‘TO INVESTIGATE AND EVALUATE THE IMPLEMENTATION OF THE SUPPLY CHAIN MANAGEMENT IN SERVICE DELIVERY WITH SPECIFIC FOCUS ON PROCUREMENT PROCESSES OF GOODS AND SERVICES IN THE HEAD OFFICE OF THE EASTERN CAPE DEPARTMENT OF HEALTH’

Submitted in partial fulfillment of the requirements for the degree: Masters in Business Administration (MBA) in the Faculty of Business and Economic Sciences at Nelson Mandela Metropolitan University.

Promoter: Mr. C Ndhlovu

February 2012
"I, Nombuyiselo Mnguni, hereby declare that:

- The work in this research paper is my original work;

- All sources used or referred to have been documented and recognised; and

- This thesis has not been previously submitted in full or partial fulfilment of the requirements of an equivalent or higher qualification at any recognised education institution."

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ABSTRACT

Supply Chain Management is a well recognized managerial tool and government initiative, primarily aimed at improving all the aspects of the procurement activities in government organizations or any type of the sector. It focuses on meeting the needs of the service providers as well as of the customers.

In 1994, South African Government came up with new initiatives to manage its budget and finance resources to meet the needs of the people. One of the new initiatives that the new Government introduced was the Supply Chain Management (SCM). The Constitution of the Republic of South Africa, Act No.108 of 1996, as amended regulates procurement through Section 217. The statutes states that “217(1) when an Organ of State in the national, provincial or local sphere of government, or any institution identified in national legislation, contracts for goods or services, it must do so in accordance with a system which is fair, equitable, transparent, competitive and cost-effective

The procurement reform processes were supported by the introduction of a number of legislative measures, including the adoption of the Public Financial Management Act (PFMA) and the Preferential Procurement Policy Framework Act (PPPFA). Public Finance Management Act (PFMA) is a financial act that was developed in 1999 to reform the public financial management of South Africa. The Act promotes the objective of good financial management in order to maximise delivery through the efficient and effective use of limited resources. Public Financial Management Act (PFMA) emphasizes on efficiency, transparency and economic utilization of public funds. The Treasury Regulations 16.5.3 states that, ‘when procuring goods and services, the procurement procedures must be in accordance with a system that is fair, equitable, transparent, competitive and cost-effective.

Even though government departments have started implementing the Supply Chain Management strategies, there are still some challenges and deficiencies that hinder appropriate implementation. There are some deficiencies in tender award systems, ineffectiveness of SCM training materials, lack of communication between
management and SCM or implementing staff as a result the implementing staff is not aware of the organization’s goals regarding supply chain management activities. Lack of monitoring, evaluation and reporting is also another challenge. Due to these challenges, the Head Office of the Eastern Cape Department of Health had incurred some expenses in trying to address these yet the Supply Chain Management has little impact in improving the service delivery.

The key research objective of this study is to investigate and evaluate the implementation of Supply Chain Management in service delivery with specific focus in procurement processes of goods and services in Head Office of Eastern Cape Department of Health. The study intends to establish and highlight the challenges that the Head Office of the Eastern Cape Department of Health is presently faced with in regard to implementation of the Supply Chain Management and the impact it has in service delivery. Data gathering techniques which include interviews and questionnaires had been used. The objectives, methodology and results of the study are presented. The conclusions and recommendations had been made with the basis that they will assist the department in improving the implementation of the Supply Chain Management which will have a positive impact in the service delivery. Further steps needs to be taken by the Provincial Treasuries in assisting department to improve in the implementation of the Supply Chain Management. Further research conduct is recommended for all the institutions of the department of Health as this study was focusing on Head Office only.
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CHAPTER 1

SCOPE OF THE STUDY

1.1 Introduction

In 1994, the South African Government came up with new initiatives to manage its budget and finance resources to meet the needs of the people. One of the new initiatives that the new Government introduced was the Supply Chain Management (SCM). The Constitution of the Republic of South Africa, Act No.108 of 1996, as amended, regulates procurement through Section 217. The Statute 217(1) states that “when an Organ of State in the national, provincial or local sphere of government, or any institution identified in national legislation, contracts for goods or services, it must do so in accordance with a system which is fair, equitable, transparent, competitive and cost-effective”.

The procurement reform processes were supported by the introduction of a number of legislative measures, including the adoption of the Public Financial Management Act (PFMA) and the Preferential Procurement Policy Framework Act (PPPFA). The Public Finance Management Act (PFMA) is a financial act that was developed in 1999 to reform the public financial management of South Africa.

The Act promotes the objective of good financial management in order to maximise delivery through the efficient and effective use of limited resources. The Public Financial Management Act (PFMA) emphasizes efficiency, transparency and economic utilization of public funds. Treasury Regulation 16.5.3 states that, “when procuring goods and services, the procurement procedures must be in accordance with a system that is fair, equitable, transparent, competitive and cost-effective”.

This led to the National Treasury issuing an instruction that all the Provincial Treasuries were to establish the Supply Chain Management units in their organizational structures. These units would give guidance to the Supply Chain Management divisions of the departments and all other public bodies. In response to this instruction, the Provincial Treasuries, in compliance with the National
Treasury Regulations (2003), requested all the Accounting Officers of the Department to establish a Supply Chain Management (SCM) Unit within the office of the Chief Financial Officer (CFO) to implement the SCM system. Supply Chain Management (SCM) forms an integral part of the financial management of every institution and deals with the supply chain of goods and services. A framework for Supply Chain (SCM) was promulgated as Treasury Regulations, issued in terms of section 76(4)(c) of the Public Finance Management Act (PFMA).

The promulgated amendment was in line with the intention of the Public Finance Management Act (PFMA), which empowered Accounting Officers to manage their departments and to accept full responsibility and accountability of all the expenditures incurred by their departments. In 2003, Supply Chain Management systems were introduced to the Government departments and public entities. The Supply Chain Management system was introduced to replace the old Government’s procurement systems. It had to become an integrated Supply Chain Management function to promote a consistent method of procuring government goods and services throughout the Government’s supply chain management.

The Supply Chain Management system was introduced to guide uniformity in Procurement Reform Processes in Government. It was approved by the Cabinet on 10 September 2003 and promulgated on 5 December 2003 (Public Financial Management Act: 1999). This goal of the policy was the uniform implementation of Government’s procurement reform initiatives and compliance with minimum norms and standards.

The Preferential Procurement Policy Framework Act (PPPFA), Act No.5 of 2000, was promulgated to give effect to Section 217(3) of the Constitution by providing a framework for the implementation of the procurement policy contemplated in Section 217(2) of the Constitution. This Act provided for the implementation of a preference system in the allocation of contracts for categories of service providers and promotion of goals, including socio-economic goals, to advance the interests of persons disadvantaged by unfair discrimination on the basis of race, gender or disability. The Act also ensured that the evaluation processes were to be conducted
in a fair, justifiable and transparent manner. The PPPFA set a framework within which persons disadvantaged by unfair discrimination were advanced.

The Supply Chain Management of the Eastern Cape Department of Health (ECDoH) is characterised by a monitoring process and a retrospective analysis to determine whether or not the proper process was followed and the desired objectives achieved. In other words: was value for money attained; were the proper process achieved; was there room for improving the process; how were supplies assessed; and, what were the reasons for deviating from procedures?

The Supply Chain Management of Eastern Cape Department of Health is divided into four functions. These functions are Demand, Acquisition, Logistic and Disposal Management.

- **Demand Management** is responsible for assessing the future needs of the Department and link those to the budget.
- **Acquisition Management** plays a key role in procurement processes. It ensures that bid documentations are complete including evaluation criteria, evaluates bids in accordance with published criteria and ensures that proper contract documents are signed (Republic of South Africa: 2003b).
- **Logistics Management** is the process of managing acquisition, movement and storage of inventory through the organisation and its marketing channel in such a way that profitability is maximised through cost effective fulfilment of orders (Republic of South Africa: 2003b).
- **Disposal Management** is the removal of assets that are no longer needed, including unserviceable, redundant or obsolete assets (Republic of South Africa: 2003b).

The purpose of this research was to evaluate the implementation of Supply Chain Management in service delivery, with specific focus on the procurement processes of goods and services in the Head Office of ECDoH.
1.2 Research Problem Statement

1.2.1 Background to the Research Problem Statement

Within the Government services, departments are allocated budgets in terms of equitable share and conditional grants. These funds are allocated so as to effectively and efficiently deliver quality services to various communities.

The study (CPAR, Refining the Public Procurement System in South Africa, Volume 1, 2002:08) reported that, since 1994, South Africa has made great advances in terms of social and infrastructural improvement. However, the majority of people who had hoped that freedom would bring about socio-economic improvement, felt increasingly bitter towards the Government due to service delivery failure, corruption and disillusionment with empowerment policies. The processes that were undertaken to procure goods and services were so inefficient and corrupt that they affected the service delivery.

The establishment of Supply Chain Management within Government departments was an attempt to improve and expedite the procurement of goods and services in order to deliver quality services. According to the National Treasury Policy Strategy (2003:4), “Supply Chain Management (SCM) is an integral part of Financial Management that seeks to introduce internationally-accepted best practice principles whilst, at the same time, address Government’s preferential procurement policy objectives, (Republic of South Africa: 2003)".

Duffy and Darmer (2002:32), described Supply Chain Management (SCM) as “the identification, acquisition, access, positioning and management of resources the organisation needs, or potentially needs, in attainment of its objectives”.

According to Dobler and Burt (1996:13), the Supply Chain Management was “the upstream portion of the organization’s value chain and was responsible for ensuring that the right materials, services and technology were purchased from the right source, at the right time and at the right quality".
The functions of SCM are bound by the idea of improving service delivery, especially in respect to the input of the department. If this function had been performed efficiently and effectively, it would have served the fundamental objective of the department, viz. to satisfy the needs of the communities that it served.

1.2.2 Problem Statement

Based on the background given above, part of the Problem Statement of this research was: “To investigate and evaluate the implementation of Supply Chain Management in service delivery, with specific focus on procurement processes of goods and services, in the Head Office of Eastern Cape Department of Health”.

2.1 Research Objectives

2.1.1 Primary Objectives

The primary objective of this research was to investigate and evaluate the implementation of Supply Chain Management in service delivery, with specific focus on the procurement processes of goods and services in the Head Office of Eastern Cape Department of Health.

2.1.2 Research Questions

Based on the primary objective of this research, the following research questions were investigated:

- Could SCM be used as the tool to service delivery in the Head Office of the Eastern Cape Department of Health?
- Would the Tender Award system of the Eastern Cape Department of Health’s Head Office lead to empowerment?
- Were the Eastern Cape Department of Health’s Supply Chain Management Policies compiled in accordance with PFMA, PPPFA, and National Treasury Regulations?
• Were the Eastern Cape Department of Health’s Head Office personnel, who were involved with Supply Chain Management, trained in accordance with SCM requirements?
• Did the Eastern Cape Department of Health’s Head Office use the Committee System or structures to award the tenders?
• Did the Supply Chain Management of the Eastern Cape Department of Health in Head Office contribute greatly towards the improvement of efficiency and value for money in the public sector?

2.1.3 Research Design Objectives

The research that was used was the Case Study Method. According to Yin (1994:23), the case study research excelled at bringing an understanding of a complex issue or object, and could extend experience or add strength to what was already known.

Hussey, J. And Hussey, R (1997:67) stated that there were different types of case study research, namely exploratory, descriptive and explanatory.

• Explanatory Case Study was when the existing theory was used to understand and explain what was happening.
• Descriptive Case Study was when the objective was restricted to describing the current practice.
• Exploratory Case Study was when fieldwork and data collection could be undertaken prior to the definition of the research questions.

The data in this research was to be collected by means of questionnaires; the unit of study was the Eastern Cape Department of Health Department and the focus would be on the Head Office Supply Chain Management division.

3.1 The Design and Methodology of the Study

Research methodology was different to the research methods. Dawson (2002:14) defined research methods as “tools that a researcher uses to gather data such as
questionnaires or interviews”. The research method that the researcher followed was linked to the problem statement, objectives and the goals of the research. The Research Method had to be linked to the Research Objectives. Dawson (2002:14) stated that “when the researcher thinks about the research methodology, he or she has to start thinking about the difference between quantitative and qualitative research”.

Different methods are used to conduct a research. According to Hussey and Hussey (1997:10), there was no consensus in literature on how research should be defined, although research was central to both business and academic activities. Different people held diverse views about the meaning of research. Other people viewed research as “the purposeful, precise and systematic search for new knowledge, skills, attitude and values or the re-interpretation of existing knowledge, skills, attitude and values. (http://www.petech.ac.za/robert/resmeth.htm).

Hussey and Hussey (1997:10) further explained that, even though people held different views about what research was, there seemed to be a common understanding and agreement that:

- Research was a process of enquiry and investigation
- Research was systematic and methodical
- Research improved and increased knowledge.

3.1.1 Research paradigm

According to Winberg (1997:14), a paradigm was “the collective set of attitudes, values, beliefs, procedures and techniques that create a framework of understanding through which theoretical explanations are formed”. Paradigms provided a conceptual framework for seeing and making sense of the social world. There were two paradigms to the verification of theoretical propositions and these were positivism and phenomenological.
• Positivism emphasized an objectivist approach to study social phenomenon and used research methods that focused on quantitative paradigms which included surveys and experiments. According to Winberg (1997:7), “a positivist approach is one which states that only observable and measurable data should be taken into account in research.”

• Phenomenological emphasized the subjectivist approach to study social phenomenon and used research methods that focused on qualitative paradigms which included personal interviews, participant observations, accounts of the individual, etc. Winberg (1997:8) stated that “phenomenological research accepts that all situations are problematic to some degree and, therefore, the nature of the problems is revealed by examining the situation”. Such research normally took place in natural, everyday settings and was not preceded by the formulation of research questions, but anticipated that questions which were peculiar to the situation, would arise during the period of the enquiry.

Dawson (2002:15) defined quantitative paradigm as “the research that generates statistics through the use of large-scale survey, using methods such as questionnaires or structured interviews”. Dawson continued to explain that quantitative could be differentiated by stating that “if a market researcher has stopped you on the streets or one has filled in a questionnaire which has arrived through the post - that falls under the umbrella of quantitative research”. This type of research reached many more people but the contact with those people was much quicker than in qualitative research. Winberg (1997:26) described quantitative research as “research that focuses on ‘finding out’ through de-contextualized data collection and data analysis”.

Quantitative paradigm was descriptive in the sense that the researcher was interested in process, meaning an understanding gained through words or pictures. The Quantitative Method relied less on interviews, observations, small numbers of questionnaires, focus groups, case studies but focussed more on the collection and analysis of numerical data and statistics.
Winberg (1997:26) defined qualitative research as “research that focuses on ‘understanding’ through contextualised data collection, interpretation and planning for action”. Henning, van Rensburg and Smit (2004:3) explained qualitative research as “a study where variables are usually not controlled because it is exactly that freedom and natural development of action and representation that the researcher wishes to capture”.

They further elaborated by stating that “when the researcher conducts qualitative research, he or she wants to understand and also explain in argument, by using evidence from the data and from literature, what the phenomenon or phenomena that the researcher is studying is about”. The researcher did not want to place the understanding within boundaries of an instrument that was designed beforehand, because that would have limited the data to those boundaries.

Over the years there have been complex discussions and arguments surrounding the topic of research methodology and the theory of how inquiry should proceed. Dawson (2002:16) stated that “one must not fall into a trap that many beginning and experienced researchers do in thinking that quantitative research is better than qualitative research”. Dawson further stated that neither was better than the other; they were just different and both had their strengths and weaknesses.

The study which was conducted was based on research undertaken in the social and communal world. The research method that was used in this study was a case study. It was intended to be theoretical in nature, using qualitative paradigm. The unit of study in this research was the Head Office Supply Chain section of the Eastern Cape Department of Health. The sample consisted of 45 people, comprising of Senior Managers, Middle Managers, Assistant Managers and Procurement officers, who would be randomly drawn. The data collection method would be by means of survey questionnaires.

According to Yin (1994:19), there were some salient aspects of the case study research, which are listed as follows:

- A case study is an empirical enquiry that investigates a contemporary phenomenon within its real-life context.
• Case study research aims not to explore certain phenomena, but to understand them in a particular context.
• A case study illuminates a decision or set of decisions.
• Case study research uses multiple methods of collecting data. This may be both qualitative and quantitative.
• Case studies are described as exploratory research used when there are no or few theories, or a deficient body of knowledge.

