
**A PROPOSED CONTRACT MANAGEMENT FRAMEWORK
FOR ESKOM TRANSMISSION DIVISION (ETD)**

by

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GLOSSARY OF TERMS

ABBREVIATION/NAME	MEANING/DESCRIPTION	REFERENCE
ETD	Eskom Transmission Division	
Squad Check	Checking of the enquiry document (to see if the specification, terms and conditions of the tender are correct) by the cross functional team	
Contract managers	Buyers responsible to manage national contracts at Eskom.	
SMME	Small Micro medium Enterprises	
BEE	Black Economic Empowerment	
KPI	Key Performance Indicators – the measurement of performance in Eskom	
TQM	Total Quality Management	
JIT	Just In Time	
HR	Human Resource	
Q A	Quality Assurance	

DEFINITION OF TERMS

NAME	MEANING/DESCRIPTION	REFERENCE
Cross functional team	A set of individuals from various departments assigned a specific task.	APICS Dictionary, 9 th edition, 1998
Best Practice	Accepted as being 'about doing things in the most effective manner'	Gattorna and Walters (1998)
Benchmarking	A method for continuous improvement that involves an ongoing and systematic evaluation and incorporation of external products, services and processes recognized as representing best practice.	Macneil, Testi, Cupples and Rimmer (1994)
Total Quality Management	A management approach to an organization centered on quality, based on the participation of all its members and aiming at the long success through customer satisfaction, and benefits to the members of the organization and to society.	Burt at el (2003:127)
Market Price	A market price is the price that Eskom would normally pay for the goods or services if the goods or services were obtained from non-Eskom suppliers.	Eskom Corporate Directive, (2005, May)

Fair Price	The fair price is determined by calculating all the component costs that make up the particular goods or services, with both sides agreeing that they are fair. A margin that both buyer and user determine to be fair is then added to these costs.	Eskom Corporate Directive, (2005, May)
Cost Recovery	Eskom pays the actual costs incurred in delivering the goods or service.	Eskom Corporate Directive, (2005, May)

ABSTRACT

Eskom Transmission Division (ETD) is being forced to rethink its business development strategies, in order to deal with rapid technological, capital and social changes. As a result, there is a high need for contract managers to learn to procure goods and services effectively and efficiently. Subsequently, the capabilities and skills of buyers, and in particular contract managers, need to reflect Eskom's challenges faced in delivering on South Africa's developmental needs for affordable electrification. Because of the complex nature of contract management, it is required that a detailed and carefully written contract management framework that defines the commercial supplier relationship, contract management aspects of the results and the desired behaviour of the contracting parties, be established beforehand.

Therefore, there needs to be greater emphasis on structuring and delivering of procurement training in the future, as contract managers will need to have skills to be able to work within a cross functional team, be strategic thinkers, and manage supplier base and relationships. A variety of methods can be used to implement training and they range from formal education, coaching, on job training and internet training. The ETD senior managers need to monitor the performance of the contract managers wants the training methods have been introduced to identify the gaps.

The aim is for this contract management framework to provide intangible elements of quality cost to enable contract managers to perform strategic sourcing in order to be innovative in their decision making. The contract management framework will focus on identifying and discussing strategic ideas that will enhance and improve the effectiveness of contract management at ETD. Contract managers need to be trained to enhance and update their skills. The training should focuses on:

- Total cost of ownership in selecting the suppliers rather than concentrating on price only,
- Reducing their supplier base and building strategic relationship with their suppliers,
- Formation of formal cross functional teams,
- Formation and management of supplier relationships,

- Monitoring and Measuring the performance of the suppliers and contract managers,
- Strategic Sourcing, and all other cost reduction methods.

This contract management framework will focus on the following cost saving and risk sharing opportunities, which will result in an efficient and effective contract management at ETD:

- **Expenditure Analysis**

In terms of expenditure analysis ETD should consider reducing the supplier base in order to consolidate and leverage expenditure and to manage the relationship with strategic suppliers more effectively. This will result in contract managers concentrating more on long term partnership and strategic relationships with its suppliers. As a result, ETD could benefit in terms of an increase in access to technology, where those suppliers that have received more volume and longer-term contracts become willing to invest in the manufacturing equipment that will improve their equipment production and processes. Because of the long term relationship that will be developed with these suppliers, they will also be willing to share the costs and risks with ETD.

- **Training and the Skills of Contract Managers**

It is very important for contract managers to be trained and have the required skills to manage contract. This was confirmed by the case study conducted in one of the ETD contract to refurbish transformers. In analyzing this contract, it was found that:

- The rates quoted in the contract are above the market rates.
- ETD contract managers do not challenge the specifications or operating practices and quotation costs. As a result most of the quotation costs or rates and ideas of how the transformers should be refurbished come from Rotek.
- Contract managers do not know how much they spent in paying the labour, materials and other varied costs associated with the refurbishment of the contract. ETD has been paying numerous indirect costs or rates, such as

additional overtime, rework due to unacceptable components quality, materials costs on heavily engineered components and so forth.

All this contract mismanagement matters could have been avoided if the contract was managed effectively, and there is collaborative relationship with the supplier to ensure a solid working relationship and to reduce lead-time and costs. This relationship should be based on trust, cooperation, interdependence, joint quality improvement efforts, information sharing, risk and benefit sharing, and joint problem solving. Especially during the future capital expansion projects which ETD will be engaged in, there will be a high need for dependable suppliers to provide the required design and technological input needed for marketable profitable products and for satisfactory services to result.

- **Cross functional teams**

The formation of formal cross functional teams will help in making the decisions that impact multiple functional areas. Without the representatives of various areas the decisions are likely to meet resistance. Thus, if the representatives of each of the functional areas are involved on the team, they will provide beneficial input in the resulting agreement. In turn, each representative will be responsible for ensuring acceptance by his or her functional area, of the team's decisions. Cross functional teams also enhance problem resolution as the team will be bringing their different expertise in solving problems or making decisions.

- **Top Management Support**

For successful implementation of this framework, ETD top management need to support it by communicating its importance in terms of helping contract managers to think out of the box and see the competitive benefits of the new ways of managing the contracts.

- **Cost Reduction**

The cost reduction can be through the use of:

- **Total cost of ownership (TCO)** - where not only the price is considered when evaluating tenders from the supplier, but quality, delivery, maintenance, disposal and other cost saving ideas, including flexibility levels offered by the suppliers are considered by the contract managers. Thus, the contract managers need to have the skill to see the value stream, sequence of value creating steps required to design, make and deliver the product and to learn to remove the waste, mistakes and rigidities. Therefore in analyzing TCO, it is vitally important to understand the suppliers' market and financial reports to come to an effective solution with regard to the factors that make up the prices for the product or services they procure in addition what drives cost into the product or service in the market place.

- **Strategic sourcing** – contract managers should focus on development of competitive value based pricing, where the overall costs are considered, and innovative strategic sourcing, where consideration is based on new products and services that deliver a competent advantage and new ways of doing business. For example, how quickly can the supplier adapt to changing ETD requirements?

- **Performance monitoring and measurement** – contract managers need to continuously monitor the performance of suppliers based upon metrics that are directly derived from the service. By monitoring the performance of the supplier the contract manager will know in advance about any production or service delivery problem and come with mitigation steps together with the cross functional team. This will then prevent ETD in continuously accepting late and inadequate products or poor services from the suppliers.

- **Supplier relationship** – the formation of supplier relationship with suppliers will benefit ETD in risk sharing and cost reduction. Therefore, the objective of a contract management framework must be to establish relationships with suppliers that have resources in order to integrate their specialist capabilities in a way that yield significant value potential from both sides.

➤ **Training of contract managers** – as there is greater emphasis on structuring and delivering of procurement training in the future, contract managers will need to have skills to be able to work within a cross functional team, be strategic thinkers, and manage supplier base and relationships. A variety of methods can therefore be used to implement training, which can range from formal education, coaching, on job training and internet training. Networking with other contract managers can also assist in the development of personal skills and adoption of better practices whether formally (as part of membership of a professional body) or informally (at conferences), exchanging ideas and meeting with other professionals can be extremely useful. The ETD senior managers need to monitor the performance of the contract managers wants the training methods have been introduced to identify the gaps.

- **Conclusion**

In conclusion, before a new contract is established, it is important to review the success and failures of the current contract, in order to establish a clearer understanding of what makes contract management successful. These lessons will then form the basis of planning tender requirements and negotiations for the next contract. For successful contract management, contract managers should ensure that a preferred relationship type and pricing structure is selected, and agreed succession plan. A contract review should also examine the cost-effectiveness and efficiency issues.

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Thembisile Khomo

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DECLARATION

I hereby declare that this thesis is my own original work, except where specific acknowledgement has been made. It is submitted in partial fulfillment for the degree of Masters in Commerce in Supply Chain Management in the University of Kwazulu Natal. It has not been submitted before for any degree or examination in any other university.

Thembisile Khomo

November 2005

WRITER'S PERSPECTIVE

The writer is currently working at Eskom Transmission Division (ETD). ETD has identified the need for the establishment of more national contracts as the most appropriate mechanism to procure the goods and services over a period of five years to meet the high demand in a range of capital expenditure. Because of this, the workload of contract managers will increase as more contracts need to be established with the suppliers. There are currently twelve contract managers at ETD, of which the writer is one of them. Each contract manager manages about one to twelve contracts and their values ranges from R15 million to R1.billion. The high volume of the contracts to be managed at ETD and the lack of sufficient skilled contract managers, have resulted in the appointment of contract managers whose levels of grading is not in line with their responsibilities or value and complexity of contracts. The new contract managers also lack knowledge to manage contracts and as a result they cannot influence the market and manage the contracts effectively. The tendering process for contract renewals is not always initiated and in some cases there is incomplete scope in tender documents.

The lack of proactive contract monitoring has resulted in products or services failing to meet required tests, creates cost and production problems as well as delays in deliveries. In some cases it has lead to ETD continuously accepting late and inadequate products from the supplier and ETD has had to assign its own personnel to tasks contracted to the suppliers. The establishment of a contract framework will help the contract managers to have a broader range of knowledge in terms of market and business conditions changes. They will be able to understand suppliers' market trends, customer requirements, and be strategic thinkers in managing their contracts.

CHAPTER 1. INTRODUCTION

1.1. Purpose Statement

The swift rise in demand for platinum group metals and chrome has resulted in a rapid load growth in the Rustenburg area. The buoyant platinum and chrome market has caused significant increases in mining ore and refining activities resulting in an escalating electricity power demand. Furthermore, the development of the Coega area in the Eastern Cape requires additional network reinforcement to meet the new demand for electricity in that region. All these demands have resulted in an increased need for electricity supply. As South Africa will require about 2 500 megawatts of new peaking generation capacity between 2006 and 2010, Eskom will invest approximately R94 billion to build about 70% of the country's power generation capacity to keep up with this growing demand for electricity. The remaining 30% will be built by independent producers. As a result, there is a high need for contract managers to learn to procure goods and services effectively and efficiently. Subsequently, the capabilities and skills of buyers, and in particular contract managers, need to reflect Eskom's challenges faced in delivering on South Africa's developmental needs for affordable electrification.

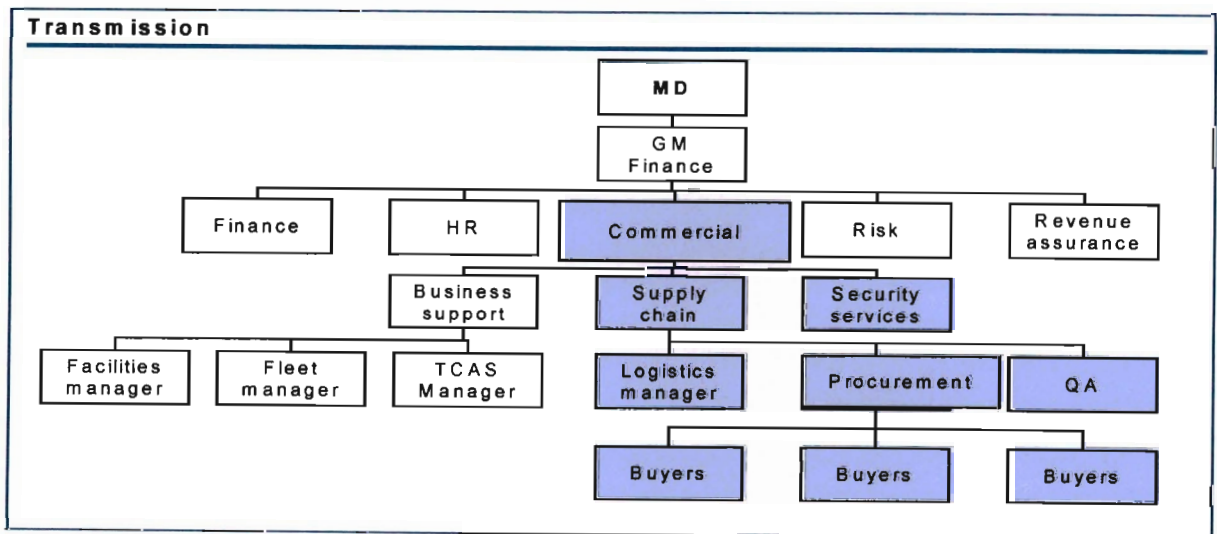
The purpose of this study is to develop a contract management framework for ETD. This will entail changing the role of contract managers to focus on improving integration across internal functions through to the customer and ensure deeper penetration across multiple tiers of the supply base. A case study will be used as a phenomenological design. At this stage in the research the contract framework will be defined generally by looking at the way the contracts are presently managed. This will enable the future development of an improved framework in order to have contract managers who possess strong skills in teaming and plan development, establishing goals for determining user requirements and benchmarking program or method. The method of data collection will be literature review, analysis of reports from the SAP system, interviewing contract managers, questionnaires and benchmarking.

1.2. Eskom Transmission Division

As a result of the abovementioned and other expansions of the Transmission network and the resulting requirements for a range of capital expenditures, ETD has identified the need to generate more national contracts as the most appropriate mechanism to procure these goods and services over a period of five years. The workload of contract managers will increase because more contracts need to be established with the suppliers. There are currently twelve contract managers at ETD and each person manages about one to twelve contracts with the values ranging from R15 million to R1,05 billion (Annexure A). The overall management of contracts is currently not conducted effectively. This mismanagement has resulted in overspending on some contracts or inadequacy in execution thereof. The result is misleading cash flow information, over-expenditure on contracts and delay in payments, as the contract managers are sometimes unaware of contract changes or modifications and thus changes to contracts are not reflected in the system.

1.3. ETD Current Structure

Figure 1: Structure of ETD



Adapted from ETD Business Review Structure Report, May 2005

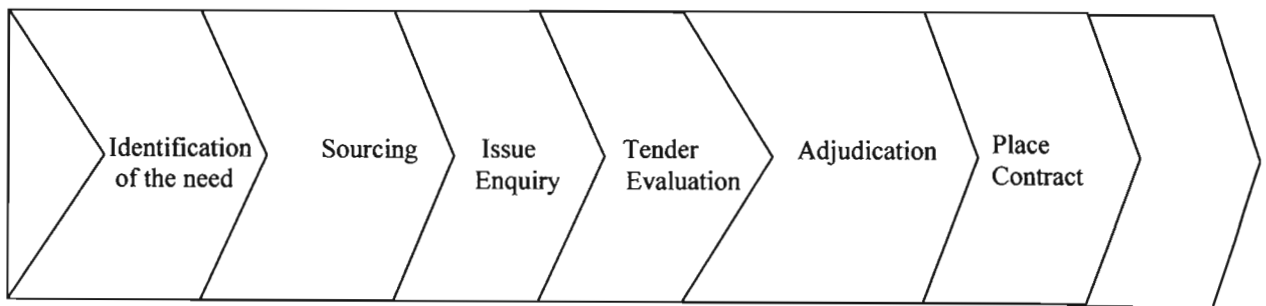
The structure above shows that there is presently no high-level supply chain representative at ETD. The Supply Chain Manager reports to the Commercial Manager, who in turn

reports to the General Finance Manager. From a world-class supply chain perspective, ETD needs to address this discrepancy and have someone representing supply chain within top management.

1.4. ETD's Procurement Process

The tendering procedure I think what u mean to say here is procurement process or contract strategy or mechanism used for national contracts occurs where expenditure has been explicitly budgeted for in a capital, operating or expense budget. The scope of work is often of a complex nature and of long duration. It may include design, development, manufacturing, installation, commissioning, erection and construction. The total value of contracts resulting from any single enquiry determines the level of approval.

Figure 1.1 Procurement Process



Adapted from Eskom Corporate Procedure, 2004

1.4.1. Identification of the Need.

The tendering procedure procurement process starts when the project manager or the end user concerned communicates equipment or work requirements to the contract manager by means of a written request supported by drawings, bills of quantity, specifications, data sheets, etc. The user/project manager enters as a purchase request in the procurement system a brief of the information, to enable control and payment.

The contract manager obtains information from the user regarding the requirements for the tendering and validity periods, to ensure that adequate time is allowed in the enquiry for the preparation, evaluation and approval of tenders.

1.4.2. Sourcing

The contract manager, assisted by the user and where necessary technical experts, decides on a list of suppliers to be approached. The list is selected from a database of approved suppliers. The suppliers are qualified and approved against the risk in buying the product or service in terms of the level of technology required, specialist qualifications required by law, criticality of the product or service to Eskom's core business, safety or health of employees or customers and high monetary value of the order/contract.

ETD prescribes different appropriate criteria to provide for the qualification of different types of suppliers supplying differing categories of goods, works or services in differing industries. Suppliers are evaluated in terms of their compliance with applicable commercial, financial, quality, technical, environmental, safety, capability/capacity and human resource requirements, as well as performance ratings (where applicable), as determined by ETD. Multidisciplinary teams (representing the functional areas) evaluate a supplier according to a pre-determined set of criteria as per the type of product and service required. All documents (reports or evaluation sheets) used in the qualification process are retained for two years or until the next time the same supplier is qualified.

1.4.3. Enquiry

The contract manager prepares a written enquiry using National Engineering Contract (NEC) documentation, complying with all the requirements for the particular form of contract. The contract manager will obtain input from the user, as well as from all the relevant specialists in the functions of design, quality support, finance and law, to ensure that the details of the requirements are accurately and clearly reflected in the enquiry. The contract manager would include specific instructions regarding closing date, time, place, method for the submission of tenders and validity of tenders with all enquiries.

1.4.4. Tender Evaluation

The contract manager commercially evaluates all tenders. The financial evaluation will be done by the Treasury Department when:

- Prices include Contract Price Adjustment, such as SEIFSA Indices, Production Price Indices or Consumer Price Adjustment and;
- The Foreign content is greater than US\$10 million or the equivalent in alternate currencies.

Normally, the lowest financially, technically and commercially acceptable tender is recommended for acceptance.

1.4.5. Adjudication

The contract manager will submit the report to the relevant level for approval.

1.4.6. Contract placed on SAP system

The contract managers will place the contract on the SAP system based on the enquiry, as accepted by the relevant approval authority. The payment for goods or services could then be effected after the goods are delivered or when the services have been completed.

1.4.7. Request for Information (RFI) or Request for Proposal (RFP)

Where the user's or project manager's need cannot adequately be described, or where innovative solutions to a problem are sought, the RFI or RFP process is followed. The project manager or user communicates his or her needs to the contract manager, who will then compile a list of possible suppliers, for example, those with the experience or skills to solve the problem. The contract manager will invites the suppliers to an information or site meeting, giving as much information as possible about the problem, with on-site demonstration where required. The contract manager then in writing invites all interested suppliers to submit proposals on how they would go about defining and solving the problem. The invitation stipulates a closing date and time for responses. The normal tender receiving

processes are followed, although these documents are not tenders. The contract manager, user or project manager and technical experts analyze all proposals, selecting one or more suppliers. The contract manager will then obtain a mandate to negotiate with the selected supplier/s, using the negotiation without prior tendering mechanism. If the problem is likely to be recurrent, the negotiation team and buyer attempt to procure the rights to the solution in order to go to open tender for future procurement. After the adjudication of the RFI or RFP mandate the contract will then be placed on SAP system.

1.4.8. Negotiation without Prior Enquiry or Tendering

The negotiation process is used where circumstances dictate that the criteria for formal tendering do not apply or where previous enquiries for the same or similar items have not resulted in acceptable response. The scope of work is often of a complex nature and could include design, development, manufacturing and civil and building works. The project manager or user will enter requests for purchase directly into the system. When the scope of work is extensive, for example, for capital projects, the user or project manager concerned may submit a written document with supporting documentation. Where the project manager or user cannot adequately describe the need, a request for proposal process is followed to develop a description. The contract manager need to ensure that the information received is as complete as required, to enable him or her to write an effective request for a mandate to negotiate and the status of the budget or vote commitment is confirmed.

The contract manager needs to decide on the negotiation team, real and aspiration bases of prices, BEE strategy, contract conditions amongst other things. The contract manager will then prepare a written proposal. The written proposal will then be presented to the relevant approval authority, to approve or rejects or amends the proposed mandate. The contract manager also needs to ensure that negotiations are conducted within the parameters of the mandate. If agreement is reached within the parameters, the contract will be compiled based on the exact details of the agreement reached during the negotiations and the contract should conforms to

Eskom's commercial, financial and legal requirements, and all legal formalities dictated by the form of contract are completed. The contract manager will then report the outcome of the negotiations to the mandating approval or adjudication authority.

If agreement cannot be reached within the parameters of the mandate, the contract manager must submit the supplier's counter proposal to the approval or adjudication authority for acceptance or rejection. If the supplier's counter proposal is rejected, the approval authority may abort the procurement or instruct the contract manager to revise the proposal, for example to approach an alternative supplier or to obtain alternative specifications from the initiator, Eskom Procurement by Accredited Buyer Policy (2004:10-15).

1.5. Contract Management

The contract manager will ensure the creation of a contract file containing all information, from the request for purchase to the contract itself. 'This documentation is important in making the process transparent to be audited as the key performance requirements and parameters are visible', states Fawcett and Magnan (2001:73). All later correspondence and other documentation relevant to the orders or contracts shall also be documented. The contract manager rarely follows up on the acceptance of the order or contract or indeed on expediting the execution of the order or contract to ensure that all conditions are met.

The trade creditors or accounts payable department effects payment upon receipt of the supplier's invoice, the delivery documentation received by project manager or user or stores and when the order or contract is processed by buying matches, or when a valid payment certificate is presented by the project manager or responsible person. The contract manager is also expected to resolve all discrepancies between the original order and the supplier's invoice(s) and, where required, the necessary modification to the order needs to be processed before the order is closed.

From the above procurement process it can be seen that the procurement department is involved belatedly in the process, as they are not engaged during the identification of the need. The end user and project manager determine the demand or need to purchase. Strategic sourcing and methodologies such as total cost of ownership, economies of scale and global sourcing are rarely used. Contract managers' source from the in-house database system, which does not assist with identification of new suppliers and most suppliers are listed without details about their capabilities. During evaluation of tenders and negotiations, there is little to no analysis of market and price trends or potential savings ideas. The performance of the supplier is not monitored and measured and there is no supplier relationship. Thus ETD is not achieving any cost reduction from economies of scale procurement and risks sharing with its suppliers.

1.6. Aim of the Research

The objective of this research is to achieve value for money so as to deliver probity and accountability for ETD in meeting the high demand during the procurement of capital expenditure in the next five years. The value for money shall include:

- The total cost of ownership of the goods to be purchased. The total cost of ownership includes the price, quality, support service, holding costs, maintenance costs, environmental impact and disposal costs of the products; and
- Managing the supplier relationship. The contract managers need to ensure that goods and services are delivered on time and at the cost and quality standard specified in the contract.

1.7. Current Expenditure

ETD is currently spending approximately eighty percent of the total amount of R1.2 billion on long-term national contracts. These contracts are mainly for the supply of power transformers, circuit breakers, shunt reactors and conductors, to name a few. It is therefore important to develop a framework for contract managers, which will guide them in their roles. Efficient contract management is characterized through the establishment of long-term national contracts. To prevent late deliveries of equipment or disruption in production,

contract managers and suppliers must work together and communicate often in order to tighten their collaborative relationship.

1.8. Stakeholder Analysis

An examination of stakeholders' responsibilities is tabled below to determine the key opportunities for their influence on the value of the contract management framework.

