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PREFERENTIAL PROCUREMENT AND EMERGING ENTERPRISES

By

Nkwananchi John Hlakudi

A dissertation submitted to the Faculty of Commerce, Law and Management, University of the Witwatersrand, in fulfilment of the requirements for the degree of Master of Management by Research and Dissertation.

October, 2012.

ABSTRACT

The policies of the previous dispensation created racial disparities in South Africa and resulted in a need for transformation of public procurement systems to enable historically disadvantaged individuals (HDIs) to access government procurement opportunities. The Preferential Procurement Policy (PP Policy) was adopted to regulate preferential procurement in government in order to accelerate the award of procurement opportunities to companies that are owned by HDIs. The purpose of the research was to investigate the benefits of preferential procurement to HDIs in the light of the perception that the PP Policy is not achieving its objectives. The qualitative methodology was used to collect and analyse the data using the case study design. The research revealed that, although the results of implementing the policy are still below the expected outcomes due to stringent legislative requirements and corruption, many emerging HDI-owned enterprises benefit from preferential procurement opportunities. The study further contends that the achievement of the intended objectives of PP Policy can be improved by reviewing the model of implementation of the policy, improving awareness and accountability of the key stakeholders and providing unconditional support for SMMEs.

DECLARATION

I declare that this dissertation is my own, unaided work. It is submitted in fulfilment of the requirements of the degree of Master of Management by Research and Dissertation in the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in any other University.

_____

Nkwananchi John Hlakudi

October, 2012

DEDICATION

I dedicate this work to my daughter, Bohlale Pebetse, for her birth during the time of writing this research report was not a coincidence, but gave me joy, revived my energy and instilled the positive thought in me that I can achieve anything.

And last but foremost, to my late grandmother, Pheladi A Ngwato, who has been the backbone of my life from birth through to University during the difficult times when the brunt of poverty threatened my gateway to success.

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The positive thoughts of all people around me instilled confidence and encouraged hard work.

To my employer, Gauteng Provincial Treasury, for the funding provided to complete this work.

To the academic staff at the University of the Witwatersrand, their guidance and academic insight enlightened my knowledge.

This work could not have been completed without Laureen Bertin, who agreed to edit this work under stringent timelines.

My greatest gratitude goes to my supervisor, Dr Horácio Zandamela, for his guidance and patience during the research process.

The ancestors: their power and blessings are extraordinary.

Not forgetting the Almighty, His glory and power is supreme to make all things happen.

LIST OF ABBREVIATIONS

ATM	Automatic Teller Machine
BAC	Bid Adjudication Committee
BBBEEA	Broad Based Black Economic Empowerment Act
BBC	Black Business Council
BEECom	Black Economic Empowerment Commission
BEC	Bid Evaluation Committee
BEE	Black Economic Empowerment
BMF	Black Management Forum
BSC	Bid Specification Committee
CPAR	Country Procurement Assessment Review
CSR	Case Study Research
DAC	Departmental Acquisition Council
DED	Department of Economic Development
DTI	Department of Trade and Industry
ECDP	Emerging Contractor Development Programme
EEA	Employment Equity Act
ESME	Exempted Small and Micro Enterprises
FMCG	Fast Moving Consumer Goods
GDF	Gauteng Department of Finance
GDP	Gross Domestic Product
GEP	Gauteng Enterprise Propeller
GNU	Government of National Unity
GPG	Gauteng Provincial Government
GSSC	Gauteng Shared Services Centre
GT	Gauteng Treasury
HDI	Historically Disadvantaged Individual/s
ISCOR	Iron and Steel Corporation
ICT	Information and Communications Technology
LED	Local Economic Development
MEC	Member of Executive Council

NCCA	National Contract Cleaners Association
NSBA	National Small Business Act
NT	National Treasury
OECD	Organisation for Economic Co-operation and Development
OoP	Office of the Premier
PPP	Public Private Partnerships
PPPFA	Preferential Procurement Policy Framework Act
PP Policy	Preferential Procurement Policy
PPR	Preferential Procurement Regulations
PSIRA	Private Security Industry Regulatory Authority
QSE	Qualifying Small Enterprises
RDP	Reconstruction and Development Programme
RFQ	Request for Quotation
SABC	South African Broadcasting Corporation
SCM	Supply Chain Management
SCOPA	Standing Committee on Public Accounts
SEDA	Small Enterprise Development Agency
SMME	Small, Medium and Micro Enterprises
SOE	State Owned Enterprises
SSA	Statistics South Africa
USA	United States of America
VAT	Value Added Tax

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CHAPTER ONE

INTRODUCTION AND BACKGROUND

1.1. Introduction

Since 1994 the Government of National Unity (GNU) has introduced different measures to promote the participation of historically disadvantaged individuals (HDI) in the economy, which include the Preferential Procurement Policy Framework Act (PPPFA) and the Broad Based Black Economic Empowerment Act (BBBEEA). Organs of state in the national, provincial and local spheres of government have been implementing the two policies to achieve their socio-economic objectives which include, amongst others, the development of Small, Micro and Medium Enterprises (SMMEs) through various measures including preferential procurement. Since the introduction of the two policies, the government has not assessed the progress made by state institutions to achieve the objectives of preferential procurement. Furthermore, there is some public perception that preferential procurement does not assist emerging HDI owned enterprises to access government opportunities as envisaged by the PPPFA.

On the basis of the above, the researcher took a decision to conduct a study to assess the opportunities provided by preferential procurement to small enterprises that are owned by HDIs in Gauteng. The focus of the research is on cleaning and security services. The research also investigated government procurement processes and procedures that enable the implementation of preferential procurement. The research provides mechanisms in the form of findings and recommendations that will assist government institutions to provide more opportunities to small enterprises in the country. The research also contributed to the development of knowledge in the field of Public Procurement and Supply

Chain Management (SCM) for use by academics and practitioners responsible for the implementation of PPPFA and BBBEEA.

The research report covers a range of topics in relation to the research problem under consideration. A history of discriminatory policies and practices of the apartheid government and the current legislative framework governing preferential procurement provide the first part of the background to the study. The second part of the background is based on the profile of Gauteng Province, the profile of SMMEs, and finally the contribution made by the services sector to the South African economy, with special emphasis on security and cleaning services. The problem statement, purpose statement and research questions are stated in the final part of the chapter. The chapter concludes by outlining the significance of the research, the limitations that were encountered during the research and the framework of this research report.

1.2. The legacy of apartheid

According to De La Harpe (2009) the tendency of discrimination against the indigenous people is traced back to the period when the European community settled in South Africa (1652–1910). This tendency of discrimination was pioneered by Europeans during the period of Dutch rule (De La Harpe, 2009: 241). The nature and magnitude of these discriminatory practices created a dependency syndrome to the extent that more than 70% of the population is disempowered by the lack of an enabling environment (Mabeta, 1991: 2). In 1994 only five per cent of the population, mostly whites, owned 88% of the nation’s wealth (Asaf, Cato, Jawoko, and Rosevear, 2010: 22).

Furthermore, a job reservation policy aimed at improving the lives of Afrikaans white South Africans was implemented in all State-Owned

Enterprises (SOEs) including the Post Office, Iron and Steel Corporation (Iscor), Transnet, and South African Broadcasting Corporation (SABC), as well as state departments. According to Erasmus, Swanepoel, Schenk, Van der Westhuizen, and Wessels (2005: 160) the pre-1994 public service was mainly characterised by its divisions on the basis of race and gender, and its lack of representativeness.

The inequalities created by such discriminatory practices of the apartheid regime are still prevalent in South Africa today and result in the black population bearing the brunt of unemployment and poverty (Asaf, *et al.*, 2010: 6). Due to this history of discrimination, unfair practices and marginalisation of people, various groups in society were denied the privilege of being economically active within the government procurement system (Bolton, 2006: 198). The majority of black citizens were not given equivalent opportunities to their white counterparts to participate in the economy of the country (Bolton, 2006: 198). The representation of black people in government was also restricted under the 1983 Constitution of the Republic of South Africa which established the tri-cameral system of government, thereby discouraging the participation of black people in government policy-making process. The diverse needs of black people, women, and people living with disabilities were severely neglected.

Small businesses which were mostly run by women were meant to produce products for subsistence, and were mainly based in agriculture. According to Mabeta (1991: 33) measures were taken to eradicate, restrict and control the growth of black entrepreneurship in South Africa. Such businesses were not recognised by the apartheid government as formal institutions that can provide services to the government. Montsho (2000: 12) further contends that black businesses emerged and developed in the informal sector because of the repressive legislation of the apartheid government against black entrepreneurship. There is a view that

systematic and institutionalised racism in South African society continues to restrict the access of black businesses to the public and private sector contracts required to grow black businesses into a new and dynamic force in the economy (Brown, Gqubul and Mosala, 2001: 40; Londt, 2005: 101).

The researcher believes that the discriminatory practices of the past apartheid government were evident in all sectors of the economy and all socio-economic spheres. According to Marais and Coetzee (2006: 112) the past segregationist legislation extended to most areas of life including access to participation in the economy. In the labour market, job reservation laws prohibited black people from occupying certain positions in the industry and government. Black trade unions were not recognised by the then labour relations system. These practices left a legacy that continues to be experienced by black people in the country today inasmuch as it often becomes difficult for black people, black-owned enterprises and SMMEs to compete with white-owned entities on an equal basis. The nature of government contract awards was also skewed towards the larger and well-established enterprises and the participation of small and medium enterprises owned by HDIs was neglected during the apartheid era (Bolton, 2007: 42).

Due to these apartheid practices, the South African economy is still characterised by an economy that comprises what has become known as the “first” and “second” economies. The second economy represents the previously disadvantaged groups of society comprising mainly black people. It is becoming extremely difficult for the two sectors of the economy to compete for economic opportunities under the democratic government. Southall (2006: 175) attributed this state of affairs to the democratic South Africa that created a new form of capitalism based on the policy of Black Economic Empowerment (BEE) that benefits a wealthy elite with political connections. According to Brand, Du Preez and Schutte

(2007: 188) this current state of economic disparities in South Africa challenges the government to implement innovative solutions that promote business development and create employment opportunities.

The legacy of apartheid presented the GNU elected in 1994 with many challenges. It was looking forward to building the nation and the economy by promoting a non-racial and non-sexist country whereby all people share in the economic resources of the country. To achieve this, government could not avoid addressing the many challenges and inequalities that were inherited. This required the government to prudently put policies in place to encourage socio-economic transformation. To this effect, measures were put in place to redress these socio-economic imbalances to facilitate the growth and development of a country based on the participation of all people.

1.3. Procurement reform and the policy environment

The Reconstruction and Development Programme (RDP) White Paper (1994) is the first policy document adopted under the GNU that attempted to catalyse the process of transformation in all sectors of the economy including government, trade and industry. Following the RDP White Paper (1994), the government introduced an affirmative action policy in 1998 to deal with discriminatory practices in employment. The Skills Development Act No. 97 of 1998 was also enacted to encourage investment by institutions in the development and training of people as the most important assets in any industry.

The government introduced the PPPFA to advance the interests of HDIs in sourcing government contracts with the intention of meeting RDP goals which include, amongst others, the promotion of SMMEs. The BBBEEA was also introduced to address the empowerment of black people, youth

and women in the economy through various strategies that included preferential procurement in both the public and the private sectors. Institutional support programmes were put in place to give support to emerging enterprises to increase their participation in the economy.

All these initiatives have a foundation from the Constitution of the Republic of South Africa (Act No. 108 of 1996). Despite all these initiatives to transform the socio-economic life of people and to achieve more integrated shared growth and development of the nation, the policies have encountered resistance from certain minority groups who regard these initiatives as reverse discrimination. Notwithstanding such resistance, the country is slowly undergoing a process of integrated socio-economic development. According to Bolton (2007: 42), the government embarked on a reform process of the government procurement system immediately after the end of apartheid in 1994. These procurement reforms and the policy framework governing SCM in the country provide more information on the background to the research. The policy environment for public sector procurement and preferential procurement reforms in South Africa is outlined in the following policy initiatives.

1.3.1. RDP White Paper, 1994

According to the RDP White Paper (1994) the aim of the RDP was to increase the participation of black people in the economy and to ensure that existing ownership patterns become less concentrated, more racially inclusive and that SMMEs account for a substantially larger part of economic activity. As a result, the RDP further aimed to address the discriminatory practices of the past that have left a legacy of inequality. In the RDP White Paper (1994), growth in employment can be enhanced through government support to small and medium enterprises.

The RDP White Paper (1994) further identified the key areas of support to SMMEs as, amongst others, access to marketing and procurement and the encouragement of inter-firm linkages. The government committed to facilitate entry of entrepreneurs into opportunities which arise from the RDP investments which include the sale, installation and servicing of domestic appliances and wiring, construction and related manufacturing and service activities. Moreover, the government committed itself to encourage entrepreneurs to seek technical training and joint ventures with the formal sector (RDP White Paper, 1994).

1.3.2. White Paper on National Strategy for the Development and Promotion of Small Businesses in South Africa, 1995

In March 1995 the GNU published a White Paper on National Strategy for the Development and Promotion of Small Businesses in South Africa. The national strategy aimed to, amongst others, create an enabling environment for small businesses, address the legacy of apartheid-based disempowerment of black businesses, support the advancement of women in all business sectors, create long term jobs, stimulate sector-focused growth, and level the playing fields for smaller and bigger businesses. The White Paper also recommended the enactment of the National Small Business Act and the Transactional and Procurement Act.

According to the White Paper (1995: 30) small businesses regard market constraints and the inability to sell their products and services as one of the most serious obstacles to establishing a business and ensuring growth beyond mere subsistence level. The White Paper further recommended the need to adjust public procurement practices at national, provincial and local government level, and by parastatals, in order to facilitate the granting of a proportion of contracts to black-owned or -controlled enterprises, and encourage small business tendering for such contracts.

The White Paper also acknowledged that the establishment of legislation laying down certain conditions and principles about set-asides for small enterprises, non-discriminatory public sector procurement rules and incentives for big businesses for sub-contracting to small enterprises could accelerate progress and lead to participation among all firms rather than only a few progressive ones (White Paper on National Strategy for the Development and Promotion of Small Businesses in South Africa, 1995).

1.3.3. The Ten Point Plan on procurement reform

As part of South Africa's initiatives to introduce new reforms in government procurement, the Ten Point Plan was introduced in November 1995 as a set of interim strategies to further the procurement reform process. The previous Tender Board policies and procedures favoured the larger and better established entrepreneurs and therefore did not create an environment that allows easy access for SMMEs into the mainstream procurement activities funded by the public sector (Ten Point Plan, 1995: 3). The plan introduced a set of ten strategies which include, amongst others, preferential procurement that aimed to give preference points to companies owned by people disadvantaged by racial discrimination in the previous political dispensation of apartheid, as well as women entrepreneurs when competing for government contracts (Ten Point Plan, 1995: 7).

1.3.4. National Small Business Act, 1996

The National Small Business Act (NSBA) No. 102 of 1996 was enacted to promote support to small businesses in the Republic. The NSBA introduced a standard definition of SMMEs which categorises businesses per sector or industry. The NSBA further made provision for the establishment of Ntsika Enterprise Promotion Agency, which aimed to

expand, co-ordinate and monitor the provision of training, advice, counselling, and financial and non-financial support to small businesses. The agency also aimed to facilitate market access for small enterprises and strengthen their capacity to successfully compete in the broad economy.

1.3.5. Constitution of the Republic of South Africa Act, 1996

In terms of section 217 of the Constitution of the Republic of South Africa Act No. 108 of 1996, any organ of state in the national, provincial and local spheres of government that procure for goods and services must do so in accordance with a system which is fair, transparent, equitable, competitive, and cost-effective. This section also allows these organs of state to implement a procurement policy providing for categories of preferences in the allocation of contracts and the advancement and protection of persons or categories of persons disadvantaged by unfair discrimination.

1.3.6. Green Paper on Public Sector Procurement Reform in South Africa, 1997

As part of the procurement reform initiatives in the country, the Ministry of Finance and the Ministry of Public Works established a task team with funding from the World Bank that produced the Green Paper on Public Sector Procurement Reform to make the tendering system more easily accessible to SMMEs. According to the Green Paper (1997) the government's aim was to transform the public procurement process in order to achieve its socio-economic objectives within the ambit of good governance. The socio-economic objectives through the procurement system includes access to tendering information and the simplification of tender documents, break-out procurement, awarding of tenders in terms of

a development objective mechanism, drafting of an affirmable SMME participation programme, promoting employment-intensive practices, affirming marginalised sectors of society in construction projects, and the development of an affirmable procurement policy (Green Paper on Public Sector Procurement Reform in South Africa, 1997: 6).

1.3.7. Preferential Procurement Policy Framework Act, 2000

The Preferential Procurement Policy Framework Act No. 5 of 2000 was enacted to give effect to section 217 (3) of the Constitution of the Republic of South Africa (1996) which requires the national legislation to prescribe a framework within which preferential procurement will be implemented. The Act prescribes in detail categories of persons referred to as Historically Disadvantaged Individuals (HDIs) who qualify for preference in the allocation of contracts which include people who did not have franchise in national elections prior to the implementation of the 1983 Constitution and/or the Interim Constitution of 1993. This included women and people living with disabilities. The Act also aims to promote the attainment of RDP goals which include, amongst others, the development of SMMEs.

The Preferential Procurement Regulations (2001) were introduced to put practical measures in place and prescribe the threshold values for the implementation of the PPPFA. Due to the challenges posed by the inconsistency between the BBBEEA and the PPPFA, the new Preferential Procurement Regulations (2011) that attempt to merge the two policies were issued and became effective from 7 December 2011. The new regulations do not change the value given to preferential procurement, but rather attempt to encourage transformation in companies by incorporating all the seven elements of BBBEE into the preferential procurement system.

1.3.8. Broad Based Black Economic Empowerment Act, 2003

The Act prescribes a legislative framework for the promotion of BEE in order to realise the constitutional right to equality, increase broad-based and effective participation of black people in the economy, and promote a higher growth rate, increased employment, more equitable income distribution, promote economic unity of the nation, protect the common market, and promote equal opportunity and equal access to government services. The PPPFA and the BBBEEA have been enacted to achieve similar objectives of redressing economic imbalances of the past, including the promotion of equal distribution of economic resources of the country. The BBBEEA also aims to include the private sector to contribute to BEE through various strategies such as the development of small enterprises.

1.3.9. Codes of Good Practice for BBBEE, 2007

The Codes of Good Practice for BBBEE (2007) identify the following seven elements of BBBEE:

- Ownership element (Code Series 100) which measures the effective ownership of enterprises by black people.
- Management control element (Code Series 200) which measures the effective control of enterprises by black people.
- The employment equity element (Code Series 300) which measures initiatives intended to achieve equity in the workplace in terms of the Employment Equity Act (EEA) No. 55 of 1998 and BBBEEA.
- The skill development element (Code Series 400) which measures the extent to which employers carry out initiatives designed to develop the competencies of black employees.

- The preferential procurement element (Code Series 500) which measures the extent to which enterprises buy goods and services from suppliers with strong BBBEE procurement recognition levels.
- The enterprise development element (Code Series 600) which measures the extent to which enterprises carry out initiatives intended to assist and accelerate the development and sustainability of other enterprises.
- The socio-economic development and sector specific contributions element (Code Series 700) which measures the extent to which enterprises carry out initiatives that contribute towards socio-economic development or sector-specific initiatives that promote access to the economy for black people.

Enterprises are measured against the above seven elements to determine their level of contribution to BBBEE in South Africa. The preferential procurement element is the focus of this research and will be discussed in detail in chapter two.

1.3.10. Country Procurement Assessment Review, 2003

The Country Procurement Assessment Review (CPAR) was a joint initiative between the South African Government and the World Bank (2003) to study and analyse the existing public procurement system in South Africa and to recommend suitable actions to improve the economy, efficiency, predictability and transparency of the procurement process. Similar to the Green Paper on Public Procurement Reform in South Africa (1997), the CPAR also justifies the need for the preferential procurement system on the basis of the disparities caused by the apartheid system. South Africa is faced with a dual economy: one, which used to be the “mainstream” economy, led by a relatively small minority of European origin (13 per cent of the approximately 45 million population), and another “emerging economy” subscribed to largely by people of African descent.

The objective of preferential procurement is to merge the dual economies into a more productive and more competitive economy over time (World Bank, 2003: 21).

1.3.11. Gauteng Strategy for Broad Based Black Economic Empowerment (BBBEE Strategy)

The BBBEE Strategy recognises that SMMEs are a major lever for BBBEE, providing opportunities to increase meaningful black participation in economic activities, especially by black women, co-operatives and designated groups. Furthermore, sustainable enterprise development will expand the productive capacity of the economy and act as an engine of job creation.

The strategy further integrates the following interventions to create a favourable environment for enterprise development:

- Creating a favourable procurement opportunities and suitable tender specifications for SMMEs and promote set-asides for SMME participation in procurement.
- Supporting small business development in high-growth sectors and the growth of SMMEs owned and managed by black people and black women, in particular the youth, the disabled, and co-operatives. This intervention aims to embed SMME priorities into sector growth plans and Gauteng Provincial Government's (GPG) procurement practices.
- Providing financial and non-financial support including access to procurement opportunities and contract guarantees. The Gauteng Enterprise Propeller (GEP) was set up to assist in this regard (BBBEE Strategy, 2005: 12).

GPG established the above measures to further the objectives of PP Policy in the province in order to empower the HDI-owned enterprises. All these measures are based on the creation of procurement opportunities for SMMEs that are owned by HDIs, which the research aimed to investigate.

1.3.12. Other SMME development initiatives

According to the Government Communications (2005: 173) there are an estimated three million small businesses in South Africa including businesses of an informal nature. The Department of Trade and Industry's (DTI) small business programme ensures that all sector-development policies incorporate the development, growth and investment measures with regard to maximising small business's contribution to the overall economy. The programme's initiatives focus on, amongst others, cross-cutting and sectoral initiatives, the introduction and review of small-business-specific incentives, improved access to finance/capital, improved access to information and advice, and promoting entrepreneurship among the youth and women.

The National Department of Public Works was mandated to establish a separate public entity in the construction industry which will be responsible for, amongst others, ensuring the growth and development of emerging sectors (Government Communications, 2003/2004: 180). The Emerging Contractor Development Programme (ECDP) was established as a sub-programme of the Construction Industry Development Programme. The programme (ECDP) awarded contracts for 1 653 small projects with a total value of R146 million to historically disadvantaged enterprises and individuals in 2003. The majority of these enterprises were SMMEs. Contracts to the value of R791 million were awarded to emerging enterprises under the ECDP in 2003/2004, of which R88 million was

allocated to women-owned enterprises. The majority of small enterprises awarded contracts under the ECDP in 1999 were involved in the support side of the industry, primarily providing horticultural and cleaning services (Government Communications, 2003/2004: 180).

1.4. Black Economic Empowerment

The Black Business Council (BBC) was appointed in 1998 to establish BEE legislation, and the state established the Black Economic Empowerment Commission (BEECom) to develop and implement BEE policies in the country (Asaf, *et al.,* 2010: 22). The idea of BEECom arouse out of a resolution taken at the Black Management Forum (BMF) national conference in Stellenbosch, from 14 to 15 November 1997. The prevailing view at the conference was that black people should direct and take charge of a new vision for BEE, a process that, until then, had been conceptualised, controlled and driven by the private sector. The BEECom was then formally established in May 1998 under the auspices of the BBC, an umbrella body representing 11 black business organisations.

Government at national, provincial and local spheres, and state-owned enterprises (SOE) procure goods and services worth more than R110 billion a year. However, it is difficult to estimate what portion goes to small and medium businesses and black entrepreneurs because of poor, and in many instances, non-existent monitoring and evaluation of contract awards. For this reason Brown, *et al.,* (2001) recommended that the government must take appropriate steps to award contracts to SMMEs and black-owned enterprises to expedite their growth and development. There are a number of aspects to address in order to reach the growth and development objectives, which include enterprise development and deregulation (Londt, 2005: 149).

Londt (2005) supports the public perception that HDI-owned enterprises do not access preferential procurement opportunities in spite of the implementation of Preferential Procurement Policy (PP Policy). Such lack of access is attributed to racism in society. However, the researcher focused on access to preferential procurement opportunities with the assumption that racism is no longer a problem.

According to the DTI (2004a) BEE is defined as a coherent and integrated socio-economic process that directly contributes to the economic transformation of South Africa and brings about significant increases in the number of black people who own, manage and control business activities in the country, and also helps to reduce income inequalities. In South Africa the term BBBEE was coined in order to make economic empowerment a more inclusive process. BBBEE means the economic empowerment of all black people including women, workers, youth, people living with disabilities, and people living in rural areas (DTI, 2004a).

1.4.1. Beneficiaries of empowerment

The apartheid South Africa promoted the discrimination of black people in all sectors of the economy. The democratic South Africa introduced policies such as the EEA, the PPPFA and the BBBEEA to redress these imbalances of the past. However, the three policies provide different interpretations of the beneficiaries of empowerment. It is therefore important to attempt to conceptualise the empowerment beneficiaries from these three legislative prescripts.

In the workplace, the EEA has been enacted to promote fair treatment and eliminate discrimination in employment, and also to implement affirmative action measures to redress disadvantages in employment experienced by designated groups in order to ensure their equitable representation in all

occupational categories and levels in the workforce. The beneficiaries of employment equity legislation are people from designated groups. The EEA defines designated groups as black people, women and people with disabilities. All women and people living with disabilities irrespective of race or colour are regarded as people from designated groups. The EEA further defines black people as a generic term which means Africans, Coloreds and Indians.

The PPPFA was enacted to give effect to section 217 of the Constitution of the Republic of South Africa (Act No. 108 of 1996) to provide a framework for the implementation of preferential procurement in government. The PPPFA aims to advance HDIs and promote the achievement of RDP goals. In terms of the Preferential Procurement Regulations (2001) HDI means a South African citizen who, due to the apartheid policy that had been in place, had no franchise in national elections prior to the introduction of the Constitution of the Republic of South Africa, 1983 (Act No. 110 of 1983) or the Constitution of the Republic of South Africa, 1993 (Act No. 200 of 1993), and/or who is a female, and/or who has a disability, provided that a person who obtained South African citizenship on or after the coming into effect of the interim constitution, is deemed not to be a HDI.

The PPPFA regulations adopted a different approach in identifying the beneficiaries of empowerment in that they cover all South African citizens rather than a narrow definition in the EEA that specifically refers to Africans, Coloreds and Indians only. The PPPFA definition covers all South African citizens who did not have the right to vote in national elections prior to the 1993 Interim Constitution, irrespective of nationality. According to Pauw and Wolvaardt (2009: 82) the PPPFA definition of HDI is not based on race, but on the nature of the discrimination that people were subjected to in the past.

The PPPFA definition also includes timeframes that must be used to identify people as HDIs. Only people who were born prior to the 1993 Interim Constitution are regarded as HDIs. Any South African citizens, regardless of race or colour, who were born after the coming into effect of the Interim Constitution, are not covered by the PPPFA as HDIs.

The BBBEEA was also enacted to promote economic transformation to enable meaningful and effective participation of black people in the economy. Similar to the EEA, the BBBEEA also defines black people as a generic term which means Africans, Coloureds and Indians. Section one of the BBBEEA further defines broad-based black economic empowerment as the economic empowerment of all black people including women, youth, workers, people with disabilities and people living in rural areas. According to the Draft Codes of Good Practice for BBBEE (2004) the beneficiaries of BBBEE shall be black people, who would encompass black women, black workers, black youth, black people with disabilities and black people living in rural areas. This wording of the draft codes can be construed to exclude black men from the beneficiaries of empowerment.

According to the DTI (2007) black people include only natural persons who are citizens of the Republic of South Africa by birth or descent, or are citizens of the Republic of South Africa by naturalisation:

a) Occurring before the commencement date of the Constitution of the Republic of South Africa Act of 1993, or
b) Occurring after the commencement date of the Constitution of the Republic of South Africa Act of 1993, but who, without the apartheid policy, would have qualified for naturalisation before then.

This means that people who obtained South African citizenship by naturalisation after the coming into effect of the Interim Constitution of the Republic of South Africa qualify as black people for the purpose of BBBEE only if those people would have qualified for citizenship prior to the Interim Constitution if it was not because of the apartheid policy or there was no apartheid policy that prevented them from becoming citizens. Conversely, people who obtained South African citizenship by naturalisation after the coming into effect of the Interim Constitution of 1993 are not regarded as black people for the purposes of BBBEE if those people would not have qualified for citizenship prior to the 1993 Interim Constitution without the apartheid policy. The further implication of this definition is that South African citizens by birth or descent enjoy unlimited benefits of BBBEE irrespective of their date of birth.

