AN ANALYSIS OF THE PREFERENTIAL PROCUREMENT REGULATIONS: A CASE STUDY OF THE DEPARTMENT OF COMMUNICATIONS, PRETORIA (SOUTH AFRICA)

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ABSTRACT
The aim of the study is to explore and investigate if the current method of procurement is cost efficient, that is, whether or not it results in government having to procure goods and services at prices that are not market-related or inflated. The research also seek to determine if whether or not the application of the Preferential Policy Framework (PPF) results in government procuring for goods or service at prices that are not market-related and determine the advantages and disadvantages of applying PPF in Government so as to recommend possible improvements to the PPF.

Key Words: Preferential, Procurement, Regulations, Cost Efficiency, Government, Goods, Services, Advantages, Disadvantages

Introduction
The research investigates the current procurement practices within the Department of Communications and whether such practices are cost appropriate or result in additional or unnecessary procurement expenses. This chapter provides a framework and basis for conducting the study by demonstrating the focus of and the reasons for conducting the study. In particular, this chapter introduces the study by delineating the background to the problem along with the primary problem statement. The aim, objectives, and primary research questions to be addressed in conducting this study are subsequently discussed, followed by an indication of the significance of the study.

Aim of the Study
The aim of the study is to explore and investigate whether, within the department of communications, the current method of procurement is cost efficient and whether or not it results in the department or government having to tender for good or services at prices that are higher and not market-related.
Objectives of the Study

- To determine whether or not the application of the Preferential Policy Framework (PPF) results in government tendering for goods or services at prices that are market or not market-related.
- To determine the extent to which strategic sourcing could be used in Governmental departments.
- To determine the advantages and disadvantages of applying PPF in Government.
- To determine whether or not the current methodology that is used to award tender contracts is cost effective.

LITERATURE REVIEW

Definition of Supply Chain Management

Supply Chain Management is the design and management of seamless, value-added processes across organizational boundaries to meet the real needs of the end customer (Fawcett, Lisa and Ogden, 2007:8). Handfield (2011:33) describe supply chain management as the active management of supply chain activities to maximise customer value and achieve a sustainable competitive advantage.

Heizer and Render (2011:452) describe supply chain management as the integration of the activities that procure materials and services, transform them into intermediate goods and final products, and deliver them to customers. Supply chain management is the integration of key business processes from end user through original suppliers that provide products, services and information that add value for customers, and other stakeholders (The Global Supply Chain Forum, 1998).

Supply chain management encompasses the planning and management of all activities involved in sourcing and procurement, conversion, and all logistics management activities (Council for Supply Chain Management Professionals, 2006). The supply chain is the combination of all parties (for example external suppliers, partner organisations, internal corporate services units) both inside and outside the organisation that are involved in delivering the inputs, outputs, or outcomes that will meet a specified public sector requirement hence, supply chain management co-ordinates of all of these parties (Office of Government Commerce United Kingdom, 2005).

Supply chain management is the systems approach to managing the entire flow of information, materials, and services from raw material suppliers through factories and warehouses to the end customer (Leenders and Fearon, 1997:295). Supply chain management 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 and it also entails proper planning at budgeting phase, careful product service selection, supplier selection, management, bidding, requisitions, catalogue management, ordering, invoicing, payment, customer service, asset, and inventory management (SAMDI, 2004:10).

One of the most appropriate definitions of supply chain management is cited in the National Treasury’s Policy Strategy to Guide Uniformity in Procurement Reform process in government. This document defines supply chain management as an integral part of financial management that seeks to introduce internationally accepted best practice principles whilst at the same time addressing Government’s preferential procurement policy objectives (National
Treasury, 2003:4). For the purpose of this study, this definition will be applied throughout this study.

**Strategic Supply Chain Resourcing**

In 2003, the South African Cabinet adopted a supply chain management (SCM) policy to replace out-dated procurement and provisioning practices, with the aim of implementing a SCM function across all spheres of government that would be an integral part of financial management and would conform to international best practices (National Treasury, 2005a).

According to the Supply Chain Management Guide to Accounting Officers/ Authorities (2004), there are four major objectives in the SCM policy as adopted by Cabinet, which are to transform government procurement and provisioning practices into an integrated SCM function, introduce a systematic approach for the appointment of consultants, create a common understanding and interpretation of the preferential procurement policy and promote the consistent application of best practices throughout government’s supply chain.

The concept of SCM was introduced within the public sector as part of the series of budgetary and financial reforms that were initiated by Government in 1994 in its attempt to modernise the management of the public sector. The National Treasury Policy Strategy (2003:4) described the concept of SCM as an integral part of financial management that sought to introduce internationally accepted best practice principles, whilst at the same time addressing government’s preferential procurement policy objectives. The majority of public sector institutions have commenced with a phased supply chain management implementation strategy focused at addressing the inefficiencies in Government’s historic method of procurement, contract management, inventory/asset control and obsolescence planning.

**Benefits of Supply Chain Management**

**Cost-Benefit Analysis**

Cost-benefit analysis is a process through which business decisions are analysed. The benefits of a given situation or business-related actions are summed and then the costs associated with taking that action are subtracted. In the public sector context, this implies that the principle of value for money should be given considerable attention.

Effective supply chain management involves allocating the management of the supply chain to the parties best placed to understand and co-ordinate the activities of organisations involved in contract delivery. Increased openness, transparency, and efficiency in the management of public sector supply chain can offer benefits to all parties involved in delivery of public services. In particular, this involves:

- For contracting authorities, improved ability to identify strengths, weaknesses, opportunities, and threats in their supply chains and increased value for money and efficiency;
- For existing and potential subcontractors, better visibility of the routes available to gain access to opportunities in the public sector and improved communications with contractors, and, where appropriate, public sector clients; and
- For main contractors, improved early and on-going communications with public sector clients and a more competitive subcontractor base offering better skills, expertise, innovation, and value for money.
Supply Chain Challenges
Supply chain management promotes South Africa’s new public management model through the provision of improved financial management and is a strategic tool for the management and enhancement of its procurement practices (Ambe and Badenhorst-Weiss, 2012:1103).

Numerous challenges are experienced in this regard due to insufficient development of a detailed supply chain management implementation plan, establishment of relevant supply chain management committees, infrastructure, training of supply chain personnel, mind shift from “rule drive” to “decision-making” (Van Biljon et al., 2006:33). As a result of these challenges, public sector institutions are not reaping the full rewards associated with an efficient and effective supply chain management system becoming a major concern as it directly impacts on Government’s ability to generate savings that can be relocated to meet the needs of the communities it serves (Magoro and Brynard, 2010:33).

In an attempt to identify the challenges that restrain the implementation of SCM in the South African public sector, Ambe and Badenhorst-Weiss (2012) used a cross-case analysis. The study found that although SCM has been fully employed across government, challenges such as non-compliance with SCM policies and regulations, fraud and corruption, and a lack of proper knowledge and skills and capacity restrain its full execution to achieve the envisioned potential (Magoro and Brynard, 2010:14). The authors also revealed the following difficulties associated with the implementation of a procurement policy in South Africa, including the absence of effective implementation strategies, the absence of security vetting when selecting contractors, corruption within the procurement process, monitoring and evaluating mechanisms, inadequate involvement by government, unmonitored project managers, shortage of staff, a lack of resources, limited capacity, and political interference. According to Smart Procurement Review (2014:26) the problem with procurement can also be attributed to some of the factors detailed below.

Strategic Outsourcing
Outsourcing can be defined as the process of transferring a business activity, including the relevant assets to a third party (Lonsdale and Cox, 1998:1). Outsourcing is a supply chain strategy that can deliver tremendous value to an organisation. Outsourcing is procuring from external sources services or products that are normally part of an organisation (Heizer and Render, 2011:482).

Hugo et al. (2004:208) suggest that the objective of outsourcing is to gain a cost efficient advantage by buying expertise and to concentrate one’s own resources in the firm’s areas of expertise. Therefore, procurement, as the activity with the most experience in the supply market and dealing with suppliers, is the obvious choice to manage outsourcing as a strategic decision. According to Leanders and Fearon (1997:268) organisations outsource when they decide to buy something they had been making in-house, and outsourcing is basically a reversal of previous decisions that were made.

Hugo et al. (2004:11) further argue that outsourcing improves the overall efficiency of the supply chain because the outsourced activities will presumably be performed by organisations with the highest skills. From an economic perspective, outsourcing has expanded to become a major strategy in business due to increasing expertise, reduced costs of more reliable transportation, and the rapid development and deployment of advancements in telecommunications and computers, low cost communication, including internet.
The democratic government faced the challenge of transforming the landscape of economic power to reflect the composition of the South African population (Taylor and Raga, 2010:8). For the past two decades, supply chain in government has undergone a major transformation, which aimed at promoting principles of good governance and the introduction of a preference system to address socioeconomic objectives (National Treasury, 2003:2).

South Africa has undergone some fundamental reforms in the regulation of procurement in recent years. It is one of the few countries to have procurement subject to its constitution.

This is demonstrated in Table 2.1 below.

Table 2.1: Public Procurement Constitutional Objectives.

