

**NATURE AND EXTENT OF PROCUREMENT MANAGEMENT RELATIONSHIPS BETWEEN THE PROVINCIAL GOVERNMENT OF THE EASTERN CAPE AND THE BUILDING INDUSTRY**

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**ABSTRACT**

A question is asked whether the procurement management function in the provincial government is managed effectively, efficiently and with due regard to ethical guidelines.

It is also asked whether the procurement managers in the provincial government are sufficiently qualified, with sufficient experience to be able to decide on the outcomes of procurement contracts and whether decentralisation of the procurement management function to the provincial sphere had proven effective and efficient.

In addition to the above, the nature and extent of the procurement management relationships between the Eastern Cape Provincial Government and the building industry is researched against the background of the various challenges facing the South African building industry in general and in particular in the Eastern Cape. The relationship between purchaser and supplier in public sector procurement is examined..

Furthermore, the consequences of conflict, attitudes and communication about public sector procurement management in general are discussed.

**INTRODUCTION**

Although the South African construction industry has contributed less than five percent (5%) of the South African Gross Domestic Product (hereinafter, GDP) since 1970, it is envisaged its growth will significantly alter that industry because it has been identified as a key sector of the country=s revised overall macro-economic strategy. The prioritisation of physical and social infrastructure by the South African government for the country=s overall development indicated an increase in the public sector fixed investment over the short and medium term. Projections of investments between R170 billion to R232 billion in the infrastructure over the next five years, is expected to increase the public sector=s contribution of the GDP fixed investments by approximately five and double the total construction Gross Domestic Fixed Investment (hereinafter, GDFI).

The globalisation of business for the government, large corporations as well as small, medium and micro enterprises (hereinafter, SMMEs), in South Africa, implies that a different approach be implemented for the procurement function. An important aspect which has become more global in orientation, is the purchasing function. In order to be successful and competitive, an expanded focus for this area is necessary. The underlying operative goal of this research is the development of a model for procurement management relationships between the Provincial Government of the Eastern Cape and the building industry.

In this article, the nature and extent of procurement management relationships between the Provincial Government of the Eastern Cape and the building industry will be expounded upon with reference to the following aspects:

- (i) challenges facing the South African building industry;
- (ii) explication of concepts which relate to both private and public sector procurement;
- (iii) the relationship between purchaser and supplier in public sector procurement;
- (iv) strategies to promote previously disadvantaged building contractors;
- (v) effect of corruption on the relationship between public sector procurement and the building industry;
- (vi) consequences of conflict on public sector procurement;
- (vii) attitudes by established construction companies towards SMMEs in the building industry and
- (viii) the importance of communication in public sector procurement.

For the purpose of this study, the concepts construction industry and building industry are utilised interchangeably.

### **CHALLENGES FACING THE SOUTH AFRICAN BUILDING INDUSTRY**

Marginalised people may be found in most societies. Marginalisation is often the consequence of the denial of access to both employment and business opportunities which are based on factors such as race, gender, religion, ethnicity, age and disability. Consequently, marginalisation results in disparities in rates of employment and a skewed distribution of wealth within a nation. This is frequently of concern to governments (Department of Public Works, 1999:01).

Poverty alleviation and job creation is usually regarded as being the responsibility of a government. Growth in an economy usually leads to the creation of jobs. Governments are called upon regularly to address unemployment and underemployment in a visible manner, particularly where growth in the economy is slow or negative.

The approach for several decades in achieving socio-economic objectives through construction projects in developing countries has been to establish special programmes. For example, the International Labour Organisation (hereinafter, ILO), and the World Bank have been involved since 1970 in employment programmes for rural road construction. However, the special programmes have only a small impact on the economy. Expenditure on such programmes is only a fraction of public sector expenditure (Department of Public Works, 1999:01).

The development programme which enunciated in the Reconstruction and Development Programme (hereinafter, RDP) and Growth, Employment and Redistribution Strategy (hereinafter, GEAR) necessitated the construction industry to respond appropriately to some of the following imperatives, namely:

- (ix) A holistic, sustainable and accessible human resource development strategy for the construction sector.
- (x) Sustainable employment creation.
- (xi) Effective and efficient delivery of quality assets to the public.
- (xii) Active promotion of SMMEs, especially enterprises which originate from historically disadvantaged communities.
- (xiii) De-racialisation of ownership patterns within the South African construction industry.
- (xiv) Improve the competitiveness of the South African construction sector as well as equip them for global markets (Shezi, 1999).

Shezi (1999), states that since the public sector and the public sector corporations in South Africa

initiate between forty and fifty percent (40% - 50%) of construction related GDFI, the South African government, as a major procurer of construction goods and services, is well positioned to impact on the development of the construction industry. After the first democratic national elections in 1994, the Ministry of Public Works identified the need for the transformation of public sector construction procurement. The initial review of the regulatory environment that impacted on public sector procurement, concluded that the latter reform could not be undertaken on a sector by sector basis. A fundamental review was required of the entire public sector procurement system. This resulted in a joint initiative by the Ministry of Public Works and the Ministry of Finance which aimed at transforming the public sector procurement policy and systems in South Africa. Consequently, transformation of public sector procurement in South Africa resulted in the following primary objectives:

- (i) The promotion of good governance within the sphere of public sector procurement.
- (ii) The utilisation of public sector procurement as a vehicle to achieve socio-economic goals such as:
- (iii) The de-racialisation of ownership patterns within the South African economy.
- (iv) Skills and technology transfer.
- (v) Enhance job creation opportunities (Shezi, 1999).

### **CONCEPTS PECULIAR TO PUBLIC AND PRIVATE SECTOR PROCUREMENT**

In the following paragraphs, an explanation of the concepts >purchasing=, >procurement= and >supply management= is provided to explicate how they relate to each other and to the study. Cognisance should be taken that the concept >supply management= encompasses the concepts >purchasing= and >procurement=.

