

**An assessment of e-procurement in the Eastern Cape Provincial
Government.**

by

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DECLARATION

I, Nkosiphendule Mlamli Myataza, hereby declare that this thesis submitted to the University of Fort Hare for the degree Doctor in Administration has never been previously submitted by me for a degree at this or any other university, that this is my own work in design and execution and that all material contained therein has been duly acknowledged.

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Date: December 2014

Signed:



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DEDICATION

This thesis is dedicated to the people of the Eastern Cape who deserve improved services from government,

my wife,

Gcogco

for her unyielding support, encouragement and valuable insight, and to

my children, my mother

and

my siblings.

ABSTRACT

Public procurement is the government activity most vulnerable to corruption. Lack of transparency and accountability are recognised as a major threat to integrity in public procurement.

Repeated findings by the Auditor- General(SA) on poor document management and lack of compliance with the Public Finance Management Act (No1 of 1999) by the SCM units in departments of the Eastern Cape Provincial Administration necessitates the use of e-procurement for purposes of accountability and proper documentation of transactions.

The study assessed the current status of e-procurement in the Eastern Cape Provincial government. This entailed an overview of IFMS, identifying its implementation and shortcomings. Also reviewed was implementation of the Logistical Information System (LOGIS) in the Eastern Cape Provincial Administration (Department of Health) as its e-procurement platform, as well as e-procurement at the Department of Social development and Special Programmes .The status of government suppliers' internet connectivity was also assessed.

The study revealed that delays in full implementation of Integrated Financial Management System (IFMS) by the National Treasury negatively impacts on the e-procurement environment of the Eastern Cape Provincial government; as well as other South African national departments. In the Eastern Cape LOGIS is the transversal financial information system utilised. Full roll out of the LOGIS to all provincial departments and municipalities is dependent on the finalisation of Integrated Financial Management System

Poor Information Technology (IT) infrastructure, high vacancy rates in Supply Chain Management (SCM) units as well as the digital divide also impact negatively on the implementation of e-procurement in the Eastern Cape Provincial government.

The study concludes and recommends that in the short term, till the implementation of the IFMS, the “Procure to Pay” system used by the Department of Social Development be rolled out province-wide and be integrated with the Logistical Information System .

In the long term it is recommended that a model based on a government secure intranet, a supplier’s database, a service providers’ extranet as well as the internet be considered. For bridging of the digital divide recommendations on the use of the Cape Access model as well as use of Thusong centres have been made.

These recommendations could be achieved based on the inculcation of ethical behaviour in the provincial public service.

LIST OF ACRONYMS AND ABBREVIATIONS

A-G	Auditor-General
BAS	Basic Accounting System
CESD	Centralised Electronic Supplier database
CFO	Chief Financial Officer
CIO	Chief Information Officer
CPA	Comparative Public Administration
DACST	Department of Arts, Culture, Science and Technology
DDG	Deputy Director-General
DEDEAT	Department of Economic Development, Environmental affairs and Tourism
ECPA	Eastern Cape Provincial Administration
EC	Eastern Cape
ECDoH	Eastern Cape Department of Health
ECPL	Eastern Cape Provincial Legislature
ECSECC	Eastern Cape Socio Economic Consultative Council
EFT	Electronic Fund Transfer

EXCO	Executive Council
GDP	Gross Domestic Product
GeBiz	Government electronic business
HDI's	Historically Disadvantaged Individuals
HOD	Head of Department
IFMS	Integrated Financial Management Systems
ICT	Information and Communication Technology
IT	Information Technology
LOGIS	Logistical Information Systems
MEC	Member of Executive Council
MFMA	Municipal Finance management Act
MTBPS	Medium term budget policy statement
NPM	New Public Management
NT	National Treasury
OECD	Organisation for Economic Co-operation and Development
PFMA	Public Finance Management Act
PPI	Procurement Price Index
PPT	Provincial Planning and Treasury
PSA	Public Service Act

RUDAR	Department of Rural development and Agrarian reform
SARS	South African Revenue Services
SCM	Supply Chain Management
SEFA	Small enterprise Finance Agency
SITA	State Information Technology Agency
SMME	Small medium and micro enterprise
Soc. Dev.	Department Of Social Development and Special Programmes
StatsSA	Statistics South Africa

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CHAPTER ONE

GENERAL BACKGROUND OF THE STUDY

1.1 Introduction

The size and volume of government procurement contracts facilitates the government's decisions regarding when and whom it contracts with and these decisions affect a number of issues (Bolton, 2006:193). Aside from government procurement being "business," i.e., the acquisition of goods and services on the best possible terms, it also has broader social, economic and political implications (Morris, 1998:87). Arrowsmith, Linarelli and Wallace (2000) in Bolton (2006:193) state that government procurement is and has, for example, often been used to promote aims which are, arguably, secondary to the primary aim of procurement. Examples include using procurement to promote social, industrial or environmental policies. It is in this regard that government procurement is of particular significance to South Africa.

It is thus that procurement is provided for in Section 217 of the Constitution (Act 108 of 1996). However, it should be noted that public procurement is the government activity most vulnerable to corruption. Lack of transparency and accountability were recognised as a major threat to integrity in public procurement at the 2004 Organisation for Economic Co-operation and Development (OECD) Global Forum on Governance: Fighting Corruption and Promoting Integrity in Public Procurement (OECD, 2007:46).

Among a multitude of problems facing the South African government, are the inefficiencies and leakages around the procurement system, to the extent of undermining the role procurement was designed or meant to serve towards the upliftment of the previously disadvantaged (Mpehle and Qwabe, 2008:268).

In South Africa, public sector procurement is estimated to amount to approximately 14% of gross domestic product (GDP). In the United States, the monetary value of public sector contracts given to the private sector is estimated to be about 15% of GDP (Amos, 2005). In Western Europe, it is estimated that public purchasing by government bodies adds up to between 12 and 25% of GDP (Rogerson, 2006).

The South African Minister of Finance, Pravin Gordhan, in his tabling of the Medium Term Budget Policy Statement to Parliament on 25 October 2011, mentioned that the South African economy needs more than just sound fiscal and financial institutions. It requires an extraordinary national effort from all role-players, committed not just to identifying the barriers to progress, not just to proposing solutions, but also to working together over the long haul. He stated that: “We have to address inefficiency, extravagance and waste in public administration, for trusteeship is at the heart of the contract between government and its citizens.”

The Auditor-General of South Africa, in the General report on the Provincial Audit Outcomes of the Eastern Cape for the 2010/11 financial year, also pronounced that of 640 contracts and 1308 quotations tested (to the value of R6,77 billion), the most prevalent findings were that:-

- In 24% of those tested, competitive bids were not invited nor were deviations approved/reasonable/justified.
- In 32%, three written price quotations were not obtained nor were deviations approved/reasonable/justified.
- In 24%, procurement was from suppliers without SARS tax clearance.
- In 12%, there was no declaration of past SCM practices.
- In 32%, there was no prospective list for inviting price quotations.

One of the challenges for public administration, as stated by Bertucci and Adriana (2005:341), is that of building and strengthening management and accountability systems, promoting integrity in the public sector, fighting corrupt practices, developing transparent and fair public procurement systems, introducing financial and management control and evaluation mechanisms, maximizing the utilization of information and communication technology (ICT), for efficiency and transparency.

The revised National Development Plan of 15 August 2012 makes specific suggestions for the reform of public procurement in an effort to cut down on corruption.

Bertucci and Adriana (2005) also noted that in 1995 during a meeting of the General assembly with the International Institute of Administrative Sciences, the keynote speaker at the session of the Group of Experts, Guy Braibant, delivered a very strong message in support of public administration. He stated that the role of public administration was often underestimated. He noted that the scope and focus of state machinery might be changing, but cautioned that if the state failed to operate effectively and efficiently, its development programmes could not be successful. He also stated that while the state machinery did not have to be cumbersome, it should be strong in those areas on which it chose to focus.

Historically, South Africa never recognized the general populace of the country due to its previous governance ideology of apartheid; the general public was not afforded the rights of participating in government business offers through its public procurement system, and therefore marginalized historically disadvantaged individuals (HDI's) in benefiting from government contracting.

However, it should be noted that this previous omission of the previously disadvantaged individuals (PDI's) as well as transparency has been catered for in the Constitution of South Africa, Section 217(1), in that: "When an organ of state in the national, provincial or local sphere of government, or any other institution identified in national legislation, contracts for goods and services, it must do so in accordance with a system which is fair, equitable, transparent, competitive and cost-effective."

It is against this background that this study sought to assess electronic procurement (e-procurement) in the ECPG and the role it could play in addressing the inefficiencies in the procurement system. In doing so, the study will also look at change management issues in the provincial administration, more so, the SCM function of the public sector, as well as the attitudes/readiness of suppliers for e-procurement.

The purchasing of goods and services in the public sector is central, because it supports all functions of government; each governmental unit needs supplies and equipment to accomplish its mission (Thai and Grimm 2000:271). Thai and Grimm (2007) also emphasise that one of the most important challenges in government procurement, is how to best utilize information technology in an age of communications revolution. Numerous researchers have discussed this challenge under the label "e-procurement."

E-procurement has been a common theme of many organizations for the promotion of transparency and good governance in procurement for many developed and developing nations. Some of the early adopters began implementing e-procurement /e-tendering systems 20 years ago before the Internet and Web services became a primary medium for the exchange and dissemination of information (Expert Group Meeting, United Nations, 2011). E-procurement systems have proven themselves within various government organisations as an effective tool for instituting procurement reforms and establishing a fully transparent and open procurement environment.

Al-Moalla and Li Dong (2010:2), observed that several research threads are apparent in the area of e-government procurement, these being: “assessing the value of e-procurement (Subramaniam, 2003), issues related to measuring e-procurement benefits, the impact of e-procurement, the risk associated with e-procurement, strategic adoption of e-procurement technology (Davila *et al.* 2002), e-procurement trading models (Kalakota and Robinson, 2000; Grackin, 2001; Wilson, 2002), and explanation of e-procurement business cases and phases of the e-procurement system development cycle (DPWS, 2002; OGC, 2002).”

Al- Molla and Li (2010:14) acknowledge that electronic procurement is one of the burning issues in e-government at this moment in time and undoubtedly it needs more attention to ensure its success. They identified several organisational issues that are influential upon the effectiveness of e-procurement implementation, these being related to the planning, policy development, change management, and human resource management.

Van Greunen *et al.* (2010:3655) have conducted a study on e-procurement in the ECPA. The main goal of their study was to provide a comprehensive, consolidated e-procurement

business solution that successfully encompasses the entire departments' cost areas while also augmenting their existing accounting, financial planning, and human resources systems. This study was conducted before the introduction of the Centralised Electronic Supplier database and the Provincial Price Index in the Eastern Cape Provincial Treasury. Some government agencies and departments at the South African National level have started with the implementation of e- procurement; amongst these is the Small Enterprise Finance Agency (SEFA) and Statistics South Africa (StatsSA). The Eastern Cape Department of Social Development and Special Programmes also have an extensive e-procurement regime.

A number of initiatives have been undertaken by various organisations around the world to assist in the development and promotion of e-procurement as a key e-government initiative in developing countries to foster good governance and assist in the fight against corruption through transparency and open access. The initiatives have included numerous country case studies, papers and development of strategies, plans associated with the development of e-procurement systems, and information about instituting e-procurement with sound legislation, policies and business practices.

Many of the challenges identified, have more to do with the implementation of the operational processes and policies supporting the system than just the technology associated with the system. This lends credence to the fact that e-procurement is more about a business service operation and not just an ICT project implementation.

Kennedy and Deeter-Schmelz (2001) in Croon (2007:2) concluded that organisational characteristics and organisational influences were significant motivators to the use of e-procurement.

1.2 Statement of the problem

One observable trend in public service management in Africa is the slow pace at which programmes of public service reforms, innovations and modernisation are meeting the desired targets and goals (Alabi, 2001:1).

Repeated findings by the Auditor-General (SA) on poor document management and lack of compliance with the Public Finance Management Act (Act no. 1 of 1999) by the SCM units in departments of the ECPA, necessitates the use of e-procurement for purposes of accountability and proper documentation of transactions.

The MEC (Finance) in the Eastern Cape, has over the years also observed through his policy speeches, that “State procurement (SCM) will be strengthened, with attention being paid to cost management (2010/11:7) and that “added to the call for financial prudence and discipline to be implemented is the need for departments to reprioritize their expenditure in order to find savings and ‘excess’ money that can be redirected to service delivery.” (2012/13:6).

These suggested a need by the ECPA to adopt electronic procurement (e-procurement); the success of e-procurement in the private sector has been a driving force for governments to seek cost reductions and administration efficiencies by adopting this method on a wide scale.

Henriksen and Mahnke (2005:92) observed that when it comes to procurement, public institutions, in the face of budget constraints, are driven by similar cost pressures that private businesses experience.

Much as this may be the case, it poses a problem (more so in the public sector) as the introduction of e-procurement should be done in consultation with all stakeholders and there are barriers to e-procurement implementation which, among others, include factors such as:

- Being unsure as to the legal position of e-procurement
- Company culture
- Upper management support
- Not having the IT infrastructure
- Lack of e-procurement knowledge/ skilled personnel
- Lack of business relationship with suppliers providing e-procurement

as observed by Edie *et al.* (2007:110).

This study assessed what is in place with respect to e-procurement in the ECPG. This was done through seeking answers to the following questions:

- i. How is public procurement as well as e-procurement regulated?
- ii. What e-procurement vehicle is used by the ECPG?
- iii. What challenges is the Provincial Government faced with in implementing e-procurement?
- iv. How ready are the suppliers and government departments for e-procurement?
- v. What change management strategies were applied for the introduction of e-procurement at Social Development?

1.3 Objectives of the study

The study was guided by two objectives. The objectives were to assess the current status of e-procurement within the ECPA from which a set of recommendations could be drawn. The recommendations would then provide some lessons to other South African provinces and Southern African countries on barriers and change management strategies most suited for implementation of e-procurement.

The first objective thus involved assessing the current status of e-procurement in the Eastern Cape Government as well as the effect of organisational culture on these.

The second objective was to compare the implementation of e-procurement at the Department of Social Development with the intention of drawing lessons for the ECPA and thus draw a set of recommendations on how e-procurement can be enhanced and taken to another level. For this to be achieved the attendant change management strategies used were also considered.

1.4 Significance of the Study

The contribution of the study was that it comprised applied research committed to making a difference by putting knowledge into action. The belief was that it will be able to influence the Eastern Cape Government's public policy and its implementation would help in fighting the leakages and perceptions of corruption and thereby save society's financial, material and human resources and align them into their optimal use.

This study would also provide some lessons to other South African provinces and Southern African countries on some barriers to e-procurement implementation and ideas on how to

overcome them and some change management strategies most suited for implementation of e-procurement.

1.6 Theoretical framework

The theoretical framework for the study entails the systems theory, comparative public administration theory and change management theory.

1.6.1 Systems theory

A system can be thought of as an organized whole made up of parts which are connected and directed to some purpose (Terry, 1977:27). Systems are thus basic to human activities. A social entity such as an organisation or a whole society can be viewed as an organism, like other organisms, a social system is made up of parts, each of which contributes to the functioning of the whole (Babbie in Habtemichael, 2009).

The systems theory has essential phases or components and takes place in a specific environment. Each system has an input, processes and an output. (Dye, 1984:41). However, Meiring (2001:84) refer also to the impact as a fourth phase. E-procurement can thus be evaluated in each of the four phases. However, for this study neither the impact was assessed nor were all the barriers to e-procurement explored. Some of the barriers according to Edie *et al.* (2007:110) are:

- Company culture
- Upper management support

- Lack of clarity or certainty as to the legal position of e-procurement
- Lack of the IT infrastructure
- High cost of IT systems
- Lack of technical expertise
- Lack of e-procurement knowledge / skilled personnel
- Lack of business relationship with suppliers providing e-procurement
- Lack of trust on security of transactions
- Concerns about inter-operability
- Non-realisation of business benefit

Also to be noted is that as much as inputs and processes were assessed, the study did not look at all the tools used in e-procurement; the interest was mainly on e-ordering and e-invoicing. According to Vaidya *et al.* (2006:74), some of the commonly used tools in the public sector are e-Tendering, e-RFQ, e-Auctions, e-Catalogues, and e-Invoicing. These tools, e-tendering, e-RFQ, e- Auctions and e-Catalogues are part of the consideration when the provincial e-procurement system is matured.

Regardless of the various shapes and sizes of e-Procurement systems in the market, it has been argued that the basic procurement process is the same across the public sectors and can be addressed with straightforward technology to automate standard processes. This also is the view adopted by the researcher during the course of this study.

The study was partly structured around an a priori model (figure1) by Croom and Brandon-Jones (2007); this model according to them was constructed on the foundations of early e-procurement literature. The model is depicted in the following figure:

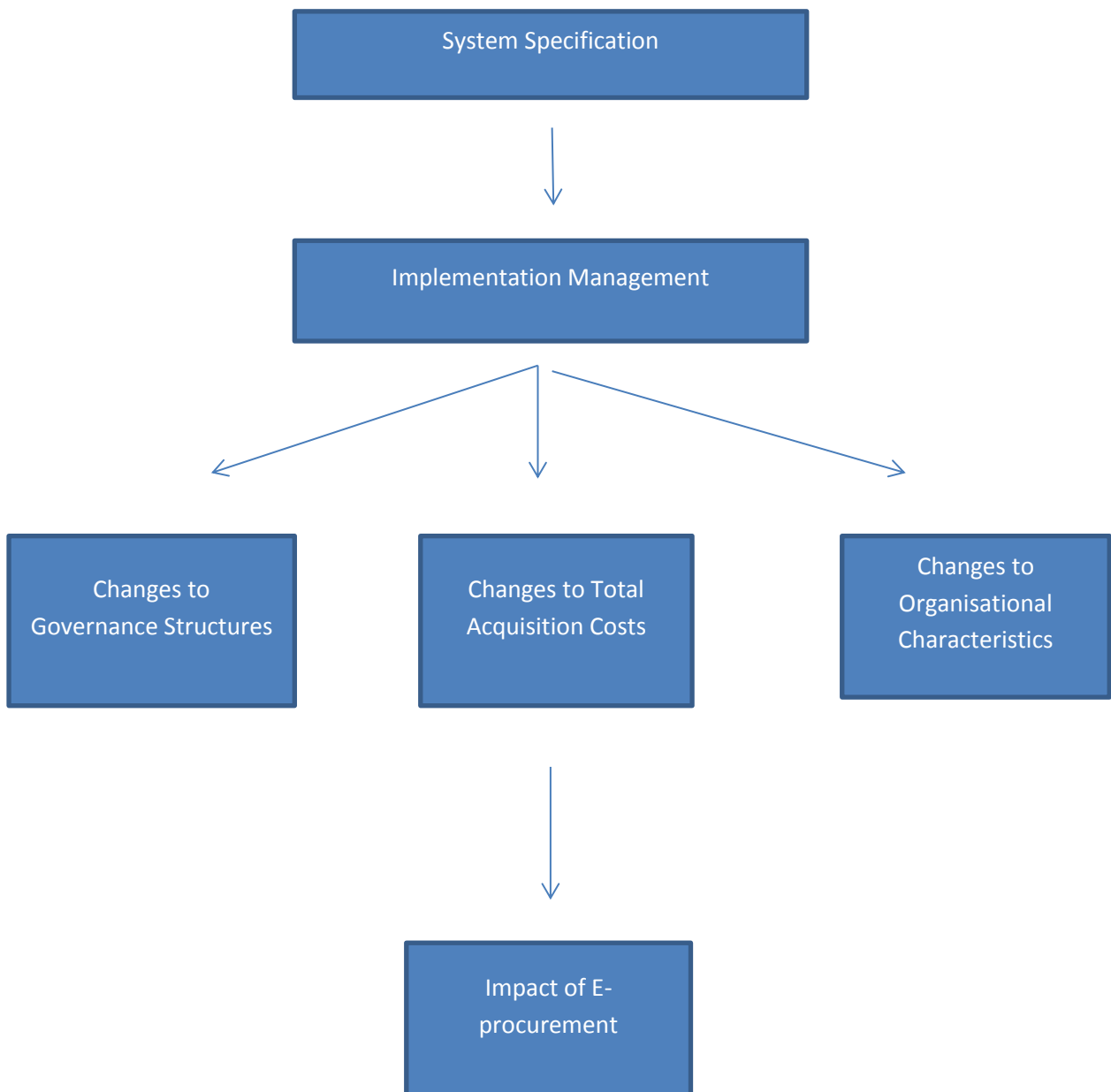


Figure 1: An a priori model of e-procurement effects (source: Croom and Brandon-Jones, 2007).

The focus of the study is on changes to governance structures and organisational characteristics. A change in these may lead to an enhancement of the impact. This is in line with Ijeoma (2013:35) who observed that “any alteration or change in any arrangement of the

system affects the other elements. The interrelationship of the elements in the system is therefore, complex and dynamic. For instance, a management decision involving one organisational element produces impact in the entire organisational system.”

1.6.2 Comparative public administration theory

This study intends to integrate with comparative public administration (CPA), which is the study of administrative concepts and processes across organizations, nations, and cultures. The main concern of CPA is not only to recognize similarities and differences among administrative systems and functions, but also to establish general patterns and to discover and define successful or unsuccessful practices (Heady 2001; Jreisat 2002).

The CPA advantage is measured in contributions that expand options and alternative strategies for improving the performance of public institutions worldwide. The comparative approach has been an important thrust within the field of public administration, committed to human learning and to discovery through comparison. “Comparison is fundamental to all human thoughts. . . . It is the methodological core of the humanistic and scientific method as well” (Almond *et al.* 2000:13).

CPA is committed to the advancement of administrative knowledge by focusing on administrative structures, functions, behaviours, and outcomes across organizations and across cultural boundaries in order to improve the reliability of concepts and practices. Actually, comparison is more prevalent in everyday expressions and formal judgments than is commonly acknowledged. Comparison is often made with respect to: performance to

previous years, to other people, to other organizations, to cost, to benchmarks, and to similar functions and activities across jurisdictions and across national boundaries.

According to Jreisat (2010) cross-cultural comparative research has had a transforming effect on the field of public administration. Opening up to the experiences of other countries, encouraged a transition from a traditional ethnocentric view of the field to a global subject of human learning, teaching, and research.

The human urge to compare one's performance with that of others, seems to be an intrinsic part of our psychological make-up. Comparative studies have also been conducted for centuries (since Aristotle's politics), generating many important and cross-disciplinary generalizations (Deutsch, 1987:7).

Jreisat (2010:626) in his study of comparative public administration in Africa concludes that: "Transforming and revitalizing public administration is necessary for improving administrative capacity to execute policy and to deliver public services, prerequisites of effective governance. Africa, in particular, is pressed to build such administrative capacity and to improve overall governance. In a world of continually increasing interdependence of countries, CPA has many possibilities for developing administrative knowledge of enduring value."

1.6.3 Change Management theory

Public managers are expected to improve the performance of their organisations focusing on efficiency, effectiveness, and propriety which were not the priorities 50 years ago. Therefore, to be able to respond to a changing environment, the public sector has to transform its structures, processes, procedures, and above all, its culture (Melchor, 2008:7).

Melchor (2008:9) observed that: “Introducing change into the public sector is highly controversial and complex as it affects, directly or indirectly, the interests and way of living of members of society. Public and private organisations cannot avoid changing if they are to survive in a more globalised, highly interdependent and fast changing world.”

Barcan (2009) states that: “Change is a continuous process of confrontation, identification, assessment and action. Change issue is an almost obsessive concern in the sociology of organizations, perhaps because of the emphasis placed by bureaucratic rigidity, or practical problems facing incessantly, both business leaders and managers of administrative reforms. ...Change essentially means transformation or change the status quo, a change from a state of affairs to another, from one set of conditions to another. Governments must face a growing complexity and greater acute needs, more specialized staff to manage and solve new problems. Classical Administration, governed by a set of specific legislation is not adequate for this purpose.”

According to Croom and Brandon-Jones (2005:2), the e-procurement literature has also examined the nature of behavioural and relational changes to organizations and their supply chains as a result of adoption. In a study of the motivation of buyers to use the internet as a resource for various elements of the purchasing process, Kennedy & Deeter-Schmelz (2001)

in Croom and Brandon-Jones (2007), concluded that organizational characteristics and organizational influences are significant motivators to the use of e-procurement. In other words, the extent to which e-procurement is used and developed is strongly influenced by the general disposition of the organization as a whole.

The relationship between user perceptions and the level of compliance has been noted by a number of authors (De Boer *et al.* 2002; Croom & Johnston, 2003). The broad argument by these authors is that in order to achieve improvements in performance, internal customer satisfaction should be a key concern in the development, adoption and deployment of e-procurement.

Many public institutions limit their activities to a simple transfer of their information and services online without taking into consideration the re-engineering process needed to grasp the full benefits. The government must have a clear strategy to overcome the barriers to change.

Panayiotou *et al.* (2004:99) in Henriksen and Mahnke (2005) concluded in their empirical analysis of e-procurement adoption in Greece that implementation must be achieved in a manner of incremental change where technological solutions apply to regulations and policies.

The origin of the necessity of change lies in the dissatisfaction with the current state or the perception of a problem (Melchor, 2008:10).

Although managing change has been largely explored in business management, it has not deserved the same level of attention in the public management literature.

This, according to Giddens (2000:122), is surprising as both private and public organisations face the challenge of changing in order to survive in “...the transitions taking place in world society”. In the private domain, customers are demanding more services and of better quality; leading organisations to change quickly to meet the needs of their customers and avoid being overcome by their competitors. In the public domain, citizens expect more from government (including public organisations) to modify its structures and procedures to respond effectively to those demands.

Change models and processes that aim to change the culture of the organisation are difficult to operationalise, because of the inherent difficulty in uncovering the informal systems that guide peoples’ behaviour. One meaning of managing change refers to making changes in a planned and managed or systematic fashion. External events may also necessitate organisational change. Hence, the second meaning of managing change - the response to changes over which an organisation exercises little or no control (e.g., a rapid rise in the price of oil, devaluation of the national currency, civil unrest, new legislation, and so on). The recognition of the need for timely adjustment to external events has given rise to the concept of the “learning organisation”; one capable of continuous adaptation to the changing external environment (UNDP).

This definition is consistent with Tushman *et al.* in Mintzberg and Quinn (1992) who recognise patterns in organisational evolution. These, they term convergence and upheaval. Periods of convergence are those characterised by incremental change where there is either fine tuning or incremental adaptations in organisations.

Convergent periods are, however, a double-edged sword. As organisations grow and become more successful, they develop internal forces for stability. Organisation structures and systems become so interlinked that they allow compatible changes. This view implies that incrementalism is inherent in the public sector and in line with Lindblom's science of "muddling through." (Moon, 2005:55).

E-procurement employs various elements, including electronic ordering, internet bidding, purchasing cards, reverse auctions, and integrated automatic procurement systems.

It has been argued that public organizations tend to be late adopters of new technologies and are perpetually behind the technology-diffusion curve.

Further over time, employees develop habits, patterned behaviours begin to take on values, and employees develop a sense of competence in knowing how to get work done within the system. These self-reinforcing patterns of behaviour, norms and values contribute to increased organisational momentum and complacency and, over time, to a sense of organisational history - epitomised by common stories, heroes and standards-specifies "how we work here" and "what people hold important here".

Organisational history is a source of tradition, precedent, and pride, which are, in turn, anchors to the past (Tushman *et al.* 1986:588). A proud history often restricts vigilant problem solving and may be a source of resistance to change. However, it should be noted that the sources of social and technical consistencies, which are key sources of success, may also be seeds of failure if environments change.

In the ECPG there is no proud history that restricts vigilant problem solving; this is evidenced by the high turnover of MEC's (Member of the Executive Committee) and HOD's (Head of Department) in the two major budget consumers of the Province, the departments of Health and Education. However, there may be some sort of history which reinforces underachievement where the middle management staff and lower ranking officials adopt a stance that "you will come and leave us here"; hence the study not only explores the e-procurement regime but also the attitudes of the public servants to e-procurement.

Raga and Taylor (2005) remark that, the public sector, like individuals, is constantly changing through new leadership, environmental influences and socio-political development. Government and society cannot promote and enforce ethical behaviour solely through the utilisation of ethical codes of conduct or through the promulgation of a plethora of legislation. Social mind-sets are often still entangled in a micro-ethic paradigm. People tend to equate moral values and moral norms with values and norms, which apply only to personal relations structures within which they interact. South Africa needs an organisational culture that not only supports ethical behaviour, but sees that it also defines and underpins right and wrong at an individual and institutional sphere.

Mle (2012:29) mentions that public servants are the heartbeat of the public service and if this heartbeat is unethical and unprofessional, there will be no blood circulation and the public service will 'die'.

According to De Villiers (1989:162), the basis of the evaluation of human behaviour is to be found in a system of values. Ethical values and integrity as a basic value as well as the rule of law are key elements of every democratic society. Public officials in their daily execution of their functions and management of public funding, dispose of discretionary competencies.

These values must not only protect the citizens against arbitrary use of this public power, but also the public authority itself against any improper use of this power by its public officials. The public officials themselves must be protected against any abuse or diversion of law or authority on behalf of the public authority or its official bodies (Hondegheem, 1998:173).

In addition to the above, Hondegheem (1998:173), writes that ethical behaviour is essential for an effective and stable political-administrative authority as well as social and economic structures.

However, Lund (2013) indicates that: “The Auditor-General's last state audit revealed that about R600m in state tenders was awarded to suppliers linked to the families or employees of the department that was awarding the tender. In 75% of these cases, the conflict of interest was not disclosed. This figure doesn't include officials who are employed by one department but do business with another.”

The Special Investigating Unit (SIU) has also flagged how lucrative this game is. In a probe of the national department of health, the SIU found 9000 employees to be active company directors. While about 1000 of these do business with the department, 235 of them had benefited from health tenders worth R42, 8m.

The department of basic education also revealed how more than 3000 of its employees had engaged in business with the state in the 2010/2011 and 2011/2012 financial years. They earned a combined sum of R152m. Of these employees, 2485 were teachers. In the Eastern Cape's embattled education department, the public service commission found that 90% of the department's senior managers had outside business interests.

Eastern Cape Premier, Noxolo Kiviet, is feeling the heat from what she admits is a groundswell of anger over this "insider trading". Kiviet declared war on this practice in August 2011 and promised to ban it. But her bid to do so has stalled in the face of opposition from civil servants who are also political powerbrokers in the province (Lund, 2013).

The frequency and escalating violence of service delivery protests, suggest that non-delivery by the Provincial Administration may lead to dire consequences and inefficiencies in procurement also tend to highlight corruption in the public service. This a situation which can be ill- afforded by those in power, thus there is a need for change around the procurement function.

This indicates that with public procurement in South Africa and the Eastern Cape, there is no proud history which often restricts vigilant problem solving and may be a source of resistance to change; instead this is the one area in which government is leaking funds to corrupt tendencies - thus frame-breaking change, as explained by Tushman (1986), seems necessary for the Eastern Cape. This is due to the fact that as much as e-procurement has been in the private sector for some time, the public sector does not feel compelled to implement it; it perceives itself not in competition and one of the factors leading to frame-breaking change, is industry discontinuities of which substitute process technologies are part. Also to note is that the environment has changed. Governments the world over, with the advent of the internet, are exploring e-governance of which e-procurement is part.

Several features like reformed mission and core values; altered power and status; reorganisation; revised interaction patterns and new executives are characteristic of frame-breaking change (James, 2005).

Frame-breaking change is revolutionary in that the shifts reshape the entire nature of the organisation. Tushman (1986) also observes that piecemeal approach to frame-breaking changes get bogged down in politics, individual resistance to change, and organisational inertia.

Reed (1996) in Melchor (2008) suggests that the management of culture and cultural transformation is a basic skill and characteristic of modern management. However, Driscoll and Morris (2001) claim that major changes in the public sector are problematic or unsustainable unless the values and beliefs systems of the organisational members experience a similar change.