<table>
<thead>
<tr>
<th>Objective</th>
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<tr>
<td>1. Primary</td>
<td>Procurement system to be fair, equitable, transparent, competitive and cost effective.</td>
</tr>
<tr>
<td>2. Secondary</td>
<td>Procurement policy may provide for: 1. Categories of preference in the allocation of contracts, and 2. The protection or advancement of persons, or categories of persons, disadvantaged by unfair discrimination.</td>
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Procurement is central to the government service delivery system, and promotes aims that are, arguably, secondary to the primary aim of procurement, such as using procurement to promote social, industrial, or environmental policies. Prior to 1994, public procurement in South Africa was geared towards large and established contractors. It was difficult for new contractors to participate in government procurement procedures. However, public procurement in South Africa has been granted constitutional status and is recognised as a means of addressing past discriminatory policies and practices (Bolton, 2006:193, cited in Ambe and Badenhorst-Weiss, 2012:242).

Public procurement primarily aims to be fair, equitable, transparent, and cost-effective. Because of its importance, it can also be used at a secondary level as a problem solver. Due to the huge problems faced in South Africa, especially because of the country’s inequality in the past, public procurement is of particular significance and has been granted constitutional status (Bolton, 2006). In this regard, there are categories of preference in the allocation of contracts as well as the protection or advancement of persons, or categories of persons, disadvantaged by unfair discrimination (Ambe and Badenhorst-Weiss, 2012:256).

According to National Treasury (2004:5) during September 2003, Cabinet adopted the Supply Chain Management policy to replace out-dated procurement practices. The Supply Chain Management framework is characterised by a number of key differences from including:
Moving away from central control by National Treasury and the State Tender Board towards increased responsibility and accountability by the Accounting Officer of each department;

- Introducing a preference point system to address socioeconomic issues, value for money, and the scoring of bids, thereby facilitating the move away from relying solely on the traditional practice of only accepting the lowest price bid;
- Linking procurement practices to the planning and budgetary process through the introduction of demand management practices;
- Assessing the value of assets based on its contribution to service delivery and return of public funds invested;
- Introducing uniformity in bid documentation to reduce the uncertainty amongst bidders; and
- Improving the uniformity in government’s preferential procurement policies and processes.

The promulgation of the Constitution of South Africa paved the way for preferential supply chain interventions, particularly Section 217 (SA, 1996). “Preferential procurement also known as affirmative procurement comprises participation programmes aimed at the engagement of Small Medium Micro Enterprises (SMMEs) owned by previously disadvantaged persons in all types of contracts and the generation of income for marginalised sectors of society” (Taylor and Raga, 2010:33). In effect, preferential procurement is used as a policy tool to achieve socioeconomic objectives such as wealth redistribution to previously disadvantaged individuals (Bolton, 2006; National Treasury, 2003).

Prior to the inception of the democratic government, the criterion used to award government contracts was price (Bolton, 2006:201). For the purpose of enabling the previously disadvantaged to participate in government procurement, intervention were introduced that transformed government procurement. Interventions that were made to transform South Africa’s public procurement include, amongst others, the Preferential Procurement Policy Framework Act, Broad Based Black Economic Empowerment Act, and these are discussed in the sections that follow.

In South Africa, Supply Chain Management is an important tool for managing public procurement, defining the various elements of SCM, such as demand management, acquisition management, logistics management, disposal management and SCM performance institutionalising the creation of a supply chain management unit in the office of the chief financial officer (Ambe and Badenhorst-Weiss, 2012:246).

**Key Legislation Governing Supply Chain Management in Government**

In this section, a brief outline is given in relation to the key legislature that governs SCM in the South African public sector. Numerous variables and large bodies of information influence SCM policy-making. Without a legislative framework, political representatives will not be able to make informed and intelligent decisions. The legislative SCM requirements warrant each government entity to create a SCM unit and to implement SCM policy (National Treasury, 2005a).

The following are some of the legislation, but for the purpose of this study, the focus is limited to the following critical policies: Public Finance Management, Act No 1 of 1999, The Constitution of South Africa1996, Broad Based Black Economic Empowerment Act,

The Constitution of South Africa, 1996
Section 217 of the Constitution provides the basis on which to govern and improve supply chain in the South African public sector. It reads as follows:

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

(2) Subsection (1) does not prevent the organs of state or institutions referred to in that subsection from implementing a procurement policy providing for categories of preference in the allocation of contracts and the protection or advancement of persons, or categories of persons disadvantaged by unfair discrimination.

(3) National legislation must prescribe a framework within which the policy referred to in subsection (2) may be implemented.

Public Finance Management Act, Act No. 1 of 1999
This Act regulates financial management in national and provincial Government to ensure that there is transparency and accountability in the use of public funds (SA, 2000b). Section 76 (4) (d) of this Act requires National Treasury to make regulations or issue instruction notes regarding “the determination of a framework for an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive, and cost-effective” (SA, 2000b).

Section 38 (1) (b) of the same Act makes Accounting Officers of departments to be responsible for the effective, efficient, economical, and transparent use of their respective establishment’s resources. Section 38 (1) (c) (iii) and 51 (b) (iii) of the PFMA requires that Accounting Officers take effective and appropriate steps to effectively and efficiently manage the available working capital in their respective institutions.

Given the economic problem of scarcity, it is imperative that available resources should be applied effectively and efficiently to achieve economic and social objectives. The global economic crisis has resulted in the contraction of many economies, and, in this regard, South African government, particularly in the procurement of goods and services, has to put measures in place to ensure fiscal prudence.

Broad Based Black Economic Empowerment Act, Act No. 53 of 2003
In 2003, the Broad-Based Black Economic Empowerment (BBBEE) Strategy was published as a precursor to the BBBEE Act, No. 53 of 2003. The fundamental objective of the Act was to advance economic transformation and enhance the economic participation of black people in the South African economy.

This Act provides a broad based charter to promote Black Economic Empowerment and provides that the Minister of Trade and Industry issue codes and practices that could include
“qualification criteria for preferential purposes for procurement and other economic activities” (Ambe and Badenhorst-Weiss, 2012:108, National Treasury, 2004:23; SA, 2004). This Act is directly aligned to the objectives of the PPPFA.

Cabinet directed that National Treasury should align the Preferential Policy Framework Act with the principles of the Broad Based Black Economic Empowerment Act because of the following ambiguities:

- Inconsistency in the policy application;
- The definition of HDI was too broad leading to huge fronting; and
- BBBEEA and PPPFA were not synchronised.

**Preferential Policy Framework Act, Act No. 5 of 2000**

The PPPFA provides categories of preferences in the allocation of contracts and the protection or advancement of persons disadvantaged by unfair discrimination. This Act gives effect to Section 217 (3) of the Constitution by providing a framework for the implementation of the procurement policy mentioned in Section 217 (2) of the Constitution (SA, 2000a).

The Act contains a preference framework, which is applicable to the public sector procurement system of all organs of state (Ambe and Badenhorst-Weiss, 2012:11008, SA, 2000a). This Act promotes historically disadvantaged individuals (HDIs) by allocating preference points in tendering for goods and services (National Treasury, 2004:23, SA, 2000a).

**Current Preferential Procurement Practices**

As mentioned in the previous section, a preference point system is used when evaluating quotations/tenders. In the Department of Communication, the same practice is applied. This process is outlined in the PPPFA Act No. 5 of 2005 and two types of preference point systems are identified depending on the value of the commodity to be procured. The systems are the 80/20 (for goods and services which are R500 000.00 Vat Inclusive) preference point system and the 90/10 preference point system (for goods and services which are above R1 000 000.00 Vat Inclusive.

The abovementioned formulas are legislated and whenever the Department of Communication evaluates tenders and quotations these methods are applied.

**Research Methodology**

**Target Population**

A population is the collection of all possible data values that exist for the random variable under study (Wegner, 2014:5). In quantitative research, the determinant of the sample size is based on the size of the population and the resources available (Kumar, 2011:192). With any study, it is necessary to clearly define the target population, which is typically defined as the group that constitutes the defined population from a statistical viewpoint. The target group (internal respondent) in this study consisted of 21 respondents that were made up of SCM practitioners and budget officials from the Department of Communications. The focus of this study was to solicit responses from internal respondents on the preferential procurement policy framework.

The target population was specifically chosen in order to validate the study from a statistical perspective and to ensure that opinions were solicited from respondents who are directly impacted by SCM in the Department of Communications. The risk of bias, which cannot be
statistically eliminated, was recognised by the researcher based on the very definition of the target population.

Given that the study was based on the procurement system, as it was applied at the Department of Communications, the population in this study included the supply chain and budget division in the Department. The supply chain division within the Department of Communications currently has 21 SCM practitioners composed of two sections, namely Demand, Acquisition and Contract Management and Logistics and Asset Management. Each of these sections has a Director, Deputy Directors, Assistant Directors, Senior Administration Officers, and Interns, whilst the budget section has six (6) employees.

**Sampling Strategy**

Wegner (2012:5) describes a sample as a subset of data values drawn from a population and they are used because it is often not possible to record every data value within a population, primarily because of cost, time, and possibly item destruction. Samples are the particular entities that are selected from a large pool (population) and the sample is generalised to the entire population (Neuman, 2011:240).

