

**UNIVERSITY OF KWAZULU NATAL**

**Public sector procurement as a Tool of Radical Economic  
Transformation with Regards to Black Africans:  
A case study of KwaZulu-Natal Province**

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**A dissertation submitted in partial fulfilment of the requirements for the degree of  
Master of Business Administration**

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College of Law and Management Studies**

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**November 2017**

## **DECLARATION**

I, Linda Dladla, do hereby declare that this dissertation is the result of my own investigation and that this has not been submitted in part or full for any degree or for any other degree to any other University.

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Signature:

Date:

## **ACKNOWLEDGEMENTS**

The first acknowledgement goes to the Almighty God, for his guidance through this journey. I am aware that it is through his mercies that I have successfully completed my extended research report. I will remain grateful all my life.

My greatest acknowledgement is extended to my supervisor, for her patience with me, support and academic guidance which gave me more strength in this journey. Without her support and guidance, this extended research report would not have been completed.

I wish to thank the following people, whose support and encouragement contributed to the successful development of this study:

- The officials of the KwaZulu Natal provincial government/ departments, without their cooperation, the study could never have been conducted.
- My employer, colleagues, friends and my former manager for support, understanding and encouragement.
- My family; mother, father, brothers and sisters for their prayers and support throughout my studies.
- My daughters, Lethokuhle and Kwenzokuhle for their love, understanding and support during my studies.

## ABSTRACT

This research set out to examine the challenges in public sector procurement processes that hinder the effectiveness of radical economic transformation and the strategies being implemented to enhance the effectiveness of public procurement processes to enhance radical economic transformation in KwaZulu-Natal province. The study was particularly motivated by the need to examine the effectiveness of the current public procurement legal and regulatory framework in terms of enhancing radical economic transformation and to make recommendations on strategies that can be adopted to enhance the effectiveness of public procurement processes to enforce radical economic transformation. The realisation of these objectives was made possible through adopting a qualitative phenomenological research methodology and an analytical explanatory descriptive research design. This gave direction as to how data was to be collected and analysed. The chosen research methodology and research design using semi-structured interviews which was employed as a data collection tool together with the interview guide which comprised open ended questions that allowed respondents the opportunity to explain themselves in detail. Data was analysed through thematic analysis and the findings were presented using NVIVO style diagrams; which is a qualitative data analysis software. Findings show that the achievement of radical economic transformation through the public procurement policy framework in KwaZulu-Natal province is being hindered. This hindrance includes financial constraints, incapacity by black owned firms to handle large projects, inability to attract skilled labour and loss of lucrative tenders through deep-seated racial stereotyping and corruption in the award of tenders. The findings further revealed that although there were strategies (like strong internal controls), the current legal framework was largely ineffective. This is largely due to factors such as political override in tender awarding, the persistent problem of fronting and general lack of compliance with the regulatory framework. As a result, the study recommended the naming and shaming of politicians working against the spirit of radical economic transformation. The implications of these findings are that the senior management in charge of procurement in the KwaZulu-Natal provincial government need to explore other ways of achieving radical economic transformation, rather than relying solely on the legislative framework.

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## **LIST OF ABBREVIATIONS**

B-BBEE	Broad-Based Black Economic Empowerment Act 53 of 2003
BEE	Black Economic Empowerment
CIDB	Construction Industry Development Board
DBE's	Disadvantaged Business Enterprise's
DTI	Department of Trade and Industry
EU	European Union
GDP	Gross Domestic Product
GNP	Gross National Product
HDI	Historically Disadvantaged Individuals
IFC	International Finance Corporation
ITC	International Trade Centre
KZN	KwaZulu-Natal
MBE's	Minority Business Enterprise's
MFMA	Municipal Finance Management Act 56 of 2003
NAFTA	North American Free Trade Agreement
OAS	Organisation of American States
PFMA	Public Finance Management Act 1 of 1999
PPPFA	Preferential Procurement Policy Framework Act 5 of 2000
RET	Radical Economic Transformation
SCM	Supply chain Management
SME's	Small to Medium Enterprise's
TR	Treasury Regulations

## **CHAPTER ONE: INTRODUCTION AND BACKGROUND TO THE STUDY**

### **1.1 Introduction**

This chapter will present the background to the problem; highlighting the origins of the problem and the reasons that motivated the research. In addition the chapter will present the research problem related to the effectiveness of public procurement in terms of enhancing radical economic transformation of Black Africans. The research aims, objectives are the research questions pertaining to the study will be presented in this chapter. As part of fulfilling the objectives of the study, challenges in the public sector procurement processes that hinder the effectiveness of radical economic transformation shall be examined. This examination will include the effectiveness of systems and programs to identify racial categories in public procurement, the effectiveness of current public procurement legal and regulatory framework in terms of enhancing radical economic transformation and making recommendations on strategies that the public sector can adopt to enhance the effectiveness of its procurement processes to enforce radical economic transformation. Furthermore, the significance of the study shall be discussed and the chapter shall end with a summary and a conclusion.

### **1.2 Background for the Study**

Procurement has largely been used as a tool to achieve policy objectives in government as it is central to delivery of services to the people (Bolton, 2006:194). Arrowsmith (1995) as cited in Bolton (2006:195) believes that procurement has the potential to be used as a vehicle to drive, accelerate and address issues of transformation. The public procurement is integral to the acquisition of goods, services and works. In South Africa, procurement is decentralised amongst various departments and/ or entities and the bulk of government expenditure goes to acquisitions in order to realise service delivery.

In the year 2015, the Kwa-Zulu-Natal (KZN) provincial government held a summit, entitled Procurement Indaba, which was meant to engage relevant stakeholders about procurement issues. The procurement Indaba was attended by delegates across various sectors of economy. This included the National Ministers, Officials from National Departments, State Owned Enterprises (SOEs)/ Public Entities, Private Sector, Labour, Civil Society, Non-Governmental Organisations (NGO's), Provincial Cabinet, Local

Government, Organized Business and the Community. There were concerns that while the government had passed legislation and is implementing the preferential procurement strategies, laws and policies that are aimed at enhancing economic transformation, there are observations and perceptions that the government (in particular that of KwaZulu-Natal) is behind with attaining an equitable distribution in the economy and economic benefits to people who had been previously disadvantaged. The purpose of convening a summit was to provide a platform for stakeholders to discuss key challenges, opportunities, and the feasibility of repositioning Public Procurement as a tool for radical economic transformation in the Province (The KPG, 2015).

The community leaders and organisations representing the previously disadvantaged groups were of the views that transformation policies implemented, such as the Broad-Based Black Economic Empowerment Act 53 of 2003 (B-BBEEA) and the Preferential Procurement Policy Framework Act 5 of 2000 (PPPFA), are not proportionately benefiting Black Africans, amongst the group which is regarded “previously disadvantaged”. Somehow, this then led to the interrogation by certain stakeholders of governments’ willpower and commitment regarding issues of transformation.

Public procurement is earmarked as one of the tools to accelerate economic transformation and this is apt considering that the bulk of the government expenditure is spent through acquisition of goods, services and works. The challenge is within KwaZulu-Natal provincial government, as the procurement expenditure does not mimic the demographics of KZN. As a result, the study looked at the challenges associated with the public procurement that have made it difficult to achieve economic transformation. The study was particularly interested in exploring the regulatory framework that governs the procurement of goods or services within the public sector and thus its effectiveness.

The outcome from this study should benefit the public sector at large, which is tasked with implementing programs and a system aimed at economic transformation, particularly with the KZN government. The study can also benefit the leadership and inform policy or decision makers such as Department of Trade and Industry (DTI) as well as National Treasury (NT) because it makes relevant recommendations that can be incorporated into policies. In addition, this study can be of benefit to the department responsible for providing oversight on the implementation of transformation policies and the private sector i.e. entities, people or companies conducting business with the state. Furthermore, study

can contribute in devising transformation programs for the benefit of my own organisation and further research studies.

### **1.3 Problem statement of the study**

The public sector procurement programme is failing to adequately contribute to radical economic transformation. According to KZN Procurement Indaba summit of 2015, the public procurement has failed to reach a target of 50% of expenditure on procurement of goods and services from the previously disadvantaged, in particular Black Africans. This demonstrates that the public procurement is not fully achieving its intended objectives of enhancing radical economic transformation for benefits of Black Africans.

### **1.4 Focus of the study**

This research explicitly endeavours to examine the failure by public sector procurement policy proposition (through various legislative frameworks) to enhance the achievement of radical economic transformation of previously disadvantaged majority populations (in particular Black Africans) who still lag behind in terms of being afforded opportunities in public procurement by the provincial government.

### **1.5 Purpose of the study**

The purpose of this study was to examine the effectiveness of public procurement in terms of enhancing radical economic transformation of Black Africans. The study also aimed to make recommendations to the senior management in the procurement division of KwaZulu-Natal provincial government on strategies which could be adopted for enhancing effectiveness of public procurement processes to enforce radical economic transformation.

### **1.6 Objectives of the Study**

The following were the objectives of this study:

- To investigate challenges in the public sector procurement processes that hinder the effectiveness of radical economic transformation.

- To assess the effectiveness of the current public procurement legal and regulatory framework in reference to enhancing radical economic transformation.
- To determine the strategies to enhance the effectiveness of public procurement processes to enhance radical economic transformation.
- To make recommendations on strategies to be adopted for the enhancement of effectiveness in public procurement processes in order to achieve radical economic transformation of Black Africans in KwaZulu-Natal Province.

## **1.7 Research Questions**

Based on the objectives stated, the research was designed to address the questions below:

- What are the challenges in public sector procurement processes that hinder the effectiveness of radical economic transformation?
- How effective are the current public procurement legal and regulatory frameworks in terms of enhancing radical economic transformation?
- What are the strategies to enhance the effectiveness of public procurement processes to enhance radical economic transformation?
- What recommendations that can be made with regard to effective strategies that can be adopted in order to enhance the effectiveness of public procurement processes to achieve radical economic transformation; of Black Africans in KwaZulu-Natal Province?

## **1.8 Research Methodology**

This research adopted a qualitative research methodology. A qualitative research is an overarching term for research methodologies aiming to explore, describe and explain persons experiences behaviors, interactions and social contexts without the use of statistical procedures or quantification but rather through textual data or works (Fossey, Harvey, McDermott, & Davidson, 2002:717) however, Cresswell (2013:104) his definition of qualitative research is more forthright. According to Cresswell (2013:104) qualitative research is undertaken with the aim to explore, discover, develop an understanding, describe and report on human research phenomena. Thus this research adopted the qualitative methodology with the aim to develop an understanding and description of

public sector procurement as a tool of radical economic transformation with regards to Black Africans.

Qualitative research methodology allowed for the collection of detailed information about public procurement as a tool for achieving radical economic transformation through the use of semi-structured interviews. The rationale for adopting a qualitative phenomenological research methodology was necessitated by the need to acquire as much information as possible about the challenges in public sector procurement processes that hinder the effectiveness of radical economic transformation, the effectiveness of systems and programmes to identify racial categories in public procurement, the effectiveness of the current public procurement legal and regulatory framework in terms of enhancing radical economic transformation, as well as information on strategies that the public sector can adopt to enhance the effectiveness of public procurement processes to enforce radical economic transformation.

### **1.8.1 Interview Guide Design**

The interview guide was constructed as follows: the first part is made up of the research title and information on the research objectives, followed by the demographic section which requires information about gender, occupation and employee status. The next section of the interview guide included the instructions that respondents needed to follow to complete the interview. The last part of the interview guide comprised mainly open-ended questions with quite a few closed questions. Since the majority of questions were open-ended, the interview guide included open spaces for respondents to insert their answers in a detailed way.

### **1.8.2 Sampling of Respondents**

Purposive sampling was adopted for selecting research participants. Senior managerial staff in the procurement division at the Kwa-Zulu-Natal Provincial Government was purposively targeted because of the knowledge they possess regarding public procurement as a tool for the radical economic transformation of black Africans. The rationale for adopting purposive sampling lay in the fact that senior managerial staff in the procurement division at the Kwa-Zulu-Natal Provincial Government possesses intimate knowledge about effectiveness of public sector procurement as a tool for radical economic

transformation. The senior management by virtue of their responsibility in the area of procurement possesses statistical information about sources of procurement than other categories of employees.

Purposive sampling was also preferred because it eliminated the possibility of amassing irrelevant information from respondents who were not knowledgeable about public sector procurement practices and their effect on radical economic transformation.

## **1.9 Chapter Outline**

This dissertation is outlined as follows:

### **Chapter One**

This chapter comprises seven sub-sections which are: the introduction of the study, background of the study, statement of the problem, aim or purpose of the study, objectives of the study, research questions and methodology.

### **Chapter Two**

This chapter provides a detailed review of literature and the theoretical framework, looking at public sector procurement processes and their significance. It also looks at challenges that are a hindrance to radical economic transformation. The effectiveness of the systems and programmes targeted at radical transformation is also discussed and so is the legislative framework that guides public sector procurement. Furthermore, this chapter also looks at procurement strategies implemented for the enhancement and achievement of radical economic transformation.

### **Chapter Three**

The chapter looks at the research methodology and the rationale for adopting a qualitative methodology. It also specifies the research design, philosophy and outlines various phenomenological research and sampling strategies used. In addition, it describes the method used for data collection and also the tool used to analyse the data. The limitations of the study and ethical considerations are also discussed in this chapter.

## **Chapter Four**

This chapter presents the data, the results and findings of the study. In this chapter, the researcher provides an interpretation, discussions and analysis of the results, which addresses the research objectives and questions as detailed in chapter one and in chapter two, which is the literature review and theoretical framework.

## **Chapter Five**

The chapter draws conclusions based on the discussion, results or findings made in chapter four and also examines if the research aims and objectives have been achieved. It makes recommendations to the KwaZulu Natal provincial government on the strategies for enhancing the effectiveness of the public procurement process to enforce radical economic transformation, in line with the objective of the study.

### **1.10 Conclusion**

In this chapter, the aim of the study was presented, that is, the effectiveness of public procurement as a tool for radical economic transformation for black South Africans. The chapter also presented the background to the research motivation, focus, aim and research objectives and questions pertaining to the research topic were discussed. The next chapter looks at literature and provides a theoretical framework regarding challenges in public sector procurement processes that hinder the effectiveness of radical economic transformation, the effectiveness of systems and programmes to identify racial categories in public procurement, the effectiveness of the current public procurement legal and regulatory framework in terms of enhancing radical economic transformation, as well as strategies that could be adopted to enhance the effectiveness of public procurement processes to enforce radical economic transformation.

## CHAPTER TWO: LITERATURE REVIEW

### 2.1 Introduction

Ensuring that public procurement processes are accessible to all vendors regardless of race, gender, nationality, disability or size of organisation has, in the recent past, received both political and academic attention in discourses that scrutinised the fairness, transparency, competitiveness and cost effectiveness of public procurement procedures (Griffin & Strong, 2014:6). This is because a business owner's race, ethnicity, gender, and disability status have a considerable adverse effect on securing public contracting and subcontracting opportunities. Against this background, this chapter reviews relevant literature pertaining to public sector procurement procedures, with particular attention to laws and reforms that have a bearing on economic empowerment and transformation internationally.

### 2.2 Definition of key terms

- African: relating to Africa or people of African descent – Black people.
- Black: as contemplated in the Broad-Based Black Economic Empowerment Act No. 53 of 2003 (B-BBEEA) means African, Coloured or Indian persons who are natural persons and; are citizens of the Republic of South Africa by birth or descent; or are citizens of the Republic of South Africa by naturalisation before the commencement date of the Constitution of the Republic of South Africa Act of 1993; or became citizens of the Republic of South Africa after the commencement date of the Constitution of the Republic of South Africa Act of 1993, but who, but for the Apartheid policy that had been in place prior to that date, would have been entitled to acquire citizenship by naturalisation prior to that date;
- **Black African:** The definition of Black African is not provided for on the B-BBEEA. For the purposes of this study, a Black African means (i) Black people who are (ii) Africans who are (iii) natural persons and; are citizens of the Republic of South Africa by birth or descent; or are citizens of the Republic of South Africa by naturalisation before the commencement date of the Constitution of the Republic of South Africa Act of 1993; or became citizens of the Republic of South Africa after the commencement date of the Constitution of the Republic of

South Africa Act of 1993, but who, but for the Apartheid policy that had been in place prior to that date, would have been entitled to acquire citizenship by naturalisation prior to that date;

- **Broad-Based Black Economic Empowerment:** the economic empowerment of all Black people including women, workers, youth, people with disabilities and people living in rural areas through diverse but integrated socio-economic strategies that include, but are not limited to:
  1. Increasing the number of Black people that manage, own and control enterprises and productive assets.
  2. Facilitating ownership and management of enterprises and productive assets by communities, workers, cooperatives and other collective enterprises.
  3. Human resource and skills development.
  4. Achieving equitable representation in all occupational categories and level in the workforce.
  5. Preferential procurement and
  6. Investment in enterprises that are owned or managed by Black people.
  7. Disabled Person

(Republic of South Africa, 2003)

- **Disadvantaged Business Enterprises (DBEs):** American term which is for-profit small business concerns where socially and economically disadvantaged individuals own at least a 51% interest and also control management and daily business operations.
- **Historically disadvantaged individuals (HDIs):** means a South African citizen—
  - (1) who, due to the apartheid policy that had been in place, had no franchise in national elections prior to the introduction of the Constitution of the Republic of South Africa, 1983 (Act No. 110 of 1983) or the Constitution of the Republic of South Africa, 1993 (Act No. 200 of 1993) (“the Interim Constitution”); and/or

(2) who is a female; and/or (3) who has a disability: Provided that a person who obtained South African citizenship on or after the coming to effect of the Interim Constitution, is deemed not to be an HDI (Republic of South Africa, 2000). For the purposes of the study the word HDI will be used interchangeable with the word Previously Disadvantaged Individuals (PDI's).

- **Large project size:** The project size is classified by various characteristics depending on the type of project or sector (complexity) and the intended objectives. For the benefit of this study the project size is categorised by the value/ amount attached to the project; which also varies from department to department depending on the budget allocation.
- **Minority Business Enterprises** – American term to define business ownership by minority individuals means the business is at least 51% owned by such individuals or, in the case of a publicly-owned business, at least 51% of the stock is owned by one or more such individuals. Further, the management and daily operations are controlled by those minority group members.
- **Public Procurement:** Public Procurement is the function whereby public sector organizations acquire goods, services and development and construction projects from suppliers in the local and international market, subject to the general principles of fairness, equitability, transparency, competitiveness and cost-effectiveness. It includes many activities that support the service delivery of government entities and ranges from acquisition of routine items to complex development and construction projects. It also supports directly or indirectly the social and political aims of the government (Ambe & Badenhorst-Weiss, 2011: 439). For the purposes of this research study, the word public procurement, public sector procurement and supply chain management will be used interchangeable.
- **Preferential procurement policy:** a procurement policy contemplated in section 217 (2) of the Constitution (Republic of South Africa).
- **Radical Economic Transformation:** Economic transformation is meaningful participation of the people, minority groups who were historically disadvantaged (HDI's) in the economy of the country, also referred to as socio-economic

transformation; bridging the gap between the first and second economies. Radical Economic Transformation seeks to accelerate economic growth through **industrialising South Africa's economy, Black ownership (of land and the economy), dismantling monopoly structures and practices, policy continuity over policy change.**

- Small, Medium enterprises (SME's) and in South Africa – they are called Small, Medium and Micro Enterprises (SMME's). The definition for SMMEs encompasses a very broad range of firms, some of which includes formally registered, informal and non-VAT registered organisations (The DTI, 2008). Small businesses range from medium-sized enterprises, such as established traditional family businesses employing over a hundred people, to informal micro-enterprises

The Department of Trade and Industry (DTI) classifies enterprise size according to their annual turnover in terms of the National Small Business Amendment Bill. These cut-off points differ among the economic sectors.