The purchasing function comprises the essential activities associated with the acquisition of materials, services and equipment used in the functioning of a department. The following are the most important activities in the purchasing function, namely:

- (i) Coordinate with user departments to identify purchase needs.
- (ii) Discussions with sales representatives.
- (iii) Identify of potential suppliers.
- (iv) Conduct market studies for important materials.
- (v) Negotiate with potential suppliers.
- (vi) Analyse proposals.
- (vii) Select suppliers.
- (viii) Issue purchase orders.
- (ix) Administer contracts and resolve related dysfunctions.
- (x) Maintain a variety of purchasing records (Dobler & Burt, 1996:34-36).

The public sector procurement process encompasses a wider range of supply activities than those included in the purchasing function. It includes a broadened view of the traditional purchasing role with more purchaser participation in related material activities. Specific activities included in the public sector procurement process are as follows:

- (i) Participation in the development of material and service requirements and their specifications.
- (ii) Conduct a study of materials and management of value analysis activities.
- (iii) Conduct more extensive material market studies.
- (iv) Conduct all purchasing function activities.
- (v) Manage supplier quality.
- (vi) Purchase inbound transportation.
- (vii) Manage investment recovery activities, that is, salvage of surplus (Dobler & Burt, 1996:34-

36).

It can be inferred from the above that the public sector procurement function is broader and more proactive compared to the implementation of the purchasing concept.

Supply management is a process responsible for the development and management of a suppliers total supply system. At an operational level, it includes and expands the activities of the purchasing function and the procurement function. The major focus of supply management is strategy. According to Dobler & Burt (1996:34-36), the following are specific activities included in supply management:

- (i) Early purchasing involvement (hereinafter, EPI) and early suppliers involvement (hereinafter, ESI) in product design and subsequent specifications development for important items.
- (ii) Conduct all purchasing and procurement functions activities.
- (iii) Use purchasing partnering arrangements and strategic alliances with key suppliers in order to develop close and mutually beneficial linkages in the control of the value, quality and cost of the product.
- (iv) Continuous identification of threats and opportunities in the suppliers environment.
- (v) Develop strategic, long-term acquisition plans for all major products.
- (vi) Monitor the continuous improvement in the supply of goods and services.
- (vii) Actively participate in the strategic planning process (Dobler & Burt, 1996:34-36).

The supply management concept represents the most advanced stage in the evolutionary development of the purchasing, procurement and supply sphere of activity. This concept places emphasis on the strategic aspects of the key elements of a suppliers supply system.

It can be inferred from the above that similarities exist in the procurement process in both the public and private sectors.

## **RELATIONSHIP BETWEEN PURCHASER AND SUPPLIER IN PUBLIC SECTOR PROCUREMENT**

Goodman (in Herbig & O'Hara, 1996:01), writes:

***Companies don't make purchases; they establish relationships.***

The development and solidification of long-term relationships is tantamount to success. Suppliers must adhere to the >4Ps of Marketing= principle, that is, price, product, promotional and place strategy in order to be successful. The foundation for such a strategy requires a clear understanding of the marketing environment. Since the latter environment is a very powerful force which continually affects the supplier and its marketing principles, marginal comprehension in this area can lead to the demise of a supplier (Herbig & O'Hara, 1996:01). According to Wilson and Mummalaneni (1998:11), varied cultures, demographics, economic conditions and political systems require suppliers to be sensitive to the needs of the government of the day if a significant number of transactions are to be conducted. With the present day demands for goods and services, a new role for procurement has emerged with emphasis on quality, cost, flexibility, technology and efficiency.

Webster and Wind (1972:16), explain departmental purchasing as a decision-making process by which departments establish the need for products and identify, evaluate and choose from alternative suppliers quality goods and services. This process of choosing between suppliers and selecting the one which best meets departmental needs was traditionally viewed with an economic orientation. The assumption that procurers undertook transactions with a supplier who offered the lowest price, the best product, or the best service for the money, tended to dominate thinking in this area. A study of suppliers by Harding (1986:76), concluded that corporate decision-makers continue to reflect human characteristics even after they enter into negotiations with suppliers. The latter respond to image, they

purchase from suppliers whom they feel close to and they tend to favour suppliers who show them respect and personal consideration and who make an extra effort to meet their needs. Corporate decision-makers, however, tend to reject suppliers who fail to respond or delay in submitting requested goods and services (Harding, 1986:76).

It can be inferred from the above that the economic dimension of departmental purchasing is intertwined with the relationship established with the supplier. This further implies that when various offers from suppliers are uniform and similar, the procurer will select the supplier with which the department has established the best relationship.

Relationships with suppliers do not exist in isolation. Procurers need to realise that in the formation of procurer or seller relationships, procurers are subservient to a number of influences with regard to the procuring function. An individual factor is an important influence at the personal level. Individual preferences, perceptions and personal motivations can have a profound impact on how procuring decisions are analysed and subsequently determined. Individual characteristics such as age, income, education, and personality, attitudes towards risk and job position can have a strong influence on a procuring philosophy pertaining to the procuring function (Harding, 1986:16-17).

It can be inferred that the above-mentioned characteristics can assist to develop and establish a procurer's own procuring style. It is critical that procuring styles be identified and managed correctly. For example, a successful procuring style with suppliers in the Province of Kwa-Zulu Natal may be inappropriate for interacting with procurers from the Province of the Eastern Cape because of the diverse ethnic community needs of the compared provinces.

In addition to personal factors, group dynamics or interpersonal factors within the procuring centre also affects the development of relationships. The individuals who constitute the procuring department have different statuses, authority, varying degree of empathy and persuasiveness. The latter attributes can impound a certain considerate form of behaviour that is explicitly asserted in the daily dealings of departmental procurers (Harding, 1986:17).

Consequently, it is apparent that the procurement function is not only based on relationships but also predicted on a series of factors, for example, individual and interpersonal factors which procurers can influence.

