

**THE INSTITUTIONALISATION OF SUPPLY CHAIN MANAGEMENT**

**BY**

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**Thesis presented in partial fulfilment of the requirements for the  
degree of**

**Master of Public Administration  
at the**

**Stellenbosch University**

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**MARCH 2008**

## DECLARATION

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## ABSTRACT

Within the context of South African government departments, Supply Chain Management (SCM) is a fairly new discipline that was introduced in 2003 in order to move away from the rule-based procurement system to an integrated SCM system that would promote the New Public Management model by means of improved financial management, efficiency, efficacy and economy in the public sector and provide value added goods and services to the customers of government. Government action is primarily driven by legislation. Accounting officers of government departments, management teams and other levels of staff are faced with the problem that they need to have a sense of and understanding of the values or principles entrenched in the legislative framework affecting SCM that require institutionalisation in their organisations to support the “living” of SCM in those organisations.

The aim of the thesis is to identify the principles or values entrenched in the concept of SCM and the legislative framework at a high level that will assist public sector organisations to institutionalise SCM in their organisations and that supports the evolutionary implementation process of SCM. As SCM is not a new terrain in the global context information was collected by means of a literature study on the subject of SCM. The study incorporates the philosophy, phenomena, processes, practices, and activities relating to the institutionalisation of SCM. In addition, South African statutes relevant to SCM will be examined. Other relevant public sector documents such as green papers, white papers, departmental annual reports, budget statements, organisational structures, reviews, policy documents, guideline documents, reports, strategic plans and best practice documents will also be consulted.

The principles and values contained in the concept of SCM and those entrenched in the legislative framework that relates to SCM are similar. Institutionalisation of SCM is manifested in South African statutes and is an evolutionary process. Failure to institutionalise the SCM and legislative principles and values affect both the organisation and the customer. At all levels institutionalisation of SCM demands leadership; organisational and behavioural change; integration; commitment; excellence; communication; teamwork; long term relationships; trust; risk, benefit;

reward; information sharing; joint planning; positive attitudes; participation; an ongoing process of learning, training and development - changes the mindset; all of which is best supported by a team of professionals and proper units of measure.

The evidence in this thesis suggest that the institutionalisation of the values and principles entrenched in the concept of SCM and the South African legislative framework related thereto will assist public sector organisations with the evolutionary implementation process of SCM. The consequential “living” of SCM in public sector organisations will enhance the quality of financial management, but more importantly provide value added goods and services to the public as customers of government. Negative attitudes and behaviour of people in the public sector SCM environment must be overcome through change management processes in order to implement SCM at the desired pace and scale.

## OPSOMMING

Binne die konteks van Suid Afrikaanse staatsdepartemente is Voorsieningsketteringbestuur (VKB) 'n redelike nuwe dissipline wat in 2003 ingestel is ten einde weg te beweeg van die reël gebaseerde aankoopstelsel na 'n integreerde VKB stelsel wat die Nuwe Openbare Bestuur model bevorder deur middel van verbeterde finansiële bestuur, produktiwiteit, doeltreffendheid en ekonomie in die openbare sektor en waardetoegevoegde goedere en dienste voorsien aan die kliënte van die regering. Regeringsaksie word primêr gedryf deur wetgewing. Rekenpligtige beamptes van die regering, bestuurspanne en ander vlakke van personeel word in die gesig gestaar deur die probleem dat hulle begrip en waardering moet hê vir die waardes of beginsels in die wetgewende raamwerk wat VKB affekteer en wat in hul organisasies institusionalisering vereis ter ondersteuning van die "lewe" van VKB in daardie organisasies.

Die doel van die tesis is om die beginsels en waardes wat in die konsep van VKB en die wetgewende raamwerk gevestig is, op 'n hoë vlak te identifiseer, en sodoende openbare sektor organisasies te help om VKB te institusionaliseer in hul organisasies en uiteindelik die ondersteuning van die evolusionêre implementeringsproses. Aangesien VKB nie 'n nuwe terrein in die wêreld konteks is nie, is inligting ingesamel by wyse van 'n literêre studie oor die onderwerp van VKB. Die studie sluit die filosofie, verskynsel, prosesse, praktyke en aktiwiteite in verband met die institusionalisering van VKB in. Bykomend, is Suid Afrikaanse wetgewing ondersoek. Ander tersaaklike openbare sektor dokumente soos groenskrifte, witskrifte, departementele jaarverslae, riglyndokumente, verslae, strategiese planne en beste-praktyk dokumente is ook geraadpleeg.

Die beginsels en waardes vervat in die konsep van VKB en daardie gevestig in die wetgewende raamwerk wat verband hou met VKB, is eenders. Institusionalisering van VKB is in Suid Afrikaanse wetgewing gemanifesteer en is 'n evolusionêre proses. Versuim om VKB en wetgewende beginsels en waardes te institusionaliseer affekteer beide die organisasie en die klient. Institusionalisering van VKB vereis op alle vlakke leierskap; organisatoriese en gedragsverandering; integrasie; toewyding; uitnemendheid, kommunikasie; spanwerk; langtermyn verhoudinge; vertroue; risiko; voordeel; beloning; deling van inligting; gesamentlike

beplanning; positiewe houding; deelneming; 'n voortgesette proses van geleerdheid, opleiding en ontwikkeling – verander die denkwysse; al voorgenoemde sal ten beste ondersteun word deur 'n span beroepslui en gepaste meeteenhede.

Die gegewens vervat in hierdie tesis dui daarop dat die institusionalisering van die waardes en beginsels in die konsep van VKB en die Suid Afrikaanse wetgewende raamwerk wat daarmee in verband staan gevestig is, en dat die openbare sektor organisasies ondersteun sal word met die implementeringsproses van VKB. Die gevolglike "lewe" van VKB in openbare sektor organisasies sal die gehalte van finansiële bestuur versterk, maar meer belangrik waarde toegevoegde goedere en dienste voorsien aan die publiek as kliënte van die regering. Negatiewe denkwyses en gedrag van mense in die opebare sektor VKB omgewing moet oorkom word deur veranderingsbestuur prosesse ten einde VKB teen die verlangde pas en omvang te implementeer.

## **ACKNOWLEDGEMENTS**

I hereby wish to thank my family members, friends and colleagues for their understanding and support they afforded me to complete this thesis. I wish to extend my gratitude to Professor Johan Burger for supervising this project.

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## LIST OF ABBREVIATIONS

BBBEEA, 2003	Broad-Based Black Economic Empowerment Act, 2003 (Act 53 of 2003)
CA, 1998	Competition Act, 1998 (Act 89 of 1998)
Constitution, 1996	Constitution, 1996 of the Republic of South Africa, 1996 (Act 108 of 1996)
CIDBA, 2000	Construction Industry Development Board Act, 2000 (Act 38 of 2000)
CIDB	Construction Industry Development Board
EEA, 1998	Employment Equity Act, 1998 (Act 55 of 1998)
NEMA, 1998	National Environmental Management Act, 1998 (Act 107 of 1998)
NPM	New Public Management
NSBA	National Small Business Act, 1996 (Act 102 Of 1996)
NT	National Treasury
PAA, 2004	Public Audit Act, 2004 (Act 25 Of 2004)
PCCAA, 2004	Prevention and Combating of Corruption Activities Act, 2004 (Act 12 of 2004)
PDA, 2000	Protected Disclosures Act, 2000 (Act 26 of 2000)
PFMA, 1999	Public Finance Management Act, 1999 (Act 1 of 1999 as amended by Act 29 of 1999)
PPPFA, 2000	Preferential Procurement Policy Framework Act, 2000 (Act 5 of 2000)
PAJA, 2000	Promotion of Administrative Justice Act, 2000 (Act 3 of 2000)
PAIA, 2000	Promotion of Access to Information Act, 2000 (Act 2 of 2000)
PSA, 1994	Public Service Act, 1994
RSA	Republic of South Africa
SCM	Supply Chain Management
SITAA, 1998	State Information Technology Agency Act, 1998 (Act 88 of 1998)
VKB	Voorsieningskettingbestuur

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## CHAPTER 1

### INTRODUCTION AND RESEARCH PROBLEM

#### 1.1 INTRODUCTION

Procurement in the South African Government is undergoing modernisation through policy developments, legislative and regulatory processes in order to introduce the concept of SCM to the public sector and by so doing follow its private sector partners in their quest to reduce waste and provide value added goods and services to customers. This transformation affects the way public sector officials think and perform within their government departments and establishes a set of principles that need to be institutionalised. Chapter 1 discusses the background in relation to migrating from government procurement to government supply chain management and describes the meaning of these concepts and explains the difference between implementation and institutionalisation. Secondly, it provides a brief description of the research problem and the objectives of this thesis.

#### 1.2 BACKGROUND

At the outset of the public sector procurement reform process in 1995, the South African Government recognised that a consistent legislative framework would be required to give effect to government's procurement reform policy objectives. In response to this recognition, a plan was adopted in the interim, encompassing ten strategies designed to impact positively on the participation in the bidding process of small, medium and micro enterprises, with emphasis on the disadvantaged and marginalised sectors of the community and with the focus on employment creation.

Subsequently, during April 1997, a Green Paper on Sector Procurement Reform in South Africa was published, as a discussion document. The reform objectives contained in the Green Paper were aimed at transforming the public sector procurement process so that it could be used as a tool in order to achieve government's socioeconomic objectives within the ambit of good governance. The

socioeconomic objectives included, *inter alia*: Seeking value for money; eliminating corruption; an accessible procurement process to all; creating and enabling environment for small, medium and micro enterprises; and encouraging competition and create opportunities for the broadest possible participation. Good governance included, *inter alia*: Promoting effective and efficient practices to timely deliver the quantity and quality services demanded by the constituency; improvement in value for money; enhancing competitiveness of suppliers; maintaining control and accountability; and achieving uniformity in the procurement system and compliance with the Constitution.

Subsequent to the Green Paper referred to above, the Report on Opportunities for Reform of Government Procurement in South Africa - April 2000, was prepared under the auspices of AusAid, an Agency of the Australian Government and the Capacity Building Programme. The report raised the key issue that it is not enough to say that value for money is achieved through lower prices - each point of the procurement process needs to be costed and the value it adds determined, i.e. the value that the process adds to the overall outcomes and outputs of a government department's operations.

September 2003 saw the National Treasury's release of the Policy Strategy to Guide Uniformity in Procurement Reform Processes in Government. This policy strategy includes the following objectives:

- Transformation of the procurement and provisioning functions in government into an integrated SCM function.
- Creating consistency in respect of supply chain policy objectives.
- Creating a common understanding and interpretation of government's preferential procurement objectives.
- Giving effect to the provisions of the Constitution, 1996 and the PFMA, 1999.

Legislation is the key change driver in the public sector. Similarly legislation is the primary driver of government action and is informed by policy developments, public demand, economics, reconstruction and development, industry, technology and globalisation. Legislators and regulators have used legislation towards moving away from the traditional rule-based concept of procurement to the modernised concept

of SCM in the South African public sector. The application of SCM in the South African public sector finds its origins in legislation.

Chapter 13 of the Constitution, 1996 provides the values for procurement in the public sector. It requires government departments to conclude contracts for goods and services in accordance with a system which is fair, equitable, transparent, competitive and cost effective. Implementing a procurement policy providing for categories of preference in the allocation of contracts and the protection or advancement of persons, disadvantaged by unfair discrimination is also permitted by the Constitution, 1996, but may only be done in a framework prescribed by national legislation.

To give effect to the various provisions of the Constitution, 1996 and in pursuance of introducing uniform norms and standards, the PFMA, 1999 took effect 1 April 2000. The PFMA, 1999 reinforces the Constitution, 1996 by prescribing that accounting officers of government departments must ensure that there departments have and maintain appropriate procurement and provisioning systems which is fair, equitable, transparent, competitive and cost effective. Through the use of the word “must”, this responsibility is obligatory and not intended to be optional or discretionary.

Notwithstanding that the provisions in the Constitution, 1996 and the PFMA, 1999 refer to the activity of “procurement” (to which “provisioning” is added in the case of the PFMA, 1999), the Treasury Regulations issued in terms of the PFMA, 1999 regulated a Framework for SCM. This framework took effect on 5 December 2003 and constitutes the origin of the concept of SCM in the South African statute and consequently the public sector. The regulated Framework for SCM also requires accounting officers of government departments to implement an effective and efficient SCM System which, *inter alia*, is fair, equitable, transparent, competitive and cost effective. Again the use of the word “must” signifies that the development and implementation of an effective SCM System is not intended to be optional or discretionary. These regulations empower departments to procure goods and services as part of the broader devolution of powers to accounting officers of government departments. Accounting officers ultimately accept responsibility and accountability for all expenditures incurred in their departments. The initiative to

introduce the Framework for SCM into the public sector is but one of the far-reaching reforms to rid the government procurement processes of inefficiency and waste that was undertaken. Notably the introduction of the Framework for SCM by means of promulgated regulations followed an extensive Joint Country Procurement Assessment Review, covering the status of procurement across national, provincial and local governments. This review was conducted jointly by the National Treasury and the World Bank - National Treasury's Budget Review 2004 (2004:71).

The foreword of the PFMA, 1999 booklet reflects the spirit of the PFMA, 1999. In this sense the PFMA, 1999 and its regulations constitute a fundamental break from the past regime of opaqueness, hierarchical systems of management, poor information flow and weak accountability. The aim of the PFMA, 1999 is to modernise the system of financial management and that such modernisation enables public sector managers to manage, but at the same time be more accountable, ensures timely provision of quality information, and eliminates waste and corruption in the use of public assets. A phased approach towards improving the quality of financial management in the public sector is assumed: Firstly, getting the basics right and subsequently focussing and systematically introducing efficiency and effectiveness of programmes and financial management best practice. Clearly, achievement of these aims pose significant challenges for public sector managers and organisations and in particular affects the way of doing things in the future.

SCM in the context of the public sector is not defined in the regulated Framework for SCM. The latter framework merely requires that the SCM system must at least provide for demand, acquisition, logistics, disposal and risk management, as well as the regular assessment of supply chain performance.

As both the Constitution, 1996 and the PFMA, 1999 refer to "procurement" and the Framework for SCM refers to "SCM" it would be appropriate to clarify the differences between these concepts at this point by way of definition:

- Procurement *"...is the term used to describe a wide range of activities related to the acquisition, quality assurance, receipt, and storage of the*



*purchased products and services required by and organisation in producing its own products or services.” (Hugo et al. 2004: 208).*

- SCM “...is a management philosophy aimed at integrating a network (or a web) of upstream linkages (sources and supply) internal linkages inside the organisation and downstream linkages (distribution and ultimate customers) in performing specific processes and activities that will ultimately create and optimise value for the customer in the form of products and services which are specifically aimed at satisfying customer demands.”(Hugo et al. 2004: 29). The latter claims that this definition of SCM is a synthesis of the current theory and practice.

The abovementioned definitions also suggest that the procurement activity is an integral part of SCM and for that matter the Framework for SCM.

Apart from the Constitution, 1996 and the PFMA, 1999, it was established that the pieces of legislation listed below also affects the SCM system that accounting officers of government departments must implement, in particular its values. These pieces of legislation and the effect it has on the SCM system will be briefly discussed in Chapter 2 – Supply Chain Management: Legislative Framework of this thesis. Note that the legislative framework includes, but is not limited to the following pieces of legislation:

- Constitution of the Republic of South Africa (Constitution), 1996 (Act 108 of 1996)
- Annual Appropriation Acts
- Competition Act (CA), 1998 (Act 89 of 1998)
- Broad-Based Black Economic Empowerment Act (BBBEEA), 2003 (Act 53 of 2003)
- Construction Industry Development Board Act (CIDA), 2000 (Act 38 of 2000)
- Employment Equity Act (EEA), 1998 (Act 55 of 1998)
- National Environmental Management Act (NEMA), 1998 (Act 107 of 1998)
- National Small Business Act (NSBA), 1996 (Act 102 of 1996)
- Public Service Act (PSA), 1994 (and regulations)
- Public Finance Management Act (PFMA), 1999 (Act 1 of 1999)

- Preferential Procurement Policy Framework Act (PPPFA), 2000 (Act 5 of 2000)
- Promotion of Administrative Justice Act (PAJA), 2000 (Act 3 of 2000)
- Promotion of Access to Information Act (PAIA), 2000 (Act 2 of 2000)
- Protected Disclosures Act (PDA), 2000 (Act 26 of 2000)
- Prevention and Combating of Corrupt Activities Act (PCCAA), 2004 (Act 12 of 2004)
- Public Audit Act (PAA), 2004 (Act 25 Of 2004)
- State Information Technology Agency Act (SITAA), 1998 (Act 88 of 1998)

The introduction of the concept of SCM, inclusive of the empowerment dimension thereof, is one of the South African Government's key financial management reforms. It is also apparent that this reform has a strong focus on institutional transformation and development. Such transformation and development requires fundamental organisational change. The Western Cape Medium Term Budget Policy Statement 2005-2008 (2004:120) describes change as being: "*...the act of moving from the present level of operational functioning to an improved level of operational functioning.*" This policy statement recognises that improved financial management is not achievable unless there is a structured change management process running concurrently with new policies and methodologies which continuously promote and enable change and capacitate employees to understand and adapt to the change. Such adaptation includes inculcating a culture of good financial governance, value-adding, ethics, seamless service delivery, growing and performing the "change agent" role.

The aforementioned change considers an understanding the "technical issues" as well as the "people issues" and getting it right through a balanced approach towards these complementary forces. Technical issues would encompass methodology, global best practices, effective project management, technology, processes, industry expertise and functional expertise. People issues on the other hand would include readiness for change, cultural alignment, leadership, commitment, stakeholder involvement, open communication, building human capital.

Implementing SCM in government departments is one dimension, institutionalising it is another. The Concise Oxford Dictionary (1999:712) defines the word "implement"

as follows: “*performance of an obligation/ put into effect*”. Implementation would thus usually refer to activities such as performance, execution, operations and functions. The Concise Oxford Dictionary (1999:734) defines the word “institutionalize” as follows: “*establish as a convention in an organisation or culture*”. Institutionalisation is thus based on principles and can be considered to be an ongoing process in which a package of activities, structures and values become an integral and sustainable part of an organisation.

Institutionalisation of SCM should be considered to be a key change management intervention. If not appropriately addressed in accordance with policy expectations, it will pose a risk. Merely having the capacity to perform the technical side of SCM does not guarantee that SCM is institutionalised within an organisation. An environment that enables and sustains implementation or initiation, growth, development and continuity of SCM is essential. Such an environment must incorporate supportive policies, effective governance, a change of attitudes and behaviour in people and a sense of ownership, organisational values and culture, enabling information and communication technology, adequate resource allocation and sustainable development.

The concept of SCM was introduced in the private sector in the 1980’s and is not new.

SCM is a growing field of study comprising, *inter alia*, multifaceted issues, relationships, collaboration, processes, efficiency for those who embrace it and concerns that need to be addressed before its full potential can be realised. In the context of South African government departments are mindful that the Framework for SCM was only regulated in 2003, it would be a fair observation that the institutionalisation of SCM is in its infancy.

It is common knowledge that public sector managers are responsible for the implementation of legislation. To enable public sector managers to institutionalise SCM in government departments, it will also be to their advantage to explore and gain an understanding of the legislative framework affecting SCM and identifying those factors that need to be addressed in an ongoing manner to institutionalise SCM in government departments.

