

The significance of supply chain management with regard to the attainment of value and strategic objectives for municipalities within South Africa: A case study

by
Reginald Anthony Bent

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Supervisor: Prof AP Johan Burger

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Declaration

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Abstract

Supply chain management (SCM) in the public sector in general, as well as the municipal sphere in particular, has received increasing prominence over past few years. Although the focus is mainly due to the impact of fraud and corruption in public sector procurement, this author is of the opinion that SCM can also create value and aid in the attainment of strategic objectives. The study revealed that supply chain management is described as a process in literature, whilst it is described as a system by government. Of significance to this, is that both literature and government view SCM as a means to add value. The study also revealed that in order for SCM to add value and to contribute to the attainment of strategic objectives, it is important that SCM forms part of the performance management (PM) system of an organisation. Performance measurement tools, such as the balanced scorecard, benchmarking, improvement and other measurement tools, were introduced as tried and trusted methods for measuring SCM performance.

The study was embarked upon because the author was of the opinion that municipalities in South Africa only implement SCM because it is required by legislation. Thus, this theory was tested at Hessequa Municipality and it was found that the current emphasis was on compliance at Hessequa Municipality. This was done by means of studying documentary evidence and through interviews conducted with various internal and external stakeholders either directly or indirectly affected by the SCM processes of Hessequa Municipality. The study tested Hessequa Municipality's readiness to progress towards performance management and measurement by using the financial capability model for SCM as utilised by the Western Cape Government to ascertain the level of SCM implementation at municipalities. It was found that Hessequa Municipality meets almost all the compliance and control requirements, with only two areas that require slight attention before full compliance is achieved. Through the interviews conducted, the study also tested Hessequa Municipality's willingness to progress to the next level and found that there was indeed a willingness to progress towards managing and measuring SCM activities.

In conclusion, the study recommended that Hessequa Municipality uses a phased-in approach when it sets processes in place to progress towards performance managing SCM. That when developing performance indicators for SCM, it be aligned to the performance management system and targets of the municipality. It also recommended that a combination of the tried and trusted methods be used to measure SCM

performance. Finally, it recommended that the municipality eradicates the silo approach to doing business and adopts a more integrated approach by firstly integrating its internal processes before embarking upon integrating the actions of all the agents within the supply chain.

Opsomming

Voorsieningskanaalbestuur (VKB) in die openbare sektor oor die algemeen sowel as in die munisipale omgewing in besonder, het gedurende die afgelope jare al hoe meer na die voorgrond getree. Alhoewel die fokus hoofsaaklik toegeskryf word aan die impak van bedrog en korrupsie op verkryging in die openbare sektor, is die skrywer van mening dat VKB ook waarde kan toevoeg en tot die behaling van strategiese doelwitte kan bydra. Die studie het aan die lig gebring dat VKB in literatuur as 'n proses beskryf word, maar deur die regering as 'n stelsel beskryf word. Wat egter van belang is, is dat beide die literatuur en regering VKB as 'n middel beskou om waarde toe te voeg. Die studie het ook openbaar dat, ten einde vir VKB om waarde toe te voeg en tot die behaling van strategiese doelwitte by te dra, dit belangrik is dat VKB 'n deel vorm van die prestasiebestuurstelsel van 'n organisasie. Prestasiemetingsinstrumente soos die gebalanseerde telkaart, doelwitstelling, verbetering en ander metingsinstrumente is ingestel as bewese metodes om VKB-prestasie te meet.

Die studie is onderneem omdat die skrywer van mening was dat munisipaliteite in Suid-Afrika slegs VKB implementeer omdat wetgewing dit vereis. Hierdie teorie is by Hessequa Munisipaliteit getoets en daar is gevind dat die huidige klem op voldoening aan wetsvereistes is. Die toets is gedoen deur dokumentêre bewyse te bestudeer, asook deur onderhoude te voer met verskeie interne en eksterne rolspelers wat óf direk óf indirek deur die VKB-prosesse van Hessequa Munisipaliteit geraak word. Die studie het Hessequa Munisipaliteit se gereedheid om na prestasiebestuur en -meting te vorder, getoets deur van die finansiële vermoë-model gebruik te maak wat deur die Wes-Kaapse Regering gebruik word. Hierdie model word gebruik om die vlak van VKB-implementering by munisipaliteite te bepaal. Daar is gevind dat Hessequa Munisipaliteit aan feitlik alle vereistes vir nakoming en beheer voldoen, buiten twee gebiede wat geringe aandag verg alvorens volle nakoming behaal word. Deur onderhoude te voer, het die studie ook Hessequa Munisipaliteit se bereidwilligheid getoets om na die volgende vlak te vorder. Daar is gevind dat daar inderdaad 'n begeerte was om na die bestuurs- en metingsaktiwiteite van VKB te beweeg.

Laastens het die studie aanbeveel dat Hessequa Munisipaliteit 'n infaseringsbenadering gebruik wanneer prosesse in plek gestel word om na VKB-prestasiebestuur te vorder.

Wanneer prestasie-aanwysers vir VKB ontwikkel word, moet dit met die prestasiebestuurstelsel en -doelwitte van die munisipaliteit belyn word. Dit word ook aanbeveel dat 'n kombinasie van die beproefde en getoetste metodes gebruik word om VKB-prestasie te meet. Die laaste aanbeveling is dat die munisipaliteit die silo-benadering van sake doen uitwis en 'n meer geïntegreerde benadering aanneem. Die interne prosesse moet eers geïntegreer word, waarna die handeling van al die rolspelers in VKB geïntegreer word.

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Hopefully, even if it is only in a small way, this study can contribute to the improvement of the lives of South Africans through the effective, efficient and economic delivery of municipal services.

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Chapter 1

Introduction

1.1 Introduction and Background

Government, through all its various spheres and sectors combined, is probably the biggest procurer of goods and services and therefore one of the biggest contributors to the country's gross domestic product. In recent years, the regulation of government spending has gained significance, especially with regard to the procurement of goods and services by means of fair, competitive and cost-effective systems and processes. Recent reports relating to fraud and corruption as well as maladministration with regard to fruitless and wasteful expenditure and irregular expenditure, have cast a spotlight on government procurement. The net result has been to regulate government procurement and expenditure to mitigate the instances of fraud and corruption as well as fruitless and wasteful expenditure and irregular expenditure.

Apart from merely procuring goods and services for the sake of procuring them in line with regulated systems and processes, government has also realised the importance of focused procurement on the realisation of certain macro policies, such as the redistribution of wealth, the increase in local economic development as well the decrease in unemployment. The reform of government procurement began in 1996 with the promulgation of the Constitution, which requires that the procurement of goods and services must be done by means of a system which is "fair, equitable, transparent, competitive and cost-effective". For municipalities, it was transformed through the promulgation of the Local Government: Municipal Finance Management Act of 2003, Act 56 of 2003 (MFMA) as well as the Municipal Supply Chain Management Regulations (MSCMR) of 2005.

With the promulgation of the MSCMR in 2005, many municipalities have started with the implementation of these regulations by means of the introduction of supply chain management (SCM) policies and the establishment of SCM units to give effect to the requirements of the legislation. Based on this, it is the intention of this study not to focus on the implementation progress of SCM, but rather to focus on the perceived contribution SCM can make and have made to strategic and operational efficiency and effectiveness of

the municipality. In other words, is the performance of SCM managed and measured to ensure that it contributes to the strategic objectives as well as the attainment of value, especially with regards to the attainment of value for money? For the purposes of manageability, this study will focus on Hessequa Municipality, because it has already established an SCM unit and adopted its SCM policy in 2006. It is also representative of many municipalities in South Africa.

1.2 Research problem and objectives

The author is of the opinion that, given the fact municipalities have been implementing SCM since 2005 since the promulgation of the MSCMR, the implementation phase should be finalised by now. The next phase is the performance management of SCM in order to measure what contribution it has made. The author is also of the opinion that most municipalities are still stuck on the implementation phase, with their focus mainly on legislative compliance. In contrast, the private sector is in many respects decades ahead of the public sector and has long ago realised the importance of SCM, what are the benefits that can be derived from its implementation as well as the contribution it can make towards the attainment of strategic objectives and the creation of value, particularly as far as the attainment of value for money is concerned. Thus, by focusing on implementation and legislative compliance only, municipalities are missing out on many of the benefits that SCM holds. In fact, to derive those benefits, the performance management and measurement of SCM processes and procedures are essential. In sum, the emphasis of municipalities is to procure goods and services in line with legislative provisions and thus remain compliant, instead of migrating to the next phase of managing and measuring the performance of SCM to ensure that it contributes to the attainment of strategic objectives, as well as the attainment of value for money.

What is the difference between SCM as prescribed in literature and SCM as prescribed by legislation? To what extent has Hessequa Municipality implemented SCM? Is SCM aligned with the municipality's strategic objectives? Does the municipality allow for management and measurement of SCM performance? It is the aim of this study to answer these questions by analysing the efforts made by Hessequa Municipality regarding the implementation of SCM. This study seeks to bridge the gap between just merely implementing SCM for the sake of legislative compliance and reaping the benefits of full

implementation by aligning SCM processes to strategy and the attainment of value for money.

The research objectives of this study are focused on:

- Distinguishing municipal SCM as prescribed in literature and legislation;
- The contextualisation of SCM performance management at Hessequa Municipality to determine the next phase of development;
- The development of performance measurement tools against which SCM performance can be measured.

1.3 Research design and methodology

According to Mouton (2001: 55), a research design is a plan or blueprint of how one intends conducting the research. The research design also indicates the underlying thread of knowledge which exists, guiding the researcher to ensure that the research is conducted in a systematic manner. Thus, the central question in this regard is; what is the most appropriate research design to scientifically study the evaluation of the performance of the SCM function at Hessequa Municipality?

Based on the questions posed in this study, the researcher will therefore use a case study design. The case study design will allow the researcher to gain greater insight and conduct an in-depth analysis of the SCM implementation at Hessequa Municipality. Utilising the case study design will allow the researcher to gauge the qualitative perceptions of stakeholders involved, as well as affected by the SCM processes of Hessequa Municipality. For the purposes of this study, the researcher thus believes that a single case study will be sufficient and has chosen it specifically because it will allow for intensive analysis of the SCM implementation at a single organisation, which in turn will allow for a better understanding of the institutional variables that affect the implementation of SCM and what will assist the municipality to develop beyond the emphasis on legislative compliance.

In order for the researcher to obtain the necessary data and information, a qualitative method was used to address the causes of the problems highlighted in this study. For this purpose, both primary and secondary data have been used to inform the study.

Exploratory questions were used to obtain data and to guide the conclusions and recommendations of this study. The sources of this data are listed below.

Primary data

Semi-structured interviews were conducted, comprising a representative sample of officials and councillors at Hessequa Municipality as well as members of the local community. Fourteen in-depth interviews were conducted with councillors, senior management officials, officials affected by SCM operations and senior members of the local business forums. The councillors interviewed comprised the Mayor and the Chairperson of the portfolio committee for Local Economic Development, Finance and Corporate Services. They constituted 14% of the sample size. All six senior managers were interviewed, which included the Municipal Manager and constituted 43% of the sample size. Other officials interviewed comprised the Accountant: Acquisition Management, the LED Coordinator, the IDP Coordinator and the Internal Auditor, which constituted 29% of the sample size. Two senior members each of the Riversdale Business Forum and the Albertinia Business Forum were also interviewed and they constituted 14% of the sample size.

Secondary data

A variety of reports, policies and planning/strategy documents pertaining to the implementation of SCM were examined by the researcher.. These included the Integrated Development Plan (IDP) 2012-2017, the key performance area document (iMap), LED strategy, SCM Policy, Annual Report of the 2011/2012 financial year, 2011/2012 financial statements, the 2011/2012 Auditor-General report and various other SCM reports applicable to the 2011/2012 financial year.

In addition to the primary and secondary data gathered, the research also drew on the author's 12 years of experience in the SCM environment, both as a logistics officer in the South African National Defence Force (SANDF) for seven years and five years as Supply Chain Manager at the institution under study. In order to ensure the validity and reliability of the study, it was the objective of the researcher to remain as impartial and as objective as possible when conducting the study. Even though in some respects, during the interview process, views were expressed that may have been at variance with those of the

researcher, the researcher committed to record these views accurately and reflected them in a balanced way in the study.

1.4 Rationale and significance of the study

Due to the highly regulated system with regard to the procurement of goods and services, government or municipal SCM is in many respects seen by officials as a burden, both financially and operationally. This is because compliance with the legislative requirements requires funding, which already cash-strapped local authorities have to fork out without compensation or financial support from national or provincial government, whom in many respects promulgate the legislation. From an operational perspective, the system is perceived to be full of red tape and operated in a bureaucratic manner, making the procurement of goods and services necessary for service delivery and the spending of budgets difficult. As SCM was in many respects introduced to prevent fraud and corruption and to promote sound financial practices, it is one of the major focus areas of the Auditor-General when conducting audits of municipalities and other government institutions. Due to the fact that SCM is such a major focus area, most local authorities tend to merely comply with the legislation to prevent qualifications in their audit findings, which is seen as a sure sign of financial mismanagement.

The significance of this study stems from the fact that once municipal management realises that there is more to SCM than just mere compliance, the negative stigma that is in many respects coupled with SCM, may well turn into a positive. This will happen as soon as municipal management and officials realise the benefits that can be derived from SCM whilst still remaining compliant. The fairness, equitability, transparency and competitiveness of the system will allow suppliers to reap the benefits from such a system. The cost-effectiveness of the system will benefit the finance of the municipalities by allowing them to procure products and services of better quality at the best possible prices. The application of sound SCM practices will also improve the operations of the municipality, because SCM practices promote efficiency and effectiveness as well. Coupling the SCM system with the organisational strategy will place the municipality in better stead to deliver quality and affordable services to its constituency.

The realisation of these benefits is even more attainable once SCM performance is linked to the overall performance of the organization. This is because the linkage will allow the

organization to gauge the alignment of SCM implementation to organizational goals and strategy as well as to what extent pre-determined SCM goals, objectives and value for money is being obtained. By measuring SCM performance, it will ensure that SCM proves itself as an asset to the organization, instead of the burden for which it is currently seen.

1.5 Outline of chapters

This thesis will comprise six chapters and will be structured as follows:

Chapter One

This chapter introduces the thesis and provides a rationale for the study. The chapter presents to the reader the research problem as well as the objectives of the study. The researcher also provides the design and methodology to be employed in conducting this study.

Chapter Two

This chapter introduces the concept of SCM to the reader, by exploring how it is defined by literature and legislation. Next, the chapter conceptualises SCM especially in terms of how it is perceived by other researchers and how it is captured in literature. This section of the chapter also discusses the characteristics of SCM that distinguish it from logistics management and purchasing. It also focuses on the implementation of SCM. Furthermore, the chapter addresses how legislation prescribes the implementation of SCM by municipalities and it also addresses the legislative environment with regard to the implementation of SCM by focusing on the legislation that impact on municipal SCM.

Chapter Three

This chapter introduces performance management as well as the statutory and regulatory prescripts for its implementation at municipalities. Next the chapter discusses SCM performance measurement as well as the various measuring practices and tools that are available and utilised by different industries to measure SCM performance.

Chapter Four

Chapter four introduces the case study, namely Hessequa Municipality by providing a broad historical and statistical overview of Hessequa Municipality. It also discuss the

implementation of performance management and supply chain management at Hessequa Municipality.

Chapter Five

This chapter provides an in-depth analysis and evaluation of the case study through the application of the financial capability model for SCM, as prescribed by the Western Cape Provincial Treasury. The general feeling or perceptions of the various stakeholders are discussed by determining whether the current SCM implementation or practices at the case study live up to expectations and whether expectations are aligned with the premise of this study that SCM can contribute to strategy and provide value. The research findings are analysed and discussed in the context of best practices in terms of SCM performance management and government requirements in terms of legislation.

Chapter Six

This chapter provides a summation of the previous chapters and presents a summary of the main findings. It also makes recommendations in respect of the research findings and provides a conclusion to the study.

Chapter 2

Municipal supply chain management performance in literature and legislation

2.1 Introduction

This chapter sets out to introduce the concept of supply chain management (SCM). It will discover how SCM is defined by literature as well as by legislation as it relates to SCM in the public sector. The chapter will explore how SCM is conceptualised by determining how it developed by distinguishing it from logistics and procurement. The best way to implement SCM will also be described, taking into account the barriers or pitfalls that should also be taken notice of. Furthermore, the chapter will discuss SCM in the public sector, especially in terms of how it relates to municipalities and emphasising the legislation that impacts on municipal SCM.

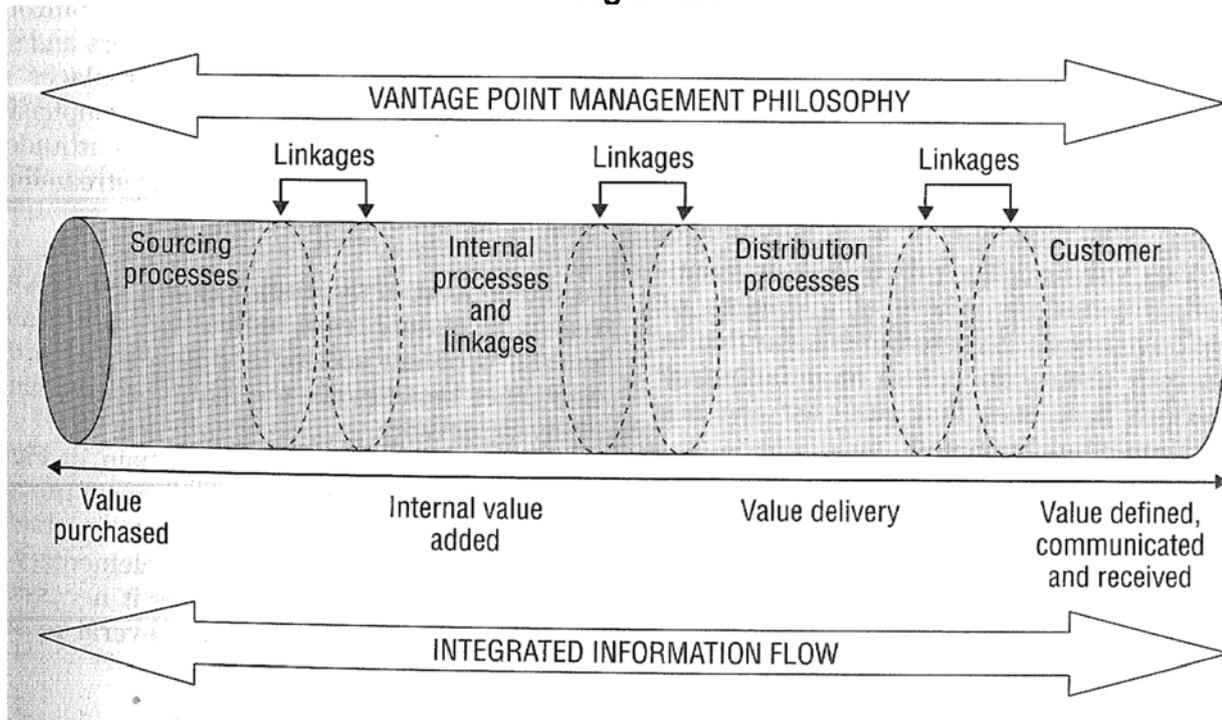
2.2 Supply chain management as defined in literature and legislation

In 2004, Hugo et al. (2004: 5) alluded to the difficulties experienced when trying to define the supply chain and SCM, because at that stage they believed that SCM was “not yet universally accepted” and how SCM should be defined was also “a bone of contention”. They believed that when defining SCM, the emphasis is either on the management of the supply chain or the elements of managing the supply chain (Hugo et al., 2004: 5). This is not exactly the case anymore, as many researchers define SCM in terms of process management, as can be deduced from the manner in which the Global Supply Chain Forum and Lambert et al. (1998) (sighted in Tracey et al., 2005: 179) define SCM as “the integration of key business processes from end user through original suppliers that provides products, services and information that add value for customers and other stakeholders”.

This view of defining SCM as a means of process management which ultimately adds value, is also supported by Hugo et al. (2006). According to Hugo et al. (2006: 56), SCM is defined as “a management philosophy aimed at integrating a network (or web) of upstream linkages (sources of 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” and is illustrated in figure 2.1. Researchers such as Tracey et al. (2005: 179-180), Knowles et al. (2005: 52), Lambert & Pohlen (2001: 4), Shimchi-Levi et al. as well as Park & Krishan (sighted in Chong et al., 2011: 412) also support the view that SCM relates to process management and value creation.

Figure 2.1



(Hugo et al., 2006: 57)

In the South African public sector context, SCM is defined “as an integral part of financial management that seeks to introduce internationally accepted best practice. It bridges the gap between traditional methods of procuring goods and services and the balance of the supply chain, whilst addressing procurement-related matters that are of strategic importance” (National Treasury, 2003: 19). In terms of legislation, public sector SCM or procurement is guided by section 217 of the Constitution of 1996, which requires that when goods and services are contracted, it must be done within a system which is “fair, equitable, transparent, competitive and cost-effective”. Section 217 further allows for exercising preference in the allocation of contracts as well as for “the protection or advancement of persons, or categories of persons, disadvantaged by unfair discrimination”.

