

**THE EFFECT OF PREFERENTIAL PROCUREMENT ON  
SMALL, MEDIUM AND MICRO ENTERPRISES  
WITHIN THE MOLOPO REGION  
OF  
THE NORTH WEST PROVINCE**

**BY**

**MUTHUKRISHNA UDAYAN**

NORTH WEST UNIVERSITY



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**BY**

**MUTHUKRISHNA UDAYAN**

**Submitted in partial fulfilment of the requirements for the**

**Degree of**

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**at the Graduate School of Business and Government Leadership**

**in the**

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**at the**

**NORTH WEST UNIVERSITY**

**PROMOTER: Professor W. P. J. Van Rensburg**

## DECLARATION

I, Muthukrishna Udayan declare that the dissertation for the Masters Degree of Business Administration, hereby submitted, is my own work and has not been previously submitted by me for a degree at this or any other university and that all sources used and quoted have been duly acknowledged.



**MUTHUKRISHNA UDAYAN**

**APRIL 2004**

## **DEDICATION**

**This research is dedicated to my loving parents, who instilled in me the power to learn.**

## **ACKNOWLEDGEMENTS**

**My sincere thanks and gratitude are extended to all my colleagues within the Department of Finance who contributed towards the successful completion of this study.**

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- **Above all, thanks to God Almighty, for giving me the strength and guidance to complete this study.**

## **ABSTRACT**

In his study, the impact of preferential procurement on Small, Medium and Micro Enterprises (SMMEs') was evaluated. Most developing countries, including South Africa are characterised by a rapidly growing population, high unemployment rate and poverty. To redress the situation, the South African government, both at National and Provincial level has shown an interest in the development and sustainability of SMMEs'

There is a dire need for the redistribution of income and opportunities to the historically disadvantaged individuals. The South African economy is not labour absorbing because of the inherited capital-intensive structure of the economy. The South African SMME sector is far from homogenous and would require a fine tuned set of interventions rather than the generic assistance currently provided. Only a few dynamic SMMEs' show a potential to contribute to rapid employment creation whilst survivalist activities constitute the vast majority of South African SMMEs' (Kesper, 2000).

It is also important for government to know the value of SMMEs', especially in the creation of employment and the impact that preferential procurement has on the SMME sector within the Molopo Region of the North West Province. This study should serve as an informative reference to the North West Province and other relevant stakeholders, seeking greater insight into the effect that preferential procurement has on SMMEs' within the Molopo Region.

In order to obtain a meaningful insight on the data collected, two sets of questionnaires were developed. The questionnaires were structured so as to get the views of:

- The management of the Department of Finance.

➤ **Small, Medium and Micro Enterprises.**

The tabular and graphical representations indicate the responses from the management of the Department of Finance and the owners of SMMEs' within the Molopo Region.

Personal interviews were also carried out in order to obtain a meaningful insight into the research.

However, there were some research limitations to the study as indicated hereunder:

- On going changes of government rules and regulations.
- The continuous revision of government programmes.
- Restructuring within government departments.

The results of the study reflect that SMMEs' do generate employment and the management of the Department of Finance are fully aware of the impact that preferential procurement has on the SMME sector within the Molopo Region, with respect to job creation, empowerment and sustainability of the SMMEs'. The need for a fully integrated and up to date database cannot be over emphasised.

By contributing to the development of the country's economy, SMMEs' will facilitate a greater and more equitable distribution of wealth. It will also assist in reducing the gap between small and big businesses, allowing businesses to meet the challenge of a global competitive economy.

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## **CHAPTER 1**

### **ORIENTATION**

#### **1.1 INTRODUCTION**

It is a decade since South Africa's democratic election of April 1994 ended centuries of colonial oppression and almost five decades of apartheid rule. The transition to democracy signalled the beginning of a process to roll back the legacy of dispossession and discrimination that has left the country and the region of Southern Africa with immense disparities in wealth distribution and development.

During the last decade, the South African government has made great efforts to assemble policies and instruments for the rapid and sustainable development of South Africa's majority. This national project is commonly known as transformation, which ex-President Nelson Mandela described as the endeavour to build the country for the well being of all. Transformation is grounded in the Reconstruction and Development Programme (RDP), a comprehensive programme adopted by government. RDP comprises of four integral strategies: meeting the basic needs of our people, developing our country's human resources, building our economy and democratising our society. (White Paper on RDP, 1994)

Transformation has also been the reason for the promulgation of various legislation, which makes room for redress and promotes access to socio-economic development for previously disadvantaged South Africans, such as the Employment Equity Act 55 of 1998 and the Preferential Procurement Policy Framework Act 5 of 2000.

The first half of the nineteenth century was a period of considerable opportunity for the small manufacturing entrepreneurs. The business offered the prospect of possible wealth, attainment of middle class status and an opportunity to be economically independent (Chestman, 1982).

For the better part of history, economists did not spend much time studying small business. This began to change during the last twenty years, when it was realised that small firms and entrepreneurship play an important role in economic growth than had previously been acknowledged.

South Africa is faced by the challenge of revitalising its economy and achieving socio-economic development on scale. It is therefore expected that against this background, the emergence of entrepreneurs would ease the problems of unemployment and enhance economic growth. South Africa is currently faced by an estimated unemployment rate of approximately thirty two percent. This means that about 4,6 million out of an economically active population of 14,32 million people are unemployed. It is estimated that approximately 350 000 new job-seekers would be expected to enter the job market annually over the next ten years and the prospects for any young person to find employment looks bleak (Niemann, 1997:9).

The ever-increasing unemployment problem in South Africa makes it clear that South Africa needs more entrepreneurs to combat unemployment and poverty. Entrepreneurs are regarded as the embodiment of individual liberty and economic freedom. The entrepreneur is the key factor in running the country's economic machine, in that opportunity, raw material, capital and labour cannot mobilise themselves (Matthews, 1993:19).

According to Griffin (1990), small and medium sized enterprises play a major role in the United States of America's economy. It is estimated that more than

90% of the nation's sixteen million businesses are small and medium sized businesses. Their effects are found in a number of areas, including financial performance, innovation, job creation, new business formation and contribution to big business. As described by Griffin (1990: 738), small and medium sized enterprises are exerting increasing influence in the international arena as well.

Entrepreneurs create seven out of every ten new job opportunities in the United States of America. During the period November 1982 and March 1984, four million job opportunities were created in the United States, the majority being by small and medium sized enterprises (Cronje *et al*, 1989:414).

For many years, the small and medium sized enterprise remained ignored and poorly understood. However, with the advent of technology, researchers have assembled a far better understanding of the economic role of small firms. (Acs *et al*, 1999). During the last half of the twentieth century, businesses worldwide have entered the information age. In the twenty first century it has become abundantly clear that modern computers and related technology has changed and will continue to change in the way we do business.

Prior to 1994, the role and functions of SMMEs' were severely restricted by racist rules and regulations, as well as limited market entry. The new dispensation of majority rule and the consequent lifting of racial discriminatory regulations has led to a tremendous impact on the growth and development of SMMEs'.

Companies of all sizes use information technology to become more effective. The internet and local computer networks allow messages to travel at very

high speeds, effectively providing a small company with a worldwide reach (Acs et al, 1999).

Changes have been examined in small businesses over time. The small business share of value added to the economy is the best measure of the relative importance of small business in the economy. As small, medium and micro enterprises (SMMEs) are more labour intensive than large businesses, sales tend to understate the importance of small businesses whilst employment tends to overstate its importance. The growing importance of small firms in job creation, innovation and industrial development has been increasingly studied (Brock & Evans, 1986).

The re-integration of South Africa into the global economy a few years ago meant the generation of a number of developments for its new democracy. This has implications not only for the country's populace, but also for the business community. For many years, prior to re-integration of South Africa into the world economy, the socio-economy was restricted in many ways. This ranged, to name a few, from diplomatic recognition, sport and business (Feijjas, 2001:3).

At present there are approximately four million SMMEs' operating in South Africa, absorbing more than a quarter of the labour force. This estimate is in addition to the large number of people involved in survival activities from the informal sector. The economy of South Africa is not labour intensive due to the inherited capital-intensive structure of the economy and the choice of technologies available. This has been caused by previous implicit and explicit incentive structures and a previously closed economy for manufactured goods (1998, Government Gazette No. 19040).

As new job creators, SMMEs' can assist in raising income levels and improve the distribution of wealth. SMMEs' broaden participation in the national economy and widen the ownership of assets. In a relatively concentrated middle-income industrialising country, they are more likely to emerge from linkages and spin offs related to the growth of larger firms. It is most probable that SMME growth will emerge in the service sector, as well as subcontracting activities in the manufacturing sector.

SMMEs' play a vital role in the shaping of the economy and accounted for almost 42% of the country's Gross Domestic Product (GDP) in 2000 and gave employment to about half the people working in the private sector (Kambikambi, 2001). The expansion of SMMEs' could be greatly facilitated by the promotion of linkages between firms and improved access to market information, government support, managerial support and improved access to finance and land. One other element considered to be of prime importance to the success or failure of SMMEs' is access to public procurement opportunities.

Drawing on international experience, the South African government has recognised the potential of public sector procurement as a powerful instrument for transformation and for the realisation of specific socio-economic goals. This potential is grounded in the South African constitution and legislation has been enacted setting out transparent criteria and mechanisms for preferential procurement. The legislation was championed by the Department of Finance, which has the overall responsibility for public sector procurement policy in South Africa.

What does procurement mean to us today, especially in South Africa?

Since its political emancipation, South Africa has transitioned into a multiparty democracy and entered the global market. The operations of the public and

private sector need to be efficient and effective and at the same time be transparent and accountable. This necessitates the establishment of sound procurement policies and practices. Open and fair procedures in the awarding of public sector contracts for goods and services help to create dependable and stable markets.

The Constitution of South Africa, specifically section 217 states that the procurement system must be fair, competitive, transparent and cost effective. The Constitution also allows the implementation of categories of preference in the allocation of contracts as well as the protection of advancement of persons, or categories of persons, disadvantaged by unfair discrimination.

It is also important to note the South African Minister of Finance, Mr Trevor Manuel's speech (2000) pertaining to procurement reform in South Africa. The Minister said that *"As the largest buyer in the country, government has a responsibility to ensure that its procurement policy supports its overall economic objective and serves as an instrument for attaining those objectives. One of the key elements in government's strategy for employment creation and income generation is the promotion of small, medium and micro enterprises (SMME's). In the past the tendering system favoured larger established companies and it was very difficult (if not impossible) for newly established businesses to enter the public tendering system"*(Budget Speech – Minister of Finance, 2000)

In terms of Section 217, the Constitution of South Africa provides the answer. Procurement should be done in accordance with a system that is fair, equitable, transparent, competitive and cost – effective. *" The real challenge facing all of us is to strike the right balance between these requirements of procurement and our goals of targeted procurement aimed at righting the wrongs of the past. It is necessary to mention that our procurement policies and procedures must at all times inspire confidence in the market, both for*

*investors and firms delivering goods and services to government” (Budget Speech – Minister of Finance, 2000).*

In most developing countries, plagued by underdeveloped internal markets, where wealth is concentrated in the hands of a few, public sector procurement can play a crucial role in addressing market imbalances. If these interventions are carefully structured, they could contribute to better functioning markets. The world's rapid march to trade liberalisation has placed developing countries in a difficult predicament. On one hand, entrepreneurs gladly welcome participation in the global village, whilst on the other hand, they need to ensure that our domestic industries are appropriately equipped to develop and compete effectively so that the needs of the poor are actively assisted to improve the quality of their lives (Gounden, 1998).

Disparities in income and business activity are frequently found between different sectors of society. This is often a result of the direct or indirect denial of access to both employment and business opportunities, based on factors such as gender, race, religion, ethnicity, age, disability and locality. Such situations can lead to disparities in rates of employment and a skewed distribution of wealth within a nation. This is frequently of concern to governments, especially in developing countries. Poverty eradication and job creation is often regarded as being the responsibility of governments. Governments are often called upon to address unemployment and underemployment, particularly where growth in the economy is slow or negative.

The experience of the Department of Public Works since 1996, has demonstrated that through an appropriate targeting strategy, public sector procurement has the potential to achieve the following:

- To stimulate economic activity, particularly to include the poor.

- To improve the competitiveness of certain industry sectors.
- To remedy regional disparities.
- To promote socio-economic objectives, such as the creation of jobs, fair labour conditions, the use of local resources, equal opportunity for women and the disabled.
- To be implemented transparently.

This experience has growing relevance for developing countries. The Southern African Regional Construction Council has expressed interest in the adaptation of the strategy to promote the construction economies of the SADC region.

## **1.2 PROBLEM STATEMENT**

The legacy of apartheid constitutes an important factor in the ability of Black owned or controlled enterprises to face business development constraints (White Paper on Small Business, 1995). There are SMMEs that are not successful in sustaining business operations or failing to promote growth of their business operations.

The poor quality of education for the historically disadvantaged sector restricted opportunities for the acquisition of technical and entrepreneurial skills. According to the White paper on Small Business (1995), apartheid confined the majority of Black people to homelands that lacked a dynamic business environment. As a result of restrictions placed on property ownership, it was virtually impossible for Black people to acquire assets that could be used as collateral to finance loans. Due to these problems, it is necessary for small business support policies to focus on the particular needs

**of Black owned or Black controlled enterprises, with an understanding that policy differentiation will have to include affirmative elements.**

According to Niemann (1997), approximately 350 000 new job seekers are expected to enter the job market annually over the next ten years and the prospect for any young person to find employment looks bleak. The increasing unemployment problem in South Africa needs more entrepreneurs to combat unemployment, poverty and the socio-economic injustices of the past. There is a need to establish an effective means of evaluating, whether the preferential policy framework has an impact on SMMEs' within the Molopo Region of the North West Province.

### **1.3 IMPORTANCE OF THE STUDY**

There is a dire need for the redistribution of income and opportunities to the historically disadvantaged individual. This study should provide greater insight into public procurement, in the South African context, specifically in the North West Province. The research is necessary for both the North West Province and SMME's to measure the impact of preferential procurement within the Molopo Region of the North West Province.

The South African SMME sector is far from homogeneous and would require a fine-tuned set of interventions rather than the generic assistance currently provided. Only a few dynamic SMMEs' show a potential to contribute to rapid employment creation, whilst survivalist activities constitute the vast majority of South African SMMEs (Kesper, 2000).

It is also important for government to know the value of SMMEs', especially in the creation of employment and the impact that preferential procurement has

on SMMEs' within the Molopo region. The study should serve as an informative reference to the North West Province and other stakeholders, seeking greater insight into the effect that preferential procurement has on SMMEs'.

#### **1.4 THE OBJECTIVE OF THE STUDY**

##### **The Primary Objective**

The main objective of the study is to investigate the effect of preferential procurement on SMMEs' within the Molopo Region of the North West Province.

##### **The Secondary Objectives**

Secondary objectives are:

- To identify the role of preferential procurement in promoting an entrepreneurial culture amongst SMMEs'.
- To determine the role of preferential procurement in the economic empowerment of SMMEs' and the individuals therein.
- To determine how preferential procurement assists SMMEs' in job creation.
- To determine how preferential procurement impacts on the empowerment of women within the SMME sector.

## **1.5 THE SCOPE OF THE STUDY**

The study will be concerned as to whether government has been successful in implementing preferential procurement objectives, within the Molopo Region of the North West Province.

By contributing to the development of the country's economy, SMMEs' will facilitate a greater and more equitable distribution of wealth. It will also assist in reducing the gap between small and big businesses, allowing businesses to meet the challenge of a global competitive economy.

A broad approach to providing support to entrepreneurs only really helps survivalist firms. If job creation and other goals are to be realistic, then fine-tuning and picking winners may be a better way of implementing entrepreneurial support programmes (Naude & Havenga, 2002).

A literature survey on preferential procurement and its impact on SMMEs' was carried out.

However, there are some research limitations to the study as indicated hereunder:

- On going changes in government rules and regulations.
- Continuous revision of government programmes.
- Restructuring within government departments.

With regards to data collection, the study involved telephonic and personal interviews with senior management of SMMEs'. In order to get a meaningful insight into the research, the questionnaire will be categorised into two levels:

- The view of management.
  
- The view of SMMEs'.

## **1.6 PLAN OF THE STUDY**

The intention of this section is to briefly explain the organisation of the study:

### **Chapter 1**

In this chapter, the background to the topic being researched, the purpose and importance are discussed.

### **Chapter 2**

The literature study and theoretical foundation are discussed in this chapter.

### **Chapter 3**

In this chapter, the specific problems are defined and the focus is on the implementation of preferential procurement.

#### **Chapter 4**

The research design and the procedure followed to gather data is outlined in this chapter.

#### **Chapter 5**

In this chapter the results of the survey and the interpretation thereof are presented.