According to Lamb *et al* (1992:11), the procurement function presents a set of unique variables over which procurers have limited influence. These unique, uncontrollable variables are called environmental factors which can limit a department's ability to procure goods and services effectively and efficiently. Furthermore, understanding social and cultural dimensions, economic conditions, technological developments and political and legal systems are essential in order to conduct effective and efficient procurement.

### **Model guidelines for developing good purchaser-supplier relationships**

According to Wittig (2000:12-13), a lack of discipline and poor purchaser-supplier relationship in a public sector procurement system attests to inadequate professionalism. Furthermore, as an economy continues to grow, the purchase of products and services become more complex. In order to ensure best value, quality and service, it is acceptable for the public sector procurement policy to encourage competitive and reliable suppliers to tender for contracts. To achieve this objective, specific guidelines should be pursued to inculcate good purchaser-supplier relationships, namely:

- (i) Preserve high quality standards of honesty, integrity, impartiality and objectivity.
- (ii) Provide clear performance specifications where possible to encourage innovation.
- (iii) Provide potential procurers with necessary information to respond to the invitation to tender

- timeously.
- (iv) Include within the contract specification clear procedures for performance measurement, contract variations and dispute settlement.
  - (v) Debrief tenderers after the contract has been awarded.
  - (vi) Comply fully with the terms of the contract including the terms of payment.
  - (vii) Respond promptly, courteously and efficiently to enquiries and complaints (Wittig, 2000:12-13).

It can be inferred from above that a transparent, fair, open, cost-effective, competitive and corrupt free purchaser-supplier relationship will contribute to effective and efficient procurement management relationships between the Provincial Government of the Eastern Cape and the building industry.

### **STRATEGIES TO PROMOTE PREVIOUSLY DISADVANTAGED BUILDING CONTRACTORS**

The Department of Public Works has embarked on creating an enabling environment and procurement reform within the building industry to expedite the advancement of the previously disadvantaged groups. Various policies and programmes, which will be discussed below, have been identified and implemented to address the distortions of the apartheid regime. Opportunities have also been created to enable previously disadvantaged groups and individuals to compete for tenders in the building industry.

#### **Affirmative procurement**

Affirmative procurement comprises participation programmes aimed at the engagement of SMMEs owned by previously disadvantaged persons in all types of contracts, in the building industry and the generation of income for marginalised sectors of society. Marginalised sectors refer to people who were discriminated against on the basis of race, gender, ethnicity and disability. The implementation of the Preferential Procurement Policy Framework Act, 2000 (Act 5 of 2000), gives effect to section 217(3) of the Constitution of the Republic of South Africa, 1996 (Act 108 of 1996), by providing a framework for the implementation of a fair public procurement policy as contemplated in section 217(2) of the above-mentioned Constitution.

For the purpose of this study, the concepts affirmative procurement and preferential procurement are utilised interchangeably.

The South African government identified the affirmative public procurement policy as part of the overall public sector procurement reform initiative, as critical to the economic empowerment of those sectors of the country's population who were previously excluded from mainstream economic activities. In August 1996, the procurement reform policy was implemented in respect of government building industry projects (Sigcau, 1999).

Affirmative procurement endeavors to ensure that public funds are expended in such a way that all segments of the South African population benefit from such expenditure through job creation and commercial activity. Furthermore, affirmative procurement provides the target group with access to the procurement process without guaranteeing work and links the flow of money into targeted business enterprises with a commitment of responsibility (Sigcau, 1999).

The objective of affirmative procurement in the long term is to:

- (i) Promote development objectives with a focus on human resource development.

- (ii) Provide opportunities for skill transfer and capacity building to acquire experience.
- (iii) Encourage commitment to human resource development and social responsibility programmes within organisations to specifically redress historical imbalances.
- (iv) Facilitate growth in terms of efficiency and effectiveness of delivery of goods and services as well as numbers and size of businesses owned and controlled by previously disadvantaged individuals.
- (v) Ensure that emerging enterprises contribute to the tax base, engage workers who are affiliated to labour associations, adhere to safety regulations and reflect norms and standards in their business activities associated with those of developed countries (Sigcau, 1999).

The three key principles of the National Public Works Programme, that is, job creation, training and skills transfer and business opportunities for the emerging sector can be achieved through the use of the Affirmative Procurement Policy (hereinafter, APP) (Sigcau, 1999).

Previously, contractors, suppliers and service providers were required to construct, supply and provide a service in accordance with a technical specification. The APP now requires contractors to execute their contracts in accordance with a human resource specification. This specification defines and sets out goals for Affirmable Business Enterprise (hereinafter, ABE), participation in the performance of the contract in such a manner that it can be quantified, measured, verified and audited. Human resource specifications specify how building contractors can meet these goals in order to comply with the requirements of the contract. Furthermore, the latter specifies measures which the client body has at its disposal to remedy and penalise non-compliance (Sigcau, 2000).

The APP stipulates that projects in excess of R2 million be awarded on a development price mechanism whilst ABEs are encouraged to participate as prime contractors when government provides a direct preference of fourteen percent (14%) for projects which cost less than R2 million. Projects greater than R2 million are defined as the value of goods and services which affirm contracts to engage ABEs in the performance of a contract. ABE participation in these contracts can take place in the following manner:

- (i) Distribute parts of the contract to ABEs.
- (ii) Obtain supplies and materials from ABE suppliers.
- (iii) Obtain manufactured articles from ABE manufacturers.
- (iv) Engage ABE professional, technical or managerial service providers.
- (v) Enter into joint venture arrangements with one or more ABEs (Sigcau, 2000).

Although significant gains have been made in the application of the APP, both the wider application of the APP and intensified mobilisation and reinforcement of the sustainable growth of the black construction entities are being pursued to create large-scale black construction capacity in South Africa (Sigcau, 2000).