What is significant about the two definitions, is the fact that academics see SCM as a process, whilst in the public sector it is seen as a system. The significance of the distinction is the fact that a process is a series of steps or actions taken to achieve an end or purpose, whereas a system refers to a set of rules that governs structure and/or behaviour if viewed from an institutional perspective. Another major difference is the fact that SCM is seen as part of financial management in the South African public sector, whilst researchers such as Hugo et al. believe that SCM developed as an extension of logistics and purchasing and was influenced by other management and functional-related areas such as marketing, finance and operations (production), but is now equal to these functions due to the development of SCM over the past three to four decades (Hugo et al., 2004: 3).

2.3 Conceptualising SCM

The significance of SCM is addressed by Forslund (2010: 351) in the sense that he asserts that under normal circumstances, the primary objectives of a company would be to enhance revenue, control costs, increase asset utilisation and improve customer satisfaction. However, through the utilisation of SCM, the emphasis moves away from the individual company or organisation more towards how well a chain or group of companies perform to obtain these objectives in order to create value for the final customer (Forslund, 2010: 351). In other words, cooperative and mutually beneficial relationships are developed with suppliers to the point where suppliers are viewed as virtual extensions of the organisation (Tan et al., 2002: 616). This view is also shared by Kim (2006: 241).

2.3.1 How SCM developed

Hugo et al. (2004: 3) believe that SCM not only developed as an extension of logistics and purchasing, but according to them it was also influenced by other management and functional-related areas such as marketing, finance and operations (production). The significant developments made over the past three to four decades means SCM is now equal to these functions (Hugo et al., 2004: 3). This is further explained by the fact that “where logistics once meant saturating warehouses with inventory, the new philosophy emphasises the integration of internal and external activities, including inventory management, vendor relationships and transportation, distribution and delivery services”

(Tan et al., 2002: 616). This development means that SCM is not a specialised supporting function; instead it should be seen as a basic strategic business process (Chong et al., 2011: 412) with the goal to replace inventory with information to provide visibility, so that raw materials and finished goods can be replenished quickly and arrive at the points of use in smaller lot sizes, especially in a just-in-time system (Tan et al., 2002: 616). This is merely one way of looking at it, instead “SCM represents the most advanced state in the evolutionary development of purchasing, procurement and other supply chain activities” (Gunasekaran et al., 2004: 333).

The development of SCM can also be attributed to the increased emphasis on customer service, especially in terms of how it relates to the containment of cost (Tracey et al., 2005: 183). Thus, if one takes this into consideration, it means that SCM also developed as a means to improve customer service through improved quality and speed of delivery in order to reduce costs (Hugo et al., 2004: 4). It is, however, highly unlikely for a single organisation to meet this type of customer demand on its own and therefore the support of other organisations in the supply chain is also needed (Hugo et al., 2004: 4). Thus, for a company to be successful requires the design and management of its supply chain (Cambra-Fierro & Ruiz-Benitez, 2011: 149). The progression towards SCM is justifiable since it addresses “long-term strategic alliance, supplier-buyer partnerships, cross-organisational logistics management, joint planning, control of inventory and information sharing” (Banomyong & Supatn, 2011: 20). Thus, due to these attributes, Banomyong & Supatn (2011: 20) assert that the effective implementation of SCM will lead to a “lowering of the total amount of resources required to provide the necessary level of customer service to a specific segment and improving customer service through increased product availability and reduced order cycle time” (Banomyong & Supatn, 2011: 20)

2.3.2 Distinguishing between SCM and logistics management

The Council of Logistics Management (sighted in Hugo et al., 2004: 200) and Lambert & Pohlen, 2001: 4) defines logistics as “that part of the supply chain that plans, implements and controls the efficient, effective flow and storage of goods, services and related information from the point of origin to the point of consumption in order to meet customer requirements”. Lambert & Pohlen (2001: 4) assert that SCM should not be seen as an extension of logistics outside the firm to include customers and suppliers, instead SCM is much more strategic in nature. This is also in line with the view of the Council of Supply

Chain Management Professionals (sighted in Banomyong & Supatn, 2011: 23) that “logistics is part of supply chain management that focuses on the integration of supply and demand within companies”. Hugo et al. (2004: 204) ascertained in their research that there are “certain inherent differences that allow one to distinguish between logistics and SCM”, which is illustrated in table 2.1.

Table 2.1

Logistics	Supply Chain Management
“Logistics is a framework for the management of all activities related to materials and information flows within an organisation. The scope of logistics is therefore the entire organisation”	“SCM uses the logistics framework and extends the concept of products, services and information flows beyond the boundaries of the single organisation to other firms and entities through linkages, often of an informal nature”
Logistics can be regarded as a “functional silo” of a particular organisation	“SCM is an integrated philosophy, which seeks to optimise value added over the activities of many organisations and specifically over ever-changing combinations of firms and entities”
“Logistics manages business activities in order to optimise customer service and to minimise cost for a specific organisation”	“SCM manages business processes across functional and organisational boundaries of a network of organisations and aims at optimising customer satisfaction and eliminating activities and processes that add cost and not value”
“The focus of logistics is on the management of the flow of products, services and information”	“The focus of SCM is on the management of relationships across the entire supply chain”
“Logistics management focuses on optimising wealth for a single firm”	“SCM is vantage point management which is aimed at optimising benefits for all participants in the entire supply chain”

(Hugo et al., 2004: 204)

If one takes the distinctions into consideration, one will notice that “logistics management is primarily concerned with optimising the flows within the organisation, whilst supply chain

management recognises that internal integration by itself is not enough” (Hugo et al., 2006: 62). The essence of logistics management lies in three important concepts, namely, “the movement of goods, satisfactory customer service and reasonable cost” (Hugo et al., 2006: 62). Thus, “logistics management creates form, place, time and possession utility for the consumer” (Hugo et al., 2006: 62).

It is not the objective of this study to undermine the significance of logistics management, but only to point out the differences between logistics management and SCM. As Tracey et al. (2005: 183) found, “logistics can mean the difference between success and failure in business and should be factored into the design of strategy on a continuing basis”, thus, “logistics operations should be directly linked to the corporate plan” (Tracey et al., 2005: 183).

2.3.3 Distinguishing between SCM and purchasing

Hugo et al. (2006: 6) define purchasing as “the process of buying: learning the need, locating and selecting a supplier, negotiating price and other pertinent terms and following up to ensure delivery”. Tracey et al. (2005: 183) go further in stating that “purchasing determines how much to buy, the supplier(s) chosen, the level of quality delivered, the price paid and when and where the goods will be presented”. Joyce (2006: 202) and Tracey et al. (2005: 183) are both of the opinion that the impact of purchasing and its contribution to an organisation go far beyond “buying things” and its costs, but also include other important factors such as the quality of goods and services and the timing of deliveries of goods and services, which can have a significant impact on operations. Joyce (2006: 202) found that “purchasing and supplier management are important to managerial accounting and supply chain efficiency, because purchasing selects suppliers and establishes mutually beneficial relationships with them” and thus “without good suppliers and without superior purchasing, supply chains will not compete as effectively in the marketplace”.

By defining SCM and distinguishing it from logistics management and purchasing, one is able to determine what SCM actually is with regard to its significance and where it fits into the organisation. The above supports the finding by Banomyong & Supatn (2011: 23), that “supply chain management encompasses the planning and management of all activities involved in sourcing and procurement, conversion and all logistics management activities”.

2.3.4 The characteristics of SCM

In terms of how SCM is perceived as illustrated by the manner in which it is defined by researchers, Hugo et al. (2006: 59) characterised SCM as a philosophy with regard to conducting business, in the sense that it relates to the sharing of risks, benefits and rewards through the establishment of long-term cooperation and trust between partners, which culminates in the mutual exchange of information across all participants in the supply chain. It should also be the goal of each partner within the supply chain to strive to optimise their processes, as it relates to the role they play, to support the strategic objectives of the principal firm (Hugo et al., 2006: 59). Thus it is important to realise that these compatible corporate philosophies are essential to achieve the required level of planning and coordination to achieve synergy within the supply chain (Hugo et al., 2006: 59). This relates to the characteristic of SCM that team efforts should “occur across organisational boundaries, across management levels and across internal functional boundaries” (Hugo et al., 2006: 59).

SCM is also characterised by the fact that no partner should be held captive to only give effect to the requirements of a single supply chain; in fact organisations may be involved in multiple supply chains of many other organisations (Hugo et al., 2006: 59). Thus, the integration of suppliers, principal firms and customers in the supply chain should be seen as a “loose” affiliation linked at interfaces which are bound together by mutual advantages, with the focus on the creation of customer value (Hugo et al., 2006: 59). In light of this characteristic, Hugo et al. (2006: 59) assert that “all links and interfaces in the supply chain are not of equal importance and therefore the management task of various nodes or interfaces in the supply chain will differ according to the potential impact on the relevant supply chain processes”. The compatibility of philosophies, attainment of mutual goals and the level of interfacing are very much dependent on the sharing of information to attain this, which is another characteristic of SCM according to Hugo et al. (2006: 59). Thus, according to Hugo et al. (2006: 59) “data interchange and data capturing” should “occur across all interfaces of the supply chain”. This means that data should be open and accessible on an “inter-organisational basis and that data transfer is immediate to all parties to the supply chain” (Hugo et al., 2006: 59).

Taking into consideration the characteristics of SCM, research also indicates that there are certain key practices that an organisation will need to engage in, in order to give effect to

proper SCM. Chong et al. (2011: 413) found that these practices include supplier partnership, outsourcing, cycle-time compression and continuous process flow and information technology. This is a follow-up from research which Chong et al. conducted in 2001, where they found that “the empirical results suggest that strategic supplier partnership, customer relationship, information sharing, IT, training and internal operations can improve firms’ innovation and organisational performance” (Chong et al., 2001: 425). Based on the findings by Chong et al., SCM practices can be divided into six dimensions namely; strategic supplier partnership, customer relationship, information sharing, IT training and internal operations (Chong et al., 2011: 414). Thus, SCM practices can be seen as a “set of activities that organisations undertake to promote effective management of the supply chain” (Chong et al., 2011: 413). Based on their research, Chong et al (2001: 413) also observed that when measuring the success of SCM practices, it should be measured in terms of the alignment of the supply chain strategy with business strategies, the level and extent of supply chain integration, partnership, and use and contribution of information technologies. Based on research done by Kim (2006: 242), it was found that variations in the implementation of SCM practices may occur depending on the nature of the business as well as its competitive environment. What is also important with regard to the findings of Chong et al. (2011: 412), is that “SCM practices need to cover both upstream and downstream aspects of SCM”.

2.4 Implementing the supply chain

From what has been previously noted, especially with regard to the definition and the practices of SCM, the implementation of SCM cannot be an easy task, as it not only requires the commitment of one organisation, but of several organisations involved in the chain. This means that it is not a once-off effort, but a process of gradual implementation that requires specific management attention (Hugo et al., 2004: 18).

2.4.1 The evolutionary process of implementing supply chain management

Hugo et al. (2004: 13) believe that the implementation of SCM by means of an evolutionary process is necessary for most organisations. This is because, firstly, not many firms will have the necessary skills, knowledge and attitudes, as the traditional approach to management is still prevalent in many organisations; and secondly, forging linkages, partnerships and strategic alliances is in itself a slow process which requires high

skills in building trust and synergy with all supply chain partners (Hugo et al., 2004: 13). Poirier (sighted in Hugo et al., 2004: 13) suggests that an evolutionary model consisting of four consecutive phases or levels aimed at adopting an SCM philosophy in logical steps, which are linked to the internal and external business environment, is required to fully implement SCM.

The first phase in this evolutionary process requires the firm to move from complete functional independence to a stage where there is some degree of integration (Hugo et al., 2004: 13). The focus during this phase should be on cost reduction, in particular purchasing prices, inventory holding costs, as well as transport and elements of the distribution activity (Hugo et al., 2004: 13). Hugo et al. (2004: 13) claim that in order to achieve this kind of supply chain integration, the consolidation of inventories, a reduction in the supplier base, the introduction of MRP and JIT practices, as well as the launch of an internal team of cross-functional experts to address typical problems of the functional approach are required. Progressing through the stages of this phase will later require an understanding of how the supply chain may be structured by learning more about the supply chain philosophy; efforts will also need to be introduced to consolidate the typically fragmented information system and to work towards an integrated system between some of the functional areas (Hugo et al., 2004: 13). According to Poirier (sighted in Hugo et al., 2004: 13), the following pitfalls will need to be avoided or managed carefully in order to ensure the movement of the supply chain concept from phase 1 to phase 2:

- A natural resistance to change exists in some organisations
- Refusal to share savings from improvement efforts across the chain
- Insufficient resources allocated to SCM for further implementation
- Withdrawal of executive involvement signals satisfaction with the status quo
- Overlooking poor forecasts inhibits the degree of improvement that may be achieved
- The tendency to apply technology reactively results in poor information technology
- Lack of trust causes potential supply chain allies to withhold expertise and inhibits cooperation.

During the second (internal) phase of this implementation process, the focus is on internal integration where an end-to-end planning framework is established that represents the first

holistic view of the concept of an integrated supply chain (Hugo et al., 2004: 13). This phase requires that a long-term business plan be developed that will ultimately transform the organisation into a supply chain oriented firm (Hugo et al., 2004: 13). As the full integration of functional areas will require substantial process redesign, the support of top management for the internal integration of supply chain activities and functional areas is vitally important during this phase (Hugo et al., 2004: 13). Poirier (sighted in Hugo et al., 2004: 13) found that “it is here where the skills of cross-functional teams are developed and solidified, and where teaming skills are honed, which ultimately leads to the establishment of internal alliances”. Thus, in order to ensure the achievement of optimum efficiency, the entire business processes should be managed and coordinated as part of a total system, not as a series of adjacent, independent activities (Hugo et al., 2004: 66). According to Poirier (sighted in Hugo et al., 2004: 66), this type of integration is called cross-functional integration and it has the following advantages:

- Rapid response systems are developed, which makes it possible for the firm to react quicker than before to changes in demand patterns and customer needs are met in a more focused manner
- Increased synergy and creativity are achieved in decision-making due to team structuring that makes provision for the application of varied skills and expertise
- Greater insight is gained into enterprise-wide problems, activities, linkages, processes and solutions
- Consensus is reached more easily and inter-functional conflict is eliminated
- Waste is minimised due to the elimination of duplications that may have existed within previous functionally organised structures.

Apart from the attainment of internal integration, the goal of these cross-functional teams should be to venture into the supply market and start commodity teams with a limited number of supply partners and a much reduced supplier base (Hugo et al., 2004: 13). The development of suitable technology to support SCM is of crucial importance and is a pivotal factor for future expansion of the supply chain concept to the external environment (Hugo et al., 2004: 13).

The third (first external) phase in the supply chain implementation process is labelled “network construction” (Hugo, et al., 2004: 13). Poirier (sighted in Hugo et al., 2004: 13) found that with the focus shifting to external integration, exceptional leadership in the

organisation during this phase is of the utmost importance, because for functional managers to think of managing beyond the natural boundaries of the own organisation, requires a completely new paradigm (Hugo et al., 2004: 13). According to Poirier (sighted in Hugo et al., 2004: 13), this is because “firstly, the change from managing from the perspective of functional optimisation and maximising profit to one that is entirely focused on customer value creation, is a major step”; and secondly, “equally daunting is changing management perspective to view their own organisation as an integral part of a larger unit, the integrated supply chain”. Poirier also found that during this phase, relationship management and team management become of the utmost importance, because during this phase the concept called cross-organisational integration is adopted, which focuses on the integration of supplier and customer network processes (Hugo et al., 2004: 70). The advantages associated with cross-organisational integration are (Hugo et al., 2004: 71).

- The opportunity to react more quickly to market changes, given the fact that everyone shares information and has access to demand and business environment changes as they occur
- The early identification and effective elimination of duplication and wasteful activities that exist in supplier-customer processes
 - Lower operational costs for all supply chain partners
 - Improved competitiveness for the supply chain and its members
- By focusing on mutual benefits, conflicting business and supply chain objectives are balanced at an optimum.

According to Poirier, inter-organisation information flow is expanded and information technology is extended during this phase to include electronic commerce and the establishment of a supply chain-wide database with access to all members, and it is also during this phase that supply chain-wide performance measures are determined (Hugo, et al., 2004: 13).

The fourth (also external) phase of the implementation process is reaching the full potential of the integrated supply chain (Hugo et al., 2004: 15). Thus, during this phase, multi-functional and cross-organisational teams manage almost all processes and activities in the integrated supply chain (Hugo et al., 2004: 15). This phase is marked by the fact that the demand chain will be solidly integrated with the supply chain in value networks, as well as the fact that SCM is gaining strategic status (Hugo et al., 2004: 15).

2.4.2 Barriers to SCM implementation

In his research, Poirier (sighted in Hugo et al., 2004: 15) emphasises the fact that the four phases of the development of SCM as explained cannot be regarded as watertight compartments, and neither should the completion of a preceding phase be seen totally as a prerequisite for the start of a follow-up phase. Also, as with many things in life where the implementation is dependent on other factors and organisations, barriers and complications do exist. The implementation of SCM is no different and according to Hugo et al. (2004: 19), the following barriers or complications exist when it comes to implementing SCM:

- The human element, which is linked to mistrust, resistance to change and an inadequate understanding of the concept of SCM and its logic
- Limitations in information technology will often hamper the full implementation of SCM, particularly if the supplier base and the ultimate customers are in emerging economies
- Cultural differences, such as language and business customs and traditions in various countries, may well be an obstacle to the implementation of the supply chain concept in a global context
- The resources available may be too limited to fully integrate the supply chain
- The lack of management experience and acumen to manage supply chain integration, which becomes an impediment because many organisations are so eager to benefit from the advantages offered by the supply chain philosophy, that they try to implement the concept without understanding the management learning required for successful implementation.

Due to the presence of these barriers or complications, Hugo et al. (2004: 19-20) offer the following “practical” guidelines for the implementation of SCM:

- As supply chain strategy is a sub-strategy of the overall business strategy, it should be developed to support the overall corporate strategies, policies and objectives
- Identify supply chain goals and develop plans to ensure every process is individually capable of meeting supply chain goals
- Develop a system for gathering market intelligence and for feeding this information back into the supply chain information system

- Integrate and manage the supplier base by creating long-term contracts, supplier partnering, outsourcing, franchises; in brief, a virtual network of suppliers closely linked to the organisation and fully supporting the objectives of SCM
- Logistics networks should be specialised to serve particular market niches, geographical regions and global markets
- Develop an integrated supply chain information system
- Develop a performance measurement system that will evaluate supply chain performance across functional and organisational boundaries.

2.5 The need for integration

Integration is an important concept regarding SCM, because without integration, SCM practices such as strategic supplier partnership, information sharing and, to an extent, customer relationship would not be possible. The concept of integration with regard to managing the supply chain entails all the agents in the supply chain joining efforts for a common goal, such as for instance customer satisfaction, as well as to reduce the “bullwhip effect”, which can have a detrimental effect on any organisation (Cambra-Fierro & Ruiz-Benitez, 2011: 149). Cambra-Fierro & Ruiz-Benitez (2011: 149) also found that integration enhances coordination amongst partners by creating a compact chain leading to chain efficiency, because it leaves no space between the manufacturer and the distributor and it encourages the facilitation of information flow along the entire chain.

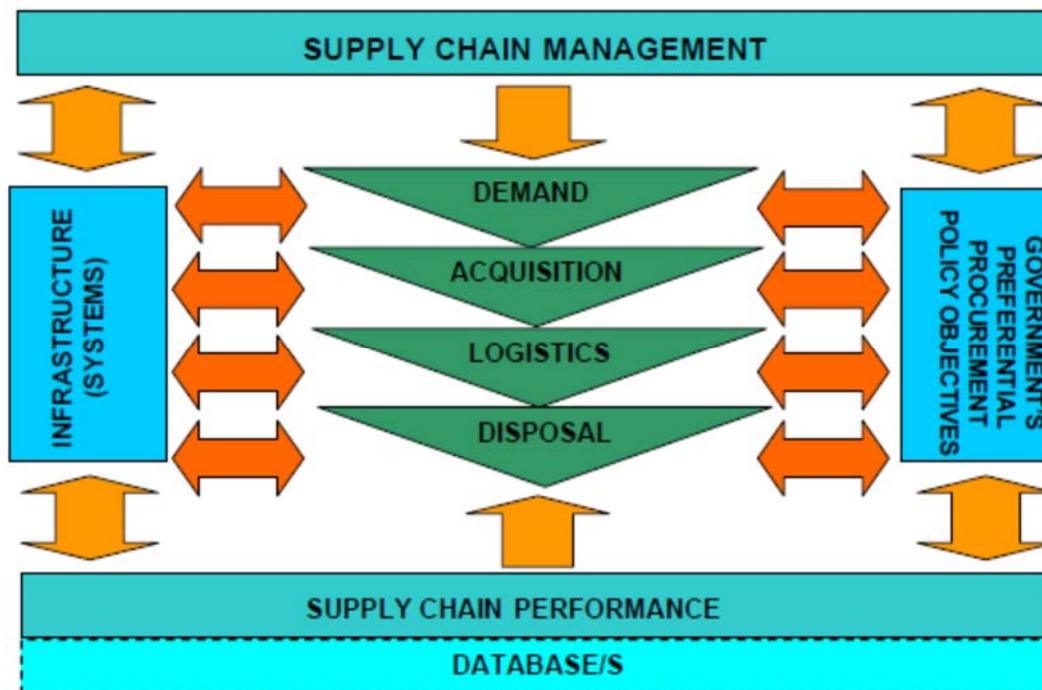
It should also be noted that the key to successful SCM is not only to focus on the integration of external partners, but internal integration is equally important. Kim (2006: 242) asserts that “for effective SCM, comprehensive efforts for improvement in all supply chain functions within a firm should be made. One of the ways for organisations to accomplish this, is to shift the focus of their supply chain practices from functional and independent to general and integrative” (Kim, 2006: 242). Kim (2006: 242) also found that “internal integration can be accomplished by the automation and standardisation of each internal logistics function, the introduction of new technology and continuous performance control under formalised and centralised organisational structure”. Whereas, external integration can be achieved through information sharing and the strategic linkage with suppliers and customers, as well as the standardisation of logistics processes between firms (Kim, 2006: 242). Zailani & Rajagopal (2005: 381) found “growing evidence suggests that the higher the level of integration with suppliers and customers in the supply chain, the greater the potential benefits”. Thus, it is safe to say that “when companies integrate and

act as a single entity, the performance is enhanced throughout the chain” (Zailani & Rajagopal, 2005: 381).