- Supply chain management: the management of activities that procure materials and services, transform them into intermediate goods and delivering the products through a distribution system. (Heizer & Render, 2006:432)

### **2.3 Public Sector Procurement Processes**

O'Brien, Muelen and Mehra (2016:11), who define public procurement as purchases by procuring entities in the public sphere of the goods and services which they need to deliver their functions, indicate that such purchases represent a substantial stake of the total economy and a massive opportunity for governments to drive a transition to sustainable production and consumption globally. Therefore, public procurement is a process through which public contracts are created, managed and fulfilled involves all the steps from the identification of a project or products to be procured, to soliciting and evaluating tender offers, to awarding and administering contracts and confirming compliance with requirements (ISO 10845, 2010:1). In other words, public procurement processes revolve around making all decisions concerned with vendor selection, delivery, handling, marginal benefit, price fluctuations and contract administration inherent in acquisition processes of goods and services by entities in the public sector (O'Brien et al., 2016:12).

## 2.4 Significance of Public Procurement

Wittig (2016:10) accentuates the significance of public procurement in most European Union (EU) member states where it contributes significantly to gross national product (GNP) and is a considerable component of public expenditure. Similarly, the Organisation of American States [OAS] (2005) estimates expenditure by governments in public procurement to be equivalent to 20% of gross domestic product (GDP) of Latin American countries (Griffin & Strong, 2014:6). It has been estimated that in the free-trade region of the North American Free Trade Agreement (NAFTA), total government procurement amounts to billions of dollars while in the federal states of Canada, Mexico and the United States, there is significant procurement at sub-central level that, because of its magnitude, is difficult to estimate (OAS, 2005).

Griffin and Strong P.C. (2014:6) estimate procurement of goods and services in East Asian countries to be 20% to 40% of GDP, even though they caution that a substantial degree of decentralisation in many of the East Asian countries makes the data unreliable. Similarly, while the African region is characterised by the same issues relating to decentralisation and scarce resources to collect information on public procurement, O'Brien et al. (2016: 13) hold that determining the extent of public procurement and the amount targeted to small, and medium enterprises (SMEs) in most African countries is inexact and impracticable. Generally, O'Brien et al. (2016:13) contend that in these developing and transitioning economies, most governments fail to keep reliable data on all public procurement and on the value of contract awarded to (SMEs), minority business enterprises (MBEs), and disadvantaged business enterprises (DBEs).

Public procurement is decentralised amongst various ministries and largely between central and sub-central governmental levels in countries within developing and transitioning economies, this therefore makes the role played by SMEs, MBEs and DBEs difficult to assess (Wittig, 2016:10). Nonetheless, O'Brien et al. (2016:13) posit that looking at the significant amount spent on public procurement, it is imperative to examination issues regarding challenges encountered by SMEs, minority business enterprises (MBEs) and disadvantaged business enterprises (DBEs). This is so because, in addition to the explicit economic aspects of SME, MBE and DBE programmes in some countries, assistance given to them is based on policy objectives that are sometimes not reflected in the concept of economic efficiency or economic growth (International Trade Centre [ITC], 2012).

Governments' policy objectives on public procurement for programmes focusing on SMEs, MBEs and DBEs emphasise normative goals. In this regard, Griffin and Strong P.C. (2014:6) identify political stability, social cohesion, remediation of serious racial or ethnic discrimination, cultural pluralism, fairer distribution of wealth where significant imbalances exist because of past government intervention, rapid and equitable increases in employment potential as their main focus. For instance, in India, SMEs programmes in public procurement are meant to provide employment and to remove disparity in growth of various regions of the country while in the United States and South Africa, some of the SMEs, MBEs and DBEs programmes are meant to remediate racial discrimination (Griffin & Strong P.C., 2014:6).

Issues related to SMEs, MBEs and DBEs' development may not only relate to the economy but may comprise political, and social concerns and so have emotional overtones such that the normative goals of government which could have conflicting concerns with regard to the social welfare of the society versus the selected groups, in any particular given country (ITC, 2012). When this happens, economic programmes targeted at SMEs, MBEs and DBEs may be inefficient and harmful to economic growth, and as a consequence, lead to substantial social costs to the society. To this end, O'Brien et al. (2016:13) espouse that reconciling economic and non-economic criteria represents the classic trade-off that many public policies must eventually face because the desirability or undesirability of public procurement programmes designed to assist SMEs, MBEs and DBEs are the responsibility of national governments and policy makers.

## **2.5 Challenges in public sector procurement processes that hinder the effectiveness of radical economic transformation.**

Castillo and Shen (2016:47) identify substantial disparities existing between minority and non-minority business enterprises in their involvement in public sector procurement processes. Specifically, Castillo and Shen, who note that minority business enterprises secure a lower number and dollar amount of contracts in proportion to their availability in the market, assert that MBEs, agency officials, policy makers, and advocates must have a

strong incentive to understand the factors that give rise to observed contracting disparities. In the same vein, Griffin and Strong P.C.'s (2014:8) analysis of marketplace discrimination laments disparities in business formation, business earnings, and loan denials between MBEs and non-MBEs during public procurement procedures and processes. The analysis demonstrates the presence of discriminatory behaviour by showing race as a statistically significant predictor of disparities in business owner earnings, business formation and access to capital.

The sentiments of Griffin and Strong P.C. (2014:8) are in agreement with ITC (2012) which revealed that participation by SMEs, MBEs and DBEs in public procurement processes is subdued by competitiveness constraints. These limitations include restricted access to finance, information, markets and procurement opportunities, performance versus demand guarantees, barriers to human capital development, social constraints and government procedures and therefore, are practices that could be favourable to large businesses (ITC, 2012). The challenges that are faced by the Black SME's will be discussed at length in the following paragraphs.

### **2.5.1 Restricted Access to Finance**

Inherent in the operations of SMEs, MBEs and DBEs, is restricted availability of capital from financial institutions, a relatively higher burden caused by slow payment under public contracts and barriers to entry in public procurement markets due to performance bond and guarantee requirements that are onerous (ITC, 2012). In the view of Castillo and Shen (2016:67), discriminatory practices in lending, depressed access to capital and credit, and lower net worth among minority business owners are a major challenge to small business enterprises. In this regard, financial institutions restrict the amount of debt capital available to MBEs, engage in redlining of minority areas, and discriminate in mortgage application approvals.

Furthermore, suppliers offer MBEs difficult credit terms and higher prices while unions restrict the number of training and job slots available to minority and women workers, thus further compounding the problem (Castillo & Shen, 2016: 67). In addition to access to capital issues, financing is difficult for smaller companies with fewer assets and new companies with less history, although this is not necessarily due to race.

SMEs' access to external sources of funding depends largely on the development of financial markets, the regulatory environment within which financial institutions operate and their ability to assess, manage and price the risks associated with loan products for SMEs.

### **2.5.2 Performance Versus Demand Guarantees**

While a performance guarantee contains the criteria and the adjudicating conditions that determine achievement of a contract's requirements, it is difficult for SMEs, MBEs and DBEs to get a performance guarantee from a financial institution warranting the successful completion of the terms of a procurement contract between them and a public procuring entity (ITC, 2012). In this regard, a financial institution or guarantor is supposed to confirm that, in the event that the SMEs, MBEs or DBEs fail to complete the contract as specified, then the financial institution would pay the public procuring entity the amount guaranteed or pay another contractor to finish the project.

According to the World Bank (2011), demand guarantees which covers a relatively small part of the contract and require that the procuring entity be paid in the event of non-performance, are payable upon demand and in the absence of identifying the exact conditions that the contractor may have violated. In fact, the World Bank (2011) indicates that a demand guarantee can be regarded as a standby letter of credit which is often used instead of a performance guarantee by procuring entities in developing and transitional economies. Consequently, a demand guarantee is a constraint to small enterprises because its effects are relatively more burdensome as it requires surety in the form of assets of substantial value. For instance, ITC (2012) reveals that because of legal principles mandating the independence of the demand guarantee from the performance of the contract, the issuer's obligations to the procuring entity do not depend on the contractor, but is a primary obligation of the issuer payable after the fulfilment of specified documentary conditions.

### **2.5.3 Access to Information**

Small enterprises encounter considerable barriers in accessing public markets because of the costs associated with obtaining information on goods, services and works that are being solicited by governments (O'Brien et al., 2016:14). Additionally, the World Bank (2011)

notes that information costs can be sufficiently onerous to the extent of precluding small enterprises from involvement in public procurement. In fact, lack of access to information has a harmful potential to firms in developing and also transitioning economies such that government programmes meant to support small enterprises must aim to reduce the costs of information in order to lessen hindrances to their participation in public procurement processes (ITC, 2012).

The World Bank (2011) posits that governments need to assess the efficiency and also the appropriateness of information that is disseminated; fees charged tender documents i.e. specifications and drawings with the objective of enhancing accessibility to public procurement processes by small firms.

#### **2.5.4 Barriers to Human Capital Development**

Small enterprises encounter substantial obstructions in accessing skills and also skilled labour markets, because costs associated with these are mostly fixed (Griffin & Strong P.C., 2014:8). Coupled with this constraint, there are barriers to entry i.e. levels of technology that are sought by procurement offices at other instances exceed what is available in any given procurement, which then excludes small businesses. Additionally, O'Brien et al. (2016:14) indicate that the shortage of skilled labour can emanate from institutional constraints in a country. For instance, due to problems that apartheid created in South Africa, educational institutions are in the nascent stages of developing training programmes that are relevant to small enterprises and that focus on self-employment and entrepreneurship (O'Brien et al., 2016:14).

#### **2.5.5 Access to Markets and Procurement Opportunities**

Lack of access to markets and procurement opportunities relates to the numerous hurdles small business enterprises have to overcome in accessing markets, like high costs associated with preparing tenders (IFC, 2016). In addition, Griffin and Strong P.C. (2014:8) indicate that small business enterprises incur prohibitive costs that are strongly associated with access to markets that include high transportation costs if fewer quantities of goods are supplied, as opposed to larger firms who supply in bulk.

Many emerging organisations are being constrained by the complexities in the registering of their organisations which is a hindrance to black economic empowerment. Research acknowledges that, BEE is indeed an economic empowerment imperative meant to redress past imbalances, however emerging entrepreneurs due to limited education levels and poor information dissemination find the registration process very infuriating

### **2.5.6 Social Constraints**

Discrimination, bias, prejudice, historical disadvantage, apartheid and segregation hinder a considerable number of small business enterprises in some countries for participating in public sector procurement processes (IFC, 2016). Additionally, O'Brien et al. (2016:14) observe that many African-Americans and South African blacks who were unable to get bank financing during apartheid, could not access capital, such as bank loans, due to racial discrimination.

### **2.5.7 Receiving Timely Payment**

Failure to receive timely payment for work performed is a barrier to successful contracting for both the prime and subcontractor. It is pervasive, hitting at access to capital and issues associated with MBEs remaining as going concerns given potential liquidity issues that arise out of lack of timely payment (Castillo & Shen, 2016:68). Similarly, the IFC (2012) views as problematic late payments by prime contractors and public organisations for small business which are struggling to maintain solvency, pay creditors, and meet payroll. O'Brien et al. (2016:14) suggest that lack of timely payment on contracts and subcontracts lead to increases in business loans, capital, and financing requirements.

### **2.5.8 Non-Discriminatory Barriers**

Castillo and Shen (2016:57) identify bid-specific non-discriminatory barriers such as large project sizes, bid requirements related to bonding and insurance, bid timing, and timely payment once a contract is in place as barriers arising from a contracting agency's bid procedures and process which are applicable to MBE businesses. In addition, the IFC (2012) views that these barriers are related to market-based issues such as access to capital in that obtaining bonding and insurance are not universally free from the influence or

impact of discriminatory behaviour. However, they negatively affect the ability of MBEs to effectively compete in the public marketplace.

### **2.5.9 Discriminatory Barriers**

Discriminatory barriers are actions by procurement agencies and non-MBE prime contractors (when considering MBE subcontractors) to purposely exclude or hinder MBEs from participating in public procurement processes (Castillo & Shen, 2016:63). Hence, outright prejudicial treatment, attitudes, stereotypes, implementing higher and double standards for MBEs, or manipulating the bid process are some of the discriminatory barriers faced by small business enterprises.

### **2.5.10 Network Access Barriers**

Network access barriers may arise due to discrimination or as a result of general discriminatory business practices. For instance, Castillo and Shen (2016:63) indicate that the exclusion of a particular racial or ethnic group from a network arises due to discriminatory behaviour or because businesses and agencies tend to like those they have worked with in the past, regardless of whether that business is an MBE or non-MBE.

Castillo and Shen (2016:63) indicate that regardless of the source, the network access barriers occur where an MBE might not obtain a contract due to the following factors:

- Informal relationships among agencies and majority firms that yield preferential treatment in bid reviews;
- Friends help friends where decisions of who to work with lie in pre-existing relationships that can be personal as well as professional;
- Lack of information on informal networks, so that MBEs are unable to cultivate these relationships;
- Majority prime contractors dealing directly with agencies to determine upcoming projects and bid conditions to the detriment of MBEs; and
- Prejudicial treatment by agencies or primes in not selecting an MBE to do the work.

Exclusionary access due to discrimination arises in the outright unjust or prejudicial treatment of firms based on racial or ethnic grounds, particularly in cases when, for

instance, the procurement official or majority prime elects to exclude the MBE from the networks required to succeed in contracting, based primarily on the fact of minority-ownership (Griffin & Strong P.C., 2014). Additionally, the IFC (2012) opines that MBEs who act as subcontractors secure work with prime contractors through their past relationships with those firms so that failure to break into networks and establish relationships, results in exclusion because prime contractors utilise subcontractors that they know and trust.

MBEs also face challenges in accessing networks among agency employees. For instance, Castillo and Shen (2016:63) posit that the opportunity available to majority firms to meet with state agencies, discuss business ideas and theories as well as come up with solutions place majority firms at a more competitive advantage relative to minority business enterprises. In the views of Griffin and Strong (2014:9), the added disadvantage of MBEs is that they are not necessarily plugged into a network of information and, as a result of the lack of inside information, MBEs are not aware of upcoming business opportunities while majority firms often have that fundamental information timeously to allow them to grab the available business opportunity.

#### **2.5.11 Process-Based Barriers**

Griffin and Strong P.C. (2014:9) observe that some barriers that hinder small businesses from participating in public procurement processes reside with the agency and prime contractor management of the bids and bid process. In addition, Castillo and Shen (2016: 65) note that when MBEs seek to work as either prime or subcontractors, bonding and insurance, large project sizes, and bid-specific issues (bid shopping, held bid, late bid notification) stand in their way.

#### **2.5.12 Bonding and Insurance Requirements**

Public contracts relating to construction or large investments require a contractor to be bonded to protect the procuring entity in the case of the contractor failing to perform the job, pay for necessary licences and permits, pay subcontractors and monitor a job site or contract to prevent employee theft, damage or destruction (Castillo & Shen, 2016:58). Hence, to be awarded such contracts, a bidder needs to show proof that it has been given the requisite level of bonding by a surety corporation, such as a financial institution. In

addition, the IFC (2012) espouses that public contracts require contractors to carry certain types of liability insurance to protect the public procuring entity from contractor-caused damage and workers compensation insurance to cover for payment for lost wages and medical services for the contractor's employees.

According to Castillo and Shen (2016:58), the difficult to obtain bonding by MBEs is a barrier to obtaining contracts. In fact, surety companies avoid providing minority-owned firms with a high enough bond to meet contract requirements because they are relatively smaller in terms of revenue and employees than non-minority firms. Additionally, the IFC (2012) posits that due to size and scale, public procuring entities may set the bonding requirements at a level that is too high for most MBEs, thus excluding a large number of the MBEs that might be ready, willing, and able to perform the job. To this end, Castillo and Shen (2016:58) content that bonding requirements adversely affect small businesses and their opportunities to bid on public contracts, and those difficulties related to bonding are linked to capital access.

Insurance requirements deter MBEs from obtaining public procurement contracts because the cost of obtaining the insurance is an obstruction to sustaining businesses or bidding for certain projects, especially for small businesses (Griffin & Strong P. C., 2014:9). Apart from this, Castillo and Shen (2016:58) perceive prohibitive insurance requirements to be consistent with discriminatory lending practices as the inability to obtain insurance can be inclusive of the effects of discrimination.

### **2.5.13 Large Project Sizes**

The project size is classified by various characteristics depending on the type of project or sector (complexity) and the intended objectives. For the benefit of this study the project size is categorised by the value/ amount attached to the project; which also varies from department to department depending on the budget allocation.

Griffin and Strong P.C. (2014:9) consider project size as an impediment to contracting for smaller businesses because the project specifications would be designed in such a way that only large companies can provide supplies such that the issue impacts small versus large,

as opposed to strictly MBE versus non-MBE. Equally, Griffin and Strong P.C. (2014:9) perceive that larger, bundled contracts normally preclude smaller firms from entering into contracts, as the smaller firms usually do not meet contract requirements, such as bonding and insurance. This further highlights how discrimination in capital markets contribute to the inability of MBEs to get bonding and insurance and participate in bidding for large contracts (Castillo & Shen, 2016:59).

#### **2.5.14 Bid specific issues (Late Bid Notification, Held Bid, Bid Shopping)**

Bid specific issues such as late bid notification, held bid and bid shopping are a hindrance to participation in public procurement processes by small business firms (Castillo & Shen, 2016:59). In this regard, Castillo and Shen (2016:59) view late bid notification, held bid and bid shopping as exclusionary or discriminatory practices that arise out of prejudicial treatment and which are a response to race-based programme requirements.

With reference to late bid notification, Castillo and Shen (2016:59) indicate that prime contractors request bids from MBEs at the last minute, purportedly to satisfy good faith efforts in meeting race-based contracting programme requirements. The late bid notification and inadequate lead time result from a combination of discrimination and exclusionary networks because the prime contractor sends out a late bid notification to an MBE they fully expect not to receive a bid from, thus allowing them to use a non-MBE (Castillo & Shen, 2016:59). In the view of Griffin and Strong P.C. (2014:10), the prime contractor can argue that it satisfied good faith efforts to include MBEs by telling procurement agencies that it sent out bid invitations to MBEs. This implies that, through late bid notification and an exclusionary network, minority business owners are the last to know about upcoming opportunities and fail to get sufficient time to prepare thorough bids.

Depressed network access puts minority firms at a distinct disadvantage. To this end, Castillo and Shen (2016:59), who posit that social networks affect the availability of information and lead time, imply a relationship between bid notification and barriers due to network access. Further, the IFC (2012) states that business owners who have personal relationships with public procuring entities' officials often find out about opportunities ahead of time, thus increasing their ability to prepare and submit successful bids. However, minority business owners are not part of these social networks and they suffer as a result.