Table 1 Examination of Stakeholders' responsibilities

Stakeholder Responsibilities

Top Management	Support the implementation of the framework
Contract Managers	Take ownership of the framework
Technical Specialist	Provide technical support in the formation of cross functional team
Project Managers	Provide support in the clarification of the project specification
Suppliers	To support the planning and implementation of the framework

Adapted from the interviews conducted to the ETD's contract managers, November 2005.

For contract managers to be effective in developing achievable goals and goals that add value to their contract management process and framework, the goals need to be formulated in alignment to ETD strategy and vision. Thus, top management need to ensure that alignment takes place to prevent counter productive goals in contract management. The formulation of the contract management framework should include activities such as the establishment of contract type and relationship required, terms and conditions of contract, negotiation terms and the establishment of a cross functional team to provide both technical support and clarification of specification to ensure full value performance. To manage the suppliers, contract managers need to monitor, measure, benchmark and evaluate contract performance. There should also be continuous improvement objectives, periodic reviews and communication between contract managers and suppliers (adapted from Sollish & Maddox, 2005:10).

1.9. Conclusion

The contract managers need to have the holistic knowledge on how to manage contracts including ETD's future goals and objectives in terms of establishing long-term relationships with suppliers. To effectively perform this role the contract managers must adopt new approaches that incorporate information sharing and relationship management with their suppliers. Thus, ETD management should start training the contract managers to manage the contracts in an effective manner to the benefit of the division.

Chapter 2 focuses on the literature review, including the purpose of the implementation of the contract framework and the current duties of the contract managers at ETD, in addition to the way contract managers view their current positions in terms of its importance. It includes the description of the framework for establishing contract management and supplier relationship and pointing out ways to align these strategies to ETD. Thus this chapter concentrates on the successful execution of the most viable contract management strategy.

Chapter 3 focuses on research methodology including the interviews and case study conducted.

Chapter 4 focuses on the analysis of the responses found from the interview and case study, and benchmarking and compares this to the best practices.

Chapter 5 focuses on recommendations and conclusions for the framework.

CHAPTER 2. LITERATURE REVIEW

2.1. Introduction

ETD is being forced to rethink its business development strategies, in order to deal with rapid technological, capital and social change. As stated by Hughes, Ralf and Michels (1998:210), “radical adjustment in focus, positioning, product or service development and rational links with trading partners are required to keep the business on course and enable it to meet the ever greater demands of the organization and customers by determining an appropriate strategy that balances the needs for radical, business development changes with narrower operational process redesign”. As a result of the complex nature of contract management, it is required that a detailed and carefully written contract management framework that defines the commercial supplier relationship, contract management aspects of the results and the desired behaviour of the contracting parties, be established beforehand. Thus, the process which is needed is one which allows and encourages a multi-disciplined, structured, analytical approach directed towards the achievement of pre-defined objectives, with participants being involved in the creation of alternative solutions and the judgment and decision making which follows. A detailed examination of stakeholder objectives and factors affected by this form of procurement will be done under the diagnostic in Chapter 4. This will then serve as one of the key opportunities to influence contract management value and ensure that stakeholders are eventually satisfied.

Contract managers need to have the necessary skills in order to establish goals, analyze the supplier market, query the specification or scope of work and negotiate with suppliers. Contract managers also need to have the skill to communicate efficiently, plan, do forecasting and realize the importance of ETD strategic plans as regards product availability and quality.

Current source of selection at ETD

Supplier selection is an integral part of the procurement process. There are many options to supplier selection. Burt, Dobler & Starling (2003:339) have listed the following options for supplier selection:

- Cross functional teams need to be established (consisting of all the relevant disciplines) to manage a contract;
- Commodity teams need to be created to manage a group of similar commodities. The main difference between cross functional teams and commodity teams is that cross functional teams tend to be used once-off, per contract whereas, commodity teams are more permanent as long as the commodity is required in the company; and
- Routine, transactional buying must be done by lesser skilled and lesser experienced buyers. Apart from the obvious benefits of doing this it will also allow for junior buyers to grow in the business, initially from transactional buying, progressing to contract management.

2.2. Cross-Functional Teams

Purchasing can play a significant role in the facilitation of value adding or reducing costs by the creation of cross functional teams, to improve decision making capabilities and the flow of commercial information within ETD. The cost reduction is a natural outcome of a cross functional team approach, it must not be seen as the sole aim; rather it is the logical conclusion that arises out of an amalgamation of value-adding concepts. The contract managers need to be trained for ETD to accomplish the maximum impact of cost reduction (Cousins, 1994).

Cronje, Du Toit, Motlatla, and Marius (2004:541) stated that, “to be a member of a cross functional team, a contract manager must have the ability to work with groups and display leadership qualities”. It is therefore imperative that ETD appoint contract managers who have the aforementioned leadership qualities to manage the contracts. Ultimately the values of these contracts are very high and if they are managed effectively ETD could realize the cost benefit value.

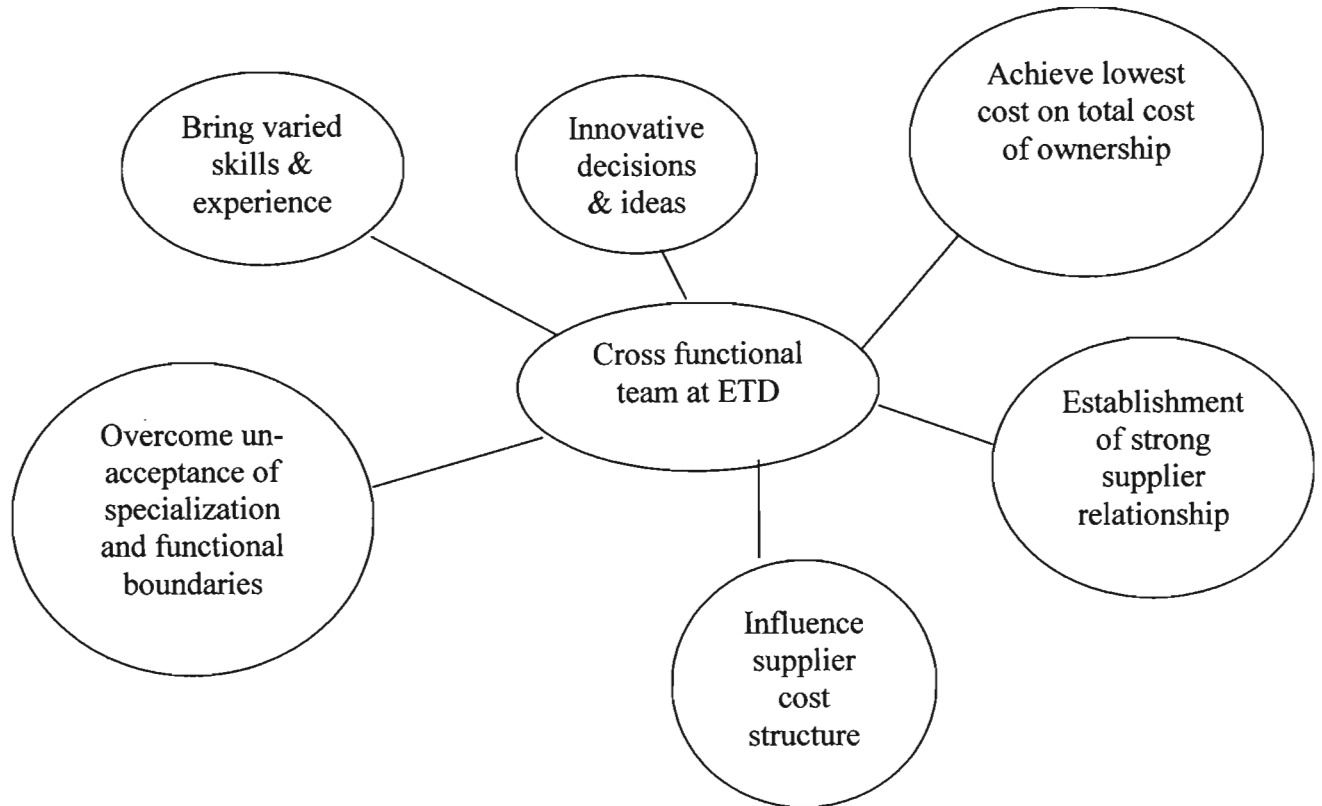
The contract managers will form part of the cross functional team that will be responsible for reviewing all the major areas of expenditure and recommend the sourcing plans for each area of expenditure. Cross functional teams have become an accepted approach to many supply chain activities involving complex, strategic or high value purchases and negotiations where time is critical. Cross functional teams can overcome the negatives of specialization and functional boundaries by providing an outlet for the perspectives of the departments the team members represent. They also eliminate the need to work sequentially through functions so that time and effort are not wasted, leading to reduced cycle time and project duration (Gattorna 1998:526).

2.2.1. Cross functional teams at ETD

Cross functional teams exist only in an informal basis at ETD, mainly to manage the long-term national contracts. These teams are not recognized as fully-fledged cross functional teams with formal goals linked to performance and so their roles are limited to that particular type of commodity at that particular time. It is important for the cross functional teams to be formally brought together to achieve a specific objective. The cross functional teams should include the specialists from engineering, quality assurance, procurement, logistics, finance and project management. The teams should be led by a contract manager. The goal of the cross functional team must be to achieve the lowest total cost of ownership for a purchase and not just purchase price, implying that the life cycle costs are considered.

2.2.2. Formal implementation of cross functional teams at ETD

Figure 2: Spray Diagram - Cross functional team at ETD



Adapted from Lane System Thinking: Principle and Practice – Diagramming, 1999.

From the above graph it can be seen that the formation of a cross functional team at ETD could lead to the formation of innovative decisions and ideas as the team will contribute their varied skills and experiences. The team could achieve lowest cost on total cost of ownership, establish strong supplier relationship and overcome the un-acceptance of specialization and functional boundaries. The use of a cross functional team can empower the contract managers in improving and influencing supplier cost structure and decision making processes. In considering the implementation of formal cross functional teams, cognizance must be taken of the prevailing ETD culture. In this respect ETD culture encompasses the values, beliefs and norms that have evolved over time and that influence individual and group behaviour (Gattorna 1998:453). As mentioned above, a number of

informal cross functional teams have emerged at ETD, which indicates that the ETD culture can support such a strategy and, if introduced, the change should not meet too much resistance. Involving functional areas up front in the establishment of teams and in determining their mandates will further reduce resistance. (Burt et al, 2003:109). The cross functional teams will help in providing the inputs that under a skilled team leader will normally result in synergy that in turn produces better outputs than the traditional sequential approach (Burt et al 2003:107) and better solutions to complex technical and commercial issues.

2.2.3. Challenges Facing ETD in the Implementation of Cross Functional Teams

The challenges that ETD could face when implementing cross functional teams are that:

- There are few specialists at ETD that could be included in the team because of being committed to other projects. As a result, the few specialists available might be overloaded or not be fully committed to the team; and
- In order to motivate the teams, successful teams need to be recognized and rewarded for their contribution and this may fall outside ETD's existing performance appraisal schemes.

2.2.4. Successful Implementation of Cross Functional Teams

For the cross functional team to be implemented successfully at ETD, the following is required:

- The top management need to support the implementation of the cross functional teams as more human resources need to be made available to form these teams;
- The team leaders must have the capabilities to lead the cross functional teams' strategy and implementation, in addition to measuring and tracking their teams' performances;
- The cross functional team members need to be willing to work in the teams, obtain market knowledge for commodities and provide support in the development of the commodities' strategy; and

- Ongoing training needs to be provided to the cross functional team members to keep them updated with global changes.

2.3. General Framework to Manage Supplier Relationships

In considering the type of relationship ETD needs to form with its suppliers, it is important for the following to be considered:

- Criticality of the goods to be purchased and service to be provided;
- The risks associated with those goods and services;
- The value and complexity of the goods and services; and
- The availability and supplier's performance for the goods to be procured and services to be provided.

There are various types of relationships the contract managers could form with its strategic suppliers depending on the commodity or services required.

2.3.1. Supplier Relationships

It is important to form a relationship with suppliers in order to secure supply continuity, share risk sharing and reduce costs. Therefore, the objective of a contract management framework is to establish relationships with suppliers that have resources in order to integrate their specialist capabilities in a way that has potential to yield significant additional value for both sides. Furthermore, there needs to be open recognition of where conflicting goals are likely to present problems, and where capability gaps on either side may exist, Hughes, Ralf and Michels (1998:55).

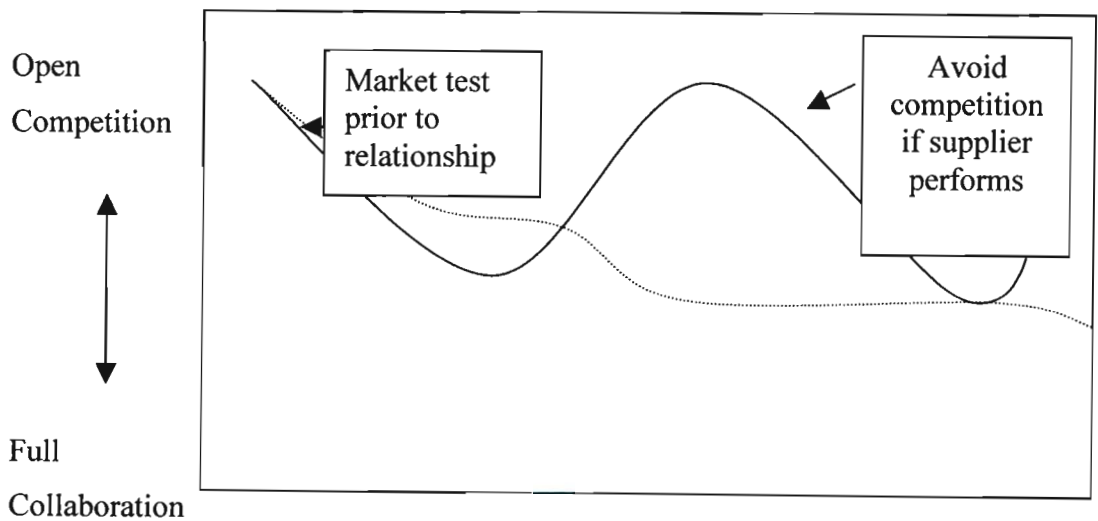
Supplier relationships are not fixed and can change over time. Sustaining the relationship requires dedicated resources and constant top management involvement. In some cases the relationship can easily deteriorate and slide back into an opportunistic, exploitative situation. Therefore, ETD needs to form relationships with a few targeted suppliers through performance appraisal, evaluation and regular benchmarking on prices and performance. From these targeted suppliers,

partnership agreements can be established. According to Burt et al (2003:83) supplier relationships replace the market forces employed by transactional procurement with controlled competitive benchmarking and advanced supply management pricing practice. The results are lower total costs, higher quality, reduced time to market and reduced risk of supply disruptions.

2.3.2. The success of the supplier relationship at ETD

For the relationship to be successful, it is a two way process: the supplier delivers on the contract managers' requirements as clearly specified on the scope of work and the suppliers are paid on time for the goods delivered or service provided. Continuous improvement is easier to implement and manage with recognized interdependence and cooperation and the end objective will be total cost reduction. Burt et al (2003: 84) stated that the failure to develop and manage trust is the principal reason for supplier relationship failure. Figure 2.2 below emphasizes how ETD could benefit from a collaborative relationship with its suppliers.

Figure 3.: Collaborative Relationship



Adapted from Hughes et al (1998:67), figure 4.3.

From the above figure 2.2, Hughes et al (1998:67), states that the competitive sourcing use the market pressure and available capacity to drive the best deal. This

type of sourcing emphasizes pre-bid conditioning, performance contracting and open book costing. While the collaborative sourcing occurs where the suppliers and the company work together to create truly innovative and lean supply chain and there is trust between them. It emphasized joint business development and sharing of risk which would lead to the principled approach to acceptable margins and return on investment. Therefore, if ETD could form a collaborative relationship with its suppliers, it would lead to the development of trust, working soundly together, risk sharing and prompt performance. Hughes et al (1998:68-70), have also stated that the collaborative relationship will lead to readiness to discuss future business plans and capital investment requirements, sharing of long-term business strategies and goals, commitment to openness from both supplier and company and joint ways of working together. Although the relationships are dynamic, a central feature is the development of collaborative relationships that prepare both sides to accept and support a process, which explicitly maps out the required performance and obligations of the contract manager and supplier. Thus, both parties need to define an agreed process for evaluating the success of their agreement and the desired deliverables over a designated period of time.

A company should also concentrate on the identification and development of their contract manager capabilities Hughes et al (1998:73).

2.3.3. Sustainability of Supplier Relationship

As stated by Hughes et al (1998:70), to sustain the supplier relationship, top management must provide resources. Without such commitment there can be a high risk of the relationship quickly deteriorating and sliding back into a more exploitative and opportunistic mode of operation. The failure can occur when there is misalignment between the strategic priorities of various parties.

To sustain the supplier relationship, the senior manager at ETD needs to ensure that the roles, responsibilities, quality standards, required ways of working are set out by the contract managers, adapted from Hughes et al (1998:92).

Thus, contract managers should demonstrate their determination to seek out new and thoroughly different ways of moving forward. Pursuing such a route always leads to major breakthrough change Hughes et al (1998:124).

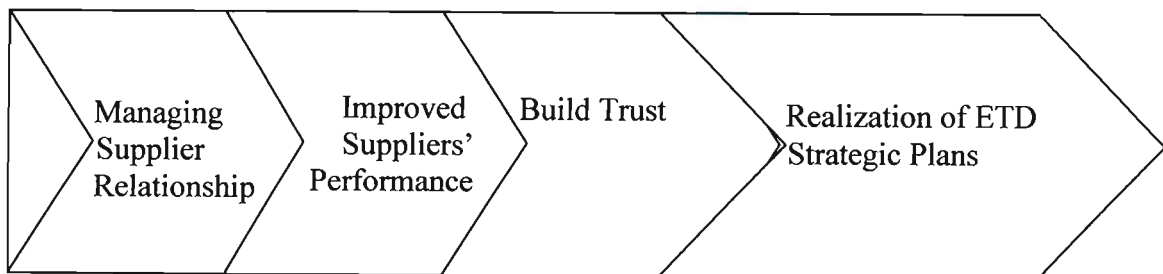
2.3.4. Additional Approaches to Improving Supplier Relationships

According to Burt et al (2003:499-501), “annual supplier meetings can be used as a teaching and learning platform, as well as an opportunity to distinguish one’s organization as a supply management leader”. In this annual meeting the contract managers and suppliers will discuss the production process, the challenges they are facing and share information and ideas on improving performance as well as where they have achieved success. Annual supplier meetings require extensive planning and some expense, but they create a highly visible platform for leadership messages and lay the foundation for improved relationships. These meetings can be used to build a fundamental relationship, where the parties could exchange ideas and share information.

2.3.5. Managing the Supplier Relationships

As procurement becomes more strategic, the need to manage supplier relationships is becoming significant. The figure below shows the benefits of managing the supplier relationship.

Figure 4 Benefits of managing supplier relationship



Adapted from Handfield and Nichols Jr (2002:147).

Managing the supplier relationship very well could lead to improved supplier performance, which could in turn lead to greater trust in the future and eventually realization of an ETD strategic procurement plan. "Contract managers need to establish relationships characterized by a willingness to share and receive information and collaborate to improve performance", Handfield and Nichols Jr (2002:147). To manage the supplier relationships requires the allocation of quality assurance personnel and technical representatives to visit the supplier production facility regularly. It is also required that both the supplier and contract manager communicate frequently or develop communication systems in the form of having monthly commercial and technical meetings in each other's offices, to discuss any issues about the production processes. The implementation of this communication system will increase the trust between ETD and suppliers. It is important for the quality assurance personnel and technical representative to develop total quality management to minimize any variances in production processes.

The contract managers need to be honest, fair and respect the confidentiality of information provided by the suppliers. They also need to avoid misleading potential suppliers. Therefore, contract managers should become champions in ensuring that ETD's top management understand and support the supplier relationship goals. According to Giunipero & Handfield (2004:36), developing long-term supplier relationships and maintaining those relationships, will be a key value enhancement as teaming between contract managers and suppliers will provide the opportunity to reap the fruits of a large pie. Contract managers will be required to think more strategically when evaluating suppliers and making the selection decision, concentrating more on suppliers' strengths and capabilities and long-term quality output versus pure yield results.

Burt et al (2004:49-51), has also emphasized the need to change the role of contract managers and focus on improving integration across internal functions. Thus, contract managers will need to have a broader range of knowledge spanning the end to end supply chain, including changes in market and business conditions, supply market trends and customer requirements. The contract managers' increased

knowledge will result in them possessing strong skills in teaming and planning development and establishing goals for determining user requirements. The ability to manage contracts remains a key skill for contract managers to have, because more and more work is being structured as contracts. Consequently, contract managers must be more efficient in communicating, planning, forecasting, and realizing the strategic plans of the organization whilst addressing the normal concerns of other business units as regards product availability and quality within a shorter timeframe.

The ability to present a business case and effectively present facts, data or convince an audience of the need for change is a valued ability of the contract manager. It is important for contract managers to act in an ethical manner, building trust, resolving conflicts and managing problems in a creative manner. Compromising on ethics to create shortcuts in processes or to generate less of a review during the audit process is costing companies money that could otherwise contribute to greater profits. Thus ethical behaviour is a must in the purchasing arena, Burt et al (2003:55-56).

2.4. Communication

“The contract managers need to embark on the path to develop communication with their suppliers in order to improve and maintain long-term competitive advantage in a rapidly changing, customer driven, internet-enabled, e-commerce business environment”, Mentzer (2004:13). For the long-term contracts, regular communication forms the cornerstone for building, developing and maintaining an effective relationship between a company and suppliers. According to Lamming and Cox (1995:91), miscommunication, failure to understand, and an inability to match organizational goals to functional strategy, may lead to inefficiency in the use of organizational resources.

Communication is also important for the fact that contract managers are being challenged to establish and maintain supplier relationships, it is therefore important that they focus on communication in this relationships in order to have adequate time to obtain facts and mutually agreed on solutions when the conflicts or performance issue arise. To develop trust between the contract managers and suppliers there needs to be regular meetings with key stakeholders, regular measurements and reporting of performance to discuss any issues

requiring attention and regular quarterly reviews, adapted from Contract Management Better Practice Guide (2001:17).

As adapted from Guinipero and Handfield (2004:51), the ability of contract managers to be persuasive and proficiency in presenting ideas effectively will be vital qualifications required in the future. Therefore, contract managers will have to be more efficient in communicating, planning, forecasting, and realizing the strategic plans of ETD. They also need to be able to build trust, resolve conflicts, and manage problems in a creative manner.

2.4.1. Managing Supplier Communications

“The contract managers need to communicate with the suppliers frequently in order to share information or resolve the problems experienced by the suppliers, such as inability to meet delivery dates, non-conformance of materials to specifications, receipt of damaged materials, or receipt of the wrong quantity of materials”, Frienddall (2001:208). According to Burt et al (2003), the communication with suppliers can be managed by:

- Developing and enforcing key performance indicators;
- Establishing supplier reporting requirements that fulfill project needs;
- Managing variations to contracts, including cost, quality, scope, delivery and any breaches of terms and conditions;
- Identifying and managing supply chain risks; and
- Properly negotiated contracts incorporating key performance indicators by which contract performance will be measured. The measures most commonly used are cost, quality, delivery and responsiveness. The contract managers will be responsible for ensuring compliance with the agreed performance levels, as well as developing recovery plans and implementing these plans when minimum performance requirements are not met. To determine reporting requirements, the contract managers must take into consideration the complexity, value, type of product being purchased and the costs involved in preparing progress reports.

When variations to costs occur, the contract manager must determine the cause of the variation and develop a plan to recover the costs or minimize the impact on the contract budget. Any significant variations to costs, particularly cost increases, must be investigated and justified.

The contract manager must facilitate meetings between project team members and suppliers frequently. Magad and Amos (1990:228), stated that contract managers should work closely with individuals responsible for quality specifications to ensure that suppliers have adequate information for quotations and for production of high quality goods.

2.5. Contract Managers' Framework

2.5.1. Roles and Responsibilities of Contract Managers

The tasks of the contract managers are to ensure that the goods and services are delivered in accordance with the specifications and terms of the contract. Their roles and responsibilities are to ensure:

- That the most appropriate contractual form for a purchase, including suitable contractual terms and conditions are selected;
- That the associated risks are identified and managed and that effective communication is maintained between ETD and suppliers;
- The application of contractual controls and monitor contractual performance;
- Arrangements for the routine contract administration functions, such as variations to the contract, renewal of expiring contracts, negotiation with suppliers, monitoring the delivery schedule of the goods and so forth; and
- Development of evaluation criteria and amendment of contract strategy.

