

**UNIVERSITY OF KWAZULU-NATAL**

**The role of strategic sourcing in the public sector:  
an eThekweni Municipality case study**

**By**

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1 Corinthians 15:57 King James Version (KJV)

"But thanks be to God, which giveth us the victory through our Lord Jesus Christ."

## **ABSTRACT**

The objective of strategic sourcing is to achieve sustainable cost savings, long term supply availability, supply risk management and to deliver on socio economic expectations. The purpose of this research study was to critically analyse the role of strategic sourcing in the public sector in South Africa. It has been pointed out that maladministration of public funds through poor procurement practices has distorted the strategic nature of supply chain management. This dissertation focused on the transition from traditional to strategic procurement, strategic sourcing implementation within the context of the public sector, supplier relationship management as a value creator and understanding the different sourcing strategies. This research aimed at qualitatively evaluating and understanding the current role of strategic sourcing, the critical success factors for public sector performance and its relationship with strategic sourcing. The study employs purposeful sampling through interviewing 8 participants from 15 potential participants. The participants for this study were selected on the basis of their availability, knowledge, experience and expertise on strategic sourcing and category management. The study findings revealed the importance of appointing the right people for the right jobs, highlighting how the current staff is demotivated, and revisiting the evaluation of the six enablers for procurement success within eThekweni Municipality. Based on the findings, the following recommendations were made: the amendment of the organisational structure to elevate Supply Chain Management to a strategic function reporting, improving staff performance within the SCM function through focused training and mentoring, as well as launching internal efforts through cross-functional teams which focus on total value chain and total costs of ownership.

## **LIST OF ABBREVIATIONS**

IDP - Integrated Development Plan

NDP - National Development Plan

SCM - Supply Chain Management

OCPO - Office of the Chief Procurement Officer

CPO - Chief Procurement Officer

SCO - Supply Chain Operations

C-level - Corporate Level Executive

C-suite - Corporate Level Executive

SMME - Small, Medium and Micro-sized Enterprise

NT - National Treasury

SRM - Supplier Relationship Management

SS – Strategic Sourcing

ERP - Enterprise Resource Planning

B-BBEE – Broad Based Black Economic Empowerment

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## **CHAPTER ONE: OVERVIEW OF THE STUDY**

### **1.1 Introduction**

Over the past few years, procurement teams have played a crucial role in realising cost savings targets for market-leading businesses worldwide. And so, a large number of leading manufacturing organisations have started to recognise the procurement function as a key value driver in delivering credible returns on investment to shareholders. Research has found that with global trade growing in the midst of turbulent business conditions, the focus for procurement organisations will remain on the bottom line (GEP, 2014, p.3). As a result, Supply Chain Management has become important in managing supply chains both within and outside the procurement organisation.

In the face of global competition and an increasing demand for public service delivery, public and private sector organisations expect supply chain management to streamline procurement processes in order to generate cost savings, manage quality control, ensure availability of stock items, nurture relationships and enhance value creation (Rafati, 2013, p.6-10). These key deliverables are paramount for modern businesses and public sector organisations to have a competitive advantage and ensure that they deliver on their strategic plan commitments to their respective executive leadership.

The South African public sector alone spends well over R500 billion on goods and services and on construction works. This is an enormous amount of public funds which continue to grow year on year. The role of supply chain management in the public sector of South Africa has largely been misunderstood and underestimated by the public, in the face of alarming Auditor-General reports on supply chain management transgressions.

This chapter therefore provides the motivation for adopting the strategic sourcing business process within a metropolitan municipality, outlines the focus of the study, describes the current challenges faced by eThekweni Municipality that will be solved through answering the research questions, and explains the limitations that were encountered in this study.

## **1.2 Motivation for the study**

The study was motivated by desire to transform the perception of the SCM function within the public sector to that of a credible and trustworthy one. Whilst National Treasury has introduced the strategic procurement framework at national and provincial department levels, municipalities and other organs of states have not accounted for significant strategic sourcing initiatives. Therefore, this study will benefit political leadership, accounting officers, supply chain management personnel and user departments in transforming municipalities and other organs of state from a traditional to a strategic approach to procurement.

Firstly, the political leadership, accounting officers and heads of departments will:

- come to understand the value of procuring common goods and services across the metropolitan municipality to leverage buying power;
- realise how SS can avoid duplication of effort in the tender process for common goods and services thereby free up resources for other strategic activities;
- appreciate the importance of supplier relationship management;
- be well informed in policy development;
- be able to understand the how SS can improve the business performance of a metropolitan municipality; and
- broaden the perspective of SCM in accordance with the six functions of the Office of the Chief Procurement Officer

Secondly, the supply chain practitioners and skilled professionals will:

- come to understand the systematic process of planning, managing and developing the supply base in line with the metropolitan municipality's strategic objectives;
- be encouraged to develop expertise on specific commodity categories;
- help them to understand the types of sourcing initiatives available to government;
- encourage further research on the topic; and
- encourage collaboration through the development of cross functional team.

Through this study, I hope that the importance of implementing SS is recognised by the top management and that the example set by National Treasury can be followed.

I hope this study will unlock opportunities for local employment in designated sectors and that it will encourage further collaboration between the private and public sector SCM institutions.

### **1.3 Problem Statement**

While local government audit outcomes reveal that municipalities that received a financially unqualified audit opinion with no findings have increased between 2010/2011 to 2014/2015, the developments signal the need for further financial management tightening disciplines to be adopted.

Traditionally, in South Africa, public sector procurement has been driven by a tactical spend management process focused primarily on cost saving targets with very limited knowledge of the supply market and very little effort contributed towards the initial planning phase of the procurement process. This has led to the awarding tenders to unreliable suppliers, inconsistent pricing paid for common goods and services, poor quality and poor management of public funds (National Treasury, 2015, p.3-4). As a result, the traditional approach to procurement has failed to support government's quest to eradicate irregular; unauthorised; fruitless and wasteful expenditure. Moreover, political leadership and accounting officers have not addressed the root causes of poor financial and performance management (AGSA, 2016).

Although National Treasury has recommended a paradigm shift from the traditional approach to procurement towards the strategic approach most, if not all research studies on SS have focused on the private sector business problems. Furthermore, AG reports reveal that most municipalities do not conduct procurement according to best practise. From the above discussion, this study intends to answer whether the implementation SS within the public sector can improve the organisational performance of municipalities in South Africa.

#### **1.4 Focus of the Study**

The focus of this study is on whether the adoption of the strategic sourcing business process can improve the performance of a metropolitan municipality in South Africa. The study focuses on the concepts of procurement, supply chain management, public sector value creation and performance management associated with strategic sourcing business process. Thus, the study has the following objectives.

#### **1.5 Objectives of the study**

The main objectives of this study are to:

- Understand the impact of SS on public sector procurement performance
- Establish the factors to be considered before adopting SS
- Understand the value-add for eThekweni Municipality as a result of adopting SS.

#### **1.6 Key research questions**

- How can eThekweni Municipality's procurement performance benefit from implementing SS?
- What factors must be considered for enabling the adoption of SS?
- (i) What value can be expected from adopting SS in a public sector?
- (ii) How do we measure the performance of SCM and the organisation, with the adoption of SS?

#### **1.7 Significance of the study**

This study considers SS in the public sector, within the context of a developing nation while most studies have been outside the context of the South African public sector. This is an advantage because developed and developing nations have major differences in their political, economic, social, technological and legal environment. The local researchers, municipalities, provincial and national treasury will benefit from the context of this study.



Secondly, the findings and recommendations may influence the development of the new procurement bill and supply chain management policies. Thirdly, the study addresses the key enablers for the successful implementation of SS and the challenges facing public sector institutions. This would benefit public sector institutions that are facing similar challenges in adopting the strategic approach to procurement

Finally, the contribution of this study could help to transform the image of the supply chain management profession within the public sector. This would guide further investment in the capacity building of public sector supply chain practitioners, encourage further research and spur interest to students to pursue a professional career in supply chain management.

### **1.8 Definition of key terms**

For the purpose of this study, the key terms that are frequently used are defined to help clarify words used throughout this study.

- **Public Sector:** Randal (2005), defines the public sector as national, provincial or local governments and all publicly controlled or publicly funded agencies, enterprises, and other entities that exist to deliver public programs, goods, or services for its citizens.
- **Strategic Sourcing:** Munene (2015) and Dlamini (2016) define strategic sourcing as process whereby commodities and suppliers are analysed and relationships are formed and managed according to best practices and appropriate strategies to support the long-term goals of an organisation.
- **Supply Chain Management:** SCM is concerned with the coordinated flow of resources, information, materials and services from origin through suppliers into and through the organisation and ultimately to the consumer, in such a manner that value is maximised and cost is minimised (Australasia, 2013)

## **1.9 Limitations of the Study**

The limitations that were encountered in this study were:

- the researcher only had access to employees that are within the SCM Unit of eThekweni Municipality due to the sensitivity of procurement information;
- the participants are generally busy people and there were challenges in securing appointments with a wider pool of participants
- Since only one metropolitan municipality was considered in this study, it is not possible to generalise the results to the other municipalities or public institutions in South Africa

## **1.10 Summary**

This chapter introduced the research study topic. This was followed by the motivation for the study, the focus and problem statement of the study. Thereafter, the objectives, research questions and limitations of the study were discussed. The next chapter presents a review of the related literature, as well as the theoretical frameworks that underpin this study.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

The previous chapter provided a general orientation to the study. This chapter focuses on the review of the theoretical framework and the extensive review of literature on the transformation of traditional procurement to SS, followed by a look into the six key building blocks for improving procurement capability, according to industry best practices. A further review on South African literature relating to the impact of SS in the public sector is discussed, thereafter the balance scorecard is analysed in understanding how performance would be measured. The intention of the review is not only to describe the basic principles of SS, but also to critically analyse the published body of knowledge surrounding public sector adoption of SS. As a result, the literature review is presented under both international and South African contexts. In that view, it is important to discuss the essential elements of the study. These are described below.

### **2.2 Defining concepts**

#### **2.2.1 Supply Chain Management**

Primarily, there will always be a supply chain for every product or service delivered to a customer, be it tangible or not. This is noticeable across the health, education, construction, agriculture, manufacturing sectors, as well as the service delivery sector within local government. However, contrary to popular belief, there is a difference between supply chain management, procurement and SS (Australasia, 2013).

SCM is the continuous management of all the interlinked value-adding activities for goods and services as they move through a value chain in transit to the end consumer (Boateng, 2015, p.7). According to CIPS (2013), the SCM function requires a corporate vision aligned to the organisation, mission explaining why they exist, value that would serve as guiding principles and sound strategy for implementation. SCM supports the core business of any organisation (CIPS, 2013), through the management of capital and operating expenditure dedicated to meeting the organisation's objectives. Through interacting with the value chain tiers, supply chain

management ensures a reduction in costs, quality improvements and accounts for ethical, environmental and social responsible inputs.

One of the main objectives of supply chain management is to ensure continuous and uninterrupted supply of goods and services (CIPS, 2012). Nowadays, organisations operate in increasingly uncertain environmental pressures with high risks of supply interruptions. It is therefore vital for purchasing organisations to understand the drivers of risk before devising risk mitigation strategies, that may require supplier development, adding capacity and aggregating demand. However, successful supply chain have top management buy-in (Ismay, 2008). Moreover, it has been found that in poor performing purchasing organisations, the absence of documented and well structured business processes within the supply chain creates supply chain waste (Capital, 2012). Supply chain waste may be in the form of stock outs, delivery delays, poor quality and inconsistent price paid for common goods.

### **2.2.2 Traditional Procurement**

Procurement involves the identification of the need, the process of approaching the supply market, acquiring the goods or services through approved contractors and disposal thereof to help an organisation fulfill its key objectives (Kolenko, 2014, p.4).

The procurement function is made up of :

- pre-contract activities which include the identification of the need, planning for the demand and sourcing of the goods or services;
- post-contract activities which include managing the contract through a signed service level agreement between both parties; and
- general activities which include managing the performance of service providers and complying with statutory regulations.

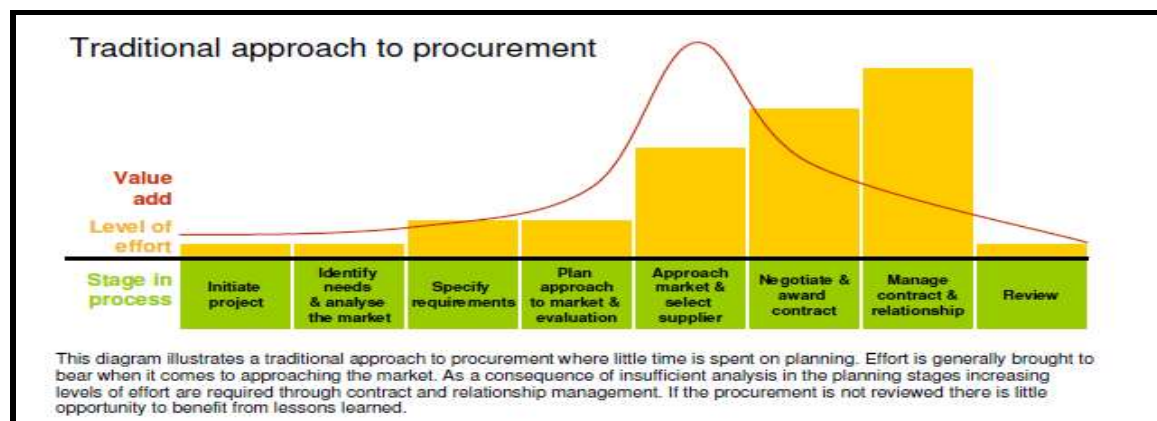
Through supporting the strategic organisational objectives, the procurement function can ensure :

- security of supply
- lower costs
- reduced risk

- improved quality
- greater added value
- increased efficiency
- innovation

However, traditional procurement is viewed as an administrative function for buying goods and services that primarily focuses on finding the lowest cost suppliers. There is very little effort that goes into demand planning under the traditional approach to procurement and this demands high efforts of input at the tender evaluation stage (Treasury, 2015). This in turn demands subsequent levels of effort during the post contract activities.

Figure 2.1 : Traditional approach to procurement



Source: (Australasia, 2013)

According to Moore (2015), the traditional procurement method has been applied in awarding tenders in the public sector without much success. The South African Finance Minister, Pravin Gordhan, acknowledged in his 2013 budget speech that while “weakness in planning and capacity...continue to delay successful project implementation”, government will prioritize procurement planning, management and project monitoring. Furthermore, through the traditional procurement method, government in all spheres within South Africa, has failed to meet its procurement objectives of addressing the socio-economic challenges of the past. Instead, there has been a steady rise in audit findings that relate to irregular, fruitless and wasteful expenditure of public funds (Treasury, 2015).

Moore (2015) argues that although the traditional procurement method may obtain monetary savings to the organisation through the lowest bid, this may not deliver the best results in terms of value over the long run. Rwelamila (2007) reflects that the traditional procurement method might not necessarily be the most appropriate for all categories of expenditure. The blanket approach of traditional procurement on all projects and categories of expenditure does not take into account the different sourcing and market approaches, amongst other aspects.

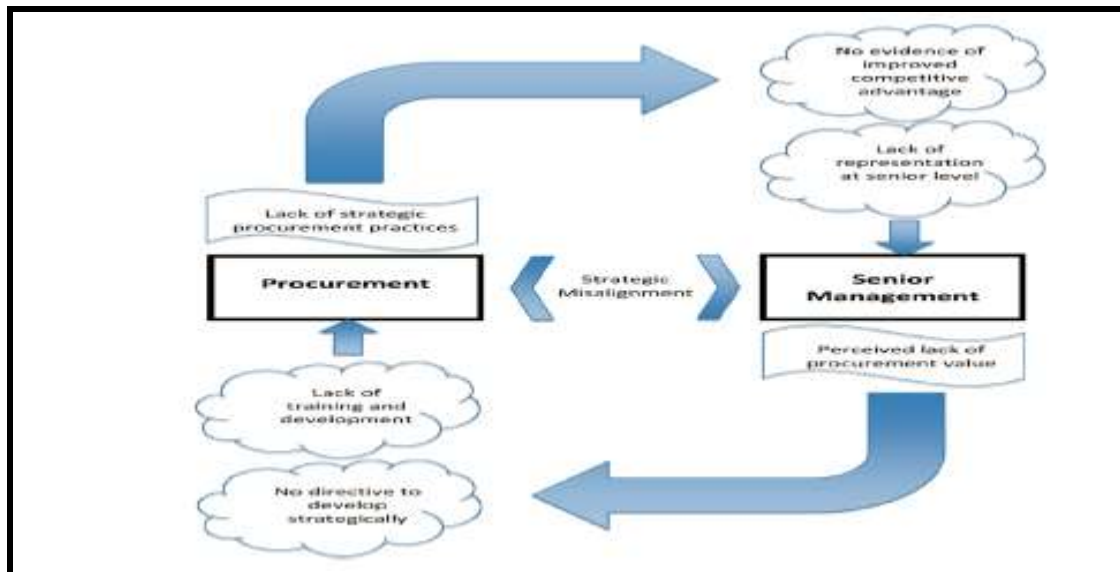
Over the past decade, most procurement organisations in both the private and public sector have been breaking away from back office perceptions (Denali, 2013). In line with the perceptions of the Chartered Institute of Procurement and Supply and Council of Supply Chain Management Professionals, procurement can be described as one of the macro processes within a supply chain (Boateng, 2015, p.2).

### **2.2.3 Strategic Procurement – the need for a differentiated approach**

Most organisations approach their strategic spend without thorough consideration of the supply market, along with the supply market's perception of the organisation itself (Maffei, 2013). In organisations across the world, the strategic importance of procurement is not well understood in terms of the economic and social influence of their purchasing decisions (Treasury, 2015) .

White (2016) found that the failure to understand and appreciate the long term value of procurement along with sub-standard execution of procurement strategies has inhibited the emergence of strategic procurement within organisations. Furthermore, business managers within the private and public sectors continue to expect procurement to emerge as value adding, whilst procurement seems to be waiting for organisations to offer them the platform to give strategic direction in order to deliver better benefits. This has resulted in misalignment between the organisation and the procurement function.

**Figure 2.2: Importance of strategic procurement development**



Source: (White, 2016)

On the other hand, achieving strategic procurement outcomes entails setting strategic priorities and direction for the respective business unit (Government, 2011).