2.6 The elements of SCM as prescribed by legislation

As observed earlier in terms of the public sector definition of SCM, SCM should be seen as system from an organisational perspective. Thus, according to regulation 9 of the Municipal Supply Chain Management Regulations of 2005 (MSCMR), all municipalities and municipal entities “must describe in sufficient detail” the SCM system that is to be implemented as well as effective systems for demand management, acquisition management, logistics management, disposal management, risk management and performance management. These are known as the six elements of government supply chain management (National Treasury, 2003: 19-20). These elements are grammatically depicted in figure 2.2 below, which also provides a process map for the implementation of the SCM system within organs of state.

Figure 2.2

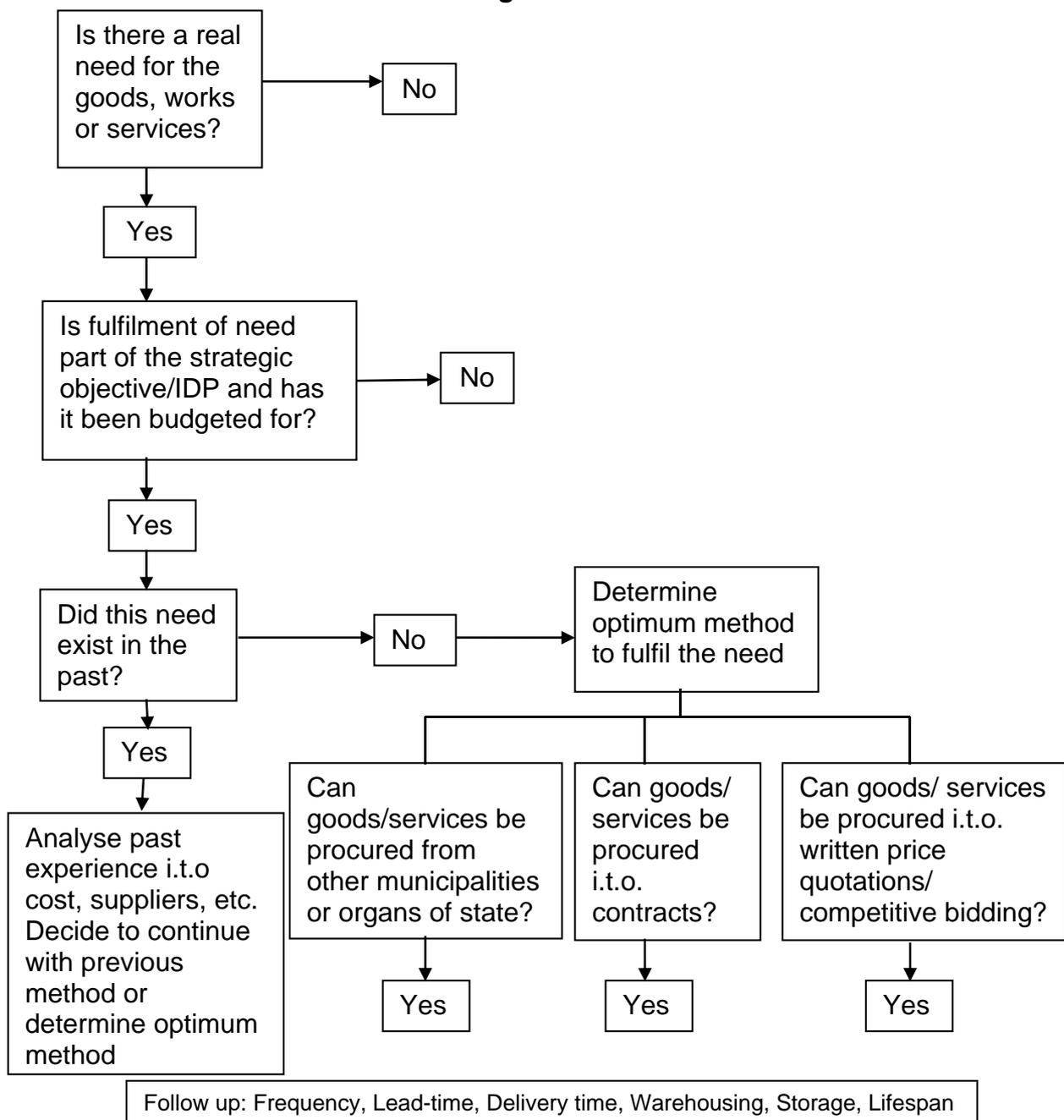


(National Treasury, 2003: 20)

In terms of demand management, regulation 10 of the MSCMR of 2005 requires that “an SCM policy must provide for an effective system of demand management in order to ensure that the resources required to support the strategic and operational commitments of the municipality or municipal entity, are delivered at the correct time, at the right price

and at the right location, and that the quantity and quality satisfy the needs of the municipality or municipal entity”. This requires a needs assessment, which deals with issues such as “understanding future needs, identifying critical delivery dates, the frequency of need, linking the requirement to the budget, doing an expenditure analysis (based on past expenditures), determining the specifications, doing a commodity analysis (checking for alternatives) and doing an industry analysis” (National Treasury, 2003: 21). Figure 2.3 illustrates a flowchart of the Demand Management Process as prescribed by the guide for accounting officers of municipalities and municipal entities (National Treasury, 2005: 24).

Figure 2.3



(National Treasury, 2005:24)

With regard to acquisition management, the MSCMR prescribes in terms of regulation 11 that the SCM policy “must provide for an effective system of acquisition management”. Such a system should be implemented to ensure “that goods and services are procured by the municipality or municipal entity in accordance with authorised processes only; that expenditure on goods and services is incurred in terms of an approved budget; that the threshold values for the different procurement processes are complied with; that the bid documentation, evaluation and adjudication criteria, and general conditions of a contract, are in accordance with any applicable legislation; and that any treasury guidelines on acquisition management are properly taken into account.” The acquisition management system also provides insight and guidance in terms of the manner in which the market will be approached, the establishment of total cost of ownership of a particular type of asset, ensuring that bid documentation is complete and includes an evaluation criteria, that bids are evaluated according to the published criteria, and that contract documents are signed properly (National Treasury, 2005: 12).

Regulation 39 of the MSCMR requires that “an SCM policy must provide for an effective system of logistics management in order to provide for the setting of inventory levels, placing of orders, receiving and distribution of goods, stores and warehouse management, expediting orders, transport management, vendor performance, maintenance, and contract administration”. Once such a system is in place, the financial system should be “activated” following the process, to effect payment (National Treasury, 2005: 12).

With regard to disposal management, “na SCM policy must provide for an effective system of disposal management for the disposal or letting of assets, including unserviceable, redundant or obsolete assets”, as prescribed in regulation 40 of the MSCMR. Furthermore, in terms of regulation 40, the SCM policy must specify the ways in which the assets may be disposed of, which should include the transferring of assets to another organ of state either market related or free of charge, selling the asset or destroying the asset. Of significance during this stage, is the fact that consideration should be given to obsolescence planning, maintaining a database of redundant material, inspecting material for potential re-use, determining a disposal strategy, and executing the physical disposal process (National Treasury, 2005: 12).

In terms of risk management, regulation 41 of the MSCMR prescribes that “an SCM policy must provide for an effective system of risk management for the identification,

consideration and avoidance of potential risks in the SCM system”. Further to that effect, regulation 41 prescribes that risk management includes “the identification of risks on a case-by-case basis, the allocation of risks to the party best suited to manage such risks, acceptance of the cost of the risk where the cost of transferring the risk is greater than that of retaining it, the management of risks in a pro-active manner and the provision of adequate cover for residual risks, and the assignment of relative risks to the contracting parties through clear and unambiguous contract documentation”.

In relation to performance management, regulation 42 of the MSCMR requires that “an SCM policy must provide for an effective internal monitoring system in order to determine, on the basis of a retrospective analysis, whether the authorised supply chain management processes are being followed and whether the desired objectives are being achieved.” Other issues which such a system should also address are “the cost efficiency of the SCM process (i.e. the cost of the process itself), whether supply chain practices are consistent with government’s broader policy focus, and whether there are means to improve the system” (National Treasury, 2005: 12).

2.7 Legislation that impacts municipal SCM

The implementation of SCM at local government level in South Africa is very regulated and impacted on by various sets of legislation. To develop a comprehensive understanding of the impact of the legislation on the implementation of SCM, it is important to review the legislation.

The Constitution of the Republic South Africa, 1996 (Act No 108 of 1996), as amended

The Constitution of 1996, as “the supreme law”, sets the “tone” and lays the foundation for any other form of legislation. With regard to SCM, section 217 of the Constitution of 1996, sets the tone for SCM as follows:

“217 (1) When an Organ of State in the national, provincial or local sphere of Government, or any other institution identified in national legislation, contracts for goods and services, it must do so in accordance with a system which is fair, equitable, transparent, competitive and cost-effective.”

Subsection (1) does not prevent the municipality from implementing a procurement policy providing for:

1. Categories of preference in the allocation of contracts; and
2. The protection or advancement of persons, or categories of persons, disadvantaged by unfair discrimination.

The Preferential Procurement Policy Framework Act, 2000 (Act No 5 of 2000) (PPPFA)

In terms of section 217(2) of the Constitution of 1996, organs of state 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 PPPFA was promulgated and took effect on 3 February 2000. Subsequently, in 2001 and later in 2011, the Preferential Procurement Policy Regulations were issued in terms of the aforementioned legislation. The main thrust of the PPPFA, 2000 is that an organ of state must determine its preferential procurement policy and must implement a preferential procurement framework.

The Construction Industry Development Board Act, 2000 (Act No 38 of 2000) (CIDBA)

According to section 22 of the Bill of Rights in the Constitution, 1996, every citizen has the right to freely choose their trade, occupation or profession. Municipalities are mandated to deliver economic and social infrastructure, such as housing. In the execution of its mandate, the municipality will contract with service 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 municipalities 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, the CIDB may monitor national programmes aimed at procurement reform and standardisation and uniformity in procurement documentation, practices and procedures.

Furthermore, 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 institution, must, subject to the policy on procurement, apply the Register of Contractors to its procurement process.

The Local Government: Municipal Systems Act, 2000 (Act No 32 of 2000)

This Act provides a framework for the establishment of service delivery agreements involving competitive bidding processes. It affects the operations and systems related to the constitutional mandate imposed on municipalities, hence encouraging a more holistic and participatory approach with regard to managing municipalities. It enforces certain

rights and powers on the municipal council and municipal manager and distinguishes between the roles of council and administrators. More attuned to the study at hand, it also addresses performance management and in many ways sets the stage for addressing supply chain performance management.

The Broad-Based Black Economic Empowerment Act, 2003 (Act No 53 of 2003) (B-BBEEA)

The B-BBEEA establishes a code of good practice to inform the:

- Development of qualification criteria for the issuing of licences or concessions, the sale of state-owned enterprises and for entering into partnerships with the private sector; and
- Development and implementation of a preferential procurement policy.

The Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA)

The overall objective of the MFMA is to improve financial management in the public sector and to give accounting officers certain discretionary powers to ensure that the intention of the Act is achieved. Sections 63, 77 and 78 of the MFMA effectively allocate joint responsibility for integrity and maintenance of good corporate governance to all public servants with regard to SCM matters. More specifically, chapter 11 addresses the aspect of SCM in relation to the procurement of goods and services, the disposal of goods no longer needed as well as the selection of contractors. The MFMA provides that the National Treasury will issue a framework for the procurement and provisioning of goods and services. The aforementioned was issued by National Treasury as the Supply Chain Management (SCM) Treasury Regulations, effective from 1 July 2005 and set the framework for the Municipal SCM Policy. The Municipal Supply Chain Management Regulations of 2005 contain extensive prescripts requiring compliance when tendering for goods and services as well as other matters relating to SCM.

The Local Government: Municipal Finance Management Act, 2003 (Act No 56 of 2003): Municipal Supply Chain Management Regulations, 2005 (SCM Regulations)

The SCM Regulations provide a more in-depth legislative and regulatory framework and expand on the legislative matters highlighted in chapter 11 of the MFMA. They provide a clear role with regards to the separation of powers and duties pertaining to council and the administration. They also address, more specifically, how a system which is fair, equitable,

transparent, competitive and cost-effective must be implemented in order to give effect to section 217 (1) of the Constitution, 1996. The regulations deal with the matters relating to demand management, acquisition management, logistics management, disposal management and performance management, as well as other matters which include ethical standards and the prohibition of awards to persons in the service of the state and those whose tax matters are not in order.

The Promotion of Administrative Justice Act, 2000 (Act No 3 of 2000) (PAJA)

PAJA gives effect to section 33 of the Constitution of 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, have the right to be given reasons or clarification. PAJA 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.

The Act further provides a set of general rules and principles for the proper performance of the administrative action in all areas and requires the provision 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 or followed. 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.

When an official has to execute an administrative action based on discretion, he has to apply his mind and must be able to show cause for such "applying of his mind". Following is a short checklist to consider when executing such discretion:

Table 2.2

<i>JUST ADMINISTRATIVE ACTION TEST: tick off</i>	
<input type="checkbox"/>	All relevant and permissible facts and circumstances are taken into consideration (<i>mindful of previous precedence created</i>)
<input type="checkbox"/>	All prescripts, limits and conditions are adhered to
<input type="checkbox"/>	Ensure decision is within ambit of delegation or legislative power
<input type="checkbox"/>	Ensure result of action/decision will serve a legal, permissible purpose
<input type="checkbox"/>	Ensure the end result falls within ambit of budget, budget description and objectives of the strategic plan

The Promotion of Access to Information Act, 2000 (Act No 2 of 2000) (PAIA)

PAIA responds to section 32 of the Constitution of 1996. In terms of this provision, everyone has the right of access to information held by the state. It 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. It also promotes transparency in government processes and decision-making.

PAIA is of particular importance to the administrative decision-maker, as this person/s 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 the Act, there are certain categories of information that must be refused and other categories that may be refused, hence the importance that both public service officials and administrative decision-makers be familiar with the grounds of exclusion.

It is important that SCM practitioners 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 does not authorise the withholding of all such information, but only the extent to which that disclosure might

inhibit frankness. If there is no such risk, the 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-formulation process becoming invalid, 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 becomes extremely relevant, e.g. in a situation where a bidder loses a bid through a deliberative and decision-making process and the municipality is challenged on that matter.

The Competition Amendment Act, 2000 (Act No 15 of 2000) (CA)

Section 22 under the Bill of Rights of the Constitution of 1996 confirms that every citizen has the right to choose their trade, occupation or profession freely. The law may regulate the practise of a trade, occupation or profession.

The purpose of the CA 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; and 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, organs of state 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, fronting and price fixing, etc.

Prevention and Combating of Corrupt Activities Act, 2004 (Act No 12 of 2004)

The municipality adheres to the provisions of the Prevention and Combating of Corrupt Activities Act as it affects the supply chain process. The Act regulates offences in respect of corrupt activities relating to contracts, activities pertaining to the acceptance or offering of any gratification and the improper influence of another person, as well as offences in respect of corrupt activities relating to procurement and the withdrawal of tenders and auctions. The Act provides for miscellaneous offences relating to possible conflict of interest and other unacceptable conduct such as the acquisition of private interest in contract, agreement or investment of a public body. It also provides that National Treasury must establish a register for tender defaulters.

The Public Audit Act, 2004 (Act No 25 of 2004)

The Public Audit Act allows and authorize the Auditor-General to audit and report on the accounts, financial statements and the financial management off organs of state, government organisations and government funded organisations as mandated in section 188 of the Consitution of 1996. Thus, the Act allows that the Auditor-General shall reasonably satisfy himself or herself that satisfactory management measures have been taken to ensure that resources are procured economically and utilised efficiently and effectively.

The Public Protector Act, 1994 (Act No 23 of 1994)

This Act permits the public to raise issues and empowers the Public Protector, acting as an ombudsman, to investigate, report on and take the necessary remedial action on any conduct in state affairs or in the public administration that is alleged, or suspected or to result in any impropriety or prejudice. Information that suggests criminal activity is referred to the South African Police Service and the Public Protector. Non-compliance with tender procedures that render irregular or unauthorised expenditure is referred to the Auditor-General.

The State Information Technology Agency Act, 1998 (Act No 88 of 1998)

The State Information Technology Agency (SITA) Act, as amended by Act 38 of 2002, requires that SITA may act as the procurement agency for municipalities' information technology requirements. This Act asserts that the parties must enter into a written agreement to regulate the services rendered by, and the payments to be made to SITA. The accounting officer must notify SITA, together with a motivation of the IT needs of the

institution, if the transaction value of IT-related goods or services required by the institution in any financial year will exceed R50 million (VAT included). If SITA comments on the submission and the institution disagrees with such comments, the accounting officer may conduct his or her own IT procurement, provided that the comments and the reasons for rejecting or not following SITA comments must be submitted to the relevant provincial treasury and the Auditor-General.

The Protected Disclosures Act, 2000 (Act No 26 of 2000)

This Act makes provision for the protection of employees in both the public and private sector who disclose information in good faith regarding unlawful or irregular conduct to the Public Protector, Auditor-General or a person or body established for this purpose in terms of the Act. The Act also protects those employees who “blow the whistle” on corrupt practices.

The National Small Business Act, 1996 (Act No 102 of 1996)

The National Small Business Act, as amended, establishes the National Small Business Council (NSBC) and also the Ntsika Enterprise Promotion Agency (Ntsika). The main functions of Ntsika are, *inter alia*:

1. To expand, coordinate and monitor the provision of training, advice, counselling and any other non-financial services to small business in accordance with the National Small Business Support Strategy.
2. To consult with any organ of government, the NSBC or a service provider in order to, *inter alia*:
 - a. Facilitate the provision of business advice and counselling services to small business.
 - b. Facilitate national market access for products and services of small business.
 - c. Generally strengthen the capacity of service providers to support small business and small business to compete successfully in the economy.
 - d. To enable small businesses to compete successfully in the economy, the procurement policies and practices influence the economic behaviour of small businesses, and therefore during the procurement process, it is important to implement guidelines to promote small businesses.

National Treasury Practice Notes

The Supply Chain Management Regulations in terms of the MFMA empower National Treasury to issue practice notes to ensure minimum norms and standards within government. In the event where such practice notes impact on the substance of the municipality's policy, its policy must be amended to give effect to the provisions. All documents relevant to SCM are available electronically on National Treasury's web page <http://www.treasury.gov.za> /organisation/ specialist functions/ supply chain management: norms and standards.

If one considers the legislation and the regulatory environment within which SCM needs to be given effect to, it is important to realise that SCM in local government has not been around for very long. Surely, one can argue that municipalities have been procuring goods and services for a very long time, but the stringent regulatory framework was not in place. If one considers the legislation, the regulatory environment for SCM actually started in 2005 through the promulgation of the Municipal Supply Chain Management Regulations. Thus far, this chapter has attempted to offer an understanding of the reason for the existence of SCM, as well as the regulatory environment within which it is allowed to be implemented at local government level. In the next stage, it is important to draw insight as to the nature of the research and why it is necessary.

2.8 Conclusion

This chapter sets out to introduce the reader to SCM by determining how it is defined in literature and legislation. What was deduced, is that literature revealed that SCM is seen from a process management perspective with the aim of adding value, whilst in legislation it is seen from a system management perspective with the aim of adding value. The introduction of SCM continued with distinguishing SCM from other related aspects such as logistics management and purchasing. What was found, is that SCM incorporates both these aspects and link them from an organisational perspective as well as from an inter-organisational perspective. This formed part of the conceptualisation of SCM. Once SCM as a concept was understood, the chapter looked at the way it should be implemented and found that a four-phase process was necessary to ensure sufficient implementation.

In terms of the public sector and particularly the municipal sector, it was determined that SCM was viewed in a slightly different context and that it is very regulated with numerous legislation impacting on municipal SCM. The result is that even though many of the concepts related to private-sector SCM can be adapted to public sector SCM, it must be done so in accordance with the legislative provisions applicable.

Chapter 3

Performance Management and measuring practices relevant to supply chain management performance at Hessequa Municipality

3.1 Introduction

The previous chapter explored the concept of SCM and how it is contextualised within literature and legislation. It also highlighted the differences in how literature perceives SCM, including how it should be implemented and how it is perceived and implemented by the public sector. Particularly with regards to literature, emphasising that it needs to be seen as a process whilst in the public sector it is seen as the management of a system from an organisational perspective. The chapter also in conclusion brought to the fore how regulated public sector SCM is compared to private sector SCM.

This chapter will commence with an introduction to performance management and how its implementation can add value to an organization. It will also consider legislation that impact on municipalities as well as those that guide performance management with regards to municipal supply chain management. Next, the chapter will focus on performance measurement and the importance thereof. After highlighting the importance and necessity for performance measurement, this chapter will look at what tried and tested tools exist for the measurement of SCM performance. This chapter will also look at aspects that could hamper SCM performance measurement, as well as tools that can be utilised to improve SCM performance.

