SMME PROCUREMENT ISSUES IN LOCAL GOVERNMENT: A GAUTENG METROPOLITAN STUDY

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ABSTRACT

This article explores current issues pertaining to the SMME procurement process on a local government sphere within the scope of three Gauteng metropolitan areas. The process itself is known to be the subject of various concerns regarding, firstly, the efficiency and effectiveness of local government and, secondly, entrepreneurial performance on the part of SMMEs. Government procurement offers rewarding business opportunities for the SMME sector, with the resultant beneficial outcomes, such as economic growth and social-economic development. This process has to integrate an efficient entrepreneurshipenabling environment that supports and simplifies the procurement process and contributes to developing long-term business sustainability. This study endeavours to create a platform for enablement by identifying the current issues that impede a positive and effective procurement system from both the supplier and government/client sides of the value chain. The research study is of particular relevance to policy makers and local government procurement managers as it examines the extent and characteristics of SMME involvement in the procurement process in terms of benefits and risks, and enabling and constraining factors towards business efficiency.

INTRODUCTION

South Africa still has considerable obstacles to overcome in order to achieve equity among all citizens. The South African government therefore enacted legislation to help dismantle the lingering effects of apartheid. Due to the failure of prior approaches, the *Broad Based Black Economic Empowerment (BBBEE) Act,* (Act 53 of 2003), was enacted in January 2004, outlining the implementation and structure of BBBEE. This act set the stage for

the development of the codes of good practice implemented in 2007 in response to criticism of the lack of success of government's economic policy.

Although the South African government promotes increased procurement sourcing from Small, Medium and Micro Enterprises (SMMEs), evidence shows that SMMEs that should benefit from regulations such as the *National Small Business Act*, (Act 102 of 1996), and the *National Small Business Amendment Act* of 2004, as well as the BBBEE act, still show little or no sign of enterprise growth (Ponte, Roberts & Van Sittert, 2007). Statistics on the increase in the numbers of newly registered SMMEs as an index of the success of government regulation are misleading. The largest numbers of new SMME start-ups occur as a result of the failures of the formal economy (Rogerson, 2004).

RESEARCH AIM AND OBJECTIVES

Extensive documented research provides valid evidence on the direct link between entrepreneurship and economic growth (Valliere & Peterson, 2009:459). Wong, Ho and Autio (2005:24) concluded a meta-analysis and provided empirical evidence to support the link. The authors found that 'entrepreneurs may contribute to growth through a diverse range of behaviours, including innovation, combination of resources and increased competitive pressures'. What is the role of government in stimulating the entrepreneurial process and creating an environment conducive to the advancement of entrepreneurial performance? Green (2009:20) proposes five key principles that should direct policies within the context of an SMME-enabling environment:

- Government's actions must sustain job creation: 'Policies must also continue to encourage entrepreneurial activity, innovation and enterprise creation, trade and investment.'
- Protectionism should be limited: 'Despite ongoing challenges, there must be a continued commitment to keeping markets open to international trade and investment.'
- Easy business conduct must prevail: 'Governments must vigorously promote regulatory environments conducive to sustainable enterprises, reduce excessive administrative costs and red tape, stimulate entrepreneurship and competitiveness, and provide access to lending facilities'
- The needs of small and medium-sized businesses must be prioritised in policy: 'The advantages that smaller firms gain from dynamism and greater flexibility are often countered by weaker financial and

- management structures, making them particularly vulnerable in the current downturn.'
- We should protect 'employment' rather than 'jobs: 'Governments should ensure that labour market legislation and institutions can effectively facilitate a transition from recession to recovery.'

Benedict and Venter (2009:20) expand the argument, stating that government should create a platform to augment the 'entrepreneurial mindsets' of society. Mahadea and Pillay (2008) summarise the South African government's attempt to create an enabling environment by means of the following measures: the Small Enterprise Development Agency (SEDA), Khula, National Youth Development Agency and the Accelerated and Shared Growth Initiative for South Africa (ASGISA); Sector Education and Training Authorities (SETAs), and an array of incentives, grants and fiscal advantages. The authors then point out that regardless of all these enabling structures, processes and legislation, the entrepreneurial performance is still extremely low.

