

# The Mechanisms That Will Ensure Efficient Supply Chain Management Processes of the South African State-Owned Enterprises

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## **Abstract**

*This study explores the various mechanisms that will ensure efficient supply chain management processes in South African State-Owned Enterprises (SOEs). The main objectives of the study are to identify the best strategies that will enhance efficiency within the State-owned entities and to examine the current situation of SOEs procurement and Supply Chain Management processes in South Africa. The study will also examine the challenges of supply chain management within the SOEs. The South African Government does not have adequate expertise to implement public procurement policy framework, supply chain management enablers, strategies, policy, and enforcement of government procurement rules and regulations. This leads to management failure, compliance shortcomings, waste, and fraudulent activities. The study adopted the conceptual approach relying heavily on secondary data to demonstrate the role of the mechanisms that will enhance efficiency in the SOEs. The study concludes by giving an exposition of the South African Legislative Framework governing supply chain management practices.*

**Keywords:** supply chain management, government, state-owned entities, legislation and mechanisms and public sector.

**JEL Classification:** K22, K23

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## **1. Introduction**

Supply chain management (SCM) is the control of the flow of goods and services and includes all processes that transform raw materials into finished products. This is about proactively streamlining State-Owned enterprises' (SOEs) supply-side activities to maximise customer value and gain a competitive advantage in the market<sup>2</sup>. Supply chain management is the active management of supply chain activities to maximise customer benefits and achieve a sustainable competitive advantage. It represents a conscious effort by state-owned supply chain companies to develop and operate their supply chains as effectively and efficiently as possible. Supply chain activities include everything from product development, procurement, production, and logistics to the information systems required to coordinate these activities<sup>3</sup>.

Ngcamphalala & Ambe<sup>4</sup> encapsulate that public procurement has been shown to play an important role in service delivery and the performance of government departments and public entities around the world. In developing countries, procurement accounts for approximately 25% of the gross domestic product (GDP). Therefore, government procurement is critical to a country's economy. Because of the large sums involved, this service is a target for fraudsters and requires stringent

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<sup>2</sup> Sibanda, Modeni Mudzamba, Beauty Zindi, Tafadzwa Clementine Maramura, and Milena Ratajczak-Mrozek. 2020. "Control and Accountability in Supply Chain Management: Evidence from a South African Metropolitan Municipality." *Cogent Business & Management* 7 (1). doi:10.1080/23311975.2020.1785105.

<sup>3</sup> Krichen, Saoussen, „Supply chain management and optimization in transportation logistics”. *Advances in Computing and Engineering*, [S.l.], v. 2, n. 2, p. 70-72, dec. 2022. ISSN 2735-5985. Available at: <<https://apc.aast.edu/ojs/index.php/ACE/article/view/ACE.2022.02.2.070>>. Date accessed: 01 June 2024. doi:<https://dx.doi.org/10.21622/ACE.2022.02.2.070>.

<sup>4</sup> Ngcamphalala, T.K.T & Ambe, I.M.M. 2016. 'Policies and regulations guiding procurement practices in the commuter bus sector', *Journal of Contemporary Management*, 13(1):1204–1224.

controls. Dzuke & Naude<sup>5</sup> further states that most state-owned enterprises rely on government bailouts to maintain operations, and almost all are financially unviable and unable to operate efficiently because the infrastructure that supports them is unsustainable and threaten the economy.

Since 1994, the South African government has made significant investments in the development of Supply Chain Management (SCM) rules, laws, and guidelines, which have since undergone multiple modifications. In 2004, the government implemented an integrated SCM model to solve the issues and gaps created by the previous procurement regulations and procedures<sup>6</sup>. The integrated SCM model applies to all government departments and entities, making compliance with the government's integrated SCM system, as well as related government laws and regulations, mandatory for SOEs when sourcing for service delivery projects<sup>7</sup>.

Krichen<sup>8</sup> avows that supply chain management of State-Owned Enterprises (SOEs) is the process of providing, procuring, delivering, and allocating products and services to and by the government or its inhabitants. Supply Chain Management in the public sector attempts to improve efficiency as an international best practice. Therefore, public sector SCM has recognised the need to reduce costs, strive for customer satisfaction, and save time to satisfy consumers and optimise contracts through procurement. Therefore, SCM practitioners must ensure that the process is efficient, transparent, equitable, and fair<sup>9</sup>.

Ackers<sup>10</sup> avers that with this level of purchasing power, SOEs play a key role in expanding their contribution to South Africa's GDP, lowering operational costs, improving quality, and achieving a variety of socioeconomic goals through SCM. To achieve these objectives, SCM managers in the various SOES must ensure that their SCM strategies are aligned with the SOES corporate aims as well as the government's rules and regulations. South Africa's state-owned enterprises have been implicated in administrative, inefficiency, and misuse of office. Nevertheless, it was found that the procurement divisions of state undertakings are at the center of corruption<sup>11</sup>.

One of the many examples is the infamous Gupta scandal, involving Transnet and Eskom, in which officials in the procurement divisions of public sector undertakings were involved in corrupt practices. One strategy that can be taken up by the authorities of SOEs to promote transparency, accountability, and corruption reduction is the proper implementation of a procurement system<sup>12</sup>. The efficiency of the SCM system is becoming a major problem in SOEs. Efficiency refers to the value for money in SOEs. A significant part of general government expenditure is attributed to the SOES's expenses through SCM. In 2011, SOE procurement expenditure in the Organization for Economic Cooperation and Development (OECD) countries accounted for 29% of overall public spending<sup>13</sup>.

