

**EMPOWERING TOWNSHIP SMMEs THROUGH APPROPRIATE SOURCING
STRATEGIES: A CASE OF GAUTENG PROVINCIAL GOVERNMENT**

By

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DECLARATION

I, Lavhelesani Mulibana [REDACTED] [REDACTED] [REDACTED] declare that **Empowering Township SMMEs through appropriate sourcing strategies: A case of Gauteng Provincial Government** is my work and that all the sources used or quoted have been indicated and acknowledged by means of complete references and that this work has not been submitted before for any other degree at any other institution.

L Mulibana

18 January 2016

Date:

DEDICATION

This mini dissertation is dedicated to Elohim for blessing me abundantly

&

Everyone who supported me during the course of this study.

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ABSTRACT

The post apartheid Republic of South Africa experiences several economic challenges that need urgent attention. These economic challenges include poverty, unemployment, slowing economic growth, high supply of unskilled labour, skills shortages, and an ever-escalating crime rate amongst others. In an attempt to resolve these economic challenges, the South African Government targeted the SMME sector as an economic empowerment vehicle for historically disadvantaged individuals. This follows the evident role of SMMEs in the creation of employment opportunities, poverty alleviation and contribution to GDP, amongst others. Over the years after the dawn of democracy, public procurement has been used as a tool for local economic development. The South African Government has therefore recently emphasised the empowerment of Township SMMEs through state procurement. The purpose of the research was to investigate the extent to which sourcing strategies provide a mechanism for public sector SCM to empower Township SMMEs. The qualitative methodology was used to collect and analyse the data using the case study design. The research revealed that procurement opportunities can be provided to Township SMMEs through several appropriate sourcing strategies, and other procurement methods. Nonetheless, the research further revealed that there are constraints that may hinder the successful empowerment of Township SMMEs through the application of the identified sourcing strategies and procurement methods. Such constraints have to be taken into account and addressed to ensure that the objectives behind the empowerment of Township SMMEs are realised.

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LIST OF ABBREVIATIONS

BAC	Bid Adjudication Committee
BBBEEA	Broad Based Black Economic Empowerment Act
BEC	Bid Evaluation Committee
BSC	Bid Specification Committee
CIPC	Companies and Intellectual Property Commission
EU	European Union
GDP	Gross Domestic Product
GPG	Gauteng Provincial Government
HDI	Historically Disadvantaged Individuals
MEC	Member of Executive Council
PPP	Public Private Partnership
PPPFA	Preferential Procurement Policy Framework Act
SCM	Supply Chain Management
SMMEs	Small Medium and Micro Enterprises
UK	United Kingdom
USA	United States of America
VAT	Value Added Tax

1. CHAPTER ONE: INTRODUCTION AND GENERAL ORIENTATION

1.1 Introduction

Small Medium and Micro Enterprises (SMMEs) contribute significantly in the economic growth of every country. In the economically successful countries of the world, township SMMEs provide as much as 85 per cent of the job opportunities and are therefore important economically (Smit et al, 2013).

In South Africa, SMMEs generate 35% of the gross domestic product, contribute 43% of the total value of salaries, and wages paid, and employ 55% of all the formal private-sector employees. In contrast, in the USA, Japan and Germany, SMMEs contribute more than 50% to the gross domestic product in each country (Nieuwenhuizen, 2013).

In the 2015 State of The Nation Address, President Jacob Zuma, shared the nine point plan to ignite growth and create jobs. The 7th point of the ninth points is unlocking the potential of township SMMEs to ignite growth and create jobs. Furthermore, he indicated that government will set aside 30% of appropriate categories of state procurement for purchasing from township SMMEs (Zuma 2015).

The MEC of Gauteng Finance / Treasury (Barbara Creecy), in her 2015 Provincial budget speech, mentioned that, at present, the provincial government spends about 5% of its R10 billion procurement budget for goods and services on township SMMEs, Co-operatives, and rural enterprises. However, the Province is committed to increasing this spend to 30% over the next four years. Furthermore, the MEC indicated that empowering township SMMEs through state procurement will assist to address the three economic challenges, namely: Poverty, Unemployment, and Inequality (Creecy 2015).

1.2 Research problem statement

The Political Office Bearer in South Africa often formulates good policies, but fails to give direction in terms of how the formulated policies should be implemented. This has often resulted in policies failing to achieve their intended objective.

Empowerment of township SMMEs through state procurement is one of the government's procurement reform objectives. As indicated on the introduction above, a very small portion (5%) of the 10 million procurement budget was spent on township SMMEs in the previous financial years, and the Gauteng Provincial Government wishes to increase this spend from 5% to 30%. The little spend is presumed to be due to reluctance to empower township SMMEs by supply chain management practitioners. Supply chain management practitioners are reluctant to empower township SMMEs as there is little information on which procurement mechanisms can be used to empower township SMMEs (Creecy 2015).

1.3 Motivation/rationale for the study

Supply Chain Management (SCM) Practitioners across the Gauteng Province are reluctant to empower township SMMEs through state procurement, as little information exist on how to empower township SMMEs. If this reluctance continues, the initiative in question would not achieve its intended goal or objectives, which are to create jobs, alleviate poverty in the process, and also contribute to economic growth.

This study is worth undertaking because it will investigate the extent to which sourcing strategies provide a mechanism for public sector SCM to empower township SMMEs.

1.4 Significance of the study

The study will investigate and explore appropriate sourcing strategies which can be adopted to empower township SMMEs. This will minimise the reluctance of SCM Practitioners to empower township SMMEs. Furthermore, this will enable efficiencies in the procurement of goods, services, and works from township SMMEs; and ensure the set procurement target is met and that the goal or objective of the initiative is addressed.

Since little information exists on the empowerment of township SMMEs through state procurement, the final research report will contribute to knowledge / theory base, and may also be used as a reference document by the Gauteng Provincial Government and other organs of state.

1.5 Aim of the study

This study aims to investigate and explore sourcing strategies that may be appropriate for SCM within the South African public sector context and that adhere to the relevant SCM legislations which organs of state and other interested institutions can adopt to empower township SMMEs.

1.6 Objectives

The objective of this study is:

(i) To investigate the extent to which sourcing strategies provide a mechanism for public sector SCM to empower township SMMEs.

1.7 Research questions

- To what extent could sourcing strategies provide a mechanism for public sector SCM to empower township SMMEs?
- How do sourcing strategies work in state procurement?
- How does empowerment of township SMMEs work?

1.8 Literature review

In South Africa, there are one to three million SMMEs, with about half a million being formally (correctly, officially) registered. This implies that the other half can be considered as informal SMMEs. Most of the informal SMMEs are owned and operated by black South Africans or historically disadvantaged individuals. These black informal-business people are often called survivalists, as most of them are in business to earn a living, not necessarily to create wealth (Strydom, 2011).

Smit et al (2013) argued that South African SMMEs need to play a greater role in the economy because their current contribution to GDP is far less than that of similar organisations in Japan, Singapore, the USA and other countries.

The SMMEs in South Africa operate in an environment with both Primary and Secondary stakeholders. Government is regarded as the secondary stakeholder as it exerts a radical influence on the long-term existence of the different companies. Government expect the companies, including SMMEs, to obey the laws of the country and pay their taxes on time (if they are not tax exempted) (Strydom, 2011).

In light of the above paragraph, the South African Government recognises the importance of SMMEs, in general economic growth, and the availability of a conducive environment which enables SMMEs to grow. Hence, President Jacob Zuma instructed organs of state to empower township SMMEs through state procurement (Zuma, 2015).

According to Hugo, Badenhorst-Weiss, and Van Biljon (2011), empowerment of SMMEs through state procurement is not something new, in the USA, empowerment of SMMEs has a history that spans more than three decades. In Europe in general (including the UK), European Union (EU) Procurement Directives stipulate the EU-wide publication of contracts, so that firms across the community have an opportunity to participate. This has opened up new opportunities for SMMEs. In Japan, SMMEs are empowered through sub-contracting.

Furthermore Hugo, Badenhorst-Weiss, and Van Biljon (2011) argued that in South Africa, SMMEs can be empowered through sub-contracting. Nonetheless, the success of SMMEs in sub-contracting depends on a good flow of information from the contractor (buyer) regarding who won the original tender and a willingness on behalf of large companies to subcontract a fair proportion of work at a profitable price to SMMEs.

According to Ambe and Badenhorst-Weiss (2012) public procurement in South Africa still faces enormous predicaments. These include, among others: lack of proper knowledge, skills, and capacity; non-compliance with SCM policy and regulations. These predicaments can be perceived as constraints in ensuring efficiency in the procurement of goods, services and works from SMMEs.

1.9 Definition of concepts

1.9.1 Empowering

In this study, empowering refers to the provision of procurement opportunities in an attempt to deliver services, create jobs and alleviate poverty (Dlamini and Ambe, 2012).

1.9.2 Township SMMEs

In this study, township SMMEs refers to small, micro and medium enterprises (SMMEs) that are located in the suburb or city of predominantly black occupation, formerly officially designated for black occupation by apartheid legislation (Chimucheka, 2013).

1.9.3 Sourcing Strategies

These are procurement methods that can be used to procure goods, services and works from service providers / suppliers by Organs of State (Bolton, 2006).

1.10 Choice and rationale of research design

Research design is basically a set of guidelines and instructions on how to reach a goal a researcher has set for him/herself (Auriacombe, 2006). The research design that is applicable for this study is the case study. According to Simons (2009:21), the term case study pertains to the fact that a limited number of units of analysis is studied intensively.

The research was qualitative in nature, as the intention of the Researcher was to explore and build theory. Textual data was collected from few participants and the principles of grounded theory were adopted to analyse data in order to follow an inductive approach of reasoning. In the inductive approach, researchers start with empirical data and develop larger generalisations and theoretical insights from the data (Leedy & Ormrod, 2014; and Rubin & Rubin, 2005).

1.11 Study area

Gauteng Province is one of the nine Provinces in South Africa. The study was conducted at the Gauteng Provincial government which is constituted by 12 Provincial Departments.

1.12 Population

According to Babbie (2005), the population for a study is that group (usually of people) about whom we want to draw conclusions. It is not possible to study all the members of the population that interests us, and we can never make every possible observation of them. With any survey, it is necessary to clearly define the target population, which can be defined as 'that group which constitutes the defined population from a statistical viewpoint'.

The target population for this study are Supply Chain Management Practitioners in the Gauteng Provincial Government.

1.13 Sample, sampling methods and sample size

The study will employ non-probability sampling method. Leedy and Ormrod (2005), defines samples as population microcosms, and that nonprobability sampling is utilised when the researcher has no way of guaranteeing that each element of the population will be represented

in the sample. Furthermore, when non-probability sampling is utilised, some members of the population have little or no chance of being sampled.

A convenient sample of seven (07) officials was selected for this study. The sample was drawn from permanent staff in the supply chain management directorates of the Gauteng Provincial Government. The sample consisted of senior and junior supply chain management practitioners, males and females.

1.14 Data collection

The following instrument was used to collect data:

Structured interviews

A total number of seven (07), participants were interviewed for this study. According to Leedy and Ormrod (2014) interviews can yield a great deal of useful information. The researcher can ask questions related to facts, people's beliefs and perspectives about the facts, feelings, motives, present and past behaviours, standards for behaviour and conscious reasons for actions or feelings.

1.15 Data analysis

According to Leedy and Ormrod (2014) and Rubin and Rubin (2005), data analysis refers to the process of moving from raw interviews to evidence-based interpretations that are the foundation for published reports. The principles of grounded theory were adopted to analyse data in order to follow an inductive approach of reasoning. In inductive approach, researchers start with empirical data and develop larger generalisations and theoretical insights from the data. The theory on the empowerment of Township SMMEs through appropriate sourcing strategies was developed during the data analysis process and compared with the literature.

Neuman (2006) argued that grounded theory makes qualitative research flexible and allows for interaction between data and theory. Data analysis consists of examining, categorising, tabulating, or otherwise recombining the evidence in order to address the initial propositions of the study.

Furthermore, according to Rubin and Rubin (2005), in grounded theory concept recognition, coding and theory development are part of a continuous and seamless package.

The following analytical techniques were used to analyse the data collected:

Preparing field notes and transcripts: detailed notes were compiled during qualitative interviews and converted into write-ups to enable ease of reading and editing.

Identification of themes: The data and their interpretations are scrutinised for underlying themes and other patterns that characterise the case more broadly than a single piece of information can reveal. The researcher searched for word repetitions, keywords in context and indigenous terms to establish the themes. A qualitative researcher analyses data by organising it into categories on the basis of themes, concepts or similar features (Neuman, 2006). The similarities that arose from the data were grouped together to establish broad themes underlying the data. The differences between the categories were also established to further make meaningful interpretations of the data and establish other themes.

Interpretation of patterns: Specific documents, occurrences and other bits of data are examined for the specific meaning that they might have in relation to the case study.