3.1.2 The Design

According to Yin (1994:27), there were different components of research design which were commonly used when research was conducted through a case study. Below are the components in question:

• Study question: In case studies, two likely questions are asked. These were the “how” and the “why”. These two questions were used in the case study to clarify the nature of the study questions.
• Unit of analysis: The unit of analysis defined what the case was. The groups, organizations or the persons(s) studied in the case study were called “the primary unit of analysis”. In this research, the primary unit of analysis was the Eastern Cape Department of Health (ECDoH), Supply Chain Management section at Head Office.
• Study proposition: The study propositions were sometimes derived from the “how” and “why” questions, and were helpful in focusing the study’s goal. However, not all studies required these propositions. The study proposition provided the reason as to why the study was being conducted. These were statements that helped direct attention to something that should have been examined in the case study.
• Logic linking data to proposition: Yin (1994:27) stated that this was one of the least developed components in a case study. There were many ways to perform this. One of the methods was via pattern matching, where different patterns or data were compared to the case study data to determine which one was closer.
• Criteria for interpreting findings: This was also an under-developed component in the case studies; as a result, there was no precise way of setting criteria for interpreting findings.

3.1.3 The Sample

It was not possible to contact everyone in the research population; researchers normally selected a number of people to contact. This was called “sampling”. There were different ways to choose a sample and the method used depended upon the area of research, research methodology and preference of the researcher. According to Dawson (2002:52), there were two main types of samples namely:

• Probability sample
• Non-probability sample

Dawson (2002:53) stated that “in probability samples, all the people within the research population had a specifiable chance of being selected”. Probability samples were used if the researcher wished to explain, predict or generalize to the whole research population (e.g. if the researcher were interested in finding out about national detention rates. He would need to ensure that every school in the country had an equal chance of being chosen because he hoped to be able to make generalizations from his findings. He decided to use a simple random sample and, by using this method, the researcher would need to obtain the name of every school in the country.)

Dawson (2002:8) defined non-probability sample as “the samples used if description, rather than generalisation, is the goal”. In this type of a sample, it would not be possible to specify the possibility of one person being included in the sample (e.g. if the researcher decided that he wanted to interview a sample of all pupils within a school, regardless of whether or not they had been in detention. He would then decide to make up a quota sample to ensure that all groups within the school were represented. He would then decide to interview a specified number of female and male pupils, arts and science and a specified number within different ages).
For qualitative research, small scale and manageable samples were used. According to Dawson (2002:54), “sample size should take into account issues of non–response”. The sample of this study consisted of Senior Managers, Middle Managers, Assistant Managers and Procurement Officers who were randomly drawn. The data collection method was by means interview and questionnaires. The sample used in this study as the total number of population elements was sufficiently represented by a limited number of smaller elements.

3.1.4 Measuring Instruments

A research technique, using information on the implementation of SCM in service delivery, was gathered from people via using survey questionnaires. This had specific reference to procurement processes and systems of goods and services in the Head Office of ECDoH. These questionnaires were constructed in such a manner as to attempt to measure on an interval level. One of the common methods of this type of the questionnaire used the traditional 1 to 5 rating. This was also referred to as Likert Response Scaling.

According to Emory and Cooper (1995:271), Likert Scaling was a bipolar scaling method, measuring either positive or negative responses to a statement. They continued to define this method as “the psychometric scale used in questionnaires and most widely used in survey research”. A Likert Scale was the type of question where respondents were asked to rate the level in which they either agreed or disagreed with a statement. In a survey, a researcher would select a sample of respondents and administer a questionnaire to each person in the sample.

According to Hussey et al (1997: 87), the Likert Scale was “an itemized rating scale”. In an itemized rating scale, people were provided with a scale that had a number and a brief description associated with each category. The categories were ordered in terms of scale position and the respondents were required to select a specified category that defined the object rated.
3.1.5 Data Analysis

When the researcher had decided on the data analysis method that he or she would use to analyse the data, she had to look at what the input would be, the theory and the data from which the analysis would be made. The desired output would be the logical starting point for planning the method of analysing the data (http://www2.uiah.fi/projekti/metodi/170htm).

The aim of this study was to provide answers and give recommendations to questions raised concerning this research. The research method that was chosen for this study was a Case Study Research. This was a research technique in which the information was gathered from people through the use of Likert Scaling Questionnaires. A five-point scale was used. The purpose of this study was to obtain some responses to the questions raised about the implementation of Supply Chain Management in service delivery, with specific focus on procurement processes and systems of goods and services in the Head Office of ECDoH. Descriptive survey analyses were conducted from the responses that were received from the survey questionnaires.

4 Terminology

Accounting Authority: means a body or person mentioned in Section 49 of Public Finance Management Act

Accounting Officer: means a person mentioned in Section 36 of Public Finance Management Act

Chief Financial Officer: means the corporate executive who has financial authority to make appropriations and authorize expenditure for the organization

Constitution of Republic of
South Africa means that is the law agreed by the people representatives that sets out how the state will be constituted and run.

Department means a National or Provincial Government component

National Treasury means the National Treasury established by Section 5

Population means total collection of elements

Population Element means individual participant.

Preferential Procurement Policy Framework means the framework for implementation of Preferential Procurement Policy.

Public Finance Management Act means to regulate financial management in National Government and Provincial Governments

Supply Chain Management means the oversight of materials, information and finance as they move in a process from the supplier to the end user, the customer.

Treasury Regulations means the laws that give effect to National Treasury Mandate

5 Outline of the Study

The purpose of this research was to evaluate the implementation of Supply Chain Management in service delivery, with specific focus on procurement systems and processes of goods and services in the Head Office of ECDoH. The outlines of the chapters of this research were set out as follows:

In Chapter 1, the researcher outlined the scope of the study; introduced the problem statement and management dilemma. This entailed introduction, problem statement, research objectives, research design and methodology, data analysis and the outline of the study.
In Chapter 2, the researcher included the literature overview on the problem statement. The focus was on the different concepts of Supply Chain Management, and the regulations and framework. Furthermore, procurement concepts, procurement processes, pillars of procurement, risk management in procurement activities, risk management processes as well as the strategies to address these risks, were all reviewed.

In Chapter 3, the researcher provided an overview of the Supply Chain Management and procurement processes in Government sectors, with specific reference to the Provincial Department. Views of the procurement processes within Supply Chain Management in the Eastern Cape Department of Health’s Head Office were discussed with respect to its relevance to the study.

In Chapter 4, the researcher provided an explanation of the methodology of the study, which included everything in methodology (viz. research paradigm, sample, measuring instruments, discussion on questionnaire and data analysis).

In Chapter 5, the data analysis and interpretation of results were conducted.

In Chapter 6, discussions on results of the study were provided; conclusions and recommendations were drawn.
CHAPTER 2

PROCUREMENT PROCESSES: LITERATURE REVIEW

2.1 Introduction

The study conducted by the National Treasury, together with the World Bank, resulted in requests for the review and assessment of the public sector procurement processes. The Country Procurement Assessment Review (CPAR), Refining the Public Procurement System in South Africa, Volume 1 - 2002:12 reported that, “before 1994, Government departments used to see the procurement of goods and services as an independent function which was regarded as a clerical duty”. It was clear that many departments lost money through procurement processes as they were not properly managed and were integrated into other functions of the department.

Price was the overriding criteria in the procurement of goods and services by Government. Procurement contracts and tenders were awarded based on lowest prices. Factors which had not really been considered, including quality, experience, financial capacity for providing goods or services. This now became the highest risk for Government as it continued to lose money to incompetent suppliers and service providers.” According to Burt, Dobler and Starling (2003: 27), “during the 1980’s, goods, services and material costs made up about 60 per cent of goods sold in the United States”. The impact of procurement of goods and services, together with raw materials on company assets, became very significant and visible.

With the introduction of the South African Constitution in 1996, procurement processes were reviewed and amended so as to align processes to the Special Provision on Government Procurement as contained in Section 187 of the Constitution. Awarding of tenders and procuring of goods and services were no longer based on prices only as it was seen as an inflexible practice which did not provide opportunities for smaller enterprises to grow. The price criteria were also seen as limiting these small businesses and restricting opportunities to do business.
with the Government. Prior to 1994, awarding of tender contracts was mostly based on price and there were no uniform procedures to award tenders. The study conducted in 2002 by the National Treasury with the World Bank on public procurement processes identified many weaknesses in terms of controls and systems used to manage procurement processes. The Public Finance Management Act (PFMA) of 1999, together with the Municipal Finance Management Act (MFMA) of 2003, was also introduced. These two Acts assisted in providing guidance on the utilization of public funds in procurement processes.

The Public Finance Management Act, the Municipal Finance Management Act, together with Treasury Regulations, provided guidance to public bodies on how to draft tender specifications, how to evaluate tenders and how to award tenders. The Acts also gave guidance on how to procure consumable goods.

The specifications of unnecessarily high standards in tender advertisements were previously seen as a way of discouraging or trying to exclude small businesses from tendering. When procuring goods and services, departments are required today to take into consideration a number of factors. It should be the empowerment notion that is the key determinant in procurement processes; not the prices. The Constitution and the Public Finance Management Act made provision for the use of procurement as a policy tool.

This focus of this Chapter was the concept of procurement and supply chain management literature review. Specific focus was made on procurement definition, Supply Chain Model, objectives of procurement, pillars of procurement, Legislative framework of procurement, procurement processes, and risk management in procurement processes and procurement process flows in the public sector.

2. 2 Definition of Procurement

According to Chopra and Meindl (2004:388), “procurement, also known as ‘purchasing’, is the process by which companies acquire raw materials, components, products, services and other resources from suppliers to execute their operations”. From this definition of procurement by Chopra, it became clear that procurement was
not only the action of purchasing goods and services, but was a broader term which included all the actions required to transport goods or services from the suppliers or service providers to the end-users. Hugo, et al, (2002:4) defined procurement as “the function that deals broadly with all the activities that have to be performed to ensure that good suppliers provide the firm with the right requirements in the right quantities at the right time and place and at the best possible price”.

Effective procurement supported the organization’s or Government department’s goals and objectives. Properly managed procurement processes helped the departments to deliver high quality services which met the current and future needs of the people it served and were based on value for money. According to Gattorna (1998:285), “the terms ‘purchasing’, ‘procurement’, and now, ‘strategic sourcing’, are often used interchangeably in discussions about the buying activities of companies, even though they are not similar or identical”.

Gattorna (1998:286) defined purchasing as “the transaction functions of buying products and services at the lowest possible price. Procurement is a broader activity that involves the materials management of goods and services in addition to purchasing transactions.” Gattorna further defined strategic sourcing as “the activity that takes the process further, focusing on developing channels of supply at the lowest total cost to the company, not just the lowest purchase price”.

Gattorna (1998:286) further stated that “in strategic sourcing, all purchasing activities are assessed for their impact on the company and the company goals”. Van Rooyen and Hugo (1983:11) defined procurement as a broader term that “includes purchasing, stores, traffic, receiving, incoming inspection and salvage”. They further described the concept of procurement as “the process of buying, learning of the need, locating and selecting a supplier, negotiating a price and other pertinent terms, and following up to ensure delivery”.

Hugo, et al, (2002:15) stated that “the procurement functions have an influence on other functions of the organization. They play a very important role as the procurement staff members interact with the public, particularly the service providers and suppliers”. The manner in which procurement personnel conducted business
with the external environment of the organization portrayed the image of the organization. Acceptable standards and good ethical practices ensure respect and goodwill from the public.

The process of procuring goods and services started with the planning activities. The department or the organization could just embark on procurement of goods but had to first identify the need for the goods or the services. There needed to be an available budget or funds to procure these goods or services. These goods had to be procured as the enablers had to achieve a certain goal or goals of the organization. A procurement plan which entailed the details on how the required goods were to be procured, when these goods should be procured, and how they were to be procured, was required.

The procurement plan was then presented to the Budget Committee for approval and verification that all the goods and services to be purchased were actually really in line with operations of the organization for that particular financial year. Once the procurement plan was approved by the Budget Committee, each division could then start implementing the plan by procuring according to what has been approved.

Procuring goods according to the plan assisted many departments or organizations in monitoring the utilization of funds and in ensuring that funds were utilized for their intended purposes.

2.3 Supply Chain Management Model

According to the National Treasury (2004:10), Treasury Regulations 16A.1 defined Supply Chain Management as:

- “The acquisition of goods and services, and
- the disposal and letting of state assets, including the disposal of goods no longer required.”
Supply Chain Management (SCM) was an integral part of financial management, which intended to introduce the best procurement practices. It sought to bridge the gap between the traditional way of procuring goods and services and the balance of the supply chain. According to Chopra and Meindl (2004:8), “Supply Chain Management is the sequence of processes and flow taking place within and between different stages, and combines to fill a customer’s need for a product”. Hugo, et al, (2002:28) defined Supply Chain Management as “the system that involves all the activities that are required to acquire raw materials and transform them into goods that will be consumed by the end-user”. It became an approach used to manage the entire flow of information, materials, goods and services from raw material to goods and services.

Hugo, et al, (2002:29) further defined Supply Chain Management as "a philosophy aimed at integrating a network or a web of upstream linkages or sources of supply, internal linkages inside the organisation and downstream linkages in performing specific processes and activities". Supply Chain was the co-ordination of the processes of all role players and depended upon the fact that all parties worked together to make the supply chain, as a whole, competitive and to ensure delivery of value to the customer.

Dumond (1996:2) stated that “there is a sequence of processes that must be performed to ensure that the supply chain concentrates on process management as opposed to functional management".
The elements of the Supply Chain Management model are illustrated in the diagram below, where value is added at each phase of the process.

Figure 2.3.0 Supply Chain Management Model: National Treasury (2004:10)

The elements of the Supply Chain Management models, as per the National Treasury Supply Chain Management Guide for Accounting Officers or Authorities (2004:85), are further discussed as follows:
2.3.1 Demand Management

As per the Supply Chain Management Guide for Accounting Officers or Authorities (2004: 85), “Demand Management is the stage at which the Supply Chain Management begins. At the Demand Management stage, needs assessments were made in consideration of future needs, frequency of need, linking of requirement to the budget, as well as conducting analyses on expenditure, commodity and the industry. This function brought Supply Chain Officers close to the end users (hence it as cross-functional).

2.3.2 Acquisition Management

Acquisition Management was where the preferential procurement policy objectives, which could be met through the specific contract, were identified. The strategy of how the market was to be approached was determined here. The bid documents were compiled at this stage, with all the necessary documents attached. The bid evaluation criteria were also determined by this function. Recommendations and contract information were all managed here.

2.3.3 Logistic Management

According to Hugo, et al, (2007: 36), Logistic Management is “the management or control of the flow and storage of goods between the point of origin and the point of consumption”. In the National Treasury Guide for Accounting Authorities (2004:86), “Logistic Management is that part of the supply chain responsible for the planning, coding and controlling of inventory levels. It is also the responsibility of logistics to place orders, receive and distribute the material to its end-users. The other functions of the Logistic Management division are to manage stores, warehouse goods as well as transportation.”

2.3.4 Disposal Management

It was the responsibility of Disposal Management to plan the obsolescence of goods and calculate depreciation rates of items required. The database of all redundant
material was lodged here. Treasury Regulation 16 stated that “the Accounting Officer must first put in place controls around disposal of the department’s assets. The Accounting Officer must ensure that there is a Disposal Committee in place and that the members of the Committee are officially appointed by him or her in writing”.

Treasury Regulations 16A.7 stated that “when disposing movable assets, market related values must be used for price quotations, competitive bids, auctions or whichever way is advantageous to the state, be used. The other option would be for the Accounting Officer of the department to transfer the movable assets free of charge to other departments where they are still needed or required, by means of formal voucher.”

2.3.5 Supply Chain Performance

Supply Chain Performance was where the monitoring process of supply chain management took place. The processes were monitored to check if the proper processes had been followed and whether the desired objectives had been achieved. The Supply Chain Performance division had to ensure that compliance to determined norms and standards had been maintained. It also had to monitor the costs incurred in procurement processes and whether the supply chain management objectives were consistent with Government policy focus. Treasury Regulation 16A.8 required that all Government officials and all other role players in supply chain management complied with the ethical standards.