An extensive review of the literature reveals the importance of public procurement and the role it plays in the development of SMMEs and ultimately the country's economy and society as a whole (Zheng, Walker & Harland, 2008). Preuss (2008) states that little prior research has been done on the subject of sustainable public procurement and that, therefore, there is a need for a research study of this nature. The aim of this study is thus to identify the factors hampering the procurement process of local government within the context of the SMME inbound provision of services, products and/or processes.

SCOPE OF THE STUDY

The study consists of two deliberate phases: an in-depth secondary assessment of the body of knowledge pertaining to the SMME sector and the process of local government procurement. The second phase comprises primary research involving the perceptual assessment of the three metropolitan municipalities of the Gauteng Province (Johannesburg, Tshwane and Ekurhuleni) and SMMEs registered as service providers at these municipalities.

LOCAL GOVERNMENT AND THE APPLICATION OF THE VALUE CHAIN

Core components of the role of government embrace its mandate in developing public policy and implementing corporate governance through public procurement or public sector management practices. Procurement,

as this article's primary focus, is perceived as a support activity of the entire value chain of government's mandated processes, in accordance with Denner and Oosthuizen's (2008) application of Porter's Value chain model. Other supporting functions of procurement are infrastructure, reporting structures within the procurement process, transparency and financial planning, human resource management, the level of competence of officials, training and recruiting of new officials and technology, and how they contribute to client satisfaction and building trust and confidence among citizens in local government. A 'client', in the context of this study, also refers to suppliers and service providers to the public sector.

LOCAL GOVERNMENT PROCUREMENT POLICY

The purpose of government's preferential procurement policy is to provide a framework for implementing the principle of preferential procurement, while adhering to and adopting fair, equitable, transparent, competitive and cost-effective procurement practices (South Africa. *Preferential Procurement Policy Framework Act*, (Act 5 of 2000). The principle of fair distribution of work means that all reasonable steps are taken to make sure that the procurement of goods and services is fairly distributed among the service providers and fair competition is encouraged. The act also offers mechanisms to support preferential procurement through the determination of bid requirements in relation to bid value. The municipality sets targets for the supply of goods and services, and links specific requirements relating to enterprise development with historically disadvantaged individual (HDI) ownership and/or SMME status.

SMALL, MEDIUM AND MICRO ENTERPRISES AND ENTREPRENEURSHIP

SMMEs are generally defined by revenue, assets or the number of employees. In terms of South Africa's *National Small Business Act*, (Act 102 of 1996:2), 'a small business is a separate and distinct business entity, including co-operatives and non-governmental organisations (NGOs), the size of which lies below a specified threshold, depending on whether the business is micro, very small, small or medium'.

Entrepreneurship falls within the scope of a small business, with different definitions that have progressed over time into an established domain. A more recent definition by McDougal and Oviatt (quoted by Fletcher, 2004) puts the emphasis of entrepreneurship on 'brokering, resource leverage or stretching,

value creation and opportunity seeking through a combination of innovative, proactive and risk-seeking behaviour' (Fletcher, 2004:294).

SMMEs AND THEIR VALUE

In South Africa SMMEs contribute approximately 45% to GDP (Goldstuck, 2008). Buys (2009) reports on the dominance of SMMEs in African countries. In 2003 micro and very small businesses in South Africa represented more than 55% of the country's total employment; small firms accounted for 16% of both jobs and production and medium and large firms 26%. This is on a par with statistics from other African countries such as Morocco, where 93% of all industrial firms are SMMEs, which account for 38% of production, and 46% of all jobs. In Kenya this sector employs around 3.2 million people, accounting for 18% of national GDP. Senegal's SMMEs contribute 20% of national value added and in Nigeria SMMEs represent 70% of industrial jobs. Findings by Van Rooyen and Antonites (2008) state that the established firm rate in South Africa is 1.3%. This figure is the lowest of all developing countries sampled in the 2005 Global Entrepreneur Monitor (GEM) report. Public policy needs to be informed by a combination of the dynamics of entrepreneurship, economic development and relevant local institutional conditions (Bosma, Acs, Autio, Coduras & Levie, 2008).

PUBLIC SECTOR AND SMME PROCUREMENT IMPROVEMENT THROUGH PROCESSES

International best practice in relation to public procurement recommends that countries improve notification of tenders advertised, make procurement plans and specifications more detailed, and implement better compliance with policy.

