

**EXPLORING 'COOPERATIVE PUBLIC PROCUREMENT' FOR
ORGANS OF STATE OPERATING WITHIN THE RUSTENBURG
LOCAL MUNICIPALITY, NORTH WEST PROVINCE, SOUTH
AFRICA**



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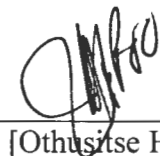
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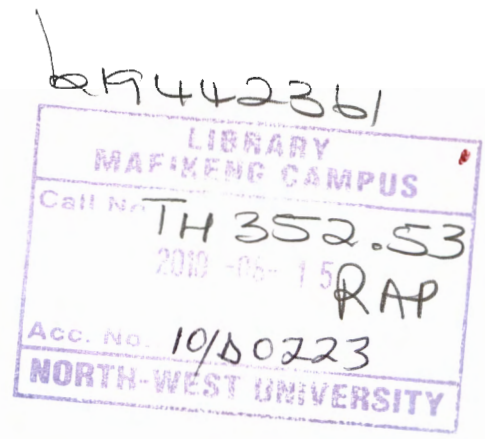
DECLARATION

“I solemnly declare that: EXPLORING ‘COOPERATIVE PUBLIC PROCUREMENT’ FOR ORGANS OF STATE OPERATING WITHIN THE RUSTENBURG LOCAL MUNICIPALITY, NORTH WEST PROVINCE, SOUTH AFRICA is my own work. That all sources used or quoted have been indicated and acknowledged by means of complete references, and that this dissertation was not previously submitted by me or anybody for a degree at another institution”

Signed: _____



[Othusitse Habakkuk Rapoo]



DEDICATION

This research is dedicated to my parents, Samasama Boikie Christopher and Makgadi Lettah Rapoo, who dedicated their lives to my wellbeing and education. To my brother, Kabelo, my sisters, Lerato, Mmakeng and Lebogang, I cherish nothing more than family. I thank you all for your unwavering support. Remember always that *'ka Lerato la Mmakeng le Thusitse Kabelo, re Lebogeng'*.

With this work, I wish to inspire and challenge my children, the tough and bright Naledi, the well rounded Palesa, and the beautiful one, the brave Samasama to match or break this achievement.

Nicolene, I cannot thank you enough... for the four loving hearts.

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ABSTRACT

Governments around the world spend huge portions of their budget allocations in the acquisition of supplies, services, and capital assets. Approximately thirty one (31) organs of state, representative of the three spheres of government (National, Provincial and Local), and operating within the jurisdictional area of the Rustenburg Local Municipality, North West Province, South Africa, spend millions of rands on their annual procurement budgets for the acquisition of goods and services. Unfortunately, this spending has been done independently of each other in an uncoordinated manner. The uncoordinated, spontaneous manner in which these procurement budgets are spent leaves room for incoherent developmental programmes, unsupportive of the host Municipality's strategic policies. In addition, the duplication and repetition of procurement systems and processes within the locality, also leads to increased procurement transaction costs for both Government and the (private) suppliers.

This study sought to explore the possibilities for which organs of state operating in the Municipality's area of jurisdiction could purchase goods/services together under cooperative agreements. Using qualitative methods of research inquiry, the study was able to establish the general state of the 'Cooperative Public Procurement' concept within the locality. The study has further created a theoretical framework for the possible establishment of Cooperative Public Procurement systems, highlighting the need for the centralisation of a supplier/vendor database management system as a strategic, facilitation mechanism towards localised Cooperative Public Procurement.

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LIST OF ABBREVIATIONS USED IN THIS STUDY

BEE	Black Economic Employment
CPP	Cooperative Public Procurement
DEFRA	Department of Environment, Food, and Rural Affairs
GDP	Gross Domestic Product
GPG	Gauteng Provincial Government
GSSC	Gauteng Shared Services Centre
HDI	Historically Disadvantaged Individuals
IDP	Intergrated Development Programme
IGRA	Intergovernmental Relations Act
LED	Local Economic Development
MFMA	Public Finance Management Act 56 of 2003
MSA	Municipal Systems Act 44 of 2003
NAEB	National Association of Educational Buyers
OECD	Organisation for Economic Co-operation and Development
PFMA	Public Finance Management Act 1 of 1999
PPPFA	Preferential Procurement Policy Framework Act 5 of 2000
PuP	Public-Public Partnerships
UK	United Kingdom
USA	United States of America
RLM	Rustenburg Local Municipality
SAACE	South African Association of Consulting Engineers
SCM	Supply Chain Management
SMME	Small, Medium and Micro Enterprises

CHAPTER 1

ORIENTATION

1.1 Introduction

Governments spend a huge portion of their national budget allocation in the acquisition of supplies, services, and capital assets. The huge procurement budget makes public procurement one of the most important aspects of public administration. How the procurement budget is spent, is an interesting subject for academic discourse and a subject of this study.

Being the biggest customer of economic and social goods and services, governments can leverage on their purchasing power to influence and regulate the behaviour of private companies, in pursuit of broader government objectives, stimulating innovation in supply markets, supporting environmental or social objectives, and supporting domestic markets (McCrudden, 2004).

In their procurement of goods and services, both for internal consumption and for external service provision, governments may employ either their own internal functions/systems or they may employ external service providers. However, given the scope of public procurement, institutional and economic costs carried in procurement systems and processes, may be quite huge. And with increasing costs perhaps due to increasing public demands for service provision, governments are challenged to find new strategic means through which procurement costs could be minimised, enabling governments to realise their responsibilities; to be more accountable; and to realise their developmental role in society.

Within the intergovernmental relations (IGR) context, Public-Public Partnerships (PuPs) provide a strategic option with which governments could procure their goods and

services. To that effect, organs of state in any sphere of government can enter into partnerships, into what is commonly referred to as cooperative public procurement (CPP). The concept has for decades been widely practiced in the United Kingdom (UK), the United States of America (USA), and other developed countries. In South Africa (SA), transversal contracts are more common arrangements between organs of state at national and provincial levels.

The South African White Paper on Municipal Service Partnerships (2004), urged municipalities to consider establishing partnerships with other municipalities, 'as this can often lead to economies of scale in purchasing and operating activities'. The White Paper contended further that operating benefits could be extended to 'sharing facilities, overheads, skills and experience'.

Given the positive motives for cooperative purchasing, it is rather surprising and unfortunate that CPP in South African local government is less practiced. In fact, it would be more appropriate to assume that the concept is not practiced at all. The logical conclusion therefore being that government procurement at local level is not being leveraged maximally as an instrument to advance sound financial viability and socio-economic empowerment.

This study sought to explore possibilities with which organs of state operating in the jurisdictional area of the Rustenburg Local Municipality (RLM) can procure goods and services through cooperative arrangements, in pursuit of economic efficiencies; public spending accountability; and (national) policy objectives. The focus of the study was on the concept of CPP, its theory, meaning, challenges and its potential benefits to the participating organs of state.

A theoretical study, through literature review, was undertaken to give a theoretical grounding of the subject. Justification in favour of CPP was subsequently distilled through the theoretical study, and for further research propositions. The exploratory

research study employed qualitative research methods to probe the status and possibilities of CPP in the locality.

1.2 Problem statement

There are approximately thirty one (31) organs of state, representative of the three spheres of government (National, Provincial and Local) operating within the jurisdictional area of the Rustenburg Local Municipality, North West Province, South Africa. Independently of each other's actions, these organs of state spend millions of rands on their annual procurement budgets for the acquisition of goods and services. The uncoordinated, spontaneous manner in which these procurement budgets are spent leaves room for incoherent developmental programmes, unsupportive of the host Municipality's strategic policies. In addition, the duplication and repetition of procurement systems and processes within the locality, also leads to increased procurement transaction costs for both Government and the (private) suppliers. The result could also be easily interpreted as wasteful administrative actions that defeat the Constitutional directives of cooperative governance, sound public financial management, and broad based socio-economic empowerment and transformation.

The challenge in combining individual procurement budgets, systems and processes, into what is referred to as CPP, does not only call for a clearer understanding of the concept, it further calls on organs of state to have the requisite will to establish institutions, structures, systems and processes, and to allocate the necessary resources for the overall facilitation and implementation of CPP.

In South Africa today, cooperative governance within the IGR context is a relatively new concept. The reason may be that municipalities in the Local sphere of government are also relatively new, given that they were only established in the year 2000. The resultant impact being that efforts to develop CPP may be dealt a blow by weak IGR systems, literally making it difficult for CPP to take off.

Some of the organs of state in the Provincial and National spheres operating in the locality have their procurement offices outside the locality, with the effect that procurement opportunities are made accessible only to those suppliers operating outside the locality, to the disadvantage of local companies.

With poor, incoherent government procurement systems at local level, host municipalities, who are the face of government accountable to local constituencies, will find public relations compromised with perhaps unjustifiable account on poor public procurement spending. The host Municipality is further likely to fail their performance assessments, particularly on their financial and local economic development scorecards.

In addressing the aforesaid challenges, the study explored possibilities for organs of state operating in the RLM jurisdictional area, to purchase goods/services together, using cooperative agreements.

1.3 Aims, Goals, Objectives and Assumptions of the Study

1.3.1 *Aims*

The aim of the study is to contribute to the body of knowledge on the concept of cooperative public procurement in South Africa; to expose the status of CPP in local government in South Africa; and to sensitize public purchasing authorities and actors on the importance and benefits of joint public purchasing.

1.3.2 *Goals*

The lessons learned and the knowledge gained on the subject will provide a foundational, facilitative framework for the establishment of cooperative public procurement systems at local government.

1.3.3 Objectives

The primary objectives of the study are:

- To gather information on the state of ‘Cooperative Public Procurement’ within the Rustenburg Local Municipality’s area of jurisdiction;
- To assess acceptance of the study phenomenon (Cooperative Public Procurement) and acceptance of the mechanisms that could be employed to facilitate the implementation of the Cooperative Public Procurement concept in the area; and
- To provide a theoretical framework for the development of a Cooperative Public Procurement model for organs of state operating within the jurisdictional area of the Rustenburg Local Municipality.

1.3.4 Assumptions

The study assumes that:

- Organs of state within RLM spends millions of rands annually in their procurement of goods and services for their own consumption;
- Organs of state within RLM do not procure goods and services in a coordinated, cooperative manner;
- Cooperative public procurement is possible on certain identified goods and services;
- Cooperative procurement leads to improved economic efficiencies and support to local socio-economic developmental agenda;
- The provisions for cooperative governance as enshrined in the Constitution of the Republic of South Africa (1996) have not been fully explored and observed;
- State departments are able to work together to advance a coherent programme for mutual benefits;
- Legislation is promotive and not prohibitive, to cooperative public procurement;

1.4 Scope of the study

The research dwells on the concept of cooperative public procurement within the broader context of intergovernmental relations in South Africa.

The study is limited to the exploration of cooperative governance amongst public entities operating within the jurisdiction of the Rustenburg Local Municipality.

1.5 Importance of the study

The research will add value for the stakeholders in that valuable information needed for a broader understanding on the state of cooperative public procurement would be compiled and made accessible.

It is expected that, the cooperative effort among public organs will in particular assist the local Municipality in furtherance of its local economic development (LED) objectives. Specifically, Small, Medium and Micro Enterprises (SMMEs) stand to benefit from the proposals and recommendations out of this study.

It is further important for local government and organs of state to look at best practice in improving local government effectiveness; increasing efficiencies in the provision of service delivery; coordinating (developmental) programmes; reducing duplication; enhancing financial viability; and providing for better coherent planning needed for a successful and competitive locality.

The research will:

- Assist the stakeholders to make informed decisions with regard to joint stakeholder resource planning;
- The Local Municipality to improve on its performance scorecard;

- Serve as a building block for further studies on the subject; and
- Lastly, and most importantly, better and improved relationships among organs of state will be forged, piloting the hegemonic manifestation of Chapter 3 of the Constitution of the Republic of South Africa (1996).

1.6 Study Environment

This section depicts the geographic location and economic dynamics of the study area, the Rustenburg Local Municipality.

1.6.1 *Geographic location*

The RLM is located in the eastern part of the North West Province, South Africa. The Municipality is one of the five municipalities within the Bojanala District Municipality in the North West Province and is divided into 36 wards, with a total population of 395 540 people (Rustenburg Local Municipality, 2006).