#### **Chapter 6**

In this chapter, the summary of the contents of the preceding chapters is presented together with conclusion and recommendations

## CHAPTER 2

### LITERATURE STUDY AND THEORITICAL FOUNDATION

#### 2.1 INTRODUCTION

South Africa has emerged from one of the world's most brutal and unjust economic and political systems. The ANC government has committed itself to overcoming poverty and improving the quality of life of the majority of its citizens. In 1995, the estimated size of the economically active population was 14.5 million (Green Paper, 1997). The actual number of jobs in the formal sector has failed to keep up with the increasing number of people requiring work (Green Paper, 1997). It is therefore clear that employment in the formal sector is not keeping pace with the growth in the economy.

The ANC made the following statement at their national congress in 2001:

“ The domination of business activities by white business and the exclusion of black people and women from the mainstream of economic activity are causes for great concern for the reconstruction and development process. A central objective of the RDP is to democratise business ownership and control completely through focused policies of Black Economic Empowerment” (African National Congress, 2001).

Since the beginning of time, procurement has always played one of the most important roles for survival. Procurement started with bartering around 3000BC and changed with currency trading with the Chinese and Venetians and finally developed into a multi – disciplinary function we know it to be today. Because of the inequalities in wealth and income based on race, gender, age, disability and urban or rural location, the Departments of Public Works and State Expenditure initiated the reform of the National Procurement practices. These departments introduced various measures to

stimulate the participation of Historically Disadvantaged Individuals (HDI). Due to the reluctance of certain Government departments to implement preferential procurement, a new act, the Preferential Procurement Policy Framework Act, 2000, (Act 5 of 2000), was introduced, thus forcing all organs of state to implement preferential procurement.

The ANC government is trying to rectify these inequities of wealth distribution and the shortage of skilled labour through the introduction of the Skills Development Act, the Reconstruction and Development Programme (RDP), and the Affirmative Action Programme. Additional policy instruments include the following:

- National Small Business Act 1995.
- White paper on Public Works 1997.
- Green paper on creating an enabling environment 1997.

## **2.2 THE ROLE OF PROCUREMENT IN FACILITY MANAGEMENT**

To understand the link between Facility Management and Procurement, one needs to understand the definition of these two concepts. The International Facility Management Association (IFMA), the professional association for facility managers, has grouped these responsibilities into several major functional areas:

- Long-range and annual facility planning.
- Facility financial forecasting.
- Real estate acquisition and/or disposal.
- Work specifications, installation and space management.

- **Architectural and engineering planning and design.**
- **New construction and/or renovation.**
- **Maintenance and operations management.**
- **Telecommunications integration, security and general administrative services.**

Traditionally, managing a facility was only associated with operations and maintenance duties. The above list is silent on procurement, but procurement is the driving force behind any successful Facility Manager, as he/she has to create, manage and terminate contracts, be it services or works contracts.

While looking through literature, one finds a whole abundance of terminology and explanations for the expression "facility management". This is due to the fact that there have been numerous attempts for definition though there is no standardised system of definitions one could actually use. Facilities are considered the totality of materials necessary for the process of work. In terms of this definition property, equipment, installations, materials and communication devices are all considered as part of facilities. For this reason, the expression "facilities" contains all operating and working equipment (Braun, 1996).

As facilities management is part of an entrepreneurial process, it has to be efficient and effective to cope with the challenges of procurement within the public sector. Facility Management can therefore play an important role in the empowerment of historically disadvantaged contractors.

## **2.3 DEFINITIONS, CONCEPTS AND HISTORICAL BACKGROUND**

### **2.3.1 PROCUREMENT**

A synonym for procurement is to obtain, acquire, buy, purchase, etc. The unit responsible for the above functions in some organisations are called buying departments, while other organisations call it procurement or purchasing departments. Buying is but one of the functions of the procurement process.

Procurement is therefore a process, which creates, manages and terminates contracts. It is not just about contracts; it embraces both upstream and downstream activities associated with a process that leads to the conclusion of a contract, which may involve:

- The supply of goods, services or works or any combination thereof.
- The disposal of moveable property.
- The hiring or letting of anything.
- The acquisition or granting of any rights.

Procurement is concerned with establishing and documenting what is required; inviting of bids to provide goods and services; awarding contracts to successful bidders; monitoring that which was contracted to be provided and paying contractors for executing their contracts.

**Public sector procurement may involve activities such as:**

- **The supply of goods, services or works or any combination thereof.**
- **The disposal of movable property.**
- **The hiring or letting of anything.**
- **The acquisition or granting of any rights.**

Procurement has been used as an instrument of social policy to stimulate economic activity and improve the competitiveness of certain industrial sectors. It has also been used as an instrument to protect national industry against foreign competition, create more jobs, promote fair labour conditions and prohibit discrimination against minority groups. Procurement has also been used as an instrument of social policy to encourage equality of opportunity between men and women and to promote the increased utilisation of physically challenged people in employment.

Several models for public sector procurement have evolved based largely on country specific procurement regimes and requirements. Procurement interventions for enterprises have usually involved one or more of the following:

- **A price preferencing policy that allows certain enterprises direct price preferences over their competitors.**
- **Set-asides that allow a specified market segment for particular enterprises.**

- A step-in mechanism where certain enterprises are granted the opportunity to step in once the cheapest bid has been established, provided that they match the terms and conditions of the specific bidder.
- The prescribing of fixed contract participation goals, where a fixed percentage of the contract price, must in terms of the contract be contracted out to specific enterprises.

Many of the models mentioned above are not necessarily efficient as they frequently constrain the private sector in its ability to deliver. Procurement experts therefore hold the key to unlocking the complicated and sometimes frustrating challenges faced by BEE individuals and companies.

### **2.3.2 BLACK ECONOMIC EMPOWERMENT (BEE)**

The Black Economic Empowerment Commission (BEEC) argues that BEE rests on four pillars of transformation:

- Employment equity.
- Skills Development.
- Affirmative procurement.
- Corporate Social Responsibility.

John Friedman (1992) argues that BEE is an alternative development, placing emphasis on the improvement in the conditions of life and livelihood of the excluded majority. It aims to redress the historical process of systematic disempowerment or exclusion of the vast majority of people from economic and political power.

**Economic disempowerment denies the majority of human development, as their lives are characterised by hunger, poor health, poor education, a life of hard physical labour, a constant fear of dispossession and chaotic social relations. BEE aims to humanise the system that has shut out the majority, and its long-term aim is to fundamentally transform the whole of society including the structures of power.**

Interventions are necessary to fundamentally correct and address the consequences of institutionalised discrimination against black people in general and Africans in particular.

Empowerment means democratisation of ownership of economic resources, creation of a significant entrepreneurial class amongst blacks, increased human capital development among blacks, improved living conditions of blacks and the elimination of race in economic activities.

### **2.3.3 THE HISTORY OF BLACK ECONOMIC EMPOWERMENT**

The post-democratic South African Government realised that procurement could be utilised as a powerful mechanism to promote the development of small and medium businesses and the broader objectives of the RDP. The Department of Public Works Emerging Contractor Development Programme was active in defining and implementing plans specific to procuring services from black entrepreneurs. Via Ntsika Enterprise Promotion Agency, 18 tender advice centres were opened, which in 1999 facilitated business linkages worth R130 million between Government and 300 black suppliers. New tender boards were created and a new decentralised system is in the process of being created; however the system is too reliant on a formula, with little attention paid to providing guidelines or mechanisms aimed at revamping the system (White Paper on Public Works, 1997).

### **2.3.4 CLASSIFICATION OF SUPPLIERS**

- A 'black company' is one that is 50,1% owned and managed by black people. Ownership refers to economic interest. Management refers to executive directors. A black company should receive an 'A' rating for Accreditation purposes, allowing it to qualify for set-asides and a 15% price preference.
- A 'black empowerment company' is one that is at least 25,1% owned and managed by black people. This is whether the black company has control or not. Such a company should receive a 'B' for accreditation purposes, allowing it to qualify for set-asides and a 10% price preference.
- A 'black influenced company' is one 5 to 25% owned and managed by black people. Such a company should receive a 'C' rating for accreditation purposes and a 5% price preference. Such a company would not qualify for set-asides.
- An 'engendered company' is one with at least 30% representation of black women within the black equity and management portion. Companies in any of the above three categories with at least 30% representation, will receive another 5% price preference. An 'engendered black company' will get a 20% price preference and 'engendered empowerment company' will get 15%, etc.

To qualify for any of the above preferences and ratings, companies must submit a number of regulatory documents and polices such as SARS returns, Employment Equity Plans and proof of adherence to Bargaining Council agreements.

### **2.3.5 AFFIRMATIVE PROCUREMENT**

**Affirmative procurement is defined as the means by which socio-economical deliverables are realised when procurement is used as an instrument of social policy. It is also called Preferential procurement or Targeted procurement. Setting a time limit of 10 years, the BEE Commission proposes that the following targets should be achieved in an incremental manner, which is measurable and annually reviewable:**

- **At least 50% of SOE and Government procurement at national, provincial and local levels should go to black companies and collective enterprises as defined. At least 30% of these companies should be black-owned SMME's**
  
- **At least 30% of private sector procurement (for companies with more that 50 employees) should be to black-owned companies, including SMME's and collective enterprises**
  
- **At least 30% of long-term contracts and concession (PPPs) within the public sector should incorporate black-owned companies and collective enterprises up front**
  
- **At least 40% of Government incentives to the private sector should go to black companies**

**Affirmative procurement should be guided by an Affirmative Procurement policy which uses procurement as an instrument of social policy in South Africa to affirm the changed environment, government's socio-economic objectives and the principles of the Reconstruction and Development Programme (RDP)**

**Characteristics of South Africa's Affirmative Procurement Policy are:**

- **The use of targeted procurement to achieve socio economic objectives.**
- **Identification of specific target groups and target those groups.**
- **Consistent and uniform definitions, strategies and monitoring and reporting mechanisms to realise policy objectives.**

#### **2.4 THE PREFERENTIAL PROCUREMENT POLICY (ACT 5 OF 2000)**

This Act has aroused considerable emotion. It has been summarily dismissed as 'affirmative buying', which won't make any sustainable contribution to black economic empowerment (BEE) in SA. However, this is based purely on speculation, not fact. Indeed, the Centre for Advanced Purchasing Studies for Africa (CAPSA) only recently embarked on a research project to evaluate the effectiveness of e-procurement as an enablement tool to enhance BEE. The results of which probably won't be known for some time.

Meanwhile, it's useful to compare our Preferential Procurement regulations with legislation passed in 1978 by the US Federal Government. This states that prior to receiving a government contract in excess of \$500 000, US companies must submit a MBE (minority business enterprise) subcontracting plan, that includes goals. They have to have the plan approved and subsequently monitored throughout the contract's performance period.

While this legislation has not been particularly successful in advancing MBEs', research conducted by the Centre for Advanced Purchasing Studies in the US shows that was largely because companies did not embrace their MBE plans. In fact, there is a direct correlation between the practices organisations follow in support of their MBE buying programme and the degree of success of the programme (Stoner et al, 1989).

The Centre's study found that among companies with a formal policy regarding minority purchases, percentage spent was nearly three times higher than among those without a formal policy. Strong or very strong support from the CEO for the MBE programme resulted in percentage spend of between five and six times higher than among companies with little or no CEO support.

Of particular interest to South African companies is the finding that 95% of the US companies that have MBE purchasing policies in place do not relax their established purchasing practices so as to support their MBE buying programme. In addition, 63% don't make any allowance for pricing differences. It therefore appears that an MBE buying programme or a Preferred Procurement policy – should not create any conflicts with sound purchasing practices. The real issue seem to lie in how committed corporates are to ensuring the success of the programme (White Paper, 1997).

The PPA and its relevant regulations introduce the concept of a points system to be applied by all 'Organs of State' (i.e. all departments in the Central and Provincial Government(s) and Local Authorities or Municipalities) in awarding tender contracts.

It defines the beneficiaries of the Act as: 'An Historically Disadvantaged Individual (HDI) which now also includes a Previously Disadvantaged

Individual (PDI) is a South African Citizen who had no franchise in national elections prior to the introduction of the Constitution of 1984 or, the Constitution of 1993; and/or who is female; and/or who has a disability.'

The Act seeks to actively promote the inclusion of HDIs/PDI's into the mainstream of the economy and endorses activities which further the goals of the RDP, for example:

- The promotion of SA owned enterprises.
- The promotion of export-orientated production to create jobs.
- The promotion of SMME's and enterprises located in rural areas.

In evaluating any tender, all Organs of State are required to apply a points preference system based on the following:

The 80:20 point system applies to tenders under R500 000 in value:

- The tenderer obtains 80 points if the tender price is the lowest. If not the lowest then fewer points are allocated pro-rata to the highest tender price
- The tenderer obtains a maximum of 20 points for achieving specific empowerment objectives which must be clearly detailed and specified in the tender document.
- These objectives must be measurable and quantifiable and, it must be possible to monitor their compliance.
- Objectives will include for instance, sub-contract work awarded to a PDI, the supplier has validated BEE credentials and/or, RDP goals are achieved, etc.

- A 90:10 points system will similarly apply to tenders above R500 000 in value:

The Act and its regulations actively encourage large corporations (and all those who tender for State contracts) to sub-contract work to HDI/PDI entrepreneurs, to fuel co-operation between white and black businesses and generally to identify and reward the transfer of skills, the sharing of equipment and the active promotion of RDP principles.

## **2.5 BARRIERS TO EFFECTIVE PROCUREMENT**

According to Tyler (1997) and Scholtz (1986), red tape, access to capital, skills development and management capabilities are major barriers to the entrepreneur.

Both Sawaya (1995) and Nobanda (1998) investigated the problems affecting small manufacturers. They found that a serious problem exists in management skills and development as a result of improper and inadequate education.

Bernstein (2000:37) argues that the government will have to cut the red tape that is restraining business in order to establish a vibrant entrepreneurial spirit to combat unemployment. The development of the SMME should be a process by which both the government and the entrepreneur shall benefit from. It is not expected that the entrepreneur should get handouts and become dependent on the state but that he/she should at least get assistance and encouragement to the point of establishment to become an asset in the supply chain of the economy.

Nobanda (1998) states that all the governmental structures are in place to assist the SMME. However, these structures seem to be inaccessible to the SMME. Affirmative action programs are not just vehicles for remedying the past and present inequities; they are important contributors to income and employment opportunities in distressed urban areas (Boston, 1999:32).

Job reservation in the previous dispensation had a major negative impact on the development of management skills of Historically Disadvantaged Individuals. According to Tyler (1997), access to finance from established financial institutions was nearly impossible due to the lack of viable collateral. HDI's were discriminated against in governmental tendering and other forms of business.

According to Madi (1997:14) businesses tend to have the following attitude. *"It is not out job to arrange start up capital. Your business must be registered, have glossy brochures, a letter from your banker stating that you are good for a million rand, speak impeccable English and have politically relevant network"*. Madi also goes further and states, (1997:14) *"if you do not have a box at Newlands to entertain prospective clients, you can forget about getting any business. Transformation and empowerment is a manufacturing process that is going to deliver one missile called a black manager or black civil servant-it doesn't work and it cannot be fired"*.

Institutional risk factors exert a powerful negative influence on entrepreneurial investment decisions. This conclusion emerges from a study of South African manufacturing and service sectors based on a previous one conducted on a world-wide scale by the World Bank in 1997. Despite far-reaching institutional reforms, much more will be required if South Africa's transition to a democratic polity and open liberal economy is to yield the

widely expected post apartheid dividends of rapid economic growth, high levels of employment and more equitable distribution of income and wealth. In the present circumstances, the country's prospective role as a growth-pole for Southern African regional development and the propelling force of an African renaissance is unlikely to materialise (World Bank Policy and Research Bulletin, 1998). Quite often, small businesses are the worst victims, as they tend to have less knowledge of and involvement in the drafting of new regulations (Brunetti, Kisunko & Weder, 1997).

Bureaucratic corruption involves actions of government agents in manipulating laws and policies for their own gain. Entrepreneurs hold two contrasting views about bureaucratic corruption. Firstly, it is a predictable, normal transaction cost of doing business and is therefore not an obstacle. On the other hand, it significantly increases business cost in the form of bribery and time negotiating with officials about interpretations of laws and regulations (Mbaku, 1994).

Although significant institutional reforms have taken place in South Africa, studies show that there is a need for further reforms. Studies further indicate that labour laws such as the Labour Relations Act, the Employment Equity Act and the Basic Conditions of Employment Act – all add markedly to inflexibility of the labour market and the cost of doing business. The overall lack of credibility of government policies and the uncertainty of laws are also a negative factor to possible investors. With regard to bureaucratic red tape, it is uncertain whether government can be blamed as 74% of SMME's are less than 10 years old. As far as corruption is concerned, the plausible explanation is that entrepreneurs accept it as a predictable cost of doing business rather than an obstacle.