Synthesis and generalisation: Conclusions are drawn that may have implications beyond the specific case that has been studied.

1.17 Ethical considerations

The researcher took necessary steps to safeguard the rights and interests of the research participants.

Most ethical issues in research fall into one of four categories namely, protection from harm, informed consent, right to privacy, and honesty with professional colleagues (Leedy & Omrod, 2013:107-108):

1.17.1 Protection from harm:

In cases where the nature of a study involves creating a small amount of psychological discomfort, participants should be made aware of this ahead of time, and any necessary debriefing or counselling should follow immediately after their participation. The researcher will assure the participants that the information that they will provide will solely be used for this research, and that it will not be disclosed anywhere else where it might jeopardise their employment (Leedy & Ormrod 2013: 104 – 109).

1.17.2 Informed consent:

Participants should be told in advance about the nature of the study to be conducted, and be given the choice to withdraw from the study at any time, as participation in the study should be strictly voluntary. An informed consent form, describing the nature of research, as well the nature of the required participation, will be presented to participants in the research study (Leedy & Ormrod, 2013: 104 – 109).

1.17.3 Right to privacy:

Any research study should respect the participants' right to privacy. In general, a researcher must keep the nature and quality of the participants' performance strictly confidential. Participants will be informed that they will have the right to privacy in that no personal information of theirs will be disclosed throughout the study (Leedy & Ormrod, 2013: 104 – 109).

1.17.4 Honesty with professional colleagues:

Researchers must report their findings in a complete and honest fashion, without misrepresenting what they have done, or intentionally misleading others regarding the nature of their findings. Under no circumstances should a researcher fabricate data to support a particular conclusion, no matter how seemingly 'noble' that conclusion may be (Leedy & Ormrod, 2013: 104 – 109).

1.17.5 Anonymity and confidentiality:

The clearest concern in the protection of the subject's interests and well-being is the protection of their identity, especially in survey research. If revealing their survey responses will injure them in any way, adherence to this norm is more important. (Malovha, 2012:12).

1.17.5.1 Anonymity

A respondent may be considered anonymous when the researcher cannot identify a given response with a given respondent (Malovha, 2012:12).

1.17.5.2 Confidentiality

In a confidential survey, the researcher can identify a given person's responses, but essentially promises not to do so publicly (Malovha, 2012:12).

1.18 Conclusion

This chapter outlined the background, and rationale for the study, which will form a basis of the understanding of the proposed research. Statement of the problem and an indication of the research questions was also outlined together with the objective of the study.

1.19 Research Limitations

It would be ideal to conduct this kind of a study in several Spheres of Government, but due to financial, time and other constraints, the study was only conducted at the Gauteng Provincial Government.

The researcher does not intend to make generalisations from the study; hence the findings of the study will only be applicable to the Gauteng Provincial Government.

It is also important to note that the study only focuses on the empowerment of township SMMEs located within the borders of Gauteng Province through state procurement. The researcher is aware that there can be many ways to empower SMMEs, but for the purpose of this study, the researcher only focussed on empowerment of SMMEs through state procurement.

2. CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter reviews the existing literature that presents the most authoritative scholarship on the research problem that the researcher identifies with and relevant to the research topic. The extent to which sourcing strategies provide a mechanism for public sector SCM to empower township SMMEs is discussed in relation to the existing literature.

2.2 Small Medium and Micro Enterprises

Stephen and Wasu (2013) stated that SMMEs can be defined in terms of the number of employees in the enterprise, and annual turnover amongst others. For instance, in Britain, a small business is a business with an annual turnover of 2 million, or less, with fewer than 200 paid employees.

Furthermore, Kemp et al. (2015) considers Small Medium and Micro Enterprises as small firms that are owner-managed by one or more person (s) while operating in any sector or sub-sector of the national economy. Chimucheka (2013) argued that in South Africa, SMMEs are diversified and operate in different industries, including retailing, wholesaling, tourism, mining, farming, manufacturing, construction and service. Under the economic definition, a firm is considered to be small if it has a relatively small share of its market place; it is managed by owners or part owners in their personal capacity, and not through the medium of a formalised management structure; it is independent, in the sense of not forming part of a large firm (Abor and Quartey, 2010).

Abor and Quartey (2010) further stated that SMMEs are more labour-intensive than larger firms and therefore have lower capital costs associated with job creation. They generate more job opportunities per unit of invested capital; they are an instrument for utilising the talents, energy and entrepreneurship of individuals who cannot reach their full potential in larger organisations; SMMEs often flourish by rendering services to a small or restricted market which larger businesses do not find attractive; They are also breeding grounds for entrepreneurial talent and the testing ground for new industries; SMMEs contribute to the competitiveness of the economy; and create social stability, cause less damage to the physical environment than large factories, stimulate personal savings, increase prosperity in rural areas and enhance the population's

general level of economic participation (Chimucheka, 2013).

As opposed to most well-established firms, SMMEs are privately owned and managed by individuals, groups, or associations who usually require a great deal of support from the Government or other external sources (Kassahun and Drbie, 2013). Aregawi and Tilaye (2014), found out that the facilitation and adjustment of the start-up and working capital sources, working premises, raw material supply, managerial and technical skill training, market-enterprise linkage creation and management support for SMMEs are shouldered on government officials. Thus, the responsibility requires tremendous efforts and integration between enterprises owners and government officials' at all hierarchical levels. However, there are inherent problems which affect long-term survival and business performance of SMMEs due to lack of financial resources, management experience, poor location, poor infrastructure, low demand for products or services, corruption and shortage of raw materials.

According to the National Small Business Act 102 of 1996 and Chimucheka (2013) in South Africa, SMMEs are categorised into five stages of development, namely: survivalist, micro, very small, small and medium-sized enterprises. These stages are briefly discussed below as follows:

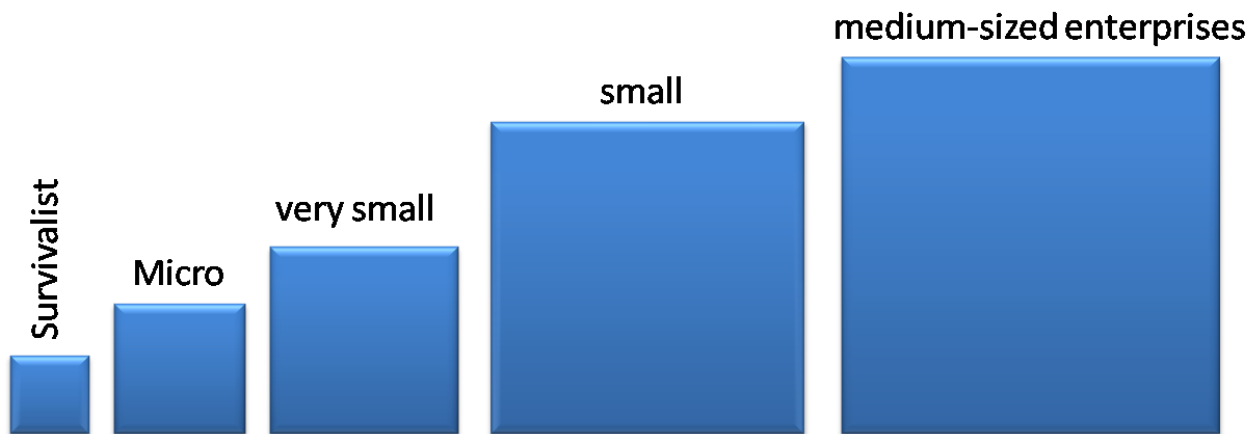


Figure 1

Survivalist: These enterprises operate from part of the informal economy, are undertaken by unemployed persons whose primary objective is to survive economically; Little capital is invested in survivalist enterprises and therefore they do not generate as much as necessary income and assets, the owners possess inappropriate business skills and training to run the business, and the opportunities for growing the business are limited. An example of such enterprises would be hawkers, vendors and subsistence farmers (Turner, Varghese & Walker, 2008; and Chimucheka,

2013).

Micro enterprise: These enterprises would have about five employees and, like survivalist enterprises, they operate informally. Owners do not have skills to run a business, are unlicensed and, as a result, do not comply with legislation. Unlike survivalist enterprises, their annual turnover is the VAT registration level of R300 000 per annum, and they have the potential to make the transition to a viable formal small business. Examples of such enterprises would be spaza shops, minibus taxis and household industries (Turner, Varghese & Walker, 2008; and Chimucheka, 2013).

Very small enterprise: These enterprises are part of the formal economy; they have less than ten employees in sectors other than mining, electricity, manufacturing and construction where there could be about 20 employees. Employees or persons in small enterprises are often professionals that are able to make use of the appropriate technology (Turner, Varghese & Walker, 2008; and Chimucheka, 2013).

Small enterprise: These enterprises are much established as compared to very small enterprises, as they are registered entities that operate in fixed business premises, and are organised into complex organisational structures of, at most, 100 employees (Turner, Varghese & Walker, 2008; and Chimucheka, 2013).

Medium enterprise: These enterprises are owner-managed, comply with the law and like small enterprises, are organised into complex structures of up to 200 employees that perform their duties in fixed business premises (Turner, Varghese & Walker, 2008; and Chimucheka, 2013).

2.2.1 Purpose of SMMEs

The reviewed literature has revealed that SMMEs in countries of the world play many roles in their respective countries. Major roles played by SMMEs are discussed below as follows:

2.2.1.1. Job creation

Gupta, Guha and Krishnaswami (2013) argued that SMMEs are a major source of employment generation in South Africa and other countries. SMMEs create jobs mostly for the unskilled and semi-skilled labour. According to Drbie and Kassahun (2013), most studies relating to SMMEs reveal that SMMEs had created considerable employment opportunities for unemployed youth and contributed their part in boosting the incomes of households, as well as personal savings.

Swart (2011) estimated that SMMEs provide 80% of all local employment opportunities in South Africa, meaning at the local sphere of government. Kemp et al. (2015) estimated that nationally, SMMEs employ approximately 53.9% of the total South African workforce. Nonetheless, South Africa currently has one of the highest unemployment rates in the world, sitting at 25.5%. This might be an indication that there are not sufficient job opportunities, meaning the country needs more successful SMMEs who will expand and create more jobs in the process. Subsequently, the unemployment levels will be reduced (Kemp et al., 2015; and Abor & Quartey, 2010).

Furthermore, according to Mwobobia (2012) in Botswana, SMMEs contribute 75 percent of the formal sector employment (LEA, 2007), while in Kenya, the sector contributed over 50 percent of new jobs created in the year 2005 (Economic Survey, 2006). These percentages indicate that other African states' SMMEs employ more people than South African SMMEs do.

In light of the above, Mwobobia (2012) argued that it is, therefore, important to create a favourable environment that allows SMMEs to expand and prosper. This was also emphasised by Acquah and Mosimanegape (2006) who argued that for most developing countries, South Africa included, SMMEs in the informal sector generate employment and incomes for their owners and operators, hence reduction of poverty.

2.2.1.2. Poverty alleviation

Chimucheka (2013) argued that SMMEs combine the resources of societies efficiently to produce goods and services for the society in which they operate. They serve as a means of bringing economic transition by using the skill and the talent of people without requiring high-level training, much capital and sophisticated technology. This makes the sector more preferable to business entry, unemployment reduction, income generation and poverty alleviation (Habtamu, Aregawi and Nigusu, 2013).

Existing literature indicates that poverty is significantly higher in developing countries than in developed countries. For instance, in South Africa, 20.2% of the national population still live in extreme poverty and 45.5% of the national population still live in moderate poverty; while in the United States of America, only 14.8 percent of the population still live in poverty. The Government of South Africa has identified SMMEs as a key to poverty alleviation (Kemp et al., 2015).

2.2.1.3. Empowerment of historically disadvantaged individuals

South Africa has a history of apartheid which ended in 1994. Apartheid was a system of racial

categorisation and separation dividing the population into various groups. This separation governed every sphere of life; from education to employment. Subsequently, most Black South Africans from this generation are unskilled labourers. SMMEs require less training, and thus offer employment and other opportunities to these South Africans (Conradie, Lowies and Upton, 2015).

The South African government's strategy has been focusing primarily on the development of SMMEs in previously disadvantaged communities. Previously disadvantaged communities have been described as those sections of the population that had been disadvantaged by apartheid and segregationist development policies before 1994. It is SMMEs that commonly provide economic and employment opportunities to the general members of the community. Income inequality between population groups in South Africa is still believed to be high and SMMEs are expected to help reduce this problem (Chimucheka, 2013).

2.2.1.5 Locus of innovation

According to Pressey, Winklhofer and Tzokas (2009), SMMEs are a major source of innovation and an important catalyst for economic development. Most new products and services in the market were introduced by SMMEs, for instance Facebook, Google and so on.