It is envisaged that greater participation of ABEs on public works construction projects will take place after the White Paper on Emerging Contractor Development Programme is established as an Act. According to Sigcau (2000), the projected date of promulgation of the aforementioned Act is mid July 2001. Furthermore, intensive cooperation and application of the APP and ABE will be fundamental to the establishment of procurement management relationships between the Provincial Government of the Eastern Cape and the building industry.

### **Emerging Contractor Development Programme**

In keeping with the South African Government=s socio-economic principles, the Department of Public Works has played an important role in the re-organisation and of development of emerging

contractors within the public sector construction industry. The Department of Public Works implemented a programme entitled 'Emerging Contractor Development Programme' (hereinafter, ECDP) to provide an enabling infrastructure for emerging contractors. The programme focuses on contractors who have the required skills but are unable to source work opportunities from the public sector due to a lack of expertise in submitting quotations and tenders. Furthermore, the International Labour Organisation (hereinafter, ILO), and Ntsika Enterprise Promotion Agency, the Black Construction Industry Council, have obtained funding from the Department of Public Works to address the building industry needs of emerging contractors (The Emerging Contractor Development Programme, 1999. <http://www.pwdprocure.co.za/pages/initiatives/TPW2.html>).

The objective of the ECDP is to nationally develop the business and management skills of technically competent emerging contractors in an actual project environment in order to facilitate their sustainable and growing involvement as prime contractors in government projects. Historically, small building contractors, and particularly those disadvantaged by the separatist regime prior to April 28 1994, have been marginalised. The mentioned contractors experienced lack of access to information on contracts, finance, credit and training in business skills. The ECDP is viewed as the current government's transformation strategy and drive to increase SMME participation in mainstream economic activity. The above-mentioned programme is an important element of the Department of Public Works policy to create an enabling environment and procurement reform within the building industry to facilitate the advancement of those who were previously marginalised. It forms part of the Affirmative Procurement Policy which was developed to target specific groups for accelerated access to contracts (Sakhasonke: Emerging Contractor Development Programme, 2000. <http://www.pwdprocure.co.za/pages/initiatives/ECDP/sakhason.html>).

The ECDP is expected to mobilise the synergy between the Department of Public Works which has influence and contracts to offer, the emerging contractors themselves and the private sector and NGO's who have resources and support to contribute to overcoming the obstacles facing emerging contractors, such as lack of business experience and access to finance. The ECDP must avoid creating a dependency syndrome. It is intended to be a role model for clients at all spheres of government to adopt as well as to create a rigorous system based on sound and clearly articulated principles. The latter must address the distortions of the apartheid regime and meet the government's requirements for fair, efficient and cost-effective public sector procurement on national, provincial and local spheres of government (Sakhasonke: Emerging Contractor Development Programme, 2000. <http://www.pwdprocure.co.za/pages/initiatives/ECDP/sahasonke.html>).

It is envisaged that the establishment of the ECDP will be fundamental to the enhancement of procurement management relationships between the Provincial Government of the Eastern Cape and the building industry.

One of the underlying principles of the ECDP is the establishment of an enabling infrastructure in each province office. This provides emerging contractors with access to work opportunities, training and support programmes with performance monitoring and continuous evaluation. The Construction Education and Training Authority (hereinafter CETA), secured a R50 million project from the European Union to finance hundreds of Eastern Cape building industry workers who have developed skills but have no formal qualifications to obtain formal instruction in the field of expertise. It is estimated that approximately one thousand men and women with carpentry and bricklaying skills will benefit from the free assessments against national qualification standards, thereby enabling the workers to obtain nationally recognised certificates (EP Herald, 10 April 2001, p. 08 col. 07-09).

Cognisance, promotion and implementation of the ECDP will be fundamental to the establishment of procurement management relationships between the Provincial Government of the Eastern Cape and the building industry.

## **Reconstruction of State Owned Enterprises**

The South African government's vision for the restructuring of State Owned Enterprises (hereinafter, SOEs) reflects their commitment to the upliftment of the building industry for the historically disadvantaged. The restructure of state-owned assets by the government is to ensure that it maximises the contribution that its assets make to the economy and its people. The government believes that competition in the market will lead to lower prices and higher quality of service. Furthermore, the role of the private sector is essential in expanding the services that the government already provides (Radebe, 2000).

The restructuring policy framework identifies black economic empowerment as a challenge and key objective of the restructuring process. The emphasis is on addressing market distortions that prevailed in SOEs and in the economy as a whole during the apartheid era. The most obvious distortion was the prohibition of property ownership by blacks (Radebe, 2000).

On 10 August 2000, the Minister of Public Enterprises launched a Policy Framework for an Accelerated Agenda for the restructuring of SOEs. According to Radebe (2000), correcting past wrongs required a systematic, genuine empowerment strategy in order to bring black people and women into the mainstream of the economy, including ownership, procurement and training relationships with SOEs.

The government's policy on restructuring SOEs will entail new, creative, diverse strategies for empowerment and enable the latter to effectively spread the benefits of restructuring. These strategies of alternative service delivery may include ownership, training, procurement and self-management opportunities for black people, women and the disabled through involvement in SOE management and eventual ownership opportunities. The government envisages a multi-faceted approach which will focus on changing operational responsibilities to ensure greater participation by employees and communities (Radebe, 2000).

Operational empowerment describes a miscellany of processes related to active, hands-on participation in industries affected by SOE restructuring. The latter range from meaningful access to state-regulated activities, training and skills development, affirmative action in management, entrepreneurial opportunities through outsourcing, partnerships, procurement and easier access to financing. By broadening the range of service delivery models to include SMMEs and community participation, the government can ensure that the historically disadvantaged is empowered. It is estimated that the procurement budgets of SOEs will amount to approximately R60 million per annum. The Department of Public Enterprises will lead an initiative to ensure that SOE procurement policies and procedures are aligned with government policy on procurement. The terms of reference for a uniform procurement policy for SOEs has been formulated (Radebe, 2000).

