

**SERVICE DELIVERY TO  
GOVERNMENTAL AND COMMERCIAL  
ENVIRONMENTS WITH SPECIFIC  
REFERENCE TO GEROTEK AS A  
PUBLIC ENTITY**

**Gerhard L. de Coning**

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**Supervisor:  
Prof. G. van der Waldt**

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## **ABSTRACT**

Striving towards service excellence, a public entity can embark on various service and product delivery strategies as well as functional management strategies or management tools. The primary objective of this study is to indicate to what extent a public entity such as Gerotek can meet the different approaches to economically viable service delivery to the government and commercial environments respectively, where different rules, regulations, means and ways of contracting apply.

In order to realise this objective, the characteristics of public entities and those of private entities competing in the same market were explored and comparisons made between the different entities to indicate the level of success each one is able to achieve. Public-Private Partnerships, Project-Partnering and Management, as well as Black Economic Empowerment involvement, as different forms of partnership agreements or other forms of business models, were investigated to distinguish best practice in service and product delivery strategies. The effectiveness of various management tools was discussed, such as the South African Excellence Model, Total Quality Management, and the Balanced Scorecard, which can be applied to assist management in improving service delivery.

Interviews were conducted according to an interviewer-administered questionnaire to obtain information pertaining to the literature study of the above, in order to determine the effectiveness of service delivery within a public entity competing in government and commercial environments. The respondents agreed that a public entity could meet best practice to deliver economically viable services and products to both environments, with the reservation that continuous improvements should be made.

**Title:** Service delivery to governmental and commercial environments with specific reference to Gerotek as a public entity.

**Descriptors:** Service delivery strategies, governmental environment, commercial environment, public entity, private entity, management strategies, economically viable.

## OPSOMMING

In 'n publieke entiteit se strewe na uitnemendheid in dienslewering kan verskeie produk- en diensleweringstrategieë sowel as funksionele bestuurstrategieë oorweeg word. Die primêre doelwit van hierdie studie is om aan te toon in hoe 'n mate 'n publieke entiteit soos Gerotek aan die vereistes van ekonomies lewensvatbare dienslewering aan regerings- en kommersiële kliënte kan voldoen, waar verskillende reëls, regulasies en metodes van kontraktering van toepassing is.

In 'n poging om dié doelwit te realiseer, is die eienskappe van publieke en privaat entiteite wat in dieselfde marksegment meeding, ondersoek en vergelyk ten einde die suksesvermoë van elkeen te bepaal. Publieke-private vennootskappe, projek-vennootskappe en projekbestuur sowel as swart ekonomiese bemagtiging is as onderskeie vorme van vennootskappe of ander besigheidsmodelle ondersoek ten einde die mees werkbare model in produk- en diensleweringstrategieë te onderskei. Die effektiwiteit van verskeie bestuurshulpmiddels, soos die Suid-Afrikaanse Uitnemendheidsmodel, totale kwaliteitsbestuur en die "Balanced Scorecard", wat aangewend kan word om bestuur in die verbetering van dienslewering te ondersteun, is bespreek.

Onderhoude is ooreenkomstig 'n onderhoud-geadministreerde vraelys gevoer met die doel om inligting aangaande die literatuurstudie oor bogenoemde te bekom, om sodoende die effektiwiteit van dienslewering binne 'n publieke entiteit aan regerings- en kommersiële kliënte te bepaal. Die terugvoer van respondente toon dat 'n publieke entiteit wel aan "best practice" kan voldoen ten einde 'n ekonomies lewensvatbare diens aan albei omgewings te lewer, dog met die voorbehoud dat kontinue verbetering moet plaasvind.

**Titel:** Dienslewering aan regerings- en kommersiële omgewings met spesifieke vewysing na Gerotek as 'n publieke entiteit.

**Trefwoorde:** Diensleweringstrategieë, openbare omgewing, kommersiële omgewing, publieke entiteit, privaat entiteit, bestuurstrategieë, ekonomies lewensvatbaar.

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# **CHAPTER 1**

## **ORIENTATION AND PROBLEM STATEMENT**

### **1.1 ORIENTATION AND PROBLEM STATEMENT**

The Armaments Corporation of South Africa (Armcor) exists in terms of the new Armcor Act (Act 51 of 2003) (signed, not promulgated to date). This Act aligns Armcor with current national and defence policy and defines Armcor's role, function, accountability, management and operations (SA, 2003a:497). The Minister of Defence is the Executive Authority responsible for Armcor. The management and control of Armcor vest in the Armcor Board of Directors, whilst its operational management lies in the hands of its Management Board (Armcor, 2003:2).

Gildenhuys and Knipe (2000:199) are of the opinion that military and strategic objectives are the main reasons for the creation of parastatals. In view of this reasoning, Armcor can thus be classified as a parastatal as it has a function that is essential for the existence of any state.

Armcor, which satisfies the acquisition and procurement requirements of not only the Department of Defence (DoD), but also of the State Security Services, the Police Services and the Department of Correctional Services, consists of a three-pillared structure in terms of which business and services are provided (Armcor, 2003:18). The three pillars are (Thomo, 2003):

- **Armcor Acquisition, which delivers services directly to the DoD and other government departments or institutions. These services are funded through the Defence or other ministerial budgets, where money is allocated for operating expenses and the acquisition and procurement of capital equipment.**

- Simon's Town Naval Dockyard, which delivers services to the DoD and which is also funded through the Defence budget for services rendered.
- Armscor Business (Pty) Limited and its divisions, which operate in the environment of Armscor Acquisition and the Naval Dockyard, as well as in the commercial and private sector environment, both locally and abroad. This expansion of services is in line with the mandate and vision of Armscor Business (Pty) Limited, namely to be self-supporting and to create financial sustainability. The challenge is therefore to be financially independent of governmental resources, as the declining defence budget can no longer support the needs of the strategic facilities and resources grouped under this pillar.

The divisions of Armscor Business (Pty) Limited are regarded as essential and of strategic value to the military and defence industry, and therefore it is important to maintain and develop the facilities, equipment and expertise in order to be able to meet future requirements (Gildenhuys & Knipe, 2000:199). The Gerotek Vehicle Test and Training Facility (Gerotek) is such a division of Armscor Business (Pty) Limited. It renders services to the government sectors and to commercial industries, locally and abroad (Gerotek, 2002).

Gerotek is South Africa's renowned and acknowledged vehicle and product test facility, and has progressed to a vehicle and product authority that conducts tests and evaluations in accordance with a whole range of commercial, industrial and military standards and specifications. Gerotek has been accredited in terms of the latest ISO 17025 standards, and as such its test reports and certificates are recognised by most countries in the world. Another service which Gerotek offers its clients is advanced driver training courses, which is in line with the national government's principles of "Batho Pele" (De Coning, 2003:1).

In Gerotek's striving towards economic viability and financial self-sufficiency, the question arises whether there are different approaches to deal with the various

sectors of clients in order to obtain maximum client satisfaction. Typical questions in this regard are the following: Are there different ways of dealing with the South African automotive industry versus the automotive industry in India or Europe? Are there different ways of dealing with military vehicle testing projects versus commercial vehicle testing projects? This should be reflected in the different strategies and management tools to be used as part of effective service delivery.

Market segmentation indicates to what extent similarities exist in terms of the needs, value perceptions and purchasing behaviour of different market segments (Churchill & Peter, 1998:201). Each segment will respond differently to specific strategies, and Gerotek's challenge is to implement the most appropriate strategy that will meet the needs of the different target markets. The building of a long-term relationship between Gerotek and its different target markets necessitates different approaches to achieve customer satisfaction (Perreault & McCarthy, 1996:40). Various marketing initiatives and communication methods, either direct or indirect, serve the different segments in order to achieve maximum customer satisfaction (Hingston, 2001:139).

Gerotek, as a public entity within Armscor as a parastatal, is financially controlled through compliance with The Public Finance Management Act (1/1999). All revenue, expenditure, assets and liabilities are to be managed efficiently and effectively and provision made for the responsibilities of persons entrusted with financial management. A Shareholders' Compact, which embodies an agreement between the South African Government (represented by the Minister of Defence as the executive authority) and the Armscor Board of Directors (represented by the Chairman of the Board as accounting authority), specifies the performance expectations and parameters for a financial year. The overall management of Armscor is conducted in accordance with Practice A-Corp-001: Directives relating to Decision-making Powers. This framework clearly specifies the authorities at various levels of decision-making. Gerotek subscribes to corporate governance

best practice and adheres to the code of good corporate practice (Armstrong, 2003:5).

The problem to be addressed is to determine to what extent Gerotek as a public entity will be able to deliver a service, based on economically viable strategies, not only to government sectors but also to a commercial world where different rules, regulations, means and ways of contracting apply. The following questions arise:

- What are the characteristics of a public entity such as Gerotek?
- What are Gerotek's different service and product delivery strategies to serve the needs of the two environments, namely the governmental environment and the commercial environment?
- What are the functional management strategies or management tools to be used by Gerotek in the different environments?

## **1.2 OBJECTIVES**

### **1.2.1 Primary objective**

- To indicate to what extent a public entity such as Gerotek can meet the different approaches to economically viable service delivery to the commercial environment and governmental sectors within the boundaries of statutory and regulatory obligations.

### **1.2.2 Secondary objectives**

- To identify and describe the characteristics of Gerotek, as a public entity, and to compare its perceived competitiveness with that of a private entity.
- To determine Gerotek's different service and product delivery strategies to serve the needs of the environments mentioned.

- To identify the functional management strategies to be used by Gerotek in the environments mentioned.

### **1.3 LEADING THEORETICAL ARGUMENTS**

The following preliminary statements can be made regarding Gerotek as a public entity:

- Gerotek, as a public entity, can meet the requirements of a variety of clients in the mentioned environments in a competitive market (Gerotek, 2002).
- There are different service and product delivery strategies to deliver economically viable service to the government and commercial environments (National Treasury, 2002:5; Gray & Larson, 2003:1).
- Functional management strategies are to be implemented to deliver economically viable service to the government and commercial environments (Flanagan & Finger, 1998:310; SAEF, 2001:7; Kaplan & Norton, 2001:90).

### **1.4 RESEARCH METHODOLOGY**

#### **1.4.1 Literature study**

The following databases were consulted to ascertain the availability of study material for the purpose of this research:

- Catalogue of thesis and dissertation of South African Universities (Nexus).
- Catalogue of books: Ferdinand Postma Library (Potchefstroom Campus).
- Catalogue of books: Gauteng Provincial Library and Information Services.
- Armscor Intranet and Web site.
- Government publications.
- Internet searches.

A literature study, of primary and secondary literature, was undertaken to determine the different approaches to economically viable service delivery to governmental sectors and to the commercial environment. The different service and product delivery strategies as well as management strategies were researched to determine to what extent a public entity could meet best practice that would lead to optimal client satisfaction.

#### **1.4.2 Empirical study**

An empirical study was undertaken to gather information through semi-structured interviews. A questionnaire was compiled for the purpose of interviews as part of a qualitative research design.

Interviews were conducted with Gerotek's management team and the directors of Armscor Business (Pty) Limited. Gerotek's management team consists of the following portfolios and all were covered by interviewing 85% of the managers:

- Technical Section.
- Marketing Section.
- Events Section.
- Quality Section.
- Driver Training Section.
- Financial Section.
- Human Resources Section.
- Administrative Section.

The Managing Director and two additional members of the Armscor Business Management Board were interviewed. This reflects a 50% representation (sample) of the total population.

A comparative design between the government and commercial environments was followed to obtain information pertaining to service and product delivery strategies and management applications.

On the basis of the theoretical arguments and the research objectives, the analysis and interpretation of the information are presented in such a way that best-practice insight is obtained.

## **1.5 CHAPTER DIVISIONS**

Chapter 1 poses the research problem and the relevant research questions of the study, and explains the research methodology used. In chapter 2 an analysis is made of public and private entities. The characteristics of a public entity are identified and described, and are compared with those of a private competitor in the same environment of service delivery in order to establish the competitiveness of the two entities.

Service and product delivery strategies within public and commercial environments are highlighted in chapter 3. Different service and product delivery strategies are researched, including Public-Private Partnerships (PPPs), Project-Partnering and Management and Black Economic Empowerment (BEE), with a view to serving as best practice for meeting government needs and the needs of the commercial environment.

In chapter 4 management tools to be used in government and commercial environments will be discussed. In this chapter management tools such as the South African Excellence Model (SAEM), the Balanced Scorecard, and Total Quality Management (TQM) will be discussed within the context of Gerotek in order to determine their contribution to economically viable service delivery in the different environments.

The various delivery strategies as were empirically investigated are analysed in chapter 5, and the empirical findings of the comparative research are presented. Chapter 6 concludes the study by way of the evaluation of the objectives and the indication of the effectiveness of a public entity in the different environments. Recommendations are also be made for improvement in service delivery.

## **1.6 CONCLUSION**

The aim with this orientation chapter was to set the objectives of this research study. The environment in which the study was conducted was explained and the research methodology described. The contents of the different chapters were stated as exposition of the research that was done.

In the next chapter, an analysis is done of public and private entities in order to compare the perceived success of service delivery by the different entities to various clients.

## **CHAPTER 2**

### **ANALYSIS OF PUBLIC AND PRIVATE ENTITIES**

#### **2.1 INTRODUCTION**

Different forms of organisations exist in South Africa, which can be divided into public and private entities. Each of these entities has different organisational cultures, which influence their level of service delivery in different environments or markets. Analysis of public and private entities competing in the same environment are explored, with the focus mainly on the characteristics, obligations and role of a public entity and the comparison of such an entity with its competitors in the private industry.

Statutory and regulatory obligations are identified in order to determine the legality of entities competing in the same market. The distribution of decision-making powers within the different organisation forms is discussed, as this important issue determines the flexibility and speediness with which an entity operates.

The application of the "people first" principles ("Batho Pele" principles) by public entities is discussed in order to determine the advantages or disadvantages of these principles as opposed to an entity that does not adhere to all of these principles.

Discussions of different forms of organisations lead to the comparison of different entities competing in the same field, but with different obligations and structures. Differences in the generic management process will create an understanding of the advantages or disadvantages of applying different organisational forms in order to deliver specific services or products in the respective markets.

In conclusion, an indication is given of the ability of a public entity to compete with entities in the private sector in terms of service delivery.

## **2.2 CONCEPTUALISING THE TERMS “PUBLIC ENTITIES” AND “PRIVATE ENTITIES”**

The constitutional principles as formulated in Schedule 4 of the interim Constitution of the Republic of South Africa Act 200 of 1993 and incorporated and approved by the Constitutional Court as the Constitution of the Republic of South Africa, 1996 (Act 108 of 1996), clearly define the powers, boundaries and functions of the national government and provincial governments (Constitution, 1996). Powers and functions at national and provincial levels include exclusive and concurrent powers, as well as the power to perform functions for other levels of government on an agency or delegation basis. Each level of government has adequate legislative and executive powers and functions to deliver its services effectively (Botes, 1995:178). With this as background, the following paragraphs will deal with the explanation of the key variables in this study, namely public and private entities.

The Microsoft Bookshelf (1995) describes a public entity as “an entity which is connected with or acting on behalf of the people, community or government”. It is “maintained for or used by the people or community” and besides this is “open to the knowledge or judgment of all”. Cloete (1995:61) in turn regards a public enterprise as “an institution, usually a company, established by a public authority (for example a legislature such as Parliament) to undertake industrial and/or commercial activities which could because of risk or other factors not attract private investors”.

Botes et al. (1992:155) state that public institutions “are usually financed from taxes, or receive generous subsidies which have to be carefully controlled, or receive a loan endorsed by the state” and that “public institutions are subject to careful and continuous public control”.

According to Hilliard (1995:1) "it is usual practice for the public sector to provide essential goods and services to the community at minimal costs" and that "the goals of the public sector are mainly social and political and every action or inaction is subject to public scrutiny". Tangri (1999:18) agrees with this, but adds that classification as a public entity consists of two components. The first component concerns majority government ownership, where the state holds a controlling share, whilst the second component concerns the notion of the entity where government has a controlling interest in the delivery of goods and services. The Public Finance Management Act (PFMA 1/1999), as amended, describes ownership control as "the ability to exercise powers to govern the financial and operating policies of an entity in order to obtain benefits from its activities".