Public sector and SMME procurement improvement through supporting structures

Procurement structures in most countries that are in the innovation-driven stage of economic development are either national- or state-centralised, with fewer than half having decentralised or local purchasing as their dominant structure. These governments support the notion of developing programmes to help SMMEs to cluster together and pool their resources for larger tender offerings (US General Services Administration, 2005).

Public sector and SMME procurement improvement through innovation Innovation from SMMEs and entrepreneurs is crucial for the competitiveness and economic growth of a country; this, rather than price, is a key driving

force in competition and rivalry between firms in the market place (Segarra-Blasco, Garcia-Quevedo & Teruel-Carrizosa, 2008). This is the role of smaller firms, indirectly contributing to productivity through innovation, speeding up structural changes in the economy and, by driving less productive firms out of the market, forcing old incumbent companies to shape up. Michael and Pearce (2009) report that innovation is likely to lead to other desirable results, such as prompting competition and, as a result, the development of products and services with new business models which ultimately offer more options and choices for consumers.

Public sector and SMME procurement improvement through technology

Many countries regard the use of e-commerce technologies as a solution to removing barriers to SMME access to the public sector (Zheng, Walker & Harland, 2008). A study on World e-Government Rankings shows that a growing number of government institutions have realised the need to continuously review and revise their internal processes so as to capitalise on the advantages of information and communications technology, while at the same time delivering quality services to all stakeholders (Obi, 2008).

RESEARCH METHODOLOGY OF THIS STUDY

Research questions

In order to address the objectives as highlighted above, the following research questions were designed:

Research question 1: What are the issues in the procurement processes that hamper SMMEs when supplying to local government?

Research question 2: Does government, and more specifically local government, create an enabling environment that supports the development and growth of SMMEs?

Research design

In view of the nature of the subject matter, the approach adopted is primarily qualitative in order to highlight perceptions, viewpoints and experiences with respect to the issues in the procurement processes of local government. The design involves an extensive literature review followed by a contextualising experience survey (perceptual analysis of relevant stakeholders in the SMME-enabling environment), a perceptual assessment of SMME procuring local government (Gauteng) and a perceptual assessment of local governmental officials in the procurement function of the selected municipalities (Johannesburg, Tshwane and Ekurhuleni).

RESEARCH RESULTS

Experience survey

The second phase of the research process (subsequent to the literature review) involved a qualitative experience survey that helped to contextualise a platform for the subsequent assessment. The following were found:

Table 1: Experience survey

Research question	Inteview questions	Summnary of the view highlited by respondents
Research question 1: What are the issues in the procurement processes experienced by SMMEs which hamper them when supplying to local government?	Question 1: What issues are SMMEs experiencing when supplying to local government?	 SMMEs lack generic business skills, are poor managers and struggle with basic administration and record keeping. SMMEs lack knowledge and experience in supplying to local government and find it difficult to comply with the requirements of local government in aspects such as completing tender documents and having the necessary paperwork in order, for example, company registration forms and tax clearance certificates. There are fly-by-night SMMEs with no experience in the field of business, and which started their businesses seeing an opportunity to supply to local government, but do not really have the knowledge, infrastructure or resources to offer sustainable supply to government. SMMEs do not have the cash flow to carry the cost of supplying to local government, especially as municipalities have long payment cycles.

		 There is a lack of consistency in processes and these should be standardised. It seems that there are officials who hamper the flow of processes; better training should be provided to officials working with the procurement processes. Payments to SMMEs should be improved. Municipalities should improve communication of support available to SMMEs.
	Question 2: How can local governments improve their procurement processes?	Better interaction with and training of SMMEs in completing the tender documents would improve the situation.
Research question 4: Does government and more specifically local government create an enabling environment that supports the development and growth of SMMEs?	Questions 3–5:	 The environment created by government is inconsistent and complicated, which makes it difficult for SMMEs to supply to government. SMMEs do not get the necessary support financially when supplying to municipalities due to the high cost involved in supplying them and the long payment cycles. Shorter payment cycles would support SMMEs when they have to supply products or services at high cost so that they do not have to carry the burden of high costs on their own shoulders. Stakeholders further report that municipalities have a lot of support programmes in place, but these programmes are not communicated efficiently.