### **1.3 RESEARCH PROBLEM AND OBJECTIVES**

SCM is institutionalised in a government department when it is formally and philosophically incorporated into the structure and functioning of that department, consistently implemented, and supported by an enabling culture as reflected in organisational values and policies that advocate the creation and enhancement of the value added services to customers. This evolutionary process with its inherent challenges to the public manager realises within a legislative framework.

The *problem* facing an accounting officer of a government department, the management teams and other levels of staff is that they do not always have a sense of the legislative framework affecting SCM and the principles entrenched in that framework that affects the institutionalisation of SCM in their organisations. Once the legislation and the principles have been identified and addressed it will support the “living” of SCM in that organisation.

The objective is to identify the principles entrenched in the concept of SCM and the legislative framework at a high level that will assist public sector organisations to institutionalise SCM in their organisations and that will support the evolutionary implementation process of SCM. This will improve the quality of financial management in the public sector and ultimately provide value added goods and services to the public as customers of government.

The outcome of this thesis would be of interest to members of the senior management service in the South African public sector, middle and junior managers and other levels of staff that have or are transforming the rule-based procurement system to SCM systems, policy makers, implementers and other actors.

### **1.4 METHODOLOGY**

It is not the intention to explore a new terrain. Data is collected by means of a literature study on the subject of SCM. The intention is to perform a high level study of the philosophy, phenomena, processes, practices, and activities relating to the institutionalisation of SCM. In addition, South African statutes relevant to SCM will

be examined. Other relevant public sector documents such as green papers, white papers, departmental annual reports, budget statements, organisational structures, reviews, policy documents, guideline documents, reports, strategic plans and best practice documents are also consulted.

The next Chapter attempts to explain what supply chain management is about and to identify the principles that relate to the institutionalisation of SCM. Chapter 3 speaks to the legislative framework affecting SCM in government departments and endeavours to highlight the principles that relate to the institutionalisation of SCM. Chapter 4 entertains a discussion on key findings and makes recommendations on the improvement of the institutionalisation of SCM.

## CHAPTER 2

### SUPPLY CHAIN MANAGEMENT: THE CONCEPT

#### 2.1. INTRODUCTION

The concept of SCM is implemented and practiced successfully in for-profit organisations for almost three decades with the primary motive to improve the bottom line. In the South African context SCM was only introduced in the public sector during 2003 when its implementation was made mandatory through legislation governing financial management in the public sector. It is common knowledge that public sector SCM managers, due to a variety of reasons, are struggling to implement SCM and to comply with the legislative requirements. Unlike the private sector, different pieces of legislation also impact on SCM which complicates implementation and ultimately compliance. In essence, public sector SCM managers are finding it difficult to *institutionalise* the concept of SCM in the roots of public sector organisations. The purpose of this chapter is to explore the concept of supply chain management at a high level in an attempt to identify key principles or values that need institutionalisation in public sector organisations and that will contribute to the successful implementation of the concept of SCM and ultimately value added service delivery. This chapter will, *inter alia*, discuss the need for SCM from a public sector reform perspective; the use of SCM as a tool to achieve government's socioeconomic objectives; the substance of SCM and the implementation requirements and prerequisites from a managerial perspective. In conclusion, extraction of the key principles or values for the institutionalisation of SCM in the public sector.

#### 2.2. NEED FOR A SCM APPROACH

According to Lambert (2001:124) the objective of SCM is to create the most value, not simply for the institution, but for the whole supply chain network including the end customer. Consequently, supply chain process integration initiatives should be

aimed at boosting the total efficiency and effectiveness across members of the supply chain. This view is supported by Hugo *et al.* (2004:4, 13-14), that claims that optimising or creating customer value is the focus point and reason for the existence of the supply chain.

Continuing growth in government expenditure and rising social burdens raised questions about the effectiveness, efficiency and affordability of government and taxpayer's toleration in relation to the growth in question. In addition, citizens changed by beginning to see themselves as customers of government rather than recipients of services which in turn questioned the quality of public services provided. This changing public environment provided the opportunity to policy makers to find solutions to the pressures on the one hand and to improve the State on the other. These solutions gave rise to a "New Public Management" model. From the literature on the subject it is deduced that public sector scholars, reformists and innovators seem to place different emphasis on the components of the model and that there is not one but several models (Olowu, 2002:65). For the purposes of this thesis key principles or characteristics that relate to the concept of "New Public Management" are captured and categorised as:-

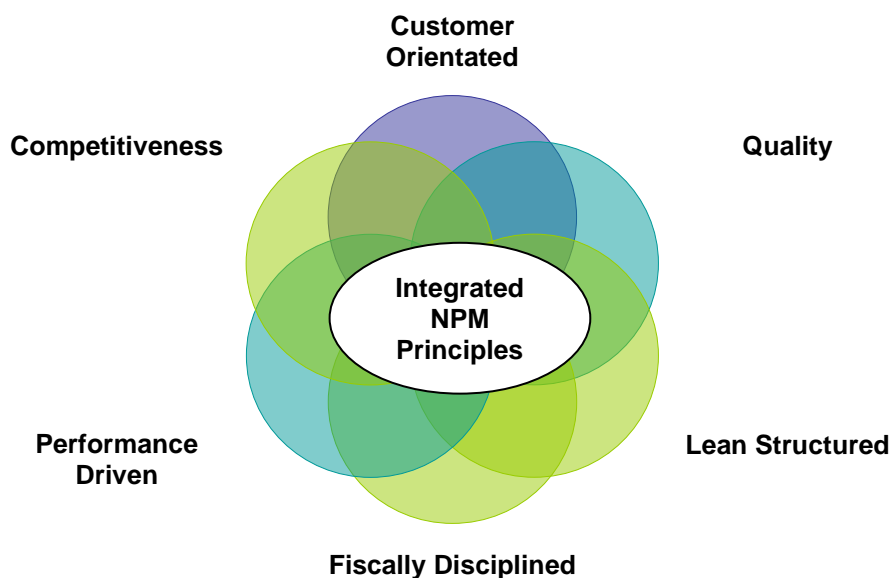
- *Being customer orientated:* This principle includes treating citizens as customers of government goods and services rather than recipients thereof; and measuring customer satisfaction/dissatisfaction, i.e. the gap between actual service delivery and the expectations of such delivery and responding to customer complaints.
- *Being competitive:* This principle includes introducing market principles into the public sector; testing whether in-house provision of services remain competitive with alternative forms of provision; privatisation of services; commercialisation of services; and outsourcing of services.
- *Being performance driven:* This principle includes public sector managers to be hands on and contractually bound into a clear assignment of responsibilities for action and accountable for specific results to his/her political head - the catch phrase "let the managers manage but let them be accountable" is clearly evident here; achieving clearly defined goals, targets, indicators and standards with the focus on outputs and outcomes rather than the traditional input focus and concomitant administering of rules; exercising long term planning and strategic management to achieve the goals within a changing environment; and

exercising performance and programme budgeting as apposed to line-item budgeting.

- *Being committed to and display continuous quality improvement.* This principle includes setting of service delivery standards; measuring performance against set standard; openness as to how services are managed; choice of available services; value for money and remedies to recover when things go wrong.
- *Being lean structured.* This principle includes downsizing of government through restructuring of public sector organisations (e.g. decentralisation, privatisation, departmentalisation, and outsourcing); employees that are more skilled, committed and empowered to be flexible and innovative; and an increase in the overall capacity, flexibility, resilience of the administrative system as a whole.
- *Being fiscally disciplined.* This principle includes: Doing more with less; creating savings (e.g. reduced budget appropriations); improving processes (e.g. no red tape, faster turnaround times, and one stop shops); improving efficiency (better input/output ratios e.g. the same number of drivers licences issued with less people); greater effectiveness (e.g. less crime and poverty); greater economy (between cost and resources); utilising modern accounting systems; and using performance related systems for recruiting, posting, promoting and paying employees.

The principles or characteristics of “New Public Management” are illustrated in an integrated way in Figure 1.

**Figure 1: Principles/characteristics of “New Public Management” (NPM)**

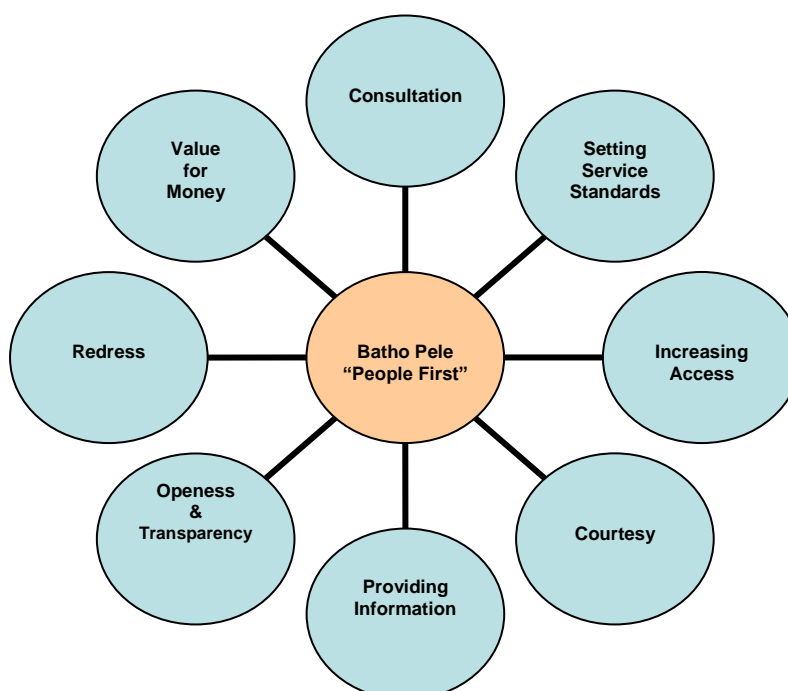




The “New Public Management” principles or characteristics referred to above are conducive to the value system that needs to be institutionalised in public sector organisations to achieve the objective of SCM.

The “New Public Management” philosophy is also encapsulated in the White Paper on Transforming Public Service Delivery<sup>1</sup>, the so-called *Batho Pele* or “*People First*” White Paper, which provides a policy framework and practical implementation strategy for the transformation of Public Service Delivery. The then Minister of Public Service and Administration in the foreword of the White Paper reflected that one of Government's most important tasks is to build a public service capable of meeting the challenge of improving the delivery of public services to the citizens of South Africa and that access to decent public services is the rightful expectation of all citizens. The use of the word “improving” is indicative or acknowledgement that there is a gap that needs to be closed. The guiding principle of public service transformation and reform is “service to the people”. Consequently the White Paper commits the Public Service to transform “words” into “action” and to satisfy the needs of the people consequently for the people to view and experience the Public Service in an entirely new way and judge the practical difference in their everyday lives. *Batho Pele* is based on eight principles illustrated in Figure 2.

**Figure 2: Batho Pele principles**



<sup>1</sup> South Africa (Republic). Government Gazette No. 18340 dated 1 October 1997: Notice 1459 of 1997

The eight principles in Figure 2 are aligned to the ideals of the Constitution, 1996 set out below.

- Promoting and maintaining high standards of professional ethics.
- Providing service impartially, fairly, equitably, and without bias.
- Utilising resources efficiently and effectively.
- Responding to people's needs; the citizens are encouraged to participate in policy making.
- Rendering an accountable, transparent, and development-oriented public administration.

To put the *Batho Pele* principles into practice or actions, government departments were asked by the said Minister to undertake a number of actions as summarised below.

- Identify small but important improvements in service delivery processes, such as the speeding up of response times for answering letters and telephone calls or the introduction of departmental courtesy campaigns.
- Develop a service delivery improvement programme.
- Publish standards for the services provided and to monitor results.
- Public reporting on how well departments have performed against set standards.
- Consult users of public services about their needs and priorities.
- Develop more accessible and responsive arrangements to enable individual members of the public to get something done if standards are not met.
- Treat all citizens with courtesy, respect and dignity (codes of behaviour).
- Live within the resources the nation can afford.
- Relentless search for increased efficiency and reduction of wastage.
- Progressively raise standards of service, especially for those whose access to public services has been limited in the past and whose needs are greatest.

Drawn from the Western Cape Provincial Government's Estimates of Provincial expenditure (2007:vii), the Province estimated to spend R6 billion of tax payers' money on goods and services, machinery and equipment and buildings and other fixed structures to be able to deliver efficient, effective and economical public services. This estimated spend represents 30% of the total budget for that Province.

This information provides an understanding of the strategic significance of SCM in government departments/administrations.

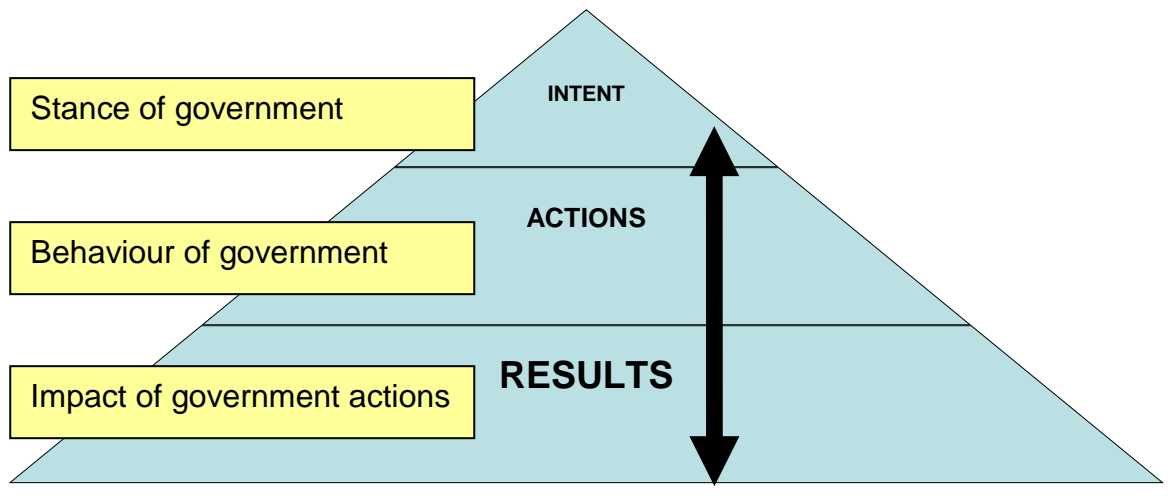
The National Treasury's Strategic Plan 2003-2006 (2003:16) under the section dealing with service delivery environment, reflected that transforming the public sector financial management is a key objective of the National Treasury and that the latter is rolling out financial management systems, which will ensure not only the transparency of expenditure but also the effective and efficient use of scarce resources to achieve social transformation. It is also stressed that these systems for enhancing the integrity and effectiveness of SCM and expenditure management have been among the most important of National Treasury's reforms. This is underpinned by the Director-General's overview statement in the said document that:

*"Cabinet this year has identified the reform of government procurement policies as a key priority. Following the completion of a country wide procurement assessment, the National Treasury developed and published for comment a Policy Strategy to Guide Uniformity in Procurement Reforms Processes in Government. The strategy is aimed at promoting sound financial management and uniformity in the implementation of procurement reform initiatives across Government. It also provides the framework for review of the Preferential Procurement Policy Framework Act and its regulations, ensuring that they contribute more effectively towards meeting Government's objectives for black economic empowerment over the medium term."*

The need for the implementation of SCM in the government has also been set in government policy. Heywood (2002:400) describes the concept of policy in a general sense as a plan of action adopted by, for example, an individual, group, business or government. To designate something as a policy, implies that a formal decision has been made, giving official sanction to a particular course of action. Public policy can therefore be seen as the formal or stated decisions of government bodies. However, policy is better understood as the linkage between intentions, actions, and results as illustrated in Figure 3. At the level of *intentions*, policy is reflected in the stance of government (what government says it will do). At the level of *actions*, policy is reflected in the behaviour of government (what government

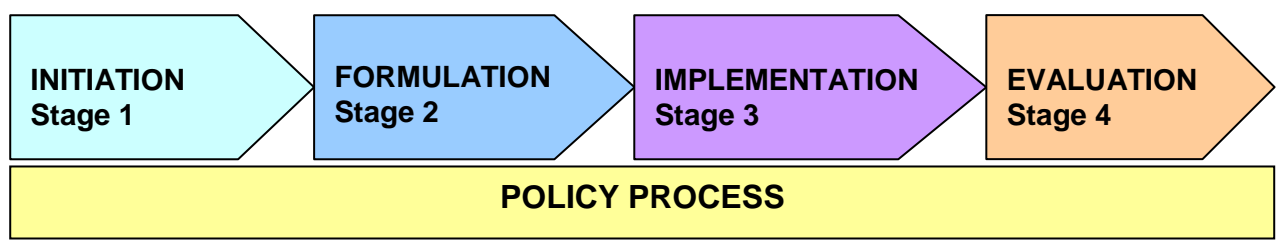
actually does). At the level of *results*, policy is reflected in the consequence of government action (the impact of government on the larger society).

**Figure 3: Policy linkages**



The policy process according to Heywood (2002:404-410), as illustrated in Figure 4, can be broken down in four stages, namely initiation, formulation, implementation and evaluation.

**Figure 4: Policy process**



*Initiation* sets the political agenda both by defining certain problems as issues and by determining how those issues are to be addressed.

Policy *formulation* entails not only the translation of broad proposals into specific and detailed recommendations, but also the filtering out of proposals and perhaps even the fundamental recasting of the issue under consideration.

*Implementation* was traditionally seen to be an aspect of administration, not as a feature of politics. It is difficult to ensure that policy is delivered exactly as intended, the gap between decision and delivery is often huge. Government operates outside the market in delivering services and is the monopolistic supplier of goods and services. Sloppy public servants that reckon that, unlike in private business, they do not have to keep the customer satisfied is countered by the use of performance indicators that bind the public services to a set of delivery standards that effectively mimic market competition penalising substandard performance. Other difficulties that arise are for example that public servants may have a better “street level” understanding of what will work and what will not, the trade-off between central control and flexibility, top-down approach versus the bottom-up, public servants protecting their interests may reinterpret public policy, inadequacy of political control and the absence of consumer pressure.

The *evaluation* stage completes the policy cycle. The evaluation stage culminates with the evaluation and review of policy leading to decisions being made about maintenance, succession or termination of the policy in question. Information acquired through evaluation can be fed back into the initiation and formulation stages.

From a policy perspective government at the outset of the procurement reform process in 1995 recognised that a consistent legislative framework would be required to give effect to governments procurement reform policy objectives. In response to this recognition a plan was adopted in the interim that encompassed 10 strategies designed to impact positively on the participation in the bidding process of small medium and micro enterprises, with emphasis on the disadvantaged and marginalised sectors of the community and with the focus on employment creation.

