

SUPPLY CHAIN MANAGEMENT PRACTICES IN STATE-OWNED ENTERPRISES ENVIRONMENT

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Abstract

The South African government's supply chain management (SCM) system is not adequately implemented in state-owned enterprises (SOEs). There are weaknesses in the SOEs SCM enablers, strategies, policy implementation and poor enforcement of government SCM rules and regulations. This is resulting in governance and compliance failures, waste and fraudulent activities. Also, top management of SOEs still do not see SCM as strategic enough to deserve their attention, and therefore, there is little support from senior management, thus making it even more difficult for SCM practitioners to execute their day-to-day functions, let alone deliver the letter and spirit of the relevant legislation. In most SOEs Senior SCM practitioners have not been involved in the corporate strategy development. This has led to supply chain and organisational strategies being misaligned. The misalignment has resulted in service delivery backlog, high levels of corruption and continuous strikes across the country for better services. Given the massive expenditure and the financial challenges facing government, an effective public-sector SCM becomes a primary requirement. Government leaders should be more strategic around using SCM as a tool to improve service delivery. This article explores supply chain practices in SOEs. It is based on a conceptual review of SCM practices in the South African SOE environment and suggests that the supply chain and organisational strategies of SOEs must be aligned to ensure efficient delivery of public services.

Keywords: Supply Chain Practices, State-Owned Enterprises, South Africa

1. INTRODUCTION

In the past two decades, supply chain management (SCM) has gained significant recognition as a source of a firm's competitive advantage (Hugo, Badenhorst-Weiss & Van Biljon, 2011:8; Sanders, 2012:39; Saunders, 1997:137; Watts, Kim & Hahn, 1992:4). Competitive advantage in public-sector organisations reduces inefficiencies and waste, improves the quality of services and brings about better service delivery (Popa, Dobrin, Popescu & Draghici, 2011:4; Matthews & Shulman, 2005:13). The significant role of SCM in public organisations and entities fosters strategic thinking and planning (Lysons & Farrington, 2013:31). Strategic SCM is the linking of SCM to organisational strategy (Chopra & Meindl, 2013:32; Lysons & Farrington, 2013:42; Fawcett, Elram & Ogden, 2014:19). In aligning the supply chain strategy to the organisational strategy, the supply chain focus needs to start with the customer and then work backwards through the entire supply chain (Baier, Hartmann & Moser, 2008:40; Pienaar & Vogt, 2012:35). In recognition of this, in 2003, the South African government introduced the SCM system, following two Financial Management Reform processes. The introduction of SCM was meant to address the challenges and gaps originating from the previous procurement policy and to replace the previous procurement practices and policies altogether (Mkhize, 2004:3). SCM in SA forms an integrated financial management process which promotes uniform interpretation of

procurement Acts and regulations and standardisation of documents. The government's integrated SCM applies to all departments and state-owned entities (SOEs).

In South Africa, SOEs play a significant role in economic development, service delivery and development of the country's strategic sectors such as energy, transport, telecommunication, logistics and manufacturing. SOEs were established to ensure a country's sustainability and self-sufficiency, thereby contributing to the state's developmental state objectives (Fourie, 2014:33). In recent years, there are pressures on South African SOEs to improve their operational efficiencies and service delivery. These are aggravated by country-wide service delivery protests, reports of corruption, fraudulent activities, collusion, fronting, bribery and maladministration of public funds (National Treasury, 2015:15). According to Boateng (2009:1), Liebenberg (2012:2) and The Presidency (2012:39), there is a substantial misalignment between SOEs current SCM practices and the government SCM legislative environment, resulting in weaknesses in controls, poor compliance, poor policy implementation and missed transformation targets. Basheka (2010:135) asserts that a weak SCM system will cause delays in implementing government services and projects, thereby derailing service. The root causes of most poor performance in SOEs are to misalignment of strategies (Fisher, 1997:106).

The first step towards improving the performance of SOEs lies in the analysis of their

supply chain practices (Reid & Sanders, 2007:124. It is, therefore, necessary for SOEs to reassess their SCM practices to address the service delivery challenges. This article explores supply chain practices in SOEs and is based on a conceptual review of SCM practices in South African SOE environment. The article begins by providing an overview of SOEs in South Africa and then moves on to discuss supply chain practices in SOEs and SCM challenges affecting SOEs.

2. REVIEW OF STATE-OWNED ENTERPRISES IN SOUTH AFRICA

SOE is a generic term used inclusively to denote all types of entity, commercial and non-commercial. SOEs in South Africa span many industries including utilities, transportation, and technology; there are about 715 SOEs in South Africa (PRC, 2012:53; Accenture, 2010:1). The Public Finance Management Act (PFMA), (Act 1 of 1999) lists approximately 300 SOEs classified under Schedules 1 (Constitutional), 2

(Major Public Entities), 3A (National Public entities), 3B (National Government Business Enterprises), 3C (Provincial Public Entities) and 3D (Provincial Government Business Enterprises). The categories of SOE are illustrated in Table 1.

The South African government has entrusted these organisations to spend taxpayers’ money conscientiously in the interests of providing reliable public services and upliftment. By 2020, the government of South African will have invested R3,2 trillion in essential services such as water, transport, electricity and housing and large-scale projects (National Treasury, 2012:16; Fourie, 2014:34). With its purchasing influence, the SCM in SOEs has a potential role to play in contributing to South Africa’s gross domestic product (GDP) (Accenture, 2010:1). The SOEs governed by the Department of Public Enterprise contribute a significant 8% to the GDP. The bigger SOEs make a much greater contribution than the smaller ones (Mokwena, 2012:1).