However, Castillo and Shen (2016:59) reveal that late bid notification may not be due to active biased behaviour, but poor preparation or bid process implementation by public organisations. In this regard, Castillo and Shen (2016:59) indicate that some public entities send out notices at the last minute and this prevents most potential bidders from having a chance to submit a competitive bid or proposal. Such a situation is the result of miscommunication between public procuring entities and primes, instead of prejudicial behaviour.

Bid shopping and held bids often exhibit a strong unfair and unethical practice that harms minority entrepreneurs (Griffin & Strong P.C., 2014:14). For example, in a held bid, the prime contractor solicits information from a subcontractor and includes it on a prime bid. However, after winning the bid, the prime contractor does not engage the original subcontractor and instead, works with another firm (Griffin & Strong P.C., 2014). In bid shopping, which often arises out of discrimination or the desire not to use an MBE because of race or ethnicity, a prime contractor shares a bid with other potential bidders to see if they can negotiate a lower price (Castillo & Shen, 2016:59). In this regard, Castillo and Shen (2016:59) note that the prime requests a bid from an MBE, yet the prime does not want to work with the MBE and instead, shares the MBE bid information with other non-MBE friends. The non-MBEs, armed with the MBE bid information, are able to undercut the MBE bid and successfully win the project.

#### **2.5.15 Discriminatory Attitudes and Perceptions**

Explicit instances of discrimination that take the form of outright prejudice, incorporation of capability stereotypes and use of double or higher standards in assessing MBEs for procurement opportunities exist in public procurement processes (Castillo & Shen, 2016:63)

#### **2.5.16 Discriminatory Attitude and Racism**

Instances of outright discrimination existent in public procurement processes, and that pose a challenge to the participation of SMEs in the procurement processes, are centred around the issue of lack of respect and discrimination based on race or gender (Castillo & Shen,

2016:63). While in some instances, the discriminatory behaviour is overt, in others, it is characterised by nuanced acts of discrimination. For instance, the IFC (2012) posits that derogatory insults and preferential treatment for non-MBE firms, due to outright discrimination, are extended to ethnic, racial, and gender groups in the form of racial slurs, sexist comments and sexual harassment, race-related graffiti on work sites, and other incidents affecting women and minority businesses.

### **2.5.17 Capability Stereotypes**

Public organisation staff and prime contractors may consider minority-owned firms to be less qualified and competent than majority-owned firms. According to Castillo and Shen (2016:64), this exemplifies a persistent informational and experiential asymmetry on the part of the affected MBEs when it comes to stereotypes and their damaging effects on business performance. To this end, Castillo and Shen (2016:64) view the offender as a priori judging a particular firm not on capability or performance, but stereotyping performance based on perceptions about race or ethnicity.

### **2.5.18 Double or Higher Standards**

Double or higher standards relate to the additional requirements imposed on minority owned firms in public contracting that are not imposed on non-MBEs. In this regard, Castillo and Shen (2016:65) argue that while all contractors should be subjected to the same standards and expectations, many minority business owners' work is systematically held to a higher standard than their business counterparts making the higher standards' barrier a systemic issue for minority entrepreneurs. For instance, unnecessarily higher standards cause undue economic hardship for minority entrepreneurs.

The existence of double and higher standards influences agency and prime selection of minority contractors, such that if the bids do not meet the inflated expectations, the MBE will not be selected (IFC, 2012). Apart from this, the perception of these standards acts as a deterrent to MBEs that might otherwise bid on public contracts. In other words, if an MBE assumes that the deck is stacked against them, there is no incentive to actually bid on these contracts (Griffin & Strong P.C., 2014:11).

### **2.5.19 Disadvantaged Business Enterprise (DBE) Stigma**

Griffin and Strong P.C. (2014:11) associate stigma with certification of disadvantaged business enterprise (DBE) because the mention of DBE certification or that the business is owned by a minority constitutes a turnoff when attempting to do subcontracting work for prime contractors on public contracts. In fact, Castillo and Shen (2016:66) espouse that prime contractors do not want to hear about MBE or DBE status.

### **2.5.20 Government processes, procedures, and practices that favour large businesses**

Bundling of procurement quantities in order to minimise procurement related costs, thereby dealing with fewer contracts and also contractors, taking advantage of quantity based discounting strategies by public procuring entities, disadvantage small business enterprises (Wittig, 2016:20). In addition, BBC Research and Consulting (2010) states that bundling makes it complicated for SMEs, MBEs and DBEs to compete for contract awards because of substantial costs for registering and qualifying as a government supplier. Furthermore, NERA Economic Consulting's (2012) views are that the registration process and qualification conditions are onerous and contribute to the exclusion of SMEs, MBEs and DBEs from various databases of prospective suppliers that the public procuring entities maintain.

The IFC (2016) views as formidable for SMEs, MBEs and DBEs the regulatory burden related to the public procurement process and contract performance because some of the regulatory aspects constitute a significant barrier to entry for them. For example, Griffin and Strong P.C. (2014:12) hold that regulatory facets of procurement that are indirectly related to selection of the contractor and/ or contract performance, such as onerous fees paid to obtain procurement documentation; the costs of attending site inspections and overall contract administration are quite burdensome for the SMEs, MBEs and DBEs. Additionally, O'Brien et al. (2012:14) posit that small business enterprises find it difficult to institute legal recourse against public procuring entities, and dispute resolution involves costs which are excessively high to SMEs that do not have in-house counsel on a fixed periodic salary.

O'Brien et al. (2012:14) perceive the need by governments to take action to alleviate the regulatory burdens on SMEs, MBEs and DBEs. This is so because Griffin and Strong P.C.

(2014:12) assert that in the absence of government involvement targeted specifically to deregulate the procurement process and reduce costs and barriers to entry, procurement procedures and practices deter small business enterprises from participation. In the same vein, Castillo and Shen (2016:66) acknowledge the economic vitality of MBEs' contribution to communities by addressing social issues in new ways that justify the need for them to have the opportunity to develop capacity and entry points into public markets. Against this background, Castillo and Shen (2016:66) advise governments to change their economic development models to enable MBEs to grow and create jobs, serve as positive role models to disadvantaged youth, and expose residents to innovation and emerging industries to generate wealth creation.

Based on the arguments it can be argued that BEE targets the previously underprivileged black people, but evidence points to lack of capacity among such groups to embark on the contracts hence they may need their white counterparts to assist for common development. This idea however may attract its own criticism which is a future gap further to be interrogated to see whether the historically marginalised groups in South Africa have the capacity to execute huge contracts without external help. There are debates and questions that often arise on whether BEE is indeed a measure for uplifting the living standards of the previously disadvantaged individuals or it a new dimension for enriching the already rich black minority? (Shava, 2016:166)

## **2.6 Effectiveness of Systems and Programs to Identify Racial Categories in Public Procurement**

All bid documentation must include the evaluation and adjudication criteria, including the criteria prescribed in terms of the Public Procurement Act, which states that all tender bids must indicate the race of the bidder or bidders (BBC Research and Consulting, 2010). The indication of one's race on the tender documents of persons bidding for tenders in public procurement is an effective way of ensuring that previously disadvantaged individuals are also allocated their quota, as specified in the Public Procurement Act, provided other mechanisms are put in place to safeguard against fronting. However, the BBC Research and Consulting (2010) opined that fronting of blacks by whites is one of the gravest and most significant threat towards the achievement of radical economic transformation.

## **2.7 Public procurement legal and regulatory framework in South Africa**

While generally, public sector contracts are governed by the ordinary private law of the State concerned, multiple levels of specific regulations apply to public procurement, including: national regulations; supranational (European Union), and international (WTO Agreements) (O'Brien et al., 2016:13). Hence, public entities must comply with their obligations under domestic law and other legal regimes and agreements during public contracting, particularly in the areas of environment and anti-corruption. However, the IFC (2012) states that when engaging in procurement, public bodies are concerned with both legal compliance and with achieving policy aims. To this end, the IFC (2012) highlights that many procurement systems share policy objectives such as achieving value for money (or efficiency) in public purchasing, sustainability, non-discrimination, equality and integration of marginalised or disadvantaged groups and open competition.

“The Department of Trade and Industry (DTI) regulates procurement. The Black Economic Empowerment Unit (BEE) within DTI works towards ensuring, through equity and empowerment policies and strategic interventions, that the South African economy is restructured, to enable the meaningful participation of black people, women, and rural or underdeveloped communities in the mainstream economy, in a manner that has a positive impact on employment, income redistribution, structural re-adjustment and economic growth”. To this end, the legal and regulatory framework governing public procurement in the Republic of South Africa encompasses the Constitution of South Africa, 1996 (Act 108 of 1996) as the supreme source of law, and many other pieces of legislations. In this regard, Migiro and Ambe (2008:232) identify numerous legislative frameworks that guide public procurement practices in the Republic of South Africa and these include.

- Constitution
- Public Finance Management Act 1 of 1999
- Municipal Finance Management Act No 56 of 2003
- Preferential Procurement Policy Framework Act No 5 of 2000
- Broad-based Black Economic Empowerment Act 53 of 2003
- Promotion of Administrative Justice Act No 3 of 2000
- Promotion of Equality and the Prevention of Unfair Discrimination Act No 4 of 2000

- Construction Industry Development Board Act No 38 of 2000
- Prevention and Combating of Corrupt Activities Act No 12 of 2004, and so on

*The Constitution of the Republic of South Africa (Act 108 of 1996)*

South Africa's Constitution, in Sections 187/217 (1993/1996), sets the legislative framework for unbiased procurement and authorises preference. In this regard, Section 217 of the Constitution of the Republic of South Africa, which is the supreme source of law in the country, provides that:

- 1) When an organ of state in the national, provincial or local sphere of government, or any other institution identified in national legislation, contracts for goods or services, it must do so in accordance with a system which is fair, equitable, transparent, competitive and cost effective.
- 2) Subsection (1) does not prevent the organs of state or institutions referred to in that subsection from implementing a procurement policy providing for :-
  - (a) categories of preference in the allocation of contracts; and
  - (b) the protection or advancement of persons, or categories of persons, disadvantaged by unfair discrimination.
- (3) National legislation must prescribe a framework within which the policy referred to in subsection (2) may be implemented.

Section 217(3) of the Constitution requires that national legislation prescribe a framework within which the preferential procurement policy must be implemented and the PPPFA was promulgated in response to this constitutional imperative (Pauw, 2011). The Constitution set out two objectives of procurement in South Africa; which are primary and secondary objectives. Section 217 (1), which is the primary objective, advocates for a procurement system that is fair, equitable, transparent, competitive and cost effective; whilst Section 217 (2)'s secondary objectives states that there should be implementation of policies that provides for preference, advancement and protection of persons who were disadvantaged in the past by unfair discrimination in the allocation of contracts (Watermeyer, 2011:3).

In line with the Constitution, public procurement by organs of state (national and provincial departments, municipalities, constitutional entities and public entities) is also governed by a number of other pieces of legislation. These primary pieces of legislations are listed and summarised below on what each does in respect of procurement; and some are discussed at length in the following paragraphs:

- Public Finance Management Act 1 of 1999, *establishes a regulatory framework for SCM, which includes procurement in national and provincial departments and state-owned enterprise.*
- Promotion of Administrative Justice Act 3 of 2000, *establishes fair administrative procedures, permits those affected by unfair administrative action to request reasons for such administrative action and requires administrators to respond to such requests. (Administrative actions are presumed to have been taken without good cause where an administrator fails to respond within the prescribed period.). Provides for procedures for the judicial review of administrative actions and remedies in proceedings for judicial review, including the prohibition of an administrator from acting in a particular manner, setting aside the administrative action, correcting the defective action and ordering the administrator to pay compensation.*
- The Promotion of Equality and the Prevention of Unfair Discrimination Act 4 of 2000, *prohibits the state or any person from discriminating unfairly against any person on the grounds of race or gender through the denial of access to contractual opportunities for rendering services or by failing to take steps to reasonably accommodate the needs of such persons*
- Preferential Procurement Policy Framework Act 5 of 2000, *establishes the manner in which preferential procurement policies are to be implemented.*
- Construction Industry Development Board Act 38 of 2000, *establishes the means by which the Board can promote and implement policies, programmes and projects, including those aimed at procurement reform, standardisation and uniformity in procurement documentation, practices and procedures within the framework of the procurement policy of government, through the establishment of:*

*1. a national register of contractors (and if required, consultants and suppliers) to manage public sector procurement risk and facilitate public procurement; 2. a register of projects above a financial value with data relating to contracts awarded and completed and a best practice project assessment scheme; 3. best practices Establishes a code of conduct for the parties engaged in construction procurement.*

- *Broad-based Black Economic Empowerment Act 53 of 2003 establishes a code of good practice to inform the: development of qualification criteria for the issuing of licences or concessions, the sale of state-owned enterprises and for entering into partnerships with the private sector; and development and implementation of a preferential procurement policy.*
- *Municipal Finance Management Act 56 of 2003 establishes a regulatory framework for SCM which includes procurement in municipalities and municipal entities.*
- *Prevention and Combating of Corrupt Activities Act 12 of 2004, makes corruption and related activities an offence; establishes a Register in order to place certain restrictions on persons and enterprises convicted of corrupt activities relating to tenders and contracts; and places a duty on certain persons holding a position of authority to report certain corrupt transactions” (Watermeyer, 2011: 3).*

Though the legislative framework alone is not sufficient to aid the effectiveness of the public sector procurement towards achieving radical economic transformation because of inherent weaknesses such as political override, collusion and outright non-compliance followed by absence of consistent application of consequences for non-compliance, there is no doubt that it can be a powerful tool to use to empower black Africans economically. In summary the legislative framework helps to some extent to make public sector procurement effective and efficient towards achieving radical economic transformation of black Africans. For example compliance with constitutional provisions of equality will make public sector procurement efficient in the sense that no one will be discriminated on account of race and contributes towards increasing the number of black Africans participating in the public procurement process. Compliance with the Preferential Procurement Policy Framework Act 5 of 2000 has the effect of enhancing the incremental

achievement of the objectives of radical economic transformation through the public procurement by taking on board companies owned by historically disadvantaged black Africans to supply government departments with goods and services. The Prevention and Combating of Corrupt Activities Act 12 of 2004 plays a positive role in promoting the effectiveness of the public sector procurement towards achieving radical economic transformation by preventing favouritism, taking of bribes to favour or award all procurement tenders to a select few at the expense of the majority who includes black Africans.

### **2.7.1 The Public Finance Management Act (No. 1 of 1999)**

The Public Finance Management Act (PFMA) (No. 1 of 1999) is mainly focused on the provision of sound financial practices to promote effective service delivery to the people of South Africa through effective, efficient and economical use of existing resources (Ngobeni, 2011). In this regard, “Section 38(1) (a) (iii) of the PFMA stipulates that the accounting officer of a department must ensure that the department has and maintains an appropriate procurement and provisioning system, which must be fair, equitable, transparent, competitive, and cost-effective. In addition, Section 76 (4) (c) states that the National Treasury may make regulations or issue instructions concerning the determination of a framework for an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective” (Watermeyer, 2011:3). These sections support section 217 (1) of the Constitution.

Also, the procurement provisions of the Municipal Financial Management Act (MFMA) are somehow similar to the ones of the PFMA, but are much detailed, particularly on the system. This is so because Section 112 of the PFMA Act No 1 of 1999 permits the Minister of Finance to issue a prescribed regulatory framework for supply chain management (SCM) that covers a number of specific issues. Hence, the SCM regulations issued in terms of the PFMA and MFMA Acts lay down the requirements for the governance of procurement processes and establish a high-level government policy (Pauw, 2011).

### **2.7.2 Treasury Regulations Provisions on Public Procurement**

Ngobeni (2011:27) notes that paragraph 16 of the Treasury Regulation (TR) provides that, procurement of goods and services, either by way of quotations or through a bidding process, must be within the threshold values as determined by the National Treasury. Paragraph 16A6.2 of the TR requires the supply chain management system to provide for the adjudication of bids through a bid adjudication committee; the establishment, composition and functioning of bid specification, evaluation and adjudication committees; the selection of bid adjudication committee members; bidding procedures; and the approval of bid evaluation and adjudication committee recommendations in the case of procurement through a bidding process (Ngobeni, 2011:27).

Paragraph 16A6.3 of the TR requires accounting officers or the accounting authority to ensure that bid documentation and the general conditions of a contract are in accordance with the instructions of the National Treasury; or the prescripts of the Construction Industry Development Board, in the case of a bid relating to the construction industry. For instance, bid documentation includes evaluation and adjudication criteria, including the criteria prescribed in terms of the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) and the Broad Based Black Economic Empowerment Act, 2003 (Act No. 53 of 2003) (Ngobeni, 2011:27).

Ngobeni (2011: 28) further observes that “TR requires that bids be published in at least the Government Tender Bulletin, for a minimum period of 21 days before closure, except in urgent cases when bids may be advertised for such shorter period as the accounting officer or accounting authority may determine”. Ngobeni (2011:28) believes this allows all eligible and potential bidders to have access to information relating to available procurement opportunities and also gives them ample time to prepare their bids. Furthermore, awards to successful bidders are published in the Government Tender Bulletin and other media by means of which the bids were advertised which makes the entire procurement process transparent and broadly communicated.

### **2.7.3 Broad-Based Black Economic Empowerment Act (B-BBEE)**

As a government policy established to redress inequalities, the Broad-Based Black Economic Empowerment (B-BBEE) provides access for disadvantaged groups to economic opportunities not previously available to them (Ngobeni, 2011:29). Accordingly, the policy entails measures such as ownership and employment equity, management control, skill development, preferential procurement, enterprise development and corporate social involvement.

Brun (2014:26) notes that Africans, Coloureds and Indians who are citizens of the Republic of South Africa by birth, descent or naturalisation before or after April 1994 and who would have been entitled to acquire citizenship by naturalisation prior to that date are those referred to as black people by the Act. Furthermore, the Act prescribes codes of good practice to ensure that blacks participate in public procurement processes meaningfully. In fact, the code of good practice looks at ownership equity, management and control, employment equity, skills development, enterprise development, preferential procurement and socio-economic responsibility or involvement of business entities that participate in public procurement processes (Brun, 2014:26). This implies that the code of good practice is used as a mechanism to verify the contribution level of public entities to the economic sustenance of the targeted groups.

However, President Zuma (2009) indicates that the BEE provisions have occasionally failed to ensure a broad-based approach, but instead have forced significant costs on the economy without supporting employment creation or growth. This is so because it narrowly focused on transactions that entail existing assets and which benefit a comparatively small number of individuals. To this end, President Zuma (2009) notes that the following weaknesses have emerged in the implementation of BEE;

- Ownership and senior management issues receive disproportionate emphasis resulting in fronting, speculation and tender abuse.
- The regulations do not adequately incentivise employment creation, support for small enterprises and local procurement, but aggravate the situation by privileging ownership over local production.

- The BBBEE regulations penalise public entities which are democratically state owned as suppliers.

#### **2.7.4 Preferential Procurement Policy Framework Act (No. 5 of 2000)**

The Preferential Procurement Policy Framework Act (PPPFA) (No. 5 of 2000) provides a regulatory framework for preferential consideration of historically disadvantaged enterprises in public sector procurement processes in order to giving effect to the implementation of the provisions of Section 217 (2) and (3) of the Constitution of the Republic of South Africa (Ngobeni, 2011:29). Consequently, PPPFA outlines the categories of persons or business enterprises to be protected and advanced, such as those owned by historically disadvantaged individuals (HDI). According to Manuel (2001), HDI means a South African citizen;

Who, due to the apartheid policy that had been in place, had no franchise in national elections prior to the introduction of the Constitution of the Republic of South Africa, 1983 (Act No. 110 of 1983) or the Constitution of the Republic of South Africa, 1993 (Act No. 200 of 1993) (“the Interim Constitution”); and/or (2) who is a female; and/or (3) who has a disability (p. 6).