Subsequently a policy document, the Green Paper on Sector Procurement Reform in South Africa, was published in April 1997, as a discussion document. The reform objectives contained in the latter policy document was to transform the public procurement process so that it could be used as a tool in order to achieve government’s socioeconomic objectives within the ambit of good governance. The socioeconomic objectives included, *inter alia*: Seeking value for money; eliminating corruption; establishing an accessible procurement process to all; creating an

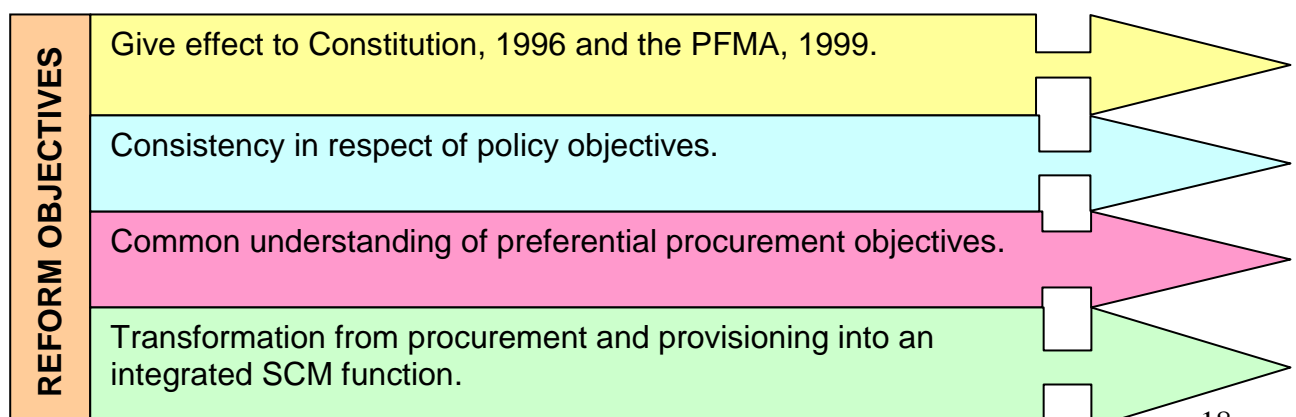
enabling environment for small medium and micro enterprises; encouraging competition; and creating opportunities for the broadest possible participation. Good governance was meant to include, *inter alia*: Promoting effective and efficient practices to timely deliver the quantity and quality services demanded by the constituency, improvement in value for money, enhance competitiveness of suppliers, maintain control and accountability, and achieve uniformity in the procurement system and compliance with the Constitution, 1996.

Following the aforementioned Green Paper, the Report on Opportunities for Reform of Government Procurement in South Africa, April 2000 was prepared under the auspices of AusAid, an agency of the Australian Government and the Capacity Building Programme. The report raises the key issue that it is not enough to say that value for money will be achieved through lower prices; each point of the process needs to be costed and the value it adds determined, i.e. the value that process adds to the overall outcomes and outputs of a department's operations.

Subsequently, the National Treasury released the Policy Strategy to Guide Uniformity in Procurement Reform Processes in Government, September 2003. The procurement reform objectives of the policy strategy, as illustrated in Figure 5 are: -

- Transformation of the procurement and provisioning functions in government into an integrated SCM function.
- Creating consistency in respect of supply chain policy objectives.
- Creating a common understanding and interpretation of government's preferential procurement objectives.
- Give effect to the provisions of the Constitution, 1996 and the PFMA, 1999.

**Figure 5: Procurement reform objectives**



In essence the aim of the Policy Strategy was to replace the outdated procurement and provisioning practices with a SCM function as an integral part of financial management in government that conforms to international accepted best practice principles.

In the Cabinet Discussion Document on the subject of “A Growing Economy that Benefits All, Accelerated and Shared Growth Initiative for South Africa (Asgi-SA)” read in conjunction with the media briefing by Deputy President Phumzile Mlambo-Ngcuka, 6 February 2006, on the Back Ground Document, “A Catalyst for Accelerated and Shared Growth - South Africa”, as well as in the State of the Nation Address of the President of South Africa ( Mbeki 2006), it is reported that since 1994, the South African government has implemented policies that have resulted in the stabilisation of the economy, achieving an average growth rate of just fewer than 3% per year. Furthermore, a critical element of the Reconstruction and Development Programme of South Africa is building a single integrated economy that benefits all. In pursuance of this objective, the government has committed itself to unite and lead society in reducing unemployment and poverty by half by 2014. This requires an economic growth rate of about 4.5% between 2005 and 2009, and an average rate of about 6% between 2010 and 2014. In 2004, government identified a variety of microeconomic interventions required to accelerate growth and to ensure social inclusion. Asgi-SA elaborates on a broad framework of further steps that need to be taken to raise the range of growth to higher levels. Asgi-SA is a limited set of interventions that are intended to serve as catalyst to accelerated and shared growth and development. These documents reflect on and announces a range of issues and policy intentions of government that affect the value addition of the SCM process in the public sector, such as the following:

- To adopt approaches that diversify, add value, lower costs, absorb labour and encourage new businesses.
- To contribute to the growth of the small medium and micro enterprise sector, the government will reform its procurement programme to access some of its goods and services from small and medium business, ensuring that it pays for what it purchases promptly.
- To introduce a regulatory system to enable the government to assess the impact of its policies on economic activity.

- To, in relation to economic prospects of woman, commitment to focus on the need women have pointed to on issues such as providing “set asides” for women in government procurement programmes and that it receives the necessary attention in the implementation of development programmes.
- To remain focussed on the challenge to fight corruption in the public sector.
- To ensure that the environment and opportunities for more labour-absorbing economic activities is considerably improved.
- To embrace a development path which is a vigorous and inclusive economy where production products and services are diverse, more value is added to products and services, cost of production and distribution are reduced, labour is absorbed into sustainable employment and new businesses are encouraged to proliferate and expand.
- To seek to maximise the positive impact of spin-offs of public sector infrastructure spending in terms of the generation or regeneration of domestic supply industries, small business development and empowerment.
- Broad Based Black Economic Empowerment and small business development.
- Persuasion of private companies to engage in affirmative procurement, and labour-intensive infrastructure projects.

The “New Public Management” approach, Constitutional ideals, strategic objectives, policy intentions and public sector transformation calls for change.

In this regard Cohen (1998:12) is of the opinion that the contemporary world is characterised by rapid changes in technology, society, politics, communications and culture and that the pace of change is accelerating and effective organisations have little choice but to keep up. He goes on to say that many people resist change because they are comfortable with how things are: “If it is not broken why fix it.” As there are no shortcuts, technological fixes or magic bullets, organisational change is not an easy process: “You end up doing a lot of slogging through the mud because in the end you are trying to influence the behaviour of people”.

Cohen (1998: 10-11) holds the view that to bring about change in an organisation, managers (including top management) must be willing to take risks and to tolerate risk taking among middle management and staff. That means that well conceived experiments that fail must be rewarded from time to time, and whenever possible



not punished. Being willing to try something new does not require being reckless. As the change to be brought about may not work, being careful will prevent catastrophe. Small steps are suggested with having “plan B” ready for possible failure as well as for possible success.

The Western Cape Medium Term Budget Policy Statement 2005-2008 (2004:120) reflects that: “...*change is the act of moving from the present level of operational functioning to an improved level of operational functioning.*” It further recognises that improved financial management is not achievable unless there is a structured change management process running concurrently with new policies and methodologies which continuously promote and enable change and capacitate employees to understand and adapt to the change. Such adaptation includes: Inculcating a culture of good financial governance, value-adding, ethics, seamless service delivery, growing and performing the “change agent” role.

Change, in particular long term change, is about understanding the technical issues as well as the people issues and getting it right through a balanced approach towards these forces. Technical issues refer to methodology, global best practices, effective project management, technology, processes, industry expertise and functional expertise. People issues on the other hand refer to readiness for change, cultural alignment, leadership commitment, stake-holder involvement, open communication, building individual and human capacity.

Taking the above into account, the need for a SCM approach particularly as part of the public sector reform process has been established. The next step is to gain an understanding of what SCM entails.

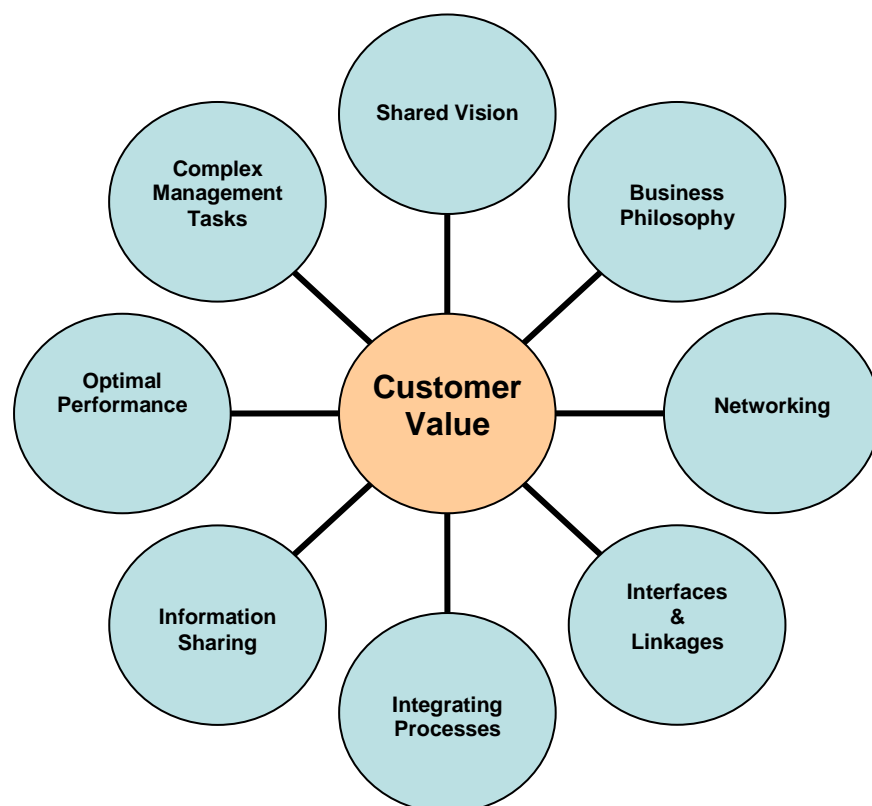
### **2.3. CONTENT OF SCM**

According to research done by Hugo *et al.* (2004:3, 5), history is the common factor that forged SCM into the management philosophy it is today. In this sense, SCM is a product or result of many influences and drastic changes on business and management, the underlying basic principles of which developed at least over four decades. The concept of SCM is thus not entirely new or relatively new as referred to in many instances. SCM developed from logistics and purchasing, and functional

areas such as marketing, finance and production management contributed to this development. SCM is thus the culmination of changes in a variety of functional areas and no single business function or activity. SCM has a distinct identity and has evolved into a clear defined discipline within management equal to, for example purchasing management, human resource management. In broad terms, SCM is a set of inter- and intra organisational processes that produces and delivers value added goods and services to customers.

Hugo *et al.* (2004:4, 13-14) claims that as optimising or creating customer value is the focus point and reason for the existence of the supply chain it is logical to expect that SCM itself will reflect this central value in all its characteristics which is illustrated in Figure 6.

**Figure 6: Characteristics of SCM**



These characteristics of SCM illustrated in Figure 6 are briefly discussed below.

*Shared vision:* SCM is based on a shared vision of what customer value is. Management must be committed to the SCM philosophy and must understand the mutual benefits and risks inherent in the implementation of the approach.

*Business philosophy:* Refers to a philosophy of conducting business through the sharing of risks, benefits and rewards, long term relationships, trust, joint planning and mutual exchange of information.

*Networking:* Is the management of a network of organisations to ensure the focus remains on customer value creation.

*Interfaces and linkages:* The management of all links and interfaces into the supply chain.

*Integrating processes:* Comprises the integration of multiple layers of companies striving as a team to optimise the shared supply chain process. It includes team efforts across organisational boundaries, management levels, and internal functional boundaries.

*Information sharing:* Amounts to the sharing of information through the whole chain.

*Optimal performance:* Involves optimised performance through customer performance measures and continuous improvement.

*Management tasks:* Entails a complexity of various management tasks.

Formulating a generally accepted definition of SCM is difficult due to the many influencing factors that contribute to the development of SCM (Hugo *et al*, 2004:5). Furthermore, it is not always clear how the concept should be defined, i.e. in terms of supply chain management or the supply chain. Nevertheless, Hugo *et al*. (2004:5) provides the following definition which is a synthesis of current theory and practice:

*“Supply chain management is a management philosophy aimed at integrating a network (or a web) of upstream linkages (sources and supply) internal linkages inside the organisation and downstream linkages (distribution and ultimate customers) in performing specific processes and activities that will ultimately create*

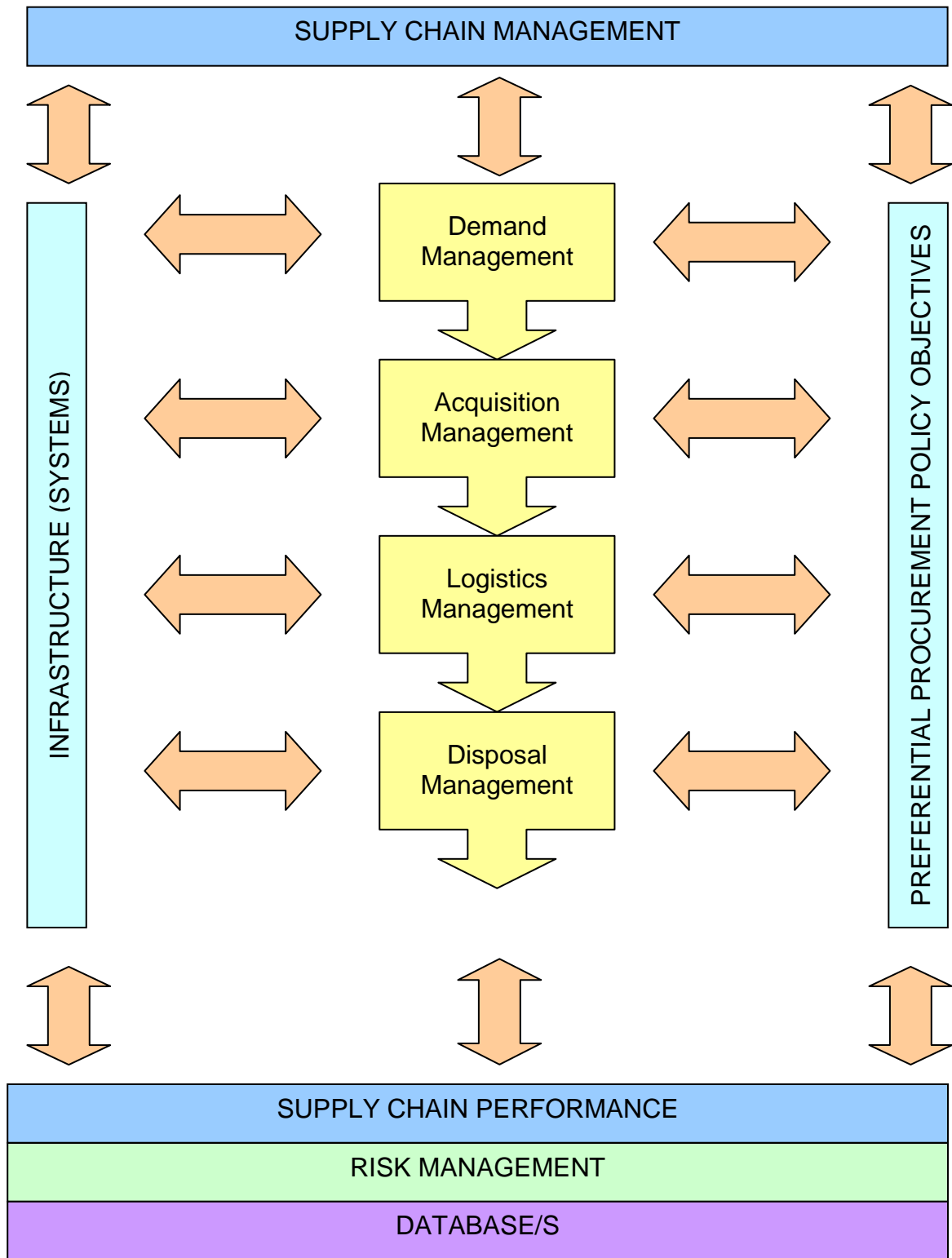
*and optimise value for the customer in the form of products and services which are specifically aimed at satisfying customer demands (Hugo et al, 2002:29)".*

Burt *et al.* (2003: xxxvii) cites D.W. Dobler and D.N Burt's definition of supply chain management in the following way:

*"This chain is the upstream of the organisation's value chain and is responsible for ensuring that the right materials, services and technology are purchased from the right source, at the right time, in the right quality. The value chain is a series of organisations extending all the way back to firms which extract materials from Mother Earth, perform a series of value adding activities, and fabricate the finished good or service purchased by the ultimate customer."*

The Policy Strategy to Guide Uniformity in Procurement Reform Processes in Government released by the National Treasury, September 2003 and referred to earlier under the heading "Need for SCM Approach" provides a model, as set out in Figure 7, of the intended *integrated SCM process* where value is added at every stage of the process. Note that *risk management*, subsequently regulated as a component of the integrated supply chain management, has been added to the model.

**Figure 7: Model of the integrated SCM process**



The components of SCM as illustrated in Figure 7 are briefly elaborated on below.

*Demand management*, is the departure point in the supply chain. It is cross-functional and brings the supply chain practitioner closer to the end user and ensures that value for money is achieved. Demand management entails performing a needs assessment and determining the needs. During this process the following activities are performed: Understanding the future needs, identifying critical delivery dates, determining the frequency of the need, linking the requirement to the budget, doing an expenditure analysis, determining the specifications and doing a commodity analysis.

*Acquisition management* is a critical step in the process. The strategy is determined of how to approach the market; preferential procurement policy objectives are identified that could be met through the specific contract; applicable depreciation rates are determined; total cost of ownership principles are applied, e.g. lifecycle costs and inventory carrying costs; bid documents are compiled, attaching all necessary required documents and formulating conditions; bid evaluation criteria are determined; bids are evaluated and recommendations are made; contract administration is done; and contract information is used to kick-start the logistics management.

*Logistics management*, amongst other, performs the following functions: Coding of items; setting of inventory levels; placing of orders; receiving and distribution of material; stores or warehouse management and vendor performance.

*Disposal management*, the final stage in the SCM process and includes the following functions: Obsolescence planning or depreciation rates require to be calculated; A database of all redundant material is maintained; material is inspected for re-use; determination of a strategy of how the items are to be disposed of; and executing the physical disposal process.

*Risk management* crosscuts all the above mentioned components. Pauw *et al.* (2002: 151) explains that risk management simply constitutes:

- Risk identification and analysis of probability and impact, considering the different risk categories to which the organisation is exposed, i.e. strategic, financial and operational.

- Risk response planning, considering the following options after analysing feasibility and cost effectiveness: Accept the risk, avoid the risk and reduce the likelihood of the risk, mitigate the impact or transfer the risk.
- Implementation of risk management actions.
- Monitoring the effect of risk management actions.

Risk identification according to Pauw *et al.*(2002:153-154) is to determine through a combination of interviews and group discussions what can go wrong, why it can go wrong and the impact if it does go wrong. One of the methods of identifying and analysing operational risk is for management to assess the effectiveness of the control measures by core management activity. Core management activities include: Governance, strategy, statutory compliance, performance, services, marketing and needs analysis, delivery infrastructure, customer relationships, financial risks, underwriting risks and external events risks. The effectiveness of these elements can be assessed by the combination of policies, standards, people, procedures, information and technology managers have deployed.

Pauw *et al.* (2002: 157-162) suggests that after identifying and analysing operational risks, a risk response is required. An internal control system needs to be designed to control the risks. The control elements usually deployed consist of a combination of policies, standards, people, procedures, information and technology. Control objectives, supported by specific control techniques, include ensuring that: -

- Entering into different classes of transactions is pre-approved in accordance with specific or general authorities.
- Duties are assigned to individuals in a manner that ensures that no single individual can control the authorisation, execution and recording of a transaction.
- No valid transaction has been omitted from the accounting and related systems.
- All valid transactions are accurate, consistent with the originating transaction data and recorded in a timely manner.
- All recorded transactions are in legal compliance and represent the economic events that actually occurred.
- Access to information and physical assets are restricted to authorised personnel.
- process errors are identified, reported and receive prompt corrective action.