For this study, the working definition of managing change was that: it is the ability to influence people's mind-sets, culture, attitudes and practices to adapt them to a new environment and arrangements. It begins by convincing people of the existence of a problem and of its more viable solution; and therefore of the necessity of a reform.

Research on change management in respect of e-government is more recent than the general change management contributions (Soliman and Affisco, 2003; O'Donnell *et al.* 2003; Li, 2003). However, it does include reference to attempts at implementation issues. For example, Burn and Robins (2003, cited in Archer, 2005), reported a project in Western Australia that included measures of strategic initiatives, cultural readiness, learning capacity, IT leveraging, knowledge capability, and relationship building. This was balanced in the context of change management practice, process management practice, outcomes and performance gains.

“Public sector organisations are often perceived as resisting change. Many public sector organisations seek capacity (the ability to get things done) but not change (a different way of doing old and new things)” (Wignaraja, 2006:4 UNDP). The introduction of increased use of appropriate change management strategies and methods in development cooperation will often be resisted due to the difficulty of precise definition of their results and the uncertainty of their outcomes.

1.6.4 Public Administration in the context of the study

Public administration is an interdisciplinary field that builds on a variety of disciplinary approaches and values (Kettl and Milward 1996; Rosenbloom 1983).

Ijeoma (2009) identifies five stages of development for Public Administration amongst which mention of the New Public Management (NPM) and Current stage are made. Of these stages, the most fitting and one with which the study can be identified or leaning towards, is the NPM.

Bertucci and Alberti (2005,p338) state that, a wave of reforms, which first started in the UK in 1979 with the electoral victory of the Conservative Party, produced a major agenda shift towards reducing the role of government in economic life. It also altered the status and range of items discussed by governments and this, in turn, forcefully brought public management issues onto the governmental agenda (Barzelay, 1998). The debate over the size of the state was then coupled with new ideas regarding how the state should do what it does. Emphasis was set on the administrative reform of government and business principles were introduced into public affairs. The proponents of NPM or reinventing government (its Northern

American variant), which first developed in the Anglo-Saxon world, advocated more efficient and less costly government. NPM introduced a number of concepts into public sector reform, including results over process; downsizing, then rightsizing; lean and mean; contracting out, off-loading or outsourcing; steering rather than rowing; empowering rather than serving; and earning rather than spending (Frederickson, 1996).

The efficient, managerial state, advocated and implemented in several countries, focused on efficiency in the belief that procedural and structural reforms make it possible to have a government that works better and costs less (Bertucci and Alberti, 2005: 330). However, excessive emphasis was placed on efficiency as the guiding principle of state action and too little attention to balancing efficiency with considerations of public interest; it is thus that this study does not seek to enter into that debate but to just highlight such.

According to Bertucci and Alberti (2005:339), although in some parts of the world (especially in the North) NPM has been an effective tool in improving the efficiency of the public sector and in reducing costs, the retreat of the state in social areas (health care, education, housing, etc.) has been detrimental for many developing countries. Under pressure from structural adjustment programmes, which were aimed at achieving economic stability (by reducing hyper-inflation, reducing the budget deficit, etc.), many states chose to cut back programmes particularly in the social area 3 (United Nations, 2001a:32).

However, there are emerging challenges to public administration as per UN study (2004a), of which 3 are mentioned with the first being: how to revitalize public administration and reassert its pivotal role in development while capitalizing on the important lessons of the NPM and governance movements; the second is to reconcile the current shift in public

administration focus from social service delivery to the provision of security with the need to foster economic and social development; the third which relates and guides this study, is the need to strengthen transparency and accountability systems.

Much as the third challenge was due to massive transfer of funds for disasters as a vast amount of resources were required for reconstruction of areas hit by natural disasters, it is still relevant to South Africa which, through its procurement policy, seeks to address imbalances of the past; doubts about corruption, waste and mismanagement of these funds continue to have a chilling effect on the willingness of contributing countries to increase their development outlays.

The third challenge for public administration is, therefore, that of building and strengthening management and accountability systems, promoting integrity in the public sector, fighting corrupt practices, developing transparent and fair public procurement systems, introducing financial and management control and evaluation mechanisms, maximizing the utilization of information and communication technology (ICT), for efficiency and transparency.

By addressing these challenges, countries will not only facilitate the flow of additional resources for development, but will also ensure that these resources be used efficiently, effectively and thus maximize their impact on the development process.

E-procurement also has the potential to improve efficiencies in government administration. The World Bank noted last year that there was progress in the adoption of e-procurement in Kenya and Tanzania and that Ghana and Rwanda had plans to implement it under the umbrella of public procurement reform programmes (D'Souza, 2010).

However, the World Bank identified key challenges such as how to sell the agenda to government due to a lack of awareness of the benefits that e-procurement can provide. Its research found some reluctance in adopting a system that is fully transparent. It therefore outlined certain basic requirements that needed to be fulfilled before an e-procurement system could achieve maximum potential in government. These recommendations included ICT services to be expanded; guaranteeing of secure online environment; development of standards and processes; and most importantly, for purchasers to be trained.

Much as this study amongst other things seeks to assess the current status of e-procurement in the Eastern Cape government as well as the effect organisational culture on these, it should be noted that some studies have been conducted on e-procurement in the Africa region. According to D'Souza (2010), a study was recently completed to establish the extent of the use of e-procurement in the United Nations in the Africa region. Researchers found that e-procurement was being used in the UN for transactions of routine, non-strategic purchases and those UN development agencies were more likely to adopt e-procurement than humanitarian aid agencies due to their operations being more predictable.

Bailey's (1964) concerns about intellectual dispositions and ethics in public administration are still pertinent. In particular, the issues he raises about the tensions faced by public officials in balancing their own ideas with the interests of others to represent the public will are still significant (Selden, Brewer, and Brudney 1999). Intensifying the pressure on public administration are political and economic contextual factors such as accountability for performance (Aucoin and Heintzman 2000), the enfeebling effect of internationalization on national administrations (Peters and Pierre 1998; Strange 1996), and the neoliberal retreat of the state in deference to the private sector (Peters and Pierre, 1993).

Resolution 50/225, adopted by consensus by the General Assembly, reaffirmed that Governments in all countries should promote and protect all human rights and fundamental freedoms, including the right to development, bearing in mind the interdependent and mutually reinforcing relationship between democracy, development and respect for human rights, and should make public institutions more responsive to people's needs. (United Nations, 1996).

It also reaffirmed that democracy and transparent and accountable governance are indispensable foundations for the realization of social and people-centred sustainable development (United Nations, 1996). It further recognized that effectiveness of government requires an efficient and effective public administration in all countries that is responsive to the needs of the people, promotes social justice, ensures universal access to quality services and productive assets and creates an enabling environment for development (United Nations, 1996). Therefore, it invited governments to strengthen their public administrative and financial management capacities through public-sector administrative and management reform, with emphasis on enhanced efficiency and productivity, accountability and responsiveness of the public institutions, and encouraged, where appropriate, decentralization of public institutions and services (United Nations, 1996:9).

The scarcity of efficient ICT tools in public administration represents a major obstacle in implementing the required reforms of the whole society. The number and the usage of e-services of the public administration are limited. The lack of reliable registries is an additional factor that inhibits the use of any new public e-service by the citizens and the enterprises. (Expert Group Meeting, 2011).

However, it should be noted that public procurement in South Africa affirms in a pragmatic and practical manner the country's changed environment, and the principles promoting the Reconstruction and Development Programme (Government Gazette April 1997: No17928, Vol. 382 1997:133). It enables the organs of state to operationalize policies in a targeted, transparent, visible and measurable manner when engaging in economic activity with the private sector, without compromising principles such as fairness, competition, cost efficiency, while remaining inclusive (Government Gazette 1997:133). This is essential because the implementation of public procurement impacts on the quality of life of previously disadvantaged individuals and communities. As such, it has become an essential tool of social policy engineering. It is thus that government has to improve efficiency and effectiveness on matters pertaining to procurement.

1.7 CONCLUSION

Procurement is provided for in Section 217 of the Constitution (Act 108 of 1996). Section 217(1) states that: "When an organ of state in the national, provincial or local sphere of government, or any other institution identified in national legislation, contracts for goods and services, it must do so in accordance with a system which is fair, equitable, transparent, competitive and cost-effective."

Public procurement is the government activity most vulnerable to corruption. Lack of transparency and accountability were recognised as a major threat to integrity in public procurement at the 2004 OECD Global Forum on Governance: Fighting Corruption and Promoting Integrity in Public Procurement.

It requires an extraordinary national effort from all role-players, committed not just to identifying the barriers to progress, not just to proposing solutions, but also to working together, over the long haul. Inefficiency, extravagance and waste in public administration, for trusteeship is at the heart of the contract between government and its citizens and has to be addressed by government.

One of the challenges for public administration is that of building and strengthening management and accountability systems, promoting integrity in the public sector, fighting corrupt practices, developing transparent and fair public procurement systems, introducing financial and management control and evaluation mechanisms, maximizing the utilization of information and communication technology (ICT), for efficiency and transparency.

Several studies acknowledge that electronic procurement is one of the burning issues in e-government at this moment in time, and undoubtedly it needs more attention to ensure its success. Several organisational issues that are influential upon the effectiveness of e-procurement implementation relate to the planning, policy development, change management, and human resource management.

This study is a case study of the Eastern provincial government, on e-procurement. The study is informed by the systems theory, comparative public administration theory and change management theories. The objectives are to assess the current status of e-procurement within the ECPA from which a set of recommendation can be drawn, which would provide some lessons to other South African provinces and Southern African countries on some barriers and change management strategies, most suited for implementation of e-procurement.

CHAPTER TWO

RESEARCH METHODOLOGY

2.1 Research Methodology, design and paradigm.

This study leans towards the ideographic approach in that though there are a number of factors which may lead to improving efficiency and effectiveness in audit outcomes and service delivery in the South African public service, the study focuses on one, which is e-procurement.

This approach enables the researcher to analyse as many of the features as possible of the event as well as analysing it in as deep a manner as possible (Groenewald, 1989:9). This approach was more suited for the phenomena under study as it enabled the researcher to investigate in depth, e-procurement as well as change management strategies against the backdrop of attitudes public officials and as the work ethic of the Public Service.

The ideographic approach seeks understanding or explaining through the analysis of a single case or event and aims at a complete understanding of a particular phenomenon, using all relevant factors. The researcher therefore tries to analyse as many of the features as possible of the event as well as analysing it in as deep a manner as possible. The event is understood and explained in depth and scope of comprehension offered by the analysis.

This is opposed to the nomothetic approach which seeks to discover all those considerations that are most important in explaining general classes of actions of events. This type of explanation “comprises isolation of a relatively small number of factors, on the basis of

which a causal, though partial, explanation is offered for the majority of cases or events which are regarded as belonging to the class of events” (Groenewald, 1989:9).

Groenewald (1989) states that the decision between the ideographic and nomothetic approach deals with the choice of the principle of how the researcher is going to explain, in terms of which the research problem is handled.

2.1.1 Research design and paradigm

Research designs are blueprints for the final research product which commonly encompass a diversity of procedures, including general approaches to data collection (historical, biographical, case and more information–gathering techniques (content analysis, interviews, tests, and more, and ways of interpreting and analysing data (cause, comparison, prediction and more) (Thomas, 2003:225; O’Sullivan and Rassel, 1989:20).

The research design for this study is that of a case study. This method is primarily used when the research focuses on a set of issues within a single organisation. Researchers make use of this method when they want to conduct an in depth study of an organisation. If the topic is not company bound, the main focus should be an in-depth analysis of a single issue or unit. However, it is also possible to investigate in a comparative way. A case study can be defined as consisting of “a detailed investigation, often with data collected over a period of time, of one or more organisations, or groups within organisations, with a view of providing an analysis of the context and processes involved in the phenomenon under study.” (Hartley, 1995:208).

According to Leedy (1997:157), researchers generally do case studies for one of three purposes: to produce detailed descriptions of a phenomenon, to develop possible explanations

of it, or to evaluate the phenomenon. This study leans towards the third of these as it seeks to assess a phenomenon.

The primary advantage of the case study is that an entire organisation or entity can be investigated in depth and with meticulous attention to detail. This highly focused attention enables researchers to carefully study the order of events as they occur or to concentrate on identifying the relationships among functions, individuals, or entities (Zikmund, 2003:116, 2003).

This study assesses e-procurement in the ECPA which can be considered to be a single organisation and e-procurement being the issue under study. Even though in this issue e-procurement is being investigated, it is done so in a comparative manner where e-procurement in the Departments of Health and the Department of Social Development and Special Programmes are investigated within the background of what should be happening with respect to regulation flowing from the National and Provincial Treasuries.

Against the above background, this study was conducted in three parts:

- An overview of the existing process, the Integrated Financial Management Systems (IFMS); identifying implementation and shortcomings of the process from existing literature, government directives, newspaper articles and parliamentary committee meetings.
- A study on the implementation of LOGIS in the ECPA (Department of Health) as its e-procurement platform, as well as e-procurement at the Department of Social development and Special Programmes.
- The status of government suppliers' internet connectivity.

It is from these that the methodological paradigm was derived. The type of research and methodological paradigm can be determined on the basis of various perspectives: type of information sought, application, purpose of research, number of contacts, period of reference, and nature of investigation (Habtemichael, 2009:9). The information sought for this research reveals the nature of the study as basically qualitative even though a blend of qualitative and quantitative methods have been used.

“The word qualitative implies an emphasis on the qualities of entities and on processes and meanings that are not experimentally examined or measured (if measured at all) in terms of quantity, amount, intensity, or frequency. Qualitative researchers stress socially constructed nature of reality, the intimate relationship between the researcher and what is studied, and the situational constraints that shape inquiry.... In contrast, quantitative studies emphasise the measurement and analysis of causal relationships between variables, not processes.” (Denzin and Lincoln, 2005:10).

In the same vein, Rudestam and Newton (2001:36) argue that, in qualitative research, the emphasis is more on description and discovery and less on hypothesis testing and verification. It is an investigation of the interpretation and meaning that people give to the events that they experience.

The qualitative method is well suited for the constructivist paradigm. Constructivism is a philosophical and epistemological approach which holds that reality is not directly knowable and can only be inferred or assigned by convention or consensus. From the perspective of application, this researcher will mainly try to draw conclusions from information gathered

from documents and experiences of officials of the ECPA. The results of the research could be used for improved policy formulation and administration.

As it has been stated that the study is basically qualitative with some quantitative data introduced, it should be noted that, neither method is superior to the other. The qualitative research method involves gathering and interpreting information from the viewpoint of kinds, while quantitative methods collect and interpret data from the viewpoint of amounts, frequencies, or magnitudes (Thomas, 2003:225). It is not an either-or option; the blend of both types of research in the same thesis is well accepted in the research tradition.

Babbie (2005:26-28) argues that: “The distinction between quantitative and qualitative data in social research is essentially the distinction between numerical and non-numerical data...recognising the distinction between qualitative and quantitative research does not mean that you must identify your research activities with one to the exclusion of the other. A complete understanding of a topic often requires both techniques.”

The strength of qualitative research is its ability to provide complex textual descriptions of how people experience a given research issue. When used along with quantitative methods, qualitative research can help to interpret and better understand the complex reality of a given situation and the implications of quantitative data (Mangal and Mangal, 2013:161-162).

From the above it follows that triangulation will also form part of this research. .

Triangulation was broadly defined by Denzin (1978: 291) as "the combination of methodologies in the study of the same phenomenon." The use of triangulation or mixed methods has become increasingly popular in public administration, because it combines the

benefits of qualitative and quantitative methods (Riccucci, 2010:108). Riccucci (2010) further mentions that relying on a combination of data types (triangulation) increases validity as the strength of one approach can compensate for the weaknesses of another approach. By this Riccucci (2010) makes the point that there is more insight to be gained from the combination of both qualitative and quantitative research than either form by itself. Their combined use provides an expanded understanding of research problems.

From the viewpoint of purpose, the design of this study involves exploratory research. It attempts to find out the extent of implementation of e-procurement and identify challenges as well as change management strategies associated with it.

Exploratory studies tend toward loose structures with the objective of discovering future research tasks. The immediate purpose of exploration is usually to develop hypotheses, questions for further research or recommendations (Cooper and Schindler, 2001:134). This is appropriate whenever the problem of understanding needs to be rooted in practice and cannot entirely be deduced from existing literature.

The objectives of exploration may be accomplished with different techniques. Both qualitative and quantitative data techniques are applicable, although exploration relies heavily on qualitative techniques.

2.1.2 Method of data collection

2.1.2.1 Primary research

Primary data was collected mainly from:

- Semi-structured interviews
- Examination of the Centralised electronic Supplier Database (Eastern cape Provincial Treasury)

Interviews

Primary data was directly collected from the respondents through semi-structured interviews. The purpose of data collection was explained to the respondents. The researcher attempted to make sense of and interpret other's views on the status of e-procurement, the challenges in place and change management issues that are prevalent. Care was taken to highlight that the request for information and interviews was not for purposes of the Portfolio Committee on Finance as the researcher is familiar with the respondents through his role at the Eastern Cape Provincial Legislature.

According to Saunders *et al.* (1997:211), structured interviews use questionnaires based on a predetermined and standardised set of questions which the researcher reads out and then records the response on a standardised schedule. By contrast, in semi-structured interviews the interview is non-standardised and the researcher purely has a list of themes and questions to be covered. This will differ from interview to interview as the researcher might decide to omit certain questions in particular interviews as well as change the order of questions to accommodate the flow of the conversation. In certain instances additional questions may also

be required to explore a certain issue in depth. The data will be recorded either by note taking or recording the interview.

In the case of this study, recording was by note-taking as well as voice-recording of the interviews.

The data gathered was interpreted to reflect the current practices in respect of e-procurement, current challenges with the specific implementation of the system used in the Eastern Cape.

The interviewees were:

- Acting Deputy Director-General (DDG) of Cash and Liability Management of the Eastern Cape Provincial Treasury
- Chief Information Officer- EC Provincial Treasury
- Chief Information Office: Office of the Premier (OTP)
- Senior Manager- Information Management- Provincial Planning and Treasury (PPT)
- Senior Manager: IT- Department of Social Development and Special Programmes (Soc.Dev.)
- IT practitioners at Soc. Dev.

Two interview sessions were held with the DDG: Cash and Liability Management of the PPT. The interviews were held in December 2013 and January 2014. The second interview session also included the Senior Manager of Information Management at the PPT.

One interview session was held with the CIO of PPT in November 2013. The interview with the CIO of OTP was held in April 2014. An interview session of the Senior Manager: IT

together with IT practitioners at the Department of Social Development was held in February 2014.

During the course of the study the researcher was always actively involved and taken through the process of placing an order, and facilitating payment through the system. Permission for full assistance was obtained from the HOD of the Provincial Treasury (see Appendix I).

It also should be noted that the researcher, in the course of the interviews, had some documents presented to him by the interviewees to support and inform the interview process. It is thus, that at times, there is a thin line in differentiating between the interviews and analysis of documents as most of the documents (besides those from published sources) were supplied during the interview process.

Centralised Electronic Supplier Database

The Eastern Cape Provincial Treasury manages a Centralised Electronic Database for all provincial government departments in the Province. This database is one of the instruments the PPT uses in improving the efficiency and effectiveness of the SCM function. The approval was granted by the National Treasury. This database has all the biographical details of suppliers doing business with government.

The researcher, in trying to establish internet connectivity of suppliers checked the presence or absence of e-mail addresses for 150 suppliers in the database.

It has been stated that: “an exploratory study may not have as rigorous as methodology as it is used in conclusive studies, and sample sizes may be smaller. But it helps to do the exploratory study as methodically as possible, if it is going to be used for major decisions about the way we are going to conduct our next study” (Nargundkar, 2003:41).

Exploratory research design does not aim to provide the final and conclusive answers to the research questions, but merely explores the research topic with varying levels of depth. “Exploratory research tends to tackle new problems on which little or no previous research has been done” (Brown, 2006:43). Moreover, it has to be noted that “exploratory research is the initial research, which forms the basis of more conclusive research. It can even help in determining the research design, sampling methodology and data collection method” (Singh, 2007:64).

2.1.2.2 Secondary research

This part of the research focused on information collected from existing sources including books, academic journals, earlier researches, media reports (which could not be taken as reliable when such reports lack rigorousness and objectivity), and websites.

Included in some of these sources is an unpublished study by the researcher on the compliance of provincial departments and institutions to the provincial price index, centralised electronic supplier database and stipulated supplier payment periods. This study was for the consumption of the Eastern Cape Provincial Legislatures’ Finance Portfolio Committee and thus was non-academic in presentation though proper research methodologies were followed. In this study questionnaires were used for gathering information SCM units of departments and districts under study (Appendix V). Questionnaires are best used in situations where the researcher is doing either descriptive or explanatory research. In descriptive research, the questionnaires help to identify and describe the variability in different phenomena which in this case would be the supplier readiness and attitudes to e-procurement.

According to Blumberg, Cooper and Schindler (2005), one of the advantages of case studies as compared to other approaches of research, is that they permit the combination of different sources of evidence. In addition to this as suggested by Zikmund (2003:132). Exploratory research may be conducted to diagnose a situation, to screen alternatives, or to discover new ideas. It may take the form of gathering background information through investigating secondary data, conducting experience surveys, scrutinizing case studies.

2.1.3 Population and sampling method.

Sampling is an efficient and effective method of studying a population. The available common sampling designs are probability (simple random, systematic, stratified and cluster) and non-probability (convenience sampling, purposive sampling, quota sampling) (O'Sullivan and Rassel, 1989:106-141).

For the first part of primary data collection, the semi structured interviews; the population for comprised Chief Informations Officers, General Managers of SCM and practitioners of SCM in all 13 Provincial departments of the ECPA.

Although probability samples generally are considered to be more accurate and rigorous, there may be circumstances where it is not feasible, practical or theoretically sensible to do random sampling in applied social research. Given the nature of this study, it was found to be more appropriate to use a non-probability sampling method. Having a specific plan in mind and a defined group of respondents the researcher approached the sampling problem with a purposive sampling method.

For this study 3 departments were sampled, the departments are Health, the Provincial Treasury and the Department of Social Development and Special Programmes. The sampling technique was purposive as:

- The department of Health is the Provincial governments' main procurer of low cost; high volume items at Provincial level and also the department in which the Eastern Cape Provincial Treasury concentrated most of its efforts with regard to Logistical Information System (LOGIS) implementation.
- The Eastern Cape Provincial Treasury was chosen as it is the custodian of the Public Finance Management Act (PFMA), Treasury Regulations which govern public procurement. It also should be noted that SCM operates within a regulatory framework set by National Treasury and extended by provinces and local government bodies to specific policies, legislation and regulations.
- The department of Social Development and Special Programmes has in place an e-procurement system different from that used by other Provincial departments.

For the second part of primary data collection, the centralised electronic supplier database; a probability sampling method was followed. The sampling was simple random sampling. The expectation of internet access was thus the same for all suppliers in the Province. The Province has a lower inequality than the rest of South Africa, at 0.61 compared with the national figure of 0.63. Inequality is highest within the metropolitan municipalities at 0.59 for Nelson Mandela Bay Metro and 0.61 for the Buffalo City Metro (Provincial Treasury:4).

The sample size of 150 for a total population of 15 000 provides at a confidence level of 95% has a confidence interval of 7.96 (Creative Research Systems, 2012). In simple terms this

means that 95% of the times you can be certain that the true percentage of the population is between 20.7% and 36.6%.

2.1.4 Data analysis and interpretation

“Qualitative data analysts seek to describe their textual data in ways that capture the setting or people who produced this text on their own terms rather than in terms of predefined measures and hypotheses. What this means is that qualitative data analysis tends to be inductive, the analyst identifies important categories in the data, as well as patterns and relationships, through a process of discovery” (Schutt, 1996:321). According to Schutt (1996) anthropologists term this an emic focus, which means representing the setting in terms of the participants and their viewpoint, rather than an etic focus, in which the setting and its participants are represented in terms that the researcher brings to the study.

This is the approach that was followed during the course of this study and the findings have been presented under topics that emerged during the interview process and documents provided during the process. The study is of a qualitative and interpretive nature. There are often no predefined measures or hypotheses. Generalisations were made from the data collected during the interviews and from documentary sources (induction). This did not preclude the use of some theories (by deduction) to guide the research process. According to Babbie (2004:58) “...the two logical methods are linked...in practice, science is a process involving an alteration of deduction and induction.

Schutt (1996:344) further contends that like many qualitative approaches, a case-oriented understanding attempts to understand a phenomenon from the standpoint of the participants.

The case-oriented understanding method reflects an interpretive research philosophy that is not geared to identifying causes but provides a different way to explain social phenomena.

2.2 Validity

According to Altheide and Johnson (in Leedy *et al.* 1997), interpretative validity has amongst other factors the two subdivisions which are:

- **Usefulness:** - this case study is of strategic importance to the Eastern Cape Province. The researcher believed that through investigating this situation at this present moment in time after the introduction of the supplier database, which to his knowledge has not been previously studied, the existing body of knowledge on e-procurement in province will be improved.
- **Reporting style:** - great care was taken to ensure the valid and fair reporting of phenomena in this case study.

CHAPTER THREE

THE PUBLIC SECTOR PROCUREMENT ENVIRONMENT IN SOUTH AFRICA

3.1 INTRODUCTION

South Africa's public procurement system is unique in that the principles governing procurement are contained in the South African Constitution. The Procurement Clause in the Constitution is section 217 and it provides that "organs of state" must comply with five principles when procuring goods or services: fairness, equity, transparency, competitiveness, and cost effectiveness. Bolton (2008:202) observed that this does not, however, prevent organs of state from implementing procurement policies providing for categories of preference in the allocation of contracts and the protection or advancement of persons or categories of persons disadvantaged by unfair discrimination.

Supply Chain Management operates within a regulatory framework set by National Government and extended by provinces and local government bodies to specific policies, legislation and regulations. Key legislation influencing this function includes the Public Finance Management Act (1999), Preferential Procurement Policy Framework Act (2000), Preferential Procurement Framework Regulations (2001) and the National Treasury Regulations (2005). Moreover, the Black Economic Empowerment Codes of Good Practice, which were released by the Department of Trade and Industry (DTI) in 2007, still have to impact on supply chain management.

Provincial governments within South Africa have developed and adopted their own Preferential Procurement policies, which, while aligned with the National Preferential Procurement Act, set out targets for provincial departments and entities.

In addition to the legislative framework for government supply chain management, the National Treasury has released supply chain management guidelines, practice notes and policies that guide the implementation of Supply Chain Management in National, Provincial and Local Government Departments.

In its Procurement Methods and Processes document of 2013 the Mpumalanga Provincial Government sees the procurement process deriving its mandate from the following legislation and prescripts:-

- The Constitution of Republic of South Africa, 1996;
- Public Finance Management Act (PFMA), 1999 (Act No. 1 of 1999);
- Preferential Procurement Policy Framework Act (PPPFA), 2000 (Act No. 5 of 2000);
- Preferential Procurement Regulations, 2011;
- Treasury Regulations, 2005;
- Draft Treasury Regulations (published for public comment);
- National Treasury Guidelines and Practice Notes;
- Framework for Supply Chain Management, 1999;
- Supply Chain Management Practice Notes;
- Broad Based Black Economic Empowerment Act (BBBEEA), 2003 (Act No. 53 of 2003);
- The Competition Act, 1998 (Act No. 89 of 1998);
- The National Small Enterprise Act, 1996 (Act No. 102 of 1996);

- State Information Technology Act (SITA), 1998 (Act No. 88 of 1998);
- Construction Industry Development Board (CIDB) Act, 2000;
- The Prevention and Combating of Corrupt Activities Act, 2004 (Act No. 12 of 2004);
- Promotion of Access to Information Act, 2000 (Act No. 2 of 2000);
- National Archives of South Africa Act, 1996 (Act No. 43 of 1996);
- The King Report on Corporate Governance for South Africa, 2002.

A brief discussion of some of the above mentioned laws, regulations and policies and their implications for supply chain management follows.

3.1.1 The Public Finance Management Act (PFMA)

The Public Finance Management Act (PFMA) regulates financial management in the national and provincial governments and at the local government level. The PFMA required that all government departments maintain a ‘fair, equitable, transparent, competitive and cost effective’ procurement system. Subsequent regulations were promulgated to entrench these principles and to eliminate fraud from the procurement process. The PFMA moved the procurement process in government from a ‘rules based system’ run by the State Tender Board to a more flexible and decentralised system managed by the Accounting Officers of Departments and Provinces. The Public Finance Management Act provides the overarching framework for supply chain management in national and provincial government. The Act defines the principles of a procurement system as being fair, equitable, transparent, competitive and cost effective. It assigns overall responsibility for setting up a procurement system to the Accounting Officers of national departments or provincial government bodies and sets out the responsibilities of the National Treasury.

3.1.2 Municipal Financial Management Act (2003)

The Municipal Financial Management Act (MFMA) aims to modernise budget, accounting and financial management practices by ensuring that local government finances are managed in a sustainable manner so as to enable municipalities to deliver the best possible service to communities. It also provides for a sound financial governance framework by clarifying and separating the roles and responsibilities of the council, mayor and officials. Amongst other objectives, it sets out to establish norms and standards for supply chain management.

3.1.3 Preferential Procurement Policy Framework Act (2000)

The Preferential Procurement Policy Framework Act gives effect to Government's priority of empowering historically disadvantaged persons by giving them preferential treatment in procurement activities. The Act entrenches the obligation of government to award preferential procurement points to enterprises owned by historically disadvantaged persons and for certain government priorities. The Act also provides for exemptions to preferential procurement in certain sectors and industries.

3.1.4 Preferential Procurement Policy Framework Regulations (2001)

The Preferential Procurement Policy Framework Regulations control the implementation of the Act. The Regulations describe the preferential points system for evaluating tenders. The 90/10 point system applies to tenders over R 500 000 in value. This point system allocates 90 percent of the evaluation points to the price and functionality of a product or service and 10

percent to preferential procurement criteria. The 80/20 point system is used for tenders below the threshold of R 500 000 and allocates 80 percent of the evaluation points to the price and functionality of a product or service and 20 percent to preferential procurement criteria. The Regulations furthermore define the criteria for awarding the preference points and describe the processes for verification.

3.1.5 The Prevention and Combating of Corrupt Activities Act (Corruption Act)

This Act also applies to public procurement procedures. The Corruption Act creates offenses out of corrupt activities relating to contracts and to the procurement and withdrawal of tenders.

3.1.6 Promotion of Administrative Justice Act (PAJA).

In addition to the above legislation, the general rules of constitutional and administrative law have application to public procurement in South Africa. The courts have held that the solicitation, evaluation, and award of public tenders amount to “administrative action” within the meaning of the Constitution and the Promotion of Administrative Justice Act (PAJA).

3.2 A HISTORICAL PERSPECTIVE OF PUBLIC PROCUREMENT

Procurement reforms in government started in 1995 and were directed at two broad focus areas, namely the promotion of good governance and the introduction of a preference system to address certain socio-economic objectives. The procurement reform processes were

supported by the introduction of a number of legislative measures, including the adoption of the Public Finance Management Act (PFMA) and the (Preferential Procurement Policy Framework Act (PPPFA).The ministries of Finance and Public Works embarked upon an initiative to reform public sector procurement in South Africa in 1995.

A task team was established comprising relevant role-players, including the State Tender Board, officials from Departments of Public Works and Finance, and private sector consultants, with the objective of developing interim strategies that could be adopted and implemented within existing legislation.

The work of the task team resulted in the 10 Point Plan that initiated the public procurement reform process.

