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GOVERNMENT PROCUREMENT POLICIES AND BLACK SMALL AND MEDIUM BUSINESS ENTERPRISES

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A research report submitted in partial fulfilment of the requirements for the degree of Master of Management in the field of Public and Development Management to the faculty of Management, University of the Witwatersrand, Johannesburg.

September, 2006.

DECLARATION

I declare that this report is my own, unaided work. It is submitted in partial fulfillment of the requirements of the degree of Master of Management (in the field of Public and Development Management) in the University of Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in any other university.

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Nontando Seopa

September 2006

DEDICATION

This work is dedicated to my parents, Mbulelo and Vuyelwa Mvunyiswa, for giving me and my siblings a solid foundation.

ACKNOWLEDGEMENTS

I would like to thank my husband Thabo for his love and support throughout the process. My three sons, Lehumo, Abang and Reneiloe, were marvellous in their understanding whenever I needed space to concentrate on this study. I would like to appreciate the support of both my mother – in-law and father-in-law, Nomalizo and Richard Seopa, I know you would be celebrating this achievement with me. Last but not least, I would like to express my heart-felt gratitude to my supervisor, Mr Collins Miruka, I would not have started, let alone finish this research report without his encouragement. To all of you; I would like to say thanks a million!

ABSTRACT

Effective and efficient procurement lies at the heart of the South African government's drive to improve the delivery of public services. There are significant concerns about how SMEs can thrive in the South African environment especially through the government procurement system. A sample of 40 SMEs was selected for this study to test if they do benefit from the current procurement system as well as to get their perceptions about the fairness and effectiveness of the South African government departments' procurement system. The bulk of the respondents felt that the current South African procurement system was ineffective.

The research question focused in key areas of government's procurement like SME Empowerment, Competitive Tendering, Corruption and Bureaucracy. We collected data via a questionnaire which we distributed to a sample of 40 randomly selected SMEs. The study was limited to the key areas identified. Extant literature was used to drive the analysis and interpretation of the findings as well as to highlight and support possible intervention mechanisms as used in other parts of the world.

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CHAPTER 1

INTRODUCTION

The South African economy can be seen as not representative of its population. Most black people are still battling with poverty and destitution, due to past imbalances. This looks unfair to these people. Their talents and entrepreneurial skills would stir the country to considerable progress in a competitive global arena. If the South African economy continues in its apartheid mode, it will perpetuate social and economic divisions that the country is fighting against and impact much more negatively on the country's growth and development.

Worldwide, governments receive a great deal of attention as providers of essential services such as health, education, defence and infrastructure. To be able to meet the demands of these services, governments purchase goods and services from the open market. Thus the business operations of governments in the market place or public procurement have both economic and political implications (OECD, 2003:10). Yet, of late the subject of public procurement has received little attention by academic researchers and policy makers because it is considered an administrative function, too mundane to worry academic and other researchers.

During the apartheid era, South Africa's SME economy was either largely neglected by policy-makers, or, in the case of black-owned enterprises, actively discouraged through repressive measures. In line with the political disinterest, small enterprises were wiped off the research agenda (Berry et al, 2002:34). However, in post-

apartheid South Africa, public sector procurement has become an important tool to remedy past injustices. The Constitution gives provision for a procurement policy providing for the preferential allocations of contracts and advancement of previously disadvantaged persons. According to Section 217 of the South African Constitution, procurement must be fair, transparent, competitive and cost-effective.

The 1994 South African government faced a massive challenge of fiscal, political, social and economic transformation. These would require an effective public service capability. Yet the public service itself had been subject, during the apartheid era, to the same limitations as other key South African institutions.[1]

In his opening address at the President's Conference on Small Business in 1995, Mr. Trevor Manuel, the then Minister of Trade and Industry, said that it was in the interest of the South African economy to improve the performance of smaller firms (DTI, 1995a). Small and Medium Enterprises (SMEs) are considered to be a core building block for achieving economic development and growth.

1.1 SIGNIFICANCE OF STUDY

Internationally, the SME sector is increasingly seen as the creator of new jobs in an economy. SMEs can be more competitive than larger firms. They can provide entry point into the economy for persons with limited capital or technical skills. SMEs can also

[1] These included substantial isolation from contemporary influences elsewhere, the impact of excluding the majority of the population of the country from opportunities to exercise power and influence in the public service, and an inability to overcome certain rampant social and economic problems such as unemployment, poverty and crime (see, for instance, Russel and Bvuma, 2001).

generate employment opportunities at relatively low capital cost (Watermeyer et al, 2000:13).

In line with the objectives of the South African economic policy, growth in employment is enhanced through government support to SMEs (Visagie, 1997: 661). South Africa is currently faced with a high unemployment (rate of 20% according to government statistics and 40% according to statistics of the Congress of South African Trade Union). It is widely known that the continued growth of SME is an engine to absorb this high unemployment. A Survey of Employers and the Self Employed (SESE) conducted in March 2001 supports the view that SMEs play a significant role in the economy (Statistics SA). Overall, it is estimated that 2,3 million SMEs generated a turnover of R 2 617 million and employ 734 000 people in South Africa (SESE Report, 2001)..

1.2 STATEMENT OF PROBLEM AND PURPOSE

The apartheid legacy in South Africa can be held liable for the lack of intergenerational transfer of wealth and the continued discrimination that black business are faced with. In spite of the new dispensation, there are still some obstacles to be overcome. Removing these barriers would result in a substantial leap in economic growth figures through small business activities.

This paper seeks to explore the nature of barriers to SME procurement in South African Government Departments. It addresses the tensions between competitiveness, efficiency and quality on one hand and economic empowerment on the other hand. It is important to widen the economic growth net and not to

limit it to the few. This will continue to contribute to the entire South African economy by ensuring access to all because that will translate in a thriving economy.

Insofar as procurement has important economic and political implications, ensuring that the process is economical and efficient is crucial. This requires in part that all stakeholders understand the whole process. Unfortunately, this is not the case. Although several developing countries have taken steps to reform their public procurement systems, the process is still shrouded in secrecy, inefficiency, corruption and undercutting (OECD, 2003:11). In all these cases, huge amounts of resources are wasted.

This study will identify challenges that SMEs face in relation to government procurement systems. it will not go into finance-related challenges because there are various intervention mechanisms we can learn from developed BEE management systems that will automatically translate into financially sound SMEs.

Therefore, the study aims to identify and examine the significance of obstacles to goods and services procurement as per the experience of South African Black Small and Medium Enterprises (BSMEs), with the intention of making recommendations regarding the amendment of SA government procurement to accommodate BSMEs. It is hoped that the study will contribute towards the South African Government Procurement Policy amendment to accommodate SMEs in line with evidence-based policy making (EBPM) practice. Moreover, it is also hoped that the study will assist SMEs to have access to SA government support through providing goods and services thereby translating into socio-

economic advancement and improve the SMEs' socio-economic status.

1.3 RESEARCH METHODOLOGY

A descriptive quantitative research approach was adopted because of the enquiring nature of this research as well as for the analysis of current procurement practice in the South African governments in relation to other parts of the world.
Cresswell's (1994) definition of Quantitative research as an inquiry into an identified problem based on testing a theory, measured with Isss, and analysed using statistical techniques; the goal is to determine whether the predictive generalisations of a theory hold true – this definition is more relevant to this area of study.

A descriptive quantitative research method was applied to highlight the challenges faced by SMEs regarding government procurement, testing the relevance and application existing theory as used elsewhere and making recommendations supported by literature and based on statistical analysis of data to support such literature in identified areas like *empowerment, corruption, bureaucracy and competitiveness*.

Broadly speaking, quantitative research is thought to be objective in gaining, analysing and interpreting quantitative data, the researcher remains detached and unbiased as this was the case during this research process.

Data collection technique

A self administered questionnaire was used as a data collection tool in which written closed questions were presented and answered by respondents in a written form.
A questionnaire was developed and distributed amongst the business owners to collect their responses on pertinent issues around their experiences while attempting to secure government procurement services as well as while executing government contracts.

The questionnaires were hand delivered and others e-mailed or faxed to respondents, they were given a day to complete them and collected the next day for those who were not in a position to e-mail or fax back. This method is cost-effective and considered more effective in that the respondents were made aware of the up-coming survey telephonically and by e-mail and when they received the questionnaire were able to respond timeously.

Sampling Method

The SME sector in South Africa and Gauteng is estimated to be over thousands of entrepreneurs and therefore deciding on the sample size was limited by the financial resources, human resources as well as the time factor. Therefore a random sample of SMEs around Gauteng was selected from a telephone directory as well as referrals from other participants in the study. The sample of the randomly selected SMEs (N = 40) within Gauteng Province in order to highlight recurring factors that hinder progress as expressed by SMEs in the South African government procurement system.

Key research questions

SME government procurement has been adopted in other parts of the world in a structured way and the success and failure of adopted systems has been written on widely. Therefore this research used the experience of other countries in the areas of corruption in procurement; competitive tendering systems; empowerment tools for SMEs as well as government bureaucracies to analyse the South African government procurement system and processes.

Four main areas were covered in the questionnaire:

- **Competitiveness;**

Ryan and Brown's (1995) analysis of service delivery concludes that the central problem associated with evaluating the use of contracts is in defining what outcomes are agreed as being representative of competitive tendering and contracting as well as in measuring outcomes. South Africa is faced with a unique situation whereby products supplied by the previously disadvantaged are perceived to be of low quality and incompetent – there is no sufficient ground for this belief, it is just driven by a specific mind set. This belief impacts on the credibility of the tendering process which is driven by prejudice instead of competitiveness and affects BSME's business growth potential tremendously.

Competitive tendering and contracting is considered to be one of the effective means of achieving sustainable government procurement and SME development. An Australian Government report on the management and delivery of services using CTC has

found there to be a generally positive impact upon: savings; equity and distributional impacts of CTC; and the quality and accountability; the extent, source, and sustainability of cost sustainability of particular activities for contracting Australian Industry Commission, 1996:2).

- **Empowerment**

The subject of empowerment has been one of the central motif of transformation thought over decades and a prominent feature in the South African development agenda. The Americans have an almost similar history as the South African on issues of discrimination and despite the U.S being a super power, there are still displeasures by the supposedly beneficiaries of the transformation process. Empowerment has proven to be a complex aspect to deal with since it culminates in the advantaged having to impart skills, knowledge as well as resources to the previously disadvantaged and thus impacting on their hold of power which is normally in the form of releasing some of their equity stake to PDIs.