The recent implementation of the Preferential Procurement Policy Framework Act, 2000 (Act 5 of 2000), the 1997 Green Paper on Public Sector Procurement Reform in South Africa, (Government Gazette No. 17928, 14 April 1997) and the Affirmative Procurement Policy provides a comprehensive scheme for increasing the participation of the historically disadvantaged groups in the building industry.

It can be inferred from the above that the present implemented legislation and proposed draft legislation on the promotion of the historically disadvantaged in the building industry will be fundamental to the establishment of procurement management relationships between the Provincial Government of the Eastern Cape and the building industry.

### **Reconstruction, Growth and Development in the Construction Industry**

According to the Construction Industry Development Board Bill (Government Gazette No. 20692, 10 December 2000:01), the government envisages a construction industry development strategy that promotes stability, inculcates a working relationship among established and historically disadvantaged building contractors, fosters economic growth and international competitiveness, creates sustainable employment and addresses historic imbalances as it generates a new building industry capacity. However, there are impediments to the growth and development of the construction industry, for example:

- (i) Sigcau (2000), states that the public sector=s limited capacity to manage its procurement function has given rise to obstruction in service delivery which consequently escalated the cost of development to the public and the building industry.
- (ii) The development of the emerging sector is frustrated by its inability to access finance, credit as well as vocational training.
- (iii) Artisan, supervisory and management capacity has diminished over the past twenty years. Training and human-resource development has been impeded by existing governance and funding mechanisms which tend to marginalise unregistered labour-only subcontractors and emerging black contractors.
- (iv) The relinquishing of direct labour has given rise to the use of unregulated labour-only subcontracting which has impacted negatively on labour relations, human-resource development, output and quality. The latter all contribute to rising costs (Construction Industry Development Board Bill, Government Gazette No. 20692, 10 December 2000:02).

According to Sigcau (2000), transformation is the key to success of the construction industry and the Department of Public Works is committed to transform the racially skewed ownership and participation in this industry. The APP, which was pioneered by the above-mentioned department, presented an opportunity to emerging black contractors and suppliers. Sigcau (2000), states that it is essential to ensure effective and efficient utilisation of financial resources and secure a working relationship between the building industry and the Department of State Expenditure. The development of a national emerging contractor development programme relates to the opportunity created by affirmative procurement and consolidating the capacity and sustainability of emerging contractors (Sigcau, 2000).

Improved performance in the construction industry is impeded by, **inter alia**, the lack of best-practice standards to which the industry can aspire and by the division between the design and contracting capacity with consequences for quality, productivity, training, employment practice, health and safety. When problems arise during the construction or post-construction phase, they result in costly delays. There is currently no recognised national agency capable of coordinating the development and implementation of measures to promote best practice (White Paper: Creating an Enabling Environment for Reconstruction, Growth and Development in the Construction Industry, 2000:43).

The Department of Public Works aims to intensify performance improvement in the construction industry by introducing, testing and monitoring procurement measures to promote best-practice standards for health and safety, productivity and quality, training, employment practice and environmental protection. Partnering relationships between clients and building contractors have proved effective in achieving improved quality and reduced costs in the private sector. A practical difficulty with introducing partnering in the public sector, is the requirement that work be tendered for competitively. The establishment of best-practice performance standards, partnering and participative management techniques are being undertaken in close collaboration with the building industry and the public sector through the Construction Industry Development Board (hereinafter, CIDB). Public sector procurement strategies will be used to give effect to the adoption of both minimum standards and best practice (White Paper: Creating an Enabling Environment for Reconstruction, Growth and

Development in the Construction Industry, 2000:43).

The government believes that emerging building contractors related to SMMEs can significantly contribute to the realisation of key economic and redistributive objectives for, **inter alia**, several reasons, namely:

- (i) SMMEs can be more competitive than larger firms on certain types of small, disparate and geographically dispersed projects because they have lower overhead expenses.
- (ii) SMMEs can lay the foundation to de-racialise the construction industry if they provide for future medium-sized owned firms and controlled by historically disadvantaged persons.
- (iii) SMMEs can be powerful generators of income and employment opportunities since they use less capital investment per unit of output than larger enterprises (White Paper: Creating an Enabling Environment for Reconstruction, Growth and Development in the Construction Industry, 2000:47).

The government has limited resources with which to support SMMEs. Interventions to promote SMMEs are being designed to encourage and reinforce private sector initiatives and avoid reliance on the public sector which cannot substitute or replace the existing finance, training, buying and marketing infrastructure (White Paper: Creating an Enabling Environment for Reconstruction, Growth and Development in the Construction Industry, 2000:48).

The first building construction tender was advertised by the Coega Development Corporation (hereinafter, CDC), for the proposed Industrial Development Zone (hereinafter, IDZ). The tender is for a water break pressure tank and pipelines to reinforce the existing Nelson Mandela Metropolitan bulk water supply infrastructure. The CDC has identified a number of construction and supply components to facilitate the involvement of SMME contractors and suppliers. CDC has pledged to assist emerging contractors to break down each contract into manageable components (unbundling). Furthermore, the CDC has encouraged the formation of cooperative ventures between emerging contractors and existing companies (EP Herald, 20 March 2001, p. 02 col. 01-03).

Another example of where the above-mentioned metropole aimed to enhance the development of the local SMME sector was the launch of a set of initiatives aimed at increasing the capacity of SMME service providers. The initiatives are being undertaken jointly with the World Education/Ntinga institution which is an international NGO that focuses on building capacity among SMME service providers. Many local service providers, as previously mentioned, are faced with a number of challenges such as sustainability, lack of outreach capacity, finance, collateral, infrastructure and trained personnel. The launch of new initiatives is aimed at addressing the above-mentioned dysfunctions (EP Herald, 20 March 2001, p. 12 col. 05-07).