- Application of control measures provided for in legislation, policies and procedures.

*Supply chain performance*, refers to the monitoring of the SCM process. Monitoring includes the undertaking of a retrospective analysis to determine whether the proper process is being followed and whether the desired objectives are achieved. The following are some of the activities that may be reviewed: Achievement of goals; compliance to norms and standards; savings generated; cost variance per item; store or warehouse efficiency; breach of contract; cost efficiency of the procurement process; whether supply chain objectives are consistent with governments broader policy focus; that the material construction standards become increasingly aligned with those standards that support international best practice.

Burt *et al.* (2003:4) holds the view that it is not surprising that many of the advances in the art and science of SCM originate in government because supply management has a major impact on the efficiency and effective use of tax payer's money at all levels of government. Virtually all the problems present in manufacturing organisations are present in government procurement. Private sector businesses purchase goods and services to enable them to deliver their products aimed at satisfying customer demands. The public sector has similar purchasing needs. However, there are three defining differences when compared with the private sector, namely:-

- A public sector institution's products are those set by government policies from time to time.
- Money used by public sector institutions to purchase goods and services are provided by the taxpayer.
- Government on behalf of the tax payer is entitled to direct procurement expenditure where it believes it will assist in realising wider economic and social policy objectives.

Burt *et al.* (2003:595-597) claims that the fundamentals which govern private contracts also apply to government contracts. Both sets of procurement instruments are promises for which the law provides remedy in the case of breach. Both are concerned with buying the "right" quality, in the "right" quantity, at the "right" price and time and from the "right" source. Whilst the principles are claimed to be the



same, the opinion is held that the processes are different. Seven key differences are discussed in Table 1.

**Table 1: Differences between public and private sector procurement processes**

<i>Size</i>	The magnitude of government contracting is overwhelming. According to the Budget 2007 of the Western Cape Province the Provincial Government for example intended to incur expenditure of R6 billion in the 2007/08 financial year.
<i>Lead time</i>	Government for reasons other than business adds additional costs to its purchasing operations. Without restraints government procurement officials could acquire commodities just as quickly with little paperwork and economically as the private sector. Although government supply managers are fully knowledgeable concerning commodity industries and low-cost service providers in the industry, they are mindful that they are the custodians of public trust. Nevertheless, in emergencies government procurement managers have the ability to purchase with the same speed as the private sector.
<i>Regulations</i>	The decision-making processes of government are governed by a regulatory framework when acquiring goods and services with appropriated funds. Note that the regulatory framework in the South African context will be discussed in Chapter 3, Legislative Framework.
<i>Source of funds</i>	The source of funds used for purchases differs substantially. Unlike the private sector there is no profit incentive to generate funds for ongoing operations. Normally, taxes paid by citizens and businesses to government are used to purchase required goods and services. In executing their roles as stewards of public funds both the legislative and executive arms of government promulgate procedures to carefully control expenditure. These procedures give government supply managers considerably less flexibility than their private sector counterparts. The contracting process using public funds is probably not as efficient as its commercial counterparts.

<i>Public review</i>	The expenditure of public funds attracts the interest of taxpayers. Except for classified projects, government's expenditure is open to the public. This openness is the result of the state constitution, laws and statutes and the moral obligation of government. Government's contract records are subject to review by audit activities and all actions are a matter of public record usually with limited exceptions. In contrast the private sectors requirements source specifications, bid requirements and prices paid are usually closely held and guarded information because of competitive considerations.
<i>Socio-economic programmes</i>	Government have used and continue to use the purchasing processes to accomplish social and political ends. Such laws may restrict the government supply manager from purchasing the lowest price items that meet the requirements. Rule requiring awards to small or so-called disadvantaged businesses and usually adds to the price of contracts so awarded.
<i>Conservatism</i>	As public officials government personnel are subject to public censure they tend to be risk averse and conservative. The government procurement process frequently is equated to purchasing in a goldfish bowl where everyone can see everything. Goldfish bowl procurement exacerbates the tendency to be ultraconservative and to do it by the book.

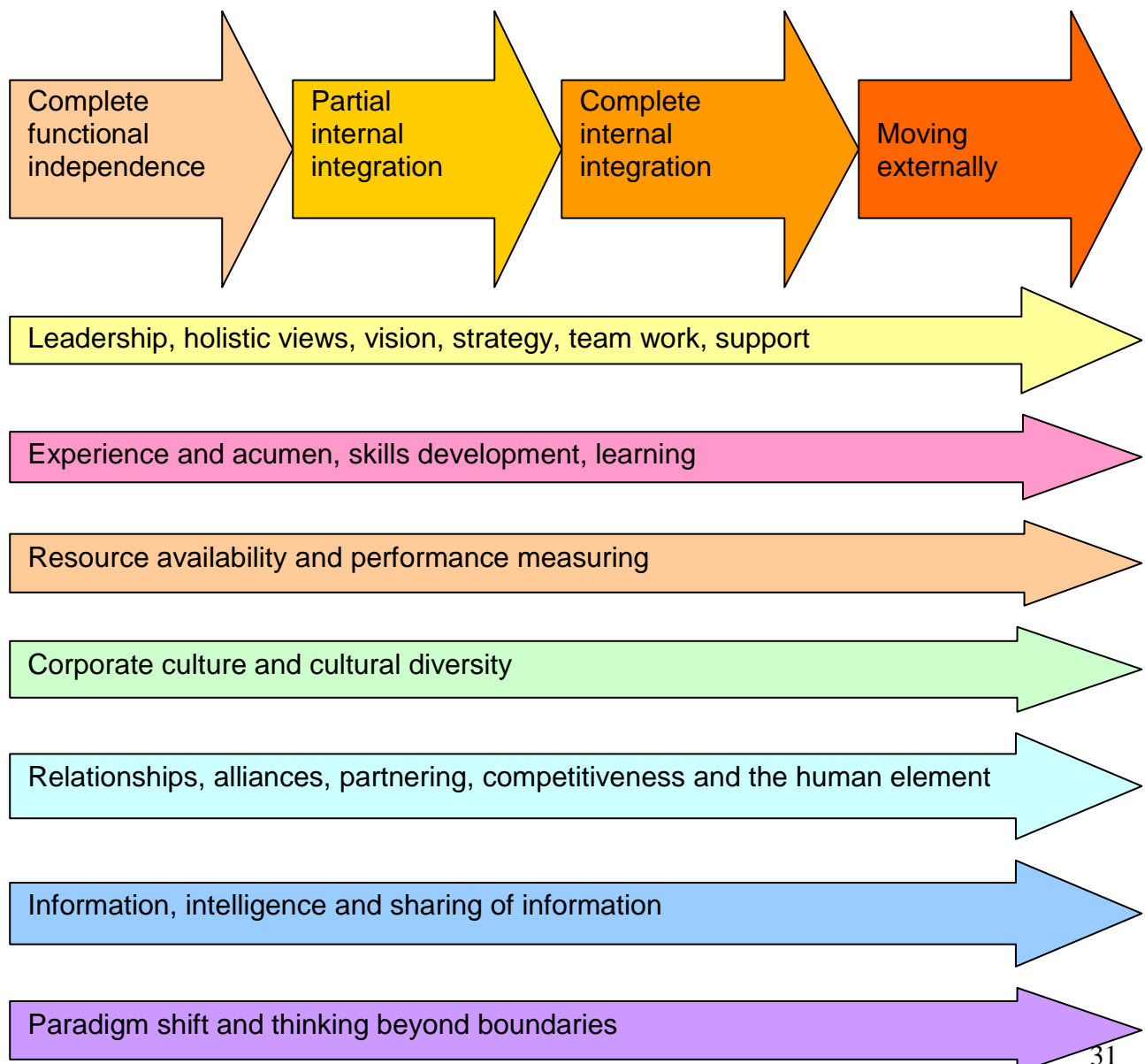
From SCM perspective long-term relationships, partnerships and alliances can only be achieved by reducing the number of suppliers – as an organisation does not need nor does it have the time and money to manage a large number of relationships. This means purchases must be consolidated, standardised, and simplified in order to increase the value or importance of the relationship. Burt *et al.* (2003: xxxviii-xxxvix) further claims that few teams or partnerships and especially alliances start based on complete harmony and trust; they must grow into this relationship based on experience, revisions and constant practice. Impatience and the wrong kind of pressure have caused many a team or partnership to fail. Top management must provide constant support, guidance, and training to resolve the expected conflict. Many organisations have formed teams, partnerships and alliances based on lip service with no real commitment evident on either side.

Having gained a high level understanding of the need for and content of SCM it would be appropriate to progress to a review of the implementation of SCM.

## 2.4. IMPLEMENTING SCM

According to Hugo *et al.* (2004:13-20) the implementation of SCM in an organisation is an evolutionary process consisting of four phases. These phases are not without complexities, internal and external influences and barriers. Consequently the SCM implementation process has a number of managerial challenges that cross-cut the phases in question. The phases and challenges are illustrated in Figure 8.

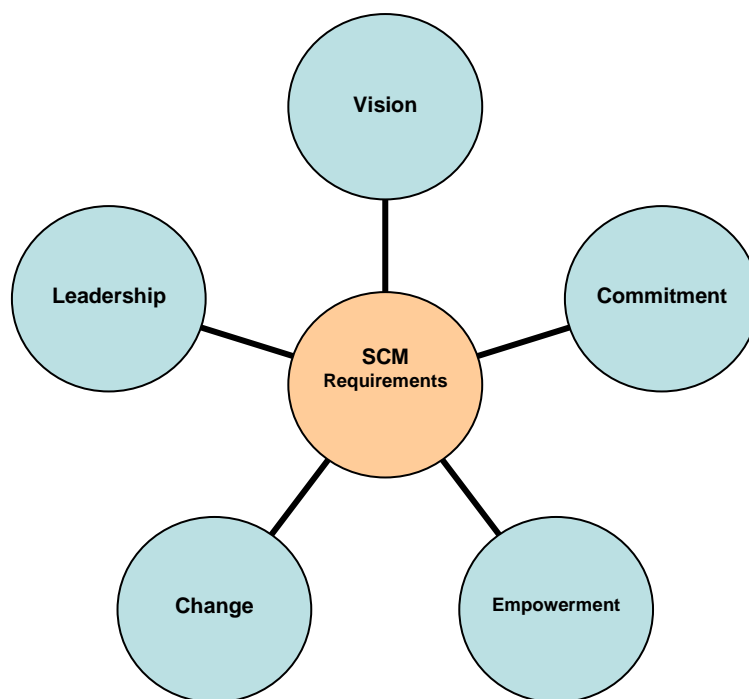
**Figure 8: SCM implementation process**



The requirements for the successful implementation of SCM, as summarised by Lambert (2001:123), and illustrated in Figure 9, include:-

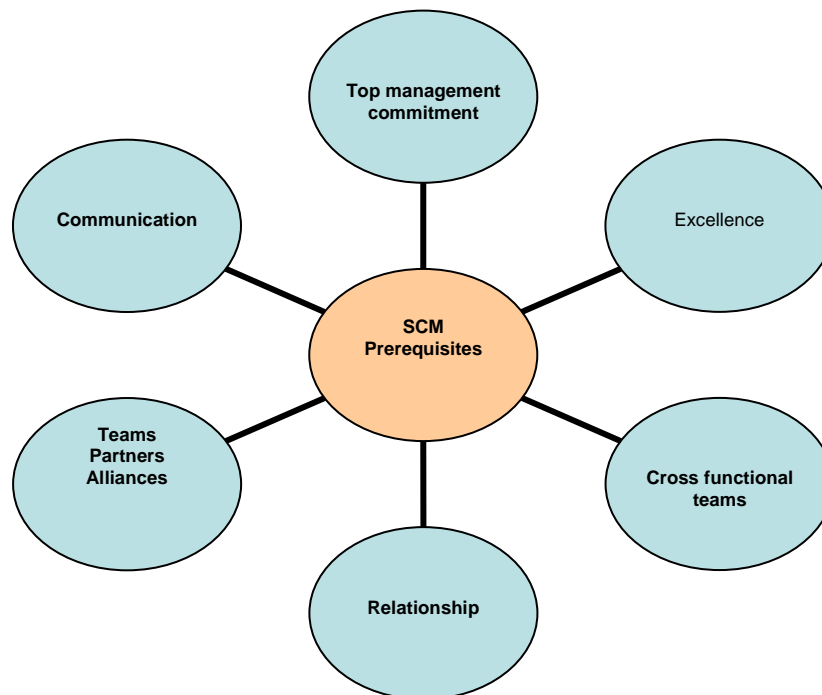
- Executive support, i.e. leadership and commitment to change.
- An understanding of the degree of change that is necessary.
- Agreement on the SCM vision as well as the key processes.
- The necessary commitment of resources and empowerment to achieve the stated goals.

**Figure 9: SCM requirements**



Six prerequisites for supply chain management, in addition and aligned to the abovementioned requirements, are suggested by Burt (2003:xxxii-xxxvix). These prerequisites, which require detailed plans to accomplish, are illustrated in Figure 10 and described below.

**Figure 10: SCM Prerequisites**



*Top management commitment and understanding:* SCM starts at the top as the bottom layers of the organisation will never force it.

*Quest for excellence:* The only organisations that will make the change to SCM are those that at all levels provide the desire and ability to embrace lifelong continuous improvement in quality, services, and personal effort.

*Cross functional teams:* Team formation, training, operation as well as rewards require enormous maturity, patience and interpersonal skills. Even though many teams have a number of great individual performers, many people simply cannot function on teams and that is why there are so few really great teams.

*Relationship instead of exchanges:* At the heart of any good relationship is open communication and trust, not necessarily a legal document. Partnerships thus require trust and long-term commitment.

*Special philosophy-reality of teams, partners, and alliances:* Few teams/partnerships and especially alliances, start based on complete harmony and trust. Teams need to

grow into relationships based on experience, revisions and constant practice. The top management of an organisation must provide constant support, guidance, and training to resolve the expected conflict. Impatience and the wrong kind of pressure have caused many a team/partnership to fail. Many organisations have formed teams, partnerships and alliances based on lip service with no real commitment evident on either side. Long-term relationships, partnerships and alliances can only be achieved by reducing the number of suppliers as the organisation does not need nor does it have the time and resources to manage a large number of relationships. This means that purchases must be consolidated, standardised, and simplified in order to increase the value or importance of the relationship.

*Efficient and effective communication:* Real-time electronic communication with shared information at all levels is an absolute must.

*Lambert (2001:116)* identifies nine management components for successful SCM as captured in Table 2, and illustrates in Table 3 how the management components can be divided into two groups, namely:

- *Physical and technical group* which includes most visible, tangible, measurable and easy to change components.
- *Managerial and behavioural* components which are less tangible and visible and often difficult to assess and alter. The managerial and behavioural components define the organisational behaviour and influence how the physical and technical management components can be implemented.

**Table 2: SCM management components**

<b>Management component</b>	<b>Elaboration</b>
<i>Planning and control</i>	Directions and joint planning.
<i>Work structure</i>	How tasks and activities are performed.
<i>Organisation structure</i>	Integration.
<i>Product flow facility structure</i>	The network structure in relation to sourcing, manufacturing and distribution.
<i>Information flow facility structure</i>	A key component referring to the kind of information frequency of updating information passed among the channel members.

<i>Management methods</i>	Corporate philosophy and management techniques such as level of management involvement and top-down and bottom-up organisational structures.
<i>Power and leadership structure</i>	Form.
Strong leadership	Commitment of members and participatory behaviour.
<i>Risk and reward structure</i>	Sharing.
<i>Culture and attitude</i>	Compatibility and how employees are valued and incorporated into the organisation.

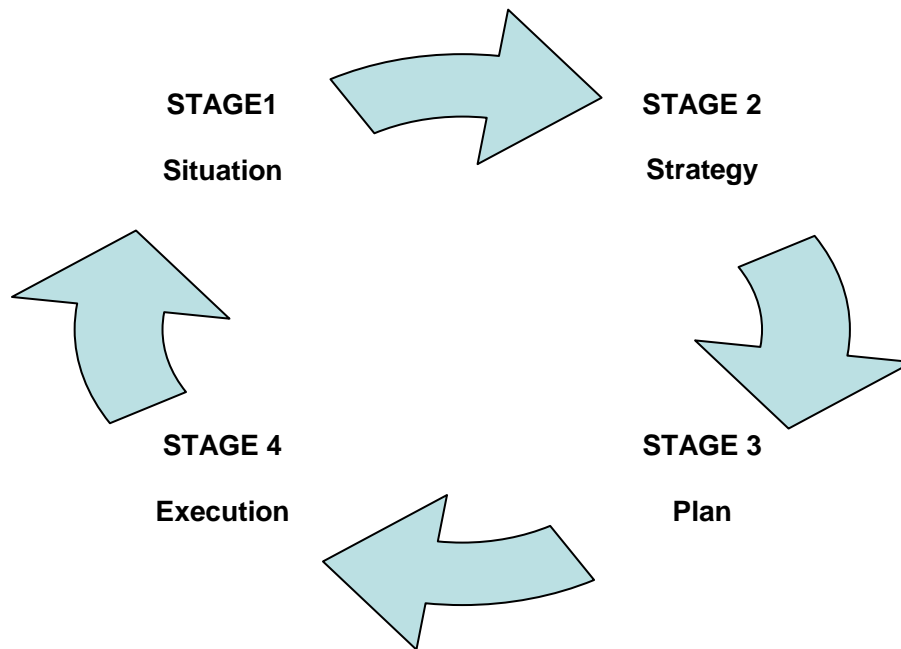
**Table 3: Division of SCM management components**

<b>Physical and technical</b>	<b>Managerial and behavioural</b>
Planning and control methods	Management methods
Work flow /activity structure	Power and leadership structure
Organisation structure	Risk and reward structure
Communication and information flow facility structure	Culture and attitude
Product flow facility structure	

According to Lambert (2001:120) a key element of streamlining supply chains involves *re-engineering* the institution's key processes to meet customer needs and that these changes must be supported at the top and driven through an overall management plan. Such an organisational plan includes issues such as the institution's mission statement, culture, strategies, practices, process, strategic partnerships, organisation structure, human resource capabilities, information systems.

Burt *et al.* (2003:xxxxix-xi) provides some guidance on how, from a management perspective, one starts to link the supply chain. As opposed to the traditional audit that merely verifies that policies and procedures were followed, the conventional planning process should be followed. This means that a detailed plan must be developed which would include four stages. These stages are illustrated in Figure 11.

**Figure 11: SCM planning process**



*Situation stage:* This stage focuses on fact finding to determine where the organisation is at a given time. Actual activities and results of all relevant role-players are documented. A good place to start would be an analysis of the contracting record of key suppliers and to work back from there. Account must also be taken that an organisation is spending significant amounts of money on critical suppliers, who, if there is failure or inefficiency could damage or even shutdown performance. The supply links and the cost to operate such links must be determined.

*Objective stage:* During this stage, also called the strategy stage, the vision, objectives and mission needs to be developed and agreed. This stage assumes that key managers understand the benefits of supply chain management and that the organisation has all the prerequisites. The organisation must determine where it wants to go or be, to be more efficient and effective and suggests a natural progression from where the organisation is. Benchmarking can be used to establish standards, but it must be verified that such benchmarks do not have resources unavailable to the organisation in question.



