strategically important, and this requires a strategic alliance with the suppliers in areas like planning and further research. A further environment to be monitored is the process and information systems sector which now links sourcing to supply chain management. In fact, in all these items, one must keep a close relationship with such suppliers, ensuring that they become innovative.

## **2.6 MAKING A SOURCING DECISION**

Hugo et al. (2006: 76) mention six aspects that must be considered when making a sourcing decision. These are: assessing technology and demand trends; defining core activities; conducting a strategic analysis; conducting a total cost analysis of core activities; assessing non-cost factors for decision making, and determining the type of relationship that would be necessary.

### **2.6.1 Assessing technology and demand trends**

Obermann (2007:479) suggested that if the state cannot function properly on certain public needs it must outsource the activity. The reality is that available technology plays a big role, and it is difficult for garages to repair all makes of vehicles and keep up with changing technology. Each vehicle manufacturer makes certain changes on new models and updates the technology used by its dealers as part of product support. It becomes difficult for a general vehicle repair shop to keep up with all these different dealer-approved workshops. This includes diagnostic equipment and special tools dedicated to certain makes of vehicles. Moreover, the technology on the machinery for machining vehicle parts must be considered. By the same token, technology cannot be upgraded when there is no demand, and it would be preferable to outsource such services than to keep under-utilized technology.

Hugo et al. (2006: 76-79) are of the opinion that, when either the internal or external service is poor due to quality or quantity, the sourcing decision must be revised. In the same way, if a supplier does not perform or is unable to deliver and there is no other competitive supplier, the decision to outsource must be reversed. The changing service demand pattern will always persuade the sourcing decision. There is a stage at which a product or service demand will decrease or increase the enterprise's ability. The life cycle of the technology can influence the outsourcing decision, when it might be better to shift the risk of changing technology to a supplier.

### **2.6.2 Definition of core activities**

Hugo et al. (2006:76-79) define core activity as primary activities that are essential to create or deliver a product. All non-core activities can be outsourced. The loss of employment must be considered, including the pressure from Trade Unions. The primary function of the SAPS garages is to service and repair SAPS vehicles. Specialized repairs such as gearbox and differential repairs, machining of engine parts, and repairs to exhaust systems, are usually not regarded as core activities. For example, smaller (auxiliary) SAPS garages do not employ an auto electrician, setting the electrical work as non-core activity as discussed further in Chapter four. Mechanics do certain minor electrical work and refer the complicated electric repairs to an auto electrician.

### **2.6.3 Strategic analysis**

A strategy is, then, the total pattern of decisions and actions that position the organization in its environment and are intended to achieve its long term goals (Pycraft et al., 2000:71).

In Hugo et al.'s (2006: 76-79) opinion, one should identify what gives an enterprise its competitive advantage. This might be the low price of its products or service, or how it differentiates its product. At this stage, the strength of an enterprise must be identified and advanced. A product or service can be costly to the client but win the market because of its quality warranty period, and the accessibility and fairness of its maintenance. The strategic advantage of other competitors must also be identified. This report of a competitive analysis will enable the company to see its position

relative to other competitors, and the market itself (Burt, Petcavage & Pinkerton, 2010:219).

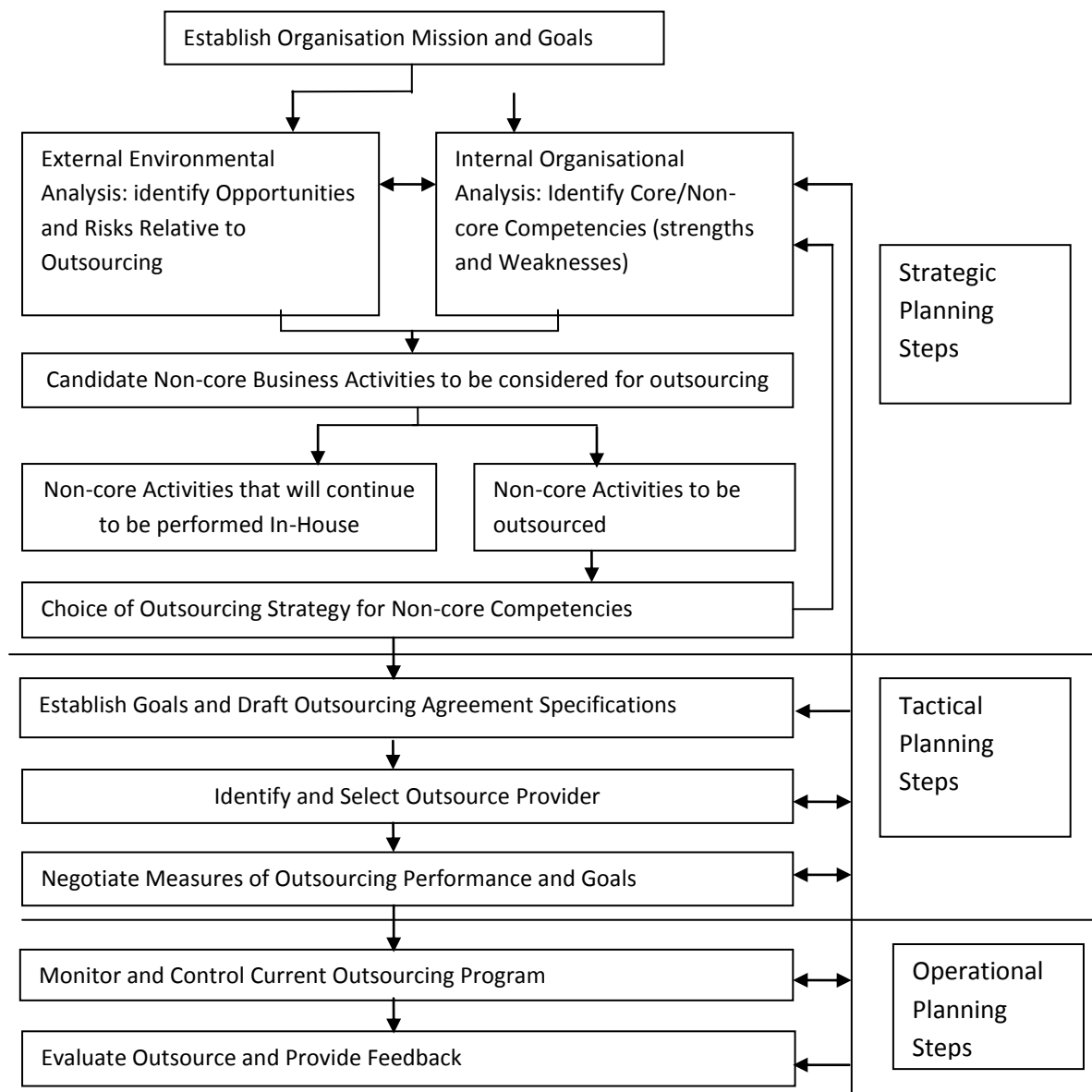
According to Burt et al. (2010:219), the core competencies of an enterprise are determined by the skills, technology, resources and knowledge it possesses. By doing competency analysis the resource can be focused on what can bring about the unique value desired by the client. A forecast must be done on core competencies that will be needed in the future. Both the current core competencies and the future competencies must be compared and analyzed, in order to create a firm's competitive advantage. When considering what to outsource or in-source, the decision taken should promote the full use and advancement of core competencies. Activities which are not directly driving this strategy can be outsourced to competitive companies of low cost.

What the enterprise must be careful of (Burt et al., 2010:220) is the supplier dominance. It is easy for a supplier to gain indirect controlling power over an enterprise. When a supplier puts in more investment as an essential need to fulfill the obligation of a contract, it may seem to be the best company to work with in the future. Because of this investment, the supplier can convene an amendment request to the original contract. The enterprise might find itself in a lock-in, and this would give the provider strength to negotiate better terms for the contract renewal because of the post-contract expectancies and lock-ins it has developed. This can be prevented sooner by a well-crafted and managed alliance. If there is any sign of a lock-in, a sourcing decision must be carefully made.

A basic strategic plan is about setting out long-term goals that will guide the day to day operations. The strategic plan must result from the organization's vision (mission and goals). The strategic plan is normally done at a senior management level. The common approach to a strategic plan is to do the SWOT analysis (strength, weaknesses, threats and opportunities). Schniederjans et al.'s (2010:149) sourcing model is based on SWOT analysis where they divide the planning stage into external environment analysis and internal organizational analysis as in Figure 2.1 and 2.2. In this model, when analyzing the internal environment, as further illustrated in Figure 2.2, all core activities are identified and kept in-house. It recommends that some of the non-core activities must be considered for outsourcing while strategic activities are kept in-house.

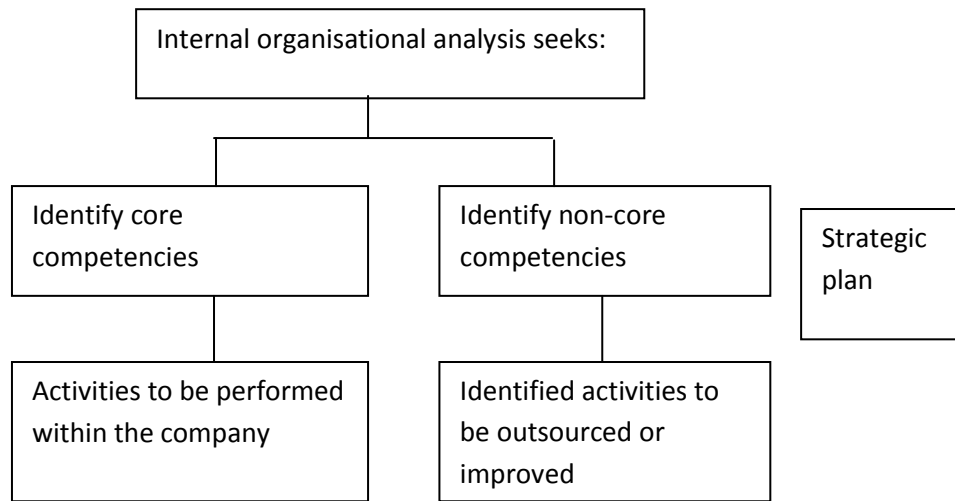
Figure 2.2 gives room for some none-core activities to be considered for improvement in-house before they are outsourced. The strategic planning component of this model ends where the strategy for outsourcing these none-core activities has been chosen. After this follows the tactical planning, in which specifications, performance and supplier identification are given attention. The final component of this model is the monitoring and control over outsourced services. When this is not done, the outsourcer will be faced with many risks resulting in the outsourcing being perceived as not working well.

**Figure 2.1: Schniederjans et al.'s SWOT analysis sourcing model**



Source: Schniederjans et al., 2010:291

**Figure 2.2: Schniederjans et al.'s SWOT analysis sourcing model: internal environment analysis**



**Source: Schniederjans et al., 2010:151**

Clemon and Hitt's (1977:10) sourcing strategy in Figure 2.3 is based on identifying what activities are considered to be the company's competencies and keepers. An activity is identified as a keeper after a risk assessment has been done. If the risk assessment indicates a high risk that might arise should the activity be outsourced, the activity must then be kept in-house, which classifies it as a keeper. A keeper is therefore an activity that is advisedly kept in-house. Their view is that if an activity is a company competency and is classified as a keeper, it becomes a strategic competency; if it is not classified as a company competency it becomes a non-strategic competency. In the same way, an activity that is not a company competency but is classified as a keeper can still be kept in-house as a strategic incompetency. Their view is that non-strategic incompetencies are best outsourced provided they are well performed by outsourcing companies. These non-strategic competencies can be considered for outsourcing if there are benefits for doing so.

**Figure 2.3 Strategic and incompetency-based model**

Keeper	Non-Keeper	
<p align="center"><b>Strategic Competence</b></p> <p align="center"><b>Don't attempt to outsource!</b></p>	<p align="center"><b>Non-Strategic Competence</b></p> <p align="center">Can outsource, though there is no need. Can operate an outsourcing business as vendor.</p>	
<p align="center"><b>Strategic Incompetence</b></p> <p align="center"><b>Don't attempt to outsource; fix deficiency!</b></p>	<p align="center"><b>Non-Strategic Incompetence</b></p> <p align="center">Should outsource, to remedy a strategic deficiency</p>	<b>Incompetence</b>

Source: Clemon and Hitt, 1977:10

In 1991 while 7-eleven's business strength was financially declining, Jim Keys was appointed chairman of the executive committee (Gottfredson, Puryear and Phillips, 2005:134). He initiated a business review which was aimed at increasing 7-eleven's competitive advantage. His focus was for 7-eleven to do what they were best at. He decided to move away from the general concept that you must keep the core activities and outsource all non-core activities. His conviction was that if there is a company that can perform one of 7-eleven's core activities better than 7-eleven, that activity should be outsourced.

At that stage, 7-eleven was running convenience stores and fuel stations. It also had its own cows to supply milk for the shops, and even made ice-cream (Gottfredson et al., 2005:135). The company further distributed its own fuel. Keys decided to outsource the fuel distribution and all supplies to the convenience shops. He adopted a Japanese model called 'Keiretsu'. This model is based on building tight

partnerships with suppliers. His mission was to identify external suppliers with greater expertise who could supply on a large scale.

Partnerships were structured according to their importance (Gottfredson et al., 2005:135; Jacobs, Chase & Aquilano, 2009:369). All that was left to do was to train his procurement staff, as they were to be the 'agents of success' on the new sourcing strategy. The best move 7-eleven made was to source only to capable suppliers as strategic partners in the race to win the market. By creating this innovative sourcing partnership, 7-eleven discovered new capabilities. By using Information Resources Inc. (IRI) for data information they could easily see how the stock moved in their convenience stores and refill stock according to data integrity (Gottfredson et al., 2005:137). An example of a better capability is that 7-eleven's own fresh products supply centre used to deliver about twice a week, whereas Combined Delivery Centers (CDC) delivers daily.

The same Japanese approach to strategic sourcing partners helped Chrysler, another United States company (Gottfredson et al., 2005:134). This Japanese approach to sourcing (Keiretsu model) gave the Japanese automotive industry an advantage over their American opponents. After adopting their Japanese competitors' approach, Chrysler achieved success in the automotive industry by seeking a 'value managed relationship' with companies that could 'sustain competitive costs, high quality and efficient delivery'.