Table 1. Categories of SOE in South Africa

Schedule	Category of SOE	Number	Description
1	Constitutional entities	9	Fully funded by government e.g. ICASA, IEC, Public Protector
2	Major public entities	21	Operate under business principles, e.g. Eskom, Transnet, SABC, CEF, Denel, ARMSCOR etc.
3A	National public entities and SETAS	153	Fully or substantially funded through NRF, a tax levy imposed through legislation, e.g. ARC, Housing Development Agency, Competition Commission and Tribunal
3B	National government business enterprises	26	Operate under business principles with limited borrowing, e.g. PIC, PRASA, Water Boards
3C	Provincial public entities	72	Fully or substantially funded through NRF, a tax levy imposed through legislation
3D	Provincial government business enterprises	18	Operate under business principles with limited borrowing, e.g. Algoa Bus Company

Source: PFMA (1999); Fourie (2014:33)

SAA contributes 0.3% of South Africa’s GDP and is responsible for 35 000 jobs through its activities and a further 44 000 jobs through its catalytic demand impact on tourism (SAA Annual Report, 2013:20). Eskom directly employs over 40 000 workers and has created 129 000 jobs through its suppliers. An independent study undertaken by Quantec Research found that Eskom’s direct impact on the South African GDP as a result of its operational and capital expenditure is of 3%, taking into account only initial impacts and first-round effects in the economy (Eskom, 2012:4b). Denel is the key contributor in the manufacturing sector, which contributes about 15% of the South African GDP. The Denel group employs about 3 500 people and sustains about 30 000 technical jobs in the manufacturing industry. Transnet’s contribution to the GDP is 3%, which translates to about R29.9 billion per annum.

3. PUBLIC-SECTOR SUPPLY CHAIN MANAGEMENT PRACTICES IN SOUTH AFRICA

3.1. Global perspective of public-sector supply chain management

Public-sector SCM is that part of government process that deals with the provision, procurement, delivery and allocation of goods and services to and by the government or its citizens. As an international best

practice, SCM in the public sector aims at enhancing efficiency (Abebe, 2008:54). Public-sector SCM, through its procurement, has realised the need to reduce costs, strive for customer satisfaction, and reduce time to satisfy its customers and contract optimisation (Callende & Matthews, 2009:717). Therefore, SCM practitioners must ensure that the process is efficient, transparent, equitable and fair. Efficiency in SCM has become an urgent issue in the public-sector environment. In a public-sector environment, efficiency means gaining value for money (Abebe, 2008:1268). To ensure transparency thesis required to produce policies, procedures and practices governing their purchases; such documents must be able to pass through audits and court cases (Baily, Farmer, Crocker, Jessop & Jones,2005:344). Public-sector expenditure through SCM accounts for a significant amount of total general government spending. In 2011, on average, the general public-sector procurement spending of the OECD countries represented 29% of total general government expenditure, or 13% of GDP (OECD, 2011:2).

The US government’s purchasing power is considered to be the largest in the world, with its overall spending estimated at R48 trillion (Hawkins, Gravier, & Powley, 2011:1). According to the OECD-DAC (2006:20), “it is important that public SCM be mainstreamed and well integrated into the public sector governance system”. Due to its importance, public-sector SCM is embedded in most country’s

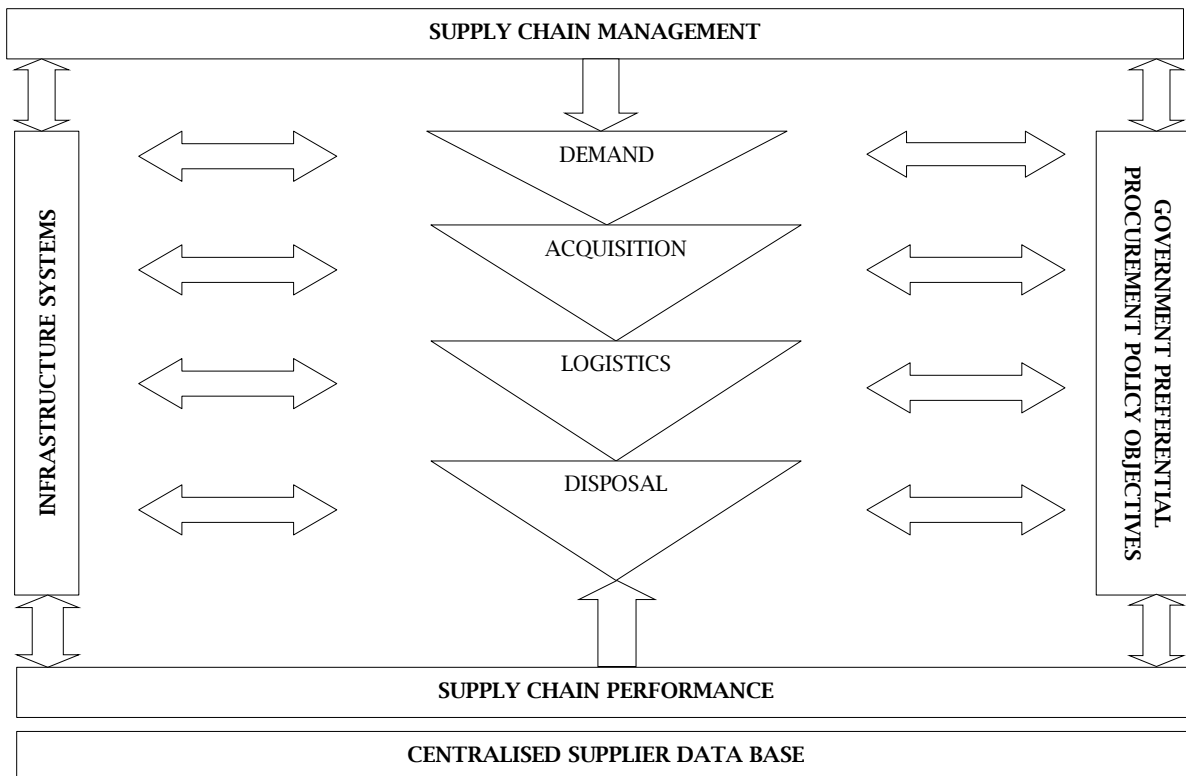
policies. Most public-sector institutions have realised the importance of developing strategic partnerships with their suppliers, customers, and other stakeholders to achieve the efficiencies gained from collaborating with the major role players (Starks, 2006:37). It is believed that collaborative relationships create an environment for leveraging on skills, expertise and resources, information sharing and complementary strength, thereby saving time and costs. Countries such as Malaysia, the UK, South Africa, the US and Canada began implementing SCM a long time ago and have since realised the benefits of an effective SCM. An efficient public-sector SCM clearly exhibits the ability of government to transform taxes and other revenues into consumption by public institutions at all levels,