*Creative or new plan stage:* This stage translates the vision, objectives and mission into tactics and action steps/plan (how, when, who, where) to accomplish the strategic goals – the so-called “flight plan”. Note that the ‘why’ part is addressed in the situation and objective stages described above. As any organisation has some individuals/groups desperately trying to avoid change – usually protecting their own empires - hesitation of top management is deadly. The plan must be endorsed and communicated to all employees by issuing a clear policy statement. A series of announcements that blesses the plan must be made by the executive. Training is one of the most important activities prior to implementation as questions need answering, confidence requires building, skill must be prepared, e.g. staff members must learn how to be productive team members and negotiators.

*Execution stage:* This stage relates to the implementation act. In this stage progress with the mission is monitored. Revision and restart must be anticipated and contingency plans developed. Retraining is mandatory as practice is a form of continuous improvement.

From the aforementioned it is clear that organisations must be willing to go through a transition period of about 3 years. Experience dictates that an organisation wide task force, including consultants will be needed. An added team will be needed to prevent overburdening of staff and to extract from one process whilst changing to the other.

With regard to strategy, Robbins & Barnwell (2002:139) defines strategy as the determination of the basic long term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for the carrying out of these goals. Hugo *et al.* (2004:23) sites from Kaplan & Norton (2001:9-17) that successful strategy focussed firms and supply chains integrate the following principles into their management and organisational paradigms: Translate strategy into operational terms; align the organisation to the strategy; make strategy everyone’s everyday job; make strategy a continual process; and mobilise change through executive leadership.

Burt *et al.* (2003:18-21) are of the opinion that supply management’s knowledge of the organisations supply world may be a source of the vital input required during the strategic planning process of that organisation. Supply management has strategic

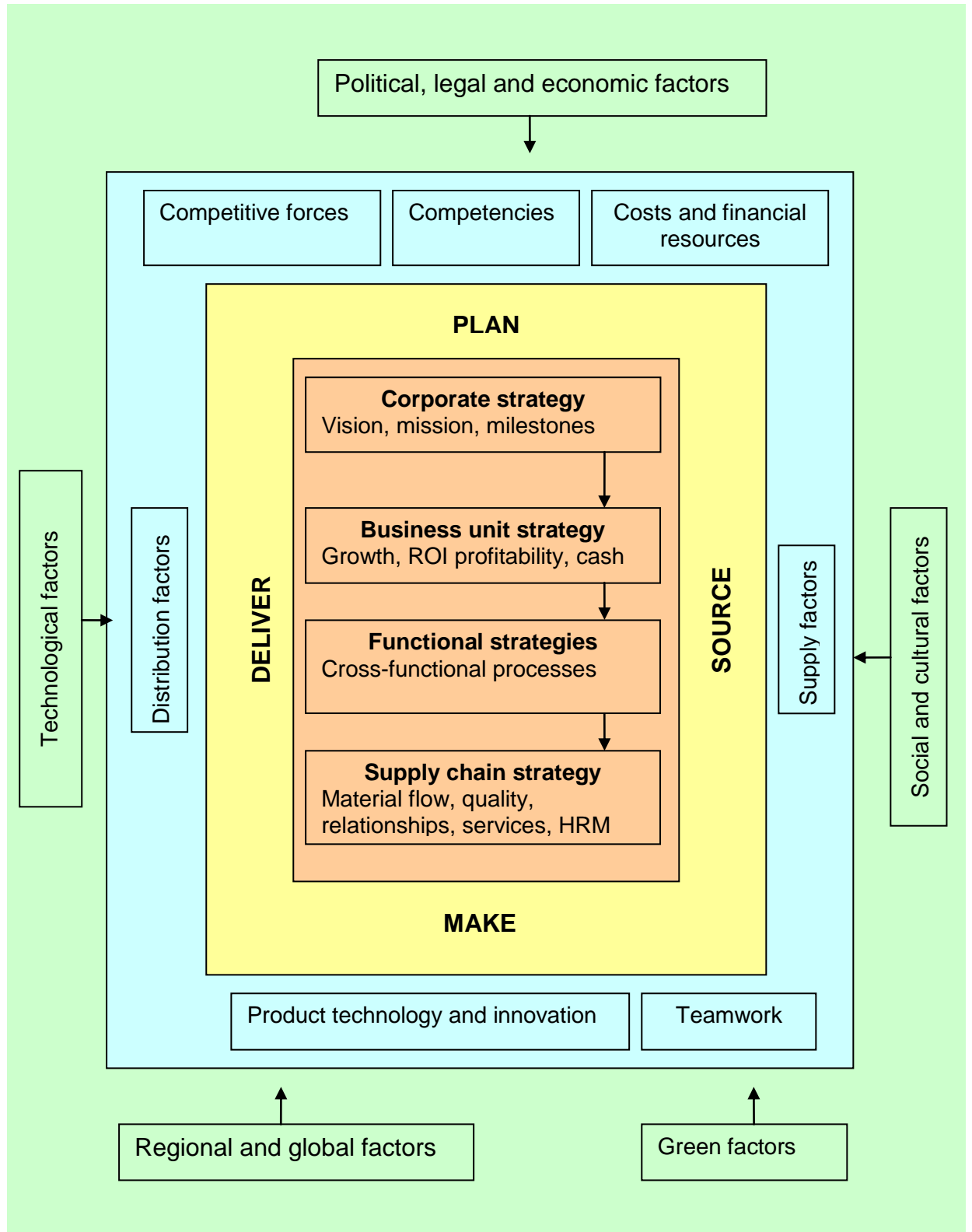
and tactical responsibilities and when both are executed efficiently and effectively it becomes key to an organisation's survival and success. Supply management must thus be part of the development of organisations' strategic plans. Reference is made to ten strategic activities as key focus areas for supply management. These activities are briefly discussed below.

- *Environmental monitoring:* Meaning to understand the supply markets and monitor the supply environment to identify threats and opportunities. These threats and opportunities may include material shortages that will affect price, availability and ultimately delivery. Changes in legislation can also affect price and availability.
- *Integrated supply strategy:* Meaning that the organisation's supply strategy must be managed as an integrated whole as opposed to a series of unrelated strategies. Notably the organisation's strategy is the key driver of the supply strategy.
- *Commodity strategies:* These must be developed and updated. To ensure effectiveness of these strategies, commodities, i.e. materials, items of equipment and service that are strategic must be identified and strategic plans developed for obtaining them. Furthermore, the internal supply organisation must be by design and not by default. SCM must enhance the effectiveness and efficiency of the system in meeting its primary objective, which is maximising the bottom line. Action must also be taken to minimise supply disruptions and price increases. Current and future technologies to be pursued need to be listed and protected.
- *Data management:* Strategic supply planning requires data that provide information for processes that span over functional areas and organisational boundaries. The responsibility for planning, collection, and compilation of supply data should be an inter-functional activity.
- *Strategic plans:* Supply management provides input into the organisation's strategic planning process on the threats and opportunities in the supply world. On the other hand, SCM must receive timely input on future needs that may drive changes in the organisation's supply base. Early warning on likely changes in the organisation's markets, services, and products and technological direction allow supply management adequate lead time to locate or develop the necessary suppliers.

- *Strategic sourcing*: The organisation must design its supply base in line with the organisation's strategic objectives. The active suppliers in the supply base must be periodically reviewed to ensure that it is adequate to meet present and future needs. The appropriate type of relationship needs to be identified, i.e. transactional, and collaborative or alliance for each commodity class and optimise the supply base.
- *Strategic alliances*: The development and management of supply alliances are two of the most crucial strategic activities undertaken by any organisation. Institutional trust is a key prerequisite to supply alliances.
- *Supply chain/supply networks*: The development and management of an organisation's supply chain /or supply network is equal to strategic alliances but a great deal more complex. Information technology and relationship skills are necessary prerequisites for staff assigned to this task.
- *Social responsibilities*: Supply management must develop and implement programs which protect the environment, which facilitate the inclusion of minority owned, woman owned, and small businesses in the economy, and which promote values in the workplace.
- *Understanding key supply industries*: The impact of supply management is directly promotional to its knowledge of the industries in which it purchases. Supply managers must understand the industries which provide key materials, equipment, and services, their cost structures, technologies, competitive nature and culture.

Figure 12, drawn from Hugo *et al.* (2004:30), provides a model for strategic SCM. The outer perimeter illustrates external environmental pressures impacting on the business and its strategic processes. The next level of pressure represents the internal and supply chain environments. Taking these pressures into account the business model needs to be designed around four strategic processes, i.e. plan, source make and deliver. The sequence of the strategic development process is shown in the centre square.

**Figure 12: Model for strategic SCM**



Both Chapter 1 of part B of the Public Service Regulations, 2001 and Chapter 5 of the Treasury Regulations, 2005 require an accounting officer of a government department to prepare strategic plans for that department and sets the elements of such strategic plans. In order to guide accounting officers of provincial departments in this regard the NT has developed a Framework and Templates for Provincial Departments for the Preparation of Strategic and Performance Plans. These guidelines address generic and sector specific formats. Given the rule-based approach towards strategic planning in government departments and the magnitude spend on goods and services in the public sector and the purchasing power it holds, it would be reasonable to expect that the regulatory framework would address strategic activities as it relates to supply management to some or other extent. Noticeably, the regulatory requirements and guidelines seem to be silent on the matter in an explicit way.

Integration frequency surfaces in discussions on SCM. According to Hugo *et al.* (2004:11), if integration is at the core of SCM, then the main issues that management should be addressing are the following:

- *Creating flexible organisations* - quick adaptation and efficiency.
- *Organisational relationships* - partnerships, information sharing, problem solving, trust, alliances and contractual arrangements.
- *Coordination in the supply chain* - demand, optimal resource information usage and smooth flows.
- *Improved communications* - information interchange and availability.
- *Outsourcing of non core competencies* - improvement of overall efficiency and integration.
- *Cost control* - transparency, trust, integration of financial recording systems.
- *Cycle time reduction* - performing essential activities and synchronisation between organisational functional areas.

These abovementioned issues all point at typical project management applications. Burke (2001:3) highlights the definition of project management by the body of knowledge as: “...*the application of knowledge, skill, tools and techniques to project activities in order to meet stakeholder’s needs and expectation from a project.*” and views that it is fundamental to, apart from the client, establish who the stakeholders are. Burke also sites Peter Morris’s description of project management as: “...*the*

*process of integrating everything that needs to be done as the project evolves through its lifecycle in order to meet the projects objectives.”* Although project management has been in existence since the 1950’s, Burt *et al.* (2003:201) are of the opinion that supply managers have not used project management techniques. Admittedly times have changed, and at present project management skills are needed for positions in supply management. Although the use of project management by supply managers is still in its infancy, project management education will continue to grow in order for organisations to reduce waste and gain competitive advantage.

## **2.5. SUMMARY**

SCM is a discipline practiced equal to, e.g. human resource management. Only recently it has been formally introduced to South African government departments through an evolving policy process. SCM is recognised as a management philosophy influencing organisational change: In a technical manner and with respect to behaviour. Proper execution of strategic responsibilities is crucial for its survival. A key requirement for SCM is top management commitment and support, whilst detailed planning and a proper understanding of that commitment would be a prerequisite. From a management perspective SCM requires a structural approach differentiating physical and technical issues on the one hand, and managerial and behavioural on the other. To achieve the objectives of SCM, i.e. creating most value for the end user, an integrated approach is required aimed at improving efficiency and effectiveness across the supply chain. In this sense SCM has a significant effect on the efficient and effective use of taxpayer’s money. A dependency seems to be developing between SCM and project management. SCM in the South African public sector context is an important tool or intervention towards achieving the shared and accelerated growth targets set by the South African government. Whilst the processes between private and public sector SCM seem to be different, the principles are claimed to be the same. Institutionalisation of SCM requires fundamental principles to be integrated in management and the organisations paradigm through an evolutionary process supported by detailed conventional planning methodologies. The fundamental principles listed in Table 4 have been extracted from the information above:

**Table 4: SCM institutionalisation principles**

<b>Principle</b>	<b>Explanation</b>
Customer orientated	Create value, not only for the organisation but for the end user.
Leadership	Mobilise change from the top.
Change	Evolutionary change and flexibility.
Excellence	Optimise performance through striving for continued improvement.
Management philosophy	Foster a philosophy of trust, harmony, sharing, relationships and joint planning.
Understanding	Understand the management philosophy.
Commitment	Management commitment to the management philosophy.
Strategy	Make strategy everyone's every day job, a continual process, and translate it into operational terms.
Communication	Information sharing at all levels and open communication.
Ethics	Combat fraud and corruption.
Teamwork	Team effort within and across organisational boundaries.
Networking	Ensure the focus remains on customer value creation.
Embrace development	Within and across organisational boundaries.
Culture and attitude	Value and incorporate employees, positive attitudes, rewarding, desire for learning, customer and quality orientated, fiscally disciplined, risk taker, negotiator and accountability.
Efficiency and effectiveness	Continuous search for increased efficiency and reduction of wastage, integrating initiatives and maximising the bottom line or optimising the value

	addition to each tax payer's rand.
Competitiveness	Promote competition through encouraging and creating opportunities, setting standards and providing consumer choice.

The following Chapter speaks to the legislative framework affecting SCM in government departments and endeavours to highlight the principles that relate to the institutionalisation of SCM. Chapter 4 entertains a discussion on key findings and makes recommendations on the improvement of the implementation of supply chain management.



## CHAPTER 3

### LEGISLATIVE FRAMEWORK

#### 3.1 INTRODUCTION

Legislators and regulators are key actors in the governance network that have the ability to use legislation to bring about change in society and to accomplish government's broader goals. The South African government's SCM processes, instituted through legislation and backed by its enormous purchasing power, are used as a tool to accomplish government's socioeconomic objectives and contribute to the provision of value added services to the public or rather customers of government. The purpose of Chapter 3 is to identify the legislative origins of SCM in the South African context, other legislation affecting the SCM system of government departments, the legislative framework and environment in which supply chain practitioners must operate and the legislative principles or values that need to be institutionalised. The connectivity between the different pieces of legislation will also be illustrated.

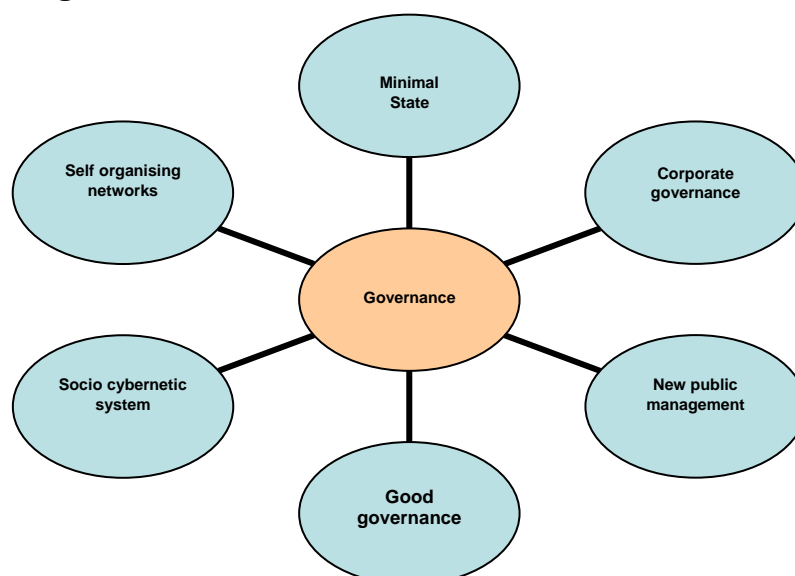
The information in this Chapter has been organised to, as a departure point, briefly provide an understanding of the uses of governance and the role of the bureaucracy in the government's SCM processes. Thereafter, a concise description of each piece of legislation identified will be provided to establish its relationship with SCM, linkages with the Constitution, 1996 and other pieces of legislation. The pieces of legislation identified will be organised to illustrate the linkage of each piece of legislation with the values or principles of the SCM system. Different policy departments that use the SCM system through compliance with legislative requirements to achieve the set goals of their particular area of responsibility will also be highlighted. The pieces of legislation identified will be linked to the components of SCM system in the public sector to identify the areas of impact or influence. In the summary it will be attempted to extract the fundamental principles from the legislative framework that need to be integrated into the management and organisational culture that will contribute to the institutionalisation of SCM in government departments.

### 3.2 GOVERNANCE

The reform objectives contained in the Green Paper on Sector Procurement Reform in South Africa was published in April 1997 aimed to transform the public procurement process so that it could be used as a tool in order to achieve government's socioeconomic objectives within the ambit of good governance. On the one hand good governance from a socioeconomic objective perspective included, *inter alia*: Seeking value for money; eliminating corruption; an accessible procurement process to all; creating an enabling environment for small medium and micro enterprises; encouraging competition; and creating opportunities for the broadest possible participation. On the other hand good governance included, *inter alia*: Promoting effective and efficient practices to timely deliver the quantity and quality services demanded by the constituency, improvement in value for money, enhancing competitiveness of suppliers, maintaining control and accountability, and achieving uniformity in the procurement system and compliance with the Constitution, 1996.

The concept of governance has different meanings or uses to different people. In this context Rhodes (2002:208-215 ) claims that governance is not treated as a synonym for government and argues that governance signifies a change in the meaning of government referring to new processes of governing; or a changed condition of ordered rule; or the new method by which society is governed. This view is evident in the Green Paper on Sector Procurement Reform in South Africa referred to earlier. Rhodes furthermore suggests at least six separate uses of governance illustrated in Figure 13 and briefly explained below.

**Figure 13: Uses of governance**



- *Minimal state* refers to the extent and form of public intervention and the use of markets and quasi-markets to deliver public services.
- *Corporate governance* refers to the system by which business corporations are directed and controlled and which contains three fundamental principles: Openness, integrity and accountability. In relation to SCM the structure, rights, rules, responsibilities and procedures of participants and beneficiaries within the SCM system are contained in the regulatory framework that is discussed in this Chapter.
- *New public management (NPM)* involves less government, but more governance. NPM on the one hand introduces private sector management methods to the public sector such as hands-on professional management, explicit standards, and measures of performance, managing by results and value for money and closeness to the customer. On the other hand, it introduces incentive structures into public service provision such as greater competition through contracting out, and consumer choice. The public sector SCM system in its design as contemplated in the Constitution, 1996 promotes cost effectiveness, value for money and competition.
- *Good governance* according to the World Bank cited by Rhodes (2002:212) involves: An efficient public service, an independent judicial system and legal system to enforce contracts, the accountable administration of public funds, an independent auditor, responsibility to a representative legislature, respect for the law and human rights at all levels of government, a pluristic institutional structure and a free press. As referred to earlier the procurement reform objectives contained in the Green Paper on Sector Procurement Reform in South Africa, 1997 was aimed to transform the public procurement process so that it could be used as a tool in order to, *inter alia*, achieve government's socioeconomic objectives within the ambit of good governance.
- *Socio cybernetic system* approach claims that the single sovereign authority is replaced by a multiplicity of actors specific to each policy area, interdependence between and among the socio-political-administrative actors, shared goals, blurred boundaries between public private and voluntary sectors and multiplying and new forms of action, intervention and control. Governance is the result of interactive social political forms of governing. Earlier it was mentioned that optimising or creating customer value is the nucleus and reason for the

existence of the supply chain. To ensure the focus remains on customer value creation, one of the key characteristics of SCM is the integration of multiple layers of organisations striving as a team to optimise the shared supply chain process. This includes team efforts across organisational boundaries, management levels, and internal functional boundaries.