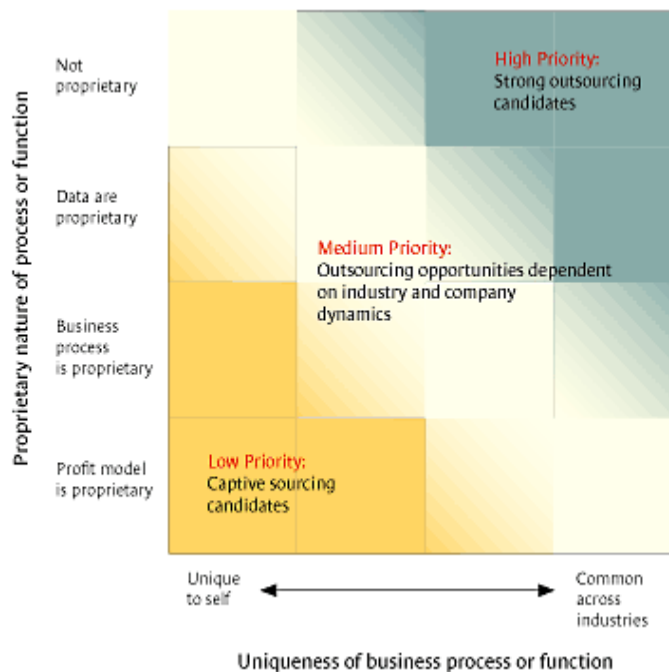
American Express, a company that had a strategic capacity on bank transaction process, had less technology than First Data (Gottfredson et al., 2005:134). Their best move was to outsource the transaction processing function to First Data. This outsourcing was based on First Data having more capabilities on transaction processing than American Express. American Express then diverted their energy on risk management and marketing as core functions to focus on, and build better strategic capability.

Chrysler, 7-eleven and American Express had to outsource some of their core activities, which were their strategic capabilities, to more capable strategic partners (Gottfredson et al., 2005:137). They are of the opinion that the drive of a sourcing decision should be to obtain better profit for the company. In Government, this is

viewed not on profit terms but on cost saving through competitive price quotation and service delivery. The point of profit is not about saving on a single item. Responsiveness does determine profitability. If the outsource provider does not respond on time, the clients of the outsourcing company could take their business to a company that responds timeously (Gottfredson et al., 2005:137).

In Figure 2.4, the uniqueness of a capability makes it closer to being kept in-house, and mainly if combined with cost savings when performed in-house. This mapping is focusing on the uniqueness of the activity to the proprietary nature of the activity. Propriety includes benefits such as reducing risk and saving money, and gaining other advantages.

**Figure 2.4: Keiretsu Model: Uniqueness in proprietary nature of business process**



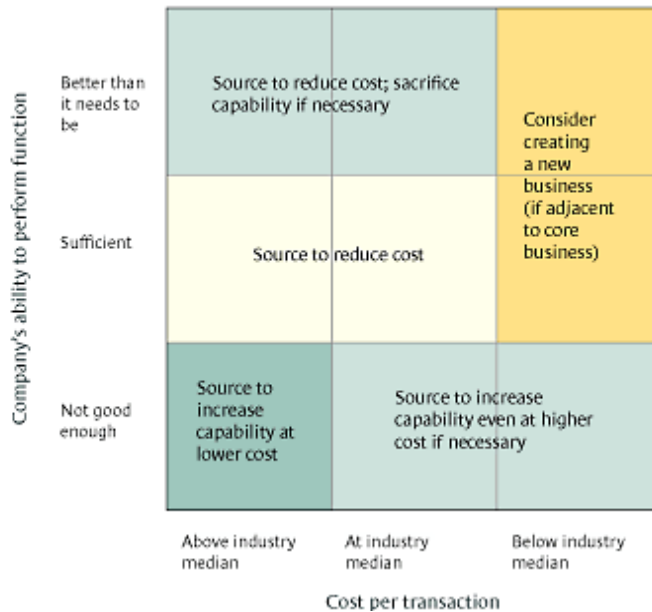
**Source: Gottfredson et al., 2005:138**

How an organization performs its capabilities must determine whether an activity must be outsourced or not. The best way is to evaluate the degree to which the organization performs its capabilities compared to other providers, in relation to the cost of performing the activity. In Figure 2.5, if the cost of performing an activity in-house is cheaper, and is done better than by other providers, the activity must be kept in-house. If either the costs or the degree of capability are compromised



internally the activity must be considered for outsourcing to strategic partners (Keiretsu model). The mapping will explain the main reason for the outsourcing decision. The reason may be to reduce cost or increase capability. The capability might be sacrificed over cost savings or cost savings might be sacrificed over capabilities, depending at the situation on hand.

**Figure 2.5: Keiretsu Model: Company’s capability and cost consideration**

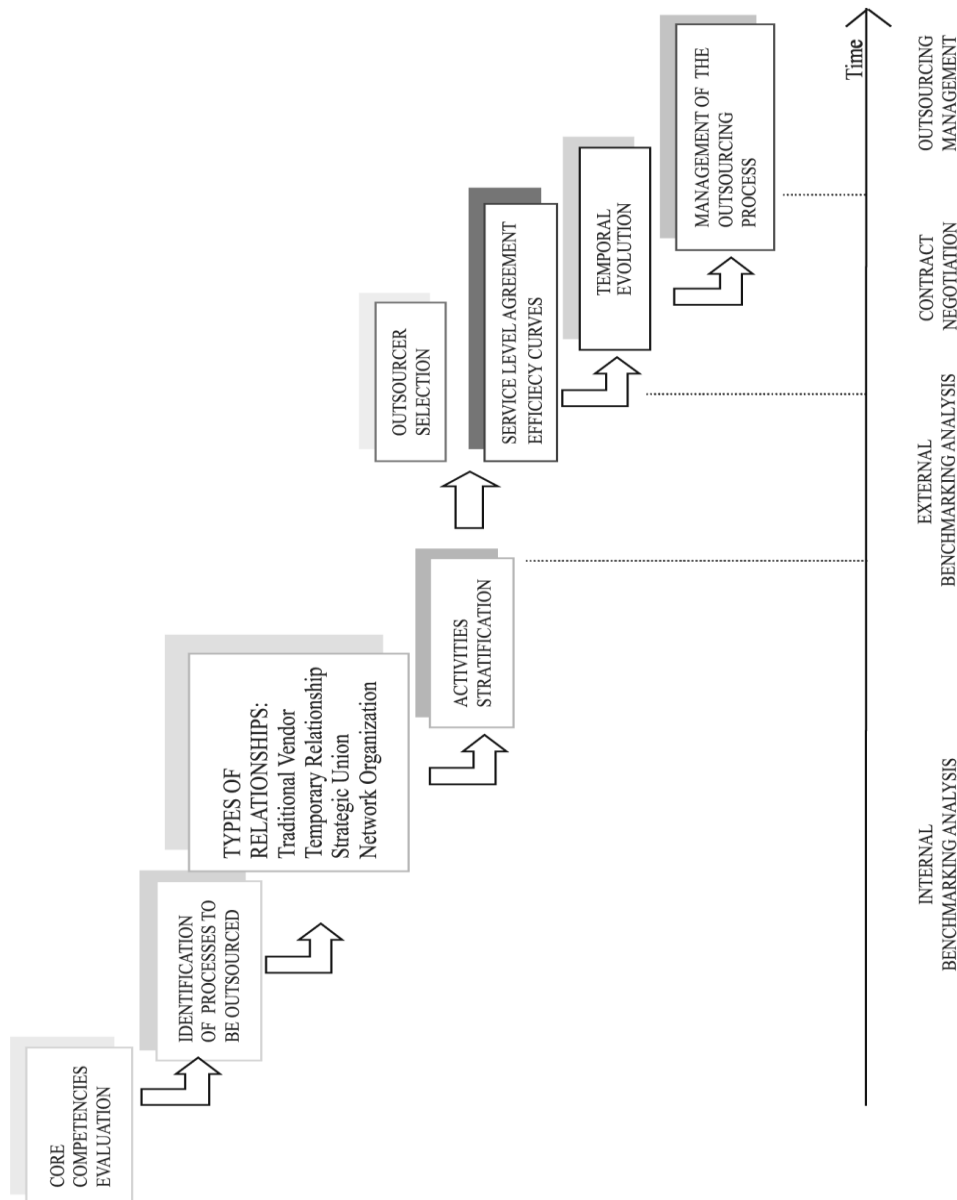


**Source: Gottfredson et al., 2005:138**

According to Gottfredson et al. (2005:134) strategic core activities (capabilities) that Clemons and Hitt (1977) suggest be kept in-house can be outsourced to more capable suppliers, thus forming a strategic relationship in order to have more competitive advantage over other competitors. This type of outsourcing is called 'capacity sourcing'. Schniederjans et al.'s (2010:151) approach is that core activities must be kept in-house whereas Clemons and Hitt (1977:10) have views that core activities that are not strategic can be outsourced. However, Gottfredson et al. (2005:134) view the Keiretsu model as more advanced. This model was used by Chrysler, American Express and 7-eleven who recommend that some of the strategic capabilities can still be outsourced to more capable suppliers through creating strategic partners.

The Franceschini and Galetto (2003:249) model in Figure 2.6 is not about which activities are wise to keep in-house or to outsource. The three discussed sourcing

**Figure 2.6: Franceschini and Galetto model for management of outsourcing processes**



**Source: Franceschini and Galetto, 2003:249**

models must be linked to Franceschini and Galetto's model for management of outsourcing processes. The first two steps apply to any sourcing choice model. The type of relationships with providers will be necessary as an integral part of a sourcing decision which will be discussed separately.

#### **2.6.4 Conducting a total cost analysis of core activities**

According to Hugo et al. (2006:76), internal cost implications of in-sourcing core activities must be analyzed and compared to that of outsourcing. After the cost analysis, other factors must still be considered such as risk of other competitors benefiting from the enterprise's strategic advantage. The other factors will still determine whether there is no future risk of the enterprise losing its competency while in-sourcing. In this case the enterprise will start outsourcing in order to build relationships for the future. The other idea will be to outsource the core activities without strategic advantage. Internal cost must include direct labour costs, fringe benefits, direct materials and indirect labour.

#### **2.6.5 Non-cost factors for decision making**

Hugo et al. (2006:76) are of the opinion that it is not only the cost analysis that must be done. There are non-cost factors that it is important to consider when making a sourcing decision. These non-cost factors include advantages, disadvantages and risks of in-sourcing and outsourcing. Van Wyk and Kroukamp's (2007:268) concern is that some state departments are not bothering to compare the cost with benefits. These writers are of the view that, although outsourcing appears to be the government's order of the day, public managers must conduct an accurate cost benefit analysis before making a sourcing decision. This means that the costs and the benefits of both sourcing options must be compared on a scale for the best decision. Where there are cost savings, disadvantages and risks must be considered.

Muhlermann, Oakland and Lockyer's (1992:444) view on deciding whether to repair the vehicles in-house or to outsource is that it is not only a matter of cost savings. There are other important factors such as the quality of work that will be delivered by the providers and how the quality is going to be controlled. Another question is whether the providers will be able to offer sustained services. The SAPS requires committed providers who will always create space and time to provide a service and if a provider does not have enough time and space in its workshop, it may not be a reliable provider for the SAPS. Accessing the knowledge and technology that is possessed by the prospective providers is important for achieving desired goals. The other important fact is that, these outsourced works must be managed effectively.

### **2.6.6 The type of relationship necessary must be determined**

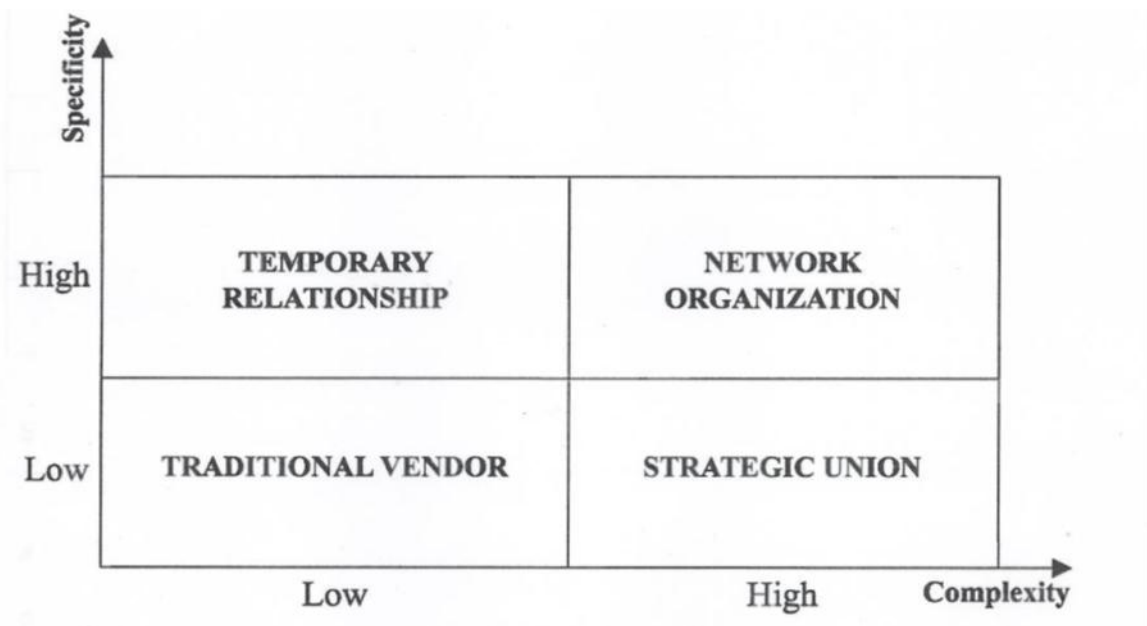
In Hugo et al. (2006:76) opinion, the more strategic the outsourced activity, the closer the relationship must be built. According to Gottfredson et al. (2005:137), when explaining the Japanese automotive strategies, the Keiretsu model, core activities can be considered for outsource to more capable suppliers as strategic partners. The main foundation of this model is based on building a value managed relationship. In this relationship service level agreement will be critical, even more so with more strategic activities. For SAPS vehicles, a service provider must buy into the fact that the vehicle repairs must have a quick turnaround time since it is an emergency vehicle and the SAPS do not have spare pool vehicles that are kept to replace faulty vehicles.

According to Van der Westhuisen (2008:6), there are four types of relationship that can be built with service providers. These are:

- Temporal relationship
- Traditional vendor
- Network organization, and
- Strategic union.

The formation of the nature of these types of relationship depends on the degree of specificity and complexity of the activity that must be outsourced, as in Figure 2.7. Van der Westhuisen (2008:5) defines complexity as referring 'to the difficulty of monitoring and defining the contract terms and conditions of outsourcing process', and specificity as 'the level of re-utilisation of the considered goods or processes for many different uses'. Table 2.1 illustrates the characteristics of these types of relationships. As explained and shown in Figure 2.7 and Table 2.1, the network organisation and the strategic union are the relevant types of relationship to be considered for outsourced services as they are classified as complex outsourced services. The choice between the two will depend on the nature of the repairs, whether on a contract or a day to day quotation basis, and the degree of specificity in addition to the complexity of the service required.