National legislation (PFMA 1/1999) distinguishes between different schedules (classifications) of public entities as follows:

- Schedule 1 - Constitutional Institutions (e.g. The Independent Electoral Commission and The Financial and Fiscal Commission).
- Schedule 2 – Major Public Entities (e.g. Armscor, Telkom and the Airports Company).
- Schedule 3 – Other Public Entities, including National Public Entities (e.g. Competition Board), National Government Business Enterprises (e.g. Rand Water Board), Provincial Public Entities (e.g. Eastern Cape Arts Council), Provincial Government Business Enterprises Entity (e.g. Free State Development Corporation).
- Schedule 4 – Deals with the exclusions from revenue funds as stipulated in the SA Schools Act (covering school fees).
- Schedule 5 – Deals with direct charges against the National Revenue Fund (e.g. the remuneration of presidents, deputy presidents and judges).
- Schedule 6 – Deals with the repeal of legislation.

In countries with a strongly developed private sector, an intermediate field of government activities has developed and is known as a public enterprise or parastatal (Gildenhuis & Knipe, 2000:195). Cameron and Stone (1995:xiii) define parastatals as “state-run or controlled institutions or companies, run along commercial lines, which involve themselves in economic activities”. Services are delivered by these public institutions through a business approach rather than through the non-profit and total government control approach which is used by government departments. The involvement and control of government in the economy of the country is reflected in the degree in which government controls these institutions (Gildenhuis & Knipe, 2000:195-196).

In the light of the above descriptions it is clear that public entities are established as a result of the need by government to deliver goods and services in such a way that government exercises ownership and control over the entity and gains benefits from its activities, which is to the advantage of all the citizens.

The Microsoft Bookshelf (1995) describes a private entity as “an entity belonging to a particular person or persons, as opposed to the public or government”. It is furthermore “conducted and supported primarily by private individuals or by a nongovernmental agency or corporation”.

Botes et al. (1992:156) are of the opinion that private entities “are established on the private initiative of entrepreneurs because they see the possibility of profit in the production and marketing of a particular product”. The activities of private entities are “their own concern and they are not obliged to report to the public for their dealings”. Hilliard (1995:2) echoes this by stating that private enterprises “are not accountable to the electorate, only to specific stakeholders with vested interests”.

Private entities are governed by private individuals or shareholders and legal obligations are manifested in the registration of shareholders and the publication

of balance sheets. Control over private entities and the execution of authority is in the hands of the chief executive and the actions and decisions made are far less under public scrutiny than in the case of public entities (Cameron & Stone, 1995:116-117).

The above view points indicate that private entities are generally established by private individuals who aim to maximise profits in order to remain or expand business to the benefit of all shareholders.

In the next sections the characteristics and obligations of a public entity and the different private entities will be discussed in order to compare the different entities.

## **2.3 CHARACTERISTICS AND OBLIGATIONS OF A PUBLIC ENTITY**

Government entities play a vital role in almost every aspect of economic activity in African economies. Not only have public entities been up front in development efforts of most sub-Saharan governments, but they have also played major roles in the transport, communications and power sectors of these countries. Government interventions are also visible in financial institutions and commercial and manufacturing ventures (Tangri, 1999:18).

The financial arrangements, regulatory obligations, decision-making powers and service delivery principles of a major public entity such as Armscor will be discussed in this section.

### **2.3.1 Financial arrangements**

Public entities are financially controlled through compliance with the PFMA (1/1999) as amended, and are established in terms of national legislation. The Board of Directors of a public entity must commit itself to the highest integrity,

excellence and good corporate governance in conducting its operations (Arm Scor, 2004a:57-58).

Owing to financial constraints it is not always possible for a public entity to deliver a service within its budget to government clients. This scenario necessitates the expansion of capabilities and facilities into the commercial environment in order to obtain additional funding from other sources (Arm Scor Business, 2003:15).

Public entities are fully or substantially funded either from the National Revenue Fund or by means of taxation, levy or other funds imposed by national legislation (PFMA 1/1999). These funds have to be included in a projected annual budget and corporate plan. Annual payments which are funded through share capital have to be determined by the relevant Minister of the Department, in consultation with the Minister of Finance, and approved by Parliament. Public entities are entitled to establish a reserve fund with the money it does not immediately require, and could derive interest from the investment of such money. Funds obtained from other sources have to be consistent with the objectives and functions of the entity (SA, 2003b:7).

### **2.3.2 Regulatory context**

Adaptability to the commercial environment within the restrictions of statutory and regulatory obligations as prescribed in the PFMA, the King II Report and the requirements of the Protocol on Corporate Governance in the Public Sector, sections 234 – 241 of the Companies Act 61 of 1973, as amended, is an enormous challenge which a public entity faces in order to meet the requirements of its main stakeholders (Arm Scor Business, 2004:10). The regulatory environment and legal challenges on labour, the environment, arms limitation, intellectual property and other issues will become increasingly demanding and litigious (Arm Scor Business, 2003:15).

The Armaments Corporation of South Africa Limited Bill (SA, 2003b:4-5) states the objectives and functions of the entity, which include *inter alia* the following:

- Adherence to accepted corporate governance principles.
- Adherence to best business practices.
- Adherence to generally accepted accounting practices.
- Functioning within the framework of established norms and standards that reflect fairness, equity, economy, transparency, efficiency, accountability and lawfulness.
- Establishment of a programme management system.
- Establishment of a system for contracting and tender management.
- Providing a quality assurance capability.
- Management of a strategic facility as identified by the Department of Defence.
- Maintenance and support of special capabilities and test and evaluation facilities.
- Provision of defence operational test and evaluation research.

Certain rules and regulations exist to determine in which manner a public entity must fulfil its task. The following rules and regulations as described in the Armaments Corporation of South Africa Limited Bill (SA, 2003b:8) are applicable:

- A code of conduct to be adhered to by employees.
- Security clearances of employees.
- The procedure at Management meetings and Board meetings.
- The procedure in keeping of records and minutes.
- The procedure for dealing with complaints and grievances of employees.
- Safeguarding of information, records, property and premises.
- Management and utilisation of intellectual property rights.

### **2.3.3 Decision-making powers**

Distribution of decision-making power in an organisation may refer to vertical or horizontal distribution of power and authority, and Galbraith (1995:24) elaborates on this by stating that vertical distribution of power refers to centralisation or decentralisation of decision-making. In the horizontal distribution of power, the leader shifts the power to the department in the organisation that deals directly with the customers.

It can be argued that public entities are more in line with the characteristics of vertical distribution of power, since the Board of Directors may delegate its powers to any official or committee to perform any of the entity's duties. Such delegation of powers is subject to the limitations and conditions as the Board of Directors may impose and does not relieve the Board of Directors from responsibility as regards the delegated power or the performance of the assigned duty (SA, 2003b:8-9).

A distinction can be made for the alignment of decision-making powers to different activities, such as:

- Decision-making powers with regard to the approved operating budgets.
- Decision-making powers with regard to marketing and sales contracts.
- Signing powers with regard to written contracts, orders, letters of intent and cessions.
- Decision-making powers with regard to financial aspects.
- Decision-making powers with regard to human resources (Arm Scor 2004b:6).

Roux et al. (1997:124) distinguish between unprogrammed and programmed decisions. Public service managers who are more concerned with daily operations, procedures and transactions are to a large extent involved in

programmed decisions. Adequate information is normally available to make repetitive and routine decisions. These decisions are also bounded by organisational rules, methods and procedures. There is little room for own initiative and personal expertise. In unprogrammed decision-making, decisions require a large measure of creativity and discretion. These decisions are made for a special purpose, and include programmes, strategies and budgets (Roux et al., 1997:125).

Hendrikse and Hendrikse (2004:246) are of the opinion that all business decisions are related to the possibility of risk of suffering harm or losses. Business success or failure depends on the management or mismanagement of these conditions of risk, where returns are usually in direct proportion to the degree of risk. Business risks can also be classified in terms of certainty and predictability, which includes internal and external factors influencing effective management of risk. The heart of corporate governance is to make the right decision at the appropriate level of authority in order to minimise risk (Hendrikse & Hendrikse, 2004:246-247).

Diagram 1 is an indication of the different types of decisions, conditions of risk and decision-making levels at Armscor Business (Pty) Ltd, which serves as an example.



- Scarce resources, where the demand for expenditure usually exceeds the supply of funds, should be taken in account in the decision-making process.
- Decision-making should be time bound to keep to the annual deadlines and approved budgets.
- Needs and demands should be prioritised to reduce unnecessary conflict.

Greater transparency in the financial decision-making process and lower level accountability of government hierarchy will not only lead to the improvement of rationality in decision-making, but also to a reduction in the cost of monitoring public financial decisions (Van der Waldt *et al.*, 2002:12). This opinion is also applicable to other spheres of the decision-making process.

#### **2.3.4 Service delivery principles**

In transforming public service delivery to promote integrated seamless service delivery, national government promulgated the White Paper on Transforming Public Service Delivery (also known as the "Batho Pele" White Paper) in 1997. The service delivery principles contained in this White Paper serve as the basis for service delivery, and the modernisation of government is one of the key initiatives of "Batho Pele" (SA, 2003a:357-358). To add impetus to this transformation of service delivery processes, the White Paper on Transformation of the Public Service has highlighted the need for the Presidential Review Commission (PRC). The mandate of this commission was to create a culture of good governance in relation to the operation, transformation and development of the South African Public Service (PRC, 1996:1).

Consultation with the wider community in the delivery of services includes the private sector, non-governmental and community-based organisations, as well as academic institutions. Issues such as service standards, access to services,

courtesy, redress, transparency and value for money are to be addressed in citizen-centred programme delivery (Kroukamp, 2001:29).

According to the eight principles of the "Batho Pele" White Paper, a public entity should (SA, 1997:8-16):

- Consult with all people involved about the level and quality of services rendered and wherever possible give them a choice of services. Emphasis should be placed on the public as customer and how their needs can be met in the best possible way.
- Communicate the level and quality of service standards, so that all customers know what to expect. Realistic service standards should be set, which are measurable and acknowledge the resources available.
- Provide equal access to services to which customers are entitled, and address customers in their own language.
- Treat all customers with courtesy and consideration. Courtesy means more than being polite to customers; it includes treating everyone with dignity and respect.
- Furnish full, accurate information to customers on the services they are entitled to receive and what a department provides.
- Be open and transparent regarding the running of the entity, the cost to run the operations and who is leading the entity, by means of an annual report.
- Apologise to customers if a promised standard of service is not delivered, with a full explanation and a speedy, effective remedy. This redress should improve service delivery as the customers will be able to inform departments of services which are not up to standard.
- Deliver a service which is economical and efficient in order to offer customers the best value for money and to eliminate waste, fraud and corruption.

The vision of a “culture of good governance” as presented in the Report of the Presidential Review Commission (PRC, 1996:4) stresses the importance of good governance and includes, amongst other things, the following key themes for reform and transformation:

- Improving the quality, quantity and equity of service delivery to all citizens.
- Empowering disadvantaged people.
- Promoting a cost-effective public service, finding a balance between effective services and an environment of fiscal constraint.
- Ensuring effective communication and participation by all role players in the planning and operation of the public service.
- Promoting co-operative decision-making.

Hendrikse and Hendrikse (2004:101) stress the above and argue that corporate governance can be viewed as a control mechanism to prevent the risk of mismanagement and to serve as guiding principles and framework for directors and managers carrying out the functions of the business effectively.

Although the above discussion focussed mainly on the characteristics of a major public entity, the drive towards corporate governance is applicable to all government-owned entities. The next section will focus on private entities, with an explanation of the different organisational forms.

## **2.4 DIFFERENT FORMS OF PRIVATE ENTITIES**

This section deals with the different forms or types of an organisation a private entity can embark on to either deliver a service or produce a product. As section 2.3 dealt with public entities, the emphasis in this section is on the characteristics of different organisation forms or types operating as private entities in order to compare their perceived competitiveness with that of the previously

mentioned public entity. However, some of these organisational forms are also generally applicable to public entities.

Galbraith (1995:1) is of the opinion that traditionally an organisation was perceived as having cumbersome bureaucratic structures. This particular point of view gradually changed after it was realised that effective organisations are necessary to compete in a market where they can distinguish themselves through superiority when compared with their competitors. Change, variety and speed are sources of competitive advantages that organisational designs should complement (Galbraith, 1995:4). According to Galbraith (1995:6-7), organisational design has both positive and negative aspects in every situation or choice, and this understanding is important for choosing the appropriate organisation form in order to create a competitive advantage.

The different forms of organisations in South Africa through which business and service delivery are transacted can be distinguished on the basis of the different characteristics of each of the major forms of organisations. McLeary (1999:31) identifies the existence of the following major forms of organisations:

- One-person businesses or sole traders
- Partnerships
- Close Corporations
- Companies
- Co-operatives
- Trusts

These forms are briefly discussed below.

#### **2.4.1 One-person businesses or sole traders**

One-person businesses or sole traders as a form of organisation have a great deal of freedom installed for the businessperson. Policies and procedures are determined by the owner and can be changed as he or she wishes to adapt to a changing environment or changing client requirements. As there is usually no public register of such businesses, there are no formal laws of organisation regulating the business (McLeary, 1999:32).

Usually the individual owner trades as the business and law makes no distinction between the business and its owner and regards them as one entity. The owner is legally responsible for all activities of the business and liability therefore includes all the assets of the owner, which exposes the owner to the risk of losing his or her personal estate (Hendrikse & Hendrikse, 2004:27-28). Tax laws and municipal regulations apply to this form of business. Currently no audits are required in South Africa. In summary, a sole trader not only manages the business, but he or she decides on policy, the value system on conducting business and ways to serve clients (McLeary, 1999:32).

#### **2.4.2 Partnerships**

The disadvantages of a one-person business in terms of financial resources and the absence of certain expertise can be addressed by forming a partnership agreement. A partnership is not subject to the requirements imposed on close corporations or companies by legislation, although the Companies Act 61 of 1973 as amended limits the membership in a partnership to twenty persons (excluding professional partners, who may be more), and they are subject to the general principles of the law of contract and to various special principles of the common law applicable specifically to partnerships (Werksmans Attorneys, 2004).

A partnership agreement is informal and no registration is necessary, but a partnership must register in respect of various tax acts and other acts relating to employers (McLeary, 1999:33). Partnerships are not taxed as a separate entity, but the partners are taxed separately and the employees are taxed subject to fringe benefits tax (Hendrikse & Hendrikse, 2004:27).

Policy, procedures and management decisions as well as the delegation of signing powers are resolved in an agreement between the partners. This agreement is usually not registered in any public registry and are only aimed at directing the relationship of the partners internally, which could be changed as needed and agreed upon by all the partners. A partnership is dependent on the internal agreement between partners to deliver services and products to the consumer in a profitable manner (McLeary, 1999:34).

The requirements and existence for a valid partnership as discussed in Hendrikse and Hendrikse (2004:26) are as follows:

- Two to twenty natural or legal persons to form a partnership.
- The partners contribute money, property or services.
- The goal is to make a profit that will be distributed as provided in the partnership agreement.
- The partnership ceases when there is a change in membership.
- The partnership will be terminated by agreement, change of partners, or when a partner's estate or the estates of all partners are sequestrated.

McLeary (1999:38) postulates that a partnership has no perpetual succession as it dissolves as and when partners withdraw or new partners want to join in. Another drawback is that the liability of the partners is unlimited. Partners are jointly and severally liable for the partnership debts.

### **2.4.3 Close corporations**

In most cases the drawbacks of partnerships can be overcome by forming a close corporation in terms of the Close Corporations Act 69 of 1984. The aim of this Act is to enable businesses to establish corporate status and legal identity distinct from their members in a simpler and less complex manner than is the case with the requirements of the Companies Act.

A close corporation is formed by registering a founding statement with the Companies and Intellectual Property Registration Office (Werksmans Attorneys, 2004). As the close corporation (CC) is a more simplified and flexible business than a company, it is a more appropriate form of business for small businesses. Less formal requirements apply to the managerial and administrative aspects than in the case of a company (South African Government Services, 2004a).