Under the preferential system, offers received are evaluated on a 90/10 or 80/20 preference point system, which allocates 90 or 80 points for price and 10 or 20 points for HDI goals as an indication of governments’ commitment in empowering the HDI’s by paying them up to maximum premiums of 11.1% and 25% respectively depending on the threshold values as determined by PPPFA Regulations (Ngobeni, 2011:29).

#### **2.7.5 Management of Public Procurement in South Africa**

The Municipal Finance Management Act 56 of 2003 establishes a regulatory framework for Supply Chain Management (SCM) which regulates public procurement in municipalities and municipal entities. The SCM, as an integral part of prudent financial management in the South African public sector procurement system, is an important tool for managing public procurement (OGC, 2005:11). Hence, aimed at value addition at each stage of the procurement process, the SCM operates within a regulatory framework set by

the national government and extended by provinces and local government bodies to specific policies, legislation and regulations (Hanks, Davies & Perera, 2008:44).

The National Treasury (2003) asserts that the SCM addresses deficiencies in procurement, contract management, inventory and asset control and obsolescence planning such that its adoption ensures uniformity in bid and contract documentation and bid and procedure standards. In this regard, the National Treasury regulations reinforce the provisions of the PFMA and MFMA, confirm the devolution of the SCM function to the accounting officer, and formalise the integration of various functions into a single SCM function (National Treasury, 2003). According to National Treasury (2005), the National Treasury regulations provide the broad legislative framework for SCM by:

- defining the various elements of SCM, such as demand management, acquisition management, logistics management, disposal management and SCM performance. The chain, involves the planning, the sourcing of goods or services, placing of orders and expediting, disposal of assets no longer in use and performance reporting.
- institutionalising the creation of a supply chain management unit in the office of the chief financial officer. The SCM unit centralised within the office of the CFO as the function which is responsible for expenditure and budgeting
- specifying the roles of the accounting officer in the management of the bidding process. It provides for delegation of authority and responsibilities.
- providing for processes and procedures in the case of abuse of the supply chain management system within a department
- requiring the National and Provincial Treasury and municipal finance department to establish a system to collect and report on the performance of the SCM system within their defined jurisdictions.

Since minimum requirements for supply chain, and also preferential procurement, are outlined in the regulations, public procuring entities at the national, provincial and local governments can extend and develop their policies, systems and structures within the ambit of the national regulatory framework (Hanks et, al. 2008:45). As a result, public procurement in South Africa is decentralised to departments, provinces and municipalities, and organs of state establish a three-tier bid structure which is; specification, evaluation

and adjudication/ award committees. However, Pauw (2011) observes that while through this process of segregation of duties, there is greater efficiency and promotion of risk management promoted; in some departments bid specification and adjudication committees have been combined.

## **2.8 Effectiveness of current public procurement legal and regulatory framework in terms of enhancing radical economic transformation**

The SCM is an important part of procurement in the South African public sector and it is used as a tool to manage public procurement practices. However, Pauw (2011) notes that regardless of the existence of several legislative frameworks that are meant to advance the notion of radical economic transformation by enlisting the black majority, public procurement in South Africa is still facing a huge dilemma emanating from:

- lack of proper knowledge, skills and capacity
- non-compliance with SCM policy and regulations
- inadequate planning and the linking of demand to the budget
- accountability, fraud and corruption
- inadequate monitoring and evaluation of SCM
- unethical behaviour
- too much decentralisation of the procurement system
- ineffectiveness of the black economic empowerment (BEE) policy.

These dilemmas or problems have led to the ineffectiveness of the legislative frameworks and their objectives in terms of enhancing the achievement of radical economic transformation. Each of these dilemmas is now discussed.

### **2.8.1 Lack of proper knowledge, skills and capacity**

Migiro and Ambe (2008:241) assert that while SCM personnel have attended a number of capacity development workshops, they still lack the appropriate knowledge such that the competence of SCM personnel in some government entities is far below the expected standard. Similarly, McCarthy (2006) observes the lack of capacity and knowledge by

SCM personnel to handle procurement processes that have led to bad governance and recommends the need to embark on programmes that impart that knowledge to the SCM personnel. The success of BEE in redressing the socio-economic imbalances of the past is hinged on effective government coordination and good demand management practises.

Lack of proper knowledge, skills and capacity lead to other challenges of proper planning and linking demand to the available budget illuminate in South African - owing to scarcity in skills, and institutional constraints.

### **2.8.2 Non-Compliance with Policies and Regulations**

Compliance with policies and regulations that guide SCM by SCM personnel is a problem that is defeating the objective of achieving radical economic transformation (National Treasury, 2015). In addition, Matthee (2006) indicates that apart from not utilising a competitive process for quotations and bids, there is a tendency to incorrectly utilise the preference points system and failure to recognise racial groups applying for tenders. In this regard, the public procurement system lacks appropriate bid committees; uses unqualified suppliers, passes over bids for incorrect reasons, utilises incorrect procurement process in respect of bid thresholds, extensions of bid validity periods, and incorrect utilisation of the limited bidding process (Van Zyl, 2016).

This is due to inadequate controls and procedures for the handling of bids, appointment of bid committee members not aligned to policy requirements, and insufficient motivation causing deviations from SCM procedures, hence failure (Ambe & Badenhorst-Weiss 2011b:247).

### **2.8.3 Inadequate Planning and Linking Demand to the Budget**

Ambe and Badenhorst-Weiss (2011a:1106), who view demand management as fundamental to SCM process because it forms the decision-making process that enable procurement to be done at the right time, right place and right cost, posit that public entities are exposed to the challenges of poor planning and linking demand to budget. For instance, exceptional skills are required to ensure that buying requirements are correctly determined, proper contract strategies are developed, contracts are well managed and opportunities are seized to secure the best deals at the right time and at the right price. Research study by

(Shava, 2016:165) found out that, demand management is lacking in government although, Ambe & Badenhorst-Weiss (2011:441) remark that it underpins supply chain management procedures. It enables public officials to undertake efficient and effective procurement decisions. However, the paper observes that, challenges of proper planning and linking demand to the available budget illuminate in South African government owing to scarcity in skills, and institutional constraints. Evidence of such incapacities in government manifested itself in the cost-effective procurement in the tendering systems where skilled workers are scarce to determine the buying requirements.

The departments lack effective coordination and good demand management practises which impacts on success of BEE in redressing the socio-economic imbalances of the past. Proper planning enables public officials to undertake efficient and effective procurement decisions. However challenges of proper planning and linking demand to the available budget illuminate in South African owing to scarcity in skills, and institutional constraints.

#### **2.8.4 Accountability, Fraud and Corruption**

Accountability is integral to public procurement because without transparent and accountable systems, resources are susceptible to the risk of corruption and the mismanagement of funds (Mahlaba, 2004:85). For instance, Mahlaba (2004:85) holds that fraud and corruption cost South African tax payers hundreds of millions of rand each year. In addition, the impact of fraud has led to the promulgation of special legislation and improvement in existing legislation. This has resulted in the creation of the Directorate of Special Operations, (Scorpions) now called HAWKS, the Asset Forfeiture Unit, the Public Protector, the Special Investigation Unit, Commercial Crime Units, Internal Audit Units, Special Investigation Units within departments, and the appointment of forensic consultants (Mahlaba, 2004:85).

Boateng (2008) is concerned that while South Africa has benefitted from extraordinary social and infrastructural programmes, the majority of people are feeling increasingly bitter towards government because of poor accountability, fraud and rampant corruption. Similarly, De Lange (2011) espouses that lack of perceived quality of governance, service delivery failure, fraud and corruption and disillusionment with empowerment policies related to public procurement are a cause for concern in South Africa. For example, the Public Service Commission Committee (2011) reveals that a significant numbers of cases

relating to corruption had been reported through the National Anti-Corruption Hotline from September 2004 to June 2010.

Corrupt practises entails processes of soliciting anything of value, receiving and offering gifts to officials in return for favours. The study establishes that, corruption in BEE, should be regarded as a moral deterioration which is evidenced by the use of corrupt practices such as bribery or fraud or dishonesty. Most public authorities encourage contractors and consultants to exercise to be ethical when selecting and executing contracts. . Based on the above assertions, it can be argued that, corruption and fraud are two attributes hindering government plans to redress social-economic inequalities and empower citizens.

### **2.8.5 Inadequate monitoring and evaluation of SCM**

Against this background, De Lange (2011) notes that the fleecing of taxpayers of billions of rand is blamed on public servants who are corrupt, incompetent and negligent because they are failing to monitor how money was being spend. Additionally, Smart Procurement (2011) observes that the office of the auditor general stressed weaknesses in SCM controls, information technology, the managing of the human resource function, capital assets and also performance reporting information. This implies the need by government to rethink innovative ways of curbing corruption and other administrative malpractices within its institutions such as strengthening and reviewing existing internal control systems to be able to detect deficiencies.

Acevedo, Rivera, Lima and Hwang (2010:13) observed the lack of feedback on the capacity of implemented policies to achieve the intended results of achieving radical economic transformation through public procurement. The lack of monitoring and evaluation mechanisms in many government institutions in the country has compromised the effective implementation on BEE as a tool for creating employment and redressing socio-economic imbalances.

### **2.8.6 Unethical behaviour**

Due to the fact that massive amounts of power are exerted by chief financial officers, proper consultation is non-existent with other senior officials, ethical considerations and conflicts of interest have great impact on SCM implementation in South Africa, and the

achievement of radical economic transformation has been made difficult (Acevedo et al., 2010:8). For instance, McCarthy (2006) observes that while the National Treasury's guide to accounting officers recommends a standard approach to SCM procedures, there is high levels of non-compliance and guidelines are not applied on many occasions. To this, McCarthy (2006) concludes that the lack of compliance and application of the guide lines has resulted in a differentiation in approaches and a lack of standardisation, such that the completeness of tender documents is difficult to verify, explaining the reasons for failure to achieve radical economic transformation targets.

### **2.8.7 Too much decentralisation of the procurement system**

Public procurement is, to a large extent, decentralised to departments, provinces and municipalities where, in most cases, there is a lack of the knowledge to get the best costs benefits for tax-payers' money (Fawcett, Ellram & Ogden, 2012). This implies that, if procurement can be centralised to more knowledgeable, accountable procurement officials or procurement consortia, there could be improved compliance and application of the guide lines and allow government to get value for money in its procurement processes.

While decentralisation often leads to better responsiveness to purchasing needs, an improved appreciation of unique local needs, and is closer to suppliers and taking ownership of decisions that impact on one's own budget, the advantages of centralisation can be realised, if efficient contract management and supplier relationship management is considered to be a pre-condition (Handfield, Monczka, Guinipero, & Patterson, 2011:169). There is a need to remove excessive decentralization in the procurement system: The procurement system which underpins the BEE systems is marred by excessive decentralization in the governance structures of the country in a way that it spreads to departments, provinces and local municipalities in South Africa. The increased cases of tender fraud and poor service delivery by government at all spheres of government led to critics to interrogate the success of BEE. Procurement of goods and services is decentralised to various government institutions. However too much decentralisation is also a challenge as the procurement is not bundled; hence not realising cost benefits of strategic sourcing.

### **2.8.8 Ineffectiveness of broad-based black economic empowerment**

Whilst the South African Government has implemented a number of policies and strategies aimed at economic transformation originating from the Constitution, the current BEE provisions have failed to ensure that there is a broad-based approach. The government adopted a Broad-Based Black Economic Empowerment Act (B-BBEEA) after realisation that the BEE was narrow and only focused on a small group of blacks (Pauw, 2011). However, there has been shortcoming in its implementation and this necessitates ongoing review and amendments to the Codes of Good Practice.

The implementation of BEE in South Africa as an economic imperative to address the socio-economic inequalities attracted fervent criticism, BEE creates a form of “black entrepreneurship” where small “classes of unproductive but wealthy black crony capitalists” consisting of politicians become rich and strong allies of the economic oligarchy. The criticism levelled against BEE stems from minimal improvement in correcting the injustices of the apartheid as twenty years later many of the challenges remain or have become even more acute in terms of poverty, unemployment, housing and basic services.

### **2.9 Strategies for Enhancing the Achievement of Radical Economic Transformation through Public Procurement**

The National Treasury must facilitate the development of applicable training materials to the departments, municipalities and entities in order that it can fully accomplish SCM objectives (National Treasury, 2005). However, Sheoraj (2007) posits that due to lack of support from National Treasury, skills and capacity shortages are impeding the success of public procurement initiatives in the country. In this regard, Sheoraj (2007) indicates that the country lacks adequate capacity in the form of appropriate structures with fully skilled and professional SCM personnel who are a key success factor for proper SCM implementation.

Luyt (2013) emphasises the importance of devising accurate and realistic strategic plans in order to be able to properly quantify the need for services, provide cost approximations, tracking, control and report on actual expenditure. In this regard, Luyt (2013) specifies that it is imperative to properly monitor the delivery of services in order to ensure that

inadequate resources are procured in an efficient and effective manner. Against this background, Ambe and Badenhorst-Weiss (2011a:1111) argue that, as a result of improper planning and budgeting, and SCM implementation is therefore affected, it is important that demand planning is adequately linked to budgeting by those responsible for SCM.

Acevedo et al. (2010) stated that effective monitoring and evaluation systems are needed to provide ways to compile and integrate information into the policy cycle, thus providing the basis for sound governance and accountable public policies in SCM processes. In fact, insufficient monitoring and proper evaluation is directly related to the lack of controls, and this places government entities in a challenging position to implement SCM as required by the policy. As a result, procurement actors in government spend millions of rand in ways that transgress laws and regulations because there is inadequate monitoring and evaluation (Stemele, 2009).

Handfield et al. (2011:169) suggested that centralisation of public procurement offers advantages such as leverage due to volumes, reduction of duplication of purchasing effort, better control and development of specialised expertise of purchasing personnel, as well as greater achievement of radical economic transformation.

Despite the many challenges facing South African Government objectives, BEE if well implemented can still resuscitate the economy of the country by empowering emerging black entrepreneurs and small businesses with funding and equal opportunity to attain huge tenders that can uplift their standards of living. Based on the above conclusions the study, recommends the government of South Africa, to encourage entrepreneurship and innovation among black South Africans instead of pinning hopes on BEE initiatives. The government including stakeholders should implement measures that combat corruption and fraud in the procurement systems. Skills development and training programmes need to be strategically implemented to various black communities and emerging entrepreneurs since they are fundamental in generating employment and uplifting standards of living. The BEE policy needs to be aligned or implemented together with government's National Development Plan (2011-2030) to empower local communities and redressing previous socioeconomic ills (Shava, 2016: 163).

## **2.10 Conclusion**

The review of theoretical literature and the study reveals that Black Economic Empowerment in South Africa is being constrained by corruption, fraud, mismanagement, poor accountability, lack of monitoring and evaluation, difficulties in registering companies under BEE, lack of demand management and gross incompetence of public officials across municipalities. These obstacles have hindered the capacity of BEE to become an economic imperative aimed at redressing past imbalances.

## **CHAPTER 3: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This section studies different research designs and philosophies. This chapter examines quantitative and qualitative aspects of research methodologies and provides explanations for adopting a qualitative research approach. The chapter also explains the reasoning behind choosing a specific research design. Various sampling strategies are examined, and it explains the reasons that led to selecting a particular sampling technique used in selecting the research participants. In addition, it provides discussions on the data collection techniques and the data analysis methods that were implemented in this research. The chapter further provides discussion on the pilot study conducted and its significance or contribution on the construction of the final questionnaire. Furthermore, it explains the construction of the research instrument and its administration; considering issues of ethics in conducting the research.

#### **3.1.1 Rationale for the Methodology**

The study adopted a purely qualitative research methodology to examine the challenges in the public sector procurement that hinder the effectiveness of radical economic transformation, determine strategies to enhance effectiveness of public procurement processes and the effectiveness of the current public procurement legal and regulatory framework in terms of enhancing radical economic transformation, for Black Africans in KZN. According to Kothari (2012:4), a qualitative phenomenological research methodology was adopted in this research. Saunders, Lewis and Thornhill (2012:173) posited that a qualitative research methodology has several characteristics. One of the characteristics of a qualitative research is that data collected through this research method is non-numerical, non-quantifiable (it avoids mathematical methods of analysis or data presentation). Qualitative research methodology is concerned with getting deeper into an issue under research so that detailed explanations about a research phenomenon can be made possible. Qualitative research methodology is mainly specialised in seeking respondent opinions, their beliefs, prevailing attitudes and reasons for the attitudes (Kothari, 2012:4). Data obtained from qualitative research methodology is analysed in language or linguistic form (Miles & Huberman, 2011:8).

Kothari (2012:4) opined that qualitative research methodology is predominantly descriptive and normally applies reasoning through the use of words not numbers. Miles and Huberman (2011:8) pointed out that the main objective of qualitative research methods is to find out “the why and how of things, thereby getting the meaning, the feelings which helps in the description of things”. Miles and Huberman (2011:9); Kothari (2012:5); Saunders, et al. (2012:173) further pointed out that qualitative research methodology largely utilises smaller samples which average between 8-10 respondents in most cases. In line with (Kothari, 2012:4) assertions the qualitative study helped to provide a descriptive account in word form about the challenges encountered in public sector procurement that hindered the effectiveness of radical economic transformation. In conformity with (Miles & Huberman 2011:8) the qualitative research methodology allowed the research to identify why public sector procurement is not effective in terms of achieving radical economic transformation and to determine how it can be made effective.

There are various reasons which led to this research adopting a qualitative research methodology. One had to consider cost and time which would have made it extremely demanding and difficult to investigate larger samples of respondents that other research methods, such as quantitative or mixed methods studies, require. In addition, conducting a qualitative study was considered necessary as it allows for in-depth interviewing of respondents with the aim of obtaining more detailed information on the challenges in public sector procurement processes that hinder the effectiveness of radical economic transformation, the effectiveness of systems and programmes to identify racial categories in public procurement, the effectiveness of the current public procurement legal and regulatory framework in terms of enhancing radical economic transformation as well as strategies that can be adopted to enhance the effectiveness of public procurement processes to enforce radical economic transformation. Ritchie and Spencer as cited on (Ritchie & Lewis, 2003) pointed out that qualitative research methodology is renowned for being highly flexible compared to rigid quantitative research, because of the fact that it gives a chance to the researcher to change the questions or themes progressively, so that a deeper understanding of the subject matter can be achieved.

However the use of qualitative research to obtain information on this study research questions was not without its shortcomings. The use of the smaller sample of senior managerial staff effectively meant that the findings are not representative enough of the views and opinions of all the people involved in the public procurement process, such as the junior managers and employees, and suppliers.