To build awareness for the business improvement there must be regular communication programmes, briefing sessions and other similar knowledge sharing activities among contract managers about issues they face in contract management,

Hughes et al (1998:136). The company must encourage contract managers to be innovative in their contract management in order to produce new mindsets. Mentzer (2004:31) has also emphasized the need for the contract managers to be given job descriptions, operating instructions and behavioural norms for seamless, efficient flows of products, services, information and finances.

2.5.2. Performance Appraisal Measurements

ETD senior managers should use a highly detailed performance appraisal measurement that is process designed to facilitate constructive improvement in contract managers' performance and, when necessary, to identify and help structure training and development activity. Failure to use performance appraisal measurement can seriously demoralize contract managers, Hughes et al (1998:193).

According to Hughes et al (1998:212), it is recommended that contract managers should:

- Identify the key measurement areas defined in relation to current and future strategic business development;
- Combine the aforementioned areas into a balanced and effective measurement framework that supports business development and operational improvement in terms of activity outcomes and the process drivers;
- Embed this system into management culture by cascading the key measures down into the organization and linking them to business unit goals;
- Align business, team and individual measurement with remuneration and similar human resource policies;
- Develop and supply similar approaches with third party trading partners.

2.5.3. Effectiveness of Performance Appraisal Measurement

Performance appraisal measurements require regular update and amendment. The goal of performance appraisal measurement is to influence and raise business expectations and aspirations. The systematic annual review will ensure that the

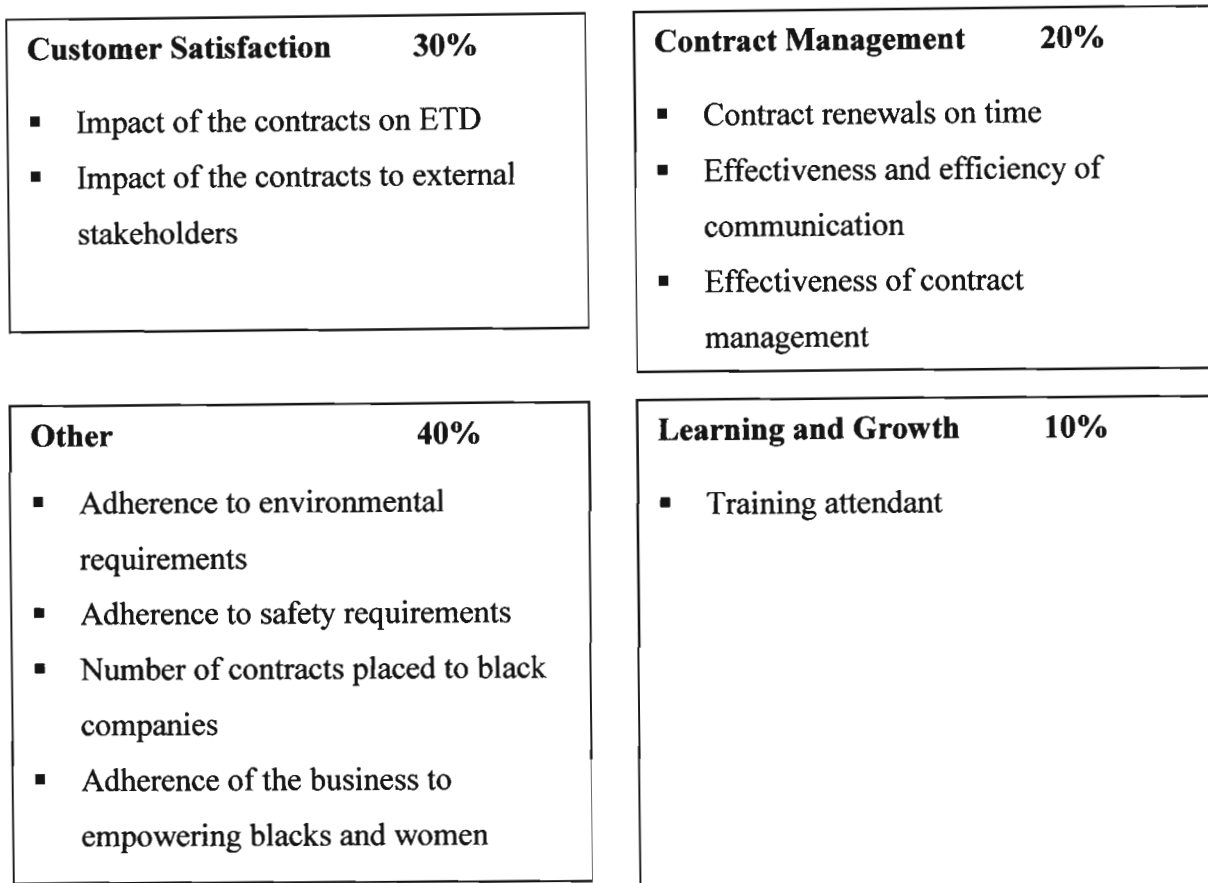
measurement's regime remains valid and relevant, while properly reflecting the appropriate balance between the complexity of measurement, its cost and benefits Hughes et al (1998:194-195).

2.5.4. Performance Appraisal Qualitative Data

Qualitative data are valid and credible and in reality it is often said that 'what gets measured, gets done'. A common weakness of many performance appraisal measurement schemes is the relative absence of measures relating to activities or processes that cannot easily be quantified, but which may well be the primary drivers and differentiators between effective and ineffective performance. Qualitative performance appraisal measures must be well founded if they are to perform any useful role, Hughes et al (1998:196-197).

All the above processes can help contract managers to select and be partners with the right suppliers and conduct business in a manner that can foster trust within their relationships.

Figure 5re 2.4 ETD contract managers' current Balance Score Card: Key Performance Indicators (KPI's):



Adopted from current ETD contract management KPI, June 2005

Contract managers often find themselves given key performance indicators that are meaningless to their actual jobs. It is therefore important to have in place the key performance indicators that are actually related to the jobs currently done by contract managers, for the qualitative data that measures performance to be obtained.

2.5.5. Improving Contract Managers' Effectiveness

To obtain the best purchasing outcomes, ETD needs to have competent contract managers who are continually improving their skills and knowledge. Thus, ETD needs to develop high-level strategies that focus on problem solving skills and understanding suppliers' capabilities and performance. The contract managers need to have the skills to analyze the suppliers' market and manage the suppliers'

relationship. The contract management (and administration) is a critical process that needs to incorporate proper control steps. Thus, the action-learning can help contract managers to be focused. Taylor, Marais and Kaplan (1997:32) stated that the effectiveness of contract managers can be improved by reflecting, learning, planning, experience, training, changing and building of trust.

2.5.5.1. Reflecting

According to Taylor et al (1997:5) in the case of organizational evaluation and planning processes, reflection starts when one develops questions through which to explore experience. For example, the contract managers need to ask themselves, 'what did they plan to achieve and what was actually achieved?' Subsequently, the correct question can challenge past experience, get them to break out of their old ways of thinking and help them to see things differently.

Some contract managers value the quantity of work done rather than the quality of work produced. They cannot be persuaded to spend time on reflection. Thus, say Taylor et al (1997:16), unless people reflect regularly on their action, the threat of becoming reactive rather than proactive is constant and they will always react to crises. Proactive contract management will aid contract managers to learn new innovative skills that add value to the overall contract management framework.

2.5.5.2. Learning

Taylor et al (1997:6:18) emphasized the need for the company to look through learning and behind it, to see what general lessons can be learned. If the learning is not built into plans for the future, there is a high risk of being trapped in a downward spiral of less and less effective action. Hence, the purpose of learning is to improve future action.

If action-learning is not working out, as it should, it must not be seen as failure, but as a necessary condition for learning. There must be an atmosphere of trust

and safety among the contract managers in order to open themselves up to honest reflection on their action. The ETD culture needs to provide the contract managers with space and trust to allow the contract managers to broaden their knowledge in order to achieve success and make mistakes, whilst learn from it. ETD senior managers need to encourage personal growth and view this growth as important in bringing about change in the division.

2.5.5.3. Planning

As stated by Taylor et al (1997:7) planning is the link between past learning and future learning. When you plan, you draw together all previous experience and learning helps you predict what needs to happen for you to achieve your goals. Thus, planning will help contract managers to be more proactive and to anticipate situations before they happen, rather than just reacting to what happens.

2.5.5.4. Experience

It is very difficult for contract managers to learn from their own actions if they do not believe the worth of their own experience. Contract managers need to believe that they can extract valuable learning from their own practice to the same extent that they believe others have the answers that they need. They need to be confident that their experience is valuable and that they have the ability to draw learning from it, states Taylor et al (1997:19).

2.5.5.5. Training

The training and educating of the contract managers is vital to the success of the organization and to the survival and growth of their profession. Recent research conducted by CAPS, (Giunipero and Handfield, 2004:10) has indicated that, "One of the most important drivers for success in deploying Supply Chain Initiatives is people." There is a need to understand when recruiting what the required key skills are for contract managers, to ensure that the correct caliber of individuals are employed, for training of existing people and for developing

career path requirements for the future. The contract managers' training should target negotiations, the cross functional team, total cost of ownership, strategic sourcing and relationship management.

2.5.5.6. Change

Before a new way of doing or understanding something can be instilled to contract managers they have to let go of their old ways. Therefore, to change, contract managers need to feel secure in themselves or see change as an opportunity for experimenting, not a threat. They need to refrain from changing only if they are in crisis or when the old ways of doing things are not working, according to Taylor et al (1997:20).

2.5.5.7. Build Trust

When the contract managers engage in action-learning they are risking their credibility and their self-worth. It is therefore important that the ETD top management work together with the contract managers in an honest partnership based upon a shared framework of rules. The top management has to trust that the contract managers will come up with good performance even when they are being challenged or pushed beyond their present limit. Thus, action-learning may help if the contract managers are free from the usual power structures so that they can talk openly and share facts without the fear of negative consequences, describe Taylor et al (1997:23).

2.6. Strategic Sourcing

As adapted from RBC Financial Group Report (2005:1), today organizations are taking a fresh look at how they procure products and services, it is important for a company to start adopting a process called strategic sourcing, as it is good for cost savings, innovation, and competitive suppliers. Strategic sourcing focuses on reducing waste or non-value added costs and encourages innovation improvements to the processes, such as investments in e-Procurement technology can result in cost and time savings, as well as faster payment and better cash flow. Strategic sourcing emphasizes the following:

- Total cost of ownership – concentrate not only in price, but on quality, service, delivery, and all other aspects that make up the total costs or value.
- Market analysis – as strategic sourcing is fact based, it focuses on extensive research to determine the optimum type and quantity of goods or service needed the marketplace pricing, service benchmarks and the competitive advantages offered by all potential suppliers.
- Broad based input – where the strategic sourcing team decides on the of the supplier contract relationship, thus it is important for team to be well informed with fact and look at more than the price from supplier.

ETD need to increase vendor database to allow sourcing teams to get a clearer picture of the marketplace and identify the most innovative and competitive suppliers. The three steps of strategic sourcing include:

- Purchasing profiles and prioritizing – the first task for a strategic sourcing team to gather as much information as possible about what, when, and how the supplier buys. This means developing purchasing profiles for each supplier about specific products and services. After benchmarking market place practices, priorities need to be set in areas such as costs, service or quality.
- Identify strategic sourcing products – the next step will be to develop specifications for products to be purchased. This can be very detailed, identifying exactly features that are mostly or least important, for example, asking questions like “Are specifications for this product too high or low?” “Are we buying features we don’t use?” “What would happen if a service or feature was removed?”
- Solicit bids and negotiate with suppliers – where once the sourcing team understands what users need, they need to identify the potential vendors, big and small and issue a detailed enquiry or request for proposal (RFP). The team needs to be fair and above board with all potential suppliers. Each supplier tender or bid need to be related using weighted criteria agreed to by the sourcing team. The lowest price, for instance, may be overshadowed by speedy delivery or quality, depending on the specific product or service.

A long term relationship with a supplier may be important, but not an overriding factor. Applying sound business principles, the sourcing team will review payment terms, any value added programs (such as inventory management by the supplier) and delivery to meet with the successful supplier or suppliers to get agreement on future purchase terms, prices and conditions. They also need to agree to a quality control system involving on-going reporting, adapted from RBC Financial Group Report (2005:2).

2.7. Conclusion

The key to success in the contract management framework can be achieved by both contract managers and suppliers through forming partnerships and alliances amongst themselves which are required to achieve mutually beneficial goals. The contract managers' concern must therefore be to achieve more cost effective integrations through transparency of their requirements via information sharing, including the establishment of processes that link the identification of a physical replenishment need with a 'just in time' response, John Gattorna (1998: 276). Gattorna (1998:293) also stated that the contract managers need to understand the strategic sourcing model if they are to prioritize their time and effort appropriately. The strategic sourcing model includes early involvement of contract managers and suppliers during the determination and identification of requirements along with market research and analysis and the development of supplier evaluation criteria, Sollish and Maddox (2005:10). Contract managers must thus continually be seeking information, learning about new materials and products, checking for coherence and developing an information network outside of the ETD.

CHAPTER 3. RESEARCH METHODOLOGY

3.1. Introduction

For the purpose of this dissertation, the writer will focus on Eskom Transmission Division (ETD). As a result of the abovementioned and other expansions of the Transmission network and the resulting requirements for a range of capital expenditures, ETD has identified the need to generate more national contracts as the most appropriate mechanism to procure these goods and services over a period of five years. The workload of contract managers will increase because more contracts need to be established with the suppliers. There are currently twelve contract managers at ETD and each person manages about one to twelve contracts with the values ranging from R15 million to R1,05 billion (Annexure A). The overall management of contracts is currently not conducted effectively. This mismanagement has resulted in overspending on some contracts or inadequacy in execution thereof. The result is misleading cash flow information, over-expenditure on contracts and delay in payments, as the contract managers are sometimes unaware of contract changes or modifications and thus changes to contracts are not reflected in the system.

The research was conducted using the following methods:

- Interviews,
- Analysing the current processes
- Questionnaires,
- Case study, and
- Benchmarking.

3.2. Method of Research

3.2.1. Interviews

As part of the research interviews were conducted with the following people:

Contract Managers – Contract managers are appointed in ETD to manage specific contracts. They were chosen as they can provide the information required. They were chosen because they are currently responsible to manage contracts at ETD. Interviews were conducted by the author. Information was received and an analysis was completed.

End Users, project managers, senior managers, and accounts payable personnel – were chosen to give a complete overview of the current procurement process and they were interviewed by the author.

This methodology will provide the writer with an opportunity to explore issues of interest in greater detail and to verify whether a problem exists in the way that the contract managers manage the contracts at ETD.

3.2.2 Analysis of the current processes

The purpose of the analysis was to get an understanding of the current procurement and contract management processes and the following information was obtained as part of the analysis.

The figure below shows the present number and values of all contracts at ETD.

Figure 3.3 Suppliers Expenditure Analysis

Total Suppliers	53
Top 80% as a percentage of total suppliers	97%
Value of total contracts	R2.381 billion
Average value spent per supplier	R44 million
Number of contract managers	12
Ratio of contracts per contract manager	1:12

Figure 3.3 - Present status of contracts and suppliers at Eskom Transmission Division.

From the table above it can be seen that out of 99 national contracts suppliers in the ETD database, ETD spent about 80% of its value on 69 Suppliers (see Annexure A). These

contracts are mainly for the supply of power transformers, circuit breakers, shunt reactors, conductors, provision of services and so forth.

3.2.3 Questionnaires

The questionnaires were issued to contract managers, users, project managers, finance personnel and ETD senior managers. The purpose of the questionnaire was to determine how the abovementioned key stakeholders view the process of procurement and the professionalism and effectiveness of contract managers at ETD.

3.2.4 Benchmarking

Benchmarking can will be used to measure progress for any products or services and can be done internally or externally. Internal benchmarking will focuses on measuring performance against internal goals or other areas of operation, while external benchmarking will measures contract performance against the performance of services in other organizations. This benchmarking often depends on identifying appropriate benchmarking partners particularly on the aspect of performance being benchmarked as opposed to those producing similar products or services. However, care needs to be taken over what is measured and the selection of the measures that are used to indicate the level of performance. Benchmarking provides an insight into different levels of performance and is indicative only, as adapted from Contract Management Better Practice Guide (2001:28).

By benchmarking ETD with another utility, one can compare various aspects of contract managers' performance. As a result, the problem areas can be identified so that a solution can be easily be implemented. Benchmarking will help ETD to understand its business, its process and performance as well as identifying 'gaps' between 'best practice' and the current operating environment. Benchmarking focuses on understanding how the 'best practice' utilities achieve superior performance as well as understand their objective, Gattorna and Walters (1996:228).

Figure 3.2 Contract Management Performances

	ETD	Sasol
Average number of contracts per contract manager	4	2
Average value per contract	R198 million	R1 billion
Average lead-time per contract	12 months	12 months
Managing supplier relationship	11%	30%
Developing sourcing strategies	17%	40%
Administration of purchasing process	23%	19%
Attending training, meetings etc	49%	11%

(W. Weis, personal communication, August 19, 2005)

By benchmarking ETD with Sasol one can compare the performance of their various aspects. As a result the problem areas can be identified so that a solution can easily be implemented. According to Hughes et al (1998:211), there is a need in performance measurement to define how well a company has operated in the past so as to determine what needs to be done in the future to perform even better.

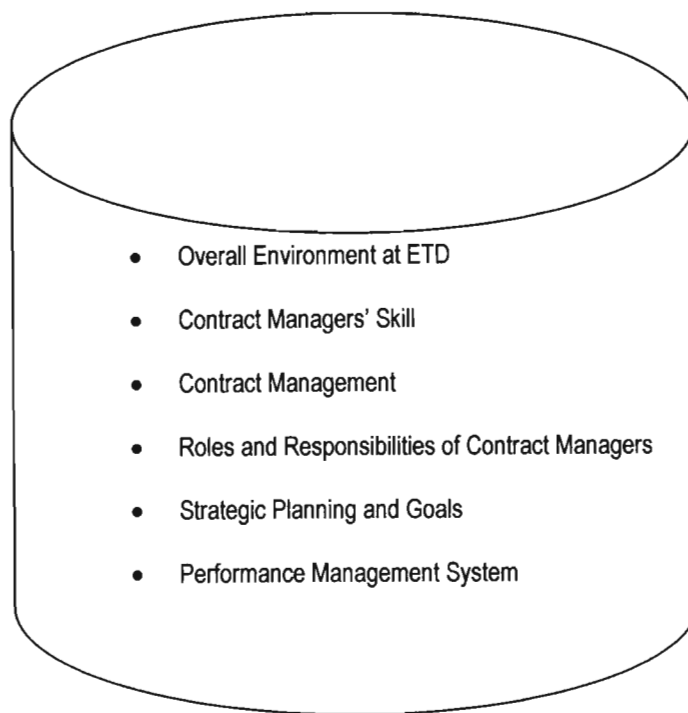
3.2.5 Case Study – Rotek Contract

For the purpose of the case study one contract was selected from ETD to be analyzed and to determine if it has been managed effectively and efficiently. The contract is for the refurbishment of power transformers and the maintenance of circuit breakers and isolators. The contract duration is five years and its value is R350 million. The contract was negotiated with one supplier, namely Rotek, as they are Eskom’s subsidiary and the only supplier that can refurbish the larger power transformer units in South Africa. Rotek is 50% owned by Eskom and their contract is renewable every five years with negotiated rates. Although the contracts have rates, but whenever there is a need to refurbish or maintain any equipment, ETD will

ask Rotek for the actual quotation relating to the specific unit to be refurbished and then draw down the task order from the contract on the SAP system and fax the task order to Rotek.

3.3 Structuring the Diagnosis

Figure 3.1 below shows the structure of diagnosis according to the contract managers' perspective



Adapted from Interviews conducted to the ETD contract managers, October 2005.

3.4 The overall environment at ETD

The contract managers highlighted that currently there is little or no strategic sourcing at ETD. The contract managers know nothing about the supplier market

and there is little or no management of supplier relationships. The current policies and procedures are outdated and need to be changed to match current world-class supply chain situations.

3.4.1 Contract Managers' Skill

ETD needs to start investing in the training and educating of contract managers as most of them lack skills in performing their job. It is also important for ETD to identify the skills gap, which is the gap between the skills currently available and those required to meet future objectives. Contract managers also mentioned that ETD should start recruiting contract managers that have leadership skills as this skill is important in leading the cross functional team. As the procurement function moves from transactional to strategic there is a greater reliance on sourcing practices. As a result contract managers need to understand today's business conditions for effective contract management. They need to be flexible and think out of the box all the time and know the best practices around the world, O'Relly (2004:4).

3.4.2 Contracts Management

As a result of the increase in the capital expenditure to meet the high demand of electricity, ETD will be establishing more long-term national contracts for various equipment (such as transformers, isolators, circuit breakers, conductors and so forth) and services (such as building of substations, power lines and so forth) to meet this demand. Any mismanagement of these contracts in terms of delay in production or manufacturing of equipment and provision of services will have a high financial impact. The financial impact will result from the payment of compensation events and the incurring of additional costs from equipment that has been hedged, as well as from extending the forward cover of foreign exchange currencies because of late deliveries.

3.4.3 Roles and responsibilities of contract managers

Contract managers indicated that the lack of clear roles and responsibilities is demotivating. Without clear roles it is hard for contract managers to direct their efforts and assess their contribution. The lack of transparency about the criteria for business decisions creates uncertainty, unease and lack of taking accountability. Because people work better within clearly defined roles, the introduction of roles and responsibilities can be an effective way to force behavioural change. It can lead to changes in procedures and practices, which could not be introduced without radical reforms. It is therefore important for the ETD structure to include clear lines of accountabilities for contract managers to be committed to their jobs.

3.4.4 Strategic Planning and Goals

Strategic planning is essential in setting ETD's goals and developing strategies and tactics to achieve them. Having a departmental vision can help in gaining agreement to new strategic goals. Strategic planning can help contract managers to see where their individual contribution fits in and the need for co-operation to achieve team success. Support from top management is also important to achieve commitment to new strategic goals.

3.4.5 Performance Management System

There is currently a performance management or appraisal system, but it is not related to the effective management of contracts at ETD. The use of a performance management system must be to let contract managers know the level and quality of performance that is expected from them, to enable their performance to be assessed and to provide a basis for making decisions on salary and promotion. The performance related pay can act as a motivating factor in some circumstances, but it

will not work without reliable performance measurement systems, which is something that is currently lacking at ETD. Changes should include:

- Performance management;
- Incentives;
- Development and training; and
- Best practice and benchmarking

The following tools are the sourcing of information to be used to obtain the current contract management situation at ETD.

CHAPTER 4. FINDINGS AND ANALYSIS

4.1. Introduction

The ETD contract managers are under pressure to rethink their business development strategies, in global or transnational terms, by means of strategic sourcing, benchmarking and market researching, as well as supplier analysis in order to deal with rapid increase in the procurement of capital expenditure. Giunipero and Handfield (2004) have also emphasized “that the contract managers need to have a broader range of knowledge spanning the end to end supply chain, including changes in market and business conditions, supply market trends and customer requirements. Financial acumen, negotiation skills, supplier evaluation skills and strategic thinking are all important skills for contract managers today and in the future”.

This chapter will therefore focus on the findings and analysis of the supplier spend, case study, benchmarking, interviews and questionnaires to be conducted with the key stakeholders, so as to validate the perspective of the writer and the subsequent need for the establishment of this framework. From the analysis the following was identified:

4.2. Expenditure Analysis

From the top 80% of suppliers’ expenditure in the database, there is very little or no supplier development that is taking place at ETD: the contract managers’ focus on individual suppliers. It is therefore important for ETD contract managers to consider establishing strategic relationships with its suppliers to realize the cost benefits. This has been emphasized by Gattorna (1998:300) in that the most time and effort should be given to the contracts that carry the highest strategic and financial value to the business to enable the strategic sourcing to deliver a lower total cost for procurement, as well as improving product quality and service and ultimately to provide competitive advantage.