Nevertheless, the implementation of strategic procurement requires that the procurement goals be:

- In line with the corporate goals of the organisation;
- Developed in harmony with the procurement function's vision, mission, strategy and values;
- Communicated well inside and outside the organisation;
- Encouraging local participation; and
- Simple, meaningful, attainable, rewarding and trackable.

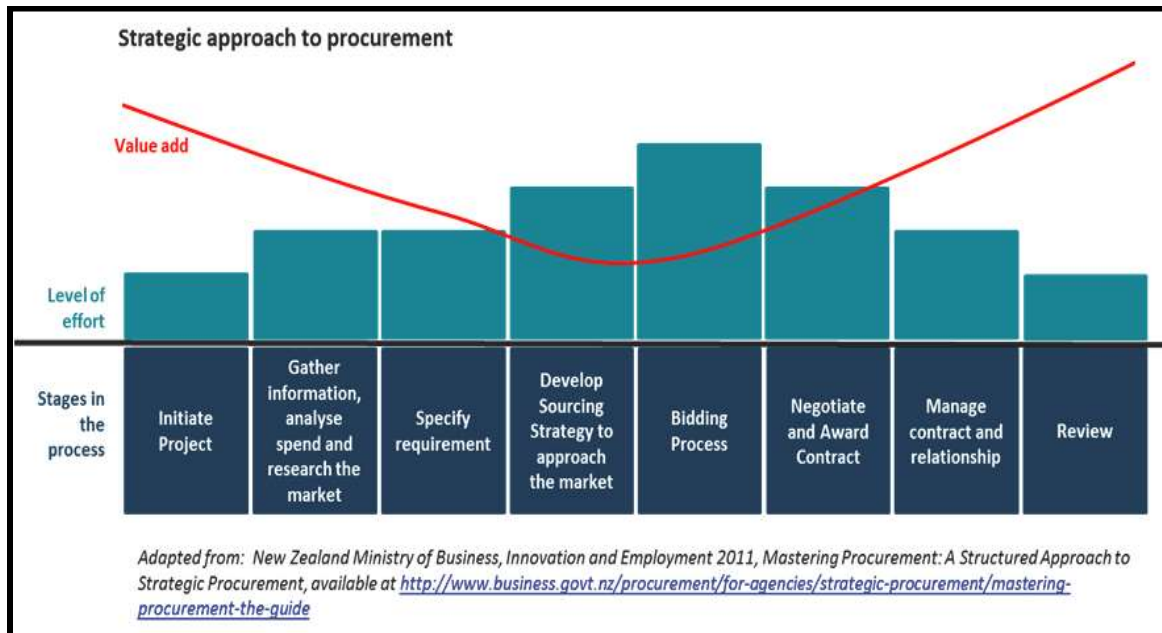
According to Bandaru (2015), strategic procurement requires that an organisation develop a database of suppliers that would repeatedly provide quality goods and services at market related prices over the long run. The long term partnerships are structured to yield savings for the organisation.

The Treasury (2015) states that supplier relationship management in strategic procurement will require:

- Sound payment process;

- Training of staff for both parties;
- Efficient IT systems; and the
- Development of key performance measures

**Figure 2.3: Strategic Approach to Procurement**



Source: (Treasury, 2015)

### 2.3. Strategic Sourcing - a differentiated approach to procurement

SS is a collaborative and structured approach that leverages procurement spend across a region and with preferred suppliers that create value and cost saving benefits for the purchasing organisation (Boateng, 2015). SS is able to help supply chain practitioners to develop and manage their databases of suppliers, along with broadening their understanding of the categories of the goods and services they intend to procure (Treasury, 2015). According to Rendon (2005), SS involves the integration of procurement with the corporate strategy of the business. As a subset of procurement leading practices, high value SS can enable an organisation to significantly improve performance through buying effectively and efficiently.



The key benefits for an organisation that adopts SS are:

- To understand and influence the supply market;
- To encourage collaboration across business units within the organisation;
- To define a sourcing strategy through a cross functional team for each category of expenditure;
- To evaluate and appoint suppliers that would execute the strategy;
- To manage the supplier for value add each year;
- To ensure that the strategy and value are monitored closely in line with market and technology changes;
- To take an organisation-wide approach in order to maximise economies of scale; and
- To look beyond normal emphasis on price.

Rafati (2013) views SS as a cross functional process in which the chief procurement officer is accountable for attaining cost savings, improving value creation, enhancing quality, mitigating risk and developing long term partnerships that benefit the organisation. Therefore, the chief procurement officer oversees value driven management through the consideration of both demand and supply bases.

Procurement (2015) defines SS as an ongoing, long term business process that encourages collaboration in order to improve the total value gained by the purchasing organisation. This process transforms the procurement function from a traditional approach to strategic approach and, to procurement. However, most procurement organisations still operate tactically because the procurement function is still expected to do tactical duties (Bandaru, 2015).

Therefore, converting an organisation from traditional to strategic procurement would require understanding of internal and external factors facing the organisation, along with a dedicated change management team as outlined in figure 2.4.

**Figure 2.4 : The transformation from the traditional approach to the strategic approach to procurement**

Recurring Themes	Tactical (Traditional)	Strategic
Mindset	Lower unit purchase price	Competitive advantage
Responsibility	Purchasing function	Procurement process (purchasing, operations, maintenance)
Procurement Strategy	Lower unit purchase cost, manage transactions, troubleshoot	Total value, total cost of ownership, total system cost
Time Frame	Periodic, one-time	Ongoing category management
Length of Relationship	Short term	Long term, indefinite
Quality	Conformance to specifications	Fitness for use
Supplier & Agency Communication	Infrequent – Focus on purchase orders, contracts, legal issues	Frequent exchange of plans, ideas, improvement ideas, etc.
Inventory	Considered an asset	Considered a liability
Supplier & Agency Interaction	Discouraged	Required (collaboration)
Contract Management	Periodically reviewed or not maintained at all	Tool to track supplier compliance, milestones and improvements
Keys to Success	Ability to negotiate	Ability to identify opportunities and collaborate with agencies/suppliers

Source: (Procurement, 2015)

According to Capital (2012), the common challenges faced by organisations seeking to transform to strategic procurement are:

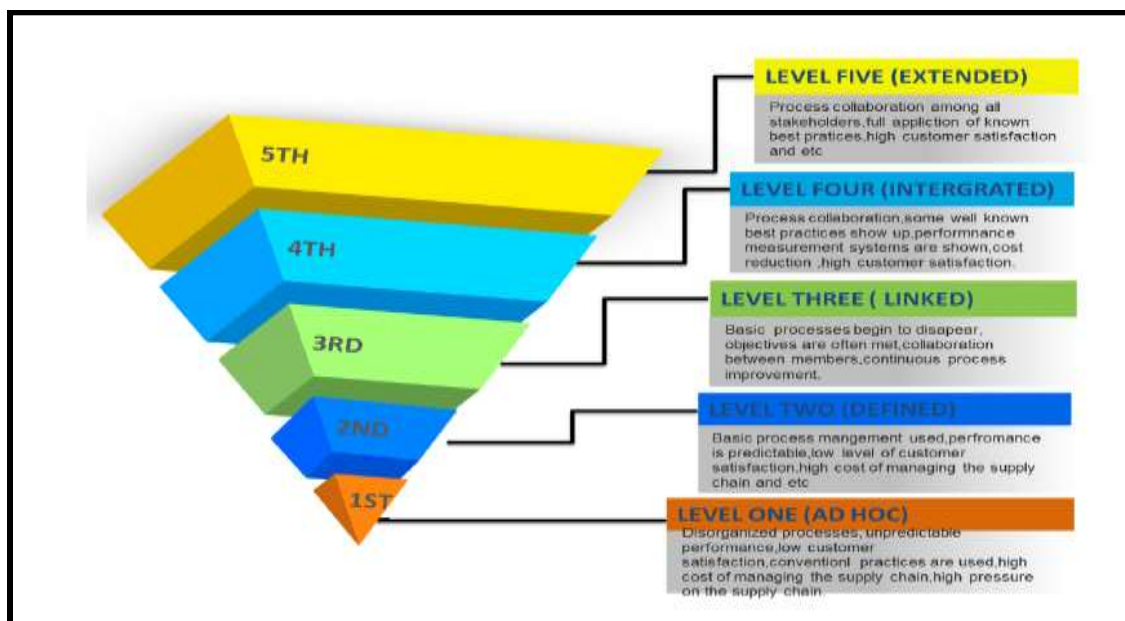
- Ignorance over how much organisations spend on which products and with which suppliers;
- Most public sector institutions are doing business with business owners that trade under different names;
- Accurate spend data is not available due to lack of appropriate technology;
- The SCM function is fragmented and business units operate in silos;
- Staff is focused on tactical activities and has very limited market intelligence, which leads to suppliers dominating negotiations;
- Sourcing knowledge and skills is inconsistent across the organisation;
- Bid committee or tender board members have not been trained in strategic sourcing, but continue to approve bid specifications and evaluations;
- Organisational knowledge is not shared across the organisation in a manner that can benefit all;

- SCM function is decentralized with different units procuring common goods from different service providers at different prices;
- Industry best practices and lessons learnt are not built into category profiles on the ERP system;
- Key staff is consumed with too much administrative workload and has less time for strategic thinking; and
- Most work is done on paper, as opposed to online i.e. bid committee report approvals

Denali (2013) states that organizations that are unable to adopt higher levels of SCM competencies will find themselves in a competitive disadvantage. A high level of supply chain maturity compliments the strategic approach to procurement, which translates to excellent business performance (Kethineni, 2011). Furthermore, supply chain maturity can be used to attune an organisation’s position for future development and transformation goals, as depicted in figure 2.5.

Over the past few years, researchers have dedicated themselves to focus on supply chain maturity models that can help organisations to transform from tactical to strategic management of supply chain processes (Denali, 2013).

**Figure 2.5: Levels of Supply Chain Maturity**



Source: (Kethineni, 2011)

### 2.3.1 The strategic contribution of SS

Most procurement organisations are increasingly taking a broader and more strategic view of their procurement targets. CIPS (2016) describes the sourcing business process as being concerned with:

- Top level, long term decisions that relate to categories of expenditure of high value or high risk
- The formulation of high level strategies for implementing the vision for the organisation
- Developing a deep understanding of the supply market and its drivers.

Garrett (2016) explains that with SS, procurement organisations are taking a new approach which entails understanding the categories of expenditure across the organisations. Furthermore, Detecon (2011) highlights that leading procurement organisations prioritise the differentiation between SS and operational procurement to increase their focus on valuable driving activities per category of expenditure. This is achieved through the establishment of cross functional teams, amongst other things, as depicted in figure 2.6.

**Figure 2.6: Differentiation between SS and Operational Procurement.**

	Focus	Value driver
Strategic Sourcing	<ul style="list-style-type: none"> <li>■ Bundling of purchasing volume for each category</li> <li>■ Establishing of enterprise wide category management</li> <li>■ Increasing category, supplier and market expertise on global markets</li> <li>■ Implementation of global key accounts for important suppliers</li> </ul>	Savings & Value contribution
Operational Procurement	<ul style="list-style-type: none"> <li>■ Increasing process efficiency through streamlined processes and automation</li> <li>■ Bundling of administrative tasks to further improve efficiency and gain more air time for a closer collaboration with internal customers</li> <li>■ Continuous improvement of procurement processes and applications</li> </ul>	Efficiency & Quality

Source: Detecon (2011)

However, Boateng (2015) explains that one of the reasons for the current limited socio economic impact of SS in Africa include, amongst others, the view that the activities of the SCM function are tactical, as opposed to strategic (p.13). The global trend is to strategically source from Africa for long term manufacturing gains. However, African countries continue to buy from developed countries for short term gains (Government, 2011). This is one of the key reasons why African countries will continue to grow poorer, while developed countries continue to grow wealthier. The short term gains deprive the African people from sustainable employment and contribute to the stagnating economic growth levels.

Amongst the African countries, the SCM function reports to the board through the Chief Financial Officer because it has been viewed as purely transactional with immense paper pushing as shown in figure 2.7. The SCM function is viewed as tactical by the entire organisation, as it adds small contributions to strategic decision making. Most of the SCM resources are too busy with administrative duties and less attention is given to strategic matters.

**Figure 2.7 Current structure of organisations**



Source: (Boateng, 2015)

Therefore, harnessing the power of SS requires a major philosophical change within the organisation. Boateng (2015) recommends for the CEO to elevate the supply chain management function to C Suite status, so as to reinforce the recognition of its strategic importance and ability to influence long-term competitive positioning and

service delivery quality (p.23). Consequently, the strategic realm of supply chain management is finding its expression in the emerging structures where a Chief Supply Chain Officer is developed to oversee procurement, logistics and operations functions as reflected in figure 2.8.

**Figure 2.8: Emerging structure of organisations**



Source: (Boateng, 2015)

As private and public sector organisations mature in SCM, the benefits of implementing strategic sourcing principles extend beyond cost savings to refined organisational structures and roles, breakthrough innovations and productivity improvements that drive growth prospects (Coetzeer, 2016). As a result, organisations formulate new strategies, policies and management techniques.

## 2.4. SS implementation within the public sector context

### 2.4.1 Background

In recent years, discussions between the private and the public sector have provided a renewed perspective on the strategic role of SCM in transforming the economic landscape of South Africa, despite the disturbing audit outcomes. The discussions between the public and private sector SCM help prevent the reoccurrence of same or similar findings of non-compliance in future.

Randal (2005) states that Section 217 of the Constitution of the Republic of South Africa requires that when an organ of state procures goods and services, it must

- achieve value for money;
- ensure that there is open and effective competition;
- uphold ethics and fair dealing;
- ensure accountability and reporting; and
- promote equity.

Ngcobo (2015) outlines how Section 214 of the Constitution makes provision for the formation of a Financial and Fiscal Commission which would serve to advise the three spheres of government on fiscal capacity and efficiency (p.11). In 2013/2014, the South African public sector spent R500 billion on goods and services, as well as on construction works (Treasury, 2015). Over the past three financial years, the total addressable spend throughout the eight South African metropolitan municipalities was R594 billion in total procurement expenditure (SASSC, 2015).

Whilst public spending continues to grow, the accountability and responsibility of all spheres of government's procurement of public funds is receiving immense attention from global investors, public citizens and the political parties. The global economic volatility suggests that South African public entities are strategically positioned to drive industrialisation and localisation through local procurement spend to develop local suppliers and foster competition in the local economy (the dti, 2016).

**Figure 2.9 : Different and Linked Aspects of Localisation**

Key policy objectives	Focus areas
Industrialisation	Leveraging procurement spend to foster industrial and competitive capabilities in the South African economy
Localisation • Country • Province/Municipal • Site/Operation	Utilisation of procurement spend to develop South African based suppliers (integrating B-BBEE and Black Owned suppliers)
Skills development	Increasing the skill base (number and skill level) of South African workers, especially in areas where there is a national scarcity of skills
Employment and job creation	Creation of new jobs directly and indirectly by suppliers in the value chain
Enterprise and supplier development programmes	Providing a platform for SA-based suppliers to develop into national and international suppliers, through Capability, Capacity & Competitiveness development

Source: the dti (2016)

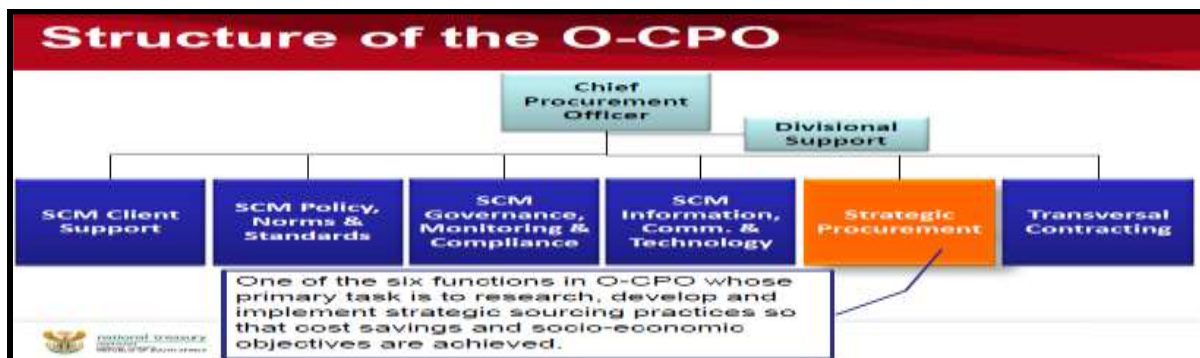
While SS originated in the private sector between the 1980s and 1990s, it has recently been introduced to public sector procurement with early implementations recorded between 2003 and 2005 (Smith, 2015). The South African approach to public sector procurement has been the rules driven for many years. However, the National Development Plan highlighted the need for a more intelligent way to public sector procurement (Treasury, 2015). Public Sector Strategic Sourcing was identified as a structured business process to implement the industrial development strategy for stimulating local economic growth through procuring locally manufactured goods (Treasury, 2015). It is further noted that the introduction of public sector SS allows for different sourcing approaches to execute on public sector strategic objectives as outlined in the annual procurement plans.

#### 2.4.2 Public Sector Implications

In 2013, Finance Minister Pravin Gordhan announced the establishment of the Office of the Chief Procurement Officer in the National Treasury. In terms of the structure of the O-CPO, Setan (2013) describes it's purpose as being:

- To modernise the state procurement system to be fair, equitable, transparent, competitive and cost-effective.
- To enable the efficient, economic, effective and transparent utilisation of financial and other resources, including state assets, for improved service delivery.
- To promote, support and enforce the transparent and effective management of state procurement and the sound stewardship of government assets and resources.