The following conditions distinguish a close corporation from other forms, more specifically from that of a company (McLeary, 1999:38; South African Government Services, 2004a; Werksmans Attorneys, 2004):

- Audited financial statements are not required, although an accounting officer is required.
- No compulsory meetings regarding the public are required and meetings are usually held between members on an ad hoc basis.
- The members of close corporations need not to be actively involved in the day-to-day running of the business, although in most cases the members are also managing the business.
- No separate Board of Directors or management body is required.
- A close corporation may be formed by between one and ten members and the members have to be natural persons (no juristic person such as a company), a trustee of a testamentary trust and a trustee, administrator,

executor or curator for a member who is insolvent, diseased, mentally disordered or incapable of managing his own affairs.

- The regulation of the relationship between members is done through provisions in the Act or through an association agreement between the members.
- Members may become liable to the corporation for losses suffered due to their fiduciary relationship to the corporation.
- A close corporation is a legal personality with perpetual succession and has its own assets and liabilities distinct from those of its members.
- A close corporation is a simplified form of a limited company, but with similar characteristics to those of a partnership.

#### **2.4.4 Limited liability company**

Werksmans Attorneys (2004) regard the limited liability company as the most common form of a business entity in South Africa. Companies can be limited by shares or limited by guarantee, where the latter primarily promote religious, charitable, educational and other similar interest.

Companies with share capital are divided into public or private companies. The characteristics of private companies are as follows (McLeary, 1999:44-45; South African Government Services, 2004b):

- Shareholders vary between one and a maximum of fifty.
- No shares or debentures may be offered to the public.
- The words "(Proprietary) Limited" or "(Pty) Ltd" must be at the end of the company's name.
- There are some restrictions on transfer of shares (shareholders that wish to dispose their shares have to offer them to the existing shareholders first).
- It is not necessary to make information available to the public.
- There is at least one director.

- The directors decide on policy.
- Shareholders own the business.
- Profits are distributed in the form of dividends to the shareholders and the balance for expansion.
- Audited financial statements are required.
- A private company is managed by professional managers, who could be directors.

The characteristics of public companies are as follows (McLeary, 1999:43-44; South African Government Services, 2004c):

- Consist of a minimum of seven shareholders, with no limitation on the maximum number.
- Shares are offered to the public.
- No limitation on the transfer of shares exists.
- The word "Limited" will appear at the end of the company's name.
- Certain information must be revealed to the public.
- There is a minimum of two directors.
- It is very capital intensive.
- There is a minimum of two directors.
- It may apply for listing on the stock exchange and has to comply not only with the rules of the Companies Act, but also with the rules of the stock exchange.
- The directors decide on policy.
- The shareholders own the business and exercise their powers at general meetings.
- Profits are distributed to the shareholders in the form of dividends, with the balance retained for expansion.
- Audited financial statements are required.
- The directors appoint professional managers to manage the company.

Both private and public companies are separate entities, which exist separately from their shareholders, although their existence is inextricably tied up with the shareholders. The amount of capital invested in shares will determine the shareholders' liability for the debts of the company (Werksmans Attorneys, 2004).

Companies have their own assets, liabilities, profits and losses, can enter into contracts and can also be sued. Insolvency of a company does not lead to the sequestration or liquidation of shareholders. Companies are controlled through compliance with the Companies Act (Hendrikse & Hendrikse, 2004:26-27).

#### **2.4.5 Co-operatives**

There are three forms of co-operatives in South Africa, namely giant agricultural co-operatives, special farmers co-operatives, and trading co-operatives. Co-operatives are controlled through compliance with the Co-operatives Act, Act 91 of 1981, and are administered by the Registrar of Co-operatives (McLeary, 1999:47).

The characteristics of co-operatives are as follows (McLeary, 1999:47-48; (Werksmans Attorneys, 2004):

- A co-operative is formed with a specific objective for the benefit of its members.
- Co-operatives are a separate juristic person with limited liability.
- The statute of a co-operative is its controlling document, which contains all the details of the co-operative and the governing rules of the internal affairs.
- It has similar powers of that of a company, but with certain restrictions on its activities, e.g. restrictions on borrowing and lending of funds.
- Co-operatives are taxed in the same way as companies, with certain allowances available to them.

- Audited financial statements are required.
- Profits are distributed by means of bonuses to members, dividends to the maximum of 15% to shareholders, and the balance to expansion.
- The directors, who must be members, decide on policy and manage the co-operative.
- The co-operative is owned by the members.

#### **2.4.6 Trusts**

Business or trading trusts are not widely used in South Africa at present. According to Hendrikse and Hendrikse (2004:31-32), a business trust is formed out of the wishes of a donor founder. Beneficiaries are the ultimate owners of trust assets and a trust is managed by trustees on behalf of the beneficiaries.

Werksmans Attorneys (2004) defines a trading trust as a form of unincorporated business organisation created by a deed in which the beneficiaries will benefit from the profits or in general in properties managed by the trust. Trusts in which the public are beneficiaries are governed by the Unit Trust Control Act 54 of 1981, and are not a separate juristic person distinct from the trustees. The Master of the High Court authorises the trustees, who may not be more than twenty persons. In comparison with a company, the following reflects the advantages of a trust:

- Tax benefits, in the form that no tax is paid on any income that is distributed to the beneficiaries. The beneficiaries are taxed on this income in their own right.
- There is limited liability for the trustees, except in cases of fraud.
- A trust is not geographically bound as is a company, as it does not have a full corporate personality.
- Audited financial statements are not required, unless so specified by the trust deed or called for by the Master (McLeary, 1999:49).

In the light of the foregoing discussion of the different forms of private entities, Galbraith's (1995:6) opinion can be echoed, namely that the choice of organisational design relies to a great extent on the business strategy that is to be executed by the organisation. Where specific Acts of Parliament establish an organisation, that organisation has no choice but to deliver according to its mandate. A balanced perspective is necessary to determine what services can or cannot be delivered in a specific environment where different forms of organisations could compete (Galbraith, 1995:7).

Variations of the above forms are also possible to complete a specific task or to deliver a specific service. Such so-called joint ventures have their own governing Act, but generally follow the pattern of the Companies Act (McLeary, 1999:50).

Hendrikse and Hendrikse (2004:25, 27) state that any entrepreneur or owner of a business may choose in which manner he or she wants to operate the business, and flowing from this choice of entity are the fundamental issues of ownership and control. The choice will therefore influence all future strategic business decisions.

In order to decide on the appropriate organisational form in which a service or product should be delivered, the comparison between public and private entities will be discussed in the next section.

## **2.5 COMPARISON BETWEEN PUBLIC AND PRIVATE ENTITIES**

There are many similarities between managing public entities and managing private entities, although there are also considerable differences between the two concepts. In this section the differences between public and private entities will be compared and analysed.

### **2.5.1 Traditional similarities**

Generic management processes are executed by both public and private entities. The common management functions of planning, organising, staffing, directing, coordinating, reporting and budgeting are similar for the two types of entities, although the environment within which they operate differs significantly (Cameron & Stone, 1995:115).

Botes et al. (1992:157) are of the opinion that both public and private entities “have to economise in order to balance budgets” and that both “tend to become unyielding bureaucratic units” which consist of organised groups of people expressing their unique values, culture and beliefs.

### **2.5.2 Financial issues**

Profit maximisation of a company is the ultimate goal in the private sector, while a service motive is the goal for public entities. Public entities deliver services to improve the general welfare of all people, while private entities deliver services to maximise their profits. Public entities focus on the prioritisation and use of scarce resources in order to render the best quality of services. Effectiveness in service delivery will be created through outputs delivered in an economic and efficient way (Van der Waldt et al., 2002:5).

It is easier to measure success in private entities on the basis of financial goals that are directly related to the business, versus financial goals where specific services have to be delivered by public entities (Du Toit et al., 2002:18). These goals cannot be quantified, and although performance measurement has been introduced in the public sector, it is still underdeveloped. In the private sector goals are more realistic and more evenly matched with the available resources than in the case of the public sector, where limited resources have to be applied to massive objectives (Cameron & Stone, 1995:117-118).

### **2.5.3 Transparency**

Public entities are much more transparent, as opposed to obscurity in private entities (Du Toit et al., 2002:18). Cameron and Stone (1995:116) echo this statement and add that most of the actions of private entities are conducted in secret. It is essential to conceal operations in order to protect latest developments and to gain a competitive edge.

Private entities focus on results rather than on processes and rules, whilst public entities have to obey all relevant legislation, policies and strategies in support of the entities' business plan and according to open administration (Van der Waldt et al., 2002:5).

### **2.5.4 Hierarchical structure and distribution of power**

A tendency has been found in many companies recently to move away from the traditional hierarchical structure with its authoritarian management styles, separatist titles and privileges and multi-levelled form. Most private entities have fewer hierarchical levels (Galbraith, 1995:19). In public entities, however, inherited bloated bureaucracy, excessive centralised control and top-down management structures still exist (CASE, 2001:14). "Bureaucratic loops" and a high degree of unnecessary procedural and legal complexity lead to a great deal of time and energy being wasted, which has a negative impact on service delivery. Effective service delivery suffers as a result of the inefficiency of the bureaucratic system (CASE, 2001:14).

The trend is largely to delegate powers to the employees who have direct product or customer contact, as the power to influence prices, terms and conditions lies in the hands of knowledgeable customers (Galbraith, 1995:24). This decentralisation of decision-making power is reflected in private entities, whilst in the case of

public entities different decision-making levels consisting of senior managers, group managers, general managers, managing directors and different management boards fulfil this role (Armstrong, 2004b:9).

Charlton (2000:33-34) states that empowerment of employees creates an environment where employees take responsibility and start thinking like a businessperson. Improvement of productivity is the result of employees creating their own systems and consequently corporate growth within this entrepreneurial perspective. Renewal is not leader-dependent, and the creation of new and improved products or better service delivery at each level of the organisation is a necessity in the competitive environment.

Private entity managers have a fair degree of latitude in the management of subordinates, whereas public sector line managers must adhere to government personnel policy as controlled by the Public Service Commission and the Constitution of the Republic of South Africa. Aspects such as hiring, firing, transfers and promotions are far less complex for private sector managers, and this flexibility makes it easier to organise their entities and to identify the right person for the job (Cameron & Stone, 1995:120).

Cameron and Stone (1995:121) elaborate on this point by stating that public entities benefit from private sector techniques and practices. Techniques and practices such as performance measurement, performance-related pay, decentralised management and target specification can be adopted in an attempt to collapse the major differences between the two entities.

### **2.5.5 Customer focus**

Rapid changes in processes, situations and customer needs necessitate management to make and to remake decisions as new circumstances arise. Process focussed efforts across functions are needed to improve processes and

service delivery. To accomplish these efforts, decisions must be moved to the point of customer contact. There is no time to go up the decision-making hierarchy to find all the delegations for approval (Galbraith, 1995:44-45). It is also important to realise that public entities cannot always comply with public expectations and needs, as they are only allowed to deliver services according to their mandate of functions (Du Toit et al., 2002:100).

It is clear in the above that although significant differences occur between managing public and private entities, generic management processes are present in both entities and similar challenges exist for both.

## **2.6 CONCLUSION**

The characteristics and obligations of the different forms of organisations competing in the same market clearly indicate the level of success each one is able to achieve. The ability of a public entity competing in a commercial environment depends to a great extent to its ability to react quickly to changes in the market trend and to new client requirements.

Bureaucratic activities and long lead times in the decision-making process may hamper a public entity's competitiveness. Having to adhere to all the regulations, rules, procedures, management systems and accounting practices makes less time available for exploring the market in an entrepreneurial way.

Risk avoidance and the lack of innovation should be changed to create an environment in which managers and other employees could be more aspiration driven and more customer focused. The ability to adhere to the "Batho Pele" principles will improve service delivery in the long term, which can offer an advantage to public entities over private entities not adhering to such principles.

The challenge to the management of public entities is to find alternative service and product delivery strategies and management strategies that will not only provide conformance to corporate governance but will also enable them to create a competitive advantage over private entities. These strategies will be discussed in chapters 3 and 4 respectively.

## **CHAPTER 3**

### **SERVICE AND PRODUCT DELIVERY STRATEGIES WITHIN PUBLIC AND COMMERCIAL ENVIRONMENTS**

#### **3.1 INTRODUCTION**

A variety of service and product delivery strategies exist to meet the needs of various clients. The aim of this chapter is to investigate ways in which service delivery can be improved by forming partnerships or other agreements between parties, or expanding services or products through alternative forms of business models. Although other strategies and partnering models exist, e.g. franchising and various consortium models, this study focuses on Public-Private Partnerships (PPPs), Project-Partnering and Management, as well as Black Economic Empowerment (BEE) involvement as delivery strategies or business models.

The focus is mainly on definitions, characteristics, requirements and advantages and/or disadvantages of different strategies. The purpose is to determine to what extent a public entity can embark on such strategies in order to improve its service delivery while operating within the boundaries of its mandate.

#### **3.2 PUBLIC-PRIVATE PARTNERSHIPS**

In today's modern economy, the combined efforts of government institutions and the private sector are indispensable for generating economic growth and delivering financial viable services. Government departments and public entities are not able to meet the development needs of South Africa without the assistance of the private sector. The importance of these partnerships necessitated government to adopt the Strategic Framework for Public Service Delivery through Public-Private Partnerships (PPPs) and a set of regulatory principles which forms the basis for the Treasury Regulations set out in the Public Finance Management Act 1 of 1999 (Van der Waldt et al., 2002:104). As PPPs

are a relatively new concept in South Africa, the meaning of this particular partnership is clarified in the following sections.

### **3.2.1 Defining Public-Private Partnerships**

The National Treasury/PPP Manual (2001:3) describes a PPP as: “A contractual arrangement between a public sector entity and a private sector entity whereby the private sector performs a departmental function in accordance with an output-based specification for a specified, significant period of time in return for a benefit, which is normally in the form of financial remuneration. It furthermore involves a substantial transfer of all forms of project life cycle risk to the private sector. The public sector retains a significant role in the partnership project either as the main purchaser of the services provided or as the main enabler of the project.”

In the strategic framework of the National Treasury/PPP Manual (2001:5), a PPP is described as “a contractual arrangement whereby a private party performs part of a department’s service delivery or administrative functions and assumes the associated risks. In return, the private party receives a fee according to predefined performance criteria, which may be:

- Entirely from service tariffs or user charges.
- Entirely from a departmental or other budget.
- A combination of the above.”

Van der Waldt *et al.* (2002:105) echoes the above-mentioned definitions, but stresses the fact that according to the Treasury Regulations, PPPs are only related to national and provincial departments and not to local government. The Municipal Services Partnership Policy and other related legislation governs the relationship between local government and private entities.

### **3.2.2 Characteristics of Public-Private Partnerships**

The National Treasury/PPP Manual (2002:3-4) indicates that PPPs form an integral component of government's overall strategy for the provision of public services and public infrastructure. Some of the crucial factors characterising a PPP or the requirements for establishing a PPP are as follows:

- The partnership should be affordable and should offer value for money services. Sufficient funds should cover the financial commitments.
- Conflicts of interest between government departments and private parties must be avoided. Collaborative working between the parties is essential.
- Institutional arrangements should streamline project processes and not add additional administrative or procedural burdens.
- Development and building of appropriate functional capacity are of the essence.
- Only an accounting officer or an accounting authority may enter into an agreement after conducting a feasibility study to determine whether the PPP is in the best interest of an institution.
- The PPP must be approved by the National or relevant Provincial Treasury.
- The management of the agreement is in the hands of the accounting officer or the accounting authority.
- A Public-Private Partnership Unit (PPP Unit) spearheads the innovative infrastructure and service delivery through PPPs to promote the agreements and best practices effectively.

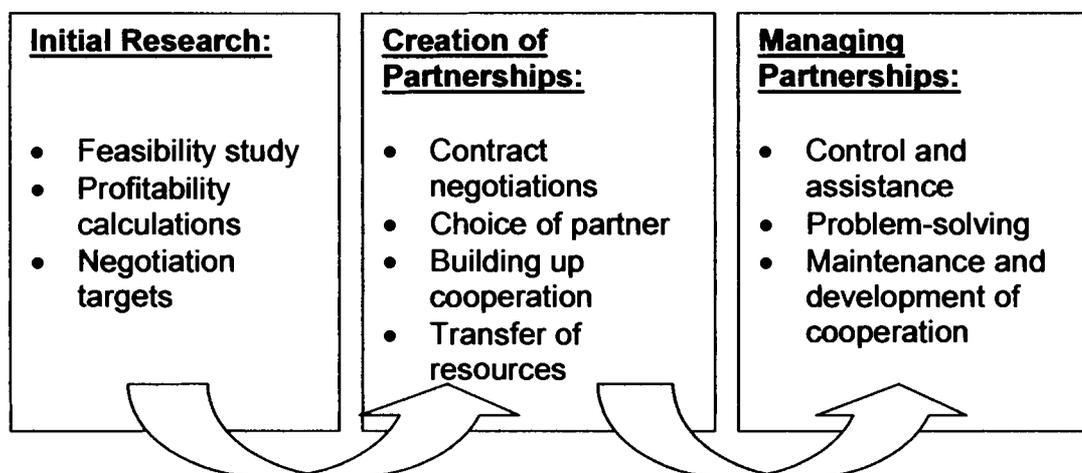
Stokoe (2002:2) stresses the fact that an effective partnering culture relies on three crucial factors, namely:

- Cooperation - where joint management, a single operation, shared processes, trust, confidence and teamwork are needed.