### **3.2 The Research Design**

A research design, as defined by Wilson (2010:21), is a detailed outline of how an investigation will take place. It explains the type of data collection to be utilised to gather the information required to answer the research problem and fulfil research objectives. An explanatory research design was chosen for this study. According to Creswell (2013:36), an explanatory research design gives an in-depth analysis and explanation of the research variables. It further provides and analyses the cause-effect relationship between the independent and dependent variables to allow the formulation of a deeper understanding of the challenges in public sector procurement processes that hinder the effectiveness of radical economic transformation, the effectiveness of systems and programmes to identify racial categories in public procurement, the effectiveness of the current public procurement legal and regulatory framework in terms of enhancing radical economic transformation as well as strategies that the public sector can adopt to enhance the effectiveness of public procurement processes to enforce radical economic transformation.

Since this has four main variables, namely; public sector procurement challenges, effectiveness, legal and regulatory framework, and radical economic transformation, an explanatory research design enabled the research to establish the cause and effect relationship between these variables in terms of achieving the current quantitative targets of 50% public procurement from black Africans. The explanatory research design enabled the research to obtain a detailed understanding of the effect of public sector procurement challenges in achieving the set quantitative target of 50% by the KZN provincial government in terms of effectively achieve the desired levels of radical economic transformation.

### **3.3 The Research Philosophy**

This research study adopted a purely phenomenological research philosophy. Trochim (2012:162) defined a research philosophy as a belief about the way in which data about a phenomenon should be gathered, analysed and used. De Vaus (2011:76) explained that there are two main research philosophies which are often associated with quantitative and qualitative research methodologies.

Johnson and Christensen (2010) explained that a qualitative phenomenological research philosophy collects information about people's opinions. Thus the research utilised the principles of a qualitative phenomenological research philosophy in order to get an understanding of the challenges being experienced in public sector procurement processes that hinder the effectiveness of radical economic transformation, the effectiveness of systems and programmes to identify racial categories in public procurement, the effectiveness of the current public procurement legal and regulatory framework in terms of enhancing radical economic transformation as well as strategies that can be adopted to enhance the effectiveness of public procurement processes to enforce radical economic transformation.

The rationale for opting for a phenomenological research philosophy is due to the fact that it is efficient, not time consuming and cost effective. It also allows for the collection of more detailed information which informs the research and provides greater depth to the understanding of challenges hindering the achievement of radical economic transformation through public procurement of Black Africans in KZN province. Since phenomenology is premised on the worldview that there are multiple realities to every situation, the qualitative phenomenological research philosophy made it possible to determine the several challenges hindering the achievement of radical economic transformation through public procurement of Black Africans in KZN province as opposed to a single challenge as positivism would have done. In addition the qualitative phenomenological research philosophy allowed the research to determine the impact of the effect of the various legal and regulatory frameworks on the achievement of the objectives of radical economic transformation.

### **3.4 Research Strategy**

According to Wilson (2010:34), there are several data collection methods associated with a qualitative research design. Some of them are participant observation, focus groups discussions, unstructured in-depth interviews, grounded theory, participatory research, action research, ethnography, examining secondary data sources like published texts and journals, and so on. However, for the purposes of this research, the only relevant research strategies that were utilised were semi-structured interviews and the examination of secondary data sources as they were the most suitable for the qualitative explanatory research design. The study adopted semi-structured interviewing to gain an in depth understanding of the challenges hindering the achievement of radical economic transformation through public procurement of Black Africans in KZN province as well as on the effect of the current legal and regulatory frameworks on the achievement of the objectives of radical economic transformation.

#### **3.4.1 Phenomenological Research Strategies**

A phenomenological research philosophy is associated with qualitative research designs whilst a positivist research philosophy is associated with quantitative research designs. However, since the study is mainly qualitative, it adopted the phenomenological research philosophy. The rationale for choosing a phenomenological research philosophy lies in the fact that it is less time consuming, is cost effective, and allows for the collection of detailed information that informs the research and gives greater depth in the understanding of the challenges hindering the achievement of radical economic transformation through public procurement of Black Africans in KZN province. This is a research strategy of inquiry in which the researcher identifies the essence of human experiences about a phenomenon as described by participants. Phenomenological research strategies are marked by trying to understand the lived experiences of human beings. It involves studying a small number of subjects through extensive and prolonged engagement to develop patterns and relationships of meaning. A phenomenological research philosophy contends that there are multiple realities to a situation and that finding absolute truth is virtually impossible because two researchers can arrive at different conclusions about a phenomenon. This effectively made it possible for the phenomenological research strategy of semi-structured interviewing to determine that there are multiple challenges encountered which are having an effect on the

effectiveness of public sector procurement on the achievement of radical economic transformation of Black Africans in KZN province.

One notable limitation of phenomenological research philosophy is that conclusions are arrived at through the subjective interpretation of data collected by the researcher. Though subjectivity cannot be ruled out in phenomenological studies, this approach was adopted because it often leads to the collection of detailed information from respondents through the use of open ended questions. This research philosophy enables real life experiences, situations, events, phenomena and work experiences to be observed and recorded for analysis (De Vaus, 2011:76). There are several phenomenological research strategies that are normally utilised, namely, interviews, focus groups, case study, action research, grounded theory, ethnography and surveys.

#### **3.4.1.1 Interviews**

Interviews are the most commonly used research strategies in qualitative and quantitative research designs (Wilson, 2010:21). They involve gathering information from respondents through mainly structured, semi-structured and unstructured ways. In a structured interview, respondents are given a structured questionnaire with guided responses (Wilson, 2010:21). This has the limitation of restricting respondents' choice of responses. Semi-structured interviews involve the use of an interview guide with a combination of both structured and unstructured questions. This allows for the researcher to probe respondents further on some areas that need detailed information. The third type of interviewing is the unstructured form which asks respondents questions as and when they crop up from the researcher as new themes or dimensions emerge. Though unstructured, the researcher often asks questions related to the research topic, but takes into account the characteristics of the respondent like the level of education, income level or family background. The method is useful when the researcher wishes to explore the full breadth of a topic. Welman, Kruger and Mitchell (2009:197) explained that semi-structured interviews include having a compiled list of questions and themes that need to be covered in the interview. This involved compiling an interview guide which had coverage of topical aspects like public procurement as a tool for radical economic transformation of black Africans in the province of KwaZulu-Natal, challenges encountered by the public sector in KZN province in utilising the procurement function to achieve radical economic transformation of Black Africans, as well as questions containing identification of the legal frameworks that had an

impact on public sector procurement and the effect on the achievement of radical economic transformation of Black Africans in KZN province.

These topics and themes were aligned to the research aims and objectives. Welman et al. (2009:197) explained that in a semi-structured interview the researcher raises questions during the course of the interview which the respondents may either answer orally through telephonic interviewing or face-to-face interviewing. Where necessary, respondents are allowed to insert their responses in the spaces provided in an open-ended interview guide. The fact that this study adopted a qualitative causal research design meant that the only suitable interviewing technique was the semi-structured form which enabled the researcher to collect detailed information through open-ended questions in the interview guide.

#### **3.4.1.2 Focus Groups**

Denzin and Lincoln (2011:53) explained that focus groups normally comprise small groups of between 8-10 individuals. Denzin and Lincoln (2011:53) further explained that focus groups are essentially a qualitative technique whose main purpose is to gather opinions, ideas or perspectives from a group of people easily and within a short period of time. They further pointed out that focus groups allow for the flow of information as well as the cross fertilisation of ideas which would otherwise not be obtained in individual interviews. Respondents in the target population are invited to a group discussion that would be conducted at a designated venue through two main strategies.

However, due to time and logistical issues, this data collection method was not adopted to identify the challenges encountered by the public sector in KZN province in utilising the procurement function to achieve radical economic transformation of Black Africans, on identifying of the legal frameworks that had an impact on public sector procurement and the effect on the achievement of radical economic transformation of Black Africans in KZN province.

#### **3.4.1.3 Case Study**

According to Welman et al. (2009:198), a case study research strategy involves an in-depth study of an individual, group or an institution in order to obtain an understanding of phenomena occurring within the particular individual, group or institution. They have a

weakness in that the research findings from case studies cannot be generalised to a broad spectrum of individuals, groups or institutions. Thus, the usefulness of the findings is confined to the individual, group or institution studied.

Due to the fact that the intention of this study was to come up with findings that can be generalised to the challenges faced by the procurement department in the province government of KwaZulu-Natal, the case study phenomenological research was found unsuitable and was ignored in this study in as far as to identifying the challenges encountered by the public sector in KZN province in utilising the procurement function to achieve radical economic transformation of Black Africans, on identifying of the legal frameworks that had an impact on public sector procurement and the effect on the achievement of radical economic transformation of Black Africans in KZN province.

#### **3.4.1.4 Action Research**

Kemmis and Wilkinson as cited on (Atweh & Heirdsfield, 2003:58) explained that action research is akin to “learning by doing”. Action research is known by many other names, including participatory research, collaborative inquiry, emancipatory research, action learning. It involves having the researcher participate in the research. However, action research was not adopted in the study in as far as to identifying the challenges encountered by the public sector in KZN province in utilising the procurement function to achieve radical economic transformation of Black Africans, on identifying of the legal frameworks that had an impact on public sector procurement and the effect on the achievement of radical economic transformation of Black Africans in KZN province.

#### **3.5 Target Population**

Welman et al. (2009:63) defined a target population as a group of individuals with distinct characteristics who were chosen for the interview. According to Denzin and Lincoln (2011:57), a population refers to the total number of potential items or respondents that are earmarked for examination. The target population comprised senior management in charge of the procurement department and/ or supplier development in the provincial government of KwaZulu-Natal.

### **3.5.1 Sampling**

According to Landerneau (2013:3), sampling refers to a process that involves selecting a fraction of units or people from a whole population of items or people from a sample that is representative of the whole. Wilson (2010:34); Landerneau (2013:4); Gorard (2013:187) all concurred that there are two broad classification of sampling methods, namely probability and non-probability sampling. Each class of sampling has sub-categories which are examined in this discussion. This research chose the non-probability sampling method in the form of purposive sampling. There are two main categories of sampling; these are probability sampling and non-probability sampling. Each category of sampling methods is discussed separately below though some of the sampling methods were not utilised in this research to select participants to obtain information from respondents on the research topic and research questions.

#### **3.5.1.1 Probability Sampling**

Probability sampling is a group of sampling methods in which elements in the research are chosen at random to participate in the research. Thus, under probability sampling, each element has an equal chance of being nominated to participate in the research. This sampling category has the advantage that it is not biased in selecting elements who will participate in the research, due to the randomness of participation selection.

Landerneau (2013:3) pointed out that probability sampling methods result in findings that are representative because of the random nature of participant selection. Wilson (2010:34) listed the most common and most known probability sampling methods as random sampling; systematic sampling, stratified random sampling and quota sampling. Gorard (2013:188) further pointed out that the results generated from probability sampling methods can be easily generalised over a broader population comprising the unsampled. The opposite of probability sampling is the non-probability sampling method.

#### **3.5.1.2 Non-Probability Sampling Method**

Non-probability sampling methods involve the selection of research participants in a non-random manner. In non-probability sampling, the element of having a research participant having an equal chance of being selected for interview is virtually absent. Instead, the research participants are selected through the exercise of judgement or personal discretion

by the researcher who, in most cases, relies on his/her experience. This element makes non-probability sampling methods like purposive sampling, convenience sampling unrepresentative (Wilson, 2010:34).

### **3.5.1.3 Adopted sampling Method**

For the purposes of this research, purposive sampling has been chosen for the purposes of this research. Purposive sampling is undertaken when a researcher has a target group in mind from which he has reasonable assurance that he/she will get adequate and relevant information that he/she is looking for. Creswell (2014) pointed out that purposive sampling is a technique that is used to identify and select respondents who are highly knowledgeable about a topic or issue to participate in an interview. The justification for choosing this sampling strategy is based on the fact that the majority of the population does not have the required knowledge about the challenges faced by the procurement department in the provincial government of KwaZulu-Natal to effectively achieve the objectives of radical economic transformation of black Africans. Purposive sampling was adopted because the phenomenon being studied was deeply rooted within the target population of senior managerial employees' personal knowledge or understanding of the issue of public sector procurement as a tool for achieving radical economic transformation of Black Africans in KZN province.

### **3.5.1.4 Sample Size**

The sample size comprised of or was made up of ten (10) respondents out of a target population of thirty two (32) managerial staff. Those who participated in the pilot study were excluded.

## **3.6 The Research Instrument**

An interview guide with mostly open-ended research questions that were aligned to the research problem, research aims and research objectives was utilised. It contains a list of pre-complied questions divided into themes and topics that were relevant to the research title and objectives. Respondents were given a self-administered interview guide which they were required to answer during their free time and return to the researcher.

### **3.7 Pilot Study**

A pilot study serves as critical and vital component of the research process. According to Bhattacharjee (2013), a pilot study precedes the actual research for the reasons for distinguishing any issue or deficiencies that may be contained in the examination instrument. A pilot study involves carrying out tests and editing of the research questionnaire before using the final questionnaire of the research (Cooper & Schindler, 2006:755). A pilot study was conducted with two (2) respondents who were selected to participate from the target population. The two (2) that participated in the pilot study were excluded from being part of the final pool of respondents in undertaking the final research.

A pilot test serves three main crucial purposes. It enables one an opportunity to detect, identify and rectify any grammatical errors, explain any ambiguities in sentence construction and also instructions to respondents. It also enables the researcher in identifying certain questions through reactions by respondents that may assist in identifying sensitive issues such as racial prejudice, gender bias and others that might have negative effects when conducting the research. The results from the pilot study revealed that there were three double barreled questions that needed to be split and made clear. The expert who was given the interview guide for scrutiny mentioned that the instructions and certain highlighted questions and categories were supposed to be clear to ensure clarity. All the corrections suggested by the expert were taken into account and some questions related to race were removed completed from the questionnaire as they were viewed as sensitive.

### **3.8 Interview Guide Construction**

The interview guide was constructed as follows: the first part is made up of the research title and information on the research objectives. This is followed by the demographic section which requires information about gender, occupation, employee status, et cetera. The other section of the interview guide includes the instructions that respondents needed to follow to complete the interview guide. The last part of the interview guide comprised mainly open-ended questions with quite a few closed questions. Since the majority of the questions were open-ended, the interview guide included open spaces where respondents were supposed to insert their answers in a detailed way. The interview guide was constructed as shown in table 3.1 and the questions were derived from the research objectives and or research questions

**Table 3.1 Number of Questions contained in the Interview Guide**

Type of question	Number of questions
Demographic Questions	3
Challenges hindering the effectiveness of public sector procurement as a tool for radical economic transformation	6
Strategies to enhance the effectiveness of public procurement processes to enhance radical economic transformation	3
Effectiveness of the public sector procurement as a tool for radical economic transformation	6

### **3.8.1 Administration of the Interview Guide**

The respondents were provided with the interview guide to self-administer or complete in their own spare time. The rationale was to allow respondents the opportunity fill it in, in their spare time so that they could apply their minds freely and adequately. However, the respondents were informed of the time frames for completion of the interview guide and also procedures for handover.

### **3.8.2 Collection of the Interview Guides**

Respondents were provided with two options to return the interview guide. The first option required respondents to notify the researcher through short messaging service or whatsapp that the completed interview guide is ready for collection. The researcher then undertook to collect the completed interview guide in person. The second option required respondents to drop the interview guide at a convenient physical address that was written on the back of the interview guide.

### **3.9 Data analysis**

According to Ritchie and Spencer (2010:74), data analysis can be described as a process that converts raw unprocessed data into information and knowledge. The data that was collected from the primary respondents was sifted for emerging dominant themes or patterns that were coming out of respondents and emerging patterns in the data collected. An analysis of emerging themes related to the challenges being experienced in the public sector procurement processes that hinder the effectiveness of radical economic transformation, the effectiveness of systems and programmes to identify racial categories in public procurement, the effectiveness of the current public procurement legal and regulatory framework in terms of enhancing radical economic transformation as well as strategies that could be adopted to enhance the effectiveness of public procurement processes to enforce radical economic transformation. The data analysis process involved sorting and sifting information (Ritchie & Spencer, 2010:74). Data was analysed using NVIVO software. This software requires that the researcher first performs coding of data which is then processed and analysed by the software.

### **3.10 Principles of Trustworthiness**

The trustworthiness of research findings is of paramount importance as a way to gain credibility from users of the research (Bhattacharjee, 2013:88); reliability refers to the extent to which the measurement of a construct is consistent or dependable. The following forms of trustworthiness pertinent to a qualitative research study were ensured. Trustworthiness and authenticity of data is very essential in research because it increases the trust that would be users of the research findings have. Lincoln and Guba (2014:74) pointed out that there are four main principles of trustworthiness that a research needs to take into consideration during the conduct of the research namely credibility, transferability, dependability and conformability. These principles are discussed below:

#### **3.10.1 Credibility**

According to Shenton (2016:74) the credibility is the equivalent concept of “internal validity” in quantitative research. Lincoln and Guba as cited by (Pandey & Patnaik, 2014:5746) argue that ensuring credibility is one of most important factors in establishing trustworthiness of the research findings. Shenton (2016:74) posited that there are quite a

number of provisions that may be made by researchers to promote confidence that they have accurately recorded the phenomena under scrutiny. One of the provisions involved the adoption of research methods well established both in qualitative investigation in general and in information science in particular that has been successfully utilised in the past (Shenton, 2016:74). Lincoln and Guba as cited by (Pandey & Patnaik, 2014:5746) postulated that one of the ways of ensuring credibility in qualitative research is gain early familiarity about the organisation being studied before the first data collection commences. They also highlighted that credibility may also be achieved via consultation of appropriate documents and preliminary visits to the organisations themselves. Brewer and Hunter (2015:79) opined that triangulation is one of the methods of ensuring credibility and involves the use of different methods, especially observation, focus groups and individual interviews, which form the major data collection strategies for much qualitative research. Brewer and Hunter (2015:79) further posited that whilst focus groups and individual interviews suffer from some common methodological shortcomings since both are interviews of a kind, their distinct characteristics also result in individual strengths and therefore needs to incorporate as part of triangulation to ensure credibility. The research ensured accuracy in the interpretation of data provided by the participants by probing respondents for further clarification on issues raised by them in the interview guide. The research ensured that there are no flaws in the process of integration that took place between data collection, analysis and the theory that was generated from the data.

In this research credibility was ensured by making preliminary visits to KZN provincial government offices to gain familiarity with the working environment as well as gaining familiarity with the existing literature on the municipality. Further credibility was ensured by triangulation of findings with existing literature on the public sector procurement as tool for radical economic transformation. Triangulation of findings on the challenges hindering the effectiveness of public sector procurement and on strategies to enhance the effectiveness of public sector procurement to effectively enhance radical economic transformation the contribution of the regulatory framework towards enhancing radical economic transformation was also conducted by making comparisons with the existing literature on these aspects.

### **3.10.2 Transferability**

According to Shenton (2016:74) transferability is the equivalent concept of “external validity” in quantitative research. Shenton (2016:74) posited that transferability refers to the provision of background data to establish context of study and detailed description of phenomenon in question to allow comparisons to be made. In this research transferability was ensured by performing appropriate standard qualitative research data collection procedures such that the findings will relate to other findings from similar previous researches which were undertaken in a similar environment and under similar circumstances.