**Figure 2.10 : Structure of the O-CPO**



Source: Setan (2013)



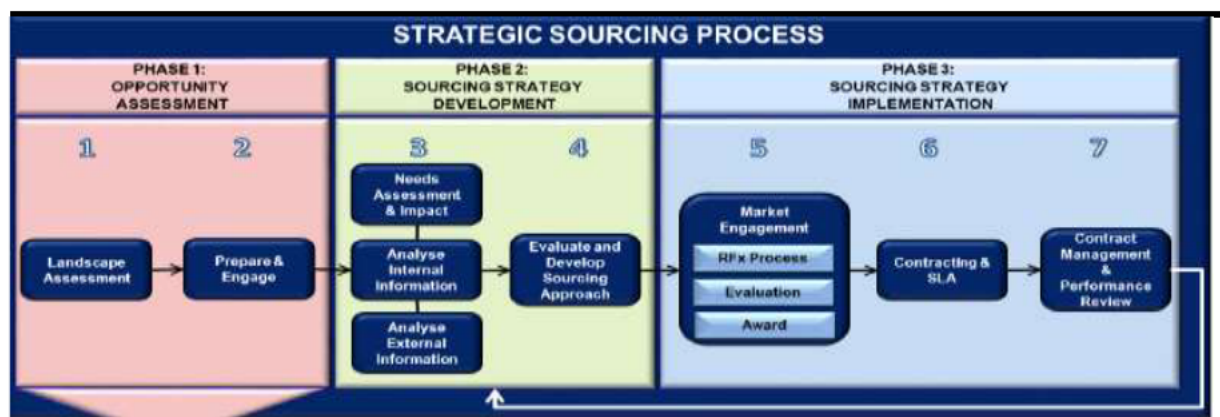
Yet, according to Treasury (2015), public sector SS is set to be implemented in the context of :

- Multiple policy objectives
- Poor supply chain performance (AG results)
- Highly prescriptive and complex
- Not achieving value for money
- High cost of procurement
- Misaligned organisational structures
- Limited SCM capability
- High rates of movement and staff vacancies
- Pervasive corruption

#### 2.4.2.1 Public Sector SS Process

According to National Treasury, public sector SS is a structured business process that is intended to direct supply chain managers to plan, manage and develop the supply base in line with the strategic objectives of each sphere of government ( Setan, 2013). The public sector SS process entails three important phases of opportunity assessment, sourcing strategy development and implementation. These are outlined in Figure 2.10, including the sub phases which give more insights into the sourcing process at a micro level. These seven steps have been developed and adopted by the National Treasury to provide a generic guide to public sector institutions.

**Figure 2.11: Seven Essential Steps in SS**



Source: Setan (2013)

The portfolio analysis, commodity positioning and prioritisation are crucial steps within the landscape assessment stage. National Treasury (2011) states that these steps enable sourcing specialists to understand the organisation’s spend profile for procurement and strategic planning purposes. Through the portfolio approach, organisations are able to classify categories of expenditure according to their:

- level of strategic importance to service delivery relating to the spend value;
- supply market complexity and the associated supply risk

This is highlighted in figure 2.12, in order to understand an organisation’s bargaining power and risk exposure (Procurement, 2015). The strategic impact can be measured by the value of public expenditure for the respective category of expenditure per financial period. Moreover, the supply risk is determined by the number of suppliers in the supply market, for a given category of expenditure.

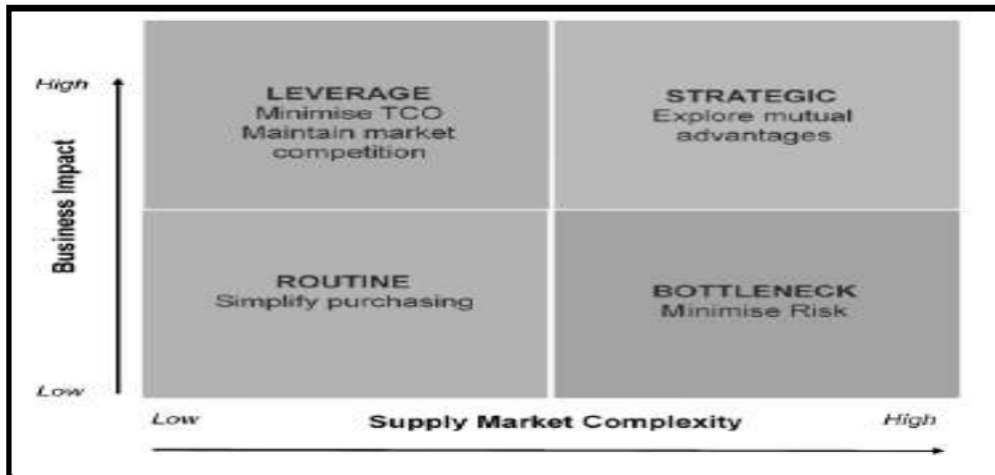
**Figure 2.12: Portfolio approach to sourcing strategies**



Source: National Treasury (2016)

By understanding the classification of each spend item per quadrant, an organisation can assign the appropriate sourcing objective respectively (Coetzeer, 2016). The goals and objectives of each quadrant help to inform managers of the sourcing strategies to develop for implementation. Figure 2.13 helps to summarise the goals and objectives for each quadrant (Treasury, National, 2011).

Figure 2.13: The objectives of portfolio analysis

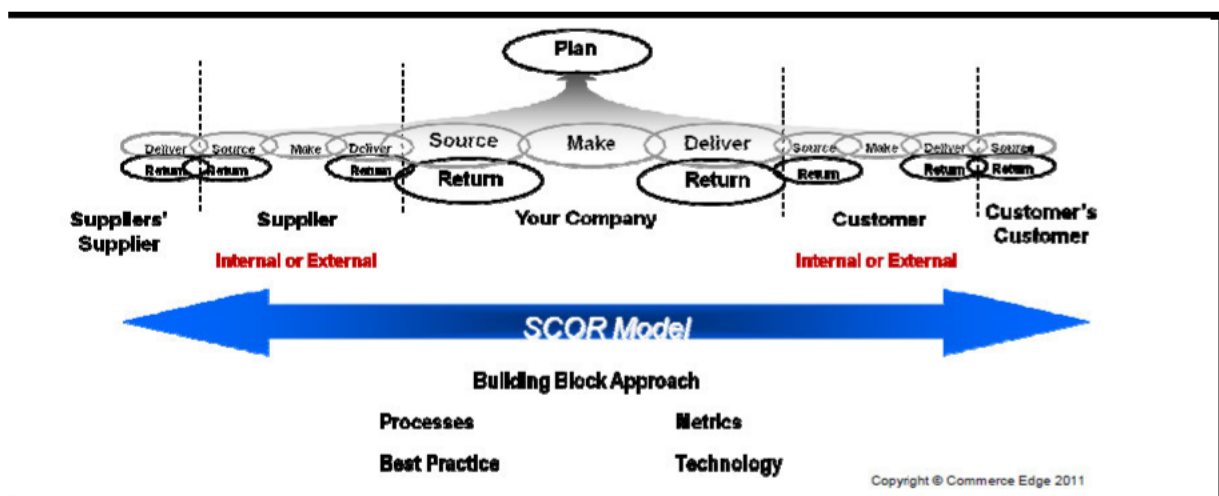


Source: National Treasury (2011)

### 2.4.3 Public Sector SS Initiatives

Denali (2013) states that an SS initiative views the complete supply chain in an effort to understand the input of each stakeholder in the supply of goods and services. The Supply Chain Operations Reference model (SCOR) provides a high level view of the supply chain, as depicted in figure 2.14. SCOR integrates the operations of all supply chain participants by joining the delivery operations of the supplying organisation to the sourcing operations of the buying organisation (Kolenko, 2014, p.19). The SCOR model's measurable activities are to plan, source, make, deliver and return.

Figure 2.14: SCOR Model



Source: Kolenko (2014)

According to Munene (2015), SS initiatives have become popular amongst organisations for the significant cost savings, supplier performance improvements and risk reduction. Procurement (2015) highlights the key enablers required for the success of an SS initiative in the public sector:

- Long-term commitment from top management within the organisation;
- Commitment of financial and human resources to the SS process;
- Continuous empowerment of the SS teams;
- Adoption of disciplined and consistent practices throughout the organisation;
- Continuous monitoring and reporting on all sourcing projects; and
- Effective use of communication methods.

Treasury (2015) classified SS projects within the public sector into three groups namely:

- a) Universal SS is where economies of scale are possible through aggregating volumes or quantities from all government departments and or institutions. The cost benefits come from leveraging government's buying power and using the savings achieved for other important programmes. The government department, through the supply chain management unit or department, has more control over supply and demand risks. The OCPO has initiated travel and accommodation, mobile devices and subscription services, banking services and motor vehicles through this approach.
- b) Department-specific SS is where supply chain management unit or department will centrally source goods and services that are central to a government department's key service delivery objectives. This may be further defined in terms of goods and services above a certain rand value, taking into consideration supply risk factors. Among numerous examples are categories of expenditure such as pharmaceuticals and textbooks.

- c) Sector-specific SS is the sourcing of goods and services required by numerous government departments and involving a designated industry, which the government wishes to protect or promote local production.

Ngcobo (2015) presents eThekweni Municipality's opportunity assessment for designated sectors, as outlined in figure 2.15, amounts to over R900 million for the 2016/2017 financial period (p.5-8). More importantly, through developing and implementing the sourcing strategies for each sector, eThekweni Municipality would meet its localisation objectives. Niekerk (2015) argues that strategic sourcing targets should be adjusted to include enterprise development objectives considering that it is more valuable for some organisations to meet their enterprise development targets than to achieve cost savings. While sourcing from China may seem to speed up service delivery and achieve value for money, through achieving local content targets, South Africa can encourage local job creation. The local job creation would result in more tax being collected, stimulation of the local economy, an increasingly skilled workforce and a welcome redistribution of income among the citizens of South Africa.

**Figure 2.15: Designated Sectors for Local Manufacturing with minimum local content thresholds (the dti, 2016)**

**Designated Products**

Designation Matrix					
Sectors Already Designated*	Minimum Local Content Thresholds	Date	Sectors Forwarded to the NT for Designation**	Minimum Local content Thresholds	Date
Description			Description		
1. Rail Rolling Stock	65%	16-07-12	1. Building & Construction Materials		14/15 Q1
2. Bus Bodies	80%	16-07-12	2. Yellow Metals		14/15 Q1
3. Canned/Processed Vegetables	80%	16-07-12	3. Two Way Radios		14/15 Q1
4. Textile, Clothing, Leather and Footwear Sector	100%	16-07-12	4. Solar PV Components		14/15 Q2
5. Solar Water Heaters (collectors and storage tanks/geysers)	70%	19-07-12	5. Rail Signalling System		14/15 Q2
6. Set-top Boxes	30%	26-09-12	1. Guidelines on the Implementation of Reg. 9.3 of the PPPFA		11/12
7. Certain Pharmaceutical Products	Per Tender	07-11-12			
8. Furniture Products	85%	15-11-12			
9. Electrical and Telecom Cables	90%	08-05-13			
10. Valves Products and Actuators	70%	06-02-14			
11. Working Vessels	10-100%	01-08-14			
12. Residential Electricity Meters	50-70%	01-08-14			
13. Steel Conveyance Pipes	80-100%	28-09-15			
14. Powerline Hardware and Structures	100%	28-09-15			
15. Transformers	10-100%	28-09-15			

Source: the dti (2016)

#### **2.4.4 The case study: eThekwini Municipality**

eThekwini Municipality (2016) states that the vision for the municipality is for the city of Durban to enjoy the reputation of being the most caring and liveable city in Africa by 2030. eThekwini Municipality intends to realise its vision through delivering quality goods, services and construction works to its people. In terms of the Municipal Systems Act (No.32 of 2000), eThekwini Municipality has its strategy prepared and outlined in the Integrated Development Plan.

The focus of the Integrated Development Plan is on building an inclusive developmental local government that would translate eThekwini Municipality's vision into action (eThekwini Municipality, 2016). The annual capital and operating expenditure are prioritised in addressing the developmental challenges facing the city of Durban. The National Development Plan places responsibility on eThekwini Municipality to be effective in achieving socio-economic transformation through stimulating local participation in economic growth opportunities.

The Cabinet Resolution (437 of 2011) prescribed that 50% of public expenditure would be procured through B-BBEE compliant service providers by 2012 and thereafter, the B-BBEE target would increase to 70% in support of local procurement (KZN Provincial Government, 2015). As evidenced in figure 2.16, eThekwini Municipality's procurement approach has not only adopted economic transformation principles embedded in the Broad - Based Economic Empowerment Amendment Act, 2013 (Act No. 46 of 2013), but also awarded 78.70% of public expenditure to B-BBEE compliant service providers. Boateng (2014) argues that the implementation of the broad based BEE Act is not immune from box – ticking compliance that has contributed to unemployment especially among the youth and stagnated SMME growth (p. 6-8). The concern is with the increasing number of contracts awarded to certified BEE companies who were paid in advance, but failed to deliver the service, leading to frustration from the communities. This indicates that supply chain professionals are not necessarily corrupt, but rather it is the complex, political box ticking and associated procedures that are corruptive.

**Figure 2.16: Public Tender Awards**

2015/2016 Financial Year				
BEE Score	Levels	No. of award	Value	% of Total
> 100	B-BBEE Level 1	672	R 1,718,600,589.68	20.8%
85 ~ 100	B-BBEE Level 2	252	R 2,101,323,996.50	25.4%
75 ~ 85	B-BBEE Level 3	875	R 1,703,797,465.50	20.6%
65 ~ 75	B-BBEE Level 4	84	R 576,373,980.47	7.0%
55 ~ 65	B-BBEE Level 5	21	R 283,116,678.63	3.4%
45 ~ 55	B-BBEE Level 6	10	R 40,876,720.40	0.5%
40 ~ 45	B-BBEE Level 7	5	R 16,265,957.91	0.2%
30 ~ 40	B-BBEE Level 8	7	R 72,563,845.26	0.9%
< 30	Non-Compliant	1000	R 1,758,620,360.52	21.3%
	<b>Totals</b>	<b>2926</b>	<b>R 8,271,539,594.87</b>	

Source: Mbongwa (2016)

It is evident that eThekweni Municipality has begun responding to President Jacob Zuma's call for 75% of goods and services to be procured from local manufacturers within South Africa. However, there has been little progress in managing and reporting on sector specific SS of goods and services, as prescribed by way of Section 52 (13) of the Supply Chain Management Policy (2016) for eThekweni Municipality ( Petersen, 2016). The slow progress of SS adoption in the public sector has resulted in sluggish socio economic transformation and local job creation within designated sectors. The impact is severe on local government and public sector performance.

It has been recognised that eThekweni Municipality has made reasonable efforts to pursue the adoption of SS to boost its organisational performance.

ADR International (2013) notes that between 2008 and 2014, the Supply Chain Management Unit of eThekweni Municipality engaged ADR International to support their procurement change project.

The purpose of the project was to:

- re-engineer the procurement approach through stakeholder consultation;
- create an SS and category management capability;
- secure cost and value improvements;
- develop BBBEE suppliers;
- harness technology enablers where possible; and
- improve SCM skills

ADR International developed an e-procurement quote management system that enabled the Supply Chain Management Unit to separate transactional activities from strategic procurement (ADR International, 2013). Furthermore, the project introduced a robust SS process that linked eThekwini Municipality's purchasing power to local government priorities, inter alia supporting local industry for designated goods and developing black economic empowerment.

The SS project summary for eThekwini Municipality focused on the addressable spend implemented by the corporate procurement, city fleet, electricity and water branches within the Supply Chain Operations Department.

According to ADR International (2012), the appointed consultant, in conjunction with the supply chain management practitioners of eThekwini Municipality, identified SS opportunities amounting to over R713 million within each branch for goods and services that can be centrally sourced, that are central to public sector service delivery objectives, taking into consideration the supply risk factors; and including goods and services involving a designated industry which government wishes to promote local production.

The SS opportunities also entailed delivering on sustainable cost improvements for internal stakeholders through open communication of targets, supported by regular reporting of accomplishments. This was managed through the development of a comprehensive 24-month project plan depicted in figure 2.17 that would phase in industry best practice around the key enablers of effective procurement, with a focus on roles and responsibilities, cost management, target setting and measurement.



**Figure 2.17: SS Project Summary**

Project	Current Value	Opportunity Analysis %	Opportunity Analysis Benefits	Actual Benefits	Actual Benefits %	Additional Benefits over Opportunity Analysis	Invisaged Benefits Based on Average of Actual Benefits	Invisaged Benefits Based on Tender Price Evaluation
mPVC Pipe	9,041,976	10%	904,198	2,744,944	30%	1,840,746		
Road cones	278,350	10%	27,835	70,650	25%	42,815		
Signs	1,254,520	10%	125,452	243,066	19%	117,614		
Latex Emulsion	1,474,595	10%	147,460	44,238	3%	-103,222		
PPE	12,181,110	7.5%	913,583				1,705,355	
Computer	12,041,648	7.5%	903,124				1,685,831	
Street Lights & Luminaires	17,358,560	7.5%	1,301,892				2,430,198	
Pool Chemicals	4,321,633	10%	432,163	844,700	20%	412,537		
Valves	7,819,045	10%	781,905	1,172,857	15%	390,952		
Brass Valves & Fittings	43,143,730	10%	4,314,373	5,608,685	13%	1,294,312		
Refuse Bags	49,164,284	10%	4,916,428	8,357,928	17%	3,441,500		
Water Meters	15,543,600	10%	1,554,360	1,865,232	12%	310,872		
Lifeguard Uniforms	607,614	10%	60,761	36,457	6%	-24,305		
HDPE Pipe	4,327,996	7.5%	324,600	1,283,175	30%	958,576		
VIP Pit Latrine Structures	2,436,400	10%	243,640	361,434	15%	117,794		
Fasteners	965,795	10%	96,580					135,211
Battery Chargers & Battery Packs	2,156,892	7.5%	161,767					215,689
Electrical Cable	134,248,815	7.5%	10,068,661					16,109,858
Security Services	360,000,000							
Stationery	2,500,000							
Hire of Plain Paper Copiers	10,000,000							
Metro Police Uniforms	2,500,000							
Water Meter Assemblies	5,000,000							
Automated Retractable Syringes	4,000,000							
Library Materials	11,000,000							
	<b>713,366,563</b>		<b>27,278,781</b>	<b>22,633,366</b>		<b>8,800,191</b>	<b>5,821,385</b>	<b>16,460,758</b>
OA Benefits Of Completed Projects			13,833,174					
Actual Benefits Of Completed Projects			22,633,366					
Additional Benefits over OA						8,800,191		
% Additional Benefits over OA						64%		
Invisaged Total Benefits For Completed Projects			44,915,508					
OA Benefits For Completed Projects			27,278,781					
Additional Benefits over OA						17,636,728		
% Additional Benefits over OA						65%		

Source: (ADR International, 2012)

These levels of expenditure alone provide sound reasons for analysing the performance of SS implementation within public sector procurement. Furthermore, Randal (2005) notes that the effectiveness, efficiency and success of public sector procurement rests upon the adherence to the five pillars of procurement in the management of public expenditure, whilst adhering to the legislative requirements.

It is therefore noted that the five pillars of procurement, as outlined in figure 2.18 are key principles that are to be expressed in the implementation of all SCM business processes.