Karjalainen and Kempainen (2008) argued that SMMEs produce over 10 times more patents per employee than their larger counter-parts/competitors. SMMEs are also seen as a source of flexible personalised services. In addition, small businesses are expected to be able to respond quickly to changing market demands, are organisationally flexible and have more efficient internal communications than large firms.

2.2.1.6 Competition

SMMEs compete against large producers and improve the nature of the competitive environment leading to quality products and services in the economy. They also compete against one another, which is of benefit to customers in terms of quality and price (Chimucheka, 2013).

2.2.1.7 Economic growth and development

Swart (2011) estimated that SMMEs in South Africa contribute roughly 30% to the national Gross Domestic Product. SMMEs are often the vehicle by which the people who earn the lowest income in the South African society gain access to economic opportunities. Central to the growth of the economy, is the development of a vibrant SMME sector, which development experts agree, is the

key to resolving many societal challenges, including job creation (Drbie & Kassahun, 2013; and Chimucheka, 2013).

The SMME sector provides employment, pays taxes and can be included in the government statistics and in labour market information analyses. SMMEs also act as training grounds by offering apprenticeships for the youth.

Furthermore, according to Abor and Quartey (2010), the performance of SMMEs is important for both economic and social development of developing countries. SMMEs contribute to a country's national product by either manufacturing goods of value, or through the provision of services to both consumers and/or other enterprises. This encompasses the provision of products and, to a lesser extent, services to foreign clients, thereby contributing to overall export performance (Sekwati, 2010).

2.2.1.8 Contribution to sustainable development

Improving the performance of SMMEs is one of the key drivers of sustainable development through contribution to economic growth, poverty alleviation, employment generation, crime reduction and community development (Chimucheka, 2013).

In addition, Mpolokeng (2009) emphasises that Small and Micro Enterprises (SMEs) will be the key drivers of sustainable economic growth in Africa over the next 10 years.

2.2.1.9 Aiding big firms

Some functions can be performed more efficiently and effectively by SMMEs than larger firms. This, therefore, means that SMMEs can contribute to the success of large firms. It is thus possible that SMMEs can perform the distribution and supply function for large firms. SMMEs such as wholesale and retail outlets perform a valuable service for big firms by distributing its products to customers. They can also function as suppliers to, and sub-contractors for, large firms. Where large firms agree to a long term relationship with SMMEs, the latter can supply a specified level of quality goods, offer lower prices, thereby generating cost-saving ideas (Chimucheka, 2013).

Furthermore, SMMEs are the key to a country's economic growth and their success can help reduce poverty, improve health of families and communities, raise literacy and educational levels and empower women. It is, therefore, sound policy to support them.

Despite all the aforementioned positive roles that SMMEs play, an estimated 80% of South African SMMEs fail within their first 5 years of existence (Drbie and Kassahun, 2013).

2.3 Public sector SCM

According to Naude, Ambe and Kling (2013) in South Africa, public procurement refers to activities related to the purchasing of goods, services and works that the government requires from the private sector, or any other institution in any other sector. The main objective of public procurement is to purchase goods and services at the lowest possible cost from appropriate suppliers, whilst maintaining the accepted standards of quality. Purchases by the public sector represent a substantial amount of public resources spend and are a substantial source of income to the private sector.

On the other hand, according to Uromi (2014), public procurement means an acquisition, whether under formal contract or otherwise, of works, supplies and services by public bodies using publicly sourced finances. It involves the purchasing, hiring or obtaining by any contractual means of publicly needed goods, construction works and services by the public sector. It also includes situations in which public funds are mobilised to procure works, goods and services even if the government does not get directly involved. Furthermore, public procurement is done at the best possible cost of ownership, in the right quantity and quality at the right time, in the right place, for the direct benefit or use of government, corporation or individuals, generally through a contract (Loader, 2015; and Uromi, 2014).

Post 1994 in South Africa, the public sector has identified the need to leverage the substantial amount of public resources spend by making procurement a tool to achieve socio-economic benefits, including job creation, and the alleviation of poverty through the empowerment of SMMEs. Subsequently, the concept of procurement went through rapid transformation post 1994. Concepts and approaches such as supply chain management, and strategic sourcing, now exist. Not only are public procurement officials faced with these new developments when conducting business with the private sector, but they are also under pressure to embrace these new approaches (Naude, Ambe and Kling, 2013).

According to Ambe and Badenhorst-Weiss (2011), political support for SMMEs has led to the formulation of several legislative prescripts for the mere purpose of enhancing the SMME economy. These pieces of legislation give evidence of the South African government's commitment to create a supportive environment within which SMMEs can prosper and they also

govern public sector supply chain management. The legislative prescripts referred to above include, and are not limited to, the following:

- The Constitution of The Republic of South Africa (Act No. 108 of 1996);
- Public Finance Management Act (PFMA) (Act No. 1 of 1999);
- Treasury Regulations;
- Local Government: Municipal Finance Management Act (MFMA) (Act No. 56 of 2003);
- Preferential Procurement Policy Framework Act (PPPFA) (No. 5 of 2000);
- Preferential Procurement Regulations;
- Policy to guide Uniformity in Procurement Reform Processes in Government;
- Broad-Based Black Economic Empowerment Act (BBBEEA) (Act 53 of 2003);
- South Africa: Competition Law (Act No 89 of 1998);
- South Africa: National Small Business Act (Act No 102 of 1996);
- Promotion of Access to Information Act (Act No. 2 of 2000);
- Prevention and Combating of Corrupt Activities Act (Act No.12 of 2004); and,
- Public Administration Management Act (Act No. 11 of 2014)

The provisions of the aforementioned legislative prescripts require contracting organs of state to be procedure driven rather than result or performance driven, as they have to comply with complex legislation when making purchasing decisions (Hanks, Davies & Perera, 2008; and Van Weele, 2010).

Ambe and Badenhorst-Weiss (2011) argued that the legislative prescripts on public procurement requires organs of state to have a supply chain management policy, and establish supply chain management units to implement the SCM policy and procure goods, services, and works in a manner that is fair, equitable, transparent, competitive and cost-effective. The supply chain management units should be constituted by six elements, namely: demand management, acquisition management, logistics management, disposal management, risk and performance management. These elements are briefly discussed below as follows:

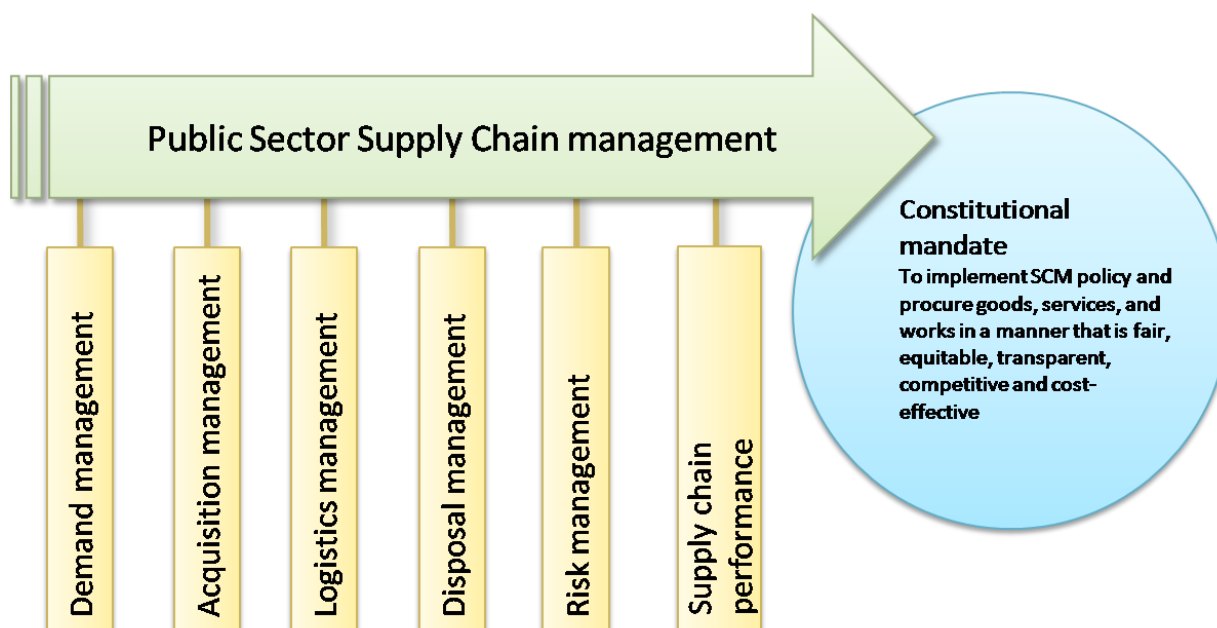


Figure 2

Demand management: the first element of SCM. Fulfil the needs identified during the strategic planning process; total needs assessment should be undertaken; resources required must be analysed and assessed; key elements in the demand management process should be considered; brings the SCM practitioner closer to the end users; bid specification committee; procurement methods etc. (Naude, Ambe & Kling, 2013; and Ambe & Badenhorst-Weiss, 2011)

Acquisition management: the management of procurement; evaluate bids (comprise of bid committees; consult register for defaulters; range of procurement systems; establishment of total cost of ownership of assets; bid adjudication; appointment of consultants etc. (Naude, Ambe & Kling, 2013; and Ambe & Badenhorst-Weiss, 2011).

Logistics management: strategically manage acquisition, movement and storage of materials; cost fulfilment of orders; ensure effective flow of goods, services and related information from the point of origin to the point of consumption etc. (Naude, Ambe & Kling, 2013; and Ambe & Badenhorst-Weiss, 2011).

Disposal management: management of assets that are no longer needed; gives consideration to obsolescence planning; create a database of redundant materials; inspect materials for re-use; determine disposal strategy and methods of execution, etc.

Risk management: management unintended or unexpected outcome of a decision; make

provision for identifying, consider and avoid risk, as well as provision for adequate cover for residual risks etc. (Naude, Ambe & Kling, 2013; and Ambe & Badenhorst-Weiss, 2011).

Supply Chain Performance: monitor progress undertaken a retrospective analysis to determine whether the processes have been followed and if the desired objectives were achieved. Usage of the National Treasury template for measuring performance (Naude, Ambe & Kling, 2013; and Ambe & Badenhorst-Weiss, 2011).

Furthermore, public sector SCM legislative prescripts further stipulate that organs of state should establish three committees for the procurement of goods, services and works, namely: bid specification, bid evaluation, and bid adjudication committees (Naude, Ambe & Kling, 2013; and Ambe & Badenhorst-Weiss, 2011).

Notwithstanding the above, according to Naude, Ambe and Kling (2013), the objective of the SCM legislative prescripts is to provide value-added goods and services to government customers and it defines supplier relationships with government departments. However, despite the SCM processes that were intended to boost service delivery, many departments in the public sector are still not efficient and effective in implementing these processes. Subsequently, it becomes apparent that the availability of policies and procedures do not lead to compliance, since in some instances policies are unclear, fragmented or non-specific (Dlamini and Ambe, 2012).

Furthermore, legislative prescripts directives on public procurement have met great resistance, as much in the public procurement community, as in the circle of government managers and politicians. This resistance is caused by relentless complaints concerning the complexity of directives themselves, their lack of flexibility, the fact that the directives do not stimulate supply chain collaboration and innovation sufficiently, and the complex administration that is required for the application of these directives (Dlamini and Ambe, 2012).

2.4 Government intention to use public procurement to empower Township SMMEs

2.4.1 Procurement mechanism to support SMMEs

According to Chimucheka (2013), post apartheid South Africa faces economic challenges that need urgent attention, similar to those in other developing countries. These economic challenges include a very high unemployment rate, skills shortages, high illiteracy rate, an ever-escalating

crime rate and poverty. These challenges are more common in rural communities, where the majority of historically disadvantaged individuals reside.

In an attempt to resolve the economic challenges, the South African Government has targeted the SMME sector as an economic empowerment vehicle for historically disadvantaged individuals. SMMEs are believed to be the key drivers of economic growth through their ability to create jobs and alleviate poverty amongst others (Chimucheka, 2013).

The SMME sector, which has had major local economic development success internationally is, according to Johnston et al. (2004), performing poorly in South Africa, when compared with countries in the same income category, namely Chile, Thailand and Mexico. South Africa establishes, grows and sustains fewer SMMEs.

National economic growth, or the decline thereof, is dependent on local economic performance, and one way of restructuring a national economy is to invest in restructuring local economic bases. This interdependence makes local economies even more critical and forms the basis of the conceptualisation of national economic restructuring. National and local economies thus coexist and cannot be separated (McCarthy, Schlemmer and Bernstein, 2004).

In light of the above, the South African Government came up with several initiatives to support SMMEs, especially those in Townships and owned by historically disadvantaged individuals. SMMEs across townships are classified as survivalist in nature, and are exposed to severe challenges that hamper their growth potential. Government intention to empower Township SMMEs can also be considered as wealth redistribution (Chimucheka, 2013; and Abor & Quartey, 2010).