- Commitment - where business excellence, continual service delivery improvement, best performance, risk sharing and gain sharing are important.
- Communication – where a single message to clients and employees of different partners is crucial.

Nelson (2002:12) mentions that a partnership project consists of an initial research stage, a stage where partnerships are created, and finally the stage where the partnership is being managed. Diagram 2 indicates the stages in a partnership project.

**Diagram 2: Stages in a Partnership Project**



The above stages and requirements in establishing a PPP are necessary for approval by National Treasury.

### **3.2.3 Advantages and disadvantages of Public-Private Partnerships**

By focussing on strategic partnering, Armitage (2002:14) is of the opinion that a PPP is a long-term contract, which establishes a framework for a relationship to grow. It deals with long-term needs of an uncertain environment and builds on the advantage of private finance initiatives. The sharing of risks and rewards will

allow a sharper and stronger strategic focus in the acceleration of infrastructure and service provision. As a PPP is a broad and flexible concept, it is adaptable to fit specific requirements and opportunities are given to partners to be innovative and to develop competitive markets (Armitage, 2002:15).

According to Sassine (2002:2), expectations of innovation in service delivery will be enhanced by the utilisation of private sector expertise, capital and technology. She also mentions the fact that support activities could be rendered by PPPs, whilst the military units can focus on their core activities and improve their combat capability. Transfer of savings from support activities to operations is a big advantage.

Enestam (as quoted by Nelson, 2002:2) states that at a time of scarce resources, only core functions should remain in the hands of the military, and the most important support functions and strategic partnership agreements – with precautionary plans for crises – should be negotiated with the private sector.

The National Treasury lists the following advantages in the PPP Manual (2001:3):

- The achievement of operational gains by focussing on outputs rather than processes and by ensuring better service delivery or more services for the same price. More inventive use of assets can lead to savings which can be invested elsewhere.
- Strategic clarity could be achieved by focussing government resources on strategic management and ensuring that core services are delivered effectively.

Armitage (2002:13) regards the following as disadvantages if the correct steps are not adhered to in the establishment and management of PPPs:

- PPPs might not be flexible enough for multi-activity requirements and for that reason every additional service has to be negotiated.
- Public entities might lose direct control.
- The certainty of output requirements over a long-term is essential.
- In most agreements, cost savings can only be achieved in the long-term.

Robinson and Knight (2002:14) are of the opinion that for any partnering relationship to succeed there is a need for all parties to establish a robust strategy and mutually compatible goals. There must be a clear set of roles and responsibilities with the necessary commitment and continuous improvement. Both parties must have a genuine desire to make it work, and a long-term commercially viable relationship must be the vision.

As a potential business model or service delivery strategy, PPPs have great benefits, but do not always find solutions to all problems. Parastatals, which are more profit driven than local government (which is responsible for ensuring that all people have access to adequate and affordable infrastructure services), might find that establishing a PPP would not necessarily create the expected advantages for all the parties involved.

### **3.3 PROJECT- PARTNERING AND MANAGEMENT**

It is not always possible for one entity to complete a significant project completely in-house. Outsourcing or contracting significant segments of a project to other entities or organisations is commonplace in today's downsized world. The term '*partnering*' is used to describe this collaboration (Gray & Larson, 2003:387). This statement is also arguable for a public entity that will contribute to its collaborative advantage.

### **3.3.1 Defining Project-Partnering and Management**

According to Burke (2001:2), the Project Management Institute (PMI) defines a project as: "...a temporary endeavour undertaken to create a unique product or service. Temporary means that every project has a definite end. Unique means that the product or service is different in some distinguishing way from all similar products or services."

Schonberger and Knod (1988:484) define a project as a large-scale, single-quantity product, which consists of a large number of related tasks that must be performed in some sequence. A display of this sequence is known as a project network, which consists of subsystems forming a system and which has to be managed.

Turner (as quoted by Burke, 2001:2) defines a project as: "...an endeavour in which human (or machine), material and financial resources are organised in a novel way to undertake a unique scope of work, of given specification, within constraints of cost and time, so as to deliver beneficial change defined by quantitative and qualitative objectives."

Project partnering can be described as a process for transforming contractual arrangements between different organisations into a cohesive and collaborative team to meet customers' needs. It is about commitment from each organisation working on a project to respect and trust each other, and about dedication to common goals (Gray & Larson, 2003:387-388).

Project management can be defined as: "...the application of knowledge, skills, tools and techniques to project activities in order to meet stakeholders' needs and expectations from a project" (Burke, 2001:3). In addition, Peter Morris (as quoted by Burke, 2001:3) describes project management as: "...the process of integrating

everything that needs to be done as the project evolves through its life cycle in order to meet the project's objectives.”

According to Payne et al. (1996:340) project management is the overall planning, implementation, control and coordination of a project. It is from inception to completion and the means for its completion must be created for its duration. A project will be dependent upon a parent organisation for its resources and each project is unique. Defined needs must be addressed to the required standards and within time and to the allocated budget.

Van der Waldt et al. (2002:219) describe the management of a portfolio of projects as “programme management”. Although there are clear differences between programme planning and project planning, the philosophy remains the same. The entire portfolio of projects aims towards meeting the organisation’s strategic objectives.

The characteristics and requirements for effective project management, whether in-house or as partnering, will be discussed in the next section.

### **3.3.2 Characteristics and requirements for Project Management**

According to Du Toit et al. (2002:231) a project reveals the following characteristics:

- It is objective-orientated and creates a change to a situation.
- Unlimited resources are not available and a project has to deal with certain restrictions.
- The result is quantifiable.

Gray and Larson (2003:406) stress the importance that significant time and effort should be invested before the start of a project to build relationships among

stakeholders. Procedures and provisions for dealing with challenges and opportunities should be developed and agreed upon by the stakeholders in advance.

Effective project management requires certain steps to be executed. These steps, also known as the project life-cycle, subdivide the scope of work into sequential project phases. The purpose of these project phases is to enhance management control, and all projects – from initiation to completion – pass through a number of recognisable stages (Burke, 2001:24).

The requirements for effective project management in each phase of the project life-cycle are as follows:

#### **3.3.2.1 Concept and initiation phase**

The establishment of the purpose or opportunity for the product or service is the first step in the project (Burke, 2001:24). The project specifications, which define the objectives of the project for a successful outcome, should be agreed on by all the parties involved, as well as the time allowed for achieving these objectives (Flanagan & Finger, 1998:298).

The scope of the project indicates the end result or mission of the project by defining the deliverables for the end user and focussing project plans. The project scope should include the project objectives, deliverables, milestones, technical requirements, exclusions and reviews with the customer (Gray & Larson, 2003:100).

Burke (2001:24) indicates that all possible options and alternatives should be considered and the feasibility of the best options should be evaluated. After the investigation of the feasibility of proceeding with the project, the next phase can be approached.

### **3.3.2.2 Design and development phase**

According to Du Toit et al. (2002:239) it is essential to create a schedule for the whole project. This schedule should contain all the logical tasks, organised in sequence and linked to responsible persons with realistic target dates. One technique used in planning the project is the work breakdown structure (WBS). Payne et al. (1996:343) explain that the WBS provides a rational subdivision of the tasks in a hierarchical form, down to the lowest level of discrete work to be executed. The WBS forms the platform from which the estimates of resource requirements, time allocation, linkages and associated costs can be determined.

Gray and Larson (2003:105) describe the WBS as a map or an outline of the project with different levels of detail. The final deliverable is the completed project, with the major project deliverables in between, and subdeliverables – up to a level where they are manageable and where responsibility can be assigned to identifiable work activities – at the bottom of the hierarchy. Gray and Larson (2003:107) elaborate on WBS by stating that it defines communication channels and coordinates many parts of the project. As WBS integrates work and responsibility, problems can be addressed and coordinated at an early stage.

Du Toit et al. (2002:243-244) stress the importance of applying planning techniques to formulate achievable objectives for the project in terms of resources, cost and time. The identification of responsibilities and conveying of information between team members are some of the critical activities necessary to reduce project risks and uncertainty.

In projects with ill-defined deliverables and with less tangible outcomes it will be difficult to apply the WBS. Gray and Larson (2003:115-116) suggest that a process breakdown structure (PBS) be used for planning these process-orientated projects where the final outcome is a product of a series of steps

affecting the next phase. PBS provides a suitable alternative for projects involving development work, driven by performance requirements.

After a well-constructed project plan, the implementation phase follows that will create the end result of the project.

### **3.3.2.3 Implementation or construction phase**

The execution of the action plans as determined in the baseline plan is the means to achieve the project objectives. Planning has no meaning unless the execution of plans is tracked and controlled through progress and performance measurement and evaluation. These measurement and evaluation functions ascertain the project's position with respect to time, resources and costs (Burke, 2001:191).

Flanagan and Finger (1998:299) are of the opinion that the success of a project relies to a great extent on the effective monitoring of the progress of the project up to completion. Regular communication through status reports and formal and informal meetings with the team members is of utmost importance to keep track of progress. Essential managerial skills of motivation, conflict resolution, team leadership, meeting facilitation and persuasion are necessary during the implementation phase.

Du Toit et al. (2002:248) warn that a common problem may be the lack of enthusiasm during implementation. Swanepoel (as quoted by Du Toit et al., 2002:249) gives some recommendations to maintain enthusiasm, which include inter alia the following:

- Realistic project goals.
- Involvement of all team members.

- Enthusiasm, commitment and positiveness from the project manager even though problems may occur.
- Turning of setbacks into positive learning experiences.
- Recognition and compliments for work well done.

Payne *et al.* (1996:350) elaborate on the importance of project monitoring and control. Performance management, the control of change, the minimisation of delays and extra cost and the control of suppliers and contractors are some of the issues that need attention during implementation as an ongoing process. As change is probably the greatest cause of delay and extra expense, Burke (2001:191) is of the opinion that corrective action must be applied as soon as possible. If not, it might be more expensive or even powerless to take any corrective action towards the end of the project.

The quality of a product or customer service will determine the long-term success of a project. The project quality plan explains in detail how a company will assure that the product or service will meet the client's requirements and the needs for which it was undertaken (Burke, 2001:218-219).

Final project evaluation to determine the success of the project leads to the final phase in the project life-cycle.

#### **3.3.2.4 Commissioning and handover phase**

This last phase confirms the implementation of the project according to the previous phases as agreed to by the clients and the termination of the project (Burke, 2001:25). Gray and Larson (2003:495-501) argue that all projects come to an end eventually, but not all projects have a well-defined ending. For an incomplete project a close-out plan is necessary to end off the last tasks and to deliver the project. Celebrations of the completion of contracts provide a sense of closure and a farewell to all involved.

### **3.3.3 Advantages and disadvantages of Project-Partnering and Management**

According to Gray and Larson (2003:389), the establishment of integrated project teams to deliver services or products has the following advantages:

- Savings on administrative costs as duplications are eliminated.
- Resources can be utilised more efficiently.
- Improved communication between team members (partners) as experience creates better understanding and enhances collaboration.
- Team members discuss innovative ideas and associated risks more openly.
- Improved performance due to a better understanding of each other and the application of lessons learned from previous projects to current projects.

Burke (2001:8-9) argues that the benefits of using a project management approach are the development of a structure in which a complex situation or problem can be addressed. Effective project management requires a panoramic view, logical thinking, a feel for detail and good communication skills. The planning and control system, which provides all relevant information, creates a single point of responsibility, which limits scope overlap and scope underlap.

Du Toit et al. (2002:232) mention the following advantages of project management:

- Control over the total project.
- Reducing the completion time.
- Control over the project cost.
- Control the quality of the product or service.
- Involvement of all team members enhances transparency.

The selection of the project manager is a key appointment that will influence the success or failure of a project. If a project manager is not able to integrate and coordinate the contributions of the team and guide them to successful completion of the project, project management will fail as a strategy to deliver services or products (Burke, 2001:9).

As a service delivery strategy the advantages of project partnering are well defined and experienced within the parastatal domain. A lack of resources makes it necessary for organisations to collaborate in order to deliver effective and efficient services or products at affordable prices.

### **3.4 BLACK ECONOMIC EMPOWERMENT**

The strategy for Broad-Based Black Economic Empowerment was released in March 2003 and aims to create an understanding of human resource development, employment equity, enterprise development, ownership and control of enterprises, and preferential procurement and investment (SA, 2003a:196).

#### **3.4.1 Conceptualising the concept Black Economic Empowerment**

According to Dekker (2004:3), the South African Government defines Black Economic Empowerment (BEE) in the following contexts:

- The objective to promote ownership and control of the economy by black people.
- The objective to promote human resources development.
- Evaluation of criteria such as the level of procurement from black-owned businesses, as well as enterprise development through investment in, or joint ventures with black-owned businesses.

Jack (2004:36) is of the opinion that BEE is “a product of the desire to normalise the SA economy and remove the economic imbalances that were drawn along racial lines”. He elaborates on this by defining “broad-based ownership” as an entity owned by a large group of individuals with broad-based BEE as an integrated and coherent socio-economic process, contributing to the economic transformation process in South Africa.

Thomas (2004:35) describes BEE as an attempt to redress the legacy of workplace inequalities. She qualifies this by stating that the promotion of equal opportunities and fair treatment should be implemented through the elimination of discrimination and the implementation of affirmative action measures. These measures aim to advance black people, women, and people with disabilities.

Dekker (2004:3) states that although the Strategy for Broad-Based Black Economic Empowerment and the Code of Good Practice (Code), which measures BEE compliance, are not legally binding documents, they clarify the government's policy in relation to BEE. The Broad-Based Black Economic Empowerment Act 2003 (Act No. 53 of 2003) (BEE Act) addresses all actions for achieving authentic BEE.

To create a better understanding of the concept, the characteristics and challenges of BEE will be discussed in the next section.

### **3.4.2 Characteristics and challenges of Black Economic Empowerment**

Havenga (2004:22) is of the opinion that BEE must be an inevitable part of a business's strategy in order to achieve a competitive advantage and effectiveness. Pretorius (as quoted by Havenga, 2004:22) confirms this in stating that BEE is not a spontaneous process, but that a holistic and integrated strategy should be driven by a management board if any success is to be achieved.

The BEE Act empowers the Minister of Trade and Industry to issue codes of good practice for measuring BEE compliance and defines the qualification criteria for the sale of state-owned enterprises and the establishment of public-private partnerships. Compliance regarding BEE should be addressed on the basis of a BEE scorecard (Dekker, 2004:4-5). Ramos (as quoted by Singh, 2004:84) elaborates on this by stating that the creation of a uniform BEE accreditation system is one of the biggest challenges. According to her, government departments, state-owned enterprises and large companies use different criteria in the evaluation and accreditation processes of BEE companies.

The challenge to BEE to be successful is embedded in the following objectives (SA, 2003a:196):

- A significant increase in the number of black people owning existing or new businesses, or an increase in the number of black-empowered businesses. Black-owned businesses consist of at least 50,1% ownership by black people, whilst black-empowered businesses consist of at least 25,1% ownership by black persons with a substantial management control (Dekker, 2004:7).
- A significant increase in the number of black executive and senior managers who are in control of the business (SA, 2003a:196).

Employment equity forms an integral part of BEE strategy. Jain and Hackett (as quoted by Thomas, 2004:36) regard best practices in employment equity as follows:

- It should include a consultative process with all stakeholders.
- A numerical target should be monitored on a regular basis.
- The importance of comprehensive training, development, mentoring and coaching programmes to enhance employment equity.
- Commitment and open communication from top management.