It is evident from this table that these stakeholders agree that there are processes in the procurement processes of local government that hamper SMMEs when in supplying to municipalities. However, they also highlight the fact that there are certain intrinsic abilities which SMMEs often lack when supplying to local government.

PERCEPTUAL ANALYSIS OF LOCAL GOVERNMENT OFFICIALS

A summary of the selected officials' responses are presented in the table below. The frequencies presented in the table highlight the number of times that the specific concept was referred to by respondents of the complete sample.

Table 2: Officials' perceptions of SMME issues in procurement

SMMEs 'not having enough capital/cash flow to render good quality services, resulting in poor performance and not being competitive'. 'SMMEs do not know how to complete these documents.' SMMEs 'have limited contact with the officials and therefore are also not sure what exactly the officials are looking for.' 'There are certain compliance issues which prevent them from getting awarded a tender.' 'High standards required from these SMMEs.' 'Qualifications are required and necessary in order to be awarded a tender.' 'Suppliers are not knowledgeable enough to know the goods they supply, and they do not do their research properly.' 'SMMEs do not know how to price and to put a mark-up on a product or service'	Excerpts	Concepts	Frequency
flow to render good quality services, resulting in poor performance and not being competitive'. 'SMMEs do not know how to complete these documents.' SMMEs 'have limited contact with the officials and therefore are also not sure what exactly the officials are looking for.' 'There are certain compliance issues which prevent them from getting awarded a tender.' 'High standards required from these SMMEs.' 'Qualifications are required and necessary in order to be awarded a tender.' 'Suppliers are not knowledgeable enough to know the goods they supply, and they do not do their research properly.' 'SMMEs do not know how to price and to	Specific to SMMEs		
documents.' SMMEs 'have limited contact with the officials and therefore are also not sure what exactly the officials are looking for.' 'There are certain compliance issues which prevent them from getting awarded a tender.' 'High standards required from these SMMEs.' 'Qualifications are required and necessary in order to be awarded a tender.' 'Suppliers are not knowledgeable enough to know the goods they supply, and they do not do their research properly.' 'SMMEs do not know how to price and to	flow to render good quality services, resulting in poor performance and not being		3
put a mark up on a product of service.	documents.' SMMEs 'have limited contact with the officials and therefore are also not sure what exactly the officials are looking for.' 'There are certain compliance issues which prevent them from getting awarded a tender.' 'High standards required from these SMMEs.' 'Qualifications are required and necessary in order to be awarded a tender.' 'Suppliers are not knowledgeable enough to know the goods they supply, and they do not do their research properly.'	business knowledge, skills and	10

'Municipality takes too long to pay for its products/ services.' 'To deal with government takes too long.'	Poor processes	4
'Officials/Project leaders are often not too sure what they would like to achieve or the solutions they are looking for.' 'Shallow specifications by the municipality.'	Poor ability of officials to implement process	3
'Officials/Project leaders often have a bias to a specific supplier with whom	Biased relationships from officials	1
they have a relationship.'		
'Our processes are quite straightforward; it is just our documents that are quite complicated.' 'The formal price quotation document is complicated and needs to be reviewed.' 'Too much paper work for officials to process.' 'For the supplier, registering requires too much paperwork.'	Complicated documents	5
'SMMEs have limited contact with officials before submitting a quote, therefore do not necessarily understand the brief properly.' 'They do not always know what is expected of them when completing the documents.' 'SMMEs need training on how to complete the documents.'	Poor communication and training	6

The views of the officials create a better understanding of the issues experienced when SMMEs supply to local government. It is evident from this summary that there are intrinsic issues related specifically to SMMEs' business ability, as well as external factors such as access to finance which hamper the ability of SMMEs to do business with local government.

Ranking in terms of adjudication criteria (officials)

The adjudication process criteria ranked by respondents in order of importance

are shown in the list below. The ranking goes from most important (1) to least important (6). The adjudication criteria in terms of perceived importance are ranked from most to least important in the following sequence:

- 1. Quality 50% (6)
- 2. Price 33.3% (4)
- 3. Experience of the supplier 50% (6)
- 4. Qualifications of the supplier 33.3% (4)
- 5. PDI (previously disadvantaged individual) status 41.7% (5)
- 6. Being a locally based supplier 66.7% (8)

Proposed improvements by officials

The frequencies presented in the table illustrate the number of times that the specific concept was referred to by respondents of the complete sample. The table also presents the views of officials on how the situation with regard to local government procurement from SMMEs could be improved.