The National Cabinet of Unity adopted a 10 Point Plan as its procurement policy during November 1995. The points of this plan encompass the following strategies:

- Improving access to tendering information.
- The development of tender advice centres.
- Broadening the participation base for contracts less than R7 500.
- The waiving of security/sureties on construction contracts having a value less than R100 000.
- The unbundling of large projects into smaller contracts.
- The promotion of early payment cycles by government.
- The development of a preferencing system for SMMEs owned by historically disadvantaged individuals.
- The simplification of tender submission requirements.
- The appointment of a procurement ombudsman.
- The re-classification of building and engineering contracts.

The 10 Point Plan was central to the government's procurement policy since its adoption.

The 10 Point Plan was replaced in April 1997 by the Green Paper on Public Sector Procurement Reform. The Green Paper was government's first step towards greater policy co-ordination across the different spheres or levels of government (Doyle, 2002: 219). The document was an initiative of the Ministry of Finance and the Ministry of Public Works. The Green Paper was created as a discussion document which contained various proposals aimed at achieving objectives of good governance. The Green Paper was viewed by government as a significant milestone in the transformation of public sector procurement in South Africa (Republic of South Africa 1997). It introduced new procurement management concepts such as an affirmative procurement policy, life cycle costing, value for money and appropriate risk management strategies (Doyle 2002: 36).

After the introduction of the approach of financial management rather than financial control, new legislation was passed which included the PFMA. Madue summarises the role of the PFMA as: "... to modernise financial management in the South African Public Service in order to support the processes of public administration, which are focused on achieving sustainable development and high-level public services" (Madue, 2007:306– 318). Overall, the PFMA introduces a uniform system of public sector financial management, which improves on an erstwhile system in which accountability was undermined, amongst others, because different legislation applied to different entities, and expenditure control was too narrowly regulated. Compliance with the PFMA is in compliance to the International Financial Reporting Standards (IFRSs). However, Madue acknowledges that compliance to the PFMA remains a challenge in so far as over- and under-expenditure and the achievement

of effective, efficient and economic financial management are concerned (Madue 2007 :306–318)

3.3 The status of procurement in organizations

The process of changing procurement strategically primarily focuses on increasing the level of procurement professionalism and competence, because it is expected to increase procurement's status within the company. In particular, one reference has been extensively applied; Kraljic (1983) claims that procurement was burdened with too many routine operations and as a consequence did not have the time to do the value-adding activities that was needed. This job included securing long-term availability of critical materials and components at competitive cost in the context of risks and complexities connected to the procurement task. Thus, in order to cope with uncertainties in supply markets, companies are to change the outlook from procurement (operational) to supply management (strategic). Kraljic's argumentation, however, was not necessarily a radically new claim in the procurement literature.

For example, Lewis (1946) argues that top management did not recognise and understand the importance of procurement as a major function. Rather, top management prioritised other areas and in particular marketing. Furthermore, Lewis argued that negotiation must not be restricted to price concerns; in fact this may be the problem: that executives judge a procurer solely on the basis of ability to get lower price. The procurement function/section should be able to judge a purchase agreement including change in specification, follow materials, markets, prices, stocks, and suppliers; thus broadening the scope of negotiation. Applying this knowledge is the role and value of procurement, arguing that “good” procurement performance is rarely achieved by those whose primary interest, training and responsibility

are in other specialist areas (1946). Lewis pays particular attention on negotiation and inventory control as primary procurement skills and he also points to clear policies and procedures as the primary activities to change its position.

During the 1980's, manufacturers utilized Just-In Time (JIT), Total Quality Management (TQM), and other programmes to improve manufacturing efficiency. Choon Tan, Kannan and Handfield (1998) state that, as customers require even more specialized and customized products and services to meet their demands needs, the need for mass customization and flexibility is growing. To respond to these challenges, many organizations upgraded their purchasing function to be an integral part of the corporate planning process. These organizations recognized the benefits and competitive advantages associated with integrating purchasing into strategic planning. Integrating purchasing and supply management with other key corporate functions allows a closely linked set of production processes to be formed. This allowed organizations to deliver products and services to both internal and external customers in a more timely, effective manner.

“Measuring the stage of development reached by a purchasing organization can indicate whether development is appropriate for the needs of the organization. For example, it would be inappropriate to expect an essentially reactive organization to take on board world class concepts.”(Bailey and Farmer, 1998:76)

Several researchers have contributed different purchasing development frameworks which amongst others are:

- the buyer sophistication matrix (Barnes and MvTavish, 1983),
- four-stage purchasing development model(Reck and Lang,1988)
- principal areas of focus model (Sysons, 1989) and

- the five-stage development model (Jones 2000).

Reck and Long (1988) produced a four-stage purchasing development model in 1988 when they began investigating the contributions purchasing could make to organizational strategic roles.

These four stages of development are:

- Passive- the purchasing function has no strategic direction and primarily reacts to the requests of other functions
- Independent- the purchasing function adopts the latest purchasing techniques and practices, but its strategic direction is independent of the firm's competitive strategy.
- Supportive- the purchasing function supports the firm's competitive strategy by adopting purchasing techniques and practices which strengthen the firm's strategic position.
- Integrative- Purchasing strategy is fully integrated into the firm's competitive strategy and constitutes part of an integrated effort among functional peers to formulate and implement a strategic plan.

One of the defects of this framework is that the variables are not operational. However, this framework links with the South African Government policy on procurement which

demands the formation of Supply Chain Management departments. This allows or paves the way for the processes to be integrated as suggested in the model.

3.4 KEY CONCEPTS OF PUBLIC PURCHASING

In government organizations the buying procedures are formalized and tend to follow laid down regulations. This is done in an attempt to minimize corruption and to ensure that public funds are responsibly used.

In public buying apart from routine requirements, the buying function only comes into play once a policy or programme has been adopted (Third, 1984). During the policy decision process the buying department's input may have been limited to indications of likely costs for estimating purposes. Once a policy or course of action has been decided on, a buyer has a clear framework within which to operate. One does not have to decide whether to procure or not, rather one is obliged to acquire goods and services in accordance with the programmes adopted.

For example, if a policy is to provide a public bus transport service, it is not for the buyer to decide whether or not to acquire busses—this one must do in conjunction with the user department at the best value to the community.

It is within the context discussed above that the buying decision processes of local authorities are viewed. This context also relates to the status of purchasing within municipalities, more so with Reck and Long's Passive stage (1988) of the Four-stage Purchasing Development model.

Proper and successful government procurement rests upon certain core principles of behaviour - the Five Pillars of Procurement as suggested by the South African General

Procurement Guideline document of 2004. They are best described as pillars because if any one of them is broken the procurement system falls down.

These pillars are:

Value for money

The term “value for money” includes the monetary value as well as the quality and the utilisation of the procurement system to achieve government’s policy objectives (see the Regulations pertaining to the PPPFA). Due consideration should, however, be given to the quality of goods required, the time to administrate the process, and the cost effectiveness of the ensuing contracts. This is an essential test against which a municipality or municipal entity must justify a procurement outcome.

Open and effective competition

The pillar of public sector procurement requires the following:

- (i) A framework of procurement laws, policies, practices and procedures that is transparent; in other words they must be readily accessible to all parties;
- (ii) Openness in the procurement process;
- (iii) Encouragement of effective competition through procurement methods suited to market circumstances; and
- (iv) Observance of the provisions of the PPPFA.

Ethics and fair dealing

All parties involved in procurement should comply with the following ethical standards:

- (i) Deal with each other on a basis of mutual trust and respect; and
- (ii) Conduct their business in a fair and reasonable manner and with integrity,

Accountability and reporting

This involves ensuring that individuals and organizations are answerable for their plans, actions and outcomes. Openness and transparency in administration, by external scrutiny through public reporting, is an essential element of accountability

Equity

The word “equity” in the context of the five pillars of public sector procurement means the application and observance of government policies that are designed to advance persons or categories of persons disadvantaged by unfair discrimination. This fifth pillar is vital to public sector procurement in South Africa. It ensures that Government is committed to economic growth by implementing measures to support the industry in general. No public procurement system should be operated if it is not founded on this pillar.

3.5 CURRENT PRACTICES IN THE PROCUREMENT ENVIRONMENT

Watermeyer (2004) states that the current practice in South Africa are for each organ of state to develop high-level policy statements and to operate their procurement system within this “policy framework”.

Most of these high level statements embrace aspects of transparency. Rarely are detailed procurement methods and procedures documented in the form of rules. The problem is further compounded by a lack of uniformity in the practical approach to procurement and poor skills and expertise available for drafting of procurement documentation and the development of procurement systems.

Thus according to Watermeyer (2004), despite there being the political will for a transparent procurement system, mechanisms for auditing being in place and the requirements in the legislative framework for giving written reasons for decisions taken, the absence of comprehensive rules, detailed procurement procedures and adequate procurement documents at implementation level causes the system to lack transparency and lose respectability. However, this may no longer hold true in its totality as there have been some detailed procurement method and processes manuals that have been developed by National Treasury and Provincial Treasuries including the Eastern Cape where detailed levels of procurement and the requirements of each are listed as shown in the table 1 below:

Range	Applicable system
R0 – R2 000	Petty cash – No quotations are needed and goods/services are procured directly through “petty cash”. It has to be noted that the Department is not restricted to cash purchases, but may use a combination of electronic funds transfer (EFT), cheques and cash.
R2 000 – R10 000	Verbal or written prices quotations – Three quotations are needed, preferably from the list of accredited prospective suppliers, and orders may only be placed against a written price quotation from the winning supplier.
R10 000 – R30 000	Formal written price quotations – Three written quotations are needed, preferably from the list of accredited prospective suppliers. The Department should ensure that the tax matters of the supplier are in order for any bids above R10 000. Furthermore a declaration of interest (SBD4) needs to be signed for all bids indicating whether or not the prospective supplier is in the service of the state.
R30 000 – R500 000	Formal written price quotations – In addition to the requirements above all bids must be evaluated in terms of the 80:20 principle as set out in the PPPFA. Furthermore bids need to be advertised on the Department’s website and an official notice board for at least seven days.
R500 000 - R1 000 000	Tender procedures should be followed. All competitive bids must be evaluated in terms of the 80:20 principle as set out in the PPPFA. Furthermore bids need to be advertised in the Government Bulletin for at least 21 days.
+ R1 000 000	Tender procedures should be followed. All competitive bids must be evaluated in terms of the 90:10 principle as set out in the PPPFA. Furthermore bids need to be advertised in the Government Bulletin for at least 21 days.

Table 1: Levels of procurement and requirements

3.6 ORGANISATIONAL CULTURE IN GOVERNMENT PROCUREMENT

3.6.1 ORGANISATIONAL CULTURE

A basic definition of organisational culture is necessary to provide a point of departure in the quest for an understanding of the phenomenon. Martins and Martins (2003:380) state the general definition of organisational culture as “a system of shared meaning held by members, distinguishing the organisation from other organisations”.

In relation to the above definition, Arnold (2005: 625) indicates that “organisational culture is the distinctive norms, beliefs, principles and ways of behaving that combine to give each organisation its distinct character”. These two definitions suggest that organisational culture distinguishes one organisation from another organisation. Therefore, organisational culture is to an organisation what personality is to an individual (Johnson, 1990).

Linking up with the above definitions, Schein (1985: 9) also defines organisational culture as “a pattern of basic assumptions invented, discovered, or developed by a given group as it learns to cope with its problems of external adaptation and internal integration that has worked well enough to be considered valid, and therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems”. This description highlights that organisational culture is created assumptions, which are accepted as a way of doing things and are passed on to new members of an organisation.

For new employees this would mean adaptive behaviour within the organisation that leads to new belief systems. This new and adaptive behaviour instilled through organisational values and beliefs are associated with rituals, myths and symbols to reinforce the core assumptions of organisational culture (Hofstede, 1991).

In relation to the above definition, Brown (1998: 9) defines organisational culture as “the pattern of beliefs, values and learned ways of coping with experience that have developed during the course of an organisation’s history, and which tend to be manifested in its material arrangements and in the behaviours of its members”. This suggests that organisational culture is articulated in the organisation, in order to shape the way in which organisational members should behave. However, this pattern of values, norms, beliefs, attitudes, principles and assumptions may be unwritten or non-verbalised behaviour.

3.6.2 CAUSE AND CONDITIONS OF CORRUPTION IN SOUTH AFRICA

The origin of organisational culture from a national culture point of view is based, among others, on the work of Deal and Kennedy (1982). According to this view organisational culture is seen as being central to organisational success rather than factors such as structure, strategy or politics. As a result the attention shifted away from national cultures and focused more on organisational culture.

However, for South Africa this may not be the case as contemporary South Africa was founded on a corrupt system. Apartheid laws and resulting prosecutions from contravening them, as well as imprisonment without trial; are examples of structural violence- by definition, apartheid South Africa was politically corrupt (Gidenhuys, 1991: 48-49)

That the intensity and severity of corruption of the apartheid era would be reflected in a coming democratic government could have been foreseen in the late 1980s (Habtemichael, 2009: 166). Wilson and Ramphele(cited in Camerer, 1997:31) predicted that “the old clerks would not necessarily learn new habits” Old habits do not vanish overnight but die hard, even

issues like corruption have the capability of regenerating and continuing to survive in new forms. Ginwala (2001), former South African speaker of parliament, has remarked:

“In South Africa, we inherited an intrinsically corrupt system of governance... .It has taken us years in Parliament to repeal old laws and introduce even the basic legal framework that would enable us to deal with corrupt bureaucrats, politicians and police...the corruption was that was built into the system is very difficult to overcome.

Heymans and Lipietz (1999) expressed this as: “corrupt practices inherited from the past also prove resilient and particularly astute in adapting to new democratic orders” The United Nations Development Program (2001c) reports that the corruption and unethical behaviour that was rife in the “homelands” within the apartheid state has a strong influence in the current state. It should be noted that this would manifest itself more in the Eastern Cape as the province inherited three sets of different administrations. Kanyane (2000: 10) similarly argues that the homeland machinery created loopholes at political, administrative and social levels which supported an environment that was conducive to corruption. Along the same line, Lodge (1998) concludes that the fact that regional governments are more corrupt than the national government indicates that much of the current level of corruption can be attributed to the corrupt civil service of the past. These inherited systems from the past were not designed to support service delivery as required in the current democratic dispensation (Lodge, 2002: 34).

This is not unique to South Africa as Heymans and Lipietz (1999: 29-30) provide an example from the Philippines: “Democratisation has had the effect of not reducing corruption, but of “decentralising” it... When the country was democratised, the powerful local elite became the main agents of corruption, using their local power bases as the launching pads to engage national politicians and bureaucrats in self-enriching practices.”

Lodge (2002:130-134) argues that “current democratisation and restructuring processes in South Africa similarly have opened new avenues for the abuse of power that substantially occurs in Provincial administrations that embody the legacy from the ‘homeland’ civil services.”

Nevertheless, the argument that posits the apartheid system as the main cause of corruption in contemporary South Africa is not strong. In the expert survey conducted by the Institute for Security Studies (ISS), Camerer (2001: 44) found that, regardless of what influence it may have, the apartheid legacy was perceived to be the least contributor to the present system of corruption in South Africa. Lodge (2002: 133) also indicates that it cannot be totally argued that all misbehaviour is explicable as the persistence of old bad habits. New kinds of government obligations, for example the subsidisation of low-cost house and the provision of school nutrition, scholar transport have supplied fresh opportunities for corruption

3.7 CURRENT POLITICAL AND SOCIO-ECONOMIC CONDITIONS, MORAL VALUES AND TECHNICAL ASPECTS IN THE PROCUREMENT ENVIRONMENT

In 2000, a survey was conducted in South Africa by the ISS to probe the cause of corruption. The results indicated that varying causes in society and government were calling for different responses to address the problem. Decline in morals and ethics, and weak checks and balances and mismanagement were cited as the most common causes of corruption in South African society and government respectively. Greed/ self-enrichment also featured high as the next possible cause in society and in government (Habtemichael, 2009: 168).

“Weak control mechanisms which create the sense of a relatively risk-free situation is a reason for the prevalence of the demand side -of corruption- public officials requesting

bribes” (Camerer, 2001: 52-53). This is compounded by the illiteracy and low educational status of many black South Africans, which has denied them an opportunity to question the government on aspects of financial administration.. Moreover, the “sunset clause” (which guaranteed jobs in the inherited public service) that operated between 1994-1999 was likely to condone patronage through employing unqualified public officials from defunct homeland governments characterised by the inefficient use of resources. This condition was a possible contributor to corruption (Kanyane, 2001: 15-20). In relation to this situation, Lodge (2002: 134) points out that the non-meritocratic processes of recruitment and promotion inherent in certain kinds of affirmative action, are becoming sources of stimulation for corruption. Unless strictly regulated, they can facilitate nepotism and dishonesty.

In a study of the implementation of the Provincial Price Index in the Eastern Cape Public Administration in 2012, this researcher also found that:

- Lack of knowledge by end users of the procurement process may lead to delays in procurement and thus impact on the expenditure of the department or institution.
- Inadequate staffing of SCM units can impact on the procurement expenditure of departments and undermine the Presidential and MEC’s initiatives of expediting SCM processes and the more recent statement by the Minister of Finance during his tabling of the MTBPS speech on the 25 October 2012 that provinces provide SCM projects at the right time and at the right price.
- Vacancies and lack of uniformity in the structural arrangements of SCM units/sections within government Departments result in no uniformity in the application of SCM processes and allow for exposure to risk of manipulation.

Van Gruenen et al (2010) also highlighted some of the key issues and challenges of the ECPA procurement as:

- Procurement has been used to provide indirect assistance to SMME's, although tracking of impact is inconclusive.
- The procurement system is highly prescriptive and is focussed on compliance with procedures
- The objective of achieving “value for money” is often confused with approving the tender with the lowest price
- There does not seem to be an indication that the procurement process is cost-effective.
- There does not appear to be data on the use made of the money saved through the present procurement system.
- A high vacancy rate in most SCM sections throughout departments.
- Serious lack of skills among SCM practitioners
- Poor communication between SCM Unit and CFO causes delays and poor administration
- General poor procurement planning results in goods and services not being available when they are needed.
- Lack of timeous and accurate reporting of SCM information
- Poor contract management
- Poor ICT infrastructure in the whole ECPOG leads to an uninformative, poor information society as evidenced by long purchase cycle times due to manual procurement systems currently being used. The tendering/bidding timeframes tend to be too long due to limited access to information by the prospective suppliers/bidders timeously.

3.8 NEED FOR CHANGE

In his budget speech of 2010, Minister Pravin Gordhan, referred to public procurement as wasteful and inefficient. According to the minister, greater transparency and accountability in procurement systems can assist in dealing with corrupt practices, inefficiency and poor planning. The minister also referred to the tendency to award contracts to contractors that cannot perform, resulting in society not receiving the goods and services that they require and are entitled to. One year later in minister Gordhan's 2011 budget speech, he referred to public procurement as vulnerable to waste and corruption. The minister acknowledged that the integrity of governance is compromised and that the country is in dire need of a strong procurement framework.

Minister Gordhan called on senior managers to work actively to improve their procurement processes and oversight of this function.

Considering the minister's acknowledgement of the state of public procurement in South Africa, Van der Walt (2012:93-94) argues that the compilation of a strong procurement framework cannot be separated from the manner in which the framework is executed. When such a framework is part of irresponsible bureaucracy the absence of terminology such as integrity, efficiency, effectiveness and accountability contributes towards questionable governance of those in public office.

The PFMA allocates the responsibility of developing an appropriate procurement system within certain guidelines for accounting officers' respective institutions. It is therefore possible that government's procurement initiatives are executed in a manner that makes it vulnerable to waste and corruption.

Van der Walt (2012, p) also found out that “the innovations introduced during the period 1999 to 2005 mainly brought about a SCM function for which accounting officers are held responsible for the introduction and execution of an appropriate procurement system for that department. Whereas public procurement was regulated by the State Tender Board in terms of the ST36 and ST37, the post-PFMA introduced the GCC and Guide to accounting officers to direct procurement. She contends that public procurement regulation takes place through regulatory documents that mainly underwent a name change and that the only changes are found in the reporting framework.

Innovation as a theme for procurement is sparse although with the inclusion of entrepreneurship has a more rigorous contribution. There are primarily two streams of work: procurement in terms of how it contributes to its company’s innovation processes, and secondly how procurement in itself is able to innovative its practices. The claim is that the two work streams are related to each other through the outline of maturity models; i.e. if procurement is participating in a company’s innovation processes, it is expected to have a high sophistication level; and how procurement itself is innovative becomes a move between stages in the model. The following section is structured by first addressing innovation perspectives and then entrepreneurship Andreason, (2012: 45).

Carter et al (2007: 33) identify several innovation areas in procurement, such as developing innovative category strategies. Because it is expected that more and more innovation will become dependent on suppliers delivering the innovation, companies need to identify external sources of supply, structure the commercial and working relationships with those sources, and establish how they can make those resources an integral part of the product and service processes .

Similarly, Favre & Easton (2006) focus upon innovation in relation to improve procurement performance and includes new and better technology (e.g. e-sourcing), more companies and countries from which to source from (global sourcing), and new and increasingly sophisticated approaches to managing the procurement organisation such as outsourcing procurement and leverage new technologies. Four areas of procurement are regarded to be value-adding; strategic sourcing, supplier management, category management, and performance monitoring. From Favre & Easton's work, innovation refers implicitly to changes of procurement practices through leadership, organisational structure, cross-enterprise integration, resource management and development, stakeholder relationship management, and metrics being a positive correlation to procurement performance.

McInerney and Barrows (2005) observed that new approaches to management in the public sector are imperative as governments enter the new millennium. Market dynamics have created challenges for public organizations, with the emergence of the global economy, advances in technology, increased societal demands, and the need to provide more social services with fewer resources (Kernaghan and Siegel, 1999: 3).

A widespread desire for increased organizational scrutiny has also increased the pressure for change, given more accessible globalized information systems and heightened media attention critical of government inefficiencies in service delivery. Response mechanisms have emerged within the private market to meet these recent challenges but government organizations have been slower to respond. E- Procurement is the best route to ease perceptions of inefficiency of the public procurement system, more so in the Eastern Cape.

3.9 CONCLUSION

South Africa inherited an intrinsically corrupt system of governance. Even though this is the case, supply chain management operates within a regulatory framework set by National Government and extended by provinces and local government bodies to specific policies, legislation and regulations.

It has taken years in Parliament to repeal old laws and introduce even the basic legal framework that would enable government to deal with corrupt bureaucrats, politicians and police.

Procurement reforms in government started in 1995 and were directed at two broad focus areas, namely the promotion of good governance and the introduction of a preference system to address certain socio-economic objectives. The procurement reform processes were supported by the introduction of a number of legislative measures, including the adoption of the Public Finance Management Act (PFMA) and the (Preferential Procurement Policy Framework Act (PPPFA). The ministries of Finance and Public Works embarked upon an initiative to reform public sector procurement in South Africa in 1995.

It has been argued in the private sector that in the past top management did not recognise and understand the importance of procurement as a major function. Rather, top management prioritised other areas and in particular marketing. Furthermore, it was noted that negotiation must not be restricted to price concerns; in fact this may be the problem: that executives judge a procurer solely on the basis of ability to get lower price.

The South African government advocated that proper and successful government procurement rests upon certain core principles of behaviour; the Five Pillars of Procurement as suggested by the South African General Procurement Guideline document of 2004.

These pillars are value for money; open and effective competition; ethics and fair dealing; accountability and reporting and lastly equity.

There are several issues and challenges which negatively impact on procurement as well as e-procurement. Some of these have been revealed in previous studies, they are a high vacancy rate in most SCM sections throughout departments, general poor procurement planning which results in goods and services not being available when they are needed, lack of timeous and accurate reporting of SCM information and poor contract management.

Introduction of the PFMA which was to improve on an erstwhile system in which accountability was undermined, amongst others, because different legislation applied to different entities seems to have not yielded the expected results. Compliance to the PFMA remains a challenge in so far as over- and under-expenditure and the achievement of effective, efficient and economic financial management are concerned.

It has been acknowledged that the integrity of governance has been compromised and that the country is in dire need of a strong procurement framework, e-procurement seems to be the best route to ease perceptions of inefficiency of the public procurement system, more so in the Eastern Cape where such perceptions are ubiquitous.

CHAPTER FOUR

A REVIEW OF E-PROCUREMENT

4.1 INTRODUCTION

There are several definitions of e-procurement with Satyanarayana (2007) defining it as the transformation of government to provide efficient convenient and transparent services to the citizens & businesses through Information & Communication Technologies

Handfield (2011) defines e-Procurement as the term used to describe the automation through web-enabled tools of many elements of the procurement process.

Even though there are many definitions there seems to be agreement that the objectives of e-procurement are:

- To act as the catalyst for procurement reform
- To enhance transparency, monitoring and control in procurement process
- To bring in economies of scale through aggregation of demand
- To reduce cost of doing business for both government and suppliers
- To establish level playing field and “fair” competitive platform for the suppliers

Satyanarayana (2007) contends that the e-procurement scenario consists of payment systems, buyers, logistical systems, consultants, suppliers and contractors, their interactions can be represented as:

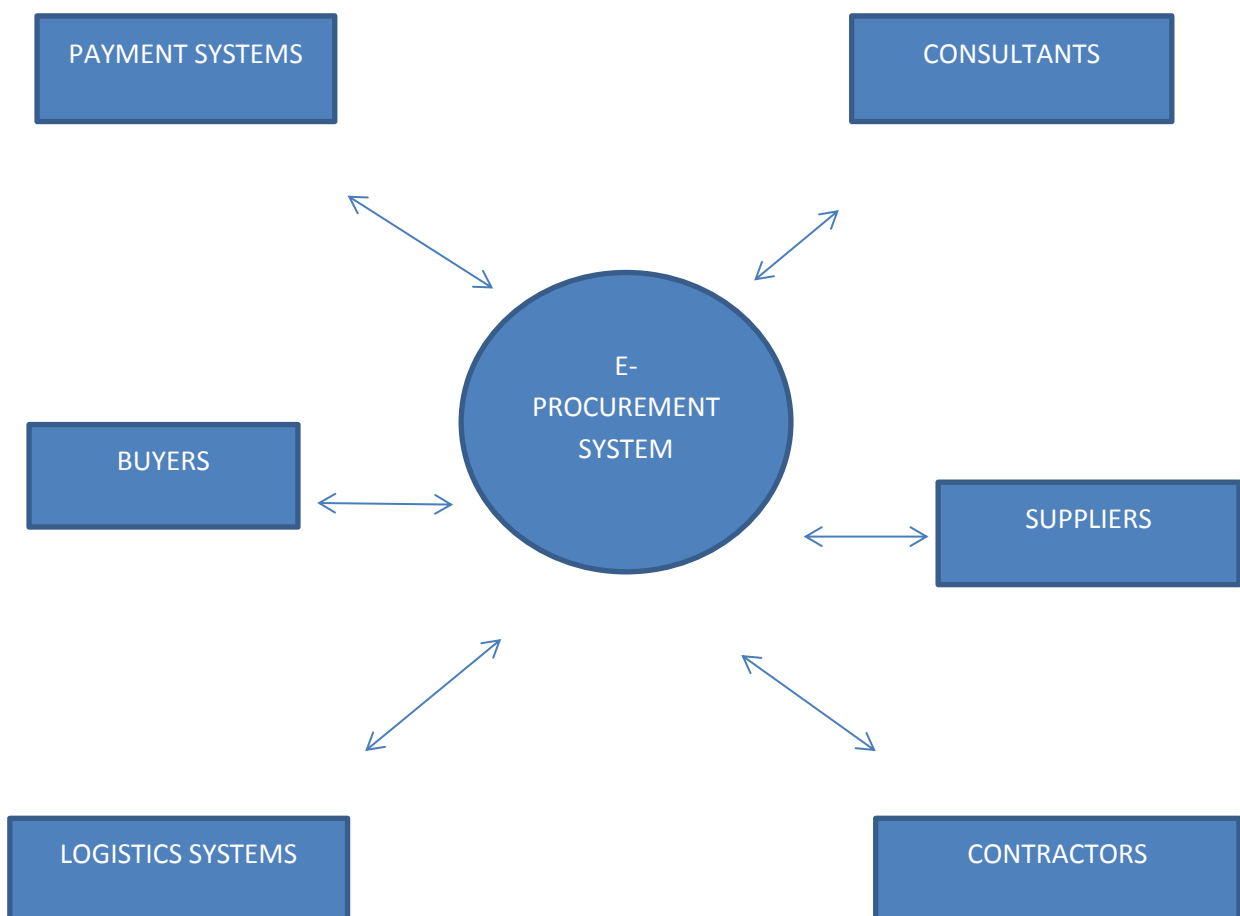


Figure 2: the e-procurement scenario

In e-procurement it is these systems and various stakeholders that need to be managed. Each of these has its own challenges which require specific interventions methods or approaches in order to tackle the challenges.

On the e-procurement system side Satyanarayana (2007) identifies the following as the major issues to be tackled:

- Difficulties in establishing & maintaining the system
- Lack of Financial resources for maintenance & transaction

Handling

- Concerns of
 - Confidentiality of bids
 - Authenticity of bids

- Varying requirements of

Multiple Departments

4.1.1 BENEFITS OF E-PROCUREMENT

According to McCue (2012: 1) “Governments across the globe appear to identify and tout technology as a way to transform how they govern. Public procurement is at the forefront of most reform efforts given that it plays a significant role in promoting accountability and transparency. Findings suggest that digitalized public procurement has not yet led to significant transformative changes. Unsuitability of software platforms, organizational resistance, lack of strategic systems’ integration and failure to involve public procurement professionals in the design of e-procurement systems were identified as the primary obstacles of effectively implementing digital procurement. These findings suggest that in order to capitalize on the potentially transformative nature of ICT in procurement, policymakers,

system designers, and procurement professionals must take an active role in both the design of the software and its adoption across political, institutional and behavioural domains”.

Even though this may be the case, benefits of e-procurement are quite considerable, amongst some are:

- A virtual elimination of paperwork and paperwork handling
- A reduction in the time between need recognition and the release and receipt of an order
- Improved communication both within the company and with suppliers
- A reduction in errors
- Lower overhead costs in the purchasing area
- Purchasing personnel spend less time on processing of purchase orders and invoices, and more time on strategic value-added purchasing activities

The United Nations Expert Group (2011:10) observed that, e-procurement has been a common theme of many organizations for the promotion of transparency and good governance in procurement for many developed and developing nations. Some of the early adopters began implementing e-procurement / e-tendering systems 20 years ago before the Internet and Web services became a primary medium for the exchange and dissemination of information.

E-procurement systems have proven themselves within various government organizations as an effective tool for instituting procurement reforms and establishing a fully transparent and open procurement environment.

The business case for implementing an e-procurement system has also been undeniable through:

- Significant improvement in transparency: traceability of all transactions;

effective for preventing fraud and corruption; provides audit trail.

- Enhances value for money: enhances competition through improved accessibility; reduces procurement costs and transaction costs; facilitates online catalogue based purchases, such as framework contracts; improved market intelligence and resource allocation management.
- Improved work efficiency: reduces disputes; better enforcement of regulations; reduced procurement time; standardization and streamlining of procurement process.

E-procurement systems have also allowed governments to apply standard procurement processes across institutions, using appropriate monitoring and management controls to delegate more responsibility to the individual procuring entities. The proper implementations of standard processes and controls has improved the work efficiency within procuring entities and reduced procurement times by providing users with electronic tools and environments to support their tasks. Countries with a well implemented system have noticed higher participation of SMEs (Small and Medium Enterprises) due to improved market access and a reduction in marketing costs (United Nations, 2011).

However, the enthusiastic reaction to e-procurement in developing countries like South Africa has never been measured by critical evaluation and this research makes an attempt at this.

Various organisational issues have provided a general framework within which explorations of e-procurement initiatives and success are made. In order to achieve e-procurement goals in the public sector, organisations must be able to manage the change from the traditional methods of sourcing to the e-procurement approach effectively.