Burt et al (2003:341) has referred to the reduction in the supplier base as “one of the interesting transitions in supply chain management”, as it enables the contract managers to

build long-term relationships with the suppliers. By building relationships with the suppliers ETD can contribute towards the development of strategic relationships with suppliers, develop supplier capability and supply chain management strategies.

ETD should also consider reducing the supplier base in order to consolidate and leverage expenditure and to manage the relationship with strategic suppliers more effectively. By reducing the supplier base ETD could shift away from short term, transactional relationships and move toward long-term integrative partnerships and strategic relationships with its suppliers, adapted from Ogden (2004:2). As a result, ETD's contracts with its suppliers need to be prioritized and appropriately skilled resources need to be allocated to develop the relationship into strategic alliances. From the top 80% list of suppliers the strategic goods and services at ETD can be identified in order to maximize its buying power. This could further allow for the requirements across Eskom's Division to be consolidated.

By reducing the supplier base ETD could benefit in terms of an increase in access to technology, where those suppliers that have received more volume and longer-term contracts become willing to invest in the manufacturing equipment that will improve their equipment production and processes. ETD could also benefit from increased revenue: as suppliers produce more, they would share the volume discount on economies of scale, Ogden (2003:6).

4.3. Case Study

The following analysis has been found from the Rotek Contract:

- The rates quoted on the contracts are above the market rates.
- Rotek can take from three months to five years to refurbish the transformer. Usually when the transformer is in their warehouse they charge ETD for its storage. This can also be viewed as their strategy to delay the refurbishment in order to charge for storages. Sometimes it will be ETD fault, where the decision to refurbished a transformer is delayed due to budget issues, while the unit is already at Rotek's premises.

- As ETD does not expedite delivery of refurbished equipment, the indirect storage costs are added to the total cost of the unit to be refurbished.
- The rates for the same type of work on the same sized unit within the same financial period differ by 37%.

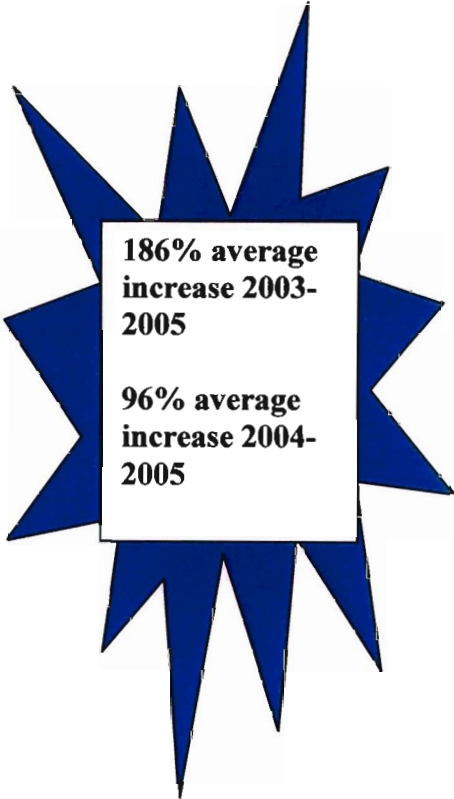
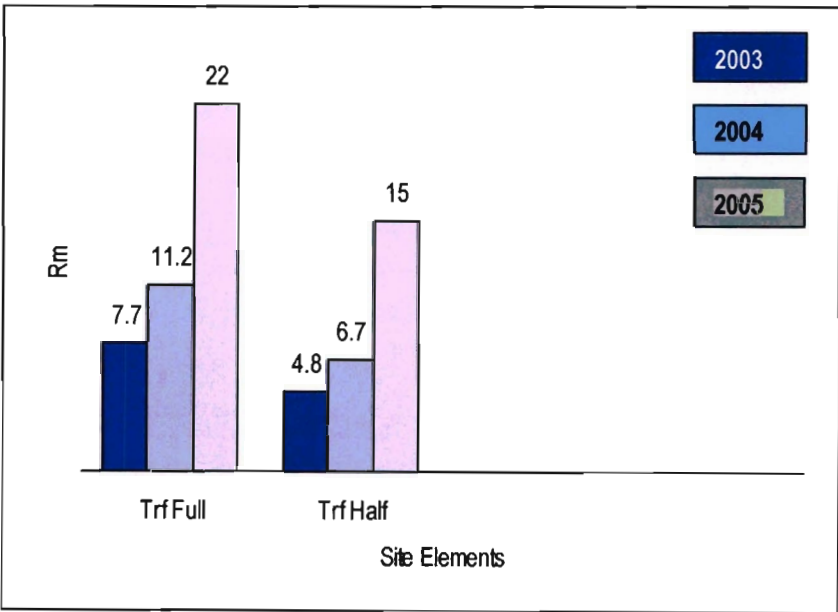
All the above contract mismanagement matters could have been avoided if the contract was managed effectively, and in this instance the Rotek contract value is the highest at ETD (equal to R350 million). The contract manager should have formed a collaborative relationship with Rotek to ensure a solid working relationship and to reduce lead-time and costs. This relationship should be based on trust, cooperation, interdependence, joint quality improvement efforts, information sharing, risk and benefit sharing, and joint problem solving. Especially during the future capital expansion projects which ETD will be engaged in there will be a high need for dependable suppliers to provide the required design and technological input needed for marketable profitable products and for satisfactory services to result.

In this contract, the communication system between the contract manager and Rotek needs to be developed and there must be arrangements for co-location of key technical personnel for periodic visits to each other's facilities. As well as to establish measurable quantifiable objectives in terms of quality, cost, time and technology, and the results must be monitored and reported to appropriate management. As adapted from Friendendall (2001:149), for effective and efficient contract management between ETD and Rotek to succeed the following needs to take place:

- Contract managers should understand Rotek's process in the manufacturing, production or service delivery;
- There must be frequent visits of contract managers to the Rotek premises or frequent visits of Rotek to the contract manager's premises to discuss process improvement corrective actions;
- The contract manager needs to set joint improvement goals with Rotek.

As extracted from Gattorna (1998:295), “the relationship between both parties can be maintained through establishment of contractual relations that guarantee an equitable division of effort and profit through the lifetime of the relationship”. If the duration of the relationship is well defined, then costs and service levels can be kept flexible and adjusted in order to take account of changes in consumer demand and internal process optimization. The information such as Rotek’s performance assessment, quality of contract manager’s demand forecast and the stability of technical specifications, needs to be transparent to both parties. Both parties should also have the ability to initiate cost reductions either through product redesign or by contributing to an integrated logistics strategy. The figure below shows the differences in Rotek contract prices in three years.

Figure 4.1 Rotek Contract Prices



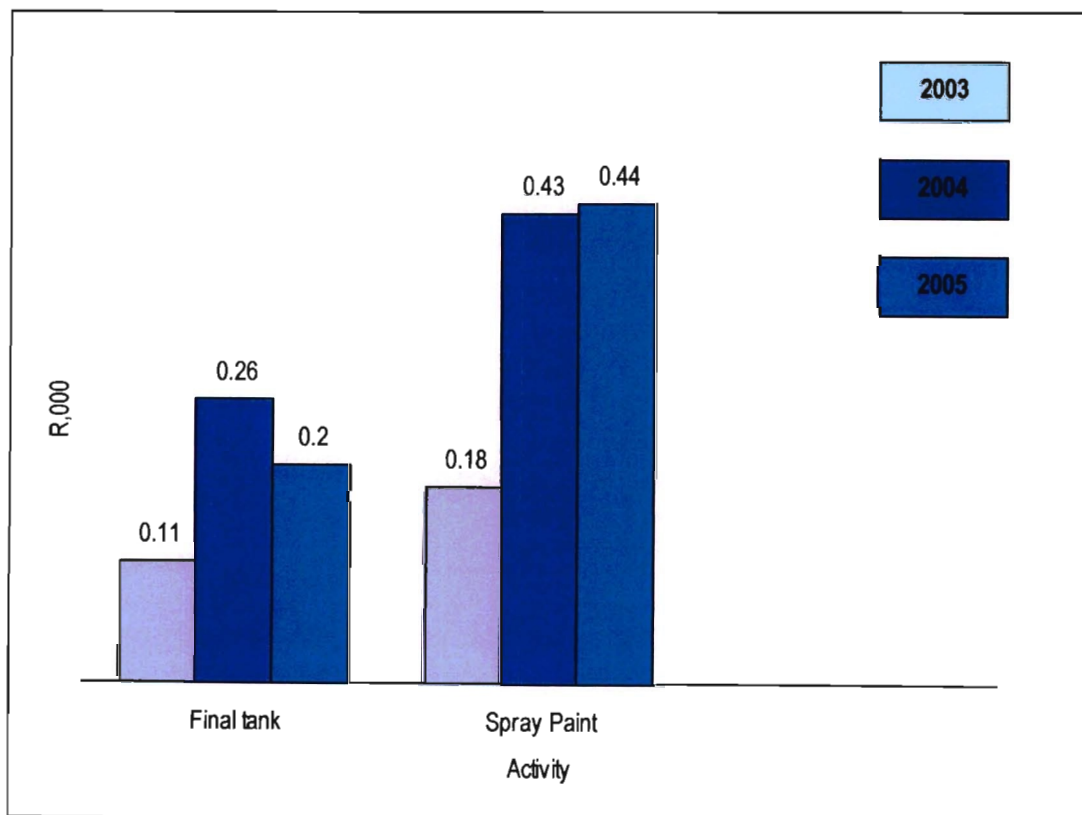
Adapted from ETD’s refurbishment contract with Rotek, 2005

- * Trf Full = 500MVA Transformer full refurbishment on site
- ** Trf Half = 500 MVA Transformer partial/half refurbishment on site

The above graph shows that in 2003 it costs R 7.7 million for full refurbishment of a 500MVA transformer, when compared to R 11.2 million in 2004 and R 22 million in 2005.

The prices therefore show an average increase of 186% from 2003 to 2005 and 96% from 2004 to 2005. The partial refurbishment (refurbishment of only part of the transformer windings) in 2003 costs R 4.8 million, when compared to R 6.7 million in 2004 and R 15 million in 2005. The prices therefore also show an average increase of 212% from 2003 to 2005 and 124% in 2004 to 2005. These high rates confirmed that ETD contract managers do not challenge the specifications or operating practices and quotation costs. As a result most of the quotation costs or rates and ideas of how the transformers would be refurbished come from Rotek. ETD also does not know how much it spent in paying the labour, materials and other varied costs associated with the refurbishment of the contract. ETD has been paying numerous indirect costs or rates, such as additional overtime, rework due to unacceptable components quality, materials costs on heavily engineered components and so forth. The generally, unacceptable Rotek performance can result in indirect costs. The performance contract could bring the indirect costs into focus and help reduce the overtime. The performance contract can help ETD contract managers to identify appropriate metrics and establish a system for measuring them.

Figure 4.2 Rotek labour prices on final tank and spray paint



Adapted from ETD's refurbishment contract with Rotek, 2005

From this graph the labour prices on refurbishing the 500MVA final tank costs R 11 000 compared to R 26 000 in 2004 and R 20 000 in 2005. The increase is about 136% from 2003 to 2004 and has decrease to 23% from 2005 to 2004. To spray paint the 500MVA transformer costs R 18 000 in 2003, compared to R 43 000 in 2004 and R 44 000 in 2005. The increase is about 139% from 2003 to 2004 and 2% from 2004 to 2005. Despite the fact that the increase is not consistent it is also aligned to SEIFSA Indices, which has been in an average of 7% per annum in the past three years. This clearly shows that contract managers are not challenging the supplier prices or that they do not conduct market analysis. An internal pricing mechanism needs to be formed with Rotek. Best practice on internal pricing guidelines should include a market or negotiated price, and an arbitration procedure should be available for settling disputes. The Eskom Directive on internal procurement (ESKADAAI2, 2005) has been developed to set a framework for internal pricing. Some of the key points include benchmarking of market competitive quality and price that the supplier must adequately provide the contract managers' needs, an internal procurement process similar to that for external purchases, and that external tenders must be genuine. Four standard categories and the criteria for allocation of products and services to these categories were agreed in line with best practice. Eskom internal products and services were then allocated to the above categories on a preliminary basis. These categorizations which appear on the table below describe each pricing category and then give the rationale for it.

Figure 4.3 Rotek Pricing Structure

Market Price	Fair Price	Cost Recovery	Non-chargeable
<ul style="list-style-type: none"> • Benchmarkable • Price taken from external market 	<ul style="list-style-type: none"> • Customer agrees cost and margin • Costs are calculated • Fairness of costs ascertained • Treatment of costs 	<ul style="list-style-type: none"> • Costs charged to Eskom on a transaction or lump sum transfer 	<ul style="list-style-type: none"> • Not charged to Eskom • Cost accrues in cost centre and is treated as overhead at corporate level or

	related to excess capacity agreed • Fair margin applied		reduced profit in division
Importance of the above pricing structure			
<ul style="list-style-type: none"> • Price signal important • Margin may impact value retained in company • Focus is on competitiveness of service 	<ul style="list-style-type: none"> • Price signal important • Margin may impact value retained in Eskom • Focus is on availability of service (not available in market) 	<ul style="list-style-type: none"> • Price signal relatively unimportant • Value creation not affected by margin • Focus is cost-effectiveness of service 	<ul style="list-style-type: none"> • Strategic activity that differentiates the company • No price signal • Focus is on differentiation provided by service

Adapted from Procurement of goods and services from Eskom Business Units and Subsidiaries, 2005 policy

Market Price – occurs wherever possible to determine the price of goods or services supplied within Eskom. A market price is determined by using readily available benchmarks. Since Rotek is an Eskom subsidiary supplier, it is against Eskom policy to invite outside tenders in order to establish a market price; other methods have to be employed in order to ascertain what a market price is for particular goods or services. Such methods would include use of Eskom pricing and estimating expertise, use of published rate tables (where these are available and applicable) or the use of paid external bodies. Any work by paid external bodies is deemed a professional service and the supplier of such professional service is paid for the work carried out.

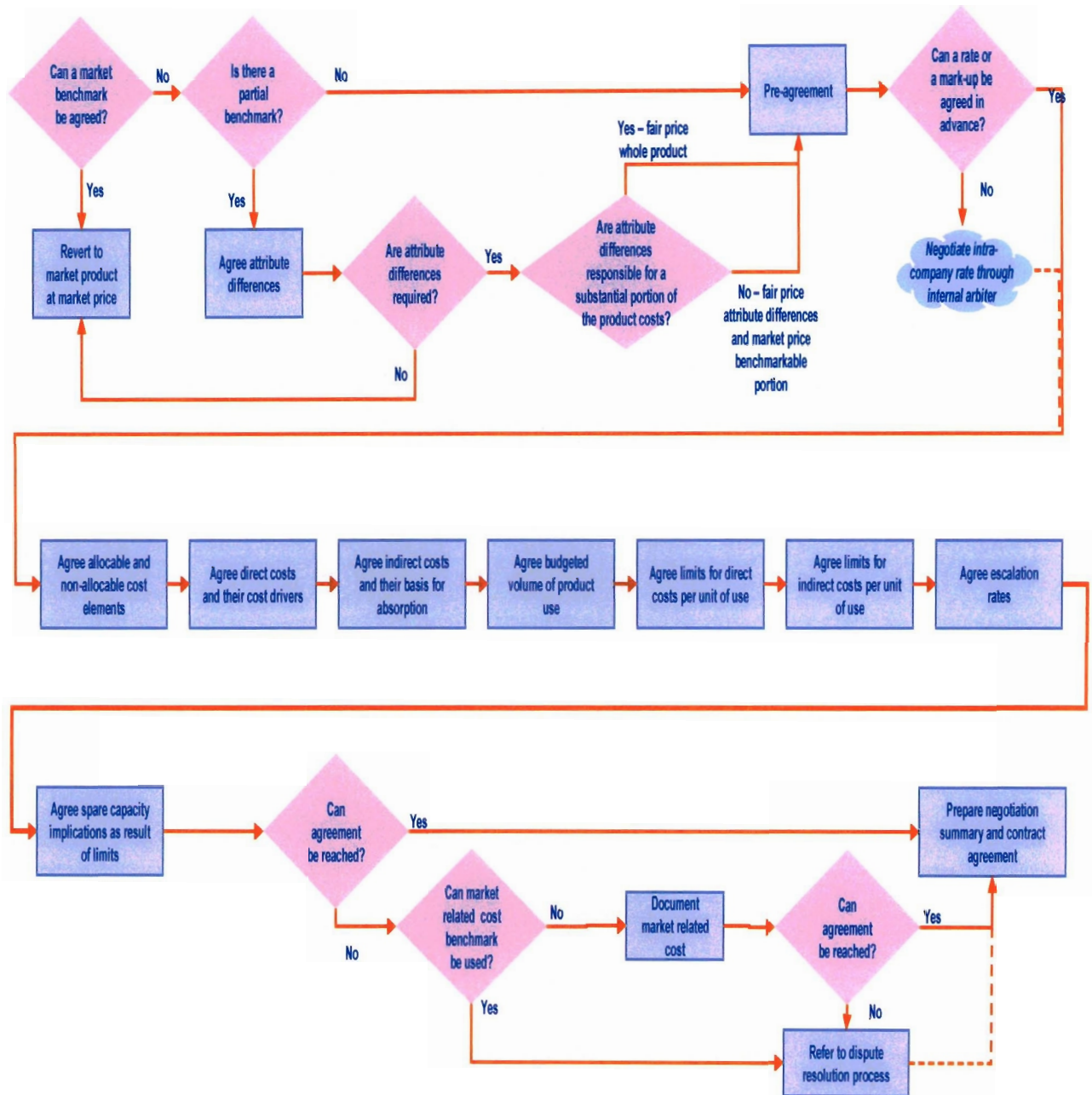
Fair Price – in this pricing structure products and services are fair priced if there are no suppliers in the open market, but where the prices indicate value creation benefits to the market price desired. The fair pricing differs from cost plus pricing in that it must be established that the price offers the internal provider a reasonable return on a reasonable cost and fair return. The following principles and processes presented below apply to the fair pricing category.

Strategic Principles – occurs where external sales may be pursued, provided they do not compromise service to Eskom, which in turn reduces indirect costs.

Governing principle – occurs where value creation within Eskom will be optimized.

The process of fair pricing process is as stated in the figure 4.4 below.

Figure 4.4 Fair Pricing Process



Adapted from Procurement of goods and services from Eskom Business Units and Subsidiaries, 2005 policy.

- **Cost Recovery Pricing** – when goods or services do not fall into either the market price or fair price category, they are classified as cost-recoverable. The cost recoverable rate includes all the costs associated with the supply of the particular goods or services. No margin is added to these costs. This pricing method will only be used as a last resort when the previous two pricing categories cannot be used. It focuses on value creation not affected by margin and the cost-effectiveness of service.
- **No Chargeable Pricing** – This pricing structure will only be applicable to strategic activity that differentiates the company and where there is no price signal, but the focus is on differentiation provided by service. It accrues between ETD and Rotek internal cost and it is treated as overhead at corporate level or reduced profit in the division.

From the above analysis it is important that ETD establish a refurbishment contract cross functional team to identify opportunities to reduce refurbishment costs. The cross functional team also needs to optimise the refurbishment costs by analysing contract prices and negotiate with Rotek to align their prices to the above pricing structures as stated in Eskom's policy for the procurement of goods and services from Eskom Business Units and Subsidiary, 2005. This cross functional team also needs to form a partnership with Rotek to ensure value creation to both parties, where they would focus on the cost saving pricing proposals – total cost of ownership methodology.

4.4. Benchmarking

By benchmarking ETD with another utility it was found that each contract manager at ETD manages more contracts than the benchmark. As a result they don't have time to do strategic sourcing, as most of their time is spent on transactional procurement. It is therefore important to reduce the number of contracts managed by contract managers so that they will be able to understand their suppliers' market economies. The contract managers will also be able to negotiate with their suppliers on the price, terms, conditions and specifications. They will be able to monitor their suppliers to ensure that they conform to the contract terms and mitigate risk in the case of production or service delivery problems.

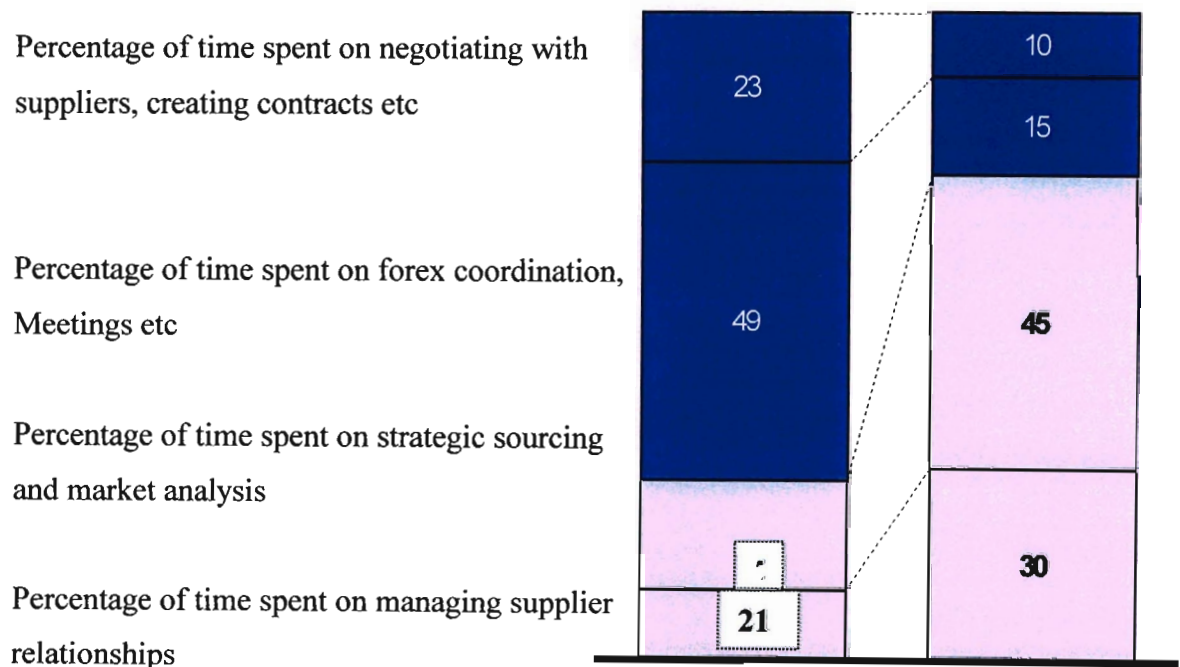
Benchmarking will enable contract managers to focus on the key performance gaps, identify areas of improvement, identify ideas and make better decisions from a larger fact base for them to manage their contracts effectively and efficiently. By benchmarking, contract managers will be able to obtain process performance data and related best practices from other utilities to improve their supply chain process and efficiency.

4.5. Response from interviews

4.5.1. Contract Management Process

The interview was conducted to six contract managers, procurement manager and four end users. Figure 4.5 shows the way contract managers spend their time in their contract management duties:

Figure 4.5 Interview responses on time spent



ETD World Class Good Practice

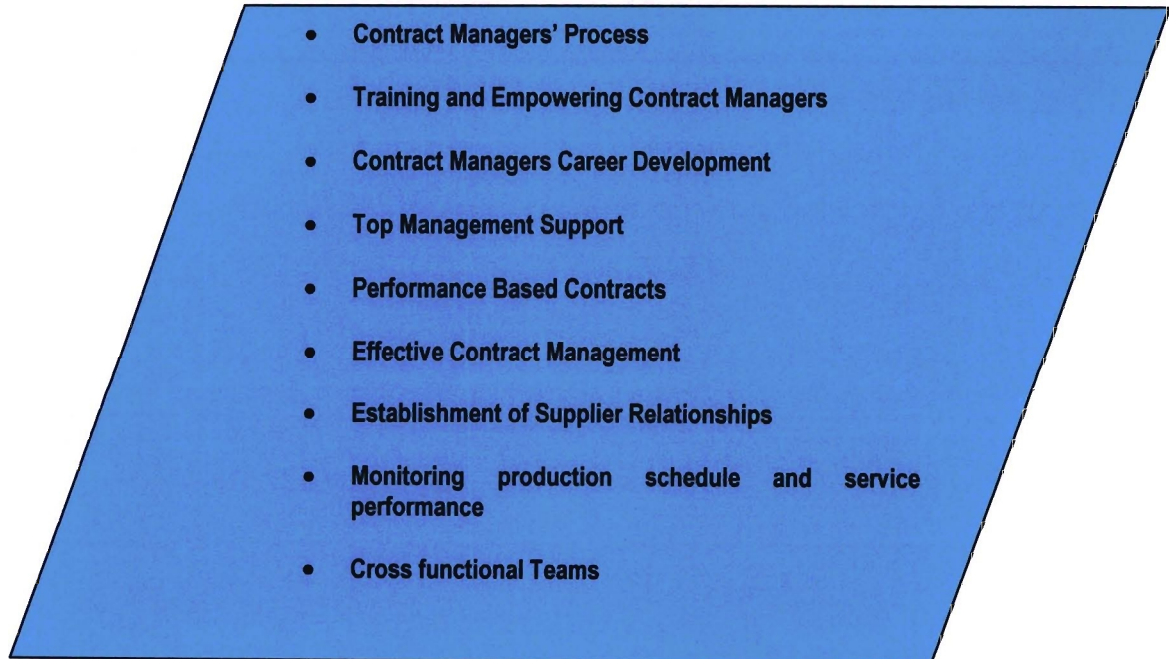
Adapted from McKinsey & Company Purchasing and Supply Chain Management Practice, 2005

The analysis of the interviewees' response shows the inefficiency focus on total cost of ownership at ETD. The contract managers spend most of their time coordinating the forward cover on the contracts that have rate of exchange, attending meetings and creating contracts on the SAP system. The world-class best practice emphasizes that the contract managers should spend their time doing strategic sourcing, analyzing market prices and building and managing the relationship with suppliers.