The EEA and PPPFA do not make a special provision for the empowerment of youth and black people living in rural areas although the PPPFA Regulations make provision for the development of enterprises located in rural areas. This results in inconsistencies among the three prescripts of empowerment. The fact that youth are not explicitly stated as one of the targeted groups for empowerment under both the EEA and PPPFA has serious implications for policy implementation. This means that people who are classified as youth in terms of their age cannot receive any form of preference over the other groups in society when implementing either the EEA or the PPPFA. The youth are therefore given the same treatment as other groups of people. However, a youth from the designated group according to the EEA or a youth who is regarded as a HDI under the PPPFA is given preference not according to the classification of youth, but rather for being part of the designated groups or a HDI. This is contrary to the BBBEEA which makes special provision for youth as one of the beneficiaries of empowerment.

Another inconsistency is encountered with regard to Africans. The EEA and the BBBEEA define black people as a generic term which includes Africans, Coloureds and Indians. There are many groups of people who can be classified as Africans. In simple terms the word Africans means people from Africa. It is not explicit in the EEA and the BBBEEA whether Africans refers to South African citizens only, or to all people of Africa, or to all people of African descent. The definition of HDI further allows for the advancement of people who are not black (a white female or a white male who is disabled) whereas the BBBEEA does not (Marais and Coetzee, 2006: 121).

Neither the BBBEEA nor the EEA make reference to Chinese people who have been living in South Africa prior to 1993 Interim Constitution. The general approach in implementing the empowerment legislation in South Africa excluded Chinese people for years until a High Court decision changed the interpretation of legislation in relation to the definition of black people for the purposes of empowerment. In the case of the Chinese Association of South Africa versus the Minister of Labour, the High Court decided that the Chinese people fall within the ambit of the definition of 'black people' in section one of the EEA and section one of the BBBEEA.

Montsho (2000: 16) noted some dissatisfaction amongst Asian, Indian and Coloured people who were not in favour of the use of the word "Black" as it is too Africanist and often excludes them from the current privileges enjoyed by blacks. This dissatisfaction arose out of the fact that these populations were also discriminated against in the past, and hence deserve the same privileges as blacks. The definition of an HDI in the PPPFA does not exclude Chinese, Indian, Asian and Coloured people *per se*, although practitioners responsible for the implementation of the procurement policy in government have erred by excluding these groups

of people from enjoying the benefits of empowerment since the coming into effect of the PPPFA.

The beneficiaries of empowerment should be reviewed from the EEA, PPPFA and BBBEEA to arrive at one standard definition. South Africa cannot monitor and assess the progress made to redress the imbalances of the past if the targeted groups for empowerment remain inconsistent from the different legislative prescripts. Although the custodians of EEA, PPPFA and BBBEEA are three different entities, the continued use of three competing sets of legislation is unlikely to yield positive results for South Africa. In examining the competing legislation between the PPPFA and BBBEEA, Pauw and Wolvaardt (2009) concluded that: “In as far as the preferential procurement element of Act 53 of 2003 and its subordinate legislation is a procurement system, it appears to be unconstitutional”.

In light of this inconsistency, the National Treasury (2007) issued an instruction to all Accounting Officers and Accounting Authorities to apply the current PPPFA and the Preferential Procurement Regulations (2001) until such time that the revised Act is officially enacted by Parliament and the revised regulations pertaining to PPPFA aligned with the Codes of Good Practice for BEE are promulgated by the Minister of Finance (National Treasury, 2007). This situation resulted in the implementation of the PPPFA as the only legitimate policy for preferential procurement in government until 07 December 2011 when the revised regulations became effective. It is on this basis that this research project addresses the matter of preferential procurement as specified by the PPPFA and its regulations.

As the research is based in the Gauteng Province of South Africa, an examination of the Province is important.

1.5. Profile of Gauteng Province

Gauteng is one of the nine provinces of South Africa situated in the north-eastern part of the country, and is landlocked, being adjoined by Limpopo in the north, Mpumalanga in the east, Free State in the south, and North West in the west. The borders of the province are depicted in Map 1.1 below. The province constitutes 1,4% of the country's total land area (Stats SA, 2003). The province is regarded as the country's economic heartland, with its Gross Geographic Product rated at 34% of the National Gross Domestic Product (GDP).

The province has three metropolitan municipalities and two district municipalities. The metropolitan municipalities are City of Johannesburg, City of Tshwane and Ekurhuleni. The district municipalities are West Rand and Sedibeng. These municipalities are the five main regions of the province. West Rand District has four local municipalities (Westonaria, Randfontein, Mogale City, and Merafong), while Sedibeng District has three local municipalities (Midvaal, Emfuleni and Lesedi). The City of Tshwane incorporated the former Metsweding District that had two local municipalities (Kungwini and Nokeng Tsa Taemane). The integration was effective from the day of the 2011 local government elections, 18 May 2011. The Member of the Executive Council (MEC) responsible for local government in Gauteng issued a notice in the Government Gazette for the disestablishment of all three municipalities in Metsweding region to integrate them under City of Tshwane (Department of Local Government and Housing, 2010).

There are eleven provincial departments in Gauteng, namely: Education, Finance, Economic Development, Infrastructure Development, Roads and Transport, Local Government and Housing, Health and Social Development, Sports, Arts, Culture and Recreation, Agriculture and Rural Development, Community Safety, and the Office of the Premier. The

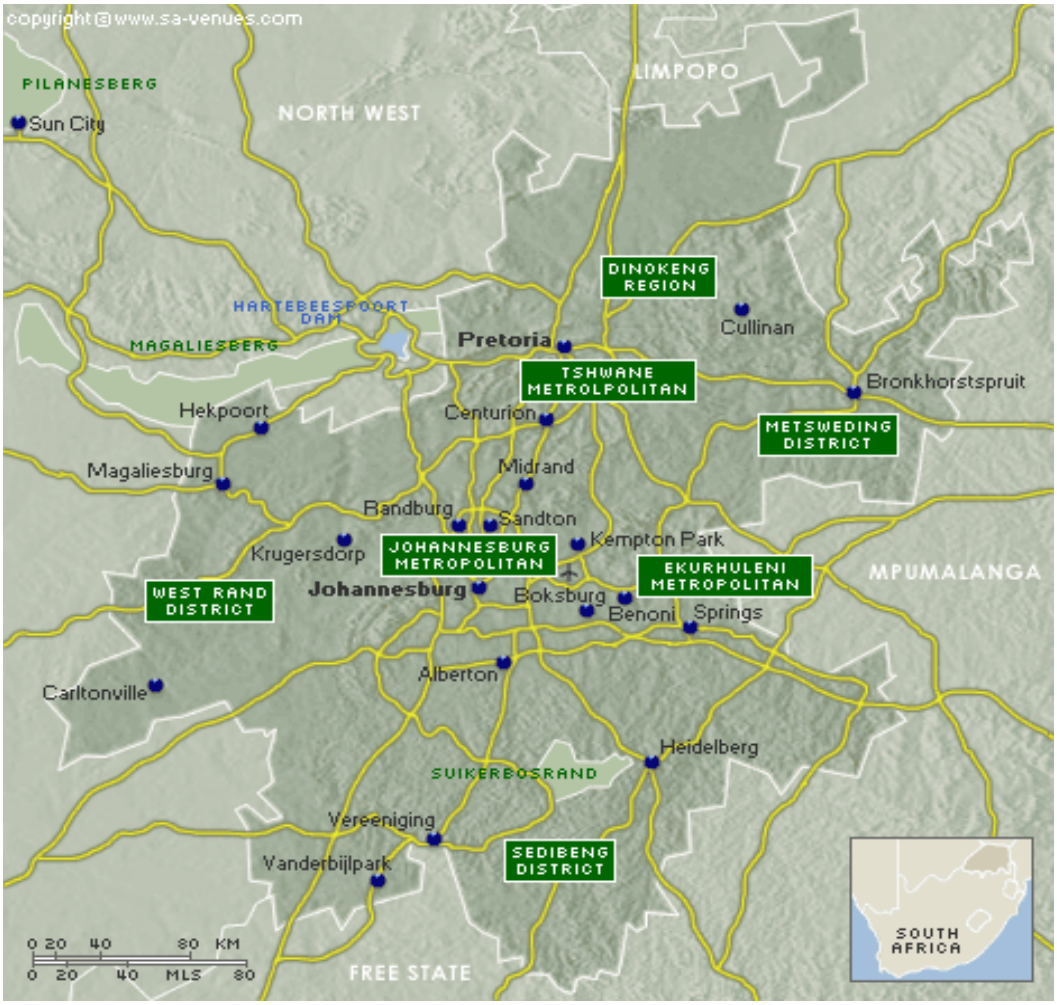
number rises to 12 if the Gauteng Provincial Legislature is included. The research is based on Gauteng Department of Finance (GDF) as a case study. GDF was established in 2010 as a merger between the former Gauteng Shared Services Centre (GSSC) and Gauteng Treasury (GT). The structure of GDF provides for two main divisions, Treasury and Shared Services, which represents the former two departments (GSSC and GT).

The total population of the province is estimated at 11 191 700 which accounts for 22,4% of the country's population (Stats SA, 2010). The majority of people in the province are females (5 597 000) as compared to males (5 594 700). The province is inhabited by people from diverse cultural backgrounds from all the provinces of the country as well as from other countries. The majority of the people live in the three metropolitan areas of the province, with City of Johannesburg housing approximately 37% of the total population of Gauteng (Stats SA, 2001). In 2001 the majority of the population was black (74%) followed by white people (20%), coloured people (4%) and an Indian/Asian population of 3% (Stats SA, 2001).

The majority of people who were not working in 2001 were black at 32%, followed by coloureds at 23%. The Indian/Asian population and white population have lower proportions of unemployed at 8,1% and 4,6% respectively. The proportion of people employed in the formal sector in Gauteng was 87% in 2001 excluding the agricultural sector (Stats SA, 2001). The working age population of Gauteng was employed in wholesale and retail at 19%, social services at 19%, insurance at 16%, manufacturing at 15%, and private households at 11% (Stats SA, 2001). In Gauteng 21,4% of employees earned less than R800 a month as compared to the national percentage of 33% on the same salary scale. A total of 78,4% of employees in Gauteng earned more than R801 a month,

as compare to 67% nationally. About 2,9% of employees in Gauteng earned more than R25 000 a month, compare to 1,6% nationally (Stats SA, 2001).

Map 1.1: Map of Gauteng



Source: *www.google.co.za, 2011*

1.6. Small, Medium and Micro Enterprises

It is difficult to arrive at a standard definition of small business as they differ in many ways, i.e. some businesses may be small in terms of labour employed but may be large in terms of turnover or profits or any other criteria used to define small business.

According to Phago and Tsoabisi (2010: 155) SMME establishments in South Africa refer to small businesses or enterprises. This means any entity, whether or not they are incorporated or registered under any law, consisting mainly of persons operating small enterprise concerns in any economic sector, and established for the purpose of promoting the interests of small enterprises, are considered SMMEs (Phago and Tsoabisi, 2010: 155).

The SMME sector is divided into three main components, i.e. micro enterprises, small enterprises and medium sized enterprises. The micro sector includes small firms called survivalists or very small enterprises, which are operated by individuals who cannot find employment and the aim of entering into business is to generate at least some income, normally below the poverty line, for survival of their families. According to Tustin (2003: 37) survivalist enterprises do not have salaried employees as they comprise only the owner. The characteristics of the survivalist enterprise sector comprise a large mix of micro ventures engaged in hawking, street vending, subsistence farming and a wide range of other low productivity, legal and illegal activities in the informal sector (Tustin, 2003: 37).

Micro enterprises are exempt from paying Value Added Tax (VAT) if their annual earnings are less than R300 000. However, the threshold for compulsory VAT registration was increased from R300 000 to R1 million with effect from 1st March 2009 (South African Revenue Service, 2009). The annual turnover tax for micro enterprises with annual turnover of up to R1 million was adjusted with effect from March 2011 to be payable only if turnover exceeds R150 000 (Gordhan, 2011). Micro enterprises are also exempt from labour legislation requirements and apply their own accounting procedures (Institute of Risk Management of South Africa, 2006).

An adequate definition of SMMEs can only be developed by incorporating both the qualitative and quantitative attributes in the definition. Qualitative attributes include management structure and decision-making, control and independence of ownership, financial practice and trading style. Quantitative parameters include market share, turnover, number of people employed, size of capital invested, net worth, value added, and volume of production (Hodgetts and Kuratko, 1995). Similarly, the key issues that must be considered to determine if an enterprise is an SMME are: entrepreneurial orientation, management and ownership, labour status, informal or semi-formal economy, and the size of an entity (DTI, 2005-2007).

In terms of section 1 of the NSBA (1995, Act No. 102) small business refers to a separate and distinct business entity, including co-operative enterprises and non-governmental organisations, managed by one owner or more, including its branches or subsidiaries, if any, which is predominantly carried in any sector or subsector of the economy, which can be classified as micro, a very small, a small or a medium enterprise. According to Hugo, Badenhorst-Weiss, Biljon, and Van Rooyen (2006: 336) small businesses are usually owner managed and employ a total of between five and fifty full-time employees. The total annual turnover can range between R150 000 to R40 million (Hugo, *et al*., 2006: 336). The SMME Forum (2004, cited in Ramodumo, 2007) defined a SMME as “an enterprise which is majority owned and managed by previously disadvantaged individuals”. This definition was adopted for the purposes of this research.

The table below defines SMMEs in terms of the economic sector in which entities operate, size, employment, annual turnover, and gross asset value.

Table 1.1: Classification of the definition of SMMEs according to the NSBA, 1996

Sector or Subsector	Size or class	Total full time equivalent of paid employees (Less than)	Total annual turnover (Less than)	Total gross asset value excluding fixed property (Less than)
Agriculture	Medium	100	R 4.00 M	R 4.00 M
	Small	50	R 2.00 M	R 2.00 M
	Very small	10	R 0.40 M	R 0.40
	Micro	5	R 0.15 M	R 0.10
Mining and quarrying	Medium	200	R 30.00 M	R 18.00 M
	Small	50	R 7.50 M	R 4.50 M
	Very small	20	R 3.00 M	R 1.80 M
	Micro	5	R 0.15 M	R 0.10 M
Manufacturing	Medium	200	R 40.00 M	R 15.00 M
	Small	50	R 10.00 M	R 3.75
	Very small	20	R 4.00 M	R 1.50 M
	Micro	5	R 0.15 M	R 0.10 M
Electricity, gas and water	Medium	200	R 40.00 M	R 15.00 M
	Small	50	R 10.00 M	R 3.75 M
	Very small	20	R 4.00 M	R 1.50 M
	Micro	5	R 0.15 M	R 0.10 M
Construction	Medium	200	R 20.00 M	R 4.00 M
	Small	50	R 5.00 M	R 1.00 M
	Very small	20	R 2.00 M	R 0.40
	Micro	5	R 0.15 M	R 0.10
Retail and motor trade and repair services	Medium	100	R 30.00 M	R 5.00 M
	Small	50	R 15.00 M	R 2.50 M
	Very small	10	R 3.00 M	R 0.50 M
	Micro	5	R 0.15	R 0.10 M
Wholesale trade, commercial agents and Applied	Medium	100	R 50.00 M	R 8.00 M
	Small	50	R 25.00 M	R 4.00 M

Services	Very small	10	R 5.00 M	R 0.50 M
	Micro	5	R 0.15 M	R 0.10 M
Catering, accommodation and other trade	Medium	100	R 10.00 M	R 2.00 M
	Small	50	R 5.00 M	R 1.00 M
	Very small	10	R 1.00 M	R 0.20 M
	Micro	5	R 0.15 M	R 0.10 M
Transport, storage and communications	Medium	100	R 20.00 M	R 5.00 M
	Small	50	R 10.00 M	R 2.50 M
	Very small	10	R 2.00 M	R 0.50 M
	Micro	5	R 0.15 M	R 0.10 M
Finance and business services	Medium	100	R 20.00 M	R 4.00 M
	Small	50	R 10.00 M	R 2.00 M
	Very small	10	R 2.00 M	R 0.40 M
	Micro	5	R 0.15 M	R 0.10 M
Community, social and personal services	Medium	100	R 10.00 M	R 5.00 M
	Small	50	R 5.00 M	R 2.50 M
	Very small	10	R 1.00 M	R 0.50 M
	Micro	5	R 0.15 M	R 0.10 M

Source: *NSBA, 1996*

The above definition confirms the views of Gunaratne (2008: 8) that the criteria used to categorise SMMEs are mostly arbitrary as small businesses differ substantially across sectors, and that there is no universally accepted definition of small business.

The DTI (2007) made another classification of enterprises that have a significant implication on the definition of SMMEs as prescribed by the NSBA. The codes classify enterprises according to two broad categories of Qualifying Small Enterprises (QSEs) and Exempted Small and Micro-Enterprises (ESMEs). The QSEs are companies with an annual total turnover of between R5 million and R35 million. The QSEs are required to

comply with at least four of the seven elements of the BEE scorecard. The ESMEs are companies with an annual total turnover of R5 million or less. The ESMEs are exempted from complying with the BBBEEA and its codes of good practice and they enjoy a deemed BEE recognition of a level four contributor. Unlike the NSBA, the BEE Codes use annual turnover of companies as the only valid criteria to classify enterprises as SMMEs.

As Gunaratne (2008: 6) observes, “organisations in different parts of the world have developed their own criteria to define small businesses to suit their own situations”, the DTI also introduced the QSEs and ESMEs scorecards to ease the implementation of BEE.

The NSBA, the BBBEEA, the Codes of Good Practice for BBBEE and the research (Gunaratne, 2008; Tustin, 2003) undertaken in the field of SMME development provide different approaches to the definition of small enterprises. Some support the use of both qualitative and quantitative approaches to arrive at a concise definition while others support a one-sided approach. When the rules of precedence are applied to determine the appropriate policy that must be used to define SMMEs, the provisions of the BBBEEA and its Codes of Good Practice will always prevail. However, it is questionable for the Codes of Good Practice for BBBEE to prevail over the NSBA as an act of parliament. The DTI, as the custodian of BBBEE policy, must review both the BBBEEA and the NSBA to derive a standard definition (DTI, 2007).

1.7. Profile of SMMEs

The small enterprise sector makes up about 95% of all enterprises in South Africa, which is a combination of formal and informal activities. The total number of firms registered for VAT and enterprises in the informal sector ranges between 1.8 million and 2.5 million. If rural subsistence

agricultural activities are considered, the size of this sector increases by a further 1.5 million to 2.5 million firms. If the GDP values are adjusted to include informal sector value-added, the SMME sector of South Africa contributes about 45% to 50% to the GDP (DTI, 2004b).

These small enterprises absorb between 50% and 60% of the formally employed labour force, and up to 75% if the informal activities and self-employment categories are included. The number of new private companies and close corporations registered every year has increased steadily over the past 12 years, reaching about 20 000 and 100 000 respectively, although up to 33% of the enterprises are not active. About 6,7% of formal sector employers and those self-employed in South Africa are whites, compared to 21,3% of Africans, 5,2% coloured, and 6,9% Asian. The ratios with regard to informal sector involvement are as follows: Africans 68,2%, coloureds 4%, Asians 3,2%, and whites 24, 4%. About 76,5% of informal enterprises are run by women in the trade sector, compared to 58,4% in the case of men (DTI, 2004b).

Table 1.2: Percentage contribution of micro, very small, small, and medium / larger firms to GDP, 2006

Sectors	**Size of enterprise**	**% of total GDP in 2006**
Enterprise sectors	Micro (A)	8-10 %
	Very small (B)	9-11 %
	Small (C)	10-13 %
	Total (A, B and C)	27-34 %
	Medium or large	40-50 %
Non enterprise sectors		21-24 %

Source: *Small Enterprise Development Agency (SEDA), 2007*

According to Table 1.2, the micro enterprises contributed between 8% and 10% to GDP in 2006, the very small enterprises contributed 9-11% while the small enterprises contributed 10-13% in the same year. The total combined contribution of the three categories of enterprises (micro, very small and small) ranged between 27 and 34% in 2006. This is an indication that the SMME sector makes a significant contribution to the South African economy. The medium and large enterprises contributed 40-50% to GDP in 2006. The non enterprise sectors made a contribution of between 21 and 24%.

Table 1.3: Provincial distribution of SMMEs in the formal and informal sectors

Province	**Formal sector (March 2007)**	**Informal sector (Sept 2005)**
Eastern Cape	5, 3%	13, 4%
Free State	3, 2%	6, 6%
Gauteng	48, 3%	24, 6%
KwaZulu-Natal	13, 0%	18, 8%
Limpopo	2, 9%	14, 3%
Mpumalanga	4, 1%	7, 7%
North West	3, 2%	8, 0%
Northern Cape	1, 2%	0, 7%
Western Cape	19, 0%	5, 9%
Total	100% (512, 518)	100% (1, 747, 578)

Source: *Stats SA, March 2007 and Stats SA, 2005*

The figures for the formal sector in Table 1.3 above refer to the number of active SMMEs per province, whereas the figures for the informal sector refer to the number of owners of non-VAT registered businesses per province (DTI, 2008: 67). According to Table 1.3 above, Gauteng is leading with regard to the numbers of emerging enterprises as compared to other provinces. Nearly half (48,3%) of all formal SMMEs in the country were located in Gauteng in 2007, followed by Western Cape with 19% and 13% in KwaZulu-Natal. Gauteng also dominated with informal sector businesses which accounted for approximately 24,6% in 2005 followed by KwaZulu-Natal (18,8%) and Limpopo with 14,3%. Northern Cape is ranked last in both the formal and informal sector with 1,2% and 0,7% respectively.

The next section outlines the contribution of the services sector to the economy. This research is based on cleaning and security services, as sub-sectors of the services sector.

1.8. The services sector

According to Mohr and Fourie (2008: 27) the production of goods and services in a country occurs in three main sectors of the economy, namely: the primary, the secondary and the tertiary sectors. In the primary sector raw materials such as agriculture, fishing, forestry and mining and quarrying products are produced (Mohr and Fourie, 2008; Stats SA, 2010). The secondary sector is the manufacturing part of the economy in which raw materials and other inputs are used to produce other goods. This sector process raw materials from the primary sector into consumer goods (such as clothing, footwear and furniture) and capital goods (such as machinery, buildings, roads and railways). The tertiary sector consists of the services and trade sections of the economy. Activities in this sector include trade, transport, education, cleaning, security, printing, advertising,

health, financial, consulting and other professional services (Mohr and Fourie, 2008: 27).

According to Mohr and Fourie (2008: 27) most economic activities in a country are concentrated in the primary sector during the early stages of development and move to the secondary and through to the tertiary sectors as development proceeds. As the focus of this study is on cleaning and security services which form part of the tertiary sector of the South African economy, a closer look at the tertiary sector is important.

The tertiary sector is also called the services sector. Services range from the transportation of people and goods from one place to another, to withdrawal of cash from an Automatic Teller Machine (ATM), to cleaning a house, caring for children by a domestic worker, to developing and maintaining the information technology system of an enterprise (Tregenna, 2006: 4). Tertiary industries include wholesale, retail and motor trade, catering and accommodation, transport, storage and communication, finance, real estate and business services, community, social and personal services, general government services, and other producers (Stats SA, November, 2010).

Wolak, Kalafatis and Harris (1998) identified the following characteristics of services:

- Intangibility. A service cannot be touched. This is an important feature that distinguishes services from products.
- Inseparability. Inseparability reflects the simultaneous delivery and consumption of services. For example, the services of a security officer are consumed at the same time as the officer is guarding the building or standing in front of the gate controlling the movement of people that enter and exit the premises.

- Heterogeneity. The service differs from day to day depending on the performance of people delivering the service.
- Perishability. Services cannot be stored and carried forward to a future time period. Stock of services cannot be accumulated by either the consumer or the producer as they have to be consumed as they are produced (Tregenna, 2006: 6).
- Labour intensive. According to Tregenna (2006: 64): “The services sectors are generally more labour intensive, with relatively lower scope of capital intensifying factor substitution and technological progress”. Although the services sector does not contribute more to economic growth, it is important for employment creation because of its excessive use of labour (Tregenna, 2006: 64).

1.8.1. The structural shift to the service economy

According to Mohr and Fourie (2008: 76) the earliest inhabitants of Southern Africa were originally hunter-gatherers and later crop and stock farmers. The economy was mainly based in agriculture until the 1860s (Mabeta, 1991; Mohr and Fourie, 2008). With the discovery of mineral resources, especially diamonds in 1886, mining became an important economic activity in the country. The shift to manufacturing was facilitated by a deliberate policy of industrialisation that led to the establishment of, amongst others, the Board of Trade and Industries in 1921, the Electricity Supply Commission (now ESKOM) in 1922 and Iscor in 1928. The South African economy was dominated by the primary sector (agriculture and mining) when the Union of South Africa was formed in 1910 (Mohr and Fourie, 2008: 76).

According to Montresor and Marzetti (2007) the process of economic development was first explained during the 1940s and 1960s in accordance with the so-called Clark-Fisher hypotheses. In explaining the Clark-Fisher hypotheses, Montresor and Marzetti (2007) highlighted that

Clark viewed economic development from a sectoral perspective and coined the term deindustrialisation, which is defined as the decline of manufacturing shares of both employment and value added activity in economic systems (Boulhol and Fontagne, 2005: 2; Montresor and Marzetti, 2007: 3). Deindustrialisation is connected with tertiarisation which is the increase of the shares accounted by the tertiary sector (Montresor and Marzetti, 2007: 3).

However, Montresor and Marzetti (2007: 6) provide some evidence to invalidate Clark-Fisher's hypotheses. The evidence suggests a subsystems approach to economic development. The subsystems approach holds that the increase in the share of services is simply due to the decisions by firms in manufacturing to subcontract to firms that specialise in support services which do not indicate a sectoral shift in economic activity from manufacturing to services as advocated by the sectoral perspective. As Boulhol and Fontagne (2005: 4) explain, many service activities owe their very existence to the presence of the manufacturing industry. This simply represents the reorganisation of production activities in the manufacturing sector. This increase of the share of services also reflects the use of new technology in production with an increased integration of services to manufacturing to enhance productivity (Montresor and Marzetti, 2007: 6). As Tregenna (2010: 4) indicated, the increasing demand from manufacturing to services inputs and outsourcing of functions from manufacturing to services are among the reasons for the decline in manufacturing and the rise in services.

In spite of these dissenting views, the classification of industries has the tertiary sector as one of the three main sectors of the economy, which is reflected above the other sectors in most economies including South Africa. The services sector has grown as a share of employment as well as of GDP in South Africa, as in many other countries. The fact remains

that the aggregate output and employment in the manufacturing sector tend to decline with the development of countries while the services sector improves its contribution to the economy (Tregenna, 2010: 3).

1.8.2. Contribution of services to the economy

The information in Table 1.4 below illustrates the growth of output of the services sector relative to other sectors of the economy.

Table 1.4: South Africa's average annual percentage (%) growth in output per sector

Year	GDP	Agriculture	Industry	Manufacturing	Services
1990 – 2000	2.1	1.0	1.1	1.6	2.7
2000 – 2007	4.3	0.4	3.4	3.2	5.0

Source: *World Bank, 2009*

The services sector remained at the top from 1990 to 2007. The services realised an average annual growth of 2,7% between 1990 and 2000. The sector nearly doubled its growth in the period 2000 to 2007 with an average annual growth rate of five per cent. The services are followed by manufacturing with substantial average annual growth rates.

1.8.3. Structure of services output

The information in Table 1.5 below illustrates the percentage share of services in relation to the total GDP in the economy.

Table 1.5: Structure of services output

Year	GDP ($ Millions)	Agriculture (% of GDP)	Industry (% of GDP)	Manufacturing (% of GDP)	Services (% of GDP)
1995	151,113	4	35	21	61
2007	283, 007	3	31	18	66

Source: *World Bank, 2009*

The services recorded 61% of the total GDP in 1995. The share of the services sector of GDP further increased to 66% of the total GDP in 2007. All the other sectors realised a decline of the total share of GDP from 1995 to 2007. In addition, the real value added by the tertiary sector increased by 4.7% in 2008 and 1.1% in 2009, compared to a contraction of 7.2% and 6.0% for the secondary and primary sectors during 2009 respectively (South African Reserve Bank, March 2010). This shows that the services sector constitutes a significant part of the South African economy. More research and investment in the services sector will therefore continue to improve the impact of the services on the South African economy.

Table 1.6 below illustrates the percentage contribution of the tertiary sector to Gauteng GDP relative to the primary and secondary sectors.