- *Self-organising networks* involves several interdependent actors involved in delivering services. Networks are made up of organisations which need to exchange resources, achieve their objectives, maximise their influence over outcomes and avoid becoming dependent on other players in the game. Networks are an alternative to markets and hierarchies and they span the boundaries of public, private and public sectors. Self-organising means the network is autonomous and self governing. Integrated networks resist government steering, develop their own policies and mould their environments. A characteristic of SCM in this context is: The management of a network of organisations, information sharing through the whole chain; sharing risks, benefits and rewards; long term relationships and trust, and joint planning to ensure the focus remains on customer value creation.

### **3.3 BUREAUCRACY**

Burt *et al.* (2003:594) holds the view that:

- The concept of government as a sovereign power distinguishes governmental procurement from commercial contracting processes.
- While many complain that the public purchasing system is bureaucratic; policies, laws, regulations, and procedures, exist to separate the political process from the public purchasing process, thus avoiding the perception that politicians have influence over or what company is awarded business using public funds.
- As a sovereign power, government writes procurement rules through policies, statutes, executive orders, regulations, and procedures, and in theory acts in the best interest of all the people.
- Government can change the procurement rules to its advantage. Policies and procedures provide for equitable adjustment, but government reserves the right of contract change. Government can write and require contract clauses, sometimes extraneous to the overt objective of the contract.

- The size, purchasing power, and sovereignty of government give the skilled government acquisition or supply management official great power.

### **3.4 LEGISLATION**

It is common knowledge that in the Republic of South Africa, government action takes place within an environment of legislation and relevant government policy. Far-reaching reforms over the last few years attempted to rid government procurement processes of inefficiency and waste. After extensive research, government introduced the concept of supply chain management through prescribing a Framework for SCM through promulgated Treasury Regulations. This action signifies that legislation, apart from other key change drivers in the public sector such as the public, economics, reconstruction and development, globalisation, industry and technology, is the origin and key change driver towards moving away from a traditional rule-based concept of procurement to the modernised concept of SCM.

An examination of relevant legislation revealed that although the Treasury Regulations set the Framework for SCM, accounting officers and other public officials of government departments need to take account of a host of other related pieces of legislation that affect the supply chain processes. Pauw *et al.* (2002:134) is of the view that many managers are not keen to work directly from legislation as they do not want to be told what to do. Although the interpretation of legislation is a wide and complex field, public managers should be encouraged to take direction from the legislation and not allow custom and habit to dilute the objectives of legislation.

The following pieces of legislation referred to in Chapter 1 that affects the Framework for SCM, discussed in Chapter 2, are briefly discussed below.

#### **Constitution, 1996 of the Republic of South Africa (Constitution, 1996), 1996 (Act 108 of 1996)**

The Constitution, 1996 is the supreme law of the Republic of South Africa. Law or conduct inconsistent with it is invalid, and obligations imposed by it must be fulfilled.

Section 195 of the Constitution, 1996 requires that public administration must be governed by the democratic values and principles enshrined in the Constitution, 1996, including the principles set out below. These principles apply to administration in every sphere of government.

- A high standard of professional ethics must be promoted and maintained.
- Efficient, economic and effective use of resources must be promoted.
- Public administration must be development-orientated.
- Services must be provided impartially, fairly, equitably and without bias.
- People's needs must be responded to, and the public must be encouraged to participate in policy-making.
- Public administration must be accountable.
- Transparency must be fostered by providing the public with timely, accessible and accurate information.
- Good human-resource management and career-development practices, to maximise human potential, must be cultivated.
- Public administration must be broadly representative of the South African people, with employment and personnel management practices based on ability, objectivity, fairness, and the need to redress the imbalances of the past to achieve broad representation.

Section 217(1) of the Constitution, 1996 requires that when an organ of state in a sphere of government, such as a government department, contracts for goods and services, it must do so in accordance with a system which is fair, equitable, transparent, competitive and cost effective. It is noticeable that: One, through the use of the word “must”, it is clear that the legislator did not intend for the responsibility to meet those requirements to be optional or discretionary. Two, that the Constitution, 1996 refers to the procurement activity within the SCM system and not the broader concept of supply chain management.

### **Annual Appropriation Acts**

In relation to financial resources, section 213 and 226 of the Constitution, 1996 establishes national and provincial revenue funds into which all money received must be paid and from which money may be withdrawn only in terms of an appropriation by an appropriation Act. The annual Appropriation Act and

Adjustments Appropriation Act from a SCM perspective provides the financial resources for purchasing of goods and services as well as the operating expenses necessary for the delivery public goods and services.

### **Public Service Act, (PSA) 1994 (and regulations)**

The PSA, 1994 is derived from Section 195 of the Constitution, 1996. In relation to human resources, the PSA, 1994 regulates the organisation and administration of the public service, conditions of employment and discipline. Read with other pieces of legislation the activity of supply chain management is a function of the organisation of any organ of state and consequently forms an integral part of the administration of such an organ of state which requires adequate and suitable human resources and organisational design to deliver public services.

### **Public Finance Management Act (PFMA), 1999 (Act 1 of 1999 as amended by Act 29 of 1999)**

A further constitutional activity is that of treasury control. In terms of section 216(1) (c) of the Constitution, 1996, national legislation must prescribe measures to ensure both transparency and expenditure control in a provincial sphere of government by introducing uniform norms and standards. To give effect to this constitutional requirement and in pursuance of introducing uniform norms and standards, the PFMA, 1999, took effective 1 April 2000. Whilst the object of the PFMA, 1999 is described in Section 2 as to "...secure, accountability, and sound management of revenue, expenditure, assets and liabilities..." of government departments, the foreword of the PFMA, 1999, booklet reflects that the aim of the PFMA, 1999, in the words of the Minister of Finance at the time, is to "...modernise the system of financial management in the public sector..." and that such modernisation "...represents a fundamental break from the past regime of opaqueness, hierarchical systems of management, poor information flow and weak accountability...". The key objectives of the PFMA, 1999, are also summarised as to: "i) modernise the system of financial management; ii) enable public sector managers to manage, but at the same time be more accountable; iii) ensure timely provision of quality information; iv) eliminate waste and corruption in the use of public assets".

In the introduction part of the PFMA, 1999, booklet, it is stated that the PFMA, 1999 assumes a phased approach towards improving the quality of financial management in the public sector, in the first phase focussing on the basics of financial management, like the introduction of proper financial management systems, appropriation control and the accountability arrangements for the management of budgets. Subsequent phases are intended to focus on the efficiency and effectiveness of programmes and best practice financial management – systematically introduced after the basics of financial management is in place. Although the foreword or introduction contained in the PFMA, 1999 booklet is not legally enforceable, it reflects the spirit of the legislation, gives direction on the way forward and signals that the NT will probably use its powers to realise it.

Linked to the Constitution, 1996, Section 217, on the matter of contracting for goods and services, the PFMA, 1999 requires (in section 38(1)(a)(iii)) that an accounting officer of a government department must ensure that, that department has and maintains an appropriate procurement and provisioning systems which is fair, equitable, transparent, competitive and cost effective. This responsibility, through the use of the word “must”, is not intended to be optional or discretionary.

The PFMA, 1999, through the use of the word “may’ in section 217, gives the National Treasury the discretionary power to make regulations or issue instructions to provincial departments concerning the *determination* of a framework for an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective. Taking the narrow interpretation route, some interpreters may argue that the National Treasury only has the discretionary power to issue regulations and instructions regarding the *determination* of the framework and in fact does not have the power to prescribe the actual framework. Nevertheless, the National Treasury exercised its discretionary powers and regulated in Chapter 16A of the Treasury Regulations a Framework for SCM. The latter framework became effective in March 2005.

The Framework for SCM requires that an accounting officer of a government department must develop and implement an effective and efficient SCM system.



Again the use of the word “must” indicates that the responsibility to develop and implement such a system is not intended to be optional or discretionary and that compliance will be measured. The SCM system is required to include demand, acquisition, logistics, disposal, and risk management and regular assessment of supply chain performance. None of the mentioned components are defined in the in the Treasury Regulations.

At this point it would be appropriate to highlight that the Constitution, 1996 read with the PFMA, 1999 refer to contracting, procurement and provisioning activities whilst the Treasury Regulations refer to the SCM activity which encapsulates all the aforementioned components.

### **Preferential Procurement Policy Framework Act (PPPFA), 2000 (Act 5 of 2000)**

In terms of Section 217(2) of the Constitution, 1996 government departments are not prevented from implementing a procurement policy providing for categories of preference in the allocation of contracts and the protection or advancement of persons, disadvantaged by unfair discrimination. The policy, however, may only be implemented within a framework prescribed by national legislation as contemplated in section 217(3) of the Constitution. To give effect to the Constitution, 1996 the PPFA was promulgated. The PPPFA, 2000 took effect 3 February 2000. Subsequently, in 2001, Preferential Procurement Regulations were issued in terms of the aforementioned legislation. The main thrust of the PPPFA, 2000 is that a government department must determine its preferential procurement policy and must implement the set preferential procurement framework: The framework is illustrated in Table 5.

<b>Table 5: Preferential Procurement Framework</b>		
Points system	Value of contracts prescribed to differentiate	
	> R500 000	< R500 000
	Points: 90 = price 10 = specific goals	Points: 80 = price 20 = specific goals
Lowest price	90 or 80 points	
Higher price	Fewer points on pro rata basis	
Specific goals	Maximum 10 or 20 point	
Awarding of tender	Highest points scored	
Award to another bidder	Justified on additional objective criteria	

### **Promotion of Administrative Justice Act (PAJA), 2000 (Act 3 of 2000)**

PAJA, 2000 gives effect to section 33 of the Constitution, 1996 which stipulates that everyone has the right to administrative action that is lawful, reasonable, and procedurally fair. Furthermore, everyone whose rights have been adversely affected has the right to be given reasons. PAJA, 2000 deals with general administrative law and therefore binds the entire administration at all levels of government.

It is important to distinguish between general and particular administrative law. General administrative law governs the administrator's actions in general by stipulating general rules and principles that all administrators must follow, as well as remedies for individuals affected by administrative decisions, for example where administrative powers have not been properly used or where requirements of law have not been followed. By contrast particular administrative law comprises the legislation governing the legal rules, principles and policies that have been developed in specific areas of administration, e.g. law relating to procurement or supply chain management.

PAJA, 2000 further provides a set of general rules and principles for the proper performance of the administrative action in all areas and requires the giving of

reasons for administrative action in certain circumstances. In addition, it sets out the remedies that are available if these rules are not complied with. It also indicates how administrative powers allocated to administrators in terms of other statutes and the common law must be exercised in the light of the Constitution.

PAJA, 2000 provides a narrow definition to the concept of *administrative action*, as follows:

- A decision, or any failure to take a decision;
- of an administrative nature made in terms of an empowering provision;
- not excluded by PAJA, 2000;
- made by an organ of state;
- adversely affect rights; and
- has a direct external legal effect.

### **Promotion of Access to Information Act (PAIA), 2000 (Act 2 of 2000)**

PAIA, 2000 responds to section 32 of the Constitution, 1996. In terms of this provision everyone has the right of access to information held by the State. PAIA, 2000 fosters a culture of transparency and accountability in the public and private bodies by giving effect to the right of access to information and to actively promote a society in which people have effective access to information to enable them to more fully exercise and protect all their rights. PAIA, 2000 is of particular importance to the administrative decision-maker, as the latter may at any stage, either during the deliberative process or after the decision has been taken, be faced with the request for access to files and or records, e.g. those relating to contracts concluded through SCM processes. It then becomes all the more important to distinguish between information that may be given and information that must be refused. In terms of PAIA, 2000 there are certain categories of information that must be refused, and other categories which may be refused, hence the importance that both public service officials and administrative decision-makers be familiar with the grounds of exclusion.

Internal government discussions leading to decisions must be afforded the degree of protection if the frankness of that discussion is not to be inhibited by it being subject to excessive public scrutiny.

It is important that public sector officials, e.g. public sector SCM managers involved in decision-making processes must be able to express views and tender advice without being concerned that these views and advice will be subject to public debate and criticism. PAIA, 2000 does not authorise the withholding of all such information only the extent that disclosure might inhibit frankness. If there is no such risk, views or advice of public sector officials, consultants or advisory bodies or any other individual or group may be divulged.

Once a decision has been taken or policy formulated, the argument relating to premature disclosure of information and the consequent expected frustration of the decision or policy formulating process becomes invalid and access may also be granted to such records. Such records may then also serve as proof of the process followed by the administrator in taking the decision and to, *inter alia*, prove that the relevant administrator did in fact apply his or her mind.

Within SCM processes, PAIA, 2000 becomes extremely relevant, e.g. in a situation where a bidder loses a bid through a deliberative and decision-making process and the government department is challenged on that matter.

### **Protected Disclosures Act (PDA), 2000 (Act 26 of 2000)**

The PDA, 2000 originates from the Bill of Rights in the Constitution, 1996. The PDA, 2000 makes provision for procedures in terms of which employees in both the public and private sector who disclose information of unlawful or corrupt conduct by their employers or fellow employees are protected from occupational detriment. The transition to democratisation of the RSA has been characterised by high levels of crime including wide spread corruption. The PDA, 2000 encourages honest employees to raise concerns and report wrongdoing within the workplace without fear. The PDA, 2000 can be regarded as a crucial corporate governance tool to promote safe, accountable and responsive work environments. The PDA, 2000,

better known as the Whistle-blowing Act, with the PAIA, 2000, referred to above, are but some of the initiatives that have been undertaken to promote accountability and to fight corruption in the public sector. Whistle-blowing is a key tool for promoting individual responsibility and organisational accountability. In a positive sense, it is about raising concerns about malpractice in organisations. Being prepared to blow the whistle is directly related to a cultural resistance to transparency and accountability. A positive whistle blowing system is a critical element of any risk management system. The PDA, 2000 will help to deter and detect wrong doing in the workplace and will act as an early warning mechanism to prevent impropriety, and corruption within the public sector and in particular the SCM system applied in government departments.

### **Prevention and Combating of Corrupt Activities Act (PCCAA), 2004 (Act 12 of 2004)**

The Constitution, 1996 provides for high standards of ethics within the public sector. It enshrines the rights of people and affirms the democratic values of human dignity, equality and freedom and places a duty on the State to respect, protect, promote and fulfil all the rights as enshrined in the Bill of Rights. The PCCAA, 2004 aims to prevent and combat corrupt activities that, *inter alia*, undermine the said rights, democratic values, ethical values and rule of law. PAJA, 2000, PAIA, 2000, PPA, 1998 referred to elsewhere in this Chapter, as well as the PCCAA, 2004 and the Public Protector Act, 1994 (Act 23 of 1994), the latter which is not discussed in this thesis, were passed to enhance the ability to combat corruption and addresses anti-corruption measures and practices.

### **Employment Equity Act (EEA), 1998 (Act 55 of 1998)**

This piece of legislation gives effect to the Bill of Rights, Section 9, of the Constitution. Since 1994, the public service has embarked on a route of fundamental transformation. Certain legislation like the EEA, 1998 was promulgated to ensure that principles in practice reflect the policies of the government of the day. The EEA, 1998 was founded in the necessity to address the imbalances of the past and to introduce equality in the workforce, by providing for the implementation of

positive discrimination, through the legislation in favour of designated groups. Employment and human resource practices in the achievement of this goal are based on ability, objectivity and fairness. The purpose of the EEA, 1998 is to achieve equity in the workplace by promoting equal opportunity, fair treatment in employment elimination of unfair discrimination and implementing affirmative action measures to redress the disadvantages in employment in all occupational categories and levels in the work force.

In relation to SCM, section 53 of the EEA, 1998 specifically requires every employer, that makes an offer to conclude an agreement with any organ of state for the furnishing of supplies, or services to that organ of state for the hiring or letting of anything, to comply with the provisions in connection with the prohibition of unfair discrimination and affirmative action. Furthermore, it requires a certificate and a declaration to be attached to the offer as conclusive evidence that the employer complies with the relevant provisions of EEA, 1998. Clearly the SCM systems of government departments are employed to lever or enforce compliance with the EEA, 1998.

### **State Information Technology Agency Act (SITAA), 1998 (Act 88 of 1998)**

In terms of section 238 of the Constitution, 1996 an organ of state in any sphere of government may perform any function for any other executive organ of state on an agency basis. SITAA establishes the State Information Technology Agency (hereafter the Agency). This Agency provides various information technology services. In relation to SCM, every government department must, in terms section 7(3) of the SITAA, 1998, procure all information technology goods and services through the Agency.

### **Construction Industry Development Board Act (CIDBA), 2000 (Act 38 of 2000)**

According to section 22 of the Bill of Rights in the Constitution, 1996, every citizen has the right to choose their trade, occupation or profession freely. Certain government departments, for example the provincial Department of Transport and Public Works, are mandated to deliver economic and social infrastructure, such as roads, school buildings, hospital buildings and general office buildings and to

maintain these immovable assets. In the execution of its mandate such a government department contracts with services providers from the construction industry.

Although access to contract opportunities has been widely promoted by government, the sustainability of small contractors is perceived to be jeopardised by, *inter alia*: some public sector employees that are not committed to procurement reform; complicated tender documentation; lack of standardisation within the public sector and the awarding of contracts to the lowest bidder that affects the sustainability of real contractors.

The Construction Industry Development Board (CIDB), a national body established by the CIDBA, 2000 is, *inter alia*, responsible for developing the industry for the improved delivery of infrastructure to the South African public; working with all stakeholders for the sustainable growth of construction enterprises and the best practice of employers, contractors and the professions; identifying best practice and setting national standards; and promoting common and ethical standards for construction delivery and contracts.

Taking a closer view at the powers, functions and duties of the CIDB in relation to SCM matters, one comes to the realisation that this body affects the procurement processes of applicable government departments significantly. The powers, functions and duties include, *inter alia*, the following:

- To provide strategic leadership, the CIDB must promote and implement policies, programmes and projects aimed at, amongst others, procurement reform, standardisation and uniformity in procurement documentation, practices and procedures.
- To advance the uniform application of policy with regard to the construction industry, the CIDB must within the framework of the procurement policy of government promote the standardisation of the procurement process with regard to the construction industry.
- To promote uniform and ethical standards within the construction industry, the CIDB must publish a code of conduct for all construction related procurement

and all participants involved in the procurement process. Furthermore, the CIDB may in this context initiate, promote and implement national programmes and projects aimed at the standardisation of procurement documentation, practices and procedures.

- To promote sustainable growth of the construction industry and the participation of the emerging sector therein, the CIDB may monitor national programmes aimed at amongst other procurement reform and standardisation and uniformity in procurement documentation, practices and procedures.

Further more, the CIDBA, 2000 requires that the national Minister responsible for Public Works must prescribe the manner in which public sector construction contracts may be invited, awarded and managed within the framework of the Register of Contractors and within the framework of the policy on procurement. It also requires that every government department, must, subject to the policy on procurement, apply the Register of Contractors to its procurement process.

### **Broad-Based Black Economic Empowerment Act (BBEETA), 2003 (Act 53 of 2003)**

This piece of legislation is linked to the Bill of Rights, Section 9 of the Constitution, 1996. The preamble of the BBEETA, 2003 reflects that: "... under apartheid race was used to control access to South Africa's productive resources and access to skills; ...the South African economy still excludes the vast majority of its people from ownership of productive assets and the possession of advanced skills; ...South Africa's economy performs below its potential because of the low level of income earned and generated by the majority of its people; and ...unless further steps are taken to increase the effective participation of the majority of the South Africans in the economy, the stability and prosperity of the economy in the future may be undermined to the detriment of all South Africans".