**Figure 2.18: Five Pillars of Procurement**



Source: Randal (2005)

#### **2.4.5 The key enablers for value driven public sector SCM performance measurement through SS**

One of the biggest challenges facing public sector procurement is the stakeholder confidence, both within and outside public institutions. White (2016) argues that profit is an accepted measure for effective procurement performance in the private sector. However, unlike the private sector, effective supply chain performance in the public sector is a function of the bilateral relationship between each SCM element, organisational infrastructure and government's preferential procurement policy objectives (Mawire, 2016). Public sector SCM infrastructure consists of institutional arrangements, organisational capacity, systems and processes, as well as regulatory and governance controls (Treasury, 2015).

The purpose of the systems and processes is to enable an organisation to achieve its objectives methodically and systematically. However, the absence of clear and standard business procedure guidelines and appropriate technology are some of the root causes of poor SCM performance.

Yarusso (2009) states that any organisation that transforms to an SS must identify its current level of "maturity", relative to competence as outlined:

### *Traditional*

The primary role of procurement is to fulfil the needs of internal clients through approved vendors. The procurement division or department ensures that the entire organisation buys from those suppliers. The procurement practitioners' day-to-day role is almost primarily transactional.

### *Basic*

The sourcing organisation's strategy is typically driven by a corporate mandate to save costs on the previous price paid to suppliers. However, little effort is placed on strategic matters. The organisation has defined and documented procedures which may not be consistently followed. The procurement staff is involved in the sourcing process, but does not drive the process.

### *Intermediate*

These SS organisations follow a corporate strategy that focuses on the price of goods and services as a major component of cost and is aligned with the business goals of the organisation. The SS principles are embedded in the organisation's business processes. The organisation has SS success stories, despite resistance from other business units. The overall spend for the organisation is visible and SCM analysis focuses on reducing the total cost of ownership manually.

### *Advanced*

SS is well established in the organisation's supply chain. Supply chain and SS strategies are viewed as being key to the company's overall strategy for future growth. There is corporate buy in of the sourcing process from all business units. The analysis of the organisation's spend is visible and is supported by an automated system that tracks total cost of ownership.

### *Value-creating*

In these world-class sourcing organisations, the head of supply chain and SS is at the C-level in the company. The organisation views SS processes as value creators throughout all business units. The SCM Unit helps business units and corporate leaders to develop integrated business strategies. SCM is viewed as a change agent and innovator within the organisation. However, Yarusso (2009) mentions that very

few companies have achieved "value-creating," performance in their procurement organisations, according to a benchmarking study done by a consulting firm on some Fortune 500 companies from the United States of America.

#### **2.4.5.1 SS impact on SCM Performance Measurement**

Unlike the transactional purchasing approach, the SS approach proactively aligns supply chain management performance with the corporate goals and needs of the organisation (State of Michigan, 2016). Moreover, at a high level, there are four SS priorities that can influence the overall performance of an organisation (Richard Martin, 2006). Some of the main priorities of the SS business process are:

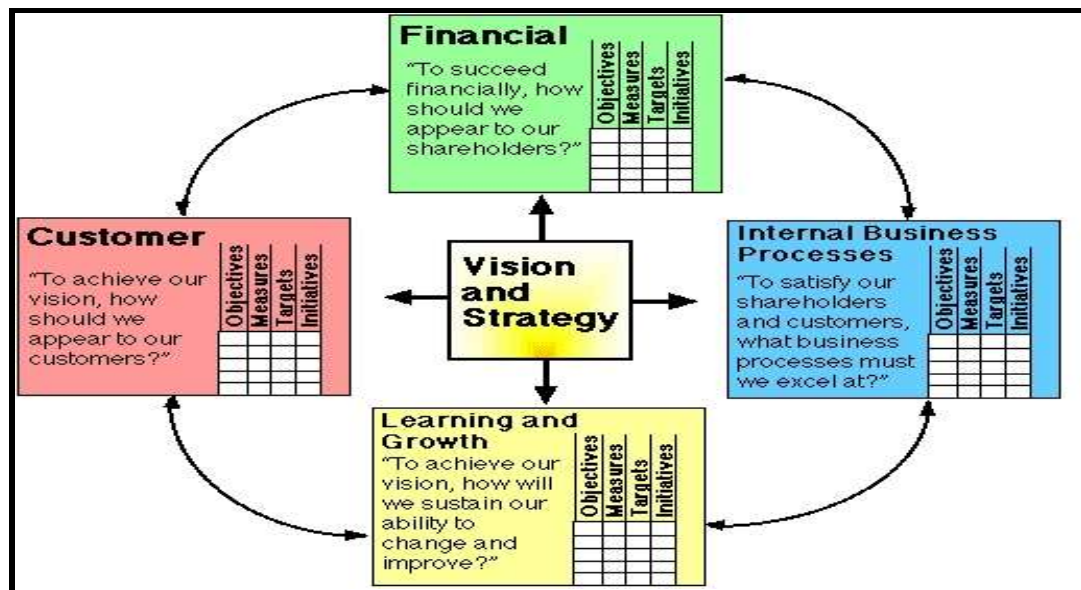
- quality of goods and services
- cost of goods and services
- supplier relationship
- timely delivery of goods and services
- effective procurement plan

Performance measurement focuses on the use of a balance set of key performance indicators that consider both internal and external factors within the supply chain. ( Sónia, 2006). The Balance Scorecard approach depicted in figure 2.19 translates the organisation's strategic objectives into a set of performance indicators through four measures, namely:

- Financial perspective focuses on total cost ownership, savings and the ability to add value to service delivery mandate;
- Customer perspective focuses on meeting the customers requirements in terms of quality, delivery and cost;
- Internal business processes perspective focuses on value chain improvements in order to improve SCM performance;
- Learning and growth perspective focuses on the people, organisational structure and technology required to achieve the desired performance targets.

Furthermore, the relationship between the four perspectives and the vision and strategy of the unit or department is vital in successfully implementing the scorecard.

**Figure 2.19: The four perspectives within the Balance Scorecard**



Source: (Rendon, 2005)

Smith (2006) states that a Balance Scorecard process requires every level of the organisation to have a clear and an agreed understanding of:

- Why the organisation exists;
- What the organisation values;
- The organisation's vision for the future;
- The critical measures that will make a real difference to the organisation's performance;
- Who the stakeholders are and how their views can be collected and reflected in the respective quadrants of a Balanced Scorecard; and
- How the quadrants and measurements link together (causal links) to ensure the organisation moves towards its strategic goals and objectives.

Tanyi (2011) states that in organisations where there are no targets for the measures in the balance scorecard, the scorecard merely represents an information system. However, when the balance scorecard approach is implemented with the correct objectives, measures, targets and initiatives for an organisation, the scorecard serves as an effective communications tool for procurement value to the organisation.

Crafford (2010) identified the following KPI's to be measured:

- 1) Financial
  - a. Savings realised
  - b. Spend managed by category manager
  - c. Savings generated by category manager
  - d. Sourcing strategy maturity
  
- 2) Customer
  - a. Customer satisfaction through customer surveys
  
- 3) Process
  - a. Number of new suppliers used
  - b. Number of invoices processed against the previous year
  - c. Percentage of automated transactions
  
- 4) Learning and growth
  - a. Supplier innovation
  - b. Supplier rating
  - c. On time delivery
  - d. Staff competency assessments

#### **2.4.5.2 Creating Procurement Value through implementing SS**

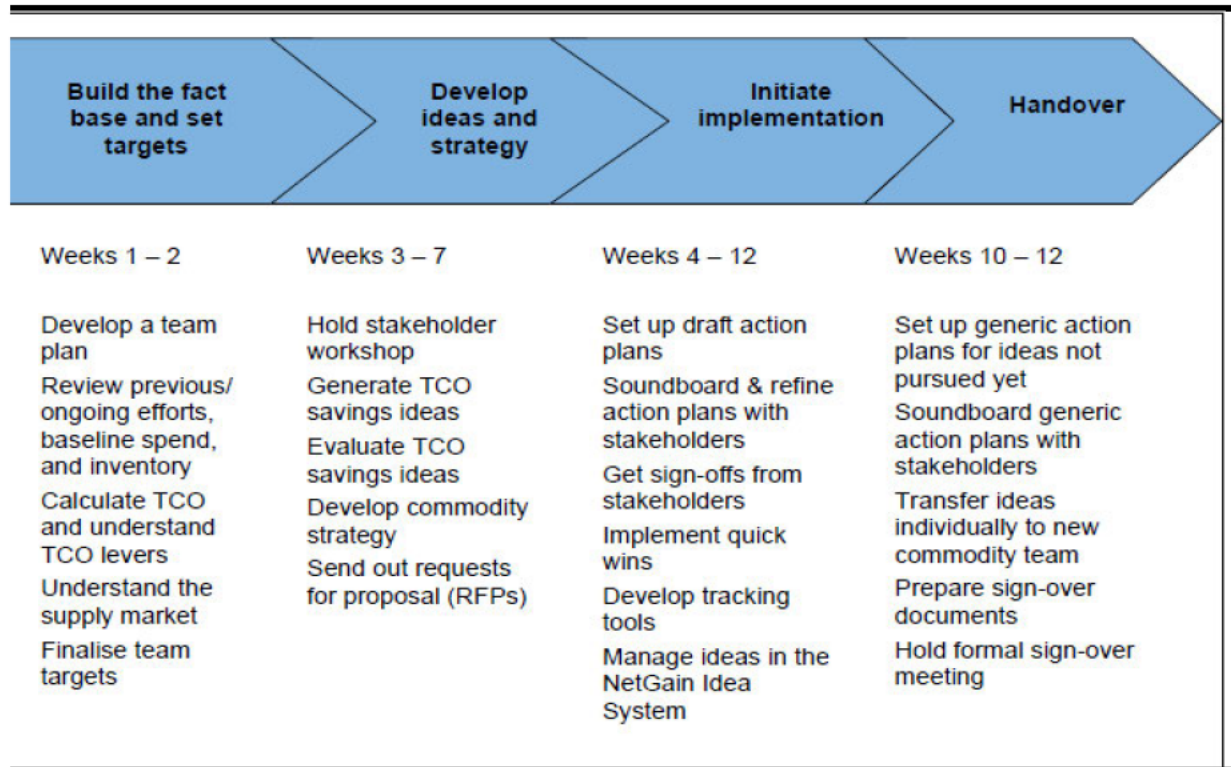
Sónia (2006) explains that the internal process perspective centers on all the SS activities and key processes to ensure delivery of value adding services to the public. This entails thinking outside the norm to uncover cost saving opportunities and streamlining the SS processes corporately to alleviate duplication of administrative functions. Crafford (2010) suggests the need for a temporary value team structure and a permanent SS team. However, figure 2.20 highlights how the cross functional value team will focus on developing a TCO model for each commodity through supplier market analysis.

The value team process has four distinct phases which add value to the SS process:

- Building a fact base and setting of targets;

- Development of strategy and ideas;
- Implementation; and
- Handover to the SS team.

**Figure 2.20: The Value Team Process**



Source: Crafford (2010)

In summary the value team process helps to :

- Calculate TCO through understanding the supply market
- Develop commodity strategy;
- Soundboard generic action plans with stakeholders

Furthermore, Treasury (2015) states that through the implementation of the SS process, value for money for the public sector is achieved through:

- Proper demand management;
- Aggregation of needs across units;
- Elimination of low value middle-men; and
- Supplier management

### **2.4.5.3 Key lessons from the eThekweni Municipality pilot project**

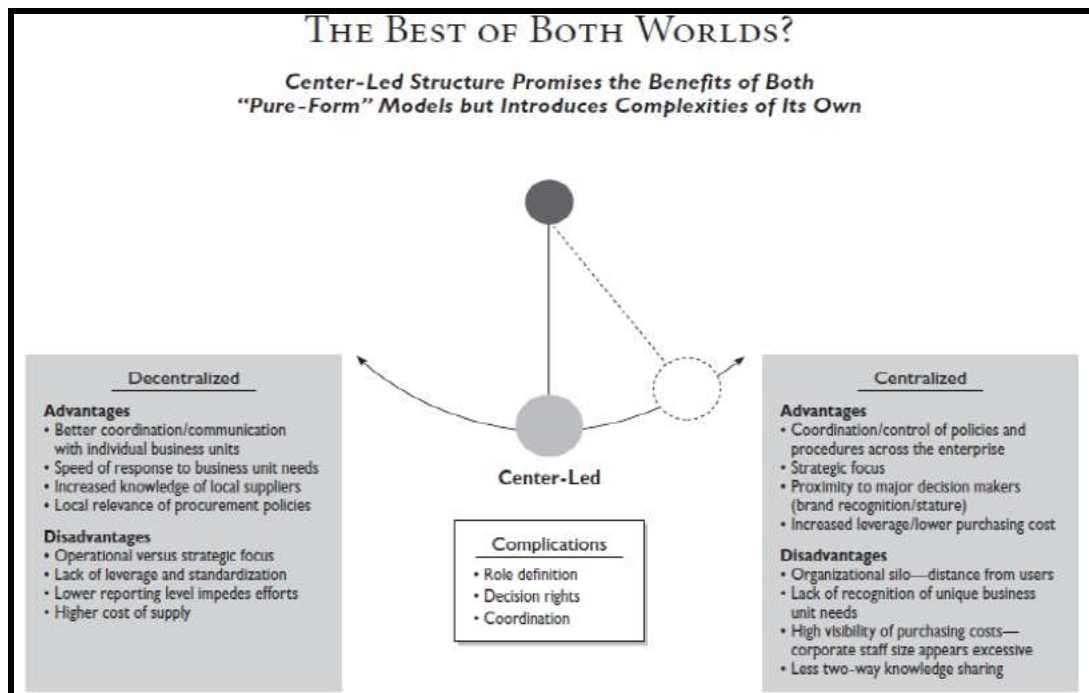
According to ADR International (2013), the impact of SS implementation and the overall impact on supply chain performance can be explained through the holistic approach of the six key enablers namely;

- Organisation and Structure - Focused teams with clearly defined responsibility, authority and accountability for sourcing activities. According to Munene (2015), companies that adopt the SS business process can save almost 10 to 20 percent of their transactional sourcing costs. The structure of public sector organisations is either centralised or de-centralised. In a de-centralised model, each unit or department within a local government municipality strives to source and deliver individually on their respective strategic focus areas within the eight point plan ( Ismay, 2008). On the other hand, a centralised model would centralise the organisation spend and sourcing for similar goods, services and works according to IDP for the local government municipality. According to Martin (2006), the elements of process discipline, stakeholder participation and creating a collaborative environment; support the adoption of SS through a centralised model. The benefits of a centralised model outweigh the support for a decentralised model as outlined in Figure 2.21.

PARI (2014) argues that the combination of outsourcing, decentralisation and fragmentation creates more opportunities for non compliant procurement to take place. The decentralised and fragmented institutional architecture of the state offers limited means through which disciplined organs of state can bring the ill-disciplined into line. It may be well that overcoming the challenges of SCM governance do not lie with greater centralisation and increasing bureaucracy, but with professionalisation of SCM practioners by recruiting them through competitive examination and promotion dependant on professional advancement.



**Figure 2.21: Decentralised and Centralised Structures**



Source: Setan (2013)

- Procurement Processes – ADR International (2013) explains the importance of adopting SS as a best in class supply chain management processes. The implementation of SS would require standardised item or service codification and the application of management methodologies relevant to the characteristics of each item or category. Furthermore, the measurement, approvals, conditioning, negotiation and supplier relationship management stages should be designed in line with the Supply Chain Management Policy and strategy of the SCM unit of the local municipality (Treasury, National, 2011). According to Ngcobo (2015), the implementation of all procurement processes should be coordinated and communicated well with the other functions in the organisation for synergy and compliance purposes.
- Learning / Skills - ADR International (2013) explains that SS teams will apply the category management process and deconstructing price methodologies, which would require on-going training and assessment of the staff involved. This entails the development of structured training plans and a review of the formal educational requirements, with an established and recognised professional body.

- SS – ADR International (2012) recommends the adoption of the category management process through the development and approval of a SCM framework, end to end process mapping, best practice guidelines and standard operating procedures. This would support the successful implementation of SS in the public sector. However, Setan (2013) lists the set of supporting documentation that has been developed by the Office of the Chief Procurement Officer for the public sector as being :
  - Strategic procurement framework with broad guidelines;
  - The SS process for the public sector based on best practice; and
  - The SS toolkit with templates to assist the SCM practitioners
  
- People – A review of the organisational design will inform the revision and approval of the relevant organisational structure (ADR International, 2012). The new and approved organisational structure would therefore define the guidelines for the new jobs, job and descriptions. Furthermore, the development of new key performance indicators for the new roles and job descriptions would be crucial in managing employee performance. The role of the human resources department would be to recruit the right people for the right positions.
  
- Technology - According to ADR International (2012), the adoption of the SS process would require best in class technology to support and extract the spend analysis information from the ERP system. The information needs to be accurate, but not necessarily complete to commence sorting and grouping. Information gathered during the data collection and analysis process can be consolidated by spend, supplier market, supplier, commodity characteristics and key drivers. Therefore, technology helps to access the information required easily in order to select the most appropriate sourcing strategy.

## **2.5 Summary**

This chapter provided the background to strategic procurement and described the SCM industry developments within the context of the public sector. It further explored the key factors that enable SS implementation along with the theoretical framework for strategic sourcing implementation. The next chapter focuses on the research design and methodology employed in this study.

## **CHAPTER THREE: METHODOLOGY**

### **3.1 Introduction**

This chapter discusses the research design and methodology including case study design, target population, sampling, data collection strategies, ethical considerations, validity testing, data analysis, and limitations of study.

### **3.2 Research Design and Methods**

Cohen (2011) defines a research design as a blueprint of the logical sequence of how the observed data are linked to the research question. Crabtree and Miller (1992) describes a research design as a plan that describes how, when and where data is to be collected and analysed. The choice of a research design is guided by the researcher's assumptions, skills and practices and influences the manner in which data is collected (Creswell, 2013)

Research is the process of collecting, analyzing, and interpreting data in order to solve a problem. Miller (1992) mentions that research originates from at least one question on a topic of interest. Research questions help researchers to focus thoughts and choose the appropriate research approach (Mertens, 2009). Research methods are split broadly into quantitative, qualitative and mixed methods. Quantitative research is used to respond to research questions requiring numerical data, while the qualitative research is used to respond to research questions requiring narrative data, pictures or observations. Mixed methods is a methodology for conducting research that collects, analyses and integrates quantitative and qualitative research.

