SUPPLY CHAIN MANAGEMENT IMPLEMENTATION

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A DISSERTATION SUBMITTED IN FULFILLMENT OF THE REQUIREMENT FOR THE DEGREE OF MASTERS OF COMMERCE (M COM) IN MANAGEMENT

SCHOOL OF ACCOUNTING AND MANAGEMENT SCIENCES

FACULTY OF COMMERCE AND ADMINISTRATION

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DECLARATION

I hereby declare that the dissertation entitled "Supply Chain Management implementation in the Central District Municipality" is my own work that I carried out in the Northwest University-Mafikeng Campus, department of management as a pre-requisite for the degree of masters of commerce in management. This study contains no material which has been accepted for the award of any other degree or diploma in any university or other institution, and to the best of my knowledge contains no material previously published or written by another person, except where due reference is made.

SIGNATURE **DATE**

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I.M AMBE

SIGNATURE **DATE**

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LGK GODJI (SUPERVISOR/HEAD OF DEPARTMENT)

DEDICATION

I dedicate the research project titled, "Supply Chain Management implementation in the Central District Municipality"

TO:

DATEH PA JOSEPH AMBE II

ACKNOWLEDGEMENT

Before I proceed, firstly I'll give thanks to the almighty God for given me the strength I needed to overcome my challenges in the course of the study.

When I started the study, there were just too many challenges ahead of me. There are many people whom I will like to thank for their contribution, support and encouragement without which the study could not have been successful.

Firstly, thank you Mr. Godji for all the support you gave me as a supervisor, head of department, and a father. Your numerous advices and support through out my stay in the Department and the university is greatly appreciated.

I wish to specially thank my brother Mr. CM. Ambe for all his great contributions, support and encouragement. You serve to me as a brother, father, lecturer, supervisor and the core behind the success of this research.

Many thanks to my one and only mom Queen Ambe, who made me feel comfortable and provided me with love that I needed to make this achievement. Your advices were highly utilised.

And finally my utmost appreciation and indebtedness to members of staff in the department of Management and friends who have in one way or the other contributed to the success of this study.

ABSTRACT

The aim of this research was to examine whether and to what extent supply chain management (SCM) officials in the Central District Municipality designed and implemented SCM in a manner that encouraged sound financial management and compliance to SCM legislative requirements in local government. The substantive area of research was the Central District Municipality and its five local municipalities.

The researcher used both qualitative and quantitative research designs with semi-structured face-to-face interview questionnaire administered over three months. The sampling population was the Central District Municipality and its local municipalities. The researcher conducted 30 interviews and the research analysis strategy was the grounded theory supported by quantitative presentation of closed ended questions in tables and figures with the use of statistical package for social sciences (SPSS).

The findings of the study revealed that Central District Municipality to a certain extent depicted the practice of some of the elements of SCM. SCM implementation is currently at an infancy stage and these municipalities do not fully comply with national treasury circulars and regulations. The municipalities are faced with problems of lack of knowledge, skills and capacity. The study concludes with the development of proposition that need to be tested on SCM implementation and recommendations on how the central district municipality can improve SCM implementation process.

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ABBREVIATIONS

OUTLINE OF ABBREVIATIONS

BBBEE	Broad-Based Black Economic Empowerment
BEE	Black Economic Empowerment
CFO	Chief Financial Officer
CPAR	Country Procurement Assessment Review
DDP	District Development Planning
DTI	Department of Trade and Industry
HDI	Historically Disadvantaged Individual
IDP	Integrated Development Planning
ISCM	Integrated Supply Chain Management
JIT	Just in Time
LED	Local Economic Development
MFMA	Municipal Finance Management Act
MSA	Municipal Structure Act
MSCM	Municipal Supply Chain Management
NEPAD	New Partnership for Africa's Development
NSBC	National Small Business Council
NT	National Treasury
PFMA	Public Finance Management Act
PPPFA	Preferential Procurement Policy Framework Act
PSA	Public Service Act

RDP	Reconstruction and Development Programme
SA	South Africa
SAMDI	South African Management Development Institute
SALGA	South African Local Government Association
SARS	South African Revenue Services
SCM	Supply Chain Management
SCMP	Supply Chain Management Policy
SCMO	Supply Chain Management Office
SCMU	Supply Chain Management Units
SDA	Service Delivery Agreement
SDBIP	Service Delivery Budget Implementation Plan
SITA	State Information Technology Agency
SMME	Small, Medium and Micro Enterprise
SOP	Standard Operating Procedure
SPSS	Statistical Package for Social Sciences

CHAPTER ONE

ORIENTATION

1.1 INTRODUCTION

Supply chain management (SCM) can be defined as the collaborative strategy that aims to integrate procurement and provisioning processes in order to eliminate non-value added cost, infrastructure, time and activities to competitively serve end customers better. The essence being integrated planning of operations, tactics and strategies (South Africa (SA), 2003a: 1). It is becoming more and more predominant in offering a solution to keep costs to a minimum and to offer an acceptable level of services. Creating a seamless operation from the point of origin to the point of consumption is the main aim of SCM. Minimising costs incurred throughout the whole supply chain process without sacrificing services would also be a focus area (Anon2, 2003: 3).

SCM is an integral part of prudent financial management. It introduces internationally accepted best practice principles, while at the same time addressing the government's preferential procurement policy objectives (OGC, 2005: 11). Integrated SCM aims to add value at each stage of the process from demand of goods or services to their acquisition, managing the logistics process and finally, after use, to their disposal. In doing so, it addresses deficiencies in current practice related to procurement, contract management, inventory and asset control as well as obsolescence planning. Uniformity in bid and contract documentation and options as well as bid and procedure standards, among others, will promote standardisation of SCM practices (National Treasury (NT), 2003a: 2).

1.1.1 Background to procurement reforms in government

Procurement reforms in government started in 1995 in South Africa and were directed at two broad focus areas, namely the promotion of principles of good governance and the introduction of a preference system to address certain socio-economic objectives. The procurement reform processes were embedded in section 112 of the Municipal Financial Management Act (Act No 56 of 2003) (MFMA) and section 76(4) (C) of the Public Finance Management Act (PFMA) and the Preferential Procurement Policy Framework Act (Act No 5 of 2000) (PPPFA) (SAMDI, 2005: 3). SCM unit at the national treasury in 2001 completed a joint country procurement assessment review (CPAR), with the World Bank to assess procurement practices through out the public sector. The CPAR identified certain deficiencies in the current practices relating to governance, interpretation and implementation of PPPFA and its associated regulations. These include:

- The composition of tender (bid) committees gave rise to serious conflicts of interests.
- The procurement and provisioning procedures were ruled driven and value for money was almost always equated to the lowest price tendered – the emphasis were exclusively focused on monitoring inputs.
- Procurement and provisioning activities often operated in isolation from other management activities, with little or no linkage to budgetary or strategic planning and integrated development plan (IDP) objectives.
- Asset management focused on inventory control rather than on ensuring a satisfactory return on the capital invested in inventories or assets.

- There was a lack of uniformity in documentation that caused uncertainty and inefficiencies, both on the part of bidders and also procurement practitioners.
- Consultants were not selected in a systematic and competitive manner.
- The preferential procurement policy framework act (Act No 5 of 2000) (PPPFA) and its associated Regulations are complex and difficult to implement correctly.
- Procurement practitioners were not adequately trained in its application.
- The costs and outcomes of the PPPFA were not fully quantified; hence it was impossible to evaluate the merits of the system (National Treasury (NT), 2003b: 3).

The systems of procurement and provisioning were fragmented owing to the fact that tender boards were responsible for procurement whilst provisioning was largely underwritten by norms and standards within the logistics system driven by the national treasury. Effective and efficient financial management within government was continuously questioned. Similarly the logistics system as a tool for asset management raised concerns due to the lack of proper handling of movable assets within the government environment. Concurrently more emphasis was placed on integrated infrastructure development and the unlocking of government property to contribute to the optimalisation of resources. The aforementioned situation led the provincial treasuries, in conjunction with the national treasury, over the past years; to vigorously embark on a reform initiative to introduce best procurement practices that are efficient and effective. To this end a new and strategically more powerful concept was pursued, namely, supply chain management (SCM). The tender board causes the systems to be inefficient as far as

the method of procurement; logistics management and obsolescence planning are concerned. Since the advent of the PFMA, it has become increasingly important to reassess the aforementioned situation and to develop an integrated approach that largely places the responsibility with the accounting officers of departments and municipalities (Mkhize, 2004: 4).

In 2003, a SCM document named "Policy to guide uniformity in procurement reform processes in government" in conjunction with provincial treasuries was adopted to replace the outdated procurement and provisional practices in municipalities. The "Supply Chain Management: A guide for accounting officers of municipalities and municipal entities", was also developed to give guidance to the adoption of the integrated SCM function and its related managerial responsibilities assigned to accounting officers in terms of sections 62 and 95 of the Municipal Finance Management Act (MFMA). The guide explains how chapter 11, part 1 of the MFMA, the municipal SCM regulations, and the SCM policy of the council or board of directors can be adopted into an operational process for accounting officers at each step of the SCM cycle.

The principle behind the policy guide is based on the fact that managers should be given the flexibility to manage within a framework that satisfies the constitutional requirements of transparency and accountability. There are many obstacles to overcome, most notably, a series of deeply ingrained practices and the cumbersome procurement processes, (NT, 2005a: 9).

1.2 PROBLEM STATEMENT

According to the national treasury (MFMA circular No 16 of April 2005), workshops were organised for municipalities in each province of the country aimed at providing detailed guidance towards the implementation of the SCM policies and regulations. The workshops were targeted at chief financial officers, heads of SCM and relevant provincial officials directly involved in the MFMA implementation programme.

Currently many municipalities are not up to date in efficient and effective implementation of the SCM policies and regulations. This has lead to wastage of money and resources, which the government can ill afford given its very limited resources as, measured against the huge and growing demands for its services. The financial and economic consequences of the outdated and ineffective procurement policies and practices have been extremely damaging and costly to the country (Mkhize, 2004: 3).

The research was aimed to examine whether and to what extent SCM officials in the Central District Municipality designed and implemented SCM in a manner that encouraged sound financial management in the local government sphere and in compliance to legislative requirements.

1.3 OBJECTIVES OF THE STUDY

The main aim of the study was to examine the implementation of the various SCM regulatory frameworks, which includes policies, regulations, guidelines, circulars and the MFMA as instituted by the national treasury in the Central District Municipality of the Northwest Province, Republic of South Africa.

The specific objectives of the study were:

- To examine the practice (design and implementation) of municipal SCM by Central District Municipality.
- To find out whether and to what extent SCM officials in the Central District Municipality complied with legislative requirements in the design and implementation of SCM.
- To investigate the linkages between SCM, IDP and other financial management systems in the municipality.
- To compare SCM practice (design and implementation) and compliance to legislative requirements between the Central District Municipality and its five local municipalities.

1.4 THEORETICAL AND LEGISLATIVE FRAMEWORK OF SUPPLY CHAIN MANAGEMENT

SCM is a concept that was brought into municipal management from 2003 due to inefficient procurement processes. As a result, there are limited materials on municipal SCM. Therefore most literature reviewed was drawn from press releases of the national

treasury, government gazettes, government circulars, newspapers and reports from municipalities. The literature comprises of the legislative framework and other related relevant literature of SCM which include municipal SCM, elements of SCM, legislative requirement of SCM, IDP in municipalities, service delivery and budget implementation plans as well as municipal services delivery.

1.5 RESEARCH DESIGN

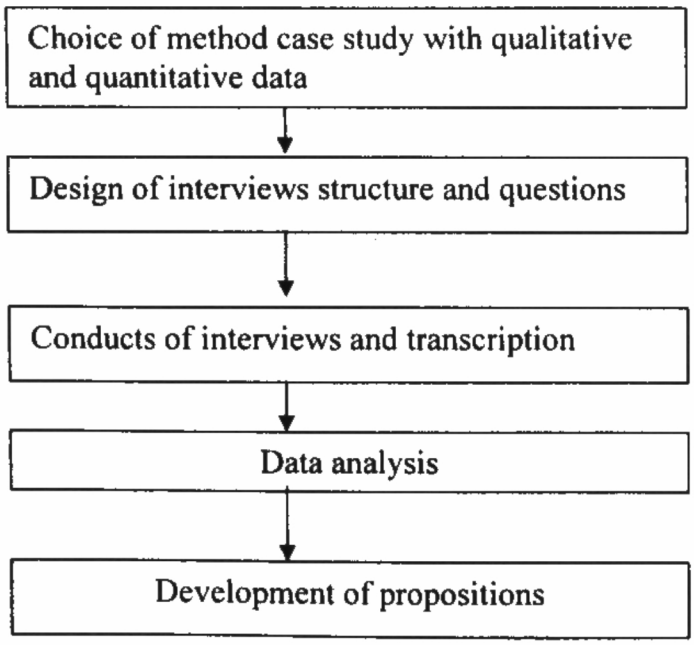
The researcher employed an implementation evaluation study. The research design used was qualitative and quantitative design in the implementation of the various SCM circulars and regulations. The qualitative design uses an in-depth description with high validity and reliability. The study utilised the case of Central District Municipality and its local municipalities. The key research questions were descriptive and exploratory and the main source of data was primary and secondary sources. The research instruments were interviews and documentations. The sampling population comprised of six municipalities (Central District Municipality and its five local municipalities). The researcher conducted thirty interviews that depended on theoretical saturation.

The researcher used grounded theory approach with an exploratory qualitative case study technique. Grounded theory is a qualitative research analysis technique whereby theory is generated from the collected data (Punch, 1998: 16; Taylor and Bogdan, 1998: 65; Charmaz, 2000: 512; Ryan and Bernard, 2000: 880; Locke, 2001: 64). Inductive processes are used to collect, analyse the data and theories, concepts, hypotheses as well

as propositions are developed from the collected data and not from prior theories, assumptions or other research (Glaser and Strauss 1978: 5).

Face-to-face interviews employing semi-structured questionnaires with open and closed questions were the primary data collection technique. The interviews were conducted with SCM officers in the Central District Municipality and its local municipalities from the 5th of June to 24 of August 2006. The interviews were conducted and recorded in a digital recorder and subsequently transcribed. The transcribed data were analysed using coding of key words and themes. Figure 1.1 shows a brief overview of the grounded theory methodology:

Figure 1.1: Overview of the grounded theory



Source: Glaser and Strauss (1978: 6)

1.6 IMPORTANCE OF THE STUDY

The study is of great importance to municipal supply chain management (MSCM) officers, administrators and users within the municipalities for the following reasons:

- In procurement and service delivery, it should help in the implementation of threshold for obtaining quotations, soliciting competitive bidding and how to act in cases of emergency.
- It should help Municipalities to revise their existing tendering policies and ensure it complies with that of MFMA. It should help in project consolidation; budget linkage, strategic planning and integrated development plan objectives.
- It should help in the implementation of municipal policy principle of delegation, decision-making and accountability, which ensures fairness, equitability, transparency, competitive and cost effective.
- It should bring out linkage between SCM and IDP for better service delivery, reduce unemployment and increase economic growth as well as the oversight role councils has in implementing the new SCM policies.
- The study should also promote the understanding of measuring valuable attributes and identifying attributes in services and products.

1.7 SCOPE OF THE STUDY

The scope of a study gives the extent to which the research was carried out. The research was carried out in the Central District Municipality in the North West Province, aimed to determine if the municipalities (which includes Mafikeng Local Municipality, Ditsobotla Local Municipality, Tswaing Local Municipality, Ramotshere Moiloa Local Municipality

and Ratlou Local Municipality) implemented the various SCM regulations adequately as instituted by the national treasury (MFMA (56) 2003). The study was also ment to find out if there was a difference in the implementation of SCM between the two categories of local government. The research was conducted on a full time bases ranging from February 2006 to November 2006. The method of data collection was both primary and secondary and the measuring instruments were semi-structured interviews and documents. The data collected were analysed both qualitatively employing the grounded theory analysis and quantitatively with the use of statistical package for social sciences (SPSS).

1.8 DEFINITION OF TERMS

TERMS	DEFINITION
Accountability	Accountability is the obligation of political representatives as well as public officials to act responsibly without ulterior motives. It is linked to and supported by the values of quality service, competence, due care, independence, objectivity and fairness (NT, 2005a: 9).
Acquisition management	The management of procurement by a municipality/municipal entity to decide on the manner in which the market will be approach; to establish the total cost of ownership of a particular type of asset; to ensure that bid document is complete (NT, 2005: 25).

Demand management	The supply chain management process that balances the customers' requirements with the capabilities of the supply chain. With the right process in place, management can match supply with demand proactively and execute the plan with minimal disruptions (NT, 2005: 22).
Disposal Management	Disposal management is the letting away of asset that are no longer needed, including unserviceable, redundant or obsolete assets (NT, 2005: 96).
Grounded theory analysis	Grounded theory is a qualitative research analysis technique whereby theory is generated from the collected data. Inductive processes are used to collect and analyse the data and theories, concepts, hypotheses and propositions are developed from the collected data rather than from prior theories, assumptions or other research (Strauss and Corbin, 1990: 24)
Integrated Development Planning	The planning process, which combines legislative requirements, stakeholder needs, political priorities, intergovernmental alignment, budget parameters, institutional capacity, strategic management and implementation (SA, 2005c: 1).
Legislation	The making or giving of laws; specifically: the exercise of the power and function of making rules that have the force of authority by virtue of their promulgation by an official organ of the state (SA, 2003: 3).

Logistics	The process of planning, implementing, and controlling the efficient, cost-effective flow and storage of raw materials, in-process inventory, finished goods, and related information flow from point-of-origin to point-of-consumption for the purpose of conforming to the customer requirements (Stock and Lambert, 2001: 57).
Logistics Management	The process of strategically managing the acquisition, movement and storage of materials, parts and finished inventory (and the related information flows) through the organisation and its marketing channel in such a way that current and future profitability is maximised through the cost-effective fulfillment of orders (Anon2, 2003: 4).
Municipal Service Delivery	The delivering of services in such a way that gives priority to the basic needs of the community, promotes the development of the community (SA, 2003f: 5).
Policy	A plan or course of action, of a government, political party, or business, intended to influence and determine decisions, actions, and other matters (NT, 2003a: 2).
Risk management	The provision of an effective system for identification, consideration and avoidance of potential risks in the SCM system. Risk refers to any unintended or unexpected outcome of a decision of course of action (Ehlers and Lazaby, 2004: 78).
Supply Chain Management	The integration of all associated with the flow of goods or services from the raw materials stage through to the end users, as well as the associated information flows both up and down the supply chain (SA,

2003a: 1).

Supply chain performance The monitoring process, undertaking a retrospective analysis to determine whether the proper processes have been followed and whether the desired objectives were achieved (Ehlers and Lazaby, 2004: 79).

Supply Chain The network of facilities and distribution options that performs the functions of procurement of materials, transformation of these materials into intermediate and finished products, and the distribution of these finished products to customers (Ganeshan and Harrison, 1995: 41).

1.9 ORGANISATION OF THE STUDY

The study comprised of six chapters:

- Chapter one is termed orientation and consists of the introduction, problem statement, objectives of the study, theoretical and legislative framework of the SCM, research design, importance of the study, scope of the study, plan of the study and organisation of the study.
- Chapter two presents the links between theoretical and legislative frameworks of SCM. It comprised of the concept of SCM and it frameworks, legislative requirement of SCM, role players in supply chain management, integrated

development plan (IDP) as a tool for SCM as well as municipal service delivery options.

- Chapter three reflects definition of the problem and states the research questions. It provides the rationale to the study.
- Chapter four presents the research design and analysis including the sampling population, sampling size, measuring instruments, data collection methods and method of data analysis.
- Chapter five reflects the results and interpretation thereof.
- Chapter six focuses on the discussion, conclusions drawn from the study, implications, recommendations and the limitation of the study and avenues for further research.

CHAPTER TWO

THEORETICAL AND LEGISLATIVE FRAMEWORK OF SUPPLY CHAIN MANAGEMENT

2.1 INTRODUCTION

This chapter reflects the theoretical and legislative framework of SCM and includes municipal SCM, elements of SCM, legislative requirement of SCM, types of municipalities, IDP in municipalities, service delivery and budget implementation plan as well as municipal services delivery.

2.2 MUNICIPAL SUPPLY CHAIN MANAGEMENT

2.2.1 Introduction

SCM is a system approach to managing the entire flow of information, materials and services from raw materials suppliers through factories and warehouses to the ends users (Leenders and Fearon, 1997: 295). It was brought into municipal management in 2003 due to inefficient procurement processes. As a result, there are limited materials on municipal SCM. Therefore most information for review was from press releases from the national treasury, government gazettes, government circulars, newspapers and reports from municipalities among others.

According to Fredendall, Hill and Hill (2001: 4) "SCM represents a significant change in the way that organisations view themselves". The evolution of the SCM function began in the 1960s. Traditionally, organisations would have suppliers from which they would buy and customers to whom they would sell. It was historically never considered possible to have the supplier or customer integrated into the supply chain as a partner. In the 1960s to the 1970s, what is currently known as SCM was referred to as materials logistics management or simply materials management. Management functions were grouped together in material flow. Purchasing, operations and the distribution were integrated to improve customer service and to decrease operating costs. Organisations that were able to integrate the functions successfully achieved better overall performance. Some of the constraints that were experienced include lack of customer and supplier responsiveness. This led to delayed market supply and customer needs that could not be met in time (Fredendall et al. 20021: 5). In the 1980s and the 1990s supply management saw a shift to integrate the various functions. The authors further states that the integration led to higher profit margins and SCM best practices were adopted. The power of SCM lies in supply chain integration and the integration of the customer into the supply chain improves the information flow all along the supply chain.

2.2.2: Scope of Supply Chain Management

SCM is an integral part of financial management, which intends to introduce international best practice. It seeks to breach the gap between traditional methods of procuring goods and services and the balance of the supply chain and at the same time addressing procurement related matters that are of strategic importance (Holmberg, 2000: 849; NT,

2003a: 19). The introduction of an integrated supply chain management (ISCM) function intends to address the division between the current outdated procurement and provisioning processes in government that cause the present system to be inefficient in its method of procurement, contract management, inventory or asset control and obsolescence planning. A supply chain is a network of facilities and distribution options that performs the functions of procurement of materials, transformation of these materials into intermediate finished products and the distribution of these finished products or service to customers (Ganeshan and Harrison, 1995: 41). Supply chains exist in both public and private sectors, although the complexity of the chain may vary greatly from each and among others. The supply chain integrates all the activities from the various partners in the chain to achieve better overall performance than what could have been achieved by each individual party (Holmberg, 2000: 848).

SCM represents a radical departure from the traditional procurement concept, which was applied in the public sector. Indeed, the term "procurement" itself implies that the government, both national and provincial have in the past been primarily interested in the acquisition phase of procuring goods and services, to the detriment of the planning, budgeting, asset management and disposal aspects of the supply chain. SCM, in contrast, is an interconnected process of buying, storing, utilising and disposal. As such it closes the gaps and addresses the whole cycle of procurement from demand management, acquisition management, logistics management, disposal management, risk management and regular assessment of performance. Each link in the SCM chain is given equal prominence and value is added at each stage of the process (Mkhize, 2004: 5).

In the planning and buying phase, prominence is given to issues such as linking the acquisition of goods and services to departmental strategic objectives, professionally managing the bid process and meeting contractual obligations timeously. In the storing phase attention is paid to issues such as timing of delivery (just in time principles could apply) and methods of receiving, storing and re-ordering. The usage phase reflects various aspects of logistics and asset management that came to the fore, such as appropriate allocation, matching the right product for the right purpose, maintenance and control of the assets, consumption control and most importantly, contract management. Finally, in the disposal phase issues such as the timing and method of disposal are considered (Mkhize, 2004: 4).

An important aspect of the SCM regime is that of risk management that acknowledges that all the activities of an institution involve some element of risk and management should decide what an acceptable level of risk is. In the case of SCM this will include ensuring that risks such as price or currency fluctuations are allocated to the appropriate party in unambiguous and legally watertight contract documents. Another important aspect is that of performance monitoring, whereby departments and accounting officers will be expected to regularly review their SCM performance in terms of specified deliverables (such as turn-around times, number and frequency of appeals) and other service delivery outcomes. The SCM framework applies to the acquisition and disposal of all goods, services, construction and road works and moveable property of all institutions to which the PFMA and MFMA applies. Perhaps the most significant change, which the phased introduction of SCM will bring about, is vastly increased delegation of

powers to accounting officers to implement and manage their own SCM processes. Indeed, the principle of delegating powers and functions to departments where services are procured and delivered is an integral aspect of SCM. In this way SCM is a natural outcome of the principles underlying the PFMA (NT, 2003a: 4). The SCM framework gives accounting officers more scope and flexibility to manage their own SCM processes, but the accountability chain is at the same time strengthened and reinforced, whereby accounting officers will have to account to the auditor-general and parliamentary committees such as the role of the select committee on public account (SCOPA) for lapses, failures or flaws in their department's or municipal SCM practices.