In terms of Section 217 (2) of the Constitution of the Republic of South Africa, 1996, public Acquisition may be used for redressing past imbalances to give preference to previously disadvantaged sections of society. Key legislation governing public Acquisition lies in the Public Finance Management Act (PFMA) 1999, the Preferential Acquisition Policy Framework Act (PPFA) 2000, the Preferential Acquisition Framework Regulations 2001, the National Treasury Regulations 2005, and the Black Economic Empowerment legislation. The PFMA provides the key

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<sup>5</sup> Duke A. & Naude J.A. 2017. „Problems affecting the operational procurement process: A study of the Zimbabwean public sector”. *Journal of Transport and Supply Chain Management* 11(0): 255.

<sup>6</sup> Sibanda, Modeni Mudzamba, Beauty Zindi, Tafadzwa Clementine Maramura, and Milena Ratajczak-Mrozek. *op. cit.* (2020).

<sup>7</sup> Setino, R. and Ambe, I.M. (2016) „Supply Chain Management Practices in State-Owned Enterprises Environment. Risk Governance and Control”, *Financial Markets & Institutions*, 6, 380-391, <https://doi.org/10.22495/rgv6i4c3art3>.

<sup>8</sup> Krichen, Saoussen, *op. cit.*, p. 70-72,

<sup>9</sup> Migiro, SO. (2010). „Public sector procurement and black economic empowerment in South Africa: Challenges of preferential procurement and decentralization of the provincial tender board”, *Journal of Social Development in Africa*, vol. 25. no. 2 (25), DOI: 10.4314/jsda.v25i2.65061.

<sup>10</sup> Barry Ackers. (2022). „Corporate Governance by South African State-Owned Entities (SOEs) – Contributing to Achieving Agenda 2063”. *PanAfrican Journal of Governance and Development (PJGD)*, 3(2), 137-165. <https://doi.org/10.46404/panjogov.v3i2.3943>.

<sup>11</sup> Intaher M Ambe, Rebecca Setino and Ellsworth C Jonathan (2022), „Supply Chain Strategies and Policies as Predictors of Performance: The Case of Selected State-Owned Entities in Gauteng Province, South Africa”, *Journal of Public Administration*, Vol. 57, No. 4, pp. 788–801.

<sup>12</sup> Rukuni, T.F., Maziriri, E.T., & Mulaudzi, H. 2020. ‘Assessing Electronic Procurement at a State-Owned Enterprise in South Africa’, *Journal of Contemporary Management*, 17(2): 393–415.

<sup>13</sup> Sibanda, Modeni Mudzamba, Beauty Zindi, Tafadzwa Clementine Maramura, and Milena Ratajczak-Mrozek. *op. cit.* (2020).

outline for public Acquisition in South Africa.

The term 'procurement' refers to the purchase of goods, services, and works by governments and state-owned enterprises. The government procurement process is a series of activities that begin with a need assessment. Then follows the procurement, contract management process, and finally payment. Procurement is both a strategic tool and a mechanism that enables the South African government to implement policies for socio-economic development and transformation. Government procurement operates in an environment of accelerating change, increasingly scrutinised by technology, program overhauls, and political expectations<sup>14</sup>.

This is a business process based on the political system. Public sector procurement is of particular importance in South Africa, given its past discriminatory and unfair practices, and is being used as a policy tool. Procurement is central to a government's service delivery system, perhaps using it to further goals secondary to its primary purpose, such as promoting social, industrial, or environmental policy. Public procurement has been given constitutional status in South Africa and is recognised as a means of combating past discriminatory policies and practices<sup>15</sup>.

## 2. Problem statement

The SA government is not performing an adequate implementation of the Supply Chain Management System for state-owned enterprises. There are weaknesses in the SOEs SCM enablers, strategies, policy implementation, and poor enforcement of government SCM rules and regulations. This leads to management failure, compliance shortcomings, waste, and fraudulent activities<sup>16</sup>. SOE top management still do not see SCM as strategic enough to deserve their attention, and therefore there is little support from senior management, making it even more difficult for SCM practitioners to execute their day-to-day functions, let alone deliver the letter and spirit of the relevant legislation<sup>17</sup>.

Most state-owned enterprises do not have experienced SCM professionals involved in the formulation of corporate strategy. As a result, supply chain management and organisational strategies are out of alignment<sup>18</sup>. This misalignment has resulted in service disruptions, high levels of corruption, and ongoing strikes across the country demanding better services. Due to the huge spending and financial challenges facing governments, effective SCM in SOE is becoming a key requirement. Government leaders should use their SCM more strategically as a tool to improve service delivery<sup>19</sup>.

The Treasury is investigating state-owned companies that signed contracts worth R8.4 billion for violating procurement rules, and South African Revenue Services (SARS) is examining more than 300 companies and another 700. The value of these contracts is estimated at more than R10 billion. The Financial Intelligence Center has remitted more than R6.5 billion to investigations related to corruption<sup>20</sup>. The South African government's supply chain management system is poorly implemented in state enterprises. SOE's SCM capabilities, strategies, and policy implementation are weak, and the government's enforcement of its SCM rules and regulations is also poor<sup>21</sup>.

Most of the operational challenges stem from procurement practices in acquiring goods and services, such as unqualified suppliers, buyers who do not follow procurement practices, or because there is no legitimate need for them. Corrupt acts may be for personal or political reasons, but they

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<sup>14</sup> Setino, R. and Ambe, I.M., *op. cit.* (2016), p. 382.

<sup>15</sup> Mutize, Misheck, and Ejigayhu Tefera. (2020). "The Governance of State-Owned Enterprises in Africa: An Analysis of Selected Cases". *Journal of Economics and Behavioral Studies* 12 (2(J)), 9-16. [https://doi.org/10.22610/jeb.v12i2\(J\).2992](https://doi.org/10.22610/jeb.v12i2(J).2992).