The Municipality is accessible from a number of major South African urban centers which include Johannesburg and Tshwane, and which are located approximately 120km south east of Rustenburg. There are other smaller centers surrounding Rustenburg, namely Madibeng, Mogale City and Zeerust. Rustenburg is linked to the above urban centers through an extensive regional road network. The most notable of these is the N4 freeway or Platinum Corridor, which links Rustenburg to Tshwane in the east and Zeerust to the west. The R24 links Rustenburg to Johannesburg in the south and the Pilanesberg to the north.

1.6.2 *Economic dynamics*

RLM is reputed to be one of South Africa's fastest growing urban areas with an annual compound economic growth rate of 6% between 1996 and 2002 (Rustenburg Local Municipality, 2006).

This significant growth has been largely attributed to the impact of the world's three largest mines in the immediate vicinity of the town, namely, Anglo Platinum, Impala Platinum and Lonmin. It is estimated that 97% of the total national production of platinum group metals occurs in Rustenburg, with the mining sector providing around 50% of all formal employment (Rustenburg Local Municipality, 2006).

1.7 Definition of concepts

This section seeks to define the major concepts of the study.

1.7.1 *Cooperative*

A cooperative (also co-operative or co-op) is defined by the International Co-operative Alliance's Statement on the Co-operative Identity as an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise and operated on co-operative principles (International Co-operative Alliance, 2006)

1.7.2 *Cooperative procurement*

Cooperative procurement is sometimes referred to as joint purchasing, collective purchasing, common procurement, etc. For the purpose of this study, 'cooperative procurement', 'joint purchasing', and 'cooperative purchasing' will be used interchangeably. As the study is concerned with procurement in the public domain, the word 'public' maybe inserted to make a clear distinction between public and private (cooperative) procurement.

Hendrick (1997) defines purchasing consortium as “two or more independent organizations that join together, either formally or informally, or through an independent third party, for the purpose of combining their individual requirements for purchased materials, services, and capital goods to leverage more value-added pricing, service, and technology from their external suppliers than can be obtained if each organization purchased goods and services alone”.

Schotanus (2007), defines (horizontal) cooperative procurement as the operational, tactical, and/or strategic cooperation between two or more organisations in one or more steps of the purchasing process by pooling and or sharing their purchasing volumes, information, and or resources in order to create symbiosis.

1.7.3 *Intergovernmental relations*

As defined in the South African Intergovernmental Relations Framework, Act 2005, (Act 13 of 2005), ‘intergovernmental relations’ means relationships that arise between different governments or between organs of state from different governments in the conduct of their affairs.

1.7.4 *Organs of state*

Section 239 of the Constitution of the Republic of South Africa (1996), defines an organ of state as:

“(a) any department of state or administration in the national, provincial or local sphere of government; or

(b) any other functionary or institution -

(i) exercising a power or performing a function in terms of the Constitution or a provincial constitution; or

(ii) exercising a public power or performing a public function in terms of any legislation, but does not include a court or a judicial officer;”

1.7.5 *Procurement*

Procurement is the process of ‘identifying what is needed; determining who is the best person or organisation to supply this need; ensuring what is needed is delivered to the right place, at the right time, for the best price; and that all of this is done in a fair and open manner’ (OECD, 2006).

1.7.6 *Public-public Partnership*

Public-public partnership (PuP) can be defined as a partnership between public sector institutions where neither partner seeks financial profit (Maré, 2003).

1.8 **Structure of the Study**

The structure of the study is as follows:

Chapter 1 – Orientation

Chapter 2 – Theoretical framework through literature review

Chapter 3 – Research methodology

Chapter 4 – Data presentation and analysis

Chapter 5 – Data Application

Chapter 6 – Conclusions and recommendations

References and additional study material is appended at the back for completion.

1.9 **Conclusion**

This chapter has provided the ontological frame of the study, describing the nature of the phenomenon to be studied, being the natural interaction and cooperative manner of mankind and organisations for a common good. The goals, objectives and aims of the study were also outlined. The scope of the study set the parameters of the study, giving us

the object of the study, assumptions of the study, and the geographic/environmental location of the object of the study.

CHAPTER 2

THEORETICAL FRAMEWORK THROUGH LITERATURE REVIEW

2.1 Introduction

The ensuing literature study is aimed at providing a clearer comprehension of the nature of cooperative purchasing. By providing information on the research previously conducted on the subject, the literature study assists in a more refined definition of the phenomenon in the concept.

Literature review is further important in that it demonstrates familiarity with a body of knowledge on cooperative purchasing; it establishes credibility of the research; it shows the path of previous research and how the current phenomenon is linked to it; it assists in the integration and summary of what is known in the study problem; and it further provides best practice lessons on the study problem and generates new ideas on the problem (Neuman, 1997).

The concept of ‘cooperative purchasing’, is itself a subset of the broader concept of ‘cooperation’. It appears, as exposed in the ensuing discussion on the two concepts, that some literature works have juxtaposed the meaning of the two concepts to mean the same.

This chapter enjoins literature on cooperation; procurement; cooperative procurement; cooperative public procurement; cooperative public procurement enabling mechanisms in South Africa; and challenges to cooperative public procurement within the intergovernmental relations context in South Africa.

2.2 Cooperation

Human beings are by their very nature communal species. For their safety and sustainability, a communal society requires natural/common laws to regulate their activities, laws which are also necessary to promote harmonious relations needed between them. In a broad sense, human beings have been practicing 'cooperation' since their existence.

There is extensive literature, both in prescriptive material and academic research, on the study of 'cooperation' as a business concept in both the private sector (Harrigan, 1985) and the public sector (Leach, 2006). According to Hoffmann and Schlosser (2001), current theories for interorganisational relationships refer to 'transaction cost economics' and 'partnership and alliance' theory. Respectively, the two theories lay foundation for a distinction to be made between 'intra' and 'inter' firm co-operation, with the latter type of cooperation giving expression to both theories.

It is apparent that, as in the case of intra cooperative arrangement, the advent of 'specialisation' to increase efficiencies and production within corporate entities, firms created a need for new management systems in organisational structures that became fragmented as they got divided into specialized functional areas. The challenge is created therefore, in the contradiction to integrate and coordinate that which has been disintegrated into specialized units.

With specialization came decentralization and devolution of authority to functional units. Line managers in business units were given responsibility to create value in their units that would add up to the organisational whole. The difficulty emanates from the fact that, with independent business units, inefficiencies through duplication of activities is created. According to Rozemeijer (2000), 'if no cohesion is created in a decentralised corporation, 'centrifugal forces' can start to grow', leading to a fragmented corporation in which there is no trust and a total lack of cross-unit communication. Rozemeijer (2000) found that only when this position proved to be harmful in the competitive sense, did management decide to intervene. However, management does not often know how to intervene (Wissema, 1992).

The realization of the need for an organisation to cooperate is again premised on the theory of corporate advantages emanating from synergies. Many authors have written on the concept of synergy. The table below provides a definition or description of the concept as understood by some of the authors.

Table 1: Dutch research on corporate management issues

Author	Definition/description of synergy
Ansoff (1968:72-93)	The effect that can produce a combined return on the firm's product-market posture and resources, greater than the sum of its parts.
Hayden (1986:325)	Synergy occurs when two or more businesses are combined in a company's portfolio so as to make the effect of their joint strategy more beneficial than the sum of their individual strategies.
Goold and Campbell (1998)	In business usage, synergy refers to 'the ability of two or more units to generate greater value working together than each of them could by working apart'.

Adapted from Rozemeijer (2000)

Rozemeijer (2000) asserts that 'synergy is derived from the holistic conviction that the whole is more than the sum of its parts'. And since in practice, often both parties in a synergistic relationship win with an added advantage, 'synergy' is sometimes indicated with the formula: $1 + 1 = 3$.

The concept of synergy is further related to the concept of symbiosis in biology, which indicates mutually advantageous relationships (Essig, 1999a:101). As Schotanus (2007) puts it, 'a symbiotic relationship refers to an interaction between two organisms that live in an intimate association. The 'populations' are limited to two types (the term 'host' is used for the largest organism, the smaller organism is called the symbiont, if applicable) and the results are operationalised as positive (+), negative (-) or neutral (0). The various forms of symbiosis include mutualism (+,+), commensalisms (+,0), parasitism (+,-), amensalism (0,-), and neutralism (0,0)'. In mutualism, both parties experience gains out

of cooperation. With commensalisms, one party to a cooperation gains, and the other party stays in the same position as before. A parasitic cooperation provides benefits to one party at the expense of the other. In amensalistic cooperation, one party stays in the same position as outside a cooperative relationship, while the other party loses as a result of being in the relationship. A cooperative relationship is neutral when both parties experience no gains or losses out of the relationship. The concept of inter/intra-organisational cooperation would logically conform to the first three forms of symbiosis in our analogy since at least one member of the cooperative should gain by cooperating.

There are two main dimensions of cooperation practiced between business enterprises in a cooperative: horizontal cooperation and vertical cooperation. With horizontal cooperation, two or more buying/selling organizations buy/sell jointly in concepts such as shared services centers, horizontal cooperative purchasing, and horizontal alliances, among others. In vertical cooperation, the cooperative relationship would be between a buyer and a seller, and applicable to concepts which include co-manufacturing, public-private partnerships and vertical alliances.

Further to the two abovementioned dimensions, Porter (1985) recognizes two main categories that describe synergistic interrelationships between corporates in a cooperative. The first is tangible interrelationships that arise largely from linkages in the areas of production, marketing, procurement, technology and infrastructure. And the second is the intangible interrelationships related to management skills, knowledge, or experience in implementing a particular generic strategy.

According to Ansoff (1968), the potential interrelationships can take the form of joint use of plant, common inventories, common tooling and machinery (investment synergy), product-market combinations using common distribution channels, common marketing and advertising (sales synergy), higher utilisation of facilities and personnel, spreading of overheads, advantages of common learning curves, and large-lot purchasing (operating synergy), transfer of common management skills and functional competencies to other business activities (management synergy).

In their study, Goold and Campbell (1998) found that most business synergies take one of six following forms:

1. Pooled negotiation power ('buying together'): by combining their purchases, different units can gain greater leverage over suppliers, reducing the cost or even improving the quality of the goods they buy. Companies can also gain similar benefits by negotiating jointly with other parties, such as competitors, customers, governments, universities or other non-competitors.
2. Sharing intangible resources; units can improve their results by sharing of best practice in certain business processes, or leveraging expertise in functional areas, or pooling knowledge about how to succeed in specific geographical regions. Value can also be created by simply exposing one set of people to another.
3. Shared tangible resources: business units can gain economies of scale and avoid duplicated effort when physical assets and resources are shared or by pooling investments in information and communication systems, or corporate specialists and overhead. Companies often justify acquisitions of related businesses by the synergies and cost reductions that are anticipated from the sharing of resources.
4. Vertical integration: co-ordinating the flow of products or services from one unit to another can reduce inventory, speed product development, or increase capacity utilisation. By integrating and co-ordinating the total chain from suppliers to customers (supply chain management) significant synergies can be captured.
5. Co-ordinated strategies: by reducing competition between units (e.g. by allocating markets) or co-ordinating reactions to shared competitors, customers or suppliers. Aligning the strategies of two or more business units can be an important source of synergy, but tough to achieve.
6. Combined business creation: the creation of new businesses by combining the know-how from different units, by extracting activities from different units to put into a new unit, and by internal joint ventures or alliances between units.

As shown above, cooperation between organizations has been practiced, and theory on cooperation as a concept well established. Cooperative public procurement is grounded on the broader concept of cooperation.

2.3 Procurement

Cooperative Public Procurement is a subset of the broader ‘procurement’ concept. This section seeks to outline the contextual setting of ‘procurement’ as it relates to ‘CPP’.

2.3.1 Introduction

A report commissioned by OECD (2006) has found that ‘government organizations across the world tend to spend between 8 and 25% of GDP on goods and services’. A DEFRA (2007) report also found that public procurement expenditure in the United Kingdom (UK) is approximately £150 billion. In South Africa, public sector procurement is estimated to amount to approximately 14% of gross domestic product (GDP) (Mkhize, 2004).