Almost all the interviewees suggested that for the contract management to improve, the ETD top management should support the establishment of cross functional teams and the establishment of supplier relationships. The contract managers should also be trained and empowered to make decisions and they should monitor the suppliers' production schedules and their services. Performance-based contracts should be established to monitor contract managers' performance for effective contract management.

Figure 4.6 shows what the interviewees mentioned during their interviews.

Figure 4.6: Interview Responses on supply chain issues

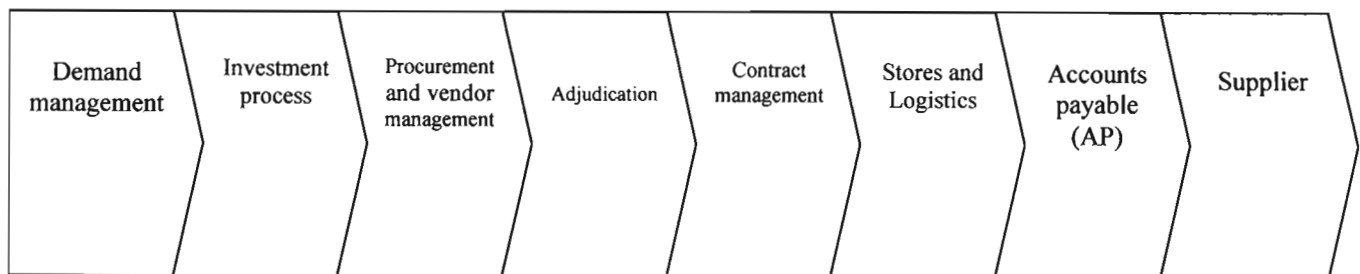


Adapted from Interview response of ETD contract managers, October 2005

It has been found from the interviews that contract managers spend most of their time doing transactional jobs instead of strategic sourcing. This has also been supported by the survey done by Supply Chain Management Students at Eskom in 2004. The traditional role of contract managers who send out the request for quotations and process paperwork is rapidly disappearing. World class contract managers are expected to interact with management about the company's future, acquire best products and services, analyze total cost of ownership, value and risks as well as improve contracts to drive down costs (Guinipero and Handfield, 2004:40).

The interviewees highlighted the following issues about the ETD procurement process:

Figure 4.7 Key Findings on Supply Chain Process



Adapted from the McKinsey Purchasing and Supply Management Practices Report conducted for Eskom Supply Chain Management, November 2005

- Demand Management** – from the demand management side, interviewees indicated that the planning and forecasting is poor as in most cases it results from the urgent need for procurement or overspending on contracts drawn from the forecast requirements. Some specifications given by the users and project managers are not fit for the purpose; they have many discretionary items which affect the cost on TCO.

- **Investment Process** – Procurement is not involved during the investment decisions, they only know about the requirements after it has been approved by the investment committee, when it needs to be procured. The investment process itself is well established to ensure good governance, however, the process is lengthy with multiple sign offs from different stakeholders.
- **Procurement and Vendor Management** – The e-procurement process and total cost of ownership are not used and not understood by procurement managers. Negotiations, procurement strategies, and strategic sourcing are not used appropriately. The value added is limited to BEE governance as they are measured on it.
- **Adjudication** – The Procurement tender committee is not flexible and some members do not understand the adjudication process. The Adjudication focuses on BEE targets and not on total cost of ownership or other commercial levers.
- **Contract Management** - The contract management at ETD is generally poor, as contract managers do not consider total cost of ownership, strategic sourcing, and management of supplier relationship in their contract management. There is no formal cross functional team to focus on bringing value added decisions in contract management in terms of price, quality etc. The contract managers are reactive in managing their contracts as they always wait for the initiative from the user or project manager before they establish or renew contracts. They also do not execute contract clauses that are related to the performance contract.
- **Stores and Logistics** – The stock planners do not consolidate volumes and as a result the request comes in bits and pieces all the time and ETD could save on discounts if volumes are consolidated. The transport and quality assurance of the receiving process is not optimized.
- **Accounts Payable** – The accounts payable sometimes pay the suppliers late because the invoices go to the end users first before they get to them. The end users and project managers perform the goods receipt late and some contract managers do not load all information from the contract to the SAP system. As a result the payment to the supplier is delayed.
- **Suppliers** – Sometimes suppliers have knowledge of the demand before the contract managers do and sometimes they draw the specifications for the users,

which results in high levels of sole source procurement. There are also no supplier performance management measures in place.

From the above analysis it can be seen that there is limited consolidation across or within divisions, ETD is currently focused on operational purchasing and contract managers are seen as a support function that execute end user requests. Contract managers do not practise strategic sourcing tools or methodologies and there is limited global sourcing. There are no standard problems solving processes, such as six sigma. Because contract managers do not understand e-procurement benefits, low value repetitive purchases are not managed.

There is significant supplier fragmentation and the non-conformance process does not adequately address overall supplier performance, as there are limited supplier base management strategies. There is no supplier performance management or supplier development, but a large, complex and poorly managed database.

4.5.2. Training and Empowering contract managers

There have been remarkable changes in supply chain management in the past years, which resulted in a high need for trained and educated contract managers. Therefore, as stated by Hugo at el (2004:82), for contract managers to be successful it is important that they are well trained and empowered to make decisions. Empowering contract managers will assist them to take ownership of their jobs and to take a personal interest in improving their performance. Training should be an on-going part of a company if it wishes to be a major player in the global market (Guinipero and Handfield, 2004:48). The process to assess contract managers' training is stated in the table below.

Table 4.8 Assessment of contract managers' training effectiveness

Assess contract management skills	Identify the required skills	Establish goals gaps	Identify knowledge areas	Assess training mediums	Evaluate contract managers' performance after training
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Adapted from Guinipero and Handfield (2004:94)

The above table shows that by first assessing the skills of contract managers, in terms of knowledge of total cost of ownership, supplier integration, globalization, strategic sourcing, and so forth, the top management could identify the skills that the contract managers require. The required skills must enhance team building, strategic planning, communication, and information sharing amongst themselves, relationship management and so forth. From there the gaps will be determined in terms of what the contract managers currently have and what further skills they require. In most cases the gap fulfillment will be in the case of having a formal education qualification. The next step will be to identify key knowledge areas to improve competencies that are required for advancement in contract management. The key knowledge areas will be analysis of supplier market, analysis of total cost of ownership, competitive market analysis, supplier relationship management and so forth. From there the training mediums will need to be assessed in terms of the level of education the contract managers need or be registered with a certain professional body in order to be appointed as contract managers at ETD. Once the contract managers who have the required level of education and skill have been appointed, their performance will be monitored and measured by the key performance indicators periodically in order to sustain their performance. Thereafter ETD top management needs to enforce incentive schemes to motivate contract managers. The incentives can be in the form of money, vouchers, awards etc and it can be done quarterly or annually (Guinipero and Handfield, 2004:94-102).

4.5.3. Contract Managers' Career Development

It is important for the contract managers to have a clear career path within ETD or Eskom as a whole. Currently in the Eskom structure there is no career path for a contract manager to pursue. The only higher positions are procurement manager then commercial manager, who then reports to the general finance manager. For the supply chain management to succeed they need to be represented in Eskom top management positions, Guinipero and Handfield (2004:107). It is important for ETD to have a clear career development program that is characterized by a holistic approach that attempts to guide, track and monitor the career path of contract managers. It is broader than training in that it addresses career goals and objectives for contract managers.

4.5.4. Top Management Support

The interviewees indicated that the formation of a Supply Chain top management position would aid in overcoming obstacles that they might experience, especially the commitment and support of top management in the cross functional team and in the formation of relationships. The top management commitment will ensure that there is a shared vision, clearly communicated expectations, skills enhancement through targeted training, consistent and fair performance measurement and aligned incentives amongst the contract managers. Thus the contract managers who possess a desire and an ability to learn thrive within this environment and contribute both the ideas and the energy needed for constant innovation, Fawcett, S.E. (1997:2).

4.5.5. Performance-based contract

The performance-based contract must include measurable performance metrics. The supplier scorecard must be used to measure performance and improvement, as a corrective actions system if there is underperformance, as a preferred supplier program based on ongoing performance measurement, to strengthen and improve supplier relationships and to reward performance. Having the data and documentation to support the scorecard is critical in order to establish the program credibility with suppliers and provide suppliers with information to make

improvements and take corrective action. For the performance-based contract to succeed, the suppliers need to agree the scorecard metrics, Fedele & Dolan (2004:1).

Benefits of performance contracts

- a) Reduce costs associated with poor supplier performance e.g., late delivery, poor quality etc.
- b) Performance based contracts force contract managers to identify key metrics and develop systems for tracking them.
- c) The administrative burden of performance contracts can often be shifted to suppliers with contract managers performing an auditing function.

As stated by Handfield and Guinipero (2004:1), the contract managers need to assess enormously the capability and ability of the suppliers to supply products or services as they need to form a relationship with these suppliers in order to reduce costs.

4.5.6. Effective Contract Management

To be effective ETD needs to invest in better people, better technology and better processes. This means that they have to invest in developing the contract managers. Efficient contract managers are able to track and verify cost savings and reduce costs to create positive cash flow, Kemp, 2004). The contract managers that always think outside the box have the opportunity to develop effective contract management strategies that consider the market changes and adjustment conditions to reflect market changes, (Cantrell and Michels, 2004). By doing so they will be able to ensure that the terms and conditions are enforced consistently in their contracts. Their contracts will also properly enforce the terms of delivery, terms of payments, technical specification, warranty with penalties or charges associated with sub-standard supplier quality, indemnity provisions, termination procedures, liability limitation clauses, provision of performance bond and so forth, to ensure that the contract delivers the values required.

According to Taylor et al (1997:52) the company that commits themselves to learning, benefits as follows:

- Contract managers are sure that there is a clear company purpose and strategies which are understood and owned by all;
- There is an underlying culture of trust which affirms the value of all of contract managers and their roles and functions;
- There are clear plans, criteria and standards against which progress and achievement can be measured;
- Contract managers strive for excellence whilst recognizing mistakes and failures as opportunities for learning;
- There is a recognition that effective learning depends on access to good information;
- Contract managers are not so bound to old ways of doing things that new ways are not tried;
- There are structures, systems, procedures and resources to support the learning process; and
- There is creative balance between the action, reflection, learning and planning, ensuring that each is given enough time.

The contract managers need to possess skills in the management of supplier relationships, improved communication, knowledge of ethics and ability to effectively manage the end to end supply chain through improved business acumen and an understanding of the “big picture” from a strategic perspective (Handfield and Giunipero, 2004:1). They also need to consider all issues holistically, thus they need to be open minded and flexible in order to meet changing market conditions.

4.5.7. Establishment of Suppliers’ Relationships

The interviewees indicated that there is currently no formal relationship with ETD suppliers. Neither the contract managers nor the suppliers are investing their time in developing the relationship. The formation of formal supplier relationships could yield maximum benefits in terms of profit, cost improvement, knowledge about suppliers’ market etc. As a result ETD contract management will be efficient and effective and the cross functional teams’ capabilities will be reinforced.

4.5.8. Monitoring the Production Schedule or Service Performance

The interviewees indicated that the monitoring of the production and performance of service of their suppliers is not always done. By monitoring the schedules and performance of the suppliers, contract managers would be able to achieve competitive advantage. It is important that the contracts clearly define the terms of delay damages or penalty in case the delivery of the products or service is delayed, as this delay could disrupt the supply of electricity and creates a cash flow problem.

The contract should include performance bonus incentives to motivate suppliers to be committed to the ETD strategic plan and to bring about the best deals. The skill and training of the contract managers is therefore invaluable to achieve the desired rewards.

4.5.9. Cross Functional Teams

The interviewees indicated that the cross functional teams do exist at ETD, but on an informal basis. The formation of formal committed cross functional teams could benefit ETD by responding to market changes faster and it could increase the creativity in decision-making as the decisions will be based on different skills and expertise. The formation of cross functional teams is imperative in providing high quality and meeting the demand quickly.

Cross functional team formation is also important to the decisions that impact multiple functional areas. Without the representatives of various areas the decisions are likely to meet resistance. Thus, if the representatives of each of the functional areas are involved on the team, they provide beneficial input and are involved in the resulting agreement. In turn, each representative will be responsible for ensuring acceptance by his or her functional area, of the team's decisions. Experience indicates that once a team makes a decision, implementation of the resulting plan is much easier and faster than with the sequential approach.

Cross functional teams also enhance problem resolution. In case a supplier, in spite of its best efforts, is unable to meet the contract delivery schedule or quality requirements, a cross functional team representing supply management, manufacturing engineering and quality, may work with the supplier to resolve the problem.

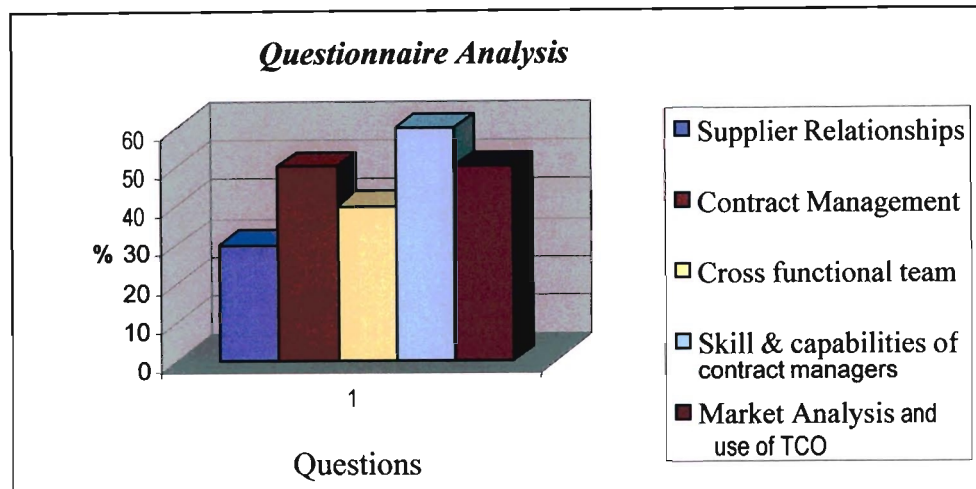
The negotiations for critical or large monetary value materials, services, supplies or items of equipment are conducted much more effectively by a well prepared and well coordinated cross functional team than by the contract manager alone. These strategic cross functional teams need to be empowered by being given authority to make decisions, as they have direct knowledge of the problems and will implement the solutions, Murphy & Heberling (1996:3).

The cross functional teams should include qualified suppliers as formal team members to reap benefits on quality of information sharing and for the suppliers to support the strategic procurement objective and contribution to critical performance areas, Trent and Monczka (1994:5).

ETD therefore needs to form formal cross functional teams to manage the national contracts, identify business needs through discussions with end users and other divisions and stakeholders, forecast demand ahead of end users' requests and benchmark procurement volumes with global suppliers.

4.6. Questionnaires

Figure 4.9 Questionnaires Analysis



From the questionnaire analysis the following was found:

- **Market Analysis and use of TCO** – there is limited independent research into market and price trends as the contract managers rely on suppliers for information and pricing. The contract managers should therefore be trained to start using the total cost of ownership, supplier economics and market analysis.
- **Strategic Sourcing** – there is no dedicated strategic sourcing, as the focus is on executing end-user requests, with little time to develop sourcing strategies and there is limited cross functional collaboration as contract manager are involved late in the procurement process. As a result there is limited use of strategic tools like total cost of ownership, supplier economics etc. The contract managers need to start formulating sourcing strategies that deliver significant and sustainable reductions in total cost of ownership and the formation of formal cross functional teams to consider all cost saving levers or ideas.

- **Contract Management** - there is no end-to-end view of contract management, and contract managers are perceived to have low skills and unable to add value to the supply chain process. The current training does not give sufficient focus to strategic procurement. Some contract managers spend most of their time processing low value orders and the current SAP system is poorly utilized, making it difficult to track price and purchasing trends. Thus, there is a need for procurement and contract management re-organization, where the contract managers are assigned with clear roles and accountabilities, comprehensive training programmes need to be established for the contract managers to perform their duties effectively and efficiently and they also need to be proactive in their contract management. There is a need for efficient systems and processes for order execution and technology tools that allow for better decision making on total cost of ownership, supplier economics and supply markets.
- **Performance Measurement** – the contract managers are measured on customer satisfaction. Thus, there is a need for an effective performance management system for contract managers and end-users.
- **Supplier Relationships** – there is no consistent supplier performance management system and as a result the contract managers are continuing to use poor performing suppliers. There is also no management or established supplier relationship at ETD and the supplier database lacks critical information, like supplier performance, capabilities and category focus. Thus, there is a need to form supplier networks with a few demanding partnerships and effective supplier evaluation system and feedback. By managing the suppliers' relationship, trust will evolve between the contract managers and suppliers and they will be able to communicate and share information amongst themselves. As a result the contract managers will be able to know in advance about any production or service delivery problems and take the necessary steps to mitigate them. As stated by Ellram, 1995 on Parsons' article in 2002: the establishment, development and maintenance of supplier relationships are crucial to access technology, gain cooperation, increased knowledge and information sharing.
- **Monitoring Supplier Performance** - by monitoring the performance of the supplier in terms of delivery of goods and services, contract managers together with the cross functional team would be able to enforce measures to help the suppliers well in advance before the delivery is affected. Although there are presently cross functional teams at

ETD they are not formed formally and as a result the teams are not fully committed to adding value to the supply chain and decision-making. There is thus a need to form the cross functional team formally at ETD in order to bring about innovative decision-making.

- **Training of Contract Managers** - although the contract managers have vast experience, for instance they have an average of 15 years in procurement, they are not trained to procure in line with the world class supply chain, for instance their skills are outdated. Training should be an on-going part of ETD if it wishes to be a major player on the global market. Thus, training will enable contract managers to manage their contracts efficiently and effectively and to keep up with the changes globally, Guinipero and Handfield (2004:48).

CHAPTER 5. RECOMMENDATIONS AND CONCLUSION

5.1. Recommendations

After reviewing the whole process of contract management at ETD and for recommending the better framework of contract management, it is important to have proactive contract managers. Thus, recommendations will focus on the roles and responsibilities of contract managers, approaches to improve contract management performances, risks and contract assessments, implementation of communication strategy to the key stakeholders, top management commitment to change, implementation of a contract managers' framework.

5.2. Roles and responsibilities of contract managers

Table 5.1 shows the requirements to be included in contract managers' roles and responsibilities.

Establish or extend ETD national contracts	Adjudication of tenders	Maintain business efficiency	Perform sole adjudication	Negotiate options	Manage contracts	Uphold procurement policies, procedures and processes	Assess risks
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Adapted from the interviews response in determining roles and responsibilities requirements, October 2005.

The new roles and responsibilities of contract managers should be to:

A. Establish or extend ETD National Contracts by:

- Scrutinizing purchase requests to ensure clear/logical descriptions, specifications, requested lead-times and the availability of funds;
- Researching and selecting a reliable supplier base;

- Evaluating process options and selecting the most appropriate procurement mechanism;
- Identifying financial and contractual risks, i.e. foreign exchange, hedging and performance guarantees;
- Formulating financial and contractual risks, i.e. foreign exchange, hedging and performance guarantees, etc;
- Advertising tenders in the media;
- Formulating and issuing enquiries, using the family of New Engineering Contracts conditions; and
- Ensuring the application and upholding of Eskom's Purchasing Policies with suppliers.

B. Adjudicate tenders by:

- Cross functional teams evaluating tenders by using total cost of ownership analysis;
- Forming cross functional teams to lead negotiations; and
- Presenting evaluation reports to the relevant Procurement Tender Committee, clarifying and substantiating criteria in support of the recommendation.

C. Maintain business efficiency by:

- Ensuring the effective implementation of procurement policies, procedures and practices;
- Implementing and maintaining project plan schedules;
- Informing key role players and end users in terms of changes and trends in the national/international markets; and
- Implementing and managing cost reduction and price containment strategies to comply with Eskom tariff increases and inflation rates.

D. Perform sole adjudication by:

- Evaluating tenders received;
- Applying a sole adjudication mandate of tenders below R150 000 per transaction;
- Accepting accountability for decisions to comply with sound business and ethical principles;
- Signing and awarding contracts; and

- Ensuring an audit trail.

E. Negotiate options by:

- Forming cross functional teams to identify negotiation opportunities, i.e. cost benefits, terms and conditions;
- Researching and benchmarking options;
- Preparing and presenting a mandate for approval;
- Constituting and briefing the negotiation team;
- Negotiating within the mandate;
- Applying skills and business logic to reach consensus;
- Reporting the outcome to the appropriate Procurement Tender Committee; and
- Reviewing the negotiation process to identify key learning points or facts for future negotiations.

F. Manage contracts by:

- Administering forex and hedging exposure;
- Obtaining and managing guarantees, sureties and performance bonds;
- Resolving contractual issues (including financial), monitoring contractual progress and informing the clients and end users accordingly;
- Monitoring contractual progress;
- Controlling contract modifications and deviations;
- Expediting and de-expediting deliveries in consultation with clients;
- Maintaining ethical supplier relationships;
- Maintaining open communication channels with all role players;
- Visiting suppliers' offices and plants in order to stay abreast of their capabilities and performance;
- Driving cost reduction programmes such as value analysis/engineering, standardization and supplier partnering;
- Measuring own performance against KPIs and client's needs;
- Ensuring an audit trail;

- Securing an accurate audit trail; and
- Participating in and promoting SMME and BEE procurement initiatives.

G. Uphold procurement policies, procedures and processes by:

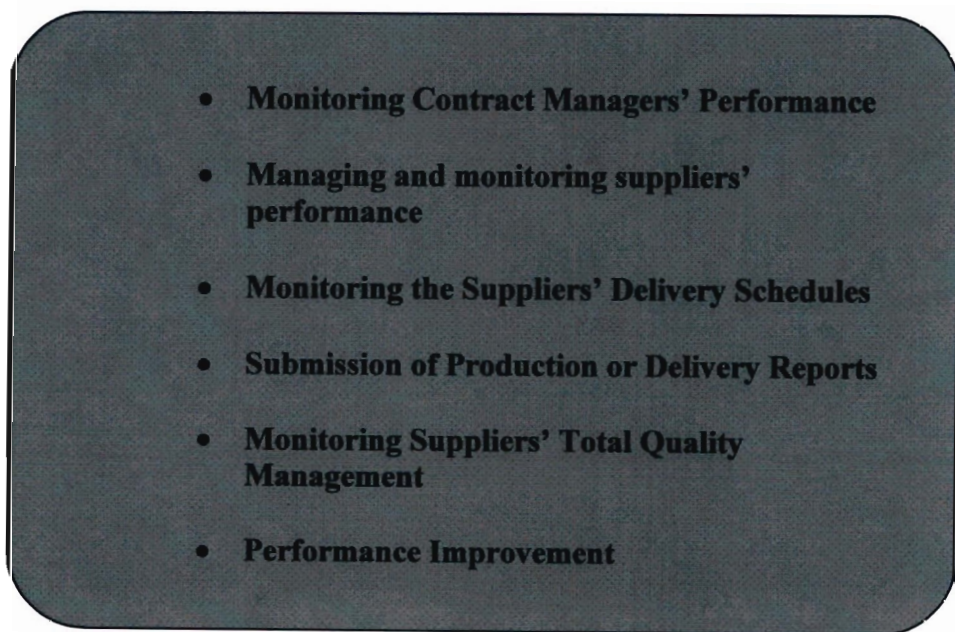
- Accepting accountability to uphold policies and procedures; and
- Accepting accountability to uphold ethical and positive relationships with external supplier base.