The development and support of these SMMEs are seen as ingredients to the success of efforts to restructure the local economic-base of South Africa and to reduce spatial inequalities in townships. A review of SMME literature suggests that a large amount of support is sourced from government, predominantly as a result of its regulative and facilitative roles. However, the private sector, through its increasing role in public-private partnerships (PPP), is becoming significant. Support for SMME development in South Africa is discernible in four main reinforcing types: political; legislative; policy and government strategy; institutional infrastructure and through; funding and non-financial support mechanisms (Hugo, Badenhorst-Weiss and Van Biljon (2011).

Loader (2015) argued that, in recognition of the importance of SMMEs to economic growth, the

South African government is intent upon supporting SMMEs by addressing obstacles using a variety of measures, including improving access to public procurement. Loader (2015) further argued that the concern over SMMEs access to public procurement needs to be viewed in a wider context which recognises the significant role of SMMEs within an economy, both in terms of their economic presence and the contribution that they can make to economic growth.

According to Karjalainen and Kemppainen (2008), public procurement can also be used for economic, social and other purposes such as supporting local and domestic firms, assisting minority and woman-owned businesses or environmental protection. The involvement of small businesses in public procurement can serve these purposes. For example, by contracting with small businesses, the government gains increased innovativeness, encourages entrepreneurship and contributes to job creation and economic development. Small businesses also tend to have higher growth rates than large firms. Thus, by buying from SMMEs the public sector can positively influence local economies, regional regeneration and local sourcing. These external benefits accrue to the economy and society.

Bolton (2006), on the other hand, argued that Government procurement is, and has often been, used to promote aims which are, arguably, secondary to the primary aim of procurement. The aim in South Africa is simply to use procurement as a means to address past discriminatory policies and practices.

Furthermore, prior to 1994, the government procurement system in South Africa favoured large and established businesses, and it was very difficult for newly established business to enter the procurement system. In 1994, however, government procurement was granted constitutional status, and was recognised as a means of addressing past discriminatory policies and practices (Bolton, 2006).

Karjalainen and Kemppainen (2008) argued that the use of procurement is a valid and valuable tool for the implementation of social policies. Provided that the use of procurement as a policy tool has measurable targets; the processes used are verifiable, auditable, and transparent; and the use of procurement as a policy tool takes place within a competitive environment. Procurement can to a large extent contribute to the development of growing enterprises that are able to participate equitably in the global economy.

Post 1994 in South Africa, several legislations have been enacted to make public procurement to be more accessible to SMMEs and other firms owned by historically disadvantaged individuals.

For instance, the Preferential Procurement Policy Framework Act provides for procurement of goods and services from firms owned by historically disadvantaged individuals, of which most of them are SMMEs. On the other hand, the BBEEA requires that 30% of government procurement should go to SMMEs, and the political office bearers want this target to be met. It is presumed that these provisions also create an enabling environment to ensure SMMEs survival and growth (Chimucheka, 2013; and Loader, 2015).

Nonetheless, only the few, more dynamic SMMEs in South Africa show a potential to contribute to rapid employment creation, poverty alleviation and economic growth. While survivalists activities constitute the vast majority of the South African SMME economy.

Furthermore, the aforementioned range of goals provide additional challenges for procurement staff, including policy conflicts, and it is claimed that the success and balance of goals achieved is affected by the discretion and competence of procurement staff. This might be due to the lack of incentives for procurers to take these wider issues into account. Hence, some authors suggest that SMMEs issues should be addressed through other policy initiatives, and not procurement.

2.4.2 Other SMMEs support mechanisms

According to Gupta, Guha and Krishnaswami (2013) Government has included many promotional policies for the promotion of SMMEs such as product reservation, infrastructure support, direct and concessional credit, tax concession, special assessment in procurement of equipment, facility of duty drawback, quality control, and provision of market network.

Chimucheka (2013) further argued that, since 1994, South Africa has been promoting small businesses as an engine for economic growth and socio-economic integration. More recently, due to the growth of unemployment, there has been a renewed focus on the promotion of SMMEs. Government is not simply focusing on SMMEs as an engine for growth, but more importantly as the key to job creation and poverty reduction, especially among historically disadvantaged groups. The South African government established institutions and programmes designed to improve the access of the SMME sector to critical resources. The major resources include finance, infrastructure, training and counselling, information, markets and technology.

2.5 Sourcing strategies and how they work

This part of the study tries to determine sourcing strategies, or procurement methods, that are currently utilised by organs of state when they procure goods, services, and works in South Africa

in an attempt to find appropriate sourcing strategies that may also be utilised to empower SMMEs. The study will further explore sourcing strategies that are utilised by other states internationally.

According to Uromi (2014), when Organs of State procure goods and services, they have to adopt sourcing strategies or procurement methods which are economical, and at the same time also enable the contracting entity to achieve its procurement objectives.

Thwala and Mathonsi (2012) stated that there are several traditional procurement methods, or sourcing strategies, that may be utilised to procure goods, services and works. Uromi (2014) argued that some of these procurement methods can be used to procure goods and services from township SMMEs.

Nonetheless, it should be noted that not all procurement methods may be adopted to procure goods, services, and works as procurement methods need to be carefully selected in line with the legislative prescripts and other factors (Thwala and Mathonsi, 2012).

Notwithstanding the above, several sourcing strategies or procurement methods that are utilised to procure goods, services, and works are briefly discussed below as follows:

2.5.1 Supplier Database

According to Naude, Ambe and Kling (2013), public procurement is one of the yardsticks that accelerate small enterprise development. In order to comply with treasury regulations 16A, organs of state are required to develop a supplier database to be used by public procurement officials. The purpose of this database is to give all prospective suppliers an equal opportunity to submit quotations to the relevant department and to enhance transparency and equality. The database contributes to better administration and compliance with the Public Finance Management Act. Preference is given to registered suppliers. Suppliers who are not yet registered are excluded from quoting for the supply of goods and services. All suppliers are invited to register as a preferred supplier on the supplier database.

In order to qualify for registration on the database, prospective suppliers must have a valid tax-clearance certificate, a CIPC certificate, company profile and a certified identity document of a contact person. These documents must be submitted together with the application form and proof of banking details (Naude, Ambe and Kling, 2013).

2.5.2 Sub-contracting

Sub-contracting is a procurement method where a contracting entity awards a contract to a well-established firm, and the well-established firm sub-contracts a portion of the awarded contract to any other firm including, but not limited to, SMMEs. The success of SMMEs in sub-contracting depends on a good flow of information from the contractor (buyer) regarding who won the original tender, and a willingness on behalf of large companies to subcontract a fair proportion of work at a profitable price to SMMEs (Fee et al. 2001).

Loader and Norton (2015) also argued that SMMEs should consider forming consortia and sub-contracting in order to be able to deliver large scale contracts. However, there are disproportionate costs for SMMEs in establishing such an arrangement.

2.5.3 Open tendering/ Competitive bidding

This is a procedure that allows practically any service provider, or supplier, to submit a tender for the work. This procedure involves either the organ of state, or a consultant, (on behalf) of the client placing a public advertisement giving a brief description of the work. Normally, the client will require a cash deposit when contract documents are requested; bids will be received on the stipulated closing date and time; evaluated and awarded accordingly (Thwala and Mathonsi, 2012).

2.5.4 Selective tendering

It consists of the client drawing up a short-list of service providers, or suppliers, that are known to have the appropriate qualifications to carry out the work satisfactorily. Those service providers, or suppliers, who seek to be listed are then asked for further details concerning their technical competence, financial standing, resources at their disposal and relevant experience. Pre-qualifying service providers, or suppliers, who are on the list are invited to tender. The selection of designers (that is architects and engineers) is usually based on a combination of track record, fees, conceptual design, and previous working relations (Thwala and Mathonsi, 2012).

2.5.5 Negotiated tendering

This method is applied in several, or different contexts, but the essence is that tenders are obtained by the organ of state inviting a single contractor of his/her choice to submit a tender for a particular project (Thwala and Mathonsi, 2012).

2.5.6 Proposal procedure (two envelope system)

Tenderers submit technical and financial proposals in two envelopes; a financial proposal is only opened and considered if it attains minimum threshold score (Thwala and Mathonsi, 2012).

2.5.7 Proposal procedure (two stage system)

Tender offers are invited from those that submitted acceptable proposals based on revised procurement documents. Alternatively, a contract is negotiated with the tenderer scoring the highest number of points (Thwala and Mathonsi, 2012).

2.5.8 Qualified procedure

A call for expressions of interest is advertised, and thereafter only those who have expressed interest, satisfy objective criteria and who are selected to submit tender offers, are invited to do so (Thwala and Mathonsi, 2012).

2.6 International overview of sourcing strategies utilized to empower SMMEs

According to Hugo, Badenhorst-Weiss and Van Biljon (2011), many of the successes and failures of buying from disadvantaged businesses have been reported throughout the world. The empowerment of disadvantaged groups has a history that spans more than three decades in the USA.

In the UK and the USA, subcontracting to second-tier suppliers can be used extensively in the implementation strategies of disadvantaged business buying. Furthermore, in Japan, SMMEs are also empowered through sub-contracting (Hugo, Badenhorst-Weiss and Van Biljon, 2011).

Outsourcing activities, services and product manufacturing, which were previously performed in large corporations, has changed the supply management function and created opportunities to involve small businesses. The outsourcing of services previously performed in-house by corporates to small disadvantaged suppliers is a popular trend in South Africa (Hugo, Badenhorst-Weiss and Van Biljon, 2011).

From a global perspective, it can be argued that buying from small business and disadvantaged groups is not new.

According to Uromi (2014), although several sourcing strategies may be adopted to procure

goods, services, and works from township SMMEs, the stumbling blocks to the effective application of such sourcing strategies would be untrained or poorly trained SCM workforce; inadequate accountability for government decisions and lack of transparency in the procurement process.

2.7 Exploring the empowerment of Township SMMEs through state procurement

According to Bolton (2006), targeted procurement has been effectively used to direct capital flows into underdeveloped and disadvantaged rural communities. Nonetheless, the extent to which public procurement can be used to implement national policies is difficult to determine. This part of the study will determine the benefits that could be derived from the empowerment of township SMMEs through appropriate sourcing strategies; determine the constraints to the successful empowerment of township SMMEs through appropriate sourcing strategies; propose solutions to the identified constraints; and further briefly provide an overview of how empowerment works in other states.

2.7.1 Benefits that could be derived from the empowerment of township SMMEs through appropriate sourcing strategies

According to Bolton (2006), it is generally accepted that even though there may be time and cost premiums associated with the use of procurement as a policy tool to empower SMMEs, these premiums should be considered as an integral part of a country's growth and transformation. Increasing the participation of small, medium and micro enterprises (SMMEs) in the government procurement system, in particular, has many advantages.

SMMEs tend to be more labour intensive and, by definition, less reliant on large amounts of capital and highly advanced technology and equipment. Being more flexible and less constrained by capital and technology-driven intensive factors of production, they are able to increase output, and hence employment, at faster rates than the formal, capital intensive firms. A fast-growing SMME sector accordingly has enormous potential to reduce unemployment, increase average household incomes, reduce the poverty gap, and increase the tax base of the economy, which in turn provides the basis for further, sustainable long term growth in the economy (Loader, 2015; and Bolton, 2006).

Furthermore, Loader and Norton (2015) argued that the public sector is an attractive market for

SMEs as it provides a range of benefits such as stability, reliability, certainty of payment and marketing opportunities. Subsequently, business relations between SMMEs and the public sector would increase the expansion, or growth, potential of SMMEs.

2.7.2 Constraints to the successful empowerment of township SMMEs through state procurement

2.7.2.1 SMMEs related constraints

It should be noted that there are constraints that hinder, or obstruct, the successful empowerment of township SMMEs through appropriate sourcing strategies. As Loader and Norton (2015) argued that obstacles to empowerment of SMMEs are, that SMMEs are seen to have inherent disadvantages including, but not limited to, inadequate infrastructure facilities, inadequate finance, poor managerial and technical skills, and inadequate working premises, as well as marketing problems, low support from respective institutions, inadequate supply of raw materials, and regulatory issues which can be detrimental to their progress. Larger, and especially more mature, firms with established track records, accumulated experience and economies of scale enjoy a competitive advantage; multiple-goal complexity has produced tensions for procurement officers, literature reveals that when faced with conflicting priorities, procurement practitioners are more likely to prioritise the achievement of efficiency and value for money rather than broader objectives (Drbie and Kassahun, 2013).

According to Mwobobia (2012), other constraints or challenges associated with the empowerment of SMMEs are: SMMEs failure to service their loans, entrepreneurs fail to make loan repayments as expected, lack of seriousness as entrepreneurs ventured into business because they could not find a job, that problem is rampant among the youth and noted that some leave their projects when they secure scholarship opportunities or find employment. Projects fail due to mismanagement because of lack of commitment from the beneficiaries.