3.2 Introducing performance management

As performance management is difficult to define according to Williams (2006: 24), he believes that there are “three main perspectives to view the topic” namely:

- Performance management is a system devised to manage employees;
- It is a system to manage the organisation; and
- Lastly, it is a system to manage the integration of the former two.

From a slightly different perspective, De Waal (sighted in Williams, 2006: 24) emphasises the strategic nature of performance management and defines it as “the process that enables an organisation to deliver a predictable contribution to sustained value creation” and according to him, “a world-class performance management process consists of excellent strategy development, budgeting/target setting, performance measurement, performance review and incentive compensation sub-processes”. Thus, performance management should be seen as a management “tool” that integrates the business operations with the strategic intent of the organisation (Williams, 2006: 25).

As a tool, a performance management system (PMS) allows managers to have information available which assists them to make informed decisions. As such, a system normally quantifies the efficiency and effectiveness of past actions through acquisition, collation, sorting, analysis, interpretation and dissemination of appropriate data (De Toni & Montagner, 2009: 4). Thus, PMS can be used to improve both the performance and overall quality of the organisation (De Waal & Counet, 2009: 367). The effective implementation of a performance management system is reliant on the degree to which synergies in organisational performance are achieved (Williams, 2006: 25). Also according to Holloway (2009: 397), “an effective performance management system is one that is designed to:

- Have clear and explicit priorities for what to measure – things that are easy to measure may not be the most relevant
- Take account of the contributions and interrelationships between different functions, and where value is added
- Surface and address conflict – it is natural for new performance management processes to arouse concern, especially when associated with change
- Link strategy to practice and be adaptable in the light of user experiences
- Incorporate qualitative input and process dimensions, such as the skills that staff will need to respond effectively to messages from output-based performance measures
- Be creative – “off the peg” measures or frameworks may well need adapting to incorporate what really matters to your organisation”.

Holloway (2009: 398) also asserts that in order to attain sustainable performance management, the organisation should allow enough time to listen to as many people and draw on as many information sources as possible. By doing this, senior managers will be able to identify core capabilities as well as the knowledge and skills needed by the

organisation, while employees can shape the development of relevant measures and identify routes to change (Holloway, 2009: 398). By ensuring that performance management is “process-led”, organisations can ensure that sustainability will also be attained (Holloway, 2009: 398). Flexibility in the measures that are incorporated, are another important aspect to consider to keep performance management sustainable, which requires management to keep an open mind and be sensitive to organisational sub-cultures, thus allowing them to be able to change performance measures if and when necessary (Holloway, 2009: 398). It should also be kept in mind that the success of such flexibility is hugely dependent on effective management, which is a key component that allows for the building of relationships across organisational boundaries, as well as appreciating the impact of performance management systems on sub-systems such as training and development, appraisal and information systems (Holloway, 2009: 398). It is ultimately important that the performance management system should focus on reinforcing accountability so that the outcome is the efficient, effective and economical use of resources (Williams, 2006: 26).

3.3 Municipal performance management and the influence of legislation

Section 34 of the Municipal Systems Act (MSA) states that “a municipal council must review its integrated development plan (IDP) annually in accordance with an assessment of its performance measurements” as well as “to the extent that changing circumstances so demand” (RSA, Act 32 of 2000: 167). The significance of this section relates to the fact that the IDP is the municipality’s strategic document, which outlines the objectives of the municipality over a five-year period. Chapter 6 of the MSA stipulates the development and implementation of a performance management system, discussing key aspects such as the “monitoring and review” of the performance management system, the involvement of communities as well as the development of key performance indicators (RSA, Act 32 of 2000: 172-173).

Chapter 3 of the Municipal Planning and Performance Regulations indicates the criteria that a municipality’s performance management system must adhere to, which includes:

- The nature of the performance management system
- How the performance management system should be adopted
- How key performance indicators should be set and implemented

- The seven national key performance indicators
- The review of the key performance indicators
- The setting of performance targets for officials, councillors, service providers and administrative units
- The monitoring, measurement and review of performance
- The auditing of performance measures

These criteria are indicative of the important legislative requirements that need to be upheld when implementing a municipal performance management system:

- Municipalities must demonstrate how they tend to operate and manage the performance management system (PMS) from the planning phase to the performance reporting phase
- The roles and responsibilities of each of the role-players, including the local community must be stated
- The delineation of the process for implementing the PMS within in the framework of the IDP
- Ensuring that the community is involved in setting and reviewing key performance indicators (KPI's)
- These indicators must be set for the development of priorities and objectives which are stated as input, output and outcome indicators
- KPI's must be established for all administrative units, employees, municipal entities and service providers with whom the municipality has entered into a service delivery agreement
- The indicators must be reviewed annually and reported at least twice a year to council
- The indicators must be designed to allow the municipality to detect early under-performance
- It must also allow for corrective measures where under-performance is detected
- The indicators must measure efficiency, effectiveness, quality and impact of the performance of the municipality and those to be measured.

In terms of performance management from a Municipal Supply Chain Management perspective, regulation 42 of the Local Government: Municipal Supply Chain Management Regulations of 2005 requires that “a Supply Chain Management must

provide for an effective internal monitoring system in order to determine, on the basis of retrospective analysis, whether the authorized supply chain management processes are being followed and whether the desired objectives are being achieved.”

3.4 Performance measurement

The implementation and the effective utilisation of performance management systems, however means nothing if it does not allow for the measurement of performance culminating in the improvement of organisational performance. Neely et al. (sighted in Banomyong & Supatn, 2011: 21) define performance measurement as “the process of quantifying effectiveness and efficiency of action”. Deduced from this definition, it should be taken into consideration that effectiveness is seen as the extent to which customers’ requirements are met, while efficiency measures how economical a firm’s resources are utilised” (Banomyong & Supatn, 2011: 21). This deduction draws a relation to the elements of value for money leading to the observation that performance management ultimately strives to attain value for money. One should however be careful with making such a deduction, although good, as not all performance management systems have the intention of attaining value for money.

As noted earlier, performance management and measurement should, as its ultimate goal, improve organisational performance on a continuous basis (Parkan, 2002: 694). According to Chong et al. (2011: 415), “organisational performance is an indicator which measures how well an organisation accomplishes its objectives”. Importantly, Chong et al. also reflected on the definition of Li et al. (sighted in Chong et al., 2011: 415) regarding organisational performance, relating it to how well an organisation achieves its market orientation and financial goals. This is also in line with the finding by Parkan (2002: 694), who found that “valid measurements help identify the performance levels that can be expected from an organisation’s processes and the deviations from its targets”.

Although organisational performance is measured by both financial and market criteria, if one draws this closer to SCM, it is observed that the short-term objectives of SCM are to enhance productivity and reduce inventory and lead time, whilst the long-term objectives of SCM are to increase the market share and the integration of supply chain” (Chong et al.,

2011: 415). Even though the public sector is different in the sense that its long-term objective is not to increase market share but to improve service delivery for its constituency, similar principles can still be applied as increased productivity, the reduction of inventory and lead time are also important from a public sector perspective.

According to Forslund (2010: 352), “performance management is one approach for measuring and improving performance in the supply chain”. This is because the performance measurement process between customer and supplier consists of the activities of selecting performance variables, defining metrics, setting targets, measuring and analysing (Forslund, 2010: 352). Hugo et al. (2006: 39) and Gunasekaran et al. (2004: 334) on the other hand, believe that measuring the performance of the supply chain is important to establish control over the supply chain. According to Hugo et al. (2006: 40) this means, amongst other things, the measurement of actual performance and the elimination of inefficiencies not contributing towards attaining objectives across the total supply chain. Their research also reveals that there has been a shift away from measuring supply chain activities to a more strategic approach, which may involve, for example, measuring the ability of the supply chain to add to customer value (Hugo et al., 2006: 40).

As is the case for organisational performance measurement, a practical supply chain performance assessment tool should also be able to quantify both the efficiency and effectiveness of supply chain action (Banomyong & Supatn, 2011: 21). Thus, Banomyong & Supatn (2011: 21) asserts that the assessment of supply chain performance can be categorised into qualitative and quantitative measures in which quantitative techniques such as benchmarking are frequently used. Thus, performance measurement provides “the means by which an organisation can assess whether its supply chain has improved or degraded” (Lapide: 288). According to Lapide (288), measuring supply chain performance is important due to the following reasons:

- “Measurements are important to directly control behaviour and indirectly to control performance
- A few key measurements will go a long way toward keeping a company on track in achieving its supply chain improvement objectives
- Seemingly relevant, but cumbersome, measurements are of little use, and are possibly a hindrance in helping to improve supply chain performance
- Picking the wrong measures and leaving out important ones could lead to supply chain performance degradation

- Driving a supply chain based only on after-the-fact measures, like losing an important customer or having poor financial performance, is not very effective”.

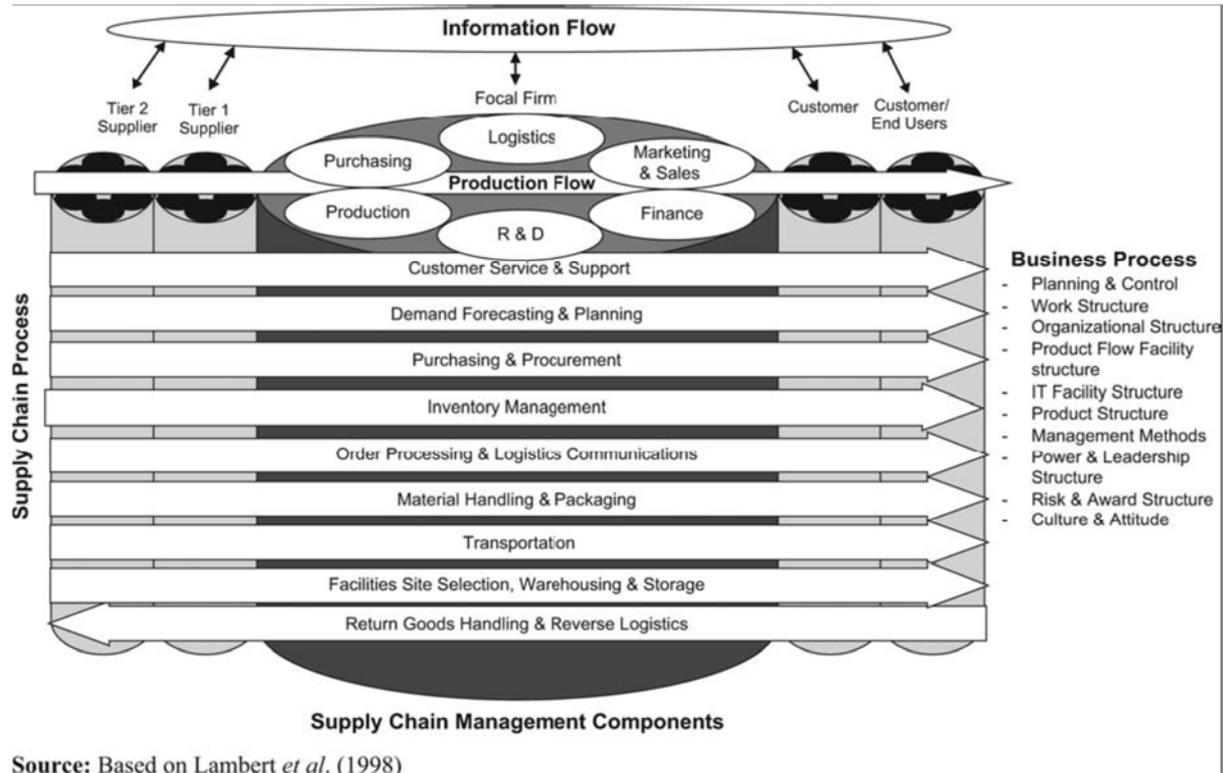
Banomyong & Supatn (2011: 22) found that in order to assess supply chain efficiency, performance evaluation of the entire supply chain is of the utmost importance. Based on this finding, Banomyong & Supatn (2011: 22) define total supply chain performance as the efficiency which takes into account multiple performance measures related to supply chain members, as well as the integration and coordination of members' performance. In order for this definition to come to fruition, the supply chain must be viewed as one entity and any measurement system should span the entire supply chain and ultimately enable managers to see the areas where supply chain performance can be improved, so that they can focus their attention and obtain higher levels of performance (Lambert & Pohlen, 2001: 5).

Supply chain performance should not just be measured externally, but should also be measured within the organisation. This is because the internal performance of an organisation can affect the performance of the whole supply chain and it is therefore important to be able to measure internal supply chain performance even before trying to assess total supply chain performance (Banomyong & Supatn, 2011: 22). The importance of internal supply chain performance measures lies in their value to evaluate the efficiency and effectiveness of a function in producing its outputs and services, such as the cost, lead time, and reliability (Banomyong & Supatn, 2011: 22). Ultimately, the effectiveness of and support from internal supply chain functions are key to making organisations work smoothly and successfully when managing their supply chain (Banomyong & Supatn, 2011: 22).

In order for supply chain performance to fully contribute in line with its full potential, it must be considered to be as multi-dimensional as business performance, thus different dimensions covering both efficiency and effectiveness should be assessed (Banomyong & Supatn, 2011: 23). Banomyong & Supatn (2011: 23) recommend that, in order to measure the performance of each supply chain activity, key performance indicators (KPIs) need to be selected. KPIs are the quantifiable aspects that measure the performance of a system when it comes to its operations (Banomyong & Supatn, 2011: 23). Cassivi (2006: 251) asserts that in order to monitor progress and adjust the development of a supply chain, performance indicators should primarily be based on process performance, not on

financial performance. Figure 3.1 is a proposed framework in line with this process approach for supply chain management outlined by Banomyong & Supatn (2011: 23).

Figure 3.1



Source: Based on Lambert *et al.* (1998)

(Banomyong & Supatn, 2011: 23)

According to Williams (2006: 26), an integrated performance management system should be able to do more than just measure what has happened in the past, it should in fact also be able to measure effective teamwork, create a shared vision, facilitate improved employee involvement, and enhance multi-competence in employees, which in a proactive manner, improves the performance of the organisation. Ultimately, according to De Toni & Montagner (2009: 4), in order to build a quality measurement system, three primary elements need to be defined, namely:

- A set of performance measures that quantifies the efficiency and effectiveness of actions;
- A reference framework combining the measures;
- An infrastructure supporting acquisition, collation, sorting, analysis, interpretation and dissemination of data.

3.5 Aspects that could hamper performance measurement

Performance management and, more specifically, performance measurement, as with more or less any aspect that requires intervention and has both objective and subjective qualities, have their pros and cons. Zairi (sighted in De Waal & Counet, 2009: 377) asserts that “at the heart of the problem of performance measurement, lays the human element”. According to De Waal & Counet (2009: 377), people issues appear to be “make or break” factors for success and thus deliberate, targeted and ongoing communication strategies are crucial, along with education. Thus, it is often important to determine how individual effort relates and contributes to business strategy to keep abreast of the human impact on the organisation to meet its set target (De Waal & Counet, 2009: 377).

Halachmi (2011: 25) has noted that despite being a well-intended element of an overall programme to improve quality, performance measurement often has the propensity to become dysfunctional. This is because, firstly, performance measurement is sometimes extended to areas that often provide only a small amount of benefit, which poses the risk of diverting attention away from other more important but unmeasured aspects; secondly, it has been found that most performance measurement systems often provide no priority for following guidelines that is likely to yield large benefits, compared with guidelines likely to yield a “small benefit”; thirdly, performance measures narrowly focus staff’s attention on compliance with those measures, rather than more broadly on the needs of the individual customer; and, finally, because performance measures are often evaluated at the level of the indicator, this may “crowd out” quality at the level of the customer, which is equally important but cannot be easily measured” (Halachmi, 2011: 25).

It is therefore that De Waal & Counet (2009: 377) assert that the “successful implementation of a PMS depends on understanding and accommodating the human element in management control”. De Waal & Counet (2009: 377) have also discovered that “the combination of performance-driven behaviour and regular use of the PMS leads to improved results”. Thus, according to them, it “makes sense to test if the combination of structural and behavioural aspects in practice influences the success of implementing and using a PMS, and consequently the performance of an organisation” (De Waal & Counet, 2009: 377). Halachmi (2011: 26), on the other hand, found that “the development of theory and models for the successful application of performance measurement can result only after a deliberate effort to uncover and study the circumstances when performance

measurement cannot be of much help (or even dysfunctional) to organisational performance. Thus, ultimately management as a role model and a commitment at all levels of the organisation is important to the success of the PMS (De Waal & Counet, 2009: 381).

3.6 Tools that can be utilised to improve supply chain performance

Over the years, researchers have devised a multitude of tools to measure supply chain performance. Some of these tools, such as the balanced scorecard and benchmarking, have proved their success in other facets of organisational performance management and thus have been specifically adopted and adapted to best suit the requirements of SCM. Other tools, such as the supply chain conceptual improvement model (SCCIM), have been specifically designed to address the performance improvement of the supply chain. The significance of these tools in the improvement of supply chain performance will now be determined:

3.6.1 Balanced scorecard

The application that is probably the most widely used to measure supply chain performance, is the balanced scorecard (Hugo et al., 2004: 101). According to Hugo et al., (2004: 101), the balanced scorecard was originally developed as a tool for improving strategic management processes and recognises that performance measurement should include more than just financial measures and thus adds a further three key performance indicators (KPIs), i.e. customers, business processes and innovation and learning to the more traditional accounting or financial approach. Williams (2006: 27) also found that by incorporating the balanced scorecard with the management system, the organisation is able to clarify its vision and strategy by means of evaluating customer satisfaction, suppliers' performance, processes adopted, technology employed and innovative actions taken and ultimately gauging performance against actions taken. This can be achieved by aligning strategic objectives with a limited number of balanced metrics and tracking them with an appropriate executive information system (EIS) (Lapide: 288). The balanced scorecard requires that performance be measured from four distinct perspectives, namely (Lapide: 288):

- "Financial perspective (e.g. cost of manufacturing and cost of warehousing)
- Customer perspective (e.g. on-time delivery and order fill rate)

- Internal business perspective (e.g. manufacturing adherence-to-plan and forecast errors)
- Innovative and learning perspective (e.g. APICS-certified employees and new product development cycle time)".

In the end, to achieve strategic targets set, it is important that the balanced scorecard must "provide feedback on both internal business processes and external outcomes" in order for it to add value (Halachmi, 2011: 32).

According to Lapide (288), the balanced scorecard provides excellent guidance when wanting to utilise it to measure supply chain performance, even though it was not originally intended for such purposes. Probably the biggest advantage of using the balanced scorecard, is the fact that it takes into consideration both financial and non-financial aspects and, with specific reference to the supply chain, it can be used at virtually all levels of the supply chain (Hugo et al., 2004: 66). Other advantages sighted by Hugo et al. (2004: 101-103) are the fact that it creates a link "between vision, strategy and objectives on the one hand, and measures, targets, work plans and resource allocation on the other"; it also "measures both short- and long-term performance"; and, finally, "it can be applied to a specific business operation or it can be extended to include all levels of the supply chain". The ultimate advantage of the balanced scorecard lies in the fact that once it has been refined, it becomes a dashboard or indicator of the organisation's and/or supply chain's overall performance (Williams, 2006: 27).

As noted earlier, customer satisfaction is an important element of supply chain management and is probably the most important reason for the existence of SCM. Halachmi (2011: 32) found that, because the measuring of satisfaction is such an important aspect of the balanced scorecard, it lends itself well to the measurement of supply chain performance.

3.6.2 Benchmarking

Benchmarking is another form of performance measurement and in order to understand benchmarking, one must first understand its singular, which is benchmark. According Hugo et al. (2004: 108), benchmark is a "standard or norm that others want to emulate". Benchmarking, though, should not just be seen as merely comparing processes and

practices with those of other firms and copying them, “but rather it is a strategic and structured approach to ensure the achievement of best practices through the application of proven tools and methodologies” (Hugo et al., 2004: 108). Taking this into consideration, Grinyer & Goldsmith (sighted in Hugo et al., 2004: 108) define benchmarking as the “ongoing structured and objective process of measuring and improving products, services, practices and processes against the best that can be identified world-wide in order to achieve and sustain competitive advantage”. Thus, in a nutshell, “benchmarking is a process that allows a company to evaluate its work methods, processes, service levels or products against meaningful standards” (Hugo et al., 2006: 63). Three types of benchmarking exist, namely (Hugo et al., 2004: 108):

- “Internal benchmarking, which is a comparison between different processes, divisions, business units or manufacturing operations within the entire firm
- External benchmarking, which is a comparison between a firm and its competitors within the same industry, however it can also include benchmarking of non-competitors, but in the same industry. This type of benchmarking is referred to as competitive benchmarking.
- Best-practice benchmarking, which relates to seeking world-class practices and excellence wherever they can be located, irrespective of industry, nature of business or type of product”.

Hugo et al. (2006: 64) also found benchmarking to be beneficial, because it “improves customer satisfaction, identifies best processes, improves existing processes, identifies the firm’s competitive position, transforms complacency into an urgent desire to improve, helps set attainable yet aggressive improvement targets, prioritises activities for improvement, contributes to the creation of a culture of continuous improvement, breaks down reluctance to change, and serves as a source of market intelligence”.