A lot continues to be written on this subject, however, there has been little empirical research on empowerment, its meaning and effects (Cunningham et.al.1996:143; see also Rogerson, 1998:923). The relational perspective of empowerment maintains that it is the implementation of new processes and the distribution of power that that empowers SMEs. On the other hand, the psychological perspective of empowerment focuses on the SMEs' perception of empowerment.

No one who has looked critically on the spate of publications on this subject will be surprised by this judgment, thus much of what has been written fails to study the meaning and effects of empowerment.

- **Corruption**

The nature and type of corruption tends to vary depending on the government system and its institutional culture among the societies (Cho and Choi, 2004:718), non-democratised African states and most developing countries are mainly characterized by high corruption because of lack of accountability. This assertion is unfounded and biased, proneness to corruption can not be limited to certain countries but have direct links with the types of systems used by the procuring organisation. Those who are prone to giving and accepting bribes can only do so in inefficient and uncontrolled procurement systems.

There is argument that bureaucrats with control rights over firms can create mechanisms to extract some of the rents through bribes (Ades and Tella, 1997: 1023-1024).Corruption tends to be more prevalent in areas where the state interacts with the public such as the judiciary, procurement, foreign exchange, regulatory agencies and many others.

- **Bureaucracy.**

Weber's theory of Bureaucracy (Jain, 2004:1) describes a new organizational form that started emerging in Western society during the second half of the nineteenth century. In this new type

of organization, leadership and authority were derived from a more 'rational' frame-work than was the case before. Previously, authority was derived from either charisma or tradition. There is nothing wrong or dysfunctional about bureaucracy, in fact it is important to acknowledge that it brings order and accountability where there is none.

Although Weber was largely positive about bureaucracy, several scholars have criticised various aspects of this organizational form. According to Merton (1976:51), a fundamental failure of bureaucracy is its tendency to foster 'goal displacement'. Excessive adherence and conformity to rules and regulations resulted in rules becoming ends in themselves, and sometimes prevented organizations from achieving their real goals. Another factor is that organizational members in bureaucracies often try to apply formal rules and procedures in unsuitable situations.

In the South African government procurement context, there are concerns about the existing bureaucratic and stifling processes that are not well managed by government officials that may be due to lack of skills and knowledge.

Method of data analysis

The responses were captured in an SPSS spreadsheet, interpreted, categorised accordingly and analysed in a table form as well as in graphs. The reason for using tables and graphs was for cross-referencing purpose as well as for visual description of the findings.

Limitations of this research

The lack of funding and time impacted on the size of the sample and thus limiting the chances for getting conclusive findings on the areas under study. It would also have been interesting to get additional information through follow-up interviews for further clarity on some questions and for correlation of responses.

Ethical Considerations

The questionnaire was directed at SME owners and there was no verification mechanism that was adopted to ensure that the information provided was the owner of an SME. The respondents were not required to give their identity as well as the names of their organisations for confidentiality purposes. It is acknowledges as well that SMEs would not have time to reflect on the questions and respond accordingly because of their possible commitment to the core business activities.

1.4 CHAPTER LAY-OUT

A brief description of the lay out of this research report is as outlined in the table of contents:

Chapter 1

This chapter gives a broad perspective of the South African government procurement environment with specific reference to the SME sector, the SME government procurement setting; guiding procurement policies in relation to SMEs; the rationale for the study as well as the research approach.

Chapter 2

Pertinent literature on various government procurement systems, theories and principles guiding those systems as well as a broad examination of literature on the key elements of this study which are competitive tendering, corruption, empowerment and bureaucracy and the legislative framework.

Chapter 3

Data is presented in a raw format as well as describing the relevance and interpretation of the data using literature.

Chapter 4

The presentation and interpretation of the research findings as well as literature reference to the significance and meaning of the findings.

Chapter 5

The conclusion of the study as well as making recommendations as per other government procurement models that would address the South African government procurement make-up.

1.5 CONCLUSION

Insinuations and prejudice about the effectiveness of developing world's systems like Choi & Choi concluded in their article, should not give the first world the reason to continue being cynical about

our systems. These authors blame the inefficiencies of government procurement systems on lack of accountability of developing countries which is very true but not a symptom of every developing country.

South Africa has stood up to the challenge of creating an enabling environment that is going to be beneficial to all its citizens and therefore more robust and constructive measures need to be adopted quickly in order to ensure a stable and competitive South African economic system.

CHAPTER 2

LITERATURE REVIEW

Since the late 1960s, the development and support of black-owned business has been an objective of both the public and private sectors in the United States. At that time, various Federal, state and local government agencies initiated programs to further this objective, and subsequently many large corporations began programs of their own (Sonfield, 1997:59). The same challenges faced South Africa post 1994 when the country had to redefine its policies to redress the past imbalances and create programs that would be the engine for the growth of the South African economy as a whole.

Internationally, the small and medium enterprise (SME) sector is increasingly seen as the creator of new jobs in an economy. The SME sector can be more competitive than larger firms and provide entry point into the economy for persons with limited capital or technical skills, they are generators of employment opportunities at relatively low capital cost (see, for instance, Watermeyer et al, 2000; Stockdale and Standing, 2004; Sonties, 2002). South Africa is currently faced with an estimated unemployment rate of 27% (Stats SA, 2005) and the continued growth of SME is seen as an engine to absorb this high unemployment (Vosloo, 1994; Rupert, 1991; World Bank, 1991).

The Department of Trade and Industry (DTI) defines an SME as 'a separate and distinct business entity, including co-operative enterprises and non-governmental organizations, managed by one owner or more, which, including its branches or subsidiaries, if

any, is predominantly carried on in any sector or sub-sector of the economy mentioned in column 1 of the schedule and which can be classified as micro, very small, small or medium enterprise by satisfying the criteria mentioned in columns 3, 4 or 5 of the schedule, opposite the smallest relevant size or class as mentioned in column 2 of the schedule(South African National Small Business Act, Act No. 102 of 1996).

According to Oforo (1995), the definition of an SME internationally is usually linked to at least five criteria, namely, the total Iss of employees, Value of fixed assets, Paid up capital, Annual turn-over, and annual Vol. of physical production.

2.1 THE STRUCTURE OF PROCUREMENT

The estimation and the size of procurement in most African countries encounter a Iss of conceptual as well as technical problems. To estimate procurement, other governments net out expenditure on social security, pension transfers and interests on public debt from total government expenditure. Unfortunately, the manner of calculating and reporting differs from one country to another.

An Organisation for Economic Co-operation and Development (OECD) report (2003:15) has established that in three East African countries, there is a very strong feeling among the actors that SMEs have been marginalized in most of the public sector activities. While there are many reasons for lack of participation, the main one seem to be lack of coherent, transparent, accountable and participatory procurement.

In the same report (OECD, 2003), South Africa is cited as a good example by explicitly taking SMEs on board in its procurement policy. However, there are on-going challenges in relation to the procurement policy for SMEs.

2.2 THE VALUE OF SMES IN SOUTH AFRICA

The value of the small business sector is recognized in economies worldwide irrespective of the economic status or developmental stage. The SME contribution towards growth, job creation and social progress is valued highly and small business is regarded as an essential element in a successful formula for achieving economic growth (OECD, 2003; Vosloo, 1994; Rupert, 1994; Mandela, 1995; World Bank, 1991). Economic historians have demonstrated the importance of this phenomenon in Europe's industrialization and the subsequent development of other emerging economies (Berry et al, 2002:4).

In Northern Ireland for example, there is an estimate of about eighty thousand small to medium enterprises, employing over four hundred thousand people and having a turnover of 74.7%, the highest figures in any region of the United Kingdom (DTI, 2000a). In the European Union, SMEs account for 95% of the total Iss of enterprises. Their commercial activities represent 64 per cent of the annual turnover in the Union and they employ 70 per cent of the total workforce in Europe (Fee et al 2002:329). Kirchoff (1994) makes a convincing argument that governments should focus on building a strong base of small firms for growth to be realized.

In his address at the President's Conference on Small Business, former state president Nelson Mandela gave three reasons why SMEs are important in South Africa. First, for Mandela, the development of SMEs is important for the social and economic

development of the country since they increase competitiveness and mobilize idle funds to productive aims. Second, SME development contributes to a more equal distribution of economic powers. Third, the stimulation of SMEs can reduce the level of unemployment (DTI, 1995a).

Mandela's first point on the importance of SMEs raises a great concern. What developing country would have idle funds given the apartheid debt that South Africa is still grappling with? Already this statement implies that SMEs are doomed to fail because there are no idle funds. This also raises the question of how much the South African government places the emphasis on the importance of competitiveness and capability

.

2.3 COMPETITIVE TENDERING AND CONTRACTING

There is a general consensus that most barriers that might inhibit SMEs procurement must be explored. At the same time, there is a universal recognition that SMEs are crucial facilitators of growth. Thus, the nature of the Procurement Policy and Processes is explained by describing their general nature and assessing the procurement climate in South African Government Departments.

Manning (1996) suggests that an aggressive SME policy should additionally address 'competition policy' as an important explanation for the under-representation of SMEs in the mainstream economy.[2] Competitive tendering and contracting have

[2] According to Manning (1996: 4), the successful upgrading of SMEs into the mainstream economy requires the implementation of policy at a range of levels; micro-level policies targeted directly at enhancing small firm capacity; sector-wide policies aimed at improving the performance of all enterprises in a sector; competition-type policies aimed at heightening the level of competition in the South African economy; as well as macroeconomic policies addressing the controlled supply of credit to customers.

embraced alternative means of procuring public sector facilities to the traditional reliance upon an in-house team delivery approach. This is believed to provide greater flexibility in both procuring facilities and managing them (see, Steane and Walker, 2000:245). They contend that the issue is not to pursue a procurement system as such. Rather, the issue is to ensure that procurement agencies improve the climate for successful tendering and more importantly that sound quality management teams operate in both operational and supervising organizations.

They are critical of the unrestrained interest in competitive based contracts in the Australian public management context – such interest appears to be led more by the ideology of competition as the elixir for improved public choice and the efficiencies of service than by the longer-term benefits arising from the good management of relationships during the procurement process.

Competition is seen as fostering greater choice for clients when deciding about suppliers and ways of obtaining services. Consequently, CTC is seen as the most efficient and effective way of meeting identified requirements of government to provide outcomes for clients and the community as a whole (Australian Industry Commission, 1996:52).