Table 1.6: Percentage contribution by sector to Gauteng GDP

Industry	**2007**	**2008**	**2009**
Primary industries	**3,6**	**4,0**	**3,7**
Agriculture, forestry and fishing	0,5	0,5	0,5
Mining and quarrying	3,2	3,5	3,3
Secondary industries	**23,6**	**24,2**	**23,5**
Manufacturing	18,0	18,1	16,5
Electricity, gas and water	2,0	2,0	2,5
Construction	3,6	4,1	4,5
Tertiary industries	**61,6**	**61,8**	**63,6**
Wholesale, retail, motor trade and accommodation	12,0	12,3	12,6
Transport, storage and communication	7,6	7,8	7,8
Finance, real estate and business services	23,4	22,6	22,8
Personal services	3,9	3,8	4,0
General government services	14,8	15,2	16,3
All industries at basic prices	**88,9**	**90,0**	**90,8**
Taxes less subsidies on products	11,1	10,0	9,2
GDPR at market prices	**100,0**	**100,0**	**100,0**

Source: *Stats SA, Quarter Three, 2010*

The table above shows the leading contribution of the tertiary sector to Regional Gross Domestic Product of Gauteng at 61% in 2007 and 2008 and 63% in 2009. The second contributor to Gauteng GDP is the secondary sector with 24% in 2008, while the primary sector contributed 4% in 2008. Gauteng made an overall contribution to South Africa's GDP of 34% in 2007, 33,7% in 2008 and 33,9% in 2009 (Stats SA, Quarter Three, 2010). Since the cleaning and security services as categories or subsectors of the services sector are the main focus of the research, a detailed discussion of the two subsectors is important. The discussion follows in the section below.

1.8.4. The cleaning services sector

The researcher believes that cleaning services are very important to ensure that people live in clean conditions free of hazardous materials. These cleaning services are available in individual households, in the streets, in government institutions, in the private companies, and elsewhere where people live. The government and the private sector companies have moved to the outsourcing of the cleaning services as it is regarded as a non-core function in most sectors. Outsourcing refers to the contracting out to external agents of activities previously performed in-house (Tregenna, 2010: 2). Governments and the private sector have taken the decision to outsource cleaning services in order to focus on their core business activities. Outsourcing is also meant to contribute to cost-saving due to specialisation by the external company as well as economies of scale (Tregenna, 2010: 2).

As a result of outsourcing people have seen the opportunity to establish cleaning service companies to provide cleaning services to government and the private sector. In 1987 a group of cleaning contractors established the National Contract Cleaners Association (NCCA). The NCCA is a

national association dedicated to developing and setting appropriate standards for the contract cleaning industry. The members of NCCA range from small specialist organisations to large multi-service organisations employing some tens of thousands of cleaners in locations throughout South Africa (NCCA, 2009). The association has branches in Gauteng, KwaZulu-Natal, Eastern Cape and Western Cape, with about 376 member organisations (NCCA, 2009). The cleaning companies previously experienced challenges when negotiating price escalations for their tender arrangements (NCCA, 2010).

According to Tregenna (2010: 4) employment from private services in South Africa grew at an annualised rate of 1,64% per annum between 2001 and 2007. About 13,4% of the total increase in private services employment was in cleaning (an increase of about 66 000 jobs). Cleaning employment grew at 1,22% per annum between 2001 and 2007 including cleaners in private households. Cleaners account for 3,7% of all employed people in South Africa. About 83,4% of all the cleaners are female, 90,3% are African, 8,7% Coloured, 0,7% Indian, and only 0,3% are white (Tregenna, 2010).

The cleaning services sector has been selected for this study as it is one of the sectors that are easily accessible by HDIs. The focus on this sector provided a better understanding of the value of PP Policy to enterprises that are mainly owned by HDIs. The cleaning services sector is relevant for this research because the aim of the research was to focus on enterprises that are owned by HDIs in Gauteng.

1.8.5. The security services sector

Some of the reasons behind the growth of the security services sector are similar to those of the cleaning services sector. Similar to cleaning

services, security services are also typically associated with outsourcing in South Africa (Tregenna, 2010: 2). The growth of the sector is further driven by the people's need for personal security in addition to the security services provided by government. The private security companies perform many of the functions as public police and are increasingly being recruited to secure public buildings (Berg, 2007: 2). The security services include activities such as guarding, armed response, private investigation, risk/security consultancy, manufacture and distribution of security equipment (Berg, 2007: 2).

According to Berg (2007), "The private security industry in South Africa began developing during the 1980s due to a number of factors which include the rise of insecurities associated with apartheid activities, the apartheid state's willingness to accept the security industry as an adjunct to the state police, and the apartheid state's attempts to professionalise the industry through the enactment of various pieces of legislation".

The information in Table 1.7 below illustrates the number of security businesses registered nationally in different categories of security service providers.

Table 1.7: Number of businesses registered nationally in different categories of security service providers

No.	Category of security service	Number of businesses
1	Security Guard (Industrial and Commercial)	5 628
2	Security Guards – cash in transit	2 054
3	Bodyguards	2 517
4	Security consultant	2 303
5	Reaction services	2 593
6	Entertainment / Venue control	2 782
7	Manufacture Security Equipment	931
8	Private Investigator	1 657
9	Training	2 150
10	Security Equipment Installer	1 864
11	Locksmith / Key cutter	652
12	Security Control Room	2 277
13	Rendering of Security Services	2 281
14	Special Events	2 878
15	Car Watch	1 895
16	Other	414
17	Insurance	160
18	Security and Loss Control	137
19	Fire Prevention and Detection	83
20	Consulting Engineer	29
21	Dog Training	4

Source: *Private Security Industry Regulatory Authority (PSIRA), 2010*

The PSIRA has divided the security services into 21 categories. Most security companies are registered to provide security guards to industrial and commercial property. Only four companies in the country were registered in the dog training business in 2010. Table 1.8 below illustrates the number of active registered security service providers per province in South Africa.

Table 1.8: Provincial breakdown of active registered security service businesses in South Africa

Province	**Number of Active Registered Businesses**	
	2009	**2010**
Gauteng	2 374	2 722
Mpumalanga	450	513
Eastern Cape	473	596
Western Cape	741	813
Limpopo	819	981
North West	256	289
Free State	215	255
Northern Cape	82	91
KwaZulu-Natal	982	1199
Total	**6 392**	**7 459**

Source: *PSIRA, 2010*

There were 7 459 registered and active security service businesses in March 2010 compared to 6 392 businesses in March 2009, which indicates an increase of 16,69% (PSIRA, 2010). The table indicates that

the majority of security companies are located in Gauteng Province. This high concentration of security companies in Gauteng can be explained in terms of the fact that Gauteng is leading in industries and government institutions. The majority of these institutions contract out their security service requirements. Another explanation is based on the high level of crime in the province as compared to other provinces. Table 1.9 below illustrates the number of active security officers per province in South Africa.

Table 1.9: Provincial breakdown of active registered security officers in South Africa

Province	**Number of Active Registered Security Officers**	
	2009	**2010**
Gauteng	149 902	151 991
Mpumalanga	26 301	27 212
Eastern Cape	32 698	34 494
Western Cape	34 567	36 461
Limpopo	24 710	25 636
North West	25 120	25 684
Free State	15 814	16 189
Northern Cape	4 161	4 283
KwaZulu-Natal	62 042	65 323
Total	375 315	387 273

Source: *PSIRA, 2010*

There were 387 273 active registered security officers in 2010 as compared to 375 315 active registered security officers in March 2009 in the whole of South Africa, which represent an increase of 3,19 % (PSIRA, 2010). About 39% of the active registered security officers are employed in companies operating in Gauteng. This makes Gauteng the biggest contributor to employment in the security services sector, followed by KwaZulu-Natal with approximately 17%. The number of inactive registered security officers was 1 070 387 in 2010 as compared to 940 330 in March 2009, which represents an increase of 13,83% (PSIRA, 2010).

1.9. Problem statement

According to the researcher's experience the claims from the public, owners of emerging businesses, and public procurement practitioners in particular suggest that the policy of preferential procurement does not provide the necessary procurement opportunities to emerging enterprises owned by HDIs.

Various researchers such as Mahadea and Pillay (2008), Pretorius and Van Vuuren (2003), Rogerson (2008), and Rwigema and Karungu (1999) have indicated SMME support initiatives and challenges facing small enterprises in developing countries, which appear to be similar to those in developed countries. However, the studies did not differentiate between the specific needs and challenges of different sectors of the economy in the province of Gauteng, in particular the cleaning and security services sector where there is little knowledge about access to preferential procurement opportunities. Furthermore, there are no records kept to monitor how many SMMEs have managed to win government tenders (Berry, Von Blottnitz, Cassim, Kesper, Rajaratnam, and Van Seventer, 2002: 91).

Enterprises in cleaning and security services render essential support to government institutions to provide a clean and a safe environment for service delivery. The GPG engaged the services of cleaning and security service providers in the financial years 2007/2008, 2008/2009 and 2009/2010, spending a substantial amount of their budgets to pay those service providers to enable effective and efficient service delivery to the citizens of Gauteng (National Treasury, 2009). The focus of this study is therefore the cleaning and security service providers that were awarded opportunities by the GPG from 2007 to 2009.

1.10. Purpose statement

The purpose of this research is to investigate the opportunities of preferential procurement that were awarded to emerging enterprises in cleaning and security services sector in the province of Gauteng. The study also examines how procurement processes and procedures in government facilitate access to opportunities by enterprises owned by HDIs. This research on preferential procurement contributes to the development of knowledge in the field of Public Sector SCM and makes recommendations that can be considered for implementation by government institutions and academics in the field.

1.11. Research questions

The following research questions were used to guide the scope of the research:

- How do emerging HDI-owned enterprises in cleaning and security services benefit from opportunities of preferential procurement?
- How do public procurement processes and procedures affect the implementation of preferential procurement policy?

1.12. Significance of the research

The aim of the study was to propose better mechanisms or models to assist government institutions to contribute meaningfully to the advancement of HDI-owned enterprises through preferential procurement opportunities in government. The propositions are in the form of recommendations that will make the implementation of PP Policy more flexible for state institutions to reach their intended objectives of awarding procurement opportunities to HDI-owned enterprises. The study also makes a contribution to the development of knowledge in the field of Public Sector SCM for use by academics and practitioners responsible for the implementation of BBBEEA and the PPPFA. The development of knowledge is important in order to professionalise SCM in the public sector.

1.13. Limitations of the study

The study focused on emerging HDI-owned enterprises in the cleaning and security services sector only, thereby limiting the understanding of broad challenges and successes in the entire SMME sector. The sectors that were studied are relatively small in comparison with other sectors of the economy operating in Gauteng. The scope of the study was limited to Gauteng Province only. As a result, this study needs to be duplicated in other provinces to provide a comparative understanding of the findings of the study.

The research was also limited by the unavailability of accurate and reliable information as there is limited literature in the field of preferential procurement. It was also difficult to access the records that confirm the profiles of the companies that were awarded contracts by the GSSC and GT. The information was required to establish the size and equity ownership of the companies concerned. The limitation was mitigated by

comparing information from the NT and GSSC. The official responsible for the administration of the database of service providers was also consulted to verify the profiles of the companies on the database. The researcher further experienced lack of co-operation from research respondents. Due to the unavailability of research participants, the researcher managed to interview some of the research participants after the second and third attempts to secure appointments with them.

The timing of the study coincided with the merger of the GSSC and GT. Most of the research participants were averse to availing themselves as they were not certain about their future within their respective departments and often associated any activity with the merger. As a result, the process of interviewing took longer than expected.

1.14. Structure of the research report

The research report is presented in the following format:

Chapter one: Introduction and background

Chapter one provides an overview, introduction and background to the research paper. The background outlined the PP Policy environment in South Africa, the research problem, the purpose statement, the profile of the province of Gauteng, the profile of SMMEs, and the contribution of the services sector to Gauteng economy in terms of the key economic indicators of employment and GDP. The researcher also attempted to conceptualise the elusive phenomena of emerging enterprises and the beneficiaries of empowerment in South Africa.

Chapter two: Literature review

The focus of chapter two is on the review of related literature and the conceptual framework of the study. The chapter presents the different views of the researchers in the field of SMME development and preferential procurement. This review of literature assisted the researcher to identify possible duplications and gaps in research.

Chapter three: Research methodology

The research design and methodology that was used in the research is presented in chapter three. This chapter provides the philosophical position of the researcher in relation to the process of scientific enquiry and the approach followed in the research. The motivation for the choice of the case study will be presented which disproves the typical criticisms associated with case study designs in research. The importance of the use of multiple sources of data is also highlighted in this chapter.

Chapter four: Presentation of findings

This chapter presents the data collected from documentary sources, individual interviews and focus groups. The documentary sources have been presented to highlight the achievement by GDF with regard to the targets set for PP Policy. The interview data provides some explanations for the current state of implementation of PP Policy.

Chapter five: Analysis of findings

This chapter provides a detailed interpretation and analysis of the findings presented in chapter four. The chapter also established the key thematic

issues in the research which include transformation of sectors, SMME support environment, measures for the implementation of preferential procurement, challenges of implementation, challenges facing emerging enterprises, and the preferential procurement cycle.

Chapter six: Conclusion and recommendations

The chapter starts with a brief synopsis of the previous chapters in order to remind the reader of the research report about the prominent lessons of the research. The conclusion and recommendations are presented and a summary of the whole research report is also outlined.

Appendices

The appendices containing important information for the research are attached for reference purposes. The appendices include participant information sheets, participant consent forms, tape recording consent forms, interview questions, the tables of the procurement expenditure of both GSSC and GT for the previous three financial years (2007/2008, 2008/2009, 2009/2010), and ethics committee clearance certificate.

1.15. Summary

The chapter provided the background to the research by discussing key issues that directly or indirectly have an impact on the nature of government procurement systems today. These issues include the legacy of apartheid and the procurement policy environment. The legacy of apartheid and its injustices that are still felt today by people who were previously disadvantaged were highlighted. The injustices of the apartheid system are evidenced by the adverse socio-economic conditions that the majority of people in South Africa live in today even after seventeen years

of freedom in a democratic South Africa. These injustices have contributed to inequality in the ownership of resources in the country.

The procurement reform process was also outlined as a way of addressing the disparities created by the apartheid system. The reform process indicates key policy shifts that were experienced since the democratic government came to power in 1994. The procurement reform processes established the HDIs as the first and foremost beneficiaries of empowerment.

The profile of the province of Gauteng was outlined to indicate that while it is the smallest province it makes the biggest contribution to the economy in terms of employment and GDP. It was found that Gauteng contributes about 35% to the GDP, the highest contributor of all the provinces of South Africa. For this reason, the province is regarded as the economic heartland of the country.

A brief profiling of SMMEs indicated that the majority of these businesses are found in Gauteng and that the micro, very small and small enterprises contribute approximately 30% to GDP. The security and cleaning services were discussed in terms of size and contribution to employment opportunities and as the sub-sectors of the services or the tertiary sector. Although the services sector is the largest contributor to GDP in South Africa, there is still limited knowledge about the sector. The researcher established that information about the composition and structure of the primary and the secondary sectors is more readily available than information about the tertiary sector.

The problem statement, purpose statement and research questions were also presented to guide the scope of the research. This presentation

indicated that research is required to establish the effectiveness of the PP Policy in GDF as a case study. To this end, research on PP Policy was conducted to determine the extent to which emerging enterprises owned by HDIs benefit from the implementation of the PP Policy. The presentation in chapters four, five and six provide the details of the outcome of the research. These chapters also highlight the impact of the procurement processes on the implementation of the policy.

CHAPTER TWO

LITERATURE REVIEW

2.1. Introduction

The literature has shown that some countries around the world have confidence in the use of public procurement to achieve the secondary objectives of procurement. These relate to the use of procurement to achieve the socio-economic policies of the country. Socio-economic policies include those policies aimed at the provision of various government services that are required to improve the quality of life of people, such as the provision of housing, health care facilities, water and sanitation, employment opportunities, business opportunities and other means of generating income for survival.

The developing countries have focused their policy agenda on improving the socio-economic conditions of people in order to reduce the gap between the rich and the poor. It is the government of the country that is in charge of the use of public money which is mainly spent through procurement, and for this reason public procurement has been identified as a policy tool to achieve the socio-economic objectives of the country.

The increasing need to use procurement as a policy tool has resulted in the formation of concepts like affirmative action, targeted procurement and preferential procurement. These concepts can be used interchangeably depending on the country's procurement policy model. In other countries like the United States of America (USA) the concept of affirmative action is used to refer to all policies directed to empower people of colour (also referred to as African-Americans) or the people who were previously disadvantaged by unfair practices of that country in different spheres of life including employment and business opportunities (McCrudden, 2004).

South African policy-makers have chosen to use affirmative action to refer to measures to redress imbalances of the past in employment while the concept of preferential procurement is reserved for measures taken to empower the HDIs when competing for government and private sector contracts that are normally issued in the form of tenders. The contracts that emanate from the procurement processes are contracts for the provision of works, goods or services rather than contracts of employment.

In this chapter the researcher reviewed literature related to preferential procurement and small enterprise development. The review of literature enabled the researcher to compile a picture of the existing research done in the field in order to avoid duplication and also to demarcate the research problem in a clear manner. Literature review was done on a continuous basis throughout the research project in order to obtain the most current information. The related publications for the purposes of this study are grouped in accordance with the central arguments found in each of the research articles or publications.

This chapter further provides the conceptual framework of the key concepts that underlie the research, such as procurement, preferential procurement, affirmative action, and SCM. The chapter indicates that the concept of preferential procurement represents the form of procurement that takes past discriminatory practices into account when awarding government contracts. This concept is a subfield of the broader field of SCM. SCM is discussed within the public sector context in order to locate the research within the academic field of Public Management.

In academic research the classic way to identify a research problem is to consider the literature and identify any gaps (Welman, Kruger and Mitchell, 2005: 13). Dane (1990: 62) identified the following goals of a good literature review:

- To place the research project into scientific perspective by knowing what other researchers have done.
- To avoid duplication of efforts without any noticeable improvements.
- To avoid or solve the problems previously encountered by other researchers.

2.2. SMMEs and socio-economic objectives

Small and micro enterprises are generally established in response to rising levels of unemployment and poverty (Gauteng Treasury, 2007). SMMEs make important contributions to economic and social development (Rwigema and Karungu, 1999). According to the Organisation for Economic Co-operation and Development (OECD) Report (2004) and Rwigema and Karungu (1999), SMMEs constitute the vast majority of business establishments in all economies, are usually responsible for the majority of jobs created, and account for one-third to two-thirds of the turnover of the private sector.

According to Mmakola (2009: 66) South Africa set ambitious development objectives for the SMME sector after 1994. A decade later, it has become clear that the task of achieving those objectives is an overwhelming one. The development objectives include, amongst others, job creation and poverty alleviation (Mmakola, 2009: 66). According to Mkhize (2004, in Bolton, 2006: 201), SMMEs are more labour-intensive and as a result they create employment opportunities, increase average household income, reduce the poverty gap, and increase the tax base for the economy.

Similarly, Montsho (2000) revealed that SMMEs can create jobs and reduce economic disparities if they work together with both white- and black-owned enterprises. This view suggests that SMMEs cannot survive in isolation from the big companies and that their efforts need to be supplemented. The SMMEs are thus important for the South African economy to address its socio-economic objectives.

The views of Mmakola (2009: 67) questioned the validity of the assumption that SMMEs create jobs to a greater extent than large enterprises as there is no correlation between the size of the enterprise and job creation. The development objectives currently pursued by the SMME policies are based on somewhat problematic assumptions (Mmakola, 2009: 67). Mmakola (2009: 71) indicated that most of the small and medium enterprises in South Africa have actually been shedding jobs since the late 1990s. This research paper does not support the idea that SMMEs are responsible for the creation of employment opportunities and to alleviate poverty for the majority of South Africans, but also did not provide a clear conclusion about the impact of SMMEs in achieving the country's socio-economic objectives.

At local government level, SMME development and operation are regarded as important milestones for the implementation of Local Economic Development (LED) Strategy that is aimed at enhancing the living conditions of communities (Phago and Tsoabisi, 2010: 160). SMMEs and LED are intertwined. This is confirmed by Phago and Tsoabisi (2010: 163) by indicating that the eradication of poverty requires municipalities to consider SMMEs as vehicles that promote LED.

In contrast, other researchers (Watermeyer, Gounden, Letchmiah and Shezi, 1998: 15) found that the construction and procurement strategies adopted can be used to address social and economic concerns and,

depending on how they are structured, to facilitate the economic empowerment of marginalised sectors of society and to address unemployment in a focused manner. This research paper acknowledged that targeted procurement, if planned and managed effectively, can provide employment opportunities in the construction industry through the use of labour-intensive methods of production. This paper was compiled in 1998 when there was no standard policy of preferential procurement in the country. Scientific evaluation research remains necessary to assess the implementation of PP Policy in the country in order to arrive at a more informed conclusion.

2.3. Business success factors

According to the views of Urban, Van Vuuren and Barreira (2008), entrepreneurial success of high-growth entrepreneurs depends largely on business knowledge and work experience of the entrepreneur. An entrepreneur with sound business knowledge and industry experience creates employment opportunities, realises increased profits and turnover and contributes to economic growth and development. Urban, *et al.,* (2008) also acknowledged that other factors exist that are important for entrepreneurial success and opened a research opportunity for further investigation. This also paved the way to consider the policy environment in South Africa that supports enterprise development. This is also relevant in examining some aspects of the PPPFA and BBBEEA that aim to support enterprise development, taking into account the policies of the past that resulted in high disparities in the economy which the study under review did not consider.

2.4. SMME support

According to Phago and Tsoabisi (2010: 155) the presence of support institutions in the economic system and the vitality of their role suggest that SMMEs should reasonably operate in a favourable environment created by government. Furthermore, the OECD (2004) indicated that it should be recognised that the SMME sector will be healthy when there is a sympathetic and entrepreneurial stakeholder environment for SMMEs. If the culture of government, education, regulatory authorities, banks, the professions and the large corporate sector lacks empathy with SMMEs, then it will be difficult for the SMMEs to survive and grow. Stakeholder organisations facilitating and supporting entrepreneurship are key elements in the creation of a 'level playing field' and of a solid base for enterprise culture (OECD, 2004: 1-27).

In contrast, Pretorius and Van Vuuren (2003: 1) argued that support and incentive programmes do not contribute to entrepreneurial orientation and start-up culture in South Africa. The study focused on the importance of culture from the South African, African and Sub-Saharan African perspectives, and the support and incentive programmes of the DTI, Ntsika and Khula enterprises to create a conducive environment for entrepreneurial orientation and start-up in South Africa. The support programmes tend to assist existing medium and small-sized enterprises and have bypassed microenterprises and the informal economy as they mainly focus on finance, growth, expansion, and competitiveness (Pretorius and Van Vuuren, 2003: 1; Rogerson, 2004). Similarly, the impact of SMME support initiatives by both the public and private sector is minimal in ensuring the growth and development of SMMEs in South Africa (Chetty, 2009: 41).

Due to lack of co-ordination and duplication of SMME support services, Chetty (2009: 48) proposed the establishment of SMME Coalition Hubs in the form of a 'one-stop shop' that must be organised through a Public-Private Partnership (PPP). Although the research focused on eThekwini Municipal Area, this recommendation can be explored further at national level or elsewhere in South Africa as the challenges facing SMMEs appear to be similar to a certain extent. In exploring this recommendation, of particular interest will be the funding model for the PPP arrangement that will need private sector involvement that comes at a price, whereas SMMEs tend to prefer free services from government.

Pretorius and Van Vuuren (2003) further revealed that there seems to be no indication that these programmes contribute directly towards the development of entrepreneurial orientation, and as a result, there is a need for research into the same topic with specific reference to the role of education on entrepreneurship at primary and secondary school level to foster a positive impact on entrepreneurial orientation. Contrary to this suggestion, with no intention to defeat its purpose but to provide more informed knowledge about the subject, research on preferential procurement and enterprise development as one of the support programmes for entrepreneurial orientation is required, with an emphasis on existing SMMEs rather than start-ups as the focus of this study.

Furthermore, it was accepted gradually in the 1980s that government interventionist policies to help SMMEs through subsidies, protection from imports, cheap premises on industrial estates and special preference for SMMEs in government procurement were failing to produce a strong competitive SMME sector (Jacob, 1996). The study by Jacob (1996) is not supportive of policies and other initiatives including preferential procurement to support small businesses as they do not give businesses the capacity and skills to compete in a free market system. In the

researcher's view, this is also a reality in South Africa where many business entities registered with the DTI, mostly in the form of close corporations, often fail to deliver on the contracts awarded to them by state institutions through preferential procurement because of lack of expertise, experience, capacity and resources to execute large projects.

2.5. Constraints to business success

According to Mahadea and Pillay (2008: 445) management and finance are major internal issues constraining the development of businesses. The study further classified crime as one of the major constraints to business development. This conclusion is a result of the study conducted by Mahadea and Pillay (2008) on environmental conditions for SMME development in the KwaZulu-Natal province of South Africa. The study examined the impact of various internal and external environmental factors that may advance or prohibit the development of enterprises. These factors included socio-economic or political setting, access to finance, human resources and management skills, innovation and technology, taxation, regulations and laws, and crime (Mahadea and Pillay, 2008; Rogerson, 2008; Rwigema and Karungu, 1999). As Montsho (2000: 93) notes, finance is a major obstacle for the development of SMMEs.

The study by Mahadea and Pillay (2008) only focused on these factors as constraints, and did not recognise that some of them can bring positive rewards for enterprise development. As observed by Rogerson (2008: 77) the impact of the changing regulatory environment for SMMEs, sector-specific research on regulations and analysis of appropriate provincial and local government regulations for SMME development are further key research issues for future investigation. For this reason a scientific study on the impact of regulations and laws on business development will make a useful contribution to the development of knowledge. These regulations

and laws in this respect refer to policies aimed at the development of emerging enterprises.

Von Blottnitz (2009) identified some of the economic factors that have a negative effect on the growth of SMMEs, including increasing fuel prices, the general increase in food prices, rising interest rates, and fluctuating exchange rates. For example, the SMME sector cannot afford to operate with high transportation costs that result from higher fuel prices. Similarly, the rise in interest rates increases the cost of credit and reduces the chances of access to funding as well as increasing loan repayments. According to Von Blottnitz (2009) when interest rates goes up, the number of SMMEs goes down, and vice versa. As a result, it can be assumed that the SMME sector benefited from a decline in interest rates that started in 2010 and continued throughout 2011.

Furthermore, according to Petjie (1998) the factors that affect emerging enterprises in participating in government procurement opportunities range from unclear communication, ambiguous tender criteria, inadequate finance, and poor competition. In addition, the factors that inhibit the growth of SMMEs are inadequate business support services, inadequate access to finance, and absence of business premises (Phago and Tsoabisi, 2010: 156). As a result of all these challenges, the SMMEs in South Africa fail to maintain their existence in the mainstream economy in the long run (Phago and Tsoabisi, 2010: 155). Consequently, many firms have suffered financial ruin and bankruptcy because of delays in payments by government (Thwala and Mvubu, 2008: 97).

2.6. Reasons for starting a business

According to a survey conducted by Rwigema and Karungu (1999) the various reasons for starting a business are listed in Table 2.1 below.

Table 2.1: Reasons for starting a business

REASON	PERCENTAGE
Unemployment	59
Business opportunity	20
Desire to own business	10
Inheritance	4
Friend's advice	2
Other	1
Undeclared	4
Total	**100**

Source: *Rwigema and Karungu, 1999*

From the information in Table 2.1 above, it is clear that the majority of people who start businesses are motivated by a need to generate income for survival because they cannot find employment. Only 10 per cent of business owners are likely to survive as they have a particular interest in business. From a policy perspective, survivalist enterprises require all kinds of assistance if they are to flourish. Internationally, however, those SMMEs which started because of opportunity and a strong desire to own a business tend to have better prospects and require less external intervention (Rwigema and Karungu, 1999).

The section below outlines the conceptual framework of the research which is based on the concepts of affirmative action, procurement, preferential procurement, SCM, and small business. Although the research is based on preferential procurement and SMMEs, affirmative action is regarded as one of the key policies for the reconstruction of South Africa and therefore it will be considered in this section of the research. The examination of affirmative action is important to lay a rich foundation to the development of preferential procurement is South Africa, and will also put forward similar terminology used in other countries which seek to address the phenomenon of preferential procurement. The aim of the conceptual framework is to outline the meanings of key concepts in the research and their relationship.