The procurement process in the public sector, in contrast to the practice in the private sector, is subject to many statutory and regulatory rules. It is shaped by among other things legislation, public policies, political goals, institutional objectives and expectations by the citizenry. Compared to purchasing in the private sector, and to ensure trust by the taxpayer to government, the public purchasing process has to be open for public inspection, it must be fair and without any form of favoritism or impropriety.

Public purchasing decisions are also not made on profit goals, but are driven by budgets that are also influenced by external authorities. Given this demanding environment, public purchasers have found it prudent to employ consolidation and co-operation strategies to achieve improvements in the purchasing practice.

In order to advance discussion on the cooperative public procurement concept, it is fitting also, to acknowledge its location within the broader body of knowledge on procurement.

2.3.2 History of procurement

Rozemeijer (2000) notes that the great interest on purchasing developed in the United States of America after the 1850's, in a 'period that witnessed the growth of the American railroad'. According to Rozemeijer, the importance of establishing purchasing as a separate corporate function, requiring specialised purchasing skills, was only recognised in the late 1800s. Rozemeijer notes further that 'before this period, this separation did not occur, the internal customers did their own purchasing'. Citing Farmer (1974), Rozemeijer characterises the period during which the importance of purchasing as a corporate function, that is the years between the late 1950s and the early 1970s, as a period of 'purchasing *myopia*'. And according to Henderson (1975), procurement in the mid 1960s was regarded by executive management as a '*negative function*', meaning that 'purchasing could hinder the company if not done well, but could make little positive contribution'.

Following the oil crises of 1973, management executives resumed an interest on the importance of suppliers and consistent supplies, reviving the purchasing function again as a strategic corporate function. Later, American companies were soon faced with two dilemmas in the 1980s: increased competition from the Japanese automakers and a severe economic recession. This led executive management to turn once more to the purchasing function, this time to 'secure the supply of the highest quality raw materials, components and other goods and services' (Morgan, 1983).

2.3.3 *Previous academic research*

Heberling (1993) notes that the first book which wrote exclusively on purchasing as a function was first published in 1887. The book discussed 'purchasing issues that are still critical today, like the need for technical expertise in purchasing agents, the need to

centralise the purchasing department under one individual, and the lack of attention often given to the selection of personnel to fill the position of purchasing agent' (Monczka et al, 1998). Reflecting the growth of purchasing as a function during the beginning of the twentieth century, the first non-railroad purchasing book was then published in 1905, followed by an increasing number of purchasing publications (Heberling, 1993).

Ribbers (1980) notes that until the mid 1980s, 'purchasing research concentrated primarily on the improvement of activities executed by the purchasing *department*'. And Hahn and Kaufmann (1999) concurs that 'only after business process management became a central focus in practice and theory, the focus shifted towards the purchasing *function* as management of a cross-functional chain of purchasing activities'.

Lately, research 'in the field of purchasing have examined issues related to the increased (perceived) strategic importance of the purchasing function, producing a significant shift from the '*traditional*' purchasing role (an operational stand-alone function) to what Kraljic (1983) called '*supply management*' (a more integrated and strategic function)' (Rozemeijer, 2000).

Since 1988 there has been a steady flow of ideas from academics and consultants regarding the stage-like development of purchasing toward a strategic business function (Rozemeijer, 2000). According to Monczka et al. (1998), 'the purchasing function has won a reputation over the past decade in many executive boardrooms as a powerful tool for improving profitability. This is driven by three major benefits to be achieved from a stronger focus on purchasing: (1) major area for (potential) cost savings; (2) major impact on quality ('suppliers can make or break a company'), and (3) technology development and improvement of product and process designs'.

Having looked at the brief theoretical background of both 'cooperative' and 'procurement' as mainstream areas of study, providing a broader framework for the CPP concepts, the ensuing section turns into a synthesized concept of 'cooperative procurement'.

2.4 Cooperative procurement

Cooperative procurement occurs in both private and public entities. The term cooperative procurement is itself generic and is sometimes used synonymously with terms such as cooperative purchasing, group purchasing, purchasing consortia, alliance purchasing, buying groups, cooperative buying, joint purchasing, and the list continues (Schotanus, 2005).

Walker et al. (2007) notes that many Anglo-Saxon textbooks on purchasing and supply management use the term 'purchasing consortia'. The term 'cooperatives', is used to refer to cooperation in the public sector (Kolchin, 1990), while 'consortia' is used much to refer to cooperation in the private sector (Burt et al., 2003 & Leenders et al., 2006).

This section seeks to put the study phenomenon (Cooperative Public Procurement) into perspective by providing the contextual setting on its broader concept (cooperative procurement).

2.4.1 *Introduction in historical context*

Joint actions enable members to achieve goals none can realize alone (Chisholm, 1998). Cooperative purchasing itself is as old as ancient Egypt and Babylon (Wooten, 2003). However, the concept has in the last decade become more established and practiced (Tella and Virolainen, 2005).

Encarta (1999), records that in Fenwick (UK) in 1769, a purchasing cooperative was established by the labour movement to reduce the price of living for workers through large scale buying. The first 'farmer co-op' was then established in Germany in 1864. And a few years later in 1877, another one was established in the Netherlands (Encarta, 1999). With more than 2000 universities, high schools, and hospitals as members, the US

based E&I Co-operative Service is the oldest and largest co-operative in the public sector (Essig, 1999).

Even though the concept of cooperative purchasing has gained recent popularity, academic publications dealing with the concept are still rare (Schotanus, 2005). According to Walker et al. (2007), the first academic discussions on cooperative purchasing, despite its long history, were done by Mitchell in 1927 and Gushee and Boffey in 1928. Referring to Sanders and Knapp (1979), Walker et al. (2007), notes that the first PhD thesis on cooperative purchasing was written in 1969 at the University of Denver.

Academic research on cooperative purchasing is still in its infancy, and much of the academic literature that is available is found in conference papers, mainly focusing on particular aspects of cooperative purchasing (Essig, 2000).

2.4.2 *Deciding factors in the formation of a purchasing cooperative*

Walker et al. (2007), notes that, when consideration is made to form a purchasing cooperative, decisions should be made on issues pertinent to the organization's strategic, tactical and operational objectives (Woolthuis, 1999); expected savings (Nollet and Beaulieu, 2005); and the appropriate number of members (Kivisto et al. 2003).

In detail, the formation of a cooperative looks at differences and interests in organizational 'objectives, savings, environment, trust, culture, philosophy, commitment, necessity and the power balance' (Walker et al., 2007). Nollet and Beaulieu (2005), submits further that large cooperatives may also cause suppliers to withdraw from the market or to merge with other suppliers, while new suppliers may encounter market entry barriers.

Corsten and Zagler (1999) notes also that since there are many different and at times conflicting factors between organizations contemplating a cooperative, 'the formation

and management of a cooperative has also proven to be one of the key barriers to cooperative purchasing’.

Adding to the above factors for consideration by managers on CPP, the following section looks at the advantages and disadvantages, necessary to assist managers in making decisions on whether to join purchasing cooperative or not.

2.4.3 *Advantages and disadvantages of corporative purchasing*

There will be reasons as to why public purchasers would consider (not) joining buying cooperatives. Aylesworth (2003), found that many have emphasized purchase price savings and process efficiencies as reasons for joining buying cooperatives, with the two main approaches to cooperative purchasing being joint contracts and piggy-back agreements.

In order to assist policy makers in taking decisions around whether it would be beneficial or not to enter into joint purchasing arrangements, it will be important to note several reasons advanced by organizations (not) to buy cooperatively. Schotanus (2005) presented the reasons as described in Table 2 below.

According to Vizjak (1994), the failure to realise corporate synergy stems from the inability of companies to understand the benefits of interrelationships and the way to implement them systematically. Faes and Matthyssens (1998) also found that cooperation in purchasing is often motivated by synergistic expectations of improved efficiencies and effectiveness arising through increased economies of scale and scope at corporate level. Arnold (1997), regard cooperative purchasing as a strategic task of purchasing management and that it should be firmly rooted in the purchasing processes, procedures and policies of the corporation. Monczka et al. (1998), identifies purchasing consortia as a key trend for purchasing in the next century, and forecasts a growing number of firms will become members of consortia as means to realise lower purchase costs. Essig (2000) states that co-operation in purchasing not only enables a more efficient use (economies of

scale) of the human and technical resources, but also a more effective use (economies of scope). Kauffman (1993) claims that the cooperating organisations learn from each other and gains thereby on the ‘economies of mental work’ or ‘economies of team’.

Table 2: Indicated reasons (not) to purchase cooperatively

REASONS TO PURCHASE COOPERATIVELY	REASONS NOT TO PURCHASE COOPERATIVELY
<p>Utilising economies of scale</p> <ol style="list-style-type: none"> 1. lower prices 2. lower transaction costs 3. strengthen negotiation positions 4. reduce workload 5. spread and reduce (supply) risks 6. because of budget cuts <p>Sharing information or knowledge</p> <ol style="list-style-type: none"> 7. share prices and related information 8. share experiences with suppliers <p>Improving internal processes or sharing resources</p> <ol style="list-style-type: none"> 9. learn from other agencies 10. improve suppliers collectively 11. gain access to procurement expertise 12. specialise in typical items 13. extend collaboration to other fields 14. cooperating as a means to reorganise 15. lacking own specific knowledge 	<p>Expecting costs to be high or lacking resources</p> <ol style="list-style-type: none"> 1. satisfied with current suppliers 2. expecting costs to be high 3. lacking resources 4. changing suppliers too expensive 5. we are a small player <p>Loosing flexibility or control</p> <ol style="list-style-type: none"> 6. decreased flexibility 7. lose control <p>Lacking trust, support or culture</p> <ol style="list-style-type: none"> 8. no committing organisation 9. no cultural support 10. no organisational support 11. no trust in others' competence 12. no management support 13. disclosure of sensitive information 14. antitrust (legal) issues 15. fear of parasites 16. supplier resistance <p>Unknown with cooperative purchasing concept</p> <ol style="list-style-type: none"> 17. did not have the opportunity 18. did not discuss the concept 19. concept has no priority

Adapted from Schotanus (2005)

According to Sheperd (1985), purchasing in bulk may achieve technical economies as well as pecuniary economies. Technical economies refers to improved purchasing efficiencies arising from the actual changes in the physical organisation of purchasing activities (e.g. by avoiding duplication of efforts). Pecuniary economies, on the other

hand, 'is a matter of money, not real efficiency, and occur mainly from lower input prices paid by the buying firm'.

Sheperd (1985) claims that with their might, merged firms are able to exert force on their suppliers to lower their prices on almost every input resource, with the net gains of size appearing to be more than trivial. Pecuniary economies are therefore likely to appear at corporate level, with 'large corporations able to exert bargaining power on behalf of its many business units and plants to force its suppliers to accept lower prices than any single plant or business unit could obtain' (Rozemeijer, 2000).

Arnold (1997), claims that the benefits of intra-company purchasing consortia are significant and can be realised even without higher co-ordination costs. Arnold distinguishes three potential benefits of intra-firm co-operation in purchasing:

(i) *Economies of Information*: existence of (valuable) purchasing information in only a few (or even one) (corporate) intelligence centres, and made available for all units by an advanced information system. It is expected that this sharing of purchasing information on suppliers, new technologies, market developments, internal users and historical spending behaviour, avoids redundancy and reduces transaction costs of the participating units.

(ii) *Economies of Process*: existence of state-of-the-art purchasing process knowledge in all steps of the purchasing process, in all parts of the company. This can be established by one common way of working (e.g. one line of conduct shown to suppliers), uniform purchasing procedures, sharing 'best-practices' across the corporation, and common training and education.

(iii) *Economies of Scale*: bundling demands to increase the company's buying power by standardising requirements, synchronising specifications, and also by sharing suppliers across business units.

Essig (1999b) also conducted a research on thirteen (13) German companies' cooperative arrangement. He found that the companies gained volume increases averaging between 800% and 1200% with the resultant savings of between 1% to 15% for the participating

companies. Essig (1999b) reported a correlation-coefficient of 0, 7546 between 'volume increase' and 'purchasing savings', indicating the potential value of increasing buying power. Vizjak (1994) estimated that unit cost reductions of up to 10% are achievable as a result of co-ordination of activities, exchange of information and concentration of buying power.