SCM involves the management of working capital that is invested in goods, stores and services with the objective of optimising the economic return on such investment. It entails proper planning at budgeting phase, careful product or services selection, supplier selection and management, bidding, requisitions, catalogue management, ordering, invoicing and payment, customer service and asset and inventory management. The process begins when the needs are identified during the strategic planning phase of the organisation when service delivery targets are identified, to the point of finally disposing of an asset.

Uniformity of bid and contract documentation and options as well as bid and procedure standards, among others, will promote standardisation of supply chain management practices.The supply chain encompasses all activities associated with the flow and transformation of goods from the raw material stage (Extraction to the end user) as well

as the associated information flows. Material and information flow both up and down the supply chain (Handfield and Nichols, 1999: 2).

SCM is a management philosophy aimed at integrating a network of stream linkages (Sources of supply), internal linkages inside the organisation and downstream linkages (distribution and ultimate customers) in performing specific processes and activities that will ultimately create and optimize value for the customer in the form of products and services which are specifically aimed at satisfying customer demands (Hugo, Badenhorst-Weis and Van Rooyen, 2002: 29). The following value adding outcomes can be expected from the implementation of SCM across the spheres of government:

- The transformation of outdated procurement and provisioning practices into an integrated SCM function;
- A common understanding and interpretation of preferential procurement policy;
- Consistent application of best practices;
- Systematic and uniform approach to appointment of consultants;
- Increased independence and accountability of accounting officers;
- Improved contract and risk management;
- Increased value for money expended (Hugo et al. ibid).

The implementation of SCM policy and practices will result in the professionalisation of SCM throughout the public sector. It will address at a stroke the inefficiencies of current procurement practices and deficiencies in procurement planning, contract management, inventory/asset control and risk assessment and management (NT, 2004a: 1). The

introduction of the principles of supply chain management will require of accounting officers and accounting authorities to extract accurate commercial and other relevant information, so as to effectively measure the achievement of government's procurement objectives (NT, 2005a: 27). The SCM unit in South Africa is headed by the national treasury and has published MSCM regulations in terms of section 168 of the MFMA to prescribe minimum norms and standards for SCM practices at municipalities and municipal entities. This has helped to establish minimum reporting requirements for accounting officers (NT, 2005a: 27: SA, 2005: 20).

(a) Characteristics of supply chain

According to Coyle, Bardi and Langley (1996:10), the following are important characteristics of supply chain:

- Maintaining the visibility of inventory throughout the entire supply chain pipeline and striving towards the minimisation of uncertainty. Uncertainty creates the build-up of safety stock inventory or non-optimal supply chain practices such as forward buying and is one of the major challenges of SCM.
- Coordinating inventory levels all along the supply chain in order to be able to minimise inventory investment and cost.
- The focus should be on total landed cost, as this optimises the supply chain. Landed cost refers to the final, total actual cost to the customer and includes; the initial purchase price and delivery cost, inventory cost and other associated costs. Organisations are accustomed to focusing on their own inherent cost and may not

be aware of how their business approach affects the vendors or suppliers downstream and the final landed price.

- The sharing of information is extremely important but still a thorny issue especially in cases where the vendor may also deal with the company's competitors.
- Risk is another concern as shared risk is a requirement from a supply chain perspective.
- Supply chain planning is becoming more popular in a number of industries, particularly in the automotive industry where both vendors and customers have become more involved in the process.
- Joint planning has created new organisational relationships such as strategic alliances and partnerships.

The above characteristics serve as an indication that information sharing and integration of planning practices are necessary for effective supply chain functioning. There are however some difficulties in integrating the various business and municipal processes and getting the various parties in the supply chain to share information. The difficulties that are experienced in the supply chain functioning as cited by Daniel and Gert (2000: 89) are discussed reflected in the following discussion:

(b) Difficulties of supply chain management

The need exists for the different stages in the chain to be integrated. Each stage is an independent entity with its own operations, controlling its own resources and setting its own objectives. These stages can each be seen as a supply chain on its own, thereby showing that an organisation may have several supply chains within the main supply chain (Schary and Skjott-larson, 1995: 21). A major problem in the supply chain is that the various partners have different objectives and act accordingly and this is often a result of the supply chain becoming more complex. An entity is usually involved in many supply chains and the difficulty lies in knowing whether to integrate or disassemble them. The problem that exists with the various partners in the supply chain is that the goals of the participants differ and neither party sees the need for information sharing. If timely information cannot be obtained, inefficiencies in supply chain performance are inevitable. One of the main causes for the lack of common goals is the functional silo in the organisational structure. This leads to a short-term focus and the other functional silos do not acknowledge the potential of the logistics function. A fact that is often overlooked is that the benefits of SCM take some time to materialise (Akkermans, Bogerd and Yucesan, 1999: 64).

© Changes required for better supply chain management

Inefficiencies in organisations are a driving factor in the quest for better SCM according to Handfield and Nichols (1999: 12). The changes that are required for better SCM are listed below:

- There should be greater sharing of information between vendors and customers (Handfield et al., 1999: 13).
- Horizontal business processes must replace vertical departmental functions;
- There must be a shift from mass production to customised products.
- An increase in reliance on purchased materials and the outside processing thereof with a simultaneous reduction in the number of suppliers.
- Greater emphasis should be placed on organisational and process flexibility (Dubler and Burt, 1996: 672).
- Processes should be coordinated over many sites.
- Employees need to be empowered and rules-based real time decision support systems must be put in place.
- New products need to be placed on the market more quickly due to competitive pressure.

It can be concluded that the changes that are required to ensure better SCM and eventually obtaining an optimised supply chain are reliant on information that is timely, accurate, relevant and reliable. The sharing of information between supply chain members and customers will ensure that there is less uncertainty in the planning process and that cost reductions can be achieved by having less inventory and that customer service is improved by obtaining shorter lead times (Fredendall et al., 2001: 5). It is therefore necessary to understand the importance that there is need for interdependence of systems partners in the supply chain. All the relevant partners or entities in the supply chain will have to work as one to exploit opportunities to deliver a superior service.

Knowledge of the market and the use of technology to gather data on market demands and exchange it between organisations will also be a critical success factor. The link between each node of the supply chain should be managed within the chain to achieve total synchronisation (Dobler and Burt, 1996: 670). Better supply chain optimisation can be obtained by following the seven principles of SCM.

(d) Benefits of supply chain management

There are a number of clear benefits to contracting authorities of improved efficiency and transparency in the management of municipal supply chains (OGC, 2005: 9). The benefits include: Better risk allocation. In an increasingly complex delivery landscape, effective risk allocation is a critical consideration in procurement. Risk should always be allocated according to the party best placed to manage it and a better understanding of the way in which the requirement can be delivered allows the authority to assess how risk can be allocated across the supply chain and how they can be managed most effectively. Great opportunities for innovation. Supplier innovation in the municipal supply chain can contribute to better quality, faster delivery and reduced whole life costs. Effective SCM offers strong potential for innovation to be released through the supply chain. Better-defined requirements through early supply chain involvement in the shaping of the business need. This could be through market sounding for example. The case for early supply chain involvement is likely to be stronger in output or outcome-based approaches or where the requirement is complex or innovative. Involvement of the supply chain at an early stage can be vital in establishing the right requirements and the approach to meeting them. Improved the ability to identify risks or bottlenecks in contract delivery through

greater authority awareness of exactly how the contract is going to be implemented and of the key SCM dependencies. Better quality solutions offered by suppliers as opportunities can be more easily identified in their supply chains to improve quality, increase delivery times and reduce costs.

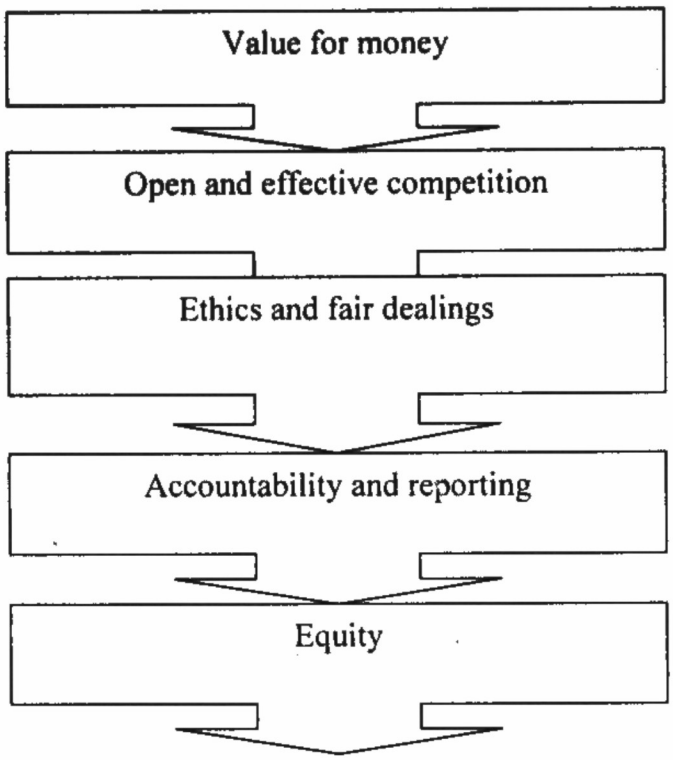
These benefits can lead to increased value for money and efficiency for an individual contracting authority. There are also wider benefits for the municipalities as a whole:

- SCM can contribute to improved long-term sustainability and better capacity management of supply markets through the availability of a more competitive and diverse supply base at subcontractor level. Municipalities should undertake a programme of work to look specifically at increasing competition and improving capacity planning in the local government market place because supply chain analysis is a component of this programme.
- More effective use of the supply chain contributes to the wider agenda of improving efficiency and value for money in the municipality (OGC, 2005: 12).

2.2.3 The five pillars of Supply Chain Management

Proper and successful municipal procurement rests upon certain core principles of behaviour – the five pillars of procurement. They are best described as the five pillars because if any one of them is broken, the procurement system collapses (NT, 2005a: 9). The five pillars of SCM are reflected in figure 2.2.1.

Figure 2.2.1 An illustration of the five pillars of supply chain management



Sources: NT (2004b: 9)

The following discussion focuses on the various pillars of SCM:

(a) Value for Money

This is an essential test against which municipalities must justify a procurement outcome. Price alone is often not a reliable indicator and municipalities should often obtain the best value for money by accepting the lowest price offer that meets mandatory requirements. Best value for money means the best available outcome when all relevant costs and benefits over the procurement cycle are considered. The procurement function itself must also provide value for money and must be carried out in a cost-effective way.

Procurement organisations, whether centrally located or devolved to individual municipalities should:

- **Avoid any unnecessary costs and delays for themselves or suppliers.**
- **Monitor the supply arrangements and reconsider them if they cease to provide the expected benefits.**
- **Ensure continuous improvement in the efficiency of internal processes and systems (NT, 2004b: 23).**

(b) Open and effective competition

This type of competition refers to and require the following:

- Framework of procurement laws, policies, practices and procedures that is transparent, they must be readily accessible to all parties.
- Openness in the procurement process.
- Encouragement of effective competition through procurement methods suited to market circumstances.
- Observance of the provisions of the Preferential Procurement Policy Framework Act (NT, 2001: 2).

Municipalities need to apply effort and research to get the best possible outcome from the market by ensuring that:

- Potential suppliers have reasonable access to procurement opportunities and that available opportunities are notified at least in the Government Tender Bulletin.

- Where market circumstances limit competition, municipalities recognise that fact, and use procurement methods that take account, of it.
- Adequate and timely information is provided to suppliers to enable them to bid;
- Bias and favouritism are eliminated.
- The costs of bidding for opportunities do not deter competent suppliers.
- Costs incurred in promoting competition are at least commensurate with the benefits received (NT, 2004b: 23).

(c) Ethics and fair dealing

In procurement, if all parties comply with ethical standards they can:

- Deal with each other on a basis of mutual trust and respect.
- Conduct their business in a fair and reasonable manner with integrity.

All municipal staff associated with procurement, particularly those dealing directly with suppliers or potential suppliers, are required:

- To recognise and deal with conflicts of interest or the potential thereof;
- To deal with suppliers even-handedly.
- To ensure they do not compromise the standing of the state through acceptance of gifts or hospitality.
- To be scrupulous in their use of public property.
- To provide all assistance in the elimination of fraud and corruption (NT, 2001: 2).

(d) Accountability and reporting

This involves ensuring that municipal officials and municipalities are answerable for their plans, actions and outcomes. Openness and transparency in administration, by external scrutiny through public reporting, is an essential element of accountability. Within the procurement framework:

- The various heads of municipalities are accountable to the accounting officer for the overall management of procurement activities.
- Heads of procurement and senior procurement directors are accountable to heads of municipalities for various high-level management and co-ordination activities.
- Individual procurement officers are accountable to heads of procurement, and to their clients, for the services they provide.
- All people exercising procurement functions must have regard to these guidelines and be accountable to management (NT, 2001: 4).

(e) **Equity**

The word 'equity' in the context of guidelines means the application and observance of municipalities' policies, which are designed, to advance persons or categories of persons disadvantaged by unfair discrimination. The fifth pillar is vital to the municipality. It ensures that the municipality is committed to economic growth by implementing measures to support community at large and especially to advance the development of the society and historically disadvantaged individuals (HDIs) (NT, 2004b: 6).

In accordance with the Reconstruction and Development Programme, SMMEs and HDIs need to play a bigger role in the economy. Greater participation in the economy and more diversified representation of blacks and gender role is essential. The government has implemented the Preferential Procurement Policy Framework Act as the foundation on which all procurement activities can be based. Its aim to: Advance the development of SMMEs and HDIs, promote people with disabilities, create new jobs, promote local enterprises in the municipality, in a particular region, in a specific local authority or in rural areas and support the local product (NT, 2001: 5).

2.2.4 Role players of Supply Chain Management

According to the SCM guide for municipality and municipal entities, role players in SCM are the executors in the implementation of SCM regulations and policies. These include the national treasury, provincial treasury, municipalities and municipal entities, which include the municipal council, the accounting officer and the municipal SCM units (NT, 2005a: 14). The role players of SCM includes:

(a) The National Treasury

According to Chapter 13 constitution of the republic of South African (Act No 108 of 1996), the national treasury is the head of the SCM and may promote and enforce transparency and effective management in respect of revenue, expenditure, assets and liabilities in each sphere of the government. In terms of section 5 of the MFMA, the national treasury inter alia may promote good budget and fiscal management by municipalities. For this purpose it may monitor the implementation of municipal budgets,

including their expenditure, revenue collection and borrowing. In addition, the treasury may investigate any system of financial management and internal control in any municipality or municipal entity and recommends improvements and or takes appropriate steps if a municipality or municipal entity commits a breach of the MFMA, including the stopping of funds (SA, 2003b: 5).

(b) Supply Chain Management Office

The supply Chain Management Office (SCMO) was established at the national treasury to oversee the implementation of SCM, in conjunction with provincial treasuries. Its main functions are to:

- Formulate and advise on SCM implementation.
- Administer national SCM legislation and regulations.
- Promote communications and liaison between different SCM units across all spheres of government.
- Issue regulations to ensure uniform application of SCM in government including:
    - Addressing the requirement for consistency with other policy initiatives in government.
    - Ensuring that material construction standards become increasingly aligned with those standards that support international best practice.
    - Establishing selection standards for the appointment of consultants.
    - Observing the principles of co-operative governance as expounded in the Constitution.

- Promoting the policy objectives outlined in the PPPFA, BBBEE Act and their accompanying regulations.

- Monitor for compliance with SCM regulations and guidelines.
- Establish minimum reporting requirements for accounting officers.
- Investigate complaints received from the public regarding bid procedures and irregularities.
- Maintain a register for tender defaulters, containing the names of tender defaulters as instructed by a court of law and which will be made public.
- Monitor the manner in which SCM is implemented in respect of government's procurement reform objectives, the manner in which targets are set and attained and value for money is obtained (SA, 2003b: 4).

The national treasury compiles a report mechanism to enable provincial treasuries to monitor the implementation of SCM in a municipality or municipal entity. It also fosters coherent financial management and supply chain practice in all organs of the state, across all three spheres of government (SA, 2003b: 5; SA, 2005a).

© Provincial Treasuries

Provincial treasuries may issue complementary guidelines within the parameters as set by the national treasury. These standards may not jeopardise national objectives. They are required to submit to the national treasury such SCM information as the national treasury may require.

(d) Municipalities or Municipal Entities

i) The Municipal Council

The MFMA provides clear guidance on the administrative roles and responsibilities of accounting officers and the oversight role of council. According to the MFMA, the municipal council is the highest authority in the municipality and strengthens the power of the council by vesting it with significant powers of approval and oversight. Given the importance of the approval and oversight role of councilors, the MFMA separates the policy-making responsibilities of these role-players from the implementation role of the municipal officials. Councilors are therefore not allowed to be members of a municipal bid committee or any other committee evaluating or approving bids, quotations, contracts or other bids, nor attend any such meeting as an observer (section 117 of the MFMA).

ii) The Accounting Officer

In terms of sections 62 and 95 of the MFMA, accounting officers are fully responsible and should be held accountable for any expenditures relating to SCM within their line of responsibility. The act requires that any expenditure incurred should be subject to appropriate regulations and accounting officers' directives and procedures. However, to ensure uniformity within the SCM system, guidelines issued by the national treasury will provide the necessary parameters. It is the responsibility of each accounting officer to implement the SCM policy adopted by council. The accounting officer may develop an implementation plan to assist with managing the implementation of the SCM policy (SA, 2003b: 6; NT, 2005a: 16).

iii) Municipal Supply Chain Management Units

In terms of national treasury (2005a: 16), council must establish the supply chain management unit (SCMU). It is the responsibility of the accounting officer to ensure that the SCMU is properly staffed. A parent municipality and a municipal entity under sole or shared control may establish a joint SCMU to implement their respective SCM policies. SCM is an integral part of financial management and the SCMU should preferably operate under the direct supervision of the chief financial officer. Municipalities or municipal entities should ensure clear lines of authority and accountability, as well as performance criteria that will contribute towards minimising risk, improving sourcing procedures and processes and enhancing asset and inventory management (SA, 2003b: 8).

2.3 ELEMENTS OF SUPPLY CHAIN MANAGEMENT

2.3.1 Introduction

In the past, most of the focus in the procurement process was devoted to "meeting the requirements of the Tender Board". Tender board was abolished and institutions are becoming responsible for their procurement processes, within the framework published by the national treasury (2005a: 9).

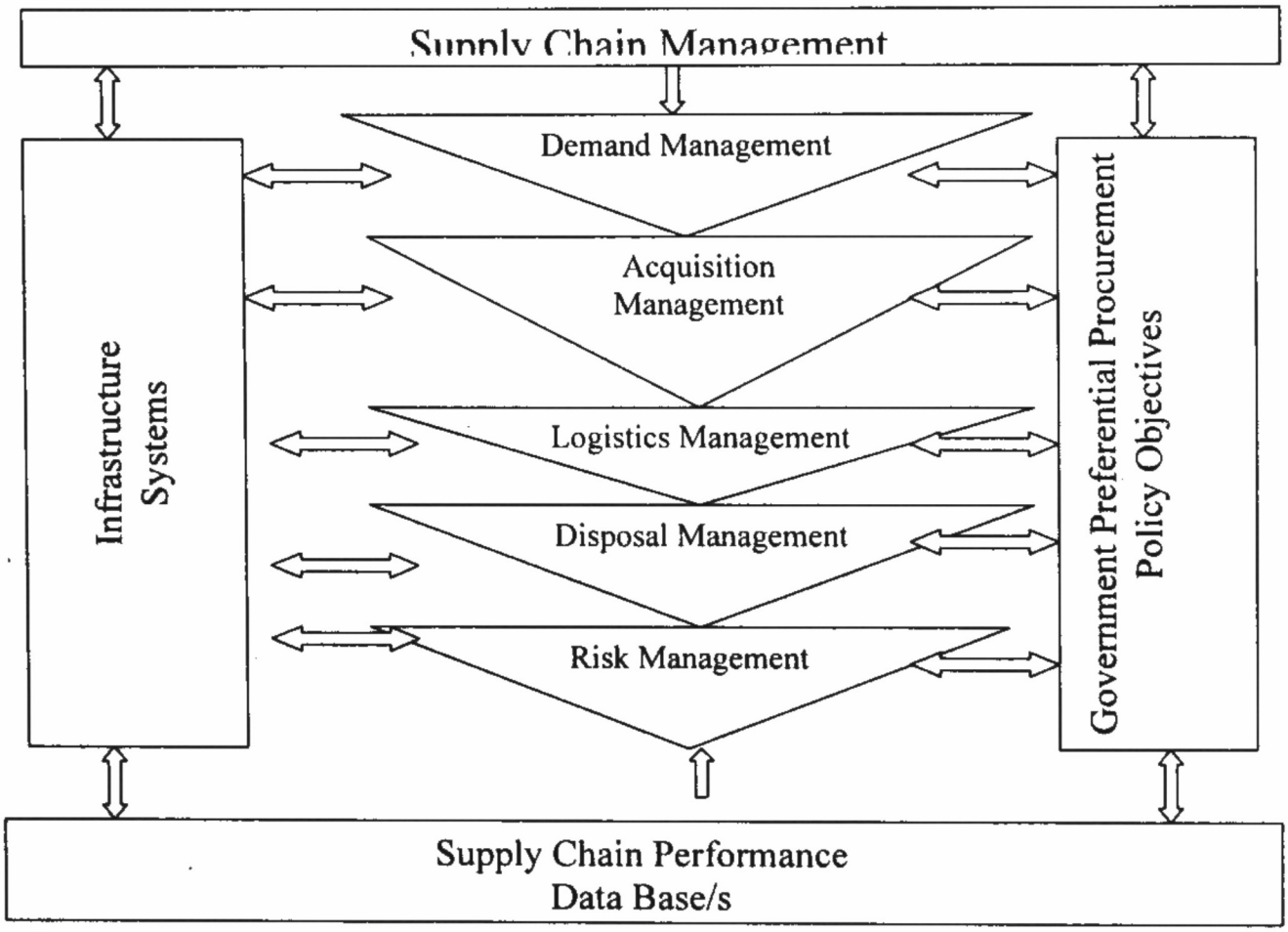
The elements of SCM include:

- Demand management;
- Acquisition management;

- **Logistics management;**
- **Disposal management;**
- **Risk management; and**
- **Performance management**

Figure 2.3.1 shows the framework for the government's SCM as stated by the national treasury (2005a: 22), where value is added at each phase of the process.

Figure 2.3.1: Framework of supply chain management



Source: NT (2005a: 22)

2.3.2 Demand Management

Demand management is the first phase of SCM. The objective is to ensure that the resources required to fulfil the needs identified in the IDP of a municipality or municipal entity is delivered at the correct time, price and place and that the quantity and quality will satisfy those needs. As part of this element of SCM, a total needs assessment should be undertaken. Such need assessment will ensure that: Goods and services are required in order to deliver the agreed service specifications are precisely determined, requirements are linked to the budget and the supply industry has been analysed. It is vital for municipal managers to understand and utilise sound techniques to assist them in their planning, implementation and control activities. As part of the strategic plan of the municipality, resources required for the fulfilment of its obligations should be clearly analysed. This includes a detailed analysis of the goods, works and services required, such as, how much work can be accomplished, how quickly and with what material and equipment and so on (SA, 2005a: 14).

(a) Demand management process

The following are among others, key elements of the demand management process: Involvement in the strategic planning process, understanding the future needs, identifying critical delivery dates, the frequency of the need, linking the requirements to the budget, embark on an expenditure, market and commodity analysis, compiling of specifications, and regular feedback to and from the role players (SA, 2005a: 14).

(b) Demand Considerations

Accounting officers should ensure that: Future as well as current needs are understood, requirements are linked to the budget; specifications are determined, the need forms part of the strategic plan and integrated development plan (IDP) of the municipality or municipal entity, an analysis of the past expenditure and current usage of the commodity may assist in determining the manner in which the municipality or municipal entity will fulfill this need in the future, the optimum method to satisfy the need is considered, the frequency of the requirement is specified, the economic order quantity is calculated, when operating a store, minimum and maximum levels are determined for inventories and that lead and delivery dates are accurately identified, and an industry and commodity analysis is conducted (NT, 2005a: 22).