Table 3: Improvements as proposed by government officials

Excerpts	Concepts	Frequency
Specific to SMMEs		
'Municipality should inform the SMMEs why they were not awarded the contract.' 'SMMEs should be given training on processes and how to complete the documents.' 'A tender advice centre should be started to give training to SMMEs.'	Improved communication and training to SMMEs	5
Specific to local government		
'Documentation needs to be made less complicated and a lot shorter.' 'Information is duplicated and should be simplified.' 'Amend the supply chain policy and procedure, and the bid documents should be simplified.'	Simplified documentation	4
'Improving payment turnaround times.' 'The Municipality should also ensure better control over the procurement process and ensure openness.'	Improved and simplified processes	4

'Take out some of the red tape, i.e. strict evaluation process of using the 90/10 and 80/20 ruling.'		
'Effecting better controls and training some practitioners.' 'Train officials better, and put measures in place to monitor officials and processes better.' 'Training is limited as the people with the knowledge are trenched to [charged with] getting the work done and then have to do training as well.'	Improved training and monitoring of officials	3
'We have limited resources, capacity of people and space.'	Lack of resources	
'Decision makers should be made aware of the importance of procurement as a vehicle to transform the country and should ensure that it is an economic imperative.'	Top management support	1
'Stick to the law and create a database of accredited suppliers. These suppliers should be properly accredited, registered with a quality assurance company.'	Technology	1

PERCEPTUAL ANALYSIS OF SMMEs

Rating of local government's procurement processes

SMMEs rate municipalities' procurement processes in the table below. The table shows that the largest percentage of respondents rate them as average 31.4% (11).

Table 4: Rating of local government's procurement processes

	Frequency	Percent
Very good	6	17.1
Good	9	25.7

Total	35	100.0
Not good	9	25.7
Average	11	31.4

Reasons why SMMEs supply to local government

The count with respect to the reasons why SMMEs supply to local government is presented below. The highest response related to the fact that they were already registered on the supplier database, secondly that the municipality was within close proximity of their business and thirdly that the municipality provided continuous opportunities for business.

Table 5: Reasons why SMMEs supply to local government

	Strongly agree	Agree	Disagree	Strongly disagree
The municipality is within close proximity to my business	23 (65.7%)	8 (22.9%)	3 (8.6%)	1 (2.9%)
My business is a registered supplier on their database	26 (74.3%)	6 (17.1%)	3 (8.6%)	-
My business has a sound relationship with officials	19 (54.3%)	8 (22.9%)	5 (14.3%)	3 (8.6%)
The municipality has effective procurement processes	11 (31.4%)	7 (20%)	11 (31.4%)	6 (17.1%)
The municipality has efficient payment systems in place	12 (43.3%)	6 (17.1%)	9 (25.7%)	8 (22.9%)
The municipality is clear on what they would like to achieve when requesting quotations	13 (37.1%)	9 (25.7%)	9 (25.7%)	4 (11.4%)
The municipality provides continuous opportunities for business	21 (60%)	4 (11.4%)	8 (22.9%)	2 (5.7%)

Disadvantages raised by SMMEs when supplying to local government

The table below presents a summary of the disadvantages highlighted by SMMEs when supplying to local government.

Table 6: Disadvantages of supplying to local government

Excerpts	Concepts	Frequen- cy
'All the red tape is a time killer.' 'In many cases where SMMEs would qualify to supply services, they would not make the grade, purely on the specific requirements pertaining to the accuracy of their submissions (countless submissions are rejected purely on the basis of technicalities of their documentation - it is a learning process that could be overcome with proper communication). 'Issue of deposit when dealing with government really puts pressure on small guys.' 'Selection is not necessarily based on the best value for money supplier for the job.' 'Tender documents have far to many duplicated	Complicated processes and documentation	6
'I would like to stress this point: Officials adjudicating (judging) have a bias to a specific supplier (unfairness) due to relationships with those suppliers.' 'Do not plan ahead of time with regard to relevant projects; too many urgent deadlines. Not proactive!' 'Officials that have been employed for their technical know-how are not always given the authority to make the decisions regarding appointments, it is often political heads who do not possess the know-how that end up making the decisions.' 'Their briefing site locations are many times a problem, being unclear and at the remotest location possible. The officials handling these sessions are most of the times late.'	Officials' inefficiencies and bias	6