The basic rule in sampling is that the larger the sample the better (Leedy and Ormrod, 2010:213). A sample can be selected probabilistically or non-probabilistically. In probability sampling, the sample was representative of the population from which it was selected if each member of the population has an equal chance of being selected (Babbie and Mouton, 2001:173). For the purpose of this study, non-probability (non-random) sampling was used because participants were not selected randomly. The non-probability sampling method used was convenience sampling, because the sample was actually drawn to suit the convenience of the researcher, as it was more convenient to select participants from the Finance and Supply Chain Management unit within the Department of Communications.

The researcher had no way of guaranteeing that each element of the population was represented in the sample, which is one reason why a non-probability sampling technique was used in this study. In order to determine the elements of the population that were selected as the focus areas of the empirical efforts, the researcher applied professional judgement by attempting to determine which of these elements were most likely to have an in-depth understanding of the Preferential Procurement Policy Framework Act. In order to determine this, the experience and number of years the prospective participants had worked with Government procurement systems was considered.

**Pilot Study**

A pilot study is a mini-version of a full-scale study or a trial run done in preparation of the complete study. The latter is also called a ‘feasibility’ study. It can also be a specific pre-testing of research instruments, including questionnaires or interview schedules (Compare Polit, et al. and Baker in Nursing Standard, 2002:33-44; Van Teijlingen and Hundley, 2001:1.).

Pilot questionnaires were sent to three respondents to complete the questionnaires. The pilot study aimed to ascertain whether the respondents would interpret the questions in the questionnaire in the same manner anticipated. The outcome of the pilot study indicated that there were questions which were not formulated correctly and required rephrasing. The questionnaire, as a result, was adjusted for grammar and punctuation issues to provide clarity.
Furthermore, the outcome also showed lack of understanding of the relationship between planning and budget and more the strategic importance of Supply Chain Management was not well understood.

**Data Analysis**

The data gathered was analysed using the Statistical Package for Social Science (SPSS) Software. This software was used to enter the results from the survey questionnaire and was used to compute descriptive statistics and to clean the data by identifying outliers that may have resulted from data entry errors. SPSS was also be used to test for reliability and compute various inferential statistics.

**Limitations of the Study**

This study was focused on and was particular to the Department of Communications. The study was, however, limited to the SCM and budget units. Other units within the Department of Communications were not included in the study. The study did not endeavour to generalise the results to other departments in Government, but was a description of the research phenomenon as it applies to the Department of Communications.

**Results, Discussion, and Interpretation of findings**

**Demographics**

To examine the sample characteristics, several demographic items were included in the questionnaire. In particular, the items examine the job title, the length of employment within the Department of Communications, the length of employment in the current division, and the highest qualification the participants had achieved.

Figure 4.1: Job Title.

According to Figure 4.1, approximately 70% of the participants were employed as Assistant Directors or Senior Administrators, with fewer percentages of participants employed in other types of positions. However, considering the focus of the present study involved Supply Chain Practitioners and those involved in the management of the supply chain, a wide range of employment positions (that is Interns, Senior Administration Officers, Assistant Directors,
Deputy Directors, and Administration Officers) were obtained and participated in the study, indicating the incorporation of a diverse employment sample in this study.

Figure 4.2: Length of Employment in Department of Communications.

Amongst the highest percentages of participants in this study were either employed for 1 to 5 years or more than 15 years, which is a positive symbol for ensuring that knowledge is retained and passed onto new employees. The sample included a range of participants employed for various lengths of time within the Department of Communications, which not only contributes to avoiding potential bias in the types of responses obtained, but also demonstrates that the organisation is able to retain employees as well as attract new employees.

Figure 4.3: Length of Employment in Current Division.

Similarly to Figure 4.2, the participants reported varied lengths of employment within the division (i.e., less than a year to greater than 15 years), which provides additional support for the retention and attraction propensity of the organisation. Comparing Figure 4.2 and Figure 4.3, it would appear that, for the most part, many of the employees have remained within the
division and have typically not moved to or from other divisions within the Department of Communications.

Figure 4.4: Highest Qualification.

![Highest Qualification Chart]

Each of the employees within the sample included in this study possessed some form of tertiary education, with almost 50% indicating the attainment of a Certificate qualification. As expected, there were fewer participants with postgraduate degrees, though the presence of employees with such qualifications indicates that the organisation possesses an employee compliment that is highly educated and varies in education level (that is, ranges from Certificate through to Masters Level).

**Descriptive Statistics**

The primary questionnaire included several sections to examine Supply Chain Practitioners’ perspectives on a number of aspects including preferential procurement, procurement methodology, and the effect on the budget division. The descriptive statistics for each item, in the form of percentage bar charts, are reported in the sections that follow.

**Preferential Procurement**

Figure 4.5: The objective behind the Preferential Procurement Policy Framework of addressing socio-economic challenges is being achieved.
The graph denotes third study objective, refer to paragraph 1.5. Examining Figure 4.5, the majority of the participants tended to agree that the objective associated with the preferential procurement policy framework in overcoming socio-economic challenges is being achieved. Almost a quarter of the respondents, however, indicated some level of agreement and disagreement, suggesting that it may be effective in achieving the objective in some ways and not others. Perhaps this is one issue that is difficult to achieve in absolutist terms, with additional time and resources required in order to more comprehensively address all socio-economic challenges.

These issues may relate to some of the challenges experienced in SCM that may be experienced within the Department of Communications, which include non-compliance with SCM policies and regulations, fraud and corruption, and a lack of proper knowledge, skills and capacity to execute and achieve the envisioned potential (Magoro and Brynard, 2010). The main reasons for this agreements and disagreements is in relation to the fact that majority of service providers that are being contracted by Communications are mainly level 4 contributor who happen to score less points.

The other argument advanced is the fact that in large contract, they are unable to compete with big companies that are either level 1 or 2 contributor. Some respondents were of the view that the previous system of allocating points to historically disadvantaged individuals was better than the current system.

Figure 4.6: The PPPFA and its Supporting Regulations provide sufficient Guidelines for Supply Chain Practitioners in Government to implement Preferential Procurement.

The graph denotes third study objective, refer to paragraph 1.5. Overwhelmingly, the participants tended to display agreement (and strong agreement) that the PPPFA along with supporting regulations provide appropriate guidelines for Supply Chain Practitioners towards implementing preferential procurement. With the acknowledgement that sufficient guidelines are provided, it would appear as though the participants are aware of the guidelines, and, as a result, should be able to follow them accordingly.

This also suggests that Supply Chain Practitioners are provided adequate training and knowledge impartation in order to acquire the information associated with the guidelines in order to successfully implement preferential procurement. Based on this, one would suggest
that preferential procurement is easily and readily implemented because of the knowledge that the employees have about the guidelines towards implementing successfully.

Figure 4.7: Training provided to Supply Chain Practitioners on Preferential Procurement is sufficient.

Examining Figure 4.7, there were mixed opinions about whether the training provided to Supply Chain Practitioners in relation to preferential procurement is sufficient. In particular, almost 50% reported agreement, whereas approximately 35% reported disagreement. Perhaps the level of training provided is dependent on one’s level of employment, suggesting a “need-to-know” basis for the provision of training.

Whether those who reported disagreement are directly involved in preferential procurement and, as a result of insufficient training, are unable to adequately fulfil their required duties, is an area of debate and requires further examination, but it would seem important for the organisation to determine whether the necessary training is being provided to the appropriate employees.

The deficiency in training lies in the fact that Managers fail to monitor if whether their trained personnel put in place what they have learned. Managers fail to monitor how the training has or can improve the current status quo of the SCM unit. Employees attend numerous training intervention but the same challenges with the Auditor – General are still being encountered. Considering the range of legislature and regulations associated with or impacted by preferential procurement it would appear essential that the Department of Communications examine and ensure appropriate training is provided to those that require it to fulfil their job responsibilities and comply with the regulations.

Figure 4.8: Preferential Procurement as applied to the Department of Communications is in line with Procurement Regulations.
The graph denotes third study objective, refer to paragraph 1.5. According to Figure 4.8, approximately 70% of the respondents reported agreeing that preferential procurement within the Department of Communications is aligned to procurement regulations. This appears to indicate that the preferential procurement within the organisation is compliant with the various regulatory policies, which is often a challenge associated with SCM (Van Biljon et al., 2006:33).

However, approximately 30% indicated some level of agreement and disagreement, suggesting that the reasons for this lack of complete agreement should be investigated further. It may suggest that procurement regulations are adhered to in some instances and not others. Perhaps, conducting a thorough audit of the compliance and non-compliance to procurement regulations would assist in determining the particular areas in which the organisation is not complying, and, as a result, should examine and work towards improving upon this.

Figure 4.9: To what extent do you agree with the view that the Preferential Procurement Policy is not working satisfactorily.
The graph denotes third study objective, refer to paragraph 1.5. Figure 4.9 provides an indication that the majority of the participants in the study somewhat agreed and somewhat disagreed with whether they considered that the preferential procurement policy is not working satisfactorily. An additional 23% of the participants agreed, suggesting it may not be working adequately. It appears as though the policy may be successful in some areas, but is associated with issues in other ways.