allegedly for the common good (Matthews, 2005:388).

3.2. SCM in the South African public-sector environment

The government’s SCM was designed to add value at each phase of the process and includes the main elements of demand management, acquisition management, logistics management, disposal management, risk management and regular assessment of the supply chain performance. Figure 1 presents an overview of the key performance areas of public-sector SCM.

Figure 1. South African public sector SCM model



Source: Adapted from National Treasury Guide (2005:10).

The implementation of SCM in government and its entities is decentralised, thereby granting public sector managers authority and powers to make decisions in line with the PFMA and other Acts governing SCM.

3.3. Supply chain management regulations and policies in South Africa

Public-sector SCM in South Africa is highly regulated. A highly regulated environment minimises discretion, corruption, and political risks. Government SCM laws and regulations are the most important pillars of a sound SCM system (Callende & Matthews, 2009:8). SCM in South Africa is anchored in Section 217 of the Constitution and has evolved towards being fair, equitable, transparent, competitive and profitable. There are more than 80

different legal instruments governing South African public-sector SCM. Key legislation influencing SCM in government and SOEs is:

- Public Finance Management Act 1 of 1999 (PFMA): Establishes a regulatory framework for SCM which includes procurement within the government.
- Preferential Procurement Policy Framework Act 5 of 2000 (PPPFA): sets the manner in which preferential procurement policies are to be implemented.
- Broad-based Black Economic Empowerment Act 53 of 2003 (B-BBEEA): lays down a code of good practice to inform the: development of qualification criteria for the issuing of licenses or concessions, the sale of SOEs and for entering into partnerships with the private sector, and development and implementation of a preferential procurement policy.

- Construction Industry Development Board Act 38 of 2000 (CIDBA): 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 system of government.

- Preferential Procurement Framework Regulations (2001) and National Treasury Regulations (2005) The PFMA (76[4]) permits the National Treasury to make regulations or issue instructions applicable to all institutions to which the Act applies 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).

Each organ of state has to determine its procedures and policies, which must be consistent with the legislative framework (Watermeyer, 2011:3). According to Ambe and Badenhorst (2012:12), “National Treasury regulations reinforce the provisions of the PFMA, finalise the decentralisation of the SCM function to the accounting officer, and formalise the integration of various functions into a single SCM”. In addition to the legislative framework for government SCM, in 2004, the National Treasury released SCM guidelines for accounting officers and from time to time issues practice notes and circulars that guide the implementation of SCM in all spheres of government, including SOEs.

3.4. SCM practices in state-owned entities in South Africa

The supply chain management practices (SCMP) are defined as the set of activities undertaken by an organisation to promote effective management of its supply chain (Li, Rao, Ragu-Nathan, & Ragu-Nathan, 2005:56). Thatte (2007:10) has identified SCMP in the form of strategic supplier partnerships, customer relationships and information-sharing. Among the components constituting the practice of SCMP, there are such elements as (Koh, Demirbag, Baryraktar, Tatoglu & Zaim, &2007:103): supply chain integration, information-sharing, Just-in-Time delivery system, strategic partnership with suppliers, relationships with customers, quality of information and lean internal practices. In reviewing and consolidating the literature, the following SCMP were identified in the South African SOE environment and are briefly discussed below.

3.4.1. Supplier development

Government economic development policies such as the National Development Plan, New Growth Path and the Industrial Policy Action Plan have increased the focus on how procurement at state-owned companies can be leveraged to achieve the national goals of reducing unemployment, ensuring industrialisation and developing local suppliers. Leveraging procurement to influence the development of the local supplier industry is key in realising government’s objectives relating to growth, employment creation and equality. Currently, SOEs largely depend on foreign suppliers of equipment and machinery needed for the maintenance of its

infrastructure. After all, the country is experiencing severe skills shortages in areas such as engineering, medicine, and accountancy, while many qualified professionals leave the country for better opportunities elsewhere. To address this anomaly the Department of Public Enterprises has developed the Competitive Supplier Development Programme (CSDP), and large individual SOEs have adopted it. The primary aim of the CSDP is increasing the competitiveness, capacity, and capability of the local supply base. According to Mokwena (2012:12), “the Competitive Supplier Development Programme and Skills Development Programmes were established to start leveraging Public Enterprise investment and procurement spent to develop relevant industrial supply chains.” The objectives of CSDP are, amongst others, to foster a competent supply sourcing network; strive for supply base optimisation; ensure transfer of technical and business skills from well-developed enterprises (Tier 2 enterprises) to small developing (Tier 3 enterprises); improve the capacity of small suppliers; localisation of products; provide sustainability of small businesses; and enhance technological innovation. The CSDP goals are also in line with the objectives of South Africa’s Accelerated and Shared Growth Initiative, of shared growth, employment creation, poverty reduction, skills development, and B-BBEE. Since its implementation, CSDP has only been implemented by Eskom and Transnet. CSDP has made a major contribution to black economic empowerment.