'Timeframes given to suppliers are OFTEN too short to allow for competitive pricing to be sourced for them. Sometimes a 24 hr time limit is given, which is far too short to get the correct pricing and to allow us to be competitive.'		
There is no benefit as a white male. Whether we are great, unless we are willing to pay the right people, we simply can't come in. I have quoted many times- it seems they use my quotes as benchmark for their friends to get the business. I have no faith in the system at all!	Legislation limitations	1

Table 7: Reasons why SMMEs are not awarded a contract

Excerpts	Frequency
'I have never had any feedback.' 'In 90% of bids no feedback is given except that you have not been successful.' 'Never, ever given any reasons.' 'They hardly ever give feedback.'	14
'Just that the quotation has not been successful.'	8
'Mistakes made on the document.'	8
'Not compatible.'	1
'The execution proposal was rejected.'	1
'Incorrect documentation provided.'	3
Total	35

The primary concern in this context is the total lack of feedback regarding the entrepreneur's submission of business conduct. It portrays a certain level of communication quality.

Table 8: Recommendations for improving the procurement process

	Strongly agree	Agree	Disagree	Strongly disagree
Officials with signing powers should be part of the adjudication / decision- making team	25 (71.4%)	5 (14.3%)	2 (5.7%)	3 *8.6%)
Better control should be implemented in order to ensure an open and transparent procurement process	28 (80%)	5 (14.3%)	2 (5.7%)	-
Feedback should be given to SMMEs if they were not awarded the contract and reasons should be given	24 (97.1%)	1 (2.9%)	-	-
Provide regular training on how the municipalities procurement processes work	28 (80%)	4 (11.4%)	3 (8.6%)	-
Provide regular training on how to complete the tender documents	28 (80%)	5 (14.3%)	2 (5.7%)	-
The Municipality should make the documents requested to be submitted with a quote shorter and less complicated	27 (77.1%)	4 (11.4%)	4 (11.4%)	-
The Municipality should have quicker payment turnaround time	29 (80%)	4 (11.4%)	2 (5.7%)	1 (2.9%)
The Municipalities should advertise proposals more widely	29 (82.9%)	2 (5.7%)	4 (11.4%)	-

Recommendations that stood out were firstly, that the municipality should advertise the proposals more widely, secondly, that better control and transparency should be implemented to monitor the process, also that regular training should be provided on the procurement processes and how to complete the tender documents.

CONCLUSION

The empirical section of the study indicates clearly that several deficiencies exist in the procurement process within the context of the SMME. The literature review derives best practices from international cases that are by implication not present in the assessed research frame. This study has contributed to the contextual body of knowledge by proposing the following pragmatic solutions to the current procurement situation:

• Improve procurement processes

- Enforce shorter payment cycles
- Maintain and enforce strict procurement processes
- Simplify tender processes and documentation
- o Debrief SMMEs on why they were not awarded a contract.
- o Accredit suppliers once a year
- Enforce the rotation of suppliers

Improve the skills and ability of government officials

- Provide regular training
- Monitor officials more strictly

• Improve communication

- o Improve communication of support structures and processes
- Provide training for SMMEs on procurement processes
 - Create a department/division within Municipalities to take responsibility for training SMMEs

Municipalities need to reassess the situation within their procurement processes and to take some steps to improve these processes. Such steps should include the enforcement of shorter payment cycles to SMMEs; it is noted that the processes are in place to pay SMMEs within 14 days, but this is not realised and enforced. An advanced technological platform needs to be brought into the process, more especially to support the management of the supplier database and to efficiently rotate suppliers.

It is of critical importance to enhance the skills, knowledge and experience of officials working in the procurement process and to conduct relevant training interventions to improve productivity, efficiency and effectiveness. A critical factor to improve the current situation would be to put in place better communication structures with SMMEs, including training of SMMEs. Although the economic development departments within the various municipalities should take responsibility for this, it might be a good idea to start up a separate training centre which can be used for public workshops and training for SMMEs in the field of procurement as well as generic business and management training.

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