Naude, Ambe, and Kling (2013) stated that it was found that some suppliers lack experience, which compromises the quality of their goods or services, and increases the cost of conducting business. In general, suppliers who lack experience are encouraged to submit bids for quotations with a low rand value and a narrow scope of work. A supplier's experience is vital, particularly in

construction projects. As much as public procurement wants all suppliers to benefit equally, there is no room for inexperience and some form of assurance that the contractor will be able to deliver is therefore required.

Notwithstanding the above, Karjalainen and Kemppainen (2008) argued that SMMEs perceive public procurement processes as too burdensome. It has already been noted that the procurement process is resource-demanding and SMMEs appear to lack both sufficient and appropriate resources for the task. SMMEs disadvantages most often lie in difficulties in getting information on forthcoming contracts (Loader, 2015).

Furthermore, according to Loader (2015), some barriers which are associated with the public procurement process can be prohibitive for all businesses wishing to supply government. Slow payment, poorly defined specifications, a long expensive bidding process and a concern that tender prices must be low, are examples of issues that have been raised. However, there are concerns that SMMEs face additional and disproportionate challenges which can result directly from their size and limited resources. Several authors have identified barriers that are associated directly with the public procurement process, ranging from difficulties in identifying opportunities; through to the decision to award the contract and its subsequent management. In order to improve the success of SMMEs in securing contracts, they must first be encouraged to participate in the tendering process, but evidence suggests that there are a number of factors which discourage SMMEs from tendering: for example, contract size is often claimed to be too large for SMMEs, and contract length can also be excessive for SMMEs. Other aspects associated with public procurement can also discourage participation, or contribute to tenders not being successful. The need to demonstrate a track record, overly prescriptive requirements including technical, professional and economic criteria and the long, costly and complex tendering process have all been acknowledged to disadvantage SMMEs more than their larger competitors (Karjalainen & Kemppainen, 2008; and Loader, 2015).

SMMEs are also being adversely affected by developments in the broader public sector environment. Several studies have drawn attention to the pressures that procurement officers face in balancing competing objectives and the lack of clear priorities, and the impact of supplier rationalisation, both of which are seen to be more detrimental for SMMEs. SMMEs are less able to compete on price (Karjalainen & Kemppainen, 2008; and Loader, 2015).

Loader (2015) further stated that various contributors to SMMEs and public procurement debate have considered the appropriateness of the public procurement market for SMMEs. The debate

centres upon two main issues; firstly, the sectors - or products - that are more suited to SMMEs supply and, secondly, the position of the SMMEs in the supply chain. In relation to the type of supply, evidence suggests that SMMEs are most likely to be involved in the supply of routine products and also may be suited to supplying smaller, niche markets.

According to Naude, Ambe, and Kling (2013), public sector procurement officials are not only faced with new developments when conducting business with the private sector, of which empowerment of township SMMEs is one, but they are also under pressure to embrace these new developments.

2.7.2.2 Lack of skills amongst procurement officials

According to Heyns and Luke (2012), in the 2008 scarce skills list (Department of Labour, 2009), supply chain and distribution managers, including logistics managers, are specifically identified in the managers scarce skills section; however, in addition to this, several other areas critical to supply chain management are identified. These include chief executives and managing directors, general managers, corporate services managers, production/operations managers, ICT managers and transport managers. The skills shortages in the South African supply chain industry are spread far wider than may have been anticipated, ranging across all levels from operational level, through to tactical level and all the way to strategic management level.

Heyns and Luke (2012) recognises procurement skills as the hardest skills globally, lack or shortage of such skills can be perceived as one of the major constraints towards the effective empowerment of township SMMEs. SCM officials lack finance, IT, and management skills (general), under competencies, they lack analytical, interpersonal, leadership, change management and project management skills. To ensure effectiveness, a combination of hard and soft skills is required.

Barloworld Logistics' Supply Chain Foresight 2012 report indicates that the supply chain skills shortage is one of the top five constraints to South African supply chains and the single biggest constraint on competitiveness.

Sheoraj (2007) also argued that skills and capacity shortages have been identified as the single greatest impediment to the success of public procurement in South Africa. Adequate capacity in the form of appropriate structures with fully skilled and professional SCM personnel is a key success factor for proper SCM implementation. In some government entities, the quality of SCM

personnel's skills and ability are well below standard. Migiro and Ambe (2008) assert that many SCM actors in the South African public sphere have attended a number of training workshops on SCM, but they still lack the appropriate knowledge for proper implementation. McCarthy (2006) contends that there is a lack of capacity and knowledge by SCM actors to handle procurement processes that have led to bad governance.

2.7.2.3 Non-compliance with policies and regulations

SCM is guided by a number of related policies and regulations (National Treasury, 2005). Compliance with these policies and regulations is a problem. As indicated by Matthee (2006), some of the practices relating to non-compliance with the rules and procedures relate to the tendency not to utilise a competitive process for both quotations and bids, and incorrect utilisation of the preference points system. Van Zyl (2006) also asserts that there is a lack of appropriate bid committees; use of unqualified suppliers, passing over of bids for incorrect reasons; utilisation of the incorrect procurement process in respect of the thresholds; extensions of validity periods; and incorrect utilisation of the limited bidding process. Furthermore, Ambe and Badenhorst-Weiss (2011) noted that there are inadequate controls and procedures for the handling of bids; appointment of bid committee members not aligned to policy requirements; and insufficient motivation for deviations from SCM procedures.

2.7.2.4 Threats and bribes

According to Naude, Ambe, and Kling (2013), it was found that some suppliers are politically connected; there have been instances where suppliers have threatened procurement officials when a contract is not awarded to them. Some suppliers are even on friendly terms with the officials responsible for awarding the contract. This results in nepotism and preferential contracting.

2.7.2.5 False presentation of information

According to Naude, Ambe, and Kling (2013), another major challenge is that some suppliers in the database falsely present the services they render. For example, a supplier will indicate that it renders a particular service and when awarded the order, it fails to deliver, resulting in the order being awarded to the next lowest-priced supplier, which is a waste of time and resources. Furthermore, some suppliers are awarded contracts more frequently than others because they

have the advantage of financial resources that were acquired from previous contracts. Because these suppliers have the required resources for rendering the service, they have an advantage over other suppliers who do not have such financial resources available. This is a direct conflict with the policy that aims to uplift suppliers, not enrich them.

2.7.2.6 Delivery

According to Naude, Ambe, and Kling (2013), one of the goals of the supply-chain framework is to empower affirmative suppliers and enhance broad-based black economic empowerment. In some instances, a tender is awarded to an intermediary supplier who qualifies for preferential points. This supplier then procures goods from a manufacturer. The problem that sometimes arises is that the intermediary supplier does not have the resources to pay the manufacturer and then asks the customer to intervene and pay the manufacturer. This results in the goods not being delivered on time.

2.7.3 Proposed solution to some of the constraints

According to Loader (2015), for empowerment of township SMMEs to be possible, the following should happen:

Table 2.1: Proposals / strategies to improve SMMEs participation in state procurement

Proposals/strategies to improve SMMEs participation in state procurement	Government actions
Improve access to opportunities by having a centralised contact system	Launch of contracts finder-to publish procurement information in one place
Information should be freely available	Contracts finder is freely available
Contract directly with small firms	No action required
Avoid contract bundling, provide smaller tender opportunities, disaggregate large contracts	Micro lots will be used where practical
Allow small firms to submit joint tenders	No action required

Involve customers in tender specifications	No action required
Review tender specifications, to be more encouraging for SMMEs	Departments will be required to use more outcome-based specifications and to avoid over-specification
Adjust contract requirements, such as insurance levels, to be proportionate to, say, the value or contract length	No action required
Be more flexible over requirements	No action required
Devise a centralised record of accreditation and other requirements to avoid duplication of effort	For common commodities, data now needs to be only provided once
Simplify the process, harmonise tender documents	Introducing of a standardised PQQ Seeking to eliminate PQQs for central government procurements under 100 000
Review the basis of decision making: more flexible, more entrepreneurial system, more local and one which gives more weight to factors such as interviews, presentations and site visits	SMME product surgeries to enable SMMEs to pitch innovative products to procurement professionals
Develop electronic tendering systems	No action required
Procurement staff need to be trained, and to be more professional	No action required
Procurement staff should be seconded to the private sector to improve knowledge and also obtain a better understanding of the suppliers perspective	An interchange programme will be launched to bring private sector professionals into public procurement and to second civil servants to the private sector

SMMEs should be given help to establish local consortia	No action required
Greater accountability for final selection of successful tender submissions	Accountability through mystery shopper notification process, SMME panel, and extended supplier feedback service
Publish each department's procurement spend by value and recipient size	Publication of spend with SMMEs

2.8 An overview of how empowerment works in other states.

How empowerment works in Botswana

In the UK, unfortunately the policy intentions and attractiveness of the public sector market have not translated into successful engagement. Evidence demonstrates low levels of SME participation in the public procurement process, less success in winning public contracts compared to private contracts and a low share of procurement spend relative to SMEs contribution to the economy. Although this varies by type and tier of public sector organisation, with local government awarding more contracts than central government.

According to Mwobobia (2012), the Human Development Report states that development must be woven around people, not people around development – and it should empower individuals and groups, rather than dis-empower them. This is what the Botswana Government is putting in place.

Unemployment remains a major challenge for the Botswana Government (with unemployment national level of 24.6 percent in 2004, with younger people especially females worst affected 60.8 percent average in 15-29 and 45.5 percent average in 20-24 age range). Employment creation is limited by capital. It is due to such challenges, that Botswana Government feels it has an obligation to empower the disadvantaged hence the empowerment schemes.

In Botswana, economic empowerment has been understood to mean a set of policies, or programs, designed to benefit a specific segment of the society. The fundamental goal of empowerment is to help individuals within the society to improve the quality of their own lives, and

shares equitably in the benefits of economic growth. Growth that depends on constant infusions of grants, or subsidised financing from government or other donors, is inherently unsustainable. Start-up financing is viewed as one of the most important factors impacting entrepreneurial activity. Lack of access to finance is identified by the authors as one of the most significant barriers for the start-up and growth of small businesses. Start-up business support services aim to assist entrepreneurs to develop their ventures and to cope with inevitable challenges of the business and the environment. And that is why the Government of Botswana feels it should step-in to empower the entrepreneurs.

In addition, financing is necessary to help SMMEs operators to set up and expand their operations, develop new products and invest in new staff or production facilities. Many small businesses start out as an idea from one or two people, who invest their own money and probably turn to family and friends for financial help, in return for a share in the business. But even if they are successful, there comes a time for all developing SMMEs to need new investment to expand or innovate further. That is where they often run into problems, because they find it much harder than larger businesses to obtain financing from banks, capital markets or other suppliers of credit. Government at various levels can support and facilitate opportunity exploitation by making the business environment conducive or attractive for starting and growing business ventures. In order to empower the entrepreneurs, the Botswana Government has put the following schemes in place:

Citizen Entrepreneurial Development Agency (CEDA):

Citizen Entrepreneurial Development Agency (CEDA) is the Government's most recent development finance institution, which provides subsidised credit, along with monitoring, mentoring, business advisory services and training, to selected citizen entrepreneurs. The Government offers funding, training and mentoring services to Botswana citizens wishing to go into business or to expand existing business through citizen entrepreneurial development agency.

Local Enterprise Authority (LEA):

The local enterprise authority was established by the small business act, number 7 of 2004 as a statutory authority of the government of Botswana. The authority is guided by a board of directors drawn from both the private sector and the public sector, and is headed by a chief executive officer. The main objective was to promote, as well as to facilitate, entrepreneurship and enterprise development among the small, medium and micro enterprises community in Botswana, thus creating vibrant SMMEs in the country. LEA's vision is to be the centre of excellence for

entrepreneurship and sustainable SMME development in Botswana, and the mission is to promote and facilitate entrepreneurship and SMME development in pursuit of economic diversification.

In order to encourage the spirit of entrepreneurship and enterprise in Botswana, LEA offers highly specialised development and support services which include, but are not limited, to:

Facilitating exploitation of government and large firms' procurement opportunities by SMMEs.

Youth Grant Fund:

The ministry of youth, sport and culture has the portfolio responsibility among others for the coordination, implementation and evaluation of the National Youth Policy. In implementing the national youth policy, the ministry has put in place a youth development fund aimed at empowering the youth to own businesses and create sustainable employment opportunities for young people through the development of sustainable projects. It caters for out-of-school youth, marginalised youth, unemployed youth and underemployed youth (working youth earning less than a certain threshold of remuneration), who are citizens of Botswana aged between 18-29 years.

e-innovation Youth Empowerment Programme (e-YEP):

This is another youth scheme under the ministry of youth, sport and culture. The e-innovation youth empowerment programme (eYEP) is a programme where young people and graduates between 18-35 years are invited to submit feasible business proposals in the information and communication technology and science and technology sectors. There is substantial focus on creativity, innovation, social responsibility and sustainability of the project. Financial assistance provided by the eYEP is in the form of a grant. The financial assistance may be used for infrastructural developments such as movable containers, etc. required for the project, or to cover working capital, or both, provided that the requested amount falls within the fund ceiling projects.