The percentage of total procurement sourced from suppliers that are black-owned or black-empowered is an important measurement on the BEE scorecard. This preferential or affirmative procurement is measured according to certain weighting criteria determined by the percentage black economic involvement (Dekker, 2004:17).

In order to determine the applicability of BEE in the parastatal domain, the next section will deal with advantages and disadvantages of BEE.

### **3.4.3 Advantages and disadvantages of Black Economic Empowerment**

Grimbeek (as quoted by Havenga, 2004:22) is of the opinion that the biggest advantage of BEE compliance is that "you stay in the race to the market and the customer". Pretorius (as quoted by Havenga, 2004:22) elaborates on this by stating that their group's strategic position has been enhanced by BEE and their business platform strengthened, resulting in the acceleration of internal transformation. He concludes by stating that shareholder value over the long term can be enhanced by a successful BEE strategy.

The BEE process enhances the human resources development requirements to deliver a fairer representation of black people in companies, creating a fairer income distribution across the different population groups. BEE suppliers and disadvantaged communities are benefiting from the preferential procurement system and the investment initiatives approved by government (Jack, 2004:36).

Dunn (as quoted by Havenga, 2004:23) regards BEE not only as a business imperative to create new work and to secure existing clients, but also as a contributing factor to the upliftment of disadvantaged communities.

As many people regard BEE as expensive and often an add-on cost, Gqubule and Gqubule (2004:37) are of the opinion that the funding structures and mechanisms used in business transactions are the key to empowerment. Mbentse (as quoted by Gqubule & Gqubule, 2004:37) agrees that innovation is needed in BEE intervention.

The staff complement of an organisation can easily resist BEE if it is not consulted and if BEE is not communicated and implemented with the necessary sensitivity. This is the opinion of Grimbeek (as quoted by Havenga, 2004:23), which is supported by Modiko's view that some of the BEE approaches have resulted in panic amongst people, and in a lot of window-dressing. Jack (2004:36) generalises criticism of BEE as the failure of past BEE experiments.

As an advantage or disadvantage, BEE will remain a contentious issue that has to be addressed in the South African economy so as to increase the number of beneficiaries. The challenge to parastatals remains the promotion of ownership and control by black people within a government controlled entity, by adopting BEE as a potential business model or service delivery strategy.

### **3.5 CONCLUSION**

The different service delivery and product delivery strategies which an entity can embark on to improve its services were highlighted in this chapter. The importance of partnership agreements was addressed in order to fulfil the development needs of the country and to normalise the South African economy through the removal of the past dispensation by applying the BEE strategy.

Through the evaluation of the characteristics, advantages and disadvantages of different strategies, the best practice to serve specific needs has to be explored and implemented.

Striving towards service delivery improvement not only includes the above strategies, but also requires the implementation of certain management tools to accomplish the goals and vision. This will be discussed in the next chapter.

## **CHAPTER 4**

### **MANAGEMENT TOOLS TO BE USED IN GOVERNMENT AND COMMERCIAL ENVIRONMENTS**

#### **4.1 INTRODUCTION**

In the previous chapter it was established that different forms of partnership agreements enable an organisation to support its product and service delivery capabilities. The combination of external and internal resources results in best practices to serve specific needs only if internal management strategies or tools are implemented effectively. An entity can adopt certain tools to assist management in the execution of all functions necessary to deliver an economically viable service or product to both government and commercial clients.

This chapter will focus on management tools such as the South African Excellence Model (SAEM), Total Quality Management (TQM) and the Balanced Scorecard (BSC). The background and aim of the different tools are discussed, as well as their concepts and the prerequisites for implementation. Advantages and pitfalls conclude the discussion on each of the tools.

#### **4.2 SOUTH AFRICAN EXCELLENCE MODEL**

The White Paper on Transforming Public Service Delivery (also known as the "Batho Pele" White Paper) describes the way in which public services should be provided and more specifically how to improve the efficiency and effectiveness of service delivery. Departmental performance excellence strategies have to be developed to promote continuous performance improvements in quantity, quality and equity of service delivery (SAEF, 2001:7). The South African Excellence Model (SAEM) is a management tool for improving the efficiency and effectiveness of service delivery.

#### **4.2.1 Background and aim**

The South African Excellence Foundation (SAEF) was established in 1997 with the aim of developing a South African National Excellence Model and Award, taking into account the full view of South African thinking and culture. The South African Excellence Model (SAEM) was rolled out to local government in 1999, and to small and medium enterprises as well as public service organisations in 2000 (SAEF, 1999a:M2-4). The SAEM was introduced after considerable research and consultation throughout South Africa and abroad, and is recognised by both the Malcolm Baldrige National Quality and the European Quality Award Foundations (SAEF, 2001:9).

An organisation that wishes to focus and prioritise its efforts to achieve excellence through effective continuous improvement can embark on the self-assessment process using the SAEM (SAEF, 1999(b):2). Self-assessment can be described as “a comprehensive, systematic and regular review of an organisation’s activities and results referenced against a model of performance excellence” (SAEF, 2001:11). Self-assessment enables an organisation to examine its business practices according to an internationally recognised framework (SAEF, 1999b:2).

The SAEM is also used to judge applications for the annual South African Excellence award, prizes and certificates to acknowledge organisations that demonstrate excellence in management processes for continuous improvement (SAEF, 2001:6).

The next section focuses on the concepts and criteria of the excellence model in order to achieve better results in service delivery by adopting this model as a management tool.

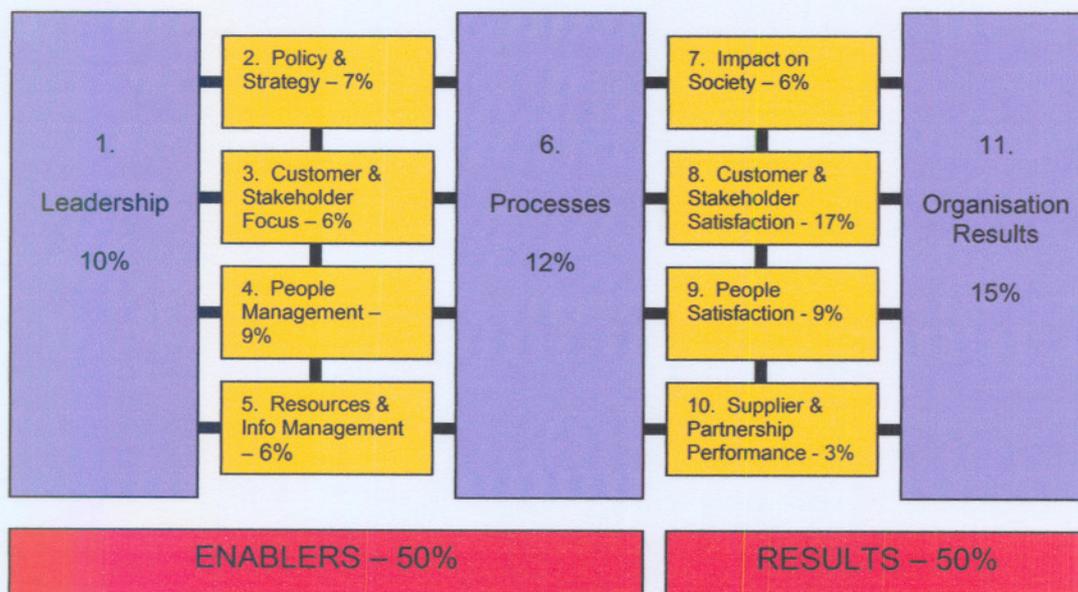
#### 4.2.2 Concepts and criteria

The "What is Self-Assessment?" handbook (SAEF, 1999b:6) links the eleven criteria of the excellence model by the principle that: "Customer satisfaction, People (employee) satisfaction, Impact on society and Supplier and Partnership Performance are achieved through Leadership, driving Policy and Strategy, People management, Customer and Market focus, Resources and Information management and Processes leading ultimately to excellence in Business Results".

The dynamics of the excellence model can be described in two categories, namely enablers and results. The leading indicators, or the enabler criteria, indicate what is done by an organisation and how it operates. The lagging indicators, or the results criteria, indicate what has been achieved and how measurement and target achievement are arranged (SAEF, 1999a:M2-11).

Diagram 3 illustrates the framework of the excellence model for the public service and indicates the weightings of the criteria (SAEF, 2001:14).

**Diagram 3: Excellence Model Framework**



The criteria as described in the SAEM cover the following (SAEF, 1999b:7-11; SAEF, 2001:18):

- **Leadership** – it describes the behaviour and example set by all people that are responsible for leading and inspiring others in the organisation.
- **Policy and Strategy** – it indicates how an organisation develops, formulates, deploys, reviews and translates policy and strategy into plans and actions.
- **Customer and Stakeholder Focus** – it indicates how an organisation determines needs, requirements and expectations of customers, enhances relationships and determines the satisfaction level of customers and stakeholders.
- **People Management** – it indicates how an organisation releases the full potential of its people by considering the development of skills, recognising improvement opportunities and empowering people to take action.
- **Resources and Information Management** – it indicates how an organisation manages and maximises the use of resources and information.
- **Processes** – it indicates how an organisation identifies and improves the processes by which it operates.
- **Impact on Society** – it indicates what an organisation is achieving in terms of the needs and expectations of the local, national and international community at large, including energy conservation and environmental issues.
- **Customer Satisfaction** – it indicates the level of customer satisfaction an organisation is achieving, including the number of complaints and the number of new or lost clients.
- **People Satisfaction** – it is an indication of the level of satisfaction of the people in the organisation.
- **Supplier and Partnership Performance** – it indicates what an organisation is achieving in terms of the management of partners and suppliers, including the level of involvement of partners and suppliers in continuous

improvement, cost reduction, innovation and the enhancement of knowledge.

- **Organisation Results** – it indicates what an organisation is achieving in relation to its overall objectives and in satisfying both the financial and non-financial needs and expectations of everyone involved.

In the assessment of these criteria, the scope of the results and improvement targets play a vital role in the success of applying the SAEM. The measurement of the right things and the comparison with other organisations will indicate whether the results of an organisation are showing positive trends (SAEF, 1999b:12).

#### **4.2.3 Advantages and pitfalls**

A prerequisite for the successful adoption of the SAEM is that it should be communicated and explained to all levels in an organisation, and it is usually performed at an independent unit level before it is implemented at corporate level (SAEF, 2001:11-12).

Use of the SAEM as a self-assessment tool cannot be expected to provide instant improvements or to indicate what to do or the best way to perform within an organisation; it is rather a tool that can provide a comprehensive, internationally recognised framework that can assist an organisation to identify and prioritise opportunities for continuous improvement (SAEF, 1999b:20).

Various quality and excellence initiatives can be integrated into normal business operations, and strategies and processes can be put into place to deliver the objectives effectively and efficiently. Educating people to apply the principles and practices of performance excellence in a meaningful way, and creating and promoting enthusiasm amongst all employees by involving them in the

improvement process, provides fresh impetus to their pursuit of performance excellence (SAEF, 2001:11).

Self-assessment is a powerful diagnostic tool, providing an “umbrella” to focus all efforts in order to achieve better results and to assist an organisation to identify “best practice” (SAEF, 1999b:20). It offers an organisation the opportunity to get acquainted with its strengths and areas for improvement, and indicates how it compares with other organisations. The scoring profile that is released by SAEF at the year-end award ceremony provides benchmark data against which organisations can compare themselves (SAEF, 2001:11-12).

In view of the advantages and benefits of the SAEM, as set out in the foregoing, it is clear that it is important for any organisation that wishes to determine its position on the path of excellence to adopt this tool.

### **4.3 TOTAL QUALITY MANAGEMENT**

Quality in products and services is essential for any business to stay in business and to fulfil the "Batho Pele" requirements. Total Quality Management (TQM) is a management tool for ensuring quality products and services and continuous improvement in service delivery.

#### **4.3.1 Background and aim**

According to Maxon (1993:7) the concept of Total Quality Management (TQM) emerged from the work of Deming, Duran and Crosby. It originated in Japan and was enthusiastically embraced worldwide.

Flanagan and Finger (1998:308) are of the opinion that TQM is an evolutionary strategy that focuses on continuous process improvement and that preceded business process re-engineering, which aimed to radically redesign processes in

order to dramatically improve an organisation's competitiveness. They associate TQM with getting services and products right the first time, and do not believe in waiting until the end before checking for errors.

Goh and Xie (1994:4-9) argue that TQM programmes have encompassed concepts such as "zero defect" and "do it right the first time", which they consider to be ideals rather than ways to achieve such ideals. A more positive and aggressive management attitude and "do it better each time" philosophy are needed in the increasingly competitive market.

According to Du Toit et al. (2001:208) TQM relates to an evolving system which was developed as a result of successful practices in an organisation to continuously improve processes, products and services.

Saunders and Preston (1994:194) believe that TQM was originally developed in manufacturing organisations, but that its value to other organisations was soon discovered. The ability to control processes and the reduction of waste were promotion efforts of TQM to the public sector, non-profit organisations, public health systems and small businesses.

Skrabec (1994:321) is of the opinion that TQM has changed the traditional role of the quality control manager from administering control functions to quality leadership, facilitating problem-solving and coordinating quality functions for the whole organisation. TQM has integrated the control department into a total organisational approach towards quality, where all employees take ownership of quality.

#### **4.3.2 Concepts and criteria**

TQM deals with the continuous performance improvement of individuals, groups and organisations. It is not a quick fix for organisational or operational problems,

but a way in which people know what to do, how to do it, are in possession of the right tools, are able to measure performance and can react to feedback. Kanji (1994:106-107) is of the opinion that TQM can achieve this if the following criteria are adhered to:

- Customers have to be delighted by fulfilment of their needs and acknowledgement of their input for future changes.
- Managing on the basis of fact, that is by knowing the current performance levels of products and services and improving them.
- Encouraging employees to take responsibility for the quality of their own work, which can be achieved through people-based management.
- Continuous improvement through incremental changes rather than major breakthroughs is important to fulfil the changing needs of customers.

Flanagan and Finger (1998:310) believe that TQM is brought about by dedication to continuous improvement and sharing of a constancy of purpose by everybody in the organisation. TQM challenges management to empower people to improve continually and to enjoy and celebrate their achievements. Weintraub (1993:39) echoes this by stating that all work is a process that can be improved through reducing cycle time, achieving breakthroughs and implementing innovations. Du Toit *et al.* (2001:209) are of the opinion that the new paradigm of TQM requires a change in approach from one of accepting a level of deficiency as normal practice to a philosophy of continuous improvement of all processes. Kanji (1994:112) stresses the fact that continually identifying small, incremental improvements should form the basis and reality of continuous improvement. An organisation can improve customer satisfaction by adding together all the many small improvements and using the continuous improvement cycle to fuel the engine of continuous improvement.

Customer satisfaction as a criterion or pillar for TQM necessitates that an organisation must know what its customers' requirements are and whether their

expectations and needs are met or even being exceeded (Weintraub, 1993:39). Kanji (1994:108) believes that serving internal customers and creating good internal relationships are prerequisite for satisfying external customers. He regards the concept of "internal customers" as one of the "big ideas" of TQM. According to Du Toit et al. (2001:209) TQM is regarded as a management approach to the long-term success of an organisation through customer satisfaction and to develop a partnership with the customer. TQM requires a new way of thinking about the customer base in order to improve value for the customer and to create a win-win approach through trust and collaboration.

A performance measurement system is another criterion of TQM. Competition urges organisations to match or improve on the performance of the nation's or the world's best, and thus benchmarking is an essential tool for achieving top performance (Flanagan & Finger, 1998:317). A well-designed measurement system indicates what is being measured, for what reason, and to what extent it satisfies the needs of the customers. It is important to measure the most applicable items internally as well as externally (Weintraub, 1993:39).

It is essential for an organisation to bring people together and to work together in pursuit of total quality. People working in a team create a platform for quality improvement through improved communication over departmental and functional walls. Cross-functional problems can be addressed by a task team or an action team solving local problems (Kanji, 1994:110-111). TQM is characterised by the total involvement and commitment of every employee to improve the quality processes and to invest in knowledge in people to empower them to continuous improvement (Du Toit et al., 2001:208). According to Flanagan and Finger (1998:311), TQM requires that managers become partners, mentors and co-learners and that management must empower and use the talents of all people to maximise customer satisfaction and to gain the competitive edge.