Figure 2.7: Four types of outsourced-outsourcer relationship



Source: Van der Westhuisen, 2008:6

Table 2.1: Main characteristics of different types of outsourcer relationships

	<b>Traditional vendor</b>	<b>Temporary relationship</b>	<b>Strategic union</b>	<b>Network organization</b>
<b>Objective</b>	Resolution of an immediate problem	Reach better competencies	Joined value creation	Better future marketing position
<b>Type of relationship</b>	Customer/supplier	Hybrid between customer/supplier and partnership	Partnership	Partnership
<b>Time</b>	Short-term	Medium-/long-term	Long-term	Long-term
<b>Strategy</b>	Little	Joined to objective of "outsourced" process	Follows strategy of the company	Joined company vision
<b>Trust</b>	No essential	About competencies	High and reciprocal	Maximum and reciprocal
<b>Evaluation</b>	Productivity, cheapness, reaction time	Effectiveness, process improvement	Competitive advantage, profit	Innovation, new market creation
<b>Price Model</b>	Cheapness	Based on cost and shared risk	Win-Win	Win-win

Source: Van der Westhuisen, 2008:7

## 2.7 SOURCING RISK MANAGEMENT

### 2.7.1 Risk

Paulsson (2004:79) defines risk as 'the probabilities that an event with negative consequences will occur', while Kajuter (2003:323) defines it 'as a future development or event that might adversely impact the achievement of corporate goals'.

When outsourcing goods and services, we must take into consideration the possibilities of risks such as:

- The interruption of the flow of goods and services
- The possibilities of significant changes in price
- The reputational risk
- The risk of corruption.

The flow of goods can be interrupted by both the avoidable risk and the unavoidable risk. The unavoidable risk occurs in instances such as market collapse, or catastrophic events such as floods, hurricanes, and wars. These have the potential to harm the enterprise severely. The avoidable risks are those that can be mitigated by careful scrutiny of the outsource decision and agreements. Entering into a contract with a company with financial complications that may lead to a lack of delivery is a risk that can be avoided. In-sourcing in itself can be a risk. While keeping stock of vehicle spare parts reduces the risk of interruption of the repair process, it carries the highly increased risk of theft. Although the literature elaborates more on outsource risk, in-house repairs have their own risks, including the disruption of work due to absenteeism (Public Service Commission, 2010:41).

According to Molaba (2008:39), some of the risks that are expected when outsourcing are as follows:

- An appointed supplier cannot deliver
- Additional costs that were originally unidentified cause increased costs
- High dependency on external suppliers for service delivery

- The risk of not achieving expected outcomes and benefits
- The risk of exposing and leaking important and confidential information.

## **2.7.2 Sourcing risk management**

Paulsson (2004:79) defines risk management according to the Royal Society (1992:2) as:

*'... the process whereby decisions are made to accept known or assessed risk and/or the implementation of actions to reduce the consequences or probabilities of occurrence'.*

He (Paulsson 2004:80) further refers to risk management according to Norman and Lindroth (2002:7) in a supply chain perspective as:

*'... to collaboratively with partners in a supply chain apply risk management process tools to deal with risks and uncertainties caused by, or impacted on logistics related activities or resources in the supply chain'.*

Understanding the general definition of risk management, Kajuter (2003:327) refers to supply chain (sourcing) risk management as:

*'a collaborative and structured approach to risk management embedded in the planning and control process of supply chain, to handle risks that might adversely affect the achievement of supply chain goals'.*

Risk management is composed of risk assessment, risk mitigation, and risk monitoring (McCormack, 2008:69).

### **2.7.2.1 Risk assessment**

Every organisation is faced with different risk types which must be assessed and mitigated in order to bring success. In the same way, the supply chain environment has its risks. Whether the SAPS garages in-source or outsource the maintenance of their vehicles, there will be underlying sourcing risks in either sourcing choice which could result in poor service delivery, mismanagement of funds such as fraud, or fruitless expenditure, if it is not properly managed. The first step in risk management is to identify sourcing risks involved in the process of repairing, whether in relation to in-sourcing or outsourcing.

After identifying risks, the next step is the risk evaluation. It is very important that the identified risk be put into categories. During mitigation it can be clear which category has more risk. McCormack (2008:79) first divides the sourcing risks into categories such as:

- Supply chain disruption
- Performance
- Human resources
- Environmental risk
- Relationship
- Financial health.

According to Norman and Lindroth (2004:18), risk management is aimed at understanding the risk and minimising its impact. It is not possible to minimise the impact of a risk that an organisation is not aware of, which is why, according to these authors, the risk must be identified and evaluated and a decision made about it. The risk assessment, which includes identification and evaluation of a risk, is the foundation of the risk management. The identified risks can be evaluated according to their probability and possible impact to the organisation. The risk map or matrix as in Figure 2.2 assists the organisation to see which risk management needs to be prioritised. It is designed as explained by Norman and Lindroth (2004:18).

**Table 2.2: An example of a probability and business impact assessment.**

Risk of outsourcing	Probability	Business impact
1. Corruption	****	****
2. Quality	**	****
3. Strikes	*	**
4. Loss of skill	****	*

Source: Author, 2011



Each risk that is identified has a source, which can be externally driven, internally driven or decision/information driven (Norman & Lindroth, 2004:19). Table 2.3 displays sources of risk, its probabilities and impact according to Norman and Lindroth (2004:18), including the categories of risk as mentioned by McCormack (2008:79).

**Table 2.3: An example of a combined risk assessment for outsourced services**

<b>Risk description</b>	<b>Sources</b> (Externally driven/ Internally driven/ Decision-driven/ Information-driven)	<b>Categories</b> (Supply chain disruption Performance Human resources Environmental resources Relationship Financial health)	<b>Probability of occurrence</b> Scale 1-5 (i.e. very low to very high), or star rating	<b>Impact on the organisation</b> Scale 1-5 (i.e. very low to very high) or star rating
1.Fraud	Internally and externally driven	Financial health	3	5
2.Corruption	Internally and externally driven	Relationship	2	4

Source: Author, 2011

### **2.7.2.2 Risk mitigation**

In the view of McCormack (2008:79), when an organisation has identified a risk it will be able to take action that will reduce, neutralise or avoid the risk. Norman and Lindroth (2004:22), Kajuter's (2003:332), and Moosa's (2007:19) views are that an identified risk can be managed by means of:

- avoiding it,
- reducing its impact or probability,
- transferring it to the supplier or insurance company,
- or even by taking it.

Furthermore, risk can be partially transferred by sharing it with the supplier (Norman & Lindroth, 2004:22; Moosa, 2007:19).

In the first option, risk can be avoided by not outsourcing a risky activity or by avoiding any sourcing activity that has an undesired or high risk. By following the second option, the likelihood of risk can be reduced by not fully outsourcing an activity. This might be the first way of testing the supplier's capabilities. If the supplier fails to deliver, the risk will not be very high. Another risk reduction effort might be the selection of a very promising supplier through proper evaluations. There are many workshops that claim to repair vehicles yet avoid the use of qualified mechanics because of their high salary scale (Rivera, 2010).

In the third option, a risk that is associated with the maintenance of a vehicle can be transferred to a capable company that has a good warranty on the work done. In the example of fitting a new engine into an expensive vehicle, it is difficult for an agent to give a warranty on the purchase of such an expensive engine if it is to be fitted by a mechanic who is not specifically trained to work on that particular make of vehicle. There would be a high risk that the mechanic might make a costly mistake, mainly on expensive engines. Transferring this risk to the car dealer by procuring a supply-and-fit of the engine would be a better decision as the dealer will carry the warranty.

A risk can be shared by not transferring all the risk. This is common where a company practises social responsibility, avoiding the retrenching of many employees and thereby increasing the unemployment rate. This might even be as a result of pressure from the trade unions. Lindroth and Norman's view of sharing the risk is explained by Kajuter as transferring some of the risk but retaining the potential impact (Kajuter, 2003:333).

The fourth alternative of risk management mentioned above, that is, by actually taking the risk, is very controversial. In Srikanth and Venkataraman's (2007:335) view, profits are seen largely as a reward for successful and informed risk taking. In this way they indicate the active existence of risk as an everyday means to achieve success. Success comes through taking risks. They see the association of risk only with loss, as the old way of thinking. However, the way the risk is taken is the determinant for the outcome, whether there will be a profit or a loss. The main

possibility of profit is only when the risk is acceptable and taken successfully through being informed. The use of the word 'acceptable' does indicate that some risks are not acceptable or wise to take. In order to determine what to do, the risk must be identified and its impacts assessed.

Their (Srikanth & Venkataraman, 2007:335) approach is to deal with the risk. If the risk is not acceptable it can still be controlled and brought to an acceptable level. Furthermore, even if it is acceptable it must be safeguarded, and monitored. Before implementing new safeguards the existing ones must be evaluated. This means that when the risk is identified, part of evaluating its impact must include the evaluation of measures that are already in place. In this, these writers still embrace the traditional way of avoiding, transferring and controlling risk, but are advocating the idea of going to risk a second eye as an opportunity.

They further point out that a risk impact can still occur somehow. This impact must be managed in order for the business to continue. They refer to this after-impact management as business continuity management.

### **2.7.2.3 Risk monitoring**

The main sustaining part in risk management is the continued monitoring of the identified risk, including any that might arise. Reporting during monitoring is a form of accountability. These reports must be regular so as to accommodate sudden changes in risk (Kajuter, 2003:333; McCormack, 2008:71).

### **2.7.2.4 Collaboration**

According to Kajuter (2003:334), collaboration goes further than the service provider as the provider must have a risk management that involves its supplier network. It can push the risk further. This risk management must be a responsibility even to the supplier of the service provider. A vehicle is outsourced to a workshop which outsources a part of repairs which are not his speciality and the specialist must source the parts to repair the component. The part supplier will rely on the availability of the part, which will be affected by transportation risks.

## **2.8 OUTSOURCING QUALIFIERS**

According to Thompson and Strickland (2003:183) it is a qualifying reason if outsourcing is considered because:

- An activity can be performed better or more cheaply by outside specialists.
- The activity is not crucial to the firm's ability to achieve sustainable competitive advantage and won't hollow out its core competencies, capabilities or technical know-how.
- It reduces the company's risk exposure to changing technology and/or changing buyer preferences.
- It streamlines company operations in ways that improve organisational flexibility, cut cycle time, speed up decision-making, and reduce co-ordination costs.
- It allows a company to concentrate on its core business and do what it does best.

## **2.9 GUIDELINE FOR AN OUTSOURCED MAINTENANCE**

Amongst the guiding principles mentioned by Loader (2006:217) it is very important to have an outsourcing policy which regulates the outsourcing of different activities. With this, a buyer at any SAPS garage will know when to outsource which activities according to the specific guidelines. Loader views it as of the utmost importance for the senior manager to take responsibility for formulating relevant sourcing guidelines.

The next step would be for management to develop an outsourcing risk management programme (Loader, 2006:218). This programme will be for outsource activities including the relationship with the service providers. To lower the risk, service providers must be selected with care. The outsourcing relationship must be closely outlined in the form of a contract with approved service providers. This will ensure that when service providers who are on the database are requested to provide a quotation or render a service, they conduct themselves in an acceptable manner.

When there is a common understanding that the repairs on SAPS vehicles are urgent, the service providers must assess the vehicles and provide speedy

quotations, and the same again when approval is given for repairs. This well-guarded relationship will entrench the principle that SAPS requires an emergency service, and that doing the repairs quickly makes better business sense, and encourages social responsibility in the service provider. The service provider would promote the concept to its employees that every vehicle delayed by the company is a disadvantage to the community and to their own families.

One of the risks to be mindful of is the fact that it is easy to underestimate the cost of the outsourcing process. This is true when the database is too big. The SAPS vehicles are outsourced to many suppliers in order to enhance competition and advance supplier rotation. This could result in complicated co-ordination where a buyer is required to follow up on quotations, progress of work and then ensure that quality checks are done by a delegated person. Managing the repair of vehicles under one roof is a simpler task than trying to manage work from different premises and sources (Burt et al., 2010:234; Leenders et al., 2006:478).

Another potential risk is that the organisation can lose internal capacity by promoting the growth of the supplier power (Burt et al., 2010:234). In such a situation the organisation would find itself particularly dependent on its suppliers. Such heavy reliance could pose a very serious threat if it emerged that a Government contractor had been ineffective and unreliable. This could occur if the contractor was not performing as set out in the terms of the contract.

The leakage of sensitive information is one of the major problems that can endanger an outsourcing company, and this might be related to whether fixed communication radios can be used by criminals to monitor police movement to the criminals' advantage (Buchanan, 2008:88).

## **2.10 SUMMARY**

Repairing SAPS vehicles amounts to the spending of public funds in order for the vehicles to be used by the Police to render an essential service. There are different sourcing options that can be used for maintaining the SAPS vehicles. Sourcing is the process of arranging for a service to be provided. The sourcing choice lies between outsourcing and in-sourcing. The option of providing services from within the organisation is referred to as in-house maintenance and is called in-sourcing.

Outsourcing is the option of an external organization being used to provide a service. This research study redefines outsourcing as a procurement of goods and services in a contractual form from an external provider for improved supply chain benefits.

The decision process must take into consideration the nature of services that must be rendered in accordance with categories such as, routine, leverage, bottleneck and critical items. When making a sourcing decision, one must define and identify core activities and competencies; assess and analyse the technology and demand trends; assess and compare the total financial and non-financial cost factors of outsourcing to that of keeping in-house; and finally, take the important step to conduct a strategic analysis. A risk must be assessed and mitigated. Mitigation includes deciding on whether a risk must be avoided, reduced, transferred, or taken. The choice may even be that it must be shared.

Schniederjans et al. (2010:149) sourcing model recommends that the core activity must be kept in-house and non-core activities outsourced. Clemons and Hitt's model (1977:10) categorising some activities as strategic competencies, non-strategic competencies, strategic incompetencies and non-strategic incompetencies due to external environmental threats. An activity which poses a high risk is considered to be a keeper (strategic) and is kept in-house, irrespective of whether it is a competency or not. However, Gottfredson et al. (2005:9) is of the opinion that a strategic competency can be outsourced if a service provider is able to do the job faster, offers a cost saving and performs a high quality service. This is referred to as capability sourcing.

Although the outsourcing is regarded as providing flexibility and improved service, it might also bring risk. The best sourcing strategy will help to find a balance between in-sourcing and outsourcing, and will also ensure uniformity throughout all the SAPS garages. Such a sourcing model must be a right fit for the organisation. The SAPS is a government department and is therefore governed by legislation and policies as discussed in the next chapter. When considering an efficient sourcing strategy, the next chapter will discuss a related legislative and policy framework that is governing the use of public funds while procuring goods and services, mainly, while maintaining SAPS vehicles.