It may be necessary to conduct an additional examination of the ways in which the policy is working satisfactorily and the manner in which it is not, which would provide an indication of the reasons for adequate or inadequate aspects of the policy. Perhaps, the issue relates to the Act itself (that is PPPFA Act No. 5 of 2005) and the constraints associated with it, but it may also relate to whether preferential procurement decisions result in appropriate service provision outcomes.

Procurement procedures are most often characterized by mismanagement and corruption (Basheka, 2008:380). This may stem from a lack of knowledge and expertise required from Government agents on ethical governance when procuring goods and services (Schapper, Veiga and Gilbert, 2006: 2).

There is no “best way” of procuring services (Frank, 2007:118 and the Institute of Public Procurement, 2006:13). In order to achieve effectiveness in procurement practices the following should be attained (Frank, 2007:118)

• Finding the right balance between over- and under-centralization;
• Maintaining an ethical operating environment;
• Benchmarking for success and best practices;
• Maintaining a transparent operation;
• On-going management of relationship with vendors;
• Emphasising the importance of on-going training; and
• Adopting e-procurement whilst understanding its limitations also.

Figure 4.10: Do you agree that the Policy can achieve its dual objectives of providing a procurement system that is transparent, fair, equitable, competitive, and cost effective.
procurement system that is transparent, fair, equitable, competitive, and cost effective. Almost 20% strongly agreed, providing additional support for the participants’ trend of reporting. Clearly, one of the primary purposes of the policy appears to be reflected in the participants’ perspectives, as the policy was developed for these particular reasons (PPPFA Act No. 5 of 2005).

As a result, appropriate procurement practices are employed according to uniform standards. For those that indicated disagreeing, it may be important to examine the reasons for their disagreement, with anticipated benefits for the refinement of the policy possible. Public procurement cannot be upheld unless it is integrated within other public policy environments, most crucial of which is the business policy (Schapper, 2006: 4). Public procurement by Government is a key facilitator for Government operations (Basheka, 2008: 379). The contribution of Governments globally to the construction industry is significant (Pautz, Watermeyer and Jacquet, 1).

Public procurement by the Government is seen as the key to promoting Procedures that are transparent, promoting fair and equal treatment, resources linked to public procurement used in accordance with the intended purpose, procurement officials’ behaviour and professionalism in line with the public purpose of their organization and Systems in place to stimulate public procurement decisions, to ensure accountability and to promote public scrutiny (Basheka, 2008: 389).

Figure 4.11: Do you agree that the PPPFA directives have achieved their outcomes.

The graph denotes the third study objective, refer to paragraph 1.5. The participants tended to display a range of perspectives about whether the PPPFA directives have achieved the outcomes desired. In particular, although the largest percentage reported somewhat agreeing and somewhat disagreeing, many reported agreement and disagreement.

This may reflect some of the response sentiments in Figure 4.5 indicating that either (1) some improvement may be made to the PPPFA to adjust the outcomes outlined or (2) that the challenges associated with achieving the directives are overcome or addressed. Considering the range of challenges associated with preferential procurement that have been outlined in the literature (see Ambe and Badenhorst- Weiss, 2012; Van Biljon et al., 2006), in order to
achieve the PPPFA directives it would be essential that the challenges associated with implementing it appropriately are overcome.

The challenges mostly relate to lack of adequate skills within the SCM Unit. The other main challenge is management’s buy in the implementation of preferential procurement. Some of the manager’s view supply chain as a red tape towards achieving their objectives and as a result they bypass the processes deliberately. SCM Management within the department has not adequately marketed their role within the organisation and provides the training needed to end users or business units.

According to Public Sector Supply Chain Management review (2015:4) the organisational structures and systems within which SCM takes place are in too many cases not ideal, with inexperienced or under skilled leadership, high staff turnover and lack of motivation. There may also be a lack of suitable equipment, such as computers with dependable internet connections; or information, such as databases giving up-to-date details of available products and services.

Public sector supply chain management review (2015:6) further argues that improving processes, rules and infrastructure to make it easier for the public sector and its private sector suppliers to transact. Applying the concept of ‘strategic sourcing’, which gives a basis for deciding, for example, whether to purchase a local commodity which helps to create jobs or one which is wholly or partly imported. Building relationships with the private sector. This will enable manufacturers and other service providers to understand government’s current and future purchasing needs so that they can plan accordingly. It will also increase officials’ knowledge and understanding of the goods and services available, and which suppliers can be depended onto provide the best quality and value. This should help with managing risks and costs and lead to mutual understanding between the public and private sectors to the benefit of all.

Identifying and implementing innovative ways to improve employees’ skills and knowledge. Using technology to streamline transactions and improve oversight. Properly implemented, these reforms will result in a public sector SCM system that complies rigorously with all relevant laws and regulations, is accountable, provides value for money and ensures good-quality service delivery. People, processes and technology are critical to achieving this (Public sector supply chain management review, 2015: 6). 

Figure 4.12: Do you agree that the PPPFA directives have contributed to meeting other National Policy Objectives.
Examining Figure 4.12, the highest proportion of the respondents reported agreeing that the PPPFA directives have contributed towards achieving other national policy objectives. Approximately 30% of the respondents indicated somewhat agreeing and somewhat disagreeing that PPPFA directives have contributed towards achieving other national policy objectives. This can be attributed to the fact that this respondents may be unaware of the nature of the other national policy objectives and how the PPPFA objectives relate to such objectives. However, the findings appear to suggest that the PPPFA is aligned to other policy documentation and objectives, which may be reflected in the notion that the PPPFA was developed, in part, from the South African Constitution.

Policies and regulations are often confusing and cumbersome. Suppliers have to fill out numerous forms, often many times. This costs time and money and is a particular problem for small businesses with little or no administrative capacity or support. It is government policy to support the growth of small businesses and the jobs they create (Public Sector Supply Chain Management Review, 2015:8).

The public sector frequently underestimates how important supplier management is, and there is limited understanding about how public sector decisions and actions affect the overall business environment. On the other hand, suppliers often take advantage of the current weak public sector SCM environment. This is evident in high prices paid for goods and services; contracts that favour certain suppliers; collusion; unethical behaviour; non-performance; and poor quality products and services rendered. To overcome these problems, the public sector needs to develop long-term strategic supplier relationships. Finally, there is the challenge of finding the best balance between the

An effective SCM system must also have as an objective to ensure that goods and services are available at the best price, in the right qualities, at the right time and in the right place. Constantly having to make decisions about how to balance these objectives is demanding and difficult. It needs a cohort of SCM professionals with the right skills, experience, social awareness, ethical standards and dedication; and a regulatory and organisational environment that supports and monitors their work in the public interest.

Figure 4.13: The current method of evaluation system is prone to corruption.
The graph denotes first study objective, refer to paragraph 1.5. Interestingly, the pattern of responses in Figure 4.13 tended to indicate a sense of agreement (approximately 70% either agreed or strongly agreed) that the current method used to evaluate is prone to corruption. Indeed, corruption has been identified as one of the major challenges associated with SCM within the public sector (for example Magoro and Brynard, 2010) which may be one of the reasons for the response pattern outlined in this particular study. There may be several reasons for the suggestion of proneness to corruption, and these may need to be examined in order to reduce the likelihood that the system is influenced by corruption.

There are few if any consequences for those who, despite support and encouragement, fail to perform at the required level. Repeated negative reports by the Auditor-General (AG) highlight this lack of accountability. An improved and more dynamic public SCM system should bring out the best in its officials, and there must be consequences for those who are not willing to play their part for the public good.

Compliance with public SCM rules, legislation, norms and standards is critical to ensure that government’s policy objectives are attained. To reduce waste, eradicate corruption and improve public sector performance, ethics, integrity, transparency and accountability need to be strengthened (Public sector supply chain management review, 2015:15).

Common governance and compliance failures result in fraudulent activities. These include fronting, bribery, nepotism, collusion, cover quoting, conflicts of interest, forgery and tender splitting. These are largely the result of: Poor demand and procurement planning, resulting in large deviations and price escalations, poor development of specifications, dysfunctional bid committees, weakly-skilled SCM practitioners and poor contract and supplier management (Public sector supply chain management review, 2015:16).

Open, professional and law-abiding relationships between suppliers and public sector customers should help to minimise this risk.

Figure 4.14: The Department of Communications is able to formulate and evaluate different Sourcing Strategies.

The graph denotes second study objective, refer to paragraph 1.5. Interestingly, the largest proportion of the participants reported agreeing that the Department of Communications is able to formulate and evaluate different sourcing strategies. This suggests that a range of
sourcing strategies is not only available to the organisation but that the organisation actively engages in assessing the appropriateness of various strategies for use at various times.

However, approximately 35% somewhat agreed or somewhat disagreed, suggesting that there are mixed perceptions about the ability to formulate and assess different types of sourcing strategies. The reason for disagreement is largely attributed to the inconsistent application of preferential procurement by SCM Practitioners. Business units don’t have enough confidence that SCM Practitioners have the right skills and knowledge of analysing sourcing strategies.