2.4 Objectives of Procurement

According to Hugo, et al, (2002:7), the objective of successful procurement was regarded as buying the right requirements or quality in the right quantities at the right time and at the right price from the right source, and with delivery at the right place. Hugo, et al, further stated that "it is, however, impossible to achieve all these elements of the set objective simultaneously.” It may have happened that the price was right, but the supplier with the right price may have been unreliable in that goods were delivered to the customers late. At times, it happened that the price was very
high but the quality of the goods or services may have been the best, so that the buyer had to compromise between the various rights.

In agreement with Dobler & Burt (1996:41), Hugo, et al, (2002:8) mentioned that the following objectives could be stated for the procurement function:

- To ensure the smooth functioning of business activities by way of an adequate and uninterrupted flow of goods and services to the organization.
- To buy goods and services of the required quality competitively, at the lowest possible price, to get maximum value for money.
- To keep inventory losses and investment in inventory at a minimum, while taking into account safety and economic considerations.
- To continually find and develop alternative sources of supply.
- To ensure sound, lasting relations, with reliable suppliers.
- To achieve healthy co-operation and co-ordination with other divisions of the organization.
- To train, develop and retain capable and motivated personnel.
- To set policies, procedures and systems that will ensure that the administrative costs of procurement activities are kept to a minimum.

Hugo et al, (2002:8) further stated that, “while these objectives serve as a fundamental guide to the purchasing function, they should, from the managerial and operational point of view, be specified in objectives that are more quantitatively measurable”.

2.5 Pillars of Procurement

Webb (2000:8) stipulated that “procurement is based on core principles of behaviour, which are best described as pillars of procurement”. The five pillars of procurement are:

- Value for Money
- Open and Effective Competition
- Ethics and Fair Dealing
• Accountability and Reporting
• Equity

2.5.1 Value for Money

This was the essential test against which a department had to justify a procurement outcome. Price alone was not a reliable indicator for best quality. Departments would not necessarily obtain the best value for money by accepting the lowest price offer that met mandatory requirements. Best value for money meant the best available outcome when relevant costs and benefits over the procurement cycle were considered. The procurement function itself also had to provide value for money and had to be carried out in a cost-effective way. The purpose of procurement organisations, whether centrally located or developed to individual departments, was:

• To avoid any unnecessary costs and delays for themselves or suppliers.
• To monitor the supply arrangements and reconsider them if they ceased to provide the expected benefits.
• To ensure continuous improvement in the efficiency of internal processes and systems.

2.5.2 Open and Effective competition

This required:

• A framework of procurement laws, policies, practices and procedures that were transparent, i.e. they were to be readily accessible to all parties.
• Openness in the procurement process.
• Encouragement of effective competitiveness through procurement methods suited to market circumstances.

Departments needed to apply effort and research to obtain the best possible outcome from the market by ensuring that:
• Potential suppliers had reasonable access to procurement opportunities and that available opportunities were at least published in the Government Tender Bulletin.
• Where market circumstances limited competition, the department was recognise that fact and use procurement methods that took note of it.
• Adequate and timely information was provided to suppliers to enable them to bid.
• Bias and favouritism were eliminated.
• The costs of bidding for opportunities did not deter competent suppliers.
• Costs incurred in promoting competition were, at least, commensurate with benefits received.

2.5.3 Ethics and Fair Dealing

In procurement, if all parties complied with ethical standards, they could:
• Deal with each other on a basis of mutual trust and respect.
• Conduct their business in a fair and reasonable manner and with integrity.

All Government staff associated with procurement, particularly those dealing directly with suppliers or potential suppliers, were required to:
• Recognise and deal with conflicts of interest or the potential thereof.
• Deal with suppliers even-handedly.
• Ensure they did not compromise the standing of the state through acceptance of gifts or hospitality.
• Be scrupulous in their use of public property.
• Provide all assistance in the elimination of fraud and corruption.

2.5.4 Accountability and Reporting

Accountability and reporting involved ensuring that individuals and organisations were answerable for their plans, actions and outcomes. Openness and transparency in administration, by external scrutiny through public reporting, was an essential element of accountability within the procurement framework:
• Heads of Departments were to be accountable to their Ministers for the overall management of procurement activities.
• Heads of Procurement and Senior Procurement Directors were to be accountable to Heads of Departments for various high-level management and co-ordination of activities.
• Individual Procurement Officers were to be accountable to Heads of Procurement, and to their clients, for the services they provided.
• All people exercising procurement functions needed to have regard for those guidelines and had to be accountable to management.

2.5.5 Equity

The word ‘equity’, in the context of the guidelines, meant “the application and observance of Government policies which are designed to advance persons or categories of persons disadvantaged by unfair discrimination”. This fifth pillar was vital to public sector procurement in South Africa. It ensured that Government was committed to economic growth by implementing measures to support industry generally and to advance the development of Small, Medium and Micro Enterprises (SMME’s) and Historically Disadvantaged Individuals (HDI’s).

The Government implemented the Preferential Procurement Policy Framework Act as the foundation upon which all procurement activities were meant to be based.

2.6 Procurement processes

Public sector procurement was extremely vulnerable to corruption. It was the key economic activity of the Government, hence procurement processes needed to be clearly defined and implemented in such a way that they consistently drove cross-functional decision making. These processes had to provide insight into economic and market conditions. According to Treasury Regulation, Chapter 16A.6, ‘the procurement of goods and services, either by way of quotations or through a bidding process, must be within the threshold values as determined by National Treasury and follow the process as prescribed therein’. Treasury Regulation Chapter 16A.6.2
further stated that, in cases where procurement of goods and services were done though a bid, the following process should be followed:

- Establishment, composition and functioning of bid specification, evaluation and adjudication committee.
- Selection and appointment of bid adjudication committee members.
- Development of bidding processes and procedures.
- Adjudication of bids through a bid adjudication committee.
- Approval of bid evaluation/adjudication committee recommendations.

The Accounting Officer had to ensure that:

- Bid documentation and general conditions of a contract were in accordance with:
  - i. The instructions of the National Treasury, or
  - ii. The prescripts of the Construction Industry Development Board, in the case of bids relating to the construction industry.
- Bid documentation included evaluation and adjudication criteria, including the criteria prescribed in terms of the Preferential Procurement Policy Framework Act, 2000 (Act 5 of 2000) and the Broad Based Black Economic Empowerment Act, 2003 (Act 53 of 2003).
- Bids were to be advertised in the Government Tender Bulletin for a minimum period of 21 days before closure, except in urgent cases, when bids were allowed to be advertised for such shorter periods as determined by the Accounting Officer.
- Awards were to be published in the Government Tender Bulletin and other media by whichever means bids were advertised.
- Contracts relating to information technology were prepared in accordance with the State Information Technology Act, 1998, (Act 88 of 1998).
- Treasury Regulation 16 was complied with when goods or services were procured through public private partnership, and
- Instructions issued by the National Treasury, in respect of the appointment of consultants, were complied with.
The National Treasury issued the instruction on procurement of consultants’ services or appointment of consultants. The National Treasury (2003:32) defined the appointment of consultants as “the acquirement of technical quality and independent advice”. Consultants were mainly appointed for the following reasons:

- To provide specialised services for limited periods, without any obligations of permanent employment.
- Benefit from superior knowledge, transfer of skills and upgrading of knowledge base while executing an assignment.
- Provide independent advice on the most suitable approaches, methodologies and solutions of projects.

The procurement process of selecting consultants was to be determined by the scope of the assignment, the quality of the service, the complexity of the assignment and whether assignments were to be of a standard or routine nature.

Supply Chain Management Practice Note 2 of 2005, further stated that acquisition within Government institutions were to be conducted by means of the following three processes, depending on the financial threshold of the goods or services to be procured.

It was to be as follows:

- **Up to a value of R2 000,00 (VAT included)**  
  Accounting Officers or authorities could procure without requiring quotations. This could be done through petty cash. There needed to be sound financial management around the procurement of goods or services through petty cash.

- **Above the value of R2 000,00 but not exceeding R10 000,00 (VAT included)**  
  Accounting Officers or authorities could procure by inviting at least three verbal or written quotations from the list of prospective suppliers. The order had to be placed against confirmation from the selected supplier if the quotation was submitted verbally.
• **Above the value of R10 000,00 but not exceeding R200 000,00 (VAT included)**

Accounting Officers or authorities were to invite and accept written quotations from as many suppliers as possible. Those suppliers had to be registered on the list of prospective suppliers. Where no suitable supplier was found from the approved list, quotations were to be requested from other possible suppliers. If it was not possible to obtain the three written quotations, the reasons were to be recorded and approved by the accounting officer or his or her delegate. Application of PPPFA, Act 5 of 2000 and its associated regulations for all procurement equal to or above R30 000,00 (VAT included), refers. However, these prescripts could be applied for procurement with a value of less than R30 000,00 if and when it was appropriate.

• **Above the value of R200 000,00 (VAT included)**

Accounting Officers or authorities were to invite competitive bids for all procurement above R200 000,00. Goods, works or services were not to be deliberately split into parts or items of lesser value merely to avoid complying with the requirements of the prescribed threshold. Competitive bids had to be advertised in the Government Tender Bulletin and in other appropriate media, if an Accounting Officer deemed it necessary to ensure greater exposure to potential bidders. The responsibility for advertisement costs was to be that of the relevant Accounting Officer or authority.

Should it have been impractical to invite competitive bids for specific procurement, in the cases of emergency, urgency or sole supplier, the Accounting Officer or authority was allowed to procure goods or services in accordance with Treasury Regulation 16A6.4 by other means, such as price quotations or negotiations. The reasons for deviating from inviting competitive bids were to be recorded and approved by the Accounting Officer or Authority or his or her delegate. The prescripts of the PPPFA, Act 5 of 2000 and its associated regulations, had to be adhered to.
2.7 Legislative Framework of Procurement

The essence of public procurement legislation was to define and enforce those procedures that would produce productive and efficient results. National Treasury required a legislative mandate in order to be empowered to facilitate the implementation and management of procurement processes in Government. In addressing the procurement deficiencies in Government departments, the new Government of South Africa initiated budgetary and financial reforms in an attempt to modernise the management of the public sector, to make it more sensitive in meeting the needs of communities that it served.

South Africa has made some significant changes in the regulation of procurement over recent years. Its procurement systems were subjected to the Republic’s Constitution. Regulatory frameworks within the constitution and the Preferential Procurement Policy Framework Act (Act 5 of 2000) were established. These frameworks required the Accounting Officers and Accounting Authorities, through Public Finance Management Act (Act 1 of 1999), to conduct their procurement processes within the rules.

2.7.1 Constitution of the Republic of South Africa, 1996

Section 217 of the Constitution, 1996, stipulated the following regarding procurement, which was a core component of supply chain management:

- Section 217(1) stated that, when the organ of state in the national, provincial or local sphere of Government, or any other institution identified in national legislation, contracted for goods and services, it had do so in accordance with a system which was fair, equitable, transparent, competitive and cost effective.

- Section 217(2) stated that sub-section (1) did not prevent the organs of state referred to in that sub-section from implementing a procurement policy providing for:
  - Categories of preference in the allocation of contracts, and
• The protection or advancement of persons, disadvantaged by unfair discrimination.

• Section 217(3) stated that National Legislation had to prescribe a framework within which the policy, referred to in sub-section (2), could be implemented.

This primary legislation, as set out in Section 217 of the Constitution, was regarded as the ‘birth certificate’ in terms of legislation pertaining to supply chain management and preferential procurement.

2.7.2 Preferential Procurement Policy Framework Act, 2000

Preferential Procurement Policy Framework Act (Act 5 of 2000) was promulgated in response to the constitutional imperative (National Treasury, 2003:9). This Act made use of the allocation of tender evaluation points in the evaluation of tendered contracts. The aim of this Act was to enhance the participation of Historically Disadvantaged Individuals (HDIs) and SMMEs in the public sector procurement system. This addressed the previous discriminatory practices. The Act, therefore, established a preferential point system for awarding contracts or purchasing goods and services. Depending on the financial value or cost of the contract, the Act provided weights of 10 or 20%.

The Act required Government Departments or organs of state to develop their Preferential Procurement Policy but to implement it within the framework provided by the Act. The Act required that a preferential point system had to be followed. It was to be implemented as follows:

• For contracts with a Rand value above R500 000.00, or for a prescribed amount, a maximum of 10 points was to be allocated for specific goals, provided that the lowest acceptable tender scored 90 points for price.

  • \( Ps = \) points scored for price of tender under consideration
  • \( Pt = \) Rand value of offer tender consideration

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- \( P_{\text{min}} = \) Rand value of lowest acceptable tender

- For contracts with a Rand value equal to R30 000,00, and up to R500 000,00 or prescribed amount, a maximum of 20 points could be allocated for specific goals, provided that the lowest acceptable tender scored 80 points for price. Organs of state were, however, allowed to apply this 80/20 formula for procurement with a value less than R30 000,00, if and when appropriate, where:
  - \( P_s = \) points scored for price of tender under consideration
  - \( P_t = \) Rand value of offer tender consideration
  - \( P_{\text{min}} = \) Rand value of lowest acceptable tender

- Any other acceptable tenders which had higher prices, had to score fewer points, calculated on their tender prices in relation to the lowest acceptable tender in accordance with the prescribed formula.

- The tender had to be awarded to the tenderer who scored the highest points.

The Act further required that any specific goals for which a point could be awarded, was to be clearly stated in the invitation to submit a tender. Those goals were to be measurable, quantifiable and be monitored for compliance. Despite Regulations 3.(4), 4.(4), 5.(4), 6.(4) and 8.(8) of the Preferential Procurement Regulations, 2001, a contract could, on reasonable and justifiable grounds, be awarded to a tender that did not score the highest number of points.

2.7.3 Treasury Regulations

Treasury Regulations gave effect to the National Treasury mandate concerning the establishment of a framework for an appropriate procurement and provisioning system. National Treasury Regulations 16A 3.2(d) required that SCM were to make provision, amongst others, for the risk management and regular assessment of supply chain management. They further required that SCM be consistent with the Broad Based Black Economic Empowerment Act, 2003 (Act No.53 of 2003) and PPPFA, 2000 (Act No. 5 of 2000).
Treasury Regulations 16A.3.1 stated that procurement systems with Supply Chain Management were to be:

- Fair
- Equitable
- Transparent
- Competitive
- Cost effective.

According to Treasury Regulations, Chapter 16A.5, the Accounting Officers were to ensure that officials implementing the institution’s procurement activities within Supply Chain Management were trained and deployed in accordance with the requirements of the Framework for Minimum Training and Deployment issued by the National Treasury.

2.7.4 Public Finance Management Act

The Public Finance Management Act (PFMA), 1999 (Act No. 1 of 1999) as amended, was one of the most important pieces of legislation passed by the South African democratic Government. The Act promoted good financial management in order to maximise service delivery through the effective and efficient use of limited resources.

The key objectives of the PFMA were as follows:

- To modernise the system of financial management in the public sector.
- To enable the public sector managers to manage but, at the same time, be held more accountable.
- To eliminate waste and corruption in the use of public assets.

This Act came into effect on 1 April 2000 and gave effect to Sections 213 and 215 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) for the National and Provincial spheres of Government. These sections required National Legislation to establish National Treasury to introduce uniform treasury norms and standards. Other regulations were that it had to prescribe measures to ensure transparency and expenditure control in all spheres of government, and to set
operational procedures for borrowing, procurement and oversight over the various national and provincial revenue funds.
The PFMA was the result of financial reform in South Africa. Its emphasis was on effectiveness, efficiency, economic and transparent use of public funds. Before the implementation of PFMA, the budgeting and spending processes of the public sector were governed by the National and Provincial Exchequer Acts.

According to Van der Linden (2000:7), the PFMA shifted their focus on outputs and responsibilities, rather than the rule-driven approach of the old Exchequer Acts.

2.8. Risk Management in Procurement Processes

According to Van Weele (1994:46), “there are three types of risks involved when procuring goods or selecting a supplier to supply goods”. In general, these risks could be distinguished as follows:

- Technical risk refers to suitability or professionalism of the management, the skills, the tools and testing equipment of the supplier in question.
- Quality risk refers to the quality management of the supplier in general, and the quality control system of the project in question, in particular.
- Financial risk relates to the degree to which the supplier is considered to function soundly and effectively for the duration of the project. Of importance, in this respect, are the financial condition, investment elasticity and a reasonable financial forecast.

For procurement, risk management represented the process of measuring or assessing risk and then developing the right strategies. Often the strategies were inadequate to cope. They were designed as mere continuity plans and filed away. Procurement needed to address risk management head on, incorporating it within corporate strategies, integrating it within the business and defining its importance across the organization.