Demand management involves the appointment of a bid specification committee. The accounting officer appoints a bid specification committee that will compile the specification, determine goals as contemplated in the preferential procurement regulations, the evaluation criteria and any special conditions of contract. The delegated official or the bid adjudication committee prior to the advertisement of the bid must approve the specifications. Managing demand will be a cross-functional exercise that brings the supply chain practitioner closer to the end user and ensures that value for money is achieved. Where there is a lack of capacity (human resources) to establish the committee structure in a specific municipality or municipal entity, it may be agreed upon to share or utilise the committee structure of another municipality or municipal entity if

and when required. The accounting officer who initiates the requirement will be accountable for the decisions taken (NT, 2005a: 23).

2.3.3 Acquisition Management

Acquisition management is the management of procurement by a municipality or municipal entity to decide on the manner in which the market will be approached; to establish the total cost of ownership of a particular type of asset; to ensure that bid document is complete, including evaluation criteria; to evaluate bids in accordance with publish criteria; and to ensure that proper contract documents are signed. In the year 2000, most of the focus in the procurement process was devoted to "meeting the requirements of the council". The new policy is operational and councils and or councillors are no more involved in the considering and award of bids and accounting officers are responsible for their procurement processes within the framework published by the national treasury (SA, 2003b: 5).

(a) Assessment of the Market

If a need has to be satisfied by means of an outside source, whether it is for goods, works or services, the availability of the source in the market should be investigated. The purpose of this investigation is to establish a balanced approach when considering, among others, keeping pace with modern technology and development, enabling newcomers or HDIs to supply the goods/services, making use of labour intensive methods and promoting black economic empowerment (BEE).

The following elements should, among others, be considered:

- **Benchmarking.**
- **Total cost of ownership (cost drivers);**
- **Industry analysis.**
- **Market characteristics (entry barriers; is the market buyer or supplier driven; market players; market behaviour and expenditure analysis).**

According to the national treasury (2005a: 14), acquisition management should involve good sourcing strategy on obtaining goods and or services and the requirements should be investigated. This includes determine whether municipality or municipal entity satisfy the requirements at a better price and whether the requirements are available on the list of redundant or obsolete material or goods from other municipality or municipal entity. The optimum sourcing strategy and technique should be used, taking due cognisance of the nature of the commodity or service required, the conditions of delivery, among others, just-in-time delivery, promoting BEE within the ambit of the BBBEE act and the Preferential Procurement Policy Framework Act. Sourcing strategies might include, among others, the following:Local and or international sourcing; utilising a paper-based bidding system, which may include obtaining quotations, inviting competitive bids, pre-qualification of bidders and two-stage bidding, strategic sourcing, utilising e-procurement and negotiations.

(b) Sourcing Strategy

Obtaining goods or services does not imply that these requirements should be procured from outside sources only. As part of acquisition management, all possible methods of obtaining the requirements should be investigated, such as obtaining the goods or services by means of a transversal term contract, could other municipalities satisfy the requirements at a better price; are the requirements available on the list of redundant or obsolete material or goods from municipalities. The optimum sourcing strategy and technique should be used, taking due cognisance of the nature of the commodity or services required, the conditions of delivery, among others, just-in-time delivery, the prospective suppliers and the goals to be promoted as contemplated in the preferential procurement policy framework act. Sourcing strategies might include, among others the following: Utilising transversal term contract, local versus international sourcing, utilising a paper-based bidding system, which may include obtaining quotations, inviting competitive bids, pre-qualification of bidders and two-stage bidding, utilising e-procurement, and negotiations (NT, 2006a: 2).

(c) Establishment of a database of suppliers when obtaining quotations

To stimulate the promotion of BEE and the development of HDIs and SMMES, it is suggested that municipalities should advertise in the local media for businesses to register as potential suppliers for goods and services to be obtained by means of quotations. The accounting officer may further categorise the suppliers according to the goods and services they are capable of supplying. Quotations for the required goods and services should be obtained from all potential suppliers in the specific category or on a rotation

basis from various suppliers. It also suggests that the list should be updated on a regular basis, but at least once in a quarter to allow for all potential suppliers to register. Supply management practitioners should operate within their delegated authority. Subdividing requirements to avoid the invitation of formal competitive bids should not be allowed. To avoid any accusations of favouritism, it is suggested that a minimum of three quotations be obtained. Where this is not possible, each case should be dealt with on its own merits. The reasons for not obtaining at least three quotations should be recorded and approved by the accounting officer or his/her assistant. Request for quotations exceeding R30 000.00 must comply with the provision of PPPFA (SA, 2003c: 5).

(d) Compiling bid documents, evaluation of bids and e-procurement

There is a dire need for generic documentation and contract options that can be adapted to cater for specific industry requirements. Bid documents define the rights, risks and obligations of the parties involved in a contract and define the nature, quantity and quality of the goods, services or works to be provided in the performance of the contract. Accordingly, such documentation should be legally and technically correct and should assign risk in an appropriate manner. Bid documents should comprise at least the following: general conditions of contract, specifications, data sheets/drawings; and a specific contract agreement stipulating delivery standards and requirements. Uniformity in these documents will promote and ease of entry by new emerging enterprises to public sector procurement, cost effectiveness both in financial and human resource terms, improved understanding and easier interpretation by new emerging contractors and simplification of the documentation process (NT, 2005a: 35; SA, 2005b: 2).

Uniformity in contract documentation will result in:

- **Bidders being able to more easily determine the scope and extent of risk.**
- **Easier management of contracts between potential contracting parties and the streamlining of administrative procedures.**
- **Savings in cost and improvement in quality.**
- **Greater transparency in terms of cost premiums paid in pursuit of government's preferential procurement objectives.**

It is imperative that accounting officers take due care that standardised bid documents are used for all standard procurement of goods, works and services. It is the responsibility of the national treasury to issue pro forma standardised bid documentation. In cases where special bid conditions make it necessary to deviate from the standardised bid documentation, it is advisable for accounting officers to provide written approval for such deviations and that the motivation for deviations be documented for auditing purposes.

The accounting officer should ensure that:

- Bid documentation are in accordance with the general conditions of contract and SCM guidelines of the national treasury.
- The prescripts of the construction industry development board, in the case of a bid relating to the construction industry.
- Bid documentation include evaluation and adjudication criteria, including the criteria prescribed in terms of the PPPFA, 2000 (Act No. 5 of 2000) and its

related regulations, as well as the South Africa, BBBEEA, 2003 (Act No. 53 of 2003) and its related regulations.

- Bid documentation compel all bidders to declare any conflict of interest they may have in a specific bid (NT, 2006b: 1).

The South African Revenue Reserve (SARS) has certified that the bidder's tax matters are in order or that arrangements have been made to the satisfaction of SARS that the outstanding tax obligations will be met (NT, 2006a: 3):

- Bid documentation prescribe that disputes be settled by means of mutual consultation, mediation (with or without legal representation), or, when unsuccessful, in a South African court of law.
- Bid must be advertised by means of public advertisement in a newspaper(s) commonly circulating locally the website of the municipality or municipal entity or any other appropriate ways (which may include an advertisement in the government tender bulletin).
- The information contained in the public advertisement must include:
    - The closure date for the submission of bids, which may not be less than 30 days in the case of transactions over R 10 million (VAT included), or which are of a long term nature, or 14 days in any other case, from the date on which the advertisement is placed in a newspaper.
    - A statement that bids may only be submitted on the bid documentation provided by the municipality or municipal entity.

- **The accounting officer may determine a closure date for the submission of bids which is less than the 30 or 14 days requirement, but only if such shorter period can be justified on the grounds of urgency or emergency or any exceptional case where it is impractical or impossible to follow the official procurement process (please note: A lack of or bad planning does not constitute an urgency or emergency).** Bids are opened in public as soon as possible after the closing time on the closing date of bids. When requested by any bidder or member of the public, the names of the bidders who submitted bids in time be read out and when possible or practical, also the respective total bidding prices. A register must be compiled of all bids received in time during the bid opening process and must be available on request for public perusal.
- Accounting officers may request the state information technology agency (SITA) to assist with the acquiring of IT related goods and services through a competitive bidding process. A separate service level agreement between the accounting officer and SITA should regulate the services rendered by and payment to SITA by the municipality or municipal entity.
- Accounting officers must ensure that the applicable regulations dealing with public-private partnerships have been adhered to before entering into any public-private partnership or part of a public-private partnership. The accounting officer may, on behalf of the municipality or municipal entity, participate in any contract arranged by means of a competitive bidding process by any other organ of state, subject to the written approval of such organ of state

as well as the written approval of the relevant contractor(s) (SA, 2002a: 2; NT, 2003b: 7).

Experience suggests that inadequate attention given to this aspect of the process has caused the majority of problems in the entire procurement process. Hence accounting officers are urged to ensure that necessary attention should be given to the areas and checklist effectively set out in Section 112 of the municipal finance management act. The following additional matters require consideration:

- Whether tenders are to be advertised in only a local newspaper (if any) or also in national newspapers: possibly the estimated value of the tender should guide the municipality's decision whether the staff of the municipality must assist prospective bidders with the completion of the required documentation or whether the department of trade and industry (DTI) should arrange such assistance;
- Whether an appeal procedure must be in place for suppliers who are aggrieved by the awarding of a tender or quotation, or whether such supplier should simply have recourse to the law in broad terms;
- Whether deliveries of goods should be made to the municipality's store(s) or direct to site or to the respective municipalities requiring such goods; and
- The need for performance guarantees or retention.

2.3.4 Logistics Management

Logistics is the process of strategically managing the acquisition, movement and storage of materials, parts and finished inventory (and the related information flows) through the organisation and its marketing channel in such a way that current and future profitability is maximised through the cost-effective fulfillment of orders (Stock and Lambert, 2001: 57; Anon2, 2003: 3). Logistics management is the setting of inventory levels, receiving and distribution of material, stores, warehouse and transport management; and the review of vendor performance. From these processes, the financial system is activated to generate payments. It is the part of supply chain process that implements and controls the efficient, effective flow and storage of goods, services and related information from the point of origin to the point of consumption in order to meet the consumer's requirement.

The essence of logistics management lies in three important concepts advanced by its definition: the movement of goods, satisfactory consumer service and reasonable costs. The existence of logistics management depends on these concepts-logistics management creates form utility, place utility, time utility and possession utility for the consumer (Community). The most important task of logistics management is to constantly facilitate the correct level of consumer service and simultaneously maintain the balance in terms of total logistical costs (Hugo, Badenhorst and Van Rooyen, 2004: 39).

(a) Inventory Management

Effective inventory management enables a municipality to meet or exceed community's expectations of product availability while maximising net surplus or minimising costs. In terms of the national treasury (2005a: 93), the following should be determined in order to automate the ordering process to keep specific items in stock: Which items and quantities thereof to be kept in stock, minimum and maximum levels to be kept in stock based on consumption figures or inputs from users and allowing for a safety margin (± 20%) to be added to the minimum level to cover unforeseen circumstances.

Just in time (JIT) is a product related management philosophy perfected by Japanese industries (although the British claim the idea originated in Britain) to eliminate all forms of waste whether time, labour, raw materials or materials. This is achieved through a relative cheap information system (kanban), thereby ensuring that products of the correct specification are made available in the correct quantities and at the right time during the production process as well as delivery to consumer market. The concept of JIT is a continuous problem-solving approach which eliminates forms of wastage by employees, suppliers, services design and process design in order to deliver all forms of goods and services at the right time and place. Since the municipalities take part progressively in the elimination of all non-value adding activities and through application of sound operations management principles and guidelines for total quality, the approach is appropriate for them (NT, 2005a: 94).

In SCM, JIT has the following advantages:

- **It lowers inventory levels that is municipalities are only allowed to hold just what is needed implying cost saving in holding excessive stock that might end up being obsolete.**
- **Smaller buffer stocks that is; where the municipality might want to experience stock problems the small buffer stock will be used. That is demand for short and reliable lead times.**
- Quality improvement; and
- Short and reliable lead times improve the adaptability of the production schedules.

All goods procured by the municipality shall be delivered to and received by the stores section of the budget and treasury office, except if the chief financial officer and the head of the department concerned directs that such goods shall be delivered to a specified site or to the sub-store maintained by the department concerned. The procedures and charges for requisitioning goods from stores shall be determined from time to time by the chief financial officer and shall be notified to all municipalities by means of municipal circulars (NT, 2003b: 8).

i) Stocktaking

One of the most common functions of warehousing is stocktaking of materials in order to smooth out seasonal availability. Again, on the input side this is important in the production process since knowing the amount of stock available ensures an uninterrupted flow of materials and components. Stock taking is part of inventory management, which

is an important aspect for effective and efficient SCM processes. Stock taking of all inventory and capital assets should be conducted at least once a year. This procedure entails the comparison of assets counted with official records. Any deficiencies should then be accounted for (NT, 2005a 92: 98).

ii) Vendor performance

The reliability of the supplier should be monitored in terms of among others delivery periods, quantity and quality. Should problems be encountered, they should be followed up with the vendor and if it is a contract item, it should be reported to the body that arranges the contract. Vendor performance should lead to tracking of the performance of the vendor (NT, 2005a: 93).

iii) Processing of invoices

All invoices for goods and services received by the municipality or works executed on behalf of the municipality shall be dated the 30th of the month in which the invoice is submitted to the procurement section of the budget and treasury office, and all such invoices shall be paid on or before the 30th of the ensuing month.

(b) Transport Management

In terms of the national treasury (2004a: 2), top authorities should be properly authorised, utilised correctly as well as proper records should be maintained. Inbound transportation is the transportation of goods between a supplier and a municipality's facility. It is not only the least controlled area of transportation but it offers the highest rate of returns for

efforts invested. Inbound transportation is a virgin territory of cost cutting. Outbound transportation is a link between a municipality and the community. Historically the transportation department controlled the intra-municipality and outbound movement of materials while the supplier arranges inbound movement of goods (SA, 2004a: 3).

2.3.5 Disposal Management

Disposal management is the letting away of asset that are no longer needed, including unserviceable, redundant or obsolete assets. It is recommended that the accounting officer appoint a specific committee to deal with disposals, to make recommendations with regard to the disposal of any asset. It is the responsibility of the accounting officer or his/her delegate to consider the recommendation of the appointed committee (MFMA Sections 14 and 90). Consideration is given to obsolescence planning, maintaining a database of redundant material, inspecting material for potential re-use, determining a disposal strategy and executing the physical disposal process. If disposal of any asset is approved, any of these methods may be followed: Transfer to another municipality or municipal entity at market related value or when appropriate free of charge, selling per price quotation, competitive bid or auction, whichever is most effective to the municipality or municipal entity or destroying such assets (SA, 2004a: 10).

2.3.6 Risk Management

Risk management is the provision of an effective system for identification, consideration and avoidance of potential risks in the SCM system. Risk refers to any unintended or unexpected outcome of a decision or action. (Tiennie and Kobus, 2004:78). Risk management is the identification, analysis and economic control of those risks threatening the SCM system of a municipality. It must include: Identification of risks on a case-by-case basis, the allocation of risks to the party best suited to manage such risks, acceptance of the cost of the risk where the cost of transferring the risk is greater than that of retaining it, the management of risk in a pro-active manner and the provision of adequate cover for residual risk as well as the assignment of relative risks to the contracting parties through clear and unambiguous contract document. Therefore it form part of the business plan for the acquisition of all goods and services.

(a) Types of Municipal Supply Chain Management Risks

The following types of risk are associated with MSCM

- ***Risks associated with the failure to follow laid down procedures and policies.***

  These include municipal risk, liquidity risk, and tax risk.

  - Municipal risk refers to the chance that the municipality will be unable to cover operating costs in a supply chain process. This depends on the municipality's revenue stability and the structure of its operating costs. If laid down regulations are not followed, the municipality might be faced with municipal risk.
  - Liquidity risk: This is the risk that a capital or operating expenditure in a supply chain will not be easily liquidated at a reasonable price. Liquidity

is largely affected by the size and depth of community in which the investment is customarily traded.

- Tax risk: this refers to the chance that unfavourable changes in tax laws will affect in a supply chain process. Investments that are sensitive to tax law changes are more risky. If laid down policies and procedures of the municipality are improperly executed then this might lead to changes in tax law.

- ***Risks associated with inadequate quantification of needs***. This includes interest rate risks which refers to the chance that changes in interest rates will adversely affect the value of a capital or operating expenditure of the municipality. Most investments lose value when interest rates rise and increase the value when they fall. As such, policies and procedures should take into cognisance these risks to minimise interest rate risks.

Risks attributable to delays in delivery and overstocking of items. These include purchasing power risk and event risk.

- ***Purchasing–power risk*** refers to the chance that changing price levels caused by inflation or deflation in the economy will adversely affect the municipality's or investment's cash flow or value. Typically investments with cash flows that move with general price levels have a low purchasing power risk and those with cash flows that do not move with general price levels have high purchasing power risk.
- ***Event risk***: This risk refers to the chance that totally unexpected events will have a significant effect on the value of the municipality or investment. These

infrequent events such as government-mandated withdrawal of a popular prescription drug, typically affect municipalities.

2.3.7 Supply Chain Performance

Supply chain performance is a monitoring process, undertaking a retrospective analysis to determine whether the proper processes have been followed and whether the desired objectives were achieved. The national treasury has developed a reporting template that is used by the provincial treasuries to monitor the SCM implementation process at the relevant municipalities. To continuously improve the supply chain performance, municipalities should develop their own monitoring processes that would enhance their supply chain performance (Tiennie and Kobus, 2004:79; NT, 2005a: 98). Subject to section 42 of the municipal supply chain (MSC) regulations of 30 May 2005, a SCMP must provide for an effective internal monitoring system. This is done in order to determine, on the basis of a retrospective analysis, whether the authorised SCM processes are being followed and whether the desired objectives are being achieved.

In terms of South Africa (2000a: 4), a municipality must establish a performance management system that is: Commensurate with its resources, best suited to its circumstances and in line with the priorities, objectives, indicators and targets contained in its integrated development plan. A municipality must promote a culture of performance management among its political structures, political office bearers and councillors and in its administration.It should also administer its affairs in an economical, effective, efficient and accountable manner. Some of the issues that may be reviewed are:

Compliance to policy objectives, cost efficiency of SCM process (i.e. the cost of the process itself), whether supply chain practices are consistent with government's broader policy focus and whether there are means to improve the system.

(a) Performance Measurement

Performance management is a process that links what municipalities do on a daily basis with the larger goals, values and cultural practices of the municipality and the needs of its community. It is a process for establishing a shared understanding of what is to be achieved and how it is to be achieved. Performance management is an approach to managing municipalities that do well and also contributes to an enduring and healthy municipality (Tan, Kannan and Handfield, 1998: 8).

Performance measurement process takes place undertaking a retrospective analysis to determine whether the proper process is being followed and whether the desired objectives are achieved. Issues to be followed are: Achievement of goals, compliance to norms and standards, savings generated, stores efficiency, cost variance per item, contract breach, cost efficiency of procurement process (that is, the cost of the process itself), whether supply chain objectives are consistent with municipality's broader policy focus, that the material construction standards become increasingly aligned with those standards that support international best practice, that the principles of co-operative governance as expounded in the constitution are observed, and that the reduction of regional economic disparities is promoted (Tan et al. ibid). Subject to section 45 of South Africa (2000a: 7),

the auditor-general must audit the results of performance measurement in terms of section 41(1) (c) – as part of the municipality's internal auditing processes and annually.

2.4 LEGISLATIVE REQUIREMENT OF SUPPLY CHAIN MANAGEMENT

2.4.1 Introduction

Current SCM processes and activities of municipalities are multifaceted. As a result, supply chain policies are complex and impact significantly on the smooth functioning of the municipality and its competitive position. Numerous variables and large body of information influence SCM policymaking. Without a legislative framework, political representatives will not be able to make informed and intelligent decisions. The legislative requirement of the SCM warrants each municipality or entity to create a SCMU and to implement supply chain management policy (SCMP). The accounting office of the municipality has to decide whether the establishment of a SCMU for the municipal entity is warranted. A SCMU must, operate under the direct supervision of the accounting officer. The legislature also provides means of combating abuse of SCM systems; therefore a SCMP must provide measures for combating such abuses (NT, 2005a: 100).

2.4.2 Supply chain principles, legislations and regulations

SCM has received a lot of attention and the terminology has been used (sometimes misused) by municipalities to describe the set of service and logistics processes that result in delivering services to their consumers. Some principles of SCM are:

- **SCM is a philosophy for conducting business. It is a philosophy for sharing risks, benefits and rewards, for long term cooperation and trust between partners and for joint planning and mutual exchange of information across all the nodes of supply chain.**
- **SCM implies optimised performance from all supply chain members across all processes and activities and ultimately the development of consumer-driven performance measures aimed at ensuring the continuous improvement of the supply chain as a whole.**
- SCM is the integration of multiple layers of municipalities striving as a team to optimise the shared supply chain processes in support of the strategic objectives of the supply chain of the municipality and stakeholders in the supply in the chain.
- SCM is the management of all links and interfaces in the supply chain. However, all of these links and interfaces are not of equal importance and therefore the management task of various nodes or interfaces in the supply chain will differ according to impact on the relevant supply chain processes on the creation and delivery of consumer value.
- SCM is guided by the principle of co-operative governance and intergovernmental relations as stipulated in the constitution, enshrining the autonomy of each sphere whilst regulating the relationship between those spheres.
- SCM is based on shared vision of what consumers' value is and therefore compatible with municipal philosophies are essential in achieving the necessary levels of planning and coordination (SA, 2004a: 5).

(a) South Africa: Constitutional Provisions

Section 217 (1) of the Constitution of the Republic of South Africa, 1996 (Act No 108 of 1996) provides the basis for procurement and determines that "*When an organ of state in the national, provincial or local sphere of government or any other institution identified in national legislation, contracts for goods or services, it must do so in accordance with a system which is fair, equitable, transparent, competitive and cost-effective*".

(b) South Africa: Public Finance Management Act (PFMA) (Act No. 1 of 1999)

The Public Finance Management Act (PFMA), 1999 (Act No. 1 of 1999) (as amended by Act No. 29 of 1999) is one of the most important piece of legislation passed by the first democratic government in South Africa. The act promotes the objective of good financial management in order to maximise service delivery through the effective and efficient use of the limited resources. The key objectives of the act may be summarised as to: Modernise the system of financial management in the public sector, enable public sector managers to manage and at the same time be held accountable, ensure timely provision of quality information, eliminate waste and corruption in the use of public assets. The act came into effect from 1 April 2000, gives effect to sections 213 and 215 to 219 of the Constitution of the republic of South Africa, 1996 (Act No. 108 of 1996) for the national and provincial spheres of government. These sections require national legislation to establish a national treasury, to introduce uniform treasury norms and standards, to prescribe measures to ensure transparency and expenditure control in all spheres of government and to set the operational procedures for borrowing, guarantees, procurement and oversight over the various national and provincial revenue funds. The PFMA adopted

an approach to financial management, which focuses on outputs and responsibilities rather than the rule driven approach of the previous exchequer acts. The act is part of a broader strategy on improving financial management in the public sector (SA, 1999: 9).

The PFMA replaced or superceded the various national and provincial exchequer acts and the reporting of public entities act. Financial accountability was undermined as different legislation applied for different entities. Further, legislation regulating financial management was narrowly focused on expenditure control. Division of responsibility assumes that the political head of a department (Cabinet Minister or a provincial MEC) is responsible for policy matters and outcomes; this includes seeking parliamentary (or provincial legislature) approval and adoption of the department's budget vote. The head official (Director-General of a national department or provincial head of department) is responsible for outputs and implementation and is accountable to parliament or provincial legislature for the management of the implementation of that budget. This approach is in line with the approach of the new public service regulations, which relies on a performance-driven system based on measurable outputs (SA, 1999: 10).

(c) South Africa Local Government: Municipal Finance Management Act (MFMA); (Act No 56 of 2003)

The local government, MFMA (Act No 56 of 2003) aims at modernised budget and financial management practices in order to maximise the capacity of municipalities to deliver the services to all residents, customers, users and investors. It places a sound financial framework, clarifying and separating the roles and responsibilities of the mayor,

executive and non-executive councilors and officials. It empowers mayors to political leadership of policy and outcomes, municipal managers and other senior managers to ensure that the municipality has and implements SCM policies and regulations in accordance with chapter 11 of the act. There are five underline principles in the MFMA that form the basis of the key reforms envisaged in the act. The principles and reforms encourage a strong, better and more accountable local government sphere, one that is better placed to meet the emerging demands and new challenges of the different communities that it serves in a more consistent and sustainable manner. The underlying principles are: Promoting sound financial governance by clarifying roles, a more strategic approach to budgeting and financial management, modernisation of financial management, promoting co-operative government and promoting sustainability (SA, 2003d: 8).