In the past wrong analysis was applied which resulted in some bids having to be cancelled which then resulted in project delays which hampered on service delivery. Perhaps, sourcing strategies depend on the particular line of procurement, with limited sourcing strategies for some products and services than others.

On the other hand, it may indicate that the organisation avoids engaging in the formulation and evaluation of certain types of sourcing strategies because of the legislative and compliance drive processes associated with the PPPFA and other SCM oriented regulations. Top management in an organisation typically conducts the sourcing (Hugo et al., 2006) which might be another explanation for the apparent ambiguity and lack of clarity obtained from the participants’ responses.

The strategic approach to procurement works methodically through each stage in the process. The initial effort spent on planning, research and analysis helps significantly in identifying solutions that meet the needs. The focus on developing and managing relationships with suppliers after awards means that less time is spent on resolving issues and more on assessing the quality of delivery and on identifying opportunities for cost savings and benefit gains (Public sector supply chain management review, 2015: 37).

Deciding how to differentiate depends on two factors which are the strategic importance of the goods or services being purchased, either in terms of value for money and service delivery or of the cost, the more expensive, the more important it is to think strategically about how to purchase and the complexity of the supply market, measured in terms of factors such as how scarce the supply is, how quickly the technology is changing and any barriers to supplier entry to the market.

Figure 4.15: The Department is able to search for competitive service providers / suppliers in the market place.
The graph denotes first study objective, refer to paragraph 1.5. According to Figure 4.15, almost 60% of the respondents reported that the Department of Communications is able to search for competitive service providers or suppliers in the market place. This is important for ensuring that competitive and market-related prices are obtained when procuring services and products, something that is essential for the cost-effective operations of any organisation.

Almost 25% of the participants reported disagreeing with the statement, possibly suggesting the perception that similar service providers or suppliers are used on a continuous basis without attempting to examine the market for superior or more cost-effective suppliers or service providers. Whether this perception trend relates to particular types of products or services or a range of products or services requires further investigation, but it is essential that the market is examined in order to obtain services and products that meet organisational needs and are also financially viable.

According to Public sector supply chain management review (2015:16) demand planning, procurement planning, items and specification management, and supplier management are critical phases in the pre - tendering stage and this stage ensures that goods, services, construction work and other purchases are properly planned and aligned to the procuring entity’s strategy and resource plan.

This alignment is critical to ensuring that goods are delivered at the right time, place and price, in the right quantity and of the right quality. It is at this stage that a comprehensive needs analysis is carried out in line with the strategic planning process (Public sector supply chain management review, 2015:16).

Supplier management allows an institution to select its suppliers carefully and negotiate the best prices for the goods and services that it needs. Supplier management includes procurement, contract development and administration, transportation and logistics, strategic planning and supplier evaluation. Supplier management also enables the purchasing organisation to monitor supplier performance; ensure that it attains its objectives; and minimise pre-tender stage violations (Public sector supply chain management review, 2015: 17).

Figure 4.16: The Department is able to identify and evaluate sourcing opportunities.

The graph denotes second study objective, refer to paragraph 1.5. According to the general response trend in Figure 4.16, the majority of the respondents consider the Department of Communications is able to identify and evaluate various sourcing opportunities. This pattern
of response appears to coincide with Figures 4.14 and 4.15, both of which provided a sense that alternative sourcing opportunities are examined and that alternative suppliers are assessed within the market for appropriate and cost-effective service and product provision. Clearly, the participants feel that, for the most part, the organisation is able to examine various types of sourcing opportunities in order to make more informed decisions and make any necessary adjustments to sourcing based on such opportunities. In doing so, the ability to evaluate various types of sourcing opportunities is likely to enhance the overall functioning of the organisation (Donachie and Friess, 2012:43).

According to Public sector supply chain management review (2015: 39) supply chain practitioners should be able to develop sourcing strategies for the following four commodity group:

**Strategic commodities:** These are high value goods which are critical to service delivery, have complex and/or rigid specifications and for which there are few qualified suppliers. The strategy should be to form long term partnerships with suppliers:
- **Leverage commodities:** These are high value goods which are market- or price-sensitive because of competition in the market; there are many suppliers and many product and service choices. The strategy should be to maximize government’s buying power and maintain market competition.
- **Bottleneck commodities:** These are lower value goods with complex specifications, that have a substantial impact on service delivery, have few qualified suppliers and not many alternative substitute products. The strategy in this case should be to manage the supply risk by ensuring continuity of supply through firm and longer term contracts.
- **Routine/non-critical commodities:** These are small, low value individual transactions and everyday products and services. There are many suppliers and many alternative products. The strategy here should be to simplify the acquisition process, and reduce the administration of transactions, by as far as possible automating the purchasing process.

Figure 4.17: The Department is able to analyse the total Procurement spent.

The graph denotes fourth study objective, refer to paragraph 1.5. Based on the pattern of responses outlined in Figure 4.17, the participants appear to have mixed perceptions of whether the Department of Communications is able to analyse the total procurement expenditure that is made. Although a combined percentage of approximately 48% reported
some form of agreement, approximately 35% reported somewhat agreeing and somewhat disagreeing, denoting that, at least as some level, the Department of Communications possesses a challenge in accurately analysing and maintaining total procurement expenditure. The finding may relate to positions of employment, as particular types of individuals that are more senior employees within a company may likely conduct the calculation and maintenance of expenses of this sort. However, with not all of the employees agreeing, there is a need to examine whether tracking of procurement expenses is an issue and whether this requires organisational attention.

According to Public sector supply chain management review (2015:16) procurement plans indicate what purchases an institution will undertake in the short, medium and long-term. Proper planning should reduce delivery delays, eradicate recurring contracts and unnecessary extensions, and eliminate the need for emergency procurement. Procurement plans should inform suppliers about future opportunities.

Item and specification management is critical to the procurement process as it gives the details of the goods, services or construction works to be bought therefore poor demand and procurement planning result in poor development of specifications, wrong decisions taken about the items to be procured and unrealistic cost estimates (Public sector supply chain management review, 2015:16).

The graph denotes fourth study objective, refer to paragraph 1.5. Figure 4.18 displays the trend for the largest percentage of the participants (about 41%) to strongly agree that the evaluation system associated with procurement can be readily manipulated. This is particularly concerning, especially because of the prior indication that the system is prone to corruption (see Figure 4.13) and that SCM within the public sector has been suggested to experience various levels of corruption (Ambe and Badenhorst-Weiss, 2012:33).

A further approximate one third of the sample reported somewhat agreeing and somewhat disagreeing, possibly indicating that the evaluation system may be manipulated in some ways and not others or that they are not entirely certain of the manner in which the system may be manipulated. Nonetheless, the suggestion of easy manipulation of the system indicates that
The current procurement system should be evaluated and amended to avoid or reduce the likelihood of any forms of manipulation.

Public sector supply chain management review (2015:17) argues that functionality evaluation criteria test bidders’ ability to provide what is to be bought. Whether or not a bid should be invited on the basis of the functionality criteria depends on the nature of the required commodity or service, taking into account quality, reliability, viability and durability and the bidder’s technical ability to carry out the contract.

The functionality criteria should reflect the critical elements of the project; should contain weightings in line with the relative importance of the selection criteria; and have a scoring system drawn aligned with information submitted with the bid. The system should be able to take account of suppliers who have good performance records and should therefore weight for skills, quality, experience, previous performance and value for money.

**Procurement Methodology**

Figure 4.19: Procurement Regulations provide sufficient Guidelines on the formulae used to evaluate quotations and bids.

![Graph showing procurement regulations and formulae](image)

The graph denotes fourth study objective, refer to paragraph 1.5. Importantly, approximately 70% of the participants reported agreeing that the procurement regulations provide sufficient guidelines on the formulae used to evaluate quotations and bids. Thus, it appears as though the regulatory requirements and stipulations are sufficient and comprehensive enough to enable to appropriate application to quotations and bids.

Because of the indicated proneness to corruption associated with the system (see Figure 4.13) and the indication that the system may be easily manipulated (see Figure 4.18), perhaps some of the issues that are experienced in the procurement process are the application of the guidelines and compliance issues. Indeed, non-compliance or incomplete compliance is one issue that has been identified as a challenge to governmental organisations (Magoro and Brynard, 2010:73) which may be an issue experienced within the Department of Communications.

The 80/20 or 90/10 preference point evaluation system is applied in terms of the Preferential Procurement Policy Framework Act No.5 of 2000, for the acquisition of services, works or...
goods up to the Rand value threshold of R1 million or above (90/10) through which the points for price is calculated to a maximum of 80/90 points, in respect of tenders (including price quotations) with a Rand value equal to, or above R30 000 and up to a Rand value of R1 000 000 or above (90/10) (all applicable taxes included) and to calculate the points for preferences, with a maximum of 20/10 points, to a tenderer for attaining a B-BBEE status level of contribution based on its overall performance using the relevant formula.

Figure 4.20: The formulae enable the previously disadvantaged individuals to participate in Government Procurement.