Young farmers ceda fund:

The CEDA, upon realising that the sector is dominated by the elderly, decided to come up with a programme called Young Farmers Fund with a view to encourage youth to participate in the agriculture sector. It is expected that, as young people, they would adopt modern technologies of

farming and improve the sector's output. The fund is available to all young people (aged between 18 and 35 years) who are citizens of Botswana, or wholly citizen-owned companies, wishing to start or expand agricultural projects.

2.9 Conclusion

According to Pressey, Winklhofer and Tzokas (2009), several authors agree that SMMEs would particularly benefit from effective purchasing since Government is reliable in terms of payment and this would improve the SMMEs cash flow amongst others.

In the case of South Africa, therefore, the question is not whether it can afford to use procurement as a policy tool but rather, whether it can afford not to (Bolton, 2006).

Affording preferences to previously disadvantaged groups in the award of government contracts does not infringe on the right to equality or the principle of fairness in section 217 (1) of the Constitution.

Notwithstanding the above, the appropriateness of public sector procurement as a mechanism to empower township SMMEs is questionable. Some SMMEs feel that tenders are set aside for some people; other SMMEs feel that public sector tendering processes are discriminatory by nature; SMMEs feel that the tendering process is too tedious.

3. CHAPTER THREE: RESEARCH DESIGN AND METHODOLOGIES

3.1 Introduction

This chapter outlines the research design and methodology that was followed in the research process in order to investigate the problem identified in chapter one. The chapter also identifies the population, sample and size of the population and finally data collection, data analysis and the ethical considerations.



Figure 3

3.2 Research Approach

The study was based on the principles of the critical social science. Critical social science defines social science as a critical process of inquiry that goes beyond surface illusions to uncover the real structures in the material world in order to help people change conditions and build a better world for themselves. The purpose of critical social research is not simply to

study the social world but to change it. Critical social researchers undertake research in order to uncover new ways of improving conditions (Neuman, 2006).

The aim of the research was to determine the extent to which sourcing strategies provide a mechanism to empower Township SMMEs by identifying appropriate procurement methods and also address constraints in the empowerment of Township SMMEs through state procurement.

The research findings are available from the university library to any member of the public. The key SCM stakeholders in the province may use the report to enable change that may lead to the achievement of Gauteng Development goals.

The study did not ignore some of the important principles embodied in interpretative social science in relation to the process of scientific inquiry. According to Kalof, et al., (2008), an interpretative orientation to research aims to describe the lived experiences of individuals from their own viewpoints and to understand how people interpret their experiences.

The qualitative approach was followed in the research. The word 'qualitative' implies an emphasis on the qualities of entities and on processes and meanings that are not experimentally examined in terms of quantity, amount, intensity, or frequency. Qualitative researchers seek answers to questions that explain how social life experience is created and given meaning (Denzin and Lincoln, 2005). Denzin and Lincoln (2005) further observed the use of statistical measures by qualitative researchers to locate a group of subjects within a larger population although they seldom report their findings in terms of complex statistical measures.

Some of the reasons for the use of qualitative research as cited by Ospina (2004) are as follows:

- To understand complex phenomena that are difficult to capture quantitatively;
- To add a rich detail to the existing knowledge that was generated quantitatively; and,
- To advance a novel perspective of a phenomenon well studied quantitatively but not well understood because of the narrow perspectives used before.

These reasons explain the importance of qualitative research to the extent that some phenomena are so complex that they cannot be studied quantitatively, but rather qualitatively.

This makes qualitative inquiry an indispensable approach in the study of reality that involves the human element.

3.3 Research Design

Research design is basically a set of guidelines and instructions on how to reach a goal a researcher has set for him/herself (Auriacombe, 2006). The research design that was used for this study is the case study. According to Simons (2009), the term case study pertains to the fact that a limited number of units of analysis is studied intensively. Rapley (2007) indicated in support of the use of case studies that *'a lot of qualitative research is based on case studies or a series of case studies, and often the case (its history and complexity) is an important context for understanding what is studied.'*

Furthermore, Tellis (1997) argued that case studies are designed to bring out the details from the viewpoint of the participants by using multiple sources of data, and as a result case studies must be selected to maximise what can be learned in the period of time available for the study. For the purpose of this research project, a case study of Gauteng Provincial Government was selected at the proposal stage.

3.4 Research focus and sampling

The Gauteng Provincial Government (GPG) is represented by twelve departments. According to Neuman (2006), qualitative researchers focus less on a sample's representativeness than on how the sample or small collection of cases, units or activities illuminates social life. The primary purpose of sampling is to collect specific cases, events, or actions that can clarify and deepen understanding. Purposive and convenience sampling was used to select people to be part of the research participants. According to Neuman (2006), purposive sampling is appropriate to select unique cases that are especially informative. A convenience sample is comprised of readily available cases.

A sample of seven participants was selected and interviewed. The selection of these participants was based on their relevance to the study rather than their representativeness of the population. The seven participants provided useful information relevant to the study. The individual interviews were conducted with the following participants:

- The first three participants are from the Gauteng Provincial Treasury, and are responsible for the formulation of SCM policies for the province; oversee the

implementation of such policies; provide advisory support to Departments; and also monitor the implementation of SCM in Departments.

- The fourth and the fifth participants are the Gauteng Department of Roads and Transport, and are responsible for the procurement of goods, services and works for the Department.
- The sixth participant is from the Gauteng Department of economic development, and is responsible for the facilitation of the implementation of black economic empowerment Act and its regulations.
- The seventh participant is from the Gauteng Department of Health and is responsible for the procurement of goods, services and works for the Department.

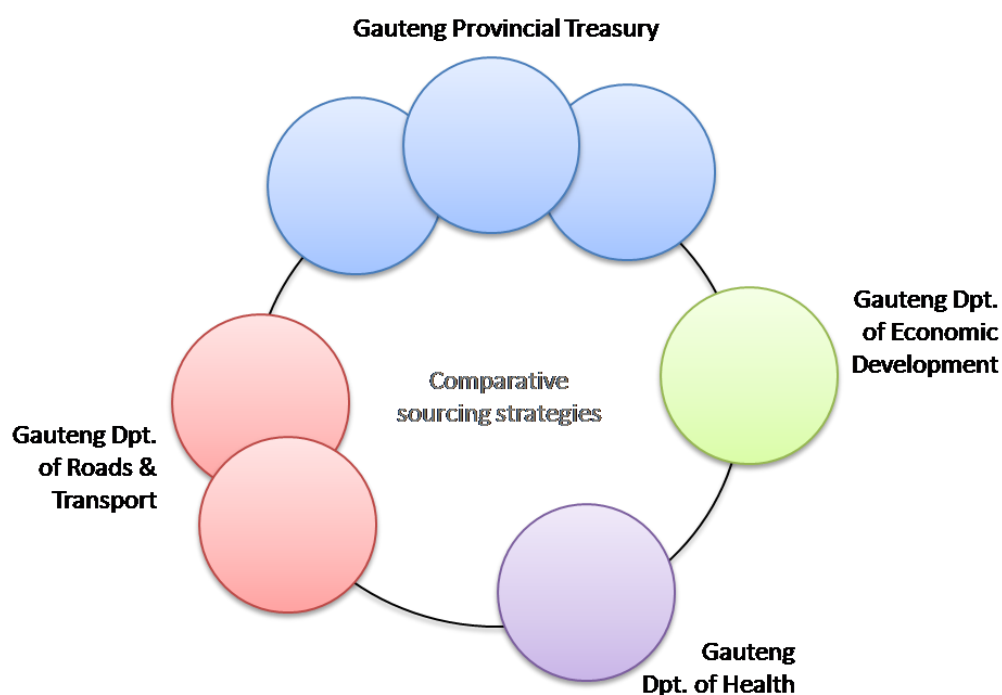


Figure 4

The selection of people as the research participants in a case study method in qualitative research is difficult to equate to the concept of a sample, as the research participants in this study are not studied and are not part of the study, but they possess relevant information in relation to the research questions. Kvale (1996) argued that the number of research

participants is not necessarily important in qualitative research as it depends on the nature and purpose of the study.

3.5 Data Collection

The data relevant for the research project was collected from the following source:

Primary data

The primary data was collected from the individual interviews.

Individual interviews

The researcher collected primary data from interviews with relevant officials from Gauteng Provincial Government. A total of seven officials from Gauteng Provincial Government were interviewed. These officials are responsible for the procurement of goods, services and works on behalf of Gauteng Provincial Departments.

The researcher made a reasonable effort to ensure that the selection of participants is based more on experience, expertise and the relevance of the participant to the study in order to ensure that credible data is collected. According to Leedy and Ormrod (2014), interviews are one of the most important sources of case study information. The researcher used structured questions to obtain participant's opinion on the topic under consideration. Extensive notes were taken from the interviews with seven participants in order to enhance the reliability of the data.

The interviewer introduced the topic to each research participant by outlining the purpose of the interview before the start of the interviewing session. The researcher also debriefed the participants after each interview by highlighting key lessons learned from the interview process (Leedy and Ormrod, 2014).

According to Kvale (1996), one research question can be investigated through several interview questions, thus obtaining rich and varied information by approaching a topic from several angles. One interview question might provide answers to several research questions.

In light of the above, four interview questions were used to answer the first research question and six interview questions were used to answer the second research question. Furthermore, the researcher asked clarity-seeking questions of key statements and words introduced by the participants to avoid ambiguities and also to enable good analysis of the data (Kvale, 1996).

3.6 Data Analysis

According to Leedy and Ormrod (2014) and Rubin & Rubin (2005), data analysis refers to the process of moving from raw interviews to evidence-based interpretations that are the foundation for published reports. The principles of grounded theory were adopted to analyse data in order to follow an inductive approach of reasoning. In inductive approach, researchers start with empirical data and develop larger generalisations and theoretical insights from the data. The theory on the empowerment of Township SMMEs through appropriate sourcing strategies was developed during the data analysis process and compared with the literature.

Neuman (2006) argued that grounded theory makes qualitative research flexible and allows for interaction between data and theory. Data analysis consists of examining, categorising, tabulating, or otherwise recombining the evidence to address the initial propositions of the study.

Furthermore, according to Rubin and Rubin (2005) in grounded theory concept recognition, coding and theory development are part of a continuous and seamless package.

The following analytical techniques were used to analyse the data collected:

Preparing field notes and transcripts: detailed notes were compiled during qualitative interviews and converted into write-ups to enable ease of reading and editing.

Identification of themes: The data and their interpretations are scrutinised for underlying themes and other patterns that characterise the case more broadly than a single piece of information can reveal. The researcher searched for word repetitions, keywords in context, and indigenous terms to establish the themes. A qualitative researcher analyses data by organising it into categories on the basis of themes, concepts or similar features (Neuman, 2006). The similarities that arose from the data were grouped together to establish broad themes underlying the data. The differences between the categories were also established to further make meaningful interpretations of the data and establish other themes.

Interpretation of patterns: Specific documents, occurrences and other bits of data are examined for the specific meaning that they might have in relation to the case

Synthesis and generalisation: Conclusions are drawn that may have implication beyond the specific case that has been studied.

3.7 Reliability and validity of the study

It is crucial to ensure that the results of the research are valid and reliable. Reliability means dependability or consistency. The researcher made a reasonable effort to allow data to speak in order to improve the consistency and to make sense out of the data collected (LoBiondo-Woods & Harber, 2010; Neuman, 2006).

Validity refers to the truthfulness of the research findings. The relevant data was collected to ensure that the study captures the reality that exists in relation to the empowerment of Township SMMEs through appropriate sourcing strategies. Furthermore, the researcher took reasonable care to improve the validity and reliability of the research findings in order to align the study to the requirements of a scientific inquiry (LoBiondo-Woods & Harber, 2010; Neuman, 2006).

3.8 Ethical considerations

The researcher is conversant with the ethical issues related to research and strived to observe ethical issues during the research project. The researcher, *inter alia*, took steps to safeguard the rights and interests of participants.

The researcher further undertook to comply with all ethical principles in conducting the research, which include but not limited to the following aspects:

3.8.1 Informed consent:

This is a crucial principle of research that requires the researcher to obtain permission from the research participants to partake in the research to ensure voluntary participation. The researcher did not use threats or any form of force to get the consent of the participants to partake in the research. Furthermore, the researcher explained the purpose of the research to all participants and asked for their voluntary agreement to participate in the research before the interview begins (Leedy & Ormrod, 2013; and Neuman, 2006).