3.6.3 Improvement

Improvement is another aspect that should also be considered, because if the benchmarking was done well and/or correctly, improvement should naturally be the result of benchmarking (Hugo et al., 2004: 109). The reason why improvement is an important aspect to consider when it comes to performance is because, according to Hugo et al. (2004: 109), it “seeks to alter a process or activity, thereby positively impacting on value and performance”. The reason why one should consider improvement along with

benchmarking or as a natural progression from benchmarking, is because “benchmarking reveals differences or gaps between the issues that are compared, and once those gaps have been identified, they must be evaluated to determine their significance and potential for improvement” (Hugo et al., 2004: 109). Ultimately, “knowing the size of the gap will assist the firm or supply chain to move from where it is to where it wants to be” (Hugo et al., 2004: 109). Hugo et al. (2004: 109) also believe that a process of incremental or continuous improvement will ensure that the supply chain improves in particular areas at a rate consistent with its vision and capabilities (Hugo et al.: 2004: 109). The action that the organisation implements to fill the gap discussed earlier, is known as business process reengineering or breakthrough improvement (Hugo et al., 2004: 109).

One management philosophy that sits well with continuous improvement, is total quality management (TQM), as it “promotes quality improvement as a never-ending and all-encompassing process” (Hugo et al., 2004: 110). According to Hugo et al. (2004: 110), the plan-do-check-act (PDCA) improvement cycle is an appropriate tool to use for continuous improvement and should be applied as follows:

- “Plan: This is the first step in the cycle, where the current process is analysed and data collected to identify any problems. Alternatives are then developed and a plan for implementation formulated.
- Do: During this phase, the plan is implemented. The implementation can be done on a small scale or on a larger scale and changes are documented for future reference.
- Check: During this phase, the implemented plan is evaluated and tested in terms of it meeting the expected performance.
- Act: If the problem has been successfully solved and the process altered, the new method is standardised. If no success has been achieved, the cycle is repeated until the problem is solved or the process terminated”.

Hugo et al. (2004: 111) recommend that for the PDCA cycle to be successful, it needs to be “executed on a regular basis across the processes and activities of the firm and the supply chain”. Hugo et al. (2004: 111) also believe that if and when required, it is important

that changes are made and that the involvement of cross-organisational teams plays an important role in providing continuous improvement principles to supply chain processes and activities (Hugo et al., 2004: 111).

3.6.4 Six Sigma

The Six Sigma is another tool that can be utilised to improve performance, not only of the organisation as a whole, but also of the supply chain. According to Knowles et al. (2005: 56), “the driving force of Six Sigma is the define, measure, analyse, improve and control (DMAIC) process, which is used to structure the individual projects”. The DMAIC process consists of five phases which need to be followed in chronological order. Knowles et al. (2005: 56) describes these phases as follows:

“The first phase is focused on understanding the process under investigation from the point of view of customers, suppliers and operators. The second phase seeks to measure current performance, the third to analyse contributors to poor performance and variation. The fourth phase uses the outputs of the earlier phases to define, test and operationalise improvements, and the final phase seeks to ensure that changes are embedded, successful and, where appropriate, transferred to other processes”.

Knowles et al. (2005: 58) believe that the success of any Six Sigma programme is dependent on management commitment, a good cultural fit, training in the tools, and strictly following the DMAIC methodology. Furthermore, they believe that it is important that Six Sigma begins and ends with the customer, and also of importance is that “every Six Sigma project must be linked to organisational strategy” (Knowles et al., 2005: 58). Knowles et al. (2005: 58) also believe that because “the focus of Six Sigma is on bottom-line results”, and because “between 65% and 85% of total costs can be related directly to supply chain operation”, it is sensible “to apply cost reduction strategies such as Six Sigma to the supply chain as well as internal processes”.

3.6.5 Supply chain conceptual improvement model (SCCIM)

This is another model endorsed by Knowles et al. (2005: 58-59) to improve supply chain performance, which is also based on the DMAIC methodology and addresses the following points:

- “The need to link improvement activities strongly to strategy
- The need to view the supply chain as a single entity
- The need to integrate improvement actions across the entire supply chain
- The need to focus on the end customer
- The need to develop effective performance measurement systems for the supply chain
- The need to incorporate variation reduction into any improvement approach for maximum effect”.

The model is composed of seven distinct steps, which include: define objectives, measure and assess, define project, model and measure, analyse, improve, and control (Knowles et al., 2005: 59)

What is significant about this model, is that “the strategic cycle ensures that the organisational strategies are developed into useful objectives and deployed into a set of measures for supply chain performance that are consistent with and aligned to organisational drivers” (Knowles et al., 2005: 59). Ultimately, it is the performance of the organisation against the measures that is the “key driver for operational-level improvement projects and activities” (Knowles et al., 2005: 59).

3.6.6 Supply chain operation reference (SCOR) model

According to Knowles et al. (2005: 52), the SCOR model was developed “as a cross-industry standard for evaluating and improving enterprise-wide supply chain performance management”. It “integrates the well-known concepts of business process reengineering, benchmarking and process measurement by integrating these techniques into a cross-functional framework (Knowles et al., 2005: 52). According to Forslund (2010: 352), supply chains are described in five dimensions or performance attributes by this model, namely “reliability, responsiveness, flexibility, cost and efficiency in asset utilisation”. Both Forslund (2010: 352) and Lapide (289) state that the dimensions/attributes mentioned are then

transformed into defined performance metrics such as delivery performance, cycle-time metrics, cost metrics, order fulfilment lead times, asset metrics and service/quality metrics, “which allow for performance measurement across the supply chain”. This led Lapide (289) to state that while the SCOR model directly addresses the needs of supply chain management with balanced measurement, the balanced scorecard, in contrast, is “much more focused on executive enterprise-level measurement”.

3.6.7 Combining performance management approaches

Knowles et al. (2005: 60) believe that combining the use of the balanced scorecard with the SCOR model is the best way to get optimum performance from the systems and processes implemented. This is because the use of the “balanced scorecard in the improvement process (model) will enable organisations to link supply chain performance to strategy” (Knowles et al., 2005: 60). This is the ideal situation, because it is of no use striving for optimal supply chain performance when the targets reached are not in line with the overall business strategy.

Brewer & Speh (sighted in Knowles et al., 2005: 60) noted that the “balanced scorecard is not ideally designed for supply chain usage in its original form, however, the focus on supply chain operations can be increased with the use of the SCOR model, which offers an excellent complement to the balanced scorecard, particularly in the definition of performance objectives and measures” (Knowles et al., 2005: 59). Thus, the intention with this kind of integration, is that the SCOR model would provide the identification and definition of the critical supply chain processes and metrics, while the balanced scorecard, on the other hand, would provide ongoing guidance to ensure the achievement of the strategic goals (Knowles et al., 2005: 59). According to Knowles et al. (2005: 61), the benefits of this system (or such an approach) are:

- “A strong linkage to strategic objectives for the supply chain should ensure that improvement activity focuses on the most important areas and is not *ad hoc* in nature
- Collaboration issues are actively addressed at the start of the process so that they do not become an issue later
- By using the SCOR model, a supply chain focus is applied to the balanced scorecard so that it is more useful in this application

- The combination of waste reduction and variation reduction tools during the project allows for the complementary benefits of taking out non-value-added activities and reducing variation in the remaining “core” activities
- Feedback from the operational level to the strategic level allows for refinement of the focus for improvement for future projects
- The systematic approach should deliver robust solutions to supply chain issues”.

3.7 Aspects to control which are important to the performance of the supply chain

To ensure that the supply chain performs adequately and is geared to the obtainment of set objectives whilst allowing the organisation to reach its strategic objectives, some key aspects need to be managed closely to ensure that these objectives will be reached. Although there are more, the aspects that are imperative to successful supply chain management, are inventory management (Hugo et al. and Chong et al.), total cost of ownership (Hugo et al. and Bhutta & Huq), innovation performance (Cassivi and Chong et al.), and the performance of the suppliers (Hugo et al., Gunasekaran et al. Joyce and Bhutta & Huq).

3.7.1 Inventory management

Hugo et al. (2004: 161) assert that the management of inventory in the organisation is one of the most important aspects to ensure an adequately performing supply chain. The key to success in this regard is inventory turnover. Inventory turnover measures the “speed with which goods move through and are replenished by the system (Chong et al., 2011: 416). Chong et al. (2011: 416) have found inventory turnover to be “a common measurement of organisational performance in a supply chain” and it is often used as a key performance indicator. Another measurement that is also important, is the return on inventory investment, which, although it is more appropriately discussed under total cost of ownership, also needs to be mentioned here (Hugo et al., 2004: 161).

Hugo et al. (2004: 161) list the following formulae for measuring inventory performance, especially with regard to return on inventory investment:

- $\text{Inventory investment/working capital investment}$

- Percentage of inventory increase (decrease) versus percentage of sales increase (decrease)
- Percentage of inventory increase (decrease) versus percentage of cost of sales increase (decrease)
- Stock “write-off” and markdowns
- Customer service levels over time
- Inventory turnover performance
- Inventory accuracy: actual count as a percentage of quantity indicated by inventory status files
- Number of customers not supplied from stock
- Number of stock-keeping units (SKUs) out of stock over the number of days
- Number of trading periods in which stock-outs occurred
- Number of stock-outs per year (or over some other defined period)
- Number of SKUs out of stock at the end of each month
- Percentage of demand supplied from stock

According to Hugo et al. (2004: 161), the symptoms of poor inventory management are:

- An increase in the number of outstanding orders, which could be an indication that timing for inventory replenishment is poor
- An increase in the rand investment in inventory, without a definite reason
- Considerable differences in inventory turnover rates or times at different comparable inventory depots
- An increase in the number of out-of-stock occurrences during a fixed time period, indicating a drop in the level of control by inventory management
- Lack of storage space from time to time, indicating too much inventory
- Excessive increases in inventory-carrying costs compared with previous or budgeted figures
- Increases in obsolete inventory, for example as a percentage of total inventories, and the amount of inventory not moving or inventory that has to be written off as scrap.

3.7.2 Total cost of ownership

Total cost of ownership (TCO) is an all-encompassing concept which includes “all relevant costs such as purchasing administration, follow-up and expediting, in-bound transportation, inspection and testing, rework, storage, scrap, warranty, service downtime, customer returns and lost sales” (Hugo, et al., 2004: 189). According to Hugo et al. (2006: 58), TCO can be defined as “an approach for understanding and managing the true cost of doing business with a particular supplier, of a particular process or of an outsourcing decision”. It must also be emphasised that the supply side of the chain, in particular purchasing, is the most dominant influence on TCO (Hugo, et al., 2004: 189). Also of importance from the perspective of Hugo et al. (2004: 189), is that “TCO analysis provides a true supply chain perspective by taking an inclusive approach to all relevant costs, both internally and externally and both specific to a situation, as well as supply chain-wide”. Thus, TCO looks beyond the price of a purchase to include many other purchase-related costs (Bhutta & Huq, 2002: 129).

From a TCO perspective, Hugo et al. (2004: 189) have found activity-based costing to be “a much more suitable approach to cost analysis, since this approach allocates actual (and estimated) costs to specific products or services, processes or customers. Further, according to Hugo et al. (2004: 193), the benefits of implementing TCO include:

- “Performance Measurement –TCO provides detailed and factual cost data against which actual performance can be measured
- Decision-making – because costs are very specifically allocated to supply chain activities, it is possible to make decisions about trade-offs in such a manner that the cost in the supply chain as a whole is minimised. TCO provides factual data for the myriad of decisions that are required every day to manage the relationship between functional areas and also particularly across organisational lines
- Communication – integrated information is important, and if the information system is carrying reliable cost data to all activities and processes involved in the supply chain, it is evident that the linkages in the supply chain will be strengthened, resulting in optimising TCO for the ultimate customers
- Insight/understanding – the cost data provided by TCO enhances insight into performance across the supply chain, since it highlights the broad spectrum of cost drivers, including the intangible elements

- Support continuous improvement – this advantage is linked to the availability of cost data for performance evaluation. Evaluation of actual performance focuses attention on “weak links” in the supply chain where disproportionate costs are incurred. Because TCO is particularly useful for revealing trends over time, all members in the supply chain are made aware of opportunities for improvement that may have a longer-term impact on efficiency and effectiveness in the supply chain”.

According to Bhutta & Huq (2002: 128), other advantages of TCO include the “fact that it provides clear quantitative evaluation and selection rule, it changes focus from purchase cost to total cost, it helps identify costs that otherwise may remain hidden, and it provides a consistent message to suppliers with regard to the requirements and evaluation criteria”. On the other hand, according Bhutta & Huq (2002: 128), the disadvantage of TCO is the fact that it is “complex, it requires extensive tracking and maintenance of cost data, it requires cultural change, and it is often situation-specific”.

What is important to consider about the relationship between SCM and TCO, is that “the supply chain provides a competitive advantage by ensuring that the total cost over the whole supply chain is optimised and that this advantage is passed on to the ultimate customer”, whilst TCO “permeates the whole supply chain” and “applies to all the links in the supply chain, as well as the total cost of the supply chain itself” (Hugo et al., 2006: 58).

3.7.3 Innovation performance

Cassivi (2006: 251) describes innovation as “changes which require a significant degree of novelty for the firm” (Cassivi, 2006: 251). He also believes that “innovation processes not only influence functional areas within a company, but also greatly affect the business partners’ involvement in a supply chain” (Cassivi, 2006: 251). Of importance to SCM is most probably process innovation, which is “concerned with the way products and services are designed and produced” (Cassivi, 2006: 251). Another form of innovation is rational innovations, which, in the context of a supply chain, are defined as “new (or improved) methods for governing buyer-seller interactions” (Cassivi, 2006: 251). According to Cassivi (2006: 251), aspects such as “trust, loyalty and market segmentation determine the existence of rational innovations in a supply chain”. Trust and commitment in particular are “critical elements in buyer-supplier relationships and in alliances” (Cassivi, 2006: 251).

From a performance management perspective, especially if it is aligned with SCM, innovation plays a critical role. This is because the success of the supply chain is more often dependent on innovation to allow it to attain its objectives. From an SCM perspective in particular, especially to encourage process innovation, the term innovation performance was developed. Damanpour (sighted in Chong et al., 2001: 416) defined innovation performance as the “adoption of an internally generated or purchased device, system, policy, programme, process, product, or service that is new to the adopting organisation”. From an SCM perspective, “firms must innovate in terms of processes, products and relationships in order to stay competitive in their respective networks (supply chains)” (Cassivi, 2006: 249). And, ultimately, it is through SCM that firms are able to share information internally and externally, thus making it possible to improve a firm’s innovation performance” (Chong et al., 2001: 416).

Through their research, Chong et al. (2001: 424) have found that “SCM practices also have positive and significant relationships with innovation performance”. This is because after firms implement SCM, they have found that these firms are more efficient in their production and they are also able to meet their customer demand better (Chong et al., 2001: 424). The strategic use of IT as a tool for information sharing offers a great advantage, as it assists the chain in developing more innovative products and services (Chong et al., 2001: 424-425). Ultimately, Chong et al. (2001: 425) found that in the firms where there are a high level of innovation performance, it also leads to high levels of organisational performance” (Chong et al., 2001: 425). An important finding in Chong’s study is the effect of innovation on internal operations, which they found to be the catalyst for innovation in the supply chain. Thus, innovation in internal operations seems to better equip organisations to be more innovative in their role as a supply chain partner (Chong et al., 2001: 425).

3.7.4 Supplier performance

It goes without saying that suppliers play a critical role in ensuring the success of the supply chain and in the context of supply chain management, the management of suppliers is probably the greatest aspect that needs to be managed. Thus, the selection of reliable and trustworthy suppliers is vital to an effective supply chain” (Joyce, 2006: 205).

Because the success or failure of the supply chain and even of the organisation depends on the performance of the supplier, Bhutta & Huq (2002: 127-128) have developed a few approaches that can be utilised to select the suppliers, namely:

- Total cost approach – During this approach, “the quoted price from each supplier is taken as the starting point and then each issue being considered is replaced by a cost factor. The business is awarded to the supplier with the lowest unit total cost. The inclusion of non-monetary issues is a major stumbling block.
- Multiple attribute utility theory – Assists with the formulation of viable sourcing strategies, because this approach is capable of handling multiple conflicting attributes, especially as it pertains to international supplier selection.
- Multi-objective programming – This approach is generally used in JIT scenarios, because “it allows a varying number of suppliers into the solution and provides suggested volume allocation by supplier”. The process is complex and in many cases impractical to implement.
- Total cost of ownership – “Looks beyond the price of a purchase to include many other purchase-related costs. This approach has become increasingly important, as organisations look for ways to understand and manage their costs better”.
- Analytical hierarchy process – “can be used in a multifactor decision-making environment’ and “provides a structured approach for determining the scores and weights for the multiple criteria used and standardises them, so that they can be compared and decisions made”.

Instead of approaches, Hugo et al. (2006: 83-84) have developed criteria that can be used when selecting suppliers, which are:

- Quality: Due to the impact it has on productivity, it ultimately impacts on customer service and satisfaction, which in turn affect the competitive advantage of the organisation.
- Price, cost and cost structure: this can be related to productivity in the sense that higher productivity should lead to a reduction in costs and for the purchasing organisation this will mean lower input costs, allowing the purchasing organisation to reduce their prices, allowing them to remain competitive and possibly achieve an increase in market share.
- Delivery: With the adage of just-in-time management to ultimately free up funds held up in inventory, there is always pressure to reduce inventories. Thus, suppliers

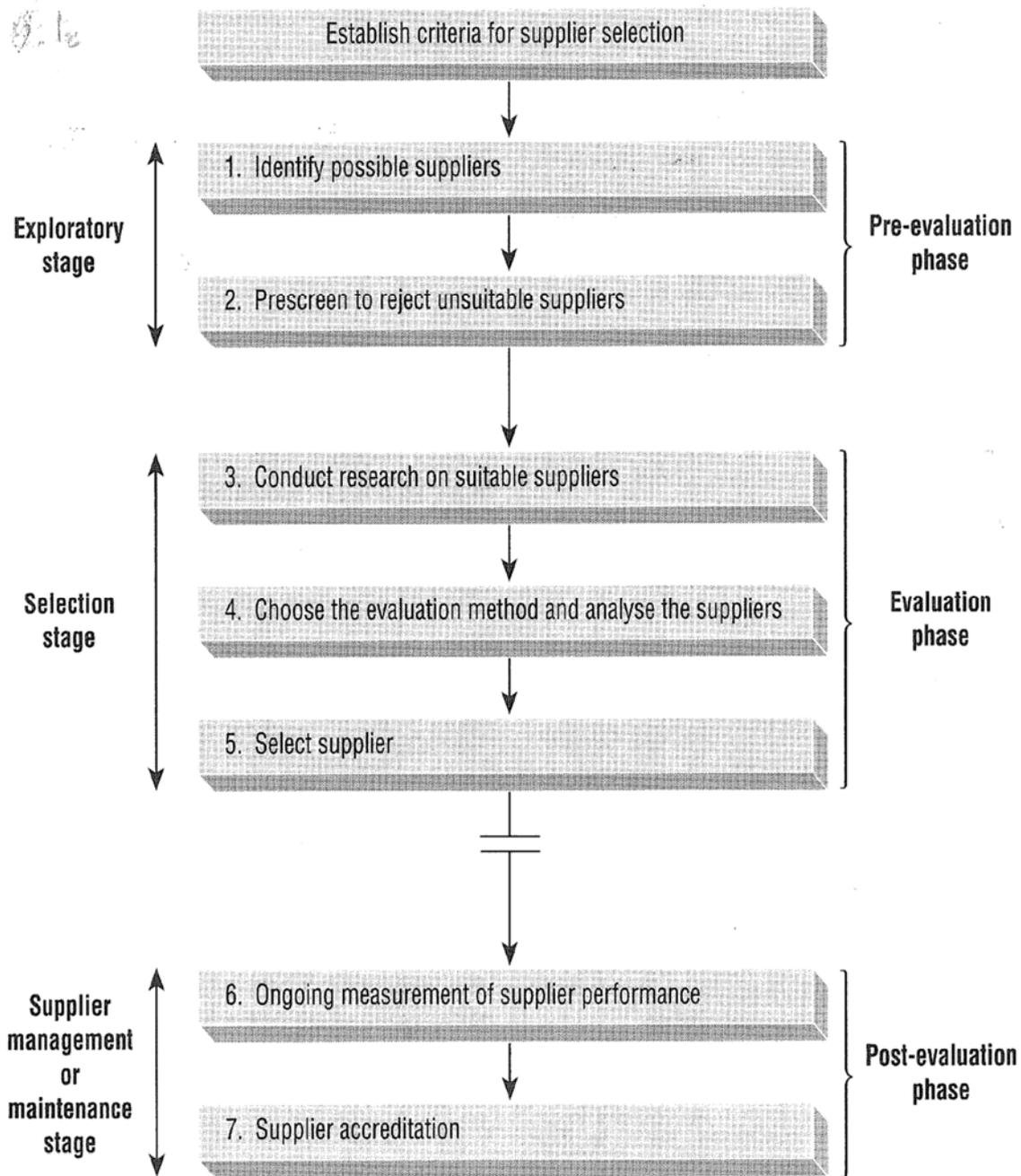
are often required to make smaller and more frequent deliveries, therefore their ability to do this becomes critically important.