SOEs are scaling up their B-BBEE procurement year by year, but this progress still does not meet the set transformation targets (The Presidency, 2012:39). Transnet and Eskom have scaled up their BBEE expenditure between 2010 and 2015. Transnet has almost doubled the percentage of goods it procures from black-owned firms from 12% in 2011 to 22% in 2014 (Bidlive, 2015:1). Eskom, which set requirements that coal had to be procured only from black-owned companies, in 2014 procured 35% from black-owned companies (Bidlive, 2015:1). Eskom’s BEE strategy and the B-BBEE strategy going forward aim to promote entrepreneurship in black communities and to give black businesses access to business opportunities in the mainstream economy. This is done by developing and empowering these businesses into sustainable contributors of reliable, cost-effective products and/or services for the benefit of Eskom and South Africa (Eskom, 2009:11).

3.4.2. Strategic supplier relationship management

Strategic supplier relationship management encourages long-term relationships between SOEs and suppliers, with an aim of leveraging the strategic and operational capabilities of the suppliers and thereby assisting SOEs to achieve significant ongoing benefits (Li, Ragu-Nathan & Subba Rao, 2005:109). Strategic relationships are based on high levels of trust. This relationships are entered into to improve the overall efficiency of the supply chain, increase competitiveness, reduce cost by sharing information, reduce risk and collaborate on new product development. Selecting the right partner therefore is of fundamental importance. Through close relationship buying organisations and suppliers are able to share risks and reward, and maintain the relationship on long term basis.

Accenture (2010:26) asserts that “organisations that apply supplier relationship management techniques consistently achieve five percent more savings from both sourcing and post-contracting activities”. According to Accenture (2010:8) supplier relationships management is described as “all activities related to interactions with suppliers. This includes contracts management, vendor management and performance monitoring”. The strategic supplier relationships are managed through various types of contracts. Contract management is that part of supplier relationship management and it sets the foundation for three levels of supplier relationship management. Hugo et al (2011:290) identified seven types of contracts, (1) firm fixed price (2) Fixed price/with escalation/de-escalation (3) fixed price with incentives (4) cost plus incentive fee (5) cost sharing (6) time and materials contract and (7) cost plus fixed fee contract. Managing contracts in an efficient manner can determine the success or failure of strategic supplier relationships.

In order to develop and better manage relationships between government (buyer) and its vendors (suppliers) National Treasury (2015:1) introduced a centralised supplier database for government and its entities. According to the National Treasury (2015:1): “The purpose of centralising government’s supplier database is to reduce duplication of effort and cost for both supplier and government while enabling electronic procurement processes.”

3.4.3. Strategic sourcing

A strategic sourcing approach involves a combination of understanding the importance of procurement to enable the government to achieve its objectives; identifying suppliers and managing relationships with them; and obtaining value for money (National Treasury, 2015:9). According to National Treasury (2015:4) strategic sourcing is “a collaborative, structured approach to analysing government’s spending; using the information from this analysis to acquire commodities and services effectively; and as a result supporting government’s service delivery objectives”. The strategic sourcing process assists managers to optimise their supplier base, leverage on bulk purchases to achieve economies of scale, obtain value for money and subsequently reduction of costs. Strategic sourcing practices in the SOE environment consist of the following elements: demand management, strategic sourcing and category management, bidding process and quotation system. The strategic sourcing process begins with the identification of business requirements from an organisational strategic plan, which is then translated into a demand management plan (UPS Supply Chain Solutions, 2005:5). Demand management forms an intrinsic part of the whole planning process of SOEs. During the planning process demand management has to continuously verify resources required to give effect to the goals and objectives of both the strategic and annual performance plans, cost these resource requirements and provide feedback to management accounting in the budget office. The cost of these

requirements is weighed against funds available and plans amended until a balance is reached between resource requirements in terms of the plans and the availability of funds in the budget. The demand management plan process includes activities such as spend analysis, categorisation of procurement spend, commodity analysis, industry analysis and determining specification (National Treasury, 2015:11). The demand management process is followed by strategic sourcing.

Strategic sourcing requires that SOEs adopts a differentiated approach to procurement of the various commodity groups (National Treasury, 2015:5). Goods and services are differentiated based on their strategic importance and complexity of the supply market. Strategic sourcing in SOEs focuses on longer-term decisions relating to service delivery, value creation, reduced cycle times and bottlenecks (Lysons & Farrington, 2013:360). Adopted from the Kraljic model, goods and services are grouped into four different categories; leverage, strategic, bottleneck and routine commodities. Category management refers to the methodology by which this ‘portfolio buying’ approach is put into practice. Category management process relies on cross functional teamwork to generate procurement outcomes that fully satisfy agreed business needs. Important benefits of category management include the standardisation of specifications and processes, improvements in service levels, quality, availability and value for money, reduce total cost of ownership and improved supplier relationship management (ADR, 2011:1). Category management is therefore a structured approach to the procurement of goods and services.