Based on some case observations in Europe, Matthyssens and Faes (1997a) described the usefulness of a co-ordinated purchasing approach as a strategic weapon that can be used not only to reach a stronger negotiation position by pooling the volumes purchased in the various units together, but also to prevent mutually incompatible negotiating strategies. The observation produced a summary of the top five perceived benefits of a co-ordinated purchasing approach:

Firstly, co-ordination leads to better internal exchange of information across business units and purchasing departments. Secondly, it leads to improved market negotiation strategy development. In the third place, it leads to significant cost savings. Fourthly, it creates more impact on monopolistic supply markets. Finally, it leads to an improved insight in supply market and supplier cost structures.

Given the insights presented above, purchasing synergies, and therefore the advantages of cooperative purchasing, are found in the increased 'purchasing performance (efficiencies and effectiveness) that is realised when two or more business units join their forces and/or share functional resources, information and knowledge' (Rozemeijer, 2000).

The above summary on the key factors, advantages and disadvantages, provides management with basic decision making tools on CPP. The following section looks at the types of cooperatives considered by management.

2.4.4 *Types of cooperatives*

Structural models for cooperative public purchasing include 'local network, voluntary cooperative, regional purchasing agency, member-owned service bureau and for-profit enterprise' (Aylesworth, 2003). Several papers in the purchasing and supply literature mentions different collaborative forms and/or structures (Aylesworth, 2003; Nollet and Beaulieu, 2005; Schotanus and Telgen, 2005). Schotanus (2007) identified five main purchasing group types, namely, (i) piggy-backing, (ii) third party groups, (iii) lead buying groups, (iv) project groups, and (v) program groups.

i. Piggy backing groups

Piggy backing groups are informal purchasing groups focusing on keeping the cooperations simple as possible. It involves the sharing of purchasing information and knowledge with other organisations in a large network. Most of the times it involves a large organisation which establishes a contract on its own specifications. The contract may be used by some smaller organisations under (almost) the same contract conditions.

ii. Third party groups

Third party groups mostly involve long term piggy backing made possible by public or private external parties or central authorities with devoted resources. It is a for profit or non profit organisation which may be owned by the members of the purchasing group. It focuses on achieving a large scale and carries out most of the purchasing activities by itself.

Purchasing activities are based on the expected aggregate purchasing volume and are carried out with the specific purchasing expertise of the external party. The group members do not have to have a high involvement relationship with each other. In the purchasing process, they may not have to communicate with each other, nor discuss the purchasing specifications (Aylesworth, 2003). The members only have to have a formal relationship with the hosting organisation or the third party.

iii. Lead buying groups

A lead buying group involves outsourcing purchasing activities to one of the members of the group. Lead buying groups have exuded similarities such as geographical location or similar network. A more intensive purchasing group type than lead buying is necessary when all members have to work together on purchasing complex products or services.

iv. Project Groups

A project group would typically refer to an intensive one time purchasing group for a shared purchasing project. The members would bundle their resources together as they carry out their purchasing activities. They learn from each other as they share supply risks and knowledge.

Members meet regularly during the project to bring specifications up to the same level and to agree on the same supplier choice. The group would normally disassemble once the project is finished.

v. Program Groups.

Intensive purchasing (program) groups, often involve representatives of the management teams of the cooperating organisations meeting regularly in a steering committee to discuss cooperative projects. The members have high involvement relationships with each other and all can influence specifications and supplier selections.

Program groups and lead buying groups often have a similar organisational structure, with several purchasing processes standardised or synchronised in both groups. The major difference between the two groups is that the activities of a cooperative project are carried out by the personnel of one organisation (lead buyer) than it is the case with program groups where in all members participate in purchasing processes.

Schotanus and Telgen (2005) further classify the different forms on '*intensity for the members*' (intensity of the collaboration), and a '*number of different activities for the initiative*'. Aylesworth (2003) categorized collaborative purchasing arrangements, into (i)

local networks, (ii) voluntary cooperatives, (iii) regional purchasing agencies, (iv) member-owned service bureaus and (v) for-profit enterprises.

(i) The *local network* consists of a few organisations, often with a geographic proximity informally joined together. They agree that a few rules and contracts are based on aggregate demand or organisations piggy-back each other's contract.

(ii) *Voluntary cooperatives* range from informal to highly structured arrangements, in which data is shared and work is distributed amongst members who become the lead agent for that work (e.g. contracting for a commodity).

(iii) A *regional purchasing agency* is a central body with limited control for members and is further similar to the previous form.

(iv) The *member-owned service bureau* is a separate entity with a board of representatives from the member organisations and staff carrying out operations. Member organisations are actively involved in determining direction.

(v) *For-profit enterprises* sell their influence and expertise by purchasing goods based on aggregate demand plus a profit margin, or they charge a commission for its service.

Aylesworth (2003) considered also several factors necessary for a successful collaborative purchasing effort which are not necessarily linked to any specific form of collaboration as: careful selection of goods/ services and suppliers, supplier capacity, member and executive commitment, compatible purchasing philosophies, defined goals and performance measures, process and contract management, and supplier involvement.

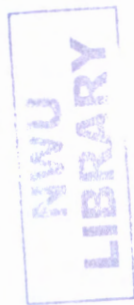
Some organisations choose to cooperate with each other on a voluntary basis, and some may be forced to work together (mandatory). They may choose to have a formal cooperative relationship or an informal relationship. An organisation can have a combination of all these cooperative arrangements at any point in time.

Hendrick (1997) has found that cooperating organisations will consider as important (1) a high degree of trust among all participants (2) safeguards to prevent possible anti trust violations, and (3) similar buyer-supplier relationship philosophies.

Bakker et al. (2006) noted several characteristics that can be derived from the literature review that describe the structure of a collaborative purchasing arrangements:

- formally– informally joined together
- voluntary – mandatory relationship of members
- written – verbal agreements
- physical – virtual
- self-managed by members – separate (autonomous) entity
- specific resources devoted (time, staff, systems)
- involvement of top-management of members
- directness of contact between members (buying centres or via top-management)
- presence of common information/communication platform (networking facilities)
- sharing tangible resources (i.e. IT, staff, space)
- sharing intangible resources (i.e. knowledge, information, experiences)
- standardisation of specifications / products / performance
- flexibility of arrangements (penalties, required quantities, required duration of contracts)
- distribution of benefits

Bakker et al. (2006), concludes that 'different collaborative forms and classifications show that although different forms can have different structures, different forms also show similarities, and within a form variations are possible. It does not become clear which structural characteristics have which effects on the performance of collaboration in terms of enabling and constraining cooperation, nor is this used as starting points to



assess which form would be suitable for which situation. Hence, an overview of possible structural characteristics is first needed'.

Once different collaboration forms have been considered, mechanisms for setting up a chosen form may follow. The next section enjoins a discussion on such mechanisms.

2.4.5 *Mechanisms for setting up a successful purchasing cooperative*

According to Rozemeijer (2000), there are two reasons why organisations and units in organisations choose to work together. It maybe because a central power forces them to co-operate with each other (*mandatory basis*), or because they want to co-operate (*voluntary basis*). Other factors explaining successful cooperation include: mutual trust, common and/or congruent interests, complementary 'stretched goal' that each independent business unit cannot reach itself, personal success in terms of career opportunities or financial rewards (Asseldonk and Blom, 1997).

Porter (1985) provides three mechanisms to co-ordinate and integrate activities across different units:

Firstly, top management should stimulate and support co-operation between business unit (e.g. they should identify potential interrelationships between business units, organise forums or annual events, and they can establish a corporate platform for co-operation across business units).

Secondly, a horizontal strategy should be formulated adjusting the different business unit strategies.

Thirdly, to implement this strategy a horizontal structure should be designed. This may involve the grouping of divisions and business units under one manager; centralising some function at headquarters; permanent corporate boards; temporary taskforces; and integrating roles.

Galbraith (1995) gives a description of three types of lateral processes to achieve the integration across business units a corporate strategy requires. Firstly, informal, voluntary co-ordination that occurs naturally and spontaneously (minimal or extensive). Secondly, formal groups, teams and/or task forces (simple, multi-dimensional, hierarchical). And finally, integrators (roles, managers, departments).

Mintzberg and Quinn (1991) notes six basic co-ordinating mechanisms:

1) *Direct mutual adjustment* achieves co-ordination of work by the simple process of informal communication. The people who do the work interact with one another to co-ordinate. Mechanisms used to encourage mutual adjustment within and between units are referred to as liaison devices; liaison positions (jobs created to co-ordinate the work of two units directly without passing through management channels), temporary task forces and standing committees, integrating managers with formal authority, and the matrix structure.

2) *Direct supervision* in which one person co-ordinates by giving orders to others, tends to come into play after a certain number of people work together. For example fifteen people cannot co-ordinate by mutual adjustment, they need a leader who, by virtue of instructions, co-ordinates their work.

3) *Standardisation of work processes*: the programming of the content of the work and procedures to be followed.

4) *Standardisation of output of the work*: specification of the results of the work (e.g. a division manager is told to achieve a sales growth of 10% so that the corporation can meet some overall sales target).

5) *Standardisation of knowledge and skills* that serve as inputs to the work: here it is the worker rather than the work or the output that is standardised. Coordination is then achieved by virtue of various employees having learned what to expect from each other and where each knows exactly what the other will do and can co-ordinate accordingly.

6) *Standardisation of norms* that more generally guide the work: workers share a set of common beliefs and can achieve co-ordination based on it (e.g. if every member of a corporation shares a belief in the importance of improving quality, then all will work together to achieve this aim).

According to Mintzberg and Quinn (1991), no organisation can rely on a single one of those mechanisms. In other words the mechanisms used are contingent with the organisation of the corporation. Many organizations, however, do favour one mechanism over the others, at least at certain stages of their lives. And still, all the mechanisms will typically be found in every reasonably developed organisation. Rozemeijer (2000) concludes about these co-ordinating mechanisms as the most basic elements of structure, the glue that holds organisations together.

Rozemeijer (2000) found that, although most corporations use structures and procedures, such as described above, it could be that strategic initiatives tend to be uncoordinated or even never realised. Invoking the 'logical incrementalism' concept by Quinn (1980), Rozemeijer (2000) concludes here that this may not cause a problem if the organisation is adopting an 'incremental' approach to strategy formulation and implementation. Citing Mintzberg and Quinn (1991), Rozemeijer (2000) contends further that, 'a lack of formal strategy formulation, planning and implementation is 'normal' if strategy should and does emerge in an unplanned manner as the organisation responds instinctively to its environment'.

The above section discussed the concept of cooperative purchasing, laying the contextual ground for a more defined area in CPP, as elaborated further on in the next section. This section has thus assisted in clarifying potential confusion on underlying principles that may overlap into the more defined CPP.

2.5 Cooperative public procurement

The above discussions on cooperation, procurement and cooperative procurement have given a broader perspective and a contextual framework within which the concept of CPP is located. A distinction is also made in this section between 'public procurement' and

'CPP'. The ensuing section will dwell much on the actual study phenomenon (CPP). Note is made here again that CPP is applicable to the procurement of goods and services by organs of state both for own consumption and or for public benefit.

2.5.1 *Introduction*

Schotanus (2007) found that 'academic research that has been done on cooperative purchasing has contributed to describing and analyzing several cooperative purchasing topics under different settings and circumstances'. For instance, Doucette (1997) carried out a quantitative study in the public sector and looked specifically at the commitment of cooperating organisations.

Despite the lack of quantitative and qualitative academic material, the practice of cooperative purchasing in the public sector, has become increasingly popular (Johnson, 1999). The concept is widely practiced in the USA and UK among school systems, hospitals, municipal governments and universities.

Schotanus (2007) explains the popularity of cooperation between buying organisations in the public sector as precipitated by several factors, which include (i) lack of or almost no mutual competition between organizations, (ii) similar structures, networks, purchasing needs, (iii) a common environment, and (iv) one common goal: to maximise the value of the taxpayers' money.

2.5.2 *Public procurement in South Africa*

One of the factors that compels an academic study on public procurement in South Africa, is its huge estimated budget expenditure of approximately 14% of the South African GDP (Mkhize, 2004).