<sup>16</sup> P. Pillay & E. Mantzaris (2022), *Political leadership, administrative priorities, and corruption in municipalities: The South African case*, in Chris Jones, Pregala Pillay, Purshottama Sivanarain Reddy and Sakhile Isaac Zondi (eds.), *Lessons from Political Leadership in Africa*, Cambridge Scholars Publishing, p. 100-119.

<sup>17</sup> Setino, R. and Ambe, I.M., *op. cit.* (2016), p. 383.

<sup>18</sup> Altaai, M.H. (2021) „Implementation of the supply chain management strategy and its impact on organisational performance: An analytical study of public service organizations in Iraq – Ministry of Health is modelled”, *Social Science and Humanities Journal*, 5 (1): 2052–2069.

<sup>19</sup> Krichen, Saoussen, *op. cit.*, p. 70-72,

<sup>20</sup> *South Africa. The National Treasury*. 2022. Government Printers. Pretoria, p. 31.

<sup>21</sup> *Ibid*, p. 31.

are all sensitive, and since public procurement is funded by taxpayer money, the responsible practitioners. We should take responsibility for how that money is spent, and the country should have socially responsible interests and economic viability. These challenges have resulted in the regulation of procurement functions through government procurement laws and regulatory frameworks<sup>22</sup>.

There is little doubt that continued government bailouts have so far not improved the situation. Instead, it continues to put pressure on county finances, pushing the national debt to dangerous levels. South Africa's debt is already higher than in other emerging economies. Most of these state-owned enterprises have a direct impact on the lives of their citizens through the services and infrastructure they provide<sup>23</sup>. Poor governance, mismanagement, allegations of fraud and corruption, and the lack of financial sustainability of some state-owned enterprises have come under the spotlight in recent years as public tax dollars used to support failed state-owned enterprises are attracting attention. Because this narrative leads to a loss of public confidence in the state's ability to govern and oversee state-owned enterprises, we have included insights into the state of state-owned enterprises based on our audits in this report<sup>24</sup>. Some of the SOEs Identified by the National Treasury Posing a Serious Financial Risk are discussed below in detail as follows:

- **Eskom.** Eskom has an R350 billion government guarantee facility. A total of R255bn had been used at the time the mini budget was delivered. The power utility has access to capital markets, but is struggling to contain R420 billion, as was heard in its presentation to the national energy regulator in January<sup>25</sup>. Treasury warned that Eskom's weak financial position remains a risk that would require a call on guarantees. Speaking at the State of the Nation address, President Cyril Ramaphosa announced that Eskom would be split into three entities. Transmission and distribution of generation (all falling under the Eskom holdings). Ramaphosa said that the government would support Eskom's balance sheet<sup>26</sup>.

- **Denel.** Denel has used R2.8bn of its five-year, R3.4bn government guarantee, it is for that reason that Denel will struggle to settle maturing debt on its own because its financial position remains weak. The state arms manufacturer was considering selling non-core assets to improve its liquidity position. In December, Denel told the parliament portfolio committee on public enterprise that it made a loss of R1.7 billion in 2020. The company's revenue had fallen from R88.4 billion to over R8 billion in 2020/2021<sup>27</sup>.

### 3. Theoretical framework

#### 3.1. Theoretical Literature

Flynn & Davis<sup>28</sup> asserts that several theories and models explain and describe the way public procurement operates such as the principal-agent theory, institutional theory, technology, Organisation, and environment theory, legitimacy theory, general system theory, theory of auctions, and competitive bidding, contract theory, and the four-pillar model. However, this study adopted two theories namely Technology, Organisation, and Legitimacy Theory. The theories are discussed in detail below as follows:

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<sup>22</sup> Leoni, A.A. 2021. *Exploring the non-pecuniary costs of the administrative burden of public procurement: A case of the western cape department of transport and public works*, Thesis (MPA)–Stellenbosch University: Accessed 22 May 2023: <http://scholar.sun.ac.za/handle/10019.1/123781>, p. 12.

<sup>23</sup> Mutize, Misheck, and Ejigayhu Tefera. *op. cit.* (2020). p. 10.

<sup>24</sup> Fulufhelo, G. Netswera, Omololu, M. Fagbadebo & Dorasamy, D. (2022). *State-owned enterprises in Africa and the economics of public service delivery*, AOSIS Books: Cape Town, p. 2.

<sup>25</sup> *South Africa. The National Treasury.* 2022. Government Printers. Pretoria, p. 31.

<sup>26</sup> *Ibid.*, p. 31.

<sup>27</sup> *Ibid.*, p. 31.

<sup>28</sup> Flynn, A. and Davis, P. (2014), „Theory in public procurement research”, *Journal of Public Procurement*, Vol. 14 No. 2, pp. 139-180. <https://doi.org/10.1108/JOPP-14-02-2014-B001>.

### 3.1.1. Technology, organisation and environment theory

The Technology, Organisation, and Environment theory was developed in 1990 by Tornatzky & Fleischer<sup>29</sup>. It identifies three aspects of an organisation that influence the process by which it adopts and implements technological innovation. These three aspects are: – technological context, organisational context, and environmental context. The technological context describes both internal and external technologies relevant to the organisation's procurement performance. This includes current practices and equipment internal to the organisation, as well as the available technologies external to the organisation. Organizational context refers to descriptive measures of the organisation, such as scope, size, and managerial structure. An environmental context is an arena in which an organisation conducts its business dealings with suppliers<sup>30</sup>.