Further research indicates that a disintegrated regional economy will increase the influx of immigrants into South Africa and fuel social conflicts that may spill over state borders. The long awaited post apartheid dividends may not be realised in the foreseeable future. Inevitably, any hope of an entrepreneurial revolution to kick-start a continental renaissance will depend, to a large extent on a vastly improved institutional climate.

It has been found that interpersonal communication is one of the greatest obstacles to the success of small business purchasing programmes, especially where the small business originates in an underdeveloped part of the population. Together with poor communication go prejudices, mistrust and expectations that cannot be met (Williams 1990: 391 and Dollinger & Daily 1989: 27). Further reading indicates that in South Africa, the problem of communication and prejudices in the affirmative purchasing situation may be that much greater because white men who are accustomed to previously favoured strong suppliers of the same gender and race, have limited exposure and little understanding of small businesses and underdeveloped entrepreneurs. According to Dollinger and Daily(1989), purchasers accuse small suppliers of insisting on being given a contract simply because they are small and belong to disadvantaged groups.

Research also indicates that there is an abundance of small enterprises in sectors such as catering, construction, printing, clothing, transport and in the retail trade but few in the areas of technical manufacturing (Dollinger & Daily, 1989: 27). There is also a tendency towards globalisation with a great emphasis on international competitiveness. This has major implications on small business purchasing programmes (Lowry, 1992: 231).

The implications of globalisation have to do with dynamic technological development, high quality standards, lower costs, better service and the elimination of suppliers who cannot meet requirements. With special

reference to public procurement there are two factors that limit competition in the government supply market, viz. the structure of the market and the purchasing procedure. The anti-competitive conduct of suppliers to all government levels is the third factor.

Collusion in public purchasing can take many forms. Conspiracy between two or more suppliers to forward identical tenders or receipt of identical tenders because of an oligopolistic situation often occurs (Conditions and Procedures ST36 of the State Tender Board, Paragraph 13).

Differences in tenders do not guarantee that a competitive situation exists. Contrived disparity of bids, where suppliers agree to submit the lowest bid on a "rotation" basis is another method of limiting competition. The conspirators in this case ensure that tenders are awarded in turns to each bidder, thereby ensuring a profitable situation and artificially high prices.

Agreements not to bid also limit the number of competitors and is another method of inhibiting competition in government procurement. A manufacturer can, by agreement prevent distribution of his product in a particular province from tendering for government requirements in other provinces, thereby creating the opportunity for limited competition and unrealistic tenders (Fearon & Hamilton, 1980).

The above readings reveal that collusion is not always easy to detect. Procurement personnel should therefore be aware of conditions and situations that might result in a restrictive competitive environment. Data on past government transactions should be reviewed as a matter of routine in order to detect patterns indicative of collusion.

The impact on investment decision of the uncertainty of government laws and policies is a central theme in the Theory of Principal and Agent. In this theory if the investor is the agent and the government is the principal, then investment decisions of the agent will depend on his expectations of benefits derived from policy decisions and institutional support structures provided by the principal (Person & Tabellini, 1990). They further state that problems of uncertainty intensify in transitional economies like South Africa as groups previously controlled re-enter the economy to press for new demands. In attempting to accommodate these usually conflicting demands, political leaders find it difficult to maintain macro-economic stability.

The findings of the above researchers indicate that the South African entrepreneurial environment is marked by a combination of negative factors – a mix of institutional, political and economic problems at a domestic level. Agency theory predicts, that unless market incentives are compelling enough to overcome institutional obstacles, entrepreneurs will limit their investments in the domestic market.

## **2.6 THE IMPACT OF THE PREFERENTIAL PROCUREMENT FRAMEWORK ACT 5 OF 2000 ON PROCUREMENT PRACTICES OF THE NORT WEST PROVINCIAL GOVERNMENT**

The Government's aim is to transform the public procurement process in order to achieve its socio-economic objectives within the ambit of good governance. South Africa was introduced into the global market since 1994 after the independence. This is a major challenge to industries and other state organs to expand and benefit from the procurement process. The procurement system in South Africa needs to be changed in order to face the challenges presented by changes in both the local and international environments. National, Provincial and Local government departments in South Africa have an enormous collective buying power. According to various analysts, the total consolidated General Government Procurement is

estimated to amount to R62 billion (NWPG R1.6 billion) for the 2001/02 financial year, at current prices. This amount constitutes approximately 14% of Gross Domestic Product and represents some 32% (NWPG 16%) of all government expenditure (Budget Review 2002, National Treasury).

Government classify its total spending under the following two major components:

- Goods and services.
- Capital assets.

Public sector procurement has a major impact on the South African macro economy, both in terms of consumption and investment spending. At the same time, an effective and efficient procurement system will permit government to deliver the quality and quantity of services demanded by its people.

The major objectives of the current procurement system in the government sector are as follows (Green Paper on Public Sector procurement Reform in South Africa, 1997).

#### **Socio-economic objectives**

Public sector procurement can be used as a tool by government to achieve certain socio-economic objectives. Some of these objectives are:

- To seek value for money on behalf of all tax payers.
- To eliminate corruption in the procurement process.

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

### **Good governance**

An efficient and effective procurement system will ensure that government service delivery expectations are achieved and in an endeavour to promote good governance, the following objectives are necessary:

- To promote effective and efficient procurement practices and systems to enable government to timeously deliver the quantity and quality of services demanded by its constituents
- To achieve continuing improvement in value for money, based on whole life cost and quality
- To enhance the competitiveness of suppliers through the development of world class procurement systems and practices
- To ensure that control and accountability is maintained through comprehensive auditing
- To achieve a uniform procurement system with standardised tendering procedures, policies and contract documentation for implementation at national and regional level
- To ensure that public sector procurement complies with the provisions of the constitution
- To ensure consensus within government on the reform of the public procurement process, and to encourage the adoption of the reformed process by all public sector procurement agencies.

### **2.6.1 CURRENT CONTEXT**

At this stage it is worth considering the initiatives taken by the government to implement socio-economic and good governance objectives of procurement. For this purpose we should discuss how the current policies, procedures and regulations affect the procurement process.

### **2.6.1.1 Policies and Procedures**

The Constitution of South Africa, specifically section 217 describes that the procurement system must be fair, competitive, transparent and cost effective. The Constitution also allows for the implementation of categories of preference in the allocation of contracts, as well as the protection of advancement of persons, or categories of persons, disadvantaged by unfair discrimination. It is therefore clear that the advancement of marginalized sectors of society and achieving certain socio-economic objectives can be included in the concept of whole life cost and value-for-money. The challenges facing the government are:

- Procurement Policy should complement the macro-economic strategy and extend affirmative action into the area of economic development.
- Public sector procurement should be used as an instrument of policy in the transformation process.
- The simplification of Tender procedures, information networks and documentation is aimed at removing barriers which prevent emerging businesses from competing freely for public sector contracts.
- The scale and scope of tenders should be adjusted to provide the emerging sector with greater opportunities for accessing the public procurement process.
- By revisiting the current system of awarding tenders, greater opportunities can be created for the accommodation of socio-economic objectives in the procurement process.

However, South Africa is also unique in its approach in that its aim is to uplift previously disadvantaged people while at the same time developing our human capital and infrastructure. Furthermore, the principles and

programmes of South Africa's Reconstruction and Development Programme can also find their place in how it procures goods and services.

South Africa started this process with the Green Paper on public sector procurement reform setting out the conceptual framework for procurement reform in South Africa.

#### **2.6.1.2 Legislative Mandate**

In addition to the above broad framework, procurement in the Public Sector is also controlled and directed by the following directives from the State Tender Board namely,

ST 36: General condition and procedures; and

ST 37: User manual: Directive to departments in respect of procurement of the State Tender Board

The under mentioned legislative measures issued during the course of the year 2000/01 will impact materially on Public sector procurement process:

- The Public Finance Management Act (Act No. 1 of 1999 as amended by Act 29 of 1999).
- The new Treasury Regulations.
- Preferential Procurement Policy Framework Act (Act No. 5 of 2000).

**According to the Green Paper (1997), the above policies and procedures introduced should achieve the socio-economic and good governance objectives as stated.**

**It is a reality that previously the public tendering system favoured the established and larger businesses, and it was very difficult for any newcomer to enter into the public sector procurement system. The existence and importance of the small, medium and micro enterprises were ignored in the past. The Government realizes the importance of this marginalized sector of society and will use the procurement system to make the process easily accessible for the new and upcoming businesses and eliminate the injustices of the past.**

**One of the major objectives of the Government is to attain and maintain good governance. This includes good and sound financial control. Decision making within national regulations and guidelines will be delegated to accounting officers who will be responsible and accountable for all procurement expenditure incurred within their department.**

**Corruption will not be tolerated within the Government services and within the country as a whole. Within the public sector procurement system, emphasis will be placed upon measures to eliminate and counter any form of corruption.**

**Any principal doing business with the public sector aims to make a profit. It cannot, under any circumstances, be justified that anyone doing business with the public sector should do so when he/she has not met his/her tax obligations (Green Paper, 1997).**

### **2.6.1 The impact of the Preferential Procurement Policy in the North West Province**

On 3 February 2000, the Preferential Procurement Policy Framework Act (Act 5 of 2000) (PPPF) was promulgated to give effect to setting out affirmative procurement policy with its essential characteristics being:

- Use of targeted procurement to achieve pre-determined socio-economic objectives.
- Specific targeting of groups in accordance with national policy objectives.
- Consistent and uniform definitions, strategies and monitoring and reporting mechanisms to realise policy objectives.

This Act makes it possible to give preference when procuring to individuals or categories of person that historically have been disadvantaged by unfair discrimination on the basis of race, gender or disability. It further makes it possible to give preference to certain persons or groups of person if it is in the interest of the Reconstruction and Development programme. This act gives the basis for targeted procurement.

But what does this mean for procurement in North West Province and what should be the basis for awarding contracts? Section 217(1) of the constitution gives us the answer. Procurement should be done in accordance with a system that is fair, equitable, transparent, competitive and cost-effective. The real challenge for the government is to get the right balance between these requirements of procurement and its goals of targeted procurement aimed at righting the wrongs of the past.

We live in a world ruled by "comfort". Each and every individual has his or her own "comfort zone". The same is applicable with business. If one looks at the Johannesburg stock exchange and one will clearly see that shares of companies which inspire comfort through their policies and procedures, usually gives the best returns on investment. The business behaviour of companies is the instrument through which confidence is aroused in investors. The same is true for procurement. The government's procurement policies and procedures must at all times inspire confidence in the market, both for investors and firms delivering goods and services to government.

The manner in which people conduct business is the single most important factor through which the citizens of South Africa can inspire confidence in the business world as well as the arena of international politics. Individual behaviour, consisting of various small and large actions, will determine the success of any policy or procedure. As the Latin proverb goes "etiam capillus unus habet umbram suam", the smallest hair casts a shadow. Integrity should form the basis of each and every action, no matter how small or large.

South Africa, specifically the North West Province due to its past discrimination, unfair practices and marginalisation of people, are faced with various groups in our society that were denied the privilege of being economically active within the broader society. In order to address this problem of imbalance, procurement is used as a vehicle to rectify this imbalance and to transfer skills and knowledge to those who were previously denied.

South Africa has a top-down approach to good governance in as much that the need for fair public procurement practices is taken up in its constitution. While this is unique among many countries, South Africa's

**emphasis on ensuring that its system of contracts is “fair, equitable, transparent, competitive and cost effective” provides a modern example of the importance of public procurement.**

**The goal of continuous improvement in public sector procurement requires a clear lead and strong commitment through sound management practices. This, together with the basic values and principles governing public administration as enshrined in the new South African constitution, provided a framework to develop sound organisational and institutional arrangements that will result in a public procurement system, which becomes more efficient and effective.**

**The Preferential Procurement Policy Framework Act 5 of 2000 also further addresses issues raised by various governments around the world. These issues include:**

- A failure in individual procurement proceedings to pre-determine and disclose in advance the award criteria.**
- The imposition of discretion by the concerned minister.**
- That procurement rules are not always followed in practice.**
- That the application of competitive and transparent methods of procurement needs to be broadened.**
- That information about public procurement performance (e.g., number of bids received, number of contracts awarded, names of successful bidders) is usually not available.**

This not only makes procurement in South Africa unique but also shows governments' commitment to fair and equitable treatment in procuring. According to the King Report on corporate governance, contracts between contracting parties revolves around trust and the responsibility rests with each party to honour such contracts. In other words, ethical behaviour results in integrity, honesty, openness and fairness.

However, to give effect to this, the King Report suggest a code of conduct, which comprises the following:

- Commit the company to the highest standard of behaviour.
- Be developed in such a way as to involve all employees from union management down so that the ethical culture is infused into the organisation.
- Receive total commitment from the Board of Directors and the Chief Executive Officer of a company.
- Be embraced by all stakeholders.
- Be sufficiently detailed as to give a clear guide to the behaviour of all employees.

Government itself has already committed itself to the same principles in as much as procurement is addressed in our constitution and legislation. Furthermore integrity in procurement encourages suppliers and contractors to make their best offers and this in turn leads to even better procurement performance. Procurers and firms that fail to meet high standards of accountability and fairness are quickly identified as poor partners with which to do business. The summary of awarding of Tenders during 2000/01 by the North West Provincial Government is given below to show the determination of the Government.

**TABLE 2.1 ACHIEVEMENTS BY THE NORTH WEST PROVINCIAL GOVERNMENT FOR 2001 - 2002**

<b>CATEGORY</b>	<b>CONTRACTS AWARDED</b>	<b>VALUE OF CONTRACTS</b>	<b>PERCENTAGE</b>
HDI	245	322	61%
NON HDIs'	170	209	39%
<b>TOTAL</b>	<b>415</b>	<b>531</b>	<b>100%</b>

During the 2001 / 2002 financial year, the Provincial Government of the North West Province entered into procurement contracts to the value of R531 million. Of the contracts awarded, 61% were given to historically disadvantaged individuals, whilst 39% were given to non-historically disadvantaged individuals. Table 2.1 clearly illustrates that the North West Provincial government is promoting the Preferential Procurement Policy as part of the process of transformation.

However, people can fall easily into the trap of conflict of interest. Employees deal on a daily basis with different firms and procurers and as such good intentions to do business with one firm or procurer for the benefit of corporate interest, may well be detrimental to another. But how do people determine if we are in a conflict of interest, whether actual, apparent, or potential? The key is to determine whether the situation one is in, is likely to interfere or appear to interfere with the independent judgment one is supposed to show as a professional in performing one's official duties. Trust, in my opinion, is at the ethical heart or core of procurement.

The ethics that one applies in procurement, should thus not only be seen as being transparent and having integrity, but should also be seen as a vehicle through which socio-economic deliverables are realised.

Procurement in this country should also be used to empower people to enable them to better the quality of life of all of its people. The conflict of interest of "what is right to do" versus "what is advantageous and profitable" should be eliminated and avoided by fairness, integrity and the common good.

## **2.7 SMMEs' AS MAJOR EMPLOYMENT CREATORS**

### **2.7.1 The Experience in African Countries**

In African as well as in other less developed countries, SMMEs (and micro enterprises in particular which constitute their majority) have received mounting attention because of their labour absorptive capacity in times of both a shrinking public sector and private formal economy, and increasing numbers of new labour entrants. With the shift of industrial policy away from import-substitution and of trade policy towards liberalisation, SMMEs are moreover expected to respond flexibly and thus withstand global competition (Hirst and Zeitlin, 1992; Bambara, 1995; Kaplinsky, 1997; Schmitz, 1997). While the Latin American experience of both single and especially clustered SMEs confirms the dynamism associated with SMEs (Cortes et al., 1987; Rabellotti, 1999; Schmitz, 1999), there has been little systematic evidence on the incidence of micro-enterprise 'graduation' or growth into larger ones in Africa (Mead and Liedholm, 1998; Mead, 1999).

Indeed, one-person operations constitute the majority of small-scale industry in Africa, and only about 1% succeed in graduating to an intermediate-size (Mead, 1995; Dia, 1996; McPherson, 1996; Ferrand, 1997; Manu, 1999). It is argued that latest technologies are not yet available, but instead technology which has already been commercialised by foreign companies. Moreover, product specialisation is, in most cases, not a strategic answer to

segmented markets, but to lack of resources (Pedersen et al., 1994; Amsden, 1997). Virtually all SMMEs operate in conditions of excess supply of relatively unskilled and unorganised labour, which allows them to transmit the burden of unstable markets on their employees and to base competition on squeezing labour costs rather than innovation or technological upgrading (Storper, 1991; Swchmitz, 1995; McCormick, 1999).

Unlike in South Korea where large firms function as catalysts of growth to their subcontractors, corporate subcontracting to small and mostly 'informal' firms in Africa is more than often a means to reduce costs by exploiting labour-surplus conditions and circumventing regulations and trade union organisations (Pedersen and McCormick, 1996). Clusters of sector-specific firms do exist in Africa, but their growth experiences vary and differ markedly from other developing country cases, like the successful Sinos Valley shoe cluster in Brazil, and the surgical instruments cluster in Sialkot, Pakistan, or from the 'model' industrial districts of Italy (Dawson, 1992; Rasmussen, 1992; Sverrisson, 1992; Maldonado, 1993; Nadvi, 1994; 1997; Schmitz, 1993; 1995; Yankson, 1996; Advani, 1997, McCormick et al., 1997; McCormick, 1999).