A key feature of the European procurement directives was to open up the public procurement market to SMEs and increase competition for public contracts (Fee et al, 2002:327). According Hirsch (2005), the reasons for uneven economic patterns do not lie in the anti-competitive relations between larger and smaller firm, rather, it lies in preferential relations.

The South African Preferential Procurement Policy Framework Act No.5 of 2000 as well as The Broad-Based Black Economic Empowerment Policy Act No.17 of 2004, clearly stipulates that contracts should be awarded to categories of persons who were previously disadvantaged by past unfair discrimination systems (Government Gazette, 3 February 2000 and 9 January 2004). These policies, like the Affirmative Action Policy were aimed at redressing the past imbalances. The dilemma for policy makers is how to encourage the SME and the previously disadvantaged groups to participate while at the same time working within the framework of fair competition which is fundamental to economic policy.

In spite of the South African historical focus on larger businesses, the small business sector represents a significant portion of SMEs in South Africa. SMEs are estimated to be over two million (Stats SA, 2005), over two and a half times the Iss a decade ago (Darrol, 1996). Based on this data, the total SME sector accounts for 84% of all private employment and contribute to the South African GDP more than the cumulative amount from big companies.

In 1998/99, a review of the regulations affecting small business was carried out and a strong report produced for government. However, possibly affected by the reassignment of the Deputy Minister of Trade and Industry after the 1999 elections, there was no follow-through on regulatory reform. Two major reforms only completed in 2005 were the establishment of an Apex fund to support very small loans to micro-businesses and the merger of Ntsika with National Manufacturing Advisory Centre (NAMAC) to form Small Enterprise Development Agency (SEDA).

The White Paper on Small Business (DTI, 1995c), officially known as the National Strategy for the Development and Promotion of Small Business in South Africa, provides the government's policy framework in respect of SMEs in South Africa. The White Paper on Small Business together with the Small Business Enabling Act, were intended to facilitate the transformation of the small business sector in South Africa but there are still many challenges that have not been resolved despite these documents.

2.4 TRANSPARENT GOVERNMENT PROCUREMENT

An OECD study (2003) in three East African countries came up with the findings that SME stakeholders feel marginalized, while there are many other reasons for lack of participation, the main one seem to be lack of coherent, transparent, accountable and participatory procurement policy.

Despite recent world-wide trends towards privatization of public enterprises and some government activities, the public sector in most countries continues to perform a fundamental role in the economy (Moise and Grosso, 2003:5). The total amount of public procurement as a percentage of Gross National Product (GNP) is likely to increase or at least remain the same in years to come. Consequently, open access to procurement markets is an issue of increasing importance in international economic relations due to their commercial significance as well as the implications of procurement policies for government attitudes in general towards the economy (p.6).

The conduct of government procurement involves a sequence of procedural steps that provides an opportunity at all levels for transparency and open decision-making. However, public

procurement practices are often perceived not to contribute to competitive access, but rather serve vested interests and, in the international context, represent non-tariff barriers. It has been proven in developing countries that transparent procurement procedures can contribute to a more efficient allocation of resources through increased competition and budgetary savings for governments.

The costs of inefficient and often uneconomic procurement are borne partly by producers (who do not receive economic rewards on the basis of their efficiency) and partly by the public sector (which receives sub-optimal value for money). In most cases, victims of procurement inefficiencies are SMEs because of the need for business growth as well as to get an opportunity to participate in the economic arena.

2.5 DEVELOPING SMEs

The international experience of development or empowerment initiatives in the context of SMEs should be dealt with caution because in those economies the SMEs are well capacitated, particularly in comparison with the situation in most developing countries. There are indications that firms owned by indigenous Africans faced major challenges due to lack of access to information, credit, skills and a supportive institutional arrangement (OECD, 2003:15).

It is clear that one potentially critical factor in the success of any investment-led entrepreneurship programme will be the role and developmental capacities of government, especially local government (Rogerson, 1998:921). The fact that urban development

has become a matter of local decision-making provides space for the emergence of so-called 'progressive entrepreneurial strategies' which seek to redirect benefits of growth away from the dominant sections of capital (see Leitner and Garner, 1993). Essentially, Local Economic Development (LED) strategies emerged to address public concerns over precisely who the beneficiaries of LED policies are (see Maharaj and Rambali, 1996).

Overall, according to Savitch and Kantor (1995:498), their concern was 'to balance economic growth against social enhancement'. In many instances, the emergence of progressive entrepreneurial development approach is a reaction to the shortcomings in the prestige economic development model for revitalizing the social, political and economic terrain.

Pertinent themes in relation to government's procurement challenges will be addressed in this chapter with special emphasis on key areas like Empowerment and Competitiveness as well as Corruption and Bureaucracy.

2.4.1 Empowerment

Pervasive in the empowerment literature is the conclusion that the empowered will lead to achieving a competitive advantage (Matthews et al., 2002:297). If one accepts this conclusion, it becomes important to know what should be done in order to increase SME perception of empowerment.

With varying views of empowerment within the SME context, some strongly link it with financial gains as in media reports and headlines, in actual fact, it is deeper than that. Siegall and Gardner's (2000) perspective is that empowerment occurs when

higher levels within a hierarchy share power with lower levels within the same hierarchy is more relevant for this study.

The subject of empowerment has been one of the central motif of transformation thought over decades and a lot continues to be written on this subject, however, Cunningham and his co-authors raise concern that there has been little empirical research on empowerment, its meaning and effects (Cunningham et.al., 1996 p.143, see also Rogerson, 1998:923). No one who has looked critically on the spate of publications on this subject will be surprised by this judgment, thus much of what has been written fails to study the meaning and effects of empowerment.

2.4.2 Lead Firm Catalysts, subcontracting of SME

The latest thinking in SME development strategy favours clustering (DTI, 1997), a strategy that encourages linkages between businesses, resulting in collective efficiency and enhanced competitiveness. This is seen as an intervention mechanism for SMEs that are mainly characterized by lack of resources that would enable them to function effectively.

The role of subcontracting and of developing networks of linkages among SMEs, and between SMEs and large enterprise has been identified as being crucial to the success stories of several industrial districts in the developing world (Nadvi and Schmitz, 1994; Advani, 1997). The most widely cited case of sub-contracting from the developing world experience is that of South Korea. Policymakers in Korea identified the linking up of large firms and SMEs as the key to nurturing the development of the SME

economy as well as for boosting the competitiveness of the country's economy (Industrial Bank of Korea, 1993).

In the context of demand-led approaches to SME development, the key issue is the potential lead role that large firms may assume in 'weaving webs of vertically delineated production sub-contractual arrangements with small firms located in close proximity to the large unit (Nadvi and Schmitz, 1994:19).

Economic analysis of enterprise growth and development identifies the importance of firm's interactions with other actors in their environment. Schmitz (1995) has attempted to link industrial districts with economic development by advancing the notion of 'collective efficiency', defined as the *competitive advantage derived from local external economies and joint action*. Studies reveal that collective efficiency enables small-scale industry, often trapped in low-profit and low innovation competition in developing countries to grow through specialization and differentiation (Davies, 2001:7).

In their international studies on clustering Nadvi and Schmitz (1994) identified four significant areas of clustering. Firstly, the cluster is said to have contributed to overall efficiency, increased competitiveness and economies of scale. Secondly, clustering has brought with it various types of inter-firm relations, ranging from total absence of co-operation to situations with extensive collaborative arrangements in production. Thirdly, clusters are often associated with some form of common social identity or network that sets boundaries of acceptable behaviour. In so doing, a code of good practice is established amongst linked firms, reducing suspicion and secrecy, traits common to the old regime which favoured marketing warfare. Fourthly, the state can play a

key role in business development together with the business sector, forming a partnership committed to ensuring business growth.

In South Africa the formation of clusters has been hampered by the absence of support firms, weak research and development capabilities, ineffective training, design and consultancy services (Business Africa, 1995:8). Many business linkage programmes and experiments in South Africa have been criticised as being merely comic and tokenistic, reflecting the desire of large firms to look politically correct in the new South Africa, or as being associated with union-busting and the strong monopsonistic power of the large enterprises over their suppliers (Rogerson, 1998:926;Tendler, 1994). Although large enterprises entered into linkage arrangements with SMEs for social responsibility reasons, some of them have shown to be successful.

2.4.3 Local Government–led SME development

Programmes by local and regional government authorities have proven to be a key success factor in demand-led entrepreneurship development in both developing and developed worlds. It is clear that one potentially critical factor in the success of any investment-led entrepreneurship programme will be the role and developmental capacities of local government. New World Bank research on local government in South Korea offers certain pointers which are relevant to the developing world experience as a whole (Rogerson, 1998:921; Lee, 1996).

The case of Cholla offers an example of local development context of an investment-led process based on World Bank intervention which triggered an industrialization process in this formerly economically lagging region of Korea. The World Bank-led

intervention involved the establishment of the Hanam Industrial Estate as a base for employment-generating industries by attracting major Korean companies such as Daewoo and LG as anchor firms. The development of the industrial estate presented an important turning point, for it resulted in an extension of the 'rules of the development game' into the Cholla region.

Consequently, the initial intervention, industrial infrastructure in the Cholla region expanded by a factor of five times the original investment in the Hanam Industrial Estate. Behind this fivefold expansion were the activities of the local government which replicated the Hanam project in three further phases of extension without any further World Bank or national government assistance (UNDP, 1988).

Overall, the evaluation by Lee (1996) suggests that 'setting the institutions right' was a condition more crucial for development than 'setting the prices right'.

2.6 THE NATURE OF CORRUPTION

A more appropriate definition of Corruption by Goolsarran (2006) in this study's context is: 'Corruption is the misuse of public power for private gain'. The efficient and effective procurement of services is a highly complex aspect of public procurement and provides an irresistible lure for corruption. A misuse of public power occurs when politicians and bureaucrats deviate from formal rules or established procedures for their personal gain, sacrificing public interest in favour of private interest (Goosaran, 2006:39).

Corruption tends to be more prevalent in areas where the state interacts with the public such as the judiciary, procurement, foreign exchange, regulatory agencies and many others. The nature and type of corruption tend to vary depending on the government system and its institutional culture among the societies (Cho and Choi, 2004:718), non-democratised African states and most developing countries are mainly characterized by high corruption because of lack of accountability.