Basheka<sup>31</sup>, opines that procurement processes should be computerised to the extent possible to integrate the operations between procurement units and the potential beneficiary of the services. This will speed up routine transactions and communications within and outside the procuring entity. These include: communications and from suppliers using telephones, emails, interactive websites including tenders and procurement information sharing; communicating with internal users on emails, telephones, and electronic notice boards; instituting process automation and simplification using Enterprise Resource Planning systems; and automation of internal procurement process controls such as approvals, payments, confirmation of receipt of products and services, tracking of procurement process deliverables, and so on<sup>32</sup>.

Hence, when institutions and governments recognize the strategic importance of information communication technology in the public procurement process, the procurement performance of public entities can be easily improved. Therefore, the theory of technology, organisation, and environment was relevant and useful in our studies in that it assisted the researcher in explaining and showing the effect of ICT on the procurement performance of the administration<sup>33</sup>.

### 3.1.2. The legitimacy theory

In 1975 Dowling and Pfeiffer defined legitimacy theory as a condition or status that exists when an entity's value system agrees with the value system of the larger social system of which the entity is a part. However, when there is a disparity between the two value systems, there is a threat to the legitimacy of the entity. The legitimacy theory states that the organisation is responsible for disclosing its practices to the stakeholders, especially to the public, and justifies its existence within the boundaries of society<sup>34</sup>.

Internal controls refer to the objective of enforcing internal control policies to ensure compliance with laws and regulations, monitoring procedures to assess enforcement, and reporting material weaknesses. Borrowing from the legitimacy theory, one of the functions of public organizations is controlling the procurement activities to monitor and report on the performance of the public procurement system of the organizations. The theory will be useful to support the fourth independent variable of the study, namely internal control<sup>35</sup>.

<sup>29</sup> Tornatzky, L.G. and Fleischer, M. (1990) *The Processes of Technological Innovation*. Lexington Books, Lexington, p. 70.

<sup>30</sup> Matasio, F. H. (2017). *The effect of the Public Procurement and Asset Disposal Act of 2015 on the relationship between procurement planning practices and service delivery in Kenya state-owned corporations in the road sector*. University of Nairobi, Doctoral thesis, <http://erepository.uonbi.ac.ke/handle/11295/102520>.

<sup>31</sup> Benon C. Basheka, (2009). „Procurement planning and local governance in Uganda: a factor analysis approach,” *International Journal of Procurement Management*, Inderscience Enterprises Ltd., vol. 2(2), pp. 191-209.

<sup>32</sup> Matasio, F. H. *op. cit.* (2017), p. 17.

<sup>33</sup> Cyrus Saul Amemba, Pamela Getuno Nyaboke, Anthony Osoro, Nganga Mburu (2013), „Elements of Green Supply Chain Management”. *European Journal of Business and Management*, vol. 5, no. 12, p. 51-61.

<sup>34</sup> Wilmshurst, T.D. and Frost, G.R. (2000), „Corporate environmental reporting: A test of legitimacy theory”, *Accounting, Auditing & Accountability Journal*, Vol. 13 No. 1, pp. 10-26. <https://doi.org/10.1108/09513570010316126>.

<sup>35</sup> Rendon, J.M. and Rendon, R.G. (2016), „Procurement fraud in the US Department of Defense: Implications for contracting processes and internal controls”, *Managerial Auditing Journal*, Vol. 31, No. 6/7, pp. 748-767. <https://doi.org/10.1108/MAJ-11-2015-1267>.

#### 4. Methodology

The study adopted the conceptual approach and heavily relied on secondary data. Several journal articles, books, and legislative frameworks of supply chain management were used to identify challenges and practices of supply chain management within the South African SOEs. The study adopted a conceptual approach because it is the combination of researchers from previous research and associated work, and it explains the phenomenon that occurs. The desktop approach systematically explains the actions needed during the research study from the knowledge gained from other ongoing research and the point of view of other studies on the subject.

#### 5. Literature review

This section gives an overview of the mechanisms that will ensure efficient supply chain management practices in the South African State-Owned Entities. An exposition of the supply chain management practices, policies, and their impact on the performance of South African SOEs is discussed in detail.

##### 5.1. An overview of state-owned enterprises

A state-owned company is a wholly or partially state-owned company that engages in economic activities on behalf of a state-owned company while promoting the public interest. SOEs generally contribute to the growth and development of a country. They contribute to various economic and social goals<sup>36</sup>. SOE is a government-owned and controlled company. Most of them have monopolies on public utilities such as water, electricity, and transportation, and state-owned enterprises strive to find a balance between profitability and public accountability.

According to Dublin<sup>37</sup>, state-owned enterprises play a vital role in the South African economy, responsible for providing the infrastructure and services on which the economy depends. These include power generation, water supply, freight logistics, commuter traffic, and telecommunications. Rather than being at the forefront of economic and social change, most state-owned enterprises are associated with national occupation, financial mismanagement, and grave government failures through a lack of accountability and inefficiency.

Government procurement in South Africa has faced challenges, especially over the past four years. The Government Accountability Office report on the Financial Management Act 2021/22 found that irregular spending increased by an average of 58% year-on-year from R61 billion in 2016/17 to R167 billion in 2021/22, It turns out. Furthermore, despite comprehensive rules and regulations for the public sector, irregular spending still creates significant losses. These losses highlight weaknesses in the governance philosophy and framework currently imposed on state-owned enterprises. Balancing efficiency and compliance is the key to addressing the growing problem of irregular spending despite strict policies and procedures<sup>38</sup>.