Indeed, strong social ties and networking, reported to be essential for the success of industrial districts in Europe, have ambiguous effects on firm growth in Africa: While being supportive amongst the Igbo in Nigeria, research in Kenya suggests that the successful African entrepreneur has loosened his networks based on kinship and social ties in general (Brautigam, 1997; Ferrand, 1997; McCormick et al., 1997). Furthermore, formal institutions in Africa face crises of legitimacy and enforcement by not being rooted in local culture and are therefore far from conducive to enterprise growth (Steel, 1995; Dia, 1996).

The above suggest that modes of competition and growth trajectories of SMMEs vary across continents and countries (Khoza, 1993; Humphrey & Schmitz, 1995; Amsden, 1997; Gordon, 1997; McCormick, 1999). Research findings on SMMEs throughout Africa are diverse, albeit they show widely that it cannot be the enterprise size as such which determines a firm's growth potential for success and failure of SMMEs co-exist and instead point to the role of the entrepreneur (Sengenberger et al., 1990; Spath, 1994; King and McGrath, 1999). The predominance of SMMEs, both in terms of numbers and employment opportunities generated, demonstrates that SMMEs form an important part of Africa economies and have found their own ways to deal with market instability and uncertainty. Nevertheless, the critical underlying issues of the viability of these small firms, and the sustainability and quality of the employment generated by them still remain unclear (Spath, 1994; Dia, 1996; McCormick et al., 1997).

## **2.8 EMPLOYMENT CREATION THROUGH SMMEs**

### **2.8.1 Government perspective: SMMEs as a vehicle to tackle the problem of employment growth**

Since the elections of April 1994, the issues of black economic empowerment and a more equal income distribution have been placed high on the agenda of the new government of South Africa (Rogerson and Rogerson, 1995). Nevertheless, the need to take the South African economy onto 'a higher road', i.e. a diversified economy in which productivity and international competitiveness are enhanced, wage-levels are high, investment is stimulated and entrepreneurship flourishes, is recognised as a condition to address these issues successfully [RSA, 1994; 1995]. In the 1995 White Paper on National Strategy for Development and Promotion of Small Business in South Africa, the government assigns the SMME sector a key role in South Africa's socio-economic transition [RSA, 1995:10].

**In particular, SMMEs are seen as a vehicle to:**

- **Address the problem of high unemployment levels in South Africa as they have a high labour-absorptive capacity.**
- **Activate domestic competition by creating market riches in which they grow until they identify a new niche as a response to demand changes, and to be internationally competitive because of their flexibility.**
- **Redress the inequalities inherited from the Apartheid period – in terms of patterns of economic ownership and restricted career opportunities for black employees.**
- **Contribute to black economic empowerment in that the majority of SMMEs is reported to be initiated, owned or controlled by those members of society who were discriminated against in South Africa's past.**
- **Play a crucial role in people's efforts to meet basic needs in the absence of social support systems during restructuring processes, which refers in particular to South Africa's micro-enterprise segment and especially survivalist activities characterised by low entry barriers for inexperienced job seekers.**

## **2.9 GOVERNMENT INITIATIVES**

### **2.9.1 Policy Measures to Promote SMMEs'**

The South African Government suggests that the SMME sector with the help of government support, is capable of fulfilling these objectives and has introduced a number of supply-side measures to promote the formerly neglected sector. The overall objective is "to create an enabling environment" and "to level the playing field" (RSA, 1995:10) in terms of national, regional and the local policy frameworks for SMME development. More particularly, policy measures are aimed at:

- Addressing the obstacles and constraints that SMMEs face to promote (faster) growth.
- Enhancing their capacity to comply with the challenges of globalisation and an internationally competitive economy.
- Strengthening their cohesion to increase the leverage of policy measures.

The mechanisms used for small business support involve institutional and regulatory reforms. Ntsika Enterprise Promotion Agency and Khula Finance Limited (apart from the National Small Business Council and the Centre for Small Business Promotion) have been established to act as intermediaries to address SMME constraints such as access to finance and information. The DTI itself administers programmes aimed at increasing SMME manufacturers' competitiveness such as co-financing the acquisition of new technology. Regulatory reforms include, for example, the recent procurement reform with an affirmative small, medium and micro enterprise participation programme (RSA, 1997).

Nevertheless, so far, no clear differentiation between promoting dynamic firms on the one hand and survivalist activities on the other – which would rather be the focus of welfare that industrial policies has been made. There are indications, that in launching the implementation of several programmes, the South African government severely underestimated the problems of establishing a whole set of new support institutions, the capacity of these institutions to deliver, and the capacity of the existing NGO network in South Africa to become involved in the highly ambitious set of programmes that were to be implemented (Hirsch and Hanival, 1998; Rogerson, 1998c; Bloch and Kesper, 2000a;b).

## 2.10 THEORITICAL FOUNDATION

The impact on investment decisions of certainty or uncertainty of government laws and policies is a central theme in the **Theory of Principal and Agent**. In this theory if the investor is the agent and the government the principal, then investment decisions of the agent will depend on expectations of benefits derived from policy decisions and institutional support structures provided by the principal. (Person and Tabellini, 1990). They further state that problems of uncertainty intensify in transitional economies like South Africa as groups previously controlled re-enter the economy to press for new demands. In attempting to accommodate these usually conflicting demands, political leaders find it difficult to maintain macro-economic stability.

The findings of the above researchers indicate that the South African entrepreneurial environment is marked by a combination of negative factors – a mix of institutional, political and economic problems at a domestic level. Agency theory predicts, that unless market incentives are compelling enough to overcome institutional obstacles, entrepreneurs will limit their investments in the domestic market.

The small business sector has an irrefutable economic and social function in the free market economy. The stimulation and promotion of small business activities and competitive ability continually offer a challenge to the entrepreneur as well as the economic policy and strategy of a country (Moolman, 1992). The effect of SMMEs' on economic growth and development and vice versa is one of the main topics discussed by economists throughout the world. For instance, recently the issue of whether entrepreneurship leads to lower unemployment or vice versa, resulted in an intensive debate in Europe and the United States (Andrestch, Carree and Thurik, 2001). Some economists believe that SMMEs' are the backbone of the economy of a country.

The small business sector is labour intensive and the employment potential of small business is proved from various studies. According to Kroon and Moolman (1992), 99% of all businesses are small and offer 98% of all job opportunities. In Netherlands, small businesses offered 54% of all job opportunities. In addition, Kroon and Moolman also state that employment and job creation by the small business sector is advantageous for socio-economic development. However, this belief is not always accepted as Veheul et al (2001) stated: several arguments have been brought forward supporting a negative impact of economic growth on the level of self-employment.

## **2.11 CONCLUSION**

This provides a brief review of selected literature related to the impact of procurement on SMMEs' and some key factors influencing them. BEE, in particular preferential and affirmative procurement, can be implemented with success by committed organisations in South Africa. There is a quantifiable economic benefit for the country's big business and HDI suppliers. A high

degree of success can be achieved if more businesses initiate such a programme and collaborate with each other during implementation.

As South Africa's affirmative procurement process evolves we can expect increasing attention to the who, where and how of pro-active involvement of HDI's or black owned/controlled small enterprises. With legally binding targets in this sphere a likely follow on to the recommendations of the Black Economic Empowerment Commission, the corporate world is bound to look carefully and urgently at practical ways to increase procurement from HDI's without unduly increasing cost or risk levels.

SMMEs' may face many difficulties due to reliance on informal employment relationships. Newly promulgated employment laws have been one of the most important areas of conflicting economic, political and social theories in South Africa.

Indeed, with little overall effort, preferential procurement can go along way to ensuring the SMME sector is not excluded from the e-economy of the 21<sup>st</sup> century. It's too important to ignore especially when one considers that in South Africa, around 250 000 medium to small companies contribute some R220-billion annually to GDP, with very small and 'survivalist' operations adding a further R72-billion.

## CHAPTER 3

### DEFINING THE PROBLEM AND RESEARCH QUESTIONS

#### 3.1 INTRODUCTION

This chapter focuses on the rationale to the problem and the definition of the problem statement of the research study. The scope of the survey is defined by the problem under investigation, which was to determine

**“ The effect of Procurement on SMMEs' within the Molopo Region of the North West Province ”.**

More specifically, do SMMEs' need preferential procurement privileges from the government to sustain their existence in a highly competitive and dynamic environment? This study should further enlighten the North West Province and other relevant stakeholders on the effect of procurement on SMMEs' within the Molopo Region.

Generally governments in most countries adopt various methods in assisting SMMEs', wherever possible. The assistance granted is usually in the form of finance, training and incentives by the state and parastatals. South Africa has also adopted a similar attitude and is in line with world trends.

Although South Africa is believed to be an upper middle income country, most South African households experience outright poverty or vulnerability to poverty ( White Paper on RDP, 1994: 7-9). The distribution of income and wealth in South Africa is among the most unequal in the world. Many households lack basic amenities such as access to clean water, health and education. As part of its transformation programme, government has focused its attention on entrepreneurial development and the promotion of self-employment in order to overcome the unemployment problem and to propel the economy to a higher level of growth (Department of Trade and

Industry-DTI, 2000). As a result of the recently promulgated Preferential Procurement Policy Framework Act 5 of 2000, government departments are obliged to procure the services of SMMEs' as a means of creating more job opportunities, developing the previously disadvantaged sector and promote empowerment of women.

### **3.2 RATIONALE TO THE PROBLEM**

The history of South Africa has been a bitter one dominated by colonialism and the policies of apartheid. This has resulted in poverty, unemployment and imbalances in income distribution. Rural areas such as the North West Province were divided into underdeveloped pockets of land designated for Blacks and well-developed commercial and farming areas for the White populace. Towns and cities were also developed into townships without basic infrastructure (White Paper on RDP, 1994).

There is a dire need for the redistribution of income and opportunities to the historically disadvantaged individual and this study should also provide greater insight into public and preferential procurement, specifically within the Molopo Region of the North West Province, which impacts greatly on this. The challenges of redress facing South Africa and in particular the North West Province are enormous. In light of this, a successful programme is required to expedite the standard of living and raise the quality of life for all South Africans, characterised by equal opportunity and economic growth.

The South African SMME sector is far from homogenous. It would require a fine-tuned set of interventions rather than the generic assistance currently provided. Only a few dynamic SMMEs' show a potential to contribute to rapid employment creation, whilst survivalist activities constitute the vast majority of South African SMMEs' (Kesper, 2000). The importance of SMME's as a job creation factor in the economy of South Africa expresses

itself as a contributor to the Gross Domestic Product and development of the formally disadvantaged sector.

SMMEs' within the North West Province are characterised by the following problems which are also experienced by other developing countries:

➤ Awards criteria

A general failure exists in procurement proceedings to pre-determine and disclose in advance the awards criteria in preferential procurement.

➤ Procurement rules

Procurement rules are not always followed in practice.

➤ Competitive and transparent methods

The application of competitive and transparent methods of procurement needs to be broadened.

➤ Insufficient information

Information on public procurement performance such as the number of bids received and contracts are not readily available.

➤ Fronting

Black individuals or groups fronting for White establishments that unrepentantly wish to continue to do business as usual.

➤ **False auditioning**

Black auditioned companies initially obtain government contracts and immediately sell them at a profit.

➤ **Rent-a-Black scheme**

The use of unabating rent-a-Black schemes for the specific purpose of securing government contracts or business is also being practiced.

➤ **Entrepreneurial education**

The Black people have been restricted from educational opportunities for acquiring technical and entrepreneurial skills.

➤ **Segregation**

The distance between Black residential and working areas increases the risk and conducting of business.

➤ **Plight of Black Women**

The legacy of poverty, discrimination and patriarchy has offered virtually no opportunities for Black women to enter the world of business.

This does not imply that favourable policies should focus on Black owned or controlled enterprises, but that policy differentiation should also include affirmative elements. Within the context of employment and poverty challenges in South Africa, the challenges are mostly with the transfer of economic power to the historically disadvantaged individuals of South Africa.

### **3.3 DEFINITION OF PROBLEMS**

#### **3.3.1 PRIMARY PROBLEM**

The primary problem is: Whether procurement assists SMMEs' in creating new markets and promoting sustainability in order to address the socio-economic inequalities of the past

##### **3.3.1.1 Research Questions**

- Does preferential procurement allow SMMEs' in the activation of domestic competition by creating market niches in which they grow?
- Does preferential procurement address the inequalities of the past in terms of economic ownership?

#### **3.3.2 SECONDARY PROBLEM**

The secondary problem is: Whether procurement amongst SMMEs' has an effect on the entrepreneurial culture, job creation and empowerment of the historically disadvantaged sector, thereby ensuring the sustainability of SMMEs'

##### **3.3.2.1 Research Questions**

- Does preferential procurement assist in growing the business and addressing the problems of high unemployment levels?
- Does preferential procurement amongst SMMEs' address issues of economic ownership, career opportunities, Black Economic Empowerment and women empowerment?

- Does preferential procurement amongst SMMEs' play a crucial role in meeting the basic needs of the people?
- Does preferential procurement ensures the transparency of public procurement transactions between government and SMMEs?
- Does preferential procurement encourage SMMEs' to employ new technologies to ensure competitive advantage?

### **3.4 CONCLUSION**

The role of procurement in Small, Medium and Micro Enterprises is not only related to sustainability and economic empowerment of the historically disadvantaged sector, but it should create a better South Africa for all. These factors have been identified for the purpose of research and other factors of relevance should surface for further research. The recommendations that will be made later in the study will be influenced by the factors discussed.

In spite of the importance of South Africa's large agricultural, industrial and mining enterprises, ample evidence exists that the absorptive capacity of the small business sector is high. It is evident that the access to information on SMMEs' and their contribution to the economy is at times limited. For this reason, research into the impact of procurement on this sector is important and this study contributes to the discovery of insights and information that may assist government and business to determine the most effective way of deriving the maximum benefit of the involvement of this sector in the economy.

## **CHAPTER 4**

### **RESEARCH DESIGN AND ANALYSIS**

#### **4.1 INTRODUCTION**

This research is focused on the effect that procurement has on Small, Medium and Micro Enterprises (SMMEs) within the Molopo Region of the North West Province. In performing this task, an in-depth literature review of some of the most relevant issues pertaining to procurement was conducted. In conducting this research, the considered opinions of both management of the Department of Finance and SMMEs' have been taken into account.

In this chapter, an indication will be given on the general methodological orientation, the research parameters within which the data were collected, the sampling design and the analysis of data collected.

#### **4.2 UNIT OF ANALYSIS**

According to Kerlinger (1986), a research design is the plan and structure of investigation so conceived, as to obtain answers to research questions. In the process of planning, the research problem has to specify what exactly is being investigated (Mouton, 1999:15). The unit of analysis is the person or object from whom the researcher collects data, so as to obtain such answers and resolve research problems. The data from such a unit can only describe that unit. However, when combined with similar data collected from a group of similar units, it provides an accurate picture of the group to which that unit belongs (Bless and Higson-Smith, 1995:66).

The responsibility to decide on the unit of analysis, lies with the researcher. However, this decision is not always easy (Mouton, 1999:15-19). The researcher has to have a clear understanding of the data that needs to be elicited from respondents and should take into consideration that they should have a basic understanding of the subject matter under investigation, in order to provide insightful responses. This study requires the respondent to have a basic understanding of the functions and principles of management.

## **4.3 POPULATION AND SAMPLING**

### **4.3.1 POPULATION**

It is absolutely essential for researchers to describe accurately the target population (Bless 1995: 87). Since two target groups were approached in this survey, two population groups were identified. The first population group comprised the management of the Department of Finance. The smooth running of the Department of Finance of the North West Province rests with the Executive Council (EXCO). The EXCO includes the Superintendent General (SG), two Deputy Director Generals (DDGs'), two Chief Directors and fifteen Directors. The intention was to select the whole population from the Department of Finance. However, this was not possible due to reasons out of the researcher's control. The population in this study included the Deputy Director Generals, Chief Directors, Directors and Deputy Directors, totalling forty-five individuals.

This population was chosen because middle and senior management participate in the strategic planning process and middle management are also responsible for converting the strategy into operational strategy. The sample included those individuals who had significant insight into the actual function of procurement within the public sector.

The second population was identified amongst the SMME sector within the district of Mafikeng. The researcher knew that SMMEs' mostly conduct their business in the industrial sites. It is important to note that there is a substantial difference in the SMME database supplied by the different Directorates of the Department of Finance and this has affected the size of the population of small, medium and micro enterprises.