This study focuses on whether the adoption of the strategic sourcing business process can improve the performance of a metropolitan municipality in South Africa. This research study followed the qualitative research method. This was the most suitable method to gain in depth understanding of SS in the context of eThekweni Municipality as the approach is relatively new to the public sector.

### **3.2.1 Qualitative Research**

Qualitative research helps to broaden the researcher's understanding of how things came to be the way they are in an environment (Mabuza, 2014). Hancock (2009) describes qualitative research as focusing on reports of experience or data which cannot be adequately expressed numerically. Cohen (2011) describes the qualitative approach as a systematic subjective approach used to describe life experiences and situations to give them meaning.

According to Wyk (2007) qualitative data collection methods emerged after it became known that traditional quantitative data collection methods were unable to provide rich data about real life situations and being more able to understand behaviour within its wider context. Noble (2015) criticises qualitative research for:

- requiring trust in interviewer's ability to collect data together;
- being dependent on interviewer skills, orientation and interpretation;
- not being sometimes accepted and understood especially within scientific communities;
- bias due to possible influence of the researcher in the process of data gathering and;
- findings being difficult to present in visual ways..

The rationale for using the qualitative method in this study was to:

- identify whether a meaningful need for strategic sourcing exists for metropolitan municipalities like eThekweni Municipality;
- obtain more insight on how strategic sourcing can be implemented in the context of a metropolitan municipality;
- understand the value that strategic sourcing can create for both internal and external stakeholders of eThekweni Municipality; and
- uncover potential strategic decisions that will need to be made by the political and administrative leadership of eThekweni Municipality

### **3.2.2 Research Strategy: Case Study**

A research strategy is a structured plan of action that gives direction to the researcher on how to conduct the research on time to produce quality results and detailed reporting. According to Creswell (2013) the most common research strategies for qualitative studies are phenomenology, ethnography, case study, action research and grounded theory.

However, for this research study, the preferred research strategy is the case study. The case study research strategy permits the investigation and understanding of complex issues through reports of past studies. It can be considered a vigorous research method, particularly when an in-depth investigation is required (Chaleunvong, 2009). Cohen (2011) argues that because a single case study results cannot be generalised to a wider population and are open to interpretation or observer bias. On the other hand, Creswell (2013) argues that a case study provide a more realistic response than a purely statistical survey.

In the case study of eThekweni Municipality, Africa Vukani (Pty) Ltd was appointed to oversee the adoption of the strategic sourcing and category management process. The project commenced in June 2008 until December 2014. The role of Africa Vukani (Pty) Ltd was to:

- manage the project to ensure ownership and timelines are met;
- support the sourcing teams with the application of tools and techniques;
- measure the reporting benefits;
- ensure that momentum is maintained to deliver value for money and cost savings; and to
- transfer skills to strategic sourcing teams.

At the outset, a detailed 24 month project plan was developed to phase in best practice around the key enablers of effective procurement with a focus on roles and responsibilities, cost management, target setting and measurement. Procurement was re-engineered to separate transactional activities from core procurement and cost management and a robust strategic sourcing process was introduced.

Through a series of workshops and on-site coaching the skills of procurement employees were significantly enhanced. Procurement staff rose to the targets and

challenges and quickly started to deliver significant and sustainable cost improvements. Procurement successes were made visible in the business through the engagement of internal stakeholders in the sourcing process, communication of targets and project reporting.

The high level summary of the SCM Excellence Project was as follows:

- Key Issues
  - there was a need to finalise the SCM organisation structure and appoint category specialists;
  - personal agendas threatened to derail the project;
  - lack of effective communication;
  - SCM unit needed to revisit the six key enablers and evaluate progress.
  
- Integration Issues
  - procurement capability needs to be developed for technical departments like Engineering
  - need to incorporate all SCM controlled projects into the SCM Excellence Project
  - further communication was required to distil the perception that the SCM Excellence Project will conflict legislation
  
- Targets and Benefits:
  - cost improvements or savings amounted to R60 million between 2009 and 2014;
  - best practise skills and knowledge was transferred from the Africa Vukani (Pty) Ltd team over to the eThekwini SCM team;
  - a draft SCM policy framework was developed that incorporated the strategic sourcing and category management principles;
  - strategic procurement guides specific for eThekwini Municipality were developed

- Next Steps:
  - Approval and implementation of the revised organisational structure to support the implementation of SS and category management;
  - SCM Unit to review, their business process mapping to incorporate strategic sourcing and category management; SCM Policy Framework; Best Practise Procurement Guidelines; Strategy document and the price increase policy
  - Development of an electronic contract register linked to the annual procurement plan and strategic objectives for eThekwini Municipality;
  - On-going staff training and development
  - Develop new job descriptions for the agreed structure
  - Roll out more strategic sourcing projects
  - Review and recommend a formal qualification route e.g. CIPS

Africa Vukani (Pty) Ltd along with the eThekwini Municipality sourcing team which was made up of senior management, technical staff, contract and purchasing staff collectively:

- identified strategic projects that were department specific and sector specific;
- raised the profile and competency of the procurement function across the metropolitan municipality; and
- caught the attention of key stakeholders through significant improvements in business service delivery from value add contributions from improved supplier relationships.

The staff members who made up the sourcing teams were identified based upon their knowledge and experience in managing the specific commodity categories that were identified during this project. This ensured that staff were not misplaced from their day to day roles but were more equipped to work smarter.

Since the SS pilot project, new sourcing initiatives to the value of R900 million have been identified within the financial period for 2016/2017 as reflected in figure 3.1. However, further investigation cannot support the evidence of further application of the end to end strategic sourcing process. The R900 million sourcing opportunities are specific to designated sectors which have the potential to unlock employment opportunities for the citizens of eThekwini Municipality. In this study only one



metropolitan municipality was selected. The limitation of a single case study analysis is the absence of external validity as sound basis for generalising the study findings (Hancock, 2009).

Figure 3.1 Sector Specific Sourcing Opportunities at eThekweni Municipality

Opportunities for localization within the EMU.

Unit	Category of Expenditure	CAPEX / OPEX / Stock Vote	2016/2017 Budget/ Contract Value (Rands)	Designated Sector	Current Proc. Method
Water & Sanitation	1. Valves	1. Stock Vote	1. +-R 50 000,000.00	1-Valves (75%)	1.WQ in place. New Tender spec to be finalized before approaching market
Corporate Procurement (SCM)	2. Office Furniture	2. CAPEX	2. +-R8206,653.20	2-Furniture (85%)	2-CAPEX
	3. Protective Work-Wear	3. Stock vote	3. +-R 10 000,000.00	3- Textile (100%)	3- Procurement on hold – new tender was at BAC 10/10/2016. Pending decision circular.
	4. Footwear	4. Stock vote	4. +-R 5 000,000.00	4-Footwear (100%)	4. Procurement on hold –BEC report circulating for signatures.
City Fleet	5. Buses	5- CAPEX	5. R100, 000, 000.00	5-Buses (bus body)(80%)	5- SCM to Start New Tender spec to be finalized before approaching market
Electricity	6- Power Cables	6. OPEX	6. *R 696,000,000.00	6. Power & Telecom Cables (90%)	6. Contract in place expires 30/11/2018
	7- Smart Meters	7.OPEX	7. * R 68,000,000.00	7.Residential Electricity Meter (50%)	7. Contract in place expires 31/04/2017
<b>Total</b>			<b>*R 937,206,653.20</b>		

Source: Ngcobo (2016)

### 3.3 Research approach

The research population, sample, sampling size, sampling process and procedure and the setting were discussed.

#### 3.3.1 Research population

Chaleunvong (2009) defines population as the total number of units from which data can be collected. Cohen (2011) describes population as all the elements that meet the criteria for inclusion in a study.

The criteria for inclusion in this study were:

- Public sector employee and;
- Working within Supply Chain Management Unit of eThekweni Municipality.

Therefore, the population of this study was made up 147 supply chain practitioners (ODCM, 2014).

### **3.3.2 Sample**

Cohen (2011) defines a sample as a proportion of a population. The sample in this study was chosen from supply chain practitioners employed at eThekweni Municipality. A carefully selected sample can provide data representative of the population from which it is drawn (Hancock, 2009)

### **3.3.3 Sampling size**

Hancock (2009) argues that the sample size does not influence the importance of a study and that there are no guidelines in determining sample size in qualitative research. Sampling continues until saturation is achieved and no new information that can be generated (Cohen, 2011). In this study, the total number of different categories of supply chain practitioners that were listed was 10. The list was given to supply chain management top management. The researcher worked in conjunction with the management in choosing participants, based on their level of experience in strategic sourcing as well as experience and exposure to the Africa Vukani (Pty) Ltd project. There were 15 potential participants, of whom only 8 participated in the study. Some of the supply chain practitioners were not available as they were either off on leave or writing exams, while others did not want to participate in the study.

### **3.3.4 Sampling process**

Creswell (2013) describes sampling as a process of selecting a group of people from a population of interest so that by studying the sample the researcher may generalize the results back to the population. Purposive sampling is an example of non-probability sampling because the researcher chooses the sample based on who they think is appropriate for the study (Hancock, 2009). However, the disadvantage of purposive sampling is that the samples are not the ideal representation of the population due to potential subjectivity of researcher (Black, 1999).

Purposive sampling was used in this study. Participants were selected on the basis of their knowledge, relationships and expertise on SS and category management. The sample size was made up of 8 supply chain practitioners. The rationale for choosing this approach was that the researcher was seeking to understand through the sample chosen whether the implementation of SS could benefit the performance of eThekwini Municipality. In this study only supply chain practitioners who were eligible were purposively chosen to participate in this study.

### **3.3.5 Sampling procedure**

Sampling of the participants was done as follows:

- The researcher sought the assistance of the SCM management of eThekwini Municipality to identify potential participants;
- Possible participants were selected after the researcher pre-selected participants according to the criteria under section 3.3.4;
- The research project was explained to the prospective participants who were on the short- list and they were asked personally if they wanted to take part in the research; and
- The researcher selected the prospective participants was invited to a face to face interview; and
- In the event of that the identified participant was unavailable for the study; he or she was asked to refer colleagues with similar experience and knowledge.

### **3.4 Data Collection instrument**

According to Hancock (2009), a research instrument is a tool used to collect data. A research instrument is a tool designed to measure knowledge attitude and skills. In qualitative research, the data collection methods include observations, textual or visual analysis and interviews. The primary data was collected through face-to-face interviews with the sample. In addition, the National Treasury SCM Review (2015) and eThekwini Municipality policy documents were analysed.

**Table 3.1: Data Collection Sources**

Data Collection Sources	
Primary Sources	Secondary Sources
Face to Face interviews: open ended questions	Academic literature: textbooks, conference papers, journal articles, theses and dissertations
	Government documents: eThekweni Municipality Supply Chain Management Policy; National Treasury's SCM Review document for 2015 and 2016;
	Professional body websites : CIPS, Smart Procurement

Source: (Petersen, 2016)

### **3.4.1 Face to Face interviews**

According to (Mabuza, 2014), face-to-face interview is a data collection method used when the interviewer directly communicates with the respondent in accordance with the prepared questions. This method enables to acquire factual information, evaluations, attitudes, preferences and other information from the respondent. Thus, the face-to-face interview method ensures the quality of the obtained data and increases the response rate. However, Finn (2008) notes that face to face interviews are subject to bias, are time consuming and costly, as compared to other data collection methods.

The researcher met with at least one participant weekly for 30 minutes over a two-month period. The researcher scheduled the interviews at a time that was convenient for the participants. The interview questions were open-ended questions to allow the participants the opportunity to describe their experiences. They were audio-recorded and transcribed with the permission of the participants. According to Hancock (2009), note taking is an important activity, but it might disturb the participants. To limit this, the researcher informed the participants that notes would be taken during the interview.

The interviews were conducted in the offices or boardrooms of the Supply Chain Management Unit of eThekweni Municipality, or alternatively, a quiet room was arranged specifically for this purpose. These interviews ensured that participants conversed with the researcher with openness and confidence. Due to the sensitivity of the information pertaining to the study, it was necessary to maintain a sense of

sensitivity to participants' discomfort relating to sensitive issues and experiences. For this reason, a debriefing was offered to participants if needed, immediately after the interviews or at a time convenient to the participants. To increase trustworthiness of the data generated through the interviews, the researcher made sure that the voices were recorded verbatim using a digital voice recorder. Participants' consent was obtained before recording. Data from the interviews was transcribed in order to reflect on what had been discussed when summarising the findings.

### **3.4.2 Document Analysis**

Document analysis is a systematic procedure for reviewing or evaluating documents in order to gain understanding on the research topic (Mertens, 2009). Mabuza (2014)) describes document analysis as being often used in combination with other qualitative research methods as a means of triangulation. By triangulating data, the researcher attempts to reduce the impact of potential biases that can exist in a single study (Creswell , 2011). Furthermore, the purpose of triangulation in qualitative research is to increase the credibility and validity of the results (Tosey, 2012). In this study, the analysis of the AG reports, Africa Vukani Pilot Project documents, NT's SCM Review as well as the SCM Policy (2016) for eThekweni Municipality:

- provided insight in the performance of public sector SCM under the traditional approach to procurement and help to understand the need for NT to transform procurement to the strategic sourcing approach;
- helped to generate new interview questions;
- can be used to supplement interview data;
- provide a means of tracking changes and development within the metropolitan municipality in line SS adoption by NT of SS; and
- can be used to verify findings through converging information from different sources.

However, a major problem is that documents may not have been written for the same purpose as the research study and therefore conclusions will not usually be possible from document analysis alone (Mabuza, 2014).

### **3.5. Ethical Considerations**

Ethics are a crucial aspect of qualitative research because human beings are involved along with confidential information (Mabuza, 2014). In this study, the researcher took all the steps necessary to ensure that ethical considerations were not upheld, respecting both those who contributed towards this study, as well as the work of other researchers who have looked at the similar studies.

The researcher obtained the relevant gate keeper's letter from eThekweni Municipality granting permission to conduct the study with the relevant individuals within the SCM Unit. An invitation was communicated to the interviewees and a copy of the ethical clearance from UKZN Westville was obtained and made available prior to meeting with the interviewees.

All interviewees were briefed about the purpose of the study. The consent form was read in full and the respondents were given the option to participate in the study. The researcher also ensured that minimal information was shared with the respondents regarding the study at this early stage. This was done to prevent shaping the responses of the interviewees. The interviewees' consent to be involved in the study was obtained through the signing of a consent form (see Appendix B), along with the go ahead to have the interview voice recorded through a mobile phone. The interview commenced thereafter.

Undertaking the study caused no harm to any respondent and those who wished to remain anonymous were respected in that regard. The respondents had the right to withdraw from the study should they have felt the need to.

### **3.6 Validity and Reliability**

Creswell (2011) describes an account as being valid or true if it represents accurately those features of the problem, which it is intended to describe or explain. Validity is concerned with whether the instruments used for measurement are accurate and whether they are actually measuring what they want to measure (Mabuza, 2014)

Chaleunvong (2009) argues that the use of multi-methods for examining one issue endorses the findings of the research and increases the validity of the data. In terms of the current research, validity was achieved by undertaking both face to face

interviews and document analysis to answer the research questions from different angles and strengthen the validity of the findings. Moreover, all the questions posed in the interviews were directly linked to the research's objectives

Data was also transcribed and analysed with a very high degree of accuracy, for instance some English native speakers assisted the researcher to recognise the unclear taped conversations of some interviewees. Furthermore, two of the seven transcriptions were validated and rechecked with the participants to ensure the correctness and the accuracy of the data. Finally, all secondary sources of data used were initially assessed to determine the validity of the information given.

On the other hand to satisfy the need for reliability, the research questions and questionnaires for the study were analysed to see the degree of consistency in addressing the research objectives at hand. To this end, ambiguity in wording and unclear questions on chosen research questions and questionnaire for the study were removed or corrected subsequently.

### **3.7 Data Analysis**

The analysis of qualitative data is a process that involves the organising, recording and explanation of data (Cohen, et al., 2011). Once the data are collected, they are simplified and organised through coding. The data are then displayed well through tables or charts that would allow the researcher to draw clear conclusions (Creswell, 2012).

Miles and Huberman's qualitative methodology approach was applied in the analysis of data in this research study (Miles and Huberman, 1994). The researcher used Miles & Huberman's (1994) approach to data analysis. Transcribed interviews and field notes were thoroughly read by the researcher so as to understand what the respondents were saying.

- Data reduction: This refers to the process whereby the qualitative data that was obtained through the interview transcripts. This data was reduced and organised, into themes, sub-themes through writing summaries, and discarding irrelevant data. At this stage, all irrelevant information, the researcher should be discarded, but there is need to ensure that there is access to it later if required, as unexpected

findings may need the researcher to re-examine some data previously considered unnecessary. Therefore, all interview scripts and recordings were filed safely and archived respectively by the researcher.

- **Data display:** To draw conclusions from the mass of data, Miles and Huberman suggest that a good display of data, in the form of tables, charts, networks and other graphical formats is essential. This is a continual process, rather than just one to be carried out at the end of the data collection. In this study, the researcher grouped the common raw data into themes and sub-themes and displayed this information onto table format for ease of use.
- **Conclusion verification:** The analysis of the data allowed the researcher to begin to develop conclusions regarding the study. These initial conclusions can then be verified, that is their validity examined through reference to the existing field notes or further data collection.

### **3.8 Limitations of the study**

While there is extensive literature on SS in the public sector, however there are very few studies within South Africa that address this studies research questions. The researcher also struggled to get hold of journals and books on the subject specific to metropolitan municipalities in South Africa. To make matters worse, the only documents on SS in the public sector by NT are in the context of national and provincial departments of South Africa. As a result, interpreting data became a challenge because the researcher did not have enough literature to support his argument. However, with that said, the interpretation and discussion of findings was done to the best of the researcher's ability and was presented in an academic manner. The researcher also recognizes that this research intends to fill the existing gap on this study topic.



### **3.9 Summary**

This chapter outlines the research design and methodology that was employed by the researcher through explaining the Africa Vukani (Pty) Ltd case study in depth. The chapter further discussed the associated benefits and future requirements that eThekweni Municipality should consider in order to implement SS projects continuously. It goes on to identify the target population and sample for this study as well as how the participants were selected.

Thereafter, the data collection tools are presented in the context of this study, followed by the ethical considerations that undertaken by the researcher in this study. The validity of the study section emphasises the importance of data collection tools again, while the analysis of data gives an explanation as to how the researcher made sense of the data and drew conclusions from them. Finally, limitations of the study were discussed while recognising the importance of this research study in order to fill the gap. The next chapter focuses on the data presentation of the face to face interviews and literature.