Cho and Choi (2004) contend that in the United States, government services or civil applications are not generally known to be a source of corruption though there are no exceptions. They also cite a Korea situation where wide-ranging service areas of civil applications are known as a hot bed for corruption and such corruption has tended to be shielded in secrecy due to the symbolic relationships between the citizen applicants and the city officials in charge, thus making it hard to solve.

One of the major debates today is about whether or not active industrial policy plays a substantial role in promoting economic growth and at the same time redress past imbalances. There is argument that bureaucrats with control rights over firms can create mechanisms to extract some of the rents through bribes (Ades and Tella, 1997: 1023-1024).

A review of the Consumer Price Index (CPI) over the years indicates that poor developing countries that most need public resources for economic development and social programmes are the ones perceived to be most tainted with corruption. For example, in the CPI 2005, Bangladesh and Chad were considered the most corrupt countries with a score of 1.7 on a scale of 0 to 10 (Goolsarran, 2006: 61, see also Moise, 2003:11).

Transparency International has carried out a comprehensive study of corruption in public procurement in its TI Source Book (Deng et al, 2003:158). Three types of corruption in public contracts were identified. Firstly, collusion and kick-backs involving an insider (employee or consultant working for the owner) and an outsider (a bidder in the contract award phase, or a contractor in the contract performance phase). Collusion may occur during both the contract award and the contract performance phase. And secondly, collusion involving only outsiders. This type is usually described as 'bid rigging' and happens mostly during the contract award phase. Thirdly, cheating involving the contractor only, who may provide false information or indulge in jerry-building during contract performance.

The economic consequences for countries with high levels of corruption are very grave. First, goods and services become more costly, which hurts the quality and standard of living of citizens. Secondly, trade is distorted because preference is given to goods and services that offer the greatest bribes (Goolsarran, 2006: 61). According to him, corruption findings in the *misallocation* of scarce resources and areas that are genuine need of developmental assistance are overlooked. *Competitiveness* is also distorted in this regard because preference is given to those who offer greatest bribes and insignificant service delivery.

Corruption is known to have a negative effect on investment and growth, one example of the interactions between active industrial policy and corruption is provided by the US$37 billion South Korean Yulgok defence-procurement programme (*The Economist*, 29/01/1994). The programme represented one third of government spending during the 1970s and 1980s. At the heart of were two

policies that gave an extraordinary amount of discretion to government procurement officials.

The first was familiar request for secrecy in military procurement; the second was active industrial policy encouraging technology transfers to local companies that would later take on the supply of military equipment to the South Korean army. As these companies progressed down their 'learning curves', they enjoyed rents that the South Korean military shared through bribes.

Corruption allegations led to an investigation that ended in 1993 when Lee Chun Ku, a former defence minister, was convicted on accepting a US$370,000 bribe for arranging a tear gas contract. This investigation led to generals being sacked, reprimanded or thrown to jai. A case almost similar to this one in South Africa is the Arms deal contract that led to the arrest and suspension of senior government officials.

Also, according to a SAACE (The South African Association of Consulting Engineers) report (January 2005), there is lack of coordination at provincial and local government in terms procurement policy implementation that has hampered confidence in the industry.

In South Africa, procurement was earmarked as one of the significant vehicles for redressing past imbalances – the 1995/96 interim strategy called the '10-point plan was developed within the national government for smaller contracts. If the tendering company was fully black-owned, women-owned, disabled-owned, etc., it could get a bid-price advantage. This strategy had limitations because of fronting which defeats purpose of redressing the past imbalances.

2.7 GOVERNMENT BUREAUCRACY

Lewin famously proclaimed, "There is nothing so practical as good theory" (Jain, 2004:1), signifying that a good theory lends itself to being applied in a variety of context. Indeed, researchers in the burgeoning discipline of government systems have used a variety of established theories and theoretical lenses to government systems.

Weber's theory of Bureaucracy (Jain, 2004:1) describes a new organizational form (i.e. bureaucracy) that Weber noticed had started emerging in Western society during the second half of the nineteenth century. According to him, in this new type of organization, leadership and authority were derived from a more 'rational' frame-work than was the case before. Previously, authority was derived from either charisma or tradition.

In the case of charismatic authority, followers obeyed gifted leaders out of devotion, loyalty and respect. Traditional authority, on the other hand existed due to historical reasons and people obeyed a person in power for the simple reason that the person was in a position of traditional power, for example in the case of monarchical or other hereditary leadership position.

Jain (2) gives a clear analysis of Weber's three key features of bureaucratic organizations. Firstly, bureaucracies had a formal and unambiguous hierarchical structure of power and authority. Secondly, bureaucracies had an elaborate rationally derived and systematic division of labor. Thirdly, bureaucracies were governed by a set of general, formal, explicit, exhaustive and largely stable rules that were impersonally applied in decision-making; moreover, all decisions and communications were recorded in permanent files

and such records were used to refine existing rules and derive new ones.

Although Weber was largely positive about bureaucracy, several scholars have criticised various aspects of this organizational form. According to Merton (1976:51), a fundamental failure of bureaucracy was its tendency to foster 'goal displacement'. Excessive adherence and conformity to rules and regulations resulted in rules becoming ends in themselves, and sometimes prevented organizations from achieving their real goals. Another factor is that organizational members in bureaucracies often try to apply formal rules and procedures in unsuitable situations.

Burns and Stalker (1961:18), consider highly bureaucratic organizations were resistant to change. A prevailing atmosphere of hierarchy, control, efficiency and predictability meant that organizational members favored self-continuity and felt threatened by change.

According to Jain (2004), IT (information technology) is a tool for reforming bureaucracy. This view holds IT as a driver and enabler of change and reform due to its boundary challenging nature, and governments can be reengineered and reinvented via IT to serve society better. According to this view, key features of Weberian bureaucracy, i.e. hierarchy, division of labour and rigidity of rules have led to a situation in bureaucratic organizations where processes are highly inflexible and information is held in 'silos' (i.e. not shared properly); this has resulted in government bureaucracies being inflexible and unresponsive to the needs of citizens.

Government leaders have taken an initiative to embrace technology because of the effect IT is having in this fast moving era of technology and are well aware of some of the challenges it could minimize by adopting it. Technology has proven to be a fast, cost-effective and efficient communication tool which is lacking in most bureaucratic systems.

In a memorandum on the subject of electronic Government to the heads of executive departments and agencies of the U.S. federal government, the then president Bill Clinton (1999) instructed agencies to design E-Government systems that promote access to government information organized not by agency, but by the type of service or information that people may be seeking.

The British government commissioned a 'Making a Difference study on Reducing Bureaucracy in Central Civil Government Procurement' to identify practical measures that can be taken by the Office of Government Commerce (OGC) and government departments to reduce bureaucracy and thereby reduce costs and achieve better delivery (Boateng and Alexander, 2003). The main factor that came out of this study is the sharing of information through the use of IT, transparency and efficiency.

However, research has proven bureaucracy works well in certain contexts and the theory of bureaucracy has been used in a variety of contexts to analyse and understand organization in society. For example, it has been used to explain the evolution of communist societies. Current research in this issue does not offer adequate clarity into the underlying processes at work or the likely outcomes to be expected. Future research efforts are thus required to get a better understanding of these issues.

2.8 LEGISLATIVE FRAMEWORK

In understanding the role of SMEs in the post-apartheid economy it is important to understand some of the principles which are guiding government interventions and support infrastructure for SMEs. South Africa is a developing country where the regime of apartheid has left many challenges in addition to the global networks. During apartheid, South Africa's SME economy was not a point of focus by policy-makers or, in the case of black-owned enterprises, actively discouraged by repressive measures. In line with this political and economic disinterest, small enterprises did not form part of the research agenda.

However, after 199, public sector procurement has become an important tool to remedy past injustices in South Africa. So much so that the Constitution makes express provision for procurement policy providing for the preferential allocations of contracts and advancement of previously disadvantaged individuals or groups (SA Law Journal).

According to the DTI BEE strategy document, emphasis is placed on the fact that South Africa requires an economy that can meet the full potential of all its economic citizens – the people and their enterprises – in a sustainable manner. Sustainable development has been defined in the Brundtland Report as that which meets the needs of the present without compromising the ability of future generations to meet their own needs' ((WECD, 1987).

In the reconstruction initiatives of post apartheid South Africa, promotion and support of SMEs has become a significant policy issue (Rogerson, 1998:132; Alekseeva, 200:1). In the 1990s by contrast, new policy objectives actively promote SMEs. For the

purpose of this study, the SA Constitution, the PFMA and the Preferential Procurement are crucial to the South African SME context and will be beneficial to this study.

2.7.1 The Constitution of the Republic of South Africa

The importance of the public service in achieving the aspirations of the democratic South Africa is underlined by prominent clauses in the Constitution, which lay down values and principles to guide administration in every sphere of government, and provides the basis for the structure and functioning of the public service (Russell, 2001:242).

According to Section 217 of the South African Constitution, procurement must be fair, transparent, competitive and cost-effective.

There are however tensions that result from the constitution that is supposed to protect all South African citizens from all forms of discrimination and at the same time the South African government is faced with the challenges of redressing past imbalances. How can one apply any of these policies when there is a law that protects the citizens from further discrimination? Can it be done through Black Economic Empowerment, Affirmative Action or Preferential Procurement? Are these initiatives not against the South African Constitution?

2.7.2 The Public Finance Management Act

The Public Finance Management Act (PFMA), 1999 (Act No.1 of 1999) is one of the most important pieces of legislation passed by the fist democratic government in South Africa. The Act promotes the objectives of good financial management in order to maximize service delivery through effective and efficient use of the limited resources.

The PFMA gives effect to section 216(1) of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996). This requires the national legislation to 'establish a national treasury and prescribes measures to ensure transparency and expenditure control in each sphere of government, by introducing generally recognized accounting practice; uniform expenditure classifications; and uniform treasury norms and standards. An important objective of this act is to put in place more effective financial accountability systems over public entities.

2.7.3 Black Economic Empowerment Policy

The Broad –Based Black Economic Empowerment Act No.53 of 2003 was ratified to promote the achievement of the constitutional right t o equality, increase broad-based and effective participation of black people in the South African economy.

The Employment Equity Act No. 55 of 1998 was ratified in order promote the constitutional right of equality and the exercise of true democracy as well as promote economic development and efficiency among other things.

The Black Economic Empowerment Policy as well as the Employment Equity and Affirmative Action Policies were among the first policies that the South African government specifically developed for black people and previously disadvantaged individuals (PDIs) to redress the past economic imbalances as a result of apartheid.