Goods and services in SOEs are procured through a public procurement process which includes bidding process or quotation process, depending on the threshold value. Public-sector procurement is “the acquisition of goods and services - other than services of officials - for the public and their administration using commercial transactions. Procurement is the process of acquiring goods, works, and services, covering both acquisitions from third parties and from in-house providers” (National Procurement Strategy for Local Government, 2003). The procurement process in SOEs is guided by the National Treasury Regulations. The procurement process is divided into two phases depending on threshold values. The threshold values differ from one SOE to another. For example, at PRASA transactions below R350k are dispensed via a three-quotation system, while anything above that goes through the public tender process. At Transnet, the threshold for quotation is R2 million and any transactions above R2 million go through the tender process. Table 2 illustrates the procurement spend of six SOEs reporting to the Department of Public Enterprises.

The 2010/2011 procurement expenditure of the SOEs ranged between R45 million and R74 billion. Total procurement expenditure for 2010/11 across the six SOEs was just over R170 billion. The planned spend in SOEs between 2015 and 2020 is R900 billion.

Table 2. SOE Procurement spend 2010/2011

NO	SOE	PROCUREMENT EXPENDITURE 2010/2011
1.	Denel	R1,600,000,000
2.	Eskom	R74,000,000,000
3.	South African Airways	R14,800,000,000
4.	Alexcor	R45,000,000
5.	South African Forestry Company Limited (SAFCOL)	R143,000,000
6.	Transnet	R70,000,000,000

Source: Department of Trade and Industry (2015:3)

With this purchasing power it is imperative that SOEs' SCM is strategically aligned, efficient and contributes towards socio-economic objectives of the country.

3.4.4. Private-public partnerships procurement

Due to funding limitations as well as , as well as technical capacity to meet all additional expansion and recapitalisation requirements under the broader national infrastructure plan. SOEs are resorting to strategic collaborations with private sector in infrastructure development projects, this strategy is referred to as Private-Public Partnerships (National Treasury, 2015 and PRC, 2012). According to the Minister of Finance, Pravin Gordhan (Creamer, 2012:1) "The strength of our major state-owned companies does not lie in protecting their dominant monopoly positions, but in their capacity to partner with business investors." Public Private Partnerships (PPP) is an integral strategy in national and international developmental plans such as the Millennium Development Goals (MDGs), Accelerated and Shared Growth Initiative for South Africa (AsgiSA), Medium-Term Strategic Framework (MTSF 2009-2014), and National Development Plan (NDP), which charts the planning and progress of the country until 2030. Private Sector Participation (PSP) has therefore been employed with the objective of creating a more leveraged capital base that incorporates private sector innovation, discipline and risk transfer.

The South African Treasury Regulation No. 16 of 2004 defines PPPs as a contract between a government institution and/or municipality and a private party where the private party performs an institutional function and/or uses state property in terms of output specifications; and substantial financial, technical and operational risk is transferred to the private party, which benefits through unitary payment from government budget and user fees (National Treasury, 2015). SOEs have used PPP procurement successfully to deliver many large and complex projects, achieving good value for money and superior whole of life outcomes. Transnet is encouraging private sector participation to operate its branch lines under concessions there is an argument in the market that Transnet is only releasing infrastructure that is already liabilities this discouraging the private participants to take over the opportunities. South African National Parks (SANPARKS) has implemented a number of projects in collaboration with the private sector operators. Public sector efficiency in the area of infrastructure delivery could be safeguarded through sound procurement procedures and pre-project analysis, as well as through ensuring high levels of public consultation around the proposed development, including a discussion around the costs.

The procurement is the third phase of the PPP project cycle, the procurement process are prescribed by the National Treasury under National Treasury Regulation 16. The process includes, pre-qualification, request for proposals, best and final offer, where appropriate, negotiations and financial closure. Determining the procurement mechanism is a critical step in the PPP project delivery process. The choice of an appropriate procurement mechanism will typically contribute to lower project costs, reduced procurement risks and the achievement of optimal quality objectives. The procurement mechanisms range from an Expression Of Interest (EOI) stage, Request for Information (RFI), Request for Proposal (RFP) stage involving interaction with bidders, selection of a preferred bidder and pre-award contract negotiations. The procurement phase requires three Treasury approvals namely IIA, IIB and III (TA:IIA, TA:IIB and TA:III). There is a big difference between the traditional procurement methods and PPP procurement. The latter has a more complex matrix of variables and stakeholders due to the longer term and nature of the bidding criteria being output and risk based. This therefore requires SOEs to be decisive in terms of decision making and time taken to achieve financial close.

4. CHALLENGES FACING SUPPLY CHAIN MANAGEMENT PRACTITIONERS IN STATE-OWNED ENTITIES

In discussing the SCM practices in SOEs, this section discusses gaps in the following areas:

- compliance with legislation;
- misalignment between SOE strategies and SCM practices;
- customer service;
- value for money;
- supply chain performance management;
- strategic sourcing;
- high level of inexperienced SCM personnel in SOEs;
- tender irregularities.