In relation to SCM, broad-based black economic empowerment means the empowerment of all black people including women, workers, youth, people with disabilities and people living in the rural areas through diverse but integrated socio-economic strategies that include but are not limited to, *inter alia*, preferential



procurement. According to the BBBEEA, 2003 codes of good practice will be issued on qualification criteria for preferential purposes for procurement and other economic activity. It is of interest to note that the National Treasury in its Budget Review 2004 (2004:71) indicated that: *“The Broad Based Black Economic Empowerment Act and its accompanying Strategy Document have highlighted several deficiencies in the Preferential Procurement Policy Framework Act in relation to Government’s empowerment objectives. The National Treasury, in consultation with the Department of Trade and Industry, is in the process of reviewing the regulations, with a view to introducing changes to the system that should become effective during the first quarter of the new financial year and will assist towards achieving and monitoring progress in black empowerment.”*

### **Competition Act (CA), 1998 (Act 89 of 1998)**

As indicated earlier and as contemplated in section 22 of the Bill of Rights in the Constitution, 1996, every citizen has the right to choose their trade, occupation or profession freely. The practice of a trade, occupation or profession may be regulated by law. The purpose of the CA,1998 is to promote and maintain competition in the Republic of South Africa in order to: Promote the efficiency, adaptability and development of the economy; provide customers with competitive prices and product choices; promote employment and advance the social and economic welfare of South Africa; expand opportunities for South African participation in world markets and recognise the role of foreign competition in the Republic; ensure that small and medium-sized enterprises have an equitable opportunity to participate in the economy and to promote a greater spread of ownership, in particular to increase the ownership stakes of historically disadvantaged persons. Given the aforementioned goals and in relation to SCM, government departments in their role as customers in the market are dependent on the enforcement of the provisions of this Act, for example to prevent restrictive practices such as collusive tendering.

### **National Small Business Act (NSBA), 1996 (Act 102 of 1996)**

This act aims to promote small business in the Republic of South Africa and defines “small business” in terms of sector, size, full-time equivalent of paid employees, total annual turnover and total gross asset value.

### **National Environmental Management Act (NEMA), 1998 (Act 107 of 1998)**

According to Section 9 of the Bill of Rights in the Constitution, 1996 everyone has the right to have the environment protected for the benefit of present and future generations through reasonable legislative measures that prevent pollution and ecological degradation; promote conservation; and secure ecologically sustainable development and use of natural resources while promoting justifiable economic and social development.

NEMA, 1998 provides for: Co-operative environmental governance by establishing principles for decision-making on matters affecting the environment, institutions that will promote cooperative governance; as well as for procedures for coordinating environmental functions. But how does this piece of legislation affect SCM? This can best be explained with a simplistic example: Before a roads construction contract for the constructing of a stretch of new road can be awarded an environmental impact assessment (EIA) must have been performed and a record of decision issued by the appropriate authority in terms of NEMA, 1998. This EIA process affects the lead time and cost in the supply chain to ultimately make the constructed road available for use by legitimate road users.

### **Public Audit Act (PAA), 2004 (Act 25 Of 2004)**

The Auditor-General is an independent and impartial body created by the Constitution, 1996 to provide independent and quality audits and related value adding services in the management of resources, thereby enhancing good governance in the public sector. The PAA, 2004 gives effect to section 188 of the Constitution. In terms of this section, the Auditor-General must audit and report on the accounts, financial statements and financial management of state departments. The intention of the audit in essence is to obtain reasonable assurance that in all material aspects, fair representation is achieved in the annual financial statements of departments; Section 20(2) of the PAA requires that an audit report must reflect such opinions and statements as may be required by any legislation applicable to the auditee which is the subject of the audit, but must at least reflect an opinion or conclusion on: -

- Whether the financial statements fairly present the financial position of the department.
- Compliance with any applicable legislation relating to financial matter, financial management and other related matters.
- Performance against predetermined objectives.
- Whether resources were procured economically and utilised efficiently and effectively.

### **Other legislation**

The pieces of legislation addressed above are not an exhaustive list of legislation. There are others policy departments and legislation to which SCM has direct or indirect linkages and that influence the economy as well as the behaviour of people. The National Treasury's Supply Chain Management Guide for Accounting Officers/Authorities, (February 2004:36-43) refers to labour, safety and health legislation. In relation to labour legislation the South African government subscribes to international best practice principles of equity and fair labour practice. Consequently, when government departments contract for goods and services they ensure that suppliers comply with the relevant provisions of the labour legislation. Similarly from a health and safety perspective, the South African government is committed to the highest standards of safety and health. It promotes occupational health and safety for its employees and that of service providers such as contractor's employees performing work on site at any government department. The Occupational Health and Safety Act, 1993 (Act 85 of 1993) is an example of applicable legislation.

### **3.5 ORGANISING LEGISLATION**

From the legislative environment discussed above, it can be deduced that the different pieces of legislation are linked to the Constitution, 1996 and gives effect to it. Furthermore, certain parts of the pieces of legislation affect the supply chain management activity of government departments to a more or lesser extent. Exploring this avenue further brings one to the realisation that the different pieces of legislation can be organised in areas of value and responsibility.

Table 6 illustrates the connectivity between the pieces of legislation and the value factors in supply chain management such as: equity, transparency, cost effectiveness, fairness, competitiveness and environmental sustainability. Note that the Constitution, 1996 crosscuts all the areas of value.

**Table 6: Legislation organised in area of value**

Area of value	Legislation
Equity	Constitution, 1996 PPPFA, 2000 EEA, 1998 CIDBA, 2000 BBBEEA, 2003 NSBA, 1996
Transparency	Constitution, 1996 PAIA, 2000 PDA, 2000 PAA, 2004 PCCAA, 2003
Cost effectiveness	Constitution, 1996 Annual Appropriation Acts PSA, 1994 PFMA, 1999 CIDBA, 2000 PAA, 2004 SITAA, 1998
Fairness	Constitution, 1996 CIDBA, 2000 PAJA, 2000 PDA, 2000
Competitiveness	Constitution, 1996 CIDBA, 2000 CA, 1998
Environmental sustainability	Constitution, 1996 NEMA, 1998

As illustrated in Table 7 different government departments or policy departments are using legislation to achieve the goals in their area of responsibility through the SCM system.

**Table 7: Legislation organised in the area of responsibility**

<b>Area of responsibility</b>	<b>Legislation</b>
Presidency	Constitution, 1996
Public Service and Administration	PSA, 1994 SITAA, 1998
Justice	PAJA, 2000 PAIA, 2000 PDA, 2000 PCCAA, 2003
Treasury	PFMA, 1999 PAA, 2004 Division of Revenue Act (Annual) Appropriation Acts (Annual) PPPFA, 2000
Labour	EEA, 1998
Trade and Industry	BBBEE, 2003 CA, 1998 NSBA, 1996
Public Works	CCIDBA, 2000
Environment Affairs	NEMA, 1998
Auditor-General	PAA, 2004

The linkages that the pieces of legislation have with the components of the SCM are illustrated in Table 8. It is noticeable that the pieces of legislation that promote empowerment are linked to the acquisition management component and that there is a variety of such legislation, whilst the legislation that focuses on governance crosscuts all the components in the supply chain.

**Table 8: Legislation linked to components of the supply chain**

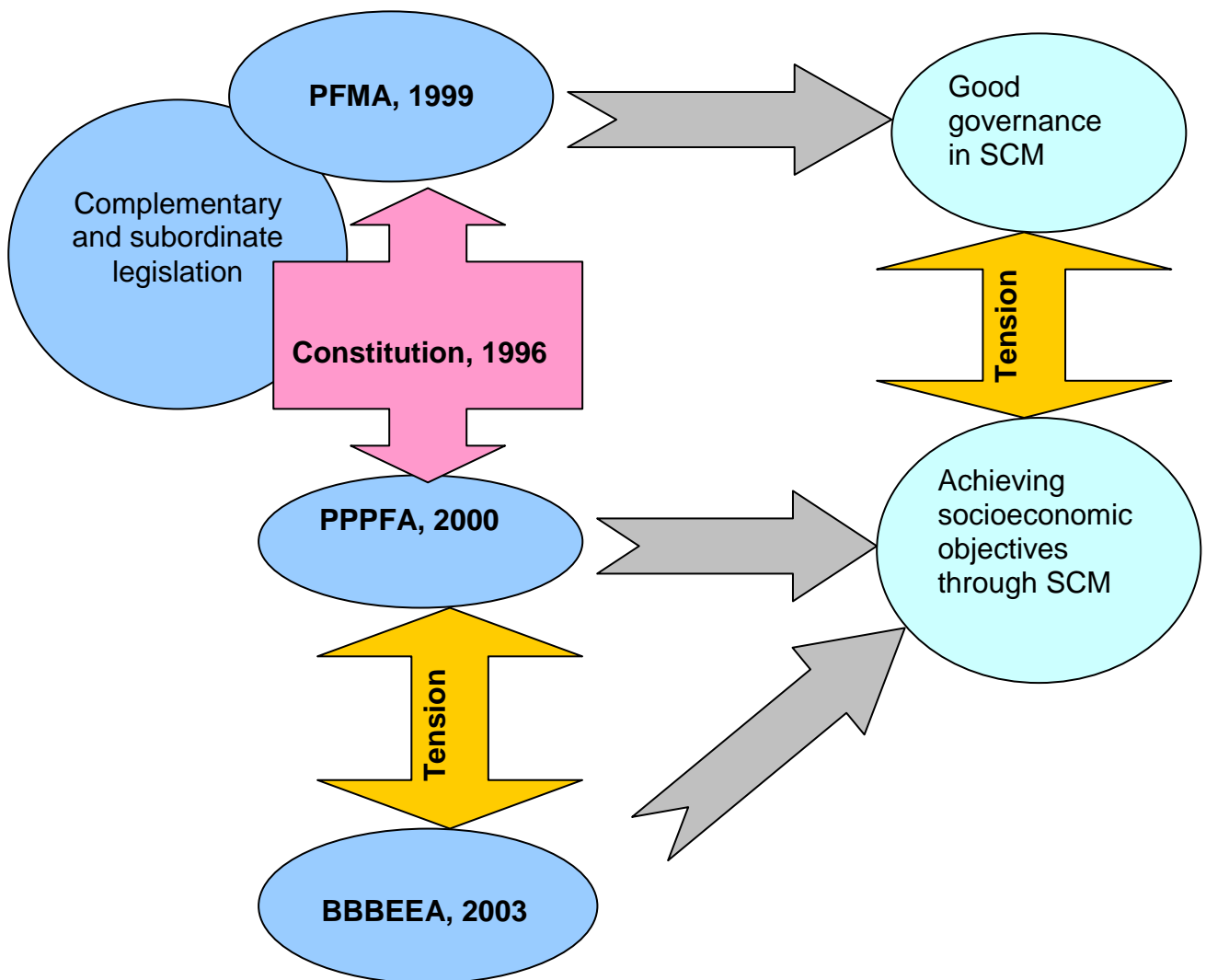
Appropriation Acts NEMA, 1998	Constitution, 1996 PPPFA, 2000 EAA, 1998 BBBEEA, 2003 NSBA, 1996 CA, 1998 CIDBA, 2000 SITAA, 1998	PFMA, 1999	Constitution, 1996 PFMA, 1999
<b>SUPPLY CHAIN MANAGEMENT</b>			
<b>Demand Management</b>	<b>Acquisition Management</b>	<b>Logistics Management</b>	<b>Disposal Management</b>
<b>Supply Chain Performance</b>			
<b>Risk Management</b>			
<b>Databases</b>			
PAA, 2004			
PDA, 2000			
PCCAA, 2003			
PAJA, 2000			
PAIA, 2000			
PSA, 1994			
PFMA, 1999			
Constitution, 1996			

In addition to the legislation, there is a host of policies, subordinate legislation, frameworks, rules, and practices affecting supply chain management practitioners in performing their tasks, which needs to be taken into account when they go about their business and against which they will be held accountable for compliance through the audit processes. The list below gives an idea of the magnitude of such governance instruments.

- Treasury Regulations.
- National Treasury Instructions.
- National Treasury Practice Notes.
- National Treasury Code of conduct for SCM practitioners.
- National Treasury Framework for the minimum training and development.
- Provincial Treasury Instructions.
- Provincial Treasury Circulars.
- CIDBA, 2000 Regulations.
- Construction Industry Development Board Guide to best practice.
- Construction Industry Development Board Code of Conduct for all parties engaged in construction procurement.
- Preferential procurement regulations.
- Accounting officer's SCM system.
- Accounting officer's preferential procurement implementation plan/policy.
- Accounting officer's SCM instructions.
- National Conventional Arms Control Committee Instructions.
- Department of Trade and Industry clearance in respect of contracts subject to the National Industrial Participation Program of that department.
- Preferential procurement policies for spheres of government.
- National policy strategy to guide uniformity in procurement reform processes in government.

Drawing from the content of this Chapter, Figure 14 attempts to within the context of this thesis illustrate good governance in the South African government's SCM system by indicating the areas of tension between governance and achieving the socioeconomic objectives and PPPFA, 2000 and the BBBEE, 2003. Note that the latter is subsequent legislation.

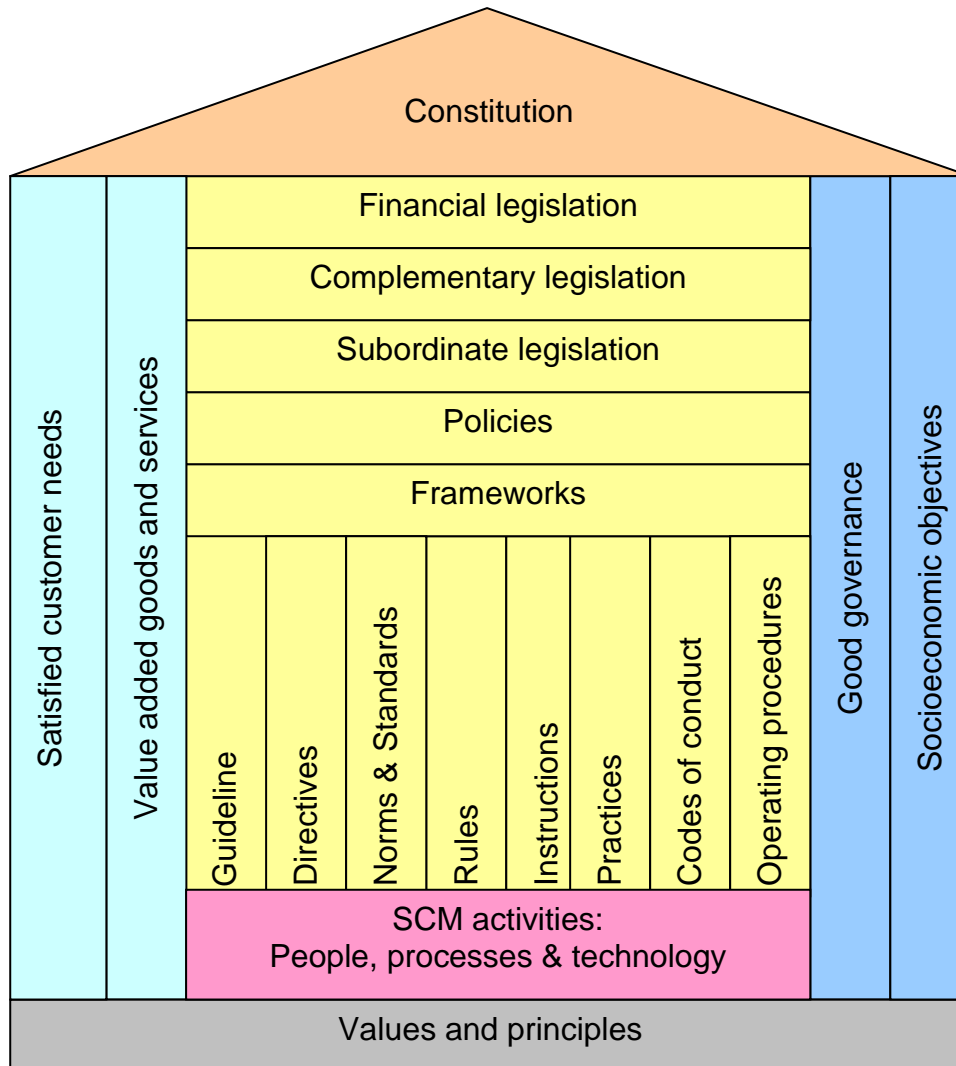
**Figure 14: SCM good governance**





Taking all the above into account, the legislative framework can be illustrated at a high level as per Figure 15.

**Figure 15: SCM legislative framework**



### 3.6 SUMMARY

The so-called “bottom line” or profit is the private sector’s driving force behind practicing effective SCM. Unlike the private sector, legislation is the origin of government’s SCM system and the primary driver or tool to ensure efficient, effective and value added delivery of goods and services to the public as government’s customers, to meet their needs and to achieve government’s socioeconomic reforms. Legislation affecting the SCM activity has a sound legal standing as all are directly or indirectly linked to the Constitution, 1996 as the supreme law. In addition, the

linkages between the different pieces of legislation create a network of legislation originating from different policy departments in government. These policy departments use the SCM activity or function in the public sector through legislative compliance as a tool to accomplish their own particular goals. The legislative requirements have a direct effect on SCM as a management philosophy. Embedded in the pieces of legislation are fundamental principles that need to be integrated into management and institutionalised in government departments to establish an effective SCM system. Fundamental principals embedded in the legislation and addressed in this chapter and relate to the institutionalisation of SCM have been extracted and summarised in Table 9.

**Table 9: SCM legislative principles**

Democracy	Foster a philosophy of public administration that embraces and value democracy.
Just administration	Ensure lawful, reasonable and procedurally fair administrative performance.
Accountability	Management should be enabled to manage but be more accountable.
Transparency	Promote a society where people have effective access to information and to enable them to protect all their rights - there should be no concern that views expressed and advice given will be subject to public debate and criticism.
People orientated	Be responsive to people's needs and act in the best interest of people.
Service orientated	Act impartially, fairly, equitable, and without bias. Control and quality.
Development orientated	Empowerment and development, in a sustainable manner, people in and outside government, industries, economies, sectors and persons previously disadvantaged.
Ethics	Promote a high standard of ethics through encouraging honesty and combating fraud and

	corruption.
Efficiency, effectiveness & economy	Eliminating waste.
Environmental consciousness	Protect the environment for the benefit of present and future generations.
Health and safety	Promotes occupational health and safety for government employees and that of goods and service providers.

Chapter 4, the last chapter, entertains a discussion on key findings and makes recommendations on the improvement of the implementation of supply chain management.

## CHAPTER 4

### DISCUSSION, RECOMMENDATIONS AND CONCLUSION

#### 4.1 INTRODUCTION

Chapter 4 draws on the information presented in Chapters 1 to 3. It highlights key findings and discusses SCM matters in relation to the NPM philosophy, reforms, politics vs bureaucracy, values, fragmentation of legislation, positive approach to legislation, evolutionary approach, change management interventions, relationships, organisational development, documenting public sector SCM, strategy, attraction of skill, fusion with project management and institutionalisation principles. Some recommendations are provided on SCM improvement in the public sector and lastly conclusion is drawn on the institutionalisation of SCM in the public sector.