These policies are received with resistance by some groups that 'perceive' them as the reversal of apartheid. Those resisting these changes continue to perpetuate the ills of the apartheid system.

Despite the many economic gains made in the country's 12 years of democracy – growth hit 4.9% in 2005 – the racial divide between rich and poor remains.[3]

2.7.4 Preferential Procurement Policy

The Preferential Procurement Framework of 2000 (PPF Act) is another important piece of legislation that is a driver within BEE policy although much debate has gone into changing the ownership patterns of business. Most analysts argue that preferential procurement is at the heart of sustainable black economic empowerment.

There is a shift in business paying attention to elements of BEE other than ownership, and being motivated to do so by significant points in the procurement process. It can be argued that this system is prone to abuse and can be to the disadvantage of those it is supposed to benefit. There are reported cases of fronting and

[3]Alexander, http://www.southafrica.info/doing_business/trends/empowerment/bee.htm.

forging in pursuit of earning points to get a government tender and despite the fact that those who have tried to hack the system have been found and penalized, these cases are still in the domain.[4]

2.9 SUMMARY

Even though South Africa is a developing country, it is important to acknowledge that it is different from the rest of the world and the challenges that South Africa is faced with cannot be resolved by adopting fixed international solutions. However, the problems that the country is faced with in relation to procuring to SMEs are no different from the rest of the world and can be managed if there is commitment to SMEs development by using a combination of experiences of countries like Northern Ireland, Australia and Korea and elsewhere to improve on the South African situation.

Moreover, it is important to acknowledge that there are no guarantees that all these international mechanisms would work but it is important to develop relevant programs, implement and review them; and adjust the procurement systems to be specific to the South African context.

[4] See Appendix below for the Table on Legislative Framework on Public Procurement.

CHAPTER 3

PRESENTATION OF THE RESEARCH FINDINGS

This chapter will present the data of the South African procurement system in relation to SMEs as per the field findings, to unravel other key issues that were previously neglected and open platforms for further debate. This is a sensitive matter given the political and socio-economic climate of the South African population. Therefore, respondents might not have been objective in addressing policy issues and it will be difficult if not impossible to get a common ground.

South Africa is faced with a situation whereby it is developing mechanisms to redress past injustices. These are mostly received with resistance because there are those who feel that they are attacked by the system and will do whatever is possible to protect their interest. At the same time, there are those who were affected by the previous system and want to reclaim their political and socio-economic benefits. This is the biggest challenge for the South African government. Without a systematic approach and implementation; the government will forever be faced with unending battles that are destructive to the growth and development of the country.

As stated earlier, that little attention has been paid to this area of study in the past and therefore existing literature is current and addressing many related issues surrounding this phenomenon. Comparisons of sets of studies are the core of science, any single study is worth little if not compared and related to other similar studies (Arnqvist and Wooster, 1995:240). Furthermore, studies

very rarely show identical findings but instead typically differ both in the magnitude of effects and in the occurrence of significant findings. Though the heuristic value of reviews and comparative or evaluative research and the level at which to make generalizations may be debated, research reviews provide the basis for conceptual syntheses and for development of general theory, and are therefore essential to scientific and general development (p.236).

3.1 SME OWNERSHIP BY RACE AND GENDER

Any policy decision or statistical work on South African SMEs requires accurate information about their size and structure. Unfortunately, this information is not easily available especially on the informal sector which apparently represents at least two-thirds of the SME population. Given South Africa's specific history of apartheid, which meant the exclusion of the majority of potential entrepreneurs like blacks and women from proper education and access to property and / or financial resources, it is important to know to what extent and in what forms, previously disadvantaged individuals are able to take part in business.

Just like most women worldwide, women in South Africa perform a considerable part of unpaid work: cooking, cleaning, nursing children and the sick, fetching water and wood and other activities. Unfortunately economists do not take into consideration these activities. However, if women stopped performing these tasks the whole economy would collapse (Woman Plus #1, 2000).

The South African government is a good example of women empowerment with more than 40% of cabinet positions being held by women as well as premierships. The private sector is not

reflective of this move. There are only about 10% representation of women at board level and 30% equity ownership in business (Empowerdex, 2005. Less than 5% of women hold the position of director in companies listed on the Johannesburg Stock Exchange (Woman Plus #1, 2000). The same study reveals that women control 30% of South African SMEs. The report suggests that one of the possible reasons for the lack of female representation at top levels is that many women choose to go it alone as self employed consultants. This allows them the flexibility to juggle professional and familial responsibilities.

The socio-economic context of previously disadvantaged individuals, in particular the lack of funds to start businesses on their own as well as the rise of Preferential Procurement, Women Empowerment and Broad Based Black Economic Empowerment, have led to an increase of cross racial and cross gender partnerships or 'consortiums'. In general, it appears that most of these partnerships were only started around 1998 but even growing more popular post 2004 (Berry et al 2002:34).

In the sample data below (4.1.B), 76% of the respondents are black owners followed by white owners at 14.29% which is reflective of the Ntsika 1997 and GEM 2001 figures as per table 4.1.A. According to these figures (GEM a7 Ntsika), there is an increasing Iss of previously disadvantaged SMEs but there is no clear data to providing the Iss of blacks in the SME sector but according to the GEM and Ntsika figures, there is a visible growth of PDIs in the SME sector.

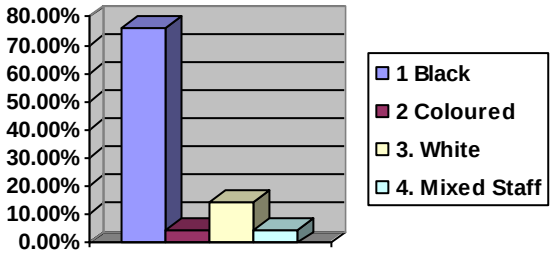
Table 1: Racial Distribution of firm ownership by SA PDIs

NTSIKA 1997		GEM 2001	
White	Previously Disadvantaged	White	Previously Disadvantaged
42.%	**58%**	**22%**	**78%**

Sources: Own calculations based on GEM2001and Ntsika 1997

Table 2: Frequency Distribution of Race

Black	**76%**
Coloured	**5%**
White	**14%**
Mixed Staff	**5%**



The research sample has a high rate of male equity ownership of about 67% with women at about 33%. This is in line with current trends where women are still marginalized. The current situation is being redressed by placing special emphasis on Women Empowerment as well as through the Code of Good Practice draft that was released by the Department of Trade and Industry in December 2005.

How does the allocation of resources in the state budget influence the life and well-being of women? This question was raised by two South African organizations, namely, the Community Agency for Social Enquiry (CASE) and the Institute for Democracy in South Africa (IDASA). They took the initiative to carry out a gender analysis of budgets in all state departments. This initiative received a name

'The Women's budget' and became an academic research which is to provide recommendations to adjust budget according to the state constitutional values (Alekseeva, Woman Plaus #1, 2000).

Table 3: Frequency Distribution by Gender

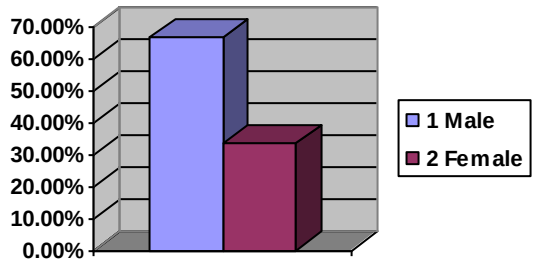
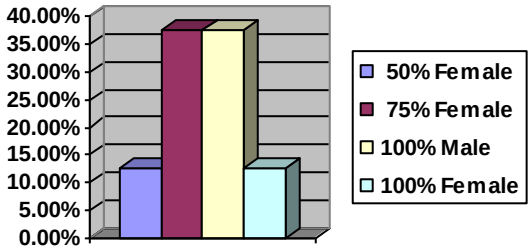


Table 4: Frequency Distribution of Equity



A sector classification analysis of respondents is dominated by Consulting at 50% followed by Mining at 22% which has shown visible improvement in the South African industry. Women are also visible in the mining industry although there is less than 1% visibility of female beneficiaries from the South African mining activity. According to the Empowerdex study (2005), about 34% of SMEs have women shareholding and control in excess of about 30%. This study reveals a significant estimate of 57% women

ownership within the hospitality industry followed closely by marketing and communications sub-sector at about 53%. The figures stand at about 22% in the Information Technology and Telecommunications sub-sector and just 7% in the Industrial sector.

Most respondents employ between 5 and 50 employees and have been operational for about 10years (84%). There are still disparities between men and women's earning, there are still industries where men earn one and a half or two times more than women, comparing monthly earnings of white men and African women the gap becomes even wider. The educational level is also different – only 18% of African women and 22% of African men have got matriculation certificates, whereas the percentage for white women are about 66% and 75% for men (Woman Plus#1, 2000).

Table 5: Frequency Distribution of Sub-Sector

Civil and Structural	**6%**	
Mining and Engineering	**22%**	
Project Management	**6%**	
Transport	**6%**	
Construction	**6%**	
Consulting	**50%**	
Training and Development	**6%**	

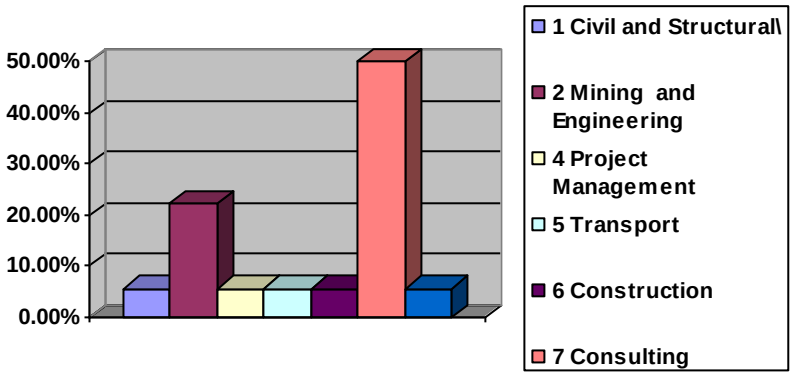
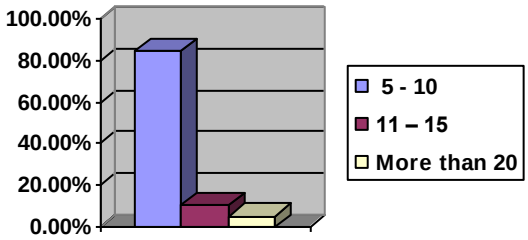


Table 6: Frequency Distribution of Business Age

5 – 10	84%
11 – 15	11%
More than 20	5%

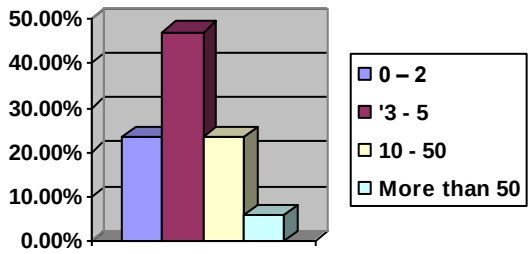


Manning (1996, pp.63-67) argues that the South African government intervention for SME promotion derives from identifying three key roles for SMEs in the national economy and society, namely, employment promotion, economic distribution and the enhancement of competitiveness.