## **CHAPTER FOUR: DATA PRESENTATION**

### **4.1 Introduction**

The previous chapter explained the research design and methodology that was used in this research study. In this chapter, the researcher presents the responses of the participants of the face to face interviews along with drawing onto key aspects of the previously discussed literature review

The undertaking of this study was motivated by the repeated negative public sector reports from the Auditor-General on fruitless, irregular, wasteful and unauthorised expenditure fluctuations, following the establishment of the OCPO. Furthermore, the transformation of public procurement from the traditional to the strategic approach has been predominantly well directed from the OCPO. This has informed the main research question which describes how SS has been implemented across the public sector. In answering this main question, three other questions were posed, which were:

- How can eThekweni Municipality's procurement performance benefit from implementing SS?
- What factors must be considered for enabling the adoption of SS?
- (i) What value can be expected from adopting SS in a public sector?
- (ii) How do we measure the performance of SCM and the organisation, with the adoption of SS?

This chapter elaborates on the findings that emerged from the interviews carried out with the Supply Chain Management staff of eThekweni Municipality, while also taking into consideration the Africa Vukani (Pty) Ltd case study. The findings are presented under themes and sub-themes from the data collected from the field. The researcher makes use of literature and the theoretical frameworks discussed in the Chapter 2 to analyse the findings. Three themes which are related to each of the three questions posed by this study emerged. These are outlined below, with the respective sub themes.

**Table 4.1 Structure of data presentation**

Themes	Sub themes
Strategic Sourcing on Procurement Performance	Control of public expenditure
	Local employment creation
	Cost Management
	Stakeholder Buy In
Key Factors for Strategic Sourcing	People
	Technology
	Learning/Skills
	Organisational Structure
	Processes
The Creation of Value	Governance
	Supplier Relationship Management

Source: (Various)

#### 4.2 Strategic Sourcing on Procurement Performance

This theme describes how the implementation of the SS business process can improve the business performance of an organisation. The sub themes that emerged from this main theme are control of public expenditure, local employment creation, cost management, stakeholder buy in and aligning stakeholder and business needs to performance measures.

SCM Manager for Electricity said that: *“the key to implementing any business process is to understand our SCM maturity level as an organisation and work progressively to move from where we are to where we desire to be. Rome was not built in a day”*

The CPO mentioned that *“it is our duty as management to manage our business processes to limit the reoccurrence of the same problems which may limit our ability to perform better than in previous financial periods. Furthermore, we have seen from our pilot project that SS adoption can and will stimulate local production and employment. Our local business people have suffered much from cheap imports which have left our people begging for bread. The time has come – it is clear that the OCPO has identified sector specific projects that will help alleviate the current challenges faced at a local government level. For us, it is clear that SS can benefit both our people*

*and helps us to realize our goals as a city. Our past sector specific projects and department specific projects proved to us the potential and capability of SS to create sustainable local employment opportunities through established and B-BBEE service providers. Most of this service providers have been excluded from their rightful place due to low pricing brokers who have cost us millions and tarnished our reputation. The manner in which awards are made under SS is comprehensive in the approach and save guards our institution from price determined awards only – we know that B-BBEE point have little or no impact and that this has only invited more brokers into the system..a thorough analysis of the TCO coupled with supplier matching through SS will take us to new heights just as been achieved by the likes of Transnet and National Treasury”*

The Tenders Manager stated that *“the silo approach to work was one of main reasons repeated mistakes were encountered in the procurement of goods and services. Sourcing teams would need to be cross-functional if they are to prosper.”*

The SCM Manager for Water stated that *“through the strategic sourcing process we were able to understand how much we were spending and with whom. It opened up our eyes to the impact of not outlining a sourcing strategy from the onset. This stage within the SS process for me is crucial for us to make real changes on the ground when we start speaking of localisation and designated sectors.”*

The SCM Senior Manager for Corporate Procurement stated that *“SS will help us to adopt a new approach to procurement and will transform the attitudes of both internal and external stakeholders. SS will make it so that both technical departments, SCM, legal advisors and suppliers meet often to discuss ways to improve the way we do things. For me, SS is long overdue and the results will speak for themselves. We can see it in the private sector and also on the procurement performance of National Treasury – we can benefit from this a lot.”*

The Technical Purchasing Officer for Corporate Procurement advised that *“after awarding any public contract, one of the greatest challenges we face is price increase requests from our contractors. This is a huge challenge, especially for our strategic goods and services that are outsourced. When dealing with public funds, we need to*

*guard against the mismanagement of other people's money. From the SS and category management training courses that we have attended through ADR, I believe that through understanding the total costs of ownership, we will be in a better position to negotiate and get value for money. The good thing about SS is that it will empower our contracts and buying staff to enquire and better understand the cost drivers for the categories that they manage. We want to maintain our clean audit status as a city by looking deeper into the tendered price. We want to give key business to key local suppliers who will allow us to understand all the components that validate their pricing. We hope that through the SS process this will be achieved”.*

*The Deputy Head for Policy and Support mentioned that:”I appreciate the structured process of SS. It gives one peace of mind knowing that what you put in is what you will get out of the system. By this I mean, effort. SS is taxing on all parties but the benefits will outweigh the pain. This is an opportune moment also for our city to build from the recent clean audit. What better way than to implement a recognised best practise that will boost procurement performance and give us a better name with AG and the public”*

*The CPO for eThekweni Municipality stated that “through the strategic sourcing process we will have better planning that is cross functional, standardised process used across the board which will lead to awards to the best suited service providers and even better, the contract management and negotiation techniques built into the SS process will ensure that we have tight control over the approved funds and in the process we can make savings. Cost Savings have been a dream that seemed so far but with SS it will become a reality, we saw that in the project we conducted with Africa Vukani and ADR. Our city leadership has been putting a lot of pressure on SCM to report on this but with the decentralized or supposedly centre led structure we have it has not been easy. I don't want to get carried away.....can we proceed to the next question...”*

*The SCM Manager for Customer and Supplier Relations stated that “it is such a pity that I am leaving the SCM Unit before the full implementation of strategic sourcing process. From my experience and through interacting with our customers and*

*suppliers, the way in which we working is counting against us. The public and departments have lost hope in the SCM process because what we say we want to achieve and what we achieve are completely misaligned. For starters, we award strategic projects to any mickey mouse company with very little if any experience and when we have stock outs, we quick to blame suppliers. What I like about strategic sourcing is that it helps us to match the right suppliers with the right commodities in terms of the portfolio approach. The good thing about SS is that its not new to eThekwini and suppliers will welcome it because at the moment, we have one supplier being a jack of all trades leading to service failure. Im sure our city leadership will welcome this as it will open up opportunitites for us to spread the cake across to more parties in the community – (laughs...you know I mean the budget right, Shenge!)*

#### **4.3 Key Factors for Strategic Sourcing**

This theme describes how the key factors that will support the implementation of the SS business process. The researcher asks each participant to explain from their perspective through the interview in order to get a better understanding within the context of eThekwini Municipality.

SCM Manager for Electricity said that: *“the key factor for our organisation is people. We need to hire the right people for the right positions and equip them with the right resources. We cannot expect organisation to effectively implement SS with the people we have – not from my view – unless there is a serious change in attitude and commitment coupled with continuous training and development.”*

The CPO mentioned that *“ is the conclusion of the new SCM framework and the adoption of the methodology used by National Treasury will help to guide compliance by all parties which will lead to an improvement in the performance of SCM – on the same note getting the organogram approved with the revised job descriptions will also help the SCM unit to take its central lead role across the city on the SCM activities”*

The Tenders Manager stated that *“the new structure will inform a lot of what will be done. We don’t have sourcing teams at the moment nor do we have category*

*specialist- where does one start without the right structure. While other units continue to expand their structures with SCM positions, we have not changed at all. This is one of the reasons why we have such a high staff turnover. Staff are not motivated to study within SCM nor stay- something needs to happen”*

*The SCM Manager for Water stated that “the current ERP system is working against us, how much more when we start implementing the strategic sourcing process on a wider scale than the pilot project. Much attention needs to put on having the SS process automated but with the right technology. We just need to look to NT and piggyback of the contract that they have in place for the ERP system they use. We cant expect to achieve much with the technology we have now- the pilot project with Africa Vukani showed us all our strengths and weaknesses –lets act on this learnings.”*

*The SCM Senior Manager for Corporate Procurement stated that “for me the organogram being passed will open opportunities for us to attract the right people, currently our capacity is limited and we could do with some fresh thinkers. Most of our staff is senior with experience and knowledge within the traditional approach to procurement. While they add value to our operations we need young energetic warm bodies. I always say that you cannot keep the cat that does not catch the mouse. Most of us are not fully aware of what the hold up is with the organogram but it will cost us if we have further delays especially in the area of localisation”*

*The Deputy Head for Supply Chain Operations mentioned that :”one has to make reference to the project led by Africa Vukani and put measures in place to cover all those gaps. An extensive report is available for you to cite. But for me, decisions need to be made quick and fast – we know what we want and budget needs to be provided to us. We have done all the consultation but without funding, we cannot move forward much and I understand why our staff is demotivated – to me SCM has not been seen as strategic because of its decentralised structure. A change in thinking at the top will help to change the perspective also on the ground. It’s a pity that having pioneered SS initiatives in the country before NT that we find ourselves 8 years down the line in more or less the same state”*

The Deputy Head for Policy and Support eThekweni Municipality stated that *“for me we need to revisit also the DNA testing within our SCM Unit if we are to lead the implementation of SS. The current compliment of staff will either make things happen for us or break us. I hope that Sandile, you can resuscitate the DNA testing which we did with Africa Vukani and furthermore that the outcome of it may be considered in any decisions that need to be made going forward.*

The SCM Manager for Customer and Supplier Relations stated that *“I have seen the templates and tools that were given to us from Africa Vukani and some from NT. The staff compliment and way we are currently structured and how we have allocated departments to contracts and buying staff will hinder our success. SS looks for category specialist but we current have generalist who buy anything and everything for the departments they service. The silo approach in which we work will also mean that duplication of effort will continue. Im not sure how this can be prevented- we can start grouping strategic commodities to specific teams but that decision rests with the Head of SCM. We need to start somewhere now and improve as we go.”*

#### **4.4 The Creation of Value**

This theme describes how the implementation of the SS business process can create sustainable value for the organisation. The sub themes that emerged from this main theme are supplier relationship management, demand and contract management.

SCM Manager for Electricity said that: *“the structure way in which SS helps the sourcing team develop the source plan in its entirety from demand planning to understanding the cost drivers going into pre and post negotiations will put us in a better footing – we saw this in the pilot project with Africa Vukani. There is so much value that we forgo from the current haphazard way in which we working:*

The CPO mentioned that *“the value that we got from understanding how to manage the supplier relationship during the Africa Vukani project actually benefited us much because our perspectives changed for each group of suppliers and we found out that our suppliers have much more to offer us than we knew. The assumption that all*



*suppliers are poor performing and see us as cash cows has dented the opportunity for us to learn more from them. We need to seriously look into enterprise development alongside SS and category management because there are a lot of untapped opportunities that can be of value to the City”*

The Tenders Manager stated that *“the tools from SS will serve to guide demand management right through to contract management and through this we can expect to get value for money”*

The SCM Manager for Water stated that *“if one had to look at the opportunities that have been identified in the current year for SS projects, you would realize that the City and its people could stand to benefit tremendously. With over R900 million in opportunities that can be directed to local entrepreneurs, we could see some creative solutions come out. But I am also skeptical because the same organisations may be getting the work. Our local entrepreneurs are not specialist and mostly middle men which means that non B-BBEE compliant service providers or well established companies stand to gain from SS. Yes we will get value for money but at the expense of inexperienced local entrepreneurs – we need to bridge this...another area for you to research Mr. Buthelezi...Hahahaha...you need to start making a family or else we will keep loading you with things to do”*

The SCM Senior Manager for Corporate Procurement stated that *“understand what drives the costs of suppliers pricing will help us to match ourselves with the right service providers – yes we will gain more value but what will be the position of political leadership on this as few suppliers stand to gain at the expense of the masses”*

The Deputy Head for Policy and Support mentioned that *：“when the SS process is in place, we will be able to eliminate inefficiencies in the early stages of the SCM process – we currently lose much value for the organisation due to poor planning. I always say what you put in is what you get out – the SS process directs sourcing teams to plan without giving them much of a choice – this we welcome especially as a member of the bid evaluation committee, we have seen how costly poor planning has been in the past”*

The Deputy Head for Supply Chain Operations mentioned that *“the sooner we adopt SS, the sooner we will stop paying brokerage fees. SS allows us to understand the entire supply chain with its risks and through risk management planning built into the SS process we will not only create value but sustain it”*

The SCM Manager for Customer and Supplier Relations stated that *“SRM is the most important contributor to value creation. SS is a success because it offers a structured way of assessing suppliers, matching them and managing the relationship. As much as we know the theory but the Africa Vukani project alone proved to us how quickly the perspectives of suppliers and staff changed and how beneficial it was for both parties.”*

#### **4.3 Summary**

This chapter has provided the findings for this research study. It described the three themes namely; SS and organisation performance; training, development and retention of SS teams and the creation of value through supplier relationship management. These themes and their sub-themes emerged in relation to the study's objectives and research questions. The findings were helpful in bringing a better understanding of how SS can be implemented within the context of the public sector. The next chapter is a discussion of the research findings presented.

## **CHAPTER FIVE: DATA PRESENTATION**

### **5.1 Introduction**

The purpose of this chapter is to present a discussion of the research findings pertaining to the implementation of SS at eThekweni Municipality. The chapter discusses findings outlined in conjunction with previous studies conducted locally and internationally. This will assist to accept or reject the findings of this study, in order to provide a value adding contribution to solving the business problems faced by eThekweni Municipality.

### **5.2 Analysis of Findings**

#### **5.2.1 How can eThekweni Municipality's procurement performance benefit from implementing SS?**

The eThekweni Municipality single case study whereby Africa Vukani (Pty) Ltd was appointed to implement SS between 2008 and 2014 provides some findings. The goal of eThekweni is to lead the way amongst metropolitan municipalities in linking its buying power to the priorities of government in supporting local industry, promoting economic growth, development of B-BBEE compliant suppliers and improving the quality of service delivery through a reformed procurement process.

eThekweni Municipality selected ADR to support a procurement change project and develop the skills of procurement staff on strategic sourcing influencers. The change programme was supported by senior management and the procurement staff embraced the challenge of implementing new procurement processes, target setting and measurement.

The change programme led by Africa Vukani aimed to:

- transform the SCM Unit to a "Centre of Excellence" through implementing the introduction of SS and category management;
- improve the skills level of the current staff; and
- to deliver cost savings to the eThekweni Municipality.

However, the key achievements from the change programme were:

- realised cost savings amounted to R14 million while forecasted savings that were not realised amounted to R46 million between 2009 and 2014;
- best practice skills and knowledge was transferred from the Africa Vukani (Pty) Ltd team over to the eThekweni SCM team;
- a draft SCM policy framework was developed that incorporated the strategic sourcing and category management principles;
- strategic procurement guides specific for eThekweni Municipality were developed

#### *5.2.1.1 Savings*

Strategic sourcing provides government with a tool to generate up to 20 percent of the cost of goods and services purchased (National Treasury, 2015, p.9).

eThekweni Municipality estimated R46 million in savings from a budget spend of R336 million during the change programme. While cost savings and procurement value were estimated to be achieved through the sourcing projects identified, they were not sustainable in the absence of the Africa Vukani personnel according to SCM staff who were interviewed. There is also no record of further sourcing projects that were pursued after the pilot project to measure subsequent cost savings.

However, the savings that were realised amongst categories managed on the change programme ranged between 10 to 30 percent (Ngcobo, 2015, p.13). According to CIPS (2016), savings may result from three broad types of procurement:

- **Renewal:** where the term of a contract has lapsed and it's renewed through a procurement activity. A renewal activity often has a strong historic baseline that you can use to compare and quantify the savings/benefits the activity creates. However, any specification changes should be identified and considered in the comparison;
- **New:** when procuring products/services for the first time. New procurement also requires an appropriate and realistic baseline for comparison (budget); and

- Renegotiation or improvement of terms: is an interaction with an existing supplier that results in savings to the business without a formal procurement process. The savings can result from reduced delivery costs or bulk ordering that leads to supplier discounts.

Thus, from the case study it was not clear how the savings were realised.

#### *5.2.1.2 Skills transfer or Training and Development*

While the skills of those staff members that were managing the categories used was developed, it has been unutilised since the change programme ended. ADR International (2012) argued that eThekweni Municipality needed to:

- revise job descriptions in line with the new organisational structure;
- fill new positions such as category specialists; and
- develop KPI for SS; and
- implement measurement and review.

The contracts and buying staff cited labour issues besides the need for a refresher course, when interviewed on how many sourcing projects were concluded after the change programme.

#### *5.2.1.3 Strategic Sourcing Process*

According to Bandaru (2015), the implementation of strategic procurement requires that the procurement goals be:

- In line with the corporate goals of the organisation;
- Developed in harmony with the procurement function's vision, mission, strategy and values;
- Communicated well inside and outside the organisation;
- Encouraging local participation; and

- Simple, meaningful, attainable, rewarding and trackable.

From the case study Africa Vukani (Pty) Ltd highlighted the need for:

- the SCM framework which incorporates SS and category management to be reviewed and adopted; and
- Review of and roll out of all standard processes in line with SS.

NT has developed a strategic procurement framework, SS process for the public sector and a toolkit of templates to assist practitioners (National Treasury, 2015, p.11). Despite these documents and guidelines being made available through National Treasury and some through Africa Vukani Pty, eThekweni Municipality has yet to conclude its own develop strategic documents that are specific to a metropolitan municipality. However, there is an expectation from SCM leadership for sourcing projects to be identified and managed.

The interviews reveal that staff are expected to apply strategic sourcing principles without standard operating procedures or revised policy framework being issued. The absence of a formal policy framework may result it being difficult to hold staff accountable for their actions.

#### 5.2.1.4 Local employment creation

Deputy Head for Policy and Support stated that, *“SS adoption can and will stimulate local production and employment. Our local business people have suffered much from cheap imports which have left our people begging for bread. The time has come – it is clear that the OCPO has identified sector specific projects that will help alleviate the current challenges faced at a local government level. For us, it is clear that SS can benefit both our people and helps us to realize our goals as a city”*

Boateng (2015) mentioned that some of the keys to long term job creation, improved public sector efficiency and performance may lie with SCM leading the adoption of SS (p.21-25). The proper adoption of SS can lead to significant improvement for public sector organisations. A well-developed SS strategy can improve the economic

capacity of a municipality or province or nation by increasing demand for local service providers (Boateng, 2012).