#### **4.3.2 SAMPLING**

The researcher found it appropriate to use non-probability sampling, a technique where the probability of each element of the population being included in the sample is not known. For the purposes of this research, the researcher chose accidental or availability sampling (Bless and Higson-Smith, 2000). Leedy (2001) refers to accidental sampling as convenient sampling, which makes no pretense of identifying a representative subset of a population. Convenience sampling takes people or units that are readily available. Samples chosen through convenience or accidental sampling are convenient for researchers in terms of time and money (Bless and Higson-Smith, 2000).

As the management of the Department of Finance are stationed in one particular government building, the researcher found it convenient to use convenience or accidental sampling. The total number of management personnel is forty-five. The researcher could only deliver the questionnaires to twenty-eight managers as seventeen of the management personnel were out of their work-stations for the following reasons:

- Strategic planning workshops.
- Vacation leave.
- Field work

Of the twenty-eight questionnaires delivered to the management of the Department of Finance, fifteen members of management responded. Managers and owners of SMMEs' form the sample from the SMME sector. The strategy was to select units that are deemed to be typical of the population

under investigation. With respect to the SMMEs', samples were drawn from Mafikeng, Montshiwa and Danville industrial sites, as most of the SMMEs' within the Molopo Region are managing their businesses from these designated industrial sites.

#### **4.4 QUESTIONNAIRE CONSTRUCTION AND INTERVIEW SCHEDULE**

Two target groups were given questionnaires to answer in writing. A set of questions, although in some ways were similar are different for each target group. The closed-ended questions were formally structured with a set of multiple choice answers and guidelines on the procedures that had to be followed (eg. ranking). Some of the questions had only two possibilities such as yes or no. Some of the questions had additional possibilities to increase the flexibility of the answer. These questions were prepared with a focus on answering the research questions. (Questionnaire – Refer Addendum A and B).

With respect to interviews, the interviews were started with open-ended questions. By adopting this approach, interviewees were put at ease. These were subsequently followed by structured questions. A distinct advantage of personal interviews was that the researcher could clarify questions that were unclear to interviewees.

#### **4.5 COLLECTION OF DATA**

The aim of the study also guided the selection of data collection and data analysis method, which broadly sets out to outline the impact of procurement on SMMEs' within the Molopo Region of the North West Province. Interviews allow the interviewer to gently probe the respondent, which permits them to have a conversation in which ideas flow freely. Such interviews can be conducted with a few well-informed persons, also referred to as key informants of the target population.

With regard to the survey, the data were collected through the use of two different types of questionnaires for the two target groups and a few owners from the SMME sector. Questionnaires were given to forty SMMEs' and only thirty-four completed the questionnaires, representing a 85% response from SMMEs.

The questionnaires were developed and forwarded to respondents, either personally or through electronic mail. The advantage of using a questionnaire is that respondents have time to think about the answers to the various questions. The disadvantage is that the researcher is not always at hand to explain uncertainties, which may result in biased or distorted by the respondent (Brynard et al, 1997: 38).

According to Botes (1995:100), a questionnaire is one of the most useful instruments in research as the researcher has tangible evidence of the factual situation. By juxtaposing issues, the researcher may be able to draw certain conclusions. As convenience or accidental sampling was used, the researcher was obliged to select respondents on the basis of availability. However, despite the fact that the non-probability sampling method could not guarantee representivity, response from a wide spectrum of SMMEs', covering agriculture, construction and maintenance, finance and business services, manufacturing, retail and wholesale and transport, were eventually obtained. (See Table 5.10 in Chapter 5). Due to circumstances beyond their control, some management personnel were unable to submit the questionnaires submitted to them.

With reference to the interviews, specific questions were asked from certain interviewees with an intention of getting their views. The interviews started with open questions, which enabled respondents to present their personal views or to elaborate on the topic of the question and to put the respondents at ease.

Open-ended questions were followed by structured or semi-structured questions. The advantage of this method is that the researcher could explain matters that were not clear to the respondent.

## **4.6 METHOD OF DATA ANALYSIS**

### **4.6.1 STATISTICAL METHOD USED**

Descriptive statistics have been used in this study to analyse the data collected from the survey. In the next chapter, analysis of data is presented by way of tables and graphs.

### **4.6.2 METHODOLOGICAL APPROACH**

In human science, two basic approaches can be applied in research. These methodologies can be either qualitative or quantitative in nature.

#### **4.6.2.1 Qualitative Approach**

Qualitative research refers to research that produces descriptive data. Usually no numbers or counts are assigned to observations. The indispensable condition or qualification for qualitative methodology is a commitment to seeing the world from the point of view of the participant. (Bryman, 1984:78).

Qualitative methodology allows the researcher to know the respondents personally, to see them as they are and to experience their daily struggles with real life situations. This methodology allows the researcher to interpret and describe the actions of participants in-depth and with insight than the quantitative approach (Bynard 1997: 30). Purely qualitative description using words and narratives are sometimes least important to grasp the true meaning of some phenomenon. The strength of this is an attainment of a deeper, more valid understanding of the subject than could be achieved through a more rigid approach (Carr 1994:718). This also allows the subject to raise issues and

topics which the researcher might not have included in a structured research design, adding to the quality of data collected. This method was found to be appropriate in conducting personal interviews.

#### **4.6.2.2 Quantitative Approach**

Quantitative methodology is generally associated with analytical research. According to Mouton (2001:128), the purpose of quantitative research is to arrive at a universal statement. In quantitative methodology, the researcher assigns numbers to observations. Quantitative research is underpinned by distinctive theory as to what should pass as warrantable knowledge (Bryman, 1984:77). This method could include techniques such as observation, pilot studies, quantitative analysis and questionnaires. In this regard, the researcher applied quantitative methodology via the use of questionnaires.

#### **4.7 ETHICAL STANDARDS**

Care has been taken of the most important ethical considerations in social science research when working with human subjects, namely to ensure the respondents' rights to protection from harm and informed consent. Firstly, the subject of this study was not of such a nature that it would threaten the psychological or physical comfort of the respondents. Questions were confined to issues around the effect of procurement. Secondly, all respondents were briefed about the reasons for the study and the implications of the investigation before any interview took place. Each respondent participated in the study with complete awareness of the parameters of the study. Lastly, the reporting on the data received from respondents in the investigation was done in a complete and honest manner, without misrepresenting any data or misleading anyone as to the true nature of the findings. This is one of the most important ethical considerations in social science research with human beings (Leedy, 2001).

## **4.8 CONCLUSION**

Although focus on this study has been more on quantitative research than on qualitative research, one approach is not superior to the other. Each has its own strengths and weaknesses. It therefore implies that eliciting data may not necessarily come from one method but rather from one of each or both.

In this chapter, focus was on the unit of analysis, the target population, questionnaire construction, collection of data, method of data analysis and the ethical standards observed. Care was also taken with regard to the selection of participants from the various tiers of government and SMMEs, in order to achieve maximum output.

The results of the research are presented in the next chapter.

## **CHAPTER 5**

### **RESULTS AND INTERPRETATION**

#### **5.1 INTRODUCTION**

This chapter reports on the results of the empirical investigation conducted to determine the effect of procurement on SMMEs' within the Molopo Region of the North West Province. In this investigation, information was obtained from respondents through questionnaires and interviews. The qualitative and quantitative data collected through this investigation are summarized and interpreted in the next chapter.

#### **5.2 REVIEW OF RESPONDENTS**

In this study, a total of sixty-eight questionnaires were distributed. Twenty-eight questionnaires were distributed to the middle and senior management of the Department of Finance, of which fifteen responded resulting in a sample size of 54%. Forty questionnaires were distributed to SMMEs', of which thirty-four responded representing a sample size of 85 %. The calculations were obtained by using the total number of replies received from respondents on the questionnaires distributed and expressing the result thereof as a percentage of the number of respondents in each sample.

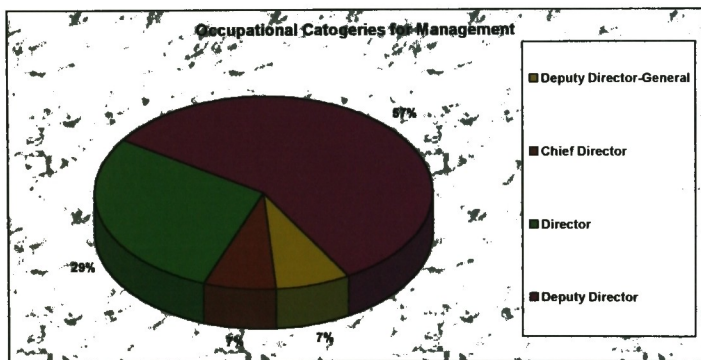
#### **5.3 PRESENTATION OF RESULTS**

With respect to the presentation of results, the first part of the presentation of results reflects the opinions of the management of the Department of Finance, followed by the opinions of SMMEs' within the Molopo Region. The final part of the presentation of results covers the responses received from interviews conducted.

The following tables and graphs summarize the results from the data collected in this study:

**TABLE 5.1 OCCUPATIONAL CATEGORIES FOR MANAGEMENT**

Analysis	Frequency	Percent
Deputy Director-General	1	7.1
Chief Director	1	7.1
Director	4	28.6
Deputy Director	8	57.2
Total	14	100

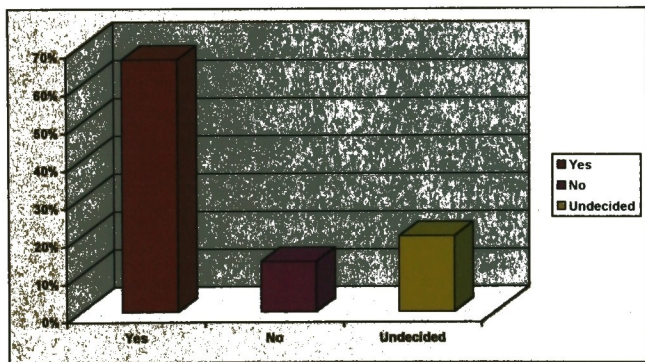


**Fig. 5.1 Occupational Categories for Management**

For the purposes of this research, it is important to note that at middle and senior management level within the Department of Finance, 57,2% of the responses were received from Deputy Directors. According to Table 5.1, Deputy Directors are more in contact with SMMEs' than members of senior management and are involved to a great deal at an operational level. The interaction of Deputy Directors with SMMEs' cannot be over emphasised.

**TABLE 5.2 WHETHER SMMES' ASSIST IN ADDRESSING THE PROBLEMS OF HIGH UNEMPLOYMENT LEVELS IN THE MOLOPO REGION BECAUSE OF THE INFLUENCE OF PREFERENTIAL PROCUREMENT ON THE GROWTH OF THE SECTOR**

Analysis	Frequency	Percent
Yes	10	66.7
No	2	13.3
Undecided	3	20
Total	15	100

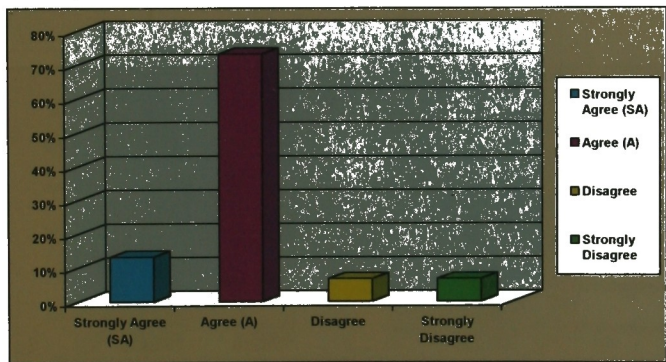


**Fig. 5.2 Whether SMMEs' assist in addressing the problems of High Unemployment Levels in the Molopo Region.**

According to Table 5.2, research findings indicate that 66,7% of the respondents are of the opinion that SMMEs' assist in addressing the problems of high unemployment in the Molopo Region because of the influence of preferential procurement on the growth of the sector. About 13,3% of respondents from management are of the opinion that SMMEs' do not assist in addressing the problems of high unemployment.

**TABLE 5.3 WHETHER PREFERENTIAL PROCUREMENT ASSISTS IN THE ACTIVATION OF DOMESTIC COMPETITION AMONGST SMMES' WITHIN THE MOLOPO REGION BY CREATING MARKET NICHES IN WHICH THEY GROW.**

<b>Analysis</b>	<b>Frequency</b>	<b>Percent</b>
Strongly agree	2	13.3
Agree	11	73.3
Disagree	1	6.7
Strongly Disagree	1	6.7
<b>Total</b>	<b>15</b>	<b>100</b>

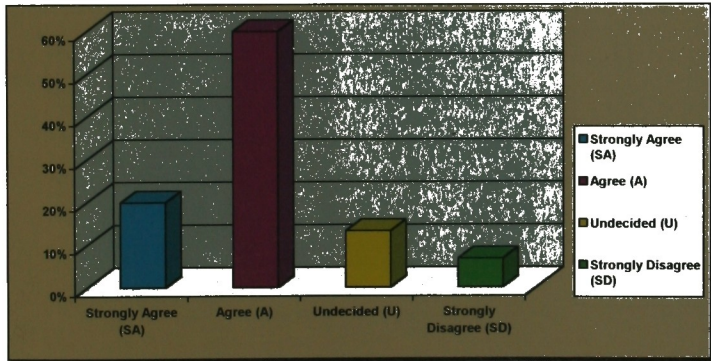


**Fig. 5.3 Whether Preferential Procurement assists in the activation of domestic competition amongst SMME's within the Molopo region by creating market niches in which they grow.**

According to Table 5.3, 73,3% of management from the Department of Finance agree that preferential procurement assists in the activation of domestic competition amongst SMMES'.by creating market niches in which they grow. About 13,3% strongly agree whilst 6,7% either disagree or strongly agree that preferential procurement assists in the activation of domestic competition amongst SMMES' within the Molopo Region.

**TABLE 5.4 WHETHER PREFERENTIAL PROCUREMENT ADDRESSES THE INEQUALITIES INHERITED FROM THE APARTHEID ERA IN TERMS OF ECONOMIC OWNERSHIP AND CAREER OPPORTUNITIES FOR BLACK EMPLOYEES IN THE MOLOPO REGION.**

Analysis	Frequency	Percent
Strongly agree	3	20
Agree	9	60
Undecided	2	13.3
Strongly disagree	1	6.7
Total	15	100

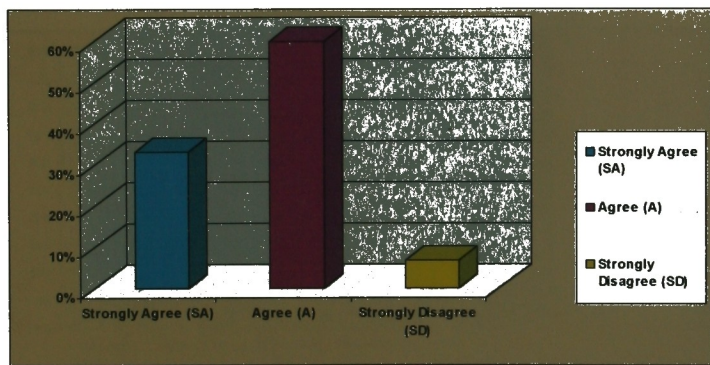


**Fig. 5.4 Whether Preferential Procurement addresses the inequalities inherited from the apartheid era in terms of economic ownership and career opportunities for Black employees in the Molopo Region.**

According to Table 5.4, 60% of the respondents at management level within the Department of Finance agree that preferential procurement addresses the inequalities inherited from the apartheid era in terms of economic ownership and career opportunities for Black employees, whilst 6,7% strongly disagree.

**TABLE 5.5 WHETHER PREFERENTIAL PROCUREMENT CONTRIBUTES TO BLACK ECONOMIC EMPOWERMENT IN THE MOLOPO REGION BY EMPOWERING SMME'S TO INITIATE, OWN AND CONTROL SUCH ENTERPRISES.**

Analysis	Frequency	Percent
Strongly agree	5	33.3
Agree	9	60
Strongly Disagree	1	6.7
Total	15	100

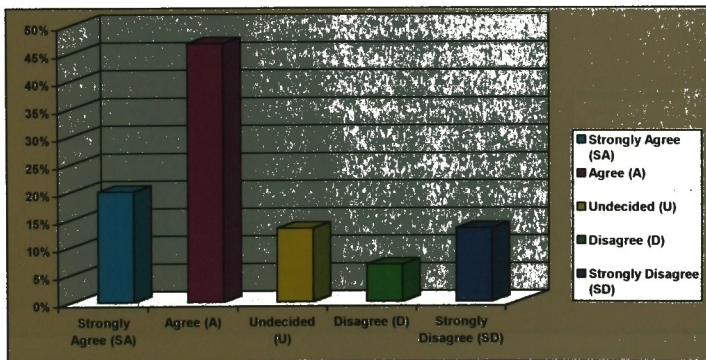


**Fig. 5.5 Whether Preferential Procurement contributes to Black Economic Empowerment in the Molopo region by empowering SMME's to initiate, own and control such enterprises.**

According to the results obtained in Table 5.5, at least 60% of the management from the Department of Finance agree, whilst 33,3% strongly agree that preferential procurement contributes to Black Economic Empowerment by empowering SMME's to initiate, own and control such enterprises.