The graph denotes third study objective, refer to paragraph 1.5. Overwhelmingly, more than 80% of the respondents reported some form of agreement that the formulae used in governmental procurement enable previously disadvantaged individuals to participate in the procurement process. This is one of the major aims of the PPPFA and BBBEE Act based on the participants’ responses, this aim is being achieved. This is important for re-establishing and developing equity across all types of individuals in all sector types within the country.

Figure 4.21: The Procurement Preference system is exposed to fronting practices.
The general response trend in Figure 4.21 indicates that the procurement preference system that is currently in place is exposed to fronting practices. This is denoted by the approximate 43% of the respondents that agreed or strongly agreed with the statement. This may be considered problematic, as it may not strictly be the previously disadvantaged population that is benefitting from the preferential procurement system, at least in the manner in which it intends.

It may be necessary to determine methods to avoid or reduce the occurrence of such fronting practices, as such practices have implications for the ability of worthy and skilled individuals to obtain various forms of contractual employment. With almost 25% somewhat agreeing and somewhat disagreeing, perhaps the ability to engage in fronting practices is not entirely easy and is not always possible, which may make it difficult to engage in.

Perhaps, then, fronting practices are not widely prevalent. Nonetheless, it appears important that the organisation and legislative authorities examine the extent to which fronting practices occur and implement measures to reduce or eradicate these types of engagements.

Smart Procurement (2006) argues that typically, fronting takes one of two forms, both of which are intended to misrepresent or artificially inflate a company’s actual BEE status. Arguably the most publicised form of fronting involves the appointment of black individuals to senior positions without their knowledge, or without the responsibilities and rewards typically associated with these positions being transferred to them. A common example would be appointing an unskilled labourer as a Director, but doing so only on paper.

The second form of fronting, which is also prevalent, involves the establishment of a new “marketing” operation. This operation is a separate legal entity which only performs limited marketing functions, or none whatsoever. It does however; act as a sales agent for the original business, selling its products to clients with a stringent Preferential Procurement policy. Fronting is intended to aid compliance with a system which is not properly understood by those engaging in the fronting.

Figure 4.22: The formulae used to evaluate quotations results, in certain cases, in suppliers with higher prices being awarded quotations / bids.
The graph denotes first study objective, refer to paragraph 1.5. According to Figure 4.22, almost 90% of the respondents reported agreeing or strongly agreeing that the formulae that are used to evaluate quotations sometimes leads to bids and quotations with higher prices being awarded the ability to provide services and products. The response pattern provides a clear indication that, in many cases, costs or expenses are not the most significant factors in determining service providers or suppliers.

Although this may be necessary for PPPFA purposes, this may result in the unnecessary expenditure for services or products that could have been attained for a lower price. Over expenditure may result in any number of consequences, with one such consequence, particularly in the public sector, being the inability to provide comprehensive services to the public as required.

Perhaps, this pattern of results suggests the need to re-evaluate the procurement policies and develop a more refined method to benefit private individuals and entities as well as the organisation that engages with such individuals or entities. Paragraph 7 (1) of the Preferential Procurement Policy Framework Act, 2000: Preferential Procurement Regulations, 2011 state that a contract may be awarded to a tenderer that did not score the highest total number of points only if the reasons thereof are justifiable and defendable in any court of law.

There has been criticism that the PPPFA and its Regulations do not go far enough to achieve the preference, empowerment and socio-economic objectives described in Section 217(2) of the Constitution. According to Public Sector Supply Chain Management Review (2015:13) three main arguments are put forward:

• The point scoring system based on price and empowerment is biased in favour of established businesses. The cost structures for emerging black businesses can be higher than those of their established, mainly historically-white counterparts. In addition, established businesses have experience of the supply chain processes and control many of the inputs of the economy. There should be no limit to the cost premiums associated with empowerment, i.e. price should not be main criteria when adjudicating bids.

• Local economic and enterprise development is difficult to be attained within the current procurement regime.

• ‘Set-asides’ of procurement for designated previously disadvantaged groups are the only way in which economic transformation can be attained. However, the current system does not allow for these. Realising the benefits of preferential policies and achieving the objectives of empowerment and socio-economic change go beyond legislation. The reasons why this is the case includes the current fragmented procurement regime which is a barrier to entry for emerging small and medium businesses and this makes it difficult.
Figure 4.23: The Preferred System in use results in an overspending of the budget.

The graph denotes fourth study objective, refer to paragraph 1.5. Examining Figure 4.23, there were mixed perspectives about whether the preferred system that is used results in budget over expenditure. Approximately 29% agreed and 24% strongly agreed, signifying overspending, though about 29% also reported disagreement, indicating that the system does not result in overspending in relation to budget restrictions. The divergent perspective may be based, in part, on the knowledge and involvement of such individuals in relation to the total budget and the expenses incurred through procurement. That is, certain individuals, particularly those involved in more senior positions, are more likely to be informed about budget overspending or the process of budgeting. However, with the large degree of agreement, it seems, at some level, that overspending is occurring because of the system that is in use.

This may relate to the results obtained in Figure 4.22 that indicated the propensity to award bids and quotations to higher prices, but may also relate to issues associated with awarding bids or tenders to those service providers that do not adequately fulfil the duties and responsibilities associated with the bid or quotation requirements. Regardless of the reason for overspending, it would appear essential that this issue be overcome in order to ensure that the organisation is able to serve the public according to its mandates, which is only possible through access to sufficient funds.

According to Public Sector Supply Chain Management Review (2015:20) during October 2011, a certain municipality awarded an R8.7 million, three-year security tender to a supplier. The contract started on 1 November 2011 and expired on 30 October 2014. By the end of August 2014, the municipality had paid the supplier R22.4 million. The first variation, which was not considered by the bid adjudication committee, was requested as early as October 2011, before the contract commenced. This variation, which was not considered by the committee, requested an additional 36 security guards at a cost of R7 million.

Figure 4.24: Virement in the Department is mostly attributed to Supply Chain.
The graph denotes fourth study objective, refer to paragraph 1.5. Interestingly, Figure 4.24 indicates that the largest percentage of the respondents disagreed that virement in the Department of Communications is primarily attributed to supply chain. A further 29% somewhat agreed and somewhat disagreed, indicating that they may either be unaware of the virement process or that some of the fund transfer process relates to supply chain and others not.

Although it is difficult to determine what virement may be attributed to in the case of this particular organisation, it would be important to do so in order to ensure that funds are not misappropriated and that the budget allocated to supply chain is actually being used for such purposes.

Virement is the process of transferring funds from one line item number to another, with the approval of the relevant Accounting Officer / Authority/ Chief Financial Officer to enable budget managers to amend budgets in the light of experience or to reflect anticipated changes (section 28 (2) (c) of the Municipal Finance Management Act.

During financial year 2014/15 the Department had virement of R50 million from programme 1(DTT awareness campaign: R18 million); programme 5 (DTT Call Centre: R26 million) and programme 4’s goods and services (R6 million).

**Reliability**

**Sections B, C, and D**

Cronbach’s alpha was computed for the outlined 21 items in the questionnaire. The finding indicated excellent internal consistency and reliability for the questionnaire, $\alpha = .851$. Hence, the questionnaire possessed strong reliability and the appropriate use of each of the items included in the questionnaire.

**Inferential Statistics**

**Variable Composition**

Three variables, which can be denoted as Preferential Procurement, Procurement Methodology, and Effect on the Budget Division were created for use in the succeeding
inferential statistics calculations. In particular, summing the Section B questions 1 to 15 together created Preferential Procurement, adding the Section C questions 1 to 4 together created the Procurement Methodology variable, and the Effect on the Budget Division variable was created by adding Section D questions 1 to 2 together. The descriptive statistics for the three variables are highlighted in Table 4.1 below.

Table 4.1: Descriptive Statistics for all Variables.

<table>
<thead>
<tr>
<th>Variable</th>
<th>N</th>
<th>Mean</th>
<th>SD</th>
<th>Skewness</th>
<th>Kurtosis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preferential Procurement</td>
<td>17</td>
<td>49.71</td>
<td>8.38</td>
<td>.388</td>
<td>.976</td>
</tr>
<tr>
<td>Procurement Methodology</td>
<td>17</td>
<td>15.00</td>
<td>2.03</td>
<td>.000</td>
<td>.164</td>
</tr>
<tr>
<td>Effect on the Budget Division</td>
<td>17</td>
<td>5.88</td>
<td>2.23</td>
<td>.243</td>
<td>-.772</td>
</tr>
</tbody>
</table>

A basic assessment of the skewness and kurtosis of the three variables suggests that the variables are approximately normally distributed. However, because of the low number of items included in the Procurement Methodology and Effect on the Budget Division variables, it is inappropriate to compute parametric statistics based on an interval / ratio assumption of the variables and is more acceptable to compute statistics with these variables considered on an ordinal level. Hence, Spearman correlations between the variables were added.

**Spearman Correlation: Preferential Procurement and Procurement Methodology**

A Spearman correlation was performed to determine whether Preferential Procurement and Procurement Methodology were related. The result was not statistically significant, $r = .202$, $p = .437$, denoting the absence of a statistically meaningful relationship between the two variables. That is, the absence of a relationship is generalizable to the target population and the strength of the relationship between the two variables did not occur by chance.