Public procurement in South Africa is grounded on Section 217 of the Constitution of the Republic of South Africa (1996) which provides for organs of state to procure goods and

services in a manner that is 'fair, equitable, transparent, competitive and cost-effective'. The South African Association of Consulting Engineers (SAACE) noted these as 'good governance objectives' (SAACE, 2005). State procurement in South Africa is also used objectively as a socio economic policy instrument to, for example, address past discriminatory (apartheid) policies and practices (Bolton, 2005 & Van Vuuren and Bardenhost-Weiss, 2003).

A number of South African statutes have been enacted to give effect to the Constitutional mandate, and to satisfy both the 'good governance' policies and 'socio-economic' objectives of state procurement of goods services.

Bolton (2007) notes the following to be the most important legislation on state procurement:

- i. Public Finance Management Act 1 of 1999 (as amended by Act 29 of 1999) (PFMA), which regulates financial management in the national and provincial governments;
- ii. Local Government: Municipal Systems Act 32 of 2000 (as amended by Act 44 of 2003) (MSA), which enables municipalities to, *inter alia*, provide for municipal services by way of service delivery agreements, the selection of service providers then having to be done through specified selection and pre-qualification processes;
- iii. Local Government: Municipal Finance Management Act 56 of 2003 (MFMA) which, *inter alia*, aims '[t]o secure sound and sustainable management of the financial affairs of municipalities and other institutions in the local sphere of government'; and the
- iv. Preferential Procurement Policy Framework Act 5 of 2000 (PPFPA) which aims to address past discriminatory policies and practices in the government procurement system.

According to Van Vuuren and Badenhorst-Weiss (2003) the key issues in the South African public procurement environment was summarized in the Webb Report (2000). The study focused on amongst others, the legislative framework; prevalent procurement practices; and the possible solutions for improving the South African public procurement system.

Citing the Webb Report (2000), Van Vuuren and Badenhorst-Weiss (2003) notes the following characteristics of the procurement system at both the national and provincial levels:

- It is highly prescriptive and is focused on process.
- The principal objective is to achieve 'value for money', but this appears to mean value for money equaling lowest price.
- It is used to provide indirect assistance to SMMEs and HDIs.
- In both period contracts and ad hoc contracts the range of commercial activity and industry sectors involved is very large. Therefore the amount of money which the national and provincial governments spend can have a profound economic effect.
- From 1 April to 31 December 1999 total contracts awarded by state and provincial tender boards (but excluding those awarded by individual departments under delegation) amounted to more than R8.710billion. Two-thirds of that (R5.733 billion) was contracted at the national level.

The Webb Report (2000) found the following weaknesses in government procurement:

- Procurement has been used to provide indirect assistance to SMMEs, although tracking of the impact is inconclusive.
- The procurement system is highly prescriptive and is focused on compliance with procedures.
- The objective of achieving 'value for money' is often confused with approving a tender with the lowest price.
- There does not seem to be an indication that the procurement process is cost-effective.

- There do not appear to be data on the use made of the money saved through the current procurement system.

The Webb Report (2000) concluded by recommending the following five potential changes:

- Improved tracking of assistance to SMMEs and HDIs is required.
- Treasury should be responsible for procurement policy and tender boards should be abolished.
- Procurement needs to be more cost-effective
- Considerable investment should be made into training of procurement staff.
- Migration to commercial information technology is required in order to follow the path of electronic commerce.

According to Van Vuuren and Badenhorst-Weiss (2003), the following six characteristics were found to 'dovetail well with the improvements contained within the Gauteng Shared Services Centre (GSSC) procurement operating model', aimed at improving the Centre's effectiveness and efficiency:

- the implementation of an overall procurement strategy, including a BEE framework;
- eliminating duplication of procurement support functions throughout GPG;
- benefits of bulk buying, pooling of efforts and economies of scale;
- improving process efficiency, based on standardization and simplification;
- implementing SAP as an enabling new technology, with its added potential to streamline processes; and
- reduced stockholding and reduced wastage throughout the shared supply chain.

The above section summarizes an account on public procurement policy issues in South Africa, and gives an example of efforts taken by the Gauteng Provincial Government in improving its procurement systems. The issues raised are basic principles within which CPP in South Africa should be carried.

2.5.3 *Cooperative public procurement in South Africa*

As mentioned above, the concept of CPP has for decades, been widely practiced in the USA and the UK. The practice is not established in South Africa with one or two practices of CPP discovered. Even though the Constitution and other statutory laws, provides the National Treasury and organs of state, powers to develop cooperatively, agreements for CPP, a desktop research has revealed that there is not a single academic paper on the subject for the South African context.

Section 40(1) of the Constitution of the Republic of South Africa (1996) constitutes government with “national, provincial and local spheres of government which are distinctive, interdependent and interrelated”. Each sphere is distinctive of the others in that it exists in its own right; it exercises decision making authority on constitutionally/statutory defined range of functions (whether shared or exclusive); and is accountable to its constituency for its decisions.

However, functions in the local spheres of government must conform to national and or provincial regulatory frameworks and likewise for the provincial sphere which is also subject to national regulatory framework. As noted in Layman (2003), the ‘interrelatedness’ of the three spheres is therefore manifested and given expression through the regulatory framework which further promotes the “interdependentness” and cooperation of the three spheres towards a common national goal.

The Constitution binds all spheres of government and organs of state to three basic principles:

- common loyalty to the Republic as a whole;
- the safeguarding of the distinctiveness of each sphere of government ; and
- concrete promotion of cooperative government by -
 - fostering friendly relations;
 - assisting and supporting one another;
 - informing one another of, and consulting one another on, matters of common interest;
 - co-coordinating their actions and legislation with one another;
 - adhering to agreed procedures; and
 - avoiding legal proceedings against one another.

Section 41 (2) (a)(b) of the Constitution provides for the South African Parliament to formulate legislation that would regulate relations between the three spheres thus:

“An Act of Parliament must-

(a) establish or provide for structures and institutions to promote and facilitate; and

(b) provide for appropriate mechanisms and procedures to facilitate settlement of intergovernmental relations”.

Through intergovernmental relations framework, the Constitution draws further on the three spheres of government to coordinate their work coherently and effectively in the delivery of service. To that effect, Section 41(1) (c) of the Constitution sets four requirements for co-operative government:

- **Effective government** - entails the effective and efficient use of resources, combating wastage and duplication, and unlocking synergies of collective effort,
- **Transparent government** – in promoting lawful, just, open and fair administrative actions,

- **Accountable government** – entails holding the decisions and actions of government to accountability, and
- **Coherent government** – requires the three spheres to consult each other to avoid policy contradictions and the management of overlapping functions.

In reciprocity to the provisions contained in IGRA, other legislation provides for CPP thus:

Section 37 (2) of the MFMA provides for 'municipalities to include allocations from other municipalities in their budgets and to plan effectively for the spending of such allocations, the accounting officer of a municipality responsible for the transfer of any allocation to another municipality must, by no later than 120 days before the start of its budget year, notify the receiving municipality of the projected amount of any allocation proposed to be transferred to that municipality during each of the next three financial years'.

Section 76(b) (iii) of the MSA provides for municipalities to employ mechanisms for the provision of services thus:

'A municipality may provide a municipal service in its area or a part of its area through-

(b) an external mechanism by entering into a service delivery agreement with-

(iii) an organ of state'.

Section 78 (4) invokes section 73(b) and provides that in deciding which mechanism to use in the provision of a municipal service, the Municipality must ensure that the chosen mechanism must provide the service in a manner (i) that is prudent, economic, efficient, and effective in the use of available resources; and in a manner (ii) that will improve the standards of quality over time.

2.6 Cooperative Public Procurement enabling mechanisms in South Africa

This section discusses available legal mechanisms and innovative examples which could be used to give effect to the CPP concept in South Africa.

2.6.1 *Legal provision for the establishment of Cooperative Public Procurement structures*

Section 41 (3) of the Constitution requires an Act of Parliament to 'establish and provide for structures and institutions to promote and facilitate intergovernmental relations'.

Any such structure established in terms of legislation to facilitate CPP must observe section 217 of the Constitution which provides for state organs to procure goods and services in a manner that is "fair, equitable, transparent, competitive and cost-effective".

Section 30 (1) and (2) of the IGRA provides for the establishment of 'Intergovernmental technical support structures' thus:

'(1) An intergovernmental forum may establish an intergovernmental technical support structure if there is a need for formal technical support to the forum.

(2) An intergovernmental technical support structure:

(a) must consist of officials representing the governments or organs of state participating in the intergovernmental forum which established the technical support structure; and

(b) may include any other persons who may assist in supporting the intergovernmental forum'.

2.6.2 *Public-public partnerships as a Cooperative Public Procurement mechanism*

The PFMA SCM Regulation 16A6.6 provide that an organ of state may partake in any contract arranged by means of a tender process by any other organ of state, subject to the written approval of such organ of state and the relevant contractors. There would thus be no need for the 'piggybacking' organ of state to initiate its tender process. 'If the needs of an organ of state (X) are similar to the needs of another organ of state (Y), and Y has already arranged to meet its needs by means of tender procedures, X can simply arrange with Y to use the same contractor that Y selected to satisfy its needs. As noted, the

contractor concerned should, however, also agree to the arrangement in writing' (Bolton, 2007).

Section 80(1)(a) of the MSA provides for organs of state at local government level with an option to enter into partnerships with each other.

The MFMA SCM Regulation 32(1) provides for municipalities to procure goods or services under a contract secured by another organ of state, who would have secured the contract by means of tender procedures. There would therefore be no need for the 'piggybacking' municipality to initiate a tender process under the circumstances. MFMA SCM Regulation 32(1)(a)-(d) sets further the following conditions: (a) the organ of state that initially secured the contract must have done so by way of a tender process; (b) the organ of state who wants to participate in the contract should have no reason to believe that the contract was not validly procured; (c) the organ of state who wants to participate in the contract should obtain 'demonstrable discounts or benefits' as a consequence; and (d) the other organ of state and the provider must give written approval to the procurement in question. Regarding the latter two conditions, MFMA SCM Regulation 32(2) provides further that an organ of state or municipality need not meet the latter conditions if the goods or services are procured 'through a contract secured by its parent municipality' or the goods or services are procured 'through a contract secured by a municipal entity of which it [the municipality] is the parent municipality'.

According to Maré (2003), Section 81(2) and (3) permits a municipality to negotiate the following terms with a PuP service provider:

- municipal funds may be made available to subsidise services to the poor;
- municipal staff may be transferred or seconded to the public partner;
- continuity of the service must be ensured;
- the municipality must take over the service, including all assets, on the agreement's expiry;

- responsibilities for the service provided may be assigned, such as undertaking social and economic development directly linked to the provision of the service in question, and customer management; and
- tariffs for the service in question may be adjusted within the limitations set by the municipality.

Maré (2003) elaborates further that 'in a PuP the municipality is the partner that is ultimately responsible for ensuring that the service is provided to the community. The legislature has built in numerous checks and balances (section 81(1), (4) and (5)) to enable a municipality to fulfill this responsibility. Service provision via a PuP service delivery agreement must be regulated, monitored and assessed through a municipality's performance management system. If the service falls within a development priority or objective (as set out in a municipality's IDP), the provisions of Chapter 5 of the Act also apply. The setting and adjustment of tariffs for the service in question must be controlled within a tariff policy determined by the municipality. A service agreement can only be amended by mutual agreement of the partners and no councillor or municipal official may share in any profits or receive any benefits from it'.

2.6.3 *Transversal Contracts*

Strategic sourcing by accounting officers / authorities to the effect that 'all possible methods of obtaining the requirements should be investigated, such as obtaining the goods and or services by means of a transversal term contract' is provided for by the South African national treasury (National treasury, 2004).

Transversal contracts are widely used in South Africa in both the provincial and national spheres of government. It is a sort of a vertical arrangement between the provincial/national departments and their regional structures such that the former procures a contract for the provision of goods and services. The latter regional structures are then allowed to source their requirements under the terms and conditions of the contract.

Although transversal contracting serves as a well established strategic sourcing mechanism for cooperative public procurement in South Africa today, it is rather surprising that (academic) literature on the concept is non-existent.