4.1. Compliance with legislation

There is a natural conflict between the commercial interests of SOEs and the state's developmental interests. SOEs are tasked with implementation of high-value infrastructure projects and at the same time, they are subject to government regulations and guidelines. The State-Owned Enterprises Procurement Forum (SOEPF) has raised major concerns as far as SCM legislation is concerned. According to SOEPF, amongst other challenges, the empowerment legislative framework is fragmented. Various empowerment instruments impose

differently and sometimes conflicting empowerment obligations on SOEs (PRC, 2012:77). In particular, many SOEs find the legislative environment bureaucratic and time-consuming. Staff responsible for compliance matters in SOEs assert that merely complying with the legislative environment is overwhelmingly time-consuming, leaving reduced capacity to execute the principal objective of the SOE.

4.2. Misalignment between state-owned enterprises' strategies and supply chain management practices

There is a misalignment between the SOEs' SCM practices and those contemplated in the government acts and regulations. As a result, there is slow progress in SOEs reaching the transformational agendas. According to Mitra & Bhardwa (2010:50), misalignment of SCM strategy can lead to an overall business failure, thus increasing costs. Globally, most SOEs often have significant gaps between their highest level of business strategy and their SCM strategy. In 2012, KPMG conducted a global survey of the procurement function, amongst other issues. The survey revealed that many procurement functions still do not operate at a strategic level within the context of their wider organisations. As a result, they are neither recognised nor are they delivering as a true partner to the business. The respondents to the survey indicated that procurement is continuing to struggle to make a strategic impact on the organisation (KPMG, 2012:5); many SOEs in South Africa are faced with the same challenge. According to the Presidential Review Committee (PRC) roundtable discussion, "the state has not clearly defined the objective for the procurement organisation". The strategic SCM objectives should flow through the shareholder compact, to the business and finally to the procurement of the organisation (Africa Vukani, 2012:17). According to Eskom, challenges in its SCM are as a result of slow progress in finalising sourcing strategies that are aligned with the increased focus on supporting socio-economic agendas for targeted commodities (Eskom, 2012a:57). The performance of SOEs against their strategic objectives needs urgent attention. Therefore alignment to current economic policy and national outcomes is also critical; so is a longer-term approach to strategic planning. Reliable and accurate performance information is also critical to assess delivery on mandates (Pillay, 2012:2).

4.3. Customer service

Customer service is hardly mentioned in the context of the SCM government model. A customer in government procurement is the ordinary citizen who receives the end service. However, the citizen as the end customer is not incorporated in the SCM government model. The South African government is under increasing pressure to perform. Members of the general public and the private business community routinely pass judgment on the government. Perhaps this is done in reaction to a personal experience with a local entity, or based upon information garnered through the local newspaper or television networks (Matthews, 2005:393). Taxpayers and all South Africans are

understandably impatient for tangible change (National Treasury, 2013:31). This is a challenge to SOEs as their core mandate is to address customer needs. There is a need for a shift in perspective by government entities towards viewing the citizen as a customer (Naidoo, 2010:1). The end customer takes centre stage in SCM (Fawcett, Ellram & Ogden, 2007:41); however the government SCM policy in its current format caters only for the supplier and, as a consequence, disregards the customer completely (Naidoo, 2010:1). Ideally everyone in the supply chain should have the same objective - to deliver the best value to the end customers. That means a supply chain has to be aligned to deliver customer value, measured in terms of customer-perceived benefits gained from a product/service compared to the cost of purchase (Wong, Skipworth, Godsell & Achimugu, 2012:420).

4.4. Value for money

Value for money can be fragmented into three public procurement goals: economy, efficiency and effectiveness. Economy is concerned with minimising the cost of resources acquired, having regard for the quality of inputs. Efficiency is concerned with the relationship between outputs of services and the resources used, while effectiveness is concerned with the achievement of targets, in terms of both quantity and quality. SCM plays a significant part in the enhancement of South Africa's economy and is central to government service delivery. However, citizens and taxpayers do not get full value for money because this area is vulnerable to waste and corruption (National Treasury, 2013:1). As taxpayer's expectations of greater value for money grow, the government and SOEs will increasingly find themselves under the same pressures as private enterprises to align strategy and reap the benefits (Cousins, Lamming, Lavison & Squire, 2008:100; Arminas, 2002:17). In reality, an efficient public-sector SCM clearly exhibits the ability of government to transform taxes and other revenues into consumption by government institutions at all levels, allegedly for the public good (Matthews, 2005:388).

4.5. Supply chain performance management

SCM performance has always exerted considerable influence on the actions of companies; as a result most of these businesses realise that to evolve an efficient and effective SCM there needs to be an assessment of its performance (Charan, Shankar & Baisya, 2008:513). For performance to be managed it needs to be measured first; an organisation must identify and implement a supply chain performance measurement system (SCPMS) which best suits the objectives of the organisation, and such system must be aligned with the organisational strategic goals. According to Kurien and Qureshi (2011:20), SCPMS that consists of a single performance measure are generally inadequate since they are not inclusive and ignore the interactions among important supply chain characteristics, and critical aspects of organisational strategic goals.

Strategic goals involve key elements that include the measurement of resources, output and flexibility. SCM Key Performance Indicators (KPIs)

serve as an indicator of how well the supply chain system is functioning. Measuring supply chain performance can facilitate a greater understanding of SCM and improve its overall performance (Charan et al, 2008:513). Supply chain performance needs to be monitored and managed to ensure that business objectives are being achieved. It is critically important that SCM KPI characteristics be defined properly, that they are aligned with the business objectives and communicated effectively. Performance management in SOEs remains a problem. In 2012, the Minister of Public Enterprises Malusi Gigaba expressed concern at the fact that the executives in SOEs always receive their salary benefits regardless of poor performance or unmet targets. The supply chain practitioner's KPIs are not linked to the overall business objectives; this is more prevalent in government sectors where SCM is regarded as a sub-section of Finance and not a standalone department. Organisations have realised that aligning and integrating their supply chains are essential for improving their performance (Nunlee, Qualls & Rosa, 2000:354). However, unless the right KPIs are established to support the organisation's strategy, the supply chain may be poorly designed and managed (Raturi & Evans, 2005:203).