#### 4.2 DEDUCTIONS

SCM can be concisely described as a management philosophy aimed at the integration of internal and external processes and activities that will ultimately create value for the customer in satisfying their demands or needs. Institutionalisation of SCM involves the establishment of its principles or values as an integral and sustainable part of the organisation's activities, structures and values. Taking account of the aforementioned descriptions and drawn from Chapters 2 and 3 of this thesis, the institutionalisation of SCM in an organisation: - ,

- Calls for change in that organisation and willingness to try something new.
- Recognises that integration is at the core of SCM.
- Is an integral part of the implementation process with particular requirements and prerequisites, such as commitment, excellence, communication, teamwork and relationships building.
- As an integral part of the SCM implementing process, is an evolutionary process.
- Recognises that the business philosophy includes, but is not limited to: Sharing risks, benefits and rewards; long term relationships; joint planning; exchanging information; and trust.
- Is dependent on managerial behaviour which includes, but is not limited to leadership, commitment, positive attitude, participation and culture.

- Is a relatively new phenomenon in the South African public sector organisations.
- In particular public sector organisations in the South African context and taking account the vision of financial management reforms, is here to stay and will deepen and evolve over time.
- Highlights the realisation that service delivery standards cannot be raised overnight.
- Confirms that the collection and analysis of information is required in order to appropriately manifest it in the organisational culture.
- Has been manifested in South African statutes.
- Is implemented in the public sector through the forces of statute on a compliance basis, whether it is nominal or substantive, and not necessarily through bottom-line market forces (profit).
- In relation to active application or practicing, it is in different stages and levels of implementation and further developments are dependent on public sector officials and the executive (government).
- Is driven by the National Treasury acting as a change agent through its financial management improvement programme.
- Is also enforced through the annual budget being used as leverage or change mechanism or instrument.
- Is applied through government's endeavour to strike a balance between a growing budget (tax burden), social needs (effective service delivery), efficiency gains (savings), and people satisfaction (quality).
- Is central to government using the SCM system as leverage to achieve its socio-economic goals.
- Is an ongoing process of learning and application that needs to filter through to the lowest level in the public service through dedicated training and human resource development (change in mindset).
- Demands a support team of professional consultants and proper units of measure.

Failure to institutionalise SCM does not only affect the organisation, it also affects the customer, government spending, public sector financial transformation, governance frameworks, value systems, achieving government's goals, the legislative framework, capacity of employees, culture, change management

interventions, internal and external relationships, knowledge management, planning, strategy, skills attraction and retention and project management. These issues are discussed in more detail below.

The main objective of SCM is to create value, more so for the end customer than for the organisation. Value addition or creation is reflected in the characteristics of SCM through the philosophy of conducting business, optimising performance, integration, networks, information sharing, shared vision of customer value and complex management tasks. From a public management perspective, the New Public Management (NPM) model or philosophy development recognises value creation, as one of its key principles. These principles can be categorised as being customer orientated, competitive, performance driven, committed to quality improvement, lean structured, and fiscally disciplined. The birth of NPM was regarded part of the solution or response to taxpayers questioning the growth in government expenditure, improved efficiency, effectiveness and affordability. In the South African context, the NPA philosophy was also encapsulated in government's policy framework and implementation strategy on public service delivery and transformation, the guiding principle of which is service to the people.

Invariably SCM has a major impact on taxpayer's money to deliver services aimed at satisfying customer demands. The introduction of integrated SCM into the South African public sector is regarded as one of the most important reforms to improving service delivery in terms of the National Treasury's strategy of transforming public sector financial management to ensure efficient and effective use of scarce resources and to achieve social transformation. SCM was introduced through a process of policy reformation that aimed to transform the traditional public sector procurement process from a rule-based concept to a modernised concept of SCM. Through mechanisms such as policy, statutes, regulations, executive directives, regulations and procedures the South African government aims to accelerate the achievement of its socioeconomic objectives within the ambit of good governance and creating customer value. By so doing the government of the day fulfils its intention to act in the best interest of citizens.

The public sector SCM system through the application of policies, laws and regulations distinguishes itself from private sector commercial contracting

processes. However, it is also recognised that the bureaucratic SCM system underpinned by these policies, laws, regulations and the like, exist, *inter alia*, to separate political processes from the public SCM processes.

In the public sector, the Constitution, 1996, the supreme law, sets the core values for public sector procurement or acquisition within the regulated supply chain management framework, namely fairness, equity, transparency, competitiveness and broad representation. Public financial management legislation, derived from the Constitution, 1996, sets the institutional, functional and operational framework for SCM in the public sector. In addition to the financial management legislation, in a fragmented way, other pieces of legislation and subordinate legislation directly or indirectly derived from the Constitution, 1996, strengthen and expand the core values of public sector procurement and the SCM system. These values relate to the promotion of just administration and information sharing/transparency, public accountability, equity, broadening of participation, competitiveness, combating fraud and corruption, sector development and environmental protection. Different public sector organisations are the owners or responsible for legislation affecting public sector SCM, each attempting to achieve their own goals (value addition) through the SCM system. The sovereignty of government and the mere size of its purchasing power give skilled SCM officials great power. SCM managers and officials should take direction from legislation and not allow a situation where custom or habit dilutes the objectives of legislation.

As alluded to earlier, different public sector organisations are the owners or responsible for legislation affecting public sector SCM, each attempting to achieve their own goals (value addition) through the SCM system. This situation causes the legislation affecting public sector SCM to be fragmented. Consequently a burden is placed on the SCM official to keep track with legislation affecting public sector SCM activities and processes, and to interpret it for compliance, implementation and institutionalisation purposes. Failure to appropriately address these issues may render the accounting officer of the government department to be non-compliant and may result in qualified auditor reports depending on the materiality of such non-compliance. Adding the list of subordinate legislation, policies, rules and practices, most experienced SCM officials in the public sector would probably find it extremely difficult to keep up with the technical knowledge

requirements of SCM and at the same time meet the legislative requirements and appropriately integrate these.

However difficult it may be for public sector SCM officials, it is imperative that they should have a clear understanding of the legislative environment in which they perform and the impact thereof on the organisation's business and strategic processes, and internal and supply chain environments. SCM officials having positive attitudes will make legislation work for them. Such officials will: Establish why the legislation is aimed at maximising rather than limiting the organisation's business/performance/delivery potential; seek to understand legislation and regulatory trends; through effort engage the crucial facets of the legislation and fully comprehend the relevant requirements; determine why the legislation is addressing the issues through determining the purpose of the pieces of legislation and what it aims to achieve; and examine the critical elements affecting the organisation as well as the business advantages the legislation affords the organisation.

In this thesis it has been established that public sector supply chain officials and managers, unlike their private sector counterparts, operate in a legislative/mandatory environment. This requires the search to be deepened for the principles that are entrenched in the legislative framework that requires to be institutionalised in public sector organisations to support the evolutionary implementation process of SCM, improve the quality of financial management in the public sector and ultimately provide value added goods and services to the public as customers of government. It is therefore essential for public sector SCM officials to better themselves at the application and institutionalisation of those value factors in the organisation that are initiated by regulators and legislators.

Compliance with the fragmented legislated SCM system considers two dimensions, namely that of implementation and that of institutionalisation. At this point it would be appropriate to recapitulate on the different meanings of implementation and that of institutionalisation. Implementation means the performance of an obligation or to put into effect. Implementation would thus usually refer to activities such as performance, execution, operations and functions. Institutionalisation means to establish something as a convention/principle in an organisation or culture. Institutionalisation can thus be considered to be based on principles and ongoing



processes in which a package of activities, structures and values become an integral and sustainable part of an organisation to ultimately satisfy customer demands or needs. This ongoing process requires formal and philosophical incorporation of SCM into the structure and functioning of an organisation, consistently implemented, and supported by an enabling culture as reflected in organisational values and policies that advocate the creation and enhancement of the value delivered to customers.

An enabling organisational environment or culture that sustains implementation or initiation, growth, development and continuity of SCM is an essential dimension of the public sector SCM system that must be entrenched and nurtured to reap the benefits of the SCM system. Institutionalisation of SCM should thus be treated as a key change management intervention in building capacity and to mitigate risks. This change management intervention should aim to change the attitudes and behaviour of SCM practitioners and others operating in the supply chain in order to instil organisational values and culture values that incorporate supportive policies, effective governance, a sense of ownership, sharing information and communication technology, adequate resource allocation and sustainable development. Consequently the change that is brought about should support the “living” of SCM in that organisation.

Strict rule driven procurement of goods and services in the public sector has restricted procurement officials from building close relationships with suppliers because of fear that such relationships will be considered to be an activity favouring suppliers. Modern SCM activities require social capital building and consequently a paradigm shift in this regard, but public sector SCM officials should always remain conscious of the legal framework that sets the limits for such relationships. Policy development in this regard should guide the SCM practitioner in a practical and safe way.

From an organisational design perspective SCM is a discipline like any other within management, e.g. financial management and human resource management. As the SCM strategy is driven by the dynamics of people, technology and processes it is essential that the organisational design supports the SCM strategy. Taking account of the pace and scale at which the public sector procures goods and services to

deliver value added goods and services to the public, signals the need for public sector organisational development officers to have a thorough understanding of SCM as a management discipline and to have the same regard for it as it would for other management disciplines such as financial management and human resource management.

The concept, philosophy, and practicing of the SCM and its various components in the private sector is documented fairly comprehensively by various scholars specialising in the field of SCM. The literature also recognises that there are similarities and differences between SCM practised in the private and public sector. It is noticeable that the subject matter as it relates to the public sector is not documented to the same standard and level as in the case of the private sector. For example, in the context of the South African government the regulators have provided the key high level components of the SCM system with the expectation and requirement that each accounting officer of a government department must “develop and implement” an effective and efficient SCM system in their government departments. This in itself may create inefficiencies and ineffectiveness because each department will have to make an effort to comply with the requirements as separate endeavours.

SCM has strategic value and it is essential that it is part of the organisation’s strategic plans. In the South African context, government departments are conditioned to develop five-year strategic plans and annual performance plans in accordance with regulated requirements and guidelines. It is noticeable that these requirements and guidelines do not specifically provide for the development or inclusion of strategies for the sourcing of goods and services. Taking the magnitude of government spend on goods and services into account, it is essential that strategies to source goods and services to ultimately deliver on customer(citizens) demands within available resources and in a cost effective way, becomes a natural part of the business of government departments and incorporated into their strategic planning and budgeting processes.

Long-term relationships, partnerships and alliances can only be achieved by reducing the number of suppliers – government departments do not need nor do they have the time and money to manage a large number of relationships. This

means purchases must be consolidated, standardised, and simplified in order to increase the value or importance of the relationship. Long-term relationships with a limited number of suppliers may be perceived by suppliers that government is prejudicing or excluding suppliers, particularly emerging suppliers with a history of being disadvantaged in the past due to exclusive government dispensations.

Within the construction industry, the CIDB fulfils the expected role of infrastructure delivery, whereby government departments become more efficient through forging long term relationships to a certain extent with contractors. This is accomplished through contracting within a framework of a Register of Contractors compiled by the CIDB. In certain construction categories the Register of Contractors is limited. This situation compels government departments to use those contractors and thus in a way “forces” long term relationships.

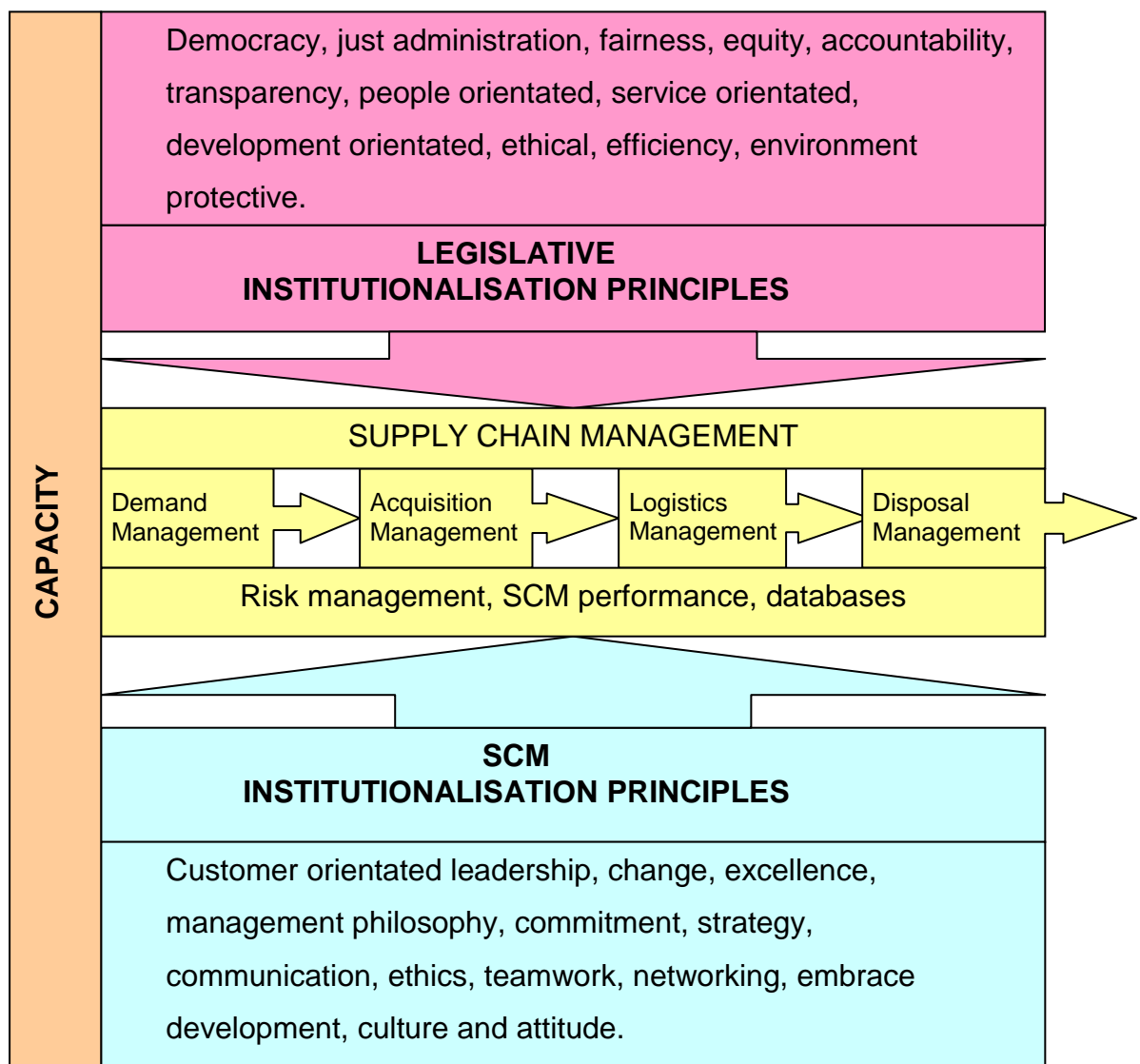
The public sector is moving towards a situation where more and more private sector methodologies are being implemented in an attempt to become more efficient and effective in delivering government services and satisfying customer driven needs. This implies that both the private sector and the public sector are competing in the market to attract and retain the same skills, such as SCM. Human capital development in the area of SCM should thus be a key concern and activity in government departments to meet the growing demand for SCM professionals.

In government departments responsible for delivering social and economic infrastructure such as hospital, schools and roads, the application of project management techniques is central to the day to day operations. Project managers involved in the aforementioned activities are also responsible to source services such as consulting engineers, architects and building contractors. Project managers in this domain are thus faced with the reality where project management and SCM techniques need to complement each other to ensure time and cost-effective delivery of infrastructure. Training programmes and technologies that fuse these disciplines need to be developed.

### 4.3 TYPOLOGY FOR INSTITUTIONALISATION OF SCM IN THE PUBLIC SECTOR

Apart from getting the better of the technical aspects of SCM processes as well as the application of common law in the contracting process, it is also expected of the public sector supply chain officers to apply and institutionalise those value factors in the organisation that are initiated by regulators and legislators. In addition, behavioural factors emanating from the successful implementation of the concept of SCM in the private sector also need to be institutionalised. Figure 16 illustrates these forces on the components of the public sector regulated SCM system.

**Figure 16: Typology for the institutionalisation of SCM in the public sector**



According to Wiktionary (2007) the term “capacity” means, *inter alia*, the: Ability to absorb; ability to perform; power to learn, potential for growth and development, and

legal authority. Noticeably in Figure 16, these values or principles and behaviours complement each other and show significant similarities. As a collective it can be considered as those values or principles and behaviours necessary for institutionalising the regulated public sector SCM system.

#### **4.4 RECOMMENDATIONS**

SCM managers and officials should engage with the different pieces of legislation to explore the challenges they face in practically implementing the legislation and institutionalising the provisions in the SCM context.

Given the complex legislative environment in which the SCM practitioner must operate and comply with, the public sector SCM officials should be developed to have legislation interpretation skills to become more effective and to ensure that legislative requirements and values are appropriately incorporated into SCM activities in a dynamic way and where applicable with the assistance of human resource managers into the value structure of the organisation as a whole.

Fragmentation of legislation affecting SCM should be prevented. Amendments to legislation and existing legislation containing provisions that directly affect the SCM should be rationalised with the intention to include those particular provisions in the regulated Framework for SCM.

Ongoing monitoring of the legislative framework is a necessity to determine whether its provisions as control devices or enablers still fulfil the set objectives of government departments. If not, such legislation must again go through a legislative process to effect amendment. Such processes are normally time-consuming and place the SCM official in a stage of legal uncertainty during the transition phase.

Institutionalisation of SCM as a module in SCM training material should be a requirement for accreditation of such material by the relevant authorities.

A change management programme with the focus on the institutionalisation of SCM should form an integral part of the SCM implementation strategy and be developed and applied to run concurrently with the SCM implementation plan. Such a change

management programme could be made compulsory through including it in the regulated Framework for SCM.

Strategic thinking is considered to be one of the critical success factors for practicing supply chain management. To move from a rule driven procurement environment to a modernised value driven SCM environment, it is essential that public sector SCM officials undergo ongoing strategic management training or development.

SCM strategies should form an integral part of a government department's medium term strategic plans and annual performance plans. A framework for such SCM strategic planning applicable to the public sector should be developed.

In addition to compiling a checklist or developing a tool to test nominal and substantive compliance with legislative requirements relating to SCM, inexpensive ways of monitoring institutionalisation of SCM to avoid failure should be developed.

SCM officials of a very high calibre are critical for ensuring that the poor and vulnerable citizens are at the nucleus of government's service delivery. Given government's purchasing power, SCM excellence awards should be introduced into the public sector in recognition of SCM officials who have managed to transcend the historical rule-based procurement system of government and establish and live out the culture of Batho Pele within the public SCM system. It is through people with this kind of commitment and value system that government can reach its goal of becoming a developmental state.

The "living" of the Batho Pele principles in the SCM environment should be continuously assessed against set criteria in order to take appropriate corrective action.

Further research should be done on the impact of SCM on the government empowerment programmes such as the Expanded Public Works Programme, National Youth Service and Woman in Construction.

## **4.5 CONCLUSION**

Based on the evidence contained in this thesis, the institutionalisation of the principles entrenched in the concept of SCM and the South African legislative framework related thereto undoubtedly will assist public sector organisations with the evolutionary implementation process of SCM. As a consequence the “living” of SCM in public sector organisations will not only enhance the quality of financial management, but in the main provide value added goods and services to the public as customers of government. SCM will move beyond a perceived technical activity and come to fulfilment through the institution of change management activities that institutionalise the principles and values contained in the discipline of SCM and entrenched in the legislative framework supporting the discipline. Problems will have to be overcome and it is predicted that real results will only be seen over time, over the long term rather than the short term once the “spirit” of SCM is better understood. Negative attitudes of people in the public sector SCM environment may constrain the institutionalisation of SCM implementation at the desired pace and scale.

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