According to Portnet=s Port Authority Division (hereinafter, PAD) procurement executive manager, established construction firms must ensure that they have significant levels of meaningful black (that is, historically disadvantaged building firms), partnerships in order to secure tenders which is in line with Portnet=s commitment to black economic empowerment. Furthermore, PAD has a black economic empowerment policy which is specifically designed to provide clear and unambiguous guidelines for all potential tenderers (EP Herald, 31 May 2001, p. 13 col. 06-09).

PAD also encourages established construction firms to either partner black economic empowerment or sub-contract at least thirty percent (30%) of the value of the contract to the mentioned group=s suppliers. The tender adjudication process gives preference to black economic empowerment construction companies and also ensures that quality is not compromised. The current tender evaluation criteria awards forty percent (40%) to technical quality, thirty percent (30%) to black

economic empowerment compliance, twenty percent (20%) to commercial evaluation and ten percent (10%) for financial consideration. The latter is to protect small businesses from unfair price competition that may be attributed to experience (EP Herald, 31 May 2001, p. 13 col. 06-09).

The Products of Southern Africa and a Procurement and Business Linkages Bulletin was launched with the objective of promoting international trade and assistance to SMMEs with the procurement process. The bulletin emphasises the creation of more business opportunities, employment and role of SMMEs in the new economy and is aimed at bringing the small entrepreneur in contact with large companies, organisations and local government structures that regularly advertise for tenders of goods and services. Furthermore, information is supplied on the role of Tender Advice Centres (hereinafter, TACs), in bringing the SMMEs and tendering organisations together (EP Herald, 10 April 2001, p. 12 col. 05-09).

It can be extrapolated that rigorous support of SMMEs will promote the establishment of procurement management relationships between the Provincial Government of the Eastern Cape and the building industry.

#### Procurement measures to improve building industry performance

The public sector is in the process of introducing procurement mechanisms to promote best-practice methods and standards for public sector contracts with the understanding that it will influence the transformation of the building industry. It is expected that the promotion of standards will lead to improved quality, productivity and effective and efficient service delivery to its clients as well as greater health and safety environmental protection to its workforce and the general public (Procurement Strategies to Effect Best-Practice Standards, 2001:02. <http://www.acts.co.za/rgd-con/RGD00019.html>).

The promotion of best-practice standards will enhance the long-term development of the building industry as well as address present deficiencies and constraints within the industry which will be fundamental to the establishment of procurement management relationships between the Provincial Government of the Eastern Cape and the building industry. Labour market constraints associated with improved performance of the building industry are, **inter alia**:

- (i) Improved performance is impeded by the divide between the design and contracting sphere with consequences for quality and productivity. Problems which arise during the construction or post-construction phase result in costly delays.
- (ii) Construction is often characterised by adverse relationships between contractor and subcontractor, employer and workforce. Unfavourable relations impact negatively on the cost of construction.
- (iii) The entrenchment of adverse relationships between the client and professionals on the one hand, and contractors on the other, is often profound in the implementation of public-sector projects due to a lack of alternative dispute resolution mechanisms.
- (iv) Public-sector procurement regulation limits flexibility in the resolution of disputes.
- (v) Effective utilisation of procurement strategies in all spheres of government presents a challenge in terms of coordination and capacity-building (Work-Process Transformation, 2000:01-02. <http://www/acts.co.za/rgd-con/RGD00019.html>).

Partnering relationships between the clients and the building contractors have proved an effective means to achieve improved quality and reduced costs in the private sector. Within the framework of public-sector procurement, such an approach is arduous to implement. A practical difficulty with introducing partnering in the public sector is the requirement that such work be tendered for competitively. Substantial benefits arise from strategic partnering relationships because relationships are established for a number of projects. Furthermore, international experience in the building industry indicates that the creation of less adverse relations in the workplace contributes to the improvement of

performance. It is the responsibility of the government to ensure that participative management practices are adopted by the building industry which can contribute to resolving problems associated with poor labour relations, skills shortages, declining productivity and output quality as well as unacceptable health and safety standards (Work-Process Transformation, 2000:02. <http://www.acts.co.za/rgd-con/RGD00018.html>).

The building industry should be encouraged to introduce procedures to allow participation of employees and subcontractors in the construction process. For example:

- (i) A tender preference policy can be adopted whereby building contractors accredited in terms of certain productivity or quality programmes, get a preference of up to five percent (5%) against non-qualifying competitors. This system provides for the rewarding of best practice while not disqualifying non-accredited building contractors.
- (ii) Certain categories of tenderers can be requested to pre-qualify in terms of particular best practice performance criteria (Procurement Strategies to Effect Best-Practice Standards, 2001:02. <http://www.acts.co.za/rgd-con/RGD00019.html>).

A register of accredited building industry enterprises is an essential tool for building industry transformation, for monitoring the performance of enabling environmental programmes and for ensuring compliance with performance standards on public sector projects. All construction-related enterprises engaged in public sector work, or in receipt of government funding for training or support functions, will be required to be registered in a manner that will reflect their capacity and performance (Procurement Strategies to Effect Best-Practice Standards, 2001:02. <http://www.acts.co.za/rgd-con/RGD00019.html>).

### **Public-Private Partnerships**

South Africa=s growth strategy includes substantial restructuring of state assets and the extended involvement of the private sector in public service delivery. The governments objective is two-fold, namely:

- (i) To improve economic efficiency.
- (ii) To extend services to more people.

However, the government alone cannot meet South Africa=s development challenge. In order to generate economic growth, provide infrastructure and deliver services, both the government and the private sector must combine their strengths. The strengths refer to providing a supportive policy and regulatory environment on the one hand and entrepreneurial innovation and specialist skills on the other. The private sector is able to deliver effective services in many more areas than the public sector because of the dynamics of competition or an advanced technical or risk management capacity. Access to technology and skills transfer as well as to the much needed capital for expansion and organisational renewal can be gained by involving private capital and expertise into state enterprises (A Strategic Framework for Delivering Public Services through PPPs, 2000:01).