4.6. Strategic sourcing

There is a substantial gap between government's current SCM practices and those contemplated in its policy strategy document. Government's policy strategy document is based on a strategic sourcing methodology: it will require a phased implementation approach because the current tender process is not aligned with strategic sourcing (Liebenberg, 2012:2). According to the research conducted, more than half of the SOEs have centred SCM organisations, but few strategic sourcing capabilities (Accenture, 2010:33). Currently, there is a substantial gap between SOEs' current SCM practices and those contemplated in their policy strategy document. Government's policy strategy document is based on a strategic sourcing methodology: it will require a phased implementation approach because the current tender process is not aligned with strategic sourcing (Liebenberg, 2012:2).

4.7. High level of inexperienced supply chain management personnel in state-owned enterprises

In the past procurement was regarded as an effortless administrative function. As a result, most employees in SCM are poor performers transferred from other departments. The mentality was that anyone and everyone can do procurement. This kind of disrespect to the profession has resulted in a lack of strategic skills within SCM. SOEPF recognises that one of the key challenges in South Africa within government and SOEs remains the absence of a sufficiently skilled and capable workforce, especially within SCM (Mobu, 2011:5). SCM within SOEs is generally at an immature level and practitioners operate at an administrative or low value-add level. Teams are under-resourced and under-skilled and in many instances do not have the support and mandate from executives to effect procurement

transformation within their specific environments (Africa Vukani, 2012:17).

A sound SCM has to have a competent workforce with defined skills and knowledge for specified SCM jobs. It is unfortunate that government is not very strict when appointing SCM practitioners and still continues to dump unskilled officials in SCM departments. This practice undermines the SCM profession and hinders the progressive development of SCM as a career. The SCM profession is currently under the spotlight, and professional procurement needs to deliver more than just cost savings; it needs to ensure stronger governance, greater sustainability, increased security of supply and greater value. This would not be possible without a skilled and qualified workforce (Coetzee, 2011:1). Accenture (2010:30) recommends the SOEs need to review their current SCM structures and resources according to their transactional and strategic requirements. However, they confirm that this remains a challenge as most SOEs are finding it difficult to recruit skilled category managers and chief procurement officers.

4.8. Tender irregularities

There have been several cases reported of corruption on SOE tenders and contravention of the PFMA and PPPFA. The Auditor-General, in providing feedback on the 2011/2012 state audit, said that there were contracts to the value of R141 million awarded to suppliers in which close family members of employees had an interest (Auditor-General, 2012). The audit found that contracts to the value of R438 million were awarded to suppliers in which employees had an interest; in some cases the employees included SCM officials and senior managers (Auditor-General, 2012). National Treasury is currently scrutinising 76 business entities with contracts worth R8.4 billion which have infringed the procurement rules, while SARS is currently auditing more than 300 business entities and scrutinising another 700. The value of these contracts is estimated at over R10 billion. The Financial Intelligence Centre has referred over R6.5 billion for investigation linked to corrupt activities (National Treasury, 2013:31).

4.9. Supplier relationship management

Supplier relationship management remains a major challenge in government and there is still room for improvement. From a supplier point of view, the relationships have been affected by factors such as failure by government and its entities to pay the suppliers on time. Treasury Regulation 8.2.3 states that unless otherwise determined by the contract or other agreement, all payments due to creditors must be settled within 30 days from receipt of an invoice or, in the case of civil claims, from the date of settlement or court judgment. This implies that amounts owing must be paid within 30 days from receipt of invoice if the goods, works or services were delivered to the satisfaction of the accounting officer/authority. Payment outside the prescribed period of 30 days from receipt of invoice is regarded as a violation of Treasury Regulation 8.2.3 and may be reported as such by the Auditor-General as part of its audit function. Deviation from these clauses

has severely damaged the trust between purchasing organisations and the suppliers. Every relationship, whether in government or private, thrives on confidence. Without trust relationships fail dismally. According to Smeltzer (1997:2), “partnerships or alliances between suppliers and buyers are increasing in frequency and importance as these are believed to have a major role in reducing cycle time and enhance quality control”.

5. FRAMEWORK FOR ALIGNING STATE-OWNED ENTERPRISES’ SUPPLY CHAIN PRACTICES AND THEIR ORGANISATIONAL STRATEGIES

Government’s uniform approach to SCM is not effective in the SOE environment. This largely due to the different SOE mandates and pressure on SOEs to generate revenues and also contribute to the economy’s GDP. According to Ambe (2012:126), “supply-chain strategies based on a one-size-fits-all

strategy often fail.” Mitra and Bhardwa (2010:50) advise that SCM strategies must be tailor-made for organisations in a way that it contributes to an organisation’s business strategy. In particular, there is a need to achieve alignment in SOEs so that functional strategies and business processes used to deliver them are compatible with business strategy and shareholder expectations, such as service delivery, revenue generation, working capital efficiency, operating cost reduction and fixed capital efficiency (Christopher & Ryals, 1999:56). In line with these philosophies, Figure 2 illustrates the process of strategic alignment processes in the SOE environment. The process is divided into four phases, namely the development of business strategies; setting strategic objectives; converting the competitive priorities into supply chain strategies, and converting the SCM strategies into supply chain practices.