According to Hugo, Badenhorst-Weiss and Biljon (2006: 217), all organizations looked for optimal trade-offs between the perceived risks and the potential returns they were facing. Therefore, the first step of risk management in procurement
processes was to identify the risks. The second step was to assess the impact of the risks on the organization and the third step consisted of determining a strategy to deal with or eliminate the risks.

Although the risk management process could differ from one organization to another depending on the types of risks, certain steps were fundamental to the process and should be present. Baird and Thomas (1990: 45), stated that “risk management commences early in the procurement process and is re-visited throughout the process to ensure that any new risks are identified and previously identified risks are monitored”.

Risk management was especially important for high-risk procurement, for example, building and construction projects and IT purchases.

According to National Treasury (2003:5), risk management was defined as “imperative that Accounting Officers take cognisance of potential risks during procurement processes within the supply chain management system”. Due consideration should be given to the following:

- Identification of procurement risk on a case-by-case basis.
- Allocation of risks to the party best equipped to manage this.
- The state should bear the cost of risks where the cost of transferring them is greater than that of retaining them.
- The exercising of risk management in a pro-active manner and adequate provision for the cover of residual risks.
- Contract documentation to clearly and unambiguously assign relative risks to the contracting parties.
According to Hugo, et al, (2006:217), during the risk identification process, the organization should involve users and other stakeholders. The checklist of potential risks in the procurement process identified potential procurement-related risks when purchasing goods and services, likely consequences and appropriate mitigating actions. In the risk evaluation, one evaluated in terms of likelihood and seriousness. Risks were then graded to determine their significance and to identify those that needed to be managed. The risks were then managed according to their
significant. Significant risks could be managed by either implementing preventative actions or by developing contingency plans. These were documented in the Risk Register and included information on:

- what action was to be taken;
- by whom; and
- by when.

Risks should be monitored and reviewed throughout the project. Some new risks could be identified, while other risks could be downgraded or upgraded depending on the progress of the procurement and other circumstances.

2.9.1 Strategies to Eliminate Public Sector Procurement Risks

It is sometimes said that “the best way to handle or treat risks is to try and avoid them”. According to Hugo, et al, (2006:225), risk avoidance meant that the chance of loss had been eliminated. In practice, it means changing suppliers, using alternative materials, ceasing some operations that were carried out in the past, or selecting a business location where a certain peril is not present.

3. Procurement Process Flow in the Public Sector

Effective procurement requires adequate planning. Procurement planning should eliminate the number of rush procurement orders and result in lower purchase costs and improved services. According to National Treasury (2004:27), planning for procurement should start with the technical considerations relating to economic and efficient implementation of procurement programmes. All procurement should be initiated early so that the Department does not incur costs for urgent deliveries. Lack of procurement planning has an impact on the overall schedules of the Department as well as the attainment of sector objectives. Procurement processes in any public sector, as stated in National Treasury Regulations of 2004, should flow as follows:

- Annual procurement plans which should show contract packages, estimated costs for each package, the procurement method, processing steps and processing times up to completion.
• Procurement plans should then be submitted to the Budget Committee for budget approval in preparation for the following financial year.

• After approval by the Budget Committee, the procurement plans should then be submitted to the Procurement Committee for collation and aggregation into a composite plan for the department.

• The Annual Procurement Plan should be aligned to the annual plans and budget of each Directorate, as well as the overall department’s budget.

As reflected in the Eastern Cape Department of Health’s Procurement Procedure Manual (2008:35), “the procurement process starts by all heads of the branches submitting their inputs to be approved as part of the budget. The information is also requested from the Stores Section so as to reduce the risk of stock outs, overstocks and any emerging issues. The procurement processes in the ECDoH involve the selection of suppliers or tenders, forecasting, quantification, sourcing, receiving, storage, distribution, inventory control, monitoring and financing. Public Health Sector procurement involves goods, services and works.” Each process starts as follows:

• Situational analysis of goods services and works.

• Setting up of objectives and goals.

• Decision making, estimation and quantification and source funding.

3.1 Specifications

The ECDoH Procurement Procedure Manual (2008:42) stated that specifications could either enhance or eliminate the competition. Specifications should be used to describe goods or services in a manner in accordance with the departments and so that they encourage competition. According to the Ghana Ministry of Health Procurement Procedure Manual (2004:33), there were different categories of specifications which were listed in this manual in the desired order of use as follows:

• Generic (Performance or Design): Buyers in the Purchasing Department should analyse incoming requirements with a view towards soliciting the
requirements on a generic basis. Under appropriate circumstances, performance specifications (setting forth the performance requirements), design specifications (setting forth the essential characteristics of the goods being bid) or qualified products list, could be used.

- **Brand Name or Equal**: This should be used when it is determined to be impractical to develop a generic specification. A brand name may then be used to convey the general style, type, character and quality of the article desired.

- **Proprietary**: This specification restricts the acceptable products to those of one manufacturer. It was appropriate to use this type of specification when the desired product had to be compatible with, or was an integral component of, existing equipment or products or where pre-qualification of products was necessary to support specific needs of a programme.

- **Sole Source**: When requirements for goods and services were only available from one source, it should be supported by a Sole Source justification.

3.2 Procurement Entities and Tender Committees

According to National Treasury (2004:13), a procurement entity was any person or organization that depended on public funds for procurement activities. This included individuals who spent public funds on official duties and institutions. The head of the entity was the budget holder who was responsible and accountable for all procurement activities of the entity.

The Ghana Ministry of Health Procurement Procedure Manual (2004:38), defined the Tender Committee as “the group of individuals brought together to facilitate the planning, implementation and monitoring of procurement activities in an entity”. The Committees were responsible for reviewing the implementation of procurement procedures and approving recommendations of tender evaluation panels. Procurement Committees were only permitted to co-opt members on a permanent or an ad hoc basis, but a member was not allowed to delegate his or her responsibility to any other person.
3.3 Evaluation Panels

The ECDoH Procurement Procedure Manual (2008:50) stated that the Procurement Committees was allowed to appoint a technical person within the relevant evaluation panels if they had the required expertise to evaluate a specific tender. The panel could evaluate the tender based on the predetermined evaluation criteria as stated in the Treasury Regulations. Their evaluation recommendations will then be forwarded to the Bid Adjudication Committee for the awarding of the tender.

3.4 Emergency procurements

As stipulated in the National Treasury Regulation (2004:67), emergency procurement would only be undertaken when there were natural disasters, epidemics and other emergencies subject to the Bid Award Committee (BAC) approval. For all emergency procurements, approval had to be received first and specific agreements made on how the procurement would be incurred. In the agreements, reasons for the deviation from the normal procurement processes had to be stated.

3.5 Suppliers and Contractors database

It was the requirement of Supply Chain Management Framework that all public entities had to develop their supplier databases. It was encouraged that, when this database had been developed, suppliers would be invited by the entity through advertisements in the newspapers and other forms of media like radio and television. A department was requested to update its database annually. Once the suppliers submitted their applications for inclusion in the department’s database, they had to be evaluated to check if they met all the requirements of the department and whether they would be able to deliver the services as required. The National Treasury Regulations on Supply Chain Management, Section 16 A stated that, prior to inclusion in the database of the department; the supplier had to complete a Supplier Registration Application Form to provide information on its operations. The VAT Registration Number of the supplier had to be reflected in the event that it was a VAT
vendor or was registered to charge VAT. A tax Clearance Certificate also had to be included with the application.

3.6 Complaints register

The Supply Chain Office of the Department had to have a Complaints Register in place, in line with the requirement of Treasury Regulations, Section 16A.3.2. This register was meant to be used to record or lodge all complaints on officials who did not follow the procedures as prescribed in the Department’s Procurement Policies. In cases where misapplication of procedures had been established, appropriate sanctions were to be applied.

4. Conclusion

In this chapter, specific focus was made on the definition of procurement, procurement processes and the legislative frameworks which govern procurement processes. Elaboration on pillars of procurement and the concept of supply chain management was done. Risk management in public procurement processes and strategies to address these risks were reviewed.
CHAPTER 3

AN OVERALL VIEW OF THE SUPPLY CHAIN MANAGEMENT AND PROCUREMENT PROCESSES IN GOVERNMENT SECTORS

3.1 Introduction

This chapter focussed on the Supply Chain Management and procurement processes in Government sectors within the provincial department. A view of the procurement processes within Supply Chain Management in the Eastern Cape Department of Health was discussed in respect of its relevance to this study. Government procurement processes were not very different from the procurement processes of other sectors except that, in Government, procurement was funded by public funds. This was the reason why there had to be controls, measures and regulations that would make it impossible to tamper with the procurement processes.

Van Rooyen et al (1983:221) stated that the reason why Government purchasing in most Western countries was subject to stringent measures and procedure regulations that made it inflexible to effect changes was due to Government’s spending of tax money. The Government sector had to account for the usage and expenditure of public funds. They had to be audited and submitted to Parliament for review and approval. The Public Finance Management Act (PFMA) of 1999 was drafted to encourage accountability and to ensure that public funds were utilized and managed effectively and efficiently by those who were entrusted with the power to manage them.

According to van Rooyen (1983:221), “public procurement is the science, or perhaps, the art, of getting the most for the taxpayer’s money in a whole spectrum of buying, leasing or otherwise acquiring goods and services”. Van Rooyen provided evidence to the fact that Government officials, who procured goods using public funds, also had the same expertise and purchasing skills as the purchasers in the private sector. Government procurement activities were more stringent and demanding than those of the private sector because of the controls and regulations put in place to ensure that it was not easy to take decisions on incurring expenditure.
on Government funds. It was in the National Treasury Supply Chain Framework that, prior to procuring, approved procurement plans, which were meant to be in line with the allocated budgeted for that financial year, should be in place. Those procurement plans needed to be presented to the Provincial Treasury for approval, who would, subsequently, submit them to the National Treasury.

Procurement in the public sector was executed to ensure that the vision and the mission of the department were achieved. With the public sector, procurement activities were also influenced by politics. If the Department of Health’s plans for the year were to deliver good quality health services, the procurement plans would have to ensure that this goal was achieved. It became the responsibility of the Accounting Officer of the department to ensure that all the operational plans were made in such a way that the goal was achieved.

According to Hugo et al (2006:228), the authority for purchasing in South Africa for Government flowed from the Parliamentary approval of budgets and expenditure of different departments and institutions. Schiavo-Campo and Sundaram (2001:315) stated that public procurement gave meaning to the mandate of the Government. In order for Government to achieve its goals, it had to procure goods and services to deliver the services to the people. Most of the expenditure incurred by Government was through the procurement of public goods and services and construction activities, even though contracting for construction was treated separately from the purchasing of goods and services. This was due to the process that was undertaken when procuring for public works or construction projects.

3.2 Authority and Delegations for Public Procurement activities

The authority to spend on public funds was provided by the Legislator on approval of the submitted budget by each department. Both National and Provincial Treasury had to exercise control over the implementation of the approved budgets. They were to assist departments in ensuring that they had the capacity to correctly spend the budget. This intervention included ensuring that departments had trained and skilled people in Supply Chain Management functions. This was also meant to include ensuring the availability of policies and procedures to for people to correctly perform
the Supply Chain functions. According to van Rooyen (1983:224), “an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost-effective, becomes a key responsibility of all the Accounting Officers” as reflected in section 38 of PFMA (Act 1 of 1999). The Provincial Treasury and the Auditor-General became “watch-dogs” to ensure that the spending of the budget was not irregular, fruitless and wasteful.

On discovery of any unauthorised, irregular or fruitless and wasteful expenditure, the Accounting Officer of the department or any public body had to immediately report, in writing, the particulars of that expenditure. In case where irregular expenditure involving the procurement of goods and service had been incurred, a written report was to be submitted to the relevant Treasury. According Chapter 1 of the Public Finance Management Act (PFMA) (Act 1 of 1999), irregular expenditure was “any expenditure incurred in contravention of the requirements of the Act or any State Tender Board Act of 1968 or any legislation providing for procurement procedures in the Government”. Fruitless and wasteful expenditure was defined by the Public Finance Management Act of 1999 as “any expenditure incurred not for the benefit of the Government but in vain and should have been avoided if reasonable care been exercised”.

Section 45 of PFMA (Act 1 of 1999) stated that “it becomes the responsibility of other officials other than the Accounting Officer to ensure that internal controls are established to manage the procurement functions of the department”. They had to ensure that effective and appropriate steps had been taken to prevent, within the official’s area of responsibility, any irregular expenditure. As per Chapter 1 of PFMA (Act 1 of 1999), irregular expenditure was defined as “expenditure, other than unauthorised expenditure, incurred in contravention of or that is not in accordance with the requirements of any applicable legislation, including PFMA, the State Tender Board Act, 1968 (Act 86 of 1968) or any legislation providing for procurement procedures in that Provincial Government”.

Spending of public funds on procurement of goods and services, or any expenditure, was highly regulated and tightly-controlled. It was, therefore, on this basis, that unspent funds on approved budget for a specific year were surrendered back to the
Provincial Treasury. If the unspent funds had already been committed for that passing financial year, Government departments were allowed to apply for the roll-over of those committed funds. A motivation for the roll-over had to be submitted to Provincial Treasury prior to financial year-end. The motivation was to stipulate all the projects that were still in progress and indicate the amounts still needed to conclude those projects.

3.3 Policy Guide on Uniformity in Procurement Reform Process

Prior to 1994, Government departments did not have any uniformity in executing procurement functions. The Joint Country Procurement Assessment Review (CPAR, Volume 1 of 2002:10) was conducted with the World Bank to analyse the then-procurement processes and how the contracts were managed. Many deficiencies were identified in the procurement and contract management processes of the departments, as follows:

- The PPPFA policies were not clearly formulated and the procurement practitioners were not adequately trained in the application of PPPFA and its relevant legislation.
- There were no links between budgeting processes and the procurement processes of the departments. Procurement activities and functions were treated as stand-alone functions. This was the result of inefficient planning of budget and procurement.
- Publications of Tenders by different spheres of Government were not uniform. Some national and provincial departments would advertise Tenders in the Weekly State Tender Bulletin, whilst other provincial departments would only advertise in their local newspapers.
- There was a lack of uniformity in bid documentation, advertising and adjudication procedures.
- The Constitution of Tender Board Committees resulted in conflicts of interest. It was discovered that most of the Tender Boards were made up of people who were not Government officials and who were mainly interested in Government Tenders.
In correcting all the identified weaknesses, Government took a decision to replace all the then-existing procurement and provisioning practices with the Integrated Supply Chain Management Policy, which was meant to uniformly apply to all Government spheres. According to Schiavo-Campo et al (2001:323), procurement regulations and audit rules placed great reliance on competition and objective decision making. Even though these regulations assisted to some extent, many countries started streamlining their laws and regulations that governed procurement transactions.

3.4 Procurement Reforms

South Africa became one of the countries that had procurement activities subjected to its Constitution. The Supply Chain Management Framework and the Preferential Procurement Policy Framework Act (Act 5 of 2000) were established. Section 217(2) of the Constitution established the Preferential Procurement Policy so as to ensure that persons who were disadvantaged by discrimination were protected. Procurement reforms were put into place to correct and address all the previous procurement irregularities. A Green Paper on Public Procurement Reforms in South Africa was published in 1997.

The Supply Chain Management Office was established in the National Treasury to oversee the implementation thereof. The Provincial Treasuries were also requested to review their procurement and provisioning divisions, so as to establish similar Supply Chain Management Offices. The Supply Chain Management Offices at the Provincial Treasuries were meant to formulate provincial supply chain management policies in line with national policies.

3.5 Structure for Government Procurement Processes

According to van Rooyen et al (1993:231), Government purchasing in South Africa was based on the three-tier governmental system, namely: central government, provincial government and local authorities. According to Schiavo-Campo and Sundaram (2001:334), procurement was becoming important on a local level, in parallel with decentralization and the increasing range of functions performed by local governments in most countries.
In line with Treasury Regulations 16A.4, it was the responsibility of the Accounting Officer to ensure that a separate Supply Chain Management Unit was established in the department. The Supply Chain Management Unit had to be located within the office of the Chief Financial Officer to implement the department’s Supply Chain Management system.