Since its inception in 2018, the Zondo Commission has documented how, despite numerous regulations and policies, government procurement is being deliberately abused by national, regional, and local government agencies and state-owned companies such as Denel, Eskom, and South African Airways. The testimony provided to the Commission detailed allegations of corruption against high-ranking and political actors who had devastating consequences for the country's development and

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<sup>36</sup> Bird, Malcolm G. 2020. *State-Owned Enterprises, Rising, falling, and returning? A brief overview*. In Luc Bernier, Massimo Florio, Philippe Bance (eds.) *The Routledge Handbook of State-Owned Enterprises*, Routledge, London, <https://doi.org/10.4324/9781351042543>.

<sup>37</sup> Dublin, 2023, *State-Owned Enterprises in South Africa 2022*. Report 2022: State of the Industry, Key Issues, Corporate Actions, Regulations, Enterprise Development and Social Development, <https://www.researchandmarkets.com/r/xmkoad>: accessed 29/05/2023.

<sup>38</sup> Burger, Schalk, (2022). Irregular SoE expenditure highlights need to improve public procurement – Kearney, Engineering News, <https://www.engineeringnews.co.za/article/irregular-soe-expenditure-highlights-need-to-improve-public-procurement-kearney-2022-10-06>, Date of access: 2023-05-26.

exploited the state and procurement system for their gain<sup>39</sup>.

The work of the Zondo Commission is expected not only to help prosecute those involved in state conquest, corruption, and fraud but also to make a series of recommendations to ease state conquest again. To facilitate the process Zondo Commission Rules were amended to allow the Commission to retain information, records, and records collected as part of an investigation to facilitate both civil and criminal prosecution so that the document can now be released to law enforcement agencies.

## 5.2. The role of state-owned entities in South Africa

State-owned enterprises are prevalent in public works, transportation, and telecommunications Provision of development-related financial services. Given the diverse roles of SOEs in providing important inputs to business and their large share in real total investment, SOES operations are a key factor in the productivity and competitiveness of the economy. State-owned enterprises receive large amounts of budgetary support in the form of transfers and guarantees, resulting in high direct costs and an important source of tax risk in the form of contingent liabilities<sup>40</sup>.

However, the deteriorating operating and financial performance of companies over the long term and increasing budgetary strains highlight the urgent need to mitigate the significant economic impact and address poor performance. Both are important. Obstacles to economic efficiency, competitiveness, and the growth of productive private enterprises. Reform options include conducting a comprehensive inventory of existing state-owned enterprises and deciding whether to sell, liquidate, or keep them after restructuring. Acquired state-owned enterprises must have well-defined powers, strong governance, and strict supervisory structures to allow them to operate autonomously in a competitive market<sup>41</sup>.

State-owned enterprises play an important role in contributing to social and economic change in South Africa. There are state-owned enterprises available for infrastructure development, modernization, and the provision of quality services. In addition, state-owned companies in the transport and energy sectors can contribute to the achievement of regional integration goals. State-owned enterprises can advance national economic and strategic interests.

There are opportunities for some state-owned enterprises to cooperate Supporting development finance institutions and possibly working with the private sector to create shared value in the provision of infrastructure and other public goods that will equally benefit the private sector<sup>42</sup>. Supply chain profitability is driven by improved delivery performance (improved delivery responsiveness and reliability, reduced out-of-stocks, improved product quality, easy loading for the customers) and increased information availability (demand insight). improved and more predictable order cycles). accurate and real-time at the operational level) and faster time-to-market at the tactical and strategic level. Potential improvements in applying the SCM concept include reduced warehouse management (reduced excess inventory, faster inventory turnover) and reduced transportation costs (transport bundles), reduced indirect and direct labour costs, and increased sales, and profits brought about by an increase<sup>43</sup>.

Procurement functions play a key role in achieving business objectives related to operations, planning, and spending<sup>44</sup>. Procurement spending represents a large portion of total spending and must be effectively managed by spend owners to achieve optimal value. Procurement has three key

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<sup>39</sup> Jonathan Klaaren, Florencia Belvedere, Ryan Brunette, Nomtha Gray (2022). *Public procurement and corruption in South Africa*, Working Paper No. 2. Public Affairs Research Institute: Johannesburg, <https://osf.io/bej9z/download>, consulted on 1.05.2024.

<sup>40</sup> Simone, A. & Zhangrui, W. (2020). *The role of SOES in South Africa: Issues and Policy Options*, <https://www.elibrary.imf.org/downloadpdf/journals/002/2022/038/article-A002-en.xml>, accessed date: 29/05/2023.

<sup>41</sup> Awoke, T. & Singh, A.2020. „Factors Affecting the Effective Function of Public Procurement in Public Universities of Ethiopia”, *International Journal of Recent Technology and Engineering*, Vol. 8 (6), p. 2095-2102.

<sup>42</sup> Ibid, p. 2097.

<sup>43</sup> Intaheer M Ambe, Rebecca Setino and Ellsworth C Jonathan, *op. cit.* (2022), pp. 789.

<sup>44</sup> Yornu, I.K. 2020, „Assessing the Effectiveness of Procurement Systems in Achieving Quality Service”, *African Journal of Procurement, Logistics & Supply Chain Management*,1(3): 38–56.

elements or principles. These include transparency, accountability, efficiency, and effectiveness. It concerns how and means of obtaining the 'six rights' of procurement, including price, time, quality, quantity, location, and product<sup>45</sup>.

### 5.3. Supply chain management within the state-owned enterprises perspective

Efficient SCM helps organizations obtain quality goods and services in the right place, in the right quantity, at the right price, and in the right location. Organizations design SCM strategies that help create value and improve operational efficiency<sup>46</sup>. Most government-owned institutions in South Africa are highly ineffective.