## **CHAPTER THREE**

### **3. LEGISLATIVE AND POLICY FRAMEWORK**

#### **3.1 INTRODUCTION**

This chapter discusses a legislative and policy framework. The sourcing decision must support the constitutional, as well as the Public Finance Management Act, 1 of 1999 (PFMA), requirements. These two documents form the foundation for acquisition of goods and services in government departments. Treasury responded to these documents through regulations and policies such as treasury notes and the Supply Chain Management Guide for accounting officers/outsourcers. In addition, the SAPS established policies to guide the acquisition of goods and services. It further has a manual for mechanical services, to provide guidance on different requirements while operating a garage, which is going to be discussed in this chapter.

#### **3.2 THE CONSTITUTION OF THE REPUBLIC OF SOUTH AFRICA ACT NO 108 OF 1996**

The commission of the police as in section 205 of the Constitution of the Republic of South Africa, Act 108 of 1996 is to 'prevent, combat and investigate crime, to maintain public order, to protect and secure the inhabitants of the Republic' (RSA, 1996:123). Section 206(2) of the Constitution requires policies to be in place to address policing needs and priorities. To ensure effective policing there must be sufficient vehicles. The policies must ensure the availability of vehicles as a critical need. The policies overall must cover the maintenance of these vehicles in order to ensure availability.

Chapter 13 of the Constitution gives direction on matters regarding public funding. Section 217 is the foundation of the procurement procedures that must be followed by all organs of the State (RSA, 1996:131). All goods and services that are procured with public funds must be done through a 'fair, equitable, transparent, competitive and cost-effective' system. Section 217(2) makes provision that, although pursuing fairness and competitiveness, the system can still offer certain preferences when

awarding a tender or allocating a contract. It makes provision for preferential procurement of goods and services in order to favour certain individuals, in order to protect or advance them while redressing the past. Section 217(3) instructs that a legislated framework that will ensure the application of section 217(2) is established (RSA, 1996:131).

### **3.3 PUBLIC FINANCE MANAGEMENT ACT, 1 OF 1999**

Section 38 of the Public Finance Management Act, 1 of 1999, puts a responsibility on the accounting officers to ensure that the procurement of goods and services are 'fair, equitable, transparent, competitive and cost effective' (RSA, 1999:23). It further prescribes an effective and efficient and transparent management of people's money. The signing of this Act by parliament is to regulate the management of the public money in the national and provincial governments. It gives guidance on how 'to manage all revenues, expenditure, assets, and liabilities of these governments' (RSA, 1999:23). Furthermore, it gives the responsibilities of all employees entrusted with the use and management of public money.

### **3.4 THE PREFERENTIAL PROCUREMENT POLICY FRAMEWORK ACT, 5 OF 2000**

As the preamble of the Constitution of the Republic of South Africa, Act No 108 of 1996 (RSA, 1996:1) says, 'We, the people of South Africa, recognize the injustices of our past', section 217(2) of the Constitution gives provision that, although pursuing fairness and competitiveness, the system can still offer certain preferences when awarding a tender or allocating a contract. Therefore, in order to redress the past, the Preferential Procurement Policy Framework Act no 5 of 2000 (PPPFA) fulfils the requirements in section 217(3) which instructs that a legislated framework that will ensure the application of section 217(2) be established. For this reason, this Act requires points to be allocated per price competition and for Historically Disadvantaged Individuals (HDI) status. HDI refers to Black South Africans (Africans, Coloureds and Indians) and all women regardless of colour or race (RSA, 2000:2). This Act applies only to the procurement of goods and services that are above R30 000 (Treasury, 2007c:3).



### **3.5 THE BROAD-BASED BLACK ECONOMIC EMPOWERMENT ACT, 53 OF 2003**

The Broad-Based Black Economic Empowerment Act no 53 of 2003 (B-BBEE) was promulgated only on 9 February 2007 (RSA, 2007). The driving force for the compliance and the development of the black economy has been the Department of Trade and Industry (DTI). It requires South African companies to include blacks both in ownership and management. It therefore focuses on seven pillars which are; Equity Ownership, Management Equity, Employment Equity, Skills Development, Preferential Procurement, Enterprise Development, and Socio-economic Development. This Act is not fully enforced in the government departments as the PPPFA has another points-allocation system that is different to that of B-BBEE. Departments can only ensure that their suppliers are B-BBEE compliant but not allocate procurement point based on B-BBEE status (Treasury, 2007d). The Companies still benefit from the supply of goods and services that are less than R30 000, where the PPPFA has no power.

### **3.6 SUPPLY CHAIN MANAGEMENT: A GUIDE FOR ACCOUNTING OFFICERS AND ACCOUNTING AUTHORITIES**

The above-mentioned guide provides an integrated way forward to supply chain management which takes into consideration the PPPFA and the B-BBEE Act. This guide acknowledges that, while procuring goods and services, some risk elements exist, which must be assessed and mitigated (Treasury, 2004b:9). It requires all State institutions to have a sourcing strategy as well as to investigate the best possible methods for sourcing goods and services.

### **3.7 TRAINING ON SUPPLY CHAIN MANAGEMENT. TREASURY PRACTICE NOTE 5 OF 2004.**

Treasury Circular dated 2004/10/27 (Treasury, 2004c:2) requires all practitioners who do day-to-day supply chain functions to be trained. All newly appointed employees must be trained regardless of the employment levels, and this training includes senior management. The types of training that are prescribed in this Notice are; introduction to Supply Chain Management, intermediate training with the focus on intensive training in all elements of Supply Chain Management, and advanced training that includes specialised skills within the elements of Supply Chain

Management. In addition, the Treasury Circular dated 2004/10/27 (Treasury, 2004a:6) on 'Implementation of Supply Chain Management' give responsibility to all accounting officers and accounting authorities to ensure compliance to this Practice Note.

### **3.8 PROCUREMENT OF GOODS AND SERVICES BY MEANS OTHER THAN THROUGH THE INVITATION OF COMPETITIVE BIDS. TREASURY PRACTICE NOTE 6 OF 2007/2008.**

Treasury Practice Note 6 of 2007/2008 (Treasury, 2007b) gives directives on when to procure goods and services without using competitive bids. Goods and services that are under R200 000 can be procured without using competitive bids by means of price quotations. It refers to Treasury Regulation 16A 6.4 that allows for a supplier being a sole provider. The other circumstance in which this is allowed is in cases of emergencies, for services where it is not practical to obtain more quotations. An example of this would be a contractor who must strip a vehicle to diagnose for repair, such as electrical work and some mechanical works. Where the loom of wires in a vehicle is burnt, some compartments may have to be stripped to diagnose the extent of the damage. Once this is done, half the job is already completed so it would be difficult for another provider to take over. This regulation therefore allows for a term contract to be granted assisting on emergency repairs. This Practice Note therefore warns the practitioners not to abuse Treasury Regulation 16A 6.4.

### **3.9 MECHANICAL SERVICES MAINTENANCE MANUAL, 2007**

The Mechanical Services Maintenance Manual is for guiding the SAPS garage on different aspects of the running of the garage. It gives a guide for the repairing of the vehicles in-house as well as, in a limited way, how to utilise the external suppliers for executing repairs on vehicles. It lays out the mission of the Mechanical Services so as to provide a cost-effective, professional and client-oriented maintenance on SAPS vehicles. Such a service is seen as the best to meet the operational need of the SAPS, ensuring the maximum availability of vehicles (SAPS, 2007).

#### **3.9.1 Outsource decision**

Section 15 of this manual (SAPS, 2007:23) gives the responsibility for an outsource decision to the garage manager and the workshop manager only. It states that 'the garage or workshop manager, after assessing the situation in the workshop as far as

work is concerned, assign the job card (vehicle) to an outside division' (SAPS, 2007:24). However, this manual does not give guidance regarding in which situations the vehicle repairs may or may not be outsourced. This still leaves room for a manager to outsource any surplus work, as may be necessary, due to lack of personnel or resources. This implies that the garage can run with less mechanics due to the small space or posts that are not advertised. The manager might see no urgency in filling the post or looking towards the feasibility of renting a bigger workshop. It may even give a manager the option of doing simple jobs only, and outsourcing big or challenging tasks as discussed further in Chapter four.

### **3.9.2 Supplier selection**

Section 6 of this manual (SAPS, 2007:12) gives the responsibility of approving and certifying the capability of the supplier for rendering quality repairs to the garage manager. This implies that the SAPS garage must not use a supplier just because it is a registered supplier, but must ensure that the supplier is registered and approved by the garage manager as well. There is a standard form called National Outsourcing Requirements appearing as Annexure C in this manual which must be used during a supplier screening process. This completed form must be in each suppliers profile file.

### **3.9.3 Risk control**

Section 7 of this manual (SAPS, 2007:12) emphasizes on the survey that must be conducted on the suppliers' service delivery. This must be done for all vehicles outsourced or for items that are contracted, as it must be evaluated by the Mechanical Services Contract Steering Committee. Poor quality of repairs poses a danger to the driver of the vehicle, particularly under operational conditions. In such cases, section 21.7 permits a garage manager to temporarily remove the supplier from the database.

### **3.9.4 Job allocation to suppliers**

According to this manual, when allocating a job to a supplier, the following factors must be considered (SAPS, 2007:33):

- How long the company will take to repair the vehicle

- The supplier's previous performance records
- Pricing
- Quality of jobs previously given to the supplier
- Previous money spent on the supplier
- HDI status of a supplier.

However, the quantity of work already given and the money already spent may be irrelevant if a proper rotation of suppliers were done. The reason is that, the supplier's quotation might advantage or disadvantage it. When it is that supplier's turn to quote and all aspects favours it, it must not be disadvantaged or advantaged by the amount of work and money already awarded to it before. However, if the amount of work or money previously awarded to the supplier is too much or too little, it can lead to further investigation into the rotation of suppliers by the buyer or if there is any possibility of corruption.

According to this manual (SAPS, 2007:34), there are six aspects that must be monitored when outsourcing repairs so as to lower the risk:

- Outsource turnaround time
- Quality of repairs
- Warranties carried by the outsource
- Competitive price
- Rotation of suppliers for fairness and in order to curb corruption.

These aspects are associated with the Five Pillars of Procurement as described by the General Procurement Guidelines. Treasury (2007a:3), in the General Procurement Guidelines of 2007 mentions the Five Pillars of Procurement as: value for money, open and effective competition, ethics and fair dealing, accountability and reporting and equity.

The outsource turnaround time, warranties and quality of repairs are associated with the first Pillar, which is value for money. The second Pillar, which is 'open and effective completion', helps to curb corruption and act as the means to achieve the best and lowest price for services. The rotation of suppliers ensures fair dealing, which is the third Pillar. Accountability and reporting, which is the fourth Pillar, lessen the risk of poor procurement administration. The fifth Pillar, which is equity, promotes the development of small, medium, and micro enterprises and historically disadvantaged individuals. Equity must not at any stage jeopardize the value for money as explained above.

### **3.10 RT 46 VEHICLE FLEET MANAGEMENT CONTRACT**

The RT 46 vehicle fleet management contract was instituted in order to have control over the management of fuel and the repairs on vehicles of specific government department and entities. The SAPS is not in the list of departments that are excluded by Section 3 of this contract (Treasury, 2009:9). It gives provision for departments that have workshops and prefer to do repairs in-house.

### **3.11 OBTAINING GOODS AND SERVICES: MECHANICAL SERVICES. THE SAPS NATIONAL CIRCULAR DATED 2011/03/06**

The SAPS national circular dated 2011/03/06 (SAPS, 2011c:1) gives permission to the SAPS garages to outsource specialized work such as electrical repairs, exhausts and glass fitment, engine rebuilding and repairs on driveline units. It further authorizes the SAPS garages to work on one quotation basis where it is not practical to obtain more quotations provided a qualified person in the SAPS garage accepts the quotation as reasonable and within market-related rates. While using one quotation the garages must still maintain a supplier database. This provision for obtaining only one quotation is supported by the Treasury Note 8 (Treasury, 2007c:2).

### **3.12 TRAINING ON REVISED PREFERENTIAL PROCUREMENT REGULATIONS 2011**

Treasury Circular dated 2011/07/29 (Treasury, 2011) introduces the revised Preferential Procurement Regulation, 2011 which came into effect on 7 December 2011. This gives a guide to how the training for this regulation must be addressed. This revised regulation integrates the PPPFA and the B-BBEE.

### **3.13 SUMMARY**

Section 206 of the Constitution of the Republic of South Africa, Act 106 of 1996 (RSA, 1996:123) requires policies to be in place to address policing needs and priorities which include ensuring the availability of SAPS vehicles. It requires all State institutions to have a sourcing strategy as well, to investigate the best possible methods for sourcing goods and services. There is no clear strategy guidance on what type of work must be outsourced. SAPS Mechanical Services Maintenance Manual SAPS (2011c:1) and the National Circular dated 2011/03/06 gives a limited guidance. The status of the current SAPS strategy will further be explored in the next chapter including the possible preferred sourcing strategies.

All goods and services that are procured by the SAPS garages with public funds must be through a 'fair, equitable, transparent, competitive and cost-effective' system. When procuring goods and services above R30 000, competitive price quotations must be evaluated by allocating points on both the price and the Historically Disadvantaged Individuals (HDI) status. Where requesting three or more price quotation is not practical, the SAPS (2011c:1) National Circular dated 2011/03/06 authorizes the SAPS garages to work on a one-quotation basis. While ensuring that service providers that are used by the SAPS comply with the requirements of B-BBEE, the SAPS Mechanical Services Maintenance Manual SAPS (2011c:12) does, however, require the service providers' capabilities to be physically evaluated to ensure they meet the prescribed standards.

All SAPS garage personnel who do day-to-day supply chain functions must be trained. The status of training as one of the factors that helps sourcing processes to be efficient is evaluated in the next chapter. The next chapter is the research data presentation and analysis and it focuses on the current garage situation and on factors that must be considered before making sourcing decision. In addition to the literature review in the previous chapter, the legislative and policy framework in this chapter will assist when analysing the data.

# CHAPTER FOUR

## 4. DATA PRESENTATION

### 4.1 INTRODUCTION

Personal interviews were conducted with five SAPS garage managers. The duration of the interviews was between 30 minutes and 1 hour. For the purposes of the interviews the researcher used a structured questionnaire as a guide. Following on from these personal interviews, self-administered questionnaires, in alignment with the questions asked in the interviews, were drawn up and sent out to a number of garage managers. Five out of nine garage managers responded from the Free State, seven out of ten managers responded from the Western Cape, and eight out of sixteen managers responded from the Eastern Cape. In Gauteng, where only the four busiest garages, with the highest turnover of work, were targeted there were only three responses. All those who participated in the interviews and the self-administered questionnaire have been mentioned in section 1.6 of chapter one. For clarity, when reading the graphs and tables, the question numbers as they appear in the questionnaire will always appear in brackets in the graphs and tables. Furthermore, the researcher made comparative cost analysis between the in-sourcing and outsourcing options. Lastly, this chapter discusses the personal interviews with PRASA, City of Cape Town and the Western Cape Government.