**TABLE 5.6 WHETHER PREFERENTIAL PROCUREMENT POSITIVELY IMPACTS ON THE EMPOWERMENT OF WOMEN WITHIN THE SMME SECTOR IN THE MOLOPO REGION.**

Analysis	Frequency	Percent
Strongly agree	3	20
Agree	7	46.7
Undecided	2	13.3
Disagree	1	6.7
Strongly Disagree	2	13.3
Total	15	100

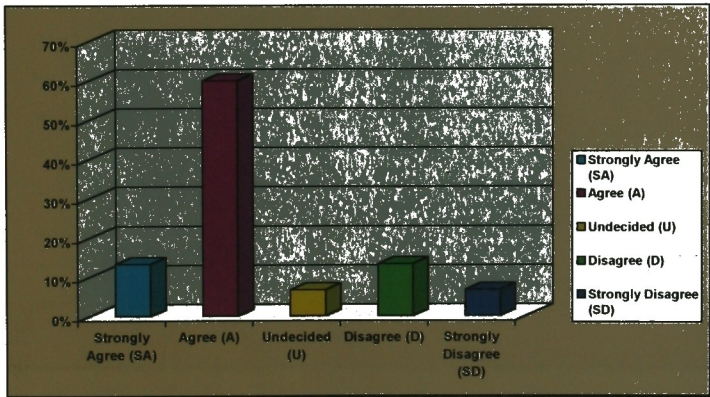


**Fig. 5.6 Whether Preferential Procurement positively impacts on the empowerment of women within the SMME sector in the Molopo region.**

According to Table 5.6, 46,7% of the respondents from the Department of Finance agree whilst 20% strongly agree that preferential procurement positively impacts on the empowerment of women within the SMME sector in the Molopo Region.

**TABLE 5.7 WHETHER PREFERENTIAL PROCUREMENT ENSURES THE TRANSPARENCY OF PUBLIC PROCUREMENT TRANSACTIONS BETWEEN GOVERNMENT AND SMMES' IN THE MOLOPO REGION.**

Analysis	Frequency	Percent
Strongly agree	2	13.3
Agree	9	60
Undecided	1	6.7
Disagree	2	13.3
Strongly Disagree	1	6.7
Total	15	100

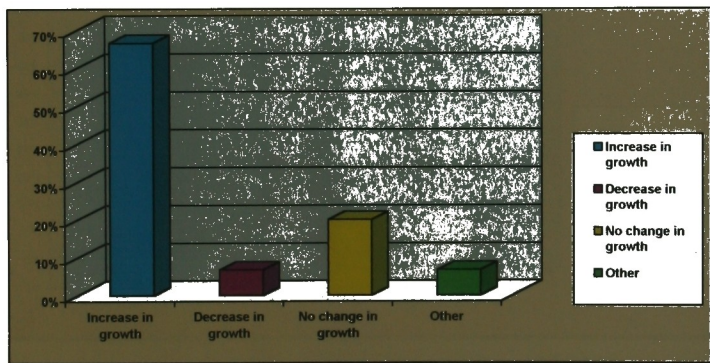


**Fig. 5.7 Whether Preferential Procurement ensures the transparency of public procurement transactions between Government and SMME's in the Molopo region.**

According to Table 5.7, although 60% of management from the Department of Finance agree that preferential procurement ensures transparency of public procurement transactions between government and SMMEs' in the Molopo Region, 67% strongly disagree or are undecided. According to Table 5.7, 13.3% either strongly agree or disagree.

**TABLE 5.8 WHETHER PREFERENTIAL PROCUREMENT INFLUENCE THE GROWTH OF THE SMME SECTOR IN THE MOLOPO REGION.**

Analysis	Frequency	Percent
Increase in growth	10	66.6
Decrease in growth	1	6.7
No change in growth	3	20
Other	1	6.7
Total	15	100

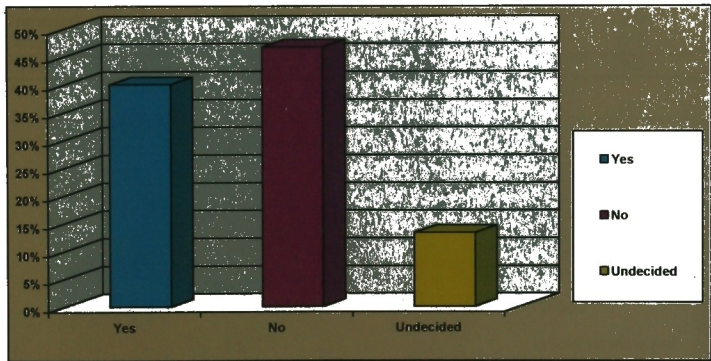


**Fig. 5.8 Whether Preferential Procurement influence the growth of the SMME sector in the Molopo region.**

According to Table 5.8, although 66.6% of the respondents are of the opinion that preferential procurement leads to an increase in growth of the SMME sector within the Molopo Region, 20% believe that there is no change in growth within the SMME sector.

**TABLE 5.9 WHETHER PREFERENTIAL PROCUREMENT HAS ENCOURAGED SMMES' TO EMPLOY NEW TECHNOLOGIES TO ENSURE COMPETITIVE ADVANTAGE.**

<b>Analysis</b>	<b>Frequency</b>	<b>Percent</b>
Yes	6	40
No	7	46.7
Undecided	2	13.3
<b>Total</b>	<b>15</b>	<b>100</b>



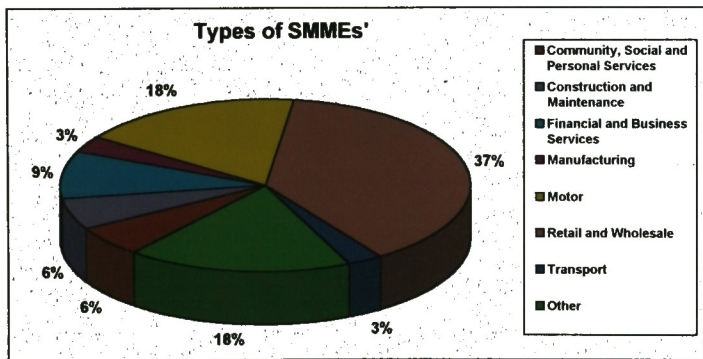
**Fig. 5.9 Whether Preferential Procurement has encouraged SMME's to employ new technologies (such as financial management tools or computerized order systems) to ensure competitive advantage.**

According to Table 5.9 about 46,7% of the management from the Department of Finance are of the opinion that preferential procurement has not encouraged SMMEs' to employ new technologies to ensure competitive advantage. On the contrary, 40% of management are of the opinion that preferential procurement has encouraged SMMEs' to employ new technologies such as financial management tools or computerized order systems to ensure competitive advantage, whilst 13.3% were undecided.

The figures and tables that follow reflect the responses of SMMEs' within the Molopo Region of the North West Province.

**TABLE 5.10 TYPES OF SMMEs' THAT ARE FOUND IN THE MOLOPO REGION OF THE NORTH WEST PROVINCE.**

Analysis	Frequency	Percent
Community, Social and Personal Services	2	5.9
Construction and Maintenance	2	5.9
Financial and Business Services	3	8.8
Manufacturing	1	2.9
Motor	6	17.6
Retail and Wholesale	13	38.4
Transport	1	2.9
Other	6	17.6
Total	34	100

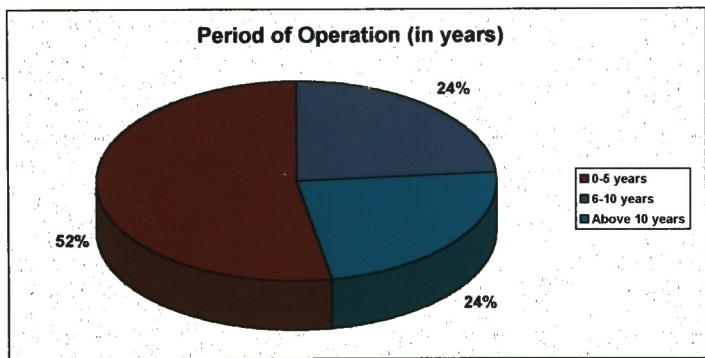


**Fig. 5.10 Types of SMMEs'in the Molopo Region**

According to Table 5.10 the researcher has categorised the SMME sector into eight categories. In terms of the responses received, 38.4 % of SMMEs' within the Molopo Region are in either the retail or wholesale business. Research findings indicate that less than 3% of SMMEs' are involved in manufacturing or transport. It does appear that the cost of capital to set up such forms of business is an impediment for potential entrepreneurs.

**TABLE 5.11 AGES OF BUSINESS IN THE SMME SECTOR WITHIN THE MOLOPO REGION OF THE NORTH WEST PROVINCE.**

Analysis	Frequency	Percent
0-5	18	52.8
6-10	8	23.6
Above 10 years	8	23.6
Total	34	100

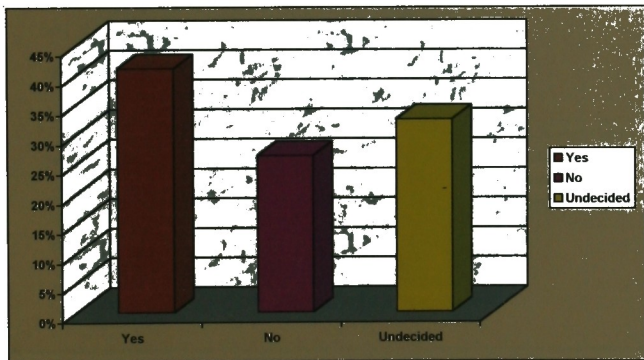


**Fig. 5.11 Ages of Business in the SMME sector.**

According to Table 5.11 51.4% of SMMEs' are less than five years old. The possible reasons for this are the increasing rate of unemployment forcing people to open their own businesses or right sizing of bigger businesses and non-governmental organizations within the Molopo Region. At least 22.1% of businesses within the SMME sector are between six to ten years old, whilst 26.5% are in excess of ten years in existence.

**TABLE 5.12 WHETHER PREFERENTIAL PROCUREMENT ASSISTS YOU IN GROWING YOUR BUSINESS AND THEREFORE ADDRESSING THE PROBLEMS OF HIGH UNEMPLOYMENT LEVELS IN THE MOLOPO REGION.**

Analysis	Frequency	Percent
Yes	14	41.1
No	9	26.4
Undecided	11	32.5
Total	34	100

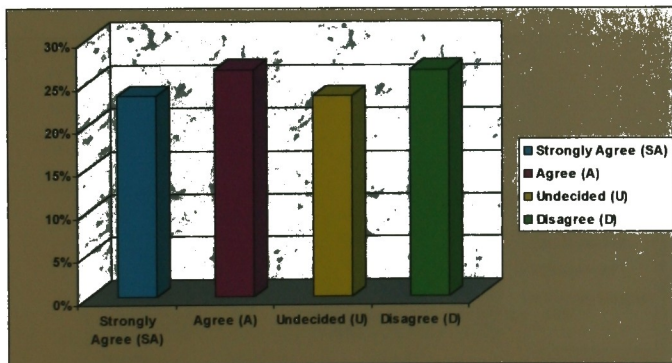


**Fig. 5.12 Whether Preferential Procurement assists you in growing your business and therefore addressing the problems of high unemployment levels in the Molopo region.**

According to Table 5.12, 41.1% of SMMEs' believe that preferential procurement assists them in growing their business and addresses the problem of high unemployment levels in the Molopo Region. From the responses received, 26.4% of SMMEs' are of the opinion that preferential procurement does not assist them in growing their business and does not address the problem of high unemployment levels in the Molopo Region.

**TABLE 5.13 WHETHER PREFERENTIAL PROCUREMENT ASSISTS IN THE ACTIVATION OF DOMESTIC COMPETITION AMONGST SMMES' WITHIN THE MOLOPO REGION BY CREATING MARKET NICHES IN WHICH THEY GROW**

Analysis	Frequency	Percent
Strongly agree	8	23.5
Agree	9	26.5
Undecided	8	23.5
Disagree	9	26.5
Total	34	100

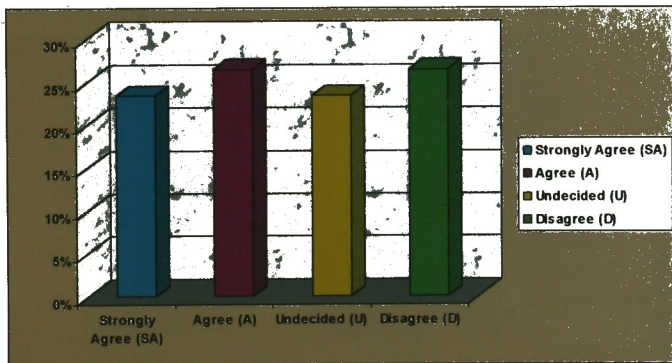


**Fig. 5.13 Whether Preferential Procurement assist in the activation of domestic competition amongst SMME's within the Molopo region by creating market niches in which they grow.**

Mixed reactions were expressed by the SMME sector within the Molopo Region on this statement. According to Table 5.13, at least 23.5% of the respondents strongly agreed or were undecided on whether preferential procurement assist in the activation of domestic competition amongst SMMEs' within the Molopo Region, by creating market niches. Similarly, 26.5% agreed whilst 26.5% disagreed on whether preferential procurement assist in the activation of domestic competition amongst SMMEs' within the Molopo Region, by creating market niches in which they grow.

**TABLE 5.13 WHETHER PREFERENTIAL PROCUREMENT ASSISTS IN THE ACTIVATION OF DOMESTIC COMPETITION AMONGST SMMES' WITHIN THE MOLOPO REGION BY CREATING MARKET NICHES IN WHICH THEY GROW**

<b>Analysis</b>	<b>Frequency</b>	<b>Percent</b>
Strongly agree	8	23.5
Agree	9	26.5
Undecided	8	23.5
Disagree	9	26.5
<b>Total</b>	<b>34</b>	<b>100</b>

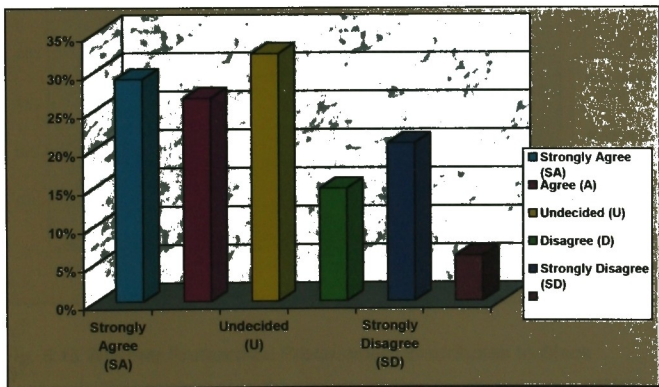


**Fig. 5.13 Whether Preferential Procurement assist in the activation of domestic competition amongst SMME's within the Molopo region by creating market niches in which they grow.**

Mixed reactions were expressed by the SMME sector within the Molopo Region on this statement. According to Table 5.13, at least 23.5% of the respondents strongly agreed or were undecided on whether preferential procurement assist in the activation of domestic competition amongst SMMES' within the Molopo Region, by creating market niches. Similarly, 26.5% agreed whilst 26.5% disagreed on whether preferential procurement assist in the activation of domestic competition amongst SMMES' within the Molopo Region, by creating market niches in which they grow.

**TABLE 5.14 WHETHER PREFERENTIAL PROCUREMENT ADDRESSES THE INEQUALITIES INHERITED FROM THE APARTHEID ERA IN TERMS OF ECONOMIC OWNERSHIP AND CAREER OPPORTUNITIES FOR BLACK EMPLOYEES WITHIN THE MOLOPO REGION.**

Analysis	Frequency	Percent
Strongly agree	9	26.5
Agree	11	32.3
Undecided	5	14.7
Disagree	7	20.6
Strongly Disagree	2	5.9
Total	34	100

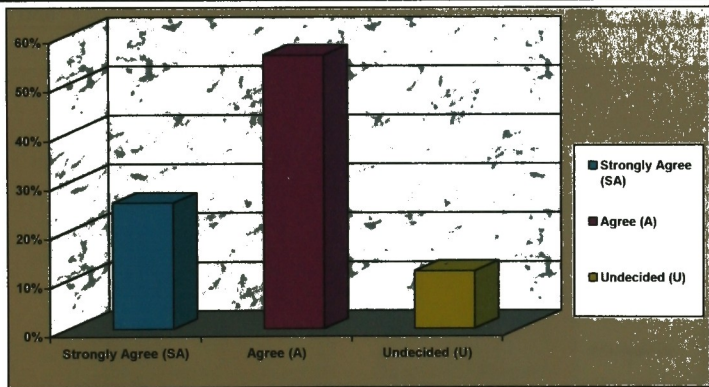


**Fig. 5.14 Whether Preferential Procurement addresses the inequalities inherited from the apartheid era in terms of economic ownership and career opportunities for Black employees in the Molopo region**

According to Table 5.14, 32.3% of respondents from the SMME sector agree that procurement addresses the inequalities inherited from the apartheid era in terms of economic ownership and career opportunities for Black employees, whilst 20.6% of SMMEs' disagree with the above statement. At least 5.9% of respondents from the SMME sector strongly disagree which is in agreement with the opinion of the Management of the Department of Finance.