For example, in the 2020/2021 financial year, Eskom, Denel, and South African Airways were among the underperforming SOEs, with deficiencies draining the national budget. These SOEs are hindering South Africa's economic progress as they have been performing poorly, negatively impacting the treasury, and impeding the country's economic growth<sup>47</sup>. The ineffectiveness observed in SOEs can be attributed to the 'organisational culture' that is inherent in these institutions. SOEs are entities that are not owned by anyone and there is no emphasis on efficiency in supply chain management<sup>48</sup>.

The conduct and level of commitment of members to achieving objectives are influenced by the culture within organizations. Most state-owned enterprises (SOEs) in emerging economies do not help to advance the economy. A large portion of publicly owned corporations lack operational efficiency and incur losses instead of generating revenue. Despite the allocation of resources to SOEs, they are falling short of fulfilling their objectives and not yielding any return on investment<sup>49</sup>.

Organizational culture is a collection of beliefs, values, and assumptions that serve as the foundation of the organisation<sup>50</sup>. As such, the culture of an organisation reflects the shared values that guide the actions of its stakeholders, especially managers and employees. Culture encompasses the beliefs, values, customs, and attitudes that have been nurtured among organisational members over a prolonged period<sup>51</sup>.

### 5.4. Procurement performance within the South African state-owned enterprises

A clear procurement strategy, effective management information and management systems, professional development, a role as a corporate leader, an entrepreneurial and proactive approach, coordination, and focus. Mutual communication is fundamental, communicating key success factors at all levels of the organisation, and establishing procurement strategies to achieve continuous goals. This should be based on overall cost, quality, and improving supplier competitiveness using best sourcing practices<sup>52</sup>.

Public sector procurement functions require consistent performance practices. Relying on financial performance and ignoring nonfinancial performance does not improve procurement operations as only partial performance is considered. The achievement of procurement goals is influenced by internal and external forces. Interaction between different elements.

The use of inappropriate means can hinder change and lead to deterioration of the procurement process. Organizations that do not have the means to deliver performance in their processes, procedures, and plans experience poor performance, customer dissatisfaction, and employee turnover.

<sup>45</sup> Musanzikwa, M. (2013). „Public procurement system challenges in developing countries: The case of Zimbabwe”, *International Journal of Economics, Finance and Management Sciences*, 1: pp. 119–127.

<sup>46</sup> Intaher M Ambe, Rebecca Setino and Ellsworth C Jonathan, *op. cit.* (2022), pp. 790.

<sup>47</sup> Woetzel, J. R., 2008, *Reassessing China's state-owned enterprises*, McKinsey, New York, [https://www.iberchina.org/images/archivos/china\\_SOEs.pdf](https://www.iberchina.org/images/archivos/china_SOEs.pdf).

<sup>48</sup> Musanzikwa, M. & Ramchander, M. 2018. „The influence of organisational culture dimensions on supply chain performance in selected state-owned enterprises in Zimbabwe” *Journal of Transport and Supply Chain Management* 12(0): a392.

<sup>49</sup> Schein, EH, 2009, *Organisational culture and leadership: A dynamic view*, 6<sup>th</sup> edn., Jossey-Bass, San Francisco, CA, p. 78.

<sup>50</sup> Burman, R., & Evans, A.J., 2008, „Target zero: A culture of safety”, *Defence Aviation Safety Culture Journal* 5 (2), 111–137.

<sup>51</sup> Schein, EH, *op. cit.* (2009), p. 80.

<sup>52</sup> Woetzel, J. R., *op. cit.* (2008).



### 5.4.1. Internal control measures

The purpose of the management process is therefore to help the organisation manage risks and achieve stated and communicated objectives. If the control system is disabled, the management system will also be disabled<sup>53</sup>.

Rendon & Rendon<sup>54</sup> suggest that public sector institutions do not value internal procurement controls in their human resource capabilities, which may contribute to their increased vulnerability to procurement fraud. Therefore, the need to take steps to ensure that public procurement is in the best interest of the public cannot be overemphasised.

Procurement activities are conducted with the highest levels of integrity, accountability, and transparency. Organizations need competent and competent staff, procurement processes, and effective internal controls. Verifiability of performance of procurement obligations and performance of procurement contracts. Applying appropriate mechanisms to monitor and control the entire public procurement process reduces the chances of integrity violations<sup>55</sup>.

Whistle-blower mechanisms and protections should also be put in place. To ensure the suitability of procurement processes, public sector agencies must incorporate training in internal controls and fraud detection into their procurement capabilities. This training should include an understanding of internal control components and how they are implemented in each procurement process area<sup>56</sup>.

## 5.5. Supply chain management practices within state-owned enterprises

Supply Chain Management Practices (SCMP) is defined as the set of activities an organisation undertakes to promote effective supply chain management in the form of strategic supplier partnerships, customer relationships, and information sharing. Components of SCMP practices include supply chain integration, information sharing, just-in-time delivery systems, strategic partnerships with suppliers, customer relationships, information quality, and lean internal practices<sup>57</sup>.

SCM in the public sector is part of the government process that deals with the provision, procurement, delivery, and allocation of goods and services to or by a government or its citizens. As an international best practice, SCM in the public sector aims to improve efficiency. Public sector SCMs recognize the need to reduce costs through procurement, seek customer satisfaction, and reduce time to customer satisfaction and contract optimization. As such, SCM practitioners must ensure that processes are efficient, transparent, impartial, and fair. SCM efficiency has become an urgent issue in the public sector. Efficiency in the public sector means getting value for money<sup>58</sup>.