### **3.10.3 Dependability**

Lincoln and Guba as quoted by (Pandey and Patnaik, 2014:5749) posited that dependability refers to the extent to which research findings can be predictable and rehashed. Silverman (2011:16) opined that there is a close connection between credibility and dependability, arguing that, in practice, a demonstration of credibility goes some distance in ensuring dependability. Lincoln and Guba (2014:76) further posited that dependability may be achieved through the use of overlapping methods, such as the focus group and individual interviewing. Bouma and Atkinson (2013:35) explained that dependability can be achieved by ensuring that data transfer from the data collection tool to the findings is correct and is achieved by making repeat process to ensure that all data has been included the findings without omissions. Dependability was achieved by exercising strictness so as to ensure that there were no flaws in the process of integration that takes place between data collection, analysis and the theory that is generated from the data.

### **3.10.4 Conformability**

Is the degree to which the research findings are upheld by the information gathered (Denzin & Lincoln, 2011). According to Shenton (2016:75) the concept of confirmability is the qualitative investigator’s comparable concern to objectivity. Confirmability helps to ensure as far as possible that the research’s findings are the result of the experiences and ideas of the informants, rather than the characteristics and preferences of the researcher. This research ensured conformability by triangulation so as to reduce effect of researcher bias and also by admitting to one’s beliefs and assumptions. Conformability: At the end,

the research ensured that the data collected did not contradict the findings; the data supported the findings and interpretation of the researcher so that third parties who look at the data may come to similar conclusions as this research did.

### **3.11 Limitations of the Study**

The research was limited in terms of time and resources to carry out multiple data collection and testing. This may have limited the amount of information collected and may have restricted the scope and depth of the findings. Since a small sample was interviewed, the research findings may not be generalisable to the whole population. The resource limitation was minimised through asking respondents to drop the interview schedule response at designated points so that they could all be collected at once. This also proved to be efficient rather than looking for each individual respondent to bring in the interview schedule.

### **3.12 Elimination of Bias**

According to Welman *et al.* (2014:293) elimination of bias is one of the most important considerations that a researcher must take into consideration when undertaking a research. Welman *et al.* (2014:293) stated bias in research occurs when the type of questions included in the research instrument contains aspects that reflects stereotyping of other races, ethnic groups, gender or cultures whilst exalting other races, ethnic groups, gender or cultures. Welman *et al.* (2014:293) thus recommended that all forms of discrimination, stereotyping should be eliminated in any research so as to avoid potential conflict and or costly litigation. According to Bhattacharjee (2013:88) a research study should ensure that it is free of bias and should utilise words that are not gender nor racial insensitive. The study ensured that bias was eliminated in the study; through ensuring that gender neutral words were utilised, participants and people were not referred to by race or ethnic groups unless when absolutely necessary and /or relevant, this effectively meant that racial or ethnic stereotyping was avoided. Thus the research ensured that people were only referred to by race or ethnic orientation where it was deemed absolutely necessary or found to be relevant. The research avoided making assumptions about various age groups. The research instrument also avoided using language that suggested or reinforced stereotypes. There were no attempts whatsoever to make assumptions.

### **3.13 Ethical Considerations**

According to Welman et al. (2014:301), conducting a research needs researchers to ethically consider the respondents' rights and safety. Several ethical considerations that a researcher must consider are: respecting confidentiality, protecting anonymity of respondents, protecting respondents from harm, seeking informed consent from respondents and obtaining permission to conduct the study from the respective organisations. Some of these ethical considerations are briefly discussed in following sub-sections.

#### *Ensuring confidentiality and anonymity*

According to Creswell (2014), confidentiality is a basic and most important ethical principle while anonymity is one way in which confidentiality is maintained. Saunders et al. (2012) defined confidentiality as an act of protecting or not divulging or exposing information collected from respondents to unauthorised persons. Saunders et al. (2012) defined anonymity as an act of making the identity of the respondents unknown to the general public or to anyone in order to protect respondents from potential victimisation. All information obtained from research participants was kept confidential, Furthermore the personal details like physical addresses, personal names, cell phone numbers or any other information that may lead to the identification of a respondent was not required nor was it recorded anywhere.

#### *Ensuring no harm comes to participants*

According to Bhattacharjee (2013), the researcher needs to ensure the safety of his or her respondents as part of ethics. Bhattacharjee (2013) opined that harm to respondents can be in the form of physical injuries or depth of emotional feelings of the respondents or exposing the respondents to a place where he/she is not comfortable. Bhattacharjee (2013) further recommended that a researcher needs to be cautious in dealing with respondents and needs to conduct the research in areas or places where the respondent is most comfortable. Respondents were protected from any type and form of danger during the interview process in places that are free from crimes. Moreover, the consent form clearly stipulated that there were no anticipated risks involved in this research study.

### *Ensuring that the permission is obtained*

According to Du Plooy-Cilliers, Davis & Bezuidenhout (2014), one of the most important aspects of ethics in research is related to seeking written permission from the authorities of the organisation being studied so that potential litigation is avoided. Du Plooy-Cilliers et al. (2014) further opined that when seeking permission to conduct a study, it is imperative that the permission is sought from a person whose duties allow him to do so. Before the research was conducted, written permission was sought from the senior management of the provincial government office in KwaZulu-Natal.

### **3.14 Conclusion**

The focus of this chapter was on the research design, the strategies and also discussed rationale for the selecting the methodology that is being used. The chapter discusses that a qualitative explanatory research design was selected, as it was deemed vital that the method maintains and upholds credibility and objectiveness of the data at all time. In addition, this chapter discussed the sampling strategy, methods for data collection and data analysis. Chapter four will present, and provide discussions and interpretations of the findings of the data collected.

## **CHAPTER 4: DATA PRESENTATION AND DISCUSSION OF FINDINGS**

### **4.1 Introduction**

In the previous chapter looked at the research methodology, explained the reason for selecting the data collection method, which was also discussed at length and other specific or related. The results of data collected in chapter 3 are interpreted, analysed, discussed using themes generated on NVIVO graphs. As shown in Appendix C the interview guide includes questions aimed at answering the research questions, objectives, and ultimately achieving the aim of the study. The findings cover most of the challenges in public sector procurement processes that hinder the effectiveness of radical economic transformation, the effectiveness of systems and programs to identify racial categories in public procurement and the examine the effectiveness of current public procurement legal and regulatory framework in terms of enhancing radical economic transformation. The findings will be interpreted and discussed in conjunction with existing literature to discern the most frequently referenced challenges in public sector procurement processes that hinder the effectiveness of radical economic transformation.

### **4.2 Thematic Analysis**

Daly, Kellehear, and Gliksman (1997) as quoted on (Fereday and Muir-Cochrane, 2006: 82) define thematic analysis as a search for themes that emerge as being important to the description of the phenomenon. Rice and Ezzy (1999) cited on (Fereday & Muir-Cochrane, 2006:82) further explains that the process involves the identification of themes through “careful reading and re-reading of the data”.

Qualitative analysis is varied and nuanced, discourse, narrative and phenomenological; but common across most qualitative analysis is some form of Thematic Analysis. Themes makes subsequent steps easier especially for smaller samples, and also assist in reducing data; as opposed to quantitative research, where survey instruments can be administered effectively by third parties or electronically. From the thematic analysis of data obtained from respondents, several thematic aspects were identified, coded and will be depicted in Figures 4.1, 4.2, 4.3 and Table 4.1, 4.2, and 4.3. These themes are presented, interpreted and discussed below.

4.3 Findings on the Challenges in Public Sector Procurement Processes that Hinder the Effectiveness of Radical Economic Transformation as shown in Figure 4.1 and Table 4.1

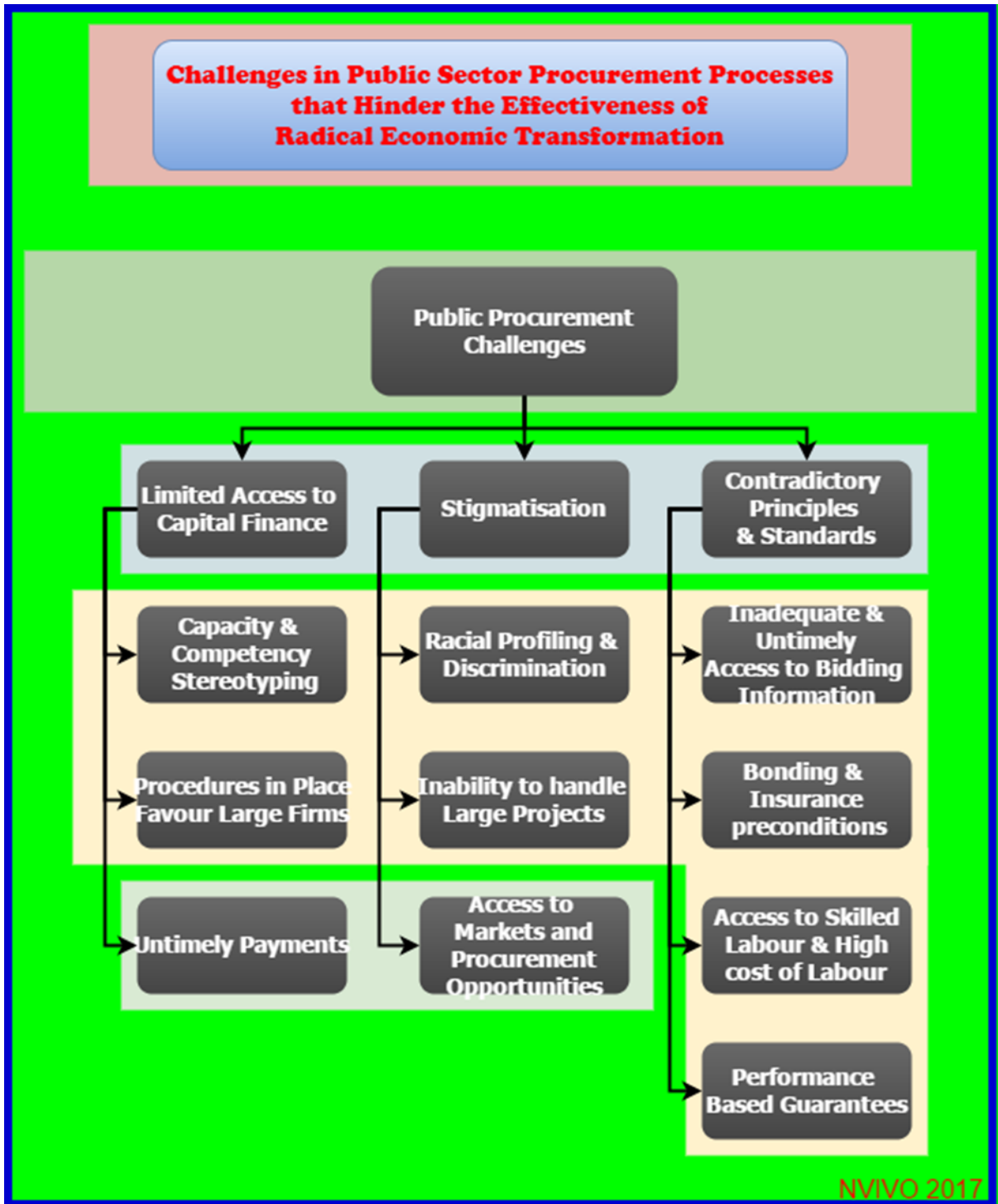


Figure 4.1 Challenges in Public Sector Procurement Processes

Source: Adapted from Nvivo 2017

**Table 4.1 Challenges in Public Sector Procurement Processes**

On Challenges that hinder effectiveness of RET	Number of interviewees who cited this reason	Percentage of interviewees who cited this reason
Limited access to finance	3	38%
Capacity & Competency stereotyping	3	38%
Procedures in place favour large firms	2	25%
Untimely payments	3	38%
Stigmatisation	0	0
Racial profiling & discrimination	3	38%
Inability to handle large projects	2	25%
Access to markets and procurement opportunities	1	13%
Contradictory principles & standards	1	13%
Inadequate & untimely access to bidding information	3	38%
Bonding & Insurance preconditions	0	0
Access to skilled labour & high cost of labour	3	38%
Performance based guarantees	1	13%

A common thread through the various narratives of the participants was their implicit and explicit references to limited access to finance, capacity and competency stereotyping, untimely payments, racial profiling and discrimination, inadequate and untimely access to bidding information; and access to skilled labour and cost of labour. Their narratives demonstrate respondents' beliefs that the effectiveness of radical economic transformation is hindered by the fact that processes exclude Black Africans as they lack adequate resources that required to effectively participate in the economy such as capital, cash flow, human. The next section presents the findings per each research objective.

### **4.3.1 Limited Access to Capital Finance**

Limitation in terms of accessing finance by black owned companies was cited as one of the most pressing challenges affecting the sustainability of the businesses, thereby affecting their ability to qualify for the award of tenders to supply both government and private sector institutions. This finding is corroborated by the interview excerpts below:

*Respondent CC: “Access to finance is limiting ability of Historically Disadvantaged Individuals to grow their business and be in a position to supply what is needed in the public sector”*

*Respondent EE “Financial limitation on the black majority hindering ability to meet procurement requirements”*

*Respondent DD “Capital shortages are causing capacity problems to be eligible to be considered for supplying government institutions”*

This finding is in conformity with assertions by O’Brien et al. (2016) who observed that previously disadvantaged African-Americans and South African blacks are still unable to get bank financing adequate enough to start up large scale businesses which would be able to bid for large scale projects. The finding further concurs with views expressed by Griffin and Strong (2014) in concurrence with the ITC (2012), who revealed that participation by SMEs, MBEs and DBEs in public procurement processes is subdued by competitiveness constraints caused by limitations which include restricted access to finance, information, markets and procurement opportunities, performance versus demand guarantees, barriers to human capital development, social constraints and government procedures and practices that favour large businesses. The finding further concurs with views expressed by Castillo and Shen (2016) who pointed out that discriminatory practice in lending, depressed access to capital and credit, and lower net worth among minority business owners are a major challenge to small business enterprises. The practice is based on model based scoring and funding rather than intuitive lending and the Black Africans have to resort to other avenues such as approaching the funding from the loan sharks, which becomes costly because of the excessive interest that is charged.

### **4.3.2 Capacity and Competence Stereotype**

The findings reveals that some respondents believed that the achievement of radical economic transformation through the Preferential Procurement Act was facing the challenge related to the stereotype that exists in the country that blacks are not professional and competent enough to run viable companies that supply goods and services consistently and sustainably if awarded a procurement tender. It also revealed that most HDI's lack capacity such as finance, human resources, equipment, and plant which becomes as challenge when awarded tenders/ contracts; because they often fail to deliver.

This finding is evidenced by the following interview excerpts:

*Respondent DD: "Most HDIs lack supply capacity"*

*Respondent EE: "Majority of blacks are perceived as incompetent to supply reliable services"*

*Respondent II: "Financial constraints hinder development of supply capacity causing negative perceptions"*

Castillo and Shen (2016) came up with similar views by expressing that instances of outright racial stereotypes regarding competencies and discrimination existent in public procurement processes and these pose a challenge to participation of black owned SMEs in the procurement processes and are centred around the issue of lack of respect and discrimination based on race or gender. This finding further concurs with Castillo and Shen (2016) who further pointed out that public organisation staff and prime contractors in South Africa often consider black-owned firms to be less qualified and competent than white owned firms. Their involvement in contributing to the economy has been regarded meaningless and termed "Tenderpreneurs" which is offensive as its motive is to disparage Black entrepreneurs.

### **4.3.3 Procedures in Place Favour Large Firms**

The findings reveals that some respondents believed that the achievement of radical economic transformation through the Preferential Procurement Act was facing the challenge related to the procedures in place that favours large firms that exists from the

application phase, adjudication phase and the awarding of the contract to be lengthy, legally cumbersome and costly so that most black owned companies are unable to cope and end up pulling out from the process prematurely, resulting in just a few black owned companies making it and benefitting at the expense of many others. The selection criteria that is normally used requires extensive experience, capacity (financial and human resources) which most black owned businesses do not possess. This finding is evidenced by the following interview excerpts:

*Respondent AA: "Large firms are given more favourable considerations when award of procurement decisions are made"*

*Respondents BB: "Procedures are cumbersome for small firms to cope leaving out the fewer black owned large firms with greater legal capacity to tender for supply"*

This finding resonates with views expressed by Griffin and Strong P.C. (2014) who indicate that small business enterprises incur prohibitive costs when in complying with tendering procedures and compliance checklists compared to large firms which have the financial and legal muscle to comply with the set parameters for a company to be eligible for consideration to bid. Castillo and Shen (2016) further made similar assertions by explaining that bid-specific procedures for large project sizes, bid requirements related to bonding and insurance, act as barriers arising from a contracting agency's bid procedures and process which are applicable to large scale businesses rather than to small, medium business enterprises. This finding also resonates with views expressed by Wittig (2016), who expressed the view that government procedures and practices that favour large businesses which involves bundling of procurement quantities sought, in order to lower transaction costs associated with procurement by dealing with fewer contracts and contractors and taking advantage of quantity discounting strategies by public procuring entities, disadvantage small black owned business enterprises. The bundling of the contracts by government in order to realise cost benefits or effectiveness and efficiency excludes small businesses as they lack the financial muscle to participate in larger contracts.

#### **4.3.4 Untimely Payments**

Some respondents pointed out that one of the challenges in public sector procurement processes that hinders the effectiveness of radical economic transformation is related to delayed payments from the procuring entities that ends up causing financial and liquidity challenges for the companies, resulting in some of them going insolvent. The thirty (30) days payment terms that is prescribed by the National Regulations is usually not adhered to, and furthermore the thirty (30) days is too long for the small business it impacts on the cash flow. This finding is evidenced by the following interview excerpts:

*Respondent BB: “Public institutions takes long to pay small black owned business leading to collapse”*

*Respondent HH: “delayed payments causing liquidity problems making replenishment of stocks difficult”*

*Respondent JJ: “Continued sustainable operations of black owned small businesses threatened by delays in payments”*

This view is in agreement with views expressed by Castillo and Shen (2016) who expressed the view that since public procuring entities are characterised by red tape in processing payments, there are often delays which negatively affect small upcoming black owned companies who, in some cases, have little financial reserves to be able to wait longer for payment from procuring entities.

#### **4.3.5 Racial profiling and Stigmatisation**

The findings also revealed that one of the challenges in public sector procurement processes that hinder the effectiveness of radical economic transformation is related to the existence of racial profiling, stigmatisation by some procuring companies who view blacks as unreliable and the lack of capacity and capability to supply goods to a procuring entity, resulting in most of them being overlooked in favour of fewer companies, either being fronted by other racial groups, or run directly by other racial groups. This finding is corroborated by the interview excerpts below:

*Respondent AA: “Stigmatisation affecting award of tenders to emerging black owned businesses”*

*Respondent BB: “Public procurement is biased against previously disadvantaged people intending to supply goods and services belonging because of entrenched negative perceptions about capacity and capability”*

*Respondent DD: “Black owned businesses are still stigmatised and viewed as unreliable”*

Castillo and Shen (2016) made similar assertions by explaining that outright prejudicial treatment, attitudes, stereotypes, implementing higher and double standards for black owned businesses, or manipulating the bid process forms part of the challenges and discriminatory barriers faced by small black owned business enterprises.