In 1997, Cabinet approved the appointment of an Interdepartmental Task Team on Public-Private Partnerships (hereinafter, PPPs). The team explored ways of improving the performance of various government functions through PPPs. Presently, the government has embarked on substantial partnership projects, for example, the formation of a PPP Unit in the national Treasury (A Strategic Framework for Delivering Public Services through PPPs, 2000:01).

PPP is a contractual arrangement whereby a private party performs part of a department=s service delivery or administrative functions and assumes the associated risks. For example, the MEC for the Department of Social Welfare and Pensions in the Province of the Eastern Cape announced that the

distribution of monthly pensions was going to be undertaken by a PPP (EP Herald, 10 May 2001, p. 08 col. 09). In return, the private party receives a fee according to predefined performance criteria, which may be: entirely from service tariffs or user charges; entirely from a departmental or other budget, or a combination of both. The essential aspects of a PPP arrangement, distinct from the direct delivery of a public service by a department are: a focus on the services to be provided, not the assets to be employed and a shift of the risks and responsibilities to a private provider for the activities associated with the provision of services (Guidelines for Public-Private Partnerships: Department of Finance, 2000:05).

The simplest form of a PPP is a service contract. In such contracts, a department awards a private party the right and obligation to perform a specific service within well-defined specifications for a period of one to three years (Refer to the example in above paragraph). The government retains ownership and control of all facilities and capital assets and properties. A key feature of more complex PPP arrangements, such as concessions and build-operate-transfer schemes, is the mobilisation of private finance on a limited resource basis (Guidelines for Public-Private partnerships: Department of Finance, 2000:06).

Although service delivery through a PPP changes the means of delivering services, it does not change a departments accountability for ensuring that the services are delivered. The department=s focus shifts from managing the inputs to managing the outcomes, that is, to become a contract manager instead of a resource manager (Guidelines for Public-Private Partnerships: Department of Finance, 2000:06).

#### Reasons for the establishment and utilisation of Public-Private Partnerships

Operationally, the benefits of PPPs include: efficiency gains; output focus; economies generated from integrating the design, building, financing and operation of assets; innovative use of assets; managerial expertise and better as well as more services for the same price. Savings can also be used for investment elsewhere. Strategically, partnership contracts enhance accountability by clarifying responsibilities and focus on key service delivery. A department=s managerial efficiency can benefit from the latter because existing departmental finances and both human and management resources can be refocused on strategic functions (A Strategic Framework for Delivering Public Services through PPPs, 2000:02).

Support for service delivery through PPPs vary from one government department to another. For example, in transport, the establishment of the National Roads Agency (hereinafter, NRA), an institution for managing major projects with the private sector, has a streamlined tendering process for procuring private services. The Department of Public Works, despite initial problems with its Asset Procurement and Operating Systems (hereinafter, APOPS) programme, has expanded the use of PPPs (A Strategic Framework for Delivering Public Services through PPPs, 2000:05).

The potential viability of PPP arrangements in South Africa is illustrated by examples such as the Dolphin Coast Water Concession, the N3 Toll Road and the APOPS Prison Contracts. The development and implementation of these projects have highlighted significant constraints in the legislative framework. South Africa=s legislation was drafted before PPPs were recognised as an option for service delivery and infrastructure provision. These constraints have created uncertainties and imposed risks on departments and potential private service providers. A list of the legislative and regulatory framework that may constrain the effectiveness and potential benefits of PPPs are, **inter alia:**

- (i) The present legal framework does not clearly define the legal capacity of the various spheres of government to create binding commitments on behalf of the government.
- (ii) Existing procurement legislation and regulations are geared to conventional procurement

- activities, such as civil works construction and for the purchase of equipment and services.
- (iii) Existing procedures are neither designed to address the complexities of PPPs nor do they provide a basis for ensuring that the key dimensions, for example, affordability, value for money and efficient risk allocation are appropriately evaluated (A Strategic Framework for Delivering Public Services through PPPs, 2000:6).

#### Impact of public financial management on Public-Private Partnerships

Although PPPs can achieve greater efficiency in the use of public resources, they can also negatively affect public financial management if they are not conceived, structured, implemented and monitored. Currently, the absence of a formal policy and regulatory framework for the financial management of PPPs is being addressed in order to limit possible adverse budgetary implications. For example, the lack of effective regulatory mechanisms creates the potential for departments to embark on PPPs that are not affordable. Many projects, particularly those on the local and provincial government spheres that involve the collection of tariffs from the public, are accompanied by requests from private investors for guarantees or performance undertakings. National government has indicated that it will not underwrite local and provincial government guarantees. However, a belief persists in the building industry that the economic and political costs of not supporting sub-national institutions that default on their obligations, would be too significant for the government to ignore (A Strategic Framework for Delivering Public Services through PPPs, 2000:06).

#### Procedures in procuring Public-Private Partnerships

The purpose of re-qualification is to compile a shortlist of suitable building contractors with the experience and capacity to implement a project. Pre-qualification ensures that a manageable number of building contractors are invited to submit tenders. This is necessary because tender costs for PPP projects are substantial. Consequently, potential tenderers will tender if they have a better prospect of winning the tender. Pre-qualification also improves the quality of the tender, because tenderers engage more intensively in the process (Guidelines for Public-Sector Partnerships, Department of Finance, 2000:21-22).

Pre-qualification requires prospective tenderers to demonstrate that they have:

- (i) Specific experience in the sector (for example, toll road operation).
- (ii) Successful performance on similar projects, with reference from former clients.
- (iii) Relevant experience and performance in similar economic, demographic and geographic areas.
- (iv) Appropriate personnel and equipment capabilities.
- (v) Financial capacity to carry out a project.
- (vi) Capacity and commitment to promote empowerment and affirmative action (Guidelines for Public-Sector Partnerships, Department of Finance, 2000:21-22).