MFMA draws attention to linkages with other legislation that set the foundations of the system and structure of the local government legislation like the local government Municipal Structures Act, Property Rates Act and Municipal Demarcation Act. It is important to recognise the specific roles played by the legislations in the procurement actions (SA, 2003d). Procurement reforms in government were introduced in 2003. The policy strategy is to support the issuing of a regulatory framework aimed at promoting sound financial management and uniformity in the implementation of procurement reforms initiatives in all three spheres of government. Many municipalities could not develop regulations within their capabilities to ensure sound SCM practices. The national treasury in terms of the local government MFMA (Act No 56 of 2003) developed SCM

guides, regulations, policies and circulars to guide municipalities on how to approach SCM. High capacity municipalities adapted these legislations by October 2005 in the implementation of SCM that best suits the municipality (NT, 2005b: 1).

The MFMA and the MSCM regulations require each council and board of directors of a municipal entity to adopt a policy to give effect to the SCM legislation. It became effective in high capacity municipalities on 1 October 2005 and followed by others. The model policy was developed to comply fully with the MFMA and closely reflects the format of the MSCM Regulations. Considerable consultation was undertaken with officials of selected municipalities during the development of the policy, for which the national treasury was appreciative. Prior to adoption, accounting officers customised the model policy by inserting the name of the municipality or municipal entity and a range of discretional information throughout. Areas that require decisions to be made and information to be inserted were clearly indicated. Regulation 3 outlines the requirements for adoption, review and amendment of the policy. Any material deviation from the model provided must be reported to the national treasury and respective provincial treasury (NT, 2005b: 2).

(d) South Africa: Preferential Procurement Policy Framework Act (PPPFA) (No. 5 of 2000)

Parliament approved the PPPFA in February 2000 to adhere to the requirement of the Constitution. The act is a step forward in the process of procurement reforms. It contains a framework for the application of preferences in the public sector bidding system. The

framework is applicable to the public sector procurement system of all organs of the state in the national, provincial and local spheres of the government. Any organ of the state that implements the policy of preferences may only implement preferences within the framework of the act. The preferences points system must be applied to all procurement as from R30 000.00, but it may also applied to procurement with a value less than R30 000.00 (SA, 2000b: 3).

i) PPPFA and its regulations

The PPPFA and its associated regulations promote HDIs and a broad-ranging set of development objectives by means of allocating preferences points to these various policy objectives. The unlimited discretion currently afforded to practitioners to allot points to these objectives has watered down the impact of promoting the HDIs very significantly. The narrow based black ownership structure in the South African economy limits the scope for an immediate meaningful acceleration of direct participation by the HDIs in the government contracts. This has given rise to a great number of artificially created partnership and joint venture arrangements, where the premiums under the preference system are earned without any real contribution to government's preferences policy objectives (NT, 2001a: 5).

ii) Procurement guidelines

Government issued procurement guidelines for various purposes such as prescription of standards of behaviour, ethics, accountability and statement of the government's commitment to a procurement system that enables the emergence of sustainable small,

medium and micro businesses. These add to the common wealth of the country and the achievement of enhanced economic and social well being of all South Africans. Proper and successful government procurement rests upon the principles of behaviour. The five pillars of procurement include value for money, open and effective competition, ethics and fair dealing, accounting and reporting and equity (NT, 2001a: 6).

(e) Policy to guide uniformity in procurement reform processes in government.

According to the national treasury (2005a: 10), the cabinet adopted a SCM policy document: "Policy Strategy to Guide Uniformity in Procurement Reform Processes in Government", to replace the outdated procurement and provisioning practices. The SCM function aligns as an integral part of financial management that conforms to international best practices in public sector procurement. The new arrangements promote uniformity in processes and also in the interpretation of the government's preferential procurement legislation and policies, which should themselves be seen in the context of other related legislative and policy requirements. Above all, these arrangements mean that responsibility and accountability for SCM-related functions are devolved to accounting officers. Accounting officers or authorities are required to establish and implement a SCM function that promotes sound financial management and uniformity in all spheres of government.

(f) South Africa: Broad-Based Black Economic Empowerment Act (BBBEE) (Act 53 of 2003)

The act was signed by the president on the 9 of January 2004, among other things, it provides that the minister of Trade and Industry may develop broad-based charters to promote BEE and issue codes of practice that could include qualification criteria for preferential procurement and other economic activities. The act requires revision of the PPPFA and its regulations until it is promulgated and it is necessary for accounting officers or authorities to apply the current PPPFA and its regulations (SA, 2003c: 7).

i) Strategy for BBBEE

The minister has to comply with certain strategies for BBBEE and these includes the following:

- Must issue a strategy for BBBEE.
- May change or replace a strategy issued in terms of the section.

The strategy in terms of the section must:

- Provide for an integrated co-ordinate and uniform approach to BBBEE by all organs of state, public entities, the private sector, non-governmental organisations, local and other stakeholders.
- Develop a plan for organs of the state, public entities and other enterprises to prepare BBBEE plans and to report on compliance with the plans.
- Be consistent on the act.

An on-going work required in conjunction with the development of trade and industry and other role players, is to develop preferential policy priorities, charters and targets

after the promulgation of the BBBEE. The targets have to indicate priorities in respect of the different policies (NT, 2003c: 8).

(g) South Africa: Municipal Systems Act (MSA) (Act No32 of 2000)

The Municipal Systems Act (MSA) applies to municipal services. This is relevant when procurement involves outsourcing of a municipal service to an external service provider. If an external provider is to be contracted to provide a municipal service on behalf of the municipality, both the MSA and MFMA apply. All long-term contracts (longer that three years) have to comply with section 33 and 116 of the MFMA. In addition it should be noted that procurement practices either through MSA or MFMA also have to comply with other national legislation (SA, 2000a: 11; SA, 2000d: 8).

(h) Policy Context: Related Initiatives

The government's supply chain policies and practices impact on a broad range of other policies and regulations and also influence the economic behaviour of people, both within and outside the border of the country and indirect linkages to other policy and regulatory matters over a broad front. It is therefore imperative that procurement reforms indicatives remain fully aligned with the government's broader policy focus and accounting officers/authorities should be aware of the following as required by South Africa (1996a; 1999):

South Africa: Competition Law (Act No 89 of 1998): Restrictive business practices are regulated by the Competition Act (Act No 89 of 1998), which aims to outlaw anti-competitive practices between businesses, their supplier (s) and customers. This includes price-fixing and collusive bidding (SA, 1998b: 6).

South Africa: National Small Business Act (Ac No 102 of 1996): The act establishes National Small Business Council (NSBC) and also the Ntsika Enterprise promotion agency (Ntsika). The main function of Ntsika is to enable small businesses to compete successfully in the economy (SA, 2003e: 15).

Anti-Corruption Measures and Practices: The constitution provides for rights such as just administration and access to information and requires high standards of ethics within public administration. Recent legislation dealing with transparency and anti-corruption has strengthened the government's ability to combat corruption and also protects employees making disclosures against their employers in both the public and the private sectors (SA, 2004b: 12).

South African Local Government Association (SALGA): SALGA represents the interests of local government, in the country's intergovernmental relations system, with a united voice.

Trade Policy: The government's commitment to trade liberalisation should be reflected in its supply chain practices, by not precluding foreign companies from bidding for government contracts.

Labour Issues: The government subscribes to international best practice principles of equitable and fair labour practices, accounting officers or authorities should ensure that suppliers or contractors comply with all provisions of labour law.

Occupational Health and Safe Environment: The government is committed to highest standards of safe, health and environment protection and promotes a culture of "non tolerance". Hence occupational health and safety issues should be considered not only for employees but also for contractors' employees performing work on site at any institution.

Public-private partnerships: Public-private partnerships are an integral component of the government's overall strategy for the provision of public services and public infrastructure across all sectors. This does not imply that public-private partnerships are the preferred option for improving the efficiency of service delivery, but rather enjoy status among a range of possible service options available at all spheres of the government.

New Partnership for Africa's Development (NEPAD): NEPAD is an initiative to accelerate a new relationship with the highly industralised countries to overcome widening development chasm between them and the African continent. A commitment is

fostered on the part of the governments, the private sector and other institutions of civil society towards the meaningful integration of all nations into global economy. This requires the recognition of global interdependence in respect of production and demand, the protection of the environmental base that is sustainable, global financial architecture that regards good socio-economic management and global governance. All SCM practices are aimed to support these objectives.

Proudly South African: The department of trade and industry has become a key sponsor and strategic partner of the proudly South Africa campaign which encourages South African companies to submit interesting and innovative achievements in the manufacturing of new products, export achievements, new partnerships, successes and milestones. The objectives are to be supported through the government's SCM processes. and when opportunities arise. The legislative frameworks cited in the preceding discussion make it clear that SCM concepts are guided by the Constitution of the republic of South Africa and subsequent enabling legislation or bills (PPPFA, PFMA and MFMA) regulations, norms, standards, policies, frameworks, practice and notes guidelines.

2.5 TYPES OF MUNICIPALITIES

A municipality is an organ of the state within the local sphere of the government exercising legislative and executive authority within an area determined in terms of the local government. The South African Constitution (Act No 108 section 40 of 1996) creates a framework for local governments, making them autonomous (independent) bodies and more independent of national and provincial government than under the

previous Constitution. For example, section 139 of the Constitution limits the powers that provincial governments have to intervene in the affairs of local government. It says that provincial government can only intervene when it is clear that the local government has not done what it was supposed to do under the law. So, local governments are no longer directly accountable to the provincial government and must take full responsibility for managing their own affairs and exercising their powers. Local governments are accountable to their local communities more than ever before (SA, 1998b: 5).

There are three spheres of government that are 'distinctive, interdependent and inter-related' (section 40 of the Constitution), namely national government, provincial government and local government. Local government is a sphere of government in its own right and is no longer controlled by national or provincial government. But, even though the three spheres are autonomous, they have to work together when deciding on budgets, policies and activities, particularly in areas that cut across all spheres. All the spheres of government are responsible for providing for the development of communities and delivery of services in different ways. The structure of local government is dealt with in terms of the South Africa Municipal Structures Act (Act No 117 of 1998), setting out the categories and types of municipalities and providing for elections and other matters (SA, 1998b: 8).

2.5.1 Municipal Category

The local government is made up of three categories of municipalities, which include category A, B and C.

Category A municipalities are known as metropolitan municipalities and have exclusive municipal executive and legislative authority in its area. According to the White Paper (Section D), three "*compelling reasons for the establishment of metropolitan government include: to create a basis for equitable and socially just metropolitan governance, to promote strategic land use planning, and coordinated public investment in physical and social infrastructure, to develop a citywide framework for economic and social development, and so enhance the economic competitiveness and well-being of the city*". The key principle underlying these three "compelling reasons" is that the "metropolitan area" is the "city". The White Paper on asset management (Section D), made emphasis on the city-wide jurisdiction of metropolitan government enables effective integrated development planning, which is able to respond to and influence metropolitan-wide spatial, social and economic trends and to market the city as a whole, in line with an integrated development plan (SA, 1997: 4).

Category B municipalities are known as local municipalities and form part of district municipalities in their area, while *Category C* municipalities are known as district municipalities and are made up of a number of local municipalities that fall in a particular district. District municipalities administer and make rules for a district, which includes more than one local municipality. There are usually between four and six local

municipalities that fall under one district council. The purpose of district municipalities and local municipalities sharing the responsibility for local government in their areas is to ensure that all communities, particularly disadvantaged communities, have equal access to resources and services. These helped some local municipalities who do not have the capacity (finances, facilities, staff or knowledge) to provide services to their communities. It also help to cut the costs of running a municipality by sharing resources with other councils in that 'richer' areas will help the 'poorer' areas (SA, 2000a: 20).

Local municipalities are mandated to local laws and regulations about any of the functions they are responsible for. By-laws may not go against any national laws. The municipalities must also approve the IDP, impose rates and other taxes, for example property tax, charge service fees for using municipal services like water, electricity, libraries and so on, impose fines for people who break municipal by-laws, for example traffic fines or littering, borrow money - the council can take a loan for a development and use municipal assets as surety. Local municipalities are responsible for the following functions: Electricity delivery, water for household use, sewerage and sanitation, storm water systems, refuse removal, fire fighting services, municipal health services, decisions around land use, local roads, local public transport, street trading, abattoirs and fresh food markets, parks and recreational areas, libraries and other community facilities, local tourism.

Some of the functions and powers of district municipalities include: To plan for development for the district municipality as a whole, bulk supply of water that affects a

large proportion of the municipalities in the district, bulk supply of electricity that affects a large proportion of the municipalities in the district, bulk sewerage purification works and main sewerage disposal, waste disposal sites for the whole district municipality area, municipal roads for the whole district municipality area, regulating passenger transport services, municipal health services for the whole area, fire-fighting services for the whole area, control of fresh produce market, control of cemeteries, promoting local tourism for the whole area, and municipal public works.

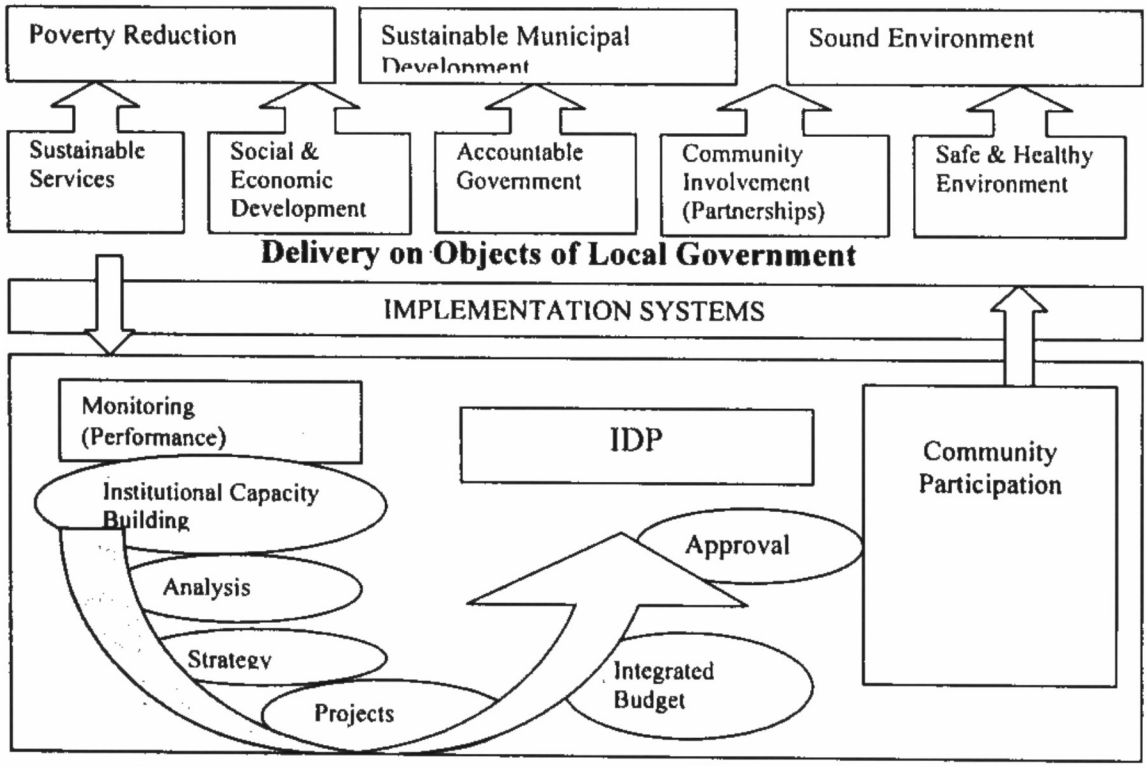
2.6 INTEGRATED DEVELOPMENT PLANNING IN MUNICIPALITIES

Integrated Development Planning is a planning process, which combines legislative requirements, stakeholder needs, political priorities, intergovernmental alignment, budget parameters, institutional capacity, strategic management and implementation. The result is a single, coherent document representative of all these components – the IDP. IDP is an ongoing cumulative planning process, which should take into account the impact of past plans and where necessary, make changes to take into account changing realities on the ground. IDP is the need to deepen local democracy, to continue to build developmental local government, especially by further improving social and economic development, to enhance political and economic leadership, to speed up service delivery and to further enhance an integrated approach (SA, 2003f: 7).

According to the South Africa Municipal Systems Act (Act No 32 of 2000), all municipalities (i.e. metros, district and local municipalities) have to undertake an IDP process as the IDP is a legislative requirement, has a legal status and supersedes all other

plans that guide development at local government level (SA, 2000c; SA, 2003f). SCM involves the management of working capital that is invested in goods, stores and services with the objective to optimising the economic return on such investment. It entails proper planning at budgeting phase, careful product or services, supplier selection and management, bidding, requisitions, catalogue management, ordering, invoicing and payment, customer service and asset and inventory management. The process begins when the needs are identified during the strategic planning of the organisation's IDP when service delivery targets are identified, to the point of finally disposing of an asset, (SAMDI 2005:9). Figure 2.6.1 illustrates what the IDP consists of and what its ultimate aims are.

Figure 2.6.1: Structure of an integrated development planning system and ultimate aims

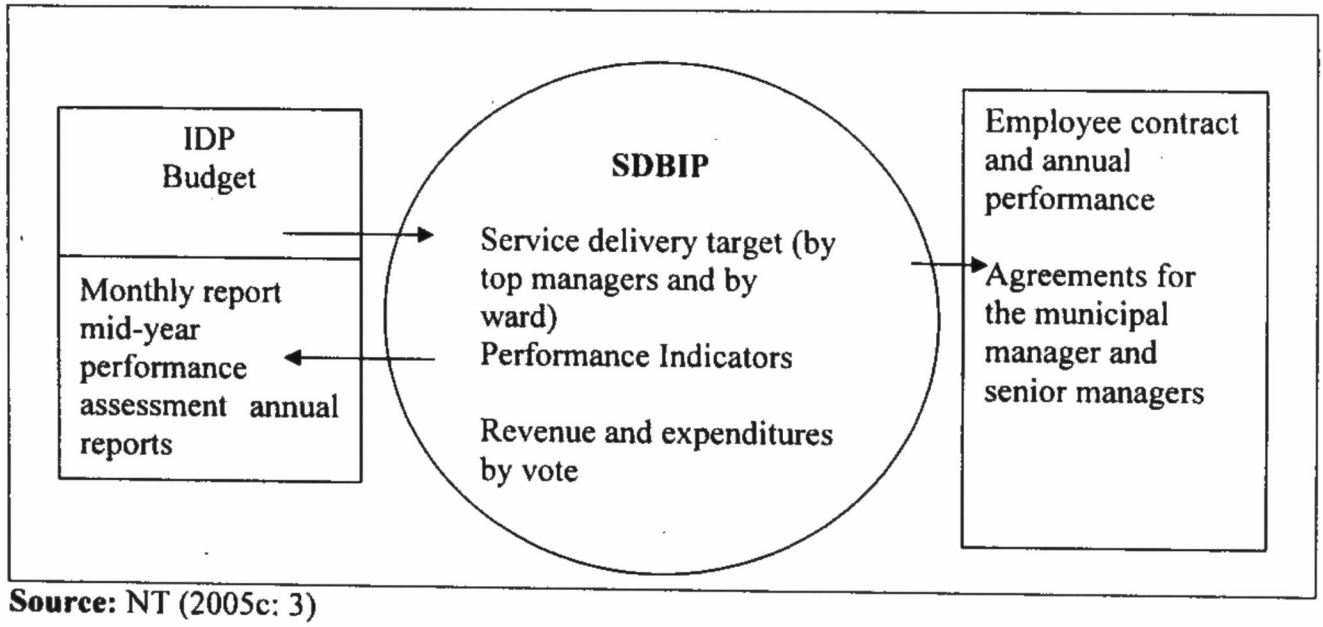


Source: SA (2005c: 5)

Key to the task of ensuring the co-ordination of the IDP and annual budget is the completion of the service delivery and budget implementation plan (SDBIP). The SDBIP is a detailed plan approved by the executive mayor of a municipality in terms of section 53(1) of the MFMA for implementing the municipality's delivery of municipal services and its annual budget. This must indicate monthly revenue and expenditure projections, quarterly service delivery targets and performance indicators (NT, 2005c: 2).

The national treasury (MFMA circular No 13, of 31ST January 2005), provides guidance and assistance in the preparation of SDBIP as required by the municipal finance management act (MFMA). The SDBIP gives effect to the IDP and budget of the municipality and will possible if the IDP and budgets are fully aligned with each other as required by the MFMA. Figure 2.6.2 shows an SDBIP structure contract.

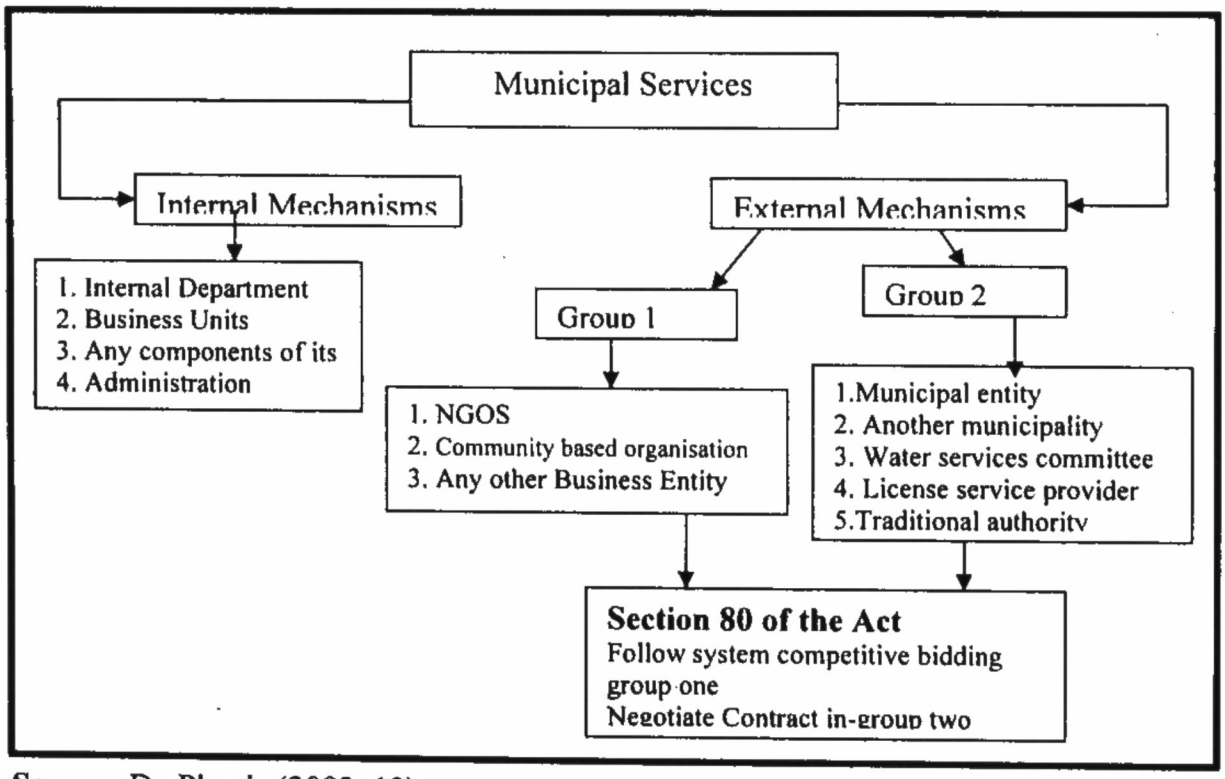
Figure 2.6.2: Service delivery budget implementation planning system for municipalities



Source: NT (2005c: 3)

According to Du Plessis (2003: 12), municipalities have certain responsibilities when services are provided through Service delivery agreement (SDA) with external mechanisms and it is important that the stipulations in section 81 of the MFMA are addressed. In terms of legislation, the SDA must make provision for the following; all services rendered by an external mechanism should be in accordance with the municipality's IDP. The SDA must contain a performance measurement system together with the specific targets that have been identified, the level of the service as well as the actions to ensure uninterrupted supply must be determined as set in the IDP. The agreement must ensure that services are rendered within priority. The structure for rendering municipal services is shown in Figure 2.6.3.