### 4.2 AN EXPLORATION OF THE CURRENT SITUATION AT SAPS GARAGES

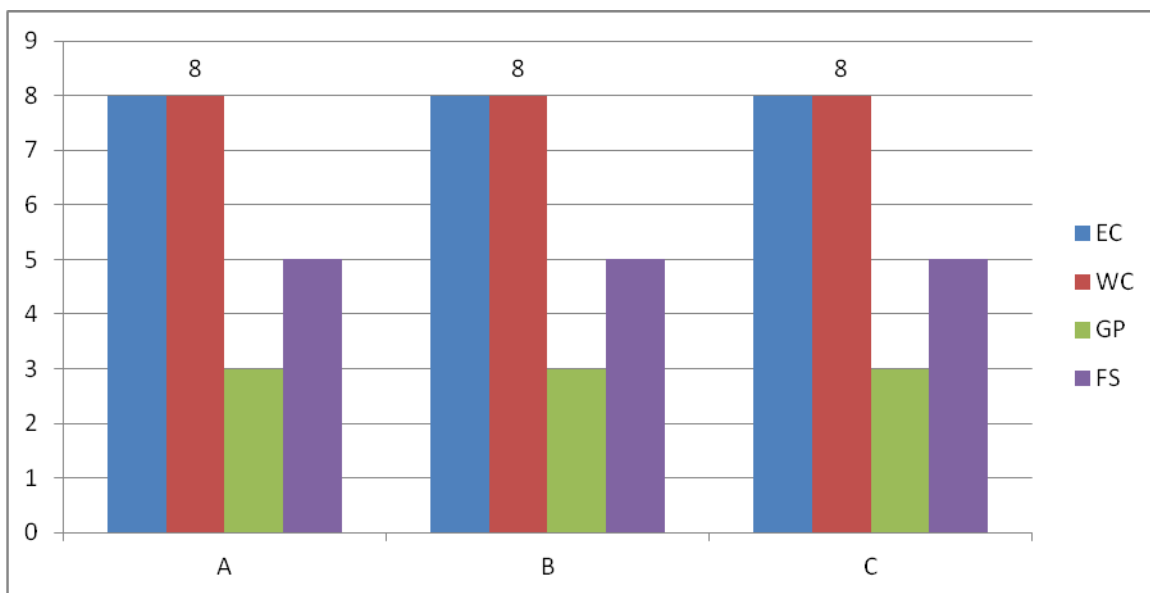
On observation in the Western Cape Maitland SAPS Garage and Bellville SAPS Garage, it was found that they were very full inside the workshop and the entire garage premises with vehicles to repair. The observation was carried out to see the standard of the workshop and the amount of vehicles on the premises. The interviews held at these two garages revealed that the flow of vehicles coming in for repairs was kept under control by arranging for the vehicles be first towed to the station, to be held there, and then towed back to the SAPS garage for repairs on the

date of appointment. The practice of giving appointments seemed to be the method of controlling vehicles coming in to the garages. While they are out of service, these vehicles are kept at their respective stations to await their appointment dates. According to the respondents, the garages are currently outsourcing all specialized repairs as they are regarded as a non-core competency. There are few vehicles serviced under the manufacturer service plan, and very few with a maintenance plan.

#### 4.2.1 What type of repairs are performed in-house?

All type of repairs being done in-house, as illustrated in Figure 4, where A=Services, B=minor repairs, C=major repairs. It is only a few respondents in the Free State Province and Eastern Cape Province that do not carry out major repairs, as shown by 'C' of Figure 4.1.

**Figure 4.1: (1) Repairs performed in-house**



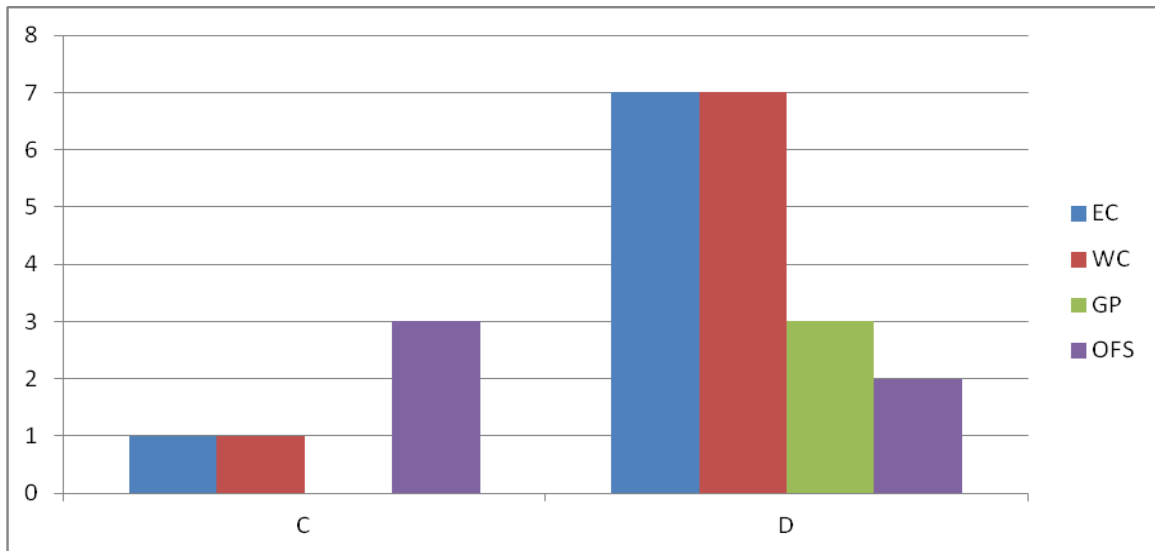
(A=Services, B=Minor repairs, C=Major repairs, the numerics represent the number of responding garage managers per province.)

#### 4.2.2 What types of repairs are outsourced?

Most respondents are not outsourcing vehicle services, as shown by 'D' in Figure 4.2.



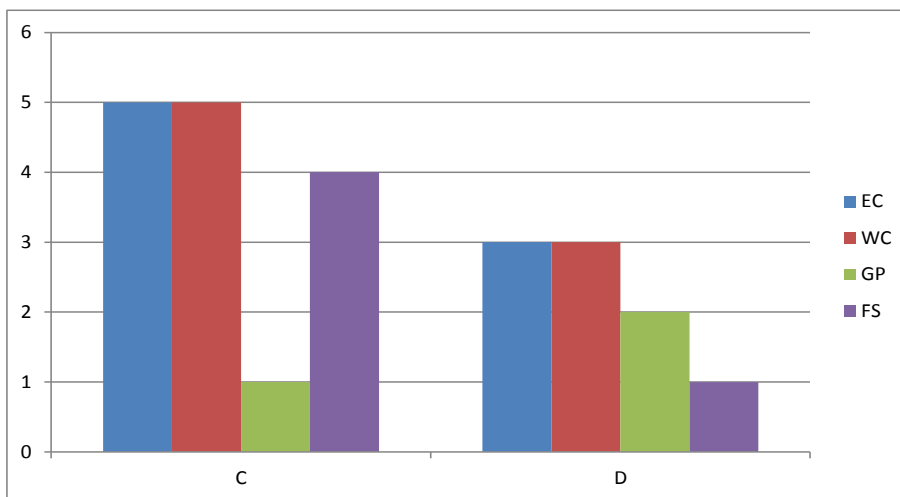
**Figure 4.2: (2) Outsourced services**



(A=All, B=most, C=Few, D=none, the numerics represent the number of responding garage managers per province.)

The majority of respondents, as illustrated by 'C' in Figure 4.3, outsourced only a few minor repairs while 'D' shows a minority of respondents who were not outsourcing any of their minor repairs.

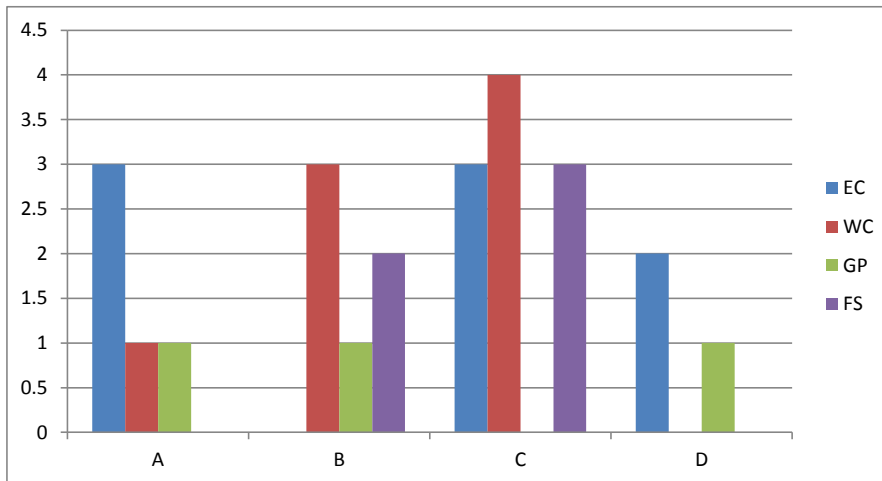
**Figure 4.3: (3) Outsourced minor repairs**



(A=All, B=most, C=Few, D=none, and numerics represent the number of responding garage managers per province.)

In the Eastern Cape, three (3) garages (respondents) were outsourcing all major jobs, as shown by 'A' of Figure 4.4, and the other three (3) were outsourcing only a few major repairs, as shown by 'C', while two (2) garages were not outsourcing major repairs at all, as shown by 'D'. Other garages were showing a trend partly outsourcing major repairs, as shown by 'B' and 'C' of Figure 4.4.

**Figure 4.4: (4) Outsourced major repairs**



(A=All, B=most, C=Few, D=none, and numerics represent the number of responding garage managers per province.)

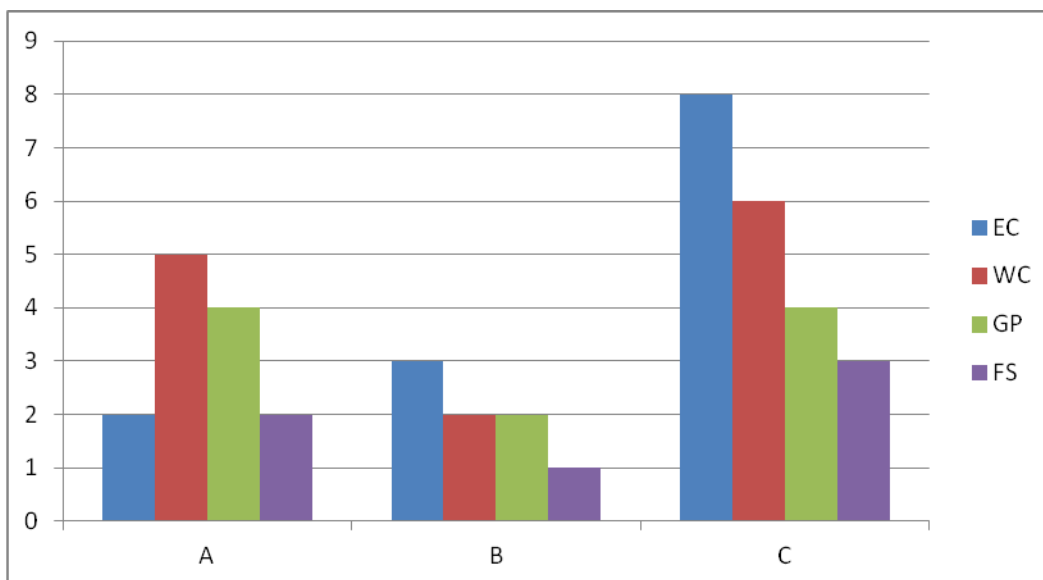
It was clear that the majority of the major repairs were being outsourced, as well as some of the minor repairs, in order for the garages to cope with their current workloads (see Figures 4.2-4.4). The patterns in Figures 4.2-4.4 indicated that the outsource practice differed from province to province. A strategy guide would improve these patterns by standardising them. As discussed in chapter 3, there is no clear, uniform guide for outsourcing although the SAPS national circular dated 2011/03/06 attempted to do so by simplifying the outsource quotation process. This opinion is based on the fact that the interviewed respondent from the City of Cape Town, Passenger Rail Agency of South Africa (PRASA) and the Western Cape Provincial Government, as discussed in subsection 4.2.8, had a clear sourcing strategy.

### 4.2.3 What are the reasons for outsourcing repairs?

Respondents from the Eastern Cape show more concern with the changing technology, as shown in 'C' of Figure 4.5, while other respondents see both changing technology and a shortage of manpower (indicated in 'A' and 'C') as a contributing factor to the decision to outsource repairs.

According to the majority of the interviewed garage managers, the primary contributing factor in the matter of shortage of manpower and inadequate work space is that the fleet has actually outgrown the capacity of SAPS garages. Obermann (2007:479), as referred to in chapter 2, is of the same opinion that, if the state cannot function properly on certain public needs it must outsource the activity.

**Figure 4.5: (5) Reasons for outsourcing repairs**



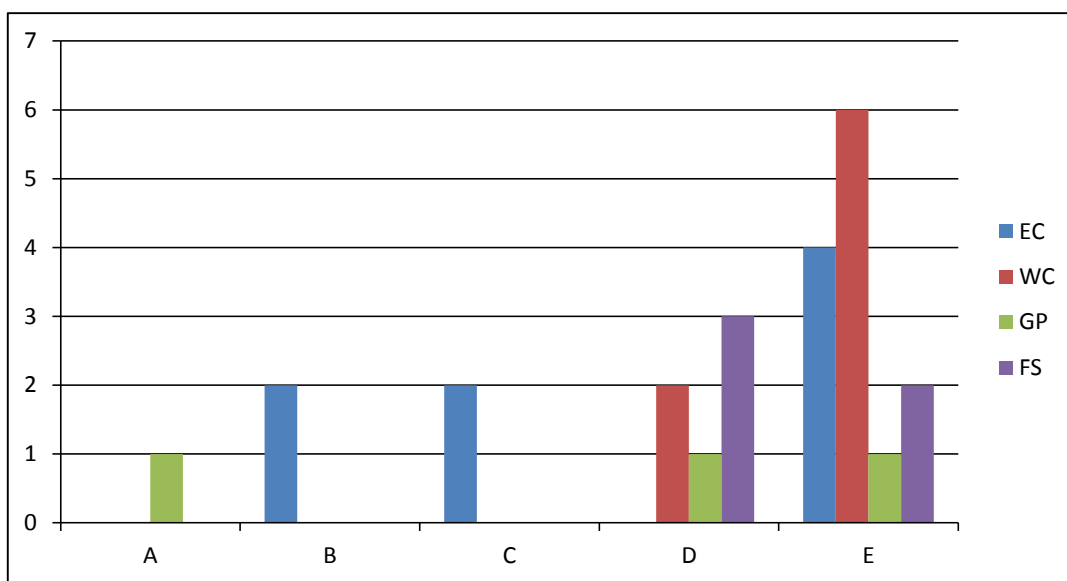
(A=Shortage of manpower, B=inadequate workspace, C=Changing technology, and numerics represent the number of responding garage managers per province.)