The Accounting Officer was entrusted with powers to ensure that an appropriate procurement and provisioning system was implemented. It was within the powers of the Accounting Officer to delegate the powers, with which he or she was entrusted, to the Chief Financial Officer. The Chief Financial Officer then became responsible for the implementation of the Supply Chain Management system in the department. The Chief Financial Officer had to take effective steps in developing the Supply Chain Management Unit by appointing skilled staff and providing them with training. It became the responsibility of the Chief Financial Officer to advise the Accounting Officer on all the decisions taken or to be made regarding the supply chain activities.

In the Eastern Cape Department of Health, the Chief Financial Officer was entrusted with the responsibility of running the Supply Chain Management of the whole department. The Chief Financial Officer recommended the appointment of the Chief Director, who was directly involved in the management of the Supply Chain Management Branch. The Chief Director was responsible for the development of supply chain management policies, procedures and monitoring the implementation. Within the Chief Directorate of Supply Chain Management, there were three Senior Managers or Directors who were the implementers of the policies. These Directors reported directly to the Chief Directors.

While one Director was responsible for the demand and acquisition functions; another Director oversaw the management and monitoring of contracts and the third Director was responsible for asset management. The procurement processes were managed at Demand and Acquisition Directorate. The Director for Demand and Acquisition became more involved in the procurement functions, especially for large and complex contracts. Procurement management became one of his or her Key Performance Areas of his or her Performance Agreement Contract.
The Director accounted for all the procurement of the Head Office and was expected to provide guidance to all the offices in Head Office. It was one of the responsibilities of the Director to ensure that his or her subordinates were trained in the daily activities of Supply Chain Management in Head Office. Schiavo-Campo et al (2001:328) stated that "even though procurement management becomes the Director’s Key Performance Area, he or she need not become a procurement specialist, but they must be aware of procurement processes and risks".

In the Eastern Cape Department of Health, the procurement functions and activities were centralized to the Demand and Acquisition Directorate for the whole of Head Office. Each office at the Head Office submitted its procurement request and the copy of the budget report to the Demand and Acquisition Directorate. The Demand and Acquisition Directorate requested the quotations, where necessary, and commenced procurement for that office. There have been several complaints from different offices in Head Office that centralization of procurement functions was affecting the service delivery, as this took time for the end-user to receive the goods and services.

The Eastern Cape Department of Health used the centralization of the procurement function as a control measure to minimise the risk of fraud and corruption. Even though the Demand and Acquisition Director was vested with powers to procure goods and services for the department, it remained the responsibility of the Chief Financial Officer to finally approve the purchase order.

3.6 Types of Public Procurement

There were different types of public procurement, depending on the type of goods and services that were to be procured. According to Schiavo-Campo et al (2001:335), international organization guidelines and bid documents recognised the following forms of procurement:

- Competitive bidding
• Shopping
• Direct contracting (sole-source contracting or direct selection)
• Force accounting
• Procurement through agents.

These were also the types of procurement processes recognised by South African government departments, except that “shopping type” was referred to as the “quotation procurement” in South African government departments. With competitive bidding, bidders were invited through the placement of advertisements of the Tender in the local, as well as the national, newspapers. In other countries like South Africa, a bid was placed in the Government Gazette as well. This was called “open tendering”. In this type of tendering, every supplier was allowed to bid as this accommodated everybody interested in participating. Depending on the type of goods or services to be procured, some other countries gave preference to domestic or local suppliers.

There were other types of bidding, like international competitive or limited bidding. Schiavo-Campo et al (2001:335) defined international competitive bidding as “the bidding process where foreign bidders are allowed to take part”. Limited competitive bidding was bidding without public advertisements, due to small value costs, or when there were only a few suppliers to provide the goods or services. This type of bidding was mostly used by the Eastern Cape Department of Health when procuring specialised medical equipment for its hospitals, due to the limited number of producers who manufactured these machines.

According to Schiavo-Campo et al (2001:338), “shopping is the process of acquiring quotations from different suppliers”. This usually meant obtaining at least three quotations for readily off-the shelf goods. Depending on the policy of that organization or department, there were different thresholds set for acquiring quotations. In the Eastern Cape Department of Health, for procurement of goods less than R5000, verbal quotations could be obtained over the telephone. The procurement of supplies or services, or the hiring of any goods or service, provided the value of the item did not exceed R30 000 per instance, could be executed by
calling for at least three written quotations from the list of accredited prospective suppliers on the database of suppliers, where possible.

In instances where procurement of goods or services exceeded R30 000 but were less than R250 000, a three-day Tender could be advertised on the notice boards in Head Office and three quotations would be selected from those submitted, based on the cheapest quotes. The three quotations had to be submitted to the Chief Financial Officer (CFO) with the recommendation for the preferred quote.

It was the responsibility of the Chief Financial Officer (CFO) not only to look at the price, but the quality to be provided, too. It was within his or her discretion to approve any other supplier amongst the three quotes, other than the recommended one, provided that he or she saw that the recommended quote did not provide the quality required. Procurement of goods or services exceeding R250 000 to R5 000 000 could be advertised in the local newspaper for competitive open tendering.

Direct contracting was considered when there was a small contract to be carried but where the work required some specialised skills to perform or deliver the service. The organization would have no option but to procure that skill externally. This also resulted in an organization appointing a consultant to monitor the work done. This type of procuring was mostly used by Eastern Cape Department of Health when they needed maintenance to be done on medical equipment.

The Eastern Cape Department of Health allowed direct contracting only on services amounting to R250 000. Anything exceeding this amount was taken out on the Open Tendering system. Maintenance of medical machines or equipment needed people with specialised skills and this was proven to be a limited skill in the Eastern Cape.

This compelled the Eastern Cape Department of Health to directly approach those service providers that they knew to have these skills. Treasury Regulations 16A.6.4 stated that if, in a specific case, it was impractical to invite competitive bids, the Accounting Officer of the government department or public body could procure the
required goods or services by other means of procurement processes. The department could use the direct contracting process, provided that the reasons for deviating from inviting competitive bids were recorded and approved by the Accounting Authority.

In cases where the bid amount was more than R5 million, the Accounting Officer was to seek the advice and approval of the Provincial Treasury. The Provincial Treasury could advise the Department to participate and utilize any contract of similar services that could be arranged by National Treasury, or by any organ of state, as long as the required goods or services would be provided. These contracts were called Transversal Contracts.

According to van Rooyen et al (1983:234), competitive bidding was used for the procurement of goods or services above a certain threshold as prescribed by the Ministry of Finance or the Central Procurement Agency. The complexity of the process depended on the value and nature of goods or services to be procured, but the requirements for competitive bidding were similar in all cases. Schiavo-Campo et al (2001:337) agreed with van Rooyen et al that requirements for competitive bidding were similar and were largely applicable to other forms of procurement as well.

They were as follows:

- Pre-bid or a clear and fair description of what was to be purchased
- Public notice and invitation of bids - publicised opportunity to bid
- Bid opening and evaluation - fair criteria for selection and decision-making
- Contract award - comparison of bids and determination of the best bid according to the predetermined and publicised rules of selection.

In the Head Office of the Eastern Cape Department of Health, competitive bidding was executed through different stages. The Supply Chain Management Policy of Eastern Cape Department of Health required that there be three different Bidding Committees in place to manage and guide the whole process of procuring goods or
services by bids. The members of these Committees were appointed in writing by the Superintendent-General of the department.

There needed to be a Bid Specification Committee (BSC). This Committee was responsible for the compilation of specifications and for ensuring that specifications were compiled in an unbiased manner to allow all potential bidders to bid. The specification to be included in the Tender documents was to be made available to the potential bidders. The Tender documents were to be clear, understandable and be in a language that all the prospective bidders would understand. Schiavo-Campo et al (2001:340) stated that “bidding documents should furnish all the information necessary for a prospective bidder to bid for the goods or services to be provided”.

In line with the Treasury Regulations, the Eastern Cape Department of Health also established a Bid Evaluation Committee (BEC). The Bid Evaluation Committee (BEC) was responsible for the evaluation of proposals or bids received, and the submission of a report with recommendations to award the bid to the Bid Adjudication Committee for consideration and/or approval. Members of the Bid Evaluation Committee might need to present their recommendation or report to the Bid Adjudication Committee (BAC) and they may not have had any voting power on the Adjudication of the bid.

It became the key responsibility of the Bid Evaluation Committee (BEC) to ensure that the evaluation process was transparent and fair.

The Bid Evaluation Committee (BEC) was to ensure that, in cases of special projects or contracts where certain expertise was needed to evaluate the bid, an expert was called to assist in evaluating the bid. In the process of developing some specifications, an expert had to be called to assist in compiling the specification. In accordance with the Eastern Cape Department of Health Supply Chain Management Policy of 2010, the Bid Evaluation Committee (BEC) was to evaluate each bid by:

- Applying only the evaluation criteria specified in the request documentation, including the operation of the PPPFA, the PFMA and the BBBEE.
- Assessing compliance with the Terms of Reference and the Terms and Conditions as set out in the request documentation,
- Assessing the technical viability of the proposed solution,
- Assessing the capability of the bidder to provide the goods or services, including technical and management competence as well as financial resources,
- Contacting referees,
- Taking into account the benefits and costs involved on a whole-of-life basis (not just the cheapest price),
- Documenting any potential constraints/risks and the way the risks were allocated, as well as assessing the cost of that risk allocation to the Eastern Cape Department of Health,
- Preparing a comparative statement of all bids received to specification.
- Identifying the bidder that represented the best available value for money.
- Documenting the reasons for the decision taken, and explaining why other bidders were unsuccessful.
- Preparing a recommendation for the acceptance of a bid.

Once the Bid Evaluation Committee had evaluated and made recommendations, they presented their recommendations to the Bid Adjudication Committee (BAC). The Bid Adjudication Committee (BAC) was responsible for the adjudication of recommendations on bids made and submitted to them by the Evaluation Committee. The Adjudication Committee could either approve or reject the submission, depending on whether the submitted bids were substantially responsive. The Adjudication Committee was chaired by the Chief Financial Officer as stipulated in the PFMA and Treasury Regulations.

If the recommendation was approved by the BAC, submission was made to the Superintendent-General for final approval and the appointment of the successful bidder. All these Bid Committees were expected to keep records or Minutes of each meeting, as stipulated in the National Treasury Supply Chain Framework.

There were instances where only a few suppliers provided a particular service. In those cases, the Head Office of the Eastern Cape Department of Health would
request those suppliers to submit proposals on the service that they were seeking. The Request for Proposal started with the drafting of the scope of work to be done by the department and by identifying the suppliers or service providers. These suppliers were then approached and requested to submit their proposals in response to the scope of work defined. This was another type of procurement used to procure public goods even though the Head Office of Eastern Cape Department of Health rarely used it.

The membership of Bid Committees was made up of different officials at different levels. The Head Office Bid Evaluation Committee (BEC) of the Eastern Cape Department of Health was made up of Senior Managers who were Directors and Chief Directors. These members were made to sign an oath upon their appointments. The Bid Adjudication Committee (BAC) was composed of the Chief Financial Officer (who was the Chairperson), the Executive Managers (which were Deputy-Director-General positions) and the Chief Director (from Supply Chain Management). All these members were also appointed by the Superintendent-General, who was the head of the department.

3.7 Declaration of Interests

Each member of the Bid Evaluation Committee and Bid Adjudication Committee had to complete a “conflict of interest” declaration and confidentiality agreement prior to the commencement of the evaluation and adjudication process. No official who had an interest (or whose relative or friend had an interest) in a particular offer was to be allowed to participate in the evaluation, consideration and adjudication of the relevant bid. The Eastern Cape Department of Health also developed the Code Of Conduct for the officials working in the Supply Chain management branch. Any misrepresentation by the member could result in disciplinary action being taken against him or her.

4 Selection Process of Service Providers or Suppliers

In line with the Treasury Regulations 16.5.3, the procurement processes were to be fair, equitable, transparent, competitive and cost effective. The procurement officers
of government departments were also requested to treat all suppliers and potential suppliers equally.

Procurement officers were restrained from using their positions to improperly benefit one supplier over another when selecting the service providers or suppliers. Supplier selection was to be based on the processes and procedures stipulated in the Supply Chain Management policy. In the Supply Chain Management Policy 2010 of Head Office in the Eastern Cape Department of Health, it was explicitly stipulated that suppliers were to be rotated. It was stated that the invitations of price quotations from the compiled list of prospective suppliers per commodity or service were to be done on a rotation basis in such a manner that on-going competition amongst suppliers was promoted.

According to Hugo et al (2006:81), selection and evaluation of suppliers was arguably the most important activity of the purchasing and supply profession. It was the responsibility of the officers to protect the integrity and credibility of the department. The procurement officers had to ensure that information given to suppliers regarding the bid or offer was provided equally. No supplier should have received better treatment than others, especially from the official of the department. The suppliers were to be informed of the processes followed by the department when selecting the service provider or the supplier.

As the Promotion of Administrative Act of 2000 stated, “it is the responsibility of the Government department to ensure that they account for the actions they take and decisions they make”. On this basis, the department was responsible for providing the supplier with reasons as to why he or she was not selected to provide a certain service. This Act encouraged accessibility of information to the public.

It was, once again, the responsibility of procurement officers to ensure that they selected suppliers who would provide goods or services which gave value for money. Selection of poor service providers or suppliers became too costly for the department, as some suppliers may not have had the capacity to deliver the quality expected, or may not have had sufficient finances to carry out the requirements of the contract.
It became the responsibility of each Government department to develop the criteria to use when selecting the service providers or suppliers. The Supply Chain Management Policy 2010, of the Eastern Cape Department of Health, stipulated that suppliers were to be rotated but a set of criteria to be used was also highlighted in the Policy. The Policy stipulated that, amongst other things, the following was to be considered when selecting the service provider or supplier:

- Quality
- Price
- Financial status of the supplier
- Delivery period
- Previous services the supplier has offered

When suppliers registered with the department, there was specific documentation that they were requested to provide. The Tax Clearance Certificate for the period of registration was compulsory, together with a CK1 document, which was issued when the company was registered. The CK1 was the founding statement of the Close Corporation and provided business details. Suppliers who did not comply with these requirements were disqualified and were not registered. They were informed in writing of their non-compliance.

For any department to be able to select right suppliers, that department needed to develop a supplier database. In the Head Office of the Eastern Cape Department of Health, the supplier database was updated on an annual basis by issuing a notice in the local, as well as national, newspaper inviting new suppliers and existing suppliers to update their information. The database was reviewed and submitted to the Superintendent-General for approval on a quarterly basis. Depending on the policy of each department, the supplier database had to be updated and reviewed regularly.

The development of a supplier database assisted the Eastern Cape Department of Health, especially in the Head Office, to build up their relationships with their suppliers. It has made it easier for the Department to interact with their suppliers on
a regular basis. The Department also conducted Supplier Workshops to inform suppliers of their expectations, and provided educational programmes on how the supply chain activities of the Department were conducted. The relationship between the Department and the suppliers assisted in improving is service delivery, as the suppliers knew exactly what the Department expected when procuring goods or services.

There were different ways of selecting and choosing suppliers or service providers to supply goods or provide services. Service providers or suppliers could be selected from the database or through the bidding process. With the Head Office of Eastern Cape Department of Health, procurement of standard products like stationery, travelling and any other day-to-day goods or services, suppliers were selected from the approved database, depending on the amount of goods or services to be procured.

If the goods or services cost less than R5000, one supplier would be selected from the database. If the cost was more than R5000, three suppliers would be selected and would be requested to submit quotations. The supplier with the cheapest quote from the three would be selected and used. When the Department purchased specialised medical machines or equipment amounting to R250 000, three quotations would be requested through the three-day Tender Process and the supplier with best quote would be selected.

5. Monitoring and Evaluation of Procurement Processes

It was imperative to monitor and evaluate performance in procurement processes. It has been a norm with all Government departments that, once contracts were awarded, they didn’t take the responsibility of following up the progress or of monitoring the performance of the awarded bidder. Monitoring of procurement processes and procurement staff members was also identified as one of the deficiencies in Government and this has led to Government losing a lot of money.

Performance targets were identified as part of the initial planning for a contract, and set out in the Business Case and Request for Bid documentation. Targets were
generally associated with cost, timeliness and the quality of products and services to be purchased as the outputs of the contract. Officials were expected to monitor and evaluate a contractor’s performance. This was essential in determining whether requirements were being met and in avoiding possible future conflicts over unsatisfactory performance.