Figure 2.6.3: Structure for rendering municipal services.



Source: Du Plessis (2003: 13)

2.6.1 Municipal services and public-private partnerships

Public-private partnerships (PPPs) are a form of an external service delivery mechanism in municipalities. The government currently views PPPs as an alternative service delivery mechanism, (rather than municipalities rendering the service themselves), that could be used to address the deteriorating condition of public infrastructure and avert the escalating cost of rehabilitating state assets. Draft standardised PPP provisions were launched, aimed at the national and provincial spheres of government. At the launch, the minister of finance, Trevor Manuel, commented that deterioration was "particularly evident at the provincial and local spheres of government where budgetary and capacity constraints have led to a marked reduction in infrastructure spending in recent years" (Mare, 2003:1).

The government wants PPPs to deliver infrastructure that is affordable, provides value for money and transfers technical operations and financial risk from government to the private sector partner. The provisions of chapter 8 of the municipal systems act have introduced PPPs as an alternative municipal service delivery mechanisms and it can take many forms. There are essential elements that make up such a partnership: it is a contractual agreement that transfers a substantial risk to the private partner and ensures outcomes-based financial rewards for that partner. In the local government context, a PPP may therefore be defined as a "contractual service delivery agreement between a municipality and a private sector partner, whereby the private partner performs a municipal service in accordance with an output-based specification for a specified period of time in return for a benefit, usually in the form of financial remuneration" In such a

partnership some or all elements of the associated service delivery risk may be transferred to the private partner. The municipality retains an important role as the main enabler of the agreement accountable to the community (SA, 2004a: 13).

(a) PPPs versus privatisation

The White Paper on local government (1997, Gazettes No 18340) embodies a new approach to municipal service delivery and presents mechanisms to transform municipal service delivery systems and leverage private sector investment in municipal infrastructure. Among other things, it distinguishes between PPPs and privatisation as alternative service delivery mechanisms.

PPPs are viewed as being in the form of leases and concessions that are most common for services requiring large-scale capital investment. PPPs differ from a situation in which the municipality contracts with a specialist private company to provide a specialised aspect of a particular service (a so-called service contract). When services are contracted out, for example meter reading and billing and collection, the municipality pays a fee to a private partner to provide specific operational services and the municipality protects standards and, through a bid evaluation process, promotes contract specifications and contract monitoring and compliance techniques. PPPs are characterised by three important elements namely:

- The duration of the contractual agreement (not less than ten years).
- The private partner takes charge of the assets and infrastructure associated with the service, and invests in it.

- The risk carried by the private partner for infrastructure development is accompanied by the responsibility for revenue collection in the form of user charges.

A popular type of PPP is the build-operate-transfer (BOT), where the private partner builds the asset, operates it for a period and then transfers it back to the municipality Privatisation is when a municipality sells off an asset to a private sector entity and ownership is transferred together with the responsibility for managing the complete delivery of the service attached to the asset. It is argued in the White Paper on local government (1997) that core municipal services, such as water, electricity and solid waste collection and disposal, should not be privatised. The reason is that these services play a central role in meeting the material, social and economic needs of communities and therefore the municipal ownership of the associated infrastructure and assets should not be removed from the local sphere of government. The privatisation of non-core functions will boost a municipality's capacity and revenue, enabling it to focus on the sustainable delivery of core services. Non-core services are not aimed at meeting the basic needs of the community. This means that a municipality may not privatise its basic municipal services, but it may enter into a PPP as an alternative external service delivery mechanism.

(b) When should public-private partnerships be considered?

A public private partnership may not be the best option for delivering a public service. Local government should undertake a cautious approach and examine all relevant factors

and issues when considering this type of arrangement. The different forms of public private partnership vary in terms of how risks and responsibilities are allocated. They also vary in complexity and the degree of expertise required to successfully negotiate required contracts (British Columbia, 1999: 15).

© Potential Benefits of Public Private Partnerships

PPPs are not the solution for the delivery of all services. There are risks in proceeding with public private partnerships without critically examining their suitability to specific circumstances. However, local government can realise important benefits when public private partnerships are used in the appropriate context and these benefits includes:

Cost savings: With PPP, local government may be able to realise cost savings for the construction of capital projects as well as the operation and maintenance of services. For example, construction cost savings can often be realised by combining design and construction in the same contract. The close interaction of designers and constructors in a team can result in more innovative and less costly designs. The design and construction activity can be carried out more efficiently, thereby decreasing the construction time and allowing the facility to be put to use more quickly. Overall costs for professional services can be reduced for inspections and contract management activities. As well, the risks of project overruns can be reduced by design-build contracts.

Risk sharing: With PPP, a local government can share the risks with a private partner. Risks could include cost overruns, inability to meet schedules for service delivery, difficulty in complying with environmental and other regulations, or the risk that revenues may not be sufficient to pay operating and capital costs.

Improved levels of service or maintaining existing levels of service: PPPs can introduce innovation in how service delivery is organised and carried out. It can also introduce new technologies and economies of scale that often reduce the cost or improve the quality and level of services.

Enhancement of revenues: PPP may set user fees that reflect the true cost of delivering a particular service. Public private partnerships also offer the opportunity to introduce more innovative revenue sources that would not be possible under conventional methods of service delivery.

More efficient implementation: Efficiencies may be realized through combining various activities such as design and construction, and through more flexible contracting and procurement, quicker approvals for capital financing and a more efficient decision-making process. More efficient service delivery not only allows quicker provision of services, but also reduces costs.

Economic benefits: Increased involvement of local government in public private partnerships can help to stimulate the private sector and contribute to increased employment and economic growth. Local private firms that become proficient in working in public private partnerships can "export" their expertise and earn income outside of the region.

(d) Potential Risks of Public Private Partnerships

As with conventional forms of service delivery, there are risks as well as potential benefits associated with public private partnerships. Local governments can reduce or eliminate the risks by understanding what they are and addressing them through well-

conceived negotiations and contractual arrangements as well as the involvement of stakeholder groups. (British Columbia, 1999: 16). Potential risks include:

Loss of control by local government: PPPs, by their nature, involve a sharing of risks, benefits and decision making between the partners. PPPs that involve significant investments and risks by the private partner often provide for greater involvement of the private partner in decisions concerning how services are delivered and priced. This often leads to concerns about who controls the delivery of services. The issue of control needs to be addressed at the time the project is defined and kept in mind when the contract is negotiated. In the final analysis, local government has the authority and responsibility to establish servicing standards and to ensure that the public interest is protected.

Increased costs Not all local governments consider the true costs of providing services when establishing their pricing policies for fees, for services. For example, the costs of overhead or administration and depreciation of assets are often not included in the pricing of individual services. In some cases, there are explicit subsidies for specific services.

The delivery of services requires pricing policies and fees to reflect all relevant costs. This can have the effect of increasing user fees for specific services.

Political risks: Few local governments in South Africa have extensive experience with public private partnerships. The combination of inexperience by local government and stakeholder unfamiliarity with PPPs may result in higher political risks. Local governments may wish to reduce potential risks by initially entering into less complex and better-understood PPP contracts.

Unacceptable levels of accountability: Certain local government services are more sensitive than others in terms of public demand for accountability and responsiveness.

With PPPs, the lines of accountability for the provision of services are less clear to the public than under conventional service delivery. This may result in public criticism of the partnership arrangement and the private partner, or require increased involvement of the local government in ensuring compliance and responding to public demands.

Unreliable service: Private partners may be prone to labour disputes, financial problems or other circumstances that may prevent them from honouring their commitments. PPPs contracts should anticipate such difficulties and put in place measures to deal with them.

Inability to benefit from competition: Competition among private partners to secure the right to enter into a public private partnership is an important benefit for local government. Competition leads to innovation, efficiency and lower costs. Local governments may not be able to benefit from public private partnerships if there are only a limited number of potential private partners with the expertise or ability to respond to a request for proposals.

Reduced quality or efficiency of service: If not properly structured, PPP contracts can result in a reduction in service quality, inefficient service delivery or a lack of proper facility maintenance. For example, cost-plus contracts provide little incentive for the private partner to maintain quality or increase efficiency. Local governments should also consider the life cycle cost approach in establishing evaluation criteria for projects or services.

Bias in the selection process: As with conventional forms of service delivery, there is always the potential for local government to be accused of bias in selecting proponents. This may be more prevalent with public PPPs given that "low bid" may not always win the contract if the local government has established other criteria (e.g., value for money).

The potential for accusation of bias can be reduced through well-developed policy and procedures and by ensuring transparency in dealing with potential private partners.

Labour issues: Even though collective agreements and labour laws apply to PPPs arrangements, there could be adverse reaction from labour unions or local government staff.

(e) Local government consideration for public-private partnerships

Public-private partnerships are a suitable method of delivering most services commonly provided by local government and are generally applicable to most components of service delivery. Local governments can consider partnerships with the private sector where any of the following circumstances exist:

- The service or project cannot be provided with the financial resources or expertise of the local government alone.
- A private partner would increase the quality or level of service from that which the local government could provide on its own.
- A private partner would allow the service or project to be implemented sooner than if only the local government were involved.
- There is support from the users of the service for the involvement of a private partner.
- There is an opportunity for competition among prospective private partners.
- There are no regulatory or legislative prohibitions to involving a private partner in the provision of services or a project.
- The output of the service can be measured and priced easily.

- The cost of the service or project can be recovered through the implementation of user fees.
- The project or service provides an opportunity for innovation.
- There is a track record of partnerships between local government and the private sector.
- There are opportunities to foster economic development.

If none of the above conditions exist, public private partnerships should not be considered.

2.7 CHAPTER SUMMARY

The chapter reflects the concept of SCM taking into consideration the legislative requirements, SCM model policy, elements of SCM which include; demand management, acquisition management, logistics management, disposal management, risk management and performance management. Also the various categories of municipalities in South Africa, IDP, municipal budget implementation planning, municipal service delivery and the role of SCM to black economic empowerment have been presented in this chapter. The next chapter reflects the problem and the research questions for the study.

CHAPTER THREE

DEFINING THE PROBLEM AND RESEARCH QUESTIONS

3.1 INTRODUCTION

The chapter focuses on the rationale to the problem, the definition of problem that necessitated the study and the research questions. The research questions are divided into primary and secondary. The answers to the secondary questions give the solution to the primary question.

3.2 STATEMENT OF THE PROBLEM

3.2.1 Defining the Problem

The main aim of the study was to examine the implementation of the various SCM regulatory frameworks, which includes policies, regulations, guidelines, circulars and the MFMA as instituted by the national treasury in the Central District Municipality of the Northwest Province, Republic of South Africa.

Currently many municipalities are not up to date in efficient and effective implementation of the SCM policies and regulations. The has lead to wastage of money and resources which the government can ill afford given its very limited resources as measured against the huge and growing demand for its services. The financial and economic consequences of the outdated and ineffective procurement policies and practices have been extremely damaging and costly to the country (Mkhize, 2004: 3; NT, 2004c: 2; NT, 2005b: 1).

According to the background of procurement reforms that the researcher stated in chapter one page 2, there were deficiency practices relating to governance, interpretation and implementation of PPPFA and its associated regulations in government. These limitations included:

- The composition of tender (bid) committees gave rise to serious conflicts of interests.
- The procurement and provisioning procedures were rule driven, and value for money was almost always equated to the lowest price tendered – the emphasis were exclusively focused on monitoring inputs.
- Procurement and provisioning activities often operated in isolation from other management activities, with little or no linkage to budgetary or strategic planning and IDP objectives.
- Asset management focused on inventory control rather than on ensuring a satisfactory return on the capital invested in inventories or assets.
- There was a lack of uniformity in documentation that caused uncertainty and inefficiencies, both on the part of bidders and also procurement practitioners.
- Consultants were not selected in a systematic and competitive manner.
- The preferential procurement policy framework act (Act No 5 of 2000) (PPPFA) and its associated Regulations are complex and difficult to implement correctly.
- Procurement practitioners were not adequately trained in its application.

The costs and outcomes of the PPPFA were not fully quantified; hence it was impossible to evaluate the merits of the system.

3.2.2 Rationale to the Problem

(a) Introduction

Fredendall et al. (2001: 4) asserted that, "SCM represents a significant change in the way that organisations view themselves". SCM is an integral part of financial management, which intends to introduce international best practice. It seeks to breach the gap between traditional methods of procuring goods and services and the balance of the supply chain and at the same time addressing procurement related matters that are of strategic importance. Mkhize (2004: 3), states that, the implementation of SCM currently occupies center stage in the context of the ongoing financial management reform process in the public sector. SCM builds on and in some way completes the cycle of financial management reforms initiated in the mid nineties. These reforms included: The introduction of the medium term expenditure framework (MTEF), programme-based budgeting; the public finance management act (PFMA), municipal finance management act (MFMA), performance based budgeting (PBS) and various financial management system and accounting reforms.

The emphasis of these financial management reforms was on the way in which financial resources are allocated, managed and reported on in the public sector. It was perhaps understandable that relatively little attention was paid to the issue of procurement of goods and services. The promulgation of the preferential procurement policy framework act (PPPFA) in 2000 (Act 5 of 2000), which prescribed a framework for a preferential procurement system, achieved only limited success in reforming and modernising

procurement practices in the public sector. This was due mainly to difficulties in interpreting and uniformly applying its provisions in practice (Mkhize, 2004: 4).

The government have put numerous initiatives with the objective to improve the functioning of municipalities by all spheres of the government and especially at the national government. Much has been done in terms of policy formulation and legislation to steer and regulate the normalisation and development of municipalities. Many initiatives, often in conjunction with donor organisations, are in the process of being planned or implemented at national, provincial and local levels. In addition, a number of other stakeholders such as the Development Bank of South Africa (DBSA) are also active in the area of capacity building (Du Plessis, 2003:13).

In 2001, following the abolition of the provincial tender board, some municipalities passed their own procurement acts and regulations. Aligned both to the PPFA and PFMA, the provincial procurement act provided for the establishment of uniform procurement systems throughout provincial government departments and for a preference points system to give effect to the principles of the PPFA. The act inter alia made provision for the empowerment of HDIs and SMMEs, facilitated to a certain extent the accountability of accounting officers by enabling them to establish their own procurement committees, and made provision for a centralised system of procurement for bids above delegated limits. A key limitation of the provincial procurement legislation however – in common with the national procurement framework in place at the time - was that it concentrated almost exclusively on the acquisition phase of the procurement

cycle but did not address the planning, budgeting, asset and risk management aspects to any great extent.

(b) Challenges facing Municipal Supply Chain Management

The South African Constitution (section 217(1) of 1996) states that government procurement practices must be fair, equitable, transparent and cost-effective but in practice this does not occur. Public sector departments collectively spend billions of rands each year on procuring goods and services with little or no attention to managing and maintaining the assets procured. Contracts entered into for professional and other services, on the other hand, are either poorly managed or not managed at all. Government departments typically over-pay for assets and then do not maintain or account for them effectively. Asset management has traditionally been limited to control of inventory. Thefts and losses are often not quantified owing to defective inventories and records as well as poor systems of control. To compound matters, departments do not plan or budget properly for acquisition and replacement of assets and do not penalise service providers for non-performance, late delivery or defective quality.

In addition, procurement and provisioning procedures have been input and rule driven and value for money is almost always equated to lowest price bids. Bid documentation procedures have not been uniform and it has been difficult to interpret, apply in practice the PPPFA and its regulations. In the auditor-general's report on the submission of financial statements by municipalities for the financial year ended 30 June 2005, it was revealed that 132 out of 284 municipalities submitted financial statements late or did not

submit financial statements at all (SA, 2005d: 3). It was in this context that in September 2003, the cabinet adopted a SCM policy to replace the outdated procurement and provisioning practices. The aim was to implement a SCM function across all spheres of government which would be an integral part of financial management and which would conform to international best practices (NT, 2005a: 2).

The new SCM policy framework intends to:

- Promote uniformity and consistency in the application of SCM processes throughout government.
- Facilitate the standardisation and uniform interpretation of government's preferential procurement legislation and policies.
- Complete the cycle of financial management reforms introduced by the PFMA by devolving full responsibility and accountability for SCM-related functions, in addition to financial management functions, to accounting officers and authorities.

Other advantages of the new SCM framework were to establish a firm link between budgetary and procurement planning processes, and to introduce elements such as cost analysis, market review, life cycle costing, needs analysis and disposal evaluations. The government's supply chain policies and practices impact on a broad range of other policies and regulations and also influence the economic behaviour of people (NT, 2005b: 1).

It is necessary therefore that the new SCM regulatory framework should be aligned to other policies and legislative reforms which have been introduced by government, including the following:

- Competition law;
- Anti-corruption measures and practices;
- Trade policy;
- Labour legislation;
- Safety, health and environmental policy and regulations; and
- Black Economic Empowerment and preferential procurement policies and legislation

The new SCM framework would have to comply with and be aligned to the prescripts of the latter regulations in particular, which inter alia provide for a balanced scorecard measuring broad-based black economic empowerment as part of the evaluation criteria of all bids (NT, 2005b: 2).

3.3 RESEARCH QUESTIONS

The primary question for the study can be stated as follows:

Does the Central District Municipality practice (design and implementation) SCM and to what extent?

The following research questions are secondary to the primary research question. Information that was gathered with regard to the secondary questions provided solutions

to the primary question. The answers to the secondary questions served as an indication of whether the study is meaningful or not.

Most of the focus in the procurement process was devoted to meeting the requirements of the tender board. Tender boards were abolished and institutions became responsible for their procurement processes, within the framework published by the national treasury. The introduction of SCM have and would facilitate the arrangement offering a step-by-step guide, which institutions needs to apply in order to facilitate the design and implementation of the various SCM legislations (Chapter two, section 2.3 Elements of SCM).

The first secondary research question is: Do SCM officials in the central district municipality practice (design and implementation) MSCM?

As started in chapter two (Section 2.4, Legislative requirement of SCM), numerous variables and large body of information influence SCM policymaking. Without a legislative framework, political representatives are unable to make informed and intelligent decisions. The legislative requirement of the SCM warrants each municipality or entity to create a SCM unit and to implement a SCM policy. The accounting officer of a municipality has to decide whether the establishment of a SCMU for the municipal entity is warranted. A SCMU must, operate under the direct supervision of the accounting officer. The legislature also provides means of combating the abuse of SCM systems; therefore a SCM policy must provide measures for combating such abuses.

The second secondary research question is: What is the extent of compliance by SCM officials in the central district with legislative requirements in the design and implementation of SCM?

The discussions in chapter two (Section 2.6, Integrated development planning in municipality), of this study reflects that SCM involves the management of working capital invested in goods, stores and services with the objective to optimising the economic return on such investment. IDP entails proper planning at budgeting phase, careful product or services, supplier selection and management, bidding, requisitions, catalogue management, ordering, invoicing and payment, customer service and asset and inventory management. The process begins when the needs are identified during the strategic planning of the organisation's IDP when service delivery targets are identified, to the point of finally disposing of an asset, (SAMDI 2005: 9).

The third secondary research question is: What is the link between SCM and IDP and other financial management systems in the central district municipality?

The researcher discussed the local spheres of government (Chapter two, Section 2.5 on types of municipalities) and stated that there are three spheres of government that are 'distinctive, interdependent and inter-related' (section 40 of the Constitution), namely national government, provincial government and local government. Local government is a sphere of government in its own right and is no longer controlled by national or provincial government. The three spheres are autonomous; they have to work together when deciding on budgets, policies and activities, particularly in areas that cut across all

spheres. All the spheres of government are responsible for providing for the development of communities and delivery of services in different ways. The local government is made up of three categories of municipalities, which include the metro, district, and local municipalities.

The forth-Secondary research question is: What is the difference in SCM practice (design and implementation) and compliance to legislative requirements between the district and local municipalities?

3.4 CHAPTER SUMMARY

The chapter has been based on the rationale that motivated the study emphasising the need for MSCM, defining the problem and research questions. The rationale to the problem provided the need for SCM legislation implementation in municipalities as instituted by the national treasury. SCM describes a systematic process that ensures that the right goods and services are delivered to the right place, in the right quantity, with the right quality, at the right cost and at the right time.

Also the research question and sub-questions were motivated with aspects of SCM framework, legislative compliance and requirements to SCM, the linkage between SCM, IDP and others legislations and the implementation of SCM at the various spheres of local government within the substantive area. The next chapter will present the research design and analysis.

CHAPTER FOUR

RESEARCH DESIGN AND ANALYSIS

4.1 INTRODUCTION

The previous chapter served to provide a framework for the study and to formulate the problem and research questions. In chapter four, an exposition of the research design and analysis is given.

Four types of research studies were employed, namely: reporting, explanatory, description and prediction (Cooper and Emory, 1995: 21). He used both qualitative and quantitative methods to analyse the data. The qualitative method (grounded theory) was used to develop propositions and theories on the design and implementation of municipal SCM, while the quantitative method was use to analyse the closed questions using statistical package for social sciences (SPSS) in order to determine the extent to which municipalities are practicing SCM. Proper planning was the first critical step to succeed. The researcher also took a careful follow up of the research strategy, demarcation of the population, sampling procedure and appropriate data analysis (grounded theory). Theron (1992: 21) states that suitable and proper research design, sampling method and statistics ensures sound, structured and systematic approach to knowledge that can be checked for accuracy and the ability to generalise results to the general population as a whole.

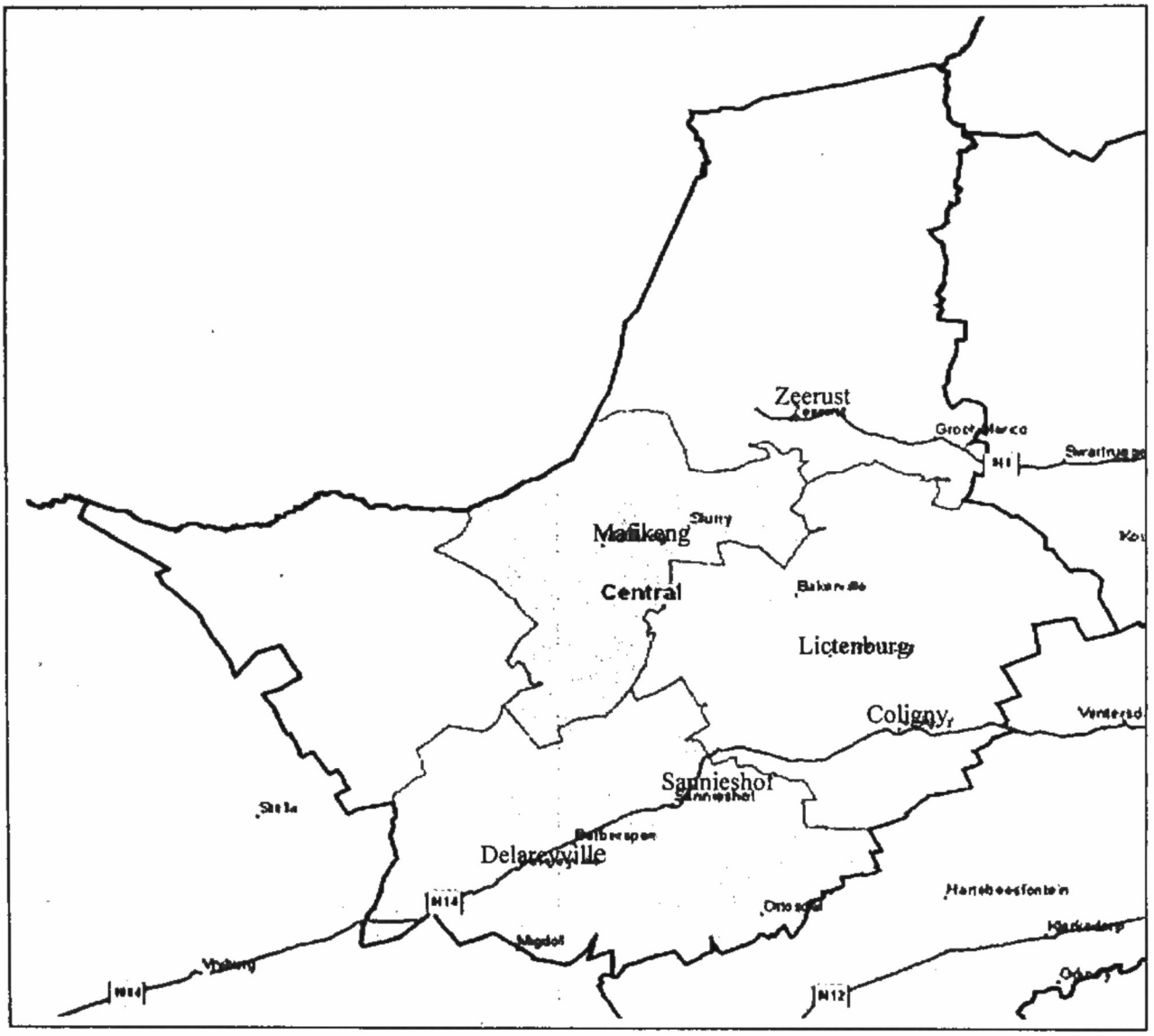
A brief discussion of the background of the study area, the research design, research instruments, sampling procedures, data collection methods, how data was analysed, validity and reliability of the study are highlighted in this chapter.