The role of SMEs in employment promotion is particularly significant given that the past apartheid economy has been characterized by jobless growth. As regards economic redistribution, SME promotion will contribute to redress the economic inequalities inherited from the apartheid era. Lastly, SMEs are expected to enhance economic competitiveness of local industry in order to stimulate growth and exports.

Table 7: Frequency Distribution of Iss of employees

0 – 2	**23%**
3 – 5	**47%**
10 – 50	**24%**
More than 50	**6%**



The South African government spends about R 360 billion a year on procuring goods and services. Most of this money is channelled to black economic empowerment.[5] There is strong belief that the sector charters with clearly defined balanced scorecards as well as a code of good practice will prevent some public sector bodies from deviating from legislation on government procurement.

SMEs are faced with a challenge of a minimum workforce because of the nature of their business and economic constraints. Yet they

[5] See http//:www.dailytenders.co.za.

have to find the time to go through the lengthy and demanding tender process. According to the respondents below, about 33% of them have responded to tenders and over the last three years, about 35% of them have been awarded a tender and they spend on average up to 50 hours per tender.

This is a real challenging situation given the minimum resources they have as well competing with corporate giants. These are kinds of situations that call for governments to insist on clustering because then the SME will not be burdened with administrative tasks. Instead, it will have more time to focus on the product or service delivery.

There is no available data on how much and how many tenders were awarded to SMEs. This kind of information is important for government to track on how it is performing as well as to measure their allocation of tenders. But according to this research sample, there are extreme cases. There are those respondents (about 16%) who do not respond to tenders with about 33% of them responding to an average of 5 tenders per annum because of lack of resources. There is a significant amount of respondents to tenders (about 27%) and about 23% that have been awarded government tenders and about 41% not have been awarded even a single tender contract.

The estimate of 41% non-beneficiaries is a cause for concern, is it because SME do not offer value? Are they incapacitated to deliver services? Or are they just not competitive enough to qualify for the award of a government tender. According to the South African Association of Consulting Engineers (SAACE) news article (News Article Iss 940), the status quo whereby public sector bodies disregard legislation by for instance, precluding companies from

tendering for projects by setting unrealistic barriers to entry is a significant source of concern.

To combat such practices, the association has taken legal opinion and has circulated a guideline to its members as well as to some members' client bodies. Intervention was possible in this situation because there is a body or an organization that has been set up to protect the interests of its members. What about in situations whereby the SMEs are not members of a professional body? Who will intervene on their behalf?

3.2 EMPOWERMENT, CORRUPTION AND BUREAUCRACY

The following tables (8, 9 and 10) give a percentage breakdown of responses to this study in relation to Empowerment, Corruption and Bureaucracy. These tables form a basis of analysis for this study as per the responses given with literature giving meaning to some of the interpretations.

According to these research findings, about 75% of the respondents feel that the South African government does not play an active role in empowering SMEs while only about 25% feel it does. The respondents were asked their perception about their understanding of 'Empowerment', does it mean giving SMEs projects or should it be in monetary terms? A majority of the respondents at 73% felt that empowerment does not mean giving projects to SMEs nor should it be in monetary terms (about 64 %). While the remaining about 27% felt that it is indeed about giving projects to SMEs as well as shown in monetary terms (about 36%).

TABLE 8: RESULTS ON EMPOWERMENT

Frequency Distribution of B1: EMPOWERMENT		
Generally, the government plays an active role in empowering SME's	B1	PERCENT
	YES	25%
	NO	75%
Frequency Distribution of B2		
Empowerment means giving SME's projects	B2	PERCENT
	YES	27%
	NO	73%
Frequency Distribution of B3		
Larger firms should partner with SME's	B3	PERCENT
	YES	40%
	NO	60%
Frequency Distribution of B4		
SME's stand a better chance of being awarded a tender if they form a consortium	B4	PERCENT
	YES	38%
	NO	61%
Frequency Distribution of B5		
Empowerment should be shown in monetary terms	B5	PERCENT
	YES	36%
	NO	63%
Frequency Distribution of B6		
Tenders are generally awarded on the basis of competitiveness	B6	PERCENT
	YES	36%
	NO	64%

On the issue of partnering for tenders, amazingly about 40% of the respondents felt that there should be partnerships while about 60% felt that they should be awarded a tender in their own right. In consistent with the issue of partnering, about 61 % of the respondents are of the opinion that being part of a consortium does not improve the chances of getting a tender while about 39% feel it improves the chances. About 36 % of the respondents are of the

opinion that government tenders are awarded on the basis of competitiveness while about 64% disagree with that.

Based on these findings, South African SMEs feel they do not have the support of the government and at the same time they show that they do not want hand outs like money or clustering, they want to get projects (to be empowered) on the basis of their competitiveness. One of the main issues I raise in this research is the importance of clustering because I am of the opinion that it will help resource management and benefit SMEs by providing an enabling environment to focus on their core business and grow their companies.

According to the respondents on the issue of corruption, about 62% are not of the opinion that the South African government system is riddled with corruption while about 31% feel that there is corruption with 8% saying they do not know whether there is corruption or not. When asked if they knew of any incident where a tender was awarded to an incompetent organization, about 78% of the respondents said they did not know of such cases while only about 14 % claimed to know of incompetent organizations being awarded tenders and about 7 % being impartial.

TABLE 9: RESULTS ON CORRUPTION

Frequency Distribution of C1: CORRUPTION		
The current procurement system is riddled with corruption	C1	PERCENT
	0	8%
	1 YES	31%
	2 NO	62%
Frequency Distribution of C2		
I know for instance where incompetent firms have been awarded tenders	C2	PERCENT
	0	7%
	1 YES	14%
	2 NO	79%
Frequency Distribution of C3		
Have you ever been asked for a bribe by a government official?	C3	PERCENT
	0	5%
	1 YES	29%
	2 NO	67%
Frequency Distribution of C4		
Have you ever paid a bribe to a government official?	C4	PERCENT
	0	5%
	1 YES	5%
	2 NO	90%
Frequency Distribution of C5		
I believe I have lost out on some tenders for failing to pay bribes	C5	PERCENT
	0	10%
	1 YES	29%
	2 NO	62%
Frequency Distribution of C6		
The government protects SME's from possible corruption	C6	PERCENT
	0	5%
	1 YES	29%
	2 NO	67%
Frequency Distribution of C7		
Government procurement officials are skilled to handled tenders efficiently and equitably	C7	PERCENT
	0	10%
	1 YES	24%
	2 NO	67%

On the issue of having to bribe a government official, about 90% of the respondents said they have never paid a bribe with only about 5% agree to having paid a bribe to be awarded a tender and the other 5% being impartial on this issue again. Asked if they think they have ever lost out on some tenders because they failed to pay bribes, 62% felt their loss had nothing to do with the bribe while 29% felt they attributed their loss to the failure to pay bribes and the remaining 10% having no opinion on this issue.

With regard to the South African government being seen as protecting SMEs from possible corruption in relation to the awards of tenders, about 66% of the respondents feel that the government does not play a role in this, they protect themselves and for those who belong to a professional body they believe that is where they get protection from. However, 29% do feel that they are protected from possible corruption through initiatives like the sector charters and government policies as well as the Constitution of the Republic of South Africa. Those who had no opinion on this issue constitute about 5%.

There are a significant Iss of respondents (about 67%) that are of the opinion that government procurement officials are not skilled to handle tenders efficiently and equitably. About 24.% is of the opinion that the officials are skilled to handle tenders efficiently and equitably, still this figure is higher than expected. A mere 10 % is impartial on the issue of officials' skills.

Importantly, an average of 4% of the respondents were impartial on the general questions relating to corruption, one may attribute it to doubts of the confidentiality clause which was stated on the questionnaire but which they may have been sceptical about.

Although SMEs do not feel protected by government from possible corruption, they seem to be so committed to their business development. They take it upon themselves that they protect themselves against any form of corruption. They are also not too aware of corrupt tendencies that seem rife.

TABLE 10: RESULTS ON BUREAUCRACY

Frequency Distribution of D1: BUREAUCRACY		
	D1	**PERCENT**
	1 YES	**38%**
The tendering process is often fair and transparent	**2 NO**	**62%**
Frequency Distribution of D2		
	D2	**PERCENT**
	1 YES	**62%**
Current procurement processes stifle efficiency	**2 NO**	**38%**
Frequency Distribution of D3		
	D3	**PERCENT**
There's too much paper work and unnecessary duplication	**1 YES**	**71%**
involved on government procurement	**2 NO**	**29%**
Frequency Distribution of D4		
	D4	**PERCENT**
	1 YES	**86%**
The tendering process is unnecessarily lengthy	**2NO**	**14%**
Frequency Distribution of D5		
	D5	**PERCENT**
Bureaucrats should be given more discretion in awarding	**1 YES**	**81%**
tenders	**2 NO**	**19%**
Frequency Distribution of D6		
	D6	**PERCENT**
Big companies have an unfair advantage in the tendering	**1 YES**	**52%**
process	**2 NO**	**48%**

The issue of bureaucracy is rife and stifles any form of development but is not unique to the South African government. According to these research findings, about 71% of the respondents feel that there is too much bureaucracy while about 29 % do not share the same views. A percentage of about 62% respondents do not find the government tendering process to be fair and transparent with about 38% being of the opinion that it is fair and transparent. On the same breadth, about 62% of the respondents feel that government procurement processes stifle efficiency while about 38 % are not of that opinion.