It is a valid reason to outsource because of changing technology and the shortage of man power, as outsourcing provides flexibility for performance in changing situations, as discussed in Burt, Dobler and Starling (2003.301) and Thompson and Strickland (2003:184).

#### 4.2.4 How do you rate the number of buyers who have received training (not on-the-job training) in any supply chain field?

Figure 4.3 shows a very poor training trend, in contrast to the Treasury Circular dated 2004/10/27 (Treasury, 2004a), which requires all practitioners who carry out day-to-day supply chain functions to be trained as mentioned in section 3.7 of chapter 3. According to Gottfredson et al. (2005) in chapter two of this research, the procurement employees are agents of success for an organization.

**Figure 4.6: (6) Training of buyers**



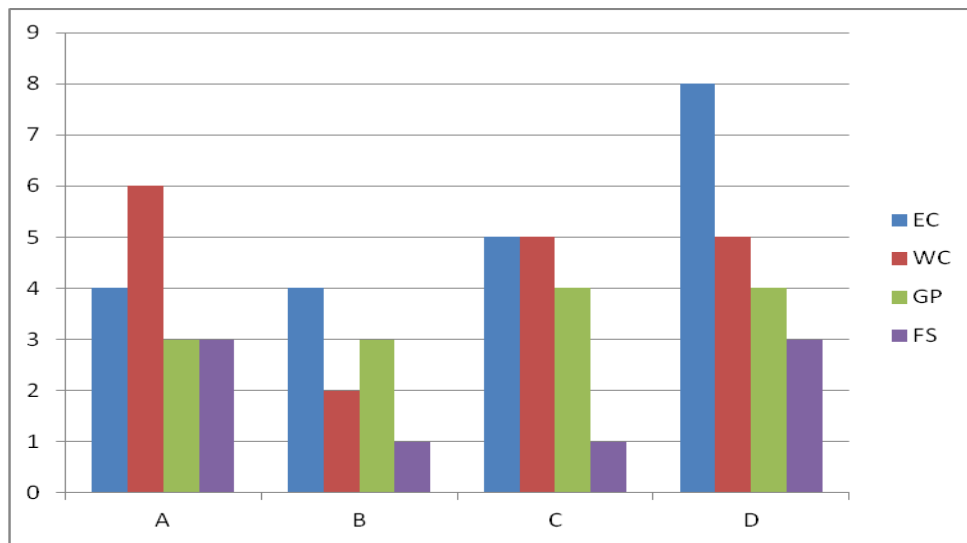
(A=75%-100%, B=50%-74%, C=25%-49%, D= 1%-25%, E= 0%, and numerics represent the number of responding garage managers per province.)

### 4.3 EVALUATING FACTORS THAT CAN BE CONSIDERED FOR AN OUTSOURCING DECISION

#### 4.3.1 What currently delays repairs that are performed in-house?

The main contributing factors causing delayed repairs in the SAPS workshops is: the lengthy administration processes (A), the requirement for special tools and equipment (C) and the lack of product training for the mechanics (D) as shown in Figure 4.7.

**Figure 4.7: (7) Reasons for delays on repairs performed in-house.**



(A=Long administration processes, B=Supply of spare parts, C=Lack of garage equipment, special tools and diagnostic equipment, D=Lack of product training and numeric's=number of respondents)

#### **4.3.2 Is there sufficient personnel to handle outsourcing?**

According to ten respondents, there is a need for more personnel to process the outsource requests, while twelve respondents have sufficient personnel.

#### **4.3.3 Does the quotation process negatively affect outsourcing?**

According to ten of the respondents, the strip and quote (one quotation basis) as authorised by the SAPS national circular dated 2011/03/06 (2011:1) has accelerated the quotation process and is not the main factor on delayed outsourced repairs. The response from twelve respondents is that service providers are still taking time to give quotations after diagnosis.

#### **4.3.4 Does the current procurement authority process negatively affect outsourcing?**

According to seventeen out of twenty-two respondents, the current procurement authority process makes the outsourcing process longer, while the other five are of the view that the process is not long. Most of the garages obtain the procurement authority from the Provincial Supply Chain Management for each outsourced vehicle

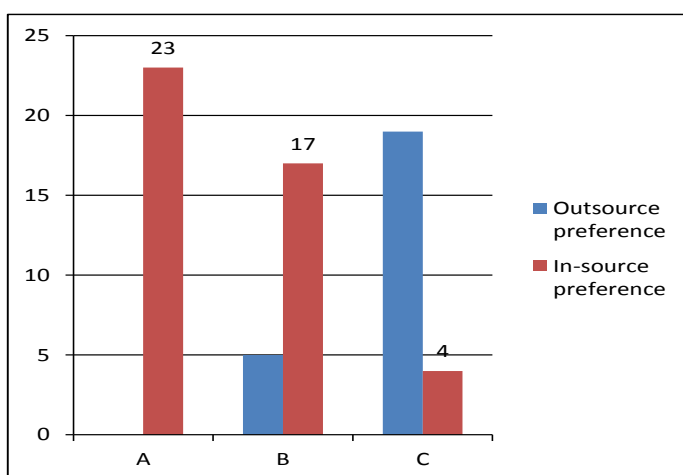
#### 4.3.5 Do private garages prioritise repairs on SAPS vehicles as emergency vehicles?

According to thirteen respondents there is less priority given to SAPS vehicles, while nine feel that they are being prioritised. The six interviewees were of the opinion that the big workshops, such as dealers, prioritise the cash customers as they receive a lot of pressure from them. They were convinced that although they come from a trend where the payment of service providers used to delay, the payments are within treasury regulated time frames. The research proved a lack of outsourced repairs management due to lack of training and shortage of outsourcing personnel as discussed in section 4.2.4 and 4.3.2 of this chapter. The cash clients give an immediate go-ahead response for quoted repairs unlike the SAPS processes. According to Hugo et al. (2006:76) and Gottfredson et al. (2005:137), the SAPS garages must build close relationships with service providers as discussed in section 2.6.6 of Chapter two. The SAPS must determine the type of relationships that must be formed, as explained by Van der Westhuisen (2008:6) in section 2.6.6.

#### 4.3.6 What would be the best type of repairs to outsource and what would you not outsource?

Most respondents are of the opinion that the services and minor repairs must be outsourced as shown by 'A' and 'B' in Figure 4.8.

**Figure 4.8: (12 and 13) The respondents' sourcing preference**

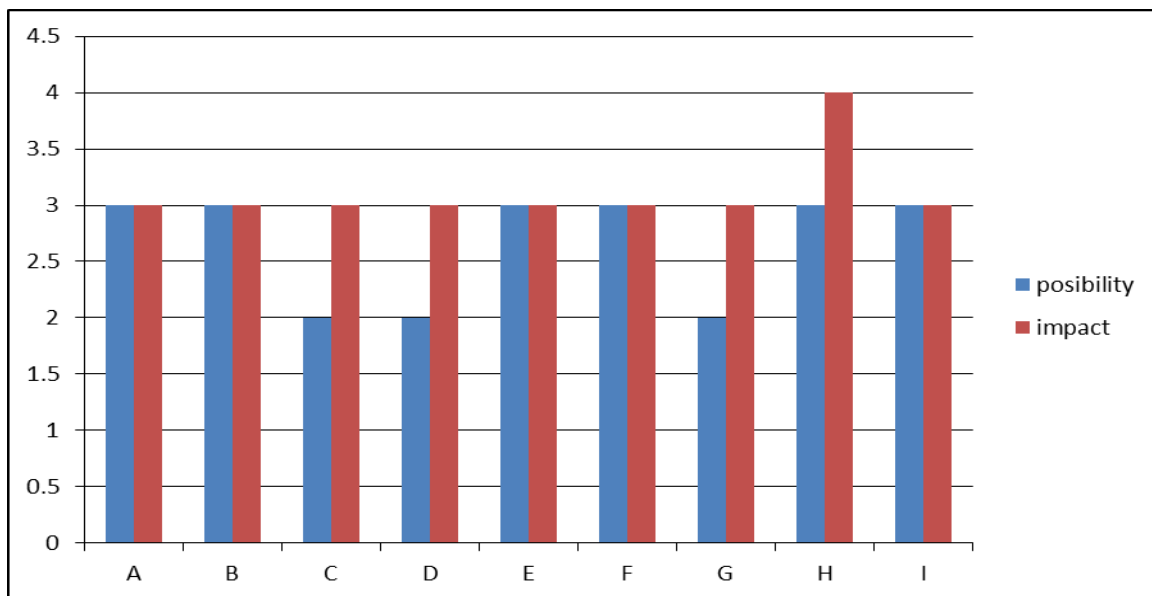


(A=Services, B=Minor repairs, C=Major repairs, and numeric's represent the number of responding garage managers in all provinces.)

### 4.3.7 The risk assessment when outsourcing vehicle maintenance

The following risks when outsourcing vehicle maintenance is rated on vertical axis from 0 to 5 in Figure 4.9 [0=none, (1) very low, (2) low, (3) medium, (4) high and (5) very high]. The risk rating as illustrated in Figure 4.9 is an average of the ratings received from the respondents (garage managers). Some ratings from the respondents were very low and questionable and therefore made the average rating per risk lower than it could have been. The probability of the risk occurrence and its estimated impact as illustrated in Figure 4.9 has an average rating of three (3), although the researcher is of the opinion that without the questionable ratings the average would be three (3) for the possibility and four (4) for the impact.

**Figure 4.9: (14 and 15) The possibility of the occurrence of risk and its possible impact.**



(A=Corruption/unhealthy relationships, B=Delays on vehicles repairs, C=Lack of monitoring, D=Poor quality due to use of unqualified mechanics, E=Misuse of police radios, F=Loss of internal skills, G=Swopping of parts from SAPS vehicles, H=Overcharging for genuine spares while using aftermarket spares, I=Charges for inner parts that were not fitted)

Table 4.1 displays sources of risks that are in Figure 4.9, its probabilities and impact according to Normans and Lindroth (2004:19), including the categories of risk as mentioned by McCormack (2008:79). When these risks are identified and assessed, they must be mitigated by putting more controls in place, or by outsourcing less.

**Table 4.1: The possibility of the occurrence of risk and its possible impact, its category, and sources on outsourced repairs.**

<b>Risk description</b>	<b>Sources</b> (External/Internal /Decision /Information-driven)	<b>Categories</b> (Supply chain disruption Performance, human resources, Environmental resources, Relationship Financial health)	<b>Probability of occurrence</b> Scale 0-5 (i.e. none to very high),	<b>Impact on the organisation</b> Scale 0-5 (i.e. none to very high)
Fraud	Internal and external driven	Financial health	3	3
Corruption	Internal and external driven	Relationship	3	3
Misuse of police radios	Externally driven	Performance (police operations)	2	3
Lack of monitoring	Internal and decision driven	Performance	2	3
Delays on vehicle repairs	Internal and external driven	Supply chain disruption Performance	2	3
Loss of internal skill	Internal and decision driven	Human resources	3	3

**Source: SAPS interview data compiled by Author, 2011**

Five managers from the main garages (Benoni, Pretoria, Maitland, Oudsthoorn, and East London Garage) evaluated the risk of in-house repairs as illustrated in Table 4.2 below. The risk of poor quality due to lack of product training and theft of vehicle parts while waiting for repairs was identified as high with an average of possibility and impact rating of 'four (4)'. Theft of stock and other ordered vehicle parts, injuries, and man hours lost due to absenteeism were rated with an average risk of three (3).



**Table 4.2: The possibility of the occurrence of risk and its possible impact, its category, and sources on in-house repairs.**

<b>Risk description</b>	<b>Sources</b> (External/Internal /Decision /Information-driven)	<b>Categories</b> (Supply chain disruption Performance, human resources, Environmental , Relationship Financial health)	<b>Probability of occurrence</b>  Scale 0-5 (i.e. none to very high),	<b>Impact on the organisation</b>  Scale 0-5 (i.e. none to very high)
Theft of stock and other ordered vehicle parts	Internal driven	Performance Financial health	3	3
Theft of part from a vehicle waiting for repairs	Internal driven	Performance Financial health	3	4
Poor quality of repairs due to lack of product training	Internal and decision driven	Performance Financial health	3	4
Poor quality of repairs due to contract workers with no product training	Internal and decision driven	Performance Financial health	4	4
Man hours lost due to absenteeism	Internal driven	Financial health Performance	3	3
Mechanics doing other duties due to injuries	Internal driven	Human resources Financial health Performance	3	3

**Source: SAPS questionnaire data compiled by Author, 2011**

#### **4.3.8 Comparing the total costs**

The following calculation is the comparison between two sourcing options as suggested by Hugo et al. (2006:76). Option 1 is the cost of work done in-house while option 2 is the cost of outsourcing. These calculations cover a period of five years with each cost item increasing by 6% per annum. The discounted totals display only the real Rand value depreciation amount, and the discount rate is set at 10% in order

to accommodate future uncertainties. The calculations exclude the amount of spares as this will automatically cancel out in the calculation since almost the same amount of parts in outsourcing was to be used in in-sourcing. The detailed data and calculations for the base year (year 1 and year 0) are provided in Annexure E. For the purpose of this research the amount of labour hours for the outsourced repairs will be equivalent to that of the five SAPS mechanics (5 x 8hrs. x 250 working days = 10 000 hrs.). The outsourced repairs labour rate per unit is at an average rate of R318 per hour as indicated by the Retail Motor Industry Organisation (RMI) in Annexure D. The costing of the in-house repairs is made up of all overheads such as workspace rental, mechanics salaries, and the salaries of all persons employed in order for the garage to operate. The in-house costs data was provided by the SAPS and the Department of Public Works for a garage of the size of Bellville SAPS Garage as reflected in Table 4.3.

