

Financial Management Challenges in the South African Construction Procurement

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Abstract

This study proceeds from the premise that the dissatisfaction of the construction clients with the outcomes of the construction projects stems from their objectives not being met by the industry. The study aimed at investigating financial management challenges in the South African construction procurement with a view to establishing how their efficiency and effectiveness could be improved during procurement processes. A qualitative mixed method research design was adopted in carrying out the study. This involved the use of semi-structured interviews and open-ended questionnaires. Data were collected from National and Provincial Departments of Public Works as public sector client representatives in South Africa. The purposive sampling technique was adopted for the study. Data collected were analysed using content analysis to determine the themes and constructs leading to the identification of public key performance indicators. Further analysis was carried out using mean ranking analysis of factors associated with the strengths and weaknesses associated with public sector clients' performance. The results of the research show that there are delayed/late payment to contractors, consultants and end user agents due to cash flow challenges; insufficient budgetary allocation for projects; insufficient funds for training of technical personnel; audit deficiencies; lack of financial incentives to employees to boost their morale at work places; poor project funding; late payment to service providers; late release of invoices and payment certificates by the internal project managers among others. Implementable recommendations were made to specific user departments. The financial management units in the South African National and Provincial Departments of Public Works should adopt the recommendation suggested in this study to improve the effectiveness and efficiency of professionals during their project delivery process.

Keywords: Challenges, Client, Construction Procurement, Financial Management, South Africa

INTRODUCTION

This study proceeds from the premise that the dissatisfaction of the clients with the outcomes of the construction projects stems from their objectives not being met by the industry. The South African construction industry plays an important role in the overall improvement of the country's infrastructure at large. In construction projects, there are processes and activities that are carried out to ensure that the outcomes of these projects satisfy construction clients. These are complex processes as the client and the rest of the supply and project chains must be in agreement for the delivery of these projects. However,

research indicates that there are challenges with the financial management units in the National and Provincial Departments of Public Works (CIDB, 2015). Furthermore, the challenges associated with the performance of financial management units in the South African context in these processes and activities have not been adequately investigated (Hanson, 2006; CIDB, 2015; CIDB, 2016). Therefore, this study investigates the performance of financial management units with a view to improving the efficiency and effectiveness during the procurement process in the South African public sector construction procurement.

Drawing from the foregoing suggests that a study of financial management units' performance is crucial in the public sector procurement for current and future development of the South African construction industry. It is essential, therefore, to measure the financial management units' performance in construction projects to determine whether planned improvements in the efficiency and quality of facilities are being achieved, and to learn lessons for future projects (Egbu and Ilozor, 2007). Improving performance of professionals in the financial management units requires more than learning from own perspective; it includes learning from the experiences of others (Egbu and Ilozor, 2007). The knowledge and awareness of the financial management unit's effectiveness and efficiency in the stated areas in the public sector procurement is crucial for this study. It then becomes important to advance the knowledge of construction procurement that would consequently improve the overall construction procurement processes and outcomes (Hanson, 2006).

The purpose of financial management services units in the South African National and Provincial DPW are to provide the following functions (Gauteng Department of Public Works, 2016): develop financial policies, processes and procedures; conduct medium term and long term financial planning; compile budget estimates and monthly forecasts; the planning and controlling of budget; the collection of revenue; handle salary matters; provide inputs to annual performance plans; advice and effect adjustments and roll overs; manage financial accounting services; manage financial information systems; provide PAYE, and related debt management services; provide reconciliation and accounting services. Others are to submit monthly financial reports; prepare quarterly and annual financial statements; analyse expenditure and provide financial support to responsibility Managers; provide support to District Maintenance Hub in terms of expenditure against budgets; certify payroll and processing of employee costs, advances, claims and transfers; allocate and approve payments on systems; deal with payment related queries; coordinate the implementation of audit recommendations; provide financial systems and support services; establish integrated internal control policies and systems; establish a delegation framework and retain financial information.

Construction is driven by the supply chain, and the client is one of the most vital stakeholders in the chain. As opined by Ofori (1990), the client is called by many names, such as, the initiator of the construction process, the individual or group financing the project, the building owner (used by some practitioners and often in legislation), the employer (used in contract documents) and the developer (usually used to refer to those building for sale or letting on a speculative basis). Similarly, clients also vary in size,

interests and motivation and are therefore classified into four groups: public sector clients, private occupiers, property companies, and investors (Ofori, 1990).

Consequently, the change in the client body has been identified by Newcombe (1994) as a move from an individual to a corporation, from a unitary body or single person to a series of stakeholders. However, the client is certainly not a unitary body and may take the nature of a multi-organisation. The multi-organisation may be temporary or permanent; therefore, understanding the nature of the client in this context and the legal, contractual and organisational obligations of the client is an important aspect of the procurement system (Rowlinson and McDermott, 1999).