In particular, Preferential Procurement levels are not associated with levels of Procurement Methodology within the organisation. Hence, based on these results, it would appear that, in some cases, procurement preferences might not always be based on the required methodology for procurement. Although this contrasts the very purpose of procurement methodology, the participants did indicate that the procurement system is prone to corruption (see Figure 4.13), which may be some underlying reason for the absence of a positive relationship between the two variables.

Findings done as per the Public Sector Supply Chain Management Review (2015:11) identified that the standard preferential procurement regulatory system makes it difficult to achieve governments developmental and empowerment objectives as it is not flexible enough to adapt to changing empowerment expectations and developmental policy requirements. Furthermore, the current fragmented procurement regime is a barrier to entry for emerging small and medium business and this makes it difficult for new businesses to transact with government.

**Spearman Correlation: Preferential Procurement and Effect on the Budget Division**

A Spearman correlation was performed to determine whether Preferential Procurement and Effect on the Budget Division were related. The result was statistically significant, $r = .572$, $p = .017$, denoting a statistically meaningful relationship between the two variables.
That is, the relationship is generalizable to the target population and the strength of the relationship between the two variables did not occur by chance. In particular, greater Preferential Procurement perception levels are associated with higher levels of perceptions of the Effect on the Budget Division within the organisation. This is an interesting finding, particularly because one of the Effects on the Budget Division items examined overspending based on the system itself.

The positive correlation, in this sense, seems to support the notion that procurement preferences result in greater levels of budget over expenditure, which is counterproductive to the sustainability of an organisation. Thus, it would appear that procurement preferences in quotation and bid acceptances have detrimental effects on the budgeting division, with seemingly higher levels of unnecessary expenses because of preferential procurement practices.

The Auditor – General report has identified that National departments have over spend more than 20% of their budget on appointment of consultants and the Provincial departments have overspend more than 800 million on the use of consultants. The report also found that local government municipalities have overspend more than 40% of their allocated budget on procurement of goods and services.

Spearman Correlation: Procurement Methodology and Effect on the Budget Division
A Spearman correlation was performed to determine whether Procurement Methodology and Effect on the Budget Division were related. The result was not statistically significant, $r = .164, p = .530$, denoting the absence of a statistically meaningful relationship between the two variables. That is, the absence of a relationship is generalizable to the target population and the strength of the relationship between the two variables did not occur by chance.

In particular, perceptions of Procurement Methodology levels are not associated with perceptions of the levels of Effect on the Budget Division within the organisation. These findings denote that the methodology that is used has little relationship with the budget division, which suggests that the engagement in preferential procurement itself is the major underlying factor influencing the budget division. Perhaps, applying the procurement methodology more closely to the required regulatory requirements will result in the procurement preferences less likely impacting or being associated with effects on the budget division.

The National Research Foundation Supply Chain Management Policy (2015:12) provides that each business unit’s budgeted supply demand plan must be consolidated to determine the organisation’s total budgeted supply demand plan for the current year as well as for the current Medium Term Expenditure framework cycle taking into account where the planned supply demand extends beyond the current planning cycle.

According to the Public Sector Procurement Review (2015:35) when properly applied, strategic sourcing as a procurement methodology has a potential to generate savings of up to 20 percent of the costs of goods and services purchased.
Conclusions and Recommendations

Findings from the study

The study conducted in the department of communications identified the following findings:

- The department has adopted a supply chain management policy and preferential procurement policy however has not implemented all of its functionality.
- Not all the elements of supply chain management are in place as per the legislative requirements.
- There is not a proper system infrastructure in place to manage an effective and efficient evaluation of major capital projects.
- There are also inconsistent applications of formulas when quotations are being evaluated.
- The department has not experienced a reduction in the turnaround time with the procurement of goods and services since the implementation of the preferential procurement policy framework. This can be attributed to the department being challenged to create synergy between all elements of supply chain management function.
- Some of the SCM Practitioners have been trained in supply chain management programmes; however the training programmes provided are regarded as insufficient. This is a concern as a lack in the development of supply chain management practitioners will have a long–term effect on the ability of the department to establish and maintain an effective and efficient preferential procurement policy.
- The current human capacity of SCM Practitioners within the department is not sufficient enough to meet the demands of the end users.
- Even though the department had been challenged in implementing the preferential procurement policy, the majority of practitioners are of the view that the implementation of the preferential procurement policy has to a large degree enhanced the ability to reach the operational objectives of end users.
- As the results of the descriptive survey analysis show, the majority of respondents (65%) agree that the objective behind the government’s Preferential Procurement Policy Framework of addressing the socio-economic challenges is being achieved, whereas 15% disagree and 20% are undecided. In addition, the majority of respondents (75%) agree that the PPPFA and its supporting regulations provide sufficient guidelines for SCM Practitioners in government to implement preferential procurement, whereas 10% disagree and 15% are undecided.
- The majority of respondents (65%) agreed that the current Preferential Procurement Policy can achieve its dual objectives of providing a procurement system which is transparent, fair, equitable, competitive and cost-effective while granting preferences in the allocation of quotations or bids to designated persons previously disadvantaged by unfair discrimination. Only a minority of respondents (20%) disagreed with this view and 15% were undecided.
- However, a quarter (25%) of respondents agreed with the view that the Preferential Procurement Policy directives are not working satisfactorily, compared with 30% who disagreed and less than half (45%) who were undecided. This distribution is also echoed by 35% of respondents who agreed that the Preferential Procurement Policy directives did not achieve their outcomes, compared with 40% who disagreed and a quarter (25%) who were undecided.
In addition, 30% of respondents disagreed that the Preferential Procurement Policy directives have contributed to meeting other national policy objectives, compared with 45% who agreed and a quarter (25%) who were undecided.

In this section, the findings from the literature review and the empirical study will be summarised and relevant conclusions drawn in relation to the research objectives.

**Findings from the Literature Review**

The literature review established a comprehensive base data or reference against which the practical application of the preferential procurement regulations in the National Department of Communications can be analysed.

Public procurement in South Africa was geared towards large and established contractors, which were mainly white-owned and managed. It was difficult for new contractors and particularly black-owned enterprises to participate in government procurement procedures. The democratic government was faced with the challenge of transforming the landscape of economic power to reflect the composition of the South African population (Taylor and Raga, 2010:8).

Given the apartheid history of South Africa, black people were deliberately excluded from the mainstream of the economy as well as in the public procurement processes, thus the South African Government post 1994 introduced strategies and policies to redress the injustices of the past, and to enable black people to actively participate and benefit from the country’s economic activities.

The findings from the research have found that the preferential procurement policy is accelerating procurement opportunities to emerging historically disadvantaged individuals. Furthermore research findings agree that majority of black management and black owned firms are now actively participating in public tender process.

Public procurement in South Africa has been granted constitutional status and is recognised as a means of addressing past discriminatory policies and practices (Bolton, 2006: 193, as cited in Ambe and Badenhorst-Weiss, 2012:242).

The promulgation of the Constitution of South Africa paved the way for preferential procurement interventions, particularly Section 217 (SA, 1996). “Preferential procurement, also known as affirmative procurement, comprises participation programmes aimed at the engagement of Small Medium Micro Enterprises (SMMEs) owned by previously disadvantaged persons in all types of contracts and the generation of income for marginalised sectors of society” (Taylor and Raga, 2010:1).

In effect, preferential procurement is used as a policy tool to achieve socio-economic objectives such as wealth redistribution to previously disadvantaged individuals (Bolton, 2006, National Treasury, 2003). The research findings agrees that there is adequate participation by black owned firms though the challenge still remains in some of the commodities where transformation is very minimum for example in the science and technology sector the majority of participants are still traditionally owned white firms.

South Africa has sound procurement legislation that, although far from perfect, is comparable with international best standards. To reap the full benefits of this good system it needs to be constantly measured, adapted to changing circumstances, and managed and implemented by a professional staff cadre. Many of the problems encountered in public procurement in South Africa probably rather relate to the implementation of the system than the system itself (De La Harpe, 2009: ii). The research findings agree that there are no adequate proper systems in place to enable effective and efficient achievement hence the lack of proper synergy in the department of communications.

It is explicit, from numerous studies conducted by various authors, that procurement policy in South Africa has desirable intentions and those are aligned to international procurement principles. But its implementation it is riddled with enormous and complex implementation...
difficulties as expressed by various authors. Improper Supply Chain Management practices at institutions are seriously undermining sound financial management, weakening the spirit and ethos of the PFMA and ultimately eroding scarce resources that are intended to improve service delivery.

The study agrees as the findings from the Auditor – General report has identified a lot of irregularities and non – compliance from organ of states which clearly illustrate challenges in the implementation of preferential procurement policy.

Effective supply chain management is a question of allocating management of supply chain to the parties best placed to understand and co – ordinate the activities of organisations involved in contract delivery. The PPPFA and its regulations are aimed at achieving the dual objectives of providing a procurement system that is transparent, fair, equitable, competitive and cost effective while granting preferences in the allocation of contracts to designated persons previously disadvantaged by unfair discrimination.