H. Assesses risk by:

- Assessing risks per contract and implementing controls to mitigate risks; and
- Ensuring that correct contract strategy has been selected.

5.3. Approaches to improve contracts management performance

Figure 5.2 Approaches to improve contracts' management performance



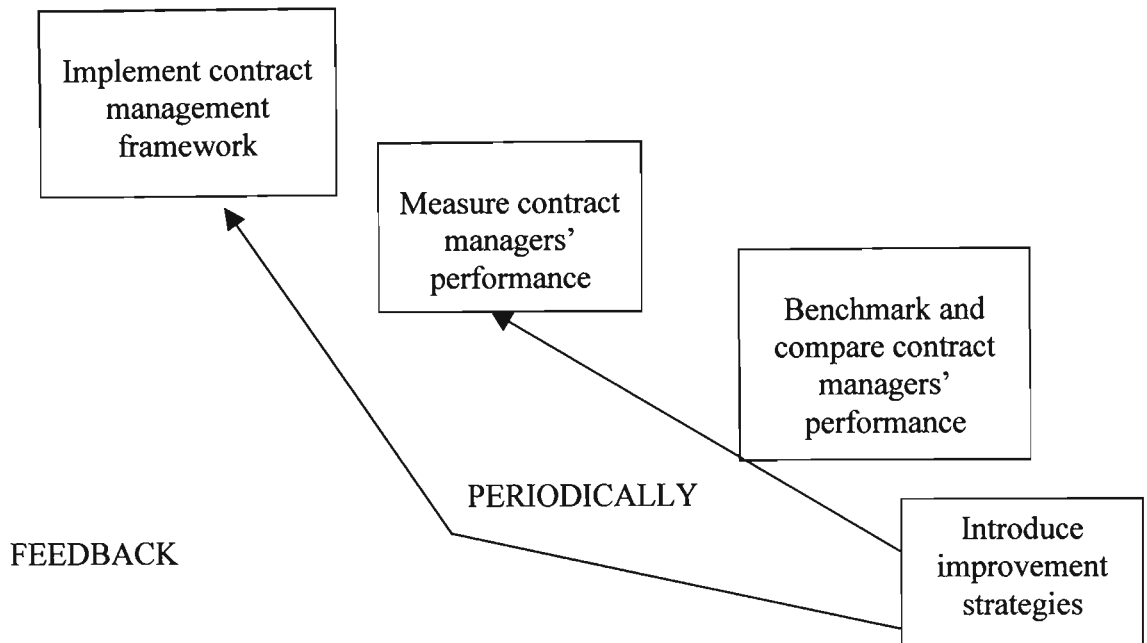
Adapted from the interviews response in determining ways to improve contract management, October 2005.

5.3.1. Monitoring Contract Managers' performance

A performance management system is important for the ongoing sustainability of the business and how it is doing in achieving specific objectives. It creates an understanding that guides everyone to work towards achieving goals and continuous improvement thereby contributing to ETD success. A performance management system needs to be developed to manage contract managers. This system should include instructions on how to perform the contract management, effective methods for measuring and monitoring performance and targets aimed at continuous improvement. The measurement should be done periodically and updated according to changes in circumstances. As adapted from Guinipero and Handfield (2004:20), "contract managers can contribute to ETD's strategic planning effort by monitoring supply market trends, interpreting the meaning of those trends, identifying the materials and services required, and developing supply option". From the above statement it can be seen that the role of contract managers is now changing drastically to that of strategic thinkers and innovators in order that they may make informed and factual decisions in the cross functional team and at ETD.

The trend towards adopting strategic alliance and strategic sourcing translates to the elevation of the contract managers' functions to include open relationships with suppliers. This evolution impacts the ideal skill set required for excellence in effective and efficient contract management (Guinipero and Handfield, 2004:22). Figure 5.3 represents the process of how to improve the contract management framework at ETD.

Figure 5.3 How to improve contract management framework at ETD



How to improve contract management framework at ETD, dapted from Hugo et al 2004

As adapted from Hugo at el (2004:99), it is important for the contract management framework to state clearly what needs to be measured and improved. The contract managers' framework will therefore provide the basis for identifying discreet value-adding processes, eliminating wasteful expenditure and time and measuring contract managers' performance. The performance of contract managers should be benchmarked and compared with other utilities and improvement strategies should be introduced for continuous improvement in certain areas at a rate that is consistent with ETD's vision. These improvements will feed back to the contract managers' framework and measure the contract managers' performance. This measurement needs to be done periodically. The contract managers' performance will be measured according to the balance scorecards. The recommended scorecard should be as follows:

Figure 5.4 – Recommended balanced scorecard

<p>CUSTOMER 30%</p> <ul style="list-style-type: none"> • Internal and external customer satisfaction • Use of cross functional team • Supplier relationship management 	<p>FINANCIAL 30%</p> <ul style="list-style-type: none"> • Cost savings measurements • Total cost of ownership • Analysis of pricing trends against published indices
<p>INTERNAL BUSINESS PROCESSES 20%</p> <ul style="list-style-type: none"> • Average contracts' values • Concentration to suppliers that carry 80% spend • Monitoring suppliers' delivery schedules 	<p>LEARNING AND GROWTH 20%</p> <ul style="list-style-type: none"> • Training and development of contract managers • Contract managers' turnover and satisfaction • Sharing of best practices

Adapted from Stimson, Procurement Performance Optimization Article, 2002

As stated by Fawcett & Magnan (2001:49), good measurement of contract managers' performance will increase contracts management understanding, mold behaviour, facilitate alignment, shift roles and lead to good results.

If BEE expenditure is the only measure, then contract manager's behaviour will drive this at the expense of other indicators as they will concentrate their efforts on maximizing the performance of goals that are measured. Clearly, the existing situation is out of balance, a more balanced set of measures will provide balanced behaviours to ensure that, when faced with various options, contract managers will make the right decision (Gattorna, J. 1998:460-1). Eskom's current focus on BEE expenditure is understandable in the South African context. However, it ignores the full scope of world class supply chain management which is the demand, supply and logistics and if this is not corrected the supply chain functions will continue to be considered transactional rather than strategic and ETD will not make the transition to World Class Supply Chain Management.

To remedy this, the introduction of a balanced scorecard that measures customer service, supply chain processes, financial indicators and employee growth and development are recommended. (See above figure for the recommended balanced scorecard).

5.3.2. Managing and monitoring suppliers' performance

Managing and monitoring suppliers' performance is important to assess whether ETD is receiving value for money in the goods provided by the suppliers. As per the Queensland Government Better Purchasing Guide (2000:2), the management and monitoring will contribute to effective risk management, contribute towards the development of strategic relationships with suppliers, assist in developing supplier capability, assist in the development of supply chain management strategies and improve supplier and purchaser performance. Effective supplier performance monitoring and management requires the contract manager to:

- Check regularly the progress of the suppliers for contractual obligations to be met;
- Conduct regular random inspections of the supplied goods and/or services during the contractual period to ensure that they meet specification and are of suitable standard; and
- Check that all conditions and clauses in the contract are acted upon.

The extent of performance monitoring applied to a supplier should be determined by the level of risk involved in the purchase and the nature of goods or services provided. The supplier's performance needs to be assessed objectively against criteria that are pre-determined, clearly understood and agreed upon by both parties in the contract conditions.

According to the Contract Management Better Practice Guide (2001:36), in order to effectively monitor progress of the contract, the contract manager needs to establish a reporting regime that matches the nature and complexity of the contract being

managed in order to monitor effectively the performance of the suppliers. To facilitate timely and accurate reporting on service delivery, the contract manager should consider the method of delivery of reports, the regularity of reporting, quality of reporting documents and ongoing relevance.

To encourage supplier improvement, contract managers should award suppliers that demonstrate quality performance so as to keep suppliers actively involved in improving their performance (adapted from Ogden, 2004:3).

According to Dobler and Burt (1996), the common approaches to be used in monitoring suppliers to perform satisfactorily are: -

- **Punishment** – not awarding contracts for future requirements, bill back or apply delay damages if the service of the supplier is unsatisfactory.
- **Rewards** – awarding contracts for future requirements, recognition by writing letters to the CEO of the supplier if the service of the supplier is satisfactory.
- **Training** – training suppliers on Just In Time (JIT) manufacturing, Total Quality Commitment (TQC) to improve their service performance.
- **Quality Audits and Procurement System Reviews** – as organizations realize their interdependence with their suppliers, they are becoming more proactive in ensuring that their suppliers' quality system and procurement systems operates effectively. The procurement systems review provides a framework, which contract managers may follow when reviewing and assisting its key suppliers to upgrade their procurement systems.
- **Problem solving** – providing technical and managerial assistance to the suppliers when quality and related problems are encountered.

5.3.3. Monitoring the Suppliers' delivery schedules

According to Burt et al (2003:488), "contract managers cannot always rely entirely on the supplier to ensure that the delivery of the equipment or the production schedules or performance of the service is taking place as agreed or scheduled. Because late deliveries or poor performance disrupt production operation and result

in loss of sales and revenues, contract managers need to monitor the progress of the supplier all the time. The method of monitoring will depend on the complexity and the urgency of the order or contract". Thus there is a need for frequent (monthly) communication with the supplier to allow continuous total cost reduction and a successful longer-term relationship.

5.3.4. Submission of production/delivery reports

As adapted from Burt et al (2003:488), the contract manager must ensure that the supplier submits a phased production schedule for review and approval. The phased production or delivery report must show the planning, designing, purchasing, tooling, plant rearrangement, component manufacture, and subassembly, final assembly, testing and shipping for example. The reports should also show narrative sections in which the supplier explains any difficulties or action proposed or taken to overcome the difficulties. The production/delivery reports should not replace the visits to the supplier premises and monthly meetings with the suppliers. On critical contracts, where the cost of such visits is justified, it may be desirable to establish a resident facility monitor to ensure the quality and timeliness of the work being performed at the supplier's premises.

When it is determined that an active system of monitoring the supplier's progress is appropriate, the first step in ensuring timely delivery is to evaluate the supplier's proposed delivery schedule for attainability.

5.3.5. Monitoring Suppliers' Total Quality Management (TQM)

When monitoring the suppliers' performance contract managers should consider the total cost of ownership, which includes continuous improvement; employee empowerment; benchmarking; just in time; knowledge of tools and customer centred principles. The TQM defines quality according to the customer's specifications, and measures the quality at various value adding processes or activities (Hugo et al, 2004:80). Therefore suppliers need to ensure that during their production or manufacturing processes they strive for zero defect strategies.

5.3.6. Performance Improvement

Performance improvement requires understanding the competitive direction of the industry and finding the pressure points in the value chain that will help the suppliers realize that it is in their best interests to match their objectives of ETD to maximize their competitiveness.

If the supplier is not performing according to ETD requirements or delivering on time, contract managers need to look at the terms and conditions of the contract and apply delay damages or penalties. The leverage is another way of getting the non-performing supplier to deliver. According to Dobler and Burt (1996), suppliers are responsible for timely and satisfactory performance of their contract. Unfortunately, a contract manager cannot rely entirely on the supplier to ensure that work is progressing as scheduled and that delivery will be as specified.

Poor performance or late deliveries disrupt production operations, result in loss of revenue and create cash flow problems. Thus, contract managers must monitor supplier progress closely to ensure that the desired goods or services are delivered on time. The method of monitoring depends on the lead-time a purchase order or contract is awarded. The supplier must submit delivery schedules or phased production schedule for review and approval. A phased production schedule shows the time required to perform the production cycle, planning, designing, purchasing, tooling, plant rearrangements, component manufacture, sub-assembly, final assembly, testing and shipping, for example. The program must show delay factors, status of incomplete pre-production etc. The contract managers should visit the supplier's plant and the right to conduct such visits must be established in the contract.

5.3.7. Development of Performance Based Contracts

As adapted from Contract Management Better Practice Guide (2001:24-25), contract managers should ensure that the performance based contracts includes:

- Alignment of ETD priorities – where performance incentives are aligned to ETD strategy and there is clear identification of risks, flexibility to allow changes to incentives, key result areas, outputs and benchmarks during the term of the contract.
- Incentives for improved performance – where mechanisms that deliver mutual gain from achievements is defined and the incentives that add value are based on performance.
- Measurement methods that support performance improvements to ensure that results are measurable and not based on perception only in order to establish the agreed minimum performance.
- Sanctions for non-performance, such as percentage fee for late delivery of products or completion of services or flat rate for substandard levels of performance.

5.4. Risks and Contract Assessment

As stated by Contract Management Better Practice Guide (2001:22), the contract managers' responsibility during the ongoing management of the contract is to ensure that risks from company and suppliers side are clearly identified as part of the risk assessment process and managed to ensure effective delivery of contract service.

The contract manager should also conduct an assessment of the contract amount due at every assessment period as per the contract conditions to establish if the work has progressed or been completed as per the delivery schedule. Any variance will be negotiated and once agreement is reached the contract should be amended to the agreed amount due. This should happen before the completion of the service or delivery of the goods. Feedback sessions will then be formed to inform both the suppliers and the cross functional team on how performance is faring against expectations for both parties, so that they can make adjustments in their performance or their plans. By assessing the risks, the project management team can determine where to add resources to ensure schedules and milestones are met and to have contingency plans in case they are not.

According to Moore (2002), the problems that may occur if there is no proactive contract management in place are:

- **Existing contract** – change in the scope of work and the supplier might increase the prices beyond the margins. In the case of ETD the interviewees indicated that one vendor has different contracts of the same products or services and often automatic rollover happen to some contracts. Therefore, a defined term contract with specific performance measures and cost reduction requirements needs to be established. The contract managers need to consolidate the volumes in order to benefit on economies of scale.
- **Product or service fails to meet required tests**, creates cost and production problems as well as delays in deliveries. Sometimes it might lead to ETD continuously accepting late and inadequate products or poor services from the supplier and beginning to assign its own personnel to tasks contracted with the supplier. The lack of risk assessment by ETD will lead to ETD paying the cost without getting the benefit of the intended product feature or required service.

It is important to bring the suppliers in line with ETD's strategy as well as recognizing the suppliers' capability in contributing to that strategy. ETD should strive for the suppliers to act like coalition partners who share their strategic objective, operational risks and a commensurate share of the ensuing profit (or losses).

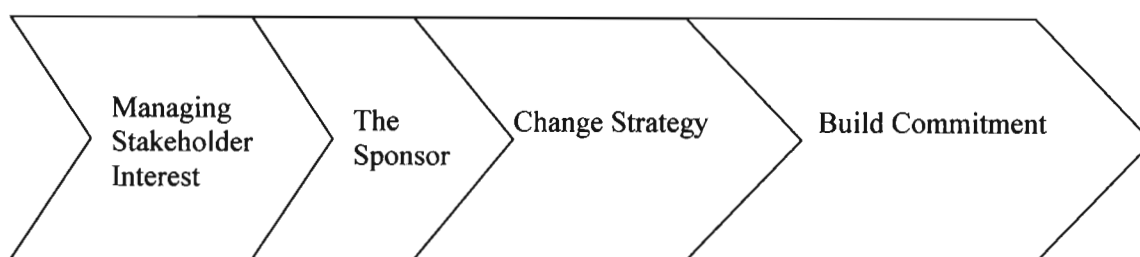
Moore (2002) states that, "suppliers often view terms such as partners, collaboration and alliance relationships as an opportunity to demand sole source pricing and concessions from their customers". It is important to structure programs around concepts such as partners, collaboration and alliance relationships through a process of making change a part of the supplier relationship business practices. This requires the abovementioned supplier performance improvement initiatives supported by the supplier and tied to ETD business objectives.

5.5. Implementation of Management Strategies to the Key Stakeholders

It is important that the objectives and performance indicators' measures and indicators be qualitative as well as quantitative. Failure to use the indicators will give early warning that

implementation is not going according to planned milestones and opportunities for celebrating success, early successes are particularly valuable in building support and bringing skeptics on board. Ongoing successes maintain momentum. There should be constant communication to keep key stakeholders informed of developments. The risk assessment should be done at regular intervals to ensure that the chosen approach is still appropriate. There should also be contingency plans to deal with foreseen risks.

Figure 5.5 Key Stakeholders' Management Strategies



Adapted from the interviews response in determining strategies manage stakeholders, October 2005.

5.5.1. Managing Stakeholder Interests

Conflicts may arise during implementation when different stakeholder interests disagree about the framework, thus there should be a process of discussion and/or decision-making among the different parties. It is important to involve powerful stakeholders and decision-makers from the beginning, to avoid the risk of their blocking negotiations and attempts at implementation.

5.5.2. The Sponsor

The sponsor's role is critical. This is a person in the top management of ETD who undertakes leadership of the change programme, deals with critics and decides how to solve problems. For the implementation of the framework to succeed there should be constant communication and the formation of a good relationship with the sponsor.

5.5.3. The Change Strategy

Policies created by people emerge from existing policy paradigms, politics and the power and influence of different stakeholder groups. Reform therefore requires investment in the management of change and a strategy that focuses on the process. Management of change strategy will entail:

- **Planning for change** – reflecting, developing a vision and building concepts;
- **Identifying change sponsors** – contract managers who will lead change;
- **Recognizing and managing barriers to change** – predicting the reaction of contract managers to the proposed changes. Opposition can be expected from contract managers who are either unable to accept new ways of doing business, or those who stand to lose from new policy measures;
- **Building support for reform and managing key stakeholders** - explaining the need for change and the ways in which contract managers will benefit;
- **Reforming organizational structures** - to accommodate new ways of working;
- **Mobilizing resources** - political, financial, managerial and technical resources are needed to sustain reform; and
- **Consolidating change** - ensuring that the motivation for change is maintained and, later, mainstreaming the new way of working as part of normal procedure.

Change management is critical for ETD to realize the efficiency in the contract management framework, where the following will be affected:

- **People and culture** – formation of formal cross functional teams to apply new methodologies in procurement of goods and services and ETD taking accountability for potential savings;
- **Structure** – formation of Eskom structure that puts emphasis on supply chain management;
- **Processes** – development of supply chain processes that will add value to the business; and

- **Skills and capabilities** – establishment of comprehensive training of contract managers to improve their procurement processes and focus on methodologies that will add value to ETD.

5.5.4. Build commitment

By repeating the participative phases of the diagnostic process and providing feedback to participants their views on the stalled change and the action that will be taken to ensure the problems do not recur.

5.6. Top Management Commitment to Change

Most people do not like change. Much of this resistance comes from either misunderstanding or lack of understanding. Thus top management needs to communicate that the new contract management framework will be used to help them to think out of the box and see the competitive benefits of the new ways of managing the contracts. ETD top management must believe that the status quo is untenable and that change is essential. Without their commitment, the change programme is likely to fail. The reason for change as adapted from Moore (2002), is caused by the constant change in demands in the world. As a result it is therefore important to create the processes that will allow change to occur with the least cost but greater competitive impact. The fundamentals of change management include administration of the requirements' baseline; the monitoring of the baseline involves keeping track of responsibilities, requirements and schedules. It is therefore, useful to have tools that help track responsibilities and requirements. When the contracts' requirements and schedules are monitored closely, it is possible to implement a change management. According to Moore (2002), comparing the baseline with actual performance provides the mechanism for ensuring that the supplier is complying with the requirements of the contract. This provides the bare necessities for contract management to determine if the customer is getting what they paid for. This comparison also provides the baseline to measure change proposals to determine if they are in fact changes and to what degree the original scope of the contract has changed.

The contract managers will be persuaded to support the change by:

- Sharing successful change results from other utilities;
- Training them to do their job effectively and efficiently;
- Recognizing or rewarding the good performers; and
- Reprimanding the consequence of not changing, though audit.

5.7. Implementation of a Contract Management Framework

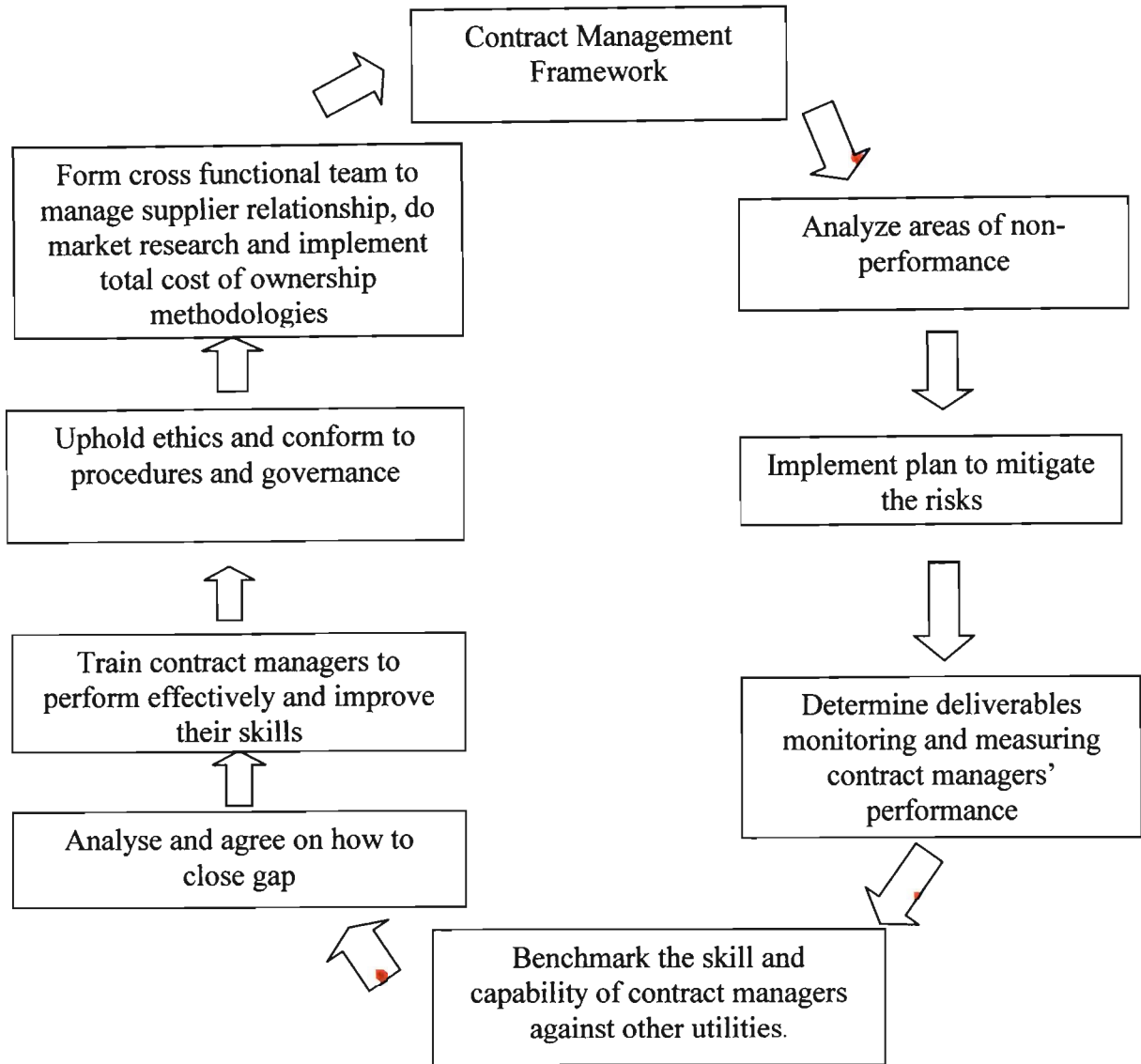
A competent and accredited contract manager needs to be appointed in writing for every contract that is established. The contract measurements should form part of the individual's job contract.