4.2 CENTRAL DISTRICT MUNICIPALITY

Central District Municipality is in the North West Province with the municipal office located at Mafikeng. According to the South Africa Municipal Demarcation Act (Act No 27 of 1998), a municipality is an organ of the state within the local sphere of government exercising legislative and executive authority within an area determine in terms of local government. As stated in chapter two (Section 2.5), there are three categories of municipalities according to the Municipal Demarcation Act, (category A, B and C). Category B municipalities are the local municipalities and form part of the District (Category C) municipalities in their area. A district municipality administers and makes rules for the district and includes more than one local municipality.

The Central District Municipality is made up of five local municipalities namely: the Mafikeng Local Municipality (Mafikeng), the Ditsobotla Municipality (Lichtenburg), the Ramotshere Moiloa Local Municipality (Zeerust), the Tswaing Local Municipality (Delareyville) and the Ratlou Local Municipality (Setlagole). District and local municipalities share responsibility for local government in their areas to ensure that all the communities, particularly disadvantage communities, have equal access to resources and services. Figure 4.2.1 shows the Central District Municipality and its local municipalities.

Figure 4.2.1: Overview of the Central District Municipality



Source: SA (2006a)

4.3 RESEARCH DESIGN

In this study, both qualitative and quantitative research designs are used. The purpose of the qualitative design was to get insight in the use of grounded theory on how the Central District Municipality (CDM) is implementing SCM. Unlike experiments and surveys, in which the elements of the research design where; hypothesis formulation, measurement

and sampling are specified prior to data collection, design elements in qualitative research usually are worked out during the course of the study. A qualitative approach has the potential to supplement and reorient understanding of the problem under study (Mouton, 2004: 161). The quantitative method was used to gain insight on how the Central District Municipality practiced SCM. The specific design selected for the study was an implementation evaluation study.

The interview questionnaire with semi-structured questions was utilised in the study. Closed questions were analysed quantitatively. The closed questions took a likert scale format ranging from strongly disagree, disagree to strongly agree, agree and do not know based on agreement while others took the form of very low, low to very high, high and do not know based on applications of SCM issues. The likert scale is a technique that presents a set of attitude statements. Subjects are asked to express agreement or disagreement on a five-point scale (1, 2, 3, 4 and 5), (1 for strongly disagree and very low, 2 for disagree and low, 3 for agree and high, 4 for strongly agree and very high, 5 for I don't know). Each degree of agreement was given a numerical value from one to five as in Lavalley and Felson (2002: 256).

Thus a total numerical value was calculated for all the responses to determine respondents view.

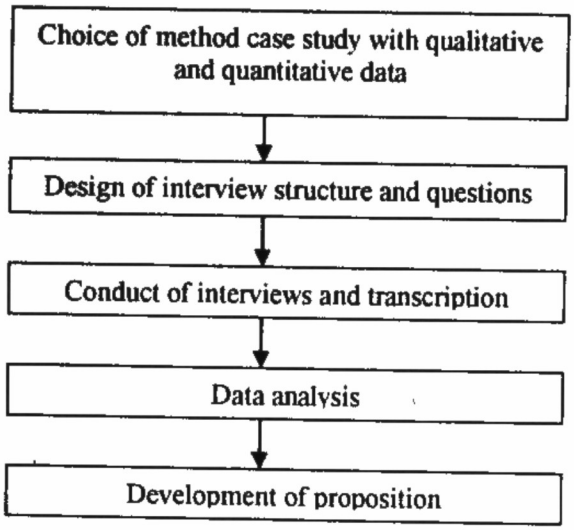
4.3.1 Grounded Theory

Grounded theory is a qualitative research analysis technique whereby theory is generated from the collected data (Punch, 1998: 16; Taylor and Bogdan, 1998: 65; Charmaz, 2000: 512; Ryan and Bernard 2000: 873; Locke 2001: 64). Inductive processes are used to collect and analyse the data and theories, concepts, hypotheses and propositions are developed from the collected data rather than from prior theories, assumptions or other research (Glaser and Strauss, 1978: 5; Taylor and Bogdan, 1998: 65; Locke, 2001: 64).

According to Punch (1998: 17), the idea behind theory is to "explain whatever is being studied, with the explanation being couched in more abstract terms than the terms used to describe it". In contrast, according to Glaser and Strauss (1978: 6) "the source of certain ideas, or even 'models', can come from sources other than the data". The developed theoretical frameworks, hypotheses and propositions explain the collected data. The theory is developed inductively, though in the refinement of the theory deduction techniques may be used.

Figure 4.3.1 shows an overview of the grounded theory.

Figure 4.3.1: Overview of the grounded theory



Source: Glaser and Strauss (1978:6)

Charmaz (2000: 512), states that there are no rigid prescriptions with grounded theory. There is a set of flexible strategies that this style of qualitative analysis allows the researcher to experiment with. The researcher further states that, "grounded theory methods specify analytic strategies, not data collection methods". It is the interpretation of the data by the researcher that shapes the emerging codes in grounded theory. Glaser and Strauss (ibid), both sociologists, initially articulated the grounded theory approach in 1967 with the publication of the discovery of grounded theory using their study of hospital staff and how they dealt with dying patients.

The definition of grounded theory given by Strauss and Corbin (1990: 24) is: "A qualitative-research method that uses a systematic set of procedures to develop and

inductively derive grounded theory about a phenomenon". The authors' analysis involves posing analytic questions. The definition given by Glaser (1992: 16) is: "A general methodology of analysis linked with data collection that uses a systematically applied set of methods to generate an inductive theory about a substantive area".

The appropriate orientations for this study, was the combination of Glaser (ibid) (G) and Strauss and Corbin (ibid) (S&C) approaches to grounded theory and include:

- The research questions are the statements that identified the phenomenon to be studied (S&C).
- Specific questions were posed to interviewees, themes emerged from the coding process following data collection (G).
- Concepts and their relationship generated to explain and or interpret variations among SCM officials whether and to what extent they are complied with SCM legislations (G).
- Theoretical formulation or set of concepts (i.e., the propositions) developed from the study.

(a) The Elements of Grounded Theory

Three basic elements of grounded theory are concepts, categories and propositions. Concepts are the basic units of analysis since it is from conceptualisation of data, not the actual data per se, that theory is developed.

Strauss and Corbin (1990: 27), state: Theories can not be built with actual incidents or activities as observed or reported; that is, from "raw data." The incidents, events, happenings are taken as, or analysed as, potential indicators of phenomena, which are thereby given conceptual labels. If a respondent says to the researcher, "Each day I spread my activities over the morning, resting between shaving and bathing," then the researcher might label this phenomenon as "pacing." As the researcher encounters other incidents, and when after comparison to the first, they appear to resemble the same phenomena, then these, too, can be labelled as "pacing". Only by comparing incidents and naming like phenomena with the same term can the theorist accumulate the basic units for theory".

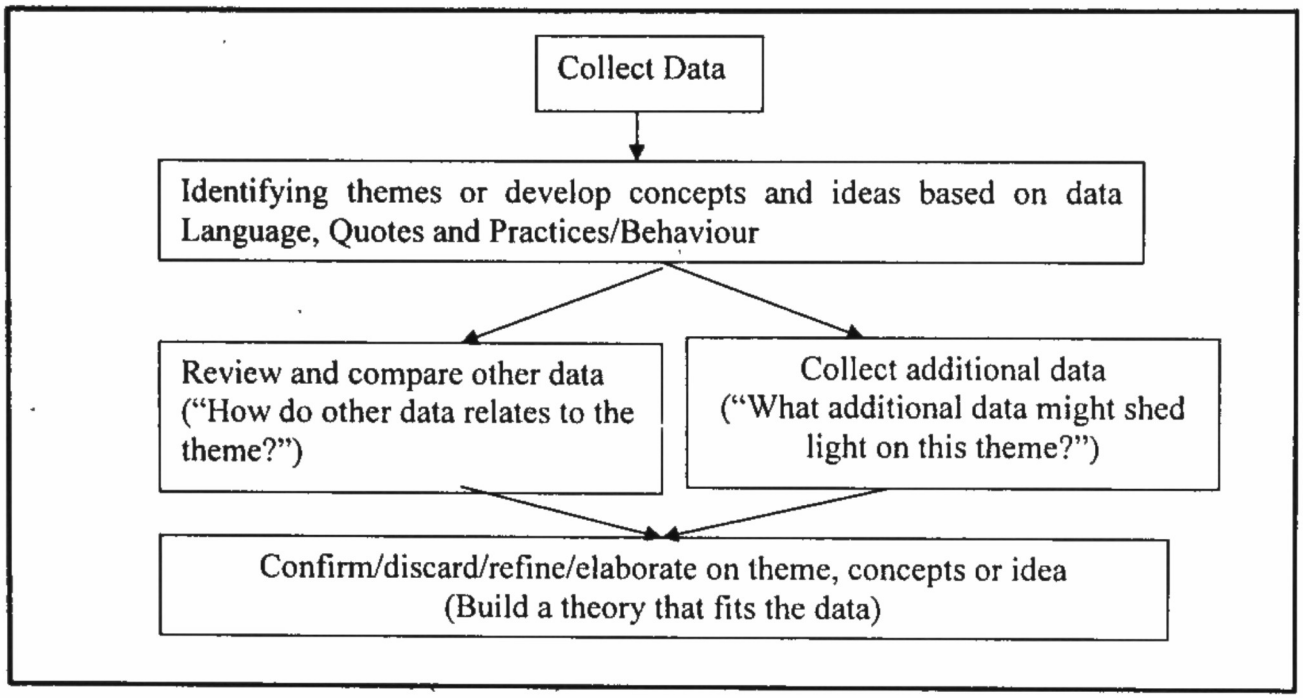
The second element of grounded theory is the categories, defined by Strauss and Corbin (1990), thus: Categories are higher in level and more abstract than the concepts they represent. They are generated through the same analytic process of making comparisons to highlight similarities and differences that is used to produce lower level concepts. Categories are the "cornerstones" of developing theory. They provide the means by which the theory can be integrated. One can show how the grouping of concepts forms categories by continuing with the example presented above. In addition to the concept of "pacing," the analyst might generate the concepts of "self-medicating," "resting," and "watching one's diet." While coding, the analyst may note that, although these concepts are different in form, they seem to represent activities directed toward a similar process: keeping an illness under control. They could be grouped under a more abstract heading, the category: "Self Strategies for Controlling Illness".

The third element of grounded theory is propositions, which indicate generalised relationships between a category and its concepts and between discrete categories. It is felt that the term 'propositions' is more appropriate. As Whetten (1989: 492), points out, propositions involve conceptual relationships whereas hypotheses or questions require measured relationships. Since the grounded approach produces conceptual and not measured relationships, the former term is preferred.

The generation and development of concepts, categories and propositions is an iterative process. Grounded theory is not generated a priori and then subsequently tested. Rather, it is, inductively derived from the study of the phenomenon it represents. That is, discovered, developed and provisionally verified through systematic data collection and analysis of data pertaining to that phenomenon. Therefore, data collection, analysis, and theory should stand in reciprocal relationship with each other. One does not begin with a theory and then prove it. Rather, one begins with an area of study and what is relevant to that area is allowed to emerge. (Strauss and Corbin, 1990: 23).

Figure 4.3.2 depicts an analysis of the elements of the grounded theory approach.

Figure 4.3.2: Elements of the grounded theory approach



Source: Strauss and Corbin (1990: 24)

Five analytic (and not strictly sequential) phases of grounded theory building are: research design, data collection, data ordering, data analysis and literature comparison. Within these phases, nine procedures or steps are followed (Table 4.3.1). These phases and steps are to be evaluated against four research quality criteria, construct validity, internal validity, external validity and reliability. Briefly, establishing clearly specified operational procedures enhances construct validity. Establishing causal relationships whereby certain conditions are shown to lead to other conditions, as distinguished from

spurious relationships, enhances internal validity. In this sense, internal validity addresses the credibility or "truth value" of the study's findings. External validity requires establishing clearly the domain to which the study's findings can be generalised. Reliability requires demonstrating that the operations of the study such as data collection, procedures can be repeated with the same results.

Table 4.3.1 provides an overview of the phases, steps and tests and forms the template for the subsequent discussion, which moves from a normative, or prescriptive account of recommended activities to a descriptive account of how these prescriptions was applied in the study.

Table 4.3.1: The process of building grounded theory

PHASE	ACTIVITY	RATIONALE
RESEARCH DESIGN PHASE		
Step 1: Review of technical literature	Definition of research question	Focuses effort
	Definition of a prior constructs	Constrains to irrelevant variation and sharpens external validity
Step 2: Selecting Cases	Theoretical, not random, sampling	Focuses efforts on theoretically useful cases (e.g. those that test and or extend theory)
DATA COLLECTION PHASE		
Step 3: Develop rigorous data collection protocol	Create case study database	Increase reliability increases construct validity
	Employ multiple data collection methods	Strengthens grounding of theory by triangulation of evidence. Enhances internal validity
	Qualitative and quantitative data	Synergistic view of evidence
Step 4: Entering the field	Overlap data collection and analysis	Speeds analysis and reveals helpful adjustments to data collection
	Flexible and opportunistic data collection methods	Allow investigators to take advantage of emergent themes and unique case features
DATA ORDINARY PHASE		
Step 5: Data ordering	Arraying events chronologically	Facilitates easier data analysis. Allow examination of processes
DATA ANALYSIS PHASE		
Step 6: Analysing data relating to the first case	Use open coding	Develop concepts, categories and properties.
		Develop connections between a category and its sub categories
	Use axial coding	Integrate categories to build theoretical frameworks
	Use selective coding	All forms of coding enhance internal validity
Step 7: Theoretical Sampling	Literal and theoretical replication across cases (go to step 2 until theoretical saturation)	Confirms, extends and sharpens theoretical framework
Step 8: Reaching closure	Theoretical saturation when possible	Ends process when marginal improvement becomes small
LITERATURE COMPARISON PHASE		
Step 9: Compare emergent theory with extant theory	Comparisons with conflicting framework Comparisons with similar frameworks	Improves construct definition and therefore internal validity Also improves external validity by establishing the domain to which the study's findings can be generalised

Source: Pandit (1996: 4)

4.3.2 Justification for the Method

There are two types of data - quantitative and qualitative. Quantitative research is concerned with the collection and analysis of numerical data, whereas qualitative research is concerned with non-numerical and unstructured data (Punch, ibid) consisting of "language in the form of extended text" (Miles and Huberman, 1994: 9; Zhang and Bernard, ibid). The researcher used both qualitative and quantitative methods and this helped the researcher in using qualitative findings to better understand quantitative results and to enhance validity of the study as a whole. Qualitative method helped the researcher explain quantitative findings because it allowed the participants to express the reason they thought and acted the way they did to describe the social and economic factors that influenced their decisions.

Prior to a particular research strategy being employed for data collection, the objectives of the research need to be clearly identified (Easterby-Smith *et al.* 1991) to ensure that the correct strategy is utilised. Different types of qualitative research strategies include, ethnography, field study, participant and non-participant observation strategies, interview strategies, evaluation and archival strategies. Yin (1994: 36), takes a slightly different approach to that of Miles and Huberman by identifying case studies, experiments, survey, history, and computer based analysis of archival records as research strategies.

According to Marshall and Rossman (1989: 32), the two fundamental techniques used to gather information in qualitative research are observation and in-depth interviewing. Observation techniques are utilised when the events, behaviours and artefacts in the chosen social setting are systematically described. An in-depth interview was described by Marshall and Rossman (ibid) as an interaction between an interviewer and interviewee with the purpose of obtaining valid and reliable information. The collection and analysis of empirical data for each of the qualitative research strategies were different, though all strategies can be used for three different purposes - explanatory, exploratory and descriptive (Yin, 1994: 36). The distinguishing conditions of the research strategies are: The type of research questions posed, the extent of control an investigator has over actual behavioural events and the degree of focus on contemporary as opposed to historical events.

Qualitative data can be collected using a range of methods and from an array of sources. The spoken and or written representations and records of human experience are studied, based upon observation, interviews and/or documents. The data will require some form of processing once collected, but prior to analysis e.g., transcribing a tape recording. The sources of qualitative data according to Punch (1998: 60) are: "Interview transcripts, recordings and notes, observation records and notes, documents and the products and records of material culture, audio visual materials, and personal experience materials (such as artefacts, journal and diary information and narratives)". There is more flexibility in the timing of the structure of the research for qualitative research compared with quantitative.

Face-to-face interviews was used to fully understand the respondents' impressions, experiences and to learn more about their answers to the questionnaires. A face to face interview has an advantage to other research instruments in that it gives a full range and depth of information, develops relationships within which information is generated, is accessible to information and it is very flexible. The researcher also used a closed ended questionnaire to quickly and easily get lots of information from the respondents in a non-threatening way. The questionnaire has an advantage in that it can be completed anonymously, it is inexpensive to administer, easy to analyse and compare questionnaire.

4.3.3 Data Collection

Exploratory and explanatory qualitative case study research and data analysis techniques, with some quantitative analysis was utilised in this research. The set of data used was (i) documentary data and (ii) interview data. Documentary data were collected to establish an understanding of the issues within the Central District Municipalities and its local municipalities and along with the literature review (Chapter 2) formed the basis of the questions in the interviews (Appendix 1). The second set of data was derived from in-depth individual face-to-face interviews, which took a semi-structured format with officials of the Central District Municipality and its local municipalities.

(a) Interviews

Kvale (1996: 28), identified different forms of interviews that vary according to content, such as seeking factual information, attitudes, opinions, narratives and or life histories. Two 'purposes' that an interview can have, firstly, empirical, where information is

gathered on a particular topic and secondly theoretical, where a theory is tested or developed (i.e., grounded theory). Interviews can be conducted in a variety of formats including individual or group face-to-face verbal interchange, mailed or self-administered questionnaires, telephone surveys and electronic interviewing via fax, email and internet (Fontana and Frey, 2000: 653).

Interviews can differ in their degree of structure from a well-structured sequence of questions, through focused interviews following a particular set of questions to an open-structure with no predetermined sequence or formulation of questions, where respondents are asked for facts as well as their opinions (Denzin, 1978: 291; Taylor and Bogdan, 1998: 88). In a structured interview, each interviewee receives the same series of questions in the same order. Interviews are a useful way of obtaining large amounts of data quickly and provide the means for immediate follow up questions, if required, for clarification or to obtain additional information.

There are two broad types of questions that can be asked in an interview - open and closed. In open-ended questions the interviewee has total freedom and flexibility to respond, whereas in closed questions they are limited to the alternatives provided (Davis and Cosenza, 1993: 287). It is claimed that open questions allow interviewees to respond in "their own words", with this type of question structure not 'prompting' responses. In the case of closed questions they are more structured in those interviewees are required to 'tick' a category or box (variability in answers is reduced), they are easier to answer and the responses are easier to computerise and analyse. Even though open and closed

questions have different characteristics, the quality of the collected data depends upon, for example, the level of knowledge that the interviewee has, how interviewees interpret the questions, the responses given by individual interviewees to the question, how the interviewer interprets the responses and the type of coding performed (Foddy 1993: 128).

In employing a semi-structured interview questions strategy, there is an assumption that questions are worded and ordered in a way understood by all interviewees. Though interviewees may have different perspectives and some words, terms and or concepts may not be the same. In this research, the researcher made every attempt and ensures that each interviewee understood the terminology (e.g., through use of a background brief) and on the occasions where an interviewee might have asked for clarification of a term, the researcher made all clarification. Semi-structured interview questions were used in this study to get the opinions of the respondents on the compliance to SCM practices and legislations to inform discussions about the findings of the research. Interviews were recorded with a digital recorder and later transcribed by playing the recorded tape from windows media player sentence by sentence. A pre-test (Pilot test) of the interviews was conducted to find out if interviewees actually understood the interview questions raised. The first two interviews were used as a pre-testing. The researcher conducted thirty-two interviews, but the first two were not considered for analysis. The analysis included thirty interviews by theoretical saturation (Denzin, 1917: 291).

(b) Documentary data

Documentary data included SCM information from internal and external sources such as the municipality's files, media files and government release. These documentary data were used to obtain information on current SCM issues in the municipality and they form part of the literature review. It also assisted in the compilation of the interview questions. For instance the review of the various SCM circulars, SCM guides to accounting officers and various government gazettes with emphasis on SCM legislations.

Table 4.3.2 shows justification for the research instrument used in this study.

Table 4.3.2: Justification for the basic methods to collect data used in this study.

Method	Overall Purpose	Advantages	Challenges
Questionnaires, Surveys, Checklists	to quickly and or easily get lots of information from people in a non threatening way	-can complete anonymously -inexpensive to administer -easy to compare and analyze -administer to many people -can get lots of data -many sample questionnaires already exist	-might not get careful feedback -wording can bias client's responses -are impersonal -in surveys, may need sampling expert - doesn't get full story
Interviews	to fully understand someone's impressions or experiences, or learn more about their answers to questionnaires	-get full range and depth of information -develops relationship with client -can be flexible with client	-can take much time -can be hard to analyze and compare -can be costly -interviewer can bias client's responses
Documentation Review	To get impression of how program operates without interrupting the program; is from review of applications, finances, memos, minutes, etc.	-get comprehensive and historical information -doesn't interrupt program or client's routine in program -information already exists -few biases about information	-often takes much time -info may be incomplete -need to be quite clear about what looking for -not flexible means to get data; data restricted to what already exists
Observation	to gather accurate information about how a program actually operates, particularly about processes	-view operations of a program as they are actually occurring -can adapt to events as they occur	-can be difficult to interpret seen behaviors -can be complex to categorize observations -can influence behaviors of program participants -can be expensive
Focus Groups	explore a topic in depth through group discussion, e.g., about reactions to an experience or suggestion, understanding common complaints, etc.; useful in evaluation and marketing	-quickly and reliably get common impressions -can be efficient way to get much range and depth of information in short time - can convey key information about programs	-can be hard to analyze responses -need good facilitator for safety and closure -difficult to schedule 6-8 people together
Case Studies	to fully understand or depict client's experiences in a program, and conduct comprehensive examination through cross comparison of cases	-fully depicts client's experience in program input, process and results -powerful means to portray program to outsiders	-usually quite time consuming to collect, organize and describe -represents depth of information, rather than breadth

Source: Carter (1999: 15)

The researcher interviewed officials who were involved with SCM implementation in one way or the other in the Central District Municipality and its local municipalities. These interviewees included four municipal managers, six chief financial officers, one SCM manager and nineteen other managers that form part of the SCM bid committees. Table 4.3.3 shows the distribution of interviewees from the different municipalities.

Table 4.3.3: Distribution of respondents based on interviews

Municipality	**Number of persons Interviewed**
Central District Municipality	7
Mafikeng Local Municipality	4
Ditsobotla Local Municipality	6
Ramotshere Moiloa Local Municipality	6
Tshwaing Local Municipality	2
Ratlou Local Municipality	5
Total	**30**

Source: Interviews

4.4 SAMPLING PROCEDURE

The study utilised theoretical sampling procedure. Theoretical sampling is a term coined by Glasser and Strauss (1967) in the context of social research to describe the process of choosing new research sites or research cases to compare with one that has already been studied. It is one of the tools of qualitative research. The goal of theoretical sampling is not the same as with the probabilistic sampling; the researcher's goal is not the representative capture of all possible variations, but to gain understanding of the case and facilitate the development of an analytic frame and concepts used in his research.

Theoretical sampling can be viewed as a technique of data triangulation: Using independent pieces of information to get understanding on something that is only partially known or understood.

The researcher administered the interview questionnaires to the municipal managers, chief financial Officers (CFO), the accounting officers, practitioners of SCM and other members of the SCM units (demand management team, acquisition management team, logistic management team and disposal management team) in the Central District Municipality and each of the five local municipalities. The researcher came to the point of saturation after n=30. Theoretical saturation is the point during theoretical sampling when there is repetition of responses from respondents and no new phenomenon is being developed (Glaser, 1978: 82).