E-procurement offers the benefits of greater transparency, wider geographical reach and lesser time of transaction and better pricing (Smith, 2009). Also sustained savings can be

achieved through automated, easy-to-use purchasing, invoice management and supplier enablement capabilities.

One observable trend in public service management in Africa is the slow pace at which programmes of public service reforms, innovations and modernisation are meeting the desired targets and goals (Alabi, 2001).

While several factors may be responsible for this, general lack of enthusiasm to drive the reform efforts is a particularly threatening one. Accordingly, the need to take the human and societal factors into consideration in the conception, design, implementation and evaluation of public service reform programmes cannot be overemphasised

There is the urgent need to identify those critical factors, issues and 'fears' that seem to threaten innovative changes in the public sector as will be the case with this study.

The advent of the Internet, digital connectivity, the explosion and use of e-commerce and e-business models in the private sector are pressuring the public sector to rethink hierarchical, bureaucratic organizational models (Ndou, 2004). Customers, citizens and businesses are faced every day with new innovative e-business and e-commerce models implemented by the private sector and made possible by ICT (Information and Communication Technologies) tools and applications, are requiring the same from governmental organizations.

Al-Moalla and Li (2010) state that e-procurement has become one of the most successful applications of electronic commerce (e-commerce), having been implemented by many companies seeking better business processes. In this respect, Kalakota and Robinson (2000) have identified benefits in cost saving, improved efficiency and control, and consequently, these are the three catalysts driving the growth in the e-procurement area. It is also believed that there is more benefit to be gained by the public sector from using e-commerce for sourcing, rather than for transaction management (Baker, 1999; Arnold and Essig, 2002).

An e-procurement solution would help government capture and settle all spend and readily obtain global user and supplier adoption. This improves process efficiency, increases compliance, and garners sustainable savings across the enterprise. However, much as this would lead to global user and supplier adoption the primary aim of the SA procurement system as it should be taken into cognisance and hence once more the attitudes of the suppliers and officials is of importance.

Van Greunen et al, (2010) observe that, through the use of an electronic procurement system, electronic tender creation, automated dissemination of contract details, automated adjudication and automated contract award processes will reduce the traditional tendering processes by more than 50%. Such savings would greatly benefit the South African public service.

4.2 EVOLUTION OF E-PROCUREMENT

Ndou (2004) observes that, the advent of the Internet, digital connectivity, the explosion and use of e-commerce and e-business models in the private sector pressurised the public sector to rethink hierarchical, bureaucratic organizational models.

Customers, citizens and businesses were faced every day with new innovative e-business and e-commerce models implemented by the private sector and made possible by ICT (Information and Communication Technologies) tools and applications, required the same from governmental organizations. Citizens are referred as customers for governments, since governments need to empower rather than serve, to shift from hierarchy to teamwork and participation, to be mission oriented and customer focused, and to focus on prevention rather than cure. Governments worldwide are faced with the challenge of transformation and the

need to modernize administrative practices and management systems. Recently, the public sector has begun to recognize the potential opportunities offered by ICT and e-business models to fit with citizens' demands, to offer better services to citizens and to increase efficiency by streamlining internal processes. ICT causes a "paradigm shift" introducing "the age of network intelligence", reinventing businesses, governments and individuals.

Paradigm shifts prevail in the public sector too. The traditional bureaucratic paradigm, characterized by internal productive efficiency, functional rationality, departmentalization, hierarchical control and rule-based management is being replaced by competitive, knowledge based economy requirements, such as: flexibility, network organization, vertical/horizontal integration, innovative entrepreneurship, organization learning, speed up in service delivery, and a customer driven strategy towards procurement functions. These new paradigms thrust the shift toward e-Procurement paradigm, which emphasizes coordinated network building, external collaboration and customer services".

The evolution of e-procurement can be best represented by the figure below which is of the evolution of GeBIZ in Singapore.

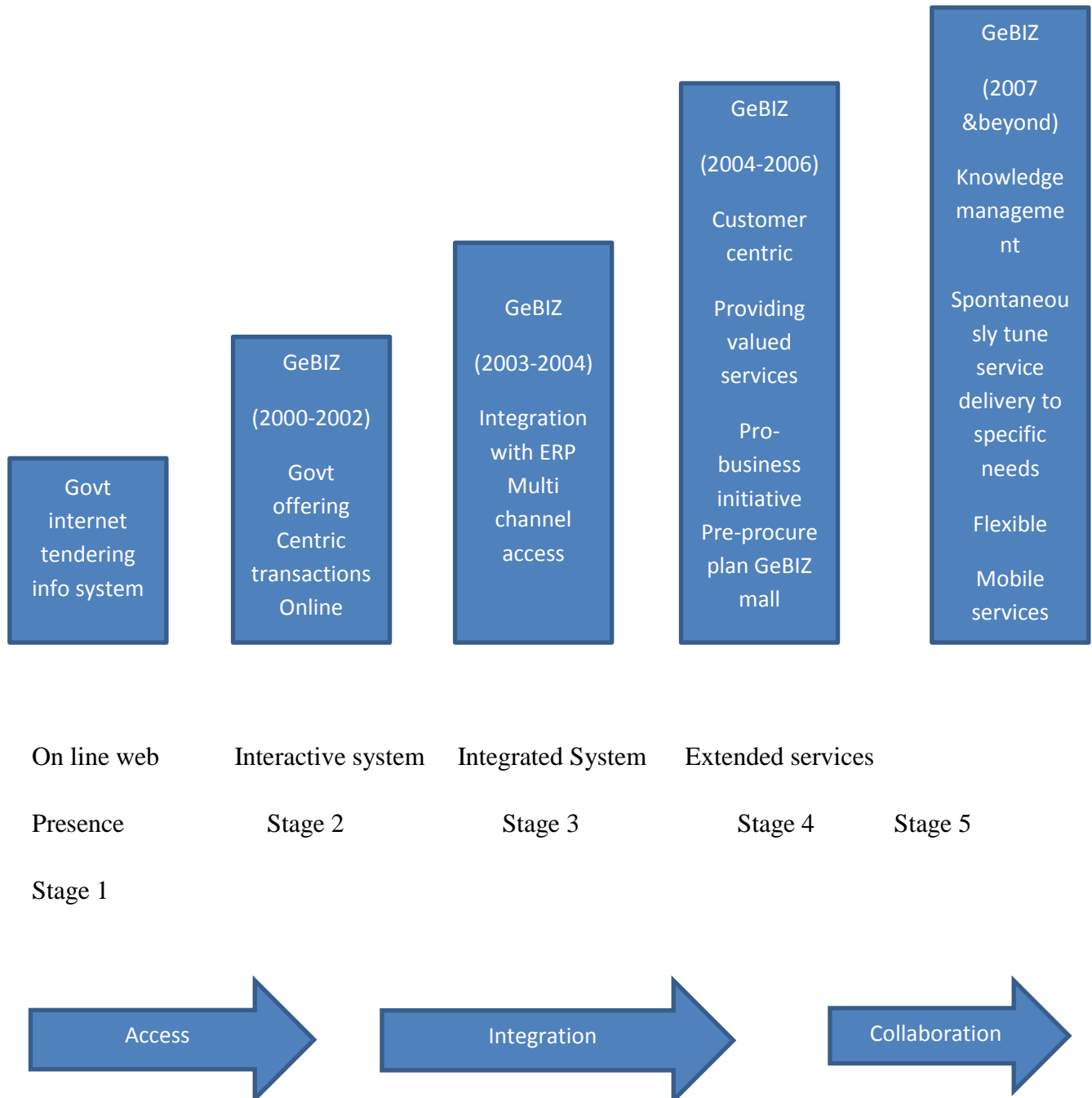


Figure 3: Evolution of the Singapore GeBiZ

The success of electronic procurement in the private sector has been a driving force for governments to seek cost reductions and administration efficiencies by adopting this method on a wide scale. However, it also should be noted that e-procurement cannot be introduced in a vacuum there has to be an e- governance framework. Farelo and Morris (2006) state that E-government in South Africa is at a formative stage and although the E-government vision is articulated in various policy documents there is no common theme or consensus. Reference to corruption in the vision is notably absent.

4.3 THE SOUTH AFRICAN E-GOVERNMENT REGIME

4.3.1 e-government and the digital divide

The World Bank defines e-government as to the use by government agencies of information technologies (such as Wide Area Networks, the Internet, and mobile computing) that have the ability to transform relations with citizens, businesses, and other arms of government. These technologies can serve a variety of different ends: better delivery of government services to citizens, improved interactions with business and industry, citizen empowerment through access to information, or more efficient government management. The resulting benefits can be less corruption, increased transparency, greater convenience, revenue growth, and/or cost reductions (World Bank, 2013)

Briefly put, e-governance refers to the implementation of public administration on electronic platforms. This halts the reliance on what is now old, slower hand-written manual administration to a modern and more efficient means to both capture and process information (Mphidi, 2013).

Traditionally, the interaction between a citizen or business and a government agency took place in a government office. With emerging information and communication technologies it is possible to locate service centres closer to the clients. Such centres may consist of an unattended kiosk in the government agency, a service kiosk located close to the client, or the use of a personal computer in the home or office (World Bank, 2013).

For decades the issue of effective communication between government and its beneficiaries has been one of much debate between nations, government officials and citizens. Across the globe societies are changing and in a world that is technologically driven, the social realities (poverty, inequality and unemployment of developing countries are becoming apparent. Heginbotham (2006) states that the link between ICT and development is clear. She further states that ICTs and the implementation of e-government initiative is an example of one possible strategy that offers a way forward for developing countries

The quote by Heeks (2001:13) supports this statement: “As is true all over the world, government in developing countries/ nations costs too much, delivers too little, and is often not sufficiently responsive or accountable. Good governance reforms aim to address these shortcomings. Yet-progress-after many years of effort in implementing such reforms- have been much more limited than expected. E-governance offers a new way forward, helping improve government processes, connect citizens and build interactions with and within civil society”

This is also in line with the current view of the National and Eastern Cape Provincial Treasuries that “we need to do more for less”.

Much as this would be appreciated one has to look at the digital divide. The digital divide represents the resource and access gap between the digitally literate and digitally illiterate

members of society (Cloete, 2004). The advent of the digital divide is as a result of the Internet's demand for technical infrastructure and human capital.

The digital divide is of great importance in the e-government approach as it represents “a barrier to e-government in that the people who do not have access to the internet will be unable to benefit from online services. In the Organisation for Economic Co-operation and Development (OECD) countries, a growing number of people have access to Internet, but there are still large numbers of people who do not. While e-government can improve services to citizens through other channels, the inability to online services to all citizens can hold back e-government projects” (OECD-e-Government studies, 2003: 64)

Tyson (2013) observes that “The ideas are straightforward enough in theory; but progress in this regard is slowed by the ever-present weight of a country's digital divide.”

4.3.2 e-government in SA

In a period when many countries are already streets ahead in shifting from traditional paper-based to electronic governance methods, South Africa definitely needs to heed the lessons or risk lagging further behind.

The 21st century information age has heralded an overhaul of the way people conduct their lives - both as individuals and within public spaces (Mphidi, 2013).

Heginbotham (2006: 78) observed that “Since the first democratic elections in April 1994, South Africa has evolved into a prosperous country that has become a leading example in Africa. This country has entered the global political forum and has become an international

symbol of how peace and democracy can be achieved. However, in this new “Information Age”, entering the international world of politics and maintaining a voice in the midst of powerful and industrialised countries, requires sound policies, political stability and the ability to keep up the pace of technological advancement. Never before has technology, in particular ICTs received so much attention. The ability to put ICTs to effective use is becoming a measure of a country’s progress and type of relationship that exists between government and citizens, government and business. If South Africa is to retain its international relationships, government must demonstrate that it can put ICTs to effective use. This implies a country must be “e-ready” in terms of accessibility of ICTs to the population, supporting infrastructure, and the impact of the legal and regulatory framework of ICT use”.

One of the first steps the South African government took towards achieving this was placing greater emphasis on information and communication policies. From as early as 1995, information and communication policy issues were present on the political agenda.

The latest document on this is the Public Service Corporate Governance of Information and Communication Technology Policy Framework of 2012. The frameworks’ executive summary in a way supports Heginbotham’s assertion, the summary states that

“In 2000, Cabinet approved the creation of the Government Information Technology Officer (GITO) position, with the requirement that the GITO in each department should be responsible for aligning the respective department’s ICT strategic plan, its strategic direction and its management plans. Furthermore, the GITO should report to the Head of the Department (HoD) and be part of the Executive Management team.... Since the publication of the PRC report, little has changed with respect to the governance of ICT in the Public Service.

This was confirmed by the Auditor General's (AG) information systems review of governance of ICT in government conducted in 2008/09 and again in 2009/10. The AG recommendations included the following:

- A government-wide Governance of ICT Framework should be put in place to implement a national ICT strategy to address ICT risks based on defined processes and standards; and
- The Governance of ICT roles and responsibilities should be defined and implemented to ensure adequate Public Service ICT enablement. The AG further found that the GITO's were not fulfilling their strategic responsibilities, largely due to inadequate accountability structures resulting in the GITO not being represented at a strategic (executive) management level.

In 2010/11, the AG found that little progress had been made as only 21% of departments had implemented adequate governance controls but even these governance controls were unsustainable because they had not been formally rolled out by management and thus were not enforceable.”

Among some of the results of the discourse on information and communication policies were the:

- SITA Act of 1998

This act was to regulate the State Information Technology Agency whose objectives are to:

- to improve service delivery to the public through the provision of information technology, information systems and related services in a maintained

information systems security environment to departments and public bodies;
and

- to promote the efficiency of departments and public bodies through the use of information technology

- Public Service Corporate Governance of Information and Communication Technology Policy Framework(2012) whose purpose is to:

- Institutionalise the corporate governance of ICT as an integral part of corporate governance within departments in a uniform and coordinated manner.”

Much as e-governance maybe in place it also should be noted that in South Africa government transformation is, at a strategic level, informed by government-wide key priority areas that have been translated into 12 strategic outcomes, guided by the Batho Pele principles of equal access to services, increased productivity and lowering of costs.

Of these outcomes , Strategic Outcome 12, “*An efficient, effective and development-oriented Public Service and empowered, fair and inclusive citizenship*”, is the main driver of ICT business enablement in the Public Service.

4.4 INTEGRATED FINANCIAL MANAGEMENT SYSTEMS

The IFMS project is aimed at replacing aging and fragmented financial (including Payroll), supply chain and human resource (HR) management systems, and associated ageing technologies, across national and provincial departments.

The project was approved by Cabinet on 14 September 2005 as a joint project between: National Treasury (NT) as the project sponsor and policy owner for financial and supply chain management (SCM) in the Public Service; DPSA as the policy owner for HR management and information and communication technology and SITA as the solution provider and prime systems integrator (PSI).

Phase I culminated in a submission to Cabinet in 2005 (Cabinet Memorandum 16 of 2005) to obtain approval for the continuation of the IFMS. Based on the Memorandum, Cabinet took a number of decisions at its meeting on 14 September 2005 of which the following can be highlighted:

- All financial management (including payroll), supply chain management and human resource systems should be provided centrally.
- All related independent systems renewal initiatives at national and provincial departments must be suspended.
- The independent applications used by the North West, Gauteng and Limpopo provinces, the Department of Defence (DoD) and the South African Police Service (SAPS) should be migrated to a new central solution or solutions (IFMS).
- The new financial management, integrated SCM (with the exception of the procurement management module) and payroll systems should be developed and managed by SITA.
- The new HR and procurement management systems should be acquired and managed by SITA as commercial-off-the-shelf (COTS) systems.

Some of the benefits identified by the National Treasury in its “Status of IFMS report” (2012) are:

- Automate of business processes to ensure greater efficiencies in process execution and improve quality and access of data.
- Support the implementation of the Public Finance Management Act, Public Service Act, and other relevant legislation by providing centrally hosted secure financial, supply chain and HR management solutions.
- Will greatly improve the general control environment, assist in reducing the incidents of fraud or the early detection thereof, and help to minimise the level of corruption in supply chain management processes.
- Result in development of Information and Communication Technology (ICT) skills within the country.
- Reduce duplication of financial type systems use by government.
- Provide visibility into the departments financial, human resource management, payroll and supply chain management position by providing easy and secure access to data via a multitude of reports.

4.5 THE BAS/LOGIS ENVIRONMENT

The South African National Treasury in its “*Accounting Manual for Departments: The Standard Chart of Accounts and Systems* (2014)” puts the following with respect to electronic payment platforms:

4.5.1 The Basic Accounting System (BAS)

BAS is the core of government accounting systems; it is the general ledger where all transactions are recorded and classified in accordance with the principles of the SCOA and is the main source of information for the preparation of management reports and the departmental financial statements.

Transaction processing originates from transactions processed on BAS itself and also from independent stand-alone systems that interface with BAS before they are “captured” in the general ledger. An important internal control measure is to reconcile information in the independent stand-alone systems to BAS to ensure that transactions processed in the former are captured (i.e. interfaces) correctly in BAS.

Assets’ Reconciliation (BAS / LOGIS)

As per the PFMA, the accounting officer of the department is responsible for the management and safeguarding of the assets; it is therefore important that the department maintains an asset register to ensure that the department records where all the assets are located and what the value is of those assets.

The Logistical Information system (LOGIS) is the independent stand-alone system used in the supply chain process for the procurement of goods and services, including capital assets. LOGIS is designed to administer stores, monitor stock levels and provide an asset and inventory management facility (i.e. asset registers).

The information included in the asset register should be used to complete the notes in the financial statements.

It is best practice for the department to perform monthly reconciliations between the information included in the asset register (LOGIS) and the information included in BAS to ensure that the information on the assets agrees.

Inventory Reconciliation (BAS / LOGIS)

Similarly to assets the accounting officer of the department is responsible for the management and safeguarding of inventory; it is therefore important that the department maintains an inventory register or list to indicate where all inventories are located, the quantity on hand and what the value is of those inventories. This should be maintained for all locations where inventory is kept. Items remain part of inventory until such time as they are consumed no matter if they are issued from one store to another in a different location.

The National Treasury directs that for the payment process, when capturing payments in the general ledger a standard process is followed. The Accounting transaction differs depending on the payment method selected or the type of expense, (e.g. PERSAL, LOGIS, MEDSAS)

4.5.2 LOGIS

As the thrust of this research is on e-procurement, it is LOGIS that will be looked into in detail. LOGIS is a provisioning, procurement and stock-control system which is highly adaptable to the requirements of any department. The structure or primary components of the system enable it to be implemented in any store or depot situation.

In his policy speech of 2013/14 the MEC of the Provincial Planning and Treasury stated that “In 2013/14, our focus will be on intensifying our efforts andHonourable Speaker, National Treasury has designated LOGIS as the procurement system of government and has issued a directive that all departments must utilize LOGIS by 2015. Currently, only 9 out of 14 departments in the province utilize LOGIS for procurement. In 2013/14, the departments of Transport and Sport will be prioritised for LOGIS implementation. This is in addition to the on-going LOGIS implementation project in the Department of Health, which will eliminate manual procurement in the sector. Furthermore, due to improvements in LOGIS, Provincial Planning and Treasury will be centralising the supplier registration system on LOGIS - thus, from 1 April 2013, all suppliers in the province will register on LOGIS at one point. This will vastly improve compliance to regulations, simplify the registration process, and improve monitoring of supplier performance across the province whilst curbing potential corruption” (2013/14: 11)

4.5.2.1 LOGIS FEATURES, FUNCTIONALITY AND CONTROL

In its Best Practice Guideline: in year management, monitoring and reporting the National Treasury has the following on LOGIS (2000):

4.5.2.1.1 LOGIS FEATURES

Below are some of the features of LOGIS:

Supply Chain Management Best Practice

LOGIS subscribes to sound supply-chain management best practice in providing for the

classification of items by Pareto analysis, also known as the 80/20 principle , or the ABC classification method. This inventory management technique ensures optimum levels for the 20% of items in a store, which comprise 80% of the value of the store stock.

Identification and reduction of obsolete stock is also another supply chain management feature of LOGIS.

Asset Management

LOGIS enables the recording and tracking of each serialised item (asset) within a store, thereby entrenching accountability and control. Items which are serialised are normally high-value, nonconsumable items. These items are often issued to a sub-division or entity within the store, and should be returned to the store when no longer needed. LOGIS also enables asset verification, asset reporting and disposal of assets.

Batch Numbers

LOGIS controls batch-numbered items according to the expiry date of the item, ensuring a first- in, first-out issuing of batch items. Batch number warning reports are printed of stock reaching the expiry date.

FMS Interface

The LOGIS interface to the Financial Management System (FMS) enables automated payments, reduces double-payments, late payments, payment penalties, fraud and error opportunities, and brings greater control over expenditure.

Cataloguing

LOGIS offers an easy-to-use item catalogue, categorised according to logical item groupings known as the MIIN (Management Information Item Numbers).

Flexibility

LOGIS is adaptable and flexible in usage, enabling it to be implemented by diverse stores within Government. It has varying levels of control, offering the user flexibility in the usage and control of the system, according to the level of control required within their department / store. Only the low-level or base-functionality controls are prescribed and cannot be modified by the user.

4.5.2.1.2 LOGIS FUNCTIONALITY

These are some of the functionalities of LOGIS

Provisioning

LOGIS offers functionality to support the provisioning of stock via:

- Requests
- Request Consolidation (if required)
- Requisitioning
- Requisition Authorisation (if required)
- Stock Allocation (is required)

- Issuing

Procurement

LOGIS supports the complete Order-to Cash process of procurement via:

- Generation of Procurement Advices
- Approval of Procurement Advices
- Consolidation of Procurement Advices (if required)
- Order Preparation
- Order Authorisation
- Receipt Handling

Financial Interface

LOGIS offers functionality to support the financial interface to the Financial Management System (FMS) via:

- Commitment of funds (upon order authorisation)
- Invoice capturing
- Credit Note capturing Payment Advice capturing
- Payment Advice Authorisation and Financial Approval
- Resubmission of Rejected Payments
- Back-dated Price Increases

Service Assessment

LOGIS offers on-line functions to assess the status of service provided to the end customer.

Stock-Take Functionality

LOGIS prompts stock-takes to occur when they fall due on various stock groupings. It performs automatic stock freezing and unfreezing during the stock-take period, and provides functionality to adjust stock balances according to stock-take balances.

Year-End Functionality

LOGIS provides year-closure functionality according to Treasury Instructions and offers automatic re-classification of items according to usage patterns, thereby ensuring end-to-end stock control.

On-Line Searches and Enquiries

LOGIS assists the user with data entry by providing easy-to-use searches all relevant data fields. LOGIS also offers many enquiry functions which give users access to vital information.

4.5.2.1.3 LOGIS CONTROL

Government Logistic Policies

LOGIS complies with the Policies and Procedures specified by the National Treasury (Norms and Standards).

Stock Control

LOGIS provides control of stock through the management of inventory levels, thereby providing the right item to the requestor at the right time.

LOGIS Balanced Scorecard

The LOGIS Balanced Scorecard is a highly-successful strategic management and measurement tool, which translates the LOGIS vision and objectives into tactics, measuring across a balanced set of perspectives. Key performance measures are assessed monthly and communicated to all levels of users and management.

Data Integrity and Security

LOGIS provides solid data integrity and data security, and has full audit-trail capabilities.

Supplier Management

LOGIS tracks the delivery performance of suppliers, detailing the status of each delivery (under or over-delivery, late or early deliveries or partially delivery). This information can be used in the assessing and awarding of contracts to suppliers, as good supplier management is key to effective and efficient control.

EFT payments

LOGIS enables the automation of payments via Electronic Fund Transfer (EFT) to suppliers, thereby capitalising on payment discounts. Supplier banking details are automatically

verified with data from various banks before payment is made to the supplier.

LOGIS is the chosen platform by government to effect procurement payments. It is in this environment that the assessment of e-procurement in selected departments of the Eastern Cape was done, this environment includes the recently adopted Public Service Corporate Governance of Information and Communication Technology Policy Framework of 2012, Status of IFMS. IFMS roll out and LOGIS rollout.

4.6 CONCLUSION

E-Procurement is best defined as the term used to describe the automation through web-enabled tools of many elements of the procurement process.

E-procurement systems have proven themselves within various government organizations as an effective tool for instituting procurement reforms and establishing a fully transparent and open procurement environment.

Countries with a well implemented system have noticed higher participation of SMEs (Small and Medium Enterprises) due to improved market access and a reduction in marketing costs. E-procurement offers the benefits of greater transparency, wider geographical reach and lesser time of transaction and better pricing; also sustained savings can be achieved through automated, easy-to-use purchasing, invoice management and supplier enablement capabilities.

One observable trend in public service management in Africa is the slow pace at which programmes of public service reforms, innovations and modernisation are meeting the desired targets and goals.

The use of an electronic procurement system, electronic tender creation, automated dissemination of contract details, automated adjudication and automated contract award processes will reduce the traditional tendering processes by more than 50%. Such savings would greatly benefit the South African public service.

E-government in South Africa is at a formative stage and although the e-government vision is articulated in various policy documents there is no common theme or consensus. Reference to corruption in the vision is notably absent.

The digital divide is of great importance in the e-government approach as it represents a barrier to e-government in that the people who do not have access to the internet will be unable to benefit from online services. In the Organisation for Economic Co-operation and Development (OECD) countries, a growing number of people have access to Internet, but there are still large numbers of people who do not. While e-government can improve services to citizens through other channels, the unavailability of online services to all citizens can hold back e-government projects

The South African government introduced an IFMS project aimed at replacing aging and fragmented financial (including Payroll), supply chain and human resource (HR) management systems, and associated ageing technologies, across national and provincial departments.

The project was approved by Cabinet on 14 September 2005 as a joint project between: National Treasury (NT) as the project sponsor and policy owner for financial and supply chain management (SCM) in the Public Service; DPSA as the policy owner for HR

management and information and communication technology and SITA as the solution provider and prime systems integrator (PSI).

However, even though the IFMS was introduced the Logistical Information system (LOGIS) LOGIS is the chosen platform by government to effect procurement payments. LOGIS is the independent stand-alone system used in the supply chain process for the procurement of goods and services, including capital assets. LOGIS is designed to administer stores, monitor stock levels and provide an asset and inventory management facility

LOGIS is a provisioning, procurement and stock-control system which is highly adaptable to the requirements of any department. The structure or primary components of the system enable it to be implemented in any store or depot situation.

It is in this environment that the assessment of e-procurement in selected departments of the Eastern Cape was done.

CHAPTER FIVE

5.1 INTRODUCTION

There are two aspects which should be taken cognisance of in the presentation of findings for this study. These are:

- IFMS rollout at National level.
- The thin line between semi-structured interviews and documents submitted by the interviewees to support and inform the interview process. It thus should be noted that in the presentation of the research findings there will be an overlap of results gathered from the interviews and presentation of supporting documents as well as information from published sources.

In the previous chapter it has been mentioned that the assessment of e-procurement in selected departments of the Eastern Cape, was done in an environment which includes the recently adopted Public Service Corporate Governance of Information and Communication Technology Policy Framework of 2012, IFMS, IFMS roll out and LOGIS rollout; it is thus, that Practice Note 7 of 2006 of the National Treasury, is significant to the findings of this study , the Practice Note reads as follows (see appendix II):

1. On 14 September 2005 Cabinet formally approved Phases I and II of the IFMS Project. In terms of this approval, all financial (including payroll), supply chain and human resource management systems are to be replaced by a centrally provided application.
2. Phase II of the project will be completed over a period of about eighteen to twenty four months. This phase of the project will see completion of the detailed overall

systems specification and organisational preparation that will be needed for implementation of the new integrated solutions.

3. Phase III will be completed over a period of about 5 years. During this phase different releases of the new system will be rolled out
4. To avoid unnecessary duplication of IT systems in government, Cabinet resolved that a moratorium be placed on the acquisition of all IT systems that will be provided through the IFMS project.
5. For this reason National Treasury will not grant any approvals for the acquisition of any new IT systems in terms of section 17.3.1 of the Treasury Regulations, unless written confirmation has been obtained from the IFMS steering Committee that the intended system would not constitute a duplication of solutions that would be provided through the IFMS project (National Treasury, 2006).

It is of interest to note that clause 4 and 5 of this practice note virtually paralyses all national and provincial departments from procuring any services related to IT and e-procurement.

However, according to Hendriks (2012), the South African government currently owns and operates a large compendium of systems in the transverse systems arena such as:

- the Financial Management System (FMS).
- the Basic Accounting System which is cash accounting systems.
- the Personnel and Salaries Management System (PERSAL), which can be described as a payroll system.
- the Logistical Information System (LOGIS), which supports the asset management and supply chain functions.

- Vulindlela, a business intelligence system.
- the Police Financial Management System (POLFIN), which is a department specific cash management system for the South African Police Services (O’Sullivan 2008:9).

As a whole these systems present a number of problems, such as:

- functional duplication and technological proliferation that has a negative impact on the cost-effective spending of public funds;
- difficulties in the implementation of uniform norms and standards across systems and operations;
- poor inherent systems of inter-operability and aggregating of data that seriously compromise operational integrity and the generation of management information;
- difficulty in synchronising the implementation of new legislation and regulations with the capabilities of multiple systems, each on its independent evolutionary path (Van Deventer 2003:5).

5.2 IFMS FINDINGS

The IFMS initiative aims to provide both national and provincial government with a system that integrates and modernizes human resource, payroll, financial, supply chain management and business intelligence information – while replacing aging technologies and enabling the implementation of the PFMA and Public Service Act (PSA) (Morokolo, 2013).

The IFMS implementation project in South Africa is a priority initiative led by the National Treasury to review and upgrade the government’s transverse information technology (IT)

systems. The objective of this project is to enhance the integrity and effectiveness of expenditure management and performance reporting in order to ensure effective service delivery (National Treasury 2009:3).

Transverse systems are defined as the general administrative systems required by all national departments and the provincial departments of all nine provinces, which include:

- financial management
- human resource management
- integrated supply chain management (including asset and procurement management)
- related business intelligence, audit and decision systems.

The sheer size and complexity of an IFMS, poses significant challenges and a number of risks to the implementation process that goes far beyond the mere technological risk of failure and deficient functionality (Hendriks, 2012:1). The introduction of an IFMS can be regarded as an organisational reform which deeply affects work processes and institutional arrangements governing the management of public finance. Challenges and obstacles can have a devastating effect on the success of the implementation and management of the process and should not be underestimated (Rodin- Brown 2008:2).

There have been several of these challenges and a lot of press coverage with respect to IFMS implementation. These have also been admitted by the government as the following from a speech by then Minister of Public Service and Administration, Mr. R. Baloyi, in 2011 indicates: “We have come a long way since Cabinet approved the development and implementation of the IFMS in 2005. This decision was reaffirmed by Cabinet in 2007. Through the implementation of the IFMS, Cabinet intended to achieve modernisation and

integration of government back-office systems. The older legacy systems which currently provide financial, human resource, supply chain management and business intelligence functionality are at the end of their useful life.... We are all aware there have been challenges, including the capacity of SITA to deliver on the IFMS. It has indeed been a long road! SITA is firmly on a turn-around, and thus we can speak with confidence that the IFMS, which has been seven years in the making, is now here. The celebration of the HR module going live in DPSA is proof that we are making progress and positioning ourselves for the IFMS roll-out.”

Since 2007, the IFMS team developed five (5) of the nine (9) IFMS modules and implemented them in a number of lead sites. These five modules are:

- Asset Management
- Procurement Management
- Catalogue Management
- Master Data Management
- Human Resource Management

However, Guest (2013) states that, as of the eight solution components promised in the system architecture, the acquisition of two modules has yet to be determined. The first, the inventory management module, was advertised in August 2011, but the tender is still being adjudicated. The second, the payroll module, has – to date – been unsuccessfully advertised three times. There is no tender process currently under way for the payroll module

The final solution will be mandatory for national and provincial departments encompassing supply chain management, financial management, HR management, payroll, and business

intelligence. The project is being run as a joint-initiative incorporating National Treasury, the Department of Public Service and Administration, and SITA.