- ETD's top management should ensure that enough time is made available to the individual to enable good contract management.
- A detailed User Requirement Specification needs to be developed by the cross functional team for every contract.
- A contract strategy needs to be developed for each contract by a competent panel in a cross functional team. The strategy must be in writing and retained for audit purposes.
- A contract should be established for all repetitive procurement of goods and services.
- A contract manager assisted by the cross functional team should prepare contract documentation including the user requirement specification and establish the contract.
- The "Squad check" process should be followed by the contract manager together with the cross functional team.
- The contract manager together with the cross functional team should determine the suppliers' capabilities for the service or product required.
- An appropriate adjudication authority as per the governance control procedure should perform the approval of a contract.
- A management authorization/approval process prior to initiating the commercial process is required to ensure quality, risk and governance control.
- The contract manager should ensure that supplier communication is managed throughout the production or service delivery phases.
- The contract manager should maintain financial management of the contract, including cash flow, cost control, savings capturing etc.

The evaluation criteria of tenders should be based on the life cycle cost or total cost of ownership, which is the price, delivery, quality, maintenance, environmental and safety impact; and not just on price, quality and delivery. According to Hugo et al (2004:192), the total cost of ownership provides the first integrated approach to quantify the intangible elements of quality cost. It is therefore important for the contract managers to know the supplier market and do strategic sourcing in order for them to be innovative in their decision-making.

The implementation should follow the following process:

Figure 5.6 Implementation Process



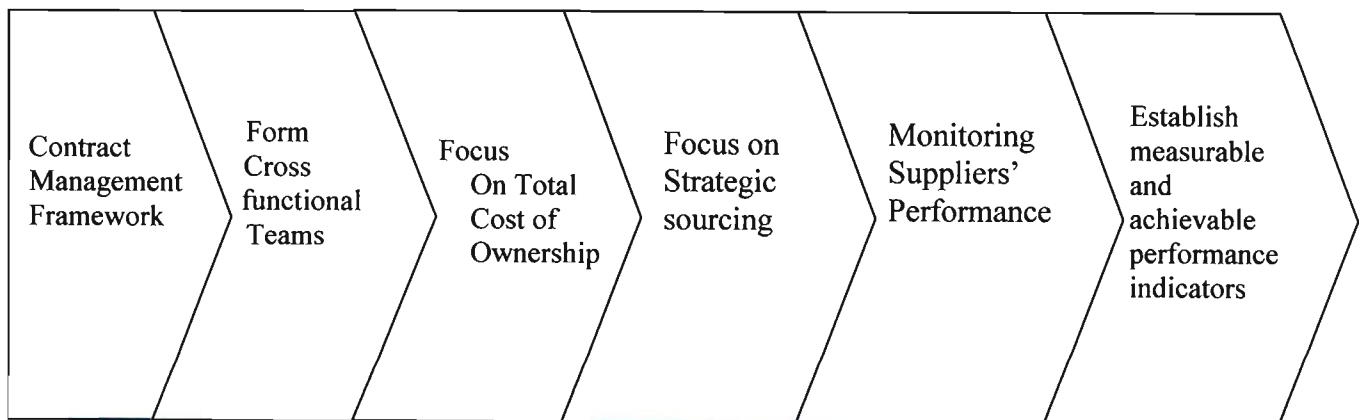
Adapted from the interviews response and questionnaire response conducted to ETD’s contract managers, October 2005.

For the contract management to be sustainable there must be formation of formal cross functional teams to bring their varied skills and experience to the team in order to make sound decisions that include total cost of ownership methodologies in the procurement of

good and services. The team must establish and maintain supplier relationships in order to share information, benefit in cost savings etc. The performance of the team needs to be constantly monitored and measured in order to mold their behaviour, influence and raise business expectations and aspirations. ETD needs to develop strategies that focus on problem solving skills and a high level of understanding suppliers' capabilities and performance. As a result the contract managers need to have the skills to analyze the suppliers' market and manage the supplier relationship. The effectiveness of contract managers can be improved by reflecting, learning, planning, training, and building of trust amongst themselves. Their skills and capabilities need to be constantly benchmarked to determine the gap and there should be on going training to keep them abreast with developments in the global market. The contract managers need to be ethical at all times when conducting business with the suppliers, not dampen their credibility and adhere to policies and procedures.

5.8. Critical Success Factors

Figure 5.7 Shows the critical success factors' process



Adapted from the interviews response in determining critical success factors, October 2005.

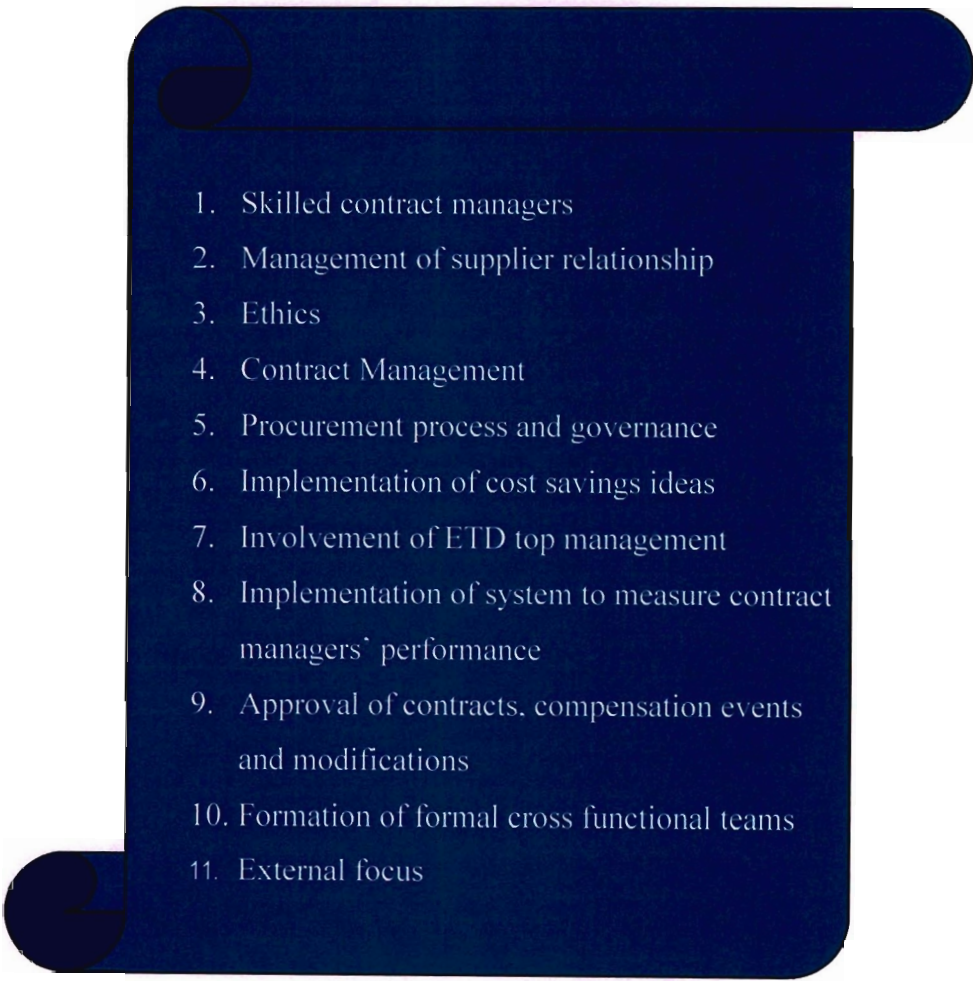
- For the contract management framework to work and be sustainable, the support of top management is critical.

- Formation of cross functional teams will lead to effective and efficient contract management;
- The key performance appraisal and indicators must be measurable and achievable for the contract managers to adhere to them.
- Contract managers need to measure and monitor the performance of the suppliers in order to encourage them to provide excellent service.
- It is important that the total cost of ownership be utilized at ETD as it provides detailed and factual cost data against which actual performance can be measured. As a result contract managers will be made aware of opportunities for improvement that may have a long-term impact on efficiency and effectiveness of contract management (adapted from Hugo (2004:193).
- For contract managers to be strategic players, reducing cost will be one of the key drivers, as top management expects them to contribute to bottom line profits through strategic cost initiatives (Giunipero and Handfield, 2004:12).
- Strategic sourcing – to reap the savings benefit of sourcing globally and from the lowest cost countries.

5.9. Conclusion

ETD needs the collective strength to outperform other utilities and maintain value added procurement and contract management processes. The specifications and policies need to be redefined as follows:

Figure 5.8 Contract Management Framework Requirements.

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1. Skilled contract managers
 2. Management of supplier relationship
 3. Ethics
 4. Contract Management
 5. Procurement process and governance
 6. Implementation of cost savings ideas
 7. Involvement of ETD top management
 8. Implementation of system to measure contract managers' performance
 9. Approval of contracts, compensation events and modifications
 10. Formation of formal cross functional teams
 11. External focus

Adapted from the interviews response in determining contract management framework requirements, October 2005.

- **In terms of contract managers' skill** – ETD needs to form formal cross functional teams to contribute their varied capabilities and experiences and innovative decisions and ideas. The goal is to have contract managers that are capable of communicating effectively, able to influence the suppliers' market prices, able to form relationships with strategic suppliers, able to influence the cross functional team, able to drive internal cost cutting measures and communicate with key stakeholders. It is therefore clear that the skill of contract managers with regard to total cost of ownership, sourcing strategies, consideration of economies of scale in procuring and the understanding of market trends is very vital in their career development and recognition. Thus, contract management in today's business means assessing risk and devising implementation strategies that will benefit ETD. ETD also needs to empower the contract managers to make decisions and to be able to set targets geared towards cost savings. The contract managers need to have strong relationships with ETD business units.
- **Supplier Relationship** – ETD should strive to maintain a limited number of supplier partnerships, where these partnerships have real meaning with specific aspirations that transcend the product or service itself (for example, funding the next generation of technology) and work with suppliers to achieve a rate of continuous improvement that “beats or at least meets” the competition's. To effectively manage supplier relationships contract managers should manage supplier performance to eliminate non-value added costs and to encourage continuous improvement. The cultural norms of both the supplier and ETD should also be taken into consideration when managing the supplier relationship, to enable both parties to use different methodologies in their relationship. The suppliers also need to help contract managers in developing total cost of ownership opportunities and efficiency options.
- **Ethics** - the contract managers should act ethically at all times when managing the relationship with the suppliers.
- **Contract management** – ETD is increasingly forced to examine cost improvement opportunities through cooperation, analysis of contracts and process improvements. This performance improvement should be tied to ETD's objectives. Communication,

negotiations, decision-making and problem solving are the important skills required from contract managers for them to be able to manage their contracts effectively and efficiently and for ETD to reap value added benefits.

- **Procurement process and governance** - ETD procurement processes and governance need to be reviewed, they should not block the efficiency of the business.
- **Implement cost saving ideas** – contract managers should implement cost saving ideas by strategic sourcing and benchmarking to compare and understand the suppliers’ tender prices.
- **Involve ETD’s top management** – the top management should be involved from the beginning to support the contract management framework and formation of formal cross functional teams.
- **Implement system to measure contract managers’ performance** – the implementation of this system will aid in tracking the compliance with the new ways of managing contracts.
- **Approval of contracts, compensation events and modifications** – needs to be properly approved at the correct level of adjudication and the reason for the modifications needs to be in writing and available on contract file.
- **Formation of cross functional team** – this team is important in bringing their varied skills and experience to improve decision making and acceptance of decisions taken from the department of those individuals represented in the team. This team will also bring innovative ideas and aid in managing the supplier relationship.
- **External Focus** – the contract managers should focus externally and pursue continuous cost improvement. There is an interest in benchmarking performance against others, as a continuous improvement mindset drives all activities. In addition, compensation should be tied to achieving continuous cost improvement goals.

- **Integration** – contract managers need to integrate contract management with the core processes that drive overall business performance.
- **Active Leadership** – contract managers should become active in shaping the supply markets from which they buy. They need to position themselves at the pulse of supply/demand economics to fully understand supplier/company economics (for example, total supply chain costs). They lever their positions with suppliers to pursue strategies that shape supply technologies, processes, products, standards, etc. They also exploit these new technologies and approaches to reduce total cost of ownership.

5.10. Way Forward

The objectives of the contract management framework are to ensure that products and services are delivered according to time, cost, quantity and quality standards specified in the contract. It is therefore important that the contract managers possess the skill and are properly trained to analyze expenditure, total cost of ownership, strategic sourcing, form cross functional teams etc.

5.11. Skills and Training of Contract Managers

As the key driver for success in supply chain management today is people, ETD need to recruit, train existing contract managers, and develop their career path requirements for the future. From analysis of the current contract management at ETD, it was clear that training of contract managers is very important, thus ETD need to start taking training seriously. ETD needs to provide contract managers with the opportunity to acquire the necessary skills and personal attributes to increase the likelihood of successful. The contract managers need to possess the following skills in order to perform their duties effectively and efficiently:

- Negotiation skills – in order to be aware of the need for documentations required during negotiations, and to obtain market information relating the issues of suppliers, including their costing, performance data etc.
- Technical skills – to understand service or product elements to specify variations and have the ability to appraise performance of service delivery.

- Facilitation skill – to become facilitators of the cross functional team.
- Leadership skill – to lead the cross functional team
- Evaluation skill – to analyze expenditure, compare supplier prices and evaluate the performance of different suppliers to allow further opportunities for optimization based on internal and external market information.
- Management skill – which includes people management skill, financial or cost management skill
- Communication skill – the ability to present information in writing and orally, negotiating, networking within ETD and with suppliers.
- Personal skill- which include interpersonal skills and flexibility.
- Strategic planning skill – to monitor and interpret supply market trends to develop supply alternatives.
- Relationship management skill – to resolve conflicts, solve problems.
- Ability to make decisions – about any issues within procurement or supply chain management.

These above skills and knowledge is important to help contract managers in analysis and to influence market and expenditure patterns of the suppliers and within ETD. Therefore, the skill of contract managers can influence the effectiveness of supply chain decisions and performance within the department. It is also important that contract managers receive ongoing training and development over the course of the contract management in line with their responsibilities. Networking with other contract managers can also assist in the development of personal skills and adoption of better practices whether formally (as part of membership of a professional body) or informally (at conferences), exchanging ideas and meeting with other professionals can be extremely useful.

The contract manager must have the ability to obtain and report relevant, factual and useful information on past success and failures, including suggested improvements and any necessary corrective actions to be taken by the supplier, adapted from Contract Management Better Practice Guide (2001:18-20).

As there is greater emphasis on structuring and delivering of procurement training in the future, contract managers will need to have skills to be able to work within a cross

functional team, be strategic thinkers, and manage supplier base and relationships. A variety of methods can be used to implement training, which can range from formal education, coaching, on job training and internet training. The ETD senior managers need to monitor the performance of the contract managers wants the training methods have been introduced to identify the gaps.

Giunipero and Handfield (2004:23) quoted that Barney (1991) mentioned four essential requirements in sourcing the skills of supply chain management:

- It must be valuable,
- It must be rare among the current potential competition,
- It must be perfectly imitable,
- There must not be any strategically equivalent substitutes for that skill

From the above requirements it can be seen that the skills now required to be possessed by contract managers must be of high standard, thus it is important that contract managers have the formal tertiary education, attend on job training and coaching courses in order to compete and succeed in the supplier chain management environment globally. This requirement also support the interviewers' response that it is now important to train contract managers as their skills is valuable due to the fact that now procurement is moving from transactional orientation to the strategic nature. ETD should also learn to retain the contract managers as their skills are in high demand.

As adapted from Guinipero and Handfield (2004:44), contract managers must be in tune with what is happening, not only at ETD but in the entire marketplace that surrounds their business, from both a supplier and final end user perspective. These broad-based business skills required of contract managers will require them to act and think more like entrepreneurs. Entrepreneurs constantly monitor their markets looking for new opportunities, thus, contract managers need to begin to act the same way and analyze risks and opportunities. For contract managers, these opportunities often involve understanding the needs of the end user and matching these will supplier capabilities. This will require that

they have a true understanding of who the end user is through closer relationships with end users to understand their needs.

Training should be an ongoing part of ETD, if it wishes to be a major player on the global market. In training the contract managers; ETD senior managers should ensure that contract managers are exposed more to risk mitigation and legal issues, have better presentation and overall communication skills, use e-procurement, and business strategy skills, Guinipero and Handfield (2004:48). The training will continue to grow as the importance of procurement as a source of competitive business performance against recognition by senior management, Guinipero and Handfield (2004:110). Thus the contract manager who fully understands the commodity market components and thinks outside the box has the best opportunity to develop an effective commodity buy plan. In addition, going beyond traditional thinking can lead to successfully negotiating concessions from suppliers leading to competitive advantage. With the proper skills and sourcing plan in place, the contract manager can be comfortable that any changes in the market conditions will be anticipated and the long term business goals will be achieved, Cantrell and Michels (2004:4) and Bendorf (2004:5), stated that forward thinking supply professionals are in constant pursuit of new ideas, concepts, and approaches that might enhance performance. It is therefore important that contract managers have the ability to listen, communicate effectively, build teams, readily adapt, sell the benefits of procurement involvements, and manage time, to enable the supply management profession to respond appropriately to changing client environments as well as be aware of international business and cultural norms, Handfield and Guinipero (2004:4).

5.12. Building of Fact Base

In building fact base the contract managers should do the following:

- Segments spend based on risk of supply and relative spend, combine analysis with believed view of the respective supplier, and derive procurement strategy.
- Assess supply market to ensure supply and create knowledge for negotiations.
- Collect non-price related supplier facts as input for supplier selection.

- Perform competitor benchmarking based on internal calculations to determine design and cost differences.
- Build supplier price with own resources and knowledge.
- Enhance quality of purchasing and inventory data as basis for improvement projects.
- Analyze cost drivers across all total cost of ownership dimensions.
- Reduce costs by shifting supply base to low cost countries
- Conduct improvement workshop with suppliers.

5.13. Analysis of Expenditure

The effective analysis of the expenditure will give ETD a clear view of spending patterns and as a result, supplier relationships will be more effectively monitored and leverage, and process efficiency and lots of reduction opportunities will become more visible. ETD will also be in a better position to leverage global purchasing volumes. The buying leverage with key suppliers will be achieved and compliance with purchasing contracts will be monitored to ensure negotiated terms are realized. This will put ETD in a better position to control planning, budgeting functions, and to measure factors impacting cost changes, such as inflation and inventory levels.

Contract managers need to actively monitor contracts performance to ensure that the negotiated contracts are integrated with procurement data, maverick spending is isolated to allow achievement of contracts compliance and to give ETD greater leverage in suppliers' negotiations. Thus the ability to effectively analyze expenditure patterns provides contract managers with deep insight into what ETD is spending, on what and with whom and hence gives the ability to identify opportunities for improvement. These abilities elevate the position of the contract manager, placing him or her in a strategic role to streamline operations, identify opportunities for improvement and implement changes, Howarth and Wynn (2003:1-3).

5.14. Total Cost of Ownership

Instead of accepting the pricing, quality, delivery, and flexibility levels offered by the best current suppliers, the contract managers need to work with suppliers to challenge every step in the value creating process and gradually move toward perfection. This skill require that all contract managers learn to see the value stream, sequence of value creating steps required to design, make and deliver the product and to learn to remove the waste, mistakes and rigidities. It is therefore important that every contract manager gain the fundamental knowledge required to analyze every value stream and create a plan for essential improvements, Womack (2003:1-2).

Total cost of ownership (TCO) is a concept by which all costs associated with a capital purchase over a given time frame period are accounted for in the value assessment. In analyzing TCO, it is vitally important to understand the suppliers' market and financial reports to come to an effective solution. It is therefore important that contract managers understand not only what factors make up the prices for the commodity/product or services they procure but in addition what drives cost into the product or service in the market place, Little (2004:2).

5.15. Strategic Sourcing

As adapted from RBC Financial Group Report (2005:2), the strategies for successful strategic sourcing in the contract management framework should focus on:

- Development of competitive value based pricing - where the overall costs are considered, for example, where consideration of maintenance or disposal is taken into account.
- Innovative – strategic sourcing teams not only concentrate on new products and services that deliver a competent advantage, but new ways of doing business. For example, how quickly can the supplier adapt to changing ETD requirements?

- Emphasize support and service – where the competitive advantage for suppliers in strategic sourcing is strong customer service and support. This ranges from how the supplier answers complaints to whether it guarantees levels of performance, such as on time delivery and damage free products.
- Formation of strategic relationship – to help ETD to meet its requirements.
- Investing in technology – where many large businesses reduce supply chain costs with electronic commerce and better use of technology. This cost efficiency does not go unnoticed by strategic sourcing companies.
- Promotion of pro-active – which is a key to success for many businesses in ensuring potential customers are aware of their products, services and added value.

5.16. Cross Functional Team

To form effective cross functional team, ETD need to ensure that the members have the expertise in that specific product or service, have clear roles and responsibilities, have good relationship with senior management within ETD and with suppliers, and their performance is measured and appraised. The contract manager needs to lead the cross functional team and be able to analyze current and potential suppliers' market to develop a fact base, and identify total cost of ownership levers and saving opportunities. The contract manager also needs to provide assistance to the stakeholders in understanding contracts, escalate supplier problems to appropriate person at supplier organization and liaise with ETD legal on disputes that require legal assistance, as well as communicate with project managers and users to ensure on time good receipt compliance, to prevent cash flow problem.

Contract managers within the cross functional team will be expected to conduct supply market research, decision making, take leadership position, set goals and so forth.

5.17. Development of Service Level Agreement

The contract managers need to develop service level agreement (SLA) once the supplier is selected for complex contracts and it should include the definition of the work in measurable terms, the standard quality, quantity and timeliness requirements and descriptions how the supplier performance will be assessed against the standards. The SLA should be included in the contract of the supplier as it will be used to measure his or her performance. For non-complex or non core services SLA is not required provided that performance levels have been adequately addressed in the contract documentation, Contract Management Better Practice Guide (2001:23).

5.18. Formation of Suppliers' Relationships

Formation of strategic relationship with suppliers is vital in achieving the development of long term relationships between the contract managers/cross functional team and the suppliers. Thus it is important that contract managers make strategic decision when evaluating and selecting strategic suppliers by focusing on total cost of ownership, suppliers' capabilities, capacity and willingness to share the costs and risks rather than on price only.

5.19. Measuring and Monitoring Performance

Today's economic and business conditions require everyone involved in procurement and supply chain management to be continually reviewing the effectiveness and efficiency of their performance through metrics and measurement, Little (2004:1). Thus, continuous monitoring does not mean overseeing the supplier by checking everything they do, it means monitoring the exception and leaving the actual measurement of performance to the supplier. The measure should be based upon metrics that are directly derived from the service.

Measurement may be physical number of items, area covered, amount of supply, volume, periodical review and include problem solving methods using benchmarks where the contract managers measure to determine whether the supplier performance is improving, getting worse, or stagnating and compares their performance with that of other industries. The information to measure the

performance of the supplier can be collected from the database recording time spend on delivery of products or services and milestone reached, hotlines or registers that record feedback, particularly complaints or exceptions in service delivery, inspection by the cross functional team or an independent expert for example, performance to ensure they are clean and safe and checklist completed to ensure all tasks have been completed, Contract Management Better Practice Guide (2001:27).

Measuring supplier performance must be tailored to specific situation, as not all strategic supplier relationships are created equal. The concept of balanced score card need to be frequently employed to support the implementation of the strategies within the business, Kaufmann (2004:1).

5.20. Managing Supplier Relationships

In managing supplier relationships contract managers should ensure that performance measurement is based more on trust, cooperation and risk sharing. The performance measurement system must also rely more on the supplier to self monitor their levels of service delivery. The contract managers will need to assured the supplier that sufficient quality processes are in place to adequately monitor work undertaken and may use financial incentives to encourage self compliance. The contract managers can then use ad-hoc surveys to provide an independent verification of the supplier's performance data, relying on the supplier's data for day-to-day management decisions, adapted from Contract Management Better Practice Guide (2001:27).

5.21. Reducing the Costs

As adapted from Guinipero and Handfield (2004:37), the costs can be reduced by through supplier productivity enhancements, logistics innovations, better management of key materials and more efficient packaging techniques. The major benefits from cost reduction efforts occur when contract managers are involved early in the new product or service development cycle by the project managers or users. At this cycle the major decisions regarding types of materials, labour rates, and selection of suppliers are not yet made. The response found on the analysis done to

the contract managers reveal that the project managers or the users determine the product or service specification first with a particular supplier and thereafter come to procurement for the request. At this stage the contract managers cannot do any strategic sourcing or negotiations as the supplier has designed the specification to suit himself or herself and knows that he or she is guaranteed the business. If the contract manager is involved early in the product or service development cycle, he or she will ensure that few strategic suppliers are invited to give specifications and for provision of solutions that can reduce costs.