The above-mentioned criteria and concepts of TQM are the prerequisites for implementing a successful total quality management programme. The next section will deal with the advantages and pitfalls of TQM.

### **4.3.3 Advantages and pitfalls**

Saunders and Preston (1994:194) claim that TQM devolves benefits to the suppliers, employees, shareholders and customers, and to the community. Improved business performance and reduced waste lead to lower and reasonable prices, higher profits and an increased standard of living for all. The involvement in team actions and quality processes leads to increased morale and greater trust between employees. Customers experience greater satisfaction as there is improved knowledge of their needs and consequently their needs are satisfied.

The empowerment of stakeholders by giving them more responsibility, autonomy and participation in decision-making encourages people to create more ideas for improvement and to implement such ideas (Flanagan & Finger, 1998:311).

Maxon (1993:7-12) is of the opinion that the lack of senior management support, commitment and involvement is fatal to the success of TQM and that the absence of clear, long-term objectives will influence the initiative. Well-timed awareness programmes are an essential part of TQM and Maxon believes that "if a TQM initiative fails, it takes years to begin the process again". Wilkinson *et al.* (1994:400) indicate that TQM often fails where senior management are accused of being sceptical, unenthusiastic and not committing resources to the execution of quality management. In some cases quality management is seen as a "necessary evil" rather than a "positive benefit with potential advantages".

#### **4.4 BALANCED SCORECARD**

Performance management involves systems and methods to translate strategic goals into individual performance terms where continuous communication between managers and employees is a prerequisite for an effective performance management system. Performance management focuses on standards and measures to which timescales and priorities are assigned (Du Toit *et al*, 2002:187). The Balanced Scorecard is such a performance measurement system.

##### **4.4.1 Background and aim**

The Balanced Scorecard (BSC) concept was introduced by Robert Kaplan and David Norton in 1992. They realised that exclusive reliance on financial measures was insufficient in a management system, and that it should be supplemented by other measures that form the drivers or lead indicators in an organisation. Financial measures are seen as lag indicators reporting on the outcomes from past actions, while the value of the BSC is that it links measurement to strategy: non-financial measures are transformed from an operational checklist into a comprehensive system for strategy implementation (Kaplan & Norton, 2001:87).

Duvel and Rumbel (1998:38) are of the opinion that the BSC acknowledges the vital role of performance contracting and performance measurement in order to ensure transformation and that it provides a framework for organisations to manage strategy implementation. The BSC allows strategy to evolve in reaction to technology changes and changes in the competitive environment, by using financial and non-financial indicators.

According to Epstein and Manzoni (1998:193) the BSC concept originated from the realisation that no single indicator can capture the total picture and complexity

of an organisation's performance. Financial indicators, which are regarded as "lagging indicators of performance", record the effect of decisions not when the decisions are made but after the impact of materialisation of the decisions, and therefore tend to be less proactive indicators of potential problems than non-financial indicators. The aim of the BSC is to identify actionable performance indicators and to align these indicators with the organisation's overall vision and strategy (Epstein & Manzoni, 1998:194).

#### **4.4.2 Concepts and criteria**

According to Kaplan and Norton (2001:90), the BSC provides a framework for organising strategic objectives into the four perspectives that are unique to this approach. The concepts and criteria of the different perspectives can be described as follows:

- **Financial perspective** – this perspective focuses on the shareholders' interests to assure sufficient return on investment and the creation of shareholder value (Epstein & Manzoni, 1998:194). The strategy and objectives for growth, profitability and productivity to enhance shareholder value are included in this perspective. Companies increase economic value through revenue growth and productivity. Revenue growth is increased by new markets, new products, new customers and the increase in sales to existing customers by deepening relationships with them. Higher productivity can be achieved through lowering direct and indirect expenses and utilising assets more efficiently (Kaplan & Norton, 2001:90-93).
- **Customer perspective** - Duvel and Rumbel (1998:39) are of the opinion that there are four criteria that influence the customers' perception of an organisation. Time in which development and deliveries take place, the quality of products and services, the value added services an organisation supplies, and the total cost of offering a product or service. Epstein and Manzoni (1998:194) argue that an organisation can delight customers all

the way into bankruptcy if it does not perform well on key internal dimensions. The creation of value to customers' needs transforms into shareholder value through effective and efficient key internal processes.

- **Internal process perspective – operational excellence should be achieved by improving supply-chain management, asset utilisation, resource-capacity management and all other internal processes. Innovative ideas are important to develop new products and services, and effective relationships with external stakeholders are a necessity for operational excellence (Kaplan & Norton, 2001:93). Duvel and Rumbel (1998:39) indicate that this perspective derives from the business processes that have the biggest impact on customer satisfaction. Market leadership is obtained by applying best practices and critical technologies. Performance measurement influences employee action directly and links operational best practices with total business strategies.**
- **Learning and growth perspective - Kaplan and Norton (2001:94) regard learning and growth as the foundation of any strategy. Managers should define employee capabilities and skills and align human resources and information technology with the strategic requirements from its critical internal business processes, customer relationships and differentiated value proposition. According to Duvel and Rumbel (1998:39) this perspective takes cognisance of changing targets that require continuous improvement in competitiveness. The investment in employees is measured to ensure the improvement in skills that leads to improved operating efficiencies and improved customer satisfaction.**

It is important to link all the perspectives and interaction between all the necessary measurements in order to achieve advantages of the BSC. The methodology demands that management teams understand their business strategies, product and service strategies, financial plans, budgets, strategic plans and transformation programmes (Duvel & Rumbel 1998:39).

#### **4.4.3 Advantages and pitfalls**

Butler et al. (1997:244) are of the opinion that the BSC is more than a performance measurement technique and that it can be regarded as a management system which puts strategy and vision at the centre. The BSC serves as a powerful motivator to employees to perform to the best of their ability to arrive at goals without a control bias.

According to Epstein and Manzoni (1998:195) an obvious advantage is that the BSC indicates four different perspectives on the organisation's performance in one document. The BSC groups a small set of selected indicators to provide a more "balanced" view of the organisation's performance and highlights the trade-offs between the different measures.

The BSC presents an opportunity to organisations to align their measurement system with their strategy, whilst focussing on growth opportunities rather than on individual, short-term gains. Attention is on the creation of long-term economic and organisational benefits (Duvel & Rumbel 1998:39).

An organisation can communicate and reinforce its strategy to the employees by means of the BSC. It reinforces traditional ways of communication by translating the strategy into quantifiable indicators, which creates a form of interactive control and involves the attention of operating managers. Discussions challenge and debate action plans and assumptions, which forces the BSC to be an interactive document that will direct the organisation to greater competitiveness (Epstein & Manzoni, 1998:196-197).

For a BSC to be effective, the performance indicators must link with the vision and strategy of the organisation. The selection process should be a conscious and deductive effort to create a measurement tool that will focus on the objectives to

be achieved and the critical way of getting it there (Epstein & Manzoni, 1998:193-194).

#### **4.5 CONCLUSION**

Various management tools have been discussed that can assist management in the execution of organisational functions in order to achieve various goals. It is the responsibility of each organisation to decide which tools or which combination of tools will be effective in its specific environment. Both government and commercial organisations could employ these tools to gain the advantages thereof in each environment.

The success of the utilisation of these tools is dependent on senior management's efforts to communicate the processes and to motivate the employees to adopt the tools to the benefit of the organisation.

In the next chapter the literature study in chapter 4 and the previous chapters will be evaluated and measured against Gerotek's strive towards service excellence in governmental and commercial environments.

## **CHAPTER 5**

### **DELIVERY STRATEGIES: EMPIRICAL FINDINGS**

#### **5.1 INTRODUCTION**

In the previous chapters different entities, service and product delivery strategies and management tools were identified and described. These strategies and management tools are available to be used in government and commercial environments in order to provide economically viable services and products.

This chapter deals with the methodology used, the research design and the way in which data were collected, analysed and interpreted in Gerotek as the locus and focus of this research. The construction of the questionnaire, which will serve as a measurement tool to evaluate and validate the data obtained in the literature study, is discussed as well as the choice of the respondents that took part in this study. Problems encountered in the survey are also addressed. The outcome of data collected by means of the questionnaire is presented in such a way that the logical interpretation of findings will serve as a basis to address the problem statement.

#### **5.2 METHODOLOGY**

Two basic approaches, namely quantitative and qualitative, are used by researchers to collect, analyse and interpret information (Struwig & Stead, 2001:25). This research study, which is based on the qualitative approach, is discussed in the next sections.

##### **5.2.1 Description of qualitative research**

Struwig and Stead (2001:11) are of the opinion that it is quite difficult to define qualitative research as there are many research methods that can be used within

the boundaries of qualitative research. Denzi and Lincoln (as quoted by Struwig and Stead, 2001:11) view qualitative research as a multi-paradigmatic and multi-method approach to research studies that can be applied in a variety of subject fields.

Leedy (1989:173) describes qualitative research data as historical, descriptive or normative survey methods in which observation of the data by the researcher and the description thereof in words play a vital role. The term “descriptive research methodology” assumes that whatever is observed at any one time is normal and could under the same conditions be observed again in future (Leedy, 1989:140). Cooper and Schindler (2001:140) concur with the arguments of Leedy, but are further of the opinion that qualitative research consists of several approaches that “are adaptable for exploratory investigations of management questions”. Participant observation and in-depth interviewing are some of the elements of this approach.

Qualitative research thus focuses on the quality of the study and not on statistical processes to solve problems. Validation of findings is essential to secure credibility of the research (Struwig & Stead, 2001:25).

### **5.2.2 Characteristics of qualitative research**

Bryman (as quoted by Struwig & Stead, 2001:12) regards the following as characteristics of qualitative research:

- The participants’ and researcher’s perspectives - the perspective of participants forms an integral part of the research issues and it is the researcher’s responsibility to analyse and interpret the research data in association with the participants.
- Contextualism - a comprehensive description and analysis of the environment of research participants is indispensable as human behaviour

does not occur in a vacuum. The various macro and micro contexts of the individual and the interaction thereof with one another is an important aspect to provide holism, which examines social environments in its totality.

- Process research – interrelated events and the understanding of the influence of prior events on an individual's thoughts and behaviour are crucial in the research process and should be examined at an early stage of the research.
- Flexibility and the use of theories – qualitative researchers attempt to approach a research problem in an unstructured manner and with open-mindedness. The argument to this approach is to limit the influence of theory and prior research to the understanding and interpretation of events under research.

Leedy (1989:142) elaborates on this and is of the opinion that the population choice of the study is of vital importance and that the data are “susceptible to distortion through the introduction of bias into the research design”. Systematic presentation of the data is of essence to secure valid and accurate conclusions of the study.

### **5.3 RESEARCH DESIGN**

According to Cooper and Schindler (2001:134), the concept “research design” refers to “the plan and structure of investigation so conceived as to obtain answers to research questions”. This quote reflects an integration of a number of critical components, which will be briefly outlined in the following paragraphs to indicate how the theory and principles of research design will be applied in this research.

### **5.3.1 Construction of questionnaire**

The measurement tool used in this research is an interviewer-administered questionnaire which was designed to obtain information pertaining to service and product delivery strategies and management tools to be used in a competitive environment serving government and commercial clients.

The questionnaire was divided into the following sections:

- **Section A: Biographic information** - this information is necessary to determine the level of experience, decision-making powers and the client base of the respondents.
- **Section B: Competitiveness** – the outcome of this information is necessary to determine to what extent Gerotek competes in an economically viable manner, within the boundaries of statutory and regulatory obligations in governmental and commercial sectors respectively.
- **Section C: Service and Product Delivery Strategies** – this section will determine the level of effectiveness in which Gerotek uses different strategies to serve the needs of the different environments.
- **Section D: Management Tools** – this information is necessary to determine the level of sufficiency in which Gerotek utilises different management tools to deliver its unique services.

### **5.3.2 Study population**

This study was conducted amongst eleven members of the Gerotek management team and three members of the Armscor Business (Pty) Limited Management Board. The total number of fourteen respondents is well representative of the population group as it reflects 85% of the Gerotek management team and 50% of the Armscor Business (Pty) Limited Management Board. The Gerotek management team represents junior, middle and senior managers, whilst the

respondents from Armscor Business Management Board are on senior management level.

### **5.3.3 Problems encountered**

As this study was conducted at managerial level, some of the responses, especially where the effectiveness of management actions was measured, may not reflect the perception of the majority of employees at Gerotek. Another problem encountered was that the respondents from Armscor Business Management Board, who are not directly involved in Gerotek's strategies and action plans, experienced difficulty to comment on some of the "in-house" questions. Their general response did, however, correlate with that of the Gerotek management team.

### **5.3.4 Processing of data**

The results obtained in semi-structured interviews were processed by the researcher on the MSEXcel spreadsheet software program, after which they were analysed and interpreted. It is assumed that the percentages as calculated from the questionnaires and suggestions made are representative of the views of the respondents.

Computer-generated graphs and tables are used to reflect the values of the respondents towards best practices in strategies for service and product delivery to government and commercial clients respectively.

The next section discusses the analysis and interpretation of the data collected as part of the empirical study conducted on service delivery at Gerotek.

## 5.4 ANALYSIS AND INTERPRETATION OF EMPIRICAL DATA

In this section the responses of the Gerotek management team and the Armscor Business Management Board are reflected.

### 5.4.1 Section A: Biographic information

#### A1 Years experience in public entities

The following table reflects respondents' years of experience in public entities:

1- 2 years	3-5 years	6-10 years	11-15 years	16+ years
-	-	4	1	9
-	-	28,6 %	7,1 %	64,3 %

It is clear from the above that the vast majority (64,3 %) of the respondents have more than sixteen years experience, whilst almost one-third has 6-10 years experience in public entities. All the respondents thus have more than 5 years experience in public entities.

#### A2 Years experience in private entities

More than half of the respondents do not have any experience in private entities. From the remaining responses the average experience in private entities is between 3 and 5 years. This is shown in the following table:

1- 2 years	3-5 years	6-10 years	11-15 years	16+ years
1	3	2	-	-
7,1 %	21,4 %	14,3 %	-	-

### A3 Years experience at Gerotek

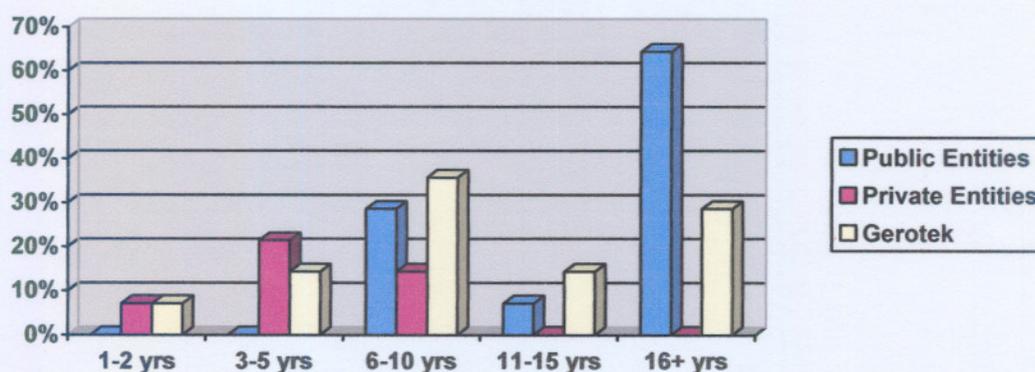
The following table reflects years experience at Gerotek:

1- 2 years	3-5 years	6-10 years	11-15 years	16+ years
1	2	5	2	4
7,1 %	14,3 %	35,7 %	14,3 %	28,6 %

It is clear from the above that almost 43% of the respondents have more than 10 years experience at Gerotek, while the minority (7,1%) have less than 3 years experience.