4.5 DATA ANALYSIS

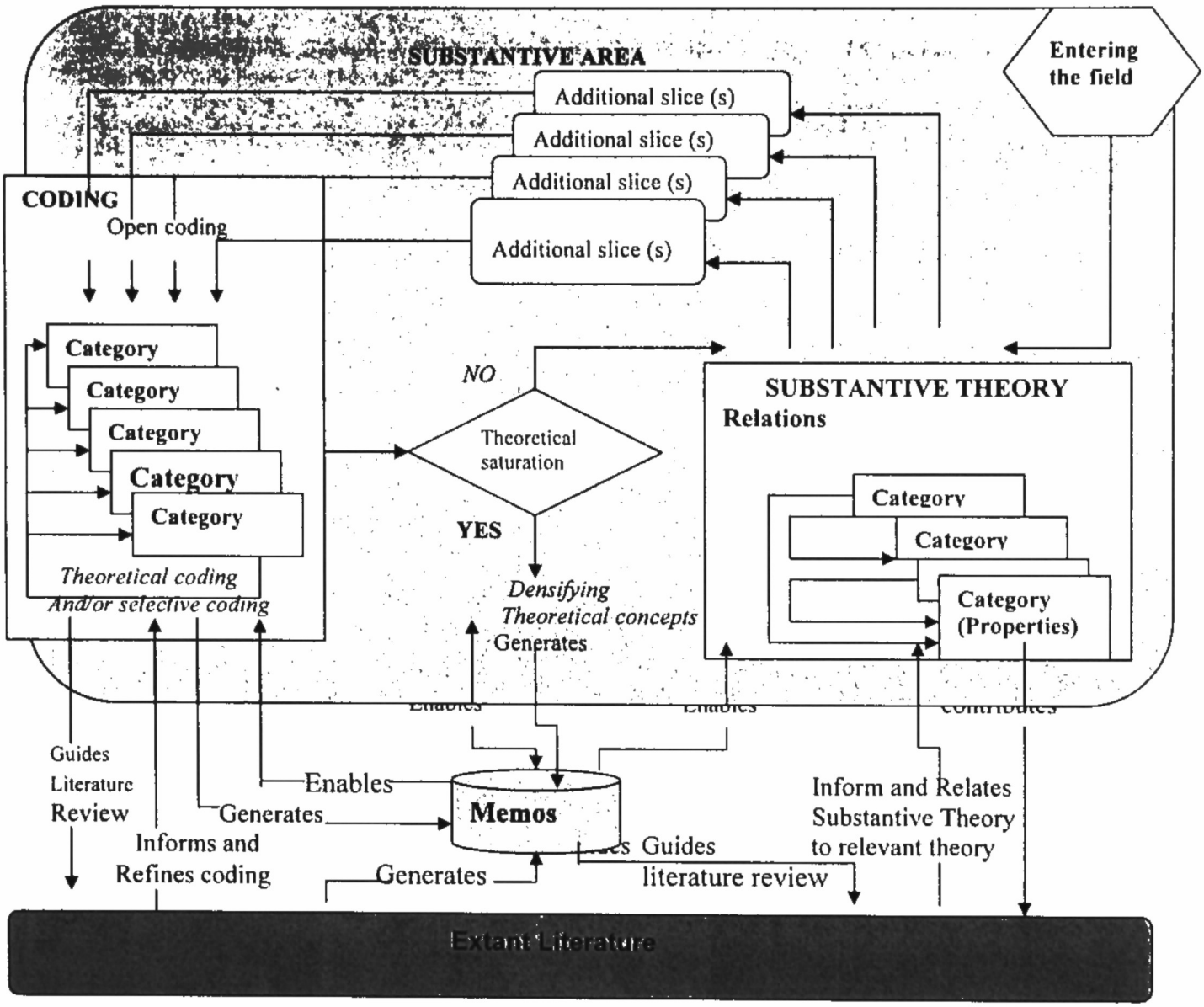
The Figure 4.5.1 is a structure of expanded Lehmann's (2001: 7) grounded theory model that the researcher used to analyse the transcript data. When the researcher was ready to collect data, he started by entering the field and its consideration as a qualitative case study. From that point the researcher became involved with theoretical sampling. Theoretical sampling is a data collection process that continues until the very end of the research. This allowed the researcher to take advantage of emergent themes, acquire data continuously and maximise observation opportunities. Interviews were recorded on a digital recorder. The researcher could not acquire a transcription software (Nvivo) since he had to import it from Europe, as he could not get it in South Africa. The interviews

were transcribed by listening to the recordings through the window media player sentence-by-sentence. After transcription, 85 codes were developed from the transcript data. The researcher went through the process of open coding, axial coding and selective coding to develop phenomena, concepts and categories.

The writing of theoretical memos starts almost in parallel with open coding. Because memos are "the theorizing write-up of ideas about codes and their relationships as they strike the analyst while coding" (Glaser, 1978: 83). Memos are produced constantly in grounded theory, from the beginning of the analysis process until reaching closure, capturing the thoughts of the analysts while they progress through the work. As codes and memos accumulated, the researcher started to perceive relationships between them. The process is theoretical coding, the delimitation of the analysis to the significant variables affecting the core variable contributed to parsimonious theory. At this point in the process, the role of the extant literature became very important and the researcher acquired sensitivity and knowledge on grounded concepts.

Theoretical saturation was achieved when there was accountability for the main concern of the research and further sampling failed to add significant value to the study (i.e. new categories or properties). The researcher discovered a substantive theory. Substantive theories are applicable to the particular area of empirical enquiry from where they emerged. Figure 4.5.1 shows the extension of the Lehmann's grounded theory.

Figures 4.5.1: Extension of Lehmann's grounded theory analysis



Source: Lehmann (2001: 8)

Entering the field was the first research action the researcher conducted within the context where the phenomena were found. To enter the field the researcher considered three important aspects:

- Following the grounded theory tradition, 'the problem' was to be discovered from the respondents. The primary problem did not include a prior constructs or guiding theories.
- The researcher had to address practical issues like crafting ethical protocols and obtaining approval, selecting the recorder required for interviewing and processing the data, producing transcription.
- Entering the field included preparation work such as selecting an appropriate site as demonstrated above (Central District Municipality and its local municipalities), obtaining access to the case, getting consent from the participants and contacting them.

From that point, it was theoretical sampling. This allowed the researcher to take advantage of emergent themes, acquire data continuously and maximise observation opportunities.

4.5.1 Coding

Coding is the result of raising questions and giving provisional answers about categories and their relations. Creating distinctions between codes produces dimensions and sub dimensions. The coding paradigm originally articulated by Strauss (1987), and further refined by Strauss and Corbin (1990: 57), is applied. It represents the operations by which data were broken down, conceptualised and put back together in new ways.

Three types of coding are proffered: open coding, axial coding and selective coding. Coding as a term conjures up notions of esotericism, whilst in actuality the researcher is labelling fragments of data through various developmental stages. The coding paradigm focuses attention on the slightly different aspects of naming and comparing different levels of conceptual perspective that span the three forms of analytic activity (Locke, 2001: 64). The transcripts' data were predominantly coded (labeled) applying the researcher-constructed codes. The former extrapolates the actual words and phrases used by the respondent. The latter uses a label that best captures a description of a phenomenon as it is highlighted in the textual data.

(a) Open Coding

Open coding occurs at the beginning of the study. The primary goal of open coding was to conceptualise and categorise data, achieved through two basic analytic procedures namely: Making comparisons and asking questions of the data. Open coding begins the process of labeling many individual phenomena. In time, a number of individually labeled concepts were clustered around a related theme. The individual concepts were gathered together to form more powerful and abstract categories. Categories were sometimes words elicited by the participants themselves, what Strauss and Corbin (1990), call "in vivo" language. Once categories are formed in open coding, they are fleshed out in terms of their given properties and dimensions.

Exploring complex phenomena are "characteristics of a category, the delineation of which defines and gives it meaning". Properties and dimensions provide the richness and

description to the abstract category. Open coding is achieved by examining the transcripts by line, by sentence, or by paragraph, and sometimes by scanning the entire document.

During the process of open coding, the researcher breaks down the transcripts, comparing, conceptualising and categorising the data. This process is known as data reduction although it was never felt doing it. Open coding consists of labelling emergent phenomena, discovering categories and developing categories from the concepts with their properties and dimensions. Phenomena were labelled by breaking the transcripts by asking the questions such as "*What is this*"? " *What does it represent*"?. Table 4.5.1 shows a sample template for open coding step one: Identification of phenomena

Table 4.5.1: Sample template for open coding: Step one-Identification of phenomena

Code	**Phenomena**	**Code Type**
1	Planning	Open Label
2	Management	Open Label
3	Specifications	Open Label
4	Sourcing	Open Label
5	Monitoring	Open Label
6	Contracts	Open Label
7	Training	Open Label
8	Workshops	Open Label
...	...	...

Source: Interviews

For each phenomenon (incident, idea or event), a name that captures its essence in a more general way and generated concepts was given. It was compared to others already

discovered if they could be label in the same way. Table 4.5.2 shows a sample template of open coding step two: Identification of concepts.

Table 4.5.2: Sample template for open coding: Step two-Identification of concepts

No	Detail of concept
1	Takes into considerations the elements of supply chain management
2	Still to developed the three committees
3	Links demand management to procurement practice
4	Department and consultants do specifications
5	Trying to benchmark with other municipality
6	Only local sourcing
7	Low capacity municipality
8	Three quotations for all acquisitions
9	Most often consultant do evaluate bids
10	Policy send to council for approval
11	Training and workshops organise by the national treasury
12	No supply chain management units
13	Advertised on local news papers
14	Use local contractors and labour
15	Involve communities in integrated development planning
...	...

Source: Interviews

(i) Discovering Categories of Concepts and Developing Properties and Dimensions

At the end of even a small piece of the transcript, lots of concepts emerged. It felt overwhelm and at this point concepts were grouped into categories. Categories are the classification of concepts discovered when the concepts are compared (*What's similar,*

This started when). The researcher sorted out the phenomena in a category and labeled them. Also properties and dimensions were developed, that is the characteristics and attributes of a category. The location of properties helped the researcher developed broader relations at a later stage. Table 4.5.3 shows a sample template of open coding step three: Developing categories from concepts.

Table 4.5.3: Sample template for open coding Step 3 - Discovering categories from concepts

Category 1 Demand Management	**Detail of Concepts**	
Concepts	1	Still to develop three committees
	2	Links demand and procurement practices
	3	Department and consultants do specifications
	4	Gives considerations to supply chain management
	...	...
Dimensions	Still to be implemented, Not fully in place	
Properties	Needs assessment, planning, specifications, equipment	
Incidents	1	Treasury guidelines and regulations
	2	Service delivery
	3	Procurement
	...	...
Consequences	Inefficient Practices, non compliance to treasury regulations	

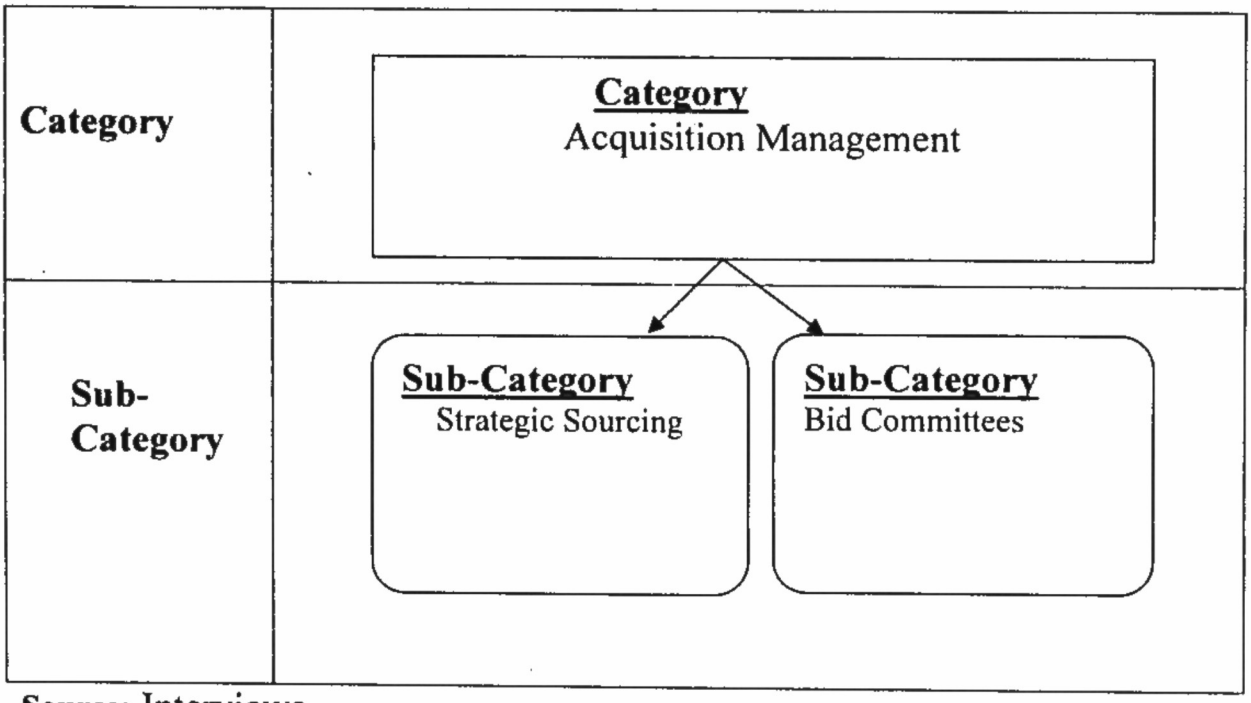
Source: Interviews

(b) Axial Coding

Axial coding is defined as a process of finding relationships between categories and subcategories (Pandit, 1996: 25; Goulding, 2002: 56; Douglas, 2003: 11; Gasson, 2004:

50). Moving from the transcript of one respondent to another and towards the final transcript or piece of data, tentative relationships emerged - plus a considerable number of individual fragments of data. Figure 4.5.2 shows a sample template for the axial coding process.

Figure 4.5.2: Sample template for axial coding



Source: Interviews

During axial coding, data were assembled in new ways after open coding by making connection between the categories. At this stage, the researcher moved from induction to deduction analysis. Axial coding consists of taking categories and identifying them noting the conditions that gave rise to them, the context into which it is embedded, action and the interaction strategies in which it is carried out and the consequences of those

strategies. The researcher expanded his knowledge on the categories and the categories at this stage represented the phenomena.

The researcher also took note of the causal, context and intervening conditions, which included the events, incidents that lead to the occurrence of a category by searching for the data that led to it and the category phenomena. The researcher further set the properties that pertained to a category. Intervening conditions are the broader structural context pertaining to the category and include space, time, and career. The grounded theory has a particular emphasis that focuses on action and integration. Also consequences were developed based on the outcomes of the inter (actional) strategies.

Table 4.5.4 shows a sample template for axial coding.

Table 4.5.4: Sample template for axial coding.

Category: Acquisition Management	**Detail of Category:** Sourcing, industry analysis, bids, bid Committees, procurement etc.
Paradigm	
Conditions	**Causal, Intervening, contextual**
Why	Delivery services, need assessment, research, procurement
When	When need arises, available fund, during projects of the community, Bids
Where	Municipality, municipal entity
Action/Interaction	**Routine or Strategic**
By Whom	Municipality, members of the various bid committees.
How	Tenders, Negotiations, quotations
Consequences	**Intended or Unintended**
Duration	Depends on project, do not have a timetable for promulgation
Visibility	Very visible, project execution by consultants and contractors.
Impact	Job creation, rendering municipal services,
Predictability	Inefficient management,
Scope	Still to put system in place, lack of skills and capacity, still at infancy stage in implementing policy
Memo	Municipalities are still to develop the various bid committees, they lack the skills and capacity to carry appropriate industry analysis and research

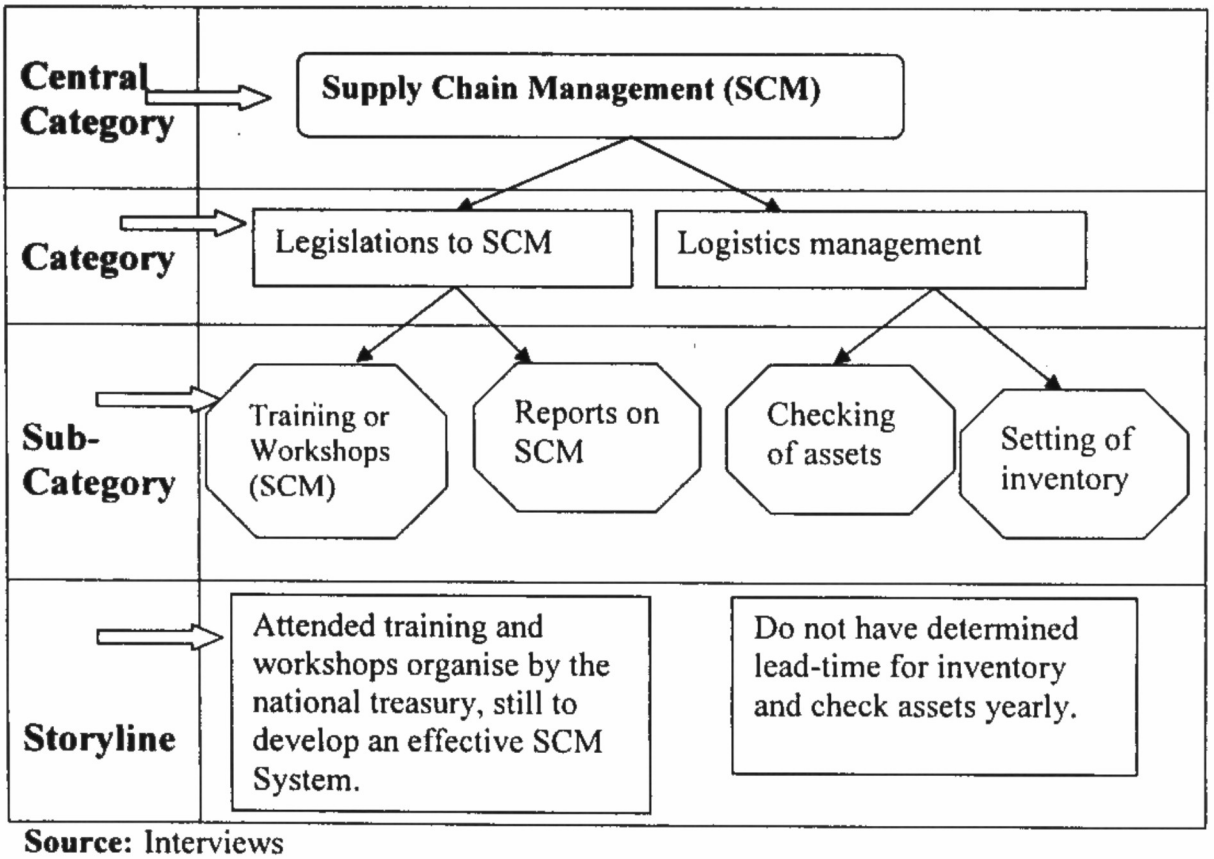
Source: Interviews

(c) Selective Coding

Selective coding is defined as a "process of integrating and refining the theory" (Strauss and Corbin, ibid). During the process, there was selection of core category (Central) around which the final analysis was based. It was related to other categories explicating the storyline that includes analytic description of the core category validating the storyline. Category were prioritized over the others to get the storyline by asking interesting questions about the category. The categories were related to the storyline by outlining the core properties, dimension, conditions, context, strategies and consequences. The storyline was the validated data. A series of memos was developed by organisation of all data.

Figure 4.5.3 shows how selective coding process was developed.

Figure 4.5.3: Sample template for selective coding process



Source: Interviews

4.6 RESEARCH VALIDITY AND RELIABILITY

Tests that can be used to establish the qualities of empirical research are construct validity, internal validity, external validity and reliability (Yin 1994: 37; Kvale, 1996: 28). These tests verify the appropriate conduct of the research and the analysis of the data. The features of each test and how this research incorporated validity and reliability are explain below:

4.6.1 Construct validity

Construct validity is concerned with establishing the correct operational measures for the concepts under study. In this study, validity was achieved by using multiple sources of evidence, establishing a chain of evidence and having the draft findings study reviewed. They are: Data triangulation (i.e., time, space and person), investigator triangulation (i.e., more than one investigator), theory triangulation (i.e., more than one perspective), and methodological triangulation (i.e., within-method and between method). The researcher employed multiple data sources i.e., interviews and documentary, pursue triangulation by analysing both qualitatively and quantitatively (Strauss and Corbin, 1990: 24).

4.6.2 Internal validity

Internal validity is concerned with establishing a causal relationship to determine whether event X led to event Y and could be used to make inferences. It is applicable for causal (or explanatory) studies and not for exploratory or descriptive studies. Specific tactics that can be used to achieve internal validity are "pattern matching, explanation-building and time series analysis" (Yin, 1994: 37). As this study is primarily concerned with an exploratory approach, a test for internal validity was not pursued.

4.6.3 External validity

External validity is concerned with establishing the degree of generalisation of the study's findings beyond the study. In this study (Brownell, 1995: 64): "notion of generalisability did not apply because the unit of analysis is the study itself, as opposed to the multiple individuals, situations, places and contexts which may be implicated in the study". The

researcher, "generalise a particular set of results to some broader theory" i.e., analytical generalisation. Yin (1994) suggests that external validity is not always needed for qualitative data. The intention of this study was not to generalise externally.

4.6.4 Reliability

The objective of a study and its reliability was to ensure that procedures were documented to allow reproduction of the results should another researcher undertake the same study. In order to maintain reliability, the researcher demonstrated a consistent procedure on how the results were obtained. To achieve consistency, biases and errors were minimise in the study. A study protocol and database was prepared (Yin, 1994: 36), though there was no agreed prescription. A study protocol is a guide which provides details on the planned phases of a study for the researcher to follow, but also provides a record on what is to be done and how it will be done. The protocol consists of at least four topics: project overview, a list of field procedures to be undertaken or considered, a set of study research questions and a plan of the proposed structure of the final report. In this study, all research processes were well documented and interview scripts and notes will be kept in the Department of Management, North West University (Mafikeng Campus) for a period of three years for the purpose of verification and thereafter destroyed.

4.7 ETHICAL CONSIDERATION

There are three types of ethical guidelines regarding interviews that the researcher took into consideration. They are informed consent, confidentiality (the right to privacy and protecting identify) and consequences (protection from for example physical and emotional harm) as identified by Kvale (1996: 27) and Fontana and Frey (2000: 654). The following discussion focuses on how ethical guidelines were addressed in this study.

4.7.1 Informed consent

Before the interview, the researcher provided the interviewee with details of the research topic, overall purpose and outline of the key themes to be posed during the interview (background brief). The interviewees were informed in time to prepare for the interview session. Further, the researcher informed them of the objectives of the research, the methods to be used, how response data would be used, and assurances of their anonymity and maintaining confidentiality. The researcher also informed the interviewees that he would be using a digital recorder to record responses during the interview sessions (Appendix 1A; 1B).

4.7.2 Confidentiality

All interviewees were informed that their names would remain anonymous. No reference was made to an individual in the presentation of results, analysis of data and discussion of the outcomes. All transcripts data from interviews are kept confidential and would be destroyed after three years (Appendix 1A; 1B).

4.7.3 Consequences

Consideration was given to the design of the interviews, potential harm and expected benefits of participation in the study as cited by Kvale (1996: 28). The interviews were designed to obtain specific information about how the municipalities within the substantive area, complied with the design and implementation of SCM legislations and not on the specific personal views of the interviewee. This ensured that interviewees did not become uncomfortable with answering 'personal' questions and would enable practical responses to be recorded.

4.8 TRUSTWORTHINESS OF THE RESEARCH

The researcher emphasised the trustworthiness of the research. Trustworthiness of this study lies at issues discussed in section 4.6 above as validity and reliability.

In a qualitative paradigm, the concept of trustworthiness refers to a conceptual soundness from which the value of the research can be judged (Marshall and Rossman, 2000: 254). This soundness is likened to a qualitative form of reliability and validity used in quantitative research. However, the concepts of reliability and validity are inappropriate for grounded theory. Based on Strauss and Corbin (1990: 27) stated eight general conceptual questions providing ways to assess the trustworthiness of a grounded theory that the researcher achieved in this study as follows:

- Concepts were generated.
- Concepts were systematically related.
- There were many conceptual linkages, and the categories well developed. The categories had conceptual density (richness of the description of a concept).