2.7. Affirmative action

Taylor (1991) defined affirmative action as follows:

> Affirmative action refers to specific steps, beyond ending discrimination, that are taken to promote equal opportunity and to ensure that discrimination will not recur. Affirmative action involves some degree of preferential treatment for women and non-whites.

Preferential treatment allows an individual's status as a minority to be considered a positive factor among other factors when allocating opportunities and benefits (Starks, 1992: 942). Affirmative action policies are frequently used in awarding business contracts, in hiring and promotions, and in university admissions and granting of scholarships (Starks, 1992: 939).

The concept of affirmative action was first used in the USA in the Wagner Act of 1935 (Erasmus, *et al.,* 2005: 160). Similar to South Africa, the USA is characterised by decades of discrimination against the minority groups including African-Americans. According to Deane (2009: 77) segregationist thinking began with the implementation of slavery. Under slavery, blacks were generally confined to agricultural and domestic work which was mainly meant for household subsistence. Deane (2009: 81) and McCrudden (2004: 263) noted that the civil rights movement played a significant role in challenging segregation and discrimination against African-Americans. The Equal Employment Opportunity Commission was established in 1961 under the Kennedy administration to deal with discrimination in the workplace on the basis of colour, creed, race, or national origin (Deane, 2009: 83).

According to McCrudden (2004: 260) the term affirmative action gained popularity during the 1960s with the aim of achieving greater equality for the disadvantaged groups. To achieve this, procurement was used in the United States to advance policies that aim to promote social justice, such as “Buy American” under which the government of the USA was required to favour American made goods to create employment opportunities, promote fair labour conditions and promote the increased use of disabled war veterans in employment (McCrudden, 2009: 124).

The intended beneficiaries of affirmative action in the USA include historically disadvantaged ethnic minorities, women, people with disabilities, and veterans. Affirmative action nevertheless has a number of disadvantages and is not considered to be the overall or short term solution for a country that has experienced decades of discrimination. However, it is a start to ensure that all citizens are placed on an equal footing in the future (Deane, 2009: 91).

In response to the social injustices inherited from apartheid, the affirmative action policy was adopted in South Africa through the EEA. According to the White Paper on Affirmative Action in the Public Service (1998), the goal of affirmative action is to speed up the creation of a representative and equitable public service and to build an environment that supports and enables those who have been historically disadvantaged by unfair discrimination to fulfil their maximum potential.

In terms of the EEA, all designated employers must implement affirmative action measures to advance the interests of people previously disadvantaged by unfair discrimination. In terms of section 15 of the EEA, affirmative action measures aim to ensure that people from designated groups have equal employment opportunities and are equitably represented in all occupational categories and levels in the workforce. In the South African context, affirmative action measures are reserved to deal with discrimination and inequalities in the workplace, while affirmative action is much broader to include preferential procurement in the context of the USA.

2.8. Procurement

Pauw, Woods, Van der Linde, Fourie, and Visser (2002: 227) define procurement as the acquisition of goods and services other than the services of officials, for the people and their administration by means of commercial transactions. In addition procurement may be defined as the process which creates, manages and fulfils contracts relating to:

- The provision of supplies, services or engineering and construction works;
- The hiring of anything;
- Disposals; and

- The acquisition or granting of any rights and concessions (Construction Industry Development Board, 2010).

Public procurement refers to those government administrative activities that concern the purchasing of the goods and services that the government needs from the private sector. The items involved in public procurement range from basic stationery requirements and other consumables through to mainframe computer systems, cleaning services, airports, roads, power stations, weapons, and large public buildings (Pauw, *et al*., 2002: 227; Odhiambo and Kamau, 2003: 10).

According to Pouris, *et al.,* (2001, cited in Pauw, *et al.,* 2002: 228) the goals of public procurement are to obtain optimum supply of goods and services from the market in terms of quality, timeliness and cost, while at the same time minimising risks, accomplishing socio-economic objectives, promoting competition, and maintaining integrity. According to De La Harpe (2009) procurement has primary and secondary objectives. The primary objectives relate to the achievement of value for money for the procuring entity, fairness of the process on the part of the suppliers, and transparency and accountability to the public as the taxpayers who finance government procurement. The secondary objectives relate to procurement as an instrument to address socio-economic issues (De La Harpe, 2009). The procurement process that supports the secondary objectives is called preferential procurement. According to Watermeyer (2003: 2) PP Policy is a procurement policy that promotes objectives in addition to those associated with the immediate objectives of procurement itself.

According to Magoro (2010: 69) the primary objectives of the procurement policy, namely fairness, equity, transparency, competition and cost effectiveness, are undermined by the secondary objectives of considering categories of groups of people who were previously disadvantaged,

including people with disabilities, women and youth. In contrast, the procurement system in South Africa only allocates 10 or 20 points out of 100 points to the achievement of the secondary objectives of procurement. The possibility of undermining the primary objectives can happen only if the procurement system is not applied correctly.

According to Bolton (2006: 195) using procurement as a policy tool can also be referred to as “wealth redistribution”, i.e. the process that redirects economic resources to previously disadvantaged groups in society. This is true because preferential procurement provides employment and business opportunities for marginalised individuals and communities (Govender and Watermeyer, 2000; Evenett and Hoekman, 2004). Moreover, “preferential procurement is about fair distribution of work which means that all reasonable steps are taken to make sure that the procurement of goods and services is fairly distributed among the service providers and fair competition is encouraged” (Antonites and Truter, 2010: 450).

Evenett and Hoekman (2004: 4) opted to use a negative phrase of “procurement discrimination” instead of preferential procurement. According to Evenett and Hoekman (2004: 4) procurement discrimination revolves around non-economic objectives that include policies that reserve certain types of contracts to businesses owned by minorities, businesses located in certain geographic regions, and emerging enterprises. On the other hand, McCrudden (2009: 124) makes reference to equality-based procurement instead of equitable procurement. According to McCrudden (2009: 124) the roots of equality based procurement policies are found in the late nineteenth and early twentieth century in North America, Australasia and Europe. In an attempt to improve the position of minorities in the economy, these countries began to develop anti-discrimination and equality policies which relied mainly on the government procurement function for implementation. As a result, the main strategies that were

used took the form of contract compliance and set-asides (McCrudden, 2009: 124).

Section 217 of the Constitution of the Republic of South Africa (1996) read in conjunction with section 38 of the Public Finance Management Act (PFMA) and chapter 11 of the Municipal Finance Management Act (MFMA) requires all organs of state in the national, provincial and local spheres of government to procure goods and services in accordance with a system that is fair, transparent, equitable, competitive, and cost-effective. All public procurement activities that are inconsistent with these legislative provisions are unconstitutional and should be prohibited. These legislative provisions for a system of public procurement are referred to as the pillars or principles of procurement. It is important to look at these pillars in more detail.

2.8.1. Principles of procurement

Procurement, like any other profession, is guided by a set of principles that define the ethical considerations for the profession. De La Harpe (2009) observed the following public procurement principles in the two former colonies (Natal and Cape) and two republics (Orange Free State and Transvaal) at the beginning of the 20th century:

- A competitive procurement method, i.e. open tender procedure was followed.
- Tender procedures were established for different threshold values.
- A proper description of the intended procurement had to be given by means of timeous advertisements.
- A proper record of tender proceedings had to be kept.
- An evaluation with a recommendation had to be provided by the procuring entity to the final decision-maker.

- The contract that was the most advantageous under the circumstances had to be entered into.
- Anti-corruption legislation had been enacted (De La Harpe, 2009).

South Africa has established principles of procurement long ago as most of these principles are found in present day procurement system in the country. The two republics had procurement provisions under their constitutions which were aligned to the Roman Dutch Law while Natal and the Cape had to practice these principles under the Roman Dutch Law (De La Harpe, 2009).

According to National Treasury (2009) proper and successful government procurement rests on certain core principles of behaviour, the five pillars of procurement. The pillars are: value for money, fairness, transparency, equity, and competition. They are best described as pillars because if any one of them is broken the procurement system falls down (National Treasury, 2009). Furthermore, De La Harpe (2009) identified nine principles applicable to public procurement as follows: economy, competitiveness, effectiveness, transparency, the combating of abuse, the avoidance of risk, accountability, fairness and equitability, and integrity. In addition, the World Bank (2001) identified similar principal hallmarks of proficient public procurement as De La Harpe (2009) with the exception of efficiency and reliability. A brief explanation of some of these principles of procurement is important.

2.8.1.1. Cost effectiveness

The ultimate purpose of good procurement is to ensure the best possible value for money for the purchaser, taking into account the cost over the operating life of an item procured. When quality is taken into consideration value for money does not necessarily equate to the lowest price. (World

Bank, 2001: 10). The economic object of public procurement is to obtain the best product at the best price (De La Harpe, 2009: 371). This principle is often called value for money or economy. The best value for money means the best available outcome when all relevant costs and benefits over the procurement cycle are considered. Procurement organisations are required to avoid any unnecessary costs and delays for themselves or suppliers (National Treasury, 2009).

2.8.1.2. Competitiveness

The principle of competition requires that an opportunity is given to a sufficient number of suppliers in an open market to offer their goods and services to government institutions on a competitive basis (De La Harpe, 2009: 389). Competition requires that procurement opportunities and processes must be open to the public and accessible to all parties to encourage effective competition. Organs of state are required to encourage and facilitate fair competition for government contracts among all the prospective suppliers or contractors (National Treasury, 2009).

2.8.1.3. Efficiency and effectiveness

In relation to efficiency, the best public procurement is simple, swift, practicable with the available resources, and produces positive results without delays (World Bank, 2001: 10). De La Harpe (2009: 403) defines effectiveness as productiveness in relation to the costs of the procurement process. The principles of efficiency and effectiveness not only apply to public procurement, but are the main principles governing public administration.

2.8.1.4. Transparency

Good public procurement establishes and maintains rules and procedures that are easily accessible and unambiguous (World Bank, 2001: 10). De La Harpe (2009) defines transparency as the openness and free flow of information throughout all stages of the procurement process. All procurement officials should be accountable to the management of their organisation for their plans, actions and outcomes. All the activities in procurement administration and management should be open to public scrutiny to avoid corrupt practices (National Treasury, 2009). As noted by Raga and Albrecht (2008: 781) there is a need for ethical and transparent public procurement systems in all spheres of government in South Africa.

Although improving transparency has no clear-cut implications for market access, it can improve market access by reducing corruption in the procurement system and thereby improving economic welfare (Evenett and Hoekman, 2004). As a result, there is no doubt that ethical behaviour by public officials cannot be avoided if every process is open to public scrutiny. The main challenge is to attempt to achieve a true transparent procurement process in practice.

2.8.1.5. The combating of abuse

The principle of combating of abuse entails that conflicts of interests, fraud and corruption must be avoided (De La Harpe, 2009: 438). The combating of abuse can be regarded as a product of other principles, and more importantly transparency, integrity and accountability principles (De La Harpe, 2009: 439). The avoidance of risk is another principle related to the combating of abuse. The provision of comprehensive risk management in public procurement is essential to address all aspects of risk in the procurement process, as well as risks relating to the conduct of both state officials and the bidders (De La Harpe, 2009: 455). In the absence of

effective risk management systems, the procurement system is open to being abused.

2.8.1.6. Accountability

A good procurement system holds procurement practitioners and other role-players responsible for enforcing and obeying the rules. The procurement system enforces sanctions and disciplinary measures for contravention of the rules (World Bank, 2001: 10; De La Harpe, 2009: 457). According to Louw (2010: 81) an accountable public procurement system leads to more efficient delivery of goods and services.

2.8.1.7. Fairness

The current legislation in South Africa does not provide a definition of the term 'fairness' although it is the basic concept in public administration and the law which everyone in government affairs is expected to practice (Pauw and Wolvaardt, 2009: 71). In other words, the principle of fairness applies to all government actions including public procurement (Pauw and Wolvaardt, 2009: 71). Good procurement is impartial, consistent and therefore reliable. It offers all interested contractors, suppliers and consultants a level playing field and thereby directly expands the purchaser's options and opportunities (World Bank, 2001: 10). All parties must comply with ethical standards by dealing with each other on the basis of mutual trust and respect, and conducting their business in a fair and reasonable manner that promotes integrity (National Treasury, 2009).

Integrity is the end product of fairness in the procurement landscape. Integrity entails consistency and objectivity in the implementation of all applicable public procurement rules and regulations to ensure their ability to achieve their objectives (De La Harpe, 2009: 485).

2.8.1.8. Equity

Equity as a pillar of procurement lays the foundation for preferential procurement, which is the focus of the research. According to Pauw and Wolvaardt (2009: 74) equity is about the allocation of resources to certain groups that were disadvantaged by apartheid, for instance by means of government policies that underfunded black primary and secondary education. The word equity means the application and observance of government policies which are designed to advance persons or categories of persons disadvantaged by unfair discrimination. It is thus considered fair to give the disadvantaged groups an advantage during the tender process at this point in the democratisation of the country (Pauw and Wolvaardt, 2009: 74). Equity ensures that government is committed to economic growth by implementing measures to support industry generally, and especially to advance the development of emerging enterprises and HDIs (National Treasury, 2009).

In general the South African public procurement regime provides for all the above international principles of procurement (De La Harpe, 2009). The legislative framework in South Africa (Constitution of the Republic of South Africa, PFMA and MFMA) has condensed the above principles into only five principles, namely: fairness, equity, transparency, competitiveness, and cost effectiveness. These five principles appear to encompass the salient features of the other principles, which are integrity, accountability, the avoidance of risk, the combating of abuse, effectiveness, and efficiency.

2.8.2. Preferential procurement system

Preferential procurement is derived from the equity principle as prescribed by section 217 of the Constitution of the Republic of South Africa Act (1996). Similar to affirmative action, preferential procurement is the policy

of the South African government aimed at redressing the imbalances of the past through the awarding of government contracts. However, unlike affirmative action which focuses on the equitable representation of people from designated groups in all occupational categories of the workforce, preferential procurement seeks to advance HDIs in allocating contracts for the provision of goods, services and works for service delivery purposes. Louw (2010: 82) affirmed that preferential procurement creates employment and business opportunities for disadvantaged people and communities.

According to the DTI (2004a) preferential procurement is a measure designed to widen market access for entities, in order to integrate them into the mainstream of the economy. Preferential procurement encourages and facilitates the adoption of BBBEE by aligning business imperatives to BBBEE. Preferential procurement will create economic empowerment benefits indirectly but meaningfully as it multiplies the effects of private and public sector interventions to promote BBBEE (DTI, 2004a). According to the DTI (2007) the ownership and preferential procurement elements each carry the greatest weight (20 points) as compared to the other elements. This is an indication that preferential procurement is regarded as a key instrument to implement in order to accelerate the implementation of BBBEE in South Africa.

Preferential procurement uses the point system in the awarding of contracts. The PPPFA and its associated Regulations (2001) established the 80/20 and 90/10 scoring models that must be used to evaluate tender offers. The 80/20 model applies to contracts with an estimated value of R500 000 and below, and the 90/10 model applies to contracts estimated to exceed R500 000 (Bolton, 2006). The Preferential Procurement Regulations (2011) increased the 80/20 threshold to R1 million with effect from 7 December 2011. The 20 points and 10 points are awarded to

companies owned by HDIs when using the 80/20 and 90/10 models respectively. The PPPFA and its associated Regulations (2001) changed the use of price as the only decisive criterion for the award of contracts. However, the fact that the full 90 or 80 points out of a total of 100 points are still allocated to price indicates that the new procurement regime still recognises price as a very important criterion (Bolton, 2007: 49). The 20 and 10 points are therefore regarded as the preference points.

According to the Preferential Procurement Regulations (2001) and Bolton (2006) the preference points are also allocated to companies that contribute to the achievement of RDP goals. Companies can score a portion of the preference points by contributing to the achievement of a range of RDP goals including the promotion of SMMEs (Preferential Procurement Regulations, 2001; Bolton, 2006).

The Preferential Procurement Regulations (2001) further makes provision for organs of state to have discretion to award points to contractors for contributing to the achievement of RDP goals. However, organs of state are obliged to allocate a portion of the preference points, either 20 or 10, to at least three categories of the HDIs. These categories are people who did not have franchise prior to the 1993 Interim Constitution, women and people living with disabilities (Preferential Procurement Regulations, 2001; Bolton, 2006).

In terms of the PPPFA (2000) and the Preferential Procurement Regulations (2001) the 80 and 90 points are points for price. A bidder with the lowest price will automatically receive 80 or 90 points depending on the estimated value of the contract. The company that is awarded the contract should score the highest points, which is a combination of points for price (80 or 90) and preference points (20 or 10). A company which is not partly or wholly owned by HDIs does not qualify for preference points

and will therefore compete with only the points for price (80 or 90). The HDI-owned companies have an advantage over their white-owned counterparts because they receive an additional 20 or 10 points, which their white-owned counterparts will not receive. This point system of awarding contracts has been designed to ensure that public procurement opportunities do not exclude non-HDI-owned companies from competition. The system only gives preference to HDI-owned companies and companies that contribute to the achievement of RDP goals through the awarding of preference points (PPPFA, 2000; Preferential Procurement Regulations, 2001; Bolton, 2006).

A slightly different approach has been introduced by the Preferential Procurement Regulations (2011) where bidders are given preference points in terms of their BEE status levels of contributor. For example, a level 1 company in respect of BEE compliance will receive 20 points and 10 points depending on the model that is used. The bidders with low BEE status levels will receive preference points on a *pro rata* basis. The allocation of points is now based on the overall contribution to BEE irrespective of equity ownership by HDIs or black people (Preferential Procurement Regulations, 2011).

2.8.3. Methods used to implement preferential procurement

Watermeyer (2003) identified the following methods used in South Africa and countries around the world to implement preferential procurement:

2.8.3.1. Set-asides

According to Watermeyer (2003: 5) only the enterprises with specific characteristics required by the procuring entity are allowed to compete for contracts reserved for their exclusive execution. These enterprises that are

allowed to compete normally meet the PP Policy objectives. For example, a tender can be issued with a condition that only HDI-owned companies can apply or bid. However, “set asides” are not acceptable within the legislative framework of South Africa. This is confirmed by Bolton (2010: 16), that “the use of set aside practices or the exclusion of certain contractors from procurement procedures is unlikely to pass the constitutional muster.”

2.8.3.2. Qualification criteria

This method excludes enterprises that cannot meet a specified requirement relating to PP Policy objectives from participating in contracts other than those provided for in law (Watermeyer, 2003: 5).

2.8.3.3. Contractual conditions

This method makes policy objectives a contractual obligation. The contractor that is awarded the contract through a competitive bidding process is required to subcontract a percentage of the contract to SMMEs or form a joint venture with a company owned by HDIs (Watermeyer, 2003: 5).

2.8.3.4. Offering back

The procuring entity offers bidders that satisfy criteria relating to policy objectives the opportunity to execute the contract or part of the contract if that tenderer is prepared to match the price and quality of the best tender received. This arrangement is sought if the bidder that submitted the best offer in terms of price and quality is not owned by HDIs and does not satisfy the policy requirements in relation to the achievement of RDP goals (Watermeyer, 2003: 5).

2.8.3.5. Product or service specification

The procuring entity states requirements in product or service specifications, e.g. by specifying labour-based construction methods where procurement is used as a policy tool for employment creation (Watermeyer, 2003: 5). In South Africa all contracts under the Expanded Public Works Programmes have mandatory conditions for the maximum use of labour, unskilled labour in particular, to create job opportunities for the poor.

2.8.3.6. Preferences at the short-listing stage

This method limits the number of suppliers or service providers who are invited to tender on the basis of qualifications and give a weighting to policy objectives along with usual commercial criteria, such as price and quality, at the short-listing stage (Watermeyer, 2003: 5).

2.8.3.7. Tender evaluation criteria

The procuring entity gives a weighting to PP Policy objectives along with usual commercial criteria, such as price and quality, at the evaluation stage (Watermeyer, 2003: 5). This method is widely used in South Africa where the procuring entities are required to allocate preference points in advance which will be used to evaluate tender offers.

2.8.3.8. General assistance

The government in South Africa provides assistance for targeted groups to compete for business opportunities (Watermeyer, 2003: 5). The support is evident in the SMME support agencies established in South Africa. The

aim is to give SMMEs the skills required to perform on contracts allocated to them and compete with the well-established enterprises.

There are other methods that are used to implement preferential procurement which include the design of specifications, contract conditions and procurement processes to benefit particular enterprises. The procuring entity may design specifications and/or set contract terms to facilitate participation by targeted groups of suppliers (Watermeyer, 2003: 5). The manner in which the country implements its procurement policy will influence the achievement of its socio-economic objectives (Evenett and Hoekman, 2005: 4).

It is important to discuss the concept of SCM as the mother body of the concept of procurement. SCM is an umbrella term consisting of different elements, of which procurement is one. Considering the definition of SCM is helpful to pinpoint and clearly understand where procurement fits within the broader field of SCM.

2.9. Supply Chain Management

Many contemporary authors writing on the subject of SCM refer to this phenomenon as a “new” or relatively new concept in management theory. However, others affirm that the role of SCM has changed dramatically over the past three decades, so the phenomenon is not new. According to Pulkki (2001: 89) the term SCM started to appear commonly in literature during the early 1990s. In broad terms SCM is a set of inter- and intra-company processes that produces and delivers goods and services to customers (Hugo, Badenhorst-Weiss and Biljon, 2004: 3).

Hugo, Badenhorst-Weiss and Van Rooyen (2002: 29, cited in Hugo, *et al.,* 2004: 5) define SCM as follows:

> "… supply chain management is a management philosophy aimed at integrating a network (or a web) of upstream linkages (sources of supply), internal linkages inside the organisation and downstream linkages (distribution and ultimate customers) in performing specific processes and activities that will ultimately create and optimise value for the customer in the form of products and services which are specifically aimed at satisfying customer demands".

SCM is the integration of key business processes from initial raw material extraction to the final customer, including all intermediate processing, transportation, and storage activities and final sale to the customer. Similarly, SCM covers the flow of goods from the supplier though manufacturing and distribution chains to the end user (Christopher, 1992). The foundation of SCM can be found in the areas of purchasing, business management, operations, distribution and process integration (Wisner, Tan and Leong, 2009: 28). SCM is internationally understood as being the oversight of materials, information and finances as they move in a process from supplier to manufacturer, to wholesaler, to retailer, and to the consumer. SCM involves coordinating and integrating these flows both within and among companies (Construction Industry Development Board, 2010).

According to the Policy Strategy to Guide Uniformity in Procurement Reform Processes in Government (2003), SCM processes have six key elements, namely demand management, acquisition management or procurement administration, logistics management, disposal management, risk management, and regular assessment of supply chain performance. The research is based on the acquisition management element of SCM,

which is often called procurement administration. From this element, a form of procurement called preferential procurement was developed to redress the imbalances of the past and achieve the broader objectives of socio-economic transformation.

2.10. Summary

Through the review of the literature, it was found that SMME support initiatives in many developing countries are similar as SMMEs face similar challenges. The challenges range from lack of access to finance, lack of information on government and private sector opportunities, skills shortages, and the inability to keep abreast of latest technological advancements. Many developing countries have focused on addressing these challenges in order to develop emerging enterprises. South Africa is no exception with the adoption of policies and legislative frameworks for enterprise development. The policies include the BBBEEA and the PPPFA which are peculiar to the South African environment with its history of oppressive and discriminatory practices of the apartheid government.

The SMME support environment in South Africa therefore focuses on redressing the imbalances of the past and also on creating a conducive environment for small enterprises in general, unlike in other countries where the focus is only on addressing the challenges that are facing typical emerging businesses. The process of redressing these past imbalances cannot be achieved without opportunities that are directed to HDIs in the country, which the research investigated.

The above discussion highlighted the origin of affirmative action and its true meaning, drawing lessons from the USA, where it is believed the concept originated. Affirmative action and preferential procurement in South Africa are relatively new, in South Africa affirmative action policies

are only directed to employment contracts between the employer and employees in the workplace, while preferential procurement applies to contracts of work between the purchaser and independent contractors (suppliers or service providers). In the USA, affirmative action policies also include preferential procurement measures. In both countries the two policies aim to redress the discriminatory practices of the past.

The application of preferential procurement in South Africa indicates the preference given to HDIs through a point scoring system. The definition of SCM indicated that SCM is a general term and the mother-body to procurement and preferential procurement in particular. The above discussion indicates that SCM is the key concept underlying the study. This key concept of SCM is a management philosophy that forms an integral part of management, and Public Management in particular.

CHAPTER THREE

RESEARCH METHODOLOGY

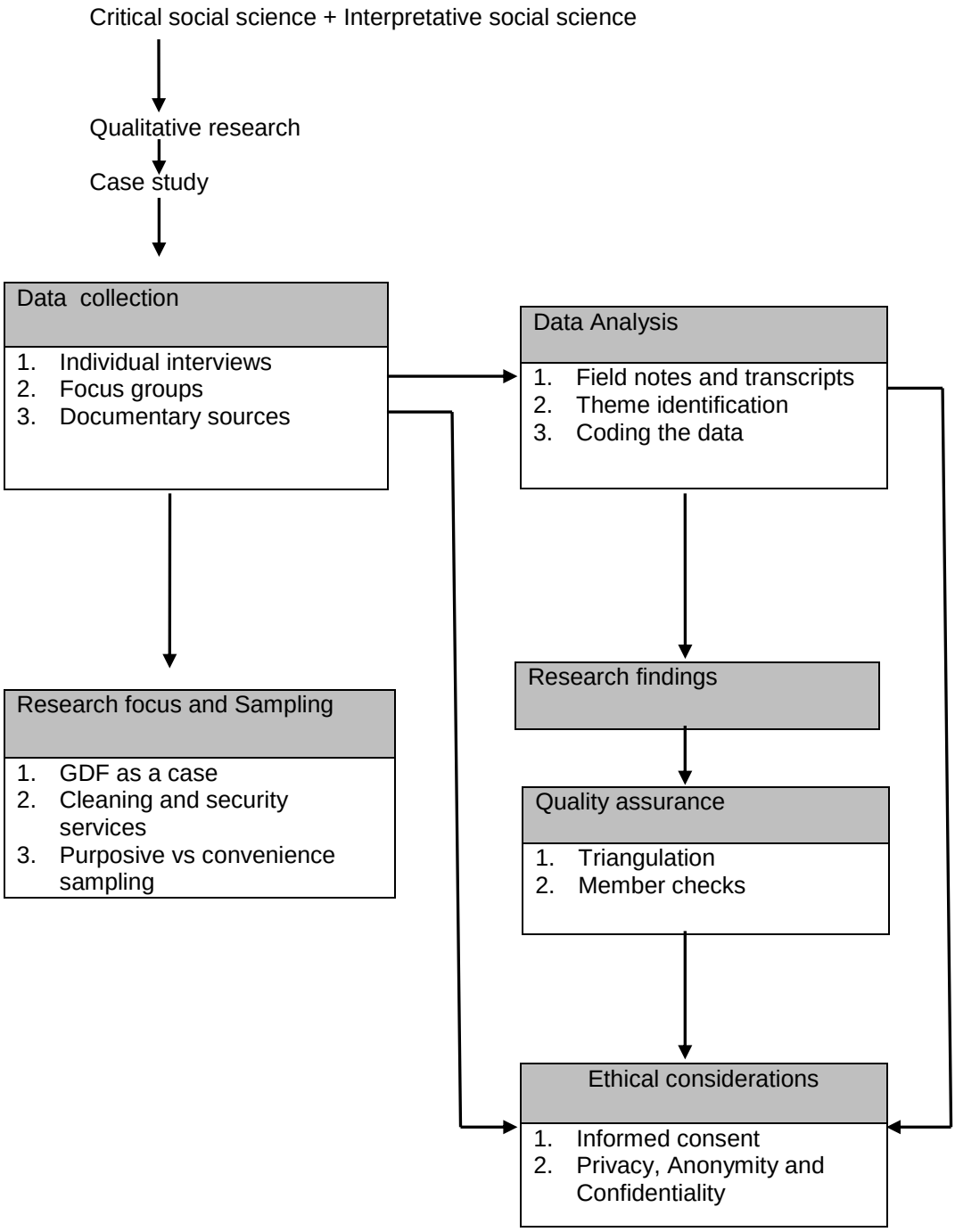
3.1. Introduction

A research design and methodology is an integral part of the research that tells the reader of the research report about all the steps that were followed to conduct the research. This chapter of the research project presents the methodology that was used to assess the opportunities of preferential procurement for emerging enterprises owned by HDIs in Gauteng Province in South Africa. The research followed the basic principles of interpretative and critical social science. The research is qualitative in nature. The different measures that were used to ensure validity and reliability of the research findings are also explained in detail.