**Table 4.3: The cost of in-house repairs**

**Option 1: Discounted Expenditure = R12 735 997**

Description	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Accommodation: Rent		349 236	370 190	392 402	415 946	440 902
Equipment and furniture	600 000					
Staff remuneration		1 679 463	1 780 231	1 887 045	2 000 267	2 120 283
Electricity/rates		360 000	381 600	404 400	428 766	454 492
Consolidated goods and services		483 146	512 135	542 863	575 434	609 960
<b>Total</b>	<b>600 000</b>	<b>2 871 845</b>	<b>3 044 167</b>	<b>3 226 811</b>	<b>3 420 420</b>	<b>3 625 645</b>
Discount of 10%		0.909	0.826	0.751	0.683	0.621
<b>Discounted Total</b>	<b>600 000</b>	<b>2 610 507</b>	<b>2 514 482</b>	<b>2 423 335</b>	<b>2 336 147</b>	<b>2 251 526</b>

Source: SAPS, 2011e; Department of Public Works 2011; Author, 2011

**Table 4.4: The cost of outsourcing repairs****Option 2: Discounted Total Expenditure = R17 527 107**

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
<b>Furniture and equipment</b>	70 000					
<b>Office Rental</b>		168 000	178 080	188 765	200 091	212 096
<b>Outsource labour costs ( R318 x 10 000 hrs. per annum)</b>		3 180 000	3 370 800	3 573 048	3 787 431	4 014 677
<b>Consolidated goods and services</b>		120 000	127 200	134 832	142 922	151 497
<b>Staff Remuneration</b>		663 033	702 815	744 984	789 683	837 064
<b>Total</b>	<b>70 000</b>	<b>4 131 033</b>	<b>4 378 895</b>	<b>4 641 629</b>	<b>4 920 126</b>	<b>5 215 334</b>
<b>Discount of 10%</b>	0.000	0.909	0.826	0.751	0.683	0.621
<b>Discounted Total</b>	<b>70 000</b>	<b>3 755 109</b>	<b>3 616 967</b>	<b>3 485 863</b>	<b>3 360 446</b>	<b>3 238 722</b>
<b>Source: SAPS, 2011e; Department of Public Works 2011; Author, 2011</b>						

In Table 4.3 and 4.4 above, the discounted cost of in-sourcing is estimated at R12 735 997 while outsourcing is estimated to be R17 527 107. This exercise illustrated that outsourcing is expensive, unlike as mentioned by Hugo et al. (2006:74) and Loader (2006:212) earlier in chapter two. According to Loader (2006:212) however, there is not only the cost saving to be accounted for but, in addition to that, it is necessary to reach the organisation's strategic goals. If we take a look at the case study of the Muenster Pump Company in chapter 2, as discussed by Burt et al. (2003:302) the decision to outsource must not be driven by cost saving only. According to Gottfredson et al. (2005:9) the capability might be sacrificed over cost savings, or cost savings might be sacrificed over capabilities, depending on the

situation on hand. The in-house repairs risk ratings were higher than those of outsourced repairs showing more in-house problems as illustrated in Table 4.2 above. These identified risks can easily push the in-sourcing cost very high. The maintenance plan forms part of outsourced repairs. This type of outsource option is purchased in advance in a form of insurance. Its costing will be different from the calculations above.

#### 4.4 INTERVIEWS DISCUSSION

<p>The situation in other organisations</p>	<p>The model used by the Western Cape Provincial Government is the professional way to run the fleet. It is fundamentally like that of Schniederjans et al. (2010), who believe that non-core activities must be outsourced. The Provincial government was utilizing Nedfleet to outsource vehicles, and outsourced all vehicles for service and repairs.</p> <p>In an interview with the engineering Chief Operations Officer (COO), the pioneer of the current vehicle sourcing contract used by Passenger Rail Agency of South Africa (PRASA), it was discovered that their operational (Maintenance) vehicles were operated under a lease agreement with a service provider. The lease agreement included the maintenance of the vehicles which meant the vehicles must always be available for use. If vehicles break down, this is not a cause for concern for PRASA, because the service provider was under obligation to ensure that they supply functional vehicles at all times.</p> <p>PRASA vehicles that were not operational were purchased, but the routine maintenance was completely outsourced. The repairs that were not part of the routine maintenance were covered by the insurance. Each of these vehicles had the type of insurance that covers extra-ordinary breakages such as gearbox repairs, engine repairs and computerised units.</p>
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	<p>In a similar manner to the SAPS, the City of Cape Town did services and minor repairs to vehicles that were within a 15km radius of their workshop, and outsourced the rest. Where services and repairs for vehicles that were still under warranty were outsourced to dealers, they had partly adopted Gottfredson et al.'s (2005:9) model, in which strategic competency can be outsourced if a service provider is able to do the job faster, and offers a cost saving.</p>
<p>The best sourcing strategy</p>	<p>The City of Cape Town Electric Department fleet manager was of the opinion that the police garages must repair all vehicles within a certain radius, and all other vehicles must be outsourced to suppliers closer to those units. The reasoning was that money should rather be allocated to time spent travelling to the service point. This expenditure included the time wasted for the driver. The recommendation was that the SAPS must keep all minor repairs and services in-house, and outsource all the major repairs and minor repairs that needed advanced technology.</p> <p>The COO from PRASA was of the view that, for vehicles that were away from the main garages:</p> <ul style="list-style-type: none"> <li>• All routine work, which is quicker to repair, should be done in-house, and all time-consuming repairs, including specialised jobs, should be outsourced to outside providers.</li> <li>• The outsourcing must be done using a cost-effective system.</li> <li>• The best arrangement would be to have maintenance insurance on certain mechanical or electrical breakages or failures.</li> </ul> <p>Furthermore, the respondent was of the opinion that vehicles that were away from the main garages could be directly outsourced for routine maintenance on standard quoted prices</p>

wherefore there was no need to always submit quotations. Routine maintenance had less risk as it was about specific things that had to be replaced because of wear and tear at anticipated, set intervals.

There must be insurance per vehicle to cover the mechanical or electrical breakdowns which are not part of routine maintenance. This shifts all risk related to fraud and warranties to the insurer and, in this way, a lot of administration is minimised.

The opinion of the Provincial Government fleet manager was that the SAPS must do all major jobs of which it is capable, and outsource all minor repairs, as this would:

- promote the economic growth of small businesses which are capable of doing minor repairs.
- shift the risk of being over-charged since the price on small jobs can be predetermined on a database.
- avoid the greater risk of financial loss which is associated with the more complicated repair work.

The respondent's opinion was that the SAPS must close garages in remote places and use a contract to manage the outsourcing in these remote areas. The contract does away with all the delaying procurement procedures. The reality was that the SAPS was unlikely to keep up with the rapidly changing technology that was required to repair all makes of vehicles. He is of the opinion that the current procedure employed by the SAPS for outsourcing was risk laden with many associated delays. This agrees with the questionnaire findings in 4.3 of this chapter.

The SAPS Vehicle Fleet Management respondent was of the opinion that the SAPS must buy all vehicles under the extended

maintenance plan. This respondent's view is that stations in remote towns must be allocated with makes of vehicles which have vehicle manufacturers' dealer workshop within a reasonable distance.

The SAPS mechanical Service head response was that they are building a better sourcing strategy as they have started with the SAPS National Circular dated 2011/03/06 (SAPS, 2011) that allows one price quotation where it is not practical to get more price quotations. This respondent saw many weaknesses in the current sourcing strategy which was the reason they are gradually building a new better sourcing strategy. The respondent is of the view that what the SAPS Garages cannot handle must be outsourced, mainly the major repairs and where there is a need of new technology. This view was mentioned by all the interviewed garage managers. This view of the above interviewed respondents on dealing with repairs on increasing fleet is supported by section 2.3 of chapter 2 as providing flexibility to changing demands (Obermann, 2007:479; Burt, Dobler & Starling 2003:301; Thompson & Strickland 2003:184; Hugo et al., 2006:74)

SAPS Acquisition Management section head stressed the fact that the SAPS Garages have no excuse not to train every member involved in day to day supply chain activities as instructed in Treasury Circular 2004/10/27 (Treasury, 2004a). From time to time, the sourcing environment in a garage may have a newly appointed or transferred employee. The garages are responsible to send their supply chain training priorities to both the Provincial Supply Chain Management and Provincial Human Resource Development. The respondent's view will ensure that all employees working with day to day supply chain activities are familiar with the legislative and policy framework.

## SUMMARY

The trends in Figures 4.2-4.4 indicate that the outsource practice differed from province to province and a guidance strategy would improve these evident patterns. As indicated in chapter 3, there are at present no clear and uniform guidelines laid down for outsourcing although the SAPS national circular dated 2011/03/06 attempted to address this by simplifying the outsource quotation process. This view is based on the fact that the interviewed respondents from City of Cape Town, Passenger Rail Agency of South Africa (PRASA) and the Western Cape Provincial Government, as discussed in subsection 4.2.8, had clear sourcing strategies.

The reason for outsourcing some repairs was due mainly to the changing technology, with which the SAPS would not be able to keep up, and the shortage of manpower. In the main garages, work space is needed more in the Cape Town and Pretoria regions.

The assessed outcome of interviewed managers and self-administered questionnaires showed a preference for the major repairs and specialised work to be outsourced. Services and minor repairs which were not to be outsourced still faced the challenge of lengthy administration procedures, the lack of garage equipment, specialised tools and diagnostic equipment, as well as a lack of product training.

Although the majority of the respondents in the SAPS are in favour of in-sourcing, the calculations showed that outsourced repairs were in fact relatively less costly. Over and above that, the greater risk in the outsourcing of SAPS vehicles has been considered and evaluated by the respondents. Although risk does exist in in-sourcing it was not evaluated by the respondents. The findings and the analysis of this chapter form the basis of the recommendations and conclusion of this research as discussed in the next chapter.



# CHAPTER FIVE

## 5. RECOMMENDATION AND CONCLUSIONS

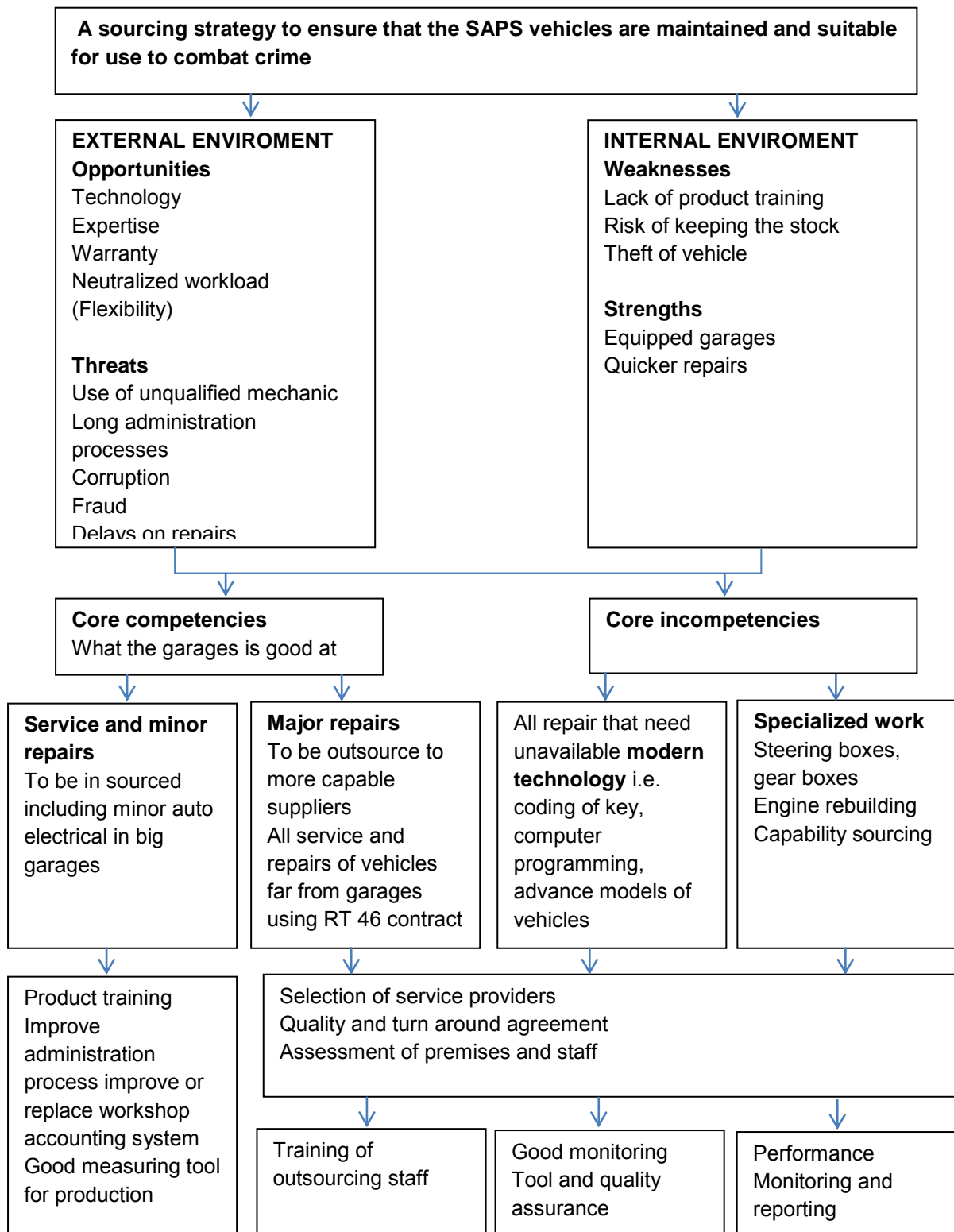
### 5.1 INTRODUCTION

This chapter answers the question of what the best sourcing strategy would be for the SAPS garages. The recommended strategy is explained in this chapter and illustrated in Figure 5.1. It further draws conclusions from the whole research, with future research recommendations. When making recommendations and conclusions the contribution of the literature review in chapter two was of importance. Chapter two redefined and explained the outsourcing of services and the steps that should be followed when deciding what to outsource and what to keep in-house. Different authors' views on outsourcing and in-sourcing and the necessary risk management are a significant contribution to this chapter. The views included the advantages and disadvantages of in-sourcing and outsourcing, and available sourcing strategy models. Furthermore, the legislative and policy framework in chapter three gave guidance on how the public funds must be managed where a good sourcing strategy is critical. The analysis of the interviews, self-administrative questionnaire and the cost of outsourcing compared to in-sourcing in chapter four, in conjunction with chapters two and three, bring their research contribution to this chapter.

### 5.2 DEVELOPING A STRATEGY

This recommended sourcing strategy was developed by using a SWOT analysis which examined the strengths and weaknesses within the SAPS, and the external threats and opportunities (Schniederjans et al., 2010). It is a hybrid sourcing strategy that applied Schniederjans et al.'s (2010) sourcing model, Clemons and Hitt's (1977) model, and Gottfredson et al.'s (2005) model where applicable. Their differences have already been discussed in section 2.6.3 of chapter 2, and the product of the literature review, the legislative and policy framework, and the data analysis. The complete development of this strategy is illustrated in Figure 5.1. This sourcing strategy has to be adjusted to fit the requirement of the ability and the capacity of the specific garage.

**Figure 5.1: Recommended sourcing strategy**



Source: Compiled by Author, 2011

### **5.1.1 Outsource opportunities**

External service provider provides access to SAPS with:

- New technology, or technology that is not available in the SAPS garages
- Expertise
- Decreasing workload, and
- Warranty on repairs.