**TABLE 5.15 WHETHER PREFERENTIAL PROCUREMENT CONTRIBUTES TO BLACK ECONOMIC EMPOWERMENT IN THE MOLOPO REGION BY EMPOWERING SMME'S TO INITIATE, OWN AND CONTROL SUCH ENTERPRISES.**

Analysis	Frequency	Percent
Strongly agree	11	32.3
Agree	19	55.9
Undecided	4	11.8
Total	34	100

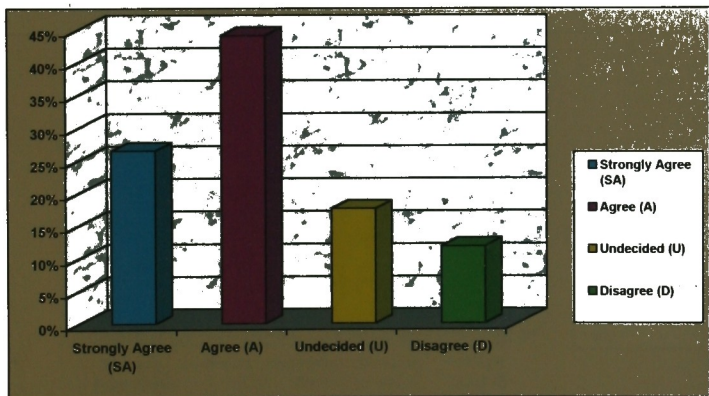


**Fig. 5.15 Whether Preferential Procurement contributes to Black Economic Empowerment in the Molopo region by empowering SMME's to initiate, own and control such enterprises.**

At least 55.9% of respondents from the SMME sector within the Molopo Region agree that preferential procurement contributes to Black Economic Empowerment by empowering SMME's to initiate, own and control such enterprises. This response agrees very favourably with the response received from the management of the Department of Finance. According to Table 5.15, 32.3% of the respondents from the SMME sector strongly agree that preferential procurement contributes to Black Economic Empowerment, which also emphasises the response received from the management of the Department of Finance.

**TABLE 5.16 WHETHER PREFERENTIAL PROCUREMENT POSITIVELY IMPACTS ON THE EMPOWERMENT OF WOMEN WITHIN THE SMME SECTOR IN THE MOLOPO REGION.**

Analysis	Frequency	Percent
Strongly agree	9	26.5
Agree	15	44.1
Undecided	6	17.6
Disagree	4	11.8
Total	34	100

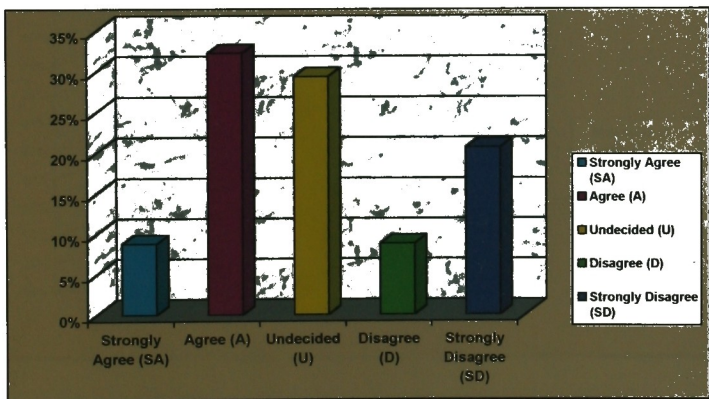


**Fig. 5.16 Whether Preferential Procurement positively impacts on the empowerment of women within the SMME sector in the Molopo region.**

According to Table 5.16, 44.1% of respondents from the SMME sector agree that preferential procurement positively impacts on the empowerment of women in the Molopo Region. This response compares very favourably (46.7%) with the response received from the management of the Department of Finance. At least 11.8% disagree with the above statement, whilst 26.5% strongly agree.

**TABLE 5.17 WHETHER PREFERENTIAL PROCUREMENT ENSURES THE TRANSPARENCY OF PUBLIC PROCUREMENT TRANSACTIONS BETWEEN GOVERNMENT AND SMMES' IN THE MOLOPO REGION.**

Analysis	Frequency	Percent
Strongly agree	3	8.8
Agree	11	32.3
Undecided	10	29.4
Disagree	3	8.8
Strongly Disagree	7	20.7
Total	34	100

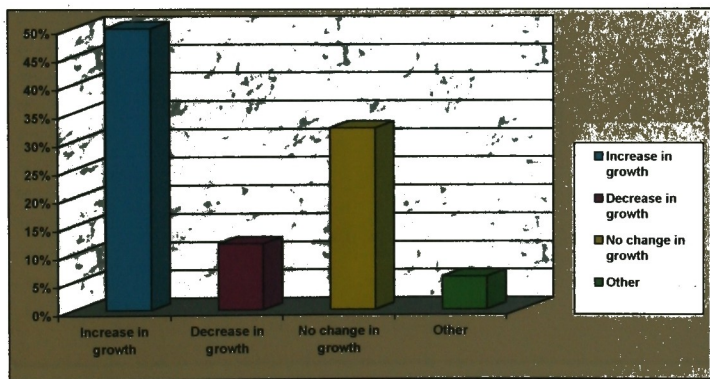


**Fig. 5.17 Whether Preferential Procurement ensures the transparency of public procurement transactions between Government and SMME's in the Molopo region.**

According to Table 5.17, mixed responses were received from respondents within the SMME sector on whether preferential procurement ensures the transparency of public procurement transactions between government and SMMEs' in the Molopo Region. Although 32.3% agreed with the above statement, 29.4% were undecided. Similarly, 8.8% of respondents from the SMME sector strongly agreed on the above statement, whilst 8.8% also disagreed.

**TABLE 5.18 WHETHER PREFERENTIAL PROCUREMENT INFLUENCES THE GROWTH OF THE SMME SECTOR IN THE MOLOPO REGION.**

Analysis	Frequency	Percent
Increase in growth	17	50
Decrease in growth	4	11.8
No change in growth	11	32.3
Other	2	5.9
Total	34	100

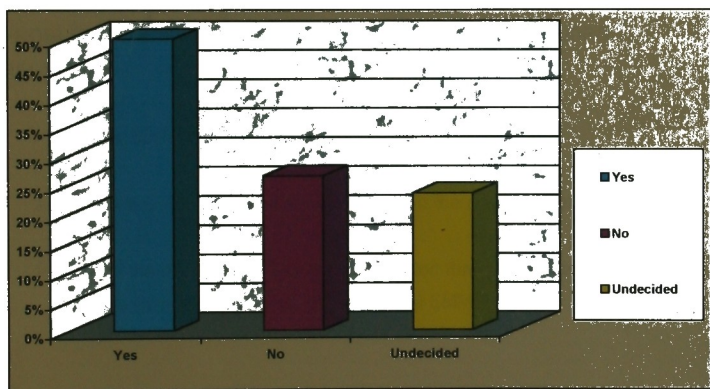


**Fig. 5.18 Whether Preferential Procurement influences the growth of the SMME sector in the Molopo region.**

According to Table 5.18, 50% of the SMME sector is of the opinion that preferential procurement leads to an increase in growth in the Molopo Region. According to 32.3% of the respondents, preferential procurement has not caused any change in the growth rate of the SMME sector in the Molopo Region.

**TABLE 5.19 WHETHER PREFERENTIAL PROCUREMENT HAS ENCOURAGED SMMEs' TO EMPLOY NEW TECHNOLOGIES TO ENSURE COMPETITIVE ADVANTAGE.**

<b>Analysis</b>	<b>Frequency</b>	<b>Percent</b>
Yes	17	50
No	9	26.5
Undecided	8	23.5
<b>Total</b>	<b>34</b>	<b>100</b>



**Fig. 5.19 Whether Preferential Procurement has encouraged SMME's to employ new technologies to ensure competitive advantage.**

According to the response received from the SMME sector, 50% of the respondents are of the opinion that preferential procurement encourages SMMEs' to employ new technologies such as financial management tools or computerised order systems to ensure competitive advantage. By contrast, according to Table 5.19, 50% of SMMEs' responded in the negative or were undecided as to whether preferential procurement encourages SMMEs' to employ new technologies to ensure competitive advantage.

## **RESPONSES FROM INTERVIEWS CONDUCTED**

A total of five personal interviews were conducted amongst SMMEs' within the Molopo Region. The initial question asked were open-ended, followed by structured questions based on those asked on the SMME questionnaire.

### **IN YOUR OPINION, DOES PREFERENTIAL PROCUREMENT ASSIST YOU IN GROWING YOUR BUSINESS AND THEREFORE ADDRESSING THE PROBLEMS OF HIGH UNEMPLOYMENT LEVELS IN THE MOLOPO REGION?**

- At least 60% agree with the above statement.
- 20% of the interviewees did not agree with the above statement.
- 20% of the interviewees were of the opinion that preferential procurement assists certain sectors of the SMMEs' only.

### **PREFERENTIAL PROCUREMENT ASSISTS IN THE ACTIVATION OF DOMESTIC COMPETITION AMONGST SMMEs' WITHIN THE MOLOPO REGION BY CREATING MARKET NICHES IN WHICH THEY GROW.**

- At least 40% agree with the above statement.
- 50% of the interviewees strongly disagreed with the above statement.
- 10% were undecided.

**IN THE MOLOPO REGION, PREFERENTIAL PROCUREMENT ADDRESSES THE INEQUALITIES INHERITED FROM THE APARTHEID ERA IN TERMS OF ECONOMIC OWNERSHIP AND CAREER OPPORTUNITIES FOR BLACK EMPLOYEES.**

- At least 40% agree with the above statement
- 20% of the interviewees strongly disagreed with this statement.
- 40% of the interviewees disagreed with the above statement with comments such as "the preferential procurement policy is apartheid in the reverse", which as lent itself to fronting.

**PREFERENTIAL PROCUREMENT CONTRIBUTES TO BLACK ECONOMIC EMPOWERMENT IN THE MOLOPO REGION BY EMPOWERING SMMEs' TO INITIATE, OWN AND CONTROL SUCH ENTERPRISES**

- At least 60% agree with the above statement.
- 20% of those interviewed strongly agreed.
- 20% disagreed with this statement stating that limited financial resources are an impediment to own and control such enterprises.

**PREFERENTIAL PROCUREMENT POSITIVELY IMPACTS ON THE EMPOWERMENT OF WOMEN WITHIN THE SMME SECTOR IN THE MOLOPO REGION**

- At least 40% agree with the above statement
- 60% of interviewees disagreed with this statement as they felt that it limited empowerment to the catering industry only.

**PREFERENTIAL PROCUREMENT ENSURES THE TRANSPARENCY OF PUBLIC PROCUREMENT TRANSACTIONS BETWEEN GOVERNMENT AND SMMES' IN THE MOLOPO REGION.**

- 60% of interviewees disagreed with this statement as they felt that some staff within government lacked loyalty and divulged information to prospective tenderers.
- 20% of the interviewees strongly agreed with the above statement.
- The balance of the interviewees was undecided on the above statement.

**IN YOUR OPINION, HOW DOES PREFERENTIAL PROCUREMENT INFLUENCE THE GROWTH OF THE SMME SECTOR IN THE MOLOPO REGION?**

- At least 60% of interviewees agreed with the above statement
- According to 20% of the interviewees, preferential procurement has not caused any change in the growth rate of the SMME sector.
- 20% of the interviewees are of the opinion that it has caused a decrease in growth within the Molopo Region.

**IN YOUR OPINION, HAS PREFERENTIAL PROCUREMENT ENCOURAGED SMMES' TO EMPLOY NEW TECHNOLOGIES TO ENSURE COMPETITIVE ADVANTAGE?**

- 60% of the interviewees were of the opinion that preferential procurement encouraged SMMES' to employ new technologies,

particularly if such enterprises were in the information technology industry.

- 40% of the interviewees were undecided.

## **5.4 CONCLUSION**

This study provided a statistical picture of the data obtained from the research process. The data obtained from the questionnaires were summarised using tables and graphs. Tables and graphs were also accompanied by a brief description of the data. As a result of time constraint and the nature of the business, a limited number of interviews were held with owners of SMMEs'.

The next chapter will focus on the recommendations and conclusions of the research study.

## CHAPTER 6

### DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

#### 6.1 INTRODUCTION

It is a norm in most countries to stimulate the small business sector in an attempt to combat unemployment and enhance development of its people and the economy. South Africa is no exception to this practice. There is no doubt at this stage that small and medium sized businesses are facing problems as discovered by previous researchers. These problems need to be addressed as South Africa has become part of the global market. There is absolutely no way that South Africa can avoid the global competition. Sufficient evidence exists that the international community has started to enter our markets, which includes the small, medium and micro enterprise (SMME) sector and are trying to find a niche in our market. Although this may be detrimental to the SMME sector, it is only policies such as preferential procurement that can help to boost the local economy and make the SMME sector more competitive, facilitate job creation and address the inequalities of the past.

The White Paper on National Strategy (1995), for the development of trade and industry aims to develop and provide support to SMMEs' as part of a South African government programme for economic development. In this study, the outcomes of the study are fully discussed, conclusions made, as well as recommendations to salient features of this research study are made. The discussion takes the format to a somewhat similar pattern to the way in which some questions were presented in the previous chapter.

## 6.2 DISCUSSIONS

As indicated previously, the results were obtained from two different sets of questionnaires. One set of questionnaires was prepared specifically for the middle and senior management of the Department of Finance, whilst the other questionnaires was specifically designed for SMMEs' within the Molopo Region of the North West Province. A set of questions, although in some ways were similar are different for each target group. The close-ended questions are formally structured with a set of multiple choice answers and guidelines on the procedures to follow (eg. ranking). Some of the questions have only two possibilities such as yes or no. Some of the questions have additional possibilities to increase the flexibility of the answer. Responses from all the completed questionnaires were expressed as a percentage

The population of the middle and senior management of the Department of Finance is forty-five. Questionnaires were distributed to twenty-eight members of management of which fifteen responded, representing a fifty-four percent response. As a result of work pressure, some members of management were unable to submit their questionnaires timeously.

The second set of questionnaires were developed and distributed to forty respondents across a wide spectrum of SMMEs' covering agriculture, construction and maintenance, financial and business services, manufacturing, retail and wholesale and transport. Thirty-four enterprises completed the questionnaires, representing a eighty-five percent rate of response. As a result of time constraints, personal interviews were held with five prominent businessmen in the SMME sector within the Molopo Region.

In order to enhance the discussion derived from the results obtained it is important to refer to the primary and secondary problem of the research study and the relevant questions posed earlier on in the study.

### **6.3 ANSWERING THE PRIMARY AND SECONDARY RESEARCH PROBLEMS**

The primary problem was stated as whether preferential procurement assists SMMEs' in creating new markets and promoting sustainability in order to address the socio-economic inequalities of the past.

According to Tables 5.4 and 5.14, 60% of the respondents at management level of the Department of Finance and 32.3% of the respondents from the SMME sector within the Molopo Region agree that preferential procurement addresses the inequalities inherited from the apartheid era in terms of economic ownership. At least 5.9% of respondents from the SMME sector strongly disagree, which is in agreement with the opinion of the management of the Department of Finance. At least 40% of the responses elicited from personal interviews are of the opinion that preferential procurement addresses the inequalities inherited from the apartheid era. 60% of the interviewees disagreed with the fact that preferential procurement addresses the inequalities inherited from the apartheid era, but went on further to state that "the preferential procurement policy is apartheid in reverse" which has lent itself to fronting. The responses received have partially addressed the primary problem of the research.

In order to address the socio-economic inequalities of the past, it is important to ensure that transparency of public procurement transactions exist between government and the SMME sector within the Molopo Region. According to Table 5.7, although 60% of the management of the Department of Finance agree that transparency of public procurement exists between government and the SMME sector, mixed responses were received from the SMME sector. Findings according to Table 5.17 reveal that 32.3% of SMMEs' within the Molopo Region agree that preferential procurement ensures the transparency of public procurement transactions between government and SMMEs', whilst 29.4% of SMMEs' were undecided.. Similarly, 8.8% of respondents from the SMME sector strongly agreed with this statement, whilst

8.8% also disagreed. According to responses received from interviews, 60% of interviewees disagreed that transparency of public procurement transactions exists between government and the SMME sector within the Molopo Region. This difference of opinion would warrant further investigation as to further causes and a possible solution.