Prior to the inception of the democratic government, the criterion used to award government contracts was price (Bolton, 2006:201). The results of the study have indicated that the preferential procurement policy is achieving its objective even though there is still a challenge with the implementation thereof.

A study by Pauw and Wolvaardt (2009) analysed the preference point systems as provided for in the PPPFA. The study found that in cases where price, quality and other factors are similar across three potential bidders, the final decision on who to award the tender to will be based on BEE credentials.

Whenever government is conducting business with prospective bidders, those bidders are required to submit original and valid B-BBEE status level verification certificates or certified copies thereof together with their bids/ quotations to substantiate their B-BBEE rating claims. Prospective bidders who do not comply in terms of the above, will not qualify for preference points but they will not be disqualified from the bidding process but will score zero (0) points for B-BBEE. The study has identified that this method is favouring emerging BEE companies because the small companies with an annual turnover of less than R5 Million automatically qualify as level 4 contributors.

**Findings from the Primary Research**

A research survey was conducted involving Supply Chain Management (SCM) Practitioners within the Department of Communications who were intimately involved in the practical application of the preferential procurement policy. The opinions of these respondents are particularly important as they are responsible for interpreting the government’s Preferential Procurement Policy Framework and putting it into practice, in line with the department’s procurement policies and procedures. The findings are as follows:

- **Overwhelming majority of the respondents agreed with the aim of the study that the current procurement method is not cost efficient as it results in government or the department having to procure goods and services at prices that are not market related or inflated. The findings are that the formulae that is used to evaluate quotations sometimes leads to bids and quotations with higher prices being awarded to service providers.**
- **The study also identified budget overspending due to lack of proper planning and good market analysis**
- **Some respondents were of the view that the previous system of allocating points to historically disadvantaged individuals was better than the current preferential procurement system because the traditional white owned companies still score the highest points in evaluations because of their BBBEE contribution as level 1 or 2 while majority of black companies are level 4 contributors**
Supply Chain Practitioners are provided adequate training and knowledge impartation in order to acquire the information associated with the guidelines in order to successfully implement preferential procurement.

The study has identified that the deficiency in training lies in the fact that Managers fail to monitor if whether the trained personnel put in place what they have learned. Managers fail to monitor how the training has or can improve the current status quo of the SCM function.

The study has identified that the preferential procurement policy may not be working adequately so it would be essential that the challenges associated with implementing are appropriately overcome through training preferably by National Treasury itself.

The PPPFA directives have contributed towards achieving other national policy objective like the BBBEE policy and National Development Plan strategies

The current method of evaluation system is prone to corruption because it can be easily manipulated because of the lack of proper internal control measures in place and lack of proper segregations.

There is lack of rotation of suppliers as similar service providers are used on a continuous basis without attempting to examine the market for superior or more cost-effective suppliers or service providers or new entrants in the market

There is no proper system in place to accurately analyse and maintain total procurement expenditure as incurred by different business units within the department as the budget is decentralised.

The evaluation system may be manipulated in some ways due to lack of adequate skills and proper segregation of duties.

Conclusions from the findings
The empirical research findings in the Department of Communications are in agreement with the literature review findings on a number of issues. The majority of respondents seem to agree with the aim of the research in exploring and investigating if whether the current methodology of evaluating quotations and tenders is cost effective and whether or not it results in government having to procure goods and service at prices that are not market related or inflated as the majority of respondents agreed that the objective behind the government’s Preferential Procurement Policy Framework of addressing the socio-economic challenges is being achieved also that the PPPFA and its supporting regulations provide sufficient guidelines for Supply Chain Management Practitioners in government in implementing preferential procurement.

The respondents also agreed with the objective of the research that the current Preferential Procurement Policy Framework can achieve its dual objectives of providing a procurement system which is transparent, fair, equitable, competitive and cost-effective while granting preferences in the allocation of quotations or bids to designated persons previously disadvantaged by unfair discrimination. The respondents also agreed with the research objective of determining if whether or not the current methodology used to award contract is cost effective because the overwhelming majority of respondents responded that that the current procurement regulations provide sufficient guidelines on the formulae to be used to evaluate quotations.

The findings also supported the objective of the research that there is advantage in government applying the Preferential Policy Framework as majority of the respondents agreed that the formulae enable the previously disadvantaged individuals to participate in government procurement.
An overwhelming majority of respondents (90%) agreed that the formulae enable the previously disadvantaged individuals to participate in government procurement, compared with only 10% who disagreed and 10% who were undecided.

The overwhelming majority of respondents (90%) agreed that the current procurement regulations provide sufficient guidelines on the formulae to be used to evaluate quotations and bids – none disagreed and only 10% were undecided.

The research finding also addressed the research objective of whether or not the application of the Preferential Policy Framework results in government tendering for goods and services at prices that are market or market related as the majority of respondents agreed that the Department of Communications is able to search for competitive suppliers and service providers in the market place at cost effective prices which are also market related.

An overwhelming majority of respondents (85%) agreed that the formulae used to evaluate quotations result, in certain cases, in suppliers with higher prices being awarded quotations or bids, compared with none who disagreed and 15% who were undecided. Half of the respondents (50%) agreed that the current preference system in use results in an overspending of the budget, compared with 35% who disagreed and 15% who were undecided.

The findings also addressed the research objective of determining the extent to which strategic sourcing could be used in the department as the findings demonstrated that strategic sourcing is procurement based on in-depth analysis of what you want to buy, the commodity and its functionality, the market industry, in order to obtain the best price from the best supplier who will be able to deliver on time, and overall getting value for money, ensuring cost efficiency and quality and improving procurement processes and achieving economies of scale.

The finding also demonstrated that strategic sourcing looks at holistic procurement strategy as there is broader knowledge of the commodity, new trends and areas of efficiencies. The overall findings of the research addressed the aim of the research and the objectives of the research in a clear and concise manner.

**Recommendations**

The following recommendations are made following the research within the ambit of this dissertation to mitigate the research problem and to provide answers to the research and associated investigative questions:

- It is recommended that the department of communications internal audit and governance division should come up with measures of assisting supply chain management division in identifying and exposing possible fronting from the prospective service providers.
- Supply Chain Practitioners of the department of communications should be encouraged to also possess financial management skills so that they can be able to understand and analyse procurement spend.
- It is recommended that the National Treasury should revisit their policy documentation relating to the elements of demand management in order to provide government institutions with clear and comprehensive guidelines. This will enable government in moving away from conventional procurement which is transaction based, where goods and services are bought from any available service providers to meet requirements without considering quality or cost issues and no prior research is done, whilst with strategic sourcing there is broader knowledge of the commodity, new trends and areas of efficiencies.
- It is further recommended that the department of communication should consider investing in supply chain management systems infrastructure in order to gain more
reliable and advanced management information, which serves as a critical element in managing an effective and efficient supply chain management system.

- National Treasury should also consider conducting skills audit of the current supply chain management practitioners and provide training interventions where necessary because the biggest threat to supply chain management is lack of adequate skill.
- Furthermore, National Treasury should discourage their current practice of communicating instruction notes/practice notes circulars/guidelines etc. to government institutions without providing a formal platform of communicating the contents or interpreting them. Quarterly workshops should be conducted where possible in order to avoid the current confusion.
- In addition it is recommended that the National Treasury should consider establishing and facilitating a platform whereby supply chain practitioners can share developments, problems encountered and success achieved through their respective supply chain management practices. Through the establishment of such a communication platform, practitioners can reap the benefit of sharing information, solving supply chain management related challenges and identifying best practices that will ultimately lead to uniformity and the enhancement of their respective supply chain management systems. National Treasury will also reap the benefit of having credible feedback regarding critical supply chain management issues that will place it in an excellent strategic position in determining supply chain management related policies and guidelines.
- National Treasury should consider introducing a rigorous, structured analytical process which will optimise the government supply base while reducing total cost of ownership and improving mission delivery. The strategic sourcing solution should be based on a robust analysis of spending patterns, clear definition of business needs and requirements and the alignment of government needs with supply market capabilities and commercial best practices.

Areas for further research
The following are recommended areas for future research on the practical application of the preferential procurement policy and associated regulations in the public sector in South Africa:

- Perform a comparative study of multiple government departments to identify current practices in the practical application of the preferential procurement policy and associated regulations.
- Compare and contrast the preferential procurement practices of these multiple government departments.
- Compare and contrast the models, tools and techniques, including information systems and technologies that are used by these multiple government departments.
- Investigate how multiple government departments instituted measures to counteract fronting practices, misrepresentation, fraud and corruption in their practical application of the preferential procurement policy and associated regulations.
- National Treasury to consider having more transversal contracts in order to leverage government spending
- Investigate how multiple government departments instituted measures to prevent overspending of the budget and virement due to supply chain management in their practical application of the preferential procurement policy and associated regulations.
Recommend best strategies for the practical application of the preferential procurement policy and associated regulations in government departments.

Conclusion
It is the opinion of the researcher that the recommendations made within the ambit of this dissertation will contribute towards resolving the impact of analysis of Preferential Procurement Policy Framework in government institutions. Furthermore, it is envisaged that the recommendations made will assist in improving the manner in which government procures goods and services, with the aim of ensuring international best practices which will make South Africa competitive globally.

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