The researcher wanted to gain in-depth understanding about the opportunities provided by preferential procurement in Gauteng, and as a result a case study of GSSC and GT has been selected. However, the research report is based on the case study of GDF as the two departments of GSSC and GT were merged in 2009. The merger resulted in one big department (GDF). The data was collected from individual interviews, two focus group interviews, and documentary sources. The first focus group consisted of five members and the second group consisted of four members. The methodology followed the requirements of a scientific inquiry within the qualitative paradigm. Reasonable care was taken by the researcher to uphold all the ethical principles relating to the generation of knowledge through the scientific process of inquiry. A letter of request to use company information was secured from GDF before the actual process of data collection was carried out.

The information in Figure 3.1 below is a compressed description of the research process and methods followed in this research project.

Figure 3.1: Summary of the research methodology



Source: *Researcher's own, 2011*

In short, the figure indicates the critical social science and the interpretative social science as the research approach where the qualitative research emerged. Thereafter, the case study of GDF was selected and the study focused on the cleaning and security services sector. The data was collected through individual interviews, focus group interviews and documentary sources. The research respondents were selected through purposive and convenience sampling. The process of data collection considered the ethical issues in research such as informed consent, privacy, anonymity, and confidentiality. The data collected was analysed by way of field notes, identification of themes and coding the data. The key findings of the research are presented after the analysis of data. The quality of the research findings is supported by triangulation of sources and member checks.

3.2. Research approach

The study was based on the principles of the critical social science. Critical social science define social science as a critical process of inquiry that goes beyond surface illusions to uncover the real structures in the material world in order to help people change conditions and build a better world for themselves. The purpose of critical social research is not simply to study the social world but to change it (Neuman, 2006: 95; Kalof, Dan and Dietz, 2008: 22). Critical social researchers undertake research in order to uncover new ways of improving conditions.

The aim of the research was to assess the progress made in implementing PP Policy in the country in order to recommend new initiatives that will change the way the PP Policy is currently implemented. The aim was also to introduce new measures to accelerate access to procurement opportunities by emerging enterprises owned by HDIs. The research findings are available from the university library to any member of the

public. The key SCM stakeholders in the province may use the report to enable change that may lead to the achievement of Gauteng development goals.

The study did not ignore some of the important principles embodied in interpretative social science in relation to the process of scientific inquiry. According to Kalof, *et al.,* (2008: 80):

> "An interpretative orientation to research aims to describe the lived experiences of individuals from their own viewpoints and to understand how people interpret their experiences".

The interpretative approach is idiographic and inductive. Idiographic means the approach provides a symbolic representation of something else with specific details (Neuman, 2006: 91). The inductive process was followed in data analysis which led to a process of generating a hypothesis after a description of the problem has been made. According to Kalof, *et al.,* (2008: 17), an inductive approach starts with empirical data and develops larger generalisations and theoretical insights from the data. This is supported by Rapley (2007) that qualitative research does not start with the formulation of hypotheses in the beginning in order to test them, but rather hypothesis is developed and refined in the process of research. The inductive reasoning was used because it is the best process of generalising thus far until a better approach is found (Dane, 1990: 23). Dane (1990: 23) thus defines inductive reasoning as a process of generalisation which involves applying specific information to a general situation.

The qualitative approach was followed in the research. Some elements of quantitative approach also appear in the research, especially concerning the analysis of procurement expenditure to small entrepreneurs. According

to Denzin and Lincoln (2005: 1) research, and qualitative research in particular, is a product of European imperialism and colonisation. The white community (Europeans) engaged in qualitative research to understand the dark-skinned indigenous people in order to develop strategies to colonise their nations.

According to Denzin and Lincoln (2005: 2) there are many methods and approaches that fall into the category of qualitative research, such as case study, politics and ethics, participatory, inquiry, interviewing, participant observation, and interpretative analysis. Qualitative research is a situated activity that locates the observer in the world (Denzin and Lincoln, 2005: 3). These methods and approaches of qualitative research describe routine and problematic moments and meanings in individuals' lives (Denzin and Lincoln, 2005: 3).

The word qualitative implies an emphasis on the qualities of entities and on processes and meanings that are not experimentally examined in terms of quantity, amount, intensity, or frequency. Qualitative researchers seek answers to questions that explain how social life experience is created and given meaning (Denzin and Lincoln, 2005: 10). Denzin and Lincoln (2005: 11) further observed the use of statistical measures by qualitative researchers to locate a group of subjects within a larger population although they seldom report their findings in terms of complex statistical measures. The researcher analysed the procurement expenditure information to measure the performance of the GDF to achieve the objectives of government procurement policy in the past three years, but did not translate these measures to the findings of the research in their numerical form.

In trying to differentiate between qualitative and quantitative research, Ospina (2004) indicated that the approach to qualitative inquiry is to study the phenomenon from the inside while quantitative research studies the phenomenon from the outside. The “inside” stance of the qualitative research approach shows that the qualitative researchers are actively involved in the process of research in order to understand the complexities surrounding the phenomenon. The “outside” stance of the quantitative approach aims to isolate the researcher from the process of inquiry in order to eliminate bias.

Some of the reasons for the use of qualitative research as cited by Ospina (2004) are as follows:

- To add a rich detail to the existing knowledge that was generated quantitatively.
- To advance a novel perspective of a phenomenon well studied quantitatively but not well understood because of the narrow perspectives used before.
- To understand complex phenomena that are difficult to capture quantitatively.

These reasons explain the importance of qualitative research to the extent that some phenomena are so complex that they cannot be studied quantitatively, but rather qualitatively. This makes qualitative inquiry an indispensable approach in the study of reality that involves the human element.

3.3. Research design

For the purpose of this research project, a case study of GSSC and GT was selected at the proposal stage. GSSC was a government department established by the political leadership of Gauteng Province to centralise and perform all non-core functions of other provincial departments. GT was the department that managed the financial affairs of the Province of Gauteng. In 2009 the new political leadership of the Province under Premier Nomvula Mokonyana decided to merge the two departments (GSSC and GT) into one Department of Finance (GDF). The actual process of the merger became effective in April 2010. The structures and functions of the former GSSC and GT remain unchanged under GDF. As a result of this merger, the researcher decided to use the new department (GDF) as the case study as it reflects the same structures of the two former departments (GSSC and GT). The same methodology that was approved during the proposal stage was therefore used to collect and analyse the data.

The term ‘case study’ pertains to the fact that a limited number of units of analysis (often only one) is studied intensively (Welman, *et al*., 2005: 193). Rapley (2007) indicated in support of the use of case studies that:

> “A lot of qualitative research is based on case studies or a series of case studies, and often the case (its history and complexity) is an important context for understanding what is studied”.

According to Tellis (1997), case studies are designed to bring out the details from the viewpoint of the participants by using multiple sources of data, and as a result cases studies must be selected to maximise what can be learned in the period of time available for the study. The empirical evaluation research was conducted and it is ethnographic in nature. Ethnographic case studies are usually qualitative in nature and aim to

provide an in-depth description of a small number of cases, usually less than fifty (Mouton, 2001: 149-158).

In contrast to the general use of the words “case study” to refer to the process of enquiry, Woodside (2010) opted for a more specific phrase “Case Study Research” (CSR). According to Woodside (2010: 1) CSR is an inquiry that focuses on describing, understanding, predicting, and/or controlling the individual (i.e. process, animal, person, household, organisation, group, industry, culture, or nationality).

The objective of a case study is to investigate the dynamics of some single bounded system, typical of a social nature, for example a group, organisation, a family, a community, a project or a practice (Welman, *et al*., 2005: 193). The bounded system is represented by all preferential procurement opportunities offered by GDF. This bounded system is a combination of an organisation (GDF) and practice (preferential procurement opportunities offered). In this research GDF as an organisation was not necessarily investigated, but its preferential procurement opportunities were studied. Preferential procurement opportunities in cleaning and security services therefore represent the unit of analysis. This has been noticed by Welman, *et al.,* (2005: 193) that a unit of analysis does not necessarily have to be human (individual, organisation or family).

The following three conditions for conducting case studies as identified by Welman, *et al*., (2005: 194) characterise this case study:

- The case should be defined or demarcated, namely that its boundaries should be determined. The case in this research is defined in terms of the geographical area (Gauteng Province), the

organisation (GDF), the practice (preferential procurement opportunities offered), and procurement processes and procedures.

- The aim should be to search inductively for recurring patterns and consistent regularities. The data was analysed to generate themes and concepts, and finally the theory was developed.
- Triangulation of at least three research approaches should be used to discern the identified patterns. Furthermore, the use of multiple research methods across multiple time periods will help to achieve deep understanding in CSR as well as enhancing the value of CSR reports (Woodside, 2010). The researcher used individual interviews, two focus group interviews and documentary sources to collate the data.

Jick (1979: 603) identified two types of triangulation, namely, the “between methods triangulation” which is used to test validity and the “within method triangulation” used to test reliability. The former refers to the use of both qualitative and quantitative research methods while the latter refers to the use of multiple techniques within a given method to collect and interpret data (Jick, 1979: 603). The researcher covered both types of triangulation by analysing the procurement outlay which manifests key features of the “quantitative research”, and also conducted individual as well as focus group interviews which are the two important techniques of qualitative research. According to Jick (1979: 605), the effectiveness of triangulation rests on the premise that the weaknesses in each single method will be compensated for by the counter-balancing strengths of another.

Case studies continue to be used extensively in social science research, including practice-oriented fields such as urban planning, public administration, public policy, management sciences, social work, and education (Yin, 1994). According to Yin (1994) researchers often use case studies to complete their thesis and dissertation. According to Yin (1994),

a case study is a research strategy, and the following conditions should guide the choice of appropriate research strategy:

- The type of research question posed. The familiar series of categorisation of types of questions is: “what”, “who”, “where”, “how”, and “why”. The “how” and “why” questions are more explanatory and require the use of case studies, histories and experiments as the preferred research strategies (Yin, 1994: 8). This research project is based on the “how” research questions which make the research more explanatory.
- The extent of control an investigator has over actual behavioural events. According to Yin (1994), the researcher cannot control or manipulate the behaviour of participants in case study research. The extensive interviews and the active involvement of the researcher in the interviewing process did not allow the researcher to isolate himself from the research process and therefore the behaviour of the research participants was not manipulated or controlled.
- The degree of focus on contemporary as opposed to historical events. As Yin (1994: 8) indicated, case studies are preferred to examine contemporary events, and the research was based on issues of accelerating BEE through preferential procurement that characterise and define the needs of the majority of people in present-day South Africa.

The relevant information required for the study was the contracts awarded to companies that are contracted to provide goods or render services to GPG. The GDF has been delegated almost all the procurement functions of GPG and therefore provided information on behalf of all the provincial departments. Among the functions delegated to GDF are the transversal contracts that are the responsibility of Provincial Treasuries in terms of the Public Finance Management Act of 1999. The aim of centralisation of

procurement at GDF is to improve service delivery in the province by allowing departments to focus on their core functions rather than procurement and other non core functions. The GDF therefore represents a good case study with rich information relevant for the research.

3.4. Research focus and sampling

The case study of GDF defines the population that was studied. The research is focused on cleaning and security service providers that are doing business with GPG. GPG is represented by twelve departments. According to Neuman (2006: 219), qualitative researchers focus less on a sample's representativeness than on how the sample or small collection of cases, units, or activities illuminates social life. The primary purpose of sampling is to collect specific cases, events, or actions that can clarify and deepen understanding. Purposive and convenience sampling was used to select people to be part of the research respondents. According to Neuman (2006: 222) purposive sampling is appropriate to select unique cases that are especially informative. A convenience sample is comprised of readily available cases (Kalof, *et al*., 2008: 45).

A sample of six respondents was selected and interviewed. The selection of these respondents was based on their relevance to the study rather than their representativeness of the population. The six respondents provided valuable information relevant to the study. The individual interviews were conducted with the following respondents:

- The first four respondents were members of senior management from GDF central procurement unit. These respondents are responsible for the implementation of procurement policies across all GPG departments. The respondents shared their knowledge and experience of preferential procurement in GPG with specific reference to the cleaning and security service providers.

- The fifth respondent is responsible for the implementation of SCM policy to provide for the needs of GDF as a department. This respondent provided insight of the challenges and overall perspective about the services sector as GDF is more service orientated.
- The sixth respondent was from the NT. This respondent is responsible for the development and monitoring of the implementation of procurement and SCM policies in South Africa as a whole. The respondent provided an overview of the implementation of PP Policy in the country.

The focus groups composed of employees on different levels who are responsible for the implementation of SCM policies in GPG as follows:

- Two specialists responsible for procurement market research.
- Two procurement specialists responsible for the supervision of staff in procurement.
- One senior manager responsible for the implementation of BBBEE policy in Gauteng.
- One manager responsible for procurement of goods and services at middle management level.
- The other two members were procurement officers responsible for the procurement of goods and services.
- The last official is responsible for SCM compliance and monitoring at middle management level.

These members of the focus groups shared their varied knowledge about the importance and the practical implementation of PP Policy as an integral part of SCM.

The selection of people as the research respondents in a case study method in qualitative research is difficult to equate to the concept of a

sample, as the research respondents in this study are not studied and are not part of the study, but they possess relevant information in relation to the research questions. According to Kvale (1996: 102) the number of research participants is not necessarily important in qualitative research as it depends on the nature and purpose of the study. If the purpose of the study is to obtain general knowledge, then it is important to focus on a few intensive case studies (Kvale, 1996: 102).

3.5. Data collection

The data relevant for the research project was collected from the following sources:

3.5.1. Primary data

The primary data was collected from both the individual interviews and the focus groups.

3.5.1.1. Individual interviews

The researcher collected primary data from interviews with relevant officials from GDF and National Treasury. A total of five officials from GDF were interviewed. These officials are responsible for procurement of goods and services on behalf of Gauteng Provincial Departments. One official from National Treasury's SCM unit was also interviewed to obtain information from the custodians of the PP Policy in the Republic. The data was collected from six officials responsible for SCM and procurement.

The researcher made a reasonable effort to ensure that the selection of respondents is based more on experience, expertise, the seniority and the relevance of the respondents concerned to the study in order to ensure

that more credible data is collected. According to Tellis (1997: 8) interviews are one of the most important sources of case study information. The researcher used open-ended questions to obtain the informant's opinion on the topic under consideration (Tellis, 1997: 8). The interviews with five respondents were audio-tape recorded with their permission and transcribed to enhance the reliability of the data. One respondent did not consent to be audio-tape recorded. As a result, the researcher took extensive notes in order to capture all the information that was provided.

The interviewer introduced the topic to each research respondent by outlining the purpose of the interview before the start of the interviewing session. The researcher also debriefed the respondents after each interview by highlighting key lessons learned from the interview process (Kvale, 1996: 128). Kvale (1996: 130) made the following observation with regard to research and interview questions:

> "One research question can be investigated through several interview questions, thus obtaining rich and varied information by approaching a topic from several angles. And one interview question might provide answers to several research questions".

A set of twelve interview questions and five interview questions were used to answer the first research question and the second research question respectively. Furthermore, the researcher asked clarity-seeking questions of key statements or words as introduced by the interviewees to avoid ambiguities and enable good analysis of the data (Kvale, 1996: 132). According to Rubin and Rubin (2005: 136), follow-up questions are crucial for obtaining depth and detail, and can help in obtaining more nuanced answers.

3.5.1.2. Focus groups

Focus groups are also described as group in-depth interviews. These groups consist of a small number of individuals or interviewees that are drawn together for the purpose of expressing their opinions on a specific set of open questions (Welman, *et al*., 2005: 201). Focus groups have been used successfully in many areas of research (Barry, Steyn and Brent, 2009: 231). Two focus group interviews were conducted. The first group consisted of five members while the second group consisted of four members who are experts or practitioners in SCM and procurement. People who participated in the individual interviews did not form part of these groups.

The aim of group interviews was to solicit deep and hidden information regarding the research questions (Barry, *et al.,* 2009). The interviewing processes of both group interview sessions were not audio-tape recorded as some of the members did not consent to be recorded. Extensive notes were therefore taken. As recommended by Barry, *et al.,* (2009: 239) the nominal group technique must be used during the focus group to give the participants the opportunity to generate ideas in isolation. Participants of the focus groups were given the opportunity to summarise their opinions about the topic at the end of each interview session. The questions of the focus group were developed and refined after the individual interviews in order to cover areas of the research that were not adequately addressed during the individual interviewing process. The focus group data supplemented the data from the individual interviews to allow ease of analysis of data.

3.5.2. Secondary data

The available information from GDF on the annual procurement expenditure for GSSC and GT was used to analyse the procurement

expenditure to HDIs. The information was extracted from the NT's website after it was reported by Gauteng Provincial Departments. Although the NT is not covered by the study, it has valuable information about all the reports submitted by provincial departments for reporting purposes. The information from NT should be similar to the information available at GDF. Therefore, the validity of the documents was assessed by comparing the information from NT with information at GDF to avoid incorrect data being included in the research (Tellis, 1997: 8).

3.6. Data analysis

According to Rubin and Rubin (2005: 201) data analysis is the process of moving from raw interviews to evidence-based interpretations that are the foundation for published reports. The principles of grounded theory were adopted to analyse the data in order to follow an inductive approach of reasoning. In inductive approach, researchers start with empirical data and develop larger generalisations and theoretical insights from the data (Kalof, *et al*., 2008: 17). The theory on preferential procurement opportunities and procurement procedures was developed during the data analysis process and compared with the literature.

Moreover, according to Neuman (2006: 157) grounded theory makes qualitative research flexible and allows for interaction between data and theory. Similarly, Charmaz (2005: 508) indicated that: "Grounded theory methods consist of simultaneous data collection and analysis, with each informing and focusing the other throughout the research process". Data analysis consists of examining, categorising, tabulating, or otherwise recombining the evidence to address the initial propositions of the study (Yin, 1994). In grounded theory concept recognition, coding and theory development are part of a continuous and seamless package (Rubin and Rubin, 2005: 222).

The following analytic techniques were used to analyse the data collected:

3.6.1. Preparing field notes and transcripts

Detailed notes acquired manually and through tape recordings were compiled during qualitative interviewing and converted into write-ups to enable ease of reading and editing (Welman, *et al.,* 2005: 211; Kalof, *et al.,* 2008: 203). Kvale (1996: 170) indicated that the process of transcribing of tape recordings may take the form of rephrasing and condensing of statements if the aim is to give some general impressions of the research participant's views and categorises the data.

3.6.2. Theme identification

Themes are described as umbrella constructs which are usually identified by the researcher before, after and during data collection. Themes such as BEE, procurement opportunities, SCM procedures or processes, and SCM were identified prior to the process of data collection. This final report is presented in terms of key themes that emerged during the data analysis process such as sectoral transformation, SMME support, the procurement cycle, emerging entrepreneurial capacity, procurement fraud and corruption, inconsistency of procurement legislation, and market access.

The researcher searched for word repetitions, keywords in context, and indigenous terms to establish the themes (Welman, *et al.,* 2005). A qualitative researcher analyses data by organising it into categories on the basis of themes, concepts or similar features (Neuman, 2006: 460). The similarities that arose from the data were grouped together to establish broad themes underlying the data. The differences between the categories were also established to further make meaningful interpretations of the data and establish other themes.

3.6.3. Coding the data

The next step in analysis is to place labels or codes next to each data unit where the matching concept, theme, event, or topical marker appears (Rubin and Rubin, 2005: 219). The huge amount of data was reduced to manageable and understandable texts (Welman, *et al.,* 2005: 213; Neuman, 2006: 460). The purpose of coding is to analyse and make sense of the data that have been collected. Codes are tags or labels or names that attach meaning to the raw data or notes collected during field work (Welman, *et al.,* 2005: 214).

The researcher used open coding, that is, coding as the work progresses, throughout the text (Rubin and Rubin, 2005: 222). The researcher further made remarks to the right of the text to establish other codes that were hidden in the raw data during the initial process of coding. In addition, the researcher envisaged the following codes: the evaluation of bids, screening of bids, capacity of HDI-owned enterprises, access to procurement information, political interference, and personal interests. Some of these codes do not appear in this final research report in the exact form as envisaged in the planning phase.

3.7. Validity and reliability

It is important to ensure that the results of the research are reliable. Reliability means dependability or consistency (Neuman, 2006: 196). Merriam (2002: 87) defines reliability as the extent to which research findings can be replicated. The researcher made a reasonable effort to allow the data to speak in order to improve the consistency and to make sense out of the data collected.

Validity refers to the truthfulness of the research findings. In qualitative research, the concepts of reliability and validity are not treated separately as the terminology that encompasses both, such as credibility, transferability, trustworthiness, dependability, rigour, and quality is often used (Golafshani, 2003: 600). Nevertheless, in order to be more specific, Golafshani (2003) redefined reliability as dependability, and validity as trustworthiness. Furthermore, qualitative researchers emphasise trustworthiness as a parallel idea to objective standards in quantitative research designs (Neuman, 2006).

The relevant data was collected to ensure that the study captures the reality that exists with regard to preferential procurement opportunities for emerging enterprises. The researcher furthermore took reasonable care to improve the validity and reliability of the research findings in order to align the study to the requirements of a scientific inquiry. Researchers in social sciences should demonstrate the scientific nature of social sciences through the practical application of various quality assurance measures. Qualitative researchers routinely employ member checking, triangulation, thick description, peer reviews, and external audits to establish and improve the validity of their research projects (Creswell and Miller, 2000; Merriam, 2002). In addition, qualitative researchers have checks on their evidence (Neuman, 2006: 153). This ensures that their research is dependable and credible. For the purpose of this research, triangulation and member checks were used to improve the credibility of the research findings.

According to Creswell and Miller (2000: 126) triangulation is a validity procedure where researchers search for convergence among multiple and different sources of information to form themes or categories in a study. The use of multiple methods reflects an attempt to secure an in-depth understanding of the phenomenon in question (Denzin and Lincoln, 2005:

5). Different research techniques, namely interviews, documentary data and group interviews were used to enhance the quality and reliability of the results.

In emphasising the importance of triangulation, Neuman (2006: 149) indicated that it is better to look at something from several angles than to look at it in only one way. By measuring something in more than one way, researchers are more likely to see all aspects of it. The evidence that was produced by the secondary data was verified by the evidence from individual and group interviews to enhance the quality of findings. Qualitative research can be conducted successfully where large data sets are not available, and the use of several methods, i.e. triangulation will improve the research validity (Barry, *et al*., 2009: 230).

Member checking consists of taking data and interpretations back to the participants in the study so that they can confirm the credibility of the information and narrative account (Creswell and Miller, 2000: 127). The data and its initial interpretations were sent to all research respondents to provide comments. All the comments that were received were included in the final narrative and also considered in making final interpretations. This process ensured that the information captured and the interpretations represent the viewpoints of the participants and therefore improved the credibility of the research findings.

The data collected was analysed in more detail to enable the readers of the research report to understand all the aspects that form part of the research.

3.8. Ethical considerations

The researcher was aware of the ethical dilemmas that exist in the research community and strived to conduct the research in the manner that is regarded as ethical. The researcher was committed to, *inter alia*, avoiding scientific misconduct throughout the research project. Scientific misconduct occurs when a researcher falsifies or distorts the data or the methods of data collection, or plagiarises the work of others. It also includes significant departures from the generally accepted practices of the scientific community for doing or reporting on research (Neuman, 2006: 130). This research was also approved by the Human Research Ethics Committee (Non Medical) of the University of the Witwatersrand and allocated protocol number H1 10202. A copy of the approval is attached as Appendix 14.

The researcher further undertook to abide by all ethical principles in conducting the research, which include the following aspects:

3.8.1. Informed consent

A fundamental ethical principle of social research is that the researcher must obtain permission from research participants to participate in the research to ensure voluntary participation (Neuman, 2006: 135; Welman, *et al.*, 2005: 201; Kalof, *et al.,* 2008: 47). According to Dane (1990: 39) the ethical balance of voluntary participation involves two key issues: coercion and awareness. With regard to coercion, the researcher did not in any way, directly or indirectly, use threats or force to get the consent of the participants. Participants were also aware that they are participating in the research project (Dane, 1990: 39). The researcher explained the purpose of the research to all participants and asked for their voluntary agreement to participate before the interview begins.

3.8.2. Privacy, anonymity and confidentiality

The researcher was not interested in the private life or personal information of the research respondents, and did not disclose such information as it became available during the research process. Researchers protect privacy by not disclosing a participant's identity after information has been gathered (Neuman, 2006: 139; Welman, *et al.,* 2005: 201). The researcher classified research participants as Participant A, B, C, D, E, and F to refer to the first, second, third, fourth, fifth, and the last participant respectively in order to maintain anonymity. Confidentiality means that information may have names attached to it, but the researcher holds it in confidence or keeps it secret from the public, not releasing information in a way that permits linking specific individuals to specific responses (Neuman, 2006: 139; Kalof, *et al.,* 2008: 49). According to Kvale (1996: 114) confidentiality in research implies that private data that identifies subjects will not be reported. The researcher presented the data in a way that ensures confidentiality.

3.9. Summary

The research methodology is an indispensable part of the research process as it expounds all the procedural issues that allowed the researcher to complete the research project. This chapter provided the step-by-step process that was followed in the research project. The adopted approach of the critical social science in conjunction with the principles of the interpretative social science highlighted a move away from the positivist approach to the study of human behaviour because of the subjective nature of the qualitative research process that is not found in quantitative research. The nature and value of the qualitative research in studying the social interactions between people indicated that qualitative research is to some extent a product of colonisation by the Europeans when attempting to understand colonised peoples.

It was discussed throughout the chapter that a case study can be used as an important research design in qualitative research as the aim is to understand how people interpret social interactions rather than the strict emphasis on the number of people or events that take part in a particular social setting. The review of the relevant literature discredits some of the criticisms levelled against the use of the case study as a method of scientific inquiry and therefore created a platform for social scientists to legitimise the scientific nature of social research through the use of the case study design. The aim of the case study is to gain in-depth understanding of a particular case within its parameters. In addition to documentary sources on the procurement expenditure information of the selected case (GDF), the semi structured in-depth individual and group interviews were also used as key instruments of data collection in qualitative research. The use of these three sources of data also proved to be useful to capture reality from different viewpoints with the aim of improving the quality of the results of the research.

The data reported from the three data sources were analysed using inductive reasoning in order to allow the data to speak to the existing theoretical propositions that are found in the literature. This process of analysis, as adopted from grounded theory, allowed the researcher to form key themes that later informed the findings of the research. The research provided a description of all the themes that emerged from the data analysis process.

The final part of this chapter confirms the ethical issues that were considered and promoted throughout the research. The ethical principles are crucial to protect the rights of the research participants and also to ensure that the research findings remain within the legal framework of the country and further conform to the standards of the research community at large.

CHAPTER FOUR

PRESENTATION OF FINDINGS

4.1. Introduction

Data collection is one of the important elements of compiling a research report as it collates all the evidence required to answer the questions that are the basis of the research project. This chapter presents the data collected from the three sources (documentary sources, individual interviews and focus groups) as indicated in the previous chapter.

The chapter begins with the presentation of secondary data that was collected from the electronic archives of the NT. These records were submitted to NT by the two former departments, GT and GSSC, in order to comply with the reporting requirements established by the NT. This set of data presents the procurement expenditure information of all transactions above the value of R100 000. For the purposes of presentation and analysis it is important to segment the data in terms of contracts and procurement expenditure to the following categories of beneficiaries:

a. Black or HDI-owned enterprises (enterprises that are more than 50% owned by black people including black women).
b. Women-owned enterprises (enterprises that are more than 50% owned by women including white women).
c. Non-HDI enterprises (enterprises that are 100% owned by whites excluding white women).

The second part of the chapter presents the primary data collected from the individual interviews and focus groups. This part highlights the viewpoints of procurement and SCM practitioners about preferential procurement opportunities, SMMEs and procurement procedures. The

presentation is divided into two parts. The first part presents the key themes that attempt to answer the first research question, that is: How do emerging HDI-owned enterprises in cleaning and security services benefit from opportunities of preferential procurement? The second part presents the key themes that attempt to answer the second research question, that is: How do public procurement processes and procedures affect the implementation of preferential procurement?

4.2. Procurement opportunities of GSSC

The tables below demonstrate the procurement opportunities of GSSC over the past three financial years (2007/2008; 2008/2009 and 2009/2010).