To date, the advertisements for these two modules have called for the bespoke development of the applications. The requirements of tender documents have allocated only nine months for the development portion of the software.

According to Guest (2013) the project, which was already experiencing delays, was expected to show considerable progress by the end of 2013. In November 2012, Lungisa Fuzile, director-general of National Treasury, told Parliament's Standing Committee on Public Accounts, that all modules were to be developed before the end of 2013 and could then be tested. Despite this, SITA has not responded to numerous requests for information on progress around these modules and its plans to deliver against the year-end schedule.

In a Committee meeting of the National Treasury with the Portfolio Committee on Public Service and Administration on 29 May 2013, the following with respect to IFMS product development emerged as presented in the following table:

IFMS Product Development Status

<p>Development Completed</p> <p>Supply Chain Management Core</p> <p>Asset Management (2010) Procurement Management (2011) Catalogue management (2011)</p> <p>Human Resource Management (2010)</p>	<p>Development Completed, Test Completed and Ready for Lead Site Implementation</p> <p>IFMS Human Resource Management and PERSAL Interface – Leave Component (planned implementation 2013)</p>	<p>Development Completed and Being Tested</p> <p>BI Vulindlela Replacement (planned lead site implementation 2013)</p> <p>Supply Chain Management: Inventory Business Functionality (planned lead site implementation 2013)</p>	<p>Development Underway</p> <p>Financial Management Core (Some components have been developed and unit tested - planned development completion 2013)</p> <p>Payroll (planned completion TBD – dependent on service provider to be sourced)</p> <p>IFMS Human Resource Management and PERSAL Interface – Organisational Management and Personnel Admin (planned development completion 2013)</p>
<p>Development Planned</p> <p>Supply Chain Management: Services Procurement (commencement dependent on approval of proposal by National Treasury and DPSA)</p>			

Table 2: Current IFMS Product Development as at 29 May 2013 (adapted from National Treasury report to Portfolio Committee on Public Service and Administration)

On lead site implementation status the committee was informed as presented in the table below:

IFMS Lead Site Implementation Status		
<p><u>Completed</u></p> <p>Procurement Management</p> <p>National Treasury SCM Operations and National Treasury</p> <p>Contract Management</p> <p>Asset Management</p> <p>National Treasury</p> <p>Limpopo Department of Treasury</p> <p>Limpopo Department of Roads and Transport</p> <p>Limpopo Department Local Government and Housing</p> <p>Limpopo Department of Agriculture</p> <p>Human Resource</p> <p>Management Public Service and Administration</p>	<p><u>In Progress</u></p> <p>Asset Management</p> <p>Limpopo Department of Health Department of Defence</p> <p>Human Resource Management</p> <p>Free State Department of Education</p> <p>Procurement Management</p> <p>Department of Defence</p>	<p><u>Planned</u></p> <p>Payroll</p> <p>Department of Public Service and Administration</p> <p>Finance Core</p> <p>National Treasury</p> <p>Inventory</p> <p>National Treasury</p> <p>Services Procurement</p> <p>National Treasury</p> <p>IFMS HRM and Persal Interfaces</p> <p>Department of Public Service and Administration Free State Department of Education</p>

Table 3: Table showing IFMS lead implementation site status (adapted from National Treasury report to Portfolio Committee on Public Service and Administration)

Emerging from the tables above is that IFMS has not been rolled out to all departments and provinces and yet clauses 4 and 5 of the practice note, bar these departments from sourcing IT equipment.

However, much as such developments are commendable, the practice note 7 of 2006 still has bearing to how provincial and national departments conduct their procurement. This apparent lack of expected progress thus points to implementation challenges.

Hendriks (2012) states that some of the most common challenges that may be faced by developing countries are:

Lack of capacity

The effective implementation, operation and maintenance of an IFMS require staff with the necessary knowledge and skills.

Weak Commitment to change

The implementation of an IFMS is a complex, risky, resource-intensive process that requires major procedural changes and often involves high-level officials who lack incentives for reform (Chêne 2009:4). It demands a commitment to change: change in technology; in processes and procedures; as well as changes in skills, responsibilities and behaviours (Rodin-Brown 2008:29). Considering the nature and complexity of the project, it is essential for all participants to be fully aware of the magnitude of the undertaking. Decision-makers must be convinced that the benefits of an IFMS exceed the risks, and participating departments must recognise the need for a new system (Chêne, 2009:4). According to Peterson (1998:43), the commitment of senior managers is one of the most frequently cited factors deciding the success or failure of an information system. Chêne (2009:6), however, argues that the Ethiopian case study has proven that what matters most in the process is mid-

level management's commitment to reform, as the changes ultimately have to be implemented at this level.

Institutional challenges

The introduction of an IFMS involves more than only the automation of public finance tasks and processes. Rodin-Brown (2008:7) identifies a number of institutional issues that should be anticipated and planned. These issues include, amongst other organisational arrangements, the legal framework and business functional processes.

Organisational arrangements

Indeje and Zheng (2010:6) contend that the introduction of a new information system fundamentally changes the way operations are carried out and therefore requires a carefully managed process. This process results in the creation of a new organisational culture, that is, change in the way the organisation operates.

Legal framework

An IFMS must be underpinned by a coherent legal framework governing the overall public finance system. Amongst other things there should be clear legal guidance on the roles and responsibilities of all institutions in managing, controlling, and monitoring budget execution; the authorisation, commitment and release of funds.

Business process reengineering

An IFMS generally implies fundamental changes in operating procedures and should be preceded by a detailed functional analysis of processes, procedures, user profiles and requirements that the system will support (Chêne, 2009:3). Key high-level government goals

will only be achieved if the IFMS solution supports a wide range of business processes that transcend functional, business, organisational and geographic boundaries.

Technical challenges

Many IFMS projects have failed, because the basic system functionality was not clearly specified from the onset of the intervention. Chêne (2009:4) posits that an (IFMS) must be carefully designed to meet the needs and functional requirements, including the accounting and financial management tasks the system should perform.

Maake (2012) identified the following as challenges specific to South Africa with respect to IFMS implementation:

- The IFMS programme has proved to be more complex than what was originally envisaged.
- There was an initial lack of sufficient capacity in the State Information Technology Agency (SITA) as the Prime Systems Integrator (PSI) from the commencement of the project.
- The movement of some Phase 3 deliverables (acquisition and implementation of Commercial off the shelf (COTS) products) to Phase 2 placed an additional burden on the IFMS project.
- Misalignment between the Human Resource Management (HRM) product procurement and the Payroll product development resulted in challenges relating to the duplicate capturing of data on IFMS and PERSAL (Personnel Salary) in the HRM lead sites.
- There was insufficient capacity at user departments to take on IFMIS modules, for example, inadequate ICT infrastructure, budgets and staff with sufficient functional capabilities.

5.3 FINDINGS ON LOGIS

5.3.1 PROVINCIAL TREASURY PERSPECTIVE

During the interview session with the Acting DDG (2013), it appeared that: “LOGIS was not utilised by all departments, technically the Province has been mainly on manual procurement even though National Treasury has been pushing for LOGIS.” However, the Provincial has since 2012 pushed for all departments to utilise LOGIS.

The DDG also contributed that:

- initially infrastructure was very much lacking but the PPT has made sure internet lines are up and running so as to ensure timeous procurement and eliminate excuses for not using LOGIS.
- Bandwidth was also a challenge.
- Downtime was one of the issues in districts offices. The districts were also challenged by the location of supplier information at PPT; however this has since been resolved.
- Not much investment was made on IT capacity of SCM unit employees. No assistance was provided by the National Treasury towards improving the IT capacity of employees. Employment of system specialists and programmers has not been prioritised.

The CIO of the Provincial Treasury (in an interview held on 6 November 2013) mentioned that LOGIS is one of the three transversal Financial Information Systems utilised by the

South African government. LOGIS is utilised for SCM and consists of three modules, namely, Procurement Integration, Inventory Management and Asset management.

The CIO presented the interviewer with the Eastern Cape Policy on LOGIS from which the following was gathered:

5.3.1.1 POLICY ISSUES

A policy is in place to guide and direct access and utilisation of the system.

The purpose of the policy is to define the roles and responsibilities of the various LOGIS role players and provide standard guidelines regarding management, access, and usage of LOGIS in Eastern Cape provincial departments. The appropriate implementation and use of LOGIS in the province is critical to ensure that:

- The system is not accessed by unauthorised persons (confidentiality).
- Information on LOGIS is not altered by unauthorised persons in a way that it is not detectable by authorised users (integrity).
- Users of LOGIS are the persons who they claim to be (authentication).

The Province of the Eastern Cape Policy on LOGIS (2012) informs that: “The normal day-to-day operations of LOGIS are the responsibility of each department executed by a designated departmental system controller. Provincial Treasury is responsible for the rendering of LOGIS transversal support services (training, user support, monitoring and implementation) to all departments within Provincial Government of the Eastern Cape.

Further to this, Provincial Treasury is the liaison between the respective provincial departments and National Treasury with regard to all aspects of LOGIS utilisation.

It is therefore critical that:

LOGIS is managed and configured in a standard format across all departments in the province, access control is properly managed and access violations timeously identified and reported on.

The roles and responsibilities of the Provincial Support officials at Provincial Treasury, Departmental LOGIS System Controller and the Departmental Users are clarified.

Standard Guidelines are provided on the use of LOGIS.

Overview of LOGIS

In the Eastern Cape, as stated in the LOGIS policy (2012), LOGIS is implemented in each department through the deployment of LOGIS Store per level of transactional responsibility. Therefore, should a department have regional offices that run their own budgets on BAS, (Basic Accounting System) they will require a separate LOGIS store per regional office.

Monitoring and Evaluation of LOGIS

It is clearly stated in the policy that, the duties of the departmental CFO regarding the departmental system controller(s) include:

- (i) Familiarising himself/herself with the duties of the LOGIS system controller;
- (ii) Regular monitoring of the duties and activities of the departmental system controller(s) to ensure that it is executed in accordance with the prescribed procedures and that control measures are maintained.

The duties of the provincial system controller regarding departmental system controller(s) include:

- (i) Monitoring that the departments execute proper access control procedures on a quarterly basis. Receipt of written confirmation from the department that all active users on LOGIS are a true reflection of departmental users permitted to access the respective system(s);
- (ii) Performing various security assessments on departmental LOGIS use.

5.3.1.2 LOGIS FUNCTIONALITY

However, during an interview, the CIO and the Deputy Director-General at Provincial Treasury revealed that:

- LOGIS interfaces with BAS and SCOA (Standard Chart of Accounts). This ensured that officials cannot order without budget; however, this was possible when doing manual orders. Officials in the departments were resisting the migration to LOGIS, but the PPT was making headway in getting everybody on the e-procurement platform.
- When compared with other Provinces, more so the Western Cape, the Province was under resourced to run LOGIS though there are some recent improvements with respect to staffing.
- the 3 systems available in Province BAS, PERSAL and LOGIS were not integrated, staffing was very low in 2012/13, BAS has 2 people running it for the Province, PERSAL 1 person and LOGIS has 2.

- The Province was looking at having 109 stores for LOGIS, but currently has 55 and aim to have 75 by the 2013/14 financial year end.
- Responding to the lack of integration and including municipalities in the roll out of LOGIS and the CESD, the CIO mentioned the introduction of the IFMS by the National Treasury which would integrate the system with those of municipalities and also bring BAS, PERSAL and LOGIS together.

The lack of proper IT infrastructure, insufficient bandwidth and little investment in IT capacity of SCM units, as mentioned by the DDG, are consistent with Van Greunen's *et al.* (2010) findings on the status of information technology infrastructure, where they found that in ECPA, Information Technology (IT) infrastructure is limited to the departments and their district offices.

The rest of the province is characterised by lack or poor technical infrastructure and electricity, especially in the remote rural areas where there is impediments to information. They further argue that this is made worse by the following additional threats:

- Poor IT literacy levels within the emerging supplier industry;
- Resistance to change;
- Internet culture development/transformation;
- Internet reliability, speed and security;
- Scalable bandwidth and connectivity.

5.3.1.3 PREVIOUS FINDINGS ON E-PROCUREMENT AND E-PROCUREMENT RELATED SUPPORT REQUIREMENTS

Van Greunen (2010) also found that when assessing the ECPA: “The current Information Technology network infrastructure foot print is very limited in the rural areas. The lack of provincial procurement strategy also impact negatively on the high level strategic product planning for the ECPA. There is no guiding provincial procurement targets set that inform the targeted spending on the designated groups by the departments.”

Van Greunen *et al.* (2010:3658) further goes on to say “For developing remote communities like the Eastern Cape, connectivity and related variables of bandwidth and reliability can be principal hurdles to electronic procurement.” Van Greunen also noted that each department has its own supplier database, which influences the classification of suppliers by services and goods offerings available in the province. This arrangement of separate supplier databases may delay an integrated e-procurement system.

However, it should be noted that in 2011/12 the PPT introduced a Centralised Electronic Supplier Database (CESD). The CESD has its challenges though.

Responding to concerns raised in the study of the Portfolio Committee for Finance of the Eastern Cape Provincial Legislature, the Provincial Treasury (November, 2012) responded that:

“PPT manages the Centralised Electronic Supplier Database for all the departments in the Province. The approval granted by National Treasury for the supplier database did not allow

the database to directly interface with LOGIS and BAS. This is because the long anticipated IFMS will come with an integrated supplier database which will be used by all government departments in the country and it was felt that developing another database that interfaces with the existing systems would be costly and wasteful. As a result the CESD is an independent system from the existing financial systems of BAS and LOGIS. Currently departments make a copy of the suppliers on the CESD and utilize that copy to select suppliers according to the existing procurement categories e.g. accommodation, stationery, catering etc. Departments are using their copies of spread sheets of suppliers per category to rotate suppliers” (Provincial Planning and Treasury, Eastern Cape, 2012).

“The CESD on its own is being enhanced so that suppliers can be easily split into groups that can be easily rotated by departments. This enhancement was expected to be finalized for implementation in the 2013/14 financial year. The PPT also agreed that Committees’ suggestions of reporting supplier names and locality will also being taken into account to ensure that rotation is effective” (Provincial Planning and Treasury, Eastern Cape, 2012).

Proper communication between the PPT and suppliers was also not at its optimal for suppliers to buy into the envisaged e-procurement regime, of which communication is of paramount importance.

However, a study conducted by the Eastern Cape Provincial Legislature (ECPL) suggested that communication may not be an element prioritised by the PPT. Results on communication of the PPI show that this was not properly communicated. Although the results are based on the PPI they can be used as an indicator of the PPT’s vigour in communicating new projects

to suppliers. Based on question 7 in the questionnaire supplied in Appendix VII, the figure below indicates the result of the study.

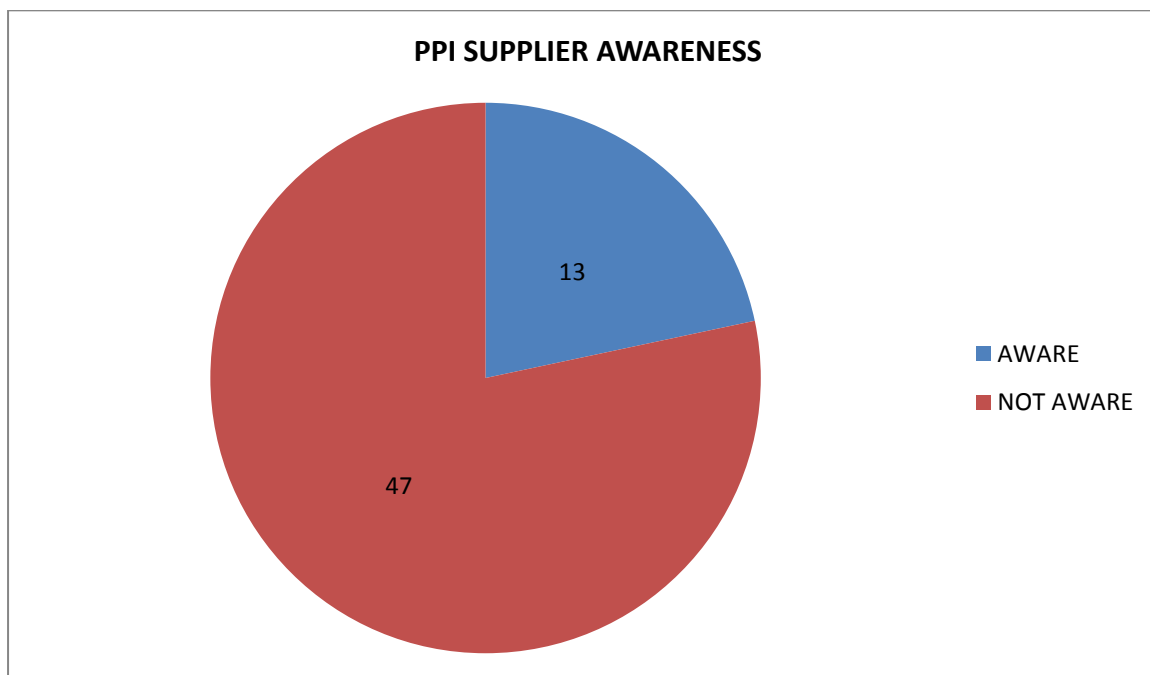


Figure 4: PPI supplier awareness.(Source: Report on compliance of provincial departments and institutions to the Provincial Price index, centralised supplier database and stipulated supplier payment periods-**commissioned by Portfolio Committee on Finance-ECPL, 2012)**

The PPI was not well communicated to suppliers and as such, not all suppliers were aware of its existence. The figure shows that of 60 suppliers interviewed on PPI awareness, 47, that is, 78% were not aware of the PPI.

5.4. FINDINGS ON LOGIS in the ECDoH

The DDG of the PPT during the interview session shared that 80% of goods and services were manually procured in the Department of Health in 2011/12 and she mentioned that: “In manual procurement every document has to be in triplicate, to consolidate this is a nightmare.” This matter was taken up and discussed at Executive Council (EXCO) level. The

memorandum to the Executive Council from the PPT was shared with the researcher (see Appendix V).

Most of the findings in this section are informed by the memorandum for the EXCO meeting of 29 May 2013 whose purpose was to update the EXCO on the progress made in the SCM Reform programme in the Department of Health in an effort to improve SCM management in the department.

In the memorandum for the EXCO meeting with respect to LOGIS and the Department of Health, it emerged that the reason the SCM unit has been having many negative audit findings is that, the SCM function in ECDoH is decentralised. The following was also gathered from the memorandum:

- The majority of procurement transactions are on manual systems. The department has attempted to implement LOGIS more than once and failed. The failure to implement an electronic SCM system in this decentralised SCM environment, amongst other things, hinders consolidation of information, reporting and monitoring.

This resulted in an SCM reform strategy which had four major components:

- Increasing management's ability to report and monitor SCM activities through installation of an electronic procurement system (LOGIS);
- Making SCM activities visible and controllable by management through restricting the majority of SCM activities to a limited number of sites referred to as procurement hubs;
- Increasing the number of term contracts; and

- Strengthening SCM capabilities through appropriate resourcing of the function, presenting SCM prescripts in a simplified manner, training line managers and SCM practitioners.

The expected outcomes of SCM reform as reported to EXCO were:

- A reliable electronic procurement system to monitor procurement activities and correctly report commitments and accruals (LOGIS roll out).
- A credible, reliable and service delivery sensitive procurement system that achieves value-for-money (term and transversal contracts).
- Compliance with SCM prescripts.
- Improved management of inventories.
- A complete and timely updated asset register.
- A well-managed transport and travel office.
- Safely-kept and accessible SCM documents.

Of these outcomes, the first two are most relevant to the study. The reported progress at the meeting is presented in the following table:

Outcome 1: An effective and reliable electronic procurement system to monitor procurement activities and correctly report commitments and accruals	
Strategy	Limit finalisation of procurement activities to 14 sites known as procurement hubs and later increase the number of procurement hubs as resources become available.
Objective	100% procurement transactions on electronic system (MEDSAS and LOGIS in 2013/14).
ICT infrastructure upgrade to enable LOGIS roll out	<p>The ICT infrastructure upgrade project has three phases. Phase 1, which includes upgrade of data lines, network cables and installing computer points, will be completed at the end of May 2013.</p> <p>Phase 2 is at specification development stage, the procurement process will begin in late May 2013. In this phase switches will be upgraded and the department will set up four data centres.</p>
Site stabilisation	<p>The central hub will be accommodated at the Global Life Building in Bhisho. The space planning has been done and furniture procured.</p> <p>The department is waiting for the Department of Public Works to renew the lease.</p> <p>The project to review accommodation and space planning in all hubs is at the development stage.</p>
Site stabilisation in terms of Human resources	The structure of the central SCM hub has been reviewed and the SCM management (AD, DD and Directors) have been consulted. Three Director positions are at the recruitment stage.
LOGIS implementation	<p>LOGIS (procurement module) has been implemented in 14 out of 14 sites prioritised in 2012/13 under phase 1 of LOGIS implementation project</p> <p>The 2013/14 priorities are:</p> <ul style="list-style-type: none"> (a) 100% LOGIS utilisation by end of financial year in all implemented sites. (b) Management of the Asset register on LOGIS. (c) LOGIS implementation in four OR Tambo sub-district (Phase 2). <p>Challenges:</p> <ul style="list-style-type: none"> (a) The absence of master system controllers providing on-site support to newly implemented sites for a period of at least six months is a major constraint. A request for eight master system controllers to provide on-site support is under review by PPT. (b) The low level of computer literacy of SCM officials at institution level and shortage of departmental computer training labs in the East and Central parts of the Province is a challenge. Lilitha Colleges are now busy setting up computer training labs. The programme team is supporting this process and ensuring that Financial Information Systems including LOGIS is also installed in all these labs

OUTCOME 2: A credible, reliable and service delivery sensitive procurement system that achieves value for money	
Objective	Increasing planned procurement to 80% over a period of three years
A credible Procurement Plan	<p>A joint ECDoH/Treasury team assisted districts with the development of their procurement plans and validating correctness of information that the Head Office has on existing contracts and bids-in-process.</p> <p>The ECDoH was able to submit a procurement plan as a result. The programme team is now refining the plan, prioritising commodities that will be put on term contracts over the next three years and allocating responsibilities to various managers for those commodities prioritised for term contracts in this financial year.</p> <p>Challenge: The understanding of this function is low. The competence to develop procurement plans and assess demand is not matured as yet in the department</p>
Term contracts for commonly used items	<p>The Forensic Investigation and a number of security service term contracts have been awarded.</p> <p>There are a number of term contracts that are in process. The SCMO and PPT are providing support in the development of commercial specification and appropriate sourcing strategies.</p> <p>A proper demand assessment exercise has been completed for Hospital foods and security services.</p> <p>Challenges</p> <ul style="list-style-type: none"> (a) Initially BAC of the Department was dysfunctional. With the support of the current Acting HOD and the commitment of current members, the BAC now meets weekly on Monday and is only postponed on exceptional cases. (b) The specification and evaluation capabilities are poor and thus affect quality of work submitted to BAC. Training and development is planned for this financial year.

Table 4: Table showing progress on selected outcomes on the ECDoH SCM reform programme (adapted from EXCO memorandum of 29 May 2013).

The results in table 4 illustrate that the implementation of LOGIS is incremental at the department of Health. Dooley and Purchase (2006:28) observed that: “Research indicates that e-procurement is being implemented slowly in many organizations, especially government organizations.”

However, there does not seem to be consensus on whether this is a good or bad thing as stated by MacManus (2002:16) that: "Opinions are somewhat divided as to whether the slow implementation of e-procurement has been good or bad. Some believe that slow implementation of e-procurement, especially among local governments, is actually a good thing. ...Others are equally convinced that delays are 'penny wise and pound foolish.'"

It is firmly believed that foot-dragging results in major political and economic damage. It reinforces the notion that government is run inefficiently and has its hands tied by the status quo preferences of bureaucrats.

A July 2001 report by Forrester Research, Inc. confirms that in 37% of the state and local governments surveyed, organizational inflexibility has been a barrier to moving purchasing online (Sharrard, 2001).

The Human Resource challenges with regard to vacancy rates in SCM units are consistent with a study conducted by the research unit of the Eastern Cape Provincial Legislature for the Portfolio Committee on Finance in 2012 when assessing SCM function staffing in the province. The study found that SCM sections are inadequately staffed. For the departments of Health and RUDAR not one district office or head office had a full complement of SCM staff. Eighty six percent (86%) of the institutions and departmental offices under study did not have fully staffed SCM units. The results were derived from section 2 of the

questionnaire supplied in Appendix VI. The chart below illustrates these findings.

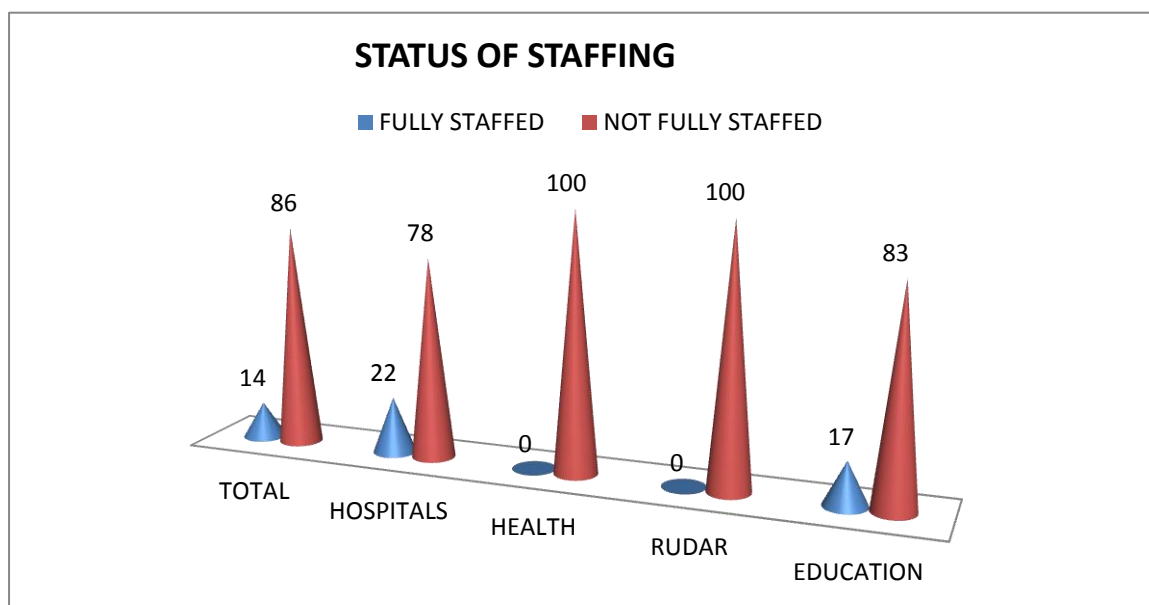


Figure 5: Status of staffing in SCM units of selected district departmental offices (source: Report on compliance of provincial departments and institutions to the Provincial Price Index, centralised supplier database and stipulated supplier payment periods-commissioned by Portfolio Committee on Finance-ECPL, 2012)

The ECPL Research Unit (2012) also found that vacancies and lack of uniformity in the structural arrangements of SCM units/sections within government Departments result in no uniformity in the application of SCM processes and allow for exposure to risk of manipulation.

Instability of top management is also apparent from the table. The ECDoH has had three HoDs in the current term of government from 2009-2014.

In response to a request for information sent to the Senior Manager: Information Systems at the Provincial Treasury on the 16 April 2014 the following findings, at 05 May 2014, were made (see appendix III):

- The space at Global Life has not been finalised. The lease agreement has expired and currently they are occupying that space on a month-to-month basis; no long term agreement has been signed.

- The ICT infrastructure upgrade is not complete; currently there is only 1 in the process and they have submitted 24 applications.
- The new stores for Health are 72 for financial year 2013/14. Main challenges are: lack of ICT infrastructure, connectivity, computers, printers etc. and insufficient Human Resources to run the system.
- A new organisational structure has been submitted to the HOD for approval. This structure is now being sent to DPSA for review.
- The PPT has educated departments to follow the processes outlined in Practice Note 7 of 2006 and to formally engage with National Treasury. This has assisted with approvals for the rollout of key systems that support the transversal financial systems e.g. the PPT now have approval for the Digital Leave Management System developed by Social Development.

5.5 FINDINGS AT SOCIAL DEVELOPMENT AND SPECIAL PROGRAMMES

The Department of Social Development and Special Programmes has since 2012 introduced its own electronic procurement system. In an interview with the Senior Manager: IT at the Department of Social Development and Special Programmes (February, 2014), he claimed that the procurement module assists with:

- Management of funds available.
- Reduced chances of fraudulent expenditure.
- Elimination of officials forging executive officials' signatures.
- Ensuring that there are no duplicate payments with accurate report of outstanding commitments.

- Ensuring that there are no payments of goods that were not received.
- Ensuring that payment documents are accessible at all times and are not lost.

The activity diagram and flow for their e-procurement module can be represented as follows:

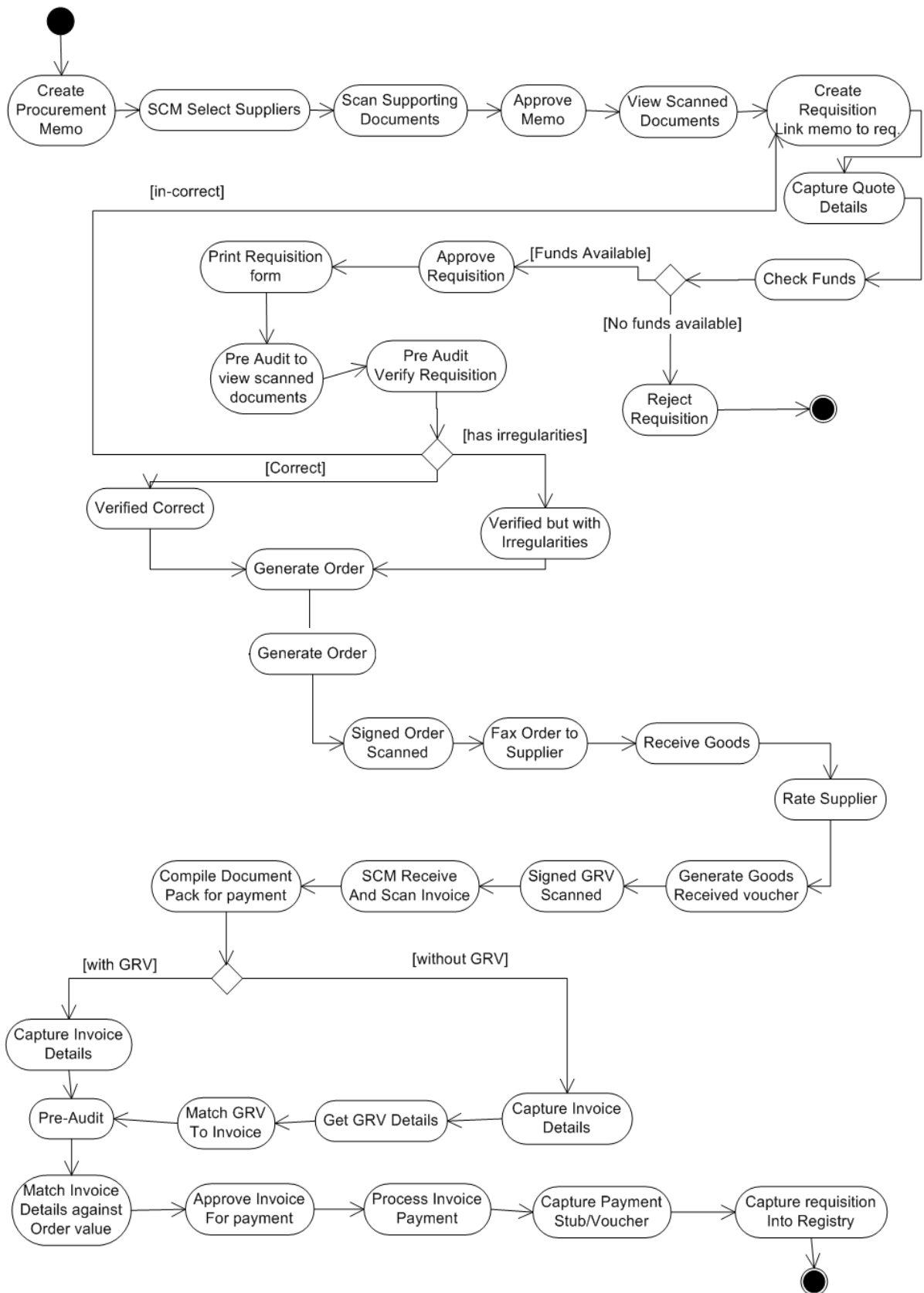


Figure 6: Activity diagram of the Procure to Pay function at Social Development, EC.