Years experience in public and private entities as well as at Gerotek can be graphically presented as follows:

**Figure 5.1** Years experience

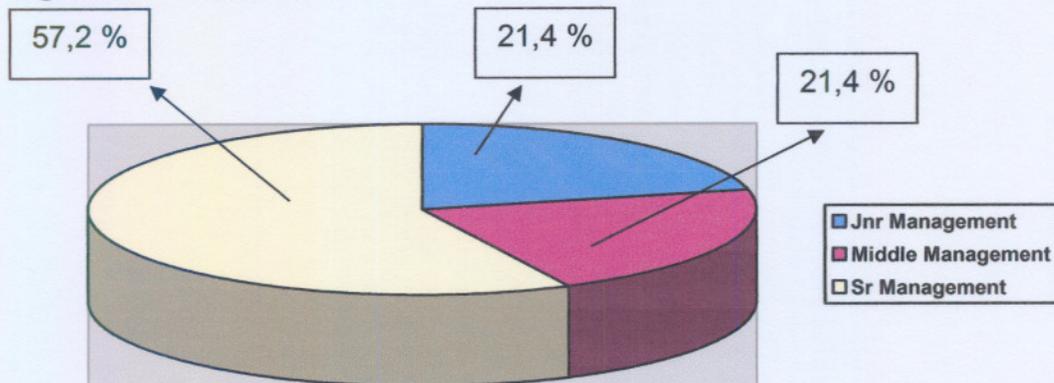


The above graph indicates that the majority of respondents have more than 10 years experience in the public entity environment, whilst limited experience is shown by the Gerotek management team as well as the Armscor Management Board in terms of private entities.

#### A 4 Current job level (broad band)

More than half of the respondents (57,4 %) represent the senior management level, whilst 21,4% are currently part of junior and middle management respectively. This is indicated in the following graph:

**Figure 5.2 Job level**



#### A 5 Time spent on government clients during the past 2 years

The following table indicates the time respondents spent on government clients during the past 2 years:

0-20%	21-40%	41-60%	61-80%	81-100%
5	5	-	4	-
35,7 %	35,7 %	-	28,6 %	-

More than two-thirds of the respondents had spent 40% or less of their time on government clients, whilst almost one-third had spent between 61-80% of their time on government clients.

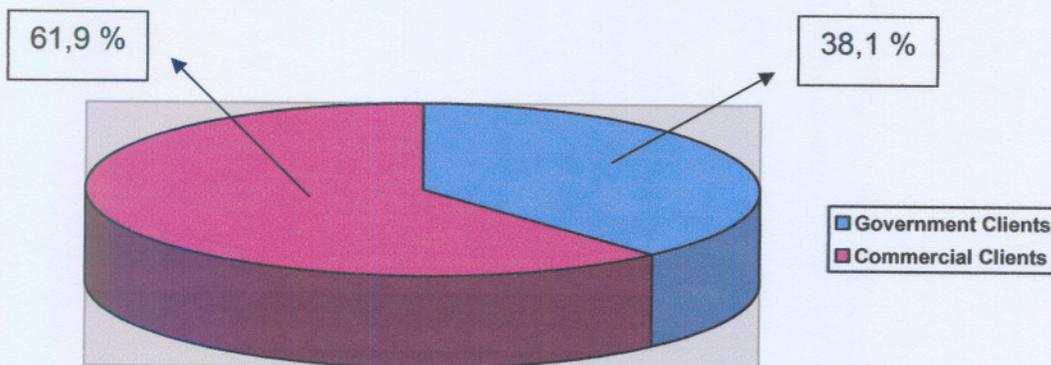
#### A 6 Time spent on commercial clients during the past 2 years

As shown in the following table, half of the respondents had spent more than 60% of their time on commercial clients during the past 2 years, whilst the other half had spent between 21-60% of their time on commercial clients in the same period:

0-20%	21-40%	41-60%	61-80%	81-100%
-	5	2	5	2
-	35,7 %	14,3 %	35,7 %	14,3 %

The following graph indicates the average time spent on public and commercial clients respectively:

**Figure 5.3 Average time spent on public and commercial clients**



According to the above results, more than 60% of respondents involved in the study spend their time on commercial clients.

#### A 7 Current involvement in strategic decision-making processes

The following table reflects the respondents' involvement in strategic decision-making:

Never	Partially	Always
1	9	4
7,1 %	64,3 %	28,6 %

Except for one respondent on junior management level, all the respondents are either partially or always involved in strategic decision-making processes at Gerotek.

#### 5.4.2 Section B: Competitiveness

##### B 1 The extent to which Gerotek's service and product delivery strategies focus on the needs of clients

The following table indicates the extent to which Gerotek's service and product delivery strategies focus on the needs of government and commercial clients:

	Never	Almost never	Often	Almost always	Always
Government clients	-	-	21,43 %	57,14 %	21,43 %
Commercial clients	-	-	7,14 %	71,43 %	21,43 %

In the light of the above it is clear that Gerotek's service and product delivery strategies do to a great extent focus on the needs of both government and commercial clients, and that no real distinction can be made between the two environments.

##### B 2 The influence of legislation and statutory obligations on Gerotek's competitiveness

As shown in the following table, legislation and statutory obligations have a negative influence on Gerotek's competitiveness, especially with commercial

clients. This in turn reflects on the enormous challenge a public entity faces in having to comply with legal and other obligations as described in section 2.3.2.

	<b>Negative</b>	<b>No effect</b>	<b>Positive</b>
Government clients	35,71 %	42,86 %	21,43 %
Commercial clients	57,14 %	28,57 %	14,29 %

### B 3 Gerotek's competitiveness against that of other service providers

The following results give an indication of Gerotek's competitiveness when measured against that of other service providers:

	<b>Very poor</b>	<b>Poor</b>	<b>Average</b>	<b>Good</b>	<b>Excellent</b>
Government clients	-	-	28,57 %	57,14 %	14,29 %
Commercial clients	-	14,29 %	21,43 %	64,28 %	-

It is clear that although Gerotek's competitiveness measures well above average (71,43% for services provided to government clients and 64,28% to commercial clients), other service providers offering services to commercial clients are competition for Gerotek. It must be mentioned that the "excellent" rating of 14,29% represents the view of two members of the Armscor Business Management Board who are not directly involved in the Gerotek environment. Details of the above competitive indication will be explored in questions B5 to B11.

### B 4 Organisational forms of competitors in Gerotek's environment

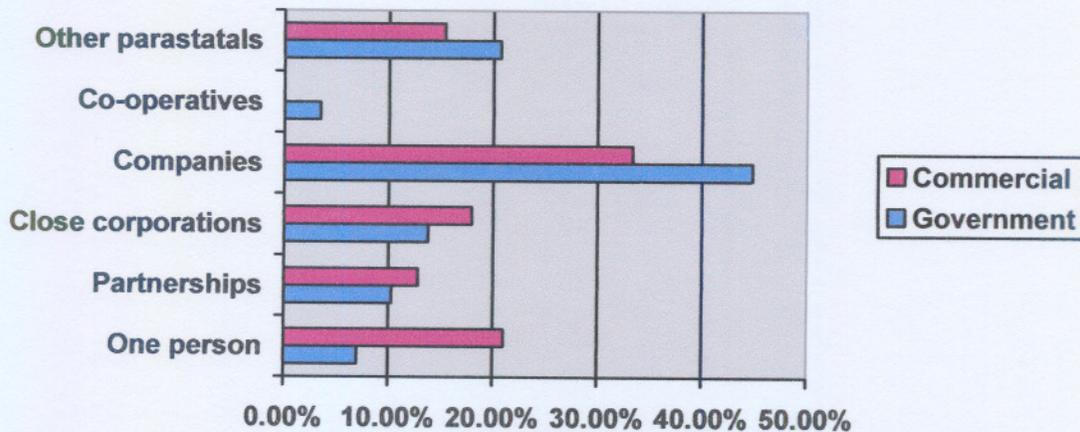
The following table reflects the different organisational forms of Gerotek's competitors for government and commercial clients respectively. Companies and other parastatals are the major competitors of services delivered to government

clients, whilst companies and one-person businesses form the major competition of services delivered to commercial clients:

Organisational forms	Government clients	Commercial clients
One-person businesses	6,9 %	20,51 %
Partnerships	10,34 %	12,82 %
Close corporations	13,79 %	17,95 %
Companies	44,83 %	33,33 %
Co-operatives	3,45 %	-
Other parastatals	20,69 %	15,39 %

A graphic illustration of the above is as follows:

**Figure 5.4 Organisational forms**



**B 5 The positive contribution of Gerotek's hierarchical structure and distribution of power to its competitiveness**

The following table indicates the perception of how Gerotek's hierarchical structure and distribution of power positively contributes to its competitiveness:

	<b>Strongly disagree</b>	<b>Disagree</b>	<b>Don't agree or disagree</b>	<b>Agree</b>	<b>Strongly agree</b>
Government clients	7,14 %	21,43 %	14,29 %	57,14 %	-
Commercial clients	7,14 %	50,0 %	-	42,86 %	-

The negative impact on service delivery by “bureaucratic loops” as described in section 2.5.4 is reflected in the above table. It is clear that the hierarchical structure and distribution of power have a more negative impact on commercial clients (57,14%) than on government clients (28,57%). This negative impact was experienced by almost all managers at junior and middle management level who deal with government clients, whereas senior managers share this view only with regards to commercial clients.

#### B 6 The positive contribution of Gerotek's policy and procedures to its competitiveness

The following table indicates the positive contribution of Gerotek's policy and procedures to its competitiveness. A similar response has been indicated for both environments, with more than 85% of the respondents agreeing that Gerotek's policy and procedures do contribute to its competitiveness in the market:

	<b>Strongly disagree</b>	<b>Disagree</b>	<b>Don't agree or disagree</b>	<b>Agree</b>	<b>Strongly agree</b>
Government clients	-	7,14 %	7,14 %	78,57 %	7,14 %
Commercial clients	-	7,14 %	7,14 %	78,57 %	7,14 %

The only respondent who disagrees that Gerotek's policy and procedures contribute positively to its competitiveness is at junior management level and has

no involvement in strategic decision-making processes. The lack of experience at Gerotek could also have influenced the response.

B 7 The development and empowerment of Gerotek's employees to take responsibility

The following table indicates that more than 80% of the respondents agree that Gerotek's employees are developed and empowered to take responsibility in serving both government and commercial clients:

	<b>Strongly disagree</b>	<b>Disagree</b>	<b>Don't agree or disagree</b>	<b>Agree</b>	<b>Strongly agree</b>
Government clients	-	-	7,14 %	64,29 %	28,57 %
Commercial Clients	-	7,14 %	7,14 %	64,29 %	21,43 %

One respondent from Armscor Business Management Board disagrees that Gerotek's employees are developed and empowered to take responsibility, whilst another was uncertain. This reflects their unfamiliarity with Gerotek's strategies and plans of action.

B 8 The hampering effect of financial constraints on the abilities and capabilities of Gerotek to deliver financially viable services

	<b>Strongly disagree</b>	<b>Disagree</b>	<b>Don't agree or disagree</b>	<b>Agree</b>	<b>Strongly agree</b>
Government clients	-	21,43 %	7,14 %	50,0 %	21,43 %
Commercial Clients	-	21,43 %	-	57,14 %	21,43 %

The above table shows that more than 70% of the respondents are of the opinion that financial constraints hamper the abilities and capabilities of Gerotek to deliver

financially viable services. This opinion echoes the characteristics of a public entity, where funds play a vital role in service delivery, as described in section 2.3.1.

#### B 9 Gerotek's ability to react to changes in the market trend

The following table indicates that 42,85% of the respondents are of the opinion that Gerotek reacts to changes in market trends to a sufficient extent (good or very good):

<b>Very poor</b>	<b>Poor</b>	<b>Average</b>	<b>Good</b>	<b>Very good</b>
-	35,71 %	21,43 %	35,71 %	7,14 %

The rating of 35,71% within the poor category reflects the opinion of the group of respondents with 6-10 years of experience at Gerotek, with the majority on middle management level. The majority of respondents that view Gerotek's ability to react to changes in the market trend as good are in the group with sixteen years of experience. This scenario will have a big influence on Gerotek's future competitiveness as measured in B3, as the latter group represents senior management that will be succeeded by middle management in the medium term (5 years).

#### B 10 Suggestions for improvement towards Gerotek's strive to service excellence

The following improvement suggestions were made:

- Improvement of turn-around times on quotations and test reports.
- Client service strategies should be more flexible and pro-active to meet clients' requirements and to facilitate quicker reactions.
- Project managers to service all clients and not only focus on significant or major projects.
- New product development to be enhanced.

- Improvement of engineering consulting ability and development of employees.
- Closer networking with suppliers in order to deliver a one-stop service.
- More responsibility and empowerment to employees to make decisions.

#### B 11 Competitive advantages of other organisations versus those of Gerotek

The following competitive advantages of other organisations were mentioned by the respondents:

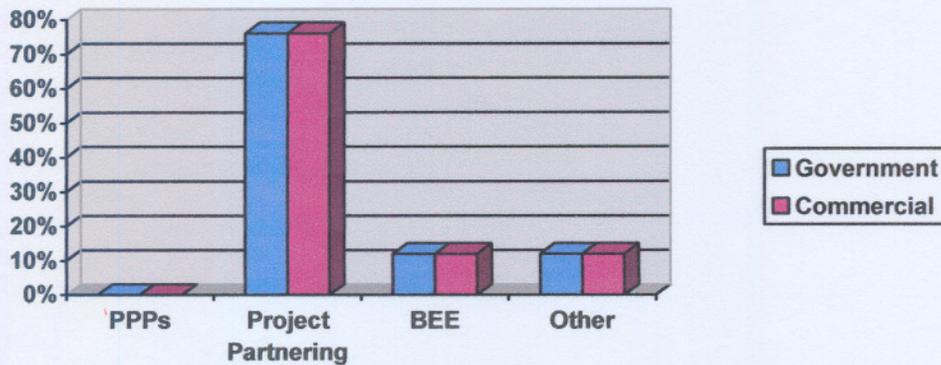
- Better prices of service delivery due to less financial constraints.
- Not that much interference from “mother company” (‘red tape’).
- More advance and state-of-the-art equipment and facilities.
- Black Economic Empowerment advantage in government tenders.
- Less formal channels (hierarchy) for approval of new business concepts and improvements, and higher risk profile.
- Engineering capabilities and a more problem-solving orientated approach.

#### **5.4.3 Section C: Service and product delivery strategies**

##### C 1 Forms of partnership agreements within Gerotek

The following graph indicates that project partnering is the main partnership agreement (76,47 %) within Gerotek, and it serves both government and commercial clients. There are no Public-Private Partnership agreements and insufficient BEE partnership agreements in place (11,76 %). The questionnaire also made provision for respondents to specify other forms of partnership agreements within Gerotek. More informal agreements were mentioned, for instance memorandums of understanding (11,77 %).

**Figure 5.5 Partnership agreements**



C 2 The effectiveness of current partnership agreements towards achieving service excellence

	Very poor	Poor	Average	Good	Excellent
Government clients	-	-	21,43 %	57,14 %	21,43 %
Commercial clients	-	-	28,57 %	42,86 %	28,57 %

In the light of the above response it is clear that partnering on project level is matching the advantages and effectiveness which partnering can offer as described in section 3.2.3.

C 3 The biggest disadvantage experienced with a partnership agreement

Although the questionnaire made provision for serving government and commercial clients respectively, no distinction of clients was made in the response received. The following disadvantages were mentioned:

- The memorandum of understanding (MOU) and memorandum of agreement (MOA) are not preferred business models.
- Risk of “stealing” work or clients from Gerotek as the business domains are not well defined.

- Partners focus more on financial earnings than on service delivery of which the quality is not that easy to control.
- Partners are not accredited and rely on Gerotek's accreditation.

Although the disadvantages mentioned above, excluding the quality control issue, can be regarded as unique responses in the Gerotek environment, the most of the disadvantages as described in the literature study (refer to chapter 3) were also mentioned in the interviews.

#### C 4 The biggest advantage of a partnership agreement in your environment

As in question 3, the response did not distinguish between government and commercial clients. The following advantages were mentioned:

- Expansion of product and service range, which enhances the one-stop service strategy and wider market penetration. A partnership agreement can therefore be regarded as an ability multiplier.
- Improvement of profitability and access to research and development funding.
- Dual use of capabilities and facilities.

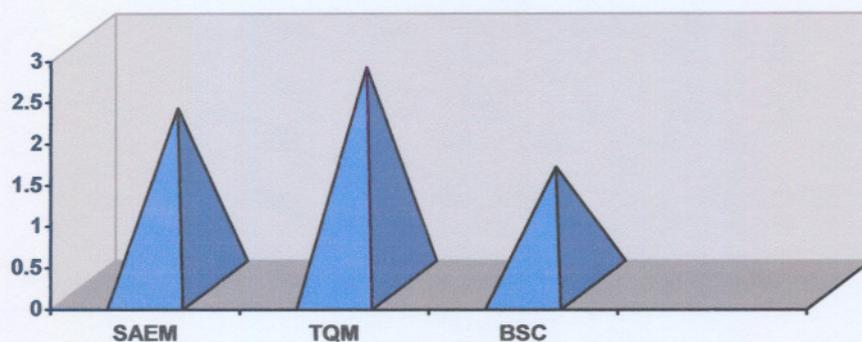
The above views of the respondents correlate with the advantages as described in chapter 3 and more specifically with section 3.2.3 where the lack of resources within organisations was mentioned as a reason for partnership agreements being formed, namely to deliver effective and efficient services at affordable prices.