Table 4.1: Performance of the GSSC in terms of the percentage of contracts awarded to HDIs during the three financial years

Ownership	**Percentage of contracts awarded**		
	2007/2008	**2008/2009**	**2009/2010**
Black-owned enterprises	50	42	47
Women-owned enterprises	10	7	12
Non-HDI enterprises	21	46	30

Source: *https://contracts.treasury.gov.za*

The GSSC awarded half of its total contracts in 2007/2008 financial year to enterprises that are owned by black people. However, the performance declined by 8% in the following financial year while black people received an additional five per cent during the 2009/2010 financial year. The Non-HDI enterprises outweigh the black-owned enterprises with 46% of the total contracts in 2008/2009. Women are still lagging behind with only seven per cent of the total contracts in 2008/2009. This is despite the growing number of women-owned enterprises being registered.

Table 4.2: Performance of the GSSC in terms of the percentage of procurement expenditure to HDIs during the three financial years

Ownership	**Percentage of procurement expenditure**		
	2007/2008	**2008/2009**	**2009/2010**
Black-owned enterprises	56	53	49
Women-owned enterprises	6	13	12
Non-HDI enterprises	11	34	31

Source: *https://contracts.treasury.gov.za*

A total of 56% of the GSSC procurement expenditure was received by black-owned companies in 2007/2008 financial year, with a decline to 49% in 2009/2010. This is due to the significant increase in spending (more than 20%) that went to Non-HDI-owned enterprises from 2008 to 2010. Although still very low, the expenditure to women-owned enterprises doubled between 2008 and 2010.

Table 4.3: Contracts awarded by GSSC versus procurement expenditure for 2007/2008 financial year

Ownership	% contracts awarded	% procurement expenditure
Black-owned enterprises	50	56
Women-owned enterprises	10	6
Non-HDI enterprises	21	11

Source: *https://contracts.treasury.gov.za*

The black-owned enterprises were awarded large contracts as compared to enterprises that are owned by women. The women-owned enterprises only benefited from smaller contracts in government. The Non-HDI enterprises, just like women-owned enterprises, received smaller contracts.

Table 4.4: Contracts awarded by GSSC versus procurement expenditure for 2008/2009 financial year

Ownership	% contracts awarded	% procurement expenditure
Black-owned enterprises	42	53
Women-owned enterprises	7	13
Non-HDI enterprises	46	34

Source: *https://contracts.treasury.gov.za*

The pattern changed during 2008/2009 financial year when only 42% of the contracts above R100 000 were awarded to HDIs, accounting for 53% of the total procurement expenditure. This is an indication that although the number of contracts that went to HDIs declined by eight per cent from the 2007/2008 financial year, the HDIs continue to win large government contracts. The percentage of procurement spending to women-owned enterprises doubled the six per cent of the previous financial year. This can be attributed to the fact that women-owned enterprises improved in terms of their technical capacity by virtue of the contracts awarded to them during the 2007/2008 financial year and are now in a better position to successfully compete against the well established enterprises that are owned by black men and whites. The three per cent decline in procurement expenditure to HDIs might also have contributed to the improved achievement by women. The more than double improvement of the Non-HDI enterprises may possibly represent their strong capacity which enables them to succeed against the HDIs irrespective of the preference afforded to them.

Table 4.5: Contracts awarded by GSSC versus procurement expenditure for 2009/2010 financial year

Ownership	**% contracts awarded**	**% procurement expenditure**
Black-owned enterprises	47	49
Women-owned enterprises	12	12
Non-HDI enterprises	30	31

Source: *https://contracts.treasury.gov.za*

The opportunities afforded to HDIs continue to decline while an additional five per cent of women-owned enterprises benefited from contracts awarded by the GSSC. The opportunities for Non-HDI enterprises also declined. The other procurement opportunities might have been awarded to enterprises that have HDI equity ownership of less than fifty per cent.

Table 4.6: Average contracts awarded by GSSC versus average procurement expenditure over three years (2007/2008, 2008/2009 and 2009/2010)

Ownership	**Average % of contracts awarded**	**Average % of procurement expenditure**
Black-owned enterprises	46	53
Women-owned enterprises	10	10
Non-HDI enterprises	32	25

Source: *https://contracts.treasury.gov.za*

The average figures over three years indicate that HDIs received 46% of the total contracts awarded, which accounts for 53% of the total procurement expenditure. This is an indication that HDIs received large government contracts over three years. The performance of women-owned enterprises is at ten per cent over three years. The Non-HDIs received 32% of the total contracts which accounts for only 25% of the procurement expenditure. It can be assumed that the performance of the HDIs and women-owned enterprises is due to preferential points of the PPPFA. However, it is not known whether this is the expected performance of the department that is implementing PP Policy.

4.3 Procurement opportunities of GT

The tables below demonstrate the procurement opportunities of GT during the past three financial years.

Table 4.7: Performance of GT in terms of the percentage of contracts awarded to HDIs during the three financial years

Ownership	Percentage of contracts awarded		
	2007/2008	**2008/2009**	**2009/2010**
Black-owned enterprises	30	0	28
Women-owned enterprises	11	0	7
Non-HDI enterprises	30	99	59

Source: *https://contracts.treasury.gov.za*

The HDIs benefited from only 30% of the total number of contracts in 2007/2008, zero per cent in 2008/2009 and 28% in 2009/2010. The low performance might be attributed to inaccuracy of the report as GT was only established in 2006 and its capacity to comply with the reporting requirements was still very low. The other reason might be the nature of the services procured by GT which require expertise that the HDI enterprises seldom possess. The bulk of the contracts were awarded to Non-HDI enterprises during the three financial years, with women receiving only seven per cent in 2009/2010.

Table 4.8: The performance of GT in terms of the percentage of procurement expenditure to HDIs during the three financial years

Ownership	Percentage of procurement expenditure		
	2007/2008	**2008/2009**	**2009/2010**
Black-owned enterprises	50	0	39
Women-owned enterprises	9	0	3
Non-HDI enterprises	20	99	51

Source: *https://contracts.treasury.gov.za*

According to the information reported by GT, 50% of the procurement expenditure of the department went to black-owned enterprises in the 2007/2008 financial year while zero per cent achievement was recorded in the 2008/2009 financial year. There is the same trend of spending that went to women-owned enterprises that declined to zero per cent in 2008/2009 from nine per cent during the previous year. The Non-HDI enterprises received almost 100% of the total procurement spend in the 2008/2009 financial year and declined by nearly half in 2009/2010 when the HDIs started to recover.

Table 4.9: Contracts awarded by GT versus procurement expenditure for the 2007/2008 financial year

Ownership	**% contracts awarded**	**% procurement expenditure**
Black-owned enterprises	30	50
Women-owned enterprises	11	9
Non-HDI enterprises	30	20

Source: *https://contracts.treasury.gov.za*

GT awarded only 30% of its total number of contracts above R100 000 to black-owned enterprises which accounts for at least 50% of the total procurement expenditure. This shows that the HDIs were awarded contracts of significant amounts during the financial year under consideration. Only 11% of the total contracts went to women-owned enterprises while another 30% of contracts were awarded to Non-HDI enterprises. Women-owned enterprises and Non-HDI enterprises received smaller contracts in Rand values as compared to black-owned enterprises.

Table 4.10: Contracts awarded by GT versus procurement expenditure for 2008/2009 financial year

Ownership	% contracts awarded	% procurement expenditure
Black-owned enterprises	0	0
Women-owned enterprises	0	0
Non-HDI enterprises	99	99

Source: *https://contracts.treasury.gov.za*

The percentage of contracts going to women- and black-owned enterprises dropped to zero in the 2008/2009 financial year while about 100% of contracts went to Non-HDI enterprises. The reasons that might have contributed to this were outlined under Table 4.7 in the preceding section of this chapter.

Table 4.11: Contracts awarded by GT versus procurement expenditure for 2009/2010 financial year

Ownership	% contracts awarded	% procurement expenditure
Black-owned enterprises	28	39
Women-owned enterprises	7	3
Non-HDI enterprises	59	51

Source: *https://contracts.treasury.gov.za*

GT awarded 28% of the total contracts to black-owned enterprises during the 2009/2010 financial year which accounts for 39% of the total procurement expenditure. Women received seven per cent of the total contracts which accounts for only three per cent of the total procurement spend. This shows a significant improvement from the performance of the previous financial year (2008/2009) which was recorded at zero per cent. The bulk of the contracts went to Non-HDI enterprises with 59% of the total number of contracts accounting for 51% of the procurement expenditure.

Table 4.12: Average contracts awarded by GT versus average procurement expenditure over three years (2007/2008, 2008/2009 and 2009/2010)

Ownership	**Average % of contracts awarded**	**Average % of procurement expenditure**
Black-owned enterprises	19	30
Women-owned enterprises	6	4
Non-HDI enterprises	63	57

Source: *https://contracts.treasury.gov.za*

On average, the department (GT) awarded 19% of the total number of contracts to black-owned enterprises, 6% to women-owned enterprises and 63% to Non-HDI enterprises. The Non-HDI enterprises were the major beneficiaries of procurement opportunities in GT over the three-year period with 57% of the procurement expenditure as a direct benefit. The black-owned enterprises received, on average, 30% of the procurement

expenditure while women-owned enterprises received only four per cent of the procurement expenditure.

4.4. Interview responses for research question one

The research participants were presented with 12 interview questions in order to answer the first research question, which is: How do emerging HDI-owned enterprises in cleaning and security services benefit from opportunities of preferential procurement?

The responses were grouped in terms of the following themes:

4.4.1. The meaning of preferential procurement

According to Participant A (Interview, February 14, 2011) preferential procurement is a system of procurement in government and the private sector whereby the motive is to favour those who are worse off due to the previous government dispensation. Furthermore, preferential procurement is procurement that is aimed at the promotion of HDIs in the categories of black people, women and people living with disabilities (Participant B, Interview, February 17, 2011). According to Participant C (Interview, April 12, 2011) preferential procurement gives preference to identified groups (HDIs) to ensure that they have an advantage in order to participate in government procurement opportunities.

In addition, preferential procurement is a policy framework of government that allows the GDF to give preference to HDIs when awarding contracts. It is a constitutional mandate (Participant D, Interview, May 12, 2011). According to Participant E (Interview, May 17, 2011) preferential procurement is a system that is used in government to adjudicate

contracts and quotations using the 80/20 and 90/10 principles whereby 20 or 10 points are allocated to HDI-owned enterprises.

It is supported by most research participants (Participant A, Interview, February 14, 2011; Participant B, Interview, February 17, 2011; Participant C, Interview, April 12, 2011) that preferential procurement should at least have the following pertinent features:

- It must be justified on the basis of the history of discrimination and inequality.
- It must target specific categories of people who were previously disadvantaged.
- It must aim to rectify the injustices of the past.

Preferential procurement is a system of procurement that aims to give business opportunities to people who were previously disadvantaged by unfair discrimination that existed under the apartheid regime. According to Participant B (Interview, February 17, 2011) the categories of people who are the intended beneficiaries of preferential procurement are black people, women and people living with disabilities. Preferential procurement gives advantage to these groups of people, also referred to as HDIs, when competing for government contracts. As Participant A (Interview, February 14, 2011) stated, "… preferential procurement put them a step ahead by allocating points".

4.4.2. The evaluation and award of tenders

According to Participant A (Interview, February 14, 2011) the role of procurement practitioners is to monitor the appointment of bid committees to confirm that they are established in accordance with policy requirements.

Participant B (Interview, February 17, 2011) ensures that preferential points are claimed according to the 80/20 or 90/10 models and also ensures that points are claimed in the correct manner. Participant B (Interview, February 17, 2011) also looks at the black economic empowerment part of the procurement process that makes a contribution to the submission regarding the award of a particular contract.

Participant C (Interview, April 12, 2011) indicated that the procurement practitioners do not play a direct role in the evaluation and award of tenders. The evaluation and recommendation of tenders is done through the Bid Evaluation Committees (BEC). The role of Participant C (Interview, April 12, 2011) is to sign off the submission that goes to the Departmental Acquisition Council (DAC) that makes the final decision. Participant C (Interview, April 12, 2011) also ensures that all prescribed processes have been complied with and also applies the mind on the fairness of the process in terms of the recommendations of the BEC. The word fairness is used to describe all the other pillars of procurement, that is competition, cost effectiveness, transparency and equity. The role of Participant C (Interview, April 12, 2011) and Participant D (Interview, May 12, 2011) in the actual award is to attend the DAC of GDF as procurement experts to offer advice.

In summary, the SCM practitioners play an advisory role during the evaluation and award of tenders. They are responsible to ensure that the Department follows normal procurement processes as required by legislation (Participant A, Interview, February 14, 2011; Participant B, Interview, February 17, 2011; Participant C, Interview, April 12, 2011). In order to play this advisory role, they form part of the BEC and DAC. Procurement practitioners check the correctness of preference points as claimed by bidders in order to ensure the attainment of BEE objectives by

the Department (Participant B, Interview, February 17, 2011). This makes the role of SCM practitioners important in the implementation of PP Policy.

4.4.3. Targets to achieve PPPFA objectives

The Department of Economic Development (DED) has targets for the Province to achieve PPPFA objectives (Participant A, Interview, February 12, 2011).

The information in Table 4.13 below indicates the targets set by the DED to achieve preferential procurement objectives in Gauteng Province.

Table 4.13: Preferential procurement targets

BBBEE beneficiaries	**% of total procurement**
BBBEE enterprises with equitable gender participation	80
Small BBBEE enterprises with equitable gender participation	30
Micro enterprises with equitable gender participation	20
Black women-owned enterprises	30
South African manufactured products	70
Youth	10
People with disabilities	5

Source: *BBBEE Strategy, 2010*

According to the BBBEE Strategy (2010), the policy of the GPG does not allow for procurement from suppliers below a level 8 BBBEE rating. This is contrary to the spirit of section 217 of the Constitution and the PPPFA that allows everyone an opportunity to compete for government contracts.

In contrast, the Department (GDF) has targets to achieve the objectives of PPPFA as follows: the promotion of HDIs is 70%, the promotion of companies owned by women is 15%, and the promotion of companies owned by people with disabilities is 5% (Participant B, Interview, February 17, 2011). Participant D (Interview, May 12, 2011) indicated the following targets: 15% for women, 7% for youth, and 2% for people with disabilities.

According to Participant C (Interview, April 12, 2011) the GDF has targets that are exactly the same as the provincial targets. The GDF established targets for the first time in 2004 and revised them in 2009 with implementation commencing in 2010. The targets focus on HDIs, gender – which means female-owned companies, companies owned by people with disabilities, and SMMEs. GDF uses the terminology of the BEE codes to define SMMEs. The GDF is lacking on the achievement of targets for locally manufactured products. Furthermore, the Province is implementing a target that is outside the national policy, but is a provincial priority, it therefore set targets and measures the performance on youth-owned companies (Participant C, Interview, April 12, 2011). In support of this, Participant D (Interview, May 12, 2011) confirmed that the target for youth is two per cent.

All provincial departments are required to work towards achieving the targets set by the DED to achieve the objectives of BEE policy. The problem is that in implementing the PPPFA, the GDF measures its performance with regard to the achievement of the objectives of a different policy (BEE). The implementation of preferential procurement in the

Province is based on the PPPFA, while the basis to measure performance against targets is the BBBEEA.

4.4.4. Programmes to promote small businesses owned by HDIs

According to Participant B (Interview, February 17, 2011) there are essentially three main methods used to promote SMMEs:

a. “How to tender” sessions – workshops are conducted for SMMEs every Wednesday.
b. Targeted workshops – these are conducted once a year for each specific category of HDIs, i.e. black-owned companies, youth-owned companies, women-owned companies, and companies owned by people with disabilities. The workshops are held in June for youth as it is the youth month, in August for women as it is the women’s month and in December for people with disabilities.
c. Road-shows in conjunction with DED and Office of the Premier in the form of awareness campaigns (Participant B, Interview, February 12, 2011).

According to Participant C (Interview, April 12, 2011) one of the things that the government cannot do is to take decisions around promoting business opportunities based exclusively around the targets and preferences. There is a need to understand the environment. The analysis of the environment should be driven by spend analysis, and thereafter the spending is grouped into commodities, e.g. Information and Communications Technology (ICT), Fast Moving Consumer Goods (FMCG), assets, and medical. The spending is then categorised in terms of these different commodities. By analysing the different markets the Department has begun to attempt to address the issue of small enterprise empowerment (Participant C, Interview, April 12, 2011).

Moreover, according to Participant C (Interview, April 12, 2011) the prequalified database of targeted suppliers is one of the interventions used to support emerging enterprises. The database has suppliers in the categories of HDIs, women, people with disabilities, and the Department attempts to give opportunities to those companies particularly in the areas of Request for Quotations (RFQs). This requires an automated system in the Province that manages the process of selecting HDI companies for RFQs in order to push the support to these companies. In developing the system, targeted companies should be given preference.

Furthermore, the market analysis and industry analysis are done to identify where the procurement opportunities are concentrated for emerging contractors. In areas like equipments, particularly medical equipments, the Department continues to encounter major obstacles because the equipments are manufactured overseas. The Department further realised that in the longer term it does not work to buy from intermediaries for imported equipments (Participant C, Interview, April 12, 2011).

According to Participant D (Interview, May 12, 2011) the Department uses open orders to elevate the number of opportunities to target groups. Open orders are purchase orders generated to suppliers for future delivery. For example, open orders were used to empower 100% women-owned companies in catering. DAC in GDF took a decision to use open orders in order to achieve the target for women. This is done because business activity is still largely male-dominated and women do not have enough opportunities (Participant D, Interview, May 12, 2011).

4.4.5. Challenges of implementing PP Policy

According to Participant A (Interview, February 14, 2011) there is a conflict between the PPPFA and the regulations. The conflict was challenged legally in KwaZulu-Natal. The PPPFA indicates that price should be allocated a weighting of a full 90 or 80 points depending on the scoring model applicable, while the regulations provide for the split of the 90 or 80 points between price and functionality. This inconsistency presents a challenge during the evaluation of tenders as SCM practitioners normally use the regulations as the guide for implementation (Participant A, Interview, February 14, 2011).

In addition, 'fronting' whereby companies claim points that they are not entitled to claim is one of the problems (Participant A, Interview, February 14, 2011). Although the PPPFA is narrowly based and benefits few individuals, it is simple to implement (Participant B, Interview, February 17, 2011).

Participant C (Interview, April 12, 2011) put forward the challenges of implementing PPPFA as follows: fronting, capacity of small enterprises to compete against bigger companies in terms of price and quality of services, and lack of transformation. Lack of transformation remains a problem because it is not possible to develop HDIs in areas where they are historically not operating due to barriers to entry such as capital needs and sources of supply for ICT and medical supplies, amongst others. Some sectors remain largely untransformed as the government and the private sector are not doing enough to facilitate SMME development in those sectors, for example in the form of establishing manufacturing hubs. Similarly, Participant D (Interview, May 12, 2011) indicated that there is a dominance of large white-owned companies in professional services which continue to impede emerging HDI-owned companies from participation. The obligation for joint ventures can help to solve this problem (Participant

D, Interview, May 12, 2011). The other challenges relate to slow payment cycles and limited access to capital (Participant C, Interview, April 12, 2011).

Participant D (Interview, May 12, 2011) identified lack of support from top management as one of the critical obstacles to the implementation of preferential procurement. The top management refers to heads of business units who are given budgets to implement in their respective directorates of the organisation. Furthermore, the SCM unit does not have the power to approve procurement transactions as it does not have the necessary budget. The budget sits with heads of business units and they normally approve lowest priced quotes in order to save funds. The 25% provision for premium is not even utilised. Because heads of business units normally prefer lower prices, the balance between scarce resources and preferential procurement becomes a challenge as HDIs often offer expensive prices (Participant D, Interview, May 12, 2011). Furthermore, due to lack of skills, emerging HDI-owned companies fail to compete with white-owned companies on functionality. According to the researcher, functionality is the ability and capacity of companies to deliver goods or services. There is a performance gap between HDIs and white-owned companies (Participant D, Interview, May 12, 2011).

Participant E (Interview, May 17, 2011) indicated that in 2003 when PP Policy was introduced most government officials did not want to implement the policy. People did not understand the need for empowerment in the country. As a result, people did not understand a need to give HDIs preferential treatment in the tendering process because of their previously disadvantaged position (Participant E, Interview, May 17, 2011).

4.4.6. The costs of preferential procurement

The costs associated with the implementation of preferential procurement as identified by the research participants (Participant A, Interview, February 14, 2011; Participant B, Interview, February 17, 2011; Participant C, Interview, April 12, 2011) can be summarised into two broad categories, namely the premium and training and development costs. The Department pays the premium when a tender is awarded to a company that is not the lowest in price, but because of its preference points (Participant A, Interview, February 14, 2011 and Participant B, Interview, February 17, 2011). The versions of most research participants (Participant A, Interview, February 14, 2011; Participant B, Interview, February 17, 2011 and Participant C, Interview, April 12, 2011) point out that the premium is the difference between the successful bid and the lowest acceptable bid. According to Participant C (Interview, April 12, 2011) the Department always tries not to pay the higher premium than that regulated in legislation.

For example, if company A is white-owned and offers R100 while company B is owned by HDIs and offers R110, with the implementation of PP Policy the government can award the contract to company B because of its equity ownership by HDIs. The R10 difference is the premium paid to award contracts to HDIs. According to Participant C (Interview, April 12, 2011) preferential procurement policy was designed to commit government to pay premiums for the development of emerging enterprises owned by HDIs.

In addition, due to the lack of capacity in terms of skills and resources of emerging enterprises, the Department is required to provide the necessary support to enable these enterprises to perform on their obligations. The government incurs costs when organising trainings, workshops and coaching initiatives for emerging enterprises. The other costs are related

to the loss incurred when the emerging company fails to execute the contract according to the agreed terms and conditions. As a result, the government has to intervene to assist the company to perform, or to find another company.

In contrast with other research participants (Participant A, Interview, February 14, 2011; Participant B, Interview, February 17, 2011; Participant C, Interview, April 12, 2011), Participant D (Interview, May 12, 2011) indicated that there are no costs associated with the implementation of preferential procurement in GDF as the Department always uses the lowest acceptable tenders or quotes.

4.4.7. The challenges facing HDI-owned enterprises

According to Participant A (Interview, February 14, 2011) HDI-owned enterprises experience cash flow problems when departments fail to pay them within 30 days of receipt of invoice. Late payments may be due to red tape and poor management by officials in government (Participant A, Interview, February 14, 2011).

Participant B (Interview, February 17, 2011) identified the following challenges facing HDI-owned enterprises:

- The perception that emerging enterprises will offer inferior products poses a challenge to SMMEs.
- Financial problems, where SMMEs do not have adequate funding.
- Skills shortages within a specific field of expertise of the service provider. The SMMEs do not have all the required skills to deliver their products or services (Participant B, Interview, February 17, 2011).

Participant C (Interview, April 12, 2011) and Participant E (Interview, May 17, 2011) indicated the challenges as lack of capacity, slow payment cycles, limited access to capital, lack of support from the private sector, and lack of the source of supply as some commodities are dominated by a few large firms. In explaining lack of capacity and skills, Participant E (Interview, May 17, 2011) indicated that HDI-owned enterprises fail to deliver on their commitments to government or often deliver sub-standard quality of products or services. Participant C (Interview, April 12, 2011) expressed the dissatisfaction with the 'value add' requirement by saying: "I don't have to be a milk farmer to be able to sell milk, the government refuses to buy from retailers or small companies who buy from the manufacturers, and it is asking these companies to comply with the "value add" requirement". The Treasury Regulations (2005) neglected the fact that there are agents. It is unfair to put a condition for "value add" in order to give preference points to small companies that bought their supplies from the manufacturers. This undermines the chain of supply (Participant C, Interview, April 12, 2011).

According to Participant D (Interview, May 12, 2011) corruption is the serious problem facing small HDI enterprises. Participant D (Interview, May 12, 2011) started by expressing this problem as follows: "The scientific methods are driven by the application of the minds". People collude and give more points to their own companies so that they win the tender and yet the process on paper will still look like everything was done properly according to the criteria that were established prior to the advertisement of the tender. The obvious flagships for corruption exist in the Department. For example, it is possible for a tender for the rendering of security services to be awarded to a catering company (Participant D, Interview, May 12, 2011).

4.5. Interview responses for research question two

The research participants were subjected to five interview questions in order to answer the second research question, which is: How do public procurement processes and procedures affect the implementation of preferential procurement?

The responses were grouped into the following themes:

4.5.1. The application of PPPFA in procurement

The majority of the participants (Participant A, Interview, February 14, 2011; Participant B, Interview, February 17, 2011; Participant D, Interview, May 12, 2011; Participant E, Interview, May 17, 2011) indicated that the Department applies PP Policy through the use of the two scoring models, the 80/20 and the 90/10. The 80/20 is applied where the procurement is estimated not to exceed R500 000 (VAT inclusive) while the 90/10 is applied when the procurement is estimated to exceed R500 000 (VAT inclusive). This threshold of R500 000 has been increased to R1 million with effect from 7 December 2011 (Preferential Procurement Regulations, 2011).

Furthermore, according to the participants (Participant A, Interview, February 14, 2011; Participant B, Interview, February 17, 2011; Participant D, Interview, May 12, 2011; Participant E, Interview, May 17, 2011) the 20 or 10 points are allocated to HDI-owned companies and the 80 or 90 points are allocated for price. The PP Policy gives preference to HDI-owned companies by awarding these points (20 or 10). According to Participant C (Interview, April 12, 2011) in order to allow the sharing of opportunities emerging enterprises should be awarded contracts even if they do not achieve the highest combined price and preference points.

Furthermore, the companies that have been awarded contracts in the past should not be allowed to compete for future contracts (Participant C, Interview, April 12, 2011). However, this suggestion is against the PPPFA and the regulations.

4.5.2. The procurement cycle

The process of sourcing for goods and services is generic across Gauteng Province and the country at large. The process is outlined below.

4.5.2.1. Need identification stage

This is the first stage of the tender process where the procurement office of the Department receives a request from the end user together with the confirmation that the budget is available to cover the request. The Terms of Reference or the specifications are also compiled by the end user together with the BSC. The BSC also determines the evaluation criteria as well as the allocation of preference points. During this stage, members of the BEC are also appointed.

4.5.2.2. Tender advertisement stage

This is the second stage of the procurement process whereby tender documents are compiled by the procurement section and the tender is advertised in the government tender bulletin and other appropriate media. The tender is advertised if a need established in the initial phase is estimated to exceed R500 000 (VAT inclusive). In the case where the identified need is estimated not to exceed R500 000 (VAT inclusive) the RFQ process is followed. The RFQ process entails the invitation of service providers from the database of suppliers to submit quotations.

4.5.2.3. Tender closing stage

On the day and time of the closing of tenders as stipulated in the advertisements, the procurement office will collect all tenders received from the tender box in the presence of the bidders. The procurement office verifies the compliance of bidders with relevant administrative requirements, such as compliance with tax requirements and registration with PSIRA in the case of security tenders (Participant C, Interview, April 12, 2011). This process eliminates bidders that do not comply with administrative requirements.

4.5.2.4. Tender evaluation stage

The bids that satisfy the administrative requirements are delivered to the end user for evaluation. The BEC is convened to evaluate the bids. It is acknowledged by many participants (Participant B, Interview, February 17, 2011 and Participant C, Interview, April 12, 2011) that the evaluation focuses on three key elements which are functionality, price and preference. The evaluation on preference is the focus of this research as it applies the equity principle in practice whereby points are allocated to bidders that are owned by HDIs and for the promotion of RDP goals. The maximum preference points cannot exceed 10 or 20 points depending on the value of the contract and the applicable scoring model. The BEC compiles a report in the form of recommendations to the DAC for final approval.