Contractors were required to report to the Management on progress in accordance with agreed timeframes and review schedules. The Management was to inform the contractor in writing if there were evidence that the contractor’s performance was inadequate or behind schedule. If there were continuing concerns that obligations were not met, advice should have been sought immediately from the Contracts Management Directorate. Disputes were to be resolved promptly, and not be allowed to escalate into costly legal battles.

A copy of all performance reports and reports on contract outcomes was to be submitted to Contracts Management Directorate. That office was to ensure that those reports were available for reference purposes to staff inquiring about a contractor’s performance. Performance reports on all the bid contracts of the department were to be submitted and presented to the Executive Management Team (EMT) on a monthly basis.

The National Treasury issued an Instruction Note on enhancing compliance and monitoring in Supply Chain Management on 31 May 2011. This Instruction Note was issued in terms of Section 76(4) (c) of the PFMA. The aim of the Instruction Note was to improve accountability and monitoring in supply chain to ensure value for money in the procurement of goods, works and/or services. This note was meant to instruct Government departments, together with all Schedule 3A and 3C public entities, to submit their procurement plans to relevant Treasuries by 30 April each year. Those procurement plans were meant to be used by Provincial Treasuries as the monitoring tools for all the procurement of goods or services costing more than R500 000.

According to Shiavo-Campo et al (2001:349), monitoring of contracts was to continue throughout the life of that contract. Monitoring contracts involved reviewing
performance reports, conducting site inspections, undertaking audits and obtaining feedback from communities.

6. Training of Supply Chain Management Staff

National Treasury Practice Note Number SCM05 of 2004 stated that “Accounting Officers of departments or public entities must ensure that Supply Chain Management Staff are trained and deployed in accordance with the guide of Treasury regulations”. There was a ‘Guide for minimum training and deployment of supply chain management officials’ which was issued in accordance with Regulations in terms of the Public Finance management Act, 1999: Framework for Supply Chain management that was promulgated in Government Gazette Number 25767 on December 2003.

The Practice Note was issued to guide departments on how to train Supply Chain Management officials and how to advise at which levels the training should be provided. In accordance with this Practice Note, the Eastern Cape Department of Health incorporated a paragraph on provision of training to Supply Chain Management officials in their Supply Chain Management Policy of 2010. The training material was provided by the Provincial Treasury.

The training provided by the Department was performance and outcome based. The Eastern Cape Department of Health developed an implementation strategy which was phased in approach. The strategy was structured into short, medium and long term phases. Short term training was based on introduction to supply chain management and was meant for new appointees, irrespective of their levels or positions. The medium or the intermediate training focused on intensive training on all elements of Supply Chain Management, and was meant for the supply chain practitioners who were involved in supply chain activities on a day-to-day basis. Long term training was more focused on formal training courses, diplomas or degrees provided by tertiary institutions. Long term training was advanced training that included specialist skills within each element of Supply Chain Management, such as demand management, logistic management or strategic sourcing.
Head Office officials were trained on their day-to-day operations and in accordance with Supply Chain Management policy reforms and legislation of the Eastern Cape Department of Health. Training of the Supply Chain Management personnel was a compliance requirement and the Department was expected to submit a report to the Provincial Treasury. The Provincial Treasury monitored and assessed the quality and the content of the training provided. The training material had to be validated by the Validation Board of the National Treasury. The Department prepared the evaluation reports and the details of the officials who had completed the training courses, which were then submitted to the National Treasury via the Provincial Treasury. Departments were encouraged to train and update their officials on an annual basis. There was a Human Resources Development Directorate at the Head Office of the Eastern Cape Department of Health. This Directorate was responsible for the development and training of the Head Office staff in all their related spheres of their jobs and duties. The Human Resources Development Directorate had to ensure that there was a budget set aside by each branch to train its employees.

Training plans aligned to the employees’ performance agreement contract had to be developed. The training plans for each office at Head Office were to be submitted to the Human Resources Development Directorate at the beginning of each financial year. The Supply Chain Management branch was also expected to submit their training and development plans. A budget had to be allocated for such development. It was the responsibility of Human Resources Development, in consultation with the Provincial Treasury, to assist the Supply Chain Management branch and other offices to obtain the appropriate service providers for the training sessions. In the past five years, the Eastern Cape Department of Health utilized the Public Finance Services Agency (PFSA) of the University of Fort Hare to acquire the Supply Chain Management training, as it was a requirement by Provincial Treasury to use accredited service providers.

Schiavo-Campo et al (2001:358) stated that “the skills and professional standards of the procurement officials, while not easy to attain, are the most effective safeguard against irregularities and graft”. It became risky for the Department to rely on external consultants to operate the procurement system of the Department. Walsh and Leigland (1996) agreed with Schiavo-Campo et al to say, “reliance on external
consultants can lead to a disaster in procurement processes of the department; hence the procurement functions should be incorporated in performance agreements of the officials and be made part of the required competencies of the senior managers, especially in the Supply Chain Management branch”.

It has been estimated that more than 60 per cent of the budget appropriated to Government departments was spent on the procurement of public goods. The empowerment and building capacity of the public procurement officers became key, and assisted the Department to avoid incurring irregular expenditures. Rotation of the procurement officers within the Supply Chain Management branch also assisted Eastern Cape Department of Health in improving the skills of the procurement division.

7. Risk Management

Procurement of public goods or services was subject to many risks, due to the nature of processes followed when procuring these goods or services. The manner, in which the legislation around public procurement was developed, created confusion on the processes relating to the procurement of public goods. Treasury Regulations were developed and created to provide direction on what was contained in the Public Finance Management Act of 1999, but these regulations only guided the implementers of the Act.

The Treasury Regulations did not, unfortunately, guide the implementers on what to do if the area of challenge were not catered for in the Act. As an example, the Public Finance Management Act, together with Treasury Regulations, gave specific requirements on how to manage the bidding processes in the Government departments. These two stipulated very clearly that there needed to be three Bidding Committees for the bidding processes of the public bodies to be regulated. It was not stipulated in the Act and Treasury Regulations as to what the alternatives should be if other public bodies could not meet the requirements of the three Bid Committees. There were public bodies, or entities, who could not comply with these requirements, due to the size of the organization and/or the number of Senior
Managers in that organization. This non-compliance could also pose risks in the procurement processes of these public bodies.

Public procurement of goods and services was, once again, susceptible to risks due to inefficiencies in the procurement processes and systems of the departments. The risk procurement processes and systems of the Eastern Cape Department of Health’s Head Office included human factor errors, flouting procurement processes and the flaws in the system.

There were also risks relating to the suppliers of the Department, where the Department would award the tender to the supplier without checking or verifying the supplier’s financial or liquidity status. This ended up affecting the service delivery of the Department, as the supplier would be unable to maintain the agreed delivery times. The issue of liquidity status would also apply to the Department’s finances because, if the Department’s finances were not properly managed, it would become impossible to meet its financial obligations. The Department may not have been able to pay its creditors within the 30 days as stipulated in the Public Finance Management Act. The Department would then have overspent its budget and landed up incurring unauthorised expenditure.

The Eastern Cape Department of Health’s Head Office was faced with different types of risks in Supply Chain Management, as well as procurement activities. Some of these risks could have been managed by the Department itself, but some would still have been outside its control.

The risks that related to the human factor, processes and systems could have been managed by the Department. The risks in the procurement systems could have resulted in fraud and corruption if they had not been detected early and prevented. As from 2009, the Internal Auditor of the Eastern Cape Department of Health at Head Office conducted an audit on procurement procedures and processes at least once a year.

The lack of skills of procurement officers at Head office was also one of the risks identified. Human errors or negligence in procurement processes had resulted in the
Department being litigated. It was also discovered that lack of proper procurement planning was another risk which might have seen the Department spending its budget on unplanned and/or unbudgeted expenses. These annual audit exercises have assisted the Department in identifying some of the risks in procurement processes. In instances where risks were identified in systems and processes, Supply Chain Management processes and procedures were reviewed. A Risk Management Strategy and Plan were developed and it became the responsibility of the internal auditors to monitor the implementation of the strategies. The Internal Audit Branch was expected to report on its progress to the Executive Management Team at least once a month.

The Department had no control over the external risks that faced the organization. The external risks faced by the Eastern Cape Department of Health Head Office were those that related to suppliers. The only way that the Department could control these risks was to try to avoid them. They could have been avoided by changing suppliers if the Department were not satisfied with the performance of the current supplier.

8. Conclusion

This chapter addressed the overall view of the Supply Chain Management and procurement activities with the specific focus on the Eastern Cape Department of Health, Head Office procurement processes, delegations and authority. The training and development initiatives of the Eastern Cape Department of Health procurement officers were discussed in detail. The remainder of the chapter focused on the Department's risk management processes.
CHAPTER 4

METHODOLOGY OF THE STUDY

1.1 Introduction

The main aim of this study was to investigate and evaluate the implementation of Supply Chain Management in service delivery. Specific focus was given to the procurement processes of goods and services in the Head Office of the Eastern Cape Department of Health. The study focussed on the systems and processes used, which were followed to implement the Supply Chain Management in service delivery.

Due to so many Supply Change Management policy reforms and inconsistencies in implementation, particularly in the procurement processes within the public sector, evaluating the implementation of the Supply Chain Management in service delivery became a challenge. A qualitative approach seemed to be an appropriate method to conduct this study, as the approach would assist in understanding the impact that the Supply Chain Management processes have on service delivery.

Henning, van Rensburg and Smit (2004:3) explained the qualitative approach as “a study where variables are usually not controlled, because it is exactly that freedom, natural development of action and representation that the researcher wishes to capture.” They further elaborated by stating that “when the researcher conducts a qualitative research, he or she wants to understand and also explain in argument, by using evidence from the data and from the literature, what the phenomenon or phenomena that the researcher is studying is about”.

The researcher did not want to place the understanding within boundaries of an instrument that was designed beforehand, because that would have limited the data to those boundaries. As the researcher wanted to collect data on how the services, policies and procedures of Supply Chain were implemented, qualitative approach was the appropriate method to obtain this information.
The study also sought to obtain information relating to the challenges, successes and failures regarding the implementation of the Supply Chain Management in service delivery of the Eastern Cape Department of Health with specific focus on procurement processes in the Head Office. For the researcher to effectively investigate and evaluate the Supply Chain Management of the Eastern Cape Department of Health, various data was collected regarding the procurement processes, systems and, in different stages, the procurement processes.

In this study, data was collected from different Head Office supply chain staff members of the Eastern Cape Department of Health. For the purpose of this study, the questionnaires and interviews concerning the implementation of Supply Chain Management were conducted with the focus on the procurement processes.

The information was gathered directly from the participants through questionnaires and interviews. The use of multiple data-gathering techniques assisted in enabling the potential for cross-checking and verification data. Interviewing people was one of several different ways which could be used when collecting data on qualitative technique. Conducting interviews with participants was generally regarded as one of the best ways of collecting data, as people gave their own perceptions and reality of the situation.

According to Fontana and Frey (1994:361), interviewing took place through a wide variety of forms and had multiple uses. The most common method of interviewing a person was a face-to-face verbal exchange, but it could done via self-administered questionnaires, face-to-face group interviews and/or telephone surveys.

Flick (1998:94) stated that there were different types of interviewing. These were structured, semi-structured and unstructured interviewing. Structured interviewing was normally done face-to-face or via a telephone, using a standard set of questions to obtain data that could be aggregated because identical questions were asked from each participant.
Types of questions that could be asked in the structured interviews were:

- Open-ended
- Close-ended with ordered response choices
- Close-ended with unordered response choices
- Partially closed ended

Semi-structured interviews were semi- or less open-ended questions that were brought in the interview in the form of an interview guide. This method began with the assumption that flexibility was needed for participants not to be restricted to standardised questions and close-ended questions. Unstructured interviews were normally done face-to-face. Some people could say that a researcher was trying to encourage participants to share stories. However, this researcher wanted the participant to dominate the interview.

For the purposes of this study, semi-structured interviews were used to allow the participants to provide certain information for particular areas like the tendering process for amounts exceeding R500 000. However, at the same time, open-ended questions were used to allow flexibility for participants to freely offer information.

4.2 Request for permission to conduct research

A letter requesting permission to conduct the research was sent to the Director of Research and Development at the Head Office of the Eastern Cape Department of Health. This permission was granted (see Appendix 1).

4.3 Research paradigm

Cuba and Lincoln (1994:108) defined paradigm as “the set of basic beliefs, mind-set, philosophy or way of thinking that guides action”. Paradigm was an interpretive framework which was guided by the set of beliefs and feelings about the world, and how the world could be understood and studied. According to Denzin and Lincoln (2000:19), researchers’ methodological premises could be termed a paradigm or an
interpretive framework. Denzin and Lincoln believed that all research was interpretive and was guided by a set of beliefs. According to Denzin and Lincoln (2000:20), there were four major interpretive paradigms that structured qualitative research. These four paradigms were (a) positivist and post-positivist, (b) constructivist-interpretive, (c) critical (Marxist) and (d) feminist-post-structural.

The basis for this study was the social world and the qualitative paradigm, and these methods were used. Before focusing on the aspects of qualitative research paradigm, a brief overview on the definitions and relations between the qualitative and quantitative, the reason why the qualitative paradigm was chosen as the method to conduct this study, was highlighted. The difference between the qualitative and the quantitative paradigm lay in what the researcher wanted to achieve by conducting the study and how he or she wanted to achieve that.

According to Henning et al (2004:3), qualitative researchers were not only concerned about ‘what’s’ but also the ‘how’s’ and ‘whys’. In qualitative research, the researcher wanted to find out not only what happened but also how it happened and, most importantly, why it happened the way it did. Researchers who conducted qualitative studies did not just look at the actions of the person, but also tried to find out their feelings and thoughts in their actions. In quantitative study, the focus was mostly on control of all the components in the actions and representations of the participants.

Respondents in quantitative studies were not given a freedom to express data that could not be captured by the predetermined instruments of the study. This was unlike qualitative studies, where it was exactly this freedom of action in which the researcher was interested. Qualitative study was mostly concerned with, and aimed for, depth, rather than the quantity of understanding.

In this study, the researcher was interested in knowing and understanding the impact of Supply Chain Management, with specific focus on procurement processes that were made in the service delivery of the Eastern Cape Department of Health’s Head Office. The researcher, therefore, decided to use the qualitative paradigm so as to give the participants the flexibility and freedom to provide their views on the impact of Supply Chain Management in their department. In qualitative research forms, the
participants had a more open-ended way of giving their views and they could demonstrate their actions without restrictions.

4.4 Target Population

The target population was the population about whom the information was required. In this study, the target population consisted of Supply Chain Management staff in the Head Office of the Eastern Cape Department of Health. The staff members comprised of Senior Managers, Middle Managers, Assistant Managers and Procurement officers. The staff complement of the whole Supply Chain Management branch in Head Office was 120 people.

The targeted group of study was randomly selected from the population. According to Saslow (1982:261), “a researcher does not have time or resources to observe every possible person in whom he or she is interested, but the researcher must be sure that the population from which the sample was chosen is the same as or sufficiently similar to the population to which he or she wants to generalize the results”.

4.5 Sampling

When a study was conducted, it was not possible, neither was it necessary to collect data from the whole population to come to one’s findings and conclusions. It became imperative for the researcher to identify his or her population and select a sample based on the objectives of the study and the size of the population.

According to Saslow (1982:262), the researcher always had to ask the following three questions about the sample:

- Whether the sample was large enough to represent the population fairly?
- Whether the sample was drawn so as to let every population member to have an equal chance to be in the sample?
• Whether the population from which the sample was drawn was the same or similar to any population in order to generalize the results?

When the sample was drawn, the question of bias was always raised. Saslow (1982:264) stated that “the most direct method of drawing a sample from the population is to randomly select in such a way that every member of the population has an equal chance of being in the sample”. Selecting the typical cases, without the aid of random sampling procedures, was said to be a sure way of landing in trouble and coming up with results that did not represent or give the true reflection of the population.

The mistake that was always made by the researchers was to think that, when their sample size was big, the chances of coming up with faults were few or had been eliminated. Saslow (1982:264) stated that “if the sample is not representative of the population, any inference the researcher is making about the population from the sample will be faulty, even if the sample is enormous”.

For this study, the sample was randomly selected with the view that all the participants selected were directly involved in Supply Chain Management and procurement processes at the Head Office of the Eastern Cape Department of Health.