- Time: The old cliché of “time is money” holds true in this regard, as time reduction plays an important role, both within the organisation and between organisations. The aim of time reduction in most instances is to fulfil customer demand as quickly as possible in order to obtain a competitive advantage.
- Flexibility: “The flexibility of the supplier is important; not only to determine how flexible they are, but also to determine in what areas they are flexible in”.
- Service: If one takes the abovementioned criteria into consideration, one would invariably find that they affect service. Thus, what is important when it comes to selecting suppliers based on this criterion, is that they should “not only do the bare minimum in order to qualify, but they should be at the top echelons with regard to the previously mentioned criteria”,
- Financial status and risk assessment: “It is imperative to determine the financial health or condition of a possible supplier”; this is because “selecting financially healthy suppliers reduces risk”.
- Systems, operations planning and control (OPC) and e-commerce: “An assessment of the operations planning and control systems used by the supplier is important. One needs to establish how the supplier plans, schedules and controls its operation”.
- Technology and process capability (including value analysis/value engineering (VA/VE)): Aspects that need to be considered is whether the supplier’s equipment and processes are able to meet the requirements of more demanding specifications, if its technological abilities will meet future requirements, the design capability of the supplier, its innovation capability, future capacity, and future capital expenditure programme.
- Supply chain management: Here it is important to determine the supplier’s position, role and importance in the supply chain, their appreciation and awareness of the concepts of SCM, their sourcing policies and criteria, etc.
- Environment, ethics and social responsibility: These include the adoption of an environmental management system, environmentally friendly packaging, reuse, and recycling, remanufacturing and waste disposal.
- Capabilities, responsiveness and motivation: present and future: “These criteria consider several desirable “supplier traits”, for example, the supplier’s

organisational capabilities, employer/employee relationships, staff morale, their attitude towards ongoing training and education of staff and management, their responsiveness, as well as their motivation”.

It should also be noted that “different combinations of selection criteria will be required for different situations” (Hugo et al. 2006: 88). According to Hugo et al. (2006: 89), the successful selection of suppliers requires a selection process which spans over three phases or stages as illustrated in figure 3.2.

Figure 3.2



(Hugo et al., 2006: 88)

Supplier selection is but one part of ensuring adequate supplier performance. The next step in ensuring adequate supplier performance requires the evaluation of their performance. According to Gunasekaran et al. (2004: 336), “the evaluation of suppliers in the context of the supply chain (efficiency, flow, integration, responsiveness and customer satisfaction) involves measures important at the strategic, operational and tactical level”. Examples of ways to measure performance at the strategic level include “lead time against industry norm, quality level, cost saving initiatives, and supplier pricing against market”

(Gunasekaran et al., 2004: 336). Measures at tactical level include “the efficiency of purchase order cycle time, booking-in procedures, cash flow, and quality assurance methodology and capacity flexibility” (Gunasekaran et al., 2004: 336). At operational level the measures include “ability in day-to-day technical representation, adherence to developed schedule, ability to avoid complaints and achievement of defect-free deliveries” (Gunasekaran et al., 2004: 336). Hugo et al. (2006: 46) offer the following indicators of supplier performance:

- Rejection ratio: = monetary value of consignments received – monetary value of consignments accepted ÷ monetary value of consignments received
- Availability: = number of times supplier has goods available on request ÷ number of requests to supplier
- Supplier turnover: = number of new suppliers (specific period) ÷ total number of suppliers (specific period).

Joyce (2006: 202) found that the periodic audit of suppliers is an excellent means of “keeping current on suppliers’ production (or service) capabilities, quality and delivery problems and resolutions, and suppliers’ performance on other criteria”. If the audit reveals problem areas, then solutions should be sought before more serious problems develop. Joyce (2006: 202) reveals that the factors typically covered by a supplier audit include “management style, quality assurance, materials management, the design process used, process improvement policies, and procedures for corrective action and follow-up”.

Through the evaluation or auditing of supplier performance, a supplier certification programme can develop (Joyce, 2006: 202). According to Joyce (2006: 205), “supplier certification is a detailed examination of the policies and capabilities of a supplier”. It requires the verification that “a supplier meets or exceeds the requirements of a buyer” (Joyce, 2006: 205). The certification of suppliers is an important aspect for the purchasing section in establishing both long-term and short-term relationships with suppliers (Joyce, 2006: 205). According to Joyce (2006: 205), one of the biggest advantages of using certified suppliers is that “the buyers can eliminate much or all of the inspection and testing of delivered goods”.

3.8 Conclusion

This chapter introduced performance management and it was discovered that no single definition exist, instead various definitions exist depending on perspective from which performance management is viewed. The chapter also highlighted the legislation that regulate performance management for municipalities as well as those specific to municipal supply chain management.

Since it was established that performance measurement is one approach that can be utilised for measuring and improving supply chain performance (Forslund, 2010: 352), this chapter set out to understand the notion of performance measurement, especially with regard to SCM. Thus it looked at the importance of SCM performance measurement and the significance thereof with regard to organisational performance. What was found, was that linking the SCM performance measurement targets to the organisational strategic objectives, will lead to improved organisational performance. The chapter thereafter introduced some SCM performance measuring tools which can be utilised to measure SCM performance. Of significance to this study is that out of the six tools identified, it is not required that only one tool be used at a time, but the combination of some of the tools can offer even greater advantages.

The chapter also looked at possible aspects that could hamper SCM performance measurement and found that of importance in this regard, is the human element which could negatively influence SCM performance measurement. Thus it is important to focus the areas of SCM performance measurement and exercise control over the measurement actions. Ultimately it was found that buy-in from all role-players forms a significant part of the success and outcomes of the performance measurement system. The chapter also highlighted the fact that, in order to improve or monitor the performance of the supply chain, it is important to control particular aspects of SCM such as inventory management, the total cost of ownership, innovation performance and supplier performance. Although recommendations will be made in chapter 6, of significance to this chapter is the fact that even though most of the measuring tools discussed were tested in the private sector, they can be modified for application in the public sector. Another important aspect to be highlighted is that it is important that a holistic measurement approach be undertaken in order for SCM activities to add value.

Chapter 4

The context of supply chain management performance in the Hessequa case

4.1 Introduction

The previous chapter introduced Performance Management (PM) and it was discovered that if correctly utilized, it can significantly improve the performance of Supply Chain Management (SCM). The notion of performance measurement was also unpacked to assist in understanding how it can aid SCM improvement. The chapter also introduced and discussed the performance measuring tools that may be utilized to measure SCM performance. Of significance to the previous chapter was the finding that linking SCM performance measurement targets to the strategic objectives of the organization will greatly improve the performance of the organization.

This chapter will set out to introduce Hessequa Municipality as the case study, by providing a historical overview of the case as well as the legislative mandate for its existence. Next, the chapter will also set out to discover how SCM has been implemented as well as the extent to which performance management and in particular SCM performance management has been implemented at Hessequa Municipality.

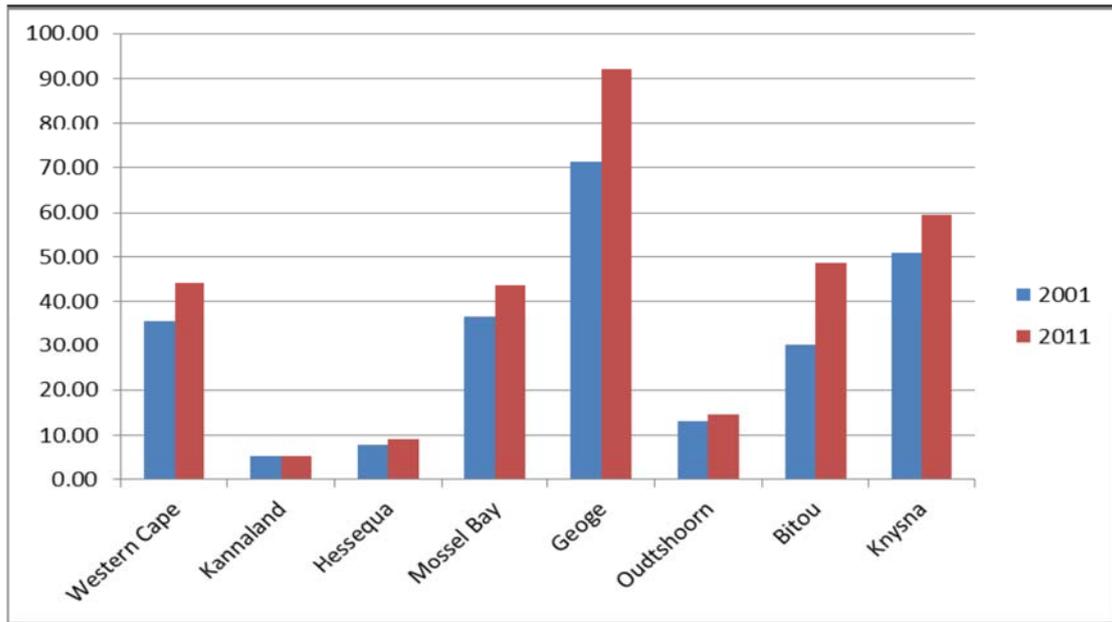
4.2 Background to Hessequa Municipality

Hessequa Local Municipality was established in 2000 as a result of the amalgamation of the former Slangrivier, Heidelberg, Stilbaai, Langeberg, Albertinia and Gouritsmond Municipalities (Hessequa Municipality, 2013: 35). The municipality covers a total area of 5 739 km² and is located along the southern shoreline of South Africa from the Gourits River in the east to the Breede River to the west (Hessequa Municipality, 2013a: 35). Towards the north, the Langeberg mountain range forms a border between Hessequa and the Klein Karoo (Hessequa Municipality, 2013a: 35). The N2 national road connects the three inland towns namely Albertinia, Riversdale and Heidelberg and forms the main transportation conduit across the municipality (Hessequa Municipality, 2009: 20). From a population perspective, it consists of a population size of approximately 52 030, with a population density of 9, 31 people/km² (INCA, 2013: 3). This means that Hessequa Municipality is the

second least densely populated area in the Eden District, with Kannaland Municipality being the least (5,15 people/km²) and George Municipality (92.01 people/km²) the most densely populated (INCA, 2013: 3). Figure 4.1 is illustrative of this.

Figure 4.1

Population density in the Eden District (number of people per km²)

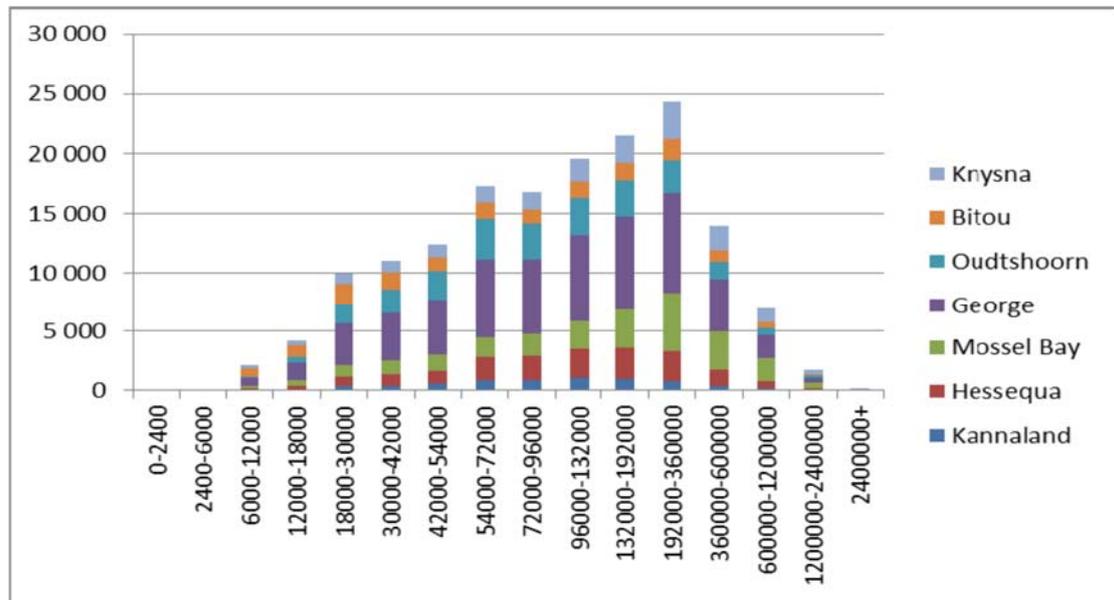


(INCA, 2013: 3)

From an economic perspective, the current annual per capita income of Hessequa Municipality is R59 166, which is the third highest in the Eden District after Mossel Bay (R73 926) and Knysna (R70 199) and has over the past ten years overtaken George and outperforms Bitou (INCA, 2013: 3). This translates into an annual income per household in Hessequa of R179 831 (INCA, 2013: 3). Figure 4.2 provides a graphic illustration of this and also indicates that a high percentage of households within the Hessequa area earns an annual income of between R54 000 and R360 000. This is largely due to the high number of pensioners and those above the age of 60 that reside in Hessequa (INCA, 2013: 5).

Figure 4.2

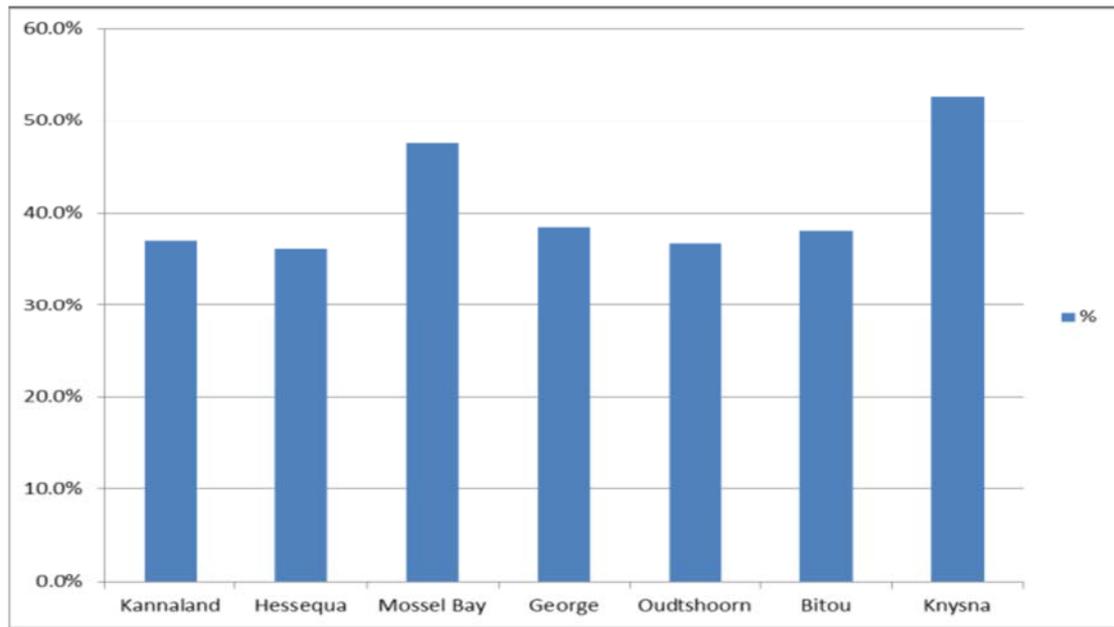
Number of households per income category in the Eden District



(INCA, 2013: 4)

In terms of the economically active population (EAP), figure 4.3 illustrates that Hessequa has an EAP ratio of less than 40%, which is more or less in line with most of the other municipalities in the Eden District, with the exception of Knysna and Mossel Bay. In terms of unemployment, Hessequa is fairly well off if one considers that its unemployment rate is 6.5% or 1 214 people of the 18 822 economically active population (INCA, 2013: 5). This compares well if one considers that George has a 19.6% and Mossel Bay a 15.3% unemployment rate, whereas the national and provincial rates are 24.7% and 21.2% respectively (INCA, 2013: 5)

Taking the total gross economic value add into consideration, which is indicative of the monetary value of the local area, Hessequa adds around R1 281 million or 7.02% of all the municipalities in the Eden District (INCA, 2013: 7). In terms of sector-specific contribution, the agricultural sector's contribution has halved over the past ten years from 27.2% in 2001 to 13.7% in 2011 (INCA, 2013: 7). Community services also indicated a similar declining trend from 23.8% to 18.3% (INCA, 2013: 7). In turn, the contribution of construction has doubled from 7.7% to 15.4%, whilst trade and finance both increased from 5% to 20.7% and 15.1% respectively (INCA, 2013: 7).

Figure 4.3**Economically active population (EAP) as a % of population**

(INCA, 2013: 4)

4.3 An overview of municipalities

In terms of the Municipal Systems Act, a municipality can be defined as “an organ of state within the local sphere of government, which exercises legislative and executive authority within boundaries as determined by the Demarcation Board. It consists of (1) the political structures; (2) administration; and (3) communities of the municipality. It functions within its area according to statutory and other relationships and is a separate legal personality, which means that its community is not liable for the actions of the municipality” (RSA, Act 32 of 2000: 137). This definition of a municipality offers a description of a very unique organisation. As an institution, it has the following characteristics:

- It is located within a bigger system (autonomous yet interdependent)
- It faces unique managerial challenges by accommodating both political and administrative leadership
- The client or consumer (communities) is defined as part of the institution
- The relationship with other stakeholders is a key indicator of the success of the municipality (LGSETA, 2010: 21).

The Municipal Systems Act prescribes that the responsibility of municipalities is to give effect to the provisions of the Constitution by means of the following:

- Give priority to the basic needs of the local community
- Promote the development of the local community
- Ensure that all members of the local community has access to at least a minimum level of basic municipal services (RSA, Act 32 of 2000: 196).

Section 152 of the Constitution of 1996 describes the objectives of local government as follows:

- To provide democratic and accountable government for local communities;
- To ensure the provision of services to communities in a sustainable manner;
- To promote social and economic development;
- To promote a safe and healthy environment; and
- To encourage the involvement of communities and community organisations in the matters of local government.

Section 152 also states that “a municipality must strive, within its financial and administrative capacity, to achieve the objectives set out in sub-section (1)”.

From the abovementioned, it becomes apparent that municipalities are no longer just merely responsible for infrastructure, administration and regulations (by-laws). They also have a developmental role and are described as an organ of state whose task it is to improve the quality of communities within their boundaries. In other words, municipalities have greater responsibilities for its citizens. As with all spheres of government, local government must also promote the Bill of Rights, which reflects the nation’s values with regard to human dignity, equality and freedom and must also uphold the principles enshrined in the Constitution.

4.4 SCM implementation at Hessequa Municipality – An overview

The Supply Chain Management Annual Report of Hessequa Municipality for the 2012/2013 financial year provides an indication of the level of its SCM implementation. The report reveals that demand management is still an area for concern which needs to be addressed. This is because, even though they have implemented a “tender plan”, the lack of coordination between the SCM unit and the user departments is of concern (Hessequa, 2013b: 2). This lack of coordination causes procurement bottlenecks at the end of the

financial year, when there is a rush from departments to spend their budgets. The solution proposed is the adoption of an integrated planning approach “by relating the tender plan to the Service Delivery and Budget Implementation Plan (SDBIP) and ultimately the Integrated Development Plan” (Hessequa, 2013b: 2). The solution offered further requires that they “work in cross-functional teams to ensure that the procurement is tied in with project, programme and ultimately strategic objectives” (Hessequa, 2013b: 2).

In terms of acquisition management, the annual report reveals that 2 377 requisitions were processed for the procurement of goods and services amounting to R13 525 077.02 (Hessequa, 2013b: 3). Fifty three tender processes were used for the procurement of goods and services amounting to R27 665 852.42 (Hessequa, 2013b: 3). During the 2012/2013 financial year, 496 deviations were processed amounting to R3 946 331.18 (Hessequa, 2013b: 6). With regard to service providers registered on the municipality’s supplier database, it shows that 2 040 suppliers are registered but 1 360 of the registered suppliers are non-compliant with the listing criteria (Hessequa, 2013b: 6). Thus, over 67% of the listed suppliers are non-compliant, whilst out of the local suppliers listed, 65% are non-compliant (Hessequa, 2013b: 6). The report also reveals that the lack of local, compliant suppliers makes it difficult for the SCM unit to procure locally (Hessequa, 2013b: 6).

The annual report also revealed that logistics management and contract management are areas for concern, but that progress is being made and that contract management is near implementation (Hessequa, 2013b: 7). Most of the officials involved in the SCM processes have received training and many have also signed the code of conduct (Hessequa, 2013b: 7). With regard to risk and performance management, the report is very vague about those aspects and it could not be ascertained how risk and performance management is implemented.

4.5 SCM performance at Hessequa Municipality – An overview

From a performance management perspective, SCM plays a critical part in the performance of the organisation, firstly by means of optimising and improving internal operations, but also in terms of ensuring that those organisations that form part of the supply chain have the capabilities to allow the organisation to perform optimally. To ensure optimal performance, both of the organisation and of the supply chain, tools and

techniques were identified to assist with this. Thus, ultimately what has been found, is that the effective and efficient management of the supply chain portfolio can be regarded as the key to optimal organisational performance (Steyn, June 2010: 1)

Section 119 of the Hessequa Municipality SCM Policy states that the accounting officer “must establish and implement an internal monitoring system in order to determine, on the basis of a retrospective analysis, whether the authorised supply chain management processes were followed” and whether the objectives of the policy were achieved (Hessequa, 2013c: 108). Further, according to the policy, performance management shall be “characterised by a monitoring and retrospective analysis to determine whether:

- Value for money has been attained
- Proper processes have been followed
- Desired objectives have been achieved
- There is an opportunity to improve the process
- Suppliers have been assessed and what that assessment is; and
- There has been deviation from procedures and, if so, what the reasons for that deviation are” (Hessequa, 2013c: 108).

The policy further requires that the Performance Management system focuses on the following:

- achievement of goals
- compliance with norms and standards
- savings generated
- cost variances per item
- non-compliance with contractual conditions and requirements; and
- the cost efficiency of the procurement process itself (Hessequa, 2013c: 108).