#### **4.3.6 Inability to Handle Large Projects**

The findings from respondents also revealed that one of the challenges in public sector procurement processes that hinder the effectiveness of radical economic transformation is related to the existence of many black owned companies lacking capacity to handle large projects, resulting in tenders being awarded to other racial groups. This finding is corroborated by the interview excerpts below:

*Respondent BB: “Radical economic transformation thwarted by incapacity of black owned companies to handle large scale”*

*Respondent CC: “incapacity of women, youths to handle large scale procurement contracts”*

This finding resonates with views expressed by Griffin and Strong P.C. (2014), who pointed out that project size is an impediment to contracting for smaller businesses because the project specifications would be designed in such a way that only large companies can provide supplies so that the issue impacts small versus large, as opposed to strictly SMMEs, which are mostly owned by blacks.

#### **4.3.7 Access to Markets and Procurement Opportunities**

One of the respondents opined that even though some black owned companies benefit from the preferential procurement policy, they often fail to supply because of difficulties they experience in accessing markets to source raw materials. This often results in failure to supply and complete projects, resulting in them being blacklisted, further hindering the effectiveness of radical economic transformation policies through the public procurement process. This finding is corroborated by the interview excerpts below:

*Respondent BB: “poor access to markets to source required material”*

This finding concurs with views expressed by O’Brien et al. (2016), who pointed out that small enterprises face considerable barriers to accessing public markets because of the costs of obtaining information on goods, works and services being sought by governments.

#### **4.3.8 Contradictory Principles and Standards**

The findings from one of the respondents also revealed that one of the challenges in public sector procurement processes that hinder the effectiveness of radical economic transformation is related to the existence of principles and standards that often contradict the constitution. This finding is evidenced by the following interview excerpt:

*Respondent CC: “some radical economic transformation policies contradicts certain constitutional principles”*

#### **4.3.9 Inadequate and Ultimate Access to Bidding Information**

The findings from respondents also revealed that one of the challenges in public sector procurement processes that hinder the effectiveness of radical economic transformation is related to the existence of many black owned companies lacking capacity to handle large projects, resulting in tenders being awarded to other racial groups. This finding is corroborated by the interview excerpts below:

*Respondent CC: “bid information can be hard to access at times”*

*Respondent EE: “so many hurdles when accessing authentic information about when bids open and closes because of frequent changes in dates”*

*Respondent DD: “HDIs are not very knowledgeable about information concerning bids”*

This finding concurs with views expressed by O’Brien et al. (2016), who pointed out that small black owned enterprises face considerable barriers to obtaining bid information or information on goods, works and services being sought by governments.

#### **4.3.10 Shortage of Skilled Labour**

The findings from respondents also revealed that one of the challenges in public sector procurement processes that hinder the effectiveness of radical economic transformation is related to the shortage of skilled labour in most black owned companies which incapacitates them for fulfilling their contractual obligations. This finding is corroborated by the interview excerpts below:

*Respondent BB: “There are several uncompleted projects due to shortage of skilled among black owned companies hence the tarnished image”*

*Respondent DD: “bad perceptions about the professionalism of black owned companies is making it hard to attract skilled labour to do quality job hence reluctance to offer them tenders”*

*Respondent FF: “Poor working conditions is causing an exodus of qualified labour”*

#### **4.3.11 Performance Based Guarantees**

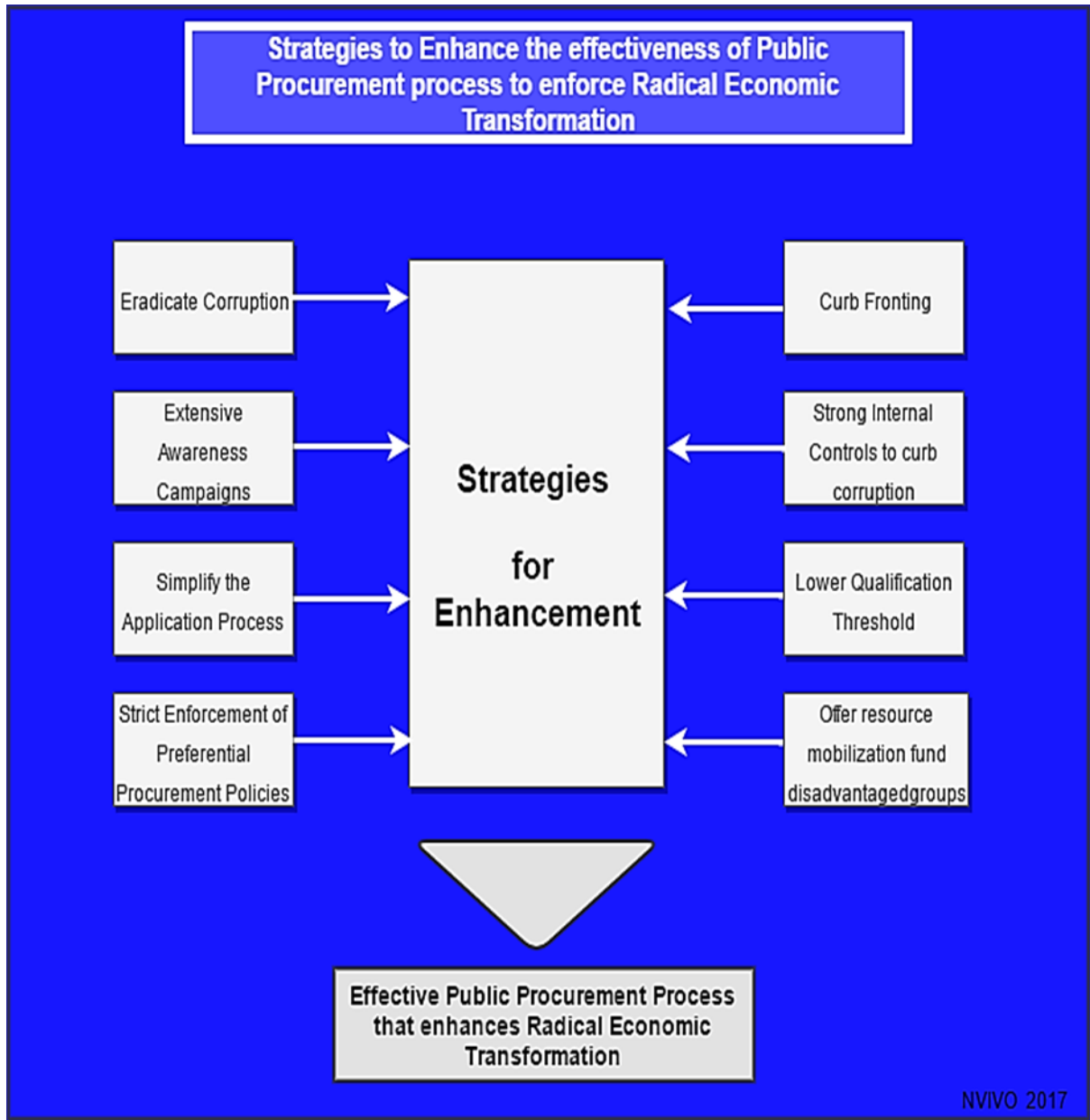
The findings from one of the respondents also revealed that one of the challenges in public sector procurement processes that hinder the effectiveness of radical economic transformation is related to outright reluctance by financial institutions to provide performance based guarantees which then results in such companies being blacklisted and not being awarded tenders to supply or provide a service. This finding is corroborated by the interview excerpts below:

*Respondent AA: “Financial institutions are very reluctant to provide performance based guarantees to black owned companies”*

This finding is in conformity with views expressed by the ITC (2012) which pointed out that it is difficult for black owned SMEs, MBEs and DBEs to get a performance guarantee from a financial institution, warranting the successful completion of the terms of a procurement contract between them and a public procuring entity.

**4.4 Findings on the Strategies to Enhance the Effectiveness of Public Procurement Processes to Enhance Radical Economic Transformation as shown in Figure 4.2 and**

**Table 4.2**



**Figure 4.2 Strategies to Enhance the Effectiveness of Public Procurement Processes**

Source: Adapted from Nvivo 2017

## Themes

From the thematic analysis of data obtained from respondents, several thematic aspects on the challenges in public sector procurement processes that hinder the effectiveness of radical economic transformation were identified, as depicted in Figure 4.2 and Table 4.2.

These themes are presented, interpreted and discussed below.

**Table 4.2 Strategies to enhance the effectiveness of public procurement processes**

Strategies for enhancement	Number of interviewees who cited this reason	Percentage of interviewees who cited this reason
Eradicate corruption	3	38%
Extensive awareness campaigns	4	50%
Simplify the application process	3	38%
Strict enforcement of preferential procurement policies	2	25%
Curb fronting	2	25%
Strong internal controls to curb corruption	2	25%
Lower qualification threshold	1	13%
Offer resource mobilization fund for disadvantaged groups	1	13%

### 4.4.1 Eradicating Corruption

The findings from respondents revealed that one of the strategies being implemented to enhance the effectiveness of public procurement processes to enhance radical economic transformation in the public sector is through fighting corruption. This finding is corroborated by the interview excerpts below:

*Respondent AA: “the corrupt awarding of tenders to a few individuals is being nipped in the bud by arresting corrupt elements”*

*Respondent DD: “severe punishment is being meted on corrupt elements subverting the noble objectives of radical economic procurement transformation initiatives”*

*Respondent BB: “strong internal controls are being developed and enforced to ensure public procurement tenders are not awarded to a few black owned companies”*

This finding resonates with views expressed by Acevedo et al. (2010), who opined that effective monitoring and evaluation systems are needed to provide ways to eradicate corruption in the public procurement process thereby providing the basis for sound governance and accountable public policies in SCM processes.

#### **4.4.2 Extensive Awareness Campaigns**

The findings from respondents revealed that one of the strategies being implemented to enhance the effectiveness of public procurement processes to enhance radical economic transformation in the public sector is through extensive awareness campaigns. This finding is corroborated by the interview excerpts below:

*Respondent CC: “awareness campaigns have been increased on the existence of preferential procurement to increase number of black owned companies bidding for tenders”*

*Respondent HH: “communities are being visited and made aware of this policy and encourage them to form companies that can also supply government with goods in return for payment”*

*Respondent FF: “the black masses are being conscientised about documentation needed to bid for tenders”*

*Respondent II: “views from black owned companies about what they are required to do to be accorded preferential procurement credits are in the process of being obtained”*

#### **4.4.3 Simplified Application Processes**

The findings from respondents revealed that one of the strategies being implemented to enhance the effectiveness of public procurement processes to enhance radical economic transformation in the public sector is through the simplification of the application process. This finding is corroborated by the interview excerpts below:

*Respondent EE: “red tape is being removed and simplify the application process for tenders”*

*Respondent II: “application process has been made easy for everyone irrespective of colour to apply*

*Respondent HH: “application process has been made to help identify the racial composition of applicants for tenders*

This finding resonates with O’Brien et al. (2016)’s assertions by pointing out that the South African governments needs to simplify bid application procedures to cater for semi-literate black entrepreneurs to be in a position to comprehend the requirements and processes.

#### **4.4.4 Strict Enforcement of Preferential Procurement Policies**

The findings from respondents revealed that one of the strategies being implemented to enhance the effectiveness of public procurement processes to enhance radical economic transformation in the public sector is through the strict enforcement of preferential procurement policies. This finding is corroborated by the interview excerpts below:

*Respondent AA: “preferential procurement policies are currently being enforced in a consistent manner”*

*Respondent CC: “strict enforcement of preferential procurement policies is desired”*

Mahlaba (2014) and McCarthy (2016) made similar assertions to this finding by pointing out strong preferential procurement enforcement measures needs to be put in place in order to force compliance.

#### **4.4.5 Curb Fronting**

The findings from respondents revealed that one of the strategies being implemented to enhance the effectiveness of public procurement processes to enhance radical economic transformation in the public sector is through the curbing of fronting by historically disadvantaged blacks on behalf of other races. This finding is corroborated by the interview excerpts below:

*Respondent BB: “mechanisms to curb fronting were developed”*

*Respondent HH: “fronting is currently being severely punished as a deterrence measure”*

This finding resonates with views expressed by Griffin and Strong P.C. (2014) who pointed out that mechanisms to curb fronting need to be found in order to be in a position to achieve the noble objectives of the preferential procurement act. It is evidence from these findings that the fronting is a challenge as it hinders the effectiveness and kills the spirit of economic transformation. The government has put in place policies economic empowerment policies in order to redress the socioeconomic imbalances of the past; however the economic transformation it becomes difficult to attain transformation.

#### **4.4.6 Strong internal controls to curb corruption**

The findings from respondents revealed that one of the strategies being implemented to enhance the effectiveness of public procurement processes to enhance radical economic transformation in the public sector is through the development of strong internal controls to curb corruption. This finding is corroborated by the interview excerpts below:

*Respondent EE: “hire members of the auditing profession have been hired to put in place strong internal controls”*

*Respondent GG: “internal controls are being strengthened to ensure that the policy prescriptions of the preferential procurement initiative for black economic empowerment are not easily deviated from.”*

De Lange (2011) made similar recommendations for the development and implementation of strong internal controls because the lack of perceived quality of governance, service delivery failure, fraud and corruption are a cause for concern in the South African public procurement system. Corruption has been identified as another challenge, issues of pricing cartels or price fixing. The big companies increase their collective profits by means of price fixing, limiting supply, or other restrictive practices. The cartels typically control selling prices and some are organized to control the prices of purchased inputs. In 1998, government promulgated Competition Act 89 of 1998 with some of its aims is to promote the efficiency, adaptability and development of the economy; to promote employment and

advance the social and economic welfare of South Africans; to expand opportunities for South African participation in world markets and recognise the role of foreign competition in the Republic; to ensure that small and medium-sized enterprises have an equitable opportunity to participate in the economy; and to promote a greater spread of ownership, in particular to increase the ownership stakes of historically disadvantaged persons. The government has promulgated a number of policies to address socio-economic transformation.

#### **4.4.7 Lower Qualification Threshold**

One of the respondents revealed that one of the strategies being implemented to enhance the effectiveness of public procurement processes to enhance radical economic transformation in the public sector is through the lobbying that is currently underway to lower the qualification threshold for the award of a tender so that black owned companies can also benefit en masse. This finding is corroborated by the interview excerpts below:

*Respondent BB: “lobbying is currently underway to lower the qualification threshold for historically disadvantaged black owned companies for tender qualification”*

This finding resonates with views expressed by Ambe and Badenhorst-Weiss (2011a) who called for the correct determination of qualification bids so that many entrepreneurs can be in a position to qualify.

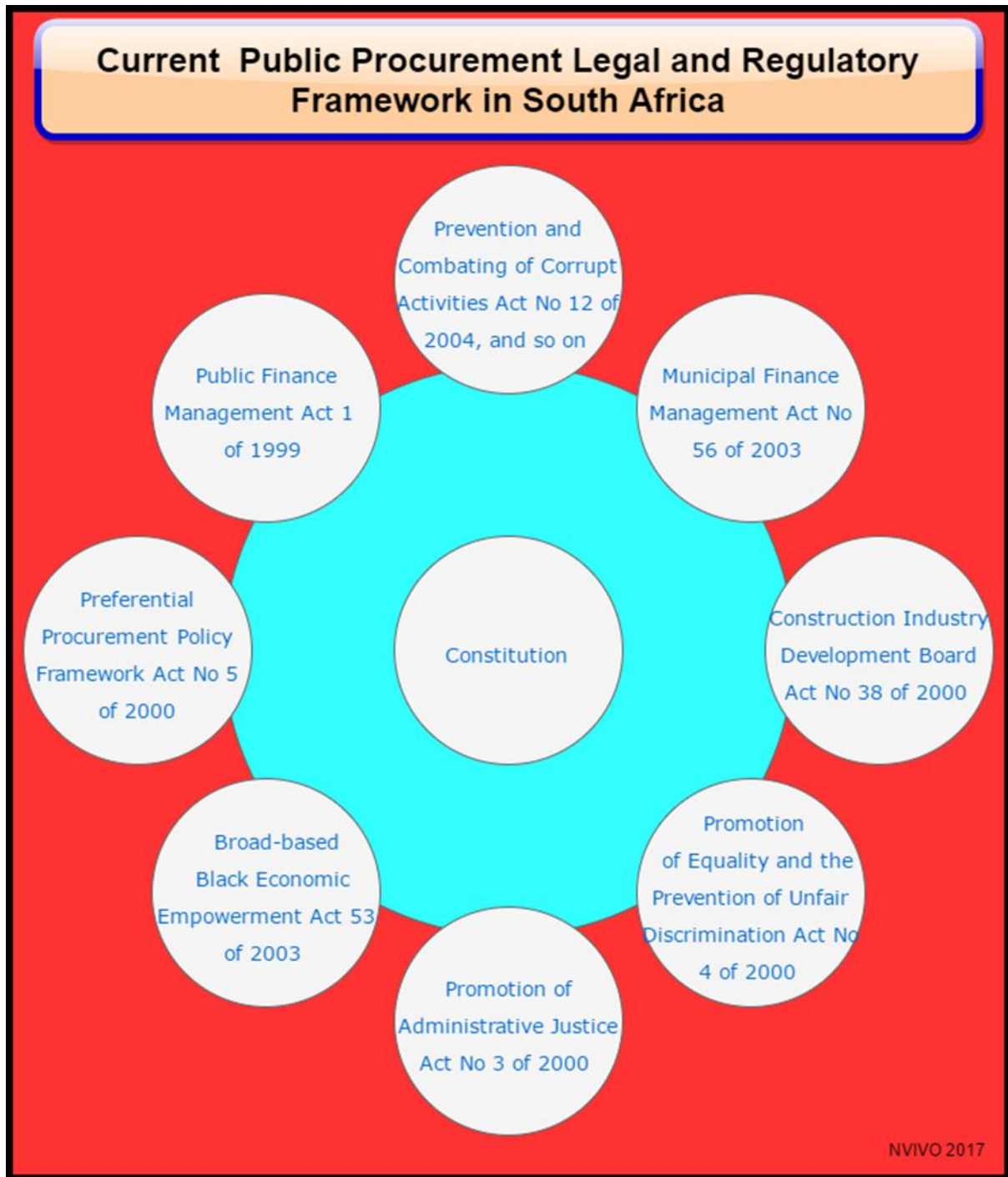
#### **4.4.8 Offer Resource Mobilisation Fund to Disadvantaged Groups**

One of the respondents revealed that one of the strategies being implemented to enhance the effectiveness of public procurement processes to enhance radical economic transformation in the public sector is through the lobbying that is currently underway to make public and private sector procuring entities offer a resource mobilisation fund to disadvantaged groups. This finding is corroborated by the interview excerpts below:

*Respondent HH: “black owned firms without the required funds to supply certain public goods should be given advance payments subject to strong internal controls”*

Ambe and Badenhorst-Weiss (2011a) made similar assertions by pointing out a deliberate policy to help upcoming black entrepreneurs to be in a sustainable position to offer services like those of established businesses needs to be formulated so that they are financially resourced through advance payments before provision of services, subject to strict vetting and other controls.

**4.5 Findings on the Effectiveness of the Current Public Procurement Legal and Regulatory Framework In Terms Of Enhancing Radical Economic Transformation as shown in Figure 4.3 and Table 4.3**



**Figure 4.3 Current Public Procurement Legal and Regulatory Framework**

Source: Adapted from Nvivo 2017

From the thematic analysis of data obtained from respondents, several thematic aspects on the challenges in public sector procurement processes that hinder the effectiveness of radical economic transformation were identified, as depicted in Figure 4.3 and Table 4.3. These themes are presented, interpreted and discussed below.