From the activity diagram in figure 6, it is evident that even though this is an e-procurement regime it still depends on manual generation of the memo and relies on scanned documents at the initial stages of the activity diagram and also for the signed order. However, it ensures that payment documents are accessible at all times and are not lost. This is an area which has been identified by the Auditor-General in the Eastern Cape, more so, the Departments of Education and Health - the lack of supporting documentation of payments done.

The Department of Social Development's Procure to Pay system has not been integrated with LOGIS. The importance of linking and integrating this system to LOGIS and its implications for the Eastern Cape Province will be further explored in Chapter 6.

During the interview session, the Senior Manager IT at the Department of Social Development (2014) confirmed that the system also is not integrated with the PPI and CESD. These two are part of the Provincial Treasury's strategy in minimising inefficiency, extravagance, waste and ensuring economic use of public resources.

In 2011, the Provincial Treasury focused its efforts on eliminating over and under spending; improving human resources and supply chain management; improving provincial planning; tackling corruption and maladministration in the Province.

The approach of Provincial Treasury in achieving its objectives is a five-fold fiscal strategy composed of:

- Strengthening fiscal discipline;

- Incrementally redirect the budget towards investment spending to fight poverty, create jobs, and transform society;
- Improve spending capacity and performance in delivery areas of high impact;
- Leverage higher levels of resources from national government, state-owned entities and the private sector;
- Use procurement to better optimize the impact of the spend (PPT, Policy Speech, 2012/13).

The fifth leg of the fiscal strategy is to optimize the impact of the provincial spend through more strategic use of procurement and supplier development. In this regard, a project for the establishment of a Provincial Price Index (PPI) upon which Departments could measure value for money in their procurement of goods and services was initiated and has been implemented. Coupled to this was the introduction and development of a centralised Provincial supplier database (CESD).

5.5.1 FINDINGS ON CHANGE MANAGEMENT AT THE DEPARTMENT OF SOCIAL DEVELOPMENT AND SPECIAL PROGRAMMES

Several findings made during the interview session with the Senior Manager IT, with regard to change management, the following emanated:

5.5.1.1 The need for change

The Senior Manager IT pointed out that the need for change and introduction of a new procurement regime was made by their former CFO, who currently is the DDG: Sustainable Resource Management at the Provincial Treasury. This he claims was as a result of repeated qualified audit findings by the Auditor-General where most qualifications were around SCM and procurement issues. The Senior Manager IT viewed the former CFO as the “change agent.”

This is of relevance as Murthy and Shubba (2010:1) argue that conventional change management paradigms that work effectively in corporate settings have limited impact in Government engagements. The entire rhythm, motivation and environment of the Government sector are different and require enhanced sensitivity and preparation on the part of the Change Management agents.

The communication plan, workshop design and execution, client sponsor engagement and follow-up techniques must take into account a different reality. Corporate and government organizations are both exposed to economic, technological and social forces; yet the implications of change – its reception and process of acceptance - differ substantially. In commercially-driven enterprises, some intuitively understand issues like survival, the need to adapt and be continuously relevant through continuous training; this is not true for those who work in the Government sector.

Government organizations, rooted in social objectives, may become atrophied by process orientation over time; employees thereby respond more to process changes than the objective of the organization.

Murthy and Shubba (2010) further say that it is practically impossible for a Government employee to lose his job if the organization does not fulfil its organizational objective; its financial performance being generally irrelevant.

5.5.1.2 Culture change and stakeholder involvement

For the successful implementation of the “Procure to Pay” system, The Senior Manager IT says that as a department they agreed that: “There is a need for change in culture in the civil service and the way we are doing things - systems may be in place but people are central to the success of such change.”

This observation was in line with Morstead *et al.* (2010) who observed that: “Successful change leaders recognise that an organisational change program provides an unparalleled opportunity for building new capabilities and capacity for further change within the organisation. They use the transformation to reassess the legacy processes and programs and instil in their staff a mind-set of striving for continuous improvement.

Upon identifying the need for culture change the department involved stakeholders and took them step-by-step and they ended up accepting and being part of the system. Culture change is important as the Victoria Quality Council (2006) discerns that: “Early communication and consultation, while the change implementation is still in the planning stage, will assist in

getting people interested and prepared to participate in the change process. They will have some ownership of the project and an interest in its success. Stakeholders will have different levels of involvement. At various stages of the implementation they can be informed, consulted, collaborated with or be active participants.”

Stakeholders should be provided with as much information as possible, including baseline data, the objectives of the change, and should be involved in anticipating problems and determining solutions.”

- Resistance to change may be due to the approach used – if you bring a finished product and also people do not see reason for change – you will have a problem.

Murthy and Shubba (2010:2) argue that, the ADKAR model by Prosci (2010) is widely accepted as a comprehensive model that addresses how individuals and organizations go through a change process. Specifically, the acronym expands to:

- Awareness - Why is this change necessary?
- Desire - What motivates a person to desire change?
- Knowledge - Now that motivation exists, what specifically needs to be done?
- Ability – Knowing what needs to be done, how should this knowledge be applied?
- Reinforcement - Once is not enough - repeated application of this knowledge is necessary for sustaining change.

The change management curve takes the ADKAR model into the realm of visual understanding and addresses emotional aspects.

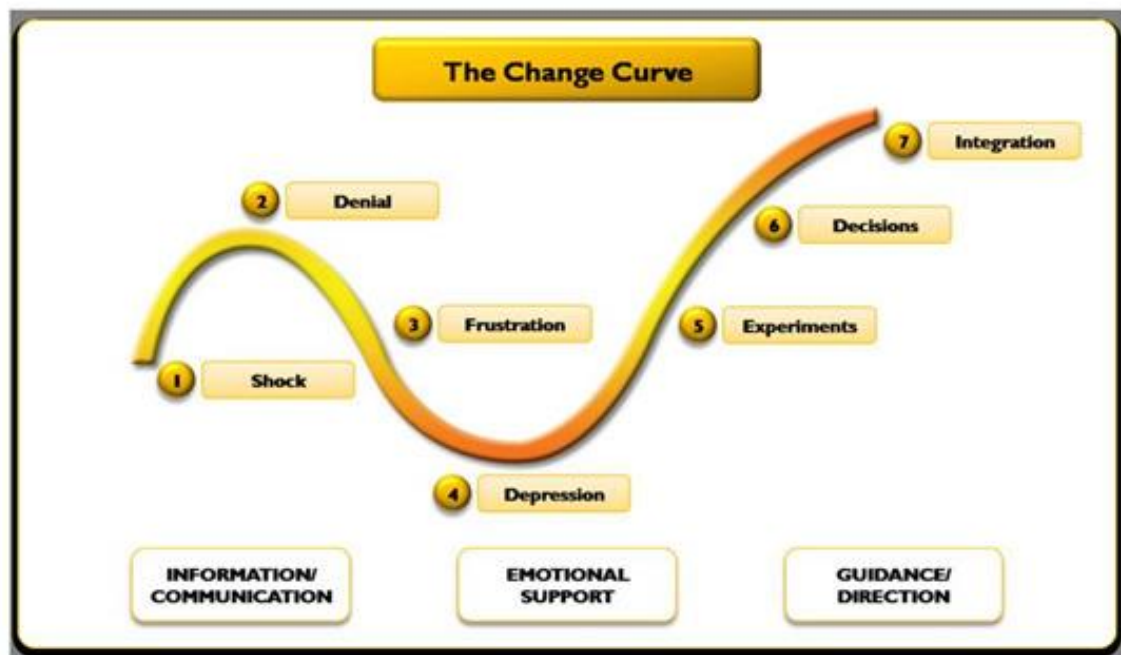


Figure 7: The Change Curve (adopted from: *The Hard Side of Change Management*, Sirkin *et al.* 2005)

5.5.1.3 Change and age

One of the findings during the interview with the Senior Manager IT at the Department of Social Development, was the conviction on his part that change is also influenced by age group and professionalism of the civil service. This is supported by Czaja (2006) who found that older adults were less likely than younger adults to use technology in general, computers, and the World Wide Web. The results also indicated that computer anxiety, fluid intelligence, and crystallized intelligence were important predictors of the use of technology. Czaja (2006) further observed that the relationship between age and adoption of technology was mediated by cognitive abilities, computer self-efficacy, and computer anxiety.

This computer anxiety may compound on the stages 3 and 4 of the change curve, thus making acceptance of change more difficult.

The average age of a unionised worker in South Africa is 43 years, compared to the average of a typical job-seeker of 21 years (Black *et al.* 2010:3).

5.6 OFFICE OF THE PREMIER'S CIO PERSPECTIVE

In an interview with the CIO of the OTP (April, 2014), it was found that there is disharmony in the functioning of the CIOs of the OTP and PPT. The CIO of the OTP maintained that: “The CIO of the Provincial Treasury has without the knowledge of the Council touted for the use of Procure to Pay in the Province, starting with the Leave management function.”

It also emerged that:

- There is an IT Council consisting of all EC departmental CIOs
- The Council had a look at the “Procure to Pay” model at Social Development and did not approve as there were many functions lacking; however the Provincial Treasury seems to favour the “Procure to Pay” model.
- The Council recommended Box Fusion which integrates with Vulindlela and LOGIS.
- Department of Economic Development, Environmental affairs and Tourism (DEDEAT) has implemented this Box Fusion.
- Box Fusion is an off the shelf product and would not cause problems with respect to integration with IFMS.

- The CIO of the OTP is the current head of the IT Council.

On a follow up with the Senior Manager: IT at the Department of Social Development, he maintained that Box Fusion is expensive as the “Procure to Pay” is a development by staff already in the departments, and there is no need to buy and pay maintenance fees as is the case with Box Fusion.

5.7 SUPPLIERS AND E-GOVERNANCE

Much as e-procurement can be touted as panacea for inefficiency in public procurement, it cannot be divorced from the primary cause of the overhaul of the South African procurement system in 1997, which saw Government embark upon a reform process to make the tendering system more easily accessible to SMMEs. It is thus of significance to assess the digital divide and the readiness of suppliers for e-procurement.

This accessibility to the tendering system of SMMEs is also linked to access to information. Access to information is one of e-government objectives and it is the right of all citizens that is enshrined in the constitution of South Africa (Habtemichael, 2009:214). It is not left to the whim of administrators; people need information to enable them to participate in the decision making process. Access to information about the procurement process is no different. As part of supply chain management, the South African procurement process mainly involves traditional mechanisms, i.e. it is basically manually executed. All national and provincial departments advertise their bids on their websites and in national newspapers while local

(municipal) government entities advertise on their local websites and newspapers. Other public institutions advertise similarly.

However, stakeholders do not have any mechanism to monitor the procurement process online. The advertisement on the Internet is only informational and does not have features that allow monitoring the flow of the process. But to render the process more transparent and accountable, all bidders are empowered to lodge complaints and ask why their bid was not successful. However, this ex-post right is not tantamount to transparent and proactive measures to prevent corruption.

Habtemichael (2009) also observed that manual execution of procurement process, that is not transparent to stakeholders, is vulnerable to irregularities, both in practice and perception, which erodes public confidence.

Even though these noble intentions of transparency and accountability, which may be enhanced through e-procurement, are in place in South Africa and particularly in the Eastern Cape, they may be hampered by low internet connectivity.

According to Statistics (as in the Wikipedia), by the end of 2009, 10.8 percent of the entire population in South Africa has access to the Internet. Having an average Internet speed of about 1 Mbit/s, the country's connection speed is below the 2 Mbit/s Broadband international average. Hence, South Africa's low access rate to the Internet and below average connection speed make it difficult for the country to compete with other countries in attracting foreign investments.

The Internet user base in South Africa increased from 2.4 million in 2000, to 5 million in 2008 and to 12.3 million in 2012, which represents 34% of the South African population in 2012. This is the highest penetration for all African countries except for Morocco (55%) and Egypt (44%); is well above the figure of 16% for Africa as a whole, and is comparable with the figure of 31% for developing countries worldwide.

Internet accessibility cannot be divorced from communication as they form part of the ICT concept. In terms of communication; in the Eastern Cape 63.2% of households have a television (1 066 991 households) and 61.1% of households have a radio (1 031 171 households).

“Only 9.8% of households have a landline (165 434 households) while 81.2% have a cell phone, 75.9% of the population in the Eastern Cape have no access to the internet (1 280 642 households) while 24.1% have access to the internet at home (5.0%), from a cell phone (12.8%), from work (2.8%), or elsewhere (3.5).” (EcSecc, 2012).

In trying to assess connectivity among suppliers doing business with the Eastern Cape government, a random sample of 150 suppliers was picked. The suppliers were assessed on the basis of having or not having an email address. The email address was used as an indicator of internet connectivity. Even though Gillward *et al.* (2012:37) found that of individual internet users 66% have an email address this was used as indicator for internet connectivity. Of the 150 suppliers sampled only 43 had email addresses. The results in percentage terms are presented in the figure below:

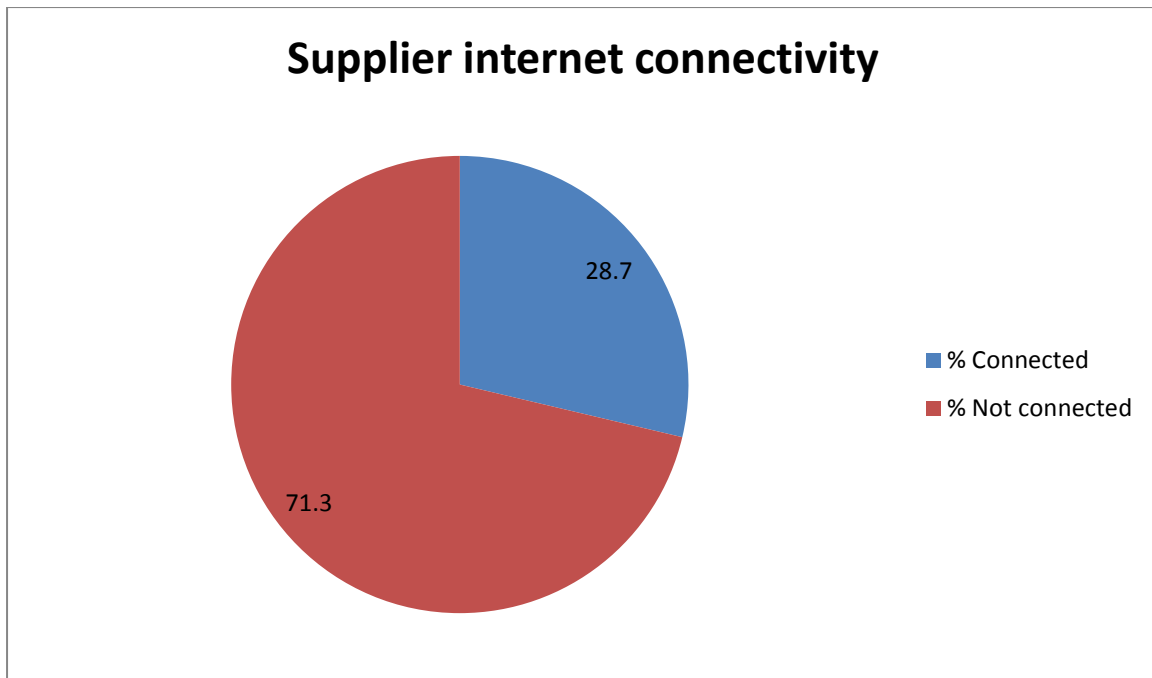


Figure 8: Diagram showing percentage EC supplier internet connectivity

The sample size of 150 for a total population of 15 000 provides at a confidence level of 95% has a confidence interval of 7.96 (Creative Research Systems, 2012). In simple terms, this means that 95% of the times you can be certain that the true percentage of the population is between 20.7% and 36.6%. This is within the 35.2% of internet user base for South Africa as per Census 2011 (StatsSA: 66).

The World Economic Forum (2013) in its Global Information Technology Report of 2013 found that on the Networked Readiness Index (NRI), South Africa ranked 70 out of 144 countries studied. The NRI presents an economy's performance based on 54 indicators (see Appendix VII). On the usage subindex the rankings were as follows:

	Rank (out of 144)	Score
Usage subindex	72	3.5
1. Individual usage	81	3.0
2. Business usage	33	3.9
3. Government usage	102	3.7

Table 5: The Usage subindex of the NRI for South Africa (adapted from the Global Information Technology Report 2013)

These indicators are always measured on a 1 to 7 scale (where 1 and 7 correspond to the worst and best possible outcomes, respectively).

In addition to this, low internet IT infrastructure has been a major setback for LOGIS implementation especially in district offices for most departments. Although some progress is being made with rural connectivity, for example, in the Department of Health, where a budget of R20 million has recently been provided for IT infrastructure for the implementation of LOGIS in 7 outstanding hubs. Out of the 11 departments where LOGIS is being utilised, only two (Education and Human Settlements) has LOGIS fully implemented in districts. Five departments (Health, Roads and Public Works, Rural Development and Agrarian Reforms, Transport and Sports, Recreation, Arts and Culture) have projects in progress for LOGIS implementation in districts (Provincial Planning and Treasury, Eastern Cape, 2012).

According to Mphidi (2009), South Africa is the fourth largest country in the Commonwealth and has the sixth largest population; with fifty per cent of its population in urban areas and has a highest rate of urbanization than most Sub-Saharan countries.

Trusler (2003), as cited in Mphidi, observed that South Africa has to deal with a number of challenges before they can begin with any initiatives for bridging the digital divide. The challenges issues are as follows:

- A high level of inequality;
- A weak ICT infrastructure, particularly in rural areas;
- A lack of ICT readiness in government
- More pressing demands in the public service that makes ICT development a lower priority in budget terms.

5.8 CONCLUSION

The following can be concluded from the presentation of the research findings:

- The IFMS implementation project in South Africa is a priority initiative led by the National Treasury to review and upgrade the government's transverse information technology (IT) systems. The objective of this project is to enhance the integrity and effectiveness of expenditure management and performance reporting in order to ensure effective service delivery. However, the sheer size and complexity of an IFMS poses significant challenges and a number of risks to the implementation process that goes far beyond the mere technological risk of failure and deficient functionality.
- There have been several of these challenges and a lot of press coverage with respect to IFMS implementation. In addition, much as there have been developments, which

are commendable, the practice note 7 of 2006 still has bearing on how provincial and national departments conduct their procurement.

- The apparent lack of expected progress on IFMS thus hampers the extent of e-procurement implementation in provincial and national departments. IFMS has not been rolled out to all departments and provinces and yet clauses 4 and 5 of the practice note, bar these departments from sourcing IT equipment.
- The e-procurement vehicle of the ECPG is LOGIS. The Province of the Eastern Cape Policy on LOGIS (2012) informs that: “The normal day-to-day operations of LOGIS are the responsibility of each department executed by a designated departmental system controller. Provincial Treasury is responsible for the rendering of LOGIS transversal support services (training, user support, monitoring and implementation) to all departments within Provincial Government of the Eastern Cape.
- Full integration of LOGIS with other financial systems as well as with municipalities, has not been done as they apparently wait for the introduction of the IFMS by the National Treasury which would integrate the system with those of municipalities and also bring BAS, OERSAL and LOGIS together.

Emerging from the interviews, is that not much investment was made on IT capacity of SCM unit employees. No assistance was provided by the National Treasury toward improving the IT capacity of employees. Employment of system specialists and programmers has not been prioritised. Some officials in the departments are resisting the migration to LOGIS, but the PPT is making headway in getting everybody on the e-procurement platform.

- In addition to this, proper communication between the PPT and suppliers is also not at its optimal for suppliers to buy into the envisaged e-procurement regime, of which communication is of paramount importance. The districts were also challenged by the location of supplier information at PPT; however this has since been resolved.
- The implementation of LOGIS is incremental at the department of Health and this is consistent with observations from several studies that: “Research indicates that e-procurement is being implemented slowly in many organizations, especially government organizations.”
- There are several challenges for the department of Health, with the main challenges being: lack of ICT infrastructure, connectivity, computers, printers etc.
- There are insufficient Human Resources to run the LOGIS system.
- Findings at the Department of Social Development and Special Programmes were that the department is using a separate e-procurement system called “Procure to Pay” which is not integrated with LOGIS. However, the PPT has since bought into the idea of extending “Procure to Pay” to the other Provincial departments if it reaches an agreement with National Treasury.
- Even though “Procure to Pay” is an e-procurement regime, it still depends on manual generation of the memo and relies on scanned documents at the initial stages of the activity diagram. However, it should be noted that even though this is the case, it ensures that payment documents are accessible at all times and are not lost; this is an area which has been identified by the Auditor-General in the Eastern Cape - the lack of supporting documentation of payments done.
- In its implementation of “Procure to Pay”, Social Development observed that culture change is of critical importance and thus the Department involved stakeholders and took them step-by-step resulting in them accepting and being part of the system.

- The Department of Social Development further identified that change is a process. Interestingly, the Department of Social Development also maintain that change is also influenced by age group and professionalism of the civil service.
- Findings from an interview with the CIO at the OTP seem to contradict that of the CIO at PPT and Senior Manager at Social Development and it suggests that there is some disharmony in the functioning of the two departments (PPT and OTP). These two departments form two of the three departments in the Governance and Administration cluster of the ECPA. This is the cluster that has cross cutting responsibilities in the other government departments and the local sphere of government. It is these two departments that should be driving provincial e-procurement and giving direction and leadership to other departments.

CHAPTER SIX

SUMMARY, RECOMMENDATIONS AND CONCLUSION

6.1 SUMMARY

The Eastern Cape is still plagued by bad audit reports; in the 2012/13 financial year only two departments attained clean audits. This audit outcome is not much different from at the beginning of the study, instead it has regressed. In 2012/13 the AG reported that material non-compliance findings were reported at 80% of the auditees in 2013, compared to 62% in 2012. This increase also mirrored the increase in irregular expenditure and can be attributed to a lack of consequences for poor performance and deliberate transgressions of SCM prescripts, as well as an inadequate response by the leadership of the province to the AG's messages on SCM. The most significant SCM non-compliance findings included in the report, relate to unfair and uncompetitive procurement processes; weak internal controls over SCM; and awards to employees and their close family members (AG report, Eastern Cape 2012/13).

This confirms that areas of qualification, in most cases, have also been around SCM related matters - more so with procurement. It is thus that this study was conducted with the aim to assess the procurement and e-procurement regime in the Province.

E-procurement was and is still thought to be the way to go in improving transparency and accountability in the procurement regime of the Province.

However, the study has always been mindful of the rationale behind the SCM and procurement reforms and that e-procurement cannot be divorced from the primary cause of the overhaul of the South African procurement system in 1997, which saw Government embark upon a reform process to make the tendering system more easily accessible to small, medium and micro enterprises (SMMEs).

This focus on SMMEs necessitated that the digital divide be explored. Coupled to this some recommendations have been made on how to bridge the gap in the short and long term.

The PPT CIO believes that the Province is still at the stage 1 in terms of the evolution of GeBiz as presented in figure 3. Much as there is such a belief, recent studies (as shown in table 8) suggest that South Africa can move forward and is ready to do so; however, care should be taken not to shock the system. Users should be taken step by step through the system.

The study found that LOGIS is the e-procurement tool used by the ECPA. The implementation of this is not progressing according to plan as presently there are two departments with full implementation. Some officials in the departments are resisting the migration to LOGIS, but the PPT is making headway in getting everybody on the e-procurement platform.

The main challenges are lack of ICT infrastructure, connectivity, computers, printers etc. and insufficient Human Resources to run the system. Site stabilisation also is a factor contributing to the slow implementation of LOGIS.

To drive the process forward, a new organisational structure has been submitted to the PPT HOD for approval. This structure is now being sent to DPSA for review.

The study also found that there is disharmony in the functioning of the Council of CIOs which should be overseeing and coordinating ICT issues in the province.

The Department of Social Development is miles ahead on the e-procurement front with its “Procure to Pay” package. However, this system is not integrated to LOGIS. The PPT together with the OTP is looking into ways of introducing “Procure to Pay” to all Departments and integrate with LOGIS. With regard to this, some progress has been made in getting acceptance from the National Treasury as at 05 May 2014 (see Appendix III). The PPT has approval from National Treasury to roll out the Digital Leave Management System developed by Social Development, which is one of the key systems that support the transversal financial systems.

Much as this development is appreciated by the Province, the contents of Practice Note 6 of 2006, are a constant reminder of what Provinces can and cannot do. The PPT has educated departments to follow the processes outlined in the memorandum and to formally engage with National Treasury. National Treasury’s implementation of the IFMS is behind schedule.

This slow implementation of IFMS negatively affects the full implementation of e-procurement in the Province.

Even though this may be the case, e-procurement in the Eastern Cape has moved forward since the last study by Van Greunen (2010) when implementation of e-procurement was made. Part of his proposal was the establishment of a single supplier database and procurement planning.

The PPT has since 2011/12 introduced a Centralised Electronic Supplier Database and a Provincial Price Index. On procurement planning some progress has been made though the planning is still focussed on infrastructure projects.

E-procurement with full roll-out IFMS and integration of LOGIS with “Procure to Pay,” can be a way of improving the SCM and procurement processes and achieving greater transparency and accountability.

Some recommendations have been made to drive this initiative forward.

6.2 RECOMMENDATIONS

From the findings it emerges that there can be two approaches to recommendations i.e. some short term informed by the current LOGIS regime and what is in place at Social Development and long term informed by the success of the implementation of IFMS.

However, featuring for both the short term and long term are proper change management strategies, filling of vacancies and training and long term integrated procurement planning. In the short term, the integration of the Social Development “Procure to Pay” system to LOGIS is paramount. In the long term site stabilisation and bridging the digital divide is important.

The following diagram (Figure 9) represents the framework through which e-procurement in the Eastern Cape Province can be enhanced. This framework incorporates models that have been used in some countries and provinces. However these models are not explicitly described in the model itself but a discussion in sections below explains where each fits.

The consolidation of these, is an attempt to take best practices observed in other countries and provinces and incorporate these into a model suited to the Eastern Cape, that will assist in dealing with some of the attendant challenges of the province. The model may be extended to other Provinces within South Africa and can also be used in other SADC countries which may have the same challenges as the Eastern Cape Province. A decision of presenting the model as cyclic or a linear model had to be made. The decision made by the researcher was that the model be cyclic due to the fluidity and the rapid developments with the ICT industry.

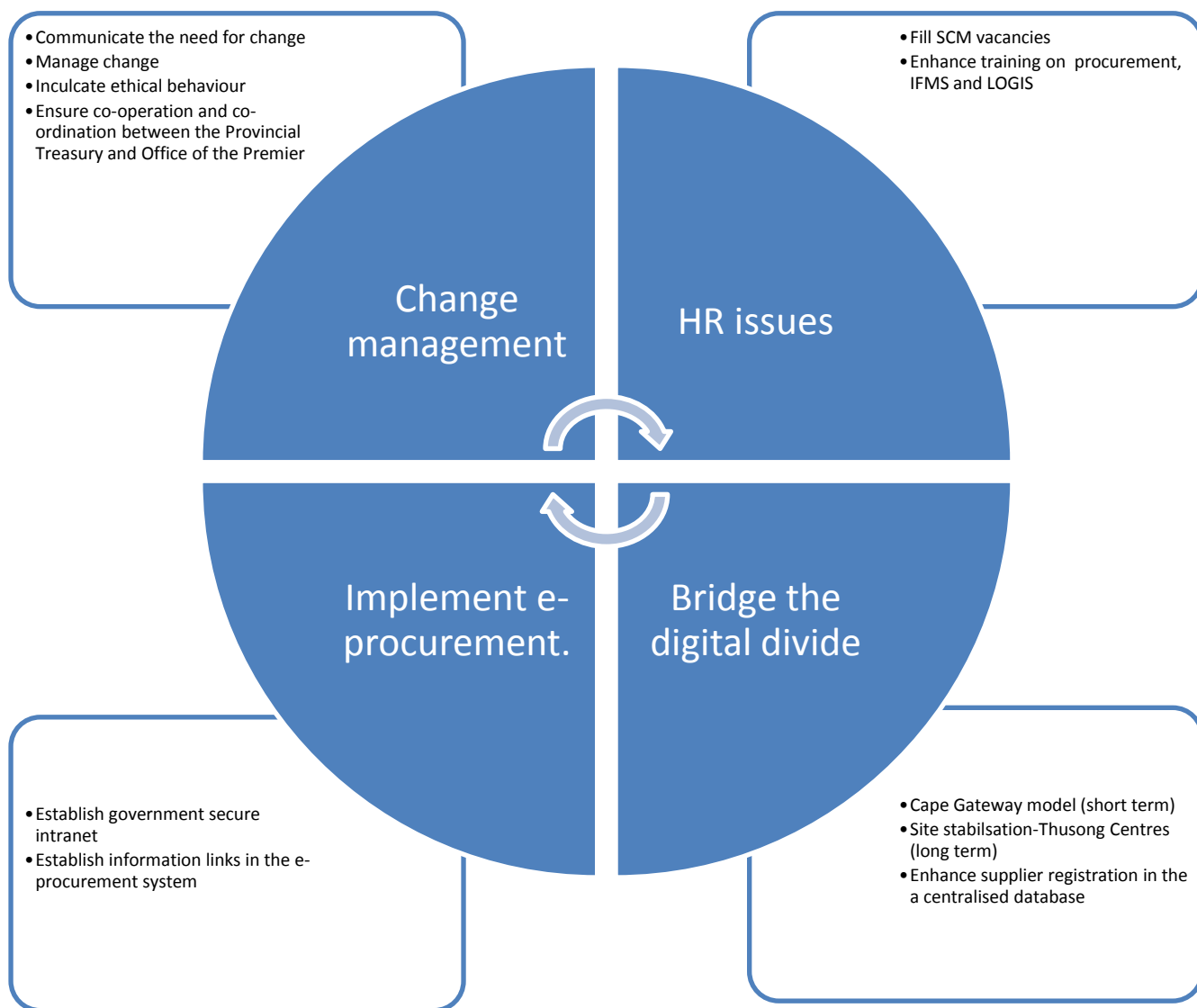


Figure 9: A framework to enhance e-procurement implementation in the ECPA

6.2.1 CHANGE MANAGEMENT

Change management can be described as the creation, maintaining and systematic evaluation of changes in an organisation (Barcan 2010:93). It aims at maximising an organisation's ability to achieve success through involved, educated and committed people. O'Sullivan

(2008:40) asserts that change management includes a stakeholder management model, a communication strategy, a change-readiness assessment framework and certain design elements.

The management of the changes that accompany the implementation of an IFMS can be regarded as one of the most critical, but also one of the most neglected aspects of IFMS reforms. The success of IT reforms depends upon the capacity of the organisation to change, to manage the change and to survive whilst changing (Peterson 1998:38). Resistance to change may come from various stakeholders in the organisation, such as individuals with vested interests who benefited from previous methods, civil servants who see it as a threat to their jobs and people who resist change simply for fear of the unknown.