#### 5.4.4 Section D: Management Tools

##### D 1 Management tools that contribute the most to improving service delivery

Respondents were requested to rank management tools on a scale from 1 (less important) to 3 (most important). The outcome was as follows:

**Figure 5.6 Management tools**



Total Quality Management (TQM) proves to be the management tool that contributes the most (2,64) to service delivery improvement, with the Balanced Scorecard (BSC) contributing least (1,43). A reason why respondents rank the BSC the lowest could be that they regard it as a control mechanism that has been forced down by the higher level hierarchy at Armscor.

##### D 2 Effective communication by management of the processes of the different tools

Effective communication as mentioned in section 4.5 is regarded as a prerequisite for the successful utilisation of management tools. The following table indicates the positive perception of respondents, although only 7,14% strongly agree that management communicates the processes of different tools effectively.

<b>Strongly disagree</b>	<b>Disagree</b>	<b>Don't agree or disagree</b>	<b>Agree</b>	<b>Strongly agree</b>
-	-	-	13	1
-	-	-	92,86%	7,14 %

**D 3 Motivation of employees to implement management tools in an effective and efficient way**

<b>Strongly disagree</b>	<b>Disagree</b>	<b>Don't agree or disagree</b>	<b>Agree</b>	<b>Strongly agree</b>
-	1	4	7	2
-	7,14 %	28,57 %	50,0 %	14,29 %

From the above it is clear that more should be done to motivate employees to implement management tools in an effective and efficient way. More than a third of the respondents have a neutral or negative perception regarding the motivation of employees, which stresses the importance of motivating employees to implement management tools to the benefit of the organisation.

**D 4 Management tools in support of the vision and goals of Gerotek**

All respondents indicated that the management tools support the vision and goals of Gerotek, as shown in the following table.

<b>Strongly disagree</b>	<b>Disagree</b>	<b>Don't agree or disagree</b>	<b>Agree</b>	<b>Strongly agree</b>
-	-	-	11	3
-	-	-	78,57 %	21,43 %

**5.5 CONCLUSION**

A comparative design between government and commercial environments was followed to obtain information pertaining to service and product delivery strategies and management tools to be utilised effectively. The information gathered in this

chapter through the semi-structured interviews was reported, interpreted and compared with the literature study conducted in the previous chapters.

Judging from the views and suggestions of the respondents, it is clear that a public entity such as Gerotek can deliver a service through economically viable strategies, not only to government sectors but to commercial clients as well. In most cases the study proves that similar strategies and management tools can be applied to the different environments.

In the next chapter the main outcomes of the empirical study are summarised and recommendations made on improving service delivery.

## **CHAPTER 6**

### **SUMMARY AND RECOMMENDATIONS**

#### **6.1 INTRODUCTION**

This study has been undertaken to ascertain whether a public entity has the ability to deliver a service – through economically viable strategies – to government and commercial clients where different rules, regulations, means and ways of contracting apply.

This chapter makes provision for a summarised perspective of the findings on the primary and secondary objectives, and includes the main outcomes of the literature study and the empirical investigation. The recommendations will serve as an attempt to improve service delivery to government and commercial clients. It includes information gathered in this study, as well as recommendations on further research to be undertaken.

#### **6.2 SUMMARY**

In chapter 1 the orientation, problem statement and objectives of the study were addressed. As this study was conducted within a parastatal serving both government and commercial clients, the problem regarding economically viable service delivery to both environments was explored. The research methodology that was used to address the study objectives was explained, and an indication given of the contents of the various chapters.

The theoretical foundation for this study was laid in chapters 2, 3 and 4. The terms “public entities” and “private entities” were conceptualised in chapter 2 and the characteristics and obligations of both entities were discussed in order to compare the two entities with one another. It was established that although bureaucratic activities, amongst others, may hamper a public entity’s

competitiveness, the adoption of the "Batho Pele" principles will improve service delivery and in the long term offer advantages over private entities not adhering to such principles.

In chapter 3 various partnership agreements and other forms of business models as part of service and product delivery strategies were analysed in order to determine the advantages and disadvantages of the different models. From these analyses it became clear that service delivery could be improved by forming partnerships or other agreements between entities in order to fulfil the development needs of South Africa, specifically within the boundaries of the mandate of a public entity.

Chapter 4 focussed on different management tools an entity can embark on to assist management in the execution of their functions. The aim, criteria, advantages and pitfalls of each of the tools were discussed. It was evident that these tools could be utilised in both government and commercial entities, and that the value of these tools is depended on management's ability to implement them successfully.

The aim of the above theoretical arguments was to identify best practices in the delivery of economically viable services to both government and commercial clients.

In chapter 5 the empirical findings were reported on the information that was collected through the interviewer-administered questionnaire. The purpose of this was to determine to what extent Gerotek was able to deliver a service through economically viable strategies and measured against the theoretical arguments in the previous chapters.

### **6.3 FINDINGS WITH REGARD TO PRIMARY AND SECONDARY OBJECTIVES**

With regard to the primary objective, namely to indicate to what extent a public entity such as Gerotek can meet the different approaches to economically viable service delivery to the commercial environment and government sectors within the boundaries of statutory and regulatory obligations, the following findings can be stated:

- The different approaches to economically viable service delivery as discussed in the literature study are not only applicable to Gerotek as a public entity, but contribute to a large extent to the success of Gerotek in its approach to deliver products and services to government and commercial clients. It was also proved in the empirical investigation that in most cases the approaches that were used were similar for both the government environment and the commercial environment respectively. This finding was found to be consistent with the preliminary statement in section 1.3, namely that Gerotek, as a public entity, can meet the requirements of a variety of clients in both the said environments in a competitive market.
- The boundaries as indicated by legislation and statutory obligations as described in chapter 2 and tested in the empirical investigation, have a negative influence on Gerotek's ability to deliver competitive services especially to commercial clients. Internal policies and procedures however assist Gerotek in its service delivery efforts.

Regarding the comparison of Gerotek's perceived competitiveness with that of a private entity, indicated as a secondary objective of this study, the empirical findings correlates to a great extent with the literature study on the comparison of public and private entities (refer to 2.5).

The following can be regarded as the most important findings:

- The hierarchical structure and distribution of power, which reflects the bureaucratic activities, have a more negative impact on commercial clients than on government clients.
- Financial constraints hamper the abilities and capabilities of Gerotek to deliver financially viable services.
- Gerotek needs to improve its reaction time to changes in the market trend.
- In general, Gerotek's competitiveness can be described as "good" according to the measurement scale used in the questionnaire, although challenges exist to improve service delivery.

By focussing on different service and product delivery strategies as another secondary objective, the following findings were made:

- Project partnering is the main form of partnership agreement within Gerotek in serving both government and commercial clients, and contributes most to the effectiveness of partnership agreements.
- No public-private partnerships exist and insufficient black economic empowerment agreements are in place to gain sufficient advantages as described in section 3.4.3.
- Disadvantages of partnership agreements need to be address to improve services.

As regards the last secondary objective, namely to determine the effective use of functional management strategies or tools, the following can be stated:

- Total Quality Management (TQM) was experienced as the most important tool to improve service delivery, followed by the South African Excellence Model (SAEM). The Balanced Scorecard (BSC) was found to be the tool that contributed least to service delivery improvement.

- Effective communication of these processes and motivated employees, as indicated in section 4.5 and confirmed in the questionnaire, are prerequisites for the effective use of these tools.
- The vision and goals of Gerotek are greatly supported by the management tools.

#### **6.4 RECOMMENDATIONS**

Based on the above findings of the empirical study, the following recommendations can be made to improve service delivery to government and commercial clients:

- Bureaucratic activities and long lead times in the decision-making process should be addressed by allowing project leaders and project teams more freedom in decision-making. This increase in empowerment and responsibilities can only be implemented after employees have been given relevant training and opportunities.
- Technical expertise should be developed in order to create an improved engineering consulting ability, which can create a competitive edge to address new development and rapid changes in a technology-driven environment.
- Public-Private partnership agreements should be explored and negotiated to relieve the hampering effect of financial constraints on service delivery. Although it might be a bigger challenge to a parastatal to establish a PPP than in the case of local government, there are certain capital intensive projects where the perceived advantages of a PPP could become reality.
- Gerotek's Black Economic Empowerment initiative should receive more attention in order to be more competitive in government tenders.
- The effectiveness of the Balanced Scorecard can be improved by focussing more on growth opportunities and service delivery excellence as the current control bias and short-term profit driven view of the

management board. The motivational factor of the BSC on employees should be more prominent in order to gain the advantages of this management tool.

- Further studies need to be undertaken to determine whether the strategic value of a facility such as Gerotek, which was build for military purposes, can be created for commercial clients in the automotive industry. If the value of the facility and the expertise are still regarded as of strategic importance to government, the uniqueness and strategic value could be promoted, which could result in shared interest and investment from private industry. This financial injection could improve service delivery, which would benefit all the relevant role players.

## **6.5 FINAL CONCLUSION**

The research has proved that by applying different service and product delivery strategies as well as management strategies, a public entity can meet best practice that will lead to optimal client satisfaction. Although certain hampering effects exist in service delivery, a public entity can compete successfully with private entities in its strive towards service excellence.

The empirical findings indicate that there are no major differences between strategies to be applied by a public entity in serving government and commercial clients respectively. Marketing initiatives and communication methods might differ between various market segments, but as the empirical study focussed on service delivery, marketing strategies did not form part of this research.

It is the wish and prayer of the researcher that public entities will deliver services according to the "Batho Pele" principles and create a culture of good governance to benefit all South Africans.

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## ADDENDUM A

QUESTIONNAIRE NUMBER

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(1-2)

### QUESTIONNAIRE TO GEROTEK AND ARMSCOR BUSINESS EMPLOYEES ON MANAGEMENT LEVEL

The purpose of this questionnaire is to determine best practice in service and product delivery strategies to government and commercial clients respectively. The questionnaire will be used to conduct a standardised interview with Gerotek and Armscor Business employees on management level.

#### SECTION A: BIOGRAPHIC INFORMATION

**Mark with an X in the appropriate block**

1. Years experience in public entities

1- 2 years	3-5 years	6-10 years	11-15 years	16+ years

(3)

2. Years experience in private entities

1- 2 years	3-5 years	6-10 years	11-15 years	16+ years

(4)

3. Years experience at Gerotek

1- 2 years	3-5 years	6-10 years	11-15 years	16+ years

(5)

4. State your current job level (broad band)

Junior management	Middle management	Senior management

(6)

5. Average time spent on government clients during the past 2 years

0-20%	21-40%	41-60%	61-80%	81-100%

(7)

6. Average time spent on commercial clients during the past 2 years

0-20%	21-40%	41-60%	61-80%	81-100%

(8)

7. State your current involvement in strategic decision-making processes

<b>Never</b>	<b>Partially</b>	<b>Always</b>

(9)

**Mark with an X according to the given scale where applicable**

**SECTION B: COMPETITIVENESS**

1. To what extent does Gerotek's service and product delivery strategies focus on the needs of clients?

<b>Government clients</b>				
<b>Never</b>	<b>Almost never</b>	<b>Often</b>	<b>Almost always</b>	<b>Always</b>

(10)

<b>Commercial clients</b>				
<b>Never</b>	<b>Almost never</b>	<b>Often</b>	<b>Almost always</b>	<b>Always</b>

(11)

2. Rate the influence of legislation and statutory obligations on Gerotek's competitiveness?

<b>Government clients</b>		
<b>Negative</b>	<b>No effect</b>	<b>Positive</b>

(12)

<b>Commercial clients</b>		
<b>Negative</b>	<b>No effect</b>	<b>Positive</b>

(13)

3. Rate Gerotek's competitiveness against that of other service providers

<b>Government clients</b>				
<b>Very poor</b>	<b>Poor</b>	<b>Average</b>	<b>Good</b>	<b>Excellent</b>

(14)

<b>Commercial clients</b>				
<b>Very poor</b>	<b>Poor</b>	<b>Average</b>	<b>Good</b>	<b>Excellent</b>

(15)

4. Select the organisational forms of competitors in your environment

Government clients		Commercial clients	
One-person business		One-person business	
Partnerships		Partnerships	
Close corporations		Close corporations	
Companies		Companies	
Co-operatives		Co-operatives	
Other (specify):		Other (specify):	

(16)

5. Gerotek's hierarchical structure and distribution of power contributes to its competitiveness

Government clients				
Strongly disagree	Disagree	Don't agree or disagree	Agree	Strongly agree

(17)

Commercial clients				
Strongly disagree	Disagree	Don't agree or disagree	Agree	Strongly agree

(18)

6. Gerotek's policy and procedures positively contribute to its competitiveness

Government clients				
Strongly disagree	Disagree	Don't agree or disagree	Agree	Strongly agree

(19)

Commercial clients				
Strongly disagree	Disagree	Don't agree or disagree	Agree	Strongly agree

(20)

7. Gerotek's employees are developed and empowered to take responsibility

Government clients				
Strongly disagree	Disagree	Don't agree or disagree	Agree	Strongly agree

(21)

<b>Commercial clients</b>				
<b>Strongly disagree</b>	<b>Disagree</b>	<b>Don't agree or disagree</b>	<b>Agree</b>	<b>Strongly agree</b>

(22)

8. Financial constraints hamper the abilities and capabilities of Gerotek to deliver financial viable services

<b>Government clients</b>				
<b>Strongly disagree</b>	<b>Disagree</b>	<b>Don't agree or disagree</b>	<b>Agree</b>	<b>Strongly agree</b>

(23)

<b>Commercial clients</b>				
<b>Strongly disagree</b>	<b>Disagree</b>	<b>Don't agree or disagree</b>	<b>Agree</b>	<b>Strongly agree</b>

(24)

9. Rate Gerotek's ability to react to changes in the market trend

<b>Very poor</b>	<b>Poor</b>	<b>Average</b>	<b>Good</b>	<b>Very good</b>

(25)

10. Suggest any improvement towards Gerotek's strive to service excellence

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11. State the competitive advantages of other organisations versus those of Gerotek

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**SECTION C: SERVICE AND PRODUCT DELIVERY STRATEGIES**

1. Indicate what forms of partnership agreements exist in your environment within Gerotek

Government clients		Commercial clients	
PPP's		PPP's	
Project Partnering		Project Partnering	
BEE Partnerships		BEE Partnerships	
Other (specify):		Other (specify):	

(26)

2. Indicate the effectiveness of current partnership agreements towards service excellence

Government clients				
Very poor	Poor	Average	Good	Excellent

(27)

Commercial clients				
Very poor	Poor	Average	Good	Excellent

(28)

3. Describe the biggest disadvantage experiencing with a partnership agreement in your environment

3.1 Government: \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

3.2 Commercial: \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

4. Describe the biggest advantage of a partnership agreement in your environment

4.1 Government: \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

4.2 Commercial: \_\_\_\_\_

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**SECTION D: MANAGEMENT TOOLS**

1. Rank the following management tools that contribute the most to management efforts to improve service delivery (1= less important and 3 = most important)

Government		Commercial	
SAEM (South African Excellence Model)		SAEM (South African Excellence Model)	
TQM (Total Quality Management)		TQM (Total Quality Management)	
BSC (Balanced Scorecard)		BSC (Balanced Scorecard)	
Other (specify):		Other (specify):	

(29)

2. Management communicates the processes of the different tools effectively

Strongly disagree	Disagree	Don't agree or disagree	Agree	Strongly agree

(30)

3. Employees are motivated to implement management tools in an effective and efficient way

Strongly disagree	Disagree	Don't agree or disagree	Agree	Strongly agree

(31)

4. Management tools support the vision and goals of Gerotek

Strongly disagree	Disagree	Don't agree or disagree	Agree	Strongly agree

(32)

**THANK YOU FOR YOUR CO-OPERATION**