### **5.1.2 Outsource threats**

The identified threats from external service providers are:

- The use of unqualified mechanics by some of the external service providers in order to cut running costs
- Corruption
- Fraudulent transaction
- Delays to repairs
- Complications with managing turnaround time of vehicle repairs
- Over-dependency
- Misuse of police radios.

### **5.1.3 In-sourcing strengths**

The in-sourcing of repairs provides quicker turnaround time on services and minor repairs since fast moving parts are kept on stock. Most SAPS garages are well established as far as equipment, type of accommodation (mainly the state-owned properties) and quality of mechanics are concerned.

### **5.1.4 In-sourcing weaknesses**

The weaknesses of the current in-house repairs are:

- Lengthy administration processes.
- Lack of product training.

- The inherent risk of keeping stock.
- Theft of ordered spares and theft of parts from vehicles.

### **5.3 RECOMMENDED APPROACH**

The SAPS has invested in a number of SAPS garages and has employed a number of qualified mechanics. The existence of SAPS garages enhances skills development, and the government should be a leader in skills development. The other challenging factor within the motor repair trade is the growth of small, medium, and micro enterprise. The economic survival of these independent businesses relies on government tenders, and the sourcing strategy should somehow promote the general Government initiatives to uplift the country's economy. However, while doing so, the service delivery should not be permitted to be affected.

In areas where there are developed SAPS garages the recommendations are as follows:

- To clearly define minor repairs and major repairs.
- To do all service and minor repairs.
- To outsource specialized repairs as their core incompetencies.
- To outsource most major repairs.

For this in-house service and repairs to be effective the garages must:

- Keep the stock of fast moving parts for services and minor repairs
- Develop a spares requisition process that is faster and more effective than the current Workshop Accounting System (WAS)
- Replace the WAS with a streamlined system, from reception of the vehicle to completion of the work.

Vehicles that are stationed away from the SAPS garage, the SAPS can follow the Schniederjans et al.'s model that outsources certain non-core activities. Such a model is used as a working example by the Western Cape Government:

- These vehicles must be purchased with an extended maintenance plan from a vehicle manufacturer in order to cut off current administrative procedures. That vehicle Manufacturer will therefore become a strategic sourcing partner.
- When a vehicle does not have a maintenance plan it must be outsourced on an RT 46 outsource management contract, or a similar contract, where there is less risk.

The main recommendation is to carry out a performance assessment for each garage. As an independent assessment, it should assess the role and effectiveness of all posts in the SAPS garages. This performance assessment should be prioritised to enable each garage to be restructured according to its expected performance. This performance assessment must be accompanied by the evaluation of the capability for each garage.

#### **5.4 CONCLUSION**

This research study has attempted to present facts and information from a wide source of literature and researched information in an effort to offer a balanced, well considered assessment of what sourcing options are available, and what factors to consider when making a sourcing decision.

It has become clear that outsourcing offers a serious challenge to in-sourcing and, in many instances, outsourcing is not available. However, there are repair tasks in a vehicle that the SAPS garage cannot attempt to carry out. There are existing models in literature that are supported but which need testing. This literature, however, supports the legislative and policy framework.

Although the limitation of the research was mainly time, it is clear that when the SAPS is making a sourcing strategy it must consider internal problems in its garage. In-sourcing will not work without improving the current workshop procedures, structure and performance. In the same way, outsourcing will not work well in the current garage procurement system and untrained personnel.

Further research must be conducted on:

- SAPS garage structures (Support and operational personnel).
- SAPS garage capability and performances.

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# Annexure A

## RESEARCH QUESTIONNAIRE FOR SAPS GARAGES

Name of SAPS Garage:

Name of person participating:

Please circle the applicable answers. If all choices are applicable, circle all of them. Write extra notes where you have an additional answer (excluding specialised repairs such as exhaust fitting and windscreen fitting).

Email: [KraaifonteinSAPS@saps.org.za](mailto:KraaifonteinSAPS@saps.org.za)

Fax: 021 980 5545

**1. What type of repairs do you perform in-house?**

- A Services only
- B Minor repairs
- C Major repairs
- D Both minor and major repairs

**2. How many of the services do you outsource?**

- A All
- B Most
- C Few
- D None

**3. How many of the minor repairs do you outsource?**

- A All
- B Most
- C Few
- D None

**4. How many of the major repairs do you outsource?**

- A All
- B Most
- C Few
- D None

**5. What are your reasons for outsourcing repairs?**

- A Shortage of manpower
- B Inadequate accommodation
- C Changing technology

**6. How do you rate the number of buyers who have received training (not on-the-job training) in any supply chain field?**

- A 100% of members are trained
- B 75%-99% of members are trained
- C 50%-74.9% of members are trained
- D 25%-49.9% of members are trained
- E 0% of members are trained

**7. What currently delays repairs that are performed in-house?**

- A Lengthy administration processes
- B Supply of spare parts
- C Lack of garage equipment, special tools and diagnostic equipment.
- D Lack of product training for mechanics.

**Specify other reasons:**

**8. Are there sufficient personnel to handle outsourcing?**

- A Yes
- B No

**9. Does the quotation process negatively affect outsourcing?**

- A Yes
- B No

**10. Does the current procurement authority process negatively affect outsourcing?**

- A Yes
- B No

**11. Do private garages prioritize repairs on SAPS vehicles as emergency vehicles?**

- A Yes
- B No

**12. What would you prefer to outsource?**

- A Services only
- B Minor repairs
- C Major repairs

**13. What would you prefer to do in-house?**

- A Services only
- B Minor repairs
- C Major repairs

**14. What is the possibility of the occurrence of the following risk when outsourcing vehicle maintenance. [Rate from (0) none, (1) very low, (2) low, (3) medium, (4) high and (5) very high. (Mark with X in the block)].**

A Corruption/unhealthy relationships.

0	1	2	3	4	5
---	---	---	---	---	---

B Delays on vehicles repairs.

0	1	2	3	4	5
---	---	---	---	---	---

C Lack of monitoring.

0	1	2	3	4	5
---	---	---	---	---	---

D Poor quality due to the use of unqualified mechanics.

0	1	2	3	4	5
---	---	---	---	---	---

E Misuse of police radios.

0	1	2	3	4	5
---	---	---	---	---	---

F Loss of internal skills.

0	1	2	3	4	5
---	---	---	---	---	---

G Swopping of parts from SAPS vehicles.

0	1	2	3	4	5
---	---	---	---	---	---

H Overcharging by charging for genuine spares while using aftermarket spares.

0	1	2	3	4	5
---	---	---	---	---	---

I Charging for inner parts that were not fitted.

0	1	2	3	4	5
---	---	---	---	---	---

**15. What would the impact be, should the following risks occur? Rate from very low to very high, on a scale of 1 to 5. (Mark with X in the block).**

A Corruption/unhealthy relationships.

0	1	2	3	4	5
---	---	---	---	---	---

B Delays on vehicle repairs.

0	1	2	3	4	5
---	---	---	---	---	---

C Lack of monitoring.

0	1	2	3	4	5
---	---	---	---	---	---

D Poor quality due to the use of unqualified mechanics.

0	1	2	3	4	5
---	---	---	---	---	---

E Misuse of police radios.

0	1	2	3	4	5
---	---	---	---	---	---

F Loss of internal skills.

0	1	2	3	4	5
---	---	---	---	---	---

G Swopping of parts from SAPS vehicles.

0	1	2	3	4	5
---	---	---	---	---	---

H Overcharging by charging for genuine spares while using aftermarket spares.

0	1	2	3	4	5
---	---	---	---	---	---

I Charging for inner parts that were not fitted.

0	1	2	3	4	5
---	---	---	---	---	---



**Extra questions**

**What are the advantages of repairing vehicles in house? (A hand written answer is permissible.)**

**What are the advantages of outsourcing vehicle repairs? (A hand written answer is permissible.)**

## **Annexure B**

### **INTERVIEW GUIDE QUESTIONNAIRE**

**To explore the current sourcing strategy that is used by the SAPS garages for repairing vehicles/To explore sourcing options that are used by other organisations.**

- What type of work do you repair in house?
- What type of work do you outsource?
- What are your current reasons for outsourcing?
- How are you currently handling sourcing?
- What type of formal training have the people involved in outsourcing received?

**To evaluate the factors that can be considered when developing a sourcing strategy.**

- What are the risks and disadvantages of outsourcing vehicle repairs?
- What are the advantages outsourcing repairs?
- What are the advantages of repairing vehicles in-house?
- What are problems that are encountered if the vehicles are repaired in house?

**To developing a sourcing strategy that can be used by the SAPS garages.**

- Under what circumstances do you recommend that the SAPS garage to outsource the repairs and why?
- What do you recommend to be kept in-house and why?
- What measures must be put in place in order for the in house repair to work smooth?
- What measures must be put in place in order for the outsourcing to work well?

# Annexure C

## Annexure C

### NATIONAL MECHANICAL OUTSOURCING REQUIREMENTS

**COMPANY PROFILE:**

TRADING NAME					
MANAGING DIRECTORS BEE / HDI STATUS / PERCENTAGE					
BEE STATUS CERTIFICATE	YES		NO		
BUSINESS ADDRESS					
POSTAL ADDRESS					

TELEPHONE NR / FAX NR					
TAX CERTIFICATE	YES	NO	No.		
LIABILITY INSURANCE POLICY (ON THE ROAD AND PREMISES)	R				
INSURANCE COMPANY:					
SECURITY COMPANY NAME					
SUFFICIENT SECURITY	YES		NO		
COMMENT					
TYPE OF SERVICE RENDER	MECHANICAL	ELECTRICAL	BODY WORK		
NUMBER QUALIFIED ARTISANS					

ACCREDITATION (e.g. RMI)		
COMPLY WITH OHS STANDARDS	YES	NO
COMMENTS		
SUITABLE FIRE EQUIPMENT	YES	NO
ACCOMMODATION SUITABLE	YES	NO
COMMENT		
HOUSEKEEPING: ORDERLINESS		
COMMENTS		
WORK BAYS DEMARCATED	YES	NO
COMMENT		

TOOLS / SPECIALIZED EQUIPMENT.		
COMMENT		
WORKSHOP EQUIPMENT TO SUPPORT THE TYPE OF REPAIR WORK	YES	NO
COMMENT		
TESTING EQUIPMENT	YES	NO
COMMENT		
VEHICLE WORKSHOP MANUALS		
COMMENT		
WORKSHOP ADMINISTRATION SYSTEM	YES	NO

SUITABLE FLAMMABLE STORE	YES	NO
WARRANTY ON LABOUR	YES	NO

## Annexure D



01 February 2012

**Head: SUPPORT SERVICES**

**SAPS**

Kraaifontein

Attention: **Kolonel Z.Vanto**

Tel: 021 980 5530

Fax: 021 980 5545

Cell: 083 731 0751

Email: [vantozach@postnet.co.za](mailto:vantozach@postnet.co.za)

**SUBJECT: MECHANICAL REPAIR LABOUR RATE**

The current labour rate as indicated by members of the RMI (retail motor industry) is at the moment varying between R285.00 (two hundred and eighty five) and R350.00 (three hundred and fifty) per unit hour.

This rate is for non-franchised dealers who are obligated to franchise agreements and rates.

Please be advised the said amounts are only given as guidelines used as a "norm" in the industry and are not stipulated or prescribed in any way and may or may not vary from individual mechanical repair centre.

Please feel free to contact me for any further assistance.

Deon Rademeyer  
Consumer Affairs

BELONGING IS BETTER BUSINESS

General Manager Jan Schoeman  
Tel 021 939 9440 • Fax 021 939 9336 • Email [Jan.Schoeman@rmi.org.za](mailto:Jan.Schoeman@rmi.org.za)



## Annexure E

### COST-BENEFIT ANALYSIS

The in-house repairs were calculated based on a running cost and initial required equipment for a garage of the size of Bellville SAPS Garage that can accommodate five mechanics (see Table 4.3 of Chapter four). The following data from the SAPS was used;

1. The rental for the first year (year 1) is R349 236 ( $R29\ 103 \times 12$  months) escalating at 6% per annum.
2. The garage needs an initial equipment (year 0) of R600 000. This include
  - The office furniture
  - 5 x Two post lifts
  - 1 x Compressor
  - 3 x trolley jacks
  - 2 x Gearbox jacks
  - 20 x Vehicle stands
  - 5 x oil drain units
  - 1 x Vehicle analyser
  - 1 x Gas analyser
  - 1 x compression tester
  - 1 x Coolant pressure tester
  - 1 x compression tester
  - 5 x Complete Tool kit.
3. The staff remuneration for the first year is calculated at R1 679 463 escalating at 6% per annum. For this garage to operate efficiently the following personnel;
  - 1 x Manager at a salary R217 722 per annum
  - 1 x Supervisor at salary R172 071 per annum
  - 5 x Mechanics at a total salary R686 070 ( $R137\ 214 \times 5$ ) per annum
  - 5 x Assistants for the mechanics at total salary R297 450 ( $R59\ 490 \times 5$ ) per annum

- 4 x Admiration clerks at a total salary R306 144 (R76 536 x 4) per annum
4. The electricity and rates for the first year is calculated at R360 000 (R30 000 x 12 months) escalating at 6% per annum.
  5. The consolidated goods and services expenditure for the first year is calculated at R483 146 from the 2010/2011 budget expenditure report escalating at 6% per annum.

The repairs that were supposed to be done by the five (5) SAPS mechanics in eight (8) hours per day over 250 working days (Holidays and weekends are subtracted) are outsourced to an external service provider. The labour rate for the vehicle repairs in workshops that are registered with RMI is between R285 and R350 per unit hour. For every unit that is repaired, the external service provider will charge the SAPS an average labour of R318 per hour x 10 000 hours (5 x 8 x 250). The following data was used in determining the cost of outsourced repairs as illustrated in Table 4.4 of Chapter four.

1. The total labour for the first year will therefore be R3 180 000 (R318 x 10 000) escalating at 6% per annum.
2. The office accommodation rental for outsourcing in the first year is calculated at R168 000 (R14 000 x 12 months) escalating at 6% per annum.
3. The staff remuneration for the first year is calculated at R663 033 escalating at 6% per annum. The personnel for this office composed of;
  - 1 x Manager at a salary of R217 722 per annum
  - 1 x Quality assurer at salary of R172 071 per annum
  - 1 x Buyer at a salary of R137 214 x 5 per annum
  - 1 x Admiration clerk at a salary of R76 536 x 4 per annum
4. The consolidated goods and services expenditure for the first year is calculated at R120 000 (R10 000 x 12 months) escalating at 6% per annum.
5. The garage needs an initial furniture and equipment (year 0) of R600 000.

The totals costs of both options were discounted at 10% in order to accommodate future risk the Rand depreciation.