According to Rozner (2008:3), a change management strategy should be developed as soon as an IFMS project is conceived, taking into consideration the change implications for diverse stakeholders, that is, from politicians and senior officials to heads of departments, civil servants and the IT personnel who will support the new systems. If this aspect is not addressed early in the project, the project will constantly be faced with resistance and obstacles from elected politicians, executive officials and personnel who will use the systems regularly.

The best way to overcome resistance to change will be through clear communication, education and training, as well as through 'quick wins' that demonstrate the benefits of the change (Rozner 2008:4). The communication can be done through a variety of media, workshops, seminars, training sessions, a website, conferences, or newsletters (Rodin- Brown 2008:24).

One of the findings at the Department of Social Development and Special Programmes, is that there is a need for change in the culture of the civil service as systems may be in place, but people are key to the success of such change.

As one of the objectives of the implementation of e-procurement is to increase transparency and accountability of the process; thus combating corruption can be regarded to be a result of such an implementation. For this to be implemented, there should be a change in organisational routines, i.e. the way of doing things. This change would result in change of organisational culture.

This is in line with Raga and Taylor (2005), as has been mentioned earlier in the document, that South Africa needs an organisational culture that not only supports ethical behaviour, but sees that it also defines and underpins right and wrong at an individual and institutional sphere.

Habtemichael (2009) observed that though the potential of ICTs to control corruption is considerable, it does not work in isolation of the other anti-corruption systems. In a corrupt environment, ICTs do not work magic; they are only as good as the people who utilise them. Without integrity, ICTs are incapable of controlling corruption on their own. This can also be said for the implementation of e-procurement. Hence, the efforts to increase professionalism and integrity in the public service are of enormous importance.

Ethical behaviour has to be inculcated in employees to create self-similarity to the organisational vision, which places the responsibility of fighting corruption on all parts of the system.

Similarly, as society is the source of public servants, it is necessary to instil ethical behaviour in the whole range of society (Habtemichael, 2009:267).

In addition to organisational change, Morstead (2010), in a desire to learn about transformative efforts on large-scale, IT project management across the public sector learnt that of a number of innovative approaches to combat five pervasive challenges. The challenges being:

- High-federal IT acquisition and appropriation process.
- Wide variance in employee capabilities.
- Exponential complexity of mega projects.
- Overreliance and ineffective partnership with third party IT vendors.
- Limited transparency into the true underlying project performance.

The first two challenges are systemic and government wide; the other three are agency or project specific.

Of more relevance to this study are:

- Wide variance in employee capabilities which will be alluded to in one of the following sections and;

- Exponential complexity of mega projects; some of the challenges associated with this according to Morstead *et al.* (2010), is that stakeholder complexity tends to develop. This leads to significant pressure to reshape the project's original goals, creating scope creep as an ever-expanding set of stakeholder needs is addressed.

This may be applicable to the ECPA when considering that one of the priorities of government, which is to combat corruption and crime, but the same government is committed to upholding the rationale behind the 1997 procurement reforms with respect to SMME development.

Also relevant from the Morstead (2010) for the Province, is the challenge of the short tenure of leadership in many public sector agencies which exacerbate the impact of complexity, because project durations frequently far exceed the tenure of project sponsors and other key leaders. This causes solution strategy changes and a “Principal agent” problem.

Governments do not have simple line-oriented chains of command. They generally have complex administrative structures and especially in developing and post-conflict settings, they tend to lack the required competencies and knowledge at most levels to choose or implement the solution. Moreover, the political will to replace old systems, processes and structures with new ones and introduce new ways of operating, is often not there. Even when the political will is there, maintaining it can be quite problematic when one considers that the timeline for most IFMS implementations is longer than most finance ministers' term in office (Rodin-Brown, 2008:7).

This “Principal agent” problem may cause delays in IFMS implementation and Thusong centres lack of progress. Thusong centres will be discussed further in the following sections.

One of the ways of overcoming this is to de-scope and re-sequence the project to clearly delineate between core objectives, which could be addressed in a two to three year time frame, and secondary objectives, which could be addressed after delivery of the core functionality.

This suggests that LOGIS be implemented in all departments, then being integrated with Department of Social Development and Special Programme’s Procure to Pay system and then look into the development of suppliers.

Limited transparency into the true underlying project performance has also been mentioned as one of the five pervasive challenges in implementation of mega IT projects. Here, according to Morstead *et al.* (2010), amongst some of the challenges is insufficient rigor in project reviews - early warning systems that rarely exist to gauge specific risks that require active management. Even when early warning systems are in place, they often track the wrong metric, leading to erroneous conclusions.

To overcome this, all critical projects should go through a weekly CIO’s update in which leaders review key parameters and also while the power of regular communications in mega-projects is well understood, few departments put enough emphasis on keeping stakeholders and project team members informed.

6.2.2 VACANCIES AND TRAINING

At the heart of any procurement are the people involved in carrying it out. To get goods and services that are consistently fit for purpose and value for money, is challenging and requires people with specialist skills, whether in the public or private sector.

Adequate CFO capacity, in the form of appropriate structures with fully skilled and professional supply chain management personnel, are key success factors particularly as supply chain management was either neglected or dealt with in a very fragmented or desultory manner. This was made worse by a lack of understanding of industry dynamics. The latter has an important bearing on the success or failure of preferential procurement (National Treasury, 2003).

Provincial Treasury must ensure that the filling of vacant funded posts in SCM units of Departments as well as at the Provincial Treasury, are prioritised. The MEC of Finance should try and influence counterparts at EXCO meetings for this prioritisation. There should be appropriate staffing of the SCM units to enable compliance to SCM rules and guidelines (e.g. segregation of duties).

Vacancies and lack of uniformity in the structural arrangements of SCM units/sections within government Departments result in no uniformity in the application of SCM processes and allow for exposure to risk of manipulation.

Capacity building is a major factor affecting the success of IFMIS implementation, especially in developing countries where IT-capacity is limited and the public sector's salary structure and terms of employment usually cannot attract and retain well trained staff.

Capacity building and training need to be scoped during the early stage of the need assessment process. The process should allow for the identification of various user groups, assess the level of knowledge, recruiting needs, and define the scope of the training curricula thereby targeting the various key audiences. Training should begin from the beginning of the reform, starting by those who will be most immediately affected by IFMIS reform. A broader and permanent training programme should also be developed and implemented.

The ECPA needs to attract, develop and retain people in SCM departments who:

- understand that procurement is directly linked with successful government and the delivery of services to the public;
- understand that good procurement is not just about driving down contract costs. The competitive process is a key driver of value for money, but does impose costs for buyers and suppliers; and
- do not retreat to the lowest price solution simply because it appears at first sight to be the most easily defensible. The ECPA needs people who properly understand, and can apply, the principles of value for money on a whole-life costing basis.

An integrated framework for talent management, as developed by McKinsey, is proposed.

Figure 10 outlines the talent management process and includes the critical enablers to drive the overall system.

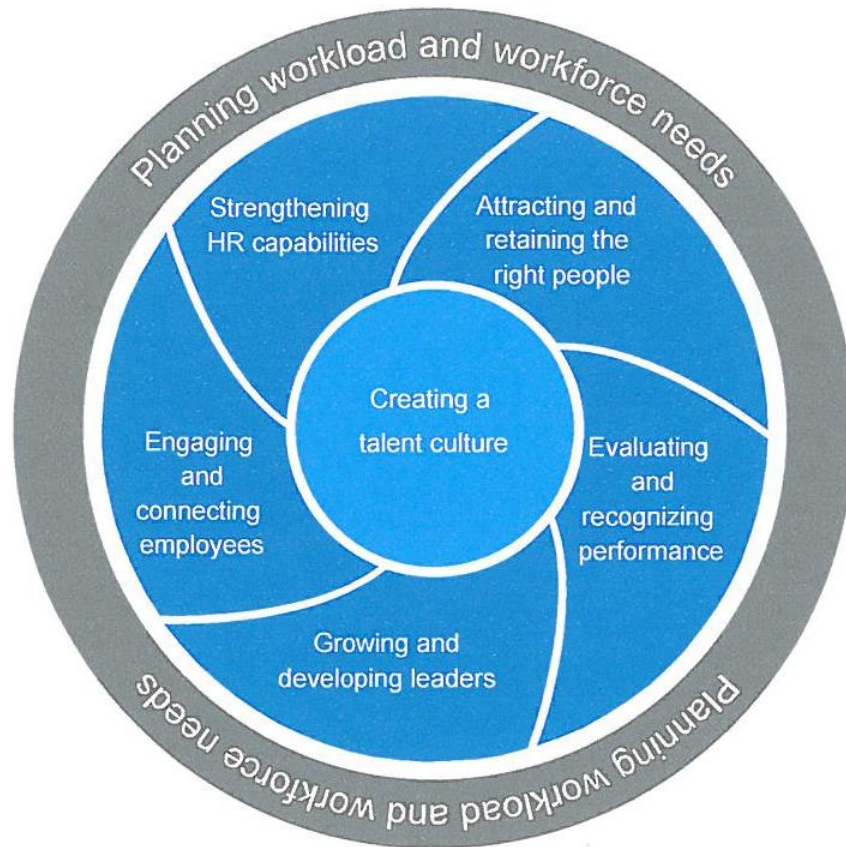


Figure 10: Talent management process, adopted from McKinsey & Company, 2010)

6.2.3 INCULCATION OF ETHICAL BEHAVIOUR IN THE PUBLIC SERVICE

The unwillingness of some officials to move away from manual procurement may be that e-procurement will be an obstacle to some of their underhanded schemes as contributed by the DDG at PPT during the interview process. This suggests some unethical behaviour on the side of some public officials.

Hanekom (1984:58) remarks that the question of ethics is one that is linked with the history of mankind. Ethics deals with the character and conduct and morals of human beings. It deals with good or bad, right or wrong behaviour; it evaluates conduct against some absolute

criteria and puts negative or positive values on it. Guy (1990:6) agrees with Hanekom, because he views ethics as the study of moral judgements and right and wrong conduct. Furthermore, he views ethics as different from law, because it involves no formal sanctions. It is different from etiquette, because it goes beyond mere social convention. It is different from religion, because it makes no theological assumptions. It is different from aesthetics, because it is aimed at conduct and character rather than objects. It is different from prudence, because it goes beyond self-interests of others. Ethics is both a process of inquiry and code of conduct. As a code of conduct, it is like an inner eye that enables people to see the rightness or wrongness of their actions.

In South Africa, the proliferation of ethical codes of conduct, public accountability and the promulgation of a number of pieces of legislation to thwart unethical behaviour is likely to fail as it is necessary to inculcate within the public and public officials' particular dispositions, attitudes and virtues to guide human conduct (Raga and Taylor, 2005).

For example, since public officials in South Africa operate in a diverse society, their ethical convictions and accountability to its populace are bound to be tested. To ensure that officials act confidently with organisational support, training in ethics is essential as an initiative for the establishment of an efficient and effective ethical and accountable public service. Mle (2010) is also in agreement with this as he states that training in basic skills, to carry out official duties, is necessary. Such training may include financial management so that public servants are able to manage own finances. Mle (2010) further proposes other factors which may enhance professionalism and ethics in the public sector. Some of these factors are also recommended and may assist in inculcating professional and ethical conduct in the procurement issues as well as implementation of e-procurement. The factors are:

- The introduction of a career system based on merit appointments.
- Well-articulated and fair human resource policies on remuneration and conditions of service, training and development programmes should be implemented.
- Legalising the Code of Conduct and *Batho Pele* principles – these will then be enforced against misconduct ranging from unethical to criminal acts.
- Increasing compliance with the Financial Disclosure Framework.
- Exemplary leadership and political will are needed to instil ethics and professionalism, because at times the problems start from the top and permeate the institution. Junior officials take advantage of such situations.

6.2.4 BRIDGING THE DIGITAL DIVIDE

“Digital inclusion, or *e-Inclusion*, is a crucial pre-condition for e-Government. In the case of e-Participation, moreover, it acquires greater importance than it does in the case of other e-Government-related issues of a different nature” (Archmann and Iglesias, 2010:32).

The provision of public services via the internet, i.e., service delivery-oriented e-Government projects, has to rely on high ICT penetration rates in order to be successful. Seen from an e-Participation point of view, inclusion is an issue that has to be taken into account much more seriously, since participation is related to enhancing democracy and providing citizens with easier, direct ways of interacting with government and public administration.

The modern society we live in, often called knowledge society, is extremely dependent on information, but also have the potential to distribute knowledge in a more equal way and to offer job opportunities that overcome the traditional barriers of distance or physical space.

However, these technologies have not reached everyone in our societies, nor have governments fully incorporated the potential from these technologies into their service-delivery or decision-making processes. Therefore, the challenges for the future of e-Government and hence e-procurement in Eastern Cape and South Africa as a whole, depend on the success of inclusion policies aimed at closing the existing digital divide.

Archmann and Iglesias (2010) identify that, closing the digital divide can provide better opportunities for both people and companies, thereby contributing to the stimulation of the knowledge economy. Moreover, better inclusion rates can enhance the learning processes and popularise lifelong-learning programmes supported by internet platforms.

Secondly, public administration can benefit from higher inclusion rates as a way of reducing the cost of delivering public services. The savings would come from progressively replacing traditional services with their electronic equivalents.

Conversely, e-Inclusion presents some important challenges that government should be ready to meet. Such challenges are directly linked to making the benefits of ICT available to the maximum number of citizens possible by:

- improving accessibility;

- promoting the newly available channels of participation as a means to have a more active citizenry; and
- improving social cohesion and eliminating inequalities with regard to ICT access.

Meeting these challenges requires awareness, active policies and proactive planning.

Regarding the first of the challenges, government should react by deploying active policies aimed at improving the current ratios of ICT penetration by promoting ICT centres, sponsored broadband access and content creation, as well as by making official websites more user-friendly and accessible.

The promotion of these ICT centres can follow the model of the Cape Access Project implemented by the Western Cape Provincial Government. Importing this model to the Eastern Cape, together with the establishment of Thusong centres (to be discussed in the following section), can greatly assist the ECPA and its citizenry in bridging the digital divide.

Cape Access is an initiative that makes information and communication technology (ICT) more accessible to rural and underprivileged communities throughout the Western Cape.

These communities are often marginalised and economically excluded, due to their limited access to information sources and modes of communication. What's more, the resources available to them are often out of date. Cape Access aims to create opportunities for social change and economic growth by making state-of-the-art ICT more widely available.

The Cape Access Project has established e-centres across the Western Cape. Some of these e-

centres are managed by e-community forums and provide local rural communities with computers and internet access, which they can use for a wide variety of purposes. School projects, job applications, internet banking, SARS e-filing and CV creation are just a few examples.

The second of the challenges demands that important steps be taken to increase citizens' willingness to use and participate in these newly available channels include increasing the visibility of the available services and building citizens' trust in the privacy and security of electronic transactions with their governments.

Thirdly, because the full benefits of the Knowledge Society, including e-Participation, can only be realised if citizens have the necessary skill sets, the policies aiming at promoting digital skills and digital literacy must remain a top priority for our governments and public administration.

6.2.5 SITE STABILISATION

It has been stated that in the ECPA, Information Technology (IT) infrastructure is limited to the departments and their district offices. The rest of the province is characterised by lack or poor technical infrastructure and electricity, especially in the remote rural areas where there is impediments to information. This infrastructure is the foundation on which the others are built on. However, as the provinces move along the timeline, investment in infrastructure will increasingly be justified on the strategic value to economic growth. Thus, content and its applications will increasingly be the justification for infrastructure deployment.

The Western Cape Provincial Government has introduced the Cape Access Project and it is along this line of reasoning that a recommendation to enhance site stabilisation and the revival or utilisation of Thusong centres are revisited as a long term strategy. Site stabilisation has been identified as one of the factors negatively affecting rolling out LOGIS and hence e-procurement.

In the short term, utilisation of schools and clinics as internet centres in rural areas, is proposed and is based on the Cape Access model of the Western Cape Provincial government. The use of some schools and clinics would utilize some of the soon to be white elephants in some of the rural areas of the Eastern Cape, as suggested by the statistics which shows migration out of the Eastern Cape.

The last South African census shows that, in the last ten years, 436 466 people left the Eastern Cape province, while 158 205 people migrated into the Province, leading to net migration of 278 261 people.

6.2.5.1 THUSONG CENTRES

The rationale for Thusong Service Centres is set within the development-communication paradigm. This paradigm reflects a democratic approach to a public communication and information system, as it aims to put the information needs of citizens first in the communication process. Some of the salient features of this approach relate to the expressed need for face-to-face interaction between government and the people. A high premium is

placed on the introduction of information and communications technologies (ICTs) to such communities.

Using such modern means as the Internet, e-mail and computers, the aim is to promote literacy and access to technology. Political neutrality and acceptance by the communities of the centres are also important.

The primary focus of development communication and information is to empower the poor and disadvantaged. These communities have limited access to information and are the main target of government's socioeconomic programmes. Thusong Service Centres are viewed as a means to operationalise the development communication approach as well as to address information and service imbalances at local level by bringing government closer to the people. In the context of South Africa and the historic marginalisation of poor communities, it is seen as a critical and necessary way of addressing the inequitable spread of service delivery.

6.2.5.1.1 Thusong Service Centre service offerings

The strength of the Thusong Service Centre concept is the clustering of services which provides improved levels of access and convenience to citizens and efficiencies to service-providers. The range of services that could be provided at Thusong Service Centres is reflected by the following Six-Block Services Model (Figure 11):

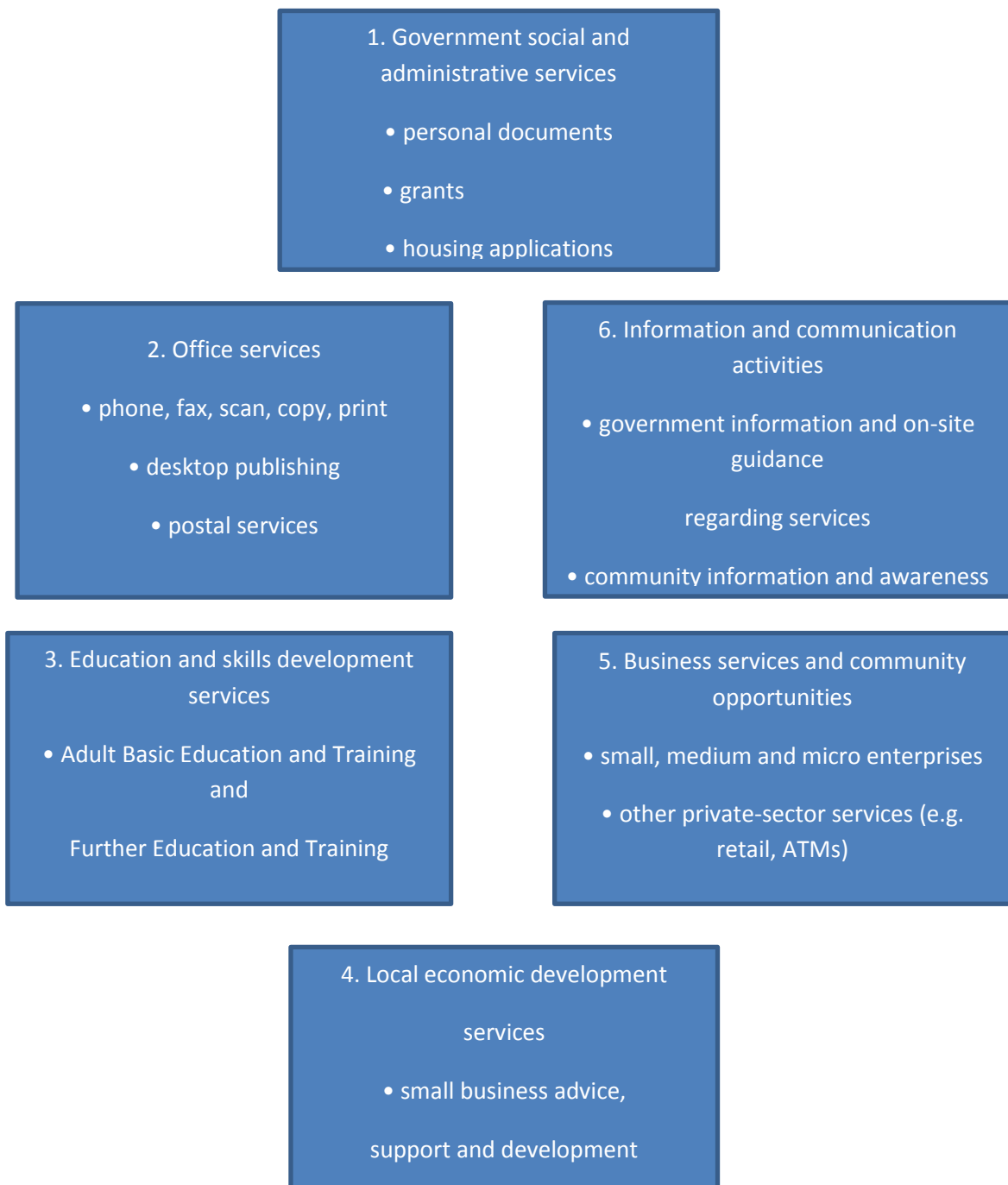


Figure 11: Six-Block Services Model of Thusong Centre Offerings, source: Government Communications-Thusong Centres)

This model would go a long way in addressing internet connectivity and bridging the digital divide and is in line with some of Mphidi's recommendations in his study of the digital divide and e-governance in South Africa that:

- Government must engage with the industry in order to improve telecoms infrastructure.
- Government to assist its citizens with access to affordable internet services so that these people should be able to use more of e-governance services (Mphidi, 2009).

6. 2.6 THE FUTURE

In 2001, Benjamin (cited in Kumar & Best, 2006:2) observed that despite its initial success, lack of regularly updated content and interactivity led to the failure of a community based e-government initiative in South Africa. Trusler (2003) in Mphidi also found that the South African e-government initiative was not progressing as planned.

The lack of coordination between government departments that leads to slow implementation, partially sprang from the then e-government policy itself, which required that individual departments come up with their own strategies and projects. Even though Practice Note 7 of 2006 effectively put an end to this, the effects are still in place to date.

Generally, the percentage of utilisation of e-government stages in South Africa, as shown in table 6, is an indication that the country is progressing well into the third phase (Interactive stage).

	Emerging	Enhanced	Interactive	Transactional	Networked	Total
Percentage of utilisation	100	79	62	17	22	54

Table 6: Percentage utilisation of e-government stages in South Africa (source Habtemichael, 2009)

As much as large IT-projects require substantial investments in equipment, training and infrastructure and involve high risks of delays and failure due to interdependency of the various project components, a pragmatic step-by-step approach to reform is recommended by Chene (2009). The researcher believes that there can be a co-ordinated approach to the use of IT throughout the entire supply chain, as both suppliers and departments work together.

The technology that is commercially available now, can bring major efficiency gains. The following diagram summarises the envisaged future state of the ECPGs' e- procurement model.

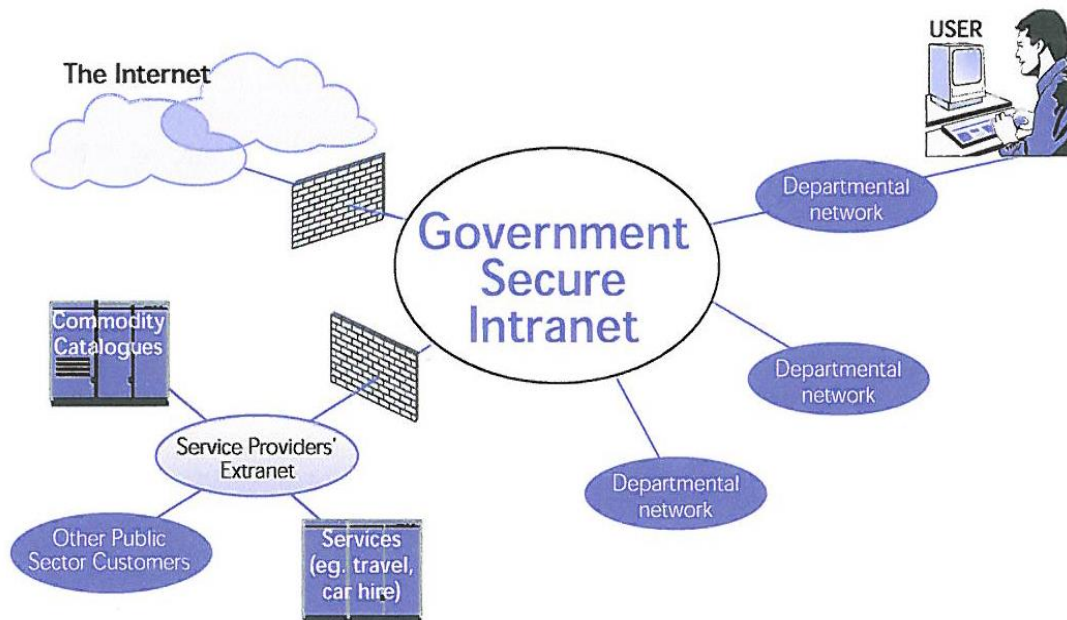


Figure 12: Future state of the ECPGs' e- procurement model (adopted from Oughton and Rigby, 1998)

Much as this model is adapted from a 1998 document of the HM Treasury in the United Kingdom, it is still relevant and applicable to the Eastern Cape and the South African procurement environment. The accession by the CIO of the PPT, that the EC government was still at infancy stage when compared with the Singapore GeBiZ model, supports this.

Furthermore, in the Global Information Report of 2013 - offering an overview of the current state of ICT readiness in the world of 144 countries accounting for over 98 percent of global GDP, the following emerged with regard to rankings with respect to:

- ICT use and government efficiency: Which number measures the extent to which the use of ICTs by the government improve the quality of government services to citizens (e.g., speeding-up of delivery time, reducing errors, introducing new online services, enhancing transparency) in your country? [1 = not at all; 7 = has generated considerable improvements] 2011–2012 weighted average:

Country	Rank	Score
Singapore	1	6.1
United Kingdom	17	5.2
South Africa	97	3.8

- E-participation index: This assesses on a 0-to-1 (best) scale, the quality, relevance, and usefulness of government websites in providing online information and participatory tools and services to their citizens.

Country	Rank	Score
Singapore	3	0.95
United Kingdom	5	0.92
South Africa	76	0.16

(WEF-GITR Report, 2013)

It also should be noted that as early as 1994, a number of countries, especially those in the developed world and some in developing countries, were putting policies and plans designed to transform their economies into an information and knowledge economy, into place. Countries like USA, Canada, and a number of European countries, as well as Asian countries (India, Singapore, Malaysia, South Korea, Japan), South American countries (Brazil, Chile, and Mexico among others), Australia and Mauritius either already had in place comprehensive ICTs policies and plans or were at an advanced stage of implementing these programmes across their economies and societies (Ongunsola, 2005:1).

However, South Africa should be commended as it has made some strides as at that time it was just being formed as a democratic state and its priorities were not necessarily those of the developed world with respect to ICTs, as can be deduced from Jay Naidoo (the then Minister of Posts, Telecommunications and Broadcasting), when he emphasized that: “As the global rate of IT innovation and change is accelerated by the developed world, it is essential for developing countries to become significant players in the international arena, but not at the price of sacrificing their own development needs on the altar of international trade liberalisation. It is essential to ensure that the economic benefits of information infrastructural

development are used to benefit and grow the domestic economy. For example, investment incentives and offset requirements are needed to ensure that SMMEs are developed through the provision of the Information Infrastructure” (Adam, 1998).

In the 2010 e-readiness report SA is ranked at 41.

According to Mutula (2008): “The concept of e-readiness was originated by the intent to provide a unified framework to evaluate the breadth and depth of the digital divide between more and less developed countries during the latter part of 1990s. Several tools were thereafter developed by academia, the private sector and development agencies to assist in measuring the extent of the digital divide. For example, in 1998 the Computer Systems Policy Project (CSPP) in the USA developed an e-readiness assessment tool known as the “Readiness Guide for Living in the Networked World”. This tool defined e-readiness with respect to a community that has high-speed access in a competitive market; with constant access and application of ICTs in schools, government offices, businesses, healthcare facilities and homes; user privacy and online security; and government policies which are favorable to promoting connectedness and use of the network.”

The government secure Intranet is central to this model. It links government departments’ networks securely to each other so that:

- individual users may exchange e-mail up to “RESTRICTED” across departmental boundaries in just the same way as they currently do internally;
- shared databases and information services are provided, accessible via a standard web browser;

- access to the Internet is provided via a carefully managed firewall, allowing users to exchange e-mail with organisations on the Internet and view Internet information services; and
- gateways may be provided where required to external services such as electronic catalogues.

This system will have the following information links as shown below.

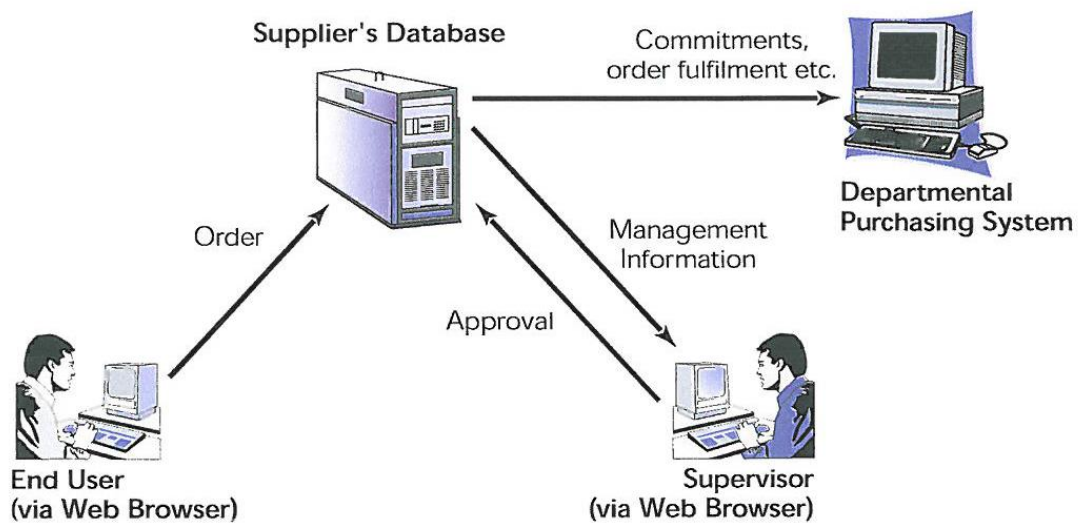


Figure 13: Information links in the e-procurement system (adopted from Oughton and Rigby, www.HMTreasury.gov.uk/efficiency in civil government procurement)

6.2.6.1 TIME SCALE FOR IMPLEMENTATION

This time scale for implementation considers only the last part of the framework which is the implementation of e-procurement. The other elements in the framework can be done concurrently.

0-24 Months

Establishment of SECURE INTRANET web site to support SCM procurement professionals.

- Access of relevant staff to SECURE INTRANET and to the Internet.
- Increased use of electronic catalogues where this will offer value for money by end users when using framework agreements.
- Establishment of pilot database for calls for competition and web site.
- Substantial increase in availability of e-mail and web browsing facilities for procurement staff.

24-36 Months

Establishment of pilot facility for suppliers to submit responses to RFIs (Requests For Information).

- Initial use of enhanced catalogues – with management controls – by end users.
- Establishment of pilot web site for downloading of tender information.

36-42 Months

Database for calls for competition and web site in general use.

Facility for suppliers' responses to RFIs in full service:

- Widespread use of electronic catalogues.
- Web site for downloading of tender information in general use.
- Pilot service for submission of tenders established.

42 Months – 5 Years

- Near-universal use of database/web site for calls for competition.
- Electronic catalogues in use for the majority of framework agreements.
- Full service for electronic submission of tenders established and in widespread use.