A high percentage of the respondents (about 71%) said that there is too much unnecessary duplication involved on government procurement processes which stifles SME participation and is very lengthy and costly (81%).The other 19% of the respondents did not find the paper work as a stifling factor with about 14% not even bothered by the lengthiness of the tendering process. SMEs have to submit more documentation and spend more time on documentation on requirements like company registration documents, tax clearance certificate, identity documents of members besides having to handle the duplication of forms that also require the above mentioned documents to be attached to each tender application form.

Surprisingly, about 52% of the respondents find that big companies have an unfair advantage in the tendering process because they are well capacitated to participate in the process while about 48 % of the respondents do not think so. This is a small margin in the difference of opinion. It appears clustering would assist with handling this kind of a challenge. Clustering would ease the administrative and unspecialized waste of resources and ensure a more focused approach to the tendering process and competitive service delivery.

3.4 CONCLUSION

These findings on the respondents' perception on Empowerment, Corruption and Bureaucracy raise interesting issues. The respondents do not perceive the South African government procurement systems as corrupt. They also find the system to be fair and transparent maybe it is because they get notified of public tenders in newspapers and respond accordingly.

It is also interesting to note that they do not welcome the idea of clustering or forming consortiums – they seem to believe that they should be judged on their competitiveness and are willing to tender individually even though they do not get the empowered by he government.

CHAPTER 4

INTERPRETATION OF RESEARCH FINDINGS

This section will outline the interpretation of the research findings of this study citing the South African procurement system as point of departure from the legislative perspective through transformation policies that are still received with resistance by certain regressive groups of people and thereby delaying the transformation process that will make South Africa more economically competitive as well as socially responsible.

An interpretation of these results will also look at how countries like Australia and Northern Ireland have dealt with similar challenges in the past. It is important to acknowledge that as much as these countries have made great strides in addressing their government procurement systems, they are not without problems that negatively impact on SME development and South Africa can learn from them in order to bypass possible similar challenges that would arise if their experience was ignored.

4.1 SOUTH AFRICAN TRANSFORMATION POLICIES

Transformation policies in the democratic South Africa are faced with the dual challenge of integrating the country into world markets as a strong and competitive partner, and overcoming the enormous internal socio-economic disparities created and enforced by the previous regime. Yet, domestically policy makers, in the name of ideology, had persisted with maintaining an increasingly inefficient allocation of resources, both as to labour and capital. In short, the problem for SMEs is not just one of the lost opportunities but encroachment on their markets in a fiercer, competitive environment.

Competitive tendering and contracting (CTC) has embraced alternative means of procuring public sector facilities to the traditional reliance upon an in-house team delivery approach, this is believed to provide greater flexibility in both procuring facilities and managing them. CTC is increasingly seen as the most efficient and effective way of meeting identified requirements of government to provide outcomes for clients and the community as a whole (Steane and Walker, 2000:248). However, this research does not signify the importance of competitive tendering in the South African tendering system, the emphasis seem to be on who you know that what you can provide.

The most appropriate definition of CTC is one by the Australian Industry Commission (1996, p. xix) as a process of selecting a preferred supplier from a range of potential contractors by seeking offers (tenders) and evaluating these on the basis of a clearly defined selection criteria (Steane and Walker, 2000:245). For this CTC process to be credible and efficient, it is vital for government procurement agencies to develop mechanisms that will ensure that this process is as transparent as possible and for the contenders to have access to information leading to the award of the tender.

According to our research findings, 63.64% of the respondents are of the opinion that South African government tenders are not awarded on the basis of competitiveness. This question was not further interrogated in the study but there are general perceptions that attribute the lack of competitiveness to the rise of Black Economic Empowerment (BEE) and Employment Equity Policy (EE) as well as the Affirmative Action Policy (AA).

There are perceptions that BEE, EE and AA means lowering of standards. However, in markets where the government is a major

procurer of goods and services, its own actions may greatly influence how the market operates and therefore impact on competition and on the long-term value for money it can secure. So for procurement, ensuring value for money and encouraging strong competition go hand in hand (Office of Government Commerce, Pre-budget Report Vol. 1, 2003).

4.2 EMERGING CONCERNS

There are concerns about how basic skills affect competitiveness, especially that of SMEs A Iss of studies in the last decade indicate the economic significance of basic skills, the International Adult Literacy Survey estimated that in 1993 basic skills problems cost business more than £4.8 billion a year, and in 1997 the cost to business and government was suggested at £10 billion (Addis, 2003:152).

Basic skills are an element of competitiveness because they are connected with personal development (such as the ability to undertake training), occupational skills, and information technology (IT) skills and also research suggests that there is evidence that jobs need increased basic skills. Technological changes in communication and production systems, the introduction of new safety regulations, and production quality standard are some of the elements which made good basic skills at work rise in importance (pp.154- 155).

There is scope for SMEs to benefit from government contracts in Northern Ireland, both as main contractors and sub-contractors. In response to the government purchasing initiatives launched in the mid 1980s, the Central Unit on Purchasing was established in 1986.

This organization developed from a purely advisory body to a contracting agency.

In Northern Ireland, SMEs benefit through government contracts at three levels: local, regional and national. The Government Purchasing Agency (GPA), state in their business plan that their business is planned and managed with a view to assisting SMEs to sharpen their competition edge (Fee et al, 2002:326). The agency also has a target to achieve an 80% level of satisfaction measured by a survey of suppliers.

The Federal government expenditure per year is RS$ 15.5 billion which equals to US$6, 4 billion (2002) for total public procurement (Source: Study by the Brazilian Planning, Budget and Management Ministry). The Brazilian Constitution (article 37) regulates government procurement at the federal, state and municipal levels, and applies to all public agencies. There is strong emphasis on non-discriminatory treatment for all bidders.

A Iss of studies into the apparent effectiveness of procurement systems have concluded that successful procurement strategies are highly associated with management practices such as unified strategic objectives and enhanced service delivery (Walker and Steane, 2000:246). They go on to give an analysis of practices is illustrated in a series of comprehensive research studies into Construction Time Performance (CTP) in the construction industry.

The research lauds sound client and contract deliverer competencies in communication, team building relationships and sound planning for control. This issue, is therefore, not to pursue procurement as such, but to ensure that procurement agencies

improve the climate for successful tendering and more importantly that sound quality management teams operate in both the operational and supervising organization.

On the other hand, South African industry is described as being product-driven rather than marketing or competition-oriented (Davies, 2001:4; DTI 1997). Firms ignore the importance of meeting consumer needs by focusing on price and delivery issues.

Ryan and Brown's (1995) analysis of service delivery concludes that the central problem associated with evaluating the use of contracts is in defining what outcomes are agreed as being representative of CTC as well as in measuring outcomes. There are issues that persist in remaining unresolved with contestability such as: the alienation of stakeholders from the tendering process and the tendency for service providers to make themselves look good.

Therefore, CTC is one of the most basic elements for sustainable government procurement and SME development irrespective of the economic status of the country as long as strong emphasis is placed on quality. A report commissioned by the Australian Government on the management and delivery of services using CTC, has found there to be a generally positive impact upon: savings; equity and distributional impacts of CTC; and the quality and accountability; the extent, source, and sustainability of cost sustainability of particular activities for contracting Australian Industry Commission, 1996:2). The Australian Industry Commission (1996) also argued that a procurement system implemented with sound management practices in place would be successful for all stakeholders.

4.3 THE CHALLENGES OF EMPOWERMENT

The advent of democracy in South Africa has raised concerns which occupy academics and other interest groups in relation to this concept. With the varying views of empowerment within the South African government and business context, there is a belief that empowerment occurs when higher levels within a hierarchy share power with lower levels within the same hierarchy (Siegall and Gardner, 2000), and is the most widely studied perspective and relevant for the SME context.

The relational perspective of empowerment maintains that it is the implementation of new processes and the distribution of power that that empowers SMEs. On the other hand, the psychological perspective of empowerment focuses on the SMEs' perception of empowerment.

It is also important to acknowledge the work of Baruch and his managerialist counterparts for being proponents of change in the work place by encouraging the structure of decision making which reflect business needs and the needs and expectations of organizational participants. The same principles defined by managerialist authors would add to the body of knowledge of government procurement systems if they can be adopted by government procurement.

Collins (1998: 88) quotes Baruch's work where he draws together for comparison, the industrial democracy schemes which swept the UK, Europe and to a lesser extent the USA, during the 1970s. Both movements are discussions of decision-making, and so deemed to be reflective of the fragile nature of management authority and ideology. Baruch has a concern that for all the potential of

empowerment, there are a range of possible obstacles to the implementation of empowerment which might delay or dilute its positive impact. Baruch has in his work attempted to encourage managers or bureaucrats to reflect upon and in the long-term, improve the management of empowerment.

However, Collins (1998:88) is critical of this analogy because he is of the opinion that it is based on the 1970s ideology and fails to study the changing meanings and connotations of empowerment through time. The one perspective of empowerment is not necessarily better than the other. Matthews et al (2003:297) propose that a possible reason for the failure of empowerment programs is because decision-makers are divided on how they perceive the best way to empower and lack truly empowering elements that can be drawn from a variety of perspectives.

There is another challenge to the implementation of empowerment, that is, which empowers who? If empowerment means giving an opportunity to deliver a service, then how much a stake does the empowering party has? One manager argues that the reason why they appoint people they know is because they want to give a project to someone they know and they can trust because the failure of the project will also impact on them.

But, the subsequent question is what about those SMEs who do not know anyone in those departments? Are they doomed for life or should they rely on luck? One can say that networking can be beneficial for SMEs but then what is networking? Going to functions to meet people and telling them what you do – would it work? Like everything else, it will work for some and not for all. But this kind of interaction does not qualify one as 'someone they

know' but it may be 'someone I met at a function who told me an interesting concept or has a unique business that we need'.

Another interesting dynamic to empowerment in South Africa is that there are those few individuals that are highlighted as 'empowerment success stories.' For some, being empowered means being in the spotlight while that is not a significant indicator – real empowerment is about seeing a potential in that SME and taking a risk of employing the services of that particular entity, giving it all the necessary support and making it a successful service provider. Empowerment should not only be confined to monetary terms. It is beyond that.

The socio-economic context of previously disadvantaged individuals, in particular lack of funds to start businesses on their own, as well as the rise of so-called 'affirmative procurement', have led to an increase of cross-racial partnerships especially for urban formal SMEs in the Johannesburg area (Berry et al, 2002:21).