- Variations within the phenomena were built into theory (how differences were explored, described, and incorporated into the theory).
- Conditions under which variation were found built into the study were explicitly explained.
- Processes were taken into account.
- Theoretical findings seemed very significant to a great extent.
- The theory stands the test of time as they were systematically related and became part of the discussions.

Trustworthiness was bolstered by the amount of time spent in the field and with the data, triangulation of data (exploring data from different sources, methods, interviewees, and theories), alertness to the subjective lenses and subsequent biases that the qualitative researcher brought to the study and mapping what worked within the boundaries and limitations of the study. Exploring negative cases that illuminated varied and sophisticated expressions of the phenomenon strengthened trustworthiness.

The achievement of trustworthiness through satisfactory attainment of constructs that relate to credibility, transferability, dependability and conformability, together established "applicability, consistency, and neutrality" of the study.

4.9 CHAPTER SUMMARY

The chapter has presented the research design and analysis. It laid emphases on the background to the study area (central district municipality), a justification of the research design (qualitative research) and quantitative research design and the data collection methods. The grounded theory, which is a qualitative research method that uses a systematic set of procedures to develop and inductively derive theories or propositions about a phenomenon under study, was discussed as the dominant analysis strategy.

Semi-structured interview questionnaire and the use of documentations were highlighted as the research instruments for data collection and a breakdown procedure of the grounded theory as the data analysis tool was highlighted. A justification of the research instrument as the best instruments for data collection for the grounded theory was discussed. The researcher laid emphasis also on the validity, reliability, ethical considerations and trustworthiness of the research.

The next chapter reflects the results and the interpretation data of the study.

CHAPTER FIVE

RESULTS AND INTERPRETATION

5.1 INTRODUCTION

The chapter reflects the results and interpretation of results presented in chapter four based on the problem that necessitated the study. The primary problem of the research was to find out whether and to what extent did the Central District Municipality deigned and implemented SCM based on legislative requirements. The chapter presents the results of the study and did the interpretation of data based on the research questions.

In the course of the research, thirty-two interviews were actually conducted. Two of the interviews were used for pilot testing and were not included in the analysis. Considerations for analysis are the thirty interviews. As indicated in chapter four the research analysis strategy was the grounded theory supported by quantitative presentation of closed ended questions in matrixes, tables and figures with the use of SPSS. The figures were coded with labels that range from A1 to D125 (See appendix III). The researcher came to the point of saturation at n=30, where n is the number of interviews conducted.

The presentation of results and interpretation was according to the stated objectives and took into considerations the various aspects of the interview questions that included demographics, the elements of SCM (demand, acquisition, logistics, disposal, risk and performance management), legislative requirement of SCM and linking IDP to SCM. The

research was limited to the spheres of the local government and categories B and C (district and local) municipalities as the area of study. The rationale for the local municipalities is that both the district and the local municipalities are commonly related in delivering municipal services within their jurisdictic area, and each district municipality according to the municipal demarcation act, has a specified number of local municipalities.

The presentations of the results reflect the findings arrived in chapter four based on the grounded theory analysis. The researcher developed the storyline while writing chapter four. The storyline, SPSS tables and figures from the closed sections of the interviews supported the presentation of the results and its interpretation. From the tables, the highest occurrence of the scores gave the extent of agreement and application to the various aspects of SCM. The figures summarise and show those areas of concern and were developed based on the scores of 3 and 4 that is the degree of agreement and high application. Components of SCM with a percentage below 50% indicate that it requires attention by the municipalities.

5.2. DEMOGRAPHICS

Demographics are the physical characteristics of a population such as age, sex, marital status, family size, education, geographic location, and occupation. In this study, the demographics aspects that the researcher gave concern to were the position in the municipality, length of service in the municipality and the types of municipalities. This is due to the fact that they are directly related to the municipal performance in terms of

implementation of SCM. As indicated in chapter four, the sampling technique for the study was theoretical sampling. The point of saturation was arrived at after conducting thirty interviews. Table 5.2.1 shows the demographic structure of the study.

Table 5.2.1: Distribution of interviewee based on demographics

		f	%
1 Position	Manicipality Manager	4	13.3%
	Chief Financial Officer	6	20.0%
	SCM Manager	1	3.3%
	other SCM Practitioner	19	63.3%
Total		30	100.0%
2 Length of Service	Less than 1 Year	2	6.7%
	1 to less than 5 years	16	53.3%
	5 to less than 10 years	3	10.0%
	10 years or more	9	30.0%
Total		30	100.0%
3 Type of municipality	District	7	23.3%
	Local	23	76.7%
Total		30	100.0%

Source: Interviews

The information in Table 5.2.1 shows that four of the interviewees were municipal managers (13.3%), six were chief financial managers (CFO) (20.0%), one was a SCM manger (3.3%) and nineteen were other SCM practitioners (63.3%). Based on this, it shows that, most of the respondents were other SCM practitioners. Other SCM practitioners for this study were managers within the municipalities that take part in bidding process. The table also reveals that a good number of the interviewees have municipal services experiences having worked at municipalities for long. From the

interviews conducted (23.3%) of the respondents were from the district municipality while 23 (76.7%) were from the local municipalities.

5.3: EXAMINING SUPPLY CHAIN MANAGEMENT PRACTICE

The elements of SCM include demand management, acquisition management, logistics management, disposal management, risk and performance management. In this section, the researcher treated each element independently to illustrate how the interviewee responded on the application and implementation of the various elements of SCM within the central district municipality.

5.3.1 Demand Management

Demand management is the process of planning and managing the resources of a municipality, setting up of goals and targets such as to meet the need assessment of the community as defined in the IDP. During demand management processes, officials of a municipality must take into considerations timely planning and management processes, economies of scales in case of acquiring repetitive goods, appropriate compilation of required specifications and undertake appropriate industry analysis and research to gain innovations and technical benefits.

During the course of the study, the researcher realised that most of the interviewees were aware of demand management as an element of SCM. They took into considerations the elements of SCM, but did not have a demand management team. Demand management activities in one way or the others are being executed through the IDP.

"We do not have a demand management team. There is no form of execution of the SCM. SCM is being handled in the finance department according to the national treasury guidelines, but there are no structures in place for the municipality" (Interviewee 25).

Based on the need assessment of the community, specifications in the municipalities are done by the individual department requiring the goods with confirmation from the consultants. But this depends on the types of project (small projects). For large projects of amount greater than R200.000.00, exclusively consultants do the specifications.

"Bid specification differ from one project to another. The head of technical service would form part of the bid specification. We do not have a bid specification as determine by the national treasury guidelines. We don't have a policy on that. It is now that we have submitted a policy to council for approval" (Interviewee 23).

The interviewees gave the perception that most of what they procure was taken from the IDP documents.

According to interviewee 12, *"IDP guides us in the greater projects we are working on. It forms part of demand management side. This is because what we procure is what has been incorporated in our IDP".*

Table 5.3.1 shows the rating scale on the extent to which interviewees agreed based on their responses to the components of demand management.

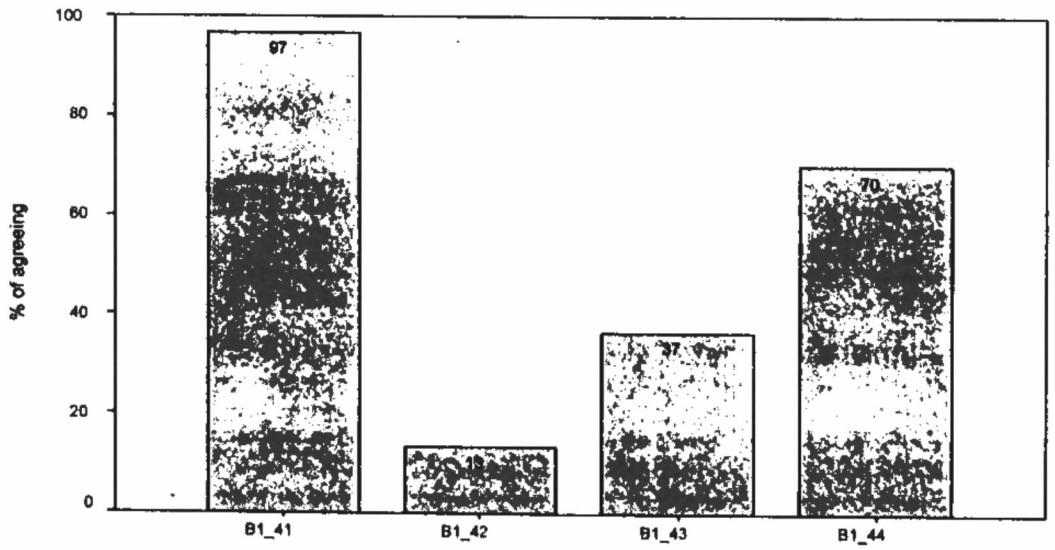
Table 5.3.1: Interviewee rating scale on agreeing to demand management

Item	Rating											
	Strongly Disagree		Disagree		Agree		Strongly Agree		Do not know		Total	
	f	%	f	%	f	%	f	%	f	%	f	%
4.1 My municipality takes into consideration the elements of SCM			1	3.3%	16	53.3%	13	43.3%			30	100.0%
4.2 My Municipality has a demand management team	4	13.3%	19	63.3%	2	6.7%	2	6.7%	3	10.0%	30	100.0%
4.3 My Municipality has a bid specification committee	4	13.3%	13	43.3%	8	26.7%	3	10.0%	2	6.7%	30	100.0%
4.4 My Municipality links demand management and procurement practices	1	3.3%	2	6.7%	17	56.7%	4	13.3%	6	20.0%	30	100.0%

Source: Interview

Based on the Table 5.3.1, a diagram was developed that shows clearly the various components of demand management with high degree of agreement. Figure 5.3.1 shows the extent of agreeing to the components of demand management.

Figure 5.3.1: Percentage of respondents agreeing to demand management



Source: Interviews

The data in Figure 5.3.1, shows that municipalities take into considerations the element of demand management and link demand management to procurement practices were of agreement while demand management team and bid specification committee were of low agreement. A few of the respondents (average of 13%) did not know what step the municipality is taken.

Within the municipalities in the substantive area, there is still low level of planning and execution of management processes. Despite the fact that most of the respondents held executive position in the municipalities, they did not have adequate research and analysis to meet and upgrade services within their municipalities.

> *" Within the municipality, we are faced with the problem of capacity and skills. Consultants do most of the work on research and industry analysis. We do not have personnel for the purpose of research and innovation" (Interviewee 2).* Table 5.3.2 shows the extent to which interviewees

applied demand management.

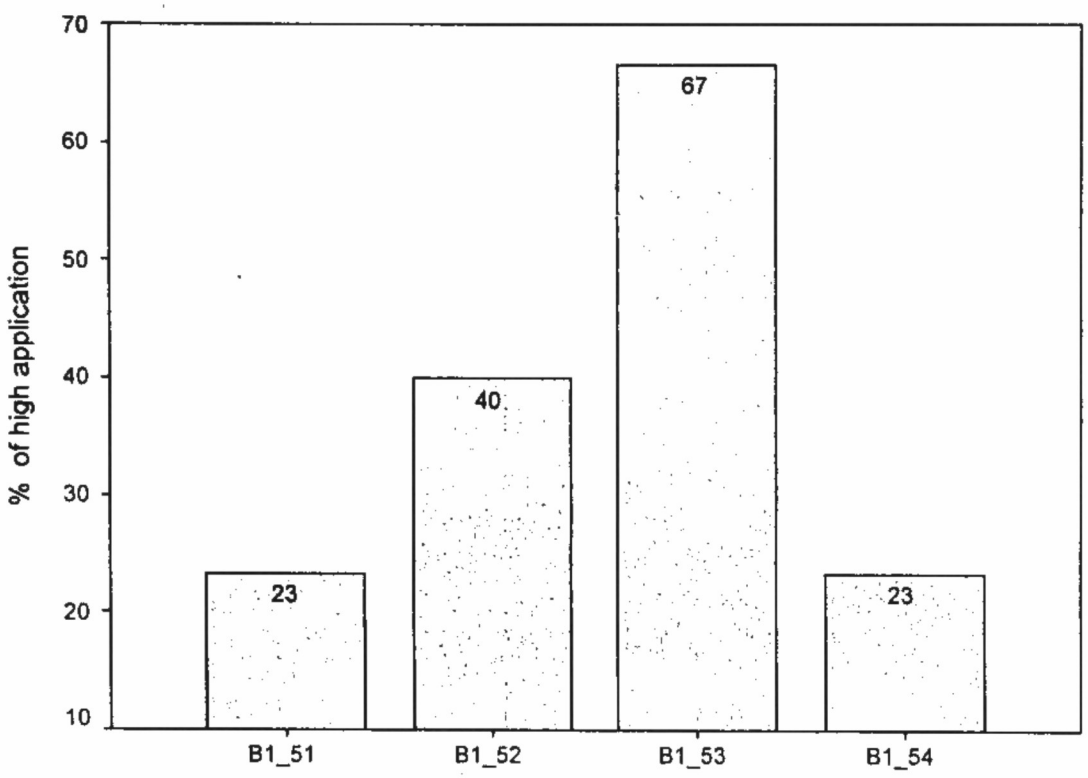
Table 5.3.2: Interviewees rating scale on applying demand management

Item	Rating											
	Very Low		Low		High		Very High		Do not know		Total	
	f	%	f	%	f	%	f	%	f	%	f	%
5.1 Planning and management processes	6	20.0%	14	46.7%	5	16.7%	2	6.7%	3	10.0%	30	100.0%
5.2 Economies of scale (e.g. buying in bulk)	5	16.7%	11	36.7%	10	33.3%	2	6.7%	2	6.7%	30	100.0%
5.3 Compilation of required specifications	2	6.7%	6	20.0%	16	53.3%	4	13.3%	2	6.7%	30	100.0%
5.4 Appropriate industry analysis and research	5	16.7%	13	43.3%	7	23.3%			5	16.7%	30	100.0%

Source: Interviews

Figure 5.3.2 is a graphical illustration of how respondents applied the demand management processes in their municipalities. The data show clearly which of the components were of high application.

Figure 5.3.2: Percentage of Respondents on high application to demand management



Source: Interviews

From Figure 5.3.2, it can be deduced that compilation of required specification is very high but planning and management processes, economies of scale and industry analysis and research are low to very low. Table 5.3.3 shows the storyline that was developed for demand management.

Table 5.3.3: Storyline for demand management

Storyline	Description of Storyline
1	Do not have a demand management team
2	Bid specifications in the municipalities are being done by the individual department requiring the goods with confirmation from consultants
3	Most of what they procure is taken from the IDP documents
4	There is low level of planning and execution of management processes
5	There is very low level of industry analysis and research
6	Compilation of required specification is very high

Source: Interviews

5.3.2 Acquisition Management

Acquisition management refers to all those actions that have to be taken to satisfy the need for material, facilities or logistic services. It involves, in sequence, requirements planning, operational research, technology acquisition, design and development, operational qualification, quality assurance, industrialisation, initial procurement and commissioning. It involves management of procurement by a municipality/municipal entity to decide on the manner in which the market will be approached; to establish the total cost of ownership of a particular type of asset; to ensure that bid documents are complete, including evaluation criteria; to evaluate bids in accordance with published criteria and to ensure that proper contract documents are signed.

During the research process, the researcher realised that the Central District Municipality and its local municipalities were trying to benchmark their activities against other municipalities. They take advantage of the cost of ownership, but there is little as far as

sourcing strategies is concerned. Most of the adverts for bids for the municipalities are done within the local newspapers except for contracts of amounts exceeding R200.00.00

> *"Yes we do advertise. But most of our advertisements are done in the local newspapers such as the Mafikeng Mail. But for cases where the amount for the bid for the project to be contracted is big, we do advertised nationally in papers such as the City Press" (Interview5).*

> *"We do advertised internally on the notice board within the municipality and locally around the province, for instance North West independent, Mmabatho Mail. In cases of large projects we advertised nationally to papers like city press. But they are expensive" (Interviewee 22).*

The type of sourcing strategy that is predominant within the municipalities is strategic sourcing. The rate of compiling bid specifications is high and the conditions for bids are stated very clearly. Bids are invited for tendering when there is a need for a project to be executed as determined in the IDP document. Bids are advertised in local and national newspapers depending on the type of project to be executed. After 21 days of advertisement, bid box is open and bids are evaluated. The evaluation is based on the guidelines specified by the national treasury, adjudicated and successful bidders awarded the contract. However, the municipalities are faced with the problem of skills and capacity to effectively implement the SCM as intended by the national treasury. Most of the municipalities have a bid committee that evaluates bids and the municipal manager who is in the bid committee and awards the contract. The municipalities are not yet fully

functional in terms of the national treasury regulations with the development of the various bid committees (Specification, evaluation committee and adjudication committees).

> *"We have a committee. The technical department compiles the technical aspects of the item they need, according to the specifications. The director technical services issues the bid advertised in a local newspaper. The bid committee evaluates the bid and makes recommendations to the Municipal Manager for awarding of contract" (Interviewee 12).*

In few of the municipalities consultants evaluate bids. In this case the bid committee serves as an adjudication committee and it makes the final awarding of a contract.

> *"We appoint consultants (project Managers) and compile specifications internally. The completed specification is put into a bid format and advertised internally on notice boards of the municipality and locally with the specification that has to go for 30 days. At the closing date we check bids applications that meet the specification, check SARS certificates and others that are included in the selection process. Some are disqualified. Project consultants evaluate based on the guidelines specified" (Interviewee 25).*

For acquisition, the municipalities do require three quotations and they use the standard document setting from the national treasury and they specify clearly the conditions of bids for which are advertised. Table 5.3.4 shows the rating scale for the extent of acquisition by the respondents.

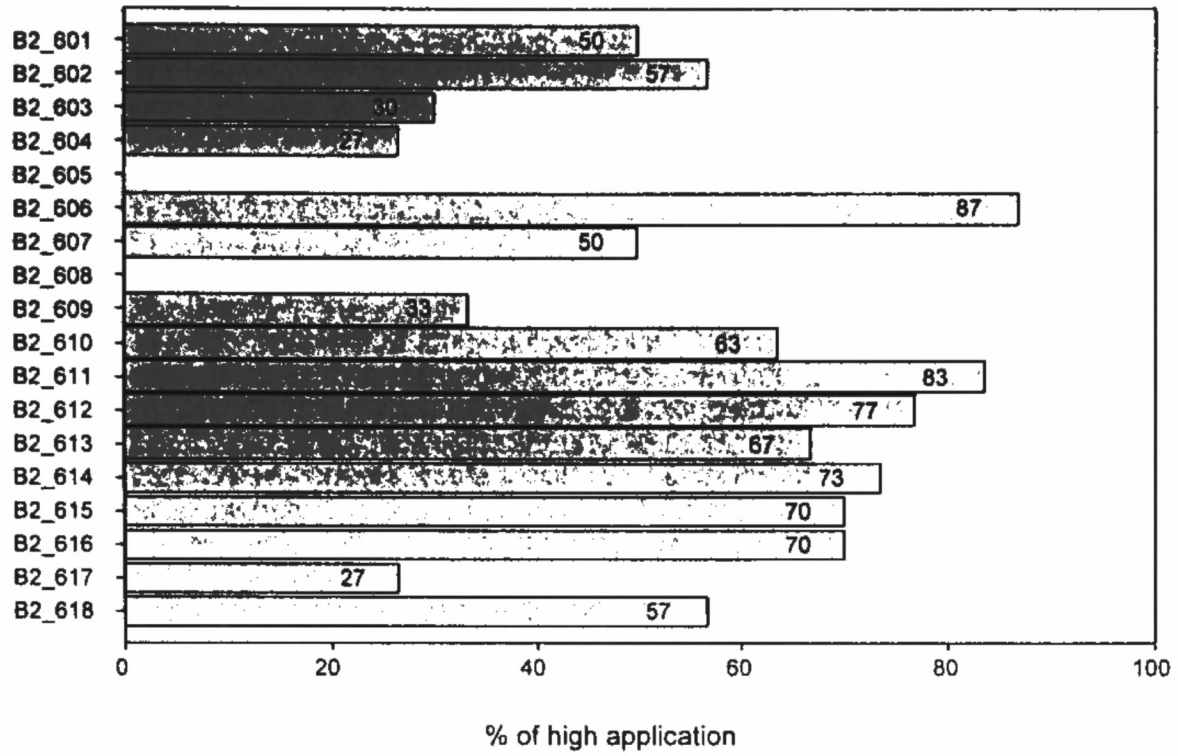
Table 5.3.4: Interviewee rating scale on applying acquisition management

	Rating											
	Very Low		Low		High		Very High		Do not know		Total	
Item	f	%	f	%	f	%	f	%	f	%	f	%
6.1 Benchmarking	3	10.0%	10	33.3%	12	40.0%	3	10.0%	2	6.7%	30	100.0%
6.2 Total cost of ownership	1	3.3%	10	33.3%	16	53.3%	1	3.3%	2	6.7%	30	100.0%
6.3 Industry analysis	4	13.3%	11	36.7%	8	26.7%	1	3.3%	6	20.0%	30	100.0%
6.4 Market characteristics	4	13.3%	14	46.7%	8	26.7%			4	13.3%	30	100.0%
6.5 Local and international sourcing	5	16.7%	22	73.3%					3	10.0%	30	100.0%
6.6 Utilising a paper-based bidding system			2	6.7%	16	53.3%	10	33.3%	2	6.7%	30	100.0%
6.7 Strategic sourcing			12	40.0%	14	46.7%	1	3.3%	3	10.0%	30	100.0%
6.8 Utilising e-Procurement	20	66.7%	9	30.0%					1	3.3%	30	100.0%
6.9 Negotiations	5	16.7%	10	33.3%	9	30.0%	1	3.3%	5	16.7%	30	100.0%
6.10 Compiling bid documents	3	10.0%	7	23.3%	11	36.7%	8	26.7%	1	3.3%	30	100.0%
6.11 Inviting bids			3	10.0%	16	53.3%	9	30.0%	2	6.7%	30	100.0%
6.12 Receiving bids			4	13.3%	17	56.7%	6	20.0%	3	10.0%	30	100.0%
6.13 Evaluating bids	1	3.3%	7	23.3%	14	46.7%	6	20.0%	2	6.7%	30	100.0%
6.14 Clearing successful bidders and awarding contracts	1	3.3%	3	10.0%	15	50.0%	7	23.3%	4	13.3%	30	100.0%
6.15 Price quotations			6	20.0%	12	40.0%	9	30.0%	3	10.0%	30	100.0%
6.16 Competitive bidding			4	13.3%	14	46.7%	7	23.3%	5	16.7%	30	100.0%
6.17 Standard bid document setting	2	6.7%	13	43.3%	5	16.7%	3	10.0%	7	23.3%	30	100.0%
6.18 Conditions of bids	1	3.3%	5	16.7%	10	33.3%	7	23.3%	7	23.3%	30	100.0%

Source: Interviews

Figure 5.3.3 shows clearly the various aspects of acquisition management that are of high application within the municipalities.

Figure 5.3.3: Interviews perceptions on the application of acquisition management



Source: Interviews

The data represented in Figure 5.3.3 show that there is high to very high application of benchmarking, total cost of ownerships, paper bidding system, sourcing strategy, compiling, receiving, evaluating bid documents and clearing of successful bidders while research and market analysis, use of negotiations and setting of bid documents within the municipalities are low to very low.

The result of the study also demonstrated the fact that municipalities do have a predetermine range of procurement practices. Implementation is based on the national treasury regulations and circulars.

"We were far back, having petty cash of R 200.00. But because it was too low as indicated to us by the national treasury, we have increased the amount to R 1000.00. (Interviewee 23).

Considerations are given to written quotations or bids. Bids are advertised mostly internally and locally. None of the municipalities had a unique procurement data base system. The database used is the same to that used nation wide within the government. The interviewees stated that they used municipal bidding documents. They do not put all the release from the national treasury to practice as the circulars are being released. One interviewee (30) had to call for a hall to the interview for us to check on the national treasury web page to get to see the municipal bidding document: declaration of abuse on SCM system (MBD8). This was because he was not up to date about the release for MBD8.

None of the interviewees was aware of records of bidders on abuse against SCM regulations and cases of fraud and corruption that have occurred within their municipalities.

"I don't think we have records of cases of fraud, corruption and defaulters within the municipality. I have never experienced that" (Interview 22).

All the respondents acknowledged that consultants are been acquired for advisory services, specifications, and evaluations. The process of acquiring consultants is through the database system. Consultants are invited to make presentation and present their