It is important to realise that the responsibility and obligation of the financial management units is paramount during the procurement process and is essential because of the responsibility of financing the projects (Mohsini and Botros, 1990). It is the responsibility of the client to understand the characteristics of the project (Ambrose and Tucker, 2000) and also to be familiar with the external factors arising from the construction environment (Alhamzi and McCaffer, 2000).

The client body sets the objectives and the construction industry turns those objectives into reality. As such, the strategic decisions made at the very outset of a project are the most crucial and so procurement systems and procurement strategy must be critically reviewed and evaluated by the client (Morledge, Smith and Kashiwagi, 2006). More emphasis on the strategic phase of the project processes, as emphasised by Chandler's (1966) axiom of 'structure follows strategy,' is the key to organisational design in the procurement processes. The effectiveness and efficiency of the financial management units during the delivery processes, however, needs to be measured from procurement outcomes to know whether the clients are achieving continuous improvements or not. The major reason why an organisation needs to measure its financial performance is to know whether the organisational objectives or goals are met.

The public sector's aim is for public accountability in the design and procurement of goods and services in the administration of projects which endeavour to provide value for money for tax payers. Public sector projects range from purely social projects to those meant to earn a profit and the purposes for which they are built (Ofori, 1990). In terms of client expectations, before attempting to advise a client on an appropriate procurement strategy, it is essential that the client's priorities, such as cost, time and quality are set out and should be achieved at the end of the project (Rowlinson and McDermott, 1999). The client also needs advice in identifying those elements of the procurement processes which will bring about performance which matches the client's objectives (Morledge *et al.*, 2006).

METHODOLOGY

Qualitative Research Process

This section presents the preliminary interview conducted with three financial managers in Gauteng Provincial Departments of Public Works between 25th of January, 2012 and 19th of March, 2012 at the initial stage of this study. The major reason for the preliminary

interview was to understand the organisational structural settings (organogram) of the Departments, the decision making processes (i.e. the integration and differentiation in terms of division of labour/job description) and work and process flows from the management level down to the project level. This section also presents the semi-structured interviews held with the Heads of Departments (HODs) as Chief Accounting Officers in the Departments of Public Works in Gauteng, Limpopo, and Mpumalanga Provinces. The interviews were conducted between the 21st of January, 2013 and 30th of June, 2013. Figure 1 shows the research process adopted for the study.