The development of SMMEs empowers the socio-economically disadvantaged and facilitates wealth redistribution. Through job creation, SS can expand the local tax base for the government of South Africa (the dti, 2016). Regrettably, there is a lack of understanding to the concept of SS and its link to job creation and associate socio-economic growth (Boateng, 2015).

## **5.2.2 What factors must be considered for enabling the adoption of SS?**

### **5.2.2.1 Organisational Structure**

However, international literature supports the findings from the pilot project, in that eThekweni Municipality needs to have the correct organisational structure that would complement their business model. The current organisational structure is not aligned with the strategic procurement approach and is leading to high staff turnover with no certainty on the finality thereof.

From the interviews, most participants identified, the structure of the SCM unit within eThekweni Municipality as being decentralized unlike the OCPO's structure.

Furthermore, the SCM structure of eThekweni Municipality reflective of the six functions of the OCPO which are:

- SCM Client Support;
- SCM Policy, Norms and Standards;
- SCM Governance, Monitoring and Compliance;
- SCM Information, Communication and Technology;
- Strategic Procurement; and
- Transversal Contracting

This limitation presents a barrier for eThekweni Municipality, or any local government entity seeking to implement SS. The decentralized structure means that the opportunity to leverage from economies of scale is minimal to only SCM controlled contracts for eThekweni Municipality. The pilot project in itself only covered certain categories of expenditure which were SCM controlled, which accounted for less than the 67% of the capital and operational budget. The significance of the cost savings would be most appreciated where it matters the most. The pilot project was not able to list the top 20 high spend categories in the city budget which account for 80% of the budget. Furthermore, the pilot project was limited to a specific time frame and value derived from sourcing strategy was lost due to poor contract management. There was no continuation or further reporting done on savings. It was as if the power supply was removed.

The perception of SCM at eThekweni Municipality is not strategic as reflected by most respondents. However, international studies explain that one of the reasons for the current limited socio economic impact of SS in Africa include, amongst others, the perception that the SCM function is a combination of tactical and operational activities, rather than a strategic function. While SCM is accountable for reducing unauthorised, irregular and fruitless and wasteful expenditure, it lacks the central power to govern how departments spend their budget. The Chief Financial Officer oversees the Head of SCM. However, the industry is highly critical of this reporting structure. There are no examples of consequences for those who were responsible for maladministration of public funds, besides several threats from top leadership. The highly unionized and political environment is challenging for managers to manage their staff, especially in the SCM unit. Previous reports from the Auditor-General reflect this amount as exceeding R30 billion across the public sector.

Procurement success can be made transparent within the organisation through the engagement of internal stakeholders in the sourcing process, communication of savings achievements and targets, as well as reporting on business performance benefits (ADR International, 2013).

Most contract administrators were of the view that “*although the pilot project yielded significant motivation through savings achieved, the buy in from all line department was absent as many were not involved in the pilot project because of resource*



constraints. A full roll out of SS on key budget items would stimulate the need buy in to motivate for more SCM staff and salary scale adjustments.”

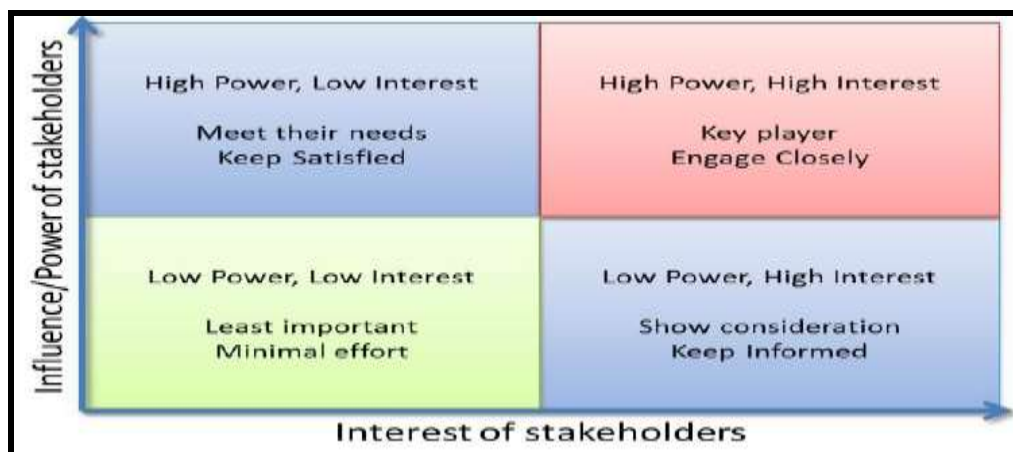
Some of the buyers mentioned that “the scope of work in SS is much wider that what we were employed to do in terms of our job descriptions that are currently in place. We are demotivated to initiate SS projects as the workload is greater. We have need to consult with our shop stewards now.”

Schoemaker (2013) recognised that strategic leaders need to ensure that they:

- Identify key internal and external stakeholders;
- Map their positions on new initiatives and pinpoint any misalignment of interests;
- Structure and facilitate conversations to minimise areas of resistance;
- Be vigilant in monitoring stakeholders’ positions;
- Recognize and otherwise reward colleagues who support team alignment.

Harris (2016) mentions that stakeholder buy-in must be managed well in order to reap the full benefits of business process management. The key stakeholders in business process management for eThekweni Municipality are the executive council, senior management, corporate human resources, labour unions and staff (Mawire, 2016). Littau (2015) recommends the power/interest grid for assessing and managing stakeholders. Figure 5.1 clearly indicates not only the stakeholders’ level of power and interest, but also serves to guide how each stakeholder can be managed.

**Figure 5.1 Power-Interest Stakeholder Grid**



Source: Littau (2015)

Mawire (2016) fears that poor stakeholder management could lead to business process management failure. However, through the power-interest stakeholder grid, this can be better managed for each respective quadrant as follows:

- High power, interested people must be fully engaged and great effort must be made to satisfy their requirements.
- High power, less interested people need to be kept satisfied with high level information to develop enthusiasm.
- Low power, interested people ought to be kept well informed through constant communication. A high level of integrity is needed when dealing with this group, as they can be very helpful with the success implementation of the business process within the organisation.
- Low power, less interested people must be closely monitored and informed with high level communication in order to develop awareness and enthusiasm.

#### 5.2.2.2 People

The participants mentioned that staff were generally demotivated because of the increasing workload and expectations that came with the increasing budget, council wards, legislative changes within SCM, no clear succession planning, remuneration packages and the absence of cohesion within the SCM branches. The current SCM processes take too long due to red tape and conflicting views between SCM practitioners, legal representatives, technical experts and bid committees. This has resulted in high turnover rate, which impacts on productivity. Furthermore, the slow rate at which the public sector fills vacant posts worsens the capacity of SCM. The use of graduate interns to fulfill permanent staff duties places the organisation at high risk. The industry standards require that the right people be appointed for the right jobs. Some of the top leadership members recommended that DNA testing of the staff be performed to help serve as an indication of the skill set of its staff at hand.

Koketso (2011) highlights the vacancy rates and the slow pace of filling posts as major challenges contributing to the problem of service delivery within national and provincial departments, as well as local government. The Public Service Commission (2015) lists the number of factors that are barriers to effective succession planning in many public sector organisations, including:

- The assumption that employees' retirement options are not a matter for discussion;
- The perception that predetermining the best candidate for a position resembles favouritism; and
- The principle of seniority as the primary factor in promotions in both union and non-union environments

An angry SCM supervisor in the contracts section stated that: *“our bid committee members have limited knowledge on how local content, strategic sourcing and how we spend our budget correlate. I say this with respect, but it’s like we always having to put up a fight with them to serve the best interests of the city”*

According to (National Treasury, 2015, p.15), to support the development of individual and organisational SCM capacity, NT has engaged in the following activities that will benefit all spheres of government:

- development and implementation of an SCM competency framework that defines the knowledge and skills required to operate effectively within an SCM unit.
- development of an SCM master curriculum which will be aligned to the specific needs of the public sector; and
- development of an individual skills development assessment toolkit to help individuals and institutions to identify their SCM human resource development needs.

eThekwini Municipality is highly committed to the training and development of their employees as a key tool to sustainable performance throughout the entity. The staff is equipped with public sector and profession specific knowledge and skills that improve

their employability and productive capacities (eThekweni Municipality, 2016, p.48). However, workers who have received profession specific training tend to leave their work more often for better employment opportunities (Kennedy, 2009).

The Training and Capacity Development Manager for SCM said: *“while training plans were in place for SS and category management, the staff was demotivated due to the workload and absence of an approved SCM organogram. We will win the battle as soon as we have a clear structure with revised job descriptions. At the moment, we are just ticking boxes with no real impact.”*

According to Enporion (2009), the alignment of the organisation structure to the business model, organisational culture and strategy will result in operational benefits (p.15-22). On the other hand, a well aligned organisation will require effective change management that will involve thorough planning and transition time (Kethineni, 2011).

Some of the senior administrators noted that: *“some of the people that were involved in the SS pilot project in 2009 have since left us for other units or left the council in pursuit of better opportunities. Poor talent management within the council or within SCM has lead to high staff turnover rates, which in turn impacts on the strength and quality of our team. We need highly motivated people, but we don’t have a way of keeping them at the moment.”*

#### 5.2.2.3 Technology

The absence of uniform SCM technology that can provide spend data and real time reporting is a stumbling block for public entities. The capturing of procurement plans on spreadsheets poses a risk for the organisation when pursuing sourcing projects. The information can be manipulated by individuals and provide distorted project commitments which would impact on the source plan and execution thereof.

Deputy Head SCO was concerned that: *“while eThekweni Municipality makes use of JD Edwards ERP system for financial expenditure management- there is no direct link to procurement planning and SS principles that could help to monitor savings targets*

*etc. Therefore, with the best ERP system for our business model, we can have clear insight into our operations, which will inform our decisions for our business. Delivering on our mandate to the people is our key mandate and without the best ERP systems, SS may not yield the expected results for our business”*

According to Busch (2014), without the correct technology, local sourcing initiatives can overwhelm category managers and organisations which are mandated to deliver on protecting local sectors. Furthermore, the adoption of the SS process will require best in class technology to support and extract the savings targets and spend analysis information from the ERP system (ADR International, 2012).

The current public sector ICT infrastructure limits the potential to optimise how the SCM systems function (Treasury, 2015)

### **5.2.3 (i)What value can be expected from adopting SS in a public sector?**

#### **(ii) How do we measure the performance of SCM and the organisation, with the adoption of SS?**

It was most discouraging that participants mentioned that senior management did not understand the value and impact of procurement and therefore, it might be difficult to implement SS if management could not drive effectiveness and efficiency programmes. However, according to the case study, value for money can be achieved through:

- consolidating volumes;
- tough negotiations;
- eliminating low value middle men (brokers);
- proper demand management;
- aggregation of needs across units; and
- supplier relationship management

Value is created when the supplier delivers solutions to the buying organisation's needs (Mampane,2012). Once a supplier has been recommended and contracted for

the provision of goods and services, three different scenarios can unfold in the management of the supplier relationship as illustrated in Figure 4.3; namely:

#### Scenario 1

Suppliers can be neglected and unmanaged during the course of the contract. The suppliers are not held accountable to the terms of the contract and the quality of goods or services decline. This leads to an escalation in the costs over and above the contract terms. There is now mistrust amongst both parties and the value from SS is eroded. The absence of effective contract management can lead to a 75% loss of savings with a single financial period.

#### Scenario 2

In general, organisations do monitor supplier performance over set intervals as laid out in the service level agreement between both parties. However, suppliers are only monitored on the status quo through periodic meetings or when there are issues that need to be addressed. The meetings lack clear decision making, ownership and leadership from both parties, but help to uphold contract value to some extent.

#### Scenario 3

World class organisations prioritize continuous supplier collaboration to ensure that contractual obligations by both parties follow the terms of contract. These organisations proactively meet with their suppliers to exchange new ideas and expertise that ensure a consistent high quality of goods or services are delivered continuously. This helps suppliers to achieve and exceed their performance requirements in terms of the set KPIs. Through earning the suppliers' trust with commitment to payments within agreed terms and open communication, the supplier begins to perceive themselves as a partner to the organisation. This results in improved supplier capabilities in innovation, quality, reliability, cost reductions, risk management and greater value for both parties. However, effective SRM requires good technology to provide and ensure visibility of stock levels and other key aspects in the relationship (Smith, 2015).

Mampane (2012) argues that a single sourcing strategy puts all the eggs in one basket and increases the supply risk to the organisation. While suppliers help in achieving the supply chain excellence, they can bring uncertainty and disruption to the supply chain.

The link between supply disruption risks and supply base size cannot be ignored when choosing a sourcing strategy (ADR International, 2012).

Boateng (2015) suggests that public sector organisations should carefully choose between multiple sourcing and single sourcing (p.31-34). While single sourcing is an effective approach in a stable environment, it can amplify an organisation's exposure to risk in the presence of uncertainty. On the other hand, multiple sourcing creates higher contract costs due to the management of more than one service provider.

A thorough risk analysis is required. Furthermore, CIPS (2016) also suggests the pursuit of supplier diversity programs which can help public organisations to:

- meet statutory duties;
- improve relations with people from ethnic minorities; and
- ensure 'best value' and a better service.

According to (Setan, 2013), supplier relationship management yields the most value add and is key to uncovering endless opportunities for more value.

#### *5.2.3.1 Supplier Relationship Management*

eThekwini Municipality has underestimated the importance of supplier relationship management, while the suppliers have taken advantage of the current weak contract management with the absence of service level agreement for tenders awarded. The respondents expressed that there is a rise in post award price increase requests, contracts that favour certain suppliers, collusion, unethical behaviour and non-performance. To overcome these problems, NT outlines the need for supplier relationship matching, performance monitoring and benchmarking within the SS process.

The participants to the interviews mentioned that the change programme provided tools and techniques on how to manage supplier relationships and negotiations. Some participants declared that procurement does not actively evaluate the performance of the suppliers and thus cannot track their contributions to the institution

The link between supply disruption risks and supply base size cannot be ignored when choosing a sourcing strategy (ADR International, 2012). The awards made during the change programme suggest that eThekweni Municipality's exposure to supply risk was still prevalent. Most industry publications have identified the concept of multiple sourcing as the next "best practice" in supply chain management. One of the advantages of multiple sourcing is to mitigate supply risk.

Coetzeer (2016) insists that if a business does not at least dual-source, that it is behind the times. This is not a fact. The reality is that each supply chain is unique and the recommended solution for one business may not be the optimal solution for all businesses. The selection of a sourcing strategy is a central activity in risky environments. Single sourcing is considered a powerful approach in a stable environment and can amplify a firm's exposure to supply risk in the presence of uncertainty (Boateng, 2015). Multiple sourcing, however, presents higher costs due to the management of more than one supplier. A correct evaluation from a risk management perspective is needed.

CIPS (2016) describes the five areas that must be evaluated before selecting the appropriate sourcing strategy as being:

- supply disruption e.g. are there alternative sources if supply is disrupted?
- price escalation e.g. what if the supplier suddenly raises prices?
- inventory and scheduling e.g. how will having one or more vendors affect inventory reliability?
- technology access e.g. does the vendor keep up with the latest technology?
- quality e.g. what if the selected vendor cannot meet quality standards?

The relevant supply chain manager should consider the risks and benefits for the different sourcing strategies before making a decision.

(Mampane 2012) suggests further that the sourcing strategy of a firm is generally characterized by three key decisions, namely, the criteria for identifying the pool of suppliers; criteria for choosing the appropriate set of suppliers (a subset of the pool) who receive an order from the firm, and the quantity of goods to order from each



selected supplier. In an effort to create sustainable value, supply chain managers can choose from a range of sourcing strategies, namely;

- single sourcing which deals with at most one supplier for each inventory item;
- sole sourcing whereby only one supplier is available (“forced” single sourcing);
- dual sourcing whereby only two vendors for the inventory items are preferred; and
- multiple sourcing whereby more than two vendors for the inventory items are preferred.

Furthermore, supply chain manager can decide on the type of supplier relationships in a stable environment, namely;

- **Competitive Relationship:** where there is an arm’s length relationship, continuous changing of suppliers and tactical negotiation (multiple sources). This relationship is ideal for routine quadrant commodities where the increase role of IT systems can help to simplify the acquisition process.
- **Preferred Suppliers:** in cases where there are fewer sources, a closer relationship is needed using performance standards through a service level agreement.
- **Performance Partnerships:** are close relationships founded on single sourcing that is performance based (cost and quality). There is a meshing in of operations, sharing of technologies, data, people and risk. The closeness in the relationship ensures high quality, fast responses while widening the specification, developing new suppliers to create new competition in order to ensure supply continuity for bottleneck items.
- **Business Alliances:** is single sourcing approach where there is interdependency and synergy created through co-location, cross ownership and control. It is important to prepare contingency plans for strategic quadrant items coupled with heavy negotiations.

Competitive advantages associated with supply chain management philosophy can be achieved by strategic collaboration with suppliers and service providers. The

success of a supply chain is highly dependent on selection of good suppliers. Simply looking for vendors offering the lowest prices is not “efficient sourcing” any more.

Therefore supply chain manager need to take a multiple criteria into account when selecting suppliers. The weighted point evaluation system enables supply chain managers to evaluate potential suppliers, track suppliers’ performance over time and rank the current suppliers (Boateng, 2015). This is accomplished through assigning weights to performance dimensions, rate the performance of each supplier with regard to each dimension and calculate the score.

It was found that in the absence of effective supplier relationship matching, management methods, criteria for supplier chain or project managers to choose the most appropriate sourcing strategy has impacted the supplier chooses in the contracts that the City has entered into. The direct result of the absence of a supplier risk/benefit assessment when deciding on the appropriate sourcing strategies has meant that As a result, eThekweni Municipality has forgone further opportunities to create sustainable value in monetary terms and quality of goods and services received. The value of annual public tender awards which were in excess of R6 billion in 2014/2015 gives an indication of the extent of value enhancement opportunities which are forgone as a sub process within supplier relationship management.

The participants had no understanding of the impact of thorough SRM on value creation for the organisation through the implementation of SS. The senior management did not answer directly if on the question of whether eThekweni Municipality had a specific criteria in place for sourcing strategy selection that would ensure value creation within the supply chain. There was neither any reference made to any of the past sourcing projects but it could mean that the question might not have been fully understood due to their limited experience on SS other than working alongside Africa Vukani.