The Performance Management Framework of Hessequa Municipality provides an indication of how it views performance management. The framework is a very high-level document, which deals mostly with the setting of indicators for councillors and senior management. It does not deal specifically with SCM or any other specific area, but is more focused on providing a framework for organisational PM. It also realises the need for aligning activities towards the attainment of strategic goals as stipulated in the IDP (Hessequa, 2013a: 12). Of significance to SCM performance management, is the fact that

the framework deals with service providers and the importance of measuring their performance to ensure that their performance assists with the attainment of strategic goals or objectives (Hessequa, 2013a: 24).

As previously mentioned in this chapter, Hessequa Municipality is still in its infancy with regard to contract management and supplier performance management. The author could ascertain that the municipality does have a performance measuring system in place for the management of supplier performance with regard to the procurement of goods and services of less than R30 000 and for procurement above R200 000. However, these systems were still in their initial stages of implementation, as no reports exist in respect of the performance of the suppliers. Thus, with regard to SCM performance measurement, the only tools or reports that provide an indication are the annual and quarterly reports which deal with the implementation of the SCM policy, which is a legislative requirement. The performance management system of Hessequa Municipality did allow for SCM-related matters up until the end of the 2012/2013 financial year, but those matters were mostly from a legislative compliance perspective and not linked to the organisational strategic objectives. Since 1 July 2013, the SCM matters were moved from the PMS to the compliance management system.

4.6 Conclusion

The goal of this chapter was to introduce Hessequa Municipality to the reader by providing a historical overview of the organisation, as well as the statutory and mandated environment within which it operates as a public sector organisation. The chapter also investigated the level of SCM implementation at Hessequa Municipality, as well as the nature of SCM performance measurement.

It was observed that Hessequa Municipality is not a very densely populated area, with both urbanised and rural tendencies. As with all other municipalities in the country, it operates within a much regulated environment due to the fact that it exists to primarily serve its community. Performance management within the municipal environment is a legislative requirement and highly regulated in terms of how it should be implemented.

Although Hessequa Municipality adheres to many of the legislative requirements with regard to performance management, it was observed that SCM performance management

is only measured from a legislative compliance perspective. SCM performance management from an organisational performance perspective does not currently form part of its PMS. Thus, because SCM performance is not linked to the organisational performance, no SCM performance measurement is conducted, apart from the fact that the organisation is in the initial stages of measuring supplier performance.

Chapter 5

The results of the case study

5.1 Introduction

Whilst defining SCM both from a public and private sector perspective in chapter 2, it was established how important the concept of adding value to any SCM process is. Thus, irrespective of whether a process management (private sector) or system management (public sector) process is being followed, the ultimate aim of any SCM process should be to add value.

Thus far, this paper has highlighted the importance of SCM performance measurement and also identified certain tools that can be utilised to assist with this. It was also established that Hessequa Municipality is still focusing on the compliance aspects relating to SCM and is still in its infancy with regard to SCM performance management. Taking this into consideration, this chapter will provide an analysis of two key questions, namely

:

- What is the institutional readiness of Hessequa Municipality to progress from compliance-focused SCM implementation towards a performance-driven SCM function?
- How significant do key stakeholders view SCM to make a significant contribution to the performance of Hessequa Municipality?

In addressing the above questions, the chapter provides an analysis of the case study by applying the criteria to measure the overall ability of the institution in terms of the financial capability model (Appendix A) for SCM as utilised by the Western Cape Provincial Government for rating the level of SCM implementation at municipalities. The author is of the opinion that by relating the findings to existing criteria for municipalities, it makes it better to gauge the level of implementation of the case study against existing criteria for municipalities. This will also give an indication of the institutional readiness of the organisation to move beyond compliance focus to a more performance orientated focus. The first part of the chapter which deals with the first question, will also offer an institutional and critical analysis of Hessequa Municipality in terms of SCM implementation

based on set criteria. The second part of this chapter, which in many respects forms the basis of this study, will provide an indication of how critical stakeholders view the significance of SCM towards improved performance of the organisation.

The analysis and findings of the study are based on two categories of sources. In the first instance, the researcher reviewed a variety of documents including the municipality's annual and quarterly SCM implementation reports for the 2012/2013 financial year, internal organisational documents relating to previous assessments conducted by the Western Cape Provincial Treasury, as well as the German International Cooperation (GIZ). In the second instance, purposeful interviews were conducted with key stakeholders who are both directly and indirectly affected by the SCM activities of Hessequa Municipality.

5.2 The SCM capability of Hessequa Municipality – Applying the model

The capability model seeks to ascertain the capability level of a municipality with regard to sound financial management practices. For the purposes of this study, the SCM capability will be analysed. The model uses six levels, namely; the start-up level, development level, control level, information level, managed level and optimising level. This study will focus on level three, which is the control level, because at this level the focus is on compliance and control. Should Hessequa Municipality meet this level of capability, it will mean that the transition to level four can be attained. Level four focuses on measuring how resources are used. The major criteria to consider during the control level, are the availability of adequate resources, compliance with laws and regulations, control and future developments with regard to SCM implementation.

5.2.1 Availability of adequate resources

As far as the vacancy rate is concerned, it was observed that in terms of the approved SCM unit structure (Appendix B), only six of the twelve posts have been permanently filled. This equates to a vacancy rate of 50%. It should however be noted that the assistant accountant: acquisition management position has been filled on a contractual basis for the past three years and one of the vacant acquisition clerk positions has been filled on a half-day basis by one of the expenditure division's employees for the past four years. During my analysis, I also observed that the municipality has posted advertisements for the filling of the two vacant acquisition clerk positions, the assistant accountant: acquisition

management position and the assistant accountant: bid administration position since June 2013. To assist with contract management, performance management and database administration, the municipality has also appointed a financial intern as from 1 August 2013.

The collaborator programme is used to process requisitions for the procurement of goods and services by means of quotations or tenders. This programme is utilised for process mapping and to maintain records and evidence of the processes followed for auditing purposes. The Venus financial system is used for the capturing of purchase orders as well as for accounting purposes. Internet and e-mail access is also available to all officials within the SCM unit, as well as landline telephones. All SCM personnel have access to a computer, printers and fax machines. Sufficient stationery and office space are also available. The office space is sufficient to accommodate all positions, should the vacancies be filled in future.

5.2.2 Compliance

In terms of compliance, it was observed that Hessequa Municipality meets most of the compliance-related requirements imposed by legislation. This was evident in the 2011/2012 audit report, where no SCM-related findings were made. Furthermore, the municipality has adopted an SCM policy which is in line with section 112 of the MFMA of 2003. In fact, the policy is more elaborate than the model policy that was developed by National Treasury and prescribed for use by municipalities. Where the model policy comprises 52 sections, the Hessequa Municipality SCM policy comprises 128 sections, which include policy directives on preferential procurement, ethics, combative practices, risk management, acquisition management and contract-related matters. Although the model policy also includes these aspects, excluding preferential procurement, the SCM policy elaborates more on the topics by including more operational issues that the municipality struggled with and which are not necessarily addressed in the model policy.

The municipality also has an established SCM unit which handles most SCM-related activities. The author could ascertain that a hybrid SCM system was in place, as not all SCM-related activities have been centralised within the SCM unit. Officials, particularly in Riversdale, had to obtain their own quotations for the procurement of goods and services

under R30 000 (VAT incl.) due to the capacity constraints within the unit. Procurement by means of tenders was vested within the SCM unit.

A bid committee system was also in place with the three required bid committees functioning properly, as required by legislation. No councillors or persons who are not officials of the municipality are members of the bid committees. Proper delegations were also authorised by the municipal manager, especially with regard to making the final award, authorising deviations and entering into contractual agreements on behalf of the municipality. It was also found that transactions were transacted in accordance with the required legislation. From a reporting perspective, it was observed that Hessequa Municipality met all the reporting requirements prescribed by legislation and even submitted additional reports to council to enhance their oversight ability, as required by legislation.

From what was observed, the municipality met all statutory and legislative obligations. However, issues related to contract management, logistics management and performance management were raised as a cause for concern in the annual SCM implementation report submitted to council. The report indicated that “no official” logistics management and contract management systems were in place, which makes it difficult to ensure the attainment of value for money (Hessequa Municipality, 2013: 7). However, the municipality was close to implementing these systems, especially the contract management system (Hessequa, 2013: 7). With regard to measuring the performance of suppliers, the municipality was still in the process of implementing such a system (Hessequa Municipality, 2013: 7).

5.2.3 Control

With regard to control, the model looks at aspects such as authorisation, segregation of duties, monitoring, reconciliation and the safeguarding of assets. As was illustrated under compliance, the municipality does have adequate delegations in place, which transcends into adequate segregation of duties and appropriate authorisation systems and procedures.

In terms of segregation of duties and authorisation, the municipality utilises its financial and administrative information technology systems (Collaborator and Venus) for this

purpose. These programmes are set up in such a manner that they assist with delegations approved and ensure that those officials and committees who have been delegated certain powers, are able to give effect to that power and also restrict access to officials not afforded that power. Thus, the accounting officer authorised all managers to approve and give effect to budgetary expenditure of all votes under their control. The managers in turn delegated powers to officials directly under their supervision to approve expenditure to a maximum of R30 000 (VAT incl.). This means that any official who has access on the Collaborator system, may register a requisition for the procurement of goods or services, but only certain officials with the necessary authority can authorise that such goods or services be procured.

Once authorised, the requisition is submitted to the acquisition section of the SCM unit, where the requisition is checked for correctness and completeness by the assistant accountant: acquisition management. This means that the official checks that the correct official authorised the requisition, that the correct vote number/s are used and that the specifications are in line with the required legislation and policy directives. It should be noted that the official only does this for procurement under R30 000 (VAT incl.) or for deviations. If the procurement is for the procurement of goods or services under R30 000, the acquisition clerks will then obtain quotations from suppliers registered on the supplier database of the municipality and evaluate the quotations in line with the specifications. The assistant accountant: acquisition Management then verifies if that process was followed correctly. If it was done correctly, a provisional award is made and the requisition is returned to the user who registered the requisition to indicate if they are happy with the supplier and the goods or services offered. Once satisfied, the requisition is returned to the acquisition section to generate a purchase order on the Venus system. The accountant: acquisition management authorises the purchase order and also signs it.

Procurement above R30 000 follows a different process, as such procurement occurs through the bid committee system. For this system, the bid specification committee (BSC) approves the specifications, bid documents and advertisement. The bid evaluation committee (BEC) evaluates the bids and makes a recommendation to the bid adjudication committee (BAC), who awards the bid. It should be noted that the BSC and the BAC are standing committees with permanent members, whereas the BEC consists of officials of the department/s responsible for the project and officials of the SCM unit. The BSC and

BAC only have the power to execute their mandate to the value of R10 million. The accounting officer approves procurement above R10 million and makes the award.

With regard to deviations, a mixture of both systems is followed. This means that the acquisition section determines the type of deviation and the accountant: acquisition management makes recommendations to the body that has the authority to approve it. For deviations under R30 000 (VAT incl.) the department managers are authorised to approve such deviations, whilst for deviations above R30 000 up to R10 million (VAT incl.), the BAC is authorised to approve such deviations.

Authorisation and the segregation of duties for registering suppliers on the supplier database of the municipality takes place independently within another section in the SCM unit. During such a process, the supplier database administrator registers qualifying suppliers on the supplier database and the head: SCM authorises the registration. The database administrator is also allowed to update the status of the supplier without authorisation, but when it comes to changing bank details of suppliers, such action must be authorised by the head: SCM.

Both programmes and systems allow for the monitoring of procurement processes on a continuous basis, whereas reconciliations are done on a daily basis. This means that reports can also be generated on a daily basis.

Assets in the form of office equipment are very well safeguarded on fully secured premises. Contracts and bid documents are safeguarded in safes with an adequate file management system being utilised. Fire extinguishers were adequately placed. Electronic backups were also hosted on the server, where records of the processes, as well as electronic versions of substantiating documents such as minutes and reports were kept electronically. Backups thereof were also hosted at the local bank in disc format.

As mentioned earlier, even though the municipality does have stores to warehouse inventory, many of the items which should be kept as stock are not kept in these stores, but are mainly warehoused informally. With regard to the said items that are informally warehoused, adequate control is lacking, which can result in financial loss to the municipality in the form of fraud and even corruption.

5.2.4 Future developments

The most significant finding with regard to future developments was the municipality's progression towards performance measurement in the form of supplier performance measurement. This is important, because it will at least allow the municipality to monitor and evaluate whether or not suppliers provide them with what was agreed upon.

The municipality is also in the process of developing a standard operating procedure and business process manual, which will be in operation for utilisation by all officials using the SCM system and procuring goods and services.

Taking the criteria of the control level and the findings into consideration, it can be correct to say that Hessequa Municipality meets all of the criteria almost one hundred percent. There may just be some issues with regard to the safeguarding of assets through inventory control. Thus, in answer to the first question, this study has found that Hessequa Municipality is on the verge of being ready to move towards a performance-driven SCM function.

5.3 SCM contribution to organisational performance – Stakeholder analysis

In addressing the first question, it was found that Hessequa Municipality as an institution meets all the requirements of the control level (level 3), with only a few actions needed to ensure full compliance with the criteria. However, as is normally the case when implementing change, it is important to obtain stakeholder buy-in otherwise the change will not have the necessary anticipated impact. In this instance and in answering the second question, it was important to gain insight into stakeholders' understanding of SCM and whether they feel that measuring SCM performance could add value to the organisation.

In addressing the matter, interviews were conducted with three groups, which comprised those stakeholders who regularly deal with SCM-related matters on a continuous basis and those stakeholders who do not deal with SCM-related matters on a regular basis but are still affected by it. The groups comprised of both internal and external stakeholders. The first group consisted of senior management, a SCM practitioner and the internal auditor. The second group consisted of Councillors (Mayor and Finance Portfolio Chairperson), the Head: Local Economic Development and Tourism, and the Head:

Strategic Services. These were all internal stakeholders, whilst the third group comprised of external stakeholders who are represented by two local business forum members who are also suppliers of goods and services to Hessequa Municipality. The interview questions for the groups can be found in appendix C. The rationale behind using this three-pronged approach was based on the assumption that the first group would view SCM and its effect from an organizational perspective with regards to operational excellence and legislative compliance. This because they are responsible for policy development and implementation. The second whereas the second group would see SCM in terms of the impact it can make on society with regards to how, from who and when goods and services are procured. The third group would experience the impact of the SCM implementation and thus would provide a different perspective than the other two groups.

During the interview process, three major areas formed the basis of the interview. The first area was to understand how significant the interviewees saw SCM. Thus it focused on gaining insight into their understanding of municipal SCM, if they felt that SCM can add value and thirdly if SCM should form part of the organisational strategy. The second focus area was on performance management and the measuring of SCM performance. This related to how the stakeholders felt performance management fits into the municipal context, whether SCM performance should be measured, and if the SCM performance measurement should be aligned with the strategic objectives of the municipality. The third focus area was on their rating of the current level of implementation at Hessequa Municipality and their suggestions for improvement.

5.3.1 The significance of SCM

The interview process revealed that SCM is seen by the interviewees as a means of procuring goods and services in line with legislation. In the municipal context, this is the correct interpretation of SCM, as it is so heavily regulated, especially from a procurement perspective. Since all the interviewees deal with SCM from a procurement perspective, either through procuring goods and services or supplying them, it is a fairly good indication of what SCM is. Other aspects noticed from their descriptions, is that it is a means of planning expenditure, that it is a means of controlling expenditure and that through spending it provides a “snapshot” of the economy, especially with regard to how actively local suppliers participate and what goods and services can be procured locally (Prins, 2013).

All the respondents indicated that SCM can add value to the operations of the municipality, not only from a legislative perspective, but also from a local economic development (LED) perspective through the spending of funds locally. By spending locally, it was thus believed that it would improve local capacity and also improve the living conditions of the residents (Nel, 2013). Some respondents such as Nel, Prins, De Villiers (2013) and Jacobs (2013) also indicated that it can assist with good governance by promoting legislative compliance indicating sound financial management, which would ultimately lead to a clean audit finding by the municipality. Thus, due to the fact that all the respondents felt that it can add value, they all indicated that it should form part of the organisational strategy.

5.3.2 Performance management and the measurement of SCM performance

Performance management (PM) was seen by all the respondents as a tool or system that belongs in the organisation. This is because it allows organisations to set objectives and then manage its systems and processes to achieve those objectives (De Villiers, 2013). It was also seen as a means of showing stakeholders what targets have been achieved or that the municipality is on route to achieving those targets (De Villiers, 2013). It also allows the municipality to see when it is off track and then to implement the necessary measures to get it on track again. It should also be stated that even though all respondents indicated that there is a place for PM in the organisation, one of the respondents viewed it from a human resource performance management perspective, which was not the perspective of the study (Lotriet, 2013). The perspective of this study was to manage performance from an organisational perspective.

In terms of measuring SCM performance, all the respondents felt that it should be measured. Of significance is the response of the executive mayor of Hessequa Municipality who indicated that SCM performance should be included in the measurement model to assist with organisational performance (Nel, 2013). The Head: Strategic Services also indicated that SCM performance should only be measured if its aim was to achieve strategic objectives (De Villiers, 2013). Thus, what the performance measuring system intends measuring should be clearly defined. De Villiers (2013) also indicated that because of the cross-cutting nature of SCM through the organisation, it is important that what is measured should include all line departments as well. Another interesting observation was

that many felt that the measuring criteria should be developed in such a way that its ultimate aim was to measure impact.

In terms of aligning SCM performance measurement with the organisational strategy, all of the respondents indicated that the two should be aligned. Many of the respondents indicated that the importance of the alignment should be towards the attainment of strategic objectives which result in the economic empowerment of the local community. De Villiers (2013) felt that it was already aligned, because the expenditure trends of the municipality and the budget allocated for the procurement of goods and services are aligned and synchronised. The integration of objectives was also indicated as being important to the success of the organisation.

5.3.3 Current level of SCM implementation and suggestions for improvement

The respondents indicated that the level of SCM implementation was appropriate, but all of the internal stakeholders who are regularly involved with SCM felt that the current focus of Hessequa Municipality is mostly on acquisition management, with not much emphasis being placed on the other elements. Even considering this, all indicated that they would give the current SCM implementation a good rating. This is because the system and processes, to a large extent, are paperless and, most of all, the system seems to be working.

Many of the respondents offered suggestions for improvement, whereas De Villiers (2013) indicated that he is unable to make suggestions because he does not deal with SCM as often to make a meaningful contribution. One of the suggestions indicated that the tender documents should be updated to include conditions which would improve local expenditure or procurement (Nel, 2013). The system should also aim to improve the development of local suppliers (Stroebel, 2013). It was further suggested that other departments should also participate in the SCM function, as it is their budget that is being spent for service delivery purposes (Prins, 2013). A further suggestion relates to data capturing and the availability of data which can be used to give an indication of how and where money is spent, and on what commodities and services (Lotriet, 2013).

5.4 Conclusion

This chapter set out to answer two important questions with regard to Hessequa Municipality's readiness and willingness to measure and manage SCM performance to improve organisational performance. Utilising the financial capability model for SCM gave an indication of the institutional readiness of the organisation to move towards setting, measuring and managing SCM performance. Once the readiness was determined, the study, through interviews, set out to determine the willingness of key stakeholders to implement a performance management system for SCM that is aligned and in support of the strategy of Hessequa Municipality.

The study found that Hessequa Municipality meets all the requirements of level 3 of the model. This level focuses on compliance and control aspects. It was also found that some minor control aspects relating to inventory management, especially stock kept informally, and contract management need to be improved. In terms of the willingness to move to the next stage, which is the measurement of performance, it was found that all of the respondents were in favour of supply chain performance being measured and that it should be managed in such a manner that it is aligned with the organisational strategy with the aim to assist with the attainment of strategic objectives.

Chapter 6

Summary, recommendations and conclusions

6.1 Introduction

Government performance in terms of service delivery and appropriation of funds has been under the spotlight for the past 19 years, since the dawn of the new democracy in South Africa. In recent years, especially with the downturn in the world economic climate, citizens have scrutinised government even more to ensure that sound financial practices are applied. The increase in incidents of fraud and corruption, fruitless and wasteful expenditure as well as the misappropriation of funds has called for greater oversight in how government is run. For municipalities the situation is the same and in some situations the extent of the mismanagement leads to violent protests, where citizens demand better service delivery for their money.

This study was embarked upon the premise that SCM can make a major contribution to generating value from the organisation's SCM processes, particularly procurement. Thus, the view was that SCM can contribute towards the organisation obtaining its strategic objectives through its procurement and other SCM-related processes. The rationale was that these processes should be coupled to performance targets related to the strategic objectives to ensure that the organisation extracts maximum benefit and value. Thus, by managing and measuring SCM performance, the organisation is in a better position to gauge whether it is still on the correct path.

This study focused on SCM implementation at municipalities, particularly Hessequa Municipality, which was the case study in this instance. The objective of this chapter is to encapsulate the discussions generated in the previous chapters, discuss the research findings and propose recommendations.

6.2 Summation of previous chapters

Chapter One set out to draw the reader's attention to the significance of this study and the research problem, which was based on the rationale that municipalities are not extrapolating sufficient benefits from their SCM processes and whether their focus should

shift from compliance to managing results based on predetermined objectives. This will allow municipalities to obtain more value and will ensure that their SCM processes are aligned with their strategic objectives, especially with regard to the procurement of goods and services. Taking the abovementioned into consideration, this study focused on determining the level of SCM implementation to ascertain whether municipalities, in particular Hessequa Municipality, meet the compliance criteria and whether there is a willingness to progress to a stage where SCM performance can be measured.