This sample was also selected with the view that the participants were able to provide their opinions on the impact of Supply Chain Management, as they were directly involved. The other criteria that the researcher used to select the sample from the population were to look at all the employees who had been working at the Supply Chain Management branch of Head Office for five years or more. This criterion was applied to all the categories or levels of employees in the sample. The sample consisted of Senior Managers, Middle Managers, Assistant Managers and procurement officers. The sample size was 30 officials.
4.6 Data Collection

Different ways could be used to collect data at different levels of the study. Kumar (2005:118) stated that “there are two major approaches used by researchers to gather information, depending on the availability of data. Data can be collected from the secondary sources and, at times, data can be gathered from the primary sources. The data gathered through the primary sources gave first-hand information, unlike the data collected from the secondary sources.” For the purpose of this study, data was collected from the primary sources, who were the staff members of Supply Chain Management at the Head Office of the Eastern Cape Department of Health, and who were directly involved in the procurement processes for more than five years.

The questions were drawn and the interviews were conducted with the participants. Henning et al (2004:6) stated that “when the researcher is deciding on data collecting methods, they must keep in mind all the time, the purpose of the study”. Researchers were to ensure that they used methods that would provide enough access to the information, opportunities to work with data and use different means of analysing data. Hence, the researcher decided to draw up questionnaires and conducted the interviews.

According to Kumar (2005:130), “collecting data by conducting interviews has the following advantages:

- Interviews were more appropriate when studying complex and sensitive areas, as the interviewer had an opportunity to explain complex questions to the respondent.
- Interviews made it easy to access and collect in-depth information.
- An interviewer could supplement information obtained from responses with those gained from observation of non-verbal reactions.
- It was easy to explain questions during the interview.
- An interview had a wider application, as it could be used with any type of population: children, illiterate, very old or handicapped.
In this study, the researcher conducted interviews with the participants, even though the questionnaire was a self-administered type. The researcher decided on this type of method as it was important for her to be directly involved and engaged in the collection of data. Her engagement in the data collection process assisted in interpreting the meaning of data, and by complementing the meaning with the theoretical base where there was ambiguity or lack of clarity in responses given by the participants.

The direct engagement of the researcher in the data collection process also assisted in areas where the participant was not sufficiently responsive to the question asked, the researcher could further probe the participant. According to Henning et al (2004:8), the researcher in qualitative research was the main instrument of collecting data and her engagement was vital. Those properties related to issues which were not observable to the naked eye, for which one needed the sensitised human research instrument. The data became a living experience, not passive, sensuous impressions, but perceptions that were, as a rule, already furnished by interpretation. Other methods used in the qualitative research consisted of diaries, observations, protocol analysis and a case study.

4.7 Validity

Validity could be measured at any stage of the research. As the inputs to the study went through various steps, accuracy and reliability of that information could be affected. According to Kumar (2005:153), inputs to one’s study passed through a series of steps: the selection of a sample, the collection of information, processing of data, application of statistical procedures and the writing of a report. The manner in which all this was done could potentially affect the quality of the conclusions. Kumar (2005:154) stated that there were two perspectives on validity:

- The first perspective was to check and ensure that the research investigation provided answers to the research questions for which it was undertaken.
- If the answer was yes, had the answers been obtained using the appropriate methods and procedures?
According to Smith (1991:106), in terms of measurement procedures, validity was the ability of the instrument to measure what it was designed to measure”. Validity was defined as “the degree to which the researcher has measured what he or she has set out to measure”. Babbie (1990:133) defined validity as “the extent to which an empirical measure adequately reflects the real meaning of the concept under consideration”. Validity was, therefore, the quality of the inputs to the study so as to be sure of the strength of the conclusions.

According to Kumar (2005:154), there were three type of validity. These were the face and content, concurrent and predictive and construct validity. Face and content validity was primarily the logical link between the questions and the objectives of the study. In this type of validity, the researcher had to ensure that the questions represented what they were meant to measure. The concurrent and predictive validity referred to the degree in which the instrument could forecast an outcome. Construct validity was based upon statistical procedures

4.8 Measurement Scale

The Likert Scale was used in this research. The Likert Scale is an ordinal measurement scale. Kumar (2005:151) defined ordinal scales as “the scale that ranks the data into order”. The researcher chose the Likert Measurement Scale as it was easier for the respondent to understand the question and, therefore, easier to provide consistent answers that aligned with their views.

The Likert Scale used in this study was a five-point rating scale. In this scale, the respondent chose one option as the scale had options to “agree” or “disagree” and to varying degrees. According to Kumar (2005:145), the Likert Scale was based upon an assumption that each statement or item on the scale had equal importance, attitudinal value or weight in terms of reflecting an attitude towards the issue in question.

The questionnaire had five (5) points or categories and the researcher assigned a score of five (5) as follows:
• “Strongly agree” being 5
• “Agree” being 4
• “Uncertain” being 3
• “Disagree” being 2
• “Strongly disagree” being 1

The other reason why the researcher chose the Likert Scale was because it was easy to analyse and calculate the respondent’s scores. This was because the numbers given to each point remained the same and were correct to all the statements. According to Kumar (2005:149), “if numbers are used to define the scale, they remain correct even if they are transformed by any monotonically increasing function”. This property was known as the “order isomorphism”.

4.9 Data analysis

This was the stage where the researcher analysed the information that was collected. At this stage, the data was still raw and the researcher had to edit it to ensure that there were no gaps or outstanding information. As the researcher in this study used a questionnaire to conduct interview as a method of collecting data, completeness and errors had to be checked. The researcher perused the responses and checked to ensure that there were no gaps or questions that had been omitted or not responded to.

Kumar (2005:220) stated that the researcher first had to ensure that the data was clean and was free from inconsistencies and incompleteness. Kumar further stated that “cleaning the data” consisted of scrutinizing the completed research instruments to identify and minimize the errors, misclassifications and gaps in the information as far as possible. According to Kumar (2005:223), in analysing the qualitative data, the researcher had to go through a content analysis process.

Content analysis process was defined as “the analysis of the contents of an interview in order to identify the main themes that emerge from the responses given by the
The process of content analysis involved a number of steps as stated below:

- **Identify the main themes**: Here, the researcher had to go through the responses given by respondents to each question, in order to understand the meaning communicated. From these responses, the researcher developed broad themes that reflected these meanings.
- **Assign codes to the main themes**: The researcher had to select a few responses to open-ended question, identify main themes and continue to identify themes from the same question, then write down these themes and assign codes.
- **Classify responses under the main themes**: Having identified the themes, the researcher had to go through the transcripts of all the interviews conducted and classify responses under different themes.
- **Integrate themes and responses into the text of the report**: Once the responses that fell within different themes were identified, the researcher could integrate them into the text of the report, depending on how the researcher wanted them to appear in the report. Some researchers counted how frequently a theme occurred and then provided a sample of responses.

### 5 The interview questionnaire

Below are the questions that were used to construct the questionnaire, and were used by the researcher to conduct the interviews with participants:

<table>
<thead>
<tr>
<th>Questions</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Uncertain</th>
<th>Disagree</th>
<th>Strongly disagree</th>
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<tbody>
<tr>
<td>1. SCM can be used as a tool of service delivery at the Head Office of ECDoH</td>
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<td>2. SCM has a positive impact on ECDoH's Head Office Service Delivery</td>
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<td>3. ECDoH, SCM policies are</td>
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<td>1. <strong>Compiled in accordance with</strong>&lt;br&gt;PFMA, PPPFA and Treasury Regulations</td>
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<td>4. ECDoH, Head Office policies of SCM are in contravention with the provisions of SCM framework</td>
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<td>5. The Tender Award system of the ECDoH’s Head Office leads to empowerment</td>
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<td>6. Tender Award systems and processes are monitored regularly</td>
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<td>7. ECDoH’s Head Office follows correct processes as stipulated in the PFMA to advertise the tenders</td>
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<td>8. ECDoH’s Head Office uses the Committee system or structures to award the tenders</td>
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<td>9. SCM Committees consist of cross-functional members</td>
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<td>10. Head Office has taken into consideration the SCM bids or quotations</td>
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<td>11. Lack of procurement guidelines is the reason for non-compliance with SCM processes</td>
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<td>12. Implementation of SCM policies have saved the Department in terms of budget</td>
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<td>13. SCM and procurement</td>
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<td>processes contribute greatly to improving efficiency and providing value for money</td>
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<td>14. Procurement cycle of ECDOH in Head Office starts with identification of needs</td>
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<td>15. Monthly reports on SCM activities are submitted by Senior Managers</td>
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<td>16. Head Office SCM personnel are trained in accordance with PFMA requirements</td>
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<td>17. Database of suppliers is kept and updated on a regular basis</td>
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</table>

### 6 Conclusion

Specific focus was made on the methodology used to conduct the research study. Details on the process followed to collect data were provided and addressed. Focus was highlighted on the measurement scale and on the validity of the information collected. The next chapter will focus on the data analysis and the interpretation of results.
CHAPTER 5

DATA ANALYSIS

5.1 Introduction

This chapter focussed on interpretation of the responses and data collected during the course of the study and an analysis of the responses provided. This analysis could determine whether the implementation of Supply Chain Management and procurement processes in the Eastern Cape Department of Health had an impact on the service delivery of the Head Office. The main purpose of this study was to provide answers to questions raised concerning the impact on the implementation of Supply Chain Management and procurement processes in service delivery.

The study focussed on the systems and processes used and followed to implement Supply Chain Management in service delivery. The study also sought to obtain information relating to the challenges, successes and failures regarding the implementation of Supply Chain Management in service delivery of the Eastern Cape Department of Health, with specific focus on the procurement processes at the Head Office.

For the purposes of this study, the questionnaires and interviews concerning the implementation of Supply Chain Management were conducted, with focus on the procurement processes. In this study, data was collected from different Head Office supply chain staff members of the Eastern Cape Department of Health. Semi-structured questions were used to allow the participants the freedom to provide detailed information for particular areas like tendering process of amounts greater than R500 000.

At the same time, however, open-ended questions were used to allow flexibility for participants to freely offer information. The information was gathered directly from the participants through questionnaires and interviews. The researcher issued a questionnaire to the participant and asked the questions from the questionnaire. The
participant responded to the questions by completing and choosing the responses from the questionnaire.

This data collection method gave the researcher an opportunity to interrogate some of the responses that were given by the participants by probing for more information and answers to some of the questions.

For the purposes of this study, data was collected from staff members of Supply Chain Management at the Head Office of the Eastern Cape Department of Health, who were directly involved in the procurement processes for more than five years.

The Likert Scale was used in this study. The researcher chose the Likert Measurement Scale as it was easier for the respondent to understand the question and, therefore, easier to provide consistent answers that aligned with their views. The Likert Scale used in this study was a five-point rating scale. In this scale, the respondent chose one option, as the scale had options to “agree” or “disagree” and to varying degrees.

The sample of this study was randomly selected with the view that all the participants selected were directly involved in the Supply Chain Management and procurement processes at the Head Office of the Eastern Cape Department of Health. The sample consisted of five (5) Senior Managers, five (5) Middle Managers, ten (10) Assistant Managers and ten (10) Procurement officers. The sample size consisted of 30 officials in total.
5.2 Descriptive analysis

The descriptive analysis of the results, as returned by the participants, is below.

<table>
<thead>
<tr>
<th>Questions</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Uncertain</th>
<th>Disagree</th>
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Question 1: Supply Chain Management (SCM) can be used as a tool to service delivery at the Head Office of the Eastern Cape Department of Health (ECDoH).

Responses: Out of the 30 respondents, 60% “strongly agreed” that Supply Chain Management (SCM) could be used as the tool to improve service delivery at the Head Office of the ECDoH. Based on the fact that the people interviewed and allowed to complete questionnaires in this category, were also Senior Managers, the 60% “strongly agreed” response provided significant insight that SCM could effectively be used as a tool to improve service delivery. Senior Managers at ECDoH operated at a strategic level, and was their responsibility to come up with initiatives and strategic tools that could assist in achieving the goals and objectives of Department. One of the goals of the Head Office of Eastern Cape Department of Health was to improve the delivery of health services in the Eastern Cape.

Question 2: Supply Chain Management (SCM) has positive impact on ECDoH’s Head Office service delivery.

Responses: Of the 30 respondents, 40% “strongly agreed” and 40% “agreed”, which came to 80% of respondents agreeing that SCM had a positive impact on service delivery at Head Office. The Public Finance Management Act (PFMA), 1999 (Act No.1 of 1999) as amended, was one of the most important pieces of legislation passed by the South African democratic government. The Act promoted implementation of Supply Chain Management within the framework of good financial management in order to maximise service delivery through the effective and efficient use of limited resources. It was the responsibility of the Department to ensure that SCM was effectively implemented, so as to positively affect service delivery.
Question 3: ECDoH’s SCM policies are compiled in accordance with PFMA, PPPFA and Treasury Regulations.

Responses: Out of the 30 respondents, 60% “strongly agreed” and 40% “agreed” that SCM policies were compiled in accordance with PFMA, PPPFA and Treasury Regulations. This provided assurance that the SCM policies were in line and complied with the requirements stipulated in the legislation and regulations used to regulate the SCM in South Africa. These results provided reassurance of compliance in terms of legislation.

Question 4: ECDoH’s Head Office policies in SCM are in contravention to the provisions of SCM framework

Response: 40% of respondents “strongly disagreed” and another 40% “disagreed” with the question. The result of 80% indicated disagreement with the fact that SCM policies were in contravention with the provisions of the SCM framework as laid out in the National Treasury Regulations.

Question 5: Tender Award system of ECDoH’s Head Office leads to empowerment.

Response: 40% of the respondents “agreed” and 40% “disagreed”. These results indicated that there were still some deficiencies in the Department’s Tender Award system in leading to empowerment of the suppliers and service providers. The PPPFA (Act 5 of 2000) required that the Tender Award system of any Government department or body had to ensure that it empowered the supplier or service providers awarded the tender contract.

Question 6: Tender award systems and processes are monitored regularly.

Response: Of the 30 respondents, 60% respondents “disagreed” with the fact that Tender Award systems and processes were monitored regularly. This indicated that Tender Award system of ECDoH’s Head Office was not monitored regularly. The lack of monitoring or non-monitoring of the Tender Award system at the Head Office could lead to high risks during the awarding of tender contracts. Lack of monitoring could also result in fraud and corruption.

Question 7: ECDoH’s Head Office follows correct processes as stipulated in PFMA to advertise the tenders.
Response: 40% of respondents “strongly agreed” and 60% “agreed” that the Head Office of ECD$H followed the correct processes as stipulated in the PFMA to advertise the tenders.

Question 8: ECD$H’s Head Office uses the Committee System or structures to award the tenders.
Response: 60% of respondents “strongly agreed” and 40% “agreed” that the Head Office of ECD$H used the Committee System or structures to award the tenders.

Question 9: SCM committees consists of cross-functional members
Response: Of the respondents, 20% “strongly agreed” and 40% “agreed” that SCM committees consisted of cross-functional members. The 60% result indicated that the ECD$H’s Head Office used committees with cross-functional members, but this was not fully implemented as required by Treasury Regulations.

Question 10: Head Office considers SCM bids or quotations.
Response: 40% of respondents “strongly agreed” and 40% “agreed” that Head Office considered SCM bids or quotations. These results indicated that the Head Office considered the invitation of bids or quotations before the procurement of goods or services was made. PPPFA (Act 5 of 2000), required that quotations or bids be invited before the procurement was made, depending on the financial value or cost of the contract or goods to be procured.

Question 11: Lack of procurement guidelines is the reason for non-compliance with SCM processes.
Response: Of the 30 respondents, 40% “strongly disagreed” and 40% “disagreed” that the lack of guidelines was the reason for non-compliance with SCM processes. The respondents indicated that ECD$H’s Head Office did have procurement guidelines in place. Non-compliance of SCM processes was the result of negligence and was the motivating factor behind fraud and corruption.
**Question 12:** Implementation of SCM policies has saved the Department in terms of budget.

**Response:** Of the 30 respondents, 40% “disagreed” and 40% were “uncertain” or “not sure” if the implementation of the SCM policies had saved the Department in terms of budget. Respondents indicated that the fact that the Department had reported an over-expenditure in goods and services budget items in the past three financial years, indicated that implementation of SCM policies had no effect on budget management.