Although SCM management understood the need to comply with supplier performance monitoring, it was evident in their responses that compliance was a priority more than through implementation. The weighted point evaluation system best practice is not understood nor applied and it was found that supply chain or project managers only

evaluate current suppliers' performance over instead of potential suppliers. Also the current evaluation tools used do not include risk identification, risk evaluation, risk mitigation, and relationship matching or misalignment.

It could mean that not much was discussed in the Africa Vukani Project on measuring SS performance. This will be crucial for the SCM function to be able to measure its improvements from the previous years and to contribute towards understanding their level of SCM maturity.

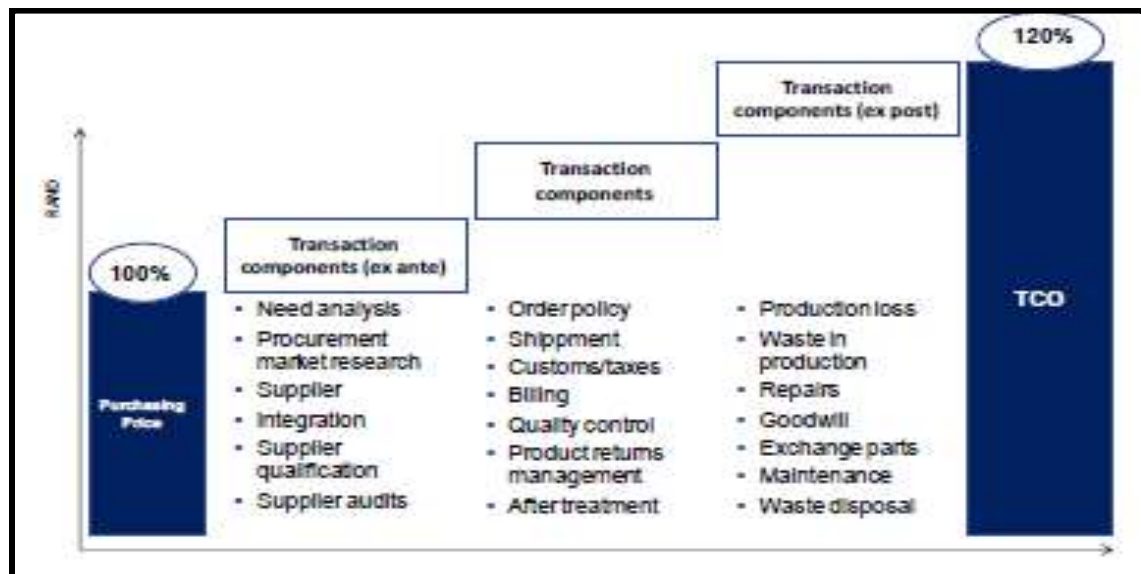
However the absence of the right structure, technology, financial and human resources made it very challenging to measure the effectiveness of sourcing projects impact on the performance of eThekweni Municipality. While some of these concerns were being addressed at the time of the study, the pace of the progress has brought frustration to those directly involved. None of the participants mentioned the use of scorecards, costs, quality and timing measures.

Boateng(2015) found that the lack of effective TCO adoption within the public sector can be attributed to the following:

- Limited awareness of the benefits that can be realized;
- A misunderstanding of the TCO concept in general;
- A perception that it is a complex and time consuming process;
- A belief that the expertise does not reside within the existing enterprise;
- Uncertainty over the owner of the effort; and
- TCO viewed as a departure from normal operations

As reflected in figure 5.2, a full picture of the total cost of ownership can be derived through a team effort that may include, a technical expert, finance representative, supply chain practitioner, legal advisor, production manager. This would also depend on that nature of the goods or services being procured.

**Figure 5.2. Elements of total cost of ownership (TCO)**



Source: (CIPS, 2013)

Boateng (2015) explains that SS deals with the total costs of goods, service or works through the total cost of ownership analysis. The TCO analysis seeks to understand the overall lifecycle costs of the goods or service.

TCO can be used at various stages in SS process (CIPS, 2013):

- during the evaluation of different business solutions on a comparative cost basis;
- to gain insights into the different cost drivers in the lifecycle of a good service of a procurement;
- in monitoring the annual budget expenditure against the awarded contract

eThekwini Municipality had limited knowledge of the concept of TCO and its role in creating added value. This is a concern as a lack of understanding of the cost drivers places the organisation at high risk of being exploited by suppliers in the market through collusion. There are many cases in the private and public sector which give evidence to such behavior where the ignorance of the buying organisation or consumer is exploited by a small group of suppliers. In the process value for money is lost along with the opportunity to direct funds to more meaningful projects.

### **5.3 Summary**

This chapter discussed the research findings. In this chapter, the findings were explained in relation to answering the research questions and unpacking the themes through references made to the case study, interviews and literature review on SS, conducted both locally and internationally. This helped to refute or concur with the each of the findings of this study in order to make more meaningful contributions for future research. The next chapter discusses the recommendations and conclusions for this study.

## **CHAPTER SIX: RECOMMENDATIONS AND CONCLUSIONS**

### **6.1 Introduction**

This chapter presents the conclusions drawn from the analysis of the entire study and then makes recommendations for further research. The chapter concludes by making suggestions for future research areas.

### **6.2 Summary of findings**

While there is a need for SS to be adopted, there is a skillset deficit to initiate and manage the sourcing projects. Lack of confidence is also a concern amongst the SCM practitioners of eThekwini Municipality. The key enablers for implementing SS have not been addressed in line with the needs of the organisation. The pace at which strategic decisions are made concerning SS is very slow and is dampening staff morale. There is tension between staff and management on the business priorities that must be addressed in implementing SS. eThekwini Municipality has not initiated new sourcing projects other than those that were led by Africa Vukani (Pty) Ltd. The value add from the previous sourcing projects has been lost and there has been no further reporting on cost savings. eThekwini Municipality is operating under a traditional approach to procurement but expecting strategic procurement results. Localisation targets have not been met as procurement and enterprise development strategies are not developed on bid specification reports and the adverts attract non B-BBEE compliant suppliers. Also eThekwini Municipality has made the mistake of focusing on short term supplier development plans and programmes without aligning SCM practitioners or the relevant project managers key performance indicators. There are no supplier relationship programs that will encourage sharing of ideas. The technology that eThekwini Municipality uses to support its strategic reporting and operations is not suitable for feeding the SS process.

### **6.3 Conclusion based on findings**

The following conclusions have been drawn from the findings presented earlier. eThekwini Municipality needs to align their SCM structure to that of the OCPO within the NT. This will help to build up the required human resource capacity for the SCM function holistically. The organisation structure will inform the new positions and job

descriptions. eThekweni Municipality will need to appoint the right people for the right positions. The SCM Unit needs to assess their level of maturity and develop a vision, mission and strategy that will guide their efforts of maturing from one level to the next. eThekweni Municipality needs to partner with National Treasury and the KZN Provincial Treasury to share experiences and learn from what is working well for them.

Business Processes need to be reviewed in conjunction with the adoption of the new organisational structure. A risk assessment of the impact of changing processes before the organisational structure and strategic documents finalization is done. An independent change management team needs to be established to oversee the transformation.

The replacement of the current technology to the technology currently used by National Treasury will be crucial. The capability of the JD Edwards System to provide meaningful procurement information through reports and spend data is highly contested. Despite several upgrades, the JD Edwards system is not compatible for the demands of the SCM function, especially strategic sourcing. Market research on the best technology and service providers is another priority for the SCM function. By having the right technology, human resources can be directed into more meaningful roles.

The KPI performance measurement approach needs to be changed to The Balance Scorecard approach which is able to translate the organisation's strategic objectives into a set of performance indicators through four measures. The Balance Scorecard is best practise in the private sector and compliments the strategic approach to procurement. The results and findings of this study should be shared with CIPS and the KZN Provincial Treasury in order to enable them to address some of the problems encountered by metropolitan municipalities in implementing SS.

Concrete efforts need to be made by the SCM leadership to get stakeholder buy-in and to obtain the necessary funding for the change to strategic procurement as an organisation. SCM needs to take up their rightful position as a C Suite member through communicating effectively on the strategic impact of aligning the procurement processes to the strategic objectives of the organisation. This will help to transform the

perception of SCM from tactical to strategic. eThekweni Municipality must centralize the training of all staff involved in the strategic sourcing and category management process. This will help to prepare staff mentally for the upcoming changes.

#### **6.4 Recommendations based on the conclusions drawn**

Business processes to be streamlined and standardised with unnecessary steps in the SCM process to be removed. Automation of the SCM function including the strategic sourcing process should result in significant cost reductions for suppliers, improved transparency and oversight.

Creating a culture of cooperation between suppliers and the public sector. For good working relationships to develop, structured interaction with suppliers must be promoted. Procurement-related information about the work of departments, planned procurement opportunities, procurement policies and procedures, and general requirements for tenders will be regularly disseminated.

A policy framework is to be developed to standardize SCM reporting across the eThekweni Municipality. Unit Heads, Deputy Heads Project Executives and Managers will be expected to report on a range of information including procurement plans, sourcing initiatives, tenders awarded, supplier company information, cost savings for the strategic projects

#### **6.5 Limitations of the study**

The major obstacle that was encountered in this research study was the difficulty in persuading supply chain practitioners to actually participate in the study activities. The amount of time required, a sense that the incentive was not worth the time, suspicion over the nature of the study, or simply the levels of prior commitments that participants had during the full swing of the school year may have contributed to the lack of participation. The fact that such a small sample of 8 participated also introduces a level of suspicion as to the representative nature of the participating sample.



The study was limited to eThekweni Municipality in the public sector. Consideration of other metropolitan municipalities and public sector organisations might have revealed interesting findings.

### **6.6 Recommendations for future studies**

The aim of this study was to get an in-depth understanding about SS within the context of the public sector. However, it is recommended that future research be repeated in a different context, for example, with all three spheres of government and possibly include a state owned enterprise, as findings might differ and this study could also employ a different research strategy. It is also recommended that the same study be repeated with a larger group. A comparison study is also suggested in order to benchmark against the leading metropolitan cities across South Africa. Further studies into Enterprise Development and Supplier Relationship Management will add value in assessing the risk between single or multi-supplier sourcing as this would be crucial for sourcing strategy decision making.

### **6.7 Summary**

This study gave insight into the implementation of strategic sourcing taking into consideration the key enablers within the context of a metropolitan municipality. This study is unique from previous studies as it seeks to explore how sustainable value can be derived by the metropolitan municipality through SS in order to impact on the performance of the organisation as a whole. The study makes key findings from the case study and interviews. This study recommends immediate actions that should be considered by the city leadership for eThekweni Municipality in preventing adverse audit outcomes in the future. The study also helps to bring understanding to the reader of the impact of a decentralized SCM function within the public sector. Ultimately, while it is in the public sector interest to understand the mandate given and adopt industry best practices, it is more important to invest in further research in public sector SCM, and to ensure that corrective action is taken across all spheres of government.

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## **Appendix A**

### **Interview Schedule**

#### **The role of strategic sourcing in the public sector:**

#### **an eThekweni Municipality case study**

##### **BACKGROUND FOR THE INTERVIEW**

###### **Introduction**

From an economic developmental perspective, it is now widely accepted that urgent collective action is required in order to remedy how the public sector in South Africa and other emerging economies strategically source products and services as well as how they deal with selected suppliers.

The term strategic sourcing has been used in procurement for several years now. In the past decade, pockets of public entities in South Africa have implemented fragmented or holistic strategic sourcing programs as a means to drive cost savings, enhance efficiencies and bring best value to those utilizing their established contracts.

This research study highlights the key enablers and challenges for the successful implementation of strategic sourcing while identifying key associated benefits to state governments. The study further provides a glimpse into the future of strategic sourcing in the public sector.

###### **Objectives and need for the study**

The main objective of this study is to

- Understand the impact of SS on public sector procurement performance
- Establish the factors to be considered before adopting SS
- Understand the value-add for eThekweni Municipality as a result of adopting SS.

## **Questions for the employees in the various departments within the Supply Chain Management Unit**

1. Who does the CPO or head of supply chain management report to in the organisation?
2. Within your organisation, would you say that the SCM function is viewed as strategic or tactical?
3. Would you view the SCM function within your organisation as being centralized or decentralized?
4. Does your procurement organizational chart include a section, role or title specifically related to strategic sourcing?
5. Do you believe that a review in the supply chain management organizational chart and associated job descriptions could impact the implementation of strategic sourcing and how?
6. With recent discussions around strategic sourcing taking centre stage at National Treasury, would you say that your organisation has implemented strategic sourcing? If yes, would you regard it as being formal or informal?

- **Universal strategic sourcing**

This is volumes or quantities from all government institutions are aggregated. There are cost benefits that are realized from leveraging government's buying power and this allows government to use savings achieved for other important programmes. As an example of this approach, the OCPO has initiated a strategy to source goods and services that are common across government like include travel and accommodation, banking services and motor vehicles.

- **Department-specific strategic sourcing**

This relates to sourcing of goods and services that are central to a government department's key service delivery objectives, and typically include goods and services above a certain rand value which are considered complex and/or high risk. Among numerous examples are commodities such as pharmaceuticals for the Department of Health,

textbooks for the Department of Basic Education, prison catering for the Department of Correctional Services and many others.

- **Sector-specific strategic sourcing**

This covers sourcing of goods and services purchased by more than one government department and involving an industry sector that government wishes to protect or promote. This includes, for example, commodities in the textile, leather and footwear industry.

7. If you answered yes to the previous question, did your organisation appoint a consultant to implement strategic sourcing and for how long?
8. Which categories of expenditure were or have been the most successful/challenging?
9. What may have influenced the success or failure of those above mentioned categories?
10. Did you have qualification criteria in place for supplier selection on your last sourcing projects?
11. In the long run, do you believe that strategic sourcing can contribute towards creating long terms jobs in deprived localities? (You may elaborate)
12. How were the benefits of strategic sourcing measured on past projects?
13. In your view, what are some of the factors that may hinder successful implementation of strategic sourcing within your organisation?
14. What value other than that achieved on past projects are expected from implementing strategic sourcing on a wider scale?
15. Is there anything else, you would like to share that may contribute to this study?

Appendix B

**UNIVERSITY OF KWAZULU-NATAL  
GRADUATE SCHOOL OF BUSINESS AND LEADERSHIP**

Dear Respondent,

**Researcher:** Mr. Sandile Ntando Buthelezi (0736451918/0313117031)

**Supervisor:** Christopher Chikandiwa (031-260 8883)

**Research Officer:** Premlall Mohun (0312607224)

I, **Sandile Ntando Buthelezi (203505463)** a Master student, at the **Graduate School of Business & Leadership**, of the University of Kwa Zulu Natal invite you to participate in a research project entitled, 'Strategic sourcing in the public sector: A case of eThekweni Municipality, in South Africa.'

Through your participation I hope to address the following questions:

- How can eThekweni Municipality's procurement performance benefit from implementing SS?
- What factors must be considered for enabling the adoption of SS?
- What value can be expected from adopting SS in a public sector?
- How do we measure the performance of SCM and the organisation, with the adoption of SS?

The results of the focus group interview are intended to contribute towards further research.

Your participation in this project is voluntary. You may refuse to participate or withdraw from the project at any time with no negative consequence. There will be no monetary gain from participating in this survey. Confidentiality and anonymity of records identifying you as a participant will be maintained by the Graduate School of Business and leadership, UKZN.

If you have any questions or concerns about participating in this study, you may contact me or my supervisor at the numbers listed above.

The interview should take about **40 minutes** to complete.

Sincerely

Investigator's signature \_\_\_\_\_ Date \_\_\_\_\_

**CONSENT**

**I..... (full names of participant)  
hereby confirm that I understand the contents of this document and the nature  
of the research project, and I consent to participating in the research project.**

I understand that I am at liberty to withdraw from the project at any time, should I  
so desire.


I understand the intention of the research. I hereby agree to participate.

I consent / do not consent to have this interview recorded (if applicable)

**Signature of Participant.....**

**Date.....**

## Appendix C



**UNIVERSITY OF  
KWAZULU-NATAL**  
INYUVESI  
YAKWAZULU-NATALI

23 September 2018

Hogque M Mnr (8375)  
Graduate School of Business  
Westville Campus

Protocol reference number: HSS/1942/015  
Project title: Acceptability of Human Papillomavirus Vaccine among urban, educated people in KwaZulu-Natal, South Africa

Dear Mr Hogque,

I wish to inform you that your application has been granted Full Approval. Expedited Approval

Any alteration/s to the approved research protocol i.e. Questionnaire/Interview Schedule, Informed Consent Form, Title of the Project, Location of the Study, Research Approach and Methods must be reviewed and approved through the amendment/modification prior to its implementation. In case you have further queries, please quote the above reference number. Please note: Research data should be securely stored in the discipline/department for a period of 5 years.

I take this opportunity of wishing you everything of the best with your study.


You  
Dr S  
/ms

cc Academic Leader Research: Dr E. Monepo  
cc School Administrator: Ms Wendy Clarke

Humanities & Social Sciences Research Ethics Committee  
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INSPIRING GREATNESS



## Appendix D

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Chapter One

**1.1 Introduction**

Over the past few years, procurement teams have been playing a crucial role in realising cost savings targets for market-leading businesses worldwide.

A large number of leading manufacturing organisations have started to re-evaluate their procurement function as the value driver in delivering specific return on investment targets to shareholders. However, with global trade growing in the midst of challenging business conditions, the focus for procurement organisations will remain on the bottom line (Report, 2014). The growing importance of supply chain management has created a common appreciation of the strategic value that procurement provides for businesses.

In the face of global competition and an increasing demand for public service delivery, public and private sector organisations expect procurement departments to generate and measure savings, maintain quality, ensure delivery availability, build relationships and enhance value creation (Rafali, 2013). These key deliverables are paramount for modern businesses to have a competitive advantage within their market in addition, they ensure that public entities execute on their strategic commitments to tax payers.

The South African public sector alone spends well over R500 billion on goods and services and on construction works. This is an enormous amount of public expenditure which is growing year on year. However, traditionally, public sector supply chain management was misconstrued and underestimated. In recent years, dialogues between private and public sector on the role of procurement have influenced the perspective of government on the strategic value of SCM in delivery of goods and services to the public including the transformation of the economic landscape of South Africa.

The strategic nature of public sector SCM commands the attention of citizens, politicians, private sector business community and global investors

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