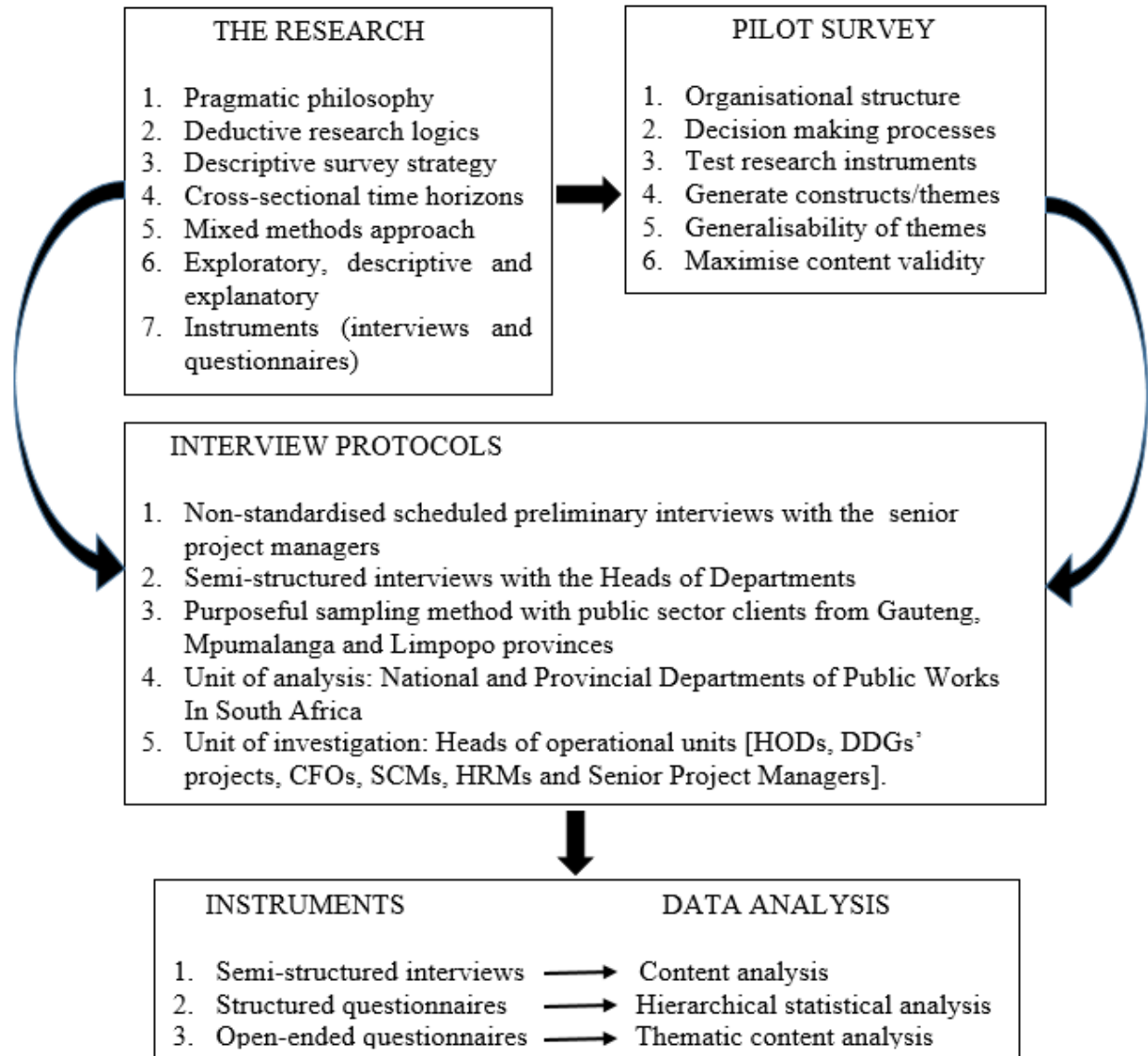


Figure 1: The research process

Questionnaire administration in Province A

The researcher left Johannesburg at about 7:30 on 1st of June 2014 to Province E and arrived at 11:30. The researcher secured accommodation close to the Department. The next morning, the researcher proceeded to the Department for the administration of the questionnaires. Questionnaires were distributed to respondents through their secretaries on the 2nd of June. None of the respondents attended to the questionnaires on the first day. On the second day (i.e. 3rd of June), the head of human resources was the first and only one who filled and returned the questionnaire through his secretary. It took the researcher 12 days (i.e. from 1st of June to 12th of June) to collect all the questionnaires distributed in the province. Furthermore, the same procedures were used in the administration of questionnaires in Province B to I respectively. Abbreviations used include Chief Financial Officer (CFO, or CFOH with H indicating management level). Same applies to Head of Departments (HOD), Deputy Director General (DDG), Supply Chain Management (SCM), Human Resources Management (HRM) and Senior Project Manager (SPM).

RESULTS AND DISCUSSION

Results arising from these studies are tabulated and explained categorically in tabular form as below. Table 1 shows the views of chief accounting officer and some open-ended responses regarding late/delayed payment:

Table 1: Views of a Chief Accounting Officer Regarding Late/Delayed Payment:

S/N	Unit	Comment
1	SPMGI	Late payment occurs mainly due to long processes during payment stages
2	SPMG4	Late payments to contractors delay progress of on-going projects
3	CFOH	Late payment factors should relate to before and after the submission of the invoices or payment certificates
4	Chief Accounting Officer M	The late payment factors should not be asked at management level (Chief Financial Officer) only, but also at project level (Senior Project Manager). The invoices or payment certificates are raised at project level by the Senior Project Managers, while payments are done by the Chief Financial Officers at the management level

Another major financial challenge that beset the performance of the public sector clients is delay with cash flows to service providers (contractors, consultants, suppliers). The cash flows issues have negatively affected the optimum performance of public sector clients. Table 2 shows interviewees’ views and two open-ended responses from financial management units:

Another contentious issue that contributed to the poor project outcomes is either insufficient or late disbursement of budgets. Late release of budget or insufficient budgets affects the continuous and smooth construction processes, especially, the performance of contractors (Table 3)

Table2: Views from Financial Management Units

S/N	Unit	Comment
1	Chief Accounting Officer M	“Time and cost overruns also lead to delays at time in releasing cash flows for payment to contractors, suppliers and consultants. The major challenge we have in DPW is cash flows, cash flow is a major culprit which actually interrupts the delivery of projects. There is a problem of cash flows for contractors. Sometimes, they do not have resources, remember, the policy of government is to try and uplift those that were previously disadvantaged (PPPFA). And when they come on board, if they won those contracts, you find that they do not have sufficient resources financially.”
2	SPMI4	There is delay with contractors’ cash flows and that impact negatively on the delivery of projects
3	SPMC2	Public sector clients are let down by cash flow problems and in most instances by the communities they work in