**Question 13:** SCM and procurement processes contributed greatly to improving efficiency and value for money.

**Response:** 60% of respondents “disagreed” and 20% were “uncertain”. These results indicated that procurement processes had not contributed in improving efficiency and value for money. The respondents interviewed had reported that procurement processes had not assisted in improving the efficiency and value-for-money, due to the fact that services or goods were procured, at times, without consideration of the value that they would provide.

**Question 14:** Procurement cycle of ECDHoH in Head Office starts with identification of needs.

**Response:** 80% of the respondents indicated that needs analyses were made at the beginning of the financial year. Procurement plans were developed and these plans were used as the guidance on what was to be procured during the year.

**Question 15:** Monthly reports on SCM activities are submitted by Senior Managers.

**Response:** 60% of respondents “disagreed” and 20% were “uncertain”. These results reflected that there was no effective monitoring over SCM activities. However, Senior Managers felt no obligation to report on SCM activities.

**Question 16:** Head Office’s SCM personnel are trained in accordance with PFMA requirements.

**Response:** 60% of respondents “agreed” that SCM personnel were trained according to PFMA requirements.
Question 17: Database of suppliers is kept and updated on a regular basis.

Response: Of the 30 respondents, 40% “agreed” that database was kept and 60% “disagreed” that the database was maintained and updated on a regular basis. These results indicated that there still challenges in maintaining and updating the database. This highlighted the possibility of the ECDoH not having an updated supplier database.

5.3 Key research findings

The following findings were based on the study conducted:

- The Tender Award system used by the Head Office did not lead to empowerment of the service providers, nor of the suppliers.
- The Tender Award system was, as a result, not monitored regularly. Lack of monitoring of the system could result in goods and services/contracts being awarded to non-qualifying bidders or service providers.
- The Head Office of the ECDoH used committees to award tenders and those committees consisted of cross-functional members. However, this was not fully implemented as some committees did not have members from sections other than Finance or Supply Chain Management.
- Policies and guidelines were developed in line with PFMA, PPPFA and Treasury Regulations and non-compliance resulted from lack of monitoring by management and also by negligence of the staff.
- The implementation of SCM in Head Office of ECDoH had not brought about any savings in the budget. This was also the result of the lack of monitoring by management. Procurement activities within the threshold of R0 to R30 000 were left with junior staff to do as they wished.
- Lack of monitoring in SCM activities resulted to some of the Department’s objectives and goals not being achieved.

It was one of the Department’s goals to contribute toward improving efficiency in service delivery and ensuring that value for money was achieved for all the goods and services received and the services delivered.
• Due to the fact that monitoring and evaluation was ineffective at the Head Office of ECDoH, this resulted in lack of properly managing and reporting the SCM activities. The results indicated that Senior Managers were not reporting regularly on SCM activities.

• The results reflected that the SCM practitioners were trained in accordance to PFMA. However, the non-compliance to SCM and procurement processes/requirements indicated an ineffectiveness of the SCM training programmes.

It had been cited by the respondents, especially the SCM practitioners, that the training provided was inefficient and did not assist them in performing their practical day-to-day activities and challenges that they encountered. The respondents indicated that the SCM programmes mostly told them about the ‘do’s’ but did not provide guidance as how to respond when the ‘do’ was not possible.

• The results reflected that the supplier database was not kept and updated on a regular basis. This defeated the goal of having suppliers competing for procurement. At the same time, this indicated a possibility that the same suppliers were used and some could have been provided with more opportunities than others.

 Updating of the supplier database would have ensured fairness, competition and would have reduced the chances of favouritism. When the database was updated, more suppliers were registered and it provided opportunities for those newly registered suppliers to be given a chance to work with the Department.

• It was evident from the results, that SCM could be used as a tool to improve service delivery, but that the Department still faced the challenge of monitoring the SCM activities. The implementation of SCM and procurement processes was still inadequate and ineffective.
5.4 Conclusion

This chapter was devoted to the analysis and interpretation of the data collected.

Specific focus was made on descriptive analysis of the data received from the research conducted. Based on the analysis of data collected, key research findings were made.

Recommendations and Conclusions will be made in the next chapter, which will also conclude the study.
CHAPTER 6

RECOMMENDATIONS AND CONCLUSIONS

6.1 Introduction

This chapter drew conclusions from the research results concerning the investigation and evaluation of the implementation of Supply Chain Management in service delivery, with specific focus on procurement processes of goods and services at the Head Office of the Eastern Cape Department of Health. Recommendations based on the findings were also suggested.

These conclusions and recommendations were made in the light that they would have a positive influence and contribution in planning the management of supply chain and procurement activities at the Head Office of the Eastern Cape Department of Health. It was also hoped that these recommendations would assist in planning and organising the Supply Chain Management controls, systems and skills development of the Supply Chain Management personnel at Head Office. A summary of the research is also provided in this chapter.

6.2 Summary of the research

In Chapter 1, the researcher outlined the scope of the study, introduced the problem statement and management dilemma. This entailed the introduction, problem statement, research objectives, research design and methodology, data analysis and the outline of the study.

In Chapter 2, the researcher conducted the literature overview on the problem statement. The focus was on the different concepts of Supply Chain Management, its regulations and the framework. Furthermore, the procurement concept, procurement processes, pillars of procurement, risk management in procurement activities, risk management process, as well as the strategies to address these risks, were reviewed.
In Chapter 3, an overall view of the Supply Chain Management and procurement processes in Government sectors, with specific reference to the Provincial Department of Health, was provided. A view of the procurement processes within Supply Chain Management in the Eastern Cape Department of Health was discussed with respect to its relevance to the study.

In Chapter 4, an explanation of methodology of study was provided and included research paradigm, sample, measuring instruments, and a discussion on the questionnaire and data analysis).

In Chapter 5, data analysis and interpretation of results were conducted. The results of the study were discussed.

In Chapter 6, recommendations and conclusions were made. These also indicated the conclusion of the study.

6.3 Conclusions and Generalizations

From the evaluation and investigation of the implementation of Supply Chain Management in service delivery, with specific focus on procurement processes of goods and services at the Head Office of the Eastern Cape Department of Health, the following conclusions could be drawn:

- Lack of monitoring by Managers had a negative impact on the quality of services delivered by Supply Chain Management division at the Head Office.
- Implementation of Supply Chain Management yielded no savings to the budget. Instead, the Department had incurred over-expenditure during the past three years.
- Lack of monitoring of the Tender Award system resulted in the Head Office losing money, due to fraudulent and corrupt activities. Suppliers and service providers were appointed without any official verifying their delivery capability. The Department, therefore, ended up receiving goods and services which did not meet their expectations. A service provider or a supplier would be appointed without verifying tax compliance requirements. As a result, the
procurement expenditure incurred through that service provider or supplier would end up being irregular or wasteful.

- There were still some deficiencies in the Tender Award systems of the Head Office. In fact, there were some doubts that they could contribute and lead to the empowerment of service providers and suppliers. There were no systems in place, nor were there any plans, as stipulated by PPPFA (Act 5 of 2000) that referred to the development or empowerment of the service provider.

- The utilization of cross-functional members in the Bid Committees, were not fully implemented. As a result, the sharing of different skills among the Bid Committee members, due to their different areas of expertise, was ineffective.

- It was discovered that Head Office had procurement guidelines to guide staff on their day-to-day procurement activities and functions. Non-compliance of Supply Chain processes had been the result of negligence and lack of monitoring. It was discovered that non-compliance of these processes had sometimes been motivated by fraud and corruption. People knew what they were expected to do, but they didn’t comply, simply because they wanted to pursue their fraudulent activities and motives.

- Regular submission of monthly reports on Supply Chain Management activities was doubted by some of the respondents. The findings reflected that Senior Managers did not specifically focus on the implementation and monitoring of SCM plans in their management meetings. The Managers were reactive in their management, viz. they did not pro-actively put into place controls that would avoid any mishaps from taking place at the supply chain division.

- The SCM staff members were trained in accordance with PFMA, but the non-compliance to SCM and procurement processes/requirements indicated an ineffectiveness of the SCM training programmes. It was cited that the training provided was inefficient and did not assist in performing practicalities of the day-to-day activities and challenges encountered.

- The supplier database was not kept and updated on a regular basis. This defeated the goal of having suppliers competing for the procurement. This brought about the possibility that the same suppliers were used and that some
were used more often than others. The updating of the supplier database would have ensured fairness, competition and would have reduced the chances of favouritism. When the database was updated, more suppliers were registered and it opened chances for those newly-registered suppliers to obtain an opportunity to work with the Department. When the supplier database was not maintained and updated regularly, the Department did not play a role in empowering and developing small businesses as it only worked with its existing suppliers who were, no doubt, well-established in the market.

- Implementation of Supply Chain Management had managed to bring about some changes and improvement in procurement activities at the Head Office of the Eastern Cape Department of Health. However, it was evident that implementation was not effective, due to a lack of monitoring and continuous evaluation of controls and systems.

- The Supply Chain Management system was not practically treated as part of other service delivery tools. It was regarded as a function to obtain goods and services for the Department. However, the broad view of how these goods or services would affect service delivery as a whole was not considered, especially at lower levels.

- Planning and goals of the Department were not cascaded to the lower levels personnel. As a result, staff at lower levels did not see themselves as part of the puzzle. If a person failed to deliver what was expected from him or her, they did not understand the consequences that their actions would have on the whole organization. This resulted in people working in silos and focusing only on their own areas of responsibility.

**6.4 Recommendations**

In view of the research findings, the researcher suggested the following recommendations to mitigate the research problem statement. The researcher’s suggestions also provided answers to the research questions with the view to improving the implementation of Supply Chain Management at the Head Office of the Eastern Cape Department of Health.
6.4.1 Reporting

It was recommended that monthly reporting activities be incorporated in the Performance Management contracts as one of the Key Responsibility areas of the Senior Managers. This would enforce accountability and responsibility on the Managers. When performance assessment and reviews were conducted, reporting should be assessed as a separate area. As part of their development plans, reporting should be one of the areas to be developed.

6.4.2 Accountability and responsibility

It was the responsibility of the Accounting Officer to ensure that he or she had a fully-functioning Supply Chain Management division in the Department. It was also his or her responsibility to ensure that the resources were efficiently, effectively and economically used. He should have taken appropriate steps to prevent any losses of resources. It was, therefore, recommended that the Accounting Officer should, in writing, have delegated this function in full to the Chief Financial Officer so as to have only one person accountable for it. With these functions delegated to the Chief Financial Officer, he or she would have ensured that all the systems and controls were in place. He would have known that the responsibility and accountability rested solely with him; should any failure arise he or she would become accountable.

6.4.3 Tender Award Systems

The researcher recommended that the Head Office of the Eastern Cape Department of Health develop Tender Award system. Controls should have been integrated in the Supply Chain Management and reporting tool. This would have ensured that Supply Chain Managers reported on the SCM activities on a monthly basis.

6.4.4 Cross-functional Supply Chain Management committee members

It was recommended that the Supply Chain Management committee members were officially appointed by the Head of the Department. The Head of the Department should have ensured that there were standing SCM committees which were made
up of managers from different divisions with different types of expertise. Cross-
functional committee members should have assisted in sharing skills and
experiences. This would have ensured consistent decision-making. By officially
appointing these cross-functional members, the Department would have instilled
accountability and responsibility. As Supply Chain Management was the function or
division within Integrated Financial Management, it made sense to have members of
the Supply Chain Management committees from different divisions. This would have
ensured the segregation of duties. These committees should have considered
different bids and tenders. For example, if bids were required for clinical equipment,
it would have been easy to develop a tender specification or evaluate a tender if
there were a committee member with the requisite clinical expertise.

6.4.5 Non-compliance to Supply Chain Management processes

It was recommended that regular workshops on Supply Chain Management policies
and guidelines be conducted. It should have been part of the skills development
plan of the Department to develop staff at all levels on policy implementation and
reporting. Supply Chain Management policies, guidelines and procedure manuals
needed to be reviewed on an annual basis so as to keep up with the updated
standards. It should have been the responsibility of the Internal Audit and Risk
Management division to ensure that the policies and guidelines were in line with the
updated legislation.

6.4.6 Training and development of the Supply Chain Management personnel

It was recommended that the Department should have provided sufficient budget for
the training and development of staff. Investing in the development of the supply
chain staff could have yield the Department some savings. It should, however, not
just have ended at the training itself. Assessments of the training provided should
have been made to check the effectiveness of the training. The Department should
have ensured that training in these critical areas was provided by the accredited
institutions. Evaluation of the training material should have been made thereafter.
The Supply Chain Management division should have submitted together, with their
operational plan, their developmental plans.
Training should not have focussed only on Supply chain Management, but also on financial management skills as procurement activities could affect the financial management. Report-writing should have been the key focus area for all managers. In line with the divisional development plan, there should have been individual development plans which were part of the performance management contract of the individual.

Upon review of the performance management contracts, individual development plans should also have been reviewed.

6.4.7 Integration of Supply Chain Management with other departments’ functions

Integration of these functions needed to start at the planning stage. Managers should not have conducted their planning in silos. Planning should have been done as a team. This would have provided benefits for each and every individual to see a bigger picture and the direction which the organization wanted to take. It would have made him or her see the role that he or she had to play and the impact it had on the service delivery.

6.4.8 Effect of Supply Chain Management on budget management

The researcher had also discovered that implementation of Supply Chain Management had not yet been able to avoid the occurrence and incurrence of the irregular and wasteful expenditure. This was due to the lack of monitoring and evaluation of procurement processes. Managers needed to be directly involved in the implementation. The function of Management was meant to be that of leading and guiding the implementation. Immediate supervision needed to be strengthened and enhanced.
6.4.9 Updated supplier database

It was recommended by the researcher that the supplier database be updated on a regular basis. An adequate supplier database system would need to be installed. This system would then automatically de-activate all the existing suppliers and service providers. This would have assisted the Department in ensuring that the database was update regularly and on an annual basis, as prescribed by National Treasury.

6.5.0 Risk Management

It was recommended that Risk Assessment audits on Supply Chain Management processes and controls be conducted on a regular basis or at least once a year. The Department needed to have accurate information on hand of where the risks are and how they should have been mitigated.

All the procurement processes were high risk areas. Therefore, there needed to be a plan on how to avoid these risks by continuous monitoring and evaluation. An independent and fully fledged Risk Management Division should have been established.

7 Call for further research

This study concentrated on one area of the Department. It concentrated on the Head Office of the Eastern Cape Department of Health. Further research was recommended and should be carried out in other districts of the Department, as well, in order to ensure that the implementation of the Supply Chain Management processes and activities were effective. This would also promote good Supply Chain Management systems within the whole Department.

Through this research study, the researcher was able to evaluate the impact of the Supply Chain Management system implementation on service delivery. The researcher was able to identify the aspects that had negative effects on the
implementation of this system and how these could have been mitigated to prevent the continuous occurrence.

It became evident to the researcher that the introduction of the Supply Chain Management system was a good idea but the challenge lay in the implementation.

It was also evident that the Department could have yielded an excellent outcome in service delivery, provided that the Supply Chain Management system had been properly managed and appropriately implemented.

8 Conclusion

In this chapter, the research study conducted has been concluded. The recommendations and conclusions have been made.
LIST OF REFERENCES


Eastern Cape Department of Health

Enquiries: Zonwabile Mrtle Tel No.: 040 636 8530
Date: 06th September 2011 Fax No.: 040 642 1400
e-mail address: zonwabile.mrtle@epik.cape.gov.za

Dear Ma Nombuyiselo Mnguni

Re: Investigation and evaluation of the implementation of supply chain management in service delivery with specific focus in procurement processes in Head Office of the Eastern Cape Department of Health.

The Department of Health would like to inform you that your application for conducting a research on the abovementioned topic has been approved based on the following conditions:

1. During your study, you will follow the submitted protocol and can only deviate from it after having a written approval from the Department of Health.
2. You are advised to ensure, observe and respect the rights and culture of your research participants and maintain confidentiality of their identities and shall remove or not collect any information which can be used to link the participants.
3. The Department of Health expects you to provide a progress on your study every 3 months (from date you received this letter) in writing.
4. At the end of your study, you will be expected to send a full written report with your findings and implementable recommendations to the Epidemiological Research & Surveillance Management. You may be invited to the department to come and present your research findings with your implementable recommendations.
5. Your results on the Eastern Cape will not be presented anywhere unless you have shared them with the Department of Health as indicated above.

Your compliance in this regard will be highly appreciated.

[Signature]

DEPUTY DIRECTOR: EPIDEMIOLOGICAL RESEARCH & SURVEILLANCE MANAGEMENT