Figure 2. Framework for aligning supply chain practices and organisational strategies in an SOE environment

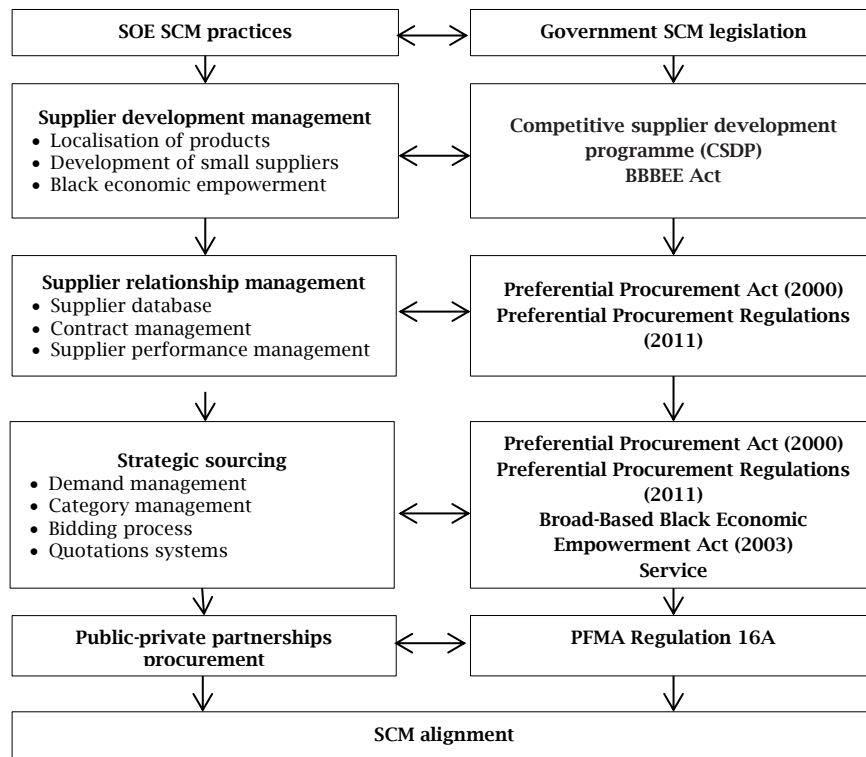


Figure 2 indicates that for SOEs to implement supply chain strategies effectively their SCM practices and the supply chain policies must be aligned. Despite the progress made, the overall socio-economic targets continue to be missed. Transformation is progressing at a very slow pace. SOEs need to leverage on the strength of their budget to empower SMMEs, black-owned enterprises and women-owned businesses, thereby creating jobs and economic sustainability. There is a need for SOEs to accelerate the participation of the private sector through strategic partnerships with the private-sector industry, mining companies, property and logistics developers, both domestically and across global supply chains. It is believed that the

private sector’s participation in SOEs will enhance the transfer of skills, leverage of private-sector skills and transfer of risks. Therefore, alignment of current economic policy and national outcomes is also critical; so is a longer-term approach to strategic planning. Reliable and accurate performance information is also essential to assess delivery on mandates (Pillay, 2012:2). Aligned strategies in the SOE environment will fast-track the socio-economic agenda of the government.

6. CONCLUSION

The performance of SOEs is crucial to the economy of South Africa and the sector has a huge

contribution towards addressing the socio-economic challenges facing the country. The role of SCM therefore of utmost importance to SOE performance. It is, therefore, essential that SOEs should leverage on SCM to maximise its contribution towards socio-economic agenda. This article revealed that there is misalignment between SOE strategies and their supply chain practices. The misalignment is the root cause of problems currently facing SOEs. Some of the consequences have resulted in amongst other issues, waste, service delivery backlogs, delays on SOEs delivery on transformation agenda, fraudulent activities, non-compliance, and weakness in control measures. The article suggests that the supply chain and organisational strategies of SOEs must be aligned to ensure efficient delivery of public services.

The SOE practices should be aligned with the SCM legislations and with the SOEs business strategy. SCM activities should contribute to the ultimate goal of the organisation. For SCM strategies to be successful, the head of SCM should be positioned at a strategic level within SOEs reporting directly to the CEO. In this manner the SCM executive should be involved in SOE strategy development process. Only after an organisation has developed its objective that SCM strategies can be developed, it is essential that the SCM should be aligned with government legislations and the key deliverables of the SOE (Murray, 2007:94). SCM strategies should then be translated into achievable objectives consistent with the business strategy. SCM strategies should focus on efficiency and value creation, creates opportunities for supplier development and growth and contributes towards SA socio-economic objectives. This can be achieved through vigorous strategic sourcing approach. Effective strategic sourcing initiatives should not only save costs but also yield long-term strategic supplier relationships. Successful strategic partnerships play a major role in achieving a high degree of effectiveness and efficiency and service delivery. SOEs should strategically position themselves to implementing Public Private Partnerships projects as an alternative procurement strategy. PPP provides an opportunity for SOEs to leverage on technical skills and to strengthen their balance sheets.

This article concludes that for SOEs to realise its targets, there is a need for a strategic approach towards SCM implementation. It is recommended that SOE develop a system that minimizes red tapes, barriers and bureaucracies in SCM without necessarily contravening any legislative requirements. Given the massive expenditure and the financial challenges facing government, an effective public-sector SCM becomes a primary requirement. Government leaders should be more strategic around using SCM as a tool to improve service delivery.

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