2.6.4 *Shared services*

An example of a 'shared service' is found with the Gauteng Shared Services Center discussed briefly in section 2.5.2 above. The Service provides Provincial organs of state cost benefits from using a centralised (procurement) 'back office' for the procurement of goods/services. The participants do not only benefit from sharing human resource personnel and expertise, there is a cost benefit also on the e-procurement systems employed in the processes. The e-procurement system is also geared at improving the procurement process efficiencies, with increased control and reporting capacities.

2.7 **Challenges to Cooperative Public Procurement within the Intergovernmental Relations context**

Layman (2003) found that the South African system of intergovernmental relations 'is founded on complex formal and informal, but interrelated institutions, processes and practices' which evolved 'rapidly from 1996-2003' and characterized by 'moderate legal regulation'.

Describing the state of IGR in South Africa, Steytler et al. (2005) states that 'since municipalities were created in 2000, a myriad of informal channels and forums have developed to align and inform each actor of the others' desires and needs. 'Five years later' Steytler et al. (2005) continues, 'the current state of intergovernmental relations is fraught with confusion and misunderstanding'.

In analyzing the state of IGR in South Africa, Layman (2003) established the following challenges facing the efficiency and effectiveness of current IGR structures:

- **Clarity on operational concepts** such as coordination, integration, consultation and alignment will lead to a better understanding or definition of powers, functions and responsibilities of all role players.
- **Integration of strategic planning** which provides a basis for coordinating legislation, policies, programmes and budgets of different spheres.
- **Integration of service delivery that cuts across** jurisdictional boundaries ensures that spheres of government do not engage in disjointed service delivery. Proper integration will save on costs and will strive to priorities much needed community projects and programmes.
- **Integration and coordination of the regulation of local government** by both the national and provincial spheres of government that poses own individual demands and pressures on local municipalities. Municipalities are often bombarded and confused by extra responsibilities imposed by these spheres that impacts negatively on the goals set by municipalities.
- **Integration and coordination of supervision of local government** stemming from lack of integrated information systems leads to fragmented monitoring and oversight functions, and slow corrective actions where needed.
- **Establishment of effective processes and procedures for the settlement of intergovernmental disputes** satisfies section 41(3) of the Constitution that stipulates that every organ of state "must make every reasonable effort to settle the dispute by means of mechanisms and procedures provided for that purpose, and must exhaust all other remedies before it approaches a court to resolve the dispute."

Layman (2003) notes further that the effective implementation of joint work and common projects are challenged by issues such as, clear financial accountability;

effective and efficient decision-making; promoting a joint work ethos within the public service; integrated planning linked to budgets; clear mandates for intergovernmental forums; and full participation in municipal IDPs.

Layman (2003) found that the three spheres of government, in meeting the challenge of co-operative government, have:

- Developed intergovernmental forums at national and provincial level dealing with issues of alignment, integration and coherence;
- Developed systems and processes in terms of which national, provincial and local governments pursue their common objectives; and
- Engaged in joint work and common projects to give effect to common objectives.

2.8 Conclusion

In this chapter, an epistemological literature review was undertaken to provide an empirical account on existing theory and research done on the study phenomenon. It has been shown in this chapter that there is abundant ontological literature on the subject of the study, giving baseline theoretical frames for the study. It is unfortunate that the phenomenon is less practiced in South Africa, and (academic) literature also non-existent. Limited available information on existing innovative mechanisms for cooperative procurement ('shared services' and 'transversal contracts') illuminates a further challenge to the body of knowledge on the study phenomenon.

In conclusion, CPP in South Africa can only flourish within strong, well capacitated IGR structures, established in pursuit of the Constitutional ideals of cooperative governance.

CHAPTER 3

RESEARCH METHODOLOGY

3.1 Introduction

This chapter illustrates the research methodology applied in this study. The chapter captures the main research paradigms, approaches, methods and tools used for the study inquiry.

The simplified diagrammatic flow of the research methodology in this study is as follows:

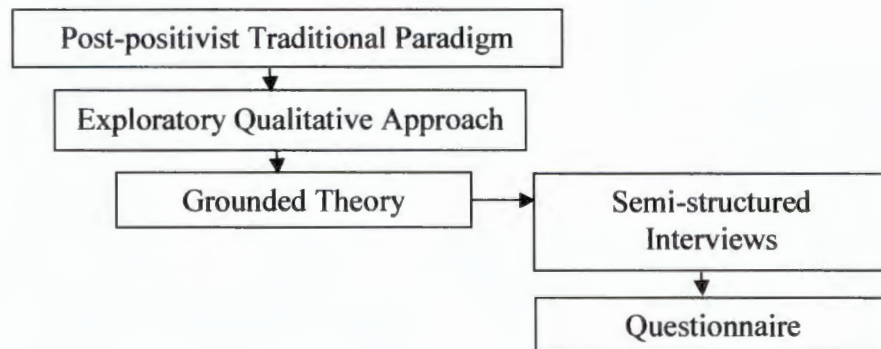


Figure 1. Research methodology: *process flow*

3.2 Research method paradigm

There are two basic methodological traditions of research in social science, namely positivism and post-positivism (phenomenology). Noor (2008) defines positivism as an approach that creates knowledge through research which emphasizes the model of natural science. Research methods in the natural sciences use objective methods of inquiry wherein facts in the social world are collected and arranged in a chain of causality to

postulate a theory (Finch, 1986). Positivism is thus more appropriate to quantitative methods of inquiry.

Post-positivism on the contrary, is about a reality which is socially constructed rather than objectively determined (Noor, 2008). The task of a post-positivist social scientist is hence not to gather facts and measure how often certain patterns occur, but to appreciate the different constructions and meanings that people place upon their experiences. It follows thus that, since post-positivism deals with understanding the subjectivity of social phenomena, it requires a qualitative approach to inquiry.

3.3 Method of research approach

Opposed to quantitative research methods, the qualitative approach applies methods which emphasise processes and meanings that are not rigorously examined and measured in terms of quantity, amount, intensity, or frequency (Denzin and Lincoln, 1994). Qualitative research will thus be interested at looking at insight, discovery, and interpretation rather than hypothesis testing (Merriam, 1988). Thus, the nature of qualitative research is that it produces large amounts of non-standard data. The non-standard data makes qualitative data analysis even more difficult to achieve. One of the popular methods used in analysing qualitative data is based on ‘grounded theory’ (Creswell, 1998). Grounded theory is explained further in the next section.

3.4 Grounded theory as a qualitative method of inquiry

Grounded theory is a methodology for inductively generating theory (Patton, 1990 and Glaser and Strauss, 1967). In recognition of the non-standard nature of qualitative data, grounded theory is used to extrapolate themes and patterns out of the collected data to formulate a theory or structure. The structure/theory is therefore not imposed on data or hypothesis; it is but inductively formed by social actors themselves (Easterby-Smith, Thorpe et al., 2001).

Following Strauss and Corbin (1990), a grounded theorist begins by identifying a phenomenon or issue for study, and elects in advance to focus data collection on the identified predetermined general subject of enquiry. Grounded theory's explanatory power develops a predictive ability based on collected data, to explain what may happen, and in the process manifesting previous grounded theories (explained through literature review in Chapter 2).

3.5 Data collection methods

It is widely accepted that in a qualitative research approach, much emphasis is put on the determination of the subjective meaning attached to the phenomenon under study. Interviews provide the commonest method of data collection to elucidate the said meaning. The process involves asking clear, open-ended and neutral questions to the respondent who in turn is expected to provide a subjective perspective demonstrating knowledge and understanding of the phenomenon under study.

For this study, the (semi-structured) interview-guided approach (Patton, 1990) was used as the data collection method for its ability also to discover detailed insight of participants' personal perspectives within their contextual location, providing also for subtle, delicate and sensitive information to be discovered. A guided interview is also able to limit the boundless issues inherent in the complex phenomenon under study. A schedule of questions in a form of a questionnaire was used as the research instrument. (See Appendix 1 on the research questions).

To allow for comfort and flexibility in participants' responses, the questions were formulated in a relatively general, simple, and unambiguous manner. The style and intensity of the questioning moved from simple questions to more probing questions that followed up on the initial questions.

The researcher conducted all the interviews himself over a two-month period from July 2008 to August 2008.

In line with Ritchie and Lewis' (2003) recommendations on the stages of the interview process, the interviewees were firstly put at ease by engaging in a general conversation unrelated to the research study. Once at ease and comfortable, the research topic, nature and purpose of the study was then introduced. Issues such as ethics, confidentiality, data handling, recording and timing of the interview was clarified. At that stage consent for the interview was obtained and a questionnaire handed out.

After the interview, the interviewees were thanked and reassured of the study ethics, and were finally promised the final copy of the study.

3.6 Population sampling

According to Marshall (1996), there are three broad approaches to selecting a sample for a qualitative study, namely: convenience sample, judgment sample and theoretical sample. Of the three, judgment sample, also known as purposeful sample is the most common. In a purposeful sample approach, the most productive sample to answer the research question is actively elected. Becker (1993) and Glaser (1978), notes further that purposive sampling should be differentiated from theoretical sampling in that, while *purposive or selective* sampling methods are usually used at the beginning of a qualitative research to recruit informants to provide data about the experiences or phenomena of interest to the inquirer, *theoretical* sampling selects participants on the basis of emerging themes and categories from analysed data. A further analysis of the themes will yield a condensed group of participants selected for further interviews. In the instance, the data collection process continues until saturation or data redundancy (when further data does not add to the insight already gained) is reached. Jeon (2004) puts it succinctly that "theoretical sampling is driven by the emerging categories and hypotheses, the need for theoretical elaboration, and by the researcher's need to ground developing theory in the empirical data". In the grounded theory approach, theoretical sampling is therefore taken

as an offshoot of purposeful sampling (Glaser and Strauss, 1967). Further, the size of the population sample in purposeful-theoretical sampling cannot therefore be defined. It is rather, determined by data saturation and or data redundancy. Participants are recruited on the basis of their expert knowledge of the phenomenon under study.

The participants in the purposeful-theoretical population sample used in this study were selected on the basis of the senior, authoritative positions that they hold within the finance and supply chain departments as they related to the research problem. The 'experts' have considerable influence and decisive powers on procurement policies, which includes making decisions on how, where, when and with who should procurement be done. It is assumed that the official positions that the expert participants hold requires in-depth understanding and knowledge of procurement concepts stemming from either their academic or vocational experience, or both. A total of ten 'expert' officials, employed with various organs of state having operations within RLM, participated in the study. Appendix 3 highlights organs of state that participated in the study from a total list of thirty one.

The interview and data collection process took an approach that looked for variation from the main, core themes supporting the research problem. From data analysis, a core theme appears from the majority opinion by the participants in favour of CPP and a centralized supplier database system. The core theme, together with controversial variations could then be further explored.

The interview process stopped when there was grounded empirical confidence from recorded data that further interviews will almost yield similar results or information already obtained (Cutcliffe and McKenna, 2002).

3.7 Conclusion

As a socially constructed reality, CPP as a concept falls within the traditional post-positivist paradigm of research. The nature of the research question, as defined, desired

that an exploratory qualitative method of enquiry be employed. Applying grounded theory as a qualitative research method of inquiry, this study sought to elicit improved understanding of theoretical conceptualisations of processes of social interactivity amongst organs of the state within the Rustenburg Local Municipal area. Literature on CPP has shown that the concept is quite broad in scope, with dynamic and interactive processes. The inductive capacity of grounded theory on the research data was consequently used to formulate a postulate on the state of CPP in the study area. The postulate should be used as baseline information for further testing and research on the study problem.

CHAPTER 4

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter presents a description and analysis of the survey data. Data is presented in tabular form, with each table coding a survey question. The survey data is then interpreted below each table. The tabular form in which data has been organized, makes it simple to lend interpretation and analysis. The data codes are self explanatory, negating the common problem of hard codes that may require some degree of quantitative analysis. Data is interpreted by summarizing the findings and identifying similarities and differences.

4.2 Data description and analysis

- The first question in the questionnaire (*how would you rate your understanding of the 'joint public procurement' concept?*) probes the interviewee's level of understanding of the study phenomenon, the CPP concept. The question seeks to validate the quality of the data sourced on the one hand; the question also seeks to establish the level of engagement with policy makers on the concept. A higher percentage in the affirmative depicts a greater understanding of the concept, making it easy for stakeholders to engage constructively on the merits of the concept, and to have a speedy, collaborative effort towards further studies on concept development and implementation. The affirmative in this regard is coded as having an 'excellent', 'good' or 'fair' understanding of the concept.