**Table 4.3 Current public procurement legal and regulatory framework**

Effectiveness of legal and regulatory framework	Number of interviewees who cited this reason	Percentage of interviewees who cited this reason
Public Finance Management Act	1	13%
Preferential Procurement Policy Framework Act	2	25%
Broad-Based Black Economic Empowerment act	1	13%
Prevention and combating of Corrupt Activities	1	13%
Overall current legal framework pertaining to public procurement	5	63%

The findings from respondents reveals that the following acts contains provisions that direct and aid the promotion of radical economic transformation policies:

- Public Finance Management Act No.1 of 1999
- Municipal Finance Management Act No.56 of 2003
- Broad Based Black Economic Empowerment Act 53 of 2003
- Preferential Procurement Policy Framework Act No.5 of 2000
- Promotion of Administrative Justice Act No.3 of 2000
- Preferential Procurement Policy Framework Act No.5 of 2000
- Preventing and Combatting of Corrupt Activities Act No.12 of 2004
- Construction Industry Development Board Act No.38 of 2000

The findings on the effectiveness of the current public procurement legal and regulatory framework in enhancing radical economic transformation reveal that there is limited progress because of several factors.

Respondents pointed out that the effectiveness of the current public procurement legal and regulatory framework in terms of enhancing radical economic transformation has had limited success due to factors like politicians interfering and overriding the laws, lack of enforcement mechanisms, poor culture of integrity and corruption through bribes made to make officials overlook certain provisions of the law, failures and lack of mechanisms to detect fronting, as well as costly legal redress and frustratingly lengthy legal processes. This finding is corroborated by the interview excerpts below:

*Respondent AA: “though noble the PFMA has been rendered ineffective by lack of political will to enforce compliance, hence the policy has been to a limited extent”*

*Respondent BB: “Preferential Procurement Policy Framework Act No.5 of 2000 is being partially effective because of the problem of fronting and corruption, but there is some notable progress though”*

*Respondent CC: “progress has been made but laws alone are not being effective enough”*

*Respondent DD: “the laws are not being strictly enforced that’s why there is little progress in achieving radical economic transformation”*

*Respondent EE: “Preventing and Combatting of Corrupt Activities Act No.12 of 2004 has not been ineffective due to a poor culture of integrity and the prevalence of cover ups and taking of bribes”*

*Respondent FF: “political override is making the laws to be ineffective”*

*Respondent GG: Preferential Procurement Policy Framework Act No.5 of 2000 is being ignored at the expense of political expediency”*

*Respondent HH: “Broad Based Black Economic Empowerment Act 53 of 2003 lacks legal enforcement mechanisms”*

*Respondent II: “lengthy legal redress processes are stalling progress in achieving radical economic transformation”*

*Respondent JJ: “the problem of fronting is defeating the noble objectives of radical economic transformation”*

The above views by Respondent AA and Respondent GG on lack of compliance as a factor hindering the effectiveness of the current public procurement legal and regulatory framework in terms of enhancing radical economic transformation resonates with views expressed by McCarthy (2016) who observed that while the National Treasury’s guide to accounting officers recommends a standard approach to SCM procedures, there is a lack of

compliance and application of the guidelines in many occasions. The National Treasury Report (2015) made the same assertion by pointing out that compliance with policies and regulations that guide SCM by SCM personnel is a problem that is defeating the objective of achieving radical economic transformation (National Treasury, 2015). The views expressed by Respondent FF and Respondent GG regarding political interference and overrides resonates with views expressed by Acevedo et al. (2010), who pointed out that the achievement of radical economic transformation has been made difficult by politicians interfering and ordering the overriding of legal prescriptions in as far as compliance with the preferential procurement policy framework is concerned.

The views expressed by Respondents DD and Respondents FF on lack of enforcement mechanisms resonates with assertions by Matthew (2016), who indicated that apart from not utilising a competitive process for both quotations and bids, there is a tendency to incorrectly utilise the preference points system and failure to recognise racial groups applying for tenders. Findings on the ineffectiveness of both the Preventing and Combatting of Corrupt Activities Act No.12 of 2004 and the Preferential Procurement Policy Framework Act No.5 of 2000 resonates with views expressed by Mahlaba (2004), who expressed the view that fraud and corruption in the public procurement process is still rampant and is costing the South African tax payers hundreds of millions of rand each year.

Fronting came up strongly as one of the factors leading to the ineffectiveness of the current public procurement legal and regulatory framework in terms of enhancing radical economic transformation. The views expressed by Respondent BB and Respondent JJ regarding the problem of fronting is in conformity with assertions by Griffin and Strong (2014) who observed that despite the noble objectives of the current legal framework, especially the preferential procurement act, the effectiveness of the laws has been rendered useless by some unscrupulous previous advantaged big businesses fronting blacks to get tenders.

#### **4.6 Conclusion**

This chapter presented, interpreted and discussed the results on the challenges in public sector procurement processes that hinder the effectiveness of radical economic transformation. Black companies face tremendous challenges with accessing finance, which is an imperative capital for any business, hence have challenges with capacity to deliver when awarded contracts. The inability to deliver leads to black companies being stigmatised for being unreliable and excluded from undertaking large projects. Although there are policies in place that are aimed at addressing the socio-economic transformation, such as B-BBEEA and PPPFA, big or large business engage in corrupt activities such as fronting which kills the spirit of empowerment.

The chapter further presented the results, interpreted and discussed the results on the effectiveness of current public procurement legal and regulatory framework in terms of enhancing radical economic transformation. The next chapter presents the conclusions and recommendations of the study.

## **CHAPTER 5: RECOMMENDATIONS AND CONCLUSIONS**

### **5.1 Introduction**

The previous chapter presented the research results, discussed and interpreted the findings. This chapter draws the conclusions and examines whether the research aims and objectives were achieved. The findings and conclusions are based on the objectives and serve to answer the research questions. There were four research objectives set for the success of this study which were all satisfied. These objectives were chosen with the aim of determining the challenges in public sector procurement processes that hinder the effectiveness of radical economic transformation, determining the strategies to enhance the effectiveness of public procurement processes to enhance radical economic transformation. The other research objective was to determine the effectiveness of the current public procurement legal and regulatory framework in terms of enhancing radical economic transformation. The last objective of the research was to make recommendations on strategies that can be adopted to enhance the effectiveness of public procurement processes to enforce radical economic transformation. Based on these findings, conclusions and recommendations are proposed in this chapter. The conclusions are followed by recommendations to the South African Public Sector procurement authorities.

### **5.2 Overview of the study**

The study sought to answer three research questions which are; (i) What are the challenges in public sector procurement processes that hinder the effectiveness of radical economic transformation, What are the strategies to enhance the effectiveness of public procurement processes to enhance radical economic transformation and (iii) How effective are the current public procurement legal and regulatory frameworks in terms of enhancing radical economic transformation? And To make recommendations on strategies that can be adopted to enhance the effectiveness of public procurement processes to enforce radical economic transformation

The researcher strongly believes that the data collected for the purposes of this study adequately answered the study's research questions.

The government including stakeholders should implement measures that combat corruption and fraud in the procurement systems. Skills development and training

programmes need to be strategically implemented to various black communities and emerging entrepreneurs since they are fundamental in generating employment and uplifting standards of living. The BEE policy needs to be aligned or implemented together with government's National Development Plan (2011-2030) to empower local communities and redressing previous socio-economic objectives. As it is evidence from both the theoretical and empirical literature review, there is a problem or challenge in realising economic transformation, and this necessitates the study and sets groundwork for in-depth exploration on the effectiveness of the programmes and systems targeting Black Africans.

### **5.3 Summary of the key findings**

**5.3.1 Findings per Research Question No.1:** What are the challenges in public sector procurement processes that hinder the effectiveness of radical economic transformation?

The first research question of this study was based on finding the challenges in public sector procurement processes that hinder the effectiveness of radical economic transformation. From the research findings, it was established that the achievement of effective radical economic transformation through the public procurement policies is being hindered by various challenges.

Black owned SME's are still unable to get bank financing adequate enough to start up large scale businesses which can be able to bid for large scale projects. Their participation in public procurement processes is subdued by competitiveness constraints caused by limitations which include restricted access to finance, information, markets and procurement opportunities, performance versus demand guarantees, barriers to human capital development, social constraints and government procedures and practices that favour large businesses. There are discriminatory practices in lending, depressed access to capital and credit, and lower net worth among minority business owners are a major challenge to small business enterprises.

There are instances of outright racial stereotypes regarding competencies and discrimination existent in public procurement processes and these pose a challenge to the participation of black owned SMEs in the procurement processes and are centred around the issue of lack of respect and discrimination based on race or gender. Black owned are considered to be less qualified and competent than white owned firms by public

organisation staff and prime contractors. Since public procuring entities are characterised by red tape in processing payments, there are often delays which negatively affect small upcoming black owned companies who, in some cases, have few financial reserves to be able to wait longer for payment from procuring entities. Black owned SME's face outright racial stereotypes regarding competencies and discrimination in public procurement processes and these pose a challenge to the participation in the procurement processes and are centred around the issue of lack of respect and discrimination based on race or gender. SME's incur prohibitive costs in complying with tendering procedures and compliance checklists compared to large firms which have the financial and legal muscle to comply with the set parameters for a company to be able to be eligible for consideration to bid.

**5.3.2 Findings per Research Question No.2:** What are the strategies to enhance the effectiveness of public procurement processes to enhance radical economic transformation?

The second research question required the determination of the strategies to enhance the effectiveness of public procurement processes to enhance radical economic transformation. From the study, there were several findings on the strategies to enhance the effectiveness of public procurement processes to enhance radical economic transformation. The findings established the following strategies are being employed in the public sector to enhance the effectiveness of public procurement processes to enhance radical economic transformation; The corrupt awarding of procurement tenders is being eradicated through implementation of policies. There are also extensive awareness campaigns to invite more blacks to form and register companies and to participate in the application for awarding of tenders to black-owned companies is being conducted. The application process for tenders is simplified to enable the greatest number of blacks to be awarded tenders. There is strict enforcement of preferential procurement policy in the awarding of tenders and so are measures to curb fronting are in place. The departments are implementing and instituting strong internal controls to curb corruption. The lower qualification threshold is being considered and Resource Mobilisation Fund (advance payment to black owned firms)

**5.3.3 Finding per Research Question No.3:** How effective are the current public procurement legal and regulatory frameworks in terms of enhancing radical economic transformation?

The third research question of this study was based on determining how effective the current public procurement legal and regulatory frameworks are, in terms of enhancing radical economic transformation. From the findings from the primary study, it was established that despite several strategies being in place, the legal framework was not being greatly effective because of the problem of political overriding of the strengthened internal controls. The study has found that there is lack of compliance by some accounting officers with the regulatory framework and furthermore with the new reforms, fronting proving difficult to detect.

## **5.4 Conclusions from the Study**

### **5.4.1 Conclusions on the challenges in the public sector procurement processes that hinder the effectiveness of radical economic transformation**

**Objective 1:** To examine the challenges in public sector procurement processes that hinder the effectiveness of radical economic transformation

The research fulfilled objective no.1 by finding out that there are several challenges in public sector procurement processes hindering the effectiveness of radical economic transformation. The research successfully identified the challenges in public sector procurement processes hindering the effectiveness of radical economic transformation. The research makes the following conclusions from the findings on the objective related to examine the challenges in public sector procurement processes that hinder the effectiveness of radical economic transformation. From the findings, it can be concluded that the achievement of radical economic transformation through public procurement processes is being hampered by the challenges experienced by black-owned companies related to limited access to capital finance. The research concludes that black-owned companies being subjected to capacity and competence stereotyping results in certain procuring entities belittling them due to the prevalence of racial profiling and stigmatisation, resulting in black-owned companies being side-lined and perceptions that they cannot handle large projects. Also, from the findings, one can conclude that one of the

challenges hindering the effectiveness of radical economic transformation through the public sector procurement policies and processes are related to the fact that procedures in place are in favour of large firms which are predominantly whiteowned with the exception of a few black-owned companies. The research also concludes that one of the challenges hindering the effectiveness of radical economic transformation through the public sector procurement policies and processes are related to difficulties being experienced by black-owned companies in terms of receiving early payment for services rendered, thereby causing liquidity problems, more debt and eventual insolvency, leading to a reduction in the number of viable black-owned firms as well as difficulties by black-owned companies to get access to raw material markets and procurement opportunities coupled with the problem of contradictory principles and standards. Another conclusion that one draws from the research findings is that the achievement of radical economic transformation through public procurement processes is being hampered by the difficulties being experienced by black-owned companies to get adequate bidding information and to attract skilled labour, thereby failing to deliver quality services or goods or perform quality work as well as difficulties by black-owned companies to get performance based guarantees from financial institutions.

#### **5.4.2 Conclusions on the strategies to enhance the effectiveness of public procurement processes to enhance radical economic transformation**

**Objective 2:** To determine the strategies to enhance the effectiveness of public procurement processes to enhance radical economic transformation

The research fulfilled objective no.2 by finding out that there are several strategies to enhance the effectiveness of public procurement processes to enhance the objectives of radical economic transformation that have been put in place by the South African government. The research successfully identified the strategies to enhance the effectiveness of the strategies to enhance the effectiveness of public procurement processes to successfully achieve the objectives of radical economic transformation. From the research findings, it can be concluded that the South African government through its public procurement entities, have put in place several strategies to enhance the effectiveness of the strategies to enhance the effectiveness of public procurement processes to achieve the objectives of radical economic transformation, such as making efforts to eradicate the corrupt award of procurement tenders, through putting in place strong internal controls to

curb corruption that have been instituted and through strict enforcement of preferential procurement policies being advanced. The research also concludes that strategies such as extensive awareness campaigns to invite more blacks to form and register companies and to participate in the application for awarding of tenders to black-owned companies are being conducted and the simplification of the application processes for tenders is being conducted to enable the greatest number of blacks to be awarded tenders. The research further concludes that strategies such as the lowering of the qualification threshold is being considered and the bringing in of the resource mobilisation fund (advance payment to black-owned firms) is being effected as measures to enhance the effectiveness of public procurement processes in order to achieve the objectives of radical economic transformation.

#### **5.4.3 Conclusions on the effectiveness of the current public procurement legal and regulatory framework in terms of enhancing radical economic transformation**

**Objective 3:** To examine the effectiveness of the current public procurement legal and regulatory framework in terms of enhancing radical economic transformation

The research successfully fulfilled objective no.3 by finding out about the effectiveness of the current public procurement legal and regulatory framework in terms of enhancing radical economic transformation. The research makes the following conclusions from the findings on the objective related to examine the effectiveness of current public procurement legal and regulatory framework in terms of enhancing radical economic transformation. From the research findings, the research concludes that the effectiveness of the current public procurement legal and regulatory framework in terms of enhancing radical economic transformation is being negatively affected by the problem of political overriding of the strengthened internal controls, lack of compliance by some accounting officers with the regulatory framework and the problem of fronting, which the law cannot adequately detect.

## 5.5 Conclusions of the Study

This chapter presented the conclusions and also demonstrated that the research aims and objectives had been achieved. The findings and conclusions were based on the objectives and respond to the research questions. Four research objectives set for the successful execution and completion the study have been achieved. The study presented the challenges facing the public sector procurement that excludes black Africans, it also looked at the strategies and regulatory framework that would enhance meaningful and effective participation of black Africans and in that way achieve economic transformation.

## 5.6 Recommendations of the Study

**Objective 4:** To make recommendations on strategies that can be adopted to enhance the effectiveness of public procurement processes to enforce radical economic transformation.

The last objective of this research was to make recommendations with regard to effective strategies for enhancing the effectiveness of public procurement processes to enforce radical economic transformation. In line with one of the objectives of this study, the author makes the following recommendations:

- The KwaZulu-Natal provincial government procurement officials should lower the qualification threshold for awarding of tenders in order to accommodate more blacks, thereby achieve greater radical economic transformation
- The KwaZulu-Natal provincial government procurement officials should embark on large scale entrepreneurial training and development workshops in order to capacitate black-owned companies to be able to handle large projects, thereby helping to reduce racial stereotyping about capacity and competencies.
- The KwaZulu-Natal provincial government procurement officials should embark on a naming and shaming initiative, whereby politicians found to be working against the spirit of radical economic transformation and the objectives of preferential procurement are exposed and if possible, sanctioned.
- Subject to controls such as credit checks, background checks and moral integrity criteria, the KwaZulu-Natal provincial government should consider offering advance payments to black-owned companies awarded tenders so that their

businesses do not suffer from the problems of delayed payments and limitations in terms of accessing credit finance.

### **5.7 Scope for Further Research**

A study of more provinces implementing public sector procurement processes for the achievement of radical economic transformation could highlight trends concerning challenges in public sector procurement processes that hinder the achievement of radical economic transformation, strategies being adopted in other provinces, apart from KwaZulu-Natal, to enhance the effectiveness of public procurement processes to enhance radical economic transformation and a study of the effectiveness of the current public procurement legal and regulatory framework in terms of enhancing radical economic transformation could highlight trends concerning challenges being faced and enable a comparative analysis of the challenges and the strategies being adopted in other provinces, apart from KwaZulu-Natal, to enhance the effectiveness of public procurement processes to enhance radical economic transformation nationally. However, future studies could consider the following topics that arise from this study:

- Strategies to improve legislative compliance with the preferential procurement policies for broad based radical economic transformation
- Exploring multi-pronged approaches for the achievement of radical economic transformation

### **5.8 Chapter and Overall Study Conclusion**

This chapter presented the conclusion and drew conclusions. The dominant main finding from both the literature review and primary research was presented in this chapter together with the main recommendation that the senior management in government needs to actively give both monetary and non-monetary support to black-owned companies in each district and ward so that they can actively participate in the procurement process, thereby promoting radical economic transformation on a large scale.

Chapter one of this study presented the background to the research, the problem statement related to failure to achieve radical economic transformation through preferential procurement policies, the research aims, research questions and objectives. Furthermore,

the chapter highlighted the significance of the study by explaining that the study may help not only senior management in the procurement division of KwaZulu-Natal province, but other provinces, to better understand the challenges in public sector procurement processes that hinder the effectiveness of radical economic transformation that needs further interventions.

This was followed by chapter 2 that looked mainly at the scholarly views and arguments related to the study objectives. Thus, the literature review of this research was moulded around the main research questions and objectives which were mainly about the challenges in public sector procurement processes that hinder the effectiveness of radical economic transformation, determining the strategies to enhance the effectiveness of public procurement processes to encourage radical economic transformation and examining the effectiveness of the current public procurement legal and regulatory framework in terms of enhancing radical economic transformation

Chapter 3 of the study adopted the qualitative phenomenological explanatory descriptive research design. The questionnaire was used as the primary research instrument. Primary data for this study was analysed using thematic analysis and results were depicted in diagrams and the research findings were presented, interpreted and discussed in chapter 4. The last chapter presented the conclusions and recommendations arising from the findings from chapter 4. Both the key findings from the literature review and from primary data were presented in chapter 5. The research concluded by making recommendations to put in place strict and enforceable deterrence measures that will help to eradicate the problem of political interference and political override in the award of procurement tenders. The study further makes recommendations of the strategies that can be adopted by the KwaZulu Natal Provincial government to accelerate and enforce effective and meaningful radical economic transformation. It is hoped that further research will be conducted in this area, maybe from another perspective not adequately covered by this study.

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