### 5.5.1. Challenges of supply chain management in South African state-owned enterprises

Nzimakwe<sup>59</sup> encapsulates that public procurement in South African state-owned enterprises still faces enormous predicaments. These include, among others<sup>60</sup>:

- lack of proper knowledge, skills, and capacity;
- non-compliance with Supply Chain Management policy and regulations;
- inadequate planning and the linking of demand to the budget;
- accountability, fraud, and corruption;

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<sup>53</sup> Rendon, J.M. and Rendon, R.G. *op. cit.* (2016), pp. 748-767.

<sup>54</sup> *Ibid.*, p. 750.

<sup>55</sup> *Ibid.*, p. 751.

<sup>56</sup> *Ibid.*, p. 751.

<sup>57</sup> Setino, R. and Ambe, I.M., *op. cit.* (2016), p. 384.

<sup>58</sup> *Ibid.*, p. 385.

<sup>59</sup> Nzimakwe, T. I. (2023). „Procurement in State-Owned Enterprises and Its Implications on Service Delivery in South Africa”. *African Journal of Public Affairs*, Volume 14, number 1, June 2023, [https://journals.co.za/doi/full/10.10520/ejc-ajpa\\_v14\\_n1\\_a2](https://journals.co.za/doi/full/10.10520/ejc-ajpa_v14_n1_a2).

<sup>60</sup> Ambe, I.M. and Badenhorst-Weiss, J.A. 2012. „Procurement Challenges in the South African Public Sector”. *Journal of Transport and Supply Chain Management*, 6(1): pp. 242–261.

- inadequate monitoring and evaluation of Supply Chain Management;
- unethical behaviour;
- too much decentralization of the procurement system; and
- ineffectiveness of the Black Economic Empowerment policy. It has been argued that some of the challenges confronting state-owned enterprises in South Africa are self-inflicted.

The government is the largest consumer of goods and services in many economies. In a place such as South Africa government participates in the economy through state-owned enterprises in providing certain goods and services to the public. The present situation means that the government can be simultaneously a provider and consumer of the services and goods it provides. This is already happening with Eskom which is selling electricity to municipalities and municipalities in turn provide energy to government departments and other institutions at cost.

Nzimakwe<sup>61</sup> further makes some general statements about governance in South Africa and even about the character of the South African state can be made regarding the procurement system. The general statements are outlined below as follows:

- Firstly, procurement has become one of the largest tasks, arguably the largest single function, of government departments. The burden of compliance with National Treasury and supply chain management regulations consumes a good part of the daily work of many public officials. In terms of their mandated core function, however, whatever it might be (maintaining an asset register in a department, providing clean laundry for a hospital, developing an Integrated Development Plan in a district), departments are outsourcing these roles to third-party service providers instead of doing it themselves. This does not reflect the fatigue of South African public servants, but rather the effects of local and international trends to improve government efficiency and reduce wastefulness

- Secondly, the procurement of goods and services takes place through a system that is highly fragmented and decentralised. In some cases, the very outsourcing function is itself outsourced. In South Africa today there are tens of thousands of sites and locations where tenders are issued and awarded and where contracts are managed for the performance of all manner of services and functions.

### 5.5.2. Inadequate knowledge, skills and capacity

To fully achieve the SCM goals, the Ministry of Finance provides support by facilitating the development of appropriate training materials for government agencies, municipalities, and municipalities. However, the shortage of skilled workers is a constant topic of discussion. The lack of skills and competencies was identified as the biggest obstacle to successful public procurement in South Africa. Sufficient competence with your SCM personnel who are comprehensively trained and professional in the right organisational form is a key success factor for your successful SCM implementation<sup>62</sup>.

In some government agencies, the skills, and competencies of SCM staff are well below par. Many of his SCM stakeholders in public spaces in South Africa have attended numerous of his SCM training workshops, but still lack the relevant knowledge to properly implement them. SCM actors lack the ability and knowledge to handle the procurement process, resulting in poor governance. The South African government has launched a program to train practitioners, but implementation of the program remains poor<sup>63</sup>.

### 5.5.3. Non-compliance with policies and regulations

SCM is aligned with several relevant policies and regulations. Compliance with these policies and regulations is an issue. Some of the actions related to noncompliance with rules and procedures relate to the tendency not to use competitive processes in both bidding and bidding and abuse of

<sup>61</sup> Nzimakwe, T. I. *op. cit.* (2023).

<sup>62</sup> Intaher M Ambe, Rebecca Setino and Ellsworth C Jonathan, *op. cit.* (2022), p. 795.

<sup>63</sup> *Ibid*, p. 796.

priority point systems. Lack of proper bidding committees. Using unqualified suppliers and placing bids on false grounds. Exploit faulty procurement processes around thresholds. Extension of the validity period. Abusing restricted bidding processes. In addition, the controls and procedures for handling bids are inadequate. The appointment of members of the bid committee does not meet political requirements. Insufficient motivation to deviate from SCM procedures<sup>64</sup>.

#### 5.5.4. Inappropriate planning and linkage of demand with budget

Demand management is an important part of the SCM process. It defines a decision-making process that enables departments to make purchases at the right time, at the right place, and at the right cost. However, many government agencies continue to face the challenges of inadequate planning and demand-budget alignment. Cost-effective procurement ensures that procurement requirements are identified, appropriate contracting strategies are developed, contracts are well managed, and opportunities are available to secure the best bids at the right time and price. It depends on the skill of the expert<sup>65</sup>.

The importance of having an accurate and realistic strategic plan cannot be overemphasised. Sometimes there is a lack of coherent planning. Some government agencies are unable to adequately quantify the needs of those who use their services, estimate costs, and accurately track, manage, and report spending. Service delivery must be properly monitored to ensure that scarce resources are purchased efficiently and effectively. Poor planning and budgeting are also affecting his implementation of SCM. Therefore, it is important that the SCM personnel properly connect the demand plan to the budget<sup>66</sup>.