3.8.2 Right to privacy:

Any research study should respect the participants' rights to privacy. The researcher had no interest in the personal information of the research participants, and did not disclose such information as it became available during the research process (Leedy & Ormrod, 2013; and Neuman, 2006).

3.8.3 Anonymity and confidentiality

The researcher classified research participants as Participant A, B, C, D, E, F, and G to refer to the first, second, third, fourth, fifth, sixth and the seventh participant respectively in order to maintain anonymity. Confidentiality means that information may have names attached to it, but the researcher keeps it secret from the public, not releasing information in a way that permits linking specific individuals to specific responses. The researcher presented data in a way that ensures confidentiality. (Malovha, 2012; and Neuman, 2006).

3.9 Summary of the chapter

The research methodology is a crucial part of the research process as it illustrates all the procedural issues that allowed the researcher to complete the research project. This chapter provided a step-by-step process that was observed in the research project. Specific focus was given to aspects such as the type of research, research design, research focus and sampling, data collection and data analysis. In the next chapter, the study focuses on the research findings, analysis and interpretations of the results attained from the study. Hence the next chapter presents the research findings.

4. CHAPTER FOUR: PRESENTATION OF THE FINDINGS

4.1 Introduction

A research project is conducted in an attempt to answer research questions that the researcher has. Data collection is therefore one of the crucial elements of compiling a research report, as it gathers evidence required to answer research questions. This chapter presents the data collected from the individual interviews.

The chapter highlights the viewpoints of procurement, or supply chain management practitioners, in relation to the empowerment of Township SMMEs through appropriate sourcing strategies. The presentation is divided into two parts. The first part presents the key themes that attempt to answer the first research question, that is: How sourcing strategies work in state procurement? The second part presents the key themes that attempt to answer the second research question, that is: How does empowerment of SMMEs work?

4.2 Interview responses for research question one

The research participants were presented with four interview questions as to answer the first research question, which is: How do sourcing strategies work in state procurement?

The responses were grouped in terms of the following themes:

4.2.1 The meaning of sourcing strategies

According to Participant A (Interview, December 12, 2015), sourcing strategies can be considered as procurement methods that can be utilised to procure goods, services and works from service providers / suppliers by different organs of state within the ambits of the law. They are ways through which organs of state purchase goods and services from identified service providers, or any other service providers who are willing to do business with the state (Participant B, Interview, December 15, 2015).

Furthermore, sourcing strategies in the public sector can be considered as a mechanism adopted by government departments to buy resources from suppliers for departmental use in accordance with the law (Participant C, Interview, January 08, 2016). According to Participant D (Interview, December 21, 2015), sourcing strategies can be referred to as strategic means to address Departmental requirements. They are procurement methods that are documented to aid SCM officials in procuring goods and services (Participant E, Interview, January 07, 2016). Furthermore, any well selected purchasing mechanism can be

considered as a sourcing strategy (Participant F, Interview, January 07, 2016). According to participant G (Interview, December 13, 2015), sourcing strategies are legally endorsed ways of procuring goods, services and works from qualifying service providers or suppliers.

In light of the above, it is supported by most research participants (Participant A, Interview, December 12, 2015; Participant B, Interview, December 15, 2015; Participant C, Interview, January 08, 2016; Participant E, Interview, January 07, 2016; and participant G, Interview, December 13, 2015) that sourcing strategies:

- are methods that can be utilised to procure goods, services, and works
- are adopted by organs of state;
- and that they are governed by the relevant legislative prescripts.

4.2.2 Sourcing Strategies

According to Participant A (Interview, December 12, 2015), examples of sourcing strategies would be competitive bidding, Request for quotations, petty cash request for proposals, request for information and expression of interest.

Participant B (Interview, December 15, 2015) indicated that sourcing strategies include the use of petty cash, P-Card, outsourcing, competitive bidding, verbal and written quotations, P-Card, Limited bidding, emergency procurement and unsolicited bids.

Furthermore, according to Participant C (Interview, January 08, 2016) sourcing strategies include Single sourcing, P-Card request for quotations, request for proposals, closed tenders and open tenders. Participant D (Interview, December 21, 2015) stated that sourcing strategies are quotations and tenders. Participant E (Interview, January 07, 2016) indicated that sourcing strategies include request for proposals and negotiations.

4.2.3 Sourcing strategies that can be used to empower Township SMMEs

According to Participant A (Interview, December 12, 2015), before any sourcing strategy is applied, the need that has to be addressed needs to be understood in terms of its type, specifications, costs, end-users and so on. Participant B (Interview, December 15, 2015) stated that sourcing strategies that are adopted, or rather utilised, by organs of state should comply with relevant legislative prescripts that govern public sector procurement or supply

chain management. Different sourcing strategies are applied differently in different circumstances (participant G, Interview, December 13, 2015).

It is widely accepted by most participants (Participant A, Interview, December 12, 2015; Participant B, Interview, December 15, 2015; Participant C, Interview, January 08, 2016; Participant D, Interview, December 21, 2015; and Participant E, Interview, January 07, 2016) that the following sourcing strategies can be used to empower Township SMMEs:

Competitive bidding process: competitive bidding is also referred to as an open tender, and is utilised for requirements with an estimated transaction value above R500 000. Competitive bids are solicited from potential service providers, or suppliers, through a formal advertisement on the media and other platforms. The purpose is to promote the broadest competition while at the same time wanting to achieve value for money. In this instance, all potential service providers are afforded an opportunity to bid, including Township SMMEs (Participant A, Interview, December 12, 2015; Participant B, Interview, December 15, 2015; Participant C, Interview, January 08, 2016; and Participant D, Interview, December 21, 2015).

Request for quotations: refers to the sourcing of quotations from the suppliers database, usually for requirements with an estimated transaction value of up to R500 000. It is implemented to offer an equal opportunity afforded to prospective service providers to submit quotations for provision of goods / services in response to departmental requirements to be evaluated on a comparative basis. In this instance, Township SMMEs may partake in the bidding process, as long as they are registered on the Suppliers database (Participant A, Interview, December 12, 2015; Participant B, Interview, December 15, 2015; Participant C, Interview, January 08, 2016; and Participant D, Interview, December 21, 2015).

Request for proposals: this is a procurement method that is applied for complex projects when the organ of state knows what requirement has to be addressed, but does not know exactly how the identified requirement can be addressed, meaning the specifications, performance standard, time frame and other factors are not known, or rather not well known, (Participant A, Interview, December 12, 2015; Participant C, Interview, January 08, 2016; and Participant E, Interview, January 07, 2016).

In light of the above, Township SMMEs may partake in the bidding process so long as they have the required expertise to execute the project.

Petty Cash: this is utilised for requirements of a transaction value up to R2000. Payment is made with hard cash upon the procurement of the required good or service (Participant A, Interview, December 12, 2015; and Participant B, Interview, December 15, 2015).

Most research participants (Participant A, Interview, December 12, 2015; and Participant B, Interview, December 15, 2015) supported the use of petty cash to empower Township SMMEs because, with petty cash, any single service provider / supplier can be approached to purchase small quantities of required goods, which Township SMMEs due to their limited capacity would not struggle to provide.

P-card: this procurement method is similar to petty cash and it is utilised to procure high volume and low value goods and services with a transaction value below R30000. P-Card is specifically aimed at the economic upliftment of local community based SMMEs. P-Card reduces the delay in payment as hard cash is paid to the service provider, or supplier, upon procurement. Three quotations should be obtained when using P-Card (Participant B, Interview, December 15, 2015; and Participant C, Interview, January 08, 2016).

Limited bidding: this can be considered as a discriminatory procurement method, where only one service provider, or few service providers, are approached to submit quotation(s), bid(s) or proposal(s). In this instance, a business case must be developed that clearly indicates that a limited bidding process is the appropriate form of procurement. The business case must include, amongst others, a reflection of the result of a market and expenditure analysis indicating that the commodity required is available from a sole service provider, or few service providers, whatever the reason may be (Participant B, Interview, December 15, 2015; and Participant C, Interview, January 08, 2016).

4.2.4 Other procurement methods that are not necessarily sourcing strategies, but can be used to empower Township SMMEs

It was supported by most research participants (Participant A, Interview, December 12, 2015; Participant B, Interview, December 15, 2015; Participant C, Interview, January 08, 2016; Participant D, Interview, December 21, 2015; and Participant E, Interview, January 07, 2016) that there can be other procurement methods that can be used to empower Township SMMEs other than sourcing strategies. These procurement methods include the following:

Sub-contracting: this procurement method involves obliging Service Providers / suppliers that are awarded contracts / bids to sub-contract a certain percentage of the contract to Township SMMEs. This will ensure that Township SMMEs that could not win the contract

during the bid evaluation process are still guaranteed work by the contracting entity. The service provider / supplier that is awarded the contract will still be responsible for the performance of the work in line with the service level agreement. Furthermore, the condition to sub-contract a certain percentage of the contract should be made public, during bid advertisement for instance.

Inter-firm preferential procurement: in case of supply contracts, successful firms awarded contracts by Organs of State must source all, or a certain percentage, of their supplies from Township SMMEs. For instance, a supplier appointed to supply protective clothing, must buy material or finished products from Township Tailors who meet the definition of SMMEs and evidence in the form of quotation, invoice and payment confirmation must be submitted to the responsible contracting organ of state.

4.2.5 Constraints in the application of the identified sourcing strategies to empower Township SMMEs

Most Participants (Participant A, Interview, December 12, 2015; Participant B, Interview, December 15, 2015; Participant C, Interview, January 08, 2016; Participant E, Interview, January 07, 2016; and participant G, Interview, December 13, 2015) believe that Township SMMEs may really be empowered through appropriate sourcing strategies, but there are several constraints in the application of the identified sourcing strategies to empower Township SMMEs which would hinder this initiative from attaining its objectives. These constraints are briefly discussed below as follows:

Corruption: which is the abuse of power for personal gain usually done by public officials. Some public officials prefer to do business with firms that they have personal relations with or those whose directors are members of a certain political party. In this instance, jobs or tenders are reserved for certain firms and other firms are excluded. Officials with personal interest would also manipulate the evaluation process or influence the other officials involved in the evaluation process to ensure that their preferred firms win bids.

Cronyism: cronyism in public procurement is similar to corruption, and it involves appointment of firms that public officials have personal association with. Firms appointed for bids in this instance would not have met tender or bid requirements.

SMMEs lack of resources: most SMMEs lack infrastructure, financial and other resources. So if they are to be appointed for a certain major project through the competitive bidding process for instance, the contracting entity will be running a risk of receiving goods or

service of poor quality. Subsequently most public officials are reluctant to appoint SMMEs for major projects that require a certain level of expertise and infrastructure to execute.

SMMEs lack of information: some SMMEs do not have access tendering information, and this places them at a disadvantage as they cannot partake in the bidding process for some tenders.

SMMEs failure to reinvest returns: most SMMEs are survivalists, as opposed to entrepreneurs. They are in business because they could not find jobs elsewhere, and forming a firm was a means to generate revenue for survival. Such SMMEs would earn profits and waste them on flashy vehicles and other ill-informed expenses instead of reinvesting the profits in the expansion of the firm, or any other profitable project. Subsequently, the operational capacity of such SMMEs remain low, and when big tenders that require high capacity and certain level of expertises are advertised, they would not stand a chance to compete with their well-established large firms or rivals.

Rigid legislative framework: the current SCM legislative framework makes it difficult for public officials to be creative and innovative in an attempt to empower township SMMEs. If, for instance, other firms are completely excluded from the bidding process and SMMEs are given preference, such a practice can be considered as a set aside which is prohibited by relevant legislations. The public procurement process, basically has to be fair, equitable, transparent, competitive and cost-effective.

4.2.6 Dealing with the identified constraints

It is generally accepted by most participants (Participant A, Interview, December 12, 2015; Participant B, Interview, December 15, 2015; Participant C, Interview, January 08, 2016; Participant E, Interview, January 07, 2016; and participant G, Interview, December 13, 2015) that if the aforementioned constraints are not addressed, Township SMMEs empowerment target may not be achieved.

According to Participant A (Interview, December 12, 2015), in an attempt to address the aforementioned constraints, especially corruption, and cronyism there should be consequence management. Those entrusted with the responsibility of implementing the sourcing strategies must be held accountable for any abuse of the sourcing strategies. SCM officials should be trained so that they can be conversant with business ethics (Participant E, Interview, January 07, 2016).

Furthermore, in order to address constraints related to SMMEs, SMMEs should be capacitated in every way possible, including financial support and training on how to successfully manage the firm for growth and expansion (Participant B, Interview, December 15, 2015). Participant G (Interview, December 13, 2015) stated that SCM legislative framework should be amended to cater for the empowerment of Township SMMEs.