Table 3: Level of understanding of the cooperative public procurement concept.

	Number of Responses
Excellent	1
Good	6
Fair	2
Poor	1
Total	10

The above data shows that nine out of ten (90%) of senior officials in the finance departments of various organs of state operating in Rustenburg have a clearer understanding of the CPP concept.

- The second question (*has your organization/department procured goods/services jointly with any other organ of state before?*) gives a scoping assessment on existing experience and practice of the CPP concept. The information received gives a further indication on the existence of systems.

Table 4: Previous cooperative public procurement arrangements.

	Number of Responses
Yes	0
No	10
Total	10

All the ten interviewees indicated that there is currently no practice on the CPP concept. The implication is that there are no systems in place to work from. Should the concept be acceptable, the implementation part of it will call for the

exploration of different mechanisms to use, a process which may consume considerable time and testing to accomplish.

- The third question (*would you support the use of a centralised supplier database system, located with the host Municipality for the procurement of goods/services for your organisation?*) probes the willingness of organs of state to use a centralised supplier database system. A central supplier database is not necessarily a prerequisite for joint procurement, it may however be a catalyst/mechanism for the initiation of cooperative procurement.

Table 5: Support for a centralised supplier database system.

	Number of Responses
Yes	7
No	2
Undecided	1
Total	10

Seventy percent (70%) of the interviewees supported the use of a centralized supplier-database management system. Twenty percent (20%) cited the delays that may be caused by a centralized system for their procurement turnaround times. Even after the noble ideals of using such a system have been discussed, one interviewee was unsure of subscribing to such a system, which is unheard of in the area.

- The fourth question (*Would you agree that a joint purchasing agreement with the Municipality for the purchase of certain identified goods/services could be beneficial in meeting your organisations'/departments' policy objectives towards local socio-economic development?*) seeks to establish comprehension on the importance of CPP as a stimulus for local economic development.

Table 6: Cooperative public procurement as a policy driver.

	Number of Responses
Yes	10
No	0
Total	10

All interviewees agreed with the notion that CPP would support their local economic development programmes.

- The last question (*would you consider buying certain identified goods/services jointly with other organs of state operating within the RLM?*) is a direct question, core to the study problem.

Table 7: Consideration of a cooperative public procurement agreement.

	Number of Responses
Yes	8
No	2
Total	10

Eighty percent (80%) of interviewees responded in the affirmative, touting efforts for further exploration on the implementation of the CPP concept. Once again, the twenty percent (20%) that disagreed cited the creation of bureaucratic structures that may impact on their procurement turnaround times. Issues of trust and loss of authority on the procurement process were also cited as important factors that would jeopardize the integrity, effectiveness and efficiency of their procurement systems and cycles.

4.3 Data validity

The interpretive nature of qualitative analysis lends itself to certain measure of subjectivity. Data validity, reliability and objectivity may therefore be questioned. According to Denzin and Lincoln (1994), there are four factors that must be considered to establish the trustworthiness of the findings from a qualitative research: credibility, transferability, dependability, and confirmability.

The survey questions were formulated in a way that would allow for corroboration on the findings. For instance, there is sufficient corroboration on question four that a joint purchasing agreement with the Municipality for the purchase of certain identified goods/services could be beneficial in meeting policy objectives towards local socio-economic development. The credibility of such a thematic finding as a result of such corroboration is to an extent justified. This method of drawing confidence in the study results is also referred to as triangulation.

The negative responses in questions three and five, calls for a further investigation on the discomfort. The validity of the theme will be enhanced once the investigation on the discomfort is completed and further analysis conducted (Strauss & Corbin, 1998). In case of the above negative responses on the said questions, the discomfort may be as a result of lack of exposure to available technological mechanisms, which would enhance the effectiveness, and efficiency of a CPP system. Once the respondents have been exposed to such a system, the discomfort will then be satisfied, and the thematic validation completed. However, the absence of such negative responses, in light of the level of understanding of the CPP concept, as assessed in question one, would lend the validity and reliability of the findings to doubt. It is common practice in qualitative research methods to accept negative responses as a method of validation.

Transferability refers to the applicability of the research findings to other research studies. Transferability also depends on the credibility and dependability of the data. In

relation to a voluminous body of epistemological literature account, the research data was obtained using simplified, unambiguous research methods and techniques. The research findings in this study can be used by other studies for other investigations and further exploration.

Dependability refers to how stable the findings will be over time. The survey in this study was conducted in the month of April 2009, with data obtained from senior, experienced and reliable officials who have been in the procurement field for a considerable period of time. It is not expected that legislative provisions applicable to the concept of CPP will change anytime soon, nor the principled commitment espoused by the response in the survey question five above (table 5). It is expected therefore that the findings will hold stable for a period of time.

Confirmability refers to data coherence in terms of the findings, interpretations, and recommendations (Denzin & Lincoln, 1994). It is out of the data that the findings and interpretations are formulated in the analytical narrations below the data tables. Discussions and recommendations in the next two chapters have inductive resonance to the data.

4.4 Conclusion

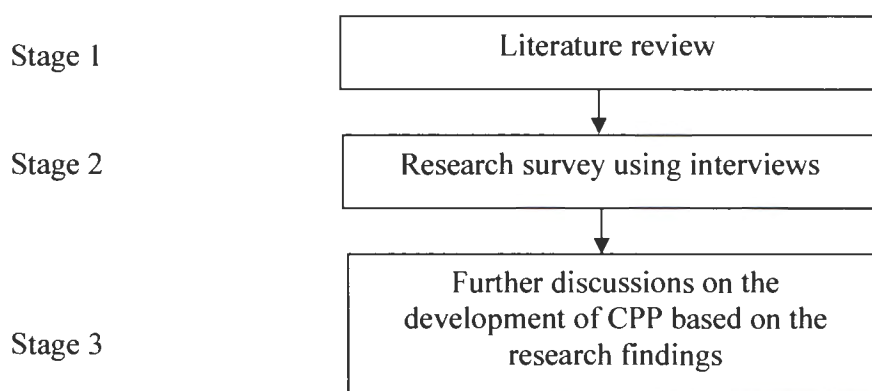
In this chapter, two broad themes are deduced from the data analysis. The two themes are that: (1) organs of state within RLM are willing to explore the concept of CPP by buying certain goods/services together, in mitigation of procurement costs and in support of a coordinated local economic development programme; (2) towards the facilitation and support of theme (1) above, organs of state operating within the RLM are willing to use a centralised supplier/vendor management system for the procurement of goods/services. The two themes will guide further discussions on the feasibility of CPP within the study area.

CHAPTER 5

DISCUSSION ON RESEARCH FINDINGS: TOWARDS A STRATEGIC FRAMEWORK

5.1 Introduction

The research process to this study was broadly divided into three stages as follows:



The literature review conducted in stage one was followed by an exposition of the research methodology in stage two. Stage 3 in this chapter focuses on the application of themes derived from the data, towards a constructive theoretical framework on the rationale for CPP in the study area.

This chapter consolidates a discussion on CPP based around the two themes discussed in section 4.4 above.

5.2 Institutional and regulatory framework

As stated in the literature review in chapter two, the Constitution of the Republic of South Africa (1996) prescribes for organs of state to work in a coherent and cooperative manner. Legislation has subsequently been enacted to give effect to this mandate. Any

cooperative procurement arrangement by organs of state must comply with legislation on, amongst others, PFMA, MFMA, IGRA, and PPPFA.

Essentially, legislation is promotive of organs of state to buy from a contract that is already running. The legal requirement being that an organ of state wishing to 'piggyback' must first get authorization from its accounting officer, stating its intent to purchase from a running contract procured by another organ of state. Once authorization has been obtained, a formal request is sent to the buying agent/lead buyer, informing the latter about the intention by the interested organ of state to use a running contract. The agent will then notify the supplier of the intent by another organ of state to procure goods from the running contract. Once the supplier has agreed in writing, the agent should then inform the organ of state wishing to join-in of the acceptance, and be furnished with the procedures that were used to secure the contract. If the procedures have satisfied the organs' own procurement requirements, it may then request the lead buying agent to place an order on its behalf.

It is imperative therefore to note here that any participating organ of state towards the concept of CPP as espoused in theme (1) in section 5.1 above, may require formal authorization to participate or enter into such a venture. The initial authorization may include a further clause authorizing the organ of state to use another organ of state as a lead agent for the procurement of goods/services. Essentially, authorization will be specific to the duration of the agreement, the purpose, financing issues, termination of agreement, type of goods/services to be procured, the buying agent, delivery times, confidentiality of information, and others. In addition, each participating organ of state must further, remain with the authority to do individually what they agree to do jointly. The CPP concept should not relieve participating organs of state of their statutory obligations that exist. The implication therefore is that all contracts must be awarded in compliance with the existing procurement requirements of each organ of state.

In summary, the starting point would be for the host Municipality to develop bilateral memoranda of understanding, detailing among others, the intent to establish joint

purchasing systems. Initially, memoranda of understanding entered into between a small number of three to four organs of state in the locality would be manageable, in contemplation also of prompt attendance to negative, teething issues on the implementation phase.

Once memoranda of understanding have been entered into, the host Municipality may then proceed to procure the development and implementation of a centralized supplier database management system. Advances in the internet technology have made it easy for organizations to enter into cooperative purchasing arrangements (Corsten and Zagler, 1999).

Once the memoranda of agreements have been signed, vendor/supplier database management system in place, the participating organs of state may then experiment by jointly purchasing one or two commonly used items through a joint contract, using the shared centralized vendor/supplier database system as an aiding mechanism.

The first three purchases should provide adequate information for the evaluation process on the CPP system to be started. Should the evaluation be favourable, more participants may then be gradually roped in.

The above scenario suggests two most important options available to organs of state wishing to participate in a CPP:

(i) An independent buying agent

Certain organs of state may have certain constraints, that it may not be financially or strategically viable to use own internal demand management function. In such an instance, an organ of state may opt to use an agent to manage the procurement process (demand-acquisition-logistics-disposal) on its behalf. An agreement with such an agent will have to be entered into, spelling out the terms of reference and service level expectations. Again, depending on the capacity of the organ of state,

only the demand management function and or the acquisition function may be outsourced to the buying agent.

(ii) Own internal acquisition, logistics and disposal

An organ of state may possess all resources to manage its own supply chain processes. Should the organ of state however, for objective and strategic reasons decide to buy through a cooperative, it may simply ‘piggyback’ on the buying agent to source and procure goods/services, yet continue to manage its own acquisition, logistics and disposal functions.

5.3 A centralised supplier database management system revisited

A centralized supplier database serves three purposes:

- (i) A single database of local suppliers is compiled, from which all organs of state could source and place their orders. For the organs of state, a single supplier database creates a culture of cooperative governance, geared towards local economic support. For the local (SMME) suppliers, the local supplier database receives monitored preferential treatment on widened procurement opportunities within the public sector.
- (ii) There is less duplication and repetition of procurement activities for organs of state. Less duplication and repetition of routine activities leads to lowered transaction costs. However, an inefficient system could have a negative bearing on the turnaround delivery time.
- (iii) When procurement information is centralized, it is easier to migrate the information and processes into a software system. An e-procurement software system provides a management tool for the effective management of the (centralized) supplier database. The software system is an important mechanism

for an (integrated) information management system that will enhance an effective and efficient communication with all stakeholders.

- (iv) A simplified scorecard on public procurement spend within the locality depicting total/collective procurement spend by organs of state in the locality. The report will also depict the spending patterns showing demographics as to how much was spend/procured on/from whom, when and for how long.

The logical flow of cooperative public procurement using a centralized supplier database system is illustrated clearer in Figure 2 below.