The savings captured from costs and value added opportunities need to be documented and presented to stakeholders.

5.22. Contract Review

Before a new contract is established, it is important to review the success and failures of the current contract. The succession phase of the contract is therefore about learning lessons and establishing a clearer understanding of what makes contract management successful. These lessons will then form the basis of planning tender requirements and negotiations for the next contract. For successful contract management, contract managers should ensure that a preferred relationship type and pricing structure is selected, and agreed succession plan. Developing a succession plan will help contract managers to focus on the timing of review of the agreements and non-activity. The review should look at the activities being performed and whether they can achieve the desired outcomes. A review should also examine the cost-effectiveness and efficiency issues. Succession planning should continue throughout the life of the contract to ensure contract managers maintain knowledge of the situation and can be an intelligent and informed people that can deal with changes in the market and can accommodate changes in government policy or other requirements or legislation.

Contract reviewing also involves an analysis of issues that could arise when the contract is due for re-tendering and the strategies needed to be put in place to deal with those issues. The consideration includes the following:-

- Whether there are alternative means to perform the activity,
- How to encourage fair and open competition to ensure that all tenderers have a reasonable chance of success,
- How to ensure that contract managers retains the knowledge and capacity to re-specify requirements and manage contracts,
- How to explain the flexibility to respond to changes in policy direction,
- Ownership and transfer of assets, and
- What contract managers have learned from the previous process that would help to improve the re-tendering process, Contract Management Better Practice Guide (2001:53-54).

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Appendices

Annexure A

TRANSMISSION CONTRACT'S STATUS REPORT**as at June 2005**

CONTRACT No.	EQUIPMENT	SUPPLIER	CONTRACT PERIOD		APPROVED VALUE	CONTRACT MANAGER
			FROM	TO		
4600000112	Switch-mode Battery Charger	IST ENERGY	06/02/03	18/11/05	14,161,389.00	Mr F.M.
4600000115	Its Services	ARIVIA.KOM	10/10/00	31/03/06	148,447,210.00	Mr J. D.
4600000183	Professional Services	TSI - ESKOM ENTERPRISE	17/01/2002	31/12/2005	122,792,710.00	Mr J. D.
4600000143	Scheme Buscoupler	IST ENERGY	12/03/01	05/12/05	6,040,943.14	Mr F.M.
4600000161	Battery	FNB INDUSTRIAL	26/06/03	31/05/06	10,559,635.10	Mr F.M.
4600000208	Substation Control	IST ENERGY	14/06/2002	13/06/07	21,636,351.00	Mr F.M.

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4600000243	Transmission Metering Schemes	LANDIS + GYR (PTY) LTD	30/01/2003	30/01/2006	3,079,245.85	Mr F.M.
4600000255	Consulting Services	TRANS-AFRICA PROJECTS	08/04/2003	01/04/2006	74,883,046.00	Mr J. D.
4600000269	Car Rental Services	HERTZ RENT A CAR	04/06/2003	31/05/2006	3,000,000.00	Mr K. P.
4600000281	Reactor Refurbishment	ABB POWERTECH	17/06/2003	17/10/2009	41,129,000.00	Mr W. W.
4600000289	PLC Equipment	ABB SA (PTY) LTD	01/07/2003	30/06/2006	33,437,085.00	Ms T. K.
4600000290	Surge Arresters	ABB SA (PTY) LTD	01/07/2003	31/12/2005	11,881,792.57	Ms J. M.
4600000607	22,33,66,132 Kv CURRENT TRANSFORMERS	ALSTOM	09/09/2005	31/08/07	15,933,650.00	Ms V. N.
4000000609	275, 400 Kv Current Transformers	HTSA	06/09/2005	31/08/07	65,226,266.00	Ms V. N.
4600000299	Ferry/Utility	SAPPHIRE AIR	15/07/2003	30/06/2006	35,501,821.00	Mr J. D.
4600000306	Shunt Capacitor	SIEMENS	18/07/2003	31/10/2006	4,626,608.00	Mr F.M.
4600000307	Consultants / Professional Services	TSI - ESKOM ENTERPRISE	01/08/2003	31/07/2006	31,359,824.69	Mr J. D.
4600000318	Linetraps / CVT	HTSA	01/08/2003	31/12/2005	23,288,196	Ms J. M.
4600000338	Power Transformers	ABB POWERTECH	01/12/2003	30/11/2006	273,103,105.00	Ms T. K.
Various	Eskom Internal Services	ESKOM DIVISIONS	20/01/2004	31/03/2006	451,901,746.00	Mr J. D.
4600000348	Clamps	MCWADE PRODUCTIONS	14/01/2004	31/12/2006	34,000,000	Ms C. P.
4600000349	Clamps	ELB MCWADE ELECTRICAL	16/01/2004	31/12/2006	20,000,000	Ms C. P.

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4600000372	Conductor	MALESELA TAIHAN CABLES	09/02/2004	31/12/2006	14,500,000	Ms C. P
4600000382	Sf6 Gas	AIR PRODUCTS	12/02/2004	13/02/2007	5,000,000.00	Mr K. M.
4600000384	Cables	ABERDARE CABLES	24/02/2004	28/02/2007	33,500,000	Ms C. P
4600000477	Transport To Site	ROTRAN DIVISION	07/12/2004	31/12/2005	3,511,270	Ms C. P
4600000387	Courier Service	SKYNET WORLDWIDE	03/01/2004	28/02/2006	1,500,000.00	Mr K. P.
4600000390	Teleprotection Equipment	ALSTOM	08/03/2004	07/03/2007	1,991,827.00	Mr F.M.
4600000397	Computers	MUSTEK LTD	05/01/2004	31/03/2006	3,057,500.00	Mr K. P.
4600000398	Computers	HEWLETT PACKARD	05/01/2004	31/03/2006	4,620,500.00	Mr K. P.
4600000399	Services	ENDANGERED WILDLIFE TRUS	05/07/2004	31/12/2006	993,961.00	Mr W. W.
4600000407	Phase V Low Impedance Buszone Prot	IST ENERGY	21/05/2004	11/05/2007	5,494,957.00	Mr F.M.
4600000409	Junction Boxes	MEC ENERGY	25/05/2004	31/05/2007	10,899,480.00	Mr K. M.
4600000421	132kv 2500A 40ka Isolators	Alstom	20/07/2004	30/06/2006	9,118,424.00	Mr T. M.
4600000422	400kv 3150A 50ka Circuit Breakers	Alstom	23/07/2004	30/06/2006	110,148,400.00	Mr T. M
4600000425	400kv Isolators	ABB	03/08/04	31/05/06	31,778,272.50	Mr T. M
4600000426	132kv 3150A 40ka Circuit Breakers	HTSA	3/8/2004	30/06/2005	6,653,472.30	Mr T. M

4600000427	275kv 3150a 40ka Circuit Breaker	ABB SA (PTY) LTD	04/08/2004	30/06/2006	13,946,290.00	Mr T. M
4600000428	275kv 2500A 40ka Isolators 275kv 3150A 50ka Isolators 275kv 3150A 50ka Pantograph Isolators 400kv 3150A 63ka Pantograph Isolators	Alstom	4/8/2004	30/06/2006	16,341,754.32	Mr T. M
4600000599	132kv Citcuit Breakers	SIEMENS	10/08/05	30/06/06	9,046,400.00	Mr T. M
4600000487	Phase 4 Trfr & Shunt Reactor	ABB AUTOMATION	17/01/2005	24/05/2007	11,619,194.00	Mr F.M.
4600000492	Phase 4 High Impedance Buszone	SIEMENS LTD	01/02/2005	29/06/2007	2,460,722.00	Mr F.M.
4600000518	Bird Guards	BEE TEE PROJECTS (PTY) LTD	22/03/2005	31/03/2006	6,901,325.00	Mr Q. K.
4600000519	Bird Guards	BAFANA PROJECTS	22/03/2005	31/01/2006	2,368,397.00	Mr Q. K.
4600000520	Bird Guards	TRADE BUSTERS 1037 CC	22/03/2005	31/01/2006	2,330,278.00	Mr Q. K.
4600000522	Bird Guards	MISSION ENVIRONMENTAL PRODUCTS	24/03/2005	31/01/2006	2,600,000.00	Mr Q. K.
4600000547	Abnormal Transport	ROTRAN DIVISION	04/01/2005	30/04/2007	3,000,000.00	Mr K. P.
4600000548	Transformer Maintenance	ROTEK ENGINEERING DIVISION	05/01/2005	30/04/2010	350,000,000.00	Mr P. W.
4600000555	Development Of EHV 004	ABB SOUTH AFRICA (PTY) LTD	05/02/2005	31/12/2008	64,905,728.00	Mr F.M.
4600000450	Tuning Units	HTSA	13/09/2004	13/09/2006	1,106,338.00	Mr J. D.

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4600000451	Tuning Units	ABB SA (PTY) LTD	14/09/2004	13/09/2006	709,172.00	Mr J. D.
4600000559	Telephone Services Received	ESKOM ENTERPRISES (PTY) LTD	26/05/2005	31/03/2008	191,938,020.00	Mr J. D.
4600000583	Phase 5 HV Feeder Protection	ABB	07/07/2005	07/07/08	13,206,865.00	Mr F.M.
	Total				2,381,238,171.00	

	Contract Manager	Contracts Value	Number of Suppliers	Number of contracts
1	Ms C. P.	105,511,270	5	5
2	Mr F. M.	159,783,465	7	12
3	Ms J. M.	35,169,989	2	2
4	Mr J. D.	1,058,639,887	7	9
5	Mr K. M.	15,899,480	2	2
6	Mr K. P.	15,178,000	5	5
7	Mr P. W.	350,000,000	1	1
8	Mr Q. K.	14,200,000	4	4
9	Ms T. K.	306,540,190	2	2
10	Mr T. M.	197,033,013	4	7

11	Ms V. N.	81,159,916	2	2
12	Mr W. W.	42,122,961	2	2
	Total	2,381,238,171	43	53

Annexure B

STRICTLY CONFIDENTIAL

**ETD CONTRACT MANAGEMENT
INTERVIEW QUESTIONS**

PERSONAL DATA

Patterson grading
Highest qualification
Experience

Process

1. Describe the percentage time spend on your job doing the following: (what do you do on a daily basis) for example,

- Strategic sourcing
- negotiating with suppliers
- building supplier relationship etc

➤ Attending Meetings, Training, Other

General Questions

No.

1 What is your view with regard to the following supply chain process?

What is the inefficiencies?

a. Demand Management

b. Investment Process

c. Procurement and Vendor Management

d. Adjudication Process

e. Contract Management Process

f. Stores and Logistics

g. Accounts Payable

h. Suppliers

i. Existing policy and procedures

j. Contract managers' performance appraisal measurement

2 Does ETD Top Management understand the importance of contract management?

3 What is your view about the importance and formation of cross functional teams

4 Do contract managers have clear roles and responsibilities?, how are they important?

5 Do you have close relationship with your suppliers and how is this relationship important?

6 State the percentage of your contract that are being:

a. Renewed on time

b. Modified

c. Correctly loaded on SAP system with all information

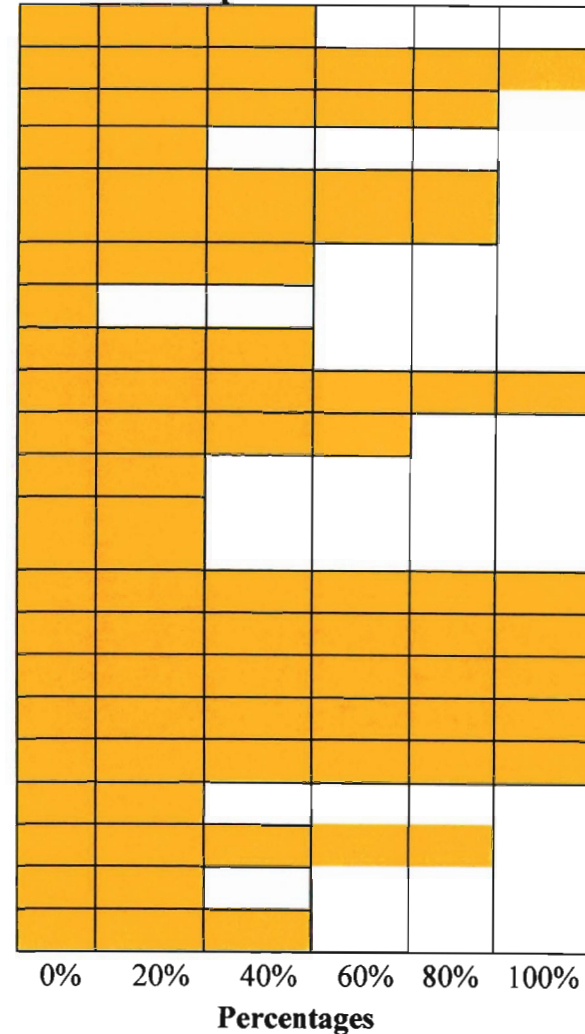
7 Is the skill, experience, capability important for contract management? If yes why, If no why

8 What can be changed about the current contract management?

Interview Analysis

- 1 Is contract management done properly at ETD
- 2 Importance of contract management at ETD
- 3 Need for changes on current contract management
- 4 Percentage of contracts not modified
Percentage of contracts adjudicated & correctly loaded on
- 5 SAP
- 6 Percentage of contracts which value has been exceeded
- 7 Percentage of contracts work performed before approval
- 8 Percentage of contracts renewed on time
- 9 Files completed and ready for audit
- 10 Percentage of contracts paid on time
- 11 Percentage of contracts payment delayed due to incorrectness
Percentage of contract value exceeded before contractual
- 12 period.
- 13 Importance of contract management skills & capability
- 14 Importance of formation of formal cross functional team.
- 15 Importance of formation of supplier relationship
- 16 Importance of TCO methodologies and market analysis
- 17 Importance of KPI's to the performance of C.M.
- 18 Relevance of existing policies and procedures
- 19 Clear roles and responsibilities of C.M.
- 20 Current competency of C.M. in analyzing user specifications
- 21 Current market analysis and TCO done

Interview Response



ANNEXURE C
STRICTLY CONFIDENTIAL

QUESTIONNAIRE – BUYERS/ CONTRACT MANAGERS

Effectiveness of contract management at Eskom Transmission Division (ETD)

Please select the most appropriate statement.
(eg. Agree or Disagree or Undecided)

1. Contract managers/buyers have good relationship with the users and they respect their roles in procurement.
 - a. Agree
 - b. Disagree
 - c. Undecided

2. It is the buyers/contract managers' responsibility to check the accuracy of the specifications.
 - a. Agree
 - b. Disagree
 - c. Undecided

3. The negotiations at ETD are always well prepared, basic fact base is compiled beforehand and the team roles are clearly defined.
 - a. Agree
 - b. Disagree
 - c. Undecided

4. During evaluation of suppliers' tenders the cost and risks are considered (eg. total cost of ownership and lifecycle costs are analyzed)
 - a. Agree
 - b. Disagree
 - c. Undecided

5. The formation of cross functional team is important to manage contracts effectively
 - a. Agree
 - b. Disagree
 - c. Undecided

6. It is the responsibility of the contract managers/buyers to renew contracts on time (before expiry date)
 - a. Agree
 - b. Disagree
 - c. Undecided

7. It is the responsibility of the contract managers/buyers to monitor the performance of the supplier in terms of on time delivery of goods or services.
 - a. Agree
 - b. Disagree
 - c. Undecided

8. The contract managers/buyers must know in advance about any production problems or problems in the provision of service that may lead to the modification to the contract and notify the user concern.
 - a. Agree
 - b. Disagree

- c. Undecided
9. The contract managers/buyers can influence or challenge the supplier prices because they know their market very well.
- a. Agree
 - b. Disagree
 - c. Undecided
10. Contracts managers/buyers performance appraisal targets are achievable and are pursued at ETD
- a. Agree
 - b. Disagree
 - c. Undecided
11. It is important for contract managers/buyers to be trained to manage contracts effectively at ETD?
- a. Agree
 - b. Disagree
 - c. Undecided
12. The contract managers/buyers should have the competency, capability, leadership ability, and experience to manage contracts.
- a. Agree
 - b. Disagree
 - c. Undecided
13. Qualification is very important in contract management
- a. Agree
 - b. Disagree
 - c. Undecided

14. Contract managers at ETD have clear career path and development within procurement is possible.

- a. Agree
- b. Disagree
- c. Undecided

STRICTLY CONFIDENTIAL

QUESTIONNAIRE - USERS

Effectiveness of contract management at Eskom Transmission Division (ETD)

**Please select the most appropriate statement.
(eg. Agree or Disagree or Undecided)**

15. Contract managers/buyers have good relationship with the users and they respect their roles in procurement.

- a. Agree
- b. Disagree
- c. Undecided

16. It is the buyers/contract managers' responsibility to check the accuracy of the specifications.

- a. Agree
- b. Disagree
- c. Undecided

17. The buyers/contract managers are always involved in determining the demand or requirements.

- a. Agree
- b. Disagree
- c. Undecided

18. The negotiations at ETD are always well prepared, basic fact base is compiled beforehand and the team roles are clearly defined.

- a. Agree

- b. Disagree
- c. Undecided

19. During evaluation of suppliers' tenders the cost and risks are considered (eg. total cost of ownership and lifecycle costs are analyzed)

- a. Agree
- b. Disagree
- c. Undecided

20. The formation of cross functional team is important to manage contracts effectively

- a. Agree
- b. Disagree
- c. Undecided

21. It is the responsibility of the contract managers/buyers to renew contracts on time (before expiry date)

- a. Agree
- b. Disagree
- c. Undecided

22. It is the responsibility of the contract managers/buyers to monitor the performance of the supplier in terms of on time delivery of goods or services.

- a. Agree
- b. Disagree
- c. Undecided

23. The contract managers/buyers must know in advance about any production problems or problems in the provision of service that may lead to the modification to the contract and notify the user concern.

- a. Agree
- b. Disagree
- c. Undecided

24. The contract managers/buyers are well trained and they manage their contracts effectively at ETD?

- a. Agree
- b. Disagree
- c. Undecided

25. The contract managers/buyers should have the competency, capability, leadership ability, and experience to manage contracts.

- a. Agree
- b. Disagree
- c. Undecided

26. Qualification is very important in contract management

- a. Agree
- b. Disagree
- c. Undecided

Questionnaire Response Summary

Questionnaire Analysis	6 (six) interviewed		Undecided
	Users Agree	Disagree	
1 Good Relationship with contract managers	2	4	<p>Communication is the big problem in current contract management</p> <p>We don't have qualified contract managers - they lack technical skills</p>
2 Contract managers checking of user specifications	2	4	
3 Involvement in demand requirements	2	4	
4 Negotiations always fact base	2	4	
5 There is always consideration of costs and risks on tenders	3	3	
6 Importance of cross functional team formation	6		
7 Contract Managers renew contracts on time	1	5	
8 Contract Managers monitor supplier performance	1	5	
9 Contracts managers are well informed about production progress	2	4	
10 Contract managers are well trained	1	5	
11 The competency, capability and experience is important	6		
12 Qualification is important in contract management	6		

Questionnaire Analysis

Contract Managers and ETD Management 8 (eight) interviewed

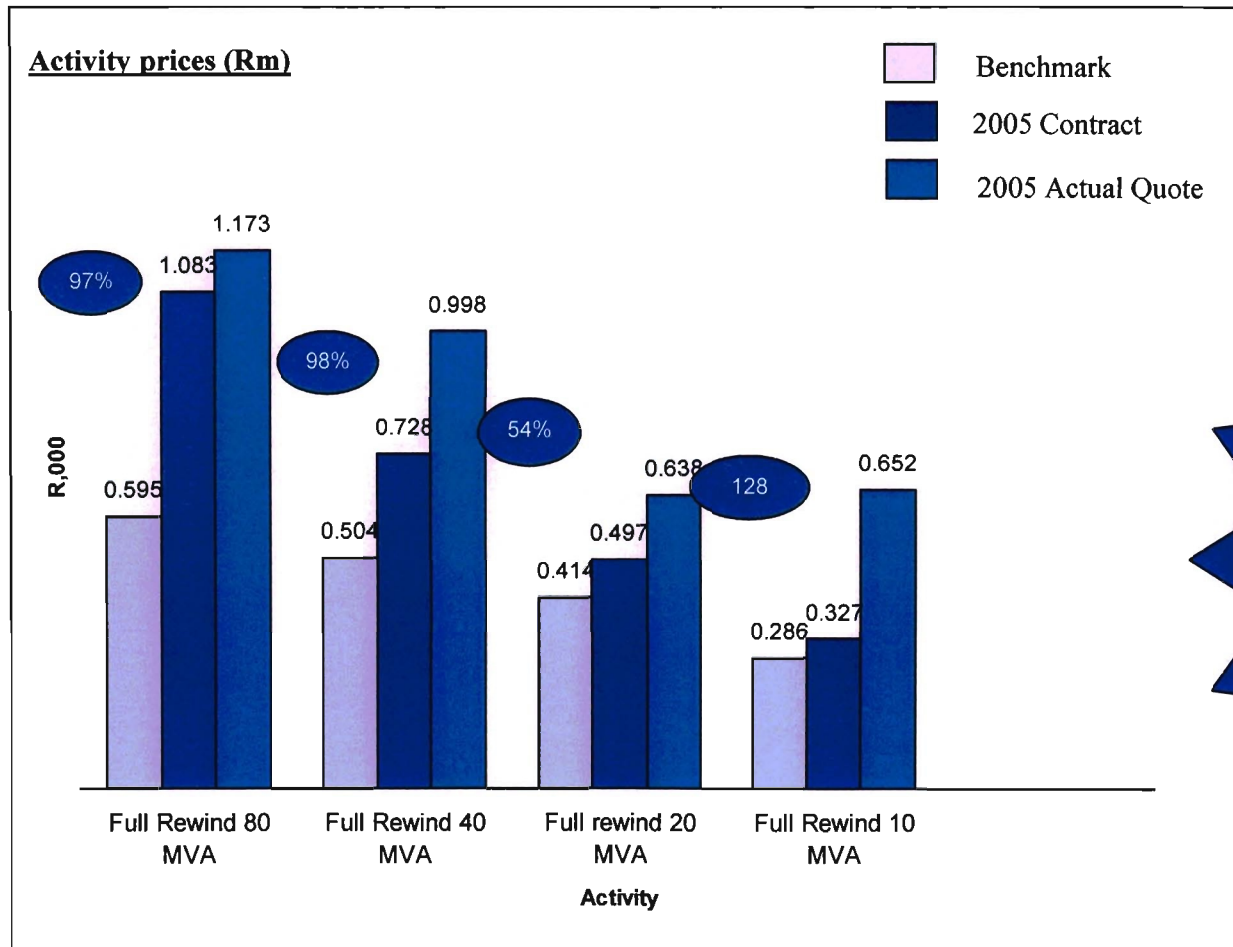
	Agree	Disagree	Undecided
1 Good Relationship with users or project managers	3		5
2 Contract managers checking of user specifications	3		5
3 Negotiations always fact base	3		5
4 There is always consideration of costs and risks on tenders	2		6
5 Importance of cross functional team formation	7		1
6 Contract Managers renew contracts on time	4		4
7 Contract Managers monitor supplier performance	1		7
8 Contracts managers are well informed about production progress	2		6
9 Contract managers can challenge supplier prices	1		7
10 Performance appraisal target of contract managers is achievable	4		4
11 Contract managers are well trained	3		5
12 The competency, capability and experience is important	8		
13 Qualification is important in contract management	7		1
14 Contract managers have clear career path and development	5		3

Is not contract managers' responsibility to check specifications

We don't have time to formulate strategies and analyze market prices

Contract managers are not well trained - "just dump into the job to swim your way out"

CASE STUDY ANALYSIS: COMPARISON OF CONTRACT RATES 2005 & ACTUAL QUOTES 2005 ON MANUFACTURING OF WINDINGS



In the period 2005 the price difference between Rotek contract price and benchmark price for the manufacturing of complete or full windings of 80MVA is greater than 82%

Source: A Proposed Contract Management Framework for Eskom Transmission Division (ETD)
 Rotek Contract & Quotation 2005
 Benchmark 2005
 By Thembisile Khomo