6.3 CONCLUSION

There are several issues and challenges which negatively impact on procurement as well as e-procurement. Some of these have been revealed in previous studies, they are a high vacancy rate in most SCM sections throughout departments, general poor procurement planning which results in goods and services not being available when they are needed, lack of timeous and accurate reporting of SCM information and poor contract management.

Automation of the procurement transactions reduces human error, enhances the integrity of the data, brings in transparency to the Government procurements and facilitates standardisation of processes.

The entire e-Procurement process should be designed to avoid human interface i.e., supplier and buyer interaction during pre-bidding and post bidding stages. The application ensures total anonymity of the participating suppliers, even to the buyers, until the bids are opened on the platform.

Countries with a well implemented system have noticed higher participation of SMEs (Small and Medium Enterprises) due to improved market access and a reduction in marketing costs. This improvement on SMME participation is at the core of the South African procurement reforms of 1997 and thus advocates for e-procurement.

E-procurement offers the benefits of greater transparency, wider geographical reach and lesser time of transaction and better pricing; sustained savings can also be achieved through automated, easy-to-use purchasing, invoice management and supplier enablement capabilities.

Inculcation of ethical behaviour as well as the pushing through of the legislation, barring public servants from doing business with government, would assist in dispelling the perceptions of corruption in the public procurement environment.

The digital divide is of great importance in the e-government approach as it represents a barrier to e-government in that the people who do not have access to the internet will be unable to benefit from online services. Recommendations on the use of the Cape Access model as well as use of Thusong centres have been made. However, as much as these recommendations have been made, a study on the digital divide within the Eastern Cape Province as well as the best platform to penetrate the province would be worth considering.

Improved working relations of the Eastern Cape Digital Council, together with full roll out of IFMS, would advance e-procurement in the province. However, as there seems to be some bottlenecks in IFMS implementation, the best way forward for the Eastern Cape would be the integration of “Procure to Pay” with LOGIS as well as roll out to other departments.

Much as “Procure to Pay” is being touted, no objective study has been made to compare it with Box Fusion. As much as this would be an area of further research, looking at the various offerings available to the public sector and their suitability, this study would perhaps be overtaken by the full implementation of IFMS.

The readiness of suppliers within the province itself is another area which may be worth exploration. The impact of delays in IFMS implementation in the South African e-procurement environment would also be worth assessing.

The proposed model based on the government secure intranet, a supplier's database, a service provider's extranet as well as the internet, is the way to go for the Eastern Cape Government in trying to move to the higher stages of GeBiZ, as highlighted in the Singapore development model.

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APPENDIX 1



Province of the
EASTERN CAPE
PROVINCIAL TREASURY

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<i>Umhla</i>		<i>Ifoni</i>	
<i>Date:</i>	17 DECEMBER 2013	<i>Telephone:</i>	040 – 609 4888
<i>Datum</i>		<i>Telefoon</i>	
<i>Ireferensi</i>	Approval to conduct research	<i>Ifaxi</i>	
<i>Ref No:</i>	on the implementation of e-	<i>Facsimile</i>	040 – 635 0021
<i>Verwysings</i>	procurement systems	<i>Faksimile:</i>	
<i>Imibuzo</i>		<i>Amakhasi:</i>	
<i>Enquiries:</i>	Ms Laurel Shipalana	<i>Pages:</i>	1
<i>Navrae</i>		<i>Bladsye:</i>	
<i>Iposi</i>			
<i>E-mail:</i>	Laurel.shipalana@treasury.ecprov.gov.za		
<i>E-pos</i>			

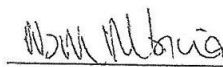
Mr N. Myataza
Legislature
Bhisho

Dear Mr Myataza,

APPROVAL TO CONDUCT RESEARCH ON THE IMPLEMENTATION OF e-PROCUREMENT SYSTEMS

1. Your request, as outlined in your letter dated 31 October 2013 bears reference.
2. Approval is hereby granted to work on the proposed research whilst observing all the relevant government policies and prescripts in this regard
3. Trust you find the above in order.

Yours sincerely,


MARION MBINA-MTHEMBU

HOD: PROVINCIAL PLANNING AND TREASURY

DATE: 17/12/2013

Cc Ms. D. Cloete
Mr N. Madikiza
Adv. J. Bomvu
Mr A. Louw



Request to Conduct Research on the Implementation of e-Procurement Systems in the Public Sector

"A quality Treasury leading in Service Excellence"



APPENDIX II



**NATIONAL TREASURY
REPUBLIC OF SOUTH AFRICA**

Private Bag X115, Pretoria. 0001 Tel: +27 12 315 5111, Fax: +27 12 315 5234

Enquiries: P S Maake

Ref: SS5/2/40

Tel: 012 657 4194

Fax: 012 657 4560

**TO ALL : ACCOUNTING OFFICERS OF ALL NATIONAL DEPARTMENTS
HEAD OFFICIALS OF ALL PROVINCIAL TREASURIES
PROVINCIAL ACCOUNTANTS-GENERAL**

TREASURY PRACTICE NOTE 7 OF 2006

APPLICATIONS IN RESPECT OF NEW IT SYSTEMS

1. On 14 September 2005 Cabinet formally approved Phases I and II of the Integrated Financial Management Systems (IFMS) Project. In terms of this approval, all financial (including payroll), supply chain and human resource management systems are to be replaced by a centrally provided integrated application.
2. Phase II of the project will be completed over a period of about eighteen to twenty four months. This phase of the project will see to completion of the detailed overall systems specification and organizational preparation that will be needed for implementation of the new integrated solutions.
3. Phase III will be completed over a period of about five years. During this phase different releases of the new systems will be rolled out.
4. To avoid unnecessary duplication of IT systems in government, Cabinet resolved that a moratorium be placed on the acquisition of all IT systems that will be provided through the IFMS project.
5. For this reason, the National Treasury will not grant any approvals for the acquisition of any new IT systems in terms of section 17.3.1 of the Treasury Regulations, unless written confirmation has been obtained from the IFMS Steering Committee that the intended system would not constitute a duplication of solutions that would be provided through the IFMS project.

Treasury Practice Note 7 of 2006
Applications in respect of new IT systems

6. Your cooperation in this regard would be appreciated.



C C W KRUGER
DEPUTY DIRECTOR-GENERAL: SPECIALIST FUNCTIONS

DATE: 13/3/2006.

APPENDIX III

Myataza, N

From: James Rautenbach <James.Rautenbach@ectreasury.gov.za>
Sent: 05 May 2014 04:41 PM
To: Nation Madikiza; Myataza, N
Subject: RE: LOGIS,e-procurement study

Colleagues

Please find the answers below in red.



Province of the
EASTERN CAPE
PROVINCIAL PLANNING
AND TREASURY

JAMES RAUTENBACH
DIRECTOR: FINANCIAL INFORMATION SYSTEMS
TEL: +27 40 609 5989 CELL: + 27 (0) 83 308 2853
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E-MAIL: james.rautenbach@ectreasury.gov.za

Our Vision: We envision a prosperous province supported by sound financial and resource management

FINANCIAL INFORMATION SYSTEMS
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CUSTOMER CARE: 040 609 4809 • CENTRALISED SUPPLIERS DATABASE: 040 608 6700

From: Nation Madikiza
Sent: 30 April 2014 10:06 AM
To: James Rautenbach
Subject: FW: LOGIS,e-procurement study

From: Nation Madikiza
Sent: 16 April 2014 03:31 PM
To: James Rautenbach
Subject: FW: LOGIS,e-procurement study

From: Myataza, N [<mailto:nmyataza@ecleg.gov.za>]
Sent: 16 April 2014 03:21 PM
To: Nation Madikiza
Subject: LOGIS,e-procurement study

Good day Sir

I would greatly appreciate your assistance with respect to the following questions. I also would appreciate if I can get the responses on 23 April 2014. The questions are:

Has the Department of Health finalised the securing of space at Global Life as the Central hub and the lease renewed by DPRW?

Answer: The space at Global Life has not been finalised. The lease agreement has expired and currently they are occupying that space on a month-to-month basis; no long term agreement has been signed.

Has the ICT infrastructure upgrade to enable LOGIS roll out been completed at ECDoH? If not, how much is the deviation from plans?

Answer: The ICT infrastructure upgrade is not complete; currently there is only 1 in the process and they have submitted 24 applications.

You mentioned during our last interview that:

- The Province is looking at having 109 stores for LOGIS but currently has 55 and aim to have 75 by financial year end (2013/14). What progress has been made and what are the challenges around this?

Answer: The new stores for Health are 72 for financial year 2013/14. Main challenges are lack of ICT infrastructure, connectivity, computers, printers etc. and sufficient Human Resources to run the system

- the Province is under resourced to run LOGIS though there are some improvement with respect to staffing of late, currently(at the time of the interview) there are 3 BAS managers and 7 interns, 2 PERSAL managers and 4 interns and for LOGIS there are 2 managers, 6 implementers and 4 interns. What would be your preferred optimal staffing quota?

Answer: We have submitted a new organisational structure to the HOD for approval. This structure is now being sent to DPSA for review.

How much is the Province held to ransom or delayed with respect to the IFMS implementation and rolling out its own systems- In view of Practice Note 7 of 2006 which barred departments/provinces from acquiring own IT systems?

How best can co-operation between PPT and OTP and Soc. Dev. be enhanced to best drive forward the integration of the Soc. Dev. system to the Provincial LOGIS and hence the entire Province? (My opinion/perception is that OTP – CIO is not coming to the party)

Answer: We have educated departments to follow the processes outlined in the memorandum and to formally engage with National Treasury. This has assisted with approvals for the rollout of key systems that support the transversal financial systems e.g. we now have approval for the Digital Leave Management System developed by Social Development.

I sincerely thank you for your time, assistance and patience with regard to this.

Thank you.

APPENDIX IV

GUIDELINE INTERVIEW SCHEDULE FOR THE PROVINCIAL TREASURY OFFICIALS

1. What is the current procurement approach of the ECPA? Would you say it is manual, electronic or mixed?
2. How would you define electronic procurement?
3. Of these(GeBIS-Singapore) stages where would you place the ECPA?
4. What is currently in place?
5. What are the current challenges with implementation of what is in place?
6. Where are the inefficiencies in the procurement system?
7. How best can these challenges and inefficiencies be addressed?
8. How best can it be taken forward?
9. How much embedded is BAS and LOGIS in the ECPA procurement environment?
10. Is there another route besides e-procurement?
11. How far would you go with e-procurement?
12. At what stage are we in respect of connectivity?
13. What would work and what would not work, for departments and also the suppliers?
14. How long do you think it would take to reach the stage 5 in model shown?
15. If you were to go to stage 5 would suggest a phased –in approach to cataloguing or go the whole distance first time?
16. How would suppliers be affected?
17. How best do you think it should be ensured that suppliers are not left behind if we go the whole distance?
18. What role can Thusong centres play in the process?
19. Do you think the current procurement system is efficient?

GUIDELINE INTERVIEW SCHEDULE FOR SOC. DEV. OFFICIALS

1. How did you go implementing e-procurement?
2. What were your main challenges?
3. What was the prevailing culture?
4. How have you done it?
5. What does it encompass?
6. What would you do to improve?

7. What is the next phase-where to from here?
8. What would you do to improve the system?
9. What pitfalls should new government entrants avoid?
10. What do you think you could have done differently?

MEMORANDUM

TO: EXECUTIVE COUNCIL

FROM: PROVINCIAL PLANNING AND TREASURY

FILE NO: 2/1/16

DATE: 29 MAY 2013

SUBJECT: DOH SCM REFORM STATUS REPORT

1. PURPOSE

To update the EXCO on the progress made in the SCM Reform programme in the Department of Health in an effort to improve SCM management in the department.

2. BACKGROUND

The ECDoH SCM reform is a three (3) year programme. The involvement of Provincial Planning and Treasury in this project commenced on 1 July 2012.

This involvement started with developing and securing consensus on the problem statement, thereafter a programme definition including a strategy and required programme outcomes were crafted.

The team also identified projects that were already taking place, assessed how they needed to be strengthened and integrated these projects into the SCM Reform Programme.

Since then the team has supported the implementation of projects that were integrated into the SCM Reform Programme and in some cases are in the process of developing projects under each outcome.

The SCM Reform Programme statement, the strategy and required outcomes as well as the progress made to date and challenges encountered under each outcome, specifically stating additional support required, are discussed below. Key risks that the provincial leadership should be aware of are also highlighted in the last section of this report.

3. PROBLEM STATEMENT

The ECDoH has one of the largest allocations of Goods and Services budget in the province.

Supply Chain management in the department is the result of many negative audit findings in the department and the 2013 fraud register indicates that SCM has very high fraud risks. These fraud risks include:

- Inflated prices;
- Payments for goods not received and services not rendered;
- Unauthorised changing of suppliers banking details;
- Loss of inventories and assets; and
- Abuse of motor vehicles and misuse of petrol cards.

The occurrence of these risks results in the waste of financial resources. However, the most material risk that the department faces is that of SCM failure, where goods and services required for saving lives are not available on time every time. This happens as a result of:

- Poor planning;
- Poor monitoring;
- Lack of capacity – numbers and skills; and
- Lack of accountability by managers.

The SCM function in ECDoH is decentralised. The majority of procurement transactions are on manual systems. The department has attempted to implement LOGIS more than once and failed. The failure to

ECDOH SCM REFORM PROGRAMME

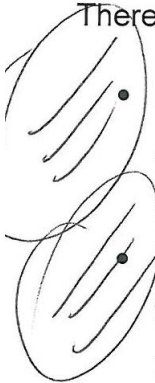
implement an electronic SCM system in this decentralised SCM environment hinders consolidation of information, reporting and monitoring. Other challenges that are currently of serious concern in the SCM unit of ECDoH are:

- Non-compliance with SCM prescripts;
- Poor segregation of duties;
- Disappearance of source documents and poor accessibility of contract documents; and
- Incomplete asset register

The SCM Reform strategy was informed by this problem statement.

4. SCM REFORM STRATEGY

There are four major components of the SCM Reform Strategy:

- 
- Increasing management's ability to report and monitor SCM Activities through installation of an electronic procurement system (LOGIS);
 - Making SCM activities visible and controllable by management through restricting the majority of SCM activities to a limited number of sites referred to as procurement Hubs;
 - Increasing the number of term contracts; and
 - Strengthening SCM capabilities through appropriate resourcing of the function, presenting SCM prescripts in a simplified manner, training line managers and SCM practitioners.

5. EXPECTED SCM REFORM OUTCOMES

This project has the following seven (7) expected outcomes:

- 5.1 A reliable electronic procurement system to monitor procurement activities and correctly report commitments and accruals (LOGIS roll out);
- 5.2 A credible, reliable and service delivery sensitive procurement system that achieves value-for-money (term and transversal contracts);
- 5.3 Compliance with SCM prescripts;
- 5.4 Improved management of inventories;
- 5.5 A complete and timely updated asset register;
- 5.6 A well-managed transport and travel office; and
- 5.7 Safely- kept and accessible SCM documents.

6. PROGRESS TO-DATE

Outcome 1	An effective and reliable system to monitor procurement activities and correctly report commitments and accruals
Strategy	Limit finalisation of procurement activities to 14 sites known as procurement hubs and later increase the number of procurement hubs as resources become available
Objective	100% procurement transactions on electronic system (MEDSAS and LOGIS in 2013/14
ICT Infrastructure upgrade to enable LOGIS roll-out	<p>The ICT infrastructure upgrade project has three phases. Phase 1, which includes upgrade of datelines, network cables and installing computer points will be completed at the end of May 2013.</p> <p>Phase 2 is at specification development stage, the procurement process will begin in late in May 2013. In this phase switches will be upgraded and the department will set up four data centres.</p>
Site stabilisation	The central hub will be accommodated at the Global Life Building in

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in terms of accommodation	<p>Bhisho. The space planning has been done and furniture procured. The department is waiting for Department of Public Works to renew the lease.</p> <p>The project to review accommodation and space planning in all other hubs is at the development stage.</p>
Site stabilisation in terms of Human resources	<p>The structure of the central SCM hub has been reviewed and the SCM management (AD, DD and Directors) have been consulted. Three Director Positions are at the recruitment stage.</p>
LOGIS implementation	<p>LOGIS (Procurement Module) has been implemented in 14 out of 14 sites prioritised in 2012/13 under Phase 1 of Logis implementation project.</p> <p>The 2013/14 priorities are:</p> <ul style="list-style-type: none"> (a) 100% Logis utilisation by end of the financial year in all implemented sites (b) Management of the asset register on Logis (c) Logis implementation in four OR Tambo sub-district (Phase 2) <p>Challenges:</p> <ul style="list-style-type: none"> (d) The absence of master system controllers providing on-site support to newly implemented sites for a period of at least six months is a major constraint. A request for eight master system controllers to provide this on-site support is under review by Provincial Planning and Treasury. (e) The low level of computer literacy of SCM officials at institution level and shortage of departmental computer training labs in the east and central parts of the province is a challenge. Lilita colleges are now busy setting up computer training labs. The programme team is supporting this process and ensuring that Financial Information Systems including Logis is also installed in all these labs.
Outcome 2	A credible, reliable and service delivery sensitive procurement system that achieves value for money
Strategy	Development of credible procurement plan and increasing planned procurement
Objective	Increasing planned procurement to 80% over a period of three years
A credible Procurement plan	<p>A joint ECDoH/Treasury team assisted districts with the development of their procurement plans and validating correctness of information that the Head Office has on existing contracts and bids-in-process. The ECDoH was able to submit a procurement plan as a result.</p> <p>The Programme team is now refining the plan, prioritising commodities that will be put on term contracts over the next three years and allocating responsibilities to various managers for those commodities prioritised for term contracts in this financial year.</p>

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	<p>Challenge: The understanding of this function is low. The competence to develop procurement plans and assess demand is not matured as yet in the department.</p>
Term contract for commonly used items	<p>The Forensic Investigation and a number of security services term contracts have been awarded.</p> <p>There are a number of term contracts that are in-process. The SCMO at PT is providing support in the development of commercial specification and appropriate sourcing strategies.</p> <p>A proper demand assessment exercise has been completed for Hospital foods and security services.</p> <p>Challenges:</p> <p>(a) Initially the BAC of the Department was dysfunctional. With the support of the current Acting HOD and the commitment of current members, the BAC now meets weekly on Monday and is only postponed on exceptional cases.</p> <p>(b) The specification and evaluation capabilities are poor and thus affect the quality of work submitted to the BAC. Training and development is planned for this financial year.</p>
Outcome 3	Compliance with SCM Prescripts
Strategy	Policy and Standard Operating Procedure development, training and monitoring
Objective	Monitoring SCM performance at institution level and delegating accordingly
Compliance with SCM prescripts	The team is currently reviewing the projects under this outcome as well as allocated resources.
Outcome 4	Improved management of inventories
Strategy	Not yet developed
Objective	Reduction of stock losses and stock-outs
Improved management of inventories	<p>(a) The scoping work started in March 2013. Based on the scoping report the project plan for this activity will be developed. The project plan will be assessed by the team at the end of May 2013.</p>
Outcome 5	A complete and timely updated asset register
Strategy	Physical verification of assets, correction of the asset register and development of the asset management function within the department
Objective	100% correct asset register on 1 April 2013
Asset register	<p>The Asset Verification Project started in April 2013.</p> <p>In the initial project plan it was expected that the ECDoH has $\pm 250,000$ movable assets. Bases on work done to-date this estimation has been revised upward to $\pm 440,000$ movable assets.</p> <p>The verification process has been finalised. Reconciliation and investigations are in process and expected to be finalised at the end of May 2013.</p>

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	Challenges: (a) Sustainability is the major challenge. The policy has been reviewed and SOP developed, however, many institutions do not have asset controllers that can be trained. (b) Additions are also a major challenge, hence the prioritisation of placing the asset register on LOGIS.
Outcome 6	A well-managed and regulated transport office
Strategy	Resourcing of the function, development and implementation of policies
Objective	
Transport and travel	This project has not yet been developed but there are activities that are prioritised and these are: <ul style="list-style-type: none"> • Demand Assessment – the Entity (DOT) is expected to provide support in this activity • Problem definition – this will include the assessment of motor vehicles without licences, period it takes to repair or replace vehicles, the extent and nature of misuse as well as petrol utilisation related challenges • Policy and SOP development and implementation.
Outcome 7	Safely kept and easily accessible SCM documents
Strategy	Identification and implementation of the appropriate electronic document management system
Objective	
SCM Documents	The current electronic document management system only covers payment vouchers and makes no provision for progressive scanning of documents within a payment batch. This means that documents can only be scanned at the end of the process (payment stage) not at the beginning (requisition and ordering stage). This activity is budgeted for in 2013/14. The IT unit has been requested to evaluate the current system and advise on the required intervention.

7. KEY RISKS

(a) Change in leadership/ Losing sponsorship

There is a need to ensure continuity of this programme and that the program will be fully implemented even if there is a change in leadership of ECDoH and or Provincial Planning and Treasury.

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(b) Changing the Programme Manager

The Programme Manager is assigned to ECDOH for a year ending June 2013 and contracted with Provincial Planning and Treasury for two years ending January 2014.

(c) Failure to resource the SCM Function and all other support functions

Over a period of time there has been a high preference placed on the filling of clinical positions, sometimes at the expense of filling vacated critical support function positions.

This has systematically eroded resources in all support functions at ECDoH including SCM. Absence of resources in critical SCM positions compromises the sustainability of all interventions under this programme.

shy 22 — can they not be transferred by PPT.
(d) Registration of Suppliers on Logis
Suppliers refuse to register on LOGIS which makes it difficult to monitor procurement activities in the department.

ask Ndi

8. RECOMMENDATIONS

1. EXCO to note progress on the ECDOH SCM reform program.
2. Continuity of the Project to be supported by Provincial leadership.
3. Resourcing of SCM function in the Department of Health to be prioritised.
4. Service providers to be compelled to register on LOGIS and comply with service provider provisions.

???

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ECDOH SCM REFORM PROGRAMME

CONTACT PERSON

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.....

MARION MBINA-MTHEMBU

SUPERINTENDENT-GENERAL & HEAD OFFICIAL OF PROVINCIAL TREASURY

.....

DIRECTOR-GENERAL

AGENDA NO

RESOLUTION NO

.....

HONOURABLE P. MASUALLE (MPL)

MEMBER OF EXECUTIVE COUNCIL FOR PROVINCIAL PLANNING & FINANCE

APPENDIX VI



EASTERN CAPE PROVINCIAL LEGISLATURE

PROCEDURAL SUPPORT SERVICES



RESEARCH UNIT

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1. GENERAL INFORMATION

1.1 Name of the Department:.....

1.2 Level of Office/Name of Institution:.....

2. SCM INFORMATION

2.1 Does the department/section/institution have a procurement manual? (may be adapted from National/Provincial SCM manual)

Yes	No
<input type="checkbox"/>	<input type="checkbox"/>

2.2 If there is a manual, is it available to all the sections that procurement interacts with?

Yes	No

2.3 If there is no SCM manual available, how is the procurement procedure relayed to members of the procurement department and other sections SCM interacts with?

Please explain:.....

.....

.....

2.4 What is the total number of personnel in the SCM unit?.....

2.5 Are all funded posts filled in the SCM unit?

Yes	No

2.6 If not, please indicate where the vacancies are and the vacancy rate in each subsection.....

.....

.....

.....

2.7 Was any training/workshop specific to the PPI provided?

Yes	No

2.8 Do you think such training/workshop was necessary? Please explain.

.....

.....

.....

.....

.....

2.9 When did your department/institution first use the PPI? (If PPI is not used proceed to 2.12)

.....

.....

2.10 How was information on the use of the PPI communicated?

.....

.....

.....

.....

2.11 Does the Department/institution have all their commodities in the PPI manual?

Yes	No

2.12 Is this the first time you hear about the PPI?

.....

.....

2.13 If not where did you first hear about it?

.....

.....

2.14 If PPI is not used, what measures are taken by the department/institution to curb/regulate over-pricing/price inflation by suppliers?

.....

.....

.....

.....

.....

3. INTERACTION WITH SUPPLIERS

3.1 How was the use of the PPI communicated to suppliers?

.....

.....

.....

3.2 Are all your suppliers aware of its existence?

Yes	No

3.3 If not, how do you think this can be improved? Please explain.

.....

.....

.....

.....

3.4 Does the department/institution have its own supplier database?

Yes	No

3.5 If yes, how is integration with the Centralised Database maintained?

.....

.....

.....

.....

3.6 If no, how are suppliers sourced by the department/institution?

.....

.....

.....

3.7 Supply a list of 6 suppliers you have done business with during the 2011/12 financial year to date.

Supplier	Contact details	Value of contract	Invoice date

3.8 What challenges are experienced by the Department/institution in complying with 30-day payment of suppliers?

.....

.....

.....

.....

3.9 How in your opinion can these challenges be addressed?.....

.....

.....

.....

.....

.....

4. MONITORING AND REPORTING

4.1 Is adherence to the PPI monitored internally?

Yes	No

4.2 In the department/institution who monitors adherence to the index?

.....

.....

4.3 How frequently is this monitoring done?

Weekly	Monthly	Quarterly
--------	---------	-----------

4.4 What consequences are in place in case of non-adherence?

.....

.....

.....

.....

4.5 Are there separate reports sent to the Provincial department/Provincial Treasury with regard to adherence to the PPI?

Yes	No

4.6 If yes, how frequently are these reports sent?

Weekly	Monthly	Quarterly
--------	---------	-----------

4.7 If no, what steps are taken to ensure adherence to submission of PPI reports?

.....

.....

.....

4.8 Is there any template used to report on PPI?

Yes	No

4.9 Is any feedback received from the /Provincial department Provincial Treasury with regard to PPI?

Yes	No

4.10 If yes, please explain.

.....

.....

.....

.....

5. CHALLENGES

5.1 What challenges do you experience in the implementation of the Index?

(a) Internally

.....

.....

.....

.....

(b) Provincial Treasury/Provincial department

.....
.....
.....
.....

(c) Suppliers

.....
.....
.....
.....

5.2 What can best assist you to become fully compliant with the index?

.....
.....
.....
.....
.....

5.3 How is quality of procured products assured?

Yes	No

5.4 If not, what measures are in place should procured products not be of the expected standard?

.....
.....
.....
.....

5.5 Is there any other information regarding PPI, Supplier database or payment of suppliers that you can share?

.....
.....
.....
.....
.....
.....

Your contribution is appreciated

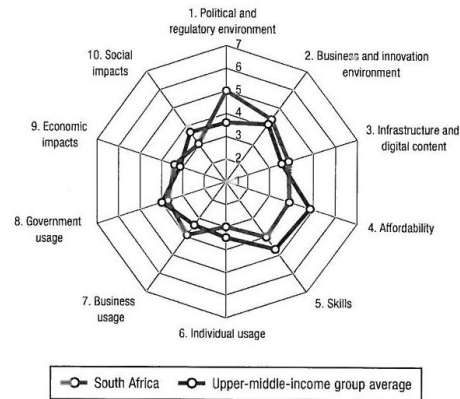
APPENDIX VII

Follow up questions with suppliers.

1. How prompt was your payment?
2. If there was a delay, what was the cause of the delay?
3. How frequent are these delays?
4. How long have you been registered as a supplier with the Provincial government?
5. Are you registered with the Centralised Electronic database housed in the Provincial Treasury?
6. How many times have you changed your banking details during this period?
7. Are you aware of the PPI?
8. What is your opinion of the PPI?
9. How best can supplier interaction with the PPI and CESD be improved?

South Africa

	Rank (out of 144)	Score (1–7)
Networked Readiness Index 2013	70	3.9
Networked Readiness Index 2012 (out of 142)	72	3.9
A. Environment subindex	33	4.7
1st pillar: Political and regulatory environment	21	5.0
2nd pillar: Business and innovation environment	55	4.4
B. Readiness subindex	95	4.0
3rd pillar: Infrastructure and digital content	59	4.2
4th pillar: Affordability	104	3.9
5th pillar: Skills	102	4.0
C. Usage subindex	72	3.5
6th pillar: Individual usage	81	3.0
7th pillar: Business usage	33	3.9
8th pillar: Government usage	102	3.7
D. Impact subindex	92	3.2
9th pillar: Economic impacts	51	3.4
10th pillar: Social impacts	112	3.1



The Networked Readiness Index in detail

INDICATOR	RANK /144	VALUE
1st pillar: Political and regulatory environment		
1.01 Effectiveness of law-making bodies*	31	4.3
1.02 Laws relating to ICTs*	29	5.0
1.03 Judicial independence*	27	5.3
1.04 Efficiency of legal system in settling disputes*	17	5.0
1.05 Efficiency of legal system in challenging regs*	16	4.8
1.06 Intellectual property protection*	20	5.3
1.07 Software piracy rate, % software installed	20	35
1.08 No. procedures to enforce a contract	15	29
1.09 No. days to enforce a contract	92	600
2nd pillar: Business and innovation environment		
2.01 Availability of latest technologies*	39	5.7
2.02 Venture capital availability*	37	3.1
2.03 Total tax rate, % profits	47	33.3
2.04 No. days to start a business	81	19
2.05 No. procedures to start a business	30	5
2.06 Intensity of local competition*	51	5.1
2.07 Tertiary education gross enrollment rate, %	100	15.4
2.08 Quality of management schools*	15	5.3
2.09 Gov't procurement of advanced tech*	105	3.1
3rd pillar: Infrastructure and digital content		
3.01 Electricity production, kWh/capita	45	5,004.3
3.02 Mobile network coverage, % pop	40	99.8
3.03 Int'l Internet bandwidth, kb/s per user	66	18.9
3.04 Secure Internet servers/million pop	54	73.9
3.05 Accessibility of digital content*	85	4.8
4th pillar: Affordability		
4.01 Mobile cellular tariffs, PPP \$/min	117	0.51
4.02 Fixed broadband Internet tariffs, PPP \$/month	89	37.48
4.03 Internet & telephony competition, 0–2 (best)	118	1.13
5th pillar: Skills		
5.01 Quality of educational system*	140	2.2
5.02 Quality of math & science education*	143	2.0
5.03 Secondary education gross enrollment rate, %	56	93.8
5.04 Adult literacy rate, %	93	88.7

INDICATOR	RANK /144	VALUE
6th pillar: Individual usage		
6.01 Mobile phone subscriptions/100 pop.	37	126.8
6.02 Individuals using Internet, %	96	21.0
6.03 Households w/ personal computer, %	90	18.3
6.04 Households w/ Internet access, %	94	9.8
6.05 Broadband Internet subscriptions/100 pop.	96	1.8
6.06 Mobile broadband subscriptions/100 pop.	55	19.8
6.07 Use of virtual social networks*	86	5.3
7th pillar: Business usage		
7.01 Firm-level technology absorption*	38	5.4
7.02 Capacity for innovation*	41	3.5
7.03 PCT patents, applications/million pop.	42	6.0
7.04 Business-to-business Internet use*	36	5.6
7.05 Business-to-consumer Internet use*	52	4.8
7.06 Extent of staff training*	26	4.6
8th pillar: Government usage		
8.01 Importance of ICTs to gov't vision*	105	3.4
8.02 Government Online Service Index, 0–1 (best)	79	0.46
8.03 Gov't success in ICT promotion*	100	3.9
9th pillar: Economic impacts		
9.01 Impact of ICTs on new services and products*	44	4.8
9.02 ICT PCT patents, applications/million pop.	42	1.0
9.03 Impact of ICTs on new organizational models*	53	4.4
9.04 Knowledge-intensive jobs, % workforce	58	23.7
10th pillar: Social impacts		
10.01 Impact of ICTs on access to basic services*	123	3.4
10.02 Internet access in schools*	111	3.1
10.03 ICT use & gov't efficiency*	97	3.8
10.04 E-Participation Index, 0–1 (best)	76	0.16

Note: Indicators followed by an asterisk (*) are measured on a 1-to-7 (best) scale. For further details and explanation, please refer to the section "How to Read the Country/Economy Profiles" on page 139.