4.3 Interview responses for research question two

The research participants were presented with six interview questions as to answer the second research question, which is: How does empowerment of Township SMMEs work?

The responses were grouped in terms of the following themes:

4.3.1 Empowerment target

It is widely accepted by participants (Participant A, Interview, December 12, 2015; Participant B, Interview, December 15, 2015; Participant C, Interview, January 08, 2016; Participant D, Interview, December 21, 2015; Participant E, Interview, January 07, 2016; Participant F, January 07, 2016; and participant G, Interview, December 13, 2015) that empowerment involve amongst others, the provision of procurement opportunities to previously disadvantaged Township SMMEs and also appoint these Township SMMEs for the provision of goods, services, and works in an attempt to alleviate poverty, create jobs and subsequently improve the national economy.

4.3.2 Custodians of empowerment initiatives

According to Participant A (Interview, December 12, 2015) Township SMMEs should be empowered by the South African Government Departments, the private sector, and the community mainly through procurement and other means. State-owned enterprises and municipalities should also play a role in the empowerment of Township SMMEs (Participant B, Interview, December 15, 2015).

Participant C (Interview, January 08, 2016) stated that NGOs and other non-profit organisations can also play a role in relation to the empowerment of Township SMMEs, especially through the provision of free services, such as training.

4.3.3 Current forms of empowerment

According to Participant E (Interview, January 07, 2016) currently the distinction between Township SMMEs and other firms, or SMMEs in general, is not clearly defined, and there is

a lack of approved legislation obliging public officials to give preference to Township SMMEs when procuring goods, services and works. Subsequently, the empowerment of Township SMMEs through state procurement is deemed to be challenging. Nonetheless, the empowerment of Township SMMEs through state procurement is most visible when Government Departments conduct events like Ministerial Imbizos in townships and local communities where goods, services and works required for the event are procured from SMMEs in such townships. The services that are mostly procured from Township SMMEs during these events include catering and other less complex requirements (Participant E, Interview, January 07, 2016).

According to participant B (Interview, December 15, 2015), Township SMMEs are encouraged to partake in the bidding process when goods, services and works are procured through competitive bids and quotations amongst others. Furthermore, the Preferential Procurement Policy Framework Act (Act No. 5 of 2000) and its Regulations, together with the Broad Based Black Economic Empowerment Act (Act No. 53 of 2003), currently provides for the empowerment of firms whose Directors meet the definition of historically disadvantaged individuals. Therefore, whenever competitive bids or quotations are invited, the provisions of these legislations are considered.

4.3.4 Constraints in the application of the current forms of empowerment

In relation to the empowerment of Township SMMEs through state procurement when there are events such as Ministerial Imbizo, one of the constraints is that some Township SMMEs do not have all the documents required to bid (eg. tax clearance certificate, food health certificate in case of catering, reference letters for previous work done and so on), and as a result they would not meet the administrative requirements for them to be evaluated further to an extent that they would win the bid (Participant E, Interview, January 07, 2016).

According to participant B (Interview, December 15, 2015), Township SMMEs lack resources and information, therefore they cannot compete effectively with well-established firms when goods, services and works are procure through competitive bidding also referred to as open tender and request for quotations. ,

Furthermore, Participant G (Interview, December 13, 2015) stated that the current preferential regulations do not give much preference to Township SMMEs and this makes it difficult for public officials to specifically procure goods, services and works from them. The

current regulations allow all service providers/suppliers to apply for government tenders irrespective of, or rather regardless to their background or geographic location.

4.3.5 Better mechanisms to empower Township SMMEs

It is widely accepted by participants (Participant A, Interview, December 12, 2015; Participant B, Interview, December 15, 2015; Participant C, Interview, January 08, 2016; Participant D, Interview, December 21, 2015; Participant E, Interview, January 07, 2016; Participant F, January 07, 2016; and participant G, Interview, December 13, 2015) that empowerment of Township SMMEs can be better accomplished. Participants stated that:

The legislative prescripts governing SCM have to be revised to cater for the empowerment of Township SMMEs. They should be revised in a manner that they promote set asides for certain commodities, especially those which most Township SMMEs can deliver.

Government should formulate a body that governs Township SMMEs to ensure that training and mentorship is provided to them on how to effectively manage their businesses for growth and expansion.

Government should also capacitate Township SMMEs by providing them with funding and other basic resources such as equipment.

Well-established large enterprises should mentor and coach Township SMMEs.

Local communities can also support Township SMMEs by purchasing their goods, services and works.

4.4 Summary

The chapter provided responses to the two research questions posed by the study. The responses were gathered from individual interviews. The next chapter summarises the results of the study, provides the conclusion and recommendations.

This chapter attempted to analyse the data collected, the order of its presentation has revealed some of the themes that form part of the research.

5. CHAPTER FIVE: SUMMARY OF RESULTS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The use of public procurement to empower township SMMEs in South Africa is not something new, it has been used in other countries where discrimination against a certain group of people existed in the past such as the UK, and USA. South Africa currently experiences three economic challenges, namely: poverty, unemployment and inequality. Following the extraordinary role played by township SMMEs in the creation of employment opportunities, poverty alleviation and economic growth, it is very crucial that township SMMEs are supported in every way possible for their growth and expansion.

The aim of the research was to determine the extent to which sourcing strategies provide a mechanism for public sector SCM to empower township SMMEs. The study was based on a case study of the Gauteng Provincial Government. The research aimed to answer two research questions: firstly, How do sourcing strategies work in state procurement; and secondly, How does empowerment of SMMEs work? The two research questions assisted the researcher to establish the scope and focus of the research.

This chapter outlines the summary of results that were collected within the Gauteng Provincial Government. The chapter further summarises the conclusions and the recommendations that were made based on the data collected from research participants.

5.2 Summary of results

5.2.1 Objective of the study:

To determine the extent to which sourcing strategies provide a mechanism for public sector SCM to empower Township SMMEs.

It is evident that several sourcing strategies do provide a mechanism to empower Township SMMEs, for instance the request for quotations, competitive bidding, petty cash, P-Card and so on. However, there are constraints such as corruption, and SMMEs lack of resources which negatively affect the empowerment of Township SMMEs through public procurement. It can therefore be argued that to effectively realise the intended objectives of the

empowerment of Township SMMEs through state procurement, these constraints should first be addressed.

5.2.2 Research question one: How do sourcing strategies work in state procurement?

It is evident that sourcing strategies are ways through which organs of state procure goods, services and works from service providers/suppliers. Sourcing strategies have to be carefully selected considering the nature of the need/requirement that has to be addressed and applicable SCM legislation.

Furthermore, sourcing strategies such as competitive bidding, request for quotations, request for proposals, petty cash, P-Card and limited bidding were widely accepted as sourcing strategies that may be utilised to empower township SMMEs. Nonetheless, there are constraints in the application of such sourcing strategies which should be taken into account and addressed.

5.2.3 Research question two: How does empowerment of SMMEs work?

It is evident that empowerment in public sector procurement context involves the provision of procurement opportunities to SMMEs owned by HDIs who reside, or rather, are located in Townships. Organs of state, the private sector and communities, amongst others, have an obligation to empower Township SMMEs.

So far, less has been done to empower Township SMMEs - usually due to the lack of a proper definition of Township SMMEs, as well as proper legislation that provides for the empowerment of Township SMMEs. On that note, several changes and initiatives have to be effected to support the empowerment of Township SMMEs.

5.3 Conclusion

The post-Apartheid South Africa faces several economic challenges that need urgent attention. The economic challenges are more common in the townships where the majority of historically disadvantaged individuals reside. In an attempt to resolve the economic challenges, the South African Government targeted the SMME sector as an economic empowerment vehicle for historically disadvantaged individuals. Nonetheless, Township SMMEs in South Africa often fail, as they were established simply to generate income for survival, and not because of the entrepreneurial orientation of the owners.

Over the years after the dawn of democracy, public procurement has been used as a tool for local economic development. The South African government has recently emphasised the empowerment of Township SMMEs through state procurement. Nonetheless, there has been little information on how this would be implemented.

The findings of this study indicated that procurement opportunities can be provided to Township SMMEs through sourcing strategies such as competitive bidding, request for quotations, petty cash, P-Card and so on. This study further indicates that there are other procurement methods, other than the identified sourcing strategies, that can be used to empowerment Township SMMEs, namely: sub-contracting and inter-firm preferential procurement.

Notwithstanding the above, this study further indicates that there are constraints that may hinder the successful empowerment of Township SMMEs. These constraints include corruption, cronyism, SMMEs lack of resources and so on. It was further highlighted that these constraints have to be addressed to ensure that Township SMMEs are effectively empowered through state procurement.

The future of Township SMMEs is uncertain, but they have the potential to create employment opportunities and make a contribution to the economic growth of the country, as well as poverty alleviation. On that note, it is crucial that the South African Government continues to support SMMEs in every way possible.

5.4 Recommendations

The research project put forward the following recommendations in order to address the findings:

5.4.1 Revise SCM legislative framework

The current SCM legislative framework does not well-define the Township SMMEs concept, it also does not effectively provide for the empowerment, or rather the provision of, procurement opportunities to Township SMMEs. Subsequently, most SCM practitioners experience challenges when they attempt to empower Township SMMEs.

Furthermore, it should be noted that the majority of Township SMMEs rely on Government procurement opportunities to gain access to the market and sustain their active status in the

economy. Relevant authorities therefore have to revise the current SCM legislative framework to cater for the empowerment of Township SMMEs. Revised SCM legislative framework that provides for the empowerment of Township SMMEs would lead to a smooth implementation of this initiative.

5.4.2 Educate SCM Practitioners about the empowerment of Township SMMEs

It is evident that some SCM practitioners are not doing enough to empower Township SMMEs due to lack of knowledge. They are not conversant with the objectives of the empowerment of Township SMMEs, and appropriate procurement methods that can be adopted to empower them. It is, therefore, presumed that familiarising them with these aspects of the empowerment of Township SMMEs, they would be motivated to effectively implement this initiative.

5.4.3 Capacitate Township SMMEs

It is evident that most SMMEs lack resources (infrastructure, finance, information, etc.) and this hinders their growth and expansion amongst others.

Directors of Township SMMEs have to be trained on how to effectively manage their firms; they have to be granted access to finance and basic equipment; and also be provided with information about state tenders on time amongst others.

5.5 Suggestions for further Research

The researcher noted that information about SMMEs and state procurement is not readily available. Subsequently, there are a lot of unanswered questions around the interaction between the state and SMMEs in relation to state procurement. On the basis of this finding, it is recommended that research institutions and researchers should invest their time and other resources in order to:

- Investigate why 80% of South African SMMEs still fail within five years of their existence, although the state established a lot of initiatives to support them.
- Investigate how the state can instill the culture of Entrepreneurship in township SMMEs.
- Investigate appropriate growth and expansion strategies that can be adopted by township SMMEs.

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Annexure A: Editing of MBA mini dissertation

19 February 2016

EDITING OF MBA MINI-DISSERTATION

To Whom It May Concern

This letter serves to confirm that **MR LAVHELESANI MULIBANA** (Student number 200729098) submitted his mini-dissertation, entitled: **EMPOWERING TOWNSHIP SMMEs THROUGH APPROPRIATE SOURCING STRATEGIES: A CASE OF GAUTENG PROVINCIAL GOVERNMENT** for language and grammar editing by the undersigned.

Hence the document has been duly proofread for grammatical errors.

Yours faithfully,


M Badir

082 790 2054

Annexure B: Interview consent form

Turfloop Graduate School of Leadership



Consent Form

Title of Project: Empowering Township SMMEs through appropriate sourcing strategies: A case of Gauteng Provincial Government

Name of Researcher: Lavhelesani Mulibana

1. I confirm that I have read and understand the Plain Language Statement for the above study and have had the opportunity to ask questions.
2. I understand that my participation is voluntary and that I am free to withdraw at any time, without giving any reason.
3. I also understand that the information I provide through my participation will be kept confidential.
4. I agree / do not agree (delete as applicable) to take part in the above study.

Name of Participant

Date

Signature

Researcher

Date

Signature

Annexure C: Interview questions

Main research question: To what extent could sourcing strategies provide a mechanism for public sector SCM to empower township SMMEs?

Research question 1: How do sourcing strategies/procurement methods work in state procurement?

Interview questions to answer research question 1:

- What are the sourcing strategies/procurement methods
- how are they applied
- what could be the constraints, if we are to utilize the identified sourcing strategies to empower township SMMEs
- Can such constraints be addressed, if yes, how?

Research question 2: How does the empowerment of SMMEs work?

Interview questions to answer research question 2:

- who needs to be empowered
- who can / should empower
- how has it occurred so far
- what are the general constraints/ challenges to empowerment
- Can empowerment be done better, than it has been done, if yes, how?
- Can there be a better way to empower township SMMEs other than the use of state procurement and sourcing strategies.