Likewise, the secondary problem was stated as whether procurement amongst SMMEs' has an effect on the entrepreneurial culture, job creation and empowerment of the historically disadvantaged sector, thereby ensuring the sustainability of SMMEs'. Responses received according to Tables 5.2 and 5.12 indicate that 66.7% of respondents from the management of the Department of Finance and 41.1% of respondents from the SMME sector are of the opinion that preferential procurement assists in addressing the problem of high unemployment. At least 60% of the responses received from interviews are also in agreement that preferential procurement has led to more job creation.

#### **6.4 ANSWERING THE RESEARCH QUESTIONS**

The answering of research questions played a very significant role in enabling the researcher to identify answers to the research problems.

- Does procurement allow SMMEs' create market niches in which they grow?
- Does preferential procurement address the inequalities of the past in terms of economic ownership?
- Does preferential procurement amongst SMMEs' address issues of economic ownership, career opportunities, Black Economic Empowerment and women empowerment?

- Does preferential procurement amongst SMMEs' play a crucial role in meeting the basic needs of the people?

From the responses received through questionnaires and interviews raised in the preceding chapters, information regarding the primary and secondary problems were obtained in order to consider the most pertinent research questions posed earlier on in the study.

One of the research questions was *"Does procurement allow SMMEs' to create market niches in which they grow?"*. According to Tables 5.3 and 5.13, 73.35% of management from the Department of Finance are in agreement that preferential procurement has led to the creation of market niches, whilst 23.5% of respondents from SMMEs' strongly agreed or were undecided on whether preferential procurement assists in the activation of domestic competition amongst SMMEs' within the Molopo Region by creating market niches in which they grow. 50% of the interviewees strongly disagreed with the statement that preferential procurement allow SMMEs' to create market niches in which they grow. It appears that the results obtained were conclusive that SMMEs' create market niches in which they grow.

Another question was, *"Does preferential procurement address the inequalities of the past in terms of economic ownership?"*. According to the results obtained in Tables 5.5 and 5.15, 55.9% of respondents from the SMME sector within the Molopo Region agree that preferential procurement contributes to Black Economic Empowerment, by empowering SMMEs' to initiate, own and control such enterprises. This response from SMMEs' agrees favourably to that of the management of the Department of Finance. According to Table 5.5, 33.3% of management and 32.3% of SMMEs' within the Molopo Region strongly agree that preferential procurement contributes to Black Economic Empowerment, by empowering SMMEs' to initiate, own and control such enterprises. From the point of view of the interviewees, 60%

agreed with this statement, whilst 20% strongly agreed. However, 20% disagreed with the above statement stating that limited financial resources are an impediment to own and control such enterprises.

In order to boost economic empowerment, competitive advantage is a necessity. According to Table 5.9, 46.7% of the management from the Department of Finance are of the opinion that preferential procurement has not encouraged SMMEs' to employ new technologies to ensure competitive advantage. On the contrary 40% of management are of the opinion that preferential procurement has encouraged SMMEs' to employ new technologies such as financial management tools or computerised order systems to ensure competitive advantage. From the point of view of the SMME sector (Table 5.19), 50% of the respondents are of the opinion that preferential procurement encourages SMMEs' to employ new technologies, whilst 50% responded negatively or were undecided. According to responses received from interviewees, 60% of the interviewees are of the opinion that preferential procurement encouraged SMMEs' to employ new technologies, particularly if such enterprises were in the information technology industry. 40% of the interviewees were undecided as to whether preferential procurement encouraged SMMEs' to employ new technologies to ensure competitive advantage.

With regards to the following question posed in chapter 3, "*Does preferential procurement amongst SMMEs' address economic ownership and women empowerment?*", the following responses were received. According to Tables 5.6 and 5.16, 44.1% of respondents from the SMME sector agree that preferential procurement positively impacts on the empowerment of women in the Molopo Region. This response compares very favourably (46.7%) with the response received from the management of the Department of Finance. Although 40% of interviewees agree that preferential procurement impacts on the empowerment of women within the SMME sector, 60% of interviewees

disagreed with this statement as they felt that it limited the empowerment to the catering industry only.

One of the questions posed was *"Does preferential procurement amongst SMMEs' play a crucial role in meeting the basic needs of the people?"*

Responses received according to Tables 5.2 and 5.12 indicate that 66.7% of respondents from the management of the Department of Finance and 41.1% of respondents from the SMME sector are of the opinion that preferential procurement assists in addressing the problem of high unemployment. At least 60% of the responses received from interviewees are also in agreement that preferential procurement has led to more job creation. Employment is one of the basic needs of people. From the results it would appear that the basic need of employment is being met as a result of preferential procurement. However, it should be noted that for the basic needs to be fully justified, inequalities of the past also need to be addressed. According to Table 5.14, 32.3% of respondents from the SMME sector within the Molopo Region agree that preferential procurement addresses the inequalities inherited from the apartheid era in terms of economic ownership and career opportunities for Black people, whilst 40% of interviewees disagreed with the statement that preferential procurement addresses the inequalities inherited from the apartheid era. As a result of differences of opinion, further research may be necessary for future clarification.

## **6.5 IMPLICATION OF RESULTS**

At present Small, Medium and Micro Enterprises face many challenges within the Molopo Region of the North West Province. SMMEs' face challenges both locally and on the world market. SMMEs' are obliged to face critical issues of how to create and maintain a sustainable competitive advantage. As a result of the global nature of business, SMMEs' are not immune from the impact of global competition. Research findings indicate that the preferential procurement policy framework favours certain sectors of the economy only.

There is still a feeling amongst some enterprises within the SMME sector that the preferential procurement policy is apartheid in reverse and has lent itself to fronting. The growth factor of SMMEs' appears to be a hindrance as financial resources are an impediment to own and control enterprises in the SMME sector. The unavailability of an up to date database or the integration of databases within the provincial government is essential for monitoring and evaluating the effectiveness and or efficiency of SMMEs'.

The analysis of the results suggests that transparency in public procurement is questionable. The general feeling expressed is that staff within government lacked loyalty and divulged information to potential tenderers.

## **6.6 RECOMMENDATIONS**

In order to measure the impact of procurement on SMMEs' within the Molopo Region, the following recommendations are deemed necessary:

- It is imperative for provincial departments to maintain an up to date and integrated database for monitoring and evaluation purposes.
- It is necessary for the Provincial Tender Board and Departmental Procurement Committees to pre-determine and disclose in advance the awards criteria in preferential procurement.
- The above Board or Departmental procurement Committees should always ensure that rules are followed in practice to avoid any form of fronting.
- The application of competitive and transparent methods of procurement needs to be broadened.

- Further investigation is necessary on Black individuals fronting for White establishments ensuring fair play for all relevant stakeholders.
- The necessary legislation needs to be implemented to penalise Black companies who audition for White counterparts to obtain government contracts and subsequently sell them at a profit.
- As a result of South Africa's socio-economic past it is imperative for Black people to be afforded educational opportunities for acquiring technical and entrepreneurial skills, thereby empowering the historically disadvantaged sector of the economy.

In terms of the above recommendations, it does not imply that favourable policies should focus on Black owned or controlled enterprises. Policy differentiation should also include affirmative elements to empower the previously disadvantaged, ensure sustainability of SMMEs' in the face of adverse local and global competition. Government must not lose sight of the fact that within the context of employment and poverty challenges facing South Africans, the challenges are mostly with the transfer of economic power to the historically disadvantaged individuals of South Africa.

## **6.7 CONCLUSION**

The primary focus of this research is the effect of preferential procurement on Small, Medium and Micro-sized enterprises, within the Molopo Region of the North West Province. The development and promotion of SMMEs' is an important objective of our young democracy. One of the biggest challenges facing South Africa is unemployment and literacy level of the historically disadvantaged individuals. There is a need for Provincial Departments to work together to ensure that people are empowered and SMMEs' provide the necessary employment opportunities to address the socio-economic

**imbalances of the past. SMMEs' have the potential to accelerate employment levels, but at present can only achieve desired levels of employment through state intervention.**

**In order to achieve an effective and efficient business environment, a well - strategised initiative involving the public and private sector is necessary, with greater emphasis on education and training. In most countries, including South Africa, substantial public funds are channelled into initiatives from SMMEs' to promote entrepreneurship and ensure sustainability through preferential procurement policies and incentives.**

**The economy within the Molopo Region has the potential to provide employment and empower the historically disadvantaged. If the recommendations made in this research study are exploited, an integrated and sustainable economy can be re-fashioned within the Molopo Region, spilling into other regions of the North West Province.**

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**Dear Respondent**

I am conducting research on the effect of Preferential Procurement on SMME's within the Molopo Region of the North-West Province in fulfilment of the requirements for the Masters degree in Business Administration (MBA).

By answering all questions truthfully, the validity of the results will be assured.

You are not required to give your name or personal details, and the results of the questionnaires will be analysed in such a way so as to protect the identity of all respondents.

There are no correct or incorrect answers, and your opinions are highly appreciated.

Thank you for your valuable time and co-operation in completing the questionnaire.

Kindly email your response on or before Monday 09 February 04.

**M. Udayan**

05 February 04

**OFFICE USE  
QUESTIONNAIRE 1 - MANAGEMENT**

**NO:**

**SECTION A: BIOGRAPHICAL DATA**

Please place an "x" in the appropriate block.

**1. OCCUPATION/ POSITION**

1.1 Superintendent General	
1.2 Deputy Director General	
1.3 Chief Director	
1.4 Director	
1.5 Deputy Director	

**2. DIVISION**

2.1 Directorate	
2.2 Sub Directorate	
2.3 Other	

**SECTION B: SURVEY QUESTIONS**

**3.1 In your opinion, do SMME's assist in addressing the problems of high unemployment levels in the Molopo Region because of the influence of preferential procurement on the growth of this sector?**

3.1.1 Yes	
3.1.2 No	
3.1.3 Undecided	

**3.2 Please motivate your answer.**

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**4. Please rate the following statements according to the following scale:**

- 1 – Strongly Agree**
- 2 – Agree**
- 3 – Undecided**
- 4 – Disagree**
- 5 – Strongly Disagree**

<b>STATEMENT</b>	<b>SA</b>	<b>A</b>	<b>U</b>	<b>D</b>	<b>SD</b>
4.1 Preferential Procurement assists in the activation of domestic competition amongst SMME's within the Molopo Region by creating market niches in which they grow.	1	2	3	4	5
4.2 In the Molopo Region, Preferential Procurement addresses the inequalities inherited from the apartheid era in terms of economic ownership and career opportunities for black employees.	1	2	3	4	5
4.3 Preferential Procurement contributes to Black Economic Empowerment in the Molopo Region by empowering SMME's to initiate, own and control such enterprises.	1	2	3	4	5
4.4 Preferential Procurement positively impacts on the empowerment of women within the SMME sector in the Molopo Region.	1	2	3	4	5
4.5 Preferential Procurement ensures the transparency of public procurement transactions between government and SMME's in the Molopo Region.	1	2	3	4	5

**5. Public sector procurement amongst the SMME sector in the Molopo Region achieves the following: (Please tick as many as apply)**

5.1 Stimulates economic activity, particularly to include the poor.	
5.2 Improves the competitiveness of the industry sector.	
5.3 Remedies regional disparities.	
5.4 Promotes socio-economic objectives, such as the creation of jobs, fair labour conditions, the use of local resources, equal opportunities for women and the disabled.	
5.5 Transparency	

- 6. In your opinion, which of the following contribute to SMME's success in gaining a tender or order? Please tick as many as apply.**

6.1 Low Price	
6.2 Previous experience	
6.3 Being from the historically disadvantaged sector	
6.4 Quality of the product/ service	
6.5 Being a woman	
6.6 Other (specify).....	

- 7. In your opinion, which of the following makes SMME's unsuccessful in gaining and order/ tender? Please tick as many as apply.**

7.1 No track record	
7.2 Insufficient Financial Resources	
7.3 Being from the historically advantaged sector	
7.4 High prices	
7.5 Poor quality of the product/ service	
7.6 Other (specify).....	

- 8. In your opinion, how does Preferential Procurement influence the growth of the SMME sector in the Molopo Region?**

8.1 Increase in growth	
8.2 Decrease in growth	
8.3 No change in growth	
8.4 Other (specify).....	

- 9.1 In your opinion, has Preferential Procurement encouraged SMME's to employ new technologies (such as financial management tools or computerised order systems) to ensure competitive advantage?**

9.1 Yes	
9.2 No	
9.3 Undecided	

**9.2 Please motivate your answer in 9.1 above**

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**10. In which other ways do you think that Preferential Procurement impacts on SMME's within the Molopo Region of the North West Province?**

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**Dear Respondent**

I am conducting research on the effect of Preferential Procurement on SMME's within the Molopo Region of the North-West Province in fulfilment of the requirements for the Masters degree in Business Administration (MBA).

By answering all questions truthfully, you will be assisting in ensuring the accuracy of this research.

You are not required to give your name or personal details, and the results of the questionnaires will be analysed in such a way as to protect the identity of all respondents.

There are no correct or incorrect answers, and your opinions are highly appreciated.

Thank you for your valuable time and co-operation in completing the questionnaire.

**M. Udayan**

05 February 04

**OFFICE USE**  
**QUESTIONNAIRE 2 – SMME'S**

**NO:**

**SECTION A: BIOGRAPHICAL DATA**

**Please place an "x" in the appropriate block.**

**1. TYPE OF SMME**

1.1 Agriculture	
1.2 Community, Social & Personal Services	
1.3 Construction & Maintenance	
1.4 Finance & Business Services	
1.5 Manufacturing	
1.6 Motor	
1.7 Retail & Wholesale	
1.8 Transport	
1.9 Other	

**2. PERIOD OF OPERATION**

2.1 0 – 5 Years	
2.2 6 – 10 Years	
2.3 Above 10 Years	

**SECTION B: SURVEY QUESTIONS**

**3.1 In your opinion, does Preferential Procurement assist you in growing your business and therefore addressing the problems of high unemployment levels in the Molopo Region?**

3.1.1 Yes	
3.1.2 No	
3.1.3 Undecided	

**3.2 Please motivate your answer.**

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**4. Please rate the following statements according to the following scale:**

- 1 – Strongly Agree**
- 2 – Agree**
- 3 – Undecided**
- 4 – Disagree**
- 5 – Strongly Disagree**

STATEMENT	SA	A	U	D	SD
4.1 Preferential Procurement assists in the activation of domestic competition amongst SMME's within the Molopo Region by creating market niches in which they grow.	1	2	3	4	5
4.2 In the Molopo Region, Preferential Procurement addresses the inequalities inherited from the apartheid era in terms of economic ownership and career opportunities for black employees.	1	2	3	4	5
4.3 Preferential Procurement contributes to Black Economic Empowerment in the Molopo Region by empowering SMME's to initiate, own and control such enterprises.	1	2	3	4	5
4.4 Preferential Procurement positively impacts on the empowerment of women within the SMME sector in the Molopo Region.	1	2	3	4	5
4.5 Preferential Procurement ensures the transparency of public procurement transactions between government and SMME's in the Molopo Region.	1	2	3	4	5

**5. Public sector procurement amongst the SMME sector in the Molopo Region achieves the following: (Please tick as many as apply)**

5.1 Stimulates economic activity, particularly to include the poor.	
5.2 Improves the competitiveness of the industry sector.	
5.3 Remedies regional disparities.	
5.4 Promotes socio-economic objectives, such as the creation of jobs, fair labour conditions, the use of local resources, equal opportunities for women and the disabled.	
5.5 Promotes transparency	

6. In your opinion, which of the following contribute to SMME's success in gaining a tender or order? Please tick as many as apply.

6.1 Low Price	
6.2 Previous experience	
6.3 Being from the historically disadvantaged sector	
6.4 Quality of the product/ service	
6.5 Being a woman	
6.6 Other (specify).....	

7. In your opinion, which of the following makes SMME's unsuccessful in gaining and order/ tender? Please tick as many as apply.

7.1 No track record	
7.2 Insufficient Financial Resources	
7.3 Being from the historically advantaged sector	
7.4 High prices	
7.5 Poor quality of the product/ service	
7.6 Other (specify).....	

8. In your opinion, how does Preferential Procurement influence the growth of the SMME sector in the Molopo Region?

8.1 Increase in growth	
8.2 Decrease in growth	
8.3 No change in growth	
8.4 Other (specify).....	

- 9.1 In your opinion, has Preferential Procurement encouraged SMME's to employ new technologies (such as financial management tools or computerised order systems) to ensure competitive advantage?

9.1 Yes	
9.2 No	
9.3 Undecided	

**9.2 Please motivate your answer in 9.1 above**

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**10. In which other ways do you think Preferential Procurement impacts on SMME's within the Molopo Region of the North West Province?**

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