4.5.2.5. Tender award stage

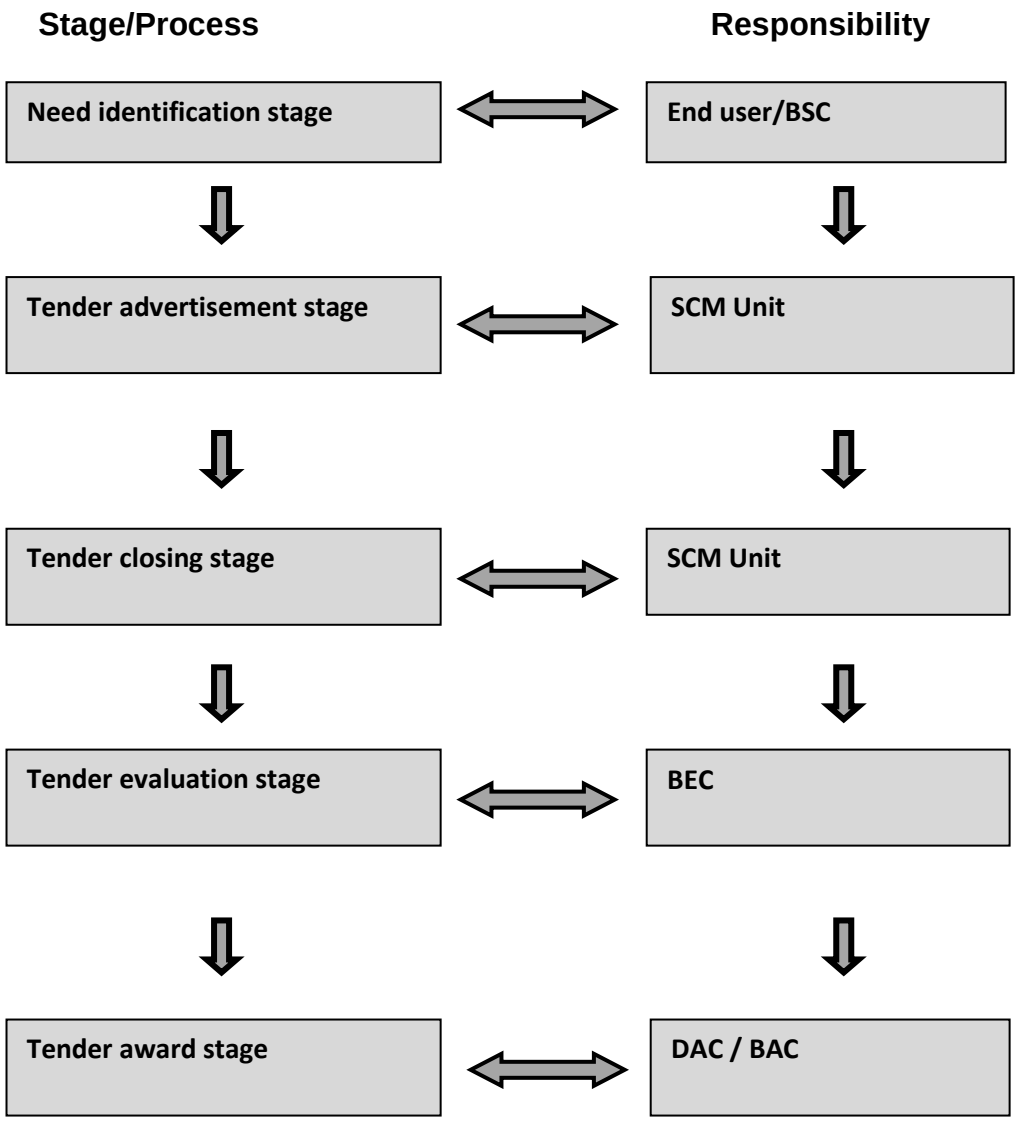
The DAC has the power to make final award of tenders in the Department (Participant B, Interview, February 17, 2011 and Participant C, Interview, April 12, 2011). In contrast, according to Participant A (Interview, February

14, 2011) the final award is made by the Bid Adjudication Committee (BAC). The DAC is a committee that performs the functions of the BAC in the context of Gauteng. Their differences are not significant in relation to the purpose of this research. The final award is made after careful consideration of the recommendations of the BEC.

The procurement process is in line with international practices as provided by the World Bank (2003). The process allows for the implementation of the PP Policy for each specific procurement requirement and also appears to be in line with the basic principles of procurement. The compliance with procurement principles is in line with the findings by De La Harpe (2009). Although the deficiencies exist in the form of many protocols that may delay service delivery, they are in place for the important purpose of providing controls to avoid corruption and abuse of the SCM system.

The procurement cycle is further depicted in Figure 4.1 below, which demonstrates each stage of procurement with the corresponding responsible unit or entity.

Figure 4.1: The procurement cycle



Source: *Researcher's own, 2011*

4.5.3. The alignment of procurement processes and PP Policy

According to Participant A (Interview, February 14, 2011) formal quotations and competitive bidding support the implementation of PP Policy. In addition, according to Participant B (Interview, February 17, 2011) the internal procurement process supports the implementation of preferential procurement because the targeted groups are determined in advance and preference points are allocated accordingly. Sometimes a closed tender process is followed where only a few service providers from the targeted groups (HDIs) are invited to submit proposals or quotations, thus giving them an opportunity to obtain contracts (Participant B, Interview, February 17, 2011).

According to Participant C (Interview, April 12, 2011) although the legislation creates an advantage for SMMEs, price remains too influential in the awarding of contracts. There is a need for set-asides based on thorough market research, for example in a particular category tenders can be advertised only for co-operatives. The Department (GDF) needs to consider better ways of bringing job creation into the evaluation criteria. For example, there is a need to explore the opportunity of previous awards whereby a company that received more awards in the past is not considered for future opportunities to allow others a chance (Participant C, Interview, April 12, 2011).

The procurement processes are supportive of the implementation of PP Policy but implementers (SCM officials) are not empowered to implement the policy (Participant D, Interview, May 12, 2011).

4.5.4. The review of procurement procedures

It has been found that the research participants are doubtful about the effectiveness of the current scoring models (80/20 and 90/10) and that the procurement process has unnecessary delays found within the internal stages of approval. However, Participant C (Interview, April 12, 2011) pointed out the importance of thorough market research as a fundamental process that is required for transformation. The view of Participant C (Interview, April 12, 2011) is that the government cannot empower the HDIs and emerging enterprises if the structural issues and the composition of the market are not known.

This is because the use of close tenders to empower HDIs should follow a process of market research whereby all possible suppliers in different commodities are identified. According to Participant C (Interview, April 12, 2011) the Department cannot expect to facilitate SMME development via the normal tender process. This confirms the assumption that the SCM practitioners are not confident that the PP Policy framework can work for the betterment of emerging enterprises in its current form. On the other hand, Participant D (Interview, May 12, 2011) and Participant F (Interview, May 19, 2011) recommended the ring-fencing of the portion of the budget that must be used exclusively to empower certain categories of enterprises.

In addition, the threshold for quotations should be increased to R1 million to improve the support to SMMEs through quotations. Small companies will benefit based on quotations without competing with everyone on the market (Participant E, Interview, May 17, 2011). According to Participant D (Interview, May 12, 2011) an incubation programme is also required, for example for companies that are owned by people living with disabilities. The challenge is that the GDF is mainly a service department and people living with disabilities hardly participate in the provision of services,

especially professional services. However, there is still a need for proper support through incubation programmes (Participant D, Interview, May 12, 2011).

4.6. Responses of the focus groups

The majority of the members of the focus groups acknowledge that the PP Policy will bring substantial benefits for SMMEs. It is a necessary and fair policy to redress the imbalances of the past. The focus groups emphasised a need for education and training of SMMEs to develop their business skills.

The focus groups also acknowledge that the procurement processes support the implementation of PP Policy, although there is still room for improvement. This improvement can be realised through the training programmes. The focus groups further emphasised a need for both the private and public sectors to communicate their opportunities to reach the SMMEs. This will improve market access of the SMMEs. The government should further enforce conditions for joint ventures with SMMEs when awarding contracts to big businesses.

According to the majority of the members of the focus groups, the GPG is battling to achieve targets set for SMMEs in the province. This is due to, among other things, lack of expertise by small businesses, insufficient business opportunities, lack of access to resources, corruption, and the limited number of small businesses owned by people living with disabilities.

A recommendation emerged during the focus groups that the procurement office of the Department should verify the ownership of all companies

registered on the database of service providers. This should be done by visiting the offices of companies registered on the database to verify the owners of companies head by head against the information provided on the registration forms. The verification process should be conducted on a quarterly basis to reflect the latest information on the ownership profiles of companies. The names of the prospective bidders should also be verified with the NT to ascertain that the successful bidder is not restricted from doing business with the public sector due to past practices. The procurement officials should be held accountable if any contract is awarded without following this verification process. The failure to conduct the verification process should further be regarded as financial misconduct.

4.7. Summary

The chapter provided responses to the two research questions posed by the study. The responses were gathered from the procurement outlay of the GDF for the past three financial years, the responses to individual interviews, and the results of the focus groups. The three sources of data were used to improve the quality of the analysis and the results thereof. The next chapter will provide a detailed analysis of the data collected in order to answer the two research questions.

Although the chapter did not attempt to analyse the data collected, the order of its presentation has revealed some of the themes that form part of the research. The themes include the challenges of implementing the PP Policy together with the challenges facing SMMEs, the procurement process and programmes established to support SMMEs. All these point to the support environment created to support SMMEs despite the prevailing challenges.

CHAPTER FIVE

ANALYSIS OF FINDINGS

5.1. Introduction

The process of data analysis interprets the data that was collected in order to develop essential meaning from the data. It is a continuous process that involves breaking down the data into different elements that are referred to as themes that emerged during the data presentation and analysis process. This chapter provides a description of the themes that attempt to provide theoretical answers to the research questions.

The analysis started with the data from the documentary sources that focused on the procurement opportunities of the GDF. This analysis assisted in determining the nature of market access by SMMEs as one of the key themes that emerged. The data from the focus groups was then compared with the data from individual interviews. The results of the focus groups are similar to the results of the individual interviews and there are no significant differences from the two data sources. The analysis of individual interviews and focus groups data was therefore treated as one and the results of the analysis were compared with the results of the analysis of documentary sources.

The key themes that emerged during the analysis of both secondary and primary data were therefore reviewed after comparing the results of their analysis and the revised themes that are presented in this chapter were formed. The themes include lack of transformation, market access, limited resources, preferential procurement procedures, the support environment, the inconsistency of preferential procurement legislation, and procurement fraud and corruption.

This chapter shows that emerging enterprises owned by HDIs are slowly finding their way into the procurement opportunities offered by government although their direct benefit is still below the provincial target. Their benefit does not equate to even half of the procurement expenditure of the Department. This provides a basis for the assumption that large and white-owned enterprises still hold the greater market share of the economy of South Africa.

This finding might also be due to the fact that the data analysed only included procurement opportunities above the threshold of R100 000, thus leaving out the huge number of opportunities of smaller value. It might be that the emerging enterprises receive their substantial share of procurement opportunities from this category of lower value procurement opportunities that are normally required for the day-to-day running of the operations of the Department.

The major obstacles to the implementation of PP Policy for the benefit of small enterprises are also highlighted throughout the chapter within the themes. The fundamental outcome of the research appreciates the small benefits that are realised by emerging enterprises from the preferential procurement opportunities. However, a strong view emerged that points to the need to review the current preferential procurement system. The use of public procurement to transform the economic profile of South Africa therefore needs to be revisited.

5.2. Limited resources

The emerging enterprises do not have sufficient funds to execute their mandate as they find it difficult to access funds from financial institutions. The SMMEs often fail to meet the criteria used to issue loans by major financial institutions in the country. As a result of this problem, SMMEs fail

to meet their contractual obligations with the government (Participant B, Interview, February 17, 2011 and Participant C, Interview, April 12, 2011). The finding that lack of access to finance has become a serious challenge facing SMMEs is also confirmed by other researchers (Mahadea and Pillay, 2008; Magoro and Brynard, 2010; Montsho, 2000).

Furthermore, the problem appears to be exacerbated by slow payment cycles for companies that are contracted to the GDF. This is because the Department takes a long time to pay its suppliers. The payment cycle of 30 days in terms of Treasury Regulations (2005) is often not met. This creates cash flow problems for the SMME suppliers as they in turn fail to meet their financial obligations to their employees and financial institutions that lend money to them. Participant B (Interview, February 17, 2011) and Participant C (Interview, April 12, 2011) acknowledge that despite a 14-days payment cycle set by the GDF for SMMEs, the Department still fails to facilitate the timeous payment of suppliers. Consequently, Phago and Tsoabisi (2010) noted that delays in payment resulted in the closure of business operations by some SMMEs.

The delays in payment to suppliers render government's own efforts to support and develop emerging enterprises ineffective. The prompt payment of suppliers should be regarded as the first initiative to support the growth of SMMEs. As a result, the GDF needs to review its procurement processes to make them simple to understand by SMMEs to avoid confusion when submitting invoices for payment. The delays in payment also result in unnecessary costs associated with interest being charged by suppliers against the government.

5.3. Transformation of strategic sectors

The South African economy is still characterised by the dominance of other racial groups in other sectors of the economy where HDIs are struggling to penetrate the market. Since the advent of democratic government in South Africa, the government has failed to transform some of these key sectors of the economy, for example, medical supplies and ICT. It is difficult to fast-track transformation in these sectors as the emerging enterprises lack the necessary skills and capacity. These sectors are still dominated by the white-owned enterprises with minimal participation of HDIs. According to Participant C (Interview, April 12, 2011) it is not possible to develop HDIs in areas where they are historically not operating because of barriers to entry in terms of capital needs and sources of supply. As a result, transformation was only easy in the areas of security, cleaning and catering (Participant C, Interview, April 12, 2011).

Similarly, Antonites and Truter (2010: 447) affirms this lack of transformation as one of the considerable obstacles that the country still needs to overcome in order to achieve equity among all citizens. The Minister for Public Enterprises recently emphasised the racial characterisation of poverty and wealth which still persist in the country (*Sunday Times*, 30 November, 2011). The empowerment policies in South Africa failed to penetrate the strategic markets that are still dominated by the white community. South Africa needs a new vision of preferential procurement that will enable black people to invest in the strategic sectors of the economy. This vision needs to be embedded in building the technical skills base of black people in order to realise better results.

5.4. Inconsistent preferential procurement legislation

The concept of preferential procurement is found in two policies in South Africa which are not consistent in terms of implementation. The two

policies are the PPPFA and the BBBEEA and their accompanying regulations and codes of good practice. The definitions of the beneficiaries of empowerment from the two legislative prescripts differ which makes it difficult for procuring entities to implement a uniform procurement policy in the country. The beneficiaries found in the BBBEEA are overly broad when compared with the beneficiaries of preferential procurement in terms of the PPPFA.

Furthermore the preferential procurement element of the BBBEEA aims to promote emerging enterprises in isolation from the other fundamental principles of fairness, competition, transparency and cost-effectiveness that must guide any procurement policy in terms of section 217 of the Constitution (1996). The PPPFA and the BBBEEA are also administered by two competing institutions, the NT and the DTI respectively, that act as the custodians of PP Policy. This inconsistency of legislation impedes the implementation of PP Policy.

In light of this inconsistency, some of the research participants have recommended the use of BBBEEA instead of the PPPFA. However, Pauw and Wolvaardt (2009) found the preferential procurement element under the BBBEEA to be in conflict with the provisions of the Constitution. Both Pauw and Wolvaardt (2009) and the National Treasury (2007) recognised problems associated with this inconsistency and recommended the suspension of the implementation of the BBBEEA as an interim measure to allow policy makers to align the two legislative prescripts. Although the view of the participants is informed by the need to improve the pace of economic empowerment in the country, the approach of Pauw and Wolvaardt (2009) and National Treasury (2007) should be upheld as it recognises the supremacy of the Constitution of the Republic of South Africa.

5.5 Emerging entrepreneurial capacity

There are two concepts that emerged in relation to the capacity of SMMEs. The first concept indicates that the fact that the government is not paying premiums and still continues to award procurement opportunities to emerging enterprises is an indication that their skills levels have increased substantially to offset the historical dominance of white-owned enterprises. The second concept indicates that the emerging enterprises cannot compete with well established enterprises in terms of price and quality. This view is supported by Participant A (Interview, February 14, 2011) and Participant B (Interview, February 17, 2011) that the weight for price is too high and that the big companies will still win the contracts even if they do not attain the 20 or 10 points for preference. Price is still the most influential criterion for the evaluation and award of contracts. As a result, big companies continue to hold an advantage as they can offer low prices and discounts (Participant A, Interview, February 14, 2011; Participant B, Interview, February 17, 2011 and Participant C, Interview, April 12, 2011).

Similar to the second concept, Tustin (2003: 44) found that the skills base of business owners to manage and operate micro and very small enterprises is limited. Generic skills such as accounting, information technology and business trade need to be improved (Tustin, 2003: 44). Magoro (2010: 110) also identified limited capacity as one of the challenges facing contractors owned by HDIs. Despite the limited skills base, the previously disadvantaged suppliers still need to meet the stringent global requirements and price of their products and services in order to succeed when competing for government contracts (Horn, 2007: 502).

Due to the large number of HDI-owned enterprises, it is possible that HDIs can compete against each other for procurement opportunities and the

government may not necessarily have to pay premiums. As a result, the premium cannot be used as a reliable measure of capacity. The first concept may therefore be incorrect as it is based on the wrong measure of capacity. The preferential procurement scoring models should be reviewed to give more weighting to preference points, unlike the current model that gives greater preference to price. The review should take into account the need to achieve value for money in government procurement.

5.6. Market access

The preference points allocated to HDIs and companies for contributing to the achievement of RDP goals are not sufficient to allow HDI companies to win government contracts. The current maximum points that are allocated to promote preferential procurement are only 10 or 20 out of 100 depending on the estimated value of the contracts. If the government continues to implement the PP Policy in its current form, the process of facilitating the empowerment of HDI-owned enterprises will continue at a slow pace. This is because the current preferential procurement system does not provide the requisite support for SMMEs to access government procurement opportunities.

This is supported by the statistical information in Table 5.1 that depicts the combined average procurement opportunities for GSSC and GT during the past three financial years. The combined information represents the performance of GDF as a new department after the merger.

Table 5.1: Combined average contracts awarded versus average procurement expenditure of GDF over three years (2007/2008, 2008/2009 and 2009/2010)

Ownership	**Average % of contracts awarded**	**Average % of procurement expenditure**
Black-owned enterprises	33	42
Women-owned enterprises	8	7
Non-HDI enterprises	48	41

Source: *Adapted from https://contracts.treasury.gov.za*

The average performance of GDF for the three-year period shows that 33% of the total contracts went to HDIs with 8% received by women and 48% by Non-HDI enterprises. At least 42% of the procurement spend went to black-owned enterprises, with women benefiting from only 7% of the total procurement spend while Non-HDI enterprises benefited from 41% of the total procurement spend. The HDI enterprises received one per cent of the procurement spend above the Non-HDI enterprises. This shows that the implementation of the PPPFA in the GDF has at least levelled the playing field between the HDIs and Non-HDIs. The HDIs and the Non-HDIs received approximately equal benefit from government procurement opportunities during the three financial years under review.

When the PPPFA definition of HDI is applied, the figure for women (7) is added to the figure for black people (42%) and the procurement spend that went to HDIs is about 49% of the total procurement spend as compared to 41% of Non-HDIs. The percentage could increase if the

procurement spend that went to companies with equity ownership by HDIs of less than 50% is included. The performance of the GDF with regard to procurement from black-owned enterprises is 30% below the target set by the BBBEE Strategy (2010). The reason for this sub-standard performance as depicted by the statistical information on the procurement outlay of GDF is therefore explained by the ineffective system of preferential procurement that is demonstrated by the theoretical information obtained from the interviews.

On the other hand, Antonites and Truter (2010: 447) views government procurement as a tool that offers business opportunities for the SMME sector which translates into economic growth and socio-economic development. This assertion is neither wrong nor correct in relation to the finding as it only provides an average stance about the importance of preferential procurement which cannot be disputed. This is because Antonites and Truter (2010) do not provide information about the extent to which the PP Policy offers procurement opportunities to SMMEs, but simply acknowledge that it offers opportunities as an ideal situation. This ideal situation of the use of procurement to promote the growth of SMMEs in South Africa is reiterated by Berry, *et al.,* (2002). In conclusion, the view by Antonites and Truter (2010) affirms the finding that, although the performance of the GDF with regard to the empowerment of SMMEs owned by HDIs is still below target, the policy of preferential procurement opened procurement markets to SMMEs.

The use of government procurement to support SMMEs to access procurement markets is a common practice that ought to happen, but is not sufficient according to the target set by the BBBEE Strategy (2010). The GDF therefore needs to review its commitment to accessibility of opportunities by SMMEs in order to achieve its target in the coming years.

5.7. The support environment

The GDF supports emerging enterprises in various ways that include the following:

- Workshops are provided weekly to SMMEs on “how to tender”. These workshops aim to give emerging enterprises the skills to prepare tender submissions for procurement opportunities in the Department.
- The Department has established the prequalified database of targeted suppliers in different categories of HDIs. The Department attempts to give business opportunities to all suppliers on the database through the RFQ process.
- The Department arranges one workshop every year for companies owned by each category of HDIs, i.e. black people, women, and people living with disabilities.
- The roadshows are held with OoP and DED in the form of awareness campaigns to SMMEs.

The support provided to emerging enterprises is in the form of information on government procurement opportunities. This kind of support is relevant to start-up enterprises. The Department does not offer financial support to emerging enterprises which might be the key to their development and growth. The support activities are normally single events without the necessary follow-up being made to ensure that SMMEs are able to perform on the contracts awarded to them. This may be one of the reasons that contribute to the failure of government support programmes as observed by a number of researchers (Chetty, 2009; Jacob, 1996; Pretorius and Van Vuuren, 2003). As a result, Berry, *et al.,* (2002) recommended the continuation of support provided to SMMEs beyond the award of contracts to reduce the possibility of cash flow problems during the completion of contracts.

Most enterprises require financial support to supplement their resource base in order to execute their contracts with government. The GDF needs to establish linkages with the private sector and other public institutions to encourage their investment in enterprise development through the provision of financial support.

5.8. Preferential procurement procedures

The competitive bidding and quotation procedure, when managed properly through the rotation of emerging enterprises from targeted groups, can play a significant role in promoting the objectives of preferential procurement. The objectives of preferential procurement are, amongst others, to give procurement opportunities to SMMEs and HDI-owned companies. According to Participant B (Interview, February 14, 2011) the Department also uses closed tenders whereby only the service providers from targeted groups are invited to bid, thus allowing them to benefit from government procurement opportunities. This process appears to be a set-aside which is not allowed by the PPPFA. However Participant C (Interview, April 12, 2011) justified the use of set-asides only if they are based on thorough market research. Although abnormalities are found within the procurement processes, there is an overall agreement that the process is conducive to the implementation of the PP Policy. These abnormalities may be a result of human manipulation to benefit from the procurement system.

Bolton (2010: 16) disagrees with the use of set-aside practices or the exclusion of certain contractors from procurement procedures as it is unlikely to meet constitutional scrutiny. In contrast, countries such as North America, Australasia and Europe have been using set-asides as the main strategies to implement preferential procurement in order to improve the position of minorities in their economies (McCrudden, 2009: 124).

Although set-asides have been used as effective strategies in implementing preferential procurement in other countries, they cannot be implemented in South Africa as they lack conformity with constitutional principles that govern public procurement. This is because the Constitution of the Republic of South Africa is based on the fundamental principles of equal access to the opportunities of the country.

5.9. Procurement fraud and corruption

The companies that are doing business with the government tend to engage in fraudulent activities by claiming preferential procurement points that they do not deserve in order to increase their chances of winning contracts. This is called 'fronting'. The procurement process then becomes flawed as companies win government contracts because of preference points that they are not entitled to claim. This process disadvantages the emerging HDI-owned companies as their prospects of success rest on the awarding of preference points.

Corruption also manifests itself in the actions of procurement practitioners who tend to engage in activities that favour certain companies over others. Government officials who have influence on the procurement processes may be tempted to abuse their power in an effort to direct procurement opportunities to companies where they will personally benefit. The current form of implementing the PP Policy does not have effective controls to guard against these fraudulent practices (Participant A, Interview, February 14, 2011 and Participant C, Interview, April 12, 2011).

This finding is in line with Magoro (2010) who found the high prevalence of corruption in tenders and procurement. This is not surprising as Arnáiz (2006: 1) also indicated that corruption is more regularly revealed in the field of public procurement than other areas of public affairs. It can be

concluded that some of the challenges encountered during the implementation of the PP Policy are exacerbated by corrupt practices by government officials and service providers. The consequence of corruption is that the resources that are earmarked to empower the marginalised groups of society are redirected into the hands of the wrong beneficiaries. Moreover, the policy of economic empowerment risks the possibility of losing its meaning in the eyes of South African citizens.

5.10. Summary

The analysis of the procurement outlay of GSSC and GT revealed that about 53% and 30% of the procurement outlay for the two former departments respectively went to enterprises that are owned by black people. This translates into the achievement of about 42 per cent average in terms of the empowerment of black people and a further seven per cent in terms of enterprises owned by women. Moving from the assumption that the majority of enterprises that are owned by black people still fall within the category of SMMEs, there is a high probability that the greater portion of these opportunities went to SMMEs owned by black people.

However, it is also possible that a substantial part of these opportunities went to large enterprises owned by blacks. The fact remains that, although the achievement is about 28% below the provincial target of 70%, blacks received a benefit of 42% above 41% of whites. This achievement might be attributed to many factors, for example the large number of SMMEs owned by HDIs in the country, the prevailing support environment for black entrepreneurship, or the preferential treatment of the PPPFA.

The implementation of PP Policy takes place within the enabling environment that has training and mentoring programmes that are targeted for emerging enterprises to develop their basic entrepreneurial skills. On

the other hand, the nature of preferential procurement is too strict to allow effective and meaningful empowerment of emerging enterprises. This is exacerbated by the accompanying challenges of implementation that are mainly driven by greed, corruption and limited capacity of emerging enterprises. The procurement processes are well aligned to ensure that they support the implementation of PP Policy.

CHAPTER SIX

CONCLUSION AND RECOMMENDATIONS

6.1. Introduction

The South African economy is still dominated by the few large firms owned by whites as compared to blacks. The majority of people who live in poverty often resort to working in the informal sector to generate income for subsistence. Small businesses often fail as they were established merely to generate some form of income and not because of the entrepreneurial orientation of the owners. The majority of these entities rely on government procurement opportunities to gain access to the market and sustain their active status in the economy. These enterprises fall within the category of Small, Medium and Micro Enterprises (SMMEs) and they need adequate support to continue to survive under difficult economic conditions. Although the future of these entities is uncertain, they have the potential to create employment opportunities and make a contribution to the economic growth of the country.

Since 1994, the government has introduced different policy measures aimed at advancing the interests of SMMEs. The measures include preferential procurement policy (PP Policy) which is regarded as one of the key instruments that can be used to promote socio-economic objectives of the country. The use of public procurement to achieve socio-economic objectives is not new in South Africa, but has been used in other countries where discrimination against a certain group of people existed in the past.

The aim of the research was to investigate the opportunities of preferential procurement for emerging enterprises owned by black people in Gauteng Province of South Africa. The study was based on a case study of the

Gauteng Department of Finance (GDF) with the focus on cleaning and security service providers. The research aimed to answer two research questions: firstly, How do emerging enterprises owned by Historically Disadvantaged Individuals (HDIs) in cleaning and security services benefit from opportunities of preferential procurement?, and secondly, How do public procurement processes and procedures affect the implementation of PP Policy? The two research questions assisted the researcher to establish the scope and focus of the research.

6.2. Synopsis of previous chapters

The first chapter introduced the topic and provided background information for the research topic under investigation. More importantly, the chapter presented the problem statement that indicated that there is a perception that the PP Policy does not provide sufficient support to its intended beneficiaries. The purpose statement was then presented to highlight the main objectives of the research that aimed to clarify the problem. The legislative and policy framework that led to the introduction of preferential procurement formed the main part of chapter one. The chapter also highlighted some statistical information in relation to the composition and contribution of the services sector to the South African economy.

The second chapter presented the literature review relevant to SMMEs and preferential procurement. This chapter assisted the researcher to demarcate the research topic and further provided the conceptualisation of the key topics underlying the study. The topics that were conceptualised include affirmative action as an alternative to preferential procurement in other countries, procurement and some factors that affect the day-to-day functioning and sustainability of SMMEs.

The third chapter presented the methodology used in this research project. The chapter began with the philosophical position of the researcher which is mainly situated in the critical social science approach. The qualitative research was discussed as the lead approach for the research, followed by the case study design. The data collection instruments which relied mainly on interviews and data analysis techniques were presented. The chapter concluded with a presentation of key ethical considerations that were upheld by the researcher during the research process.

Chapter four presented the findings of the research. The statistical information that indicated the opportunities offered by the two former departments of Gauteng Shared Services Centre (GSSC) and Gauteng Treasury (GT) during the previous three financial years was outlined. This statistical presentation constituted the secondary data. The primary data collected from individual as well as group interviews was also presented according to key thematic areas of the research. This represented data triangulation which is a key quality assurance measure in social science research.

Chapter five is particularly important to the research project as it interprets the findings that were presented in chapter four. The analysis followed an inductive approach to reasoning which is found in the grounded theory. This data analysis procedure allowed the researcher to make sense of the data collected and tested it against the theoretical propositions found in the literature. It was found that the PP Policy has created limited opportunities to a larger extent than expected.