The objectives of this study were focused on:

- Distinguishing municipal SCM as prescribed in literature and legislation;
- The contextualisation of SCM performance management at Hessequa Municipality to determine the next phase of development; and
- The development of performance measurement tools against which SCM performance can be measured.

Chapter One also describes the research design and the various data collection methods that would be used to gather and analyse information applicable to this study. The data collection was based on a documentary survey and interviews with key stakeholders directly involved in and affected by the SCM processes, as well as those indirectly involved but still affected by the SCM processes.

Chapter Two set out to introduce the concept of SCM by discovering how it is defined in literature and legislation. It also traced the evolution of SCM over the past three to four decades. The development of SCM was discussed by distinguishing it from logistics and procurement. The chapter also looked at how to best implement SCM by exploring the barriers/pitfalls that should be taken into consideration. It further revealed the importance of integration in the sense that all agents in the supply chain should join efforts towards a common goal. This included both internal and external integration.

The chapter next described SCM in the municipal environment, focusing on the various elements of municipal SCM, as well as the various pieces of legislation by which it is governed. Based on the research conducted to formulate this chapter, it was discovered that both the private and public sector viewed SCM as a value-adding activity. The two

sectors just manage it differently. The private sector advocates that it be managed as a process, whilst the public sector advocates that it be managed as a system.

Chapter Three introduced the concept of performance management as well as the legislative requirements from a municipal perspective for the implementation of performance management. The chapter also focused on performance measurement and the importance thereof. It also identified certain tried and tested tools that exist to measure SCM performance. The chapter identified aspects that could hamper SCM performance measurement, as well as tools that can be utilised to improve SCM performance. Of significance to this chapter, was the fact that although the tools identified were developed in the private sector, they are also applicable to the public sector, with some slight modification.

was divided into two segments. The first segment The second part of the chapter introduced the concept of performance management and also focused on SCM performance management at Hessequa Municipality.

Chapter Four introduced the case study, namely Hessequa Municipality, by providing a historical overview of the case as well as the implementation of SCM at Hessequa Municipality. It was found that Hessequa Municipality is a hybrid of rural and urban and that it is faced with the same regulatory requirements as other municipalities. The chapter also highlighted that Hessequa Municipality adhered to many of the legislative requirements with regard to PM. However, it was found that where SCM performance management is concerned, it was not linked to the organisational performance and that the municipality is still in its initial stages of measuring supplier performance.

Chapter Five was aimed at conducting an in-depth analysis and evaluation of Hessequa Municipality in terms of its institutional readiness. To determine its readiness, the financial capability model for SCM was utilised. The readiness was measured in terms of the criteria of level three, which is the control level with its focus on compliance and control. The next part of the chapter tested Hessequa Municipality's willingness to progress beyond compliance towards a performance management and measurement approach.

6.3 Recommendations

The findings in chapters two, three and four reveal some key aspects for the successful implementation of SCM, how to appropriately measure SCM performance and the tools or combination of tools that should be used. Based on these findings, the author makes the following recommendations:

Recommendation 1

Since Hessequa Municipality adheres to most of the compliance requirements and there is a willingness to progress towards performance management of SCM, as was discovered in chapter 5, it is recommended that the progression is implemented by means of a phased-in approach, using the financial capability model for SCM as a guideline. A phased-in approach is also recommended by Hugo et al. (2004. 13) as highlighted in chapter 2. This type of approach will also ensure that Hessequa Municipality is not overwhelmed by the implementation process especially by taking on too much. Thus, it will allow the organization to plan for the implementation and align itself and its supply chain partners, accordingly. Since level four of the model deals with measuring how resources are used, it is recommended that the criteria set for that level be used as guideline.

The author is of the opinion that the model will work, because it is applicable to the public sector, as endorsed by the Western Cape Provincial Government, and thus the implementation will be in line with their requirements. It is however important that the municipality guards against the next phase becoming a compliance requirement, instead of it being seen as a means of extracting value and assisting with the attainment of strategic objectives. Cognisance should also be taken of the evolutionary implementation model for SCM, as endorsed by Poirier indicated in chapter 2.

Recommendation 2

As the current PM system at Hessequa Municipality does not include the management of SCM performance, as discovered in chapter 3, it is important that the development of indicators for measuring SCM performance is aligned with the organisational performance management system, should the performance management system be expanded to include the measurement of supply chain performance. In order to ensure buy-in, it is also

important to engage with the officials that will be affected by this new system, as recommended by Holloway (2009.398) in chapter 4. When developing performance indicators for SCM, the focus of the organization, as recommended by Williams (2006.26) and Banomyang & Supatn (2011.21), should be on efficiency, effectiveness and economy to assist with extracting the maximum value for money.

Recommendation 3

When developing tools for the measurement of SCM performance, the municipality should use tried and tested tools as indicated in chapter 3. Thus, it is recommended that a combination of those tools be utilized as recommended by Knowles et al. Therefore it is recommended that the organization combine traditional performance management tools such as the Balanced Scorecard with SCM specific measurement tools such as the SCOR model to allow management to align its processes and systems to the organizational strategy. The reason for this recommendation, is because the SCOR model provides for the identification and definition of supply chain processes and metrics, while the Balanced Scorecard would provide ongoing guidance to ensure the achievement of strategic goals.

Recommendation 4

Integration is an important concept that needs to be grasped and understood by the organisation, top management in particular. This is because as asserted by Kim (2006.242) in chapter 2, integration not only improves the performance of the supply chain, but also that of the organization. Thus, it is important that the municipality eradicates silo approaches where each department, unit and section operate on its own and adopts a more integrated approach to operations that is in line with the systems view of doing things. Thus, as further suggested by Kim, it is important to first establish internal integration and to ensure that this is implemented optimally before embarking on cross-organisational integration with the other agents in the supply chain.

6.4 Conclusion

The transformation and evolution of the public sector in the past ten years have progressed tremendously and municipalities, in particular, who are at the forefront, are

feeling the brunt of it. No longer can municipalities just get away with providing services, as the constitutional mandate on municipalities is just too great. The management of municipalities now have to prove their worth and show that they can add and extract value so that the taxpayers and residents achieve the maximum benefits.

Every component and every action taken must now prove its worth or otherwise it becomes an operational and financial burden on the municipality. These burdens then directly impact on the rates and taxpayers, as they pay for these components and actions. Thus, through the transparency in their actions, municipalities are now obliged to provide proof to its stakeholders that it is being managed optimally. With SCM it is no different. It can no longer be viewed as an action that municipalities merely perform because it is a legislative requirement. It is therefore important that municipalities show that they are utilising their resources optimally and that every process or action is aligned with strategic objectives.

This study aimed to show that SCM no longer needs to be seen as a compliance aspect, but as a means to add value and to assist a municipality to achieve its strategic objectives. The study also proves that if the readiness and willingness are there, SCM processes can be aligned to the organisational PM system and this will aid the organisation to achieve its strategic objectives. Thus, the author is of the opinion that, should the recommendations be incorporated and significance is placed on SCM, the organisation as a whole will also improve.

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Appendix

Appendix A

FINANCIAL CAPABILITY MODEL FOR SCM				
Capability level	Definition	Detailed characteristics	Criteria	SCM Criteria
Level 1 – <i>Start-up level</i>	No proper control framework	<ul style="list-style-type: none"> ➤ Mandate and functions of entity not clearly understood ➤ Roles and functions not clearly separated from other entities 	Start-up issues	<ul style="list-style-type: none"> ➤ Isolated attempts and accomplishments in place at developing business practices ➤ Process of implementing new programme or policy e.g. draft policies in place (MFMA; NTR's, etc.) ➤ Data or records kept may not be accurate (quotations and bid information) ➤ Environment is not stable (no mitigation of risk or identifiable control measures)
Level 2 – <i>Development level</i>	A proper internal control framework and financial accounting processes have been developed	<ul style="list-style-type: none"> ➤ All elements of an internal control framework required by management are developed and documented. This includes the following: 	<ul style="list-style-type: none"> ➤ Lack of implemented controls are looked at in terms of the following categories: ➤ Authorisations (for example no proper delegation of responsibilities) ➤ Policy framework (for example not documented or approved) 	<ul style="list-style-type: none"> ➤ SCM Unit in Place ➤ Ensuring that structures such as bid committees are in place ➤ Policy implementation and development (SCM Policy; Delegations, etc.) ➤ Attempts at standardisation of procedures ➤ Establishment of a basic SCM control

FINANCIAL CAPABILITY MODEL FOR SCM				
Capability level	Definition	Detailed characteristics	Criteria	SCM Criteria
		<ul style="list-style-type: none"> ➤ The adequate communication of management framework ➤ Systems to integrate the management framework ➤ Provision for maintenance and updating 	<ul style="list-style-type: none"> ➤ Independent management reconciliations (for example a lack of proper framework for performing independent reconciliations and checks) ➤ Monitoring (for example the lack of framework for monitoring) ➤ Physical security of assets or resources (for example no framework for the physical security of assets or resources) ➤ Control environment issues (for example a lack of capacity) ➤ Internal audit (no internal audit and no reliance on the work of internal audit) ➤ The AC (no properly functioning AC) 	<p>framework</p> <ul style="list-style-type: none"> ➤ Attempts at basic SCM training for SCM officials (some officials have received training)
Level 3 – <i>Control level</i>	Focus is on compliance and control	➤ The internal control framework designed by	➤ Implemented controls that are not functioning appropriately can be broken down into the following categories:	<ul style="list-style-type: none"> ➤ Adequate resources available ➤ Delegations in place

FINANCIAL CAPABILITY MODEL FOR SCM				
Capability level	Definition	Detailed characteristics	Criteria	SCM Criteria
		<p>management is “adequately” implemented. This includes the following:</p> <ul style="list-style-type: none"> ➤ Officials with appropriate training and capacity can carry out their functions effectively ➤ Information reported can be relied on 	<ul style="list-style-type: none"> ➤ Authorisations (delegations of authority not followed by the employees) ➤ Segregation of duties (Segregation of duties is not followed during the daily operations) ➤ Reconciliations (reconciliation is not performed as required by the policy document) ➤ Monitoring (monitoring has not taken place as required by the management framework) ➤ Physical security of assets 	<ul style="list-style-type: none"> ➤ SCM Policy that meets the requirements of section 112 of the MFMA is in place ➤ Transactions processed and controlled in accordance with applicable legislative and regulatory framework ➤ SCM operations are monitored and controlled ➤ Satisfactory SCM reporting requirements ➤ Reliable data (Integrity of SCM data supports SCM operational planning decisions and monitoring activities) ➤ Organisation meets statutory and regulatory obligations ➤ Move towards developing standard operating procedural manuals ➤ All officials dealing with SCM have

FINANCIAL CAPABILITY MODEL FOR SCM				
Capability level	Definition	Detailed characteristics	Criteria	SCM Criteria
				received training and meet the competency requirements
Level 4 – <i>Information level</i>	Focus on measuring how resources are used	➤ The economic, efficient and effective utilisation of resources is managed, measured and reflected in reliable financial information		<ul style="list-style-type: none"> ➤ Integration of financial and non-financial systems ➤ Continuous SCM capacitation and training programme in place ➤ Cost-effective management of risk ➤ Effective usage of resources ➤ SCM practice and procedure managed with prudence in an efficient and effective manner ➤ Achievement of operational functionality in SCM ➤ Formalised and implemented SCM practices and policies in place (standard operating procedural manuals in place)

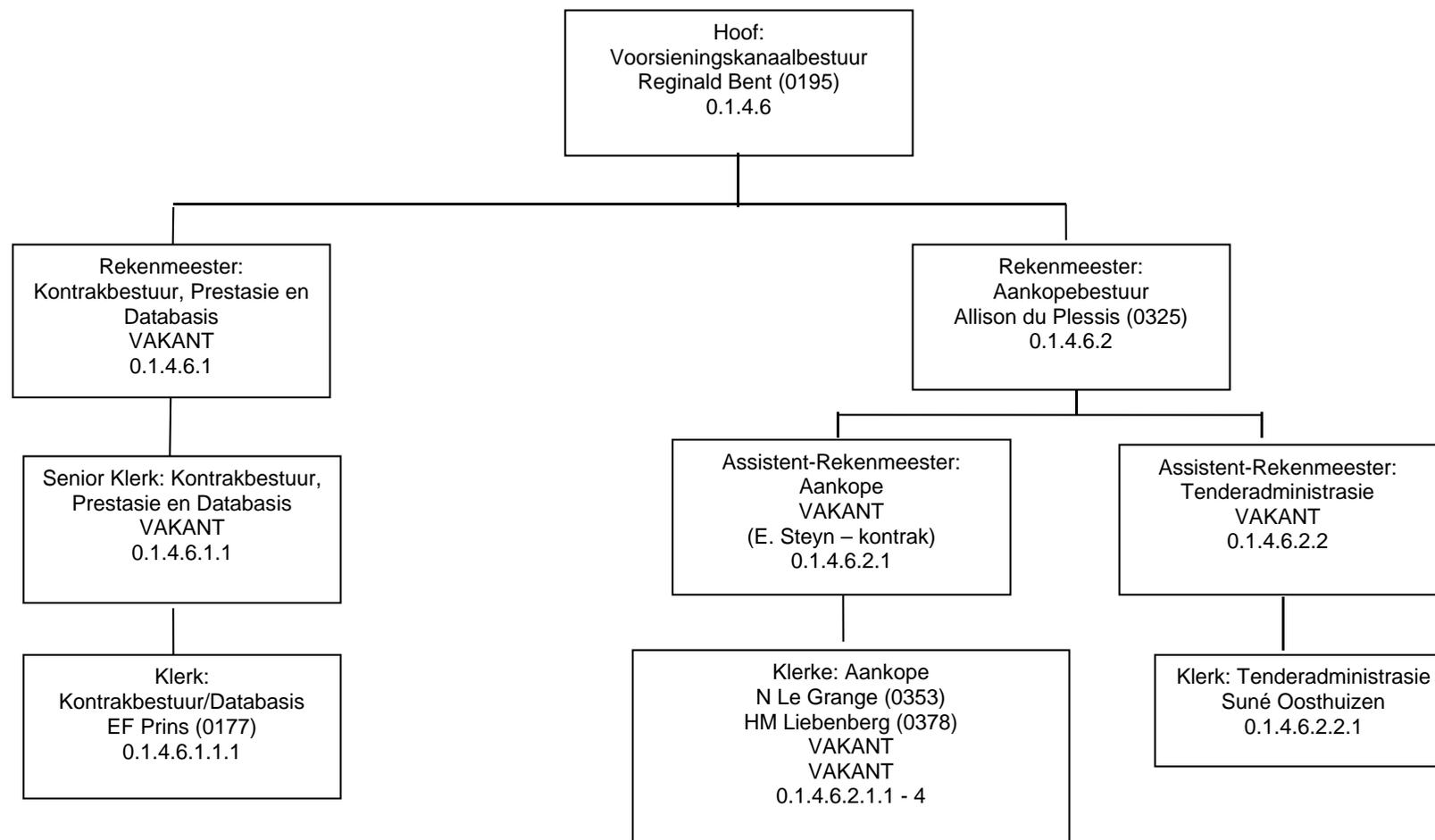
FINANCIAL CAPABILITY MODEL FOR SCM				
Capability level	Definition	Detailed characteristics	Criteria	SCM Criteria
				<ul style="list-style-type: none"> ➤ Consistent and comparable SCM reporting ➤ Generation of information provides a basis for developing performance management indicators, cost and quality measures are in place as well as ensuring that the intended measures are being achieved, thereby defining accountability
Level 5 – <i>Managed level</i>	Focus on balancing efficient and economical use of resources with quality/ effectiveness of results achieved	<ul style="list-style-type: none"> ➤ Risk management: cost-effective utilisation of resources ➤ Risk management: project costing and financing ➤ Continual updating of strategic plans 		<ul style="list-style-type: none"> ➤ The procurement of goods and services is of an acceptable quality ➤ Cost versus quality versus risk versus opportunity. Procurement of goods and services at the right price, at the right place and at the right time ➤ The utilisation of simulation, historical trends and manipulating variables to see how they affect the outcome ➤ Defining the relationship among variables that affect cost, quality and level of

FINANCIAL CAPABILITY MODEL FOR SCM				
Capability level	Definition	Detailed characteristics	Criteria	SCM Criteria
				<p>service and understanding how they impact on the department's results</p> <ul style="list-style-type: none"> ➤ Utilisation of information to make informed decisions about competing objectives such as cost, quality and schedule ➤ Monitoring of SCM and its outcomes ➤ Using quantitative information to balance among competing business line objectives (e.g. to reduce cost, improve productivity, improve quality, reduce risk and increase opportunities)
Level 6 – <i>Optimising level</i>	Focus on continuous improvement and learning	<ul style="list-style-type: none"> ➤ Strategic financial training for non-financial employees ➤ Continuous internal assessment of financial management processes, improvements and 		<ul style="list-style-type: none"> ➤ Strategic SCM objectives in place ➤ Service delivery improvements in place ➤ Future improvement areas concentrated on: <ul style="list-style-type: none"> - Developing prospective information to anticipate both internal and external changes that may affect the department's performance

FINANCIAL CAPABILITY MODEL FOR SCM				
Capability level	Definition	Detailed characteristics	Criteria	SCM Criteria
		measurements		<ul style="list-style-type: none"> - Measuring a comparative study of provincial departmental performance against each other and setting strategic targets for improvement - Benchmarking and utilising best practice - Finding ways to minimise costs and maximise revenue, and to improve quantity and quality of outputs, by introducing new technology or improving existing processes

APPENDIX B

HESSEQUA MUNISIPALITEIT: FINANSIES RIVERSDAL



APPENDIX C

Interview Questions: Group 1

1. What is SCM in your opinion? And why is it necessary for local governments to practice SCM? In other words, how significant is it to local government
2. In terms of how you described SCM do you think that the current practice at Hessequa Municipality lives up to your perception of SCM?
3. If, no, what should be done in order get the current SCM system in line with your perception and what factors are preventing it from obtaining that level?
4. Researchers defines supply chain management as “a management philosophy aimed at integrating a network (or a web) of upstream linkages (sources of supply), internal 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. What is your impression about this definition especially regarding its practicality at Hessequa Municipality or any other public sector institution?
5. Does the practice at Hessequa Municipality live up to this definition?
6. Where is the current implementation focus of Hessequa Municipality?
7. Based on the above definition researchers highlight the following elements which is important to the success of SCM:
Partnering Purchasing/procurement Logistics
Disposal or Reverse logistics Sales/service delivery
Customer service / customer satisfaction Information technology / systems

In your opinion which one of these elements describes the state of “SCM “at Hessequa Municipality (which one is the most prominent?)

8. The SCM regulations list five elements for SCM in local government, namely:
Demand management Acquisition Management Logistics management
Disposal Management Risk and Performance Management

Which of these elements are the most prominent currently at Hessequa Municipality? Why?

9. Do you think the current system is conducive to the requirements of SCM? Do you think it is appropriate for Hessequa Municipality?

10. In terms of the elements, partnerships and the management of these partnerships are important, is the local government environment conducive to partnership development? Please elaborate especially in terms of your understanding of the concept
11. Does the current SCM system at Hessequa Municipality encourage or promote partnerships with its suppliers?
12. Do you think it is important from an operational and service delivery perspective? Please elaborate
13. The aim of this study is to determine the extent to which Hessequa Municipality applies performance management in SCM to monitor and evaluate to what extent value for money and strategic objectives has been attained. In your opinion how important is the attainment of value for money or strategic goals for an organisation such as Hessequa Municipality?
14. Do you think SCM can contribute to Hessequa Municipality attaining value for money and strategic objectives?
15. From a performance management perspective do you think that the evaluation of performance should include the evaluation for attainment of value for money?
16. I believe that Hessequa Municipality does have a performance management system in place, does the PMS allow for the evaluation of the attainment of value for money in terms of SCM?
17. From a performance management perspective do you think that a system for the evaluation of value for money particularly with regards to SCM should be developed?

Interview Questions: Group 2

1. What is your understanding of SCM in the Municipal Context?
2. In your opinion can SCM add value to the operations of the municipality?
3. In your opinion should SCM form part of the strategy of the municipality?
4. From your perspective, how significant, if at all, do you view municipal procurement pertaining to economic growth and development in this municipal area?
5. What is your opinion on Performance management and do you feel that it fits into the municipal context?
6. Do you believe that SCM performance should be measured and managed? Why?
7. Should it be aligned with the strategic objectives of the municipality? Why?
8. How would you rate the current SCM implementation and what improvements would you suggest if any?

Interview Questions: Group 3

1. From your perspective, how significant, if at all, do you view municipal procurement pertaining to economic growth and development in this municipal area?
2. Can the procurement of goods and services contribute to the attainment of the strategic objectives of the municipality?
3. Considering your answers above, how important is it to measure the performance of money spent with regards to the procurement of goods and services?
4. Should the performance measurement of money spent be aligned to the strategic objectives of the municipality?
5. As a member of the business community would you like to see the type of progress made and targets achieved with regards to procurement and money spent as outlined in the performance targets to see that it is still in line with the strategic objectives?
6. As a member of the business forum, in your opinion, what can local businesses do to become more compliant with the municipal requirements to ensure that they are in a better position to compete for the supply of goods and services required by the municipality?
7. What suggestions, if any, do you have pertaining to what actions or projects the municipality can undertake to train local business or make them more aware of the requirements to do business with them?
8. How would you rate the current manner in which the municipality procures goods and services and suggestions for improvement, if any, would you suggest?