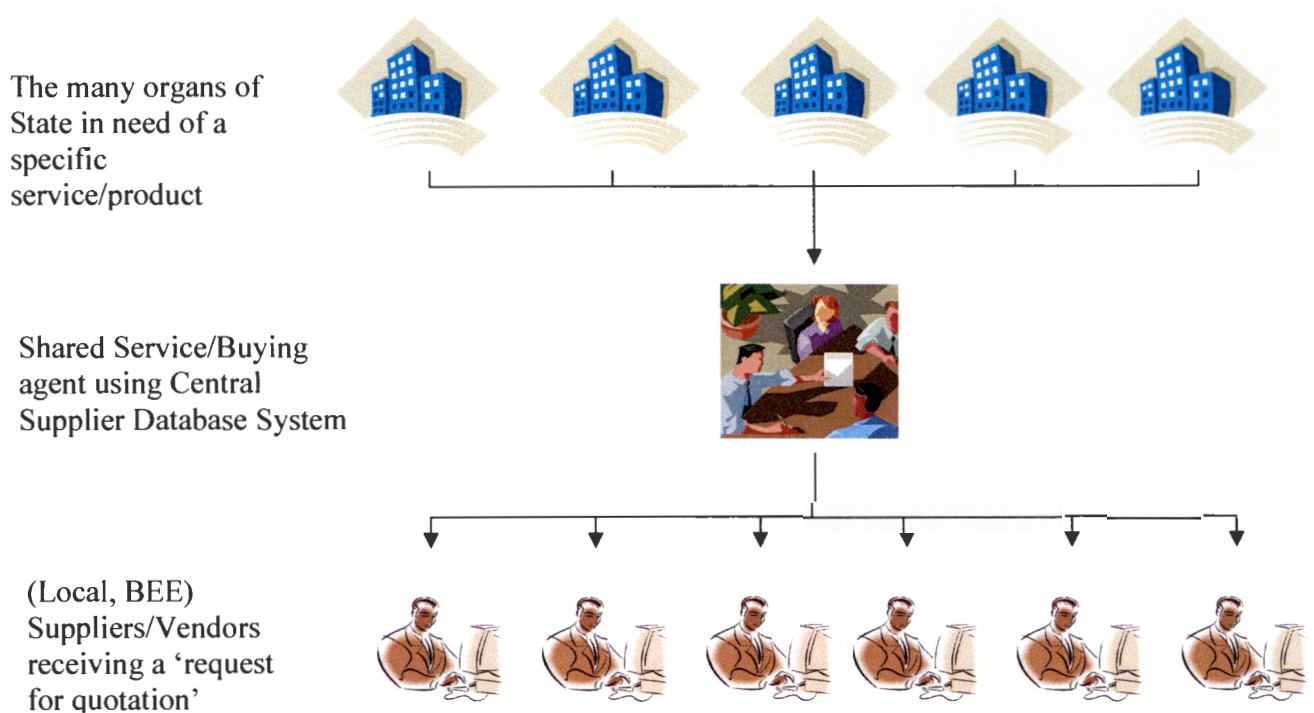


Figure 2. Cooperative Public Procurement using a centralized supplier database system: *a diagrammatic flow*

5.4 Conclusion

In conclusion, the two themes extrapolated in chapter 4, has provided a scientific platform on which further discussions around CPP can be explored.

Building around the two themes towards the CPP concept development, the institutional and regulatory framework for CPP was discussed. Two options available for organs of state wishing to enter into CPP arrangements were also discussed. It was highlighted that participants to a CPP have an option to use an independent buying agent for their procurement requirements, or that they could use their own internal acquisition, logistics and disposal departments for that purpose. The choice would depend to large extent on the capacities and strategic sourcing policies of individual participants. The discussion elaborated further on the three important factors for consideration when using a centralized supplier/vendor database management system.

CHAPTER 6

CONCLUSIONS AND RECOMMENDATIONS

6.1 Introduction

This study was as a result of the observation made on the incoherent manner in which the collective organs of state within the Rustenburg Local Municipality procure their goods and services.

The introductory chapter (1) gave an elaborate account on the research statement, outlining the research problem, objectives and importance of the study.

Chapter 2 reviewed literature on cooperation, procurement, cooperative procurement, cooperative public procurement, and the state of cooperative public procurement in South Africa.

In Chapter 3, the research methodology outlining the process used in the gathering of data was outlined. It was felt that an exploratory qualitative research approach was best suited for the study. A survey using semi structured interviews on a theoretical population sample was deemed appropriate method of inquiry for this study.

A presentation and analysis of the research findings were carried in Chapter 4 using tables to analyse and interpret data. An analysis of the data distilled themes around the concept of CPP in the study area. Once again, the two broad themes deduced are that: (1) organs of state within RLM are willing to explore the concept of CPP by buying certain goods/services together, in mitigation of procurement costs and in support of a coordinated local economic development programme; (2) towards the facilitation and support of theme (1) above, organs of state operating within the RLM are willing to use a centralised supplier/vendor management system for the procurement of goods/services.

In preparation for more in-depth studies and exploration on the study phenomenon Chapter 5 focused on developing further discussions around the two discovered themes.

This chapter provides concluding remarks on the research and findings conducted on this study. The research objectives are revisited, limitations of the research discussed, and suggestions for future research made.

6.2 Findings as related to the objectives

The study made a scientific attempt to reach the following primary objectives:

- To provide a theoretical framework for the development of a Cooperative Public Procurement model for organs of state operating within the jurisdictional area of the Rustenburg Local Municipality;
- To gather information on the level of understanding among officials in organs of state operating within Rustenburg Local Municipality's area of jurisdiction on the concept of Cooperative Public Procurement; and
- To assess acceptance of the study phenomenon (Cooperative Public Procurement) and acceptance of the mechanisms that could be employed to facilitate the implementation of the Cooperative Public Procurement concept in the area.

Pursuant to the above mentioned objectives:

Literature has shown in chapter 2 that Cooperative Public Procurement has been widely used in the Western states as a lever to lower public procurement transaction costs; to influence growth in targeted economic sectors; and to promote coherent, cooperative planning by organs of state. Using the grounded theory method, two themes emerged out of the data analysis process, providing new knowledge about the study phenomenon in the study area.

The study revealed further that CPP is not at all practiced in the study area. However, the theoretical sample of ten senior procurement practitioners employed with affected organs of state in the study area, is aware of the CPP concept and possessed average knowledge of the study phenomenon.

In pursuit of the Constitutional mandate on cooperative governance and local economic support and development, this study has further shown that organs of state operating within the Rustenburg Local Municipality's area of jurisdiction are willing to explore the use of Cooperative Public Procurement agreements as a strategic means of public procurement.

The study further confirms acceptance of a centralized supplier database management system, located at the host Municipality, as a facilitating tool to the establishment of Cooperative Public Procurement concept.

To this end the objectives of the study have been satisfied by research conducted on the study.

6.3 Limitations of the study

The first limitation to the study is the absence of local academic literature on the study phenomenon (CPP). This is due to the fact that the CPP is not an established concept in South Africa. The concept is not at all practiced in the study area.

Documentary information on the total annual procurement spend by organs of state in the study area would provided a broader perspective on the scope of the phenomenon, and a sense of the size and impact of a collaborative effort towards a joint socio-economic development programme in the study area.

A theoretical sample size of ten experts on the study phenomenon was used in the study survey. A larger sample would have provided fuller, crystallized and more informed research findings.

6.4 Recommendations for further studies

There is overwhelming support shown through the study for the development of cooperative public purchasing arrangements and structures for organs of state operating within the Rustenburg Local Municipality. The study has also illuminated the legal framework encouraging organs of state to explore cooperative public purchasing arrangements.

The lessons learned and the knowledge gained on the study provides a foundational, facilitative framework on CPP, a platform for further discussions and studies on the establishment of Cooperative Public Procurement systems in the study area in particular, and local government in South Africa in general.

Having exposed the status of CPP in the study area, and with public purchasing authorities and actors sensitized on the importance and benefits of cooperative public procurement, a more focused, in-depth study on the research findings and recommendations should be explored.

6.5 Conclusion

Literature has shown the importance of cooperative public procurement as a strategic interventionist tool towards addressing socio-economic challenges in local economies. The implementation of Cooperative Public Procurement systems in local government is important to the promotion of cooperative governance within the South African context.

The research findings support the establishment of Cooperative Public Procurement in the study area.

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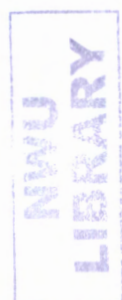
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Appendix 1 Survey Questionnaire

A. A Survey on Cooperative Public Procurement for Organs of State operating within the Rustenburg Local Municipality's area of jurisdiction, North West Province, South Africa.

Directions: Please write your answers to the following questions using the spaces provided. Mark the correct answer with an X where required.

Definitions: An organ of state refers to all government departments (national and provincial), government institutions in the local sphere of government (Municipalities), public and municipal entities, and all other state owned institutions.

1. How would you rate your understanding of the 'joint public procurement' concept?

Excellent	Good		Fair		Poor	
-----------	------	--	------	--	------	--

2. Has your organisation/department procured goods/services jointly with any other organ of state before?

Yes		No	
-----	--	----	--

3. Would you support the use of a centralised supplier database system, located with the host Municipality for the procurement of goods/services for your organisation?

Yes		No	
-----	--	----	--

4. Would you agree that a joint purchasing agreement with the Municipality for the purchase of certain identified goods/services could be beneficial in meeting your organisations'/departments' policy objectives towards local socio-economic development?

Yes		No	
-----	--	----	--

5. Would you consider buying certain identified goods/services jointly with other organs of state operating within the RLM?

Yes		No	
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Appendix 2

An introductory letter to accompany the questionnaire in Annexure 1

To : Director Generals (National Government)
Deputy Director Generals (North West Province)
Heads of Departments
Directors in Finance Directorates (Local Government)
CEOs of Public Entities

Good Morning,

A SURVEY ON COOPERATIVE PUBLIC PROCUREMENT FOR ORGANS OF STATE OPERATING WITHIN THE RUSTENBURG LOCAL MUNICIPALITY'S AREA OF JURISDICTION, NORTH WEST PROVINCE, SOUTH AFRICA.

I am the Coordinator: Enterprise Support for the Rustenburg Local Municipality.

I am conducting a survey, as part of the Municipality-sponsored MBA thesis, on the possibilities of developing joint public purchasing agreements for organs of state operating within the Rustenburg Local Municipality's area of jurisdiction.

With a centralised e-procurement system in place, it is believed that the host Municipality, Rustenburg Local Municipality, and participating organs of state having offices within the locality, will benefit from a joint purchasing arrangement/agreement on certain identified items. The benefits are expected to be on: minimised purchasing transaction costs; low product/service prices as a result of bulk purchase discounts; less duplication and repetition of procurement processes; structured on local economic development (support) programmes; improved reporting and accounting on total public procurement spend in the locality.

Please be kind to take five minutes of your time to respond to the five simple questions in the attached questionnaire.

You may want to read all the questions before you start answering.

Thank you for your assistance.

Yours Sincerely,

Othusitse Rapoo (Mr.)

Appendix 3
Organs of State operating within the Rustenburg Local Municipality and the highlighted participants to the study

No.	Name of Organ of State	Telephone Contacts
1	South African Police Services	014 565 9000
2	Department of Education	014 592 8624/20
3	Department of Social Development	014 592 2298/ 014 594 2810
4	Khula Finance Enterprise	014 592 6391
5	Small Enterprise Development Agency	014 592 3696
6	Department of Public Works	014 594 0990
7	Department of Transport	014 592 0531
8	Department of Environment, Tourism and Conservation	014 597 3597
9	Bojanala Platinum District Municipality	014 590 4502
10	Department of Home Affairs	014 592 4712
11	Department of Health	014 594 8300
12	South African Revenue Services	014 592 2035
13	Invest North West	014 594 2570
14	Correctional Services	014 592 1612
15	Department of Agriculture	014 592 9282
16	Department of Labour	014 597 1288
17	Finance	018-387 4441 beautyph@nwpg.gov.za jntmohlala@gmail.com
18	Economic Development & Tourism	Atlaletsi@nwpg.gov.za
19	Sport, Arts and Culture	
20	Transport, Roads and Community Safety	nic@nwpg.gov.za
21	Job Shimankane Tabane Provincial Hospital	
22	Government Communications (GCIS)	012 314 2150
23	Justice & Constitutional Development	012 315 1645
24	Minerals & Energy	
25	Public Protector	
26	Magalies Water	
27	Telkom	
28	Eskom	
29	Independent Complaints Directorate	
30	IDC	
31	Rustenburg Local Municipality	