The pre-qualification criteria tends to favour organisations that are recognised providers of similar services. Balancing the latter will foster effective and meaningful participation by empowering building contractors and SMMEs (Guidelines for Public-Private Partnerships, Department of Finance, 2000:22).

It can be extrapolated from the above that strict control measures and adherence to policies laid down for PPPs by government will promote the establishment of procurement management relationships between the Provincial Government of the Eastern Cape and the building industry.

#### Privatisation and the building industry

According to Musambachime (in Pillay, 2000:255), privatisation has been given several definitions by various writers who perceive it as a reflection of a new policy initiative geared to meet the altering balance between the private and public sectors. Scott and Wellons (in Pillay, 2000:255-256), define privatisation as:

***A... the process of transferring operations and assets from the public to the private sector. Privatisation is more than the selling of an enterprise to the highest bidder, as it includes contracting out of goods and services, private sector financing of infrastructure, projects liquidation... There is no single best approach to privatisation; the appropriate path depends on the goals that the government is seeking to attain, the individual circumstances facing the enterprise and the (social), economic and political context of the country@ (Scott & Wellons, in Pillay, 2000: 255-256).***

It can be inferred from the above that privatisation is a general effort to encourage the public sector to adopt efficiency enhancing techniques induced by market forces and the transfer of ownership and control of productive assets from the public to the private sector.

### **CONSEQUENCES OF ATTITUDES TOWARDS PREVIOUSLY DISADVANTAGED BUILDING CONTRACTORS BY ESTABLISHED CONSTRUCTION COMPANIES**

Attitudes play a major role in the success of any human interaction. As a result of the extensive cultural diversity in South Africa, positive attitudes to achieve mutual success in public management in general and in public procurement initiatives are imperative for the achievement, maintenance and enhancement of societal welfare.

#### **Nature and extent of attitudes**

Most societies throughout the world came into being as a result of similar evolutionary processes than those that determined the present societal composition in South Africa. The multiplicity of cultures that converged to produce the current South African nation are each characterized by its own distinctive historical and ethnocentric background.

A number of legislative measures to combat negative attitudes towards previously disadvantaged individuals in the building industry have been implemented by the current South African government in terms of the RDP and GEAR. The latter programmes require the implementation of measures such as the Preferential Procurement Policy Framework Act, 2000 (Act 5 of 2000), to rectify imbalances in the adjudication and awarding tenders. The mentioned Act attempts to bring about changes in negative and established attitudes on awarding of tenders only to minority well-established construction companies. However, these changes may not take place overnight and may become problematic for the political office bearers.

To ensure that all role-players are entirely committed to the successful implementation of the above-mentioned government programmes and policy, it must be ensured that positive attitudes regarding the changes from previous apartheid-based government policies are cultivated. As reflected in the above-mentioned examples, this requirement is still difficult to execute even though South Africa is into its seventh year of democracy.

The relevance of inculcating positive procurement management relationships between the Provincial Government of the Eastern Cape and the building industry can be summarised as follows:

6. Explanation of human motivation and behaviour in the work place is facilitated.
7. The complex nature of motivation and behaviour are seen as a function of a specific person

within a specific situation.

8. Further research is stimulated by extending the model (for example, the Field theory). It can be utilised to identify employee problems in an institution.

### **IMPACT OF COMMUNICATION IN PUBLIC SECTOR PROCUREMENT**

As is the case with attitudes, unambiguous and clear communication is an essential component of successful public sector procurement management.

The Port Elizabeth Regional Chamber of Commerce and Industry (hereinafter, PERCCI) which plays a major role in the establishment of networking opportunities for the previously disadvantaged SMMEs with major construction companies, severely criticised the established construction companies for not presenting the former with business opportunities. The blame was placed on the almost total lack of communication between the latter and the former. A concerted effort is being made by the PERCCI for communication channels to be opened between black businesses and the traditionally established companies and the latter to be granted an opportunity to open the lines of communication with the managing directors of major construction companies (Van Huyssteen, 2000:01).

According to Mead (1993:02-03), communication is an activity or process of giving information to other people or to living things. Good communication helps to develop and maintain good relationships which, in turn, mean increased output of goods and services.

Communication is only effective when its message is clear. In order to achieve a department=s objective, clarity is difficult in a cross-cultural context where individuals may apply different perceptions when communicating. Individuals and groups communicate in order to reach common understanding which is reached when it shares perceptions, beliefs, attitudes and knowledge about a process (Mead, 1993:39).

Communication problems in South Africa originate because whites do not understand the basic guidelines of communication among blacks, for example, the importance of personal dignity to the blacks is of utmost significance. When a black employee is reprimanded in the presence of others, it is regarded as a great insult. Moreover, when the employer does not greet the employee first, the former, by implication means that he/she does not see the latter as a human being (Du Preez, 1987:11).

It is clear that for effective communication to take place between the various role-players in the management of procurement in the Eastern Cape Provincial government, respect and an understanding of the various cultural groups and individuals is essential.

Furthermore, on the subject of inter-cultural communication, politeness and respect are among the salient aspects for good communicative relations to take place between different cultural groups. Consequently, open and clear communication is regarded as fundamental for the establishment of successful procurement management relationships between the Provincial Government of the Eastern Cape and the building industry.

### **SUMMARY**

This article explored the nature and extent of procurement management relationships between the Provincial Government of the Eastern Cape and the building industry.

The challenges facing the construction industry was explained within which the important role of the development programmes enunciated in the RDP and GEAR was highlighted. Concepts common to both the public sector and the private sector procurement were expounded upon. The relationship between purchaser and supplier in public sector procurement was discussed. A detailed exposition to promote the previously disadvantaged building contractors was explained. Hereunder, affirmative procurement, (preferential procurement), the Emerging Contractor Development Programme, State Owned Enterprises, the role of small, medium and micro enterprises and measures on how to improve building industry performance was explicated. The impact of Public-Private Partnerships was explained in detail. Finally, the consequences of conflict, attitudes and the importance of effective communication in public sector procurement was discussed.

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