Table 3: Open-ended Responses on Budget

S/N	Unit	Comment
1	Chief Accounting Officer B	The budget comes to the DPW very late, and they get confirmed and captured very late, hence we start work late. After year-end there is a process where everything is to be reconciled which buys more time and budgets gets confirmed very late, but our finances are coming from the Treasury. DPW finances and User Department all come from the Treasury
2	SCMB	Lack of enough budgets for training of professionals in the procurement profession
3	Chief Accounting Officer M	There is problem with the political committees at times in approving budgets to Department of Public Works for the delivery of proposed project
4	DDGI	Budgets from User Departments (Health & Education) are frequently unrealistic
5	Chief Accounting Officer B	Normally at National Department of Finance there is no delay with budget but at the Provincial Department of Finance there are always delays. Available budgets of User Departments are sometimes insufficient for infrastructure needs

Financial challenges during the procurement processes have contributed to cost and time overruns during the construction processes. Table 4 shows an interviewee’s view regarding the major cause of financial challenges during the procurement processes.

The analysis of interviewees’ responses shows that the financial management challenges contributed to the poor project outcomes which need to be looked at critically for improving the performance of public sector clients in the National and Provincial Departments of Public Works. For instance, delayed/late payment to service providers (contractors and consultants) hindered the performance of service providers during the procurement process,

especially, the contractor. Table 5 presents the Heads of operational units’ open-ended responses regarding financial management challenges:

Table 4: Responses on Major Cause of Financial Challenges during the Procurement Processes

S/N	Unit	Comment
1	Chief Accounting Officer B	Okay, most of our financial challenges are: (i) due to the dispute between the project manager and the consultant on the payment certificate, (i.e. I have done this much of work and this is how much I need to be paid and somebody else will come and say no, I do not think this is what you need to be paid, that is the primary issue (ii) might be due to bureaucracy in approving the invoice (iii) might be the payment processes, for example, in this province B, we are interdependent to another Department between Department B and the Department of Finance, because payment gets approved to that side (iv) project manager might be seating on the invoice and brings it during the eleventh hour. So, these are some of the reasons for poor project outcomes from us (DPW)

Table 5: Excerpts of Financial Management Challenges from Open-Ended Responses

S/N	Unit	Comments
1	CFOE	The Department of Public Works had a disclaimer audit opinion in the last financial year, but it has improved continuously and we have to improve the processes and systems (audit opinion).
2	SPME1	DPW need to pay their personnel enough salary not to be attracted by the private sector
3	SPMC 7	User Departments should learn that all projects are budgeted for a specific period with specific scope
4	SPME3	The Department of Public Works does not have funds (budgets). Budget is sitting with the User Departments (Health and Education)
5	CFOF	Proper funding of projects is very critical
6	SPMG 3	Tracking system of payments for service providers must be in place and effective
7	CFOI	Funding is released by the Provincial Treasury approximately every second week only. If certificates of payments are received late, a payment date can be missed due to verification processes of the payment leading to payments after 30 days. Funding is released based on the cash flows forecast for the vote as a whole taking account of all projects. Funding is therefore not released per individual project

CONCLUSION

It is seen from this research paper that there are serious financial management challenges such as: insufficient budgetary allocation for projects; insufficient funds for training of technical personnel; audit deficiencies; lack of financial incentives to employees to boost their morale at work places; poor project funding; late payment to service providers; late release of invoices and payment certificates by the internal project managers; delay with cash flows from either the Provincial Department of Finance or the Provincial Treasury or the User Departments (Departments of Health or Education); delay with User Departments

budgets; and delays with release of project funding from Provincial Departments of Finance that need serious attention. These financial management challenges affected the performance of supply chain during the procurement process, especially, the performance of service providers (contractors and consultants) which led to time and cost overruns that eventually extended the duration and cost of projects.

Recommendations

It is recommended that the following issues be addressed by the National and Provincial Departments of Public Works as a matter of urgency:

- (a) DPW need to have sufficient budgetary allocation for constant training of in-house internal project managers and technical professionals.
- (b) To pay public sector clients enough salary and emoluments to stay in DPW and not be attracted by the private sector because of high pay and condition of service.
- (c) DPW needs to improve on audit challenges to be able avert corruption and financial misappropriation of government funds.
- (d) DPW internal project managers should send payment certificates in time to facilitate payment approximately every second week to service providers, especially, the contractor to avoid stoppage of projects.
- (e) The finance units in the National and Provincial DPW should monitor the financial and budget performance per project to check expenditure.

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