6.3. General conclusions

There are four main issues that emerged from the research process, namely limited management involvement, limited knowledge of preferential

procurement targets, the rule-driven nature of preferential procurement, and inadequate Supply Chain Management (SCM) authority.

The conclusive statements with regard to these issues are presented in detail below.

6.3.1. Limited management involvement

The top management of GDF has been given the budgets to implement the programmes of government in the Department. It is the responsibility of management to ensure that the budget allocated is spent to enable service delivery. However, according to the majority of the respondents, the top management members do not understand that in spending the budget, the Department is required in terms of the provisions of the Preferential Procurement Policy Framework Act (PPPFA) to ensure that a considerable portion of the budget is spent on emerging HDI-owned enterprises.

The majority of the respondents further indicated that some of the top management members are only concerned about the economical use of resources whereby contracts are given to suppliers that are offering the lowest prices. This practice undermines the equity principle as enshrined in the PPPFA and the Constitution of the Republic of South Africa of 1996. The lack of understanding of the PP Policy poses a challenge to SCM officials who are tasked with the responsibility to achieve the targets set in the Province for HDIs. While the SCM office is accountable for the achievement of the objectives of the PP Policy, they do not have the financial power to implement the policy. The financial authority rests with the top management. No literature could be sourced that relates to this observation.

6.3.2. Limited knowledge of preferential procurement targets

The majority of the research participants are not familiar with the Department's targets to achieve preferential procurement. The research participants could not indicate the targets without referral to the source documents. As the research participants were procurement practitioners who implement preferential procurement on a daily basis, it is reasonably expected that they should be familiar with the targets that the Department is working to achieve. This can possibly be attributed to ignorance, lack of knowledge or lack of passion for the work they do, or lack of personal support for the PP Policy.

6.3.3. The procurement processes remain rule-driven

The application of preferential procurement to support the development of emerging enterprises is regulated by tight rules that do not add value to emerging enterprises and also continue to restrict access to procurement opportunities. This lack of flexibility is explicit in the requirement for "value add" that the emerging enterprises are required to satisfy in order to be eligible for preference points. The "value add" requirement means that an SMME does not qualify for preference points if it supplies products to the government in their original form from the manufacturer, rather than in a modified version that shows the contribution to the development of the product by the SMME. This "value add" requirement makes business difficult for the SMMEs and leads to inflated prices being offered which limit the prospects of emerging enterprises to succeed against large enterprises. This requirement also does not recognise the traditional flow of goods and services from the manufacturers to the wholesalers to the retailers.

6.3.4. Inadequate SCM authority

The SCM office has the mandate to oversee and facilitate the implementation of SCM policies in the Department. It is common logic that the implementers will be able to carry out their mandate if they are given the required level of authority over their roles and responsibilities. However, this is not the case as the SCM officials do not have sufficient authority to adopt the necessary measures to achieve the targets set for HDIs. These measures may include incubation programmes for certain categories of HDIs, obligations for joint ventures, and proper rotation of service providers. The empowerment of SCM officials will require the review of SCM delegations to give them authority to control the procurement process in line with applicable policies. Due to this lack of authority, the SCM office does not have a strong voice in the evaluation and award of contracts in the organisation. As a result, the approval of most of the transactions with financial implications for the Department is passed without support from the SCM office. This poses a threat to the integrity of the SCM system.

6.4. Answers to research questions

The first research question is: How do emerging HDI-owned enterprises in cleaning and security services benefit from opportunities of preferential procurement?

It is evident that the perception about the PP Policy has a basis as the benefits of the policy are still below the expected results of implementation and also below the provincial targets. This is because the current system of preferential procurement is characterised by challenges that hinder the achievement of the objectives of the policy. In addition to these challenges, the nature of PP Policy does not provide absolute preferential treatment as it attempts to find a balance between equity and other

constitutional principles. The significant number of HDI-owned enterprises has, however, benefited from the preferential procurement system.

The second research question is: How do public procurement processes and procedures affect the implementation of preferential procurement policy?

The study revealed an effective alignment of the procurement processes to the preferential procurement system. The alignment is found when the Bid Specification Committee (BSC) allocates preference points and when the Bid Evaluation Committee (BEC) evaluates the HDI status of prospective bidders together with their contribution to the achievement of Reconstruction and Development Programme (RDP) goals. This is despite some of the critiques about many protocols and long processes that often delay service delivery. It has been found that the current processes serve to reduce the prevalence of possible corruption in the procurement system.

In conclusion, the PP Policy does not provide sufficient opportunities to SMMEs owned by HDIs and consequently hinders the achievement of provincial targets. The challenges that impede the achievement of the full benefits of the policy are mainly attributed to stringent legislative requirements as well as corruption.

6.5. Recommendations

The research project put forward the following recommendations in order to address the findings.

6.5.1. Review of PP Policy

The scoring models of the PPPFA, which are 80/20 and 90/10, should be reviewed to increase the points for preference. The review should focus more on the 80/20 model to target emerging enterprises for contracts that are estimated to be below the value of R500 000. The National Treasury (NT) and other relevant role-players in SCM should ensure that the other pillars of procurement are not compromised in the review process.

Furthermore, the sections of the PPPFA and the Broad Based Black Economic Empowerment Act (BBBEEA) that deal with preferential procurement should be consolidated under the stewardship of the NT using the BBBEEA as the leading approach to ensure effective PP Policy that generates substantial opportunities for emerging HDI-owned enterprises. The approach of the BBBEEA can yield better results, but it needs to be applied within the context of the principles that underpin national and international procurement. These principles are, amongst others, fairness, competition, cost effectiveness, and transparency. In its current form, the BBBEEA has the potential to undermine these constitutional principles of a democratic South Africa.

The efforts to co-ordinate the two policies cannot work without the establishment of a national forum for preferential procurement to be led by the NT. The forum should include the establishment of similar structures at the provincial level to highlight the province-specific issues at the national forum. This forum should establish a platform for the implementation of

preferential procurement while maintaining adherence to constitutional principles to ensure freedom of participation in the economy.

6.5.2. Improving awareness and accountability

The NT and other relevant stakeholders need to raise awareness of the importance of PP Policy in the country. In addition to setting targets that must be achieved by the GDF, procurement officials of the Department should be accountable to the political leadership of the Province such as the Standing Committee on Public Accounts (SCOPA) on the implementation and the achievement of the targets for preferential procurement. The current reporting process on the achievement of PPPFA objectives to the NT does not hold officials accountable for their reports. The failure to achieve departmental targets for PP Policy should be linked to the performance of the officials tasked with the implementation of the policy. Improved accountability will encourage procurement officials to be vigilant against corruption and always seek alternative ways of improving performance against the targets.

Moreover, the objectives of PP Policy cannot be achieved without the support of all the members of the top management as they are the budget holders. As a result, there is a need to provide regular workshops on the implementation of preferential procurement to the members of the top management of the organisation. When all the members of the top management are conversant with the broader objectives of preferential procurement, the performance management system of top management should be modified to incorporate preferential procurement elements. This will ensure that utilisation of the budget by top management will take into account the preferential procurement objectives and targets of the organisation which will also form part of their performance assessments.

This process will also facilitate transformation in other areas or commodity and service categories that are historically white-dominated.

6.5.3. Unqualified support for SMMEs

The majority of SMMEs registered on the database of the GDF are owned by HDIs. The procurement rules for the support of SMMEs should be flexible to recognise that the existence and sustainability of an emerging enterprise remain fragile and requires the necessary support from the legislative environment. The companies that qualify as SMMEs should be given unconditional preference points in the evaluation of bids. This will require the NT to review the Preferential Procurement Regulations (2011) to benefit the majority of enterprises in the category of SMMEs. The review can take place in phases whereby the enterprises in the sub-category of 'micro' and 'very small' can be considered first before considering the small and medium sized enterprises.

Substantial support to SMMEs should also be based on strict measures to ensure that funds are geared towards the empowerment of emerging enterprises owned by HDIs. This means that a portion of the budget for goods and services should be fixed for spending on certain categories of the HDIs. This fixed portion should not exceed the percentage targets set for the empowerment of HDI-owned companies. The process of fixing the budget should have a provision for deviation from the fixed amount in order to ensure that the principles of procurement are still implemented and the process does not exclude certain categories of service providers and suppliers.

6.5.4. Future research

Although the services sector makes the highest contribution to Gross Domestic Product (GDP), research outputs about the sector remain limited. Information about security and cleaning services is not readily available. The classification of these two sub-sectors of services on the Standard Industrial Classification is also not explicit. On the basis of this finding, it is recommended that research institutions and researchers should invest their time and other resources in order to:

- Investigate the nature and the future of the services sector in South Africa to encourage investment.
- Conduct research on the use of the cleaning and security services sector to create employment opportunities.

Furthermore, as it was not the scope of the study to investigate the impact of preferential procurement opportunities on SMMEs, it is therefore recommended that a scientific study be conducted to measure the contribution of these opportunities to the sustainability of emerging enterprises in South Africa, and Gauteng in particular. This will assist entrepreneurs to determine the extent to which they can place reliance on preferential procurement opportunities for growth and survival.

6.6. Research summary and policy implications

The research conducted an analysis of preferential procurement opportunities in Gauteng Provincial Government (GPG) with a special focus on the GDF as a case study. The aim was to determine the benefits of PP Policy to emerging enterprises owned by HDIs in the Province. The research was motivated by the continuing inequalities in South Africa that are a product of the previous government's apartheid policies. Although the policies to redress these imbalances of the past have been

implemented since 1994, the continued perceived dissatisfaction by the public about the effectiveness of these policies needed special attention in the form of research to clarify the misconceptions around the PP Policy. The methodological propositions that are based in the qualitative paradigm were then adopted and followed to propound explanations for the uncertainties found in the preferential procurement system of South Africa today.

The research revealed the significant contribution made by the services sector to the South African economy which is rated at around 34% of GDP. The role, structure, composition, and contribution of security and cleaning services were also discussed that highlighted that these two sub-sectors have the potential to create significant employment opportunities. Gauteng is leading in the numbers of people employed in these sectors and in the total contribution of the overall services sector to the South African economy. The SMME sector in particular requires adequate support to ameliorate the effects of poverty and grow the economy. The review of related literature found a strong support for the use of preferential procurement to promote the socio-economic objectives of the country, such as the creation of employment opportunities, the empowerment of black people as well as initiatives to promote a green environment.

The statistical manifestations indicated that the GDF has levelled the playing field between white and black people in the business arena. Although the performance is still below expectation, this should be applauded as a stepping stone towards a more equal and prosperous South Africa. The qualitative picture provided a general acknowledgement that the policy provided, and gradually continues to provide, better results. This is not without critique mainly due to the slow pace of transformation.

The business activities that require specialised skills and knowledge are still largely concentrated in the hands of white people.

The suggestions to improve performance against the targets to achieve transformation objectives were gathered, many of which have the potential to contradict the principles that define the democratic South Africa. Any suggestions about the phenomenon of empowerment need to be considered with calm minds that understand that South Africa is still healing from the wounds of past discriminatory practices and the best solution will only be found in an inclusive economic landscape.

This chapter presented the general conclusions on issues that were revealed by this research project, the answers to the research questions, and the recommendations to improve the implementation of PP Policy. The implementation of the recommendations of this research will accelerate the empowerment of HDIs in the country. The achievement of the objectives of PP Policy can be realised through a continuous review of the system, effective monitoring, evaluation and reporting processes with clear lines of accountability.

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APPENDICES

Appendix 1: Individual Participant Information Sheet

Research Topic: Preferential procurement and SMME's

Dear research participant

The researcher at the Graduate School of Public and Development Management of the University of Witwatersrand is appealing for your assistance by availing yourself for an individual interview.

I'm currently conducting a research study with the aim of exploring the opportunities of preferential procurement to emerging enterprises owned by Historically Disadvantaged Individuals in Gauteng Province of South Africa.

You are kindly requested to answer a set of unstructured questions by the researcher. The researcher will ask you questions in relation to the topic and you are required to provide more detailed answers to the questions. The researcher may also ask clarity seeking questions to get more information.

Your answers will be tape recorded on your permission.

Your rights as a participant, including the right to withdraw at any time without penalty, are ensured. You can leave the study, or ask for a break, at any stage.

You are requested not to disclose any instances of corruption that you know of, as the information you provide is not protected from any legal process that might occur.

The researcher may publish the findings of the research in peer reviewed journals or present them in conferences. Your anonymity is guaranteed and your confidential information cannot be disclosed.

For further information, please do not hesitate to contact NJ Hlakudi on: 071 682 9554 or 011 689 4761.

If you have any questions at all, please ask them now.

If you would like to participate in the research, please sign the attached consent form.

Yours sincerely

John Hlakudi: Wits University Student

Horácio Zandamela: Study Leader, University of Witwatersrand

Appendix 2: Participant Consent Form: Individual Interviews

Title of the research project: Preferential procurement and SMMEs

Researcher: John Hlakudi

Researcher's contact details: Mobile: 071 682 9554 or 011 689 4761

Student No: 400849

Dear research participant

If you agree to be interviewed, please sign the consent below.

Consent:

I agree to participate in the above research project. I have read the Participant Information Sheet, which is attached here to this form. I understand what my role will be in this research, and all my questions have been answered to my satisfaction.

I am satisfied with the instructions I have been given so far and I may request further information at any stage of the research project.

I understand that I am free to withdraw from the research interview at any time, for any reason and without prejudice.

I understand that I have the right not to be tape recorded if I so wish.

I have been informed that anonymity will be used in research report, but confidentiality of the information I provide will not be guaranteed if I provide my full details.

I am free to ask any questions at any time before, during and after the study.

I have been provided with a copy of this form and the Participant Information Sheet.

I have not been coerced in any way to participate in this study.

I was warned not to disclose any instances of corruption that I know of, as the information that I provide is not protected from any legal process that might occur.

Data protection: I agree to the researcher and the University of Witwatersrand processing personal data that I have supplied. I agree to the processing of such data for any purposes connected with the research project as outlined to me.

Name of participant (print)……Signed ……Date……

Name of witness (print) ……..Signed……...Date……...

Appendix 3: Tape Recording Consent Form: Individual Interviews

Dear research participant

If you agree to be audio tape recorded, please sign the consent below.

Consent:

I agree to participate in the above research project. I have read the Participant Information Sheet and signed the participant consent form, which are attached here to this form. I understand what my role will be in this research, and all my questions have been answered to my satisfaction.

I am satisfied with the instructions I have been given so far and I may request further information at any stage of the research project.

I have been informed that anonymity will be used in research report, but confidentiality of the information I provide will not be guaranteed if I provide my full names.

I am free to ask any questions at any time before, during and after the interview.

I agree to be audio tape recorded by the researcher.

I have not been coerced in any way to be tape recorded.

I understand that I am free to ask the researcher to stop the tape recording of the interviews at any time, for any reason and without prejudice.

Data protection: I agree to the researcher and the University of Witwatersrand processing personal data that I have supplied. I agree to the processing of such data for any purposes connected with the research project as outlined to me.

Name of participant (print)……..Signed ……..Date……..

Name of witness (print) ……..Signed …...…..….Date…….……..

Appendix 4: Individual Interview Questions

Introductory questions

1. Which department are you working for?
2. What is your position in the department?

A. How do emerging HDI owned enterprises in cleaning and security services benefit from opportunities of preferential procurement?

1. What is your understanding of preferential procurement?
2. What is your role in the evaluation and award of tenders in the department?
3. Do you have targets to achieve PPPFA objectives in the department?
4. What programmes or measures do you have in the department to promote small businesses owned by HDIs?
5. Do you have cleaning and security service companies that were awarded contracts through the point scoring system of 80/20 or 90/10?
6. If yes, are those companies wholly or partly owned by HDIs?
7. What problems did you encounter in the past in the implementation of PPPFA and its regulations?
8. Do you have historically disadvantaged suppliers on the database of service providers?
9. What are the costs of preferential procurement to the department?
10. What are the challenges facing HDI owned enterprises in your department?
11. On average, how much of the department's budget is spend on cleaning and security services?
12. Do you think, with the implementation of preferential procurement, small HDI owned companies are able to compete with non-HDI owned companies for government contracts?

B. How do public procurement processes and procedures affect the implementation of preferential procurement?

1. How does the department apply the PPPFA in procurement?
2. In brief what internal procurement processes are followed to award contracts?
3. Are these processes supportive to implement preferential procurement?
4. Do you feel some of the processes should be reviewed?
5. What are the challenges of implementing preferential procurement?

Appendix 5: Focus Group Information Sheet

Research Topic: Preferential procurement and SMME's

Dear research participants

The researcher at the Graduate School of Public and Development Management of the University of Witwatersrand is appealing for your assistance by availing yourself to form part of a group interview.

I'm currently conducting a research study with the aim of exploring the opportunities of preferential procurement to emerging enterprises owned by Historically Disadvantaged Individuals in Gauteng Province of South Africa.

You are kindly requested to participate in group discussions facilitated by the researcher and provide the necessary information to the researcher. The researcher will put forward the topic together with questions in relation to the topic and you are required to provide more detailed answers to the questions as a group. The researcher may also ask clarity seeking questions to get more information. Each participant in a group will be given a piece of paper to summarise his or her opinions about the topic at the end of the discussions.

The discussions will be tape recorded on the permission of all members of the group.

Your rights as a participant, including the right to withdraw at any time without penalty, are ensured. You can leave the study, or ask for a break, at any stage. You are requested not to disclose any instances of corruption that you know of, as the information you provide is not protected from any legal process that might occur.

The researcher may publish the findings of the research in peer reviewed journals or present them in conferences. Please note that anonymity will be used in research report, but confidentiality cannot be guaranteed.

For further information, please do not hesitate to contact NJ Hlakudi on: 071 682 9554 or 011 689 4761.

If you have any questions at all, please ask them now.

If you would like to participate in the research, please sign the attached consent form.

Yours sincerely

John Hlakudi: Wits University Student

Horácio Zandamela: Study Leader, University of Witwatersrand

Appendix 6: Focus Group Consent Form

Title of the research project: Preferential procurement and SMME's

Researcher: John Hlakudi

Researcher's contact details: Mobile: 071 682 9554 or 011 689 4761

Student No: 400849

Dear research participant (s)

If you agree to be interviewed, please sign the consent below.

Consent:

I agree to be part of the focus group for the above research project. I have read the Participant Information Sheet, which is attached here to this form. I understand what my role will be in this research, and all my questions have been answered to my satisfaction.

I am satisfied with the instructions I have been given so far and I may request further information at any stage of the research project.

I understand that I am free to withdraw from the research at any time, for any reason and without prejudice.

I understand that I have the right not to be tape recorded if I so wish.

I have been informed that anonymity will be used in research report, but confidentiality of the information I provide will not be guaranteed.

I am free to ask any questions at any time before, during and after the study.

I have been provided with a copy of this form and the Participant Information Sheet.

I have not been coerced in any way to participate in this study.

I was warned not to disclose any instances of corruption that I know of, as the information that I provide is not protected from any legal process that might occur.

Data protection: I agree to the researcher and the University of Witwatersrand processing personal data that I have supplied. I agree to the processing of such data for any purposes connected with the research project as outlined to me.

Name of participant (print)	Signature	Date

Appendix 7: Tape Recording Consent Form: Focus Group

Dear research participants

If you agree to be audio tape recorded, please sign the consent below.

Consent:

I agree to be part of the focus group to participate in your research project. I have read the Participant Information Sheet and signed the participant consent form, which are attached here to this form. I understand what my role will be in this research, and all my questions have been answered to my satisfaction.

I have been informed that anonymity will be used in research report, but confidentiality of the information I provide will not be guaranteed.

I am free to ask any questions at any time before, during and after the interview.

I agree to be audio tape recorded by the researcher.

I have not been coerced in any way to be tape recorded.

I understand that I am free to ask the researcher to stop the tape recording of the interviews at any time, for any reason and without prejudice.

Data protection: I agree to the researcher and the University of Witwatersrand processing personal data that I have supplied. I agree to the processing of such data for any purposes connected with the research project as outlined to me.

Name of participant (print)	Signature	Date

Name of witness (print) ……..Signed ……..Date……...

Appendix 8: Procurement expenditure of GSSC for 2007/2008 financial year

Summary	Number of contracts	Contract value
Total Number of Contracts	208	R124,461,645.61
Number of contracts awarded to Black Enterprises (including Black Women) 0.01-25%	17	R5,013,608.12
Number of contracts awarded to Black Enterprises (including Black Women) 25.01-50%	41	R35,546,190.41
Number of contracts awarded to Black Enterprises (including Black Women) 50.01-100%	104	R69,973,107.61
Number of contracts awarded to Black Woman-owned Enterprises 0.01-25%	66	R44,595,610.52
Number of contracts awarded to Black Woman-owned Enterprises 25.01-50%	23	R17,503,782.66
Number of contracts awarded to Black Woman-owned Enterprises 50.01-100%	17	R6,547,945.96
Number of contracts awarded to White Woman-owned Enterprises 0.01-25%	8	R2,539,159.76
Number of contracts awarded to White Woman-owned Enterprises 25.01-50%	0	R0.00
Number of contracts awarded to White Woman-owned Enterprises 50.01-100%	4	R904,320.95
Number of contracts awarded to Non-HDI Enterprises	43	R13,323,676.99

Source: *(https://contracts.treasury.gov.za)*

Appendix 9: Procurement expenditure of GSSC for 2008/2009 financial year

Summary	Number of contracts	Contract value
Total Number of Contracts	38	R307,954,241.19
Number of contracts awarded to Black Enterprises (including Black Women) 0.01-25%	1	R331,456.00
Number of contracts awarded to Black Enterprises (including Black Women) 25.01-50%	4	R37,320,419.07
Number of contracts awarded to Black Enterprises (including Black Women) 50.01-100%	20	R129,070,636.05
Number of contracts awarded to Black Woman-owned Enterprises 0.01-25%	3	R37,056,599.24
Number of contracts awarded to Black Woman-owned Enterprises 25.01-50%	4	R33,061,295.96
Number of contracts awarded to Black Woman-owned Enterprises 50.01-100%	5	R22,153,634.50
Number of contracts awarded to White Woman-owned Enterprises 0.01-25%	0	R0.00
Number of contracts awarded to White Woman-owned Enterprises 25.01-50%	0	R0.00
Number of contracts awarded to White Woman-owned Enterprises 50.01-100%	0	R0.00
Number of contracts awarded to Non-HDI Enterprises	13	R141,231,730.07

Source: *https://contracts.treasury.gov.za*

Appendix 10: Procurement expenditure of GSSC for 2009/2010 financial year

Summary	Number of contracts	Contract value
Total Number of Contracts	124	R24,692,214.77
Number of contracts awarded to Black Enterprises (including Black Women) 0.01-25%	15	R2,620,733.62
Number of contracts awarded to Black Enterprises (including Black Women) 25.01-50%	13	R2,071,895.78
Number of contracts awarded to Black Enterprises (including Black Women) 50.01-100%	58	R12,141,326.42
Number of contracts awarded to Black Woman-owned Enterprises 0.01-25%	28	R4,962,338.17
Number of contracts awarded to Black Woman-owned Enterprises 25.01-50%	7	R1,380,650.08
Number of contracts awarded to Black Woman-owned Enterprises 50.01-100%	14	R2,794,755.15
Number of contracts awarded to White Woman-owned Enterprises 0.01-25%	0	R0.00
Number of contracts awarded to White Woman-owned Enterprises 25.01-50%	0	R0.00
Number of contracts awarded to White Woman-owned Enterprises 50.01-100%	1	R105,900.00
Number of contracts awarded to Non-HDI Enterprises	37	R7,752,358.95

Source: *https://contracts.treasury.gov.za*

Appendix 11: Procurement expenditure of GT for 2007/2008 financial year

Summary	Number of contracts	Contract value
Total Number of Contracts	37	R21,030,109.14
Number of contracts awarded to Black Enterprises (including Black Women) 0.01-25%	11	R2,429,660.96
Number of contracts awarded to Black Enterprises (including Black Women) 25.01-50%	4	R3,915,994.60
Number of contracts awarded to Black Enterprises (including Black Women) 50.01-100%	11	R10,486,942.48
Number of contracts awarded to Black Woman-owned Enterprises 0.01-25%	15	R7,698,500.96
Number of contracts awarded to Black Woman-owned Enterprises 25.01-50%	3	R415,125.64
Number of contracts awarded to Black Woman-owned Enterprises 50.01-100%	4	R1,861,082.56
Number of contracts awarded to White Woman-owned Enterprises 0.01-25%	2	R982,086.36
Number of contracts awarded to White Woman-owned Enterprises 25.01-50%	0	R0.00
Number of contracts awarded to White Woman-owned Enterprises 50.01-100%	0	R0.00
Number of contracts awarded to Non-HDI Enterprises	11	R4,197,511.10

Source: *https://contracts.treasury.gov.za*

Appendix 12: Procurement expenditure of GT for 2008/2009 financial year

Summary	Number of contracts	Contract value
Total Number of Contracts	82	R50,855,652.44
Number of contracts awarded to Black Enterprises (including Black Women) 0.01-25%	0	R0.00
Number of contracts awarded to Black Enterprises (including Black Women) 25.01-50%	1	R313,190.00
Number of contracts awarded to Black Enterprises (including Black Women) 50.01-100%	0	R0.00
Number of contracts awarded to Black Woman-owned Enterprises 0.01-25%	0	R0.00
Number of contracts awarded to Black Woman-owned Enterprises 25.01-50%	1	R313,190.00
Number of contracts awarded to Black Woman-owned Enterprises 50.01-100%	0	R0.00
Number of contracts awarded to White Woman-owned Enterprises 0.01-25%	0	R0.00
Number of contracts awarded to White Woman-owned Enterprises 25.01-50%	0	R0.00
Number of contracts awarded to White Woman-owned Enterprises 50.01-100%	0	R0.00
Number of contracts awarded to Non-HDI Enterprises	81	R50,542,462.44

Source: *https://contracts.treasury.gov.za*

Appendix 13: Procurement expenditure of GT for 2009/2010 financial year

Summary	Number of contracts	Contract value
Total Number of Contracts	90	R27,575,620.69
Number of contracts awarded to Black Enterprises (including Black Women) 0.01-25%	4	R500,893.20
Number of contracts awarded to Black Enterprises (including Black Women) 25.01-50%	8	R2,258,456.52
Number of contracts awarded to Black Enterprises (including Black Women) 50.01-100%	25	R10,808,376.00
Number of contracts awarded to Black Woman-owned Enterprises 0.01-25%	12	R3,301,457.72
Number of contracts awarded to Black Woman-owned Enterprises 25.01-50%	3	R449,681.00
Number of contracts awarded to Black Woman-owned Enterprises 50.01-100%	6	R873,634.00
Number of contracts awarded to White Woman-owned Enterprises 0.01-25%	0	R0.00
Number of contracts awarded to White Woman-owned Enterprises 25.01-50%	0	R0.00
Number of contracts awarded to White Woman-owned Enterprises 50.01-100%	0	R0.00
Number of contracts awarded to Non-HDI Enterprises	53	R14,007,894.97

Source: *https://contracts.treasury.gov.za*

Appendix 14: Approval From Ethics Committee

UNIVERSITY OF THE WITWATERSRAND, JOHANNESBURG

Division of the Deputy Registrar (Research)

HUMAN RESEARCH ETHICS COMMITTEE (NON MEDICAL)
R14/49 Hlakudi

CLEARANCE CERTIFICATE **PROTOCOL NUMBER H1 10202**

PROJECT	Preferential procurement and emerging enterprises
INVESTIGATORS	Mr NJ Hlakudi
DEPARTMENT	Public and Development management
DATE CONSIDERED	11.02.2011
DECISION OF THE COMMITTEE*	Approved unconditionally
NOTE:	

Unless otherwise specified this ethical clearance is valid for 2 years and may be renewed upon application

DATE 01.04.2011 **CHAIRPERSON** .....
(Professor R Thornton)

cc: Supervisor : Dr H Zamdamela

DECLARATION OF INVESTIGATOR(S)

To be completed in duplicate and **ONE COPY** returned to the Secretary at Room 10005, 10th Floor, Senate House, University.

I/We fully understand the conditions under which I am/we are authorized to carry out the abovementioned research and I/we guarantee to ensure compliance with these conditions. Should any departure to be contemplated from the research procedure as approved I/we undertake to resubmit the protocol to the Committee. **I agree to a completion of a yearly progress report.**

.....
Signature

PLEASE QUOTE THE PROTOCOL NUMBER IN ALL ENQUIRIES