#### 5.5.5. Accountability, fraud and corruption

Accountability is a key pillar of public procurement. Without transparency and accountable systems, the vast resources flowing through government procurement systems risk being mixed with rising levels of corruption and misuse of funds. Fraud and corruption cost South African taxpayers hundreds of millions of rands each year. In recent years, the impact of fraud has resulted in special legislation being passed and existing legislation being improved, resulting in, among other things, the establishment of the Special Operations Directorate, an asset seizure unit commonly known as the Scorpions. Appointment of Public Guardian, Special Investigation Division, Commercial Crimes Division, Internal Audit Division, Special Investigation Division within the Division, and Forensic Consultant<sup>67</sup>.

Nzimakwe<sup>68</sup> avers that the prevailing economic crisis sweeping through South Africa is a direct result of economic mismanagement largely shaped by the looting of state-owned enterprises. Many are in deep trouble. Sheer incompetence and corruption have pushed entities like South African Airways and the South African Broadcasting Corporation closer to financial collapse. Serious questions are being asked about the legality of multi-billion-rand procurements at Transnet and the state power utility Eskom. The contract state is a highly decentralised government system where the core business of departments, state-owned enterprises, and other agencies is frequently outsourced to third parties, usually private sector companies. The uneven character of governance in South Africa today arises partly from this situation. Service delivery and the performance of government tasks vary, depending on the institutional capacity of public officials to plan strategically for the goods and services they will need, to understand the details (specifications) of what they require, to appoint the

<sup>64</sup> Migiro, Stephen and Intaher Marcus Ambe (2008). "Evaluation of the implementation of public sector supply chain management and challenges: A case study of the central district municipality, North west province, South Africa." *African Journal of Business Management* 2 : 230-242.

<sup>65</sup> Intaher M Ambe, Rebecca Setino and Ellsworth C Jonathan, *op. cit.* (2022), pp. 793.

<sup>66</sup> Migiro, Stephen and Intaher Marcus Ambe, *op. cit.* (2008), p. 246.

<sup>67</sup> Williams, S. & Quinot, G., 2007, „Public procurement and corruption: the South African response”, *South African Law Journal*, vol. 124, issue 2, pp. 339–363.

<sup>68</sup> Nzimakwe, T. I., *op. cit.* (2023).

best-suited service provider, and/or to buy the most appropriate items for their needs. Many individual offices across the government system are getting this right and, more broadly, departments too. There are many, however, that are not. The cumulative effect is a kind of unpredictability in the way government as a whole works.

### 5.5.6. Unethical behaviour

Ethics is the study of moral judgments and right and wrong actions. Ethics and conflicts of interest have a significant impact on the implementation of SCM. Some CFOs wield tremendous power but lack proper consultation with other senior executives. The Treasury Department's Guide for Accountants provides a standard approach to the SCM process, but compliance and application of the guidelines are often lacking. This has led to different approaches and a lack of standardisation. Many municipalities have difficulty verifying the completeness of tender documents<sup>69</sup>.

Van Zyl<sup>70</sup> further encapsulates that unethical behaviour has reached unacceptable levels in South Africa. Ethical leadership is an important source of ethical influence and therefore provides an impetus for finding ways of managing ethics in an organisational context. Ethical leadership, however, is influenced and affected by self-leadership. The objective of this conceptual and theoretical research, therefore, was to indicate how self-leadership can contribute to leaders becoming ethical leaders within the current South African work context. The social learning theory can be made applicable to self-leadership and ethical leadership and was used as the basis for this study. It is indicated that self-leadership strategies can affect the ethical behaviour of leaders.

### 5.5.7. Decentralisation of the procurement system

In South Africa, government procurement for national or local needs (materials, equipment, and services) is largely decentralised between ministries, provinces, and municipalities. Given the number of cases of bid fraud and underserved services at all levels of government, we need to ask whether these parties have the knowledge and intent to get the most value for taxpayers' money. An argument could be made that there should be more centralisation of procurement to knowledgeable and accountable procurement officers. Centralisation takes advantage of scale to reduce costs. 'Decentralisation relies on local knowledge to build relationships'<sup>71</sup>.

Centralisation has benefits such as volume leverage, reduced duplication of purchases, better management, and development of purchasing staff expertise. On the other hand, decentralization often leads to better responsiveness to purchasing needs, better understanding of local needs, closer proximity to suppliers, and accountability for decisions that impact budgets<sup>72</sup>. However, efficient contract management and supplier relationship management are prerequisites for leveraging the benefits of centralisation. The 2012 textbook riot in various provinces of South Africa, in which textbooks were not delivered to schools by the third term of the school year, is an example of what can happen without proper contract management<sup>73</sup>.

## 6. Conclusion

The study gave an exposition of the mechanisms that will enhance the efficiency of the State-owned entities in South Africa. State-owned enterprises in South Africa face growing difficulties in improving and maintaining business performance while managing the pressure of complying with new legislative and policy frameworks on procurement. There is a dire need to ensure the effective

<sup>69</sup> Van Zyl, E. (2014). „The role of self-leadership in becoming an ethical leader in the South African work context”. *African Journal of Business Ethics*, Vol.8 No.2 November 2014, pp. 5–14.

<sup>70</sup> Ibid, p. 9.

<sup>71</sup> Migiro, Stephen and Intaher Marcus Ambe, *op. cit.* (2008), p. 247.

<sup>72</sup> Ambe, I.M. and Badenhorst-Weiss, J.A. *op. cit.* (2012). p. 248.

<sup>73</sup> Van Zyl, E. *op. cit.* (2014), p. 10.

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

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