Berry and co-authors (2002) contend that South Africa's peculiar features imply that policy makers may only partly draw on international experience when looking for policy responses to promote economic growth but the most important element will be to encourage debate and inclusion in all spheres because of the challenges of socio-economic imbalances, low-skill base and education.

In terms of the Financial Services Charter (FSC), big firms are required to play a key role in the creation of SMEs through targeted procurement initiatives. Procurement was seen as the key area to focus empowerment initiatives. Score cards were developed to monitor these empowerment initiatives.

But, a leading economist has suggested that the South African government shift empowerment score-cards away from ownership and management criteria to focus more on a system of points for companies contributing in various ways to the start-up and growth of SMEs. He was commenting on a proposal by BNP Paribas representative that South Africa consider implementing an all-encompassing SME development strategy based on France's post-war model (*Business Day*, 21/11/2006).

Much of the criticism of empowerment has been that large companies have sought to meet their commitments by selling equity stakes. Large companies could earn a range of points, depending on the nature and extent of their help to SMEs, over and above the procurement they make from broad-based empowerment suppliers.

There is however, concern about the seriousness of government and big business in relation to SME development and support. To date there has been a long list of initiatives around this subject matter but none of them has been clearly defined and tested because they have not been inclusive in their development.

According to the World Bank (Jovanovic, Institutions in the public procurement system in Serbia: present status) corruption presents the single largest obstacle to economic and social development which affects the standard of living which is of primary importance for every institution.

The nature and type of government corruption tend to vary depending on the government system and its institutional culture among the societies, this is a global phenomenon. However, its effect and magnitude has detrimental consequence for developing

countries because it hinders on their development prospects like foreign funding and cross country transacting.

Since public procurement is one of the key areas where the public sector and the private sector interact financially, it is a prime candidate for corrupt activity, cronyism, and favouritism as well as outright bribery (Matechak, Fighting Corruption in Public Procurement). Hence, public procurement has been targeted by various national, international and multilateral anti-corruption initiatives as an area in need for reform.

Respondents in this research agree that that there is a high incidence of corruption in the South African government procurement system as in other parts of the world. Corruption cases range from bribing of procurement officials, procurement officials demanding back-hand, tendering processes not followed, lack of transparency and fairness in the tendering process as well lack of proper management and evaluation of government tendering systems. The problem is that there are no concrete systems in place to address these and therefore SMEs will continue being victims.

The Seoul Metropolitan Government adopted a reform measure to combat corruption called the 'OPEN' system, an acronym for the "Online Procedures Enhancement for civil applications." (Cho and Choi, 2004: 719). The OPEN system is a Web-based internet service to transact civil applications for permits, registrations, procurements, contracts, and approvals submitted by citizens. It places transparency and accountability in the core of the management system. The OPEN system is deemed to have favourable opinion on its corruption control effect as tested by the 2004 survey findings (2004:720).

The introduction of information technology in government processes has been received as a much needed government reform system (Jain, 2004:3). According to this view, IT can be a driver and enabler of change and reform due to its boundary challenging nature, and governments can be reengineered and reinvented via IT to serve society better.

Jain (2004:4) notes that the success of IT efforts fail in government because bureaucrats "want to hoard information, not collaborate, and want his or her organization to 'shine' at the expense of another" because "in a traditional sense, it is about ownership which leads to credit which leads to increased resources.

The Serbian solution to corruption identified transparency as the major factor that will hinder corruption. This transparency entails putting an obligation of the purchasing entities to make public its decision to initiate negotiated procedure that includes a suitable explanation for reasons that lies behind. Thus, they say the public and those who have genuine interest will have the opportunity to inform themselves on arguments that lie behind negotiated procedure and chance to lodge a complaint or file for the protection of rights of bidders.

This intervention mechanism has loopholes in that its application is depended on efficiencies (which is lacking because of lack of capacity and skills by those who should be managing the process itself) and commitment by the procuring department as well as stakeholders.

In Canada, due to the corruption complexities, under federal rules, contracts must be tendered with four exceptions. The contract is

needed in a genuine emergency.[6] The value is small (under $25,000). Only one supplier can do the work or supply the product. Tendering is not in the interest of national security. This again is the short-coming of corrupt procurement practices that impact heavily on SMEs because without procurement there will be no business case for existence.

On the basis of the prevailing corrupt tendencies by both government officials and SMEs who allow payment of bribes and unfair processes for their benefits, most government departments will have no choice but to adopt the Canadian approach of freezing the tenders. It is fact that if the corrupt officials do not have a market, they will not be in a position to continue with corrupt practices because of lack of support. SMEs have a challenge to find corruption for their own benefit as well as for the benefit of the economic development.

Improving public service is every government's top priority and much public service delivery depends on bought-in services, so effective procurement is the heart of government delivery and reform agenda. Yet, bureaucracy and inefficiency too often encumbers public procurement. The nature of government procurement involves a sequence of procedural steps that provide opportunities at different levels for transparency and open decision-making.

4.4 ADMINISTRATIVE JUSTICE

Procedural steps are related to the initial announcement and dissemination of information about a tender; the definition and dissemination of criteria for prospective bidders; the establishment

[6] See http://www.summitconncets.com.

of timelines and guidelines for preparation and submission of bids; information about the type of award procedure being used; the definition and dissemination of criteria used to evaluate the quality and competitiveness of a given bid; and the availability of avenues for challenging given award (OECD, 2003).

Some of the issues that were identified by the Office of Government Commerce (OGC) study (2003) in relation to government procurement are that like in South Africa, there is a lengthy procurement time-scales which makes procurement costly for SMEs and also make the government marketplace less attractive to suppliers.

Lack of standardization and consistencies like repeated form-filling; duplication of work by use of varying yet similar contract clauses, lengthy contract negotiations and inefficiency of the procurement of framework contracts. For example, most government procuring offices go through the process of calling for suppliers to register on their database and keep them there. There is no sensible way to explain why suppliers should be on the database when there is a possibility that they may not get any contract from that particular department.

Another crucial factor is that there is less focus on outcome; more time is spent on unaccounted processes that do not add value to the project itself. There is lack of training and guidance on the part of the procurement staff in most government departments and acknowledgement that every department can have unique processes like calling for tenders first and for those who are accepted to be added to their supplier database. There is also alack of innovative and creative solutions that the market can bring to government and inconsistent use of best practice.

Lack of leadership and professional skills and capacity of Senior Civil service to improve decision-making is the most disturbing factor that affects service delivery which is most crucial for the success of projects and programmes. Many a times, the people in those divisions have no basic background in the area they are in and lack interest in developing themselves in that particular area and yet think they are capable of making sound decisions.

Lack of communication with the market; there is no early dialogue with suppliers on requirements and proposed procurement routes leading to better understanding and more effective and efficient procurement. There is also limited advertising of contract opportunities to foster more effective competition.

Another downside to the procurement of process whereby government departments charge a fee for the application forms. This is perceived as economic exclusion and defeats the purpose of the South African Constitution.

Ensuring effective and efficient SME government procurement system has ramifications beyond the government procurement sector, and can provide a solid foundation for sustained economic growth and development. Any unnecessary bureaucracy introduces waste and delay, reduces the likelihood of effective competition and jeopardizes delivery.

4.5 CONCLUSION

The OECD report highlights issues that are not unique to South African procurement system, what is of concern though is the fact that if some of these reports have been developed as early as the

1990s, why could they not have been used as a base for the development of the South African government procurement system. In fact, these are so real in this era and yet have proved fatal in the past.

Researchers across the world have a task of ensuring that their governments do not become victims of ignorance who embark on a system that is not feasible.

CHAPTER 5

CONCLUSION AND RECOMMENDATIONS

Government procurement has proved to be a growth strategy in many parts of the world where it is committed to and applied systematically, the same can apply to the South African government procurement if only there can be commitment to change and outcome focus.

This research placed emphasis on four key areas that impact on SME government procurement which are competitive tendering, empowerment, corruption and bureaucracy. It is important to acknowledge that these are not the only factors and that other scholars will expand on other important areas as well as promote further debate in this subject matter. Having said this, it will be appropriate for me to acknowledge that all is not bad and gloom in the South African procurement systems. Like everywhere else, there are those procurement officials that are highly skilled, professional and deliver good quality service to SMEs but also there are those who do injustice to the procurement systems of the South African government departments.

This research report has highlighted intervention mechanisms that countries like the US, the UK, Australia, Brazil and South Korea have put in place to beef up their procurement systems ranging from setting up dedicated procurement agencies; setting up of information technology and communication systems that will promote transparency; anti corruption policies and systems, competitive tendering contracting; empowerment and clustering as well as education and skills development.

5.1 RECOMMENDATIONS

For SME, the most important recommendation that one can make is that they should have a clear networking plan and make sure that they sell their business as much as they can. The more they focus their energies on interacting with their clients at a professional level, the more their chances of being recognised and known will improve and thus translating into business transacting.

The private sector spends a lot of money in advertising, this is because it has tangible rewards that translate into high profit margins. SMEs, because of budgetary constraints, should not be held back by that short coming. Instead, they should apply the most creative means of advertising which is the selling their ideas personally at all times and to everyone they can manage to reach out to.

The recommendations of this study fall into three broad categories that are interrelated and are dependent on the South African Government establishing an independent Procurement Agency that will have the responsibility of reporting to Parliament and the citizens on the activities of SME development through procurement. This agency will only survive if it can be run like the private sector entities with a clear business plan and objectives as well as annual reviews.

One of the most important ways that government can streamline its procurement activities and achieve better delivery is by improving the skills of procurement staff in decision-making and commercial roles.

Secondly, the South African government procurement system should place more emphasis on successful project outcomes rather than on processes that do not have any bearings on the product. Civil servants tend to concentrate less on due observance of processes than the outcomes, this leads to unnecessary bureaucracy. This will mean the revision of the current procurement processes.

Thirdly, special emphasis should be placed on achieving more consistent use of best practice at all times. Action is needed to improve the accessibility of guidance material and to ensure that it is embedded in commercial practices in procurement.

5.2 CONCLUSION

More research and debate in the area of government procurement is needed with all interested parties taking part in their own meaningful way. SMEs cannot just sit and point fingers without bringing forth well researched possible intervention mechanisms that will benefit the government procurement system as well as the SME sector. Government also has a responsibility of engaging the SME sector on how best they can work together in growing a competitive South African economy and at the same address socio-economic and political challenges that this country is faced with.

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