

ST. MARY'S UNIVERSITY COLLEGE

**BUSINESS FACULTY
DEPARTMENT OF MANAGEMENT**

**An Assessment of Local Purchasing Practice in the Case of
Ethiopian Telecommunication Corporation**

**BY
ZELEKASH TAMENE**

**June 2010
SMUC
ADDIS ABABA**

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A SENIOR ESSAY SUBMITTED TO THE DEPARTMENT OF MANAGEMENT
BUSINESS FACULTY ST.MARY'S UNIVERSITY COLLEGE

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CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Every profit making organization inputs of the organization are processed and the outputs are produced. The out put could be good or service that are delivered to the individual, organization or public. To do so the organization perform different activities. These include procurement, production, marketing and finance etc.

The term procurement has its background with the formation of early government. To day it is widely used by the forces to define one of several supply functions involved in logistics activities. Government define procurement as the entire process by which all classes of resource (people, material, facilities and service) for the particular project are obtained.

The procurement activity is concerned with one of the function of delivering outsourced resources. It is a pro-active function involved in management of the inputs to the organization and as the key element in all government in which a large amount of money spend on procurement. So effective procurement can contribute significantly for the success of the organization. (Amdemicheal W/G 2001:1)

.Purchasing is the process of acquiring the necessary material resource goods and service helpful for the normal operation of the business. Both materials and services can be purchased; and material items that can be purchased include raw materials, parts, equipment, supplies finished goods etc.. Purchasers may include manufactures, wholesalers, retailers, government offices and institution, and non-governmental organization. Donald Dobler W. 1995:21)

According to Ethiopian Telecommunications Corporation 2008 company profile, Telecommunications service was firstly introduced in Ethiopia by Emperor Menelik II in 1894 when the construction of the telephone line from Harar to the capital city, Addis Ababa was commenced. The service was under Ministry of post, Telegraph and Telephone (PT and T) in 1910. The ministry of PT and T had difficulties to meet the growing demand of telecom service for improved and increased telecommunications service. The shortage of trained personnel was acute and funds

extremely low. Hence, a complete and urgent reorganization was necessary. The desire was to create an autonomous body efficiently organized, suitable staffed with financial autonomy to plan and operate the pressing telecommunications needs of the country. With this basis, Imperial board of Telecommunications of Ethiopia was established being separated for Ethiopia postal service.

The organization was renamed as “Provisional Military Government of Socialist Ethiopia Telecommunications Service” and “Ethiopian Telecommunications Authority” in 1975 and 1981 respectively. Finally, Ethiopian Telecommunications Corporation (ETC) was established as a corporation in 1996. The Corporation has branches in 6 zonal offices in Addis Ababa and 13 Regional offices According to 2001 E.C.

As stated in procurement and contract administration manual of the ETC local purchasing division is responsible for the procurement of goods and service needed at every goods and service it provide all department, division, and sub divisional offices, considerate procurement plan by taking in to account the efficiency and economic advantages and periodically prepare considered procurement reports for zones and the regions consideration units.

Therefore, the research basically concerned about the assessment of local purchasing practice in ETC, which has a significant role in the success in this research focused area.

1.2 Statement of the problem

In any organization in order to achieve its objective purchasing of right goods and services should be done at the right time with right price. (Ibid)

In ETC Local Purchasing division the main purchasing activities include procurement of goods:- computers, office equipment, office furniture, supplies, etc.... and services like consultancy service, promotion service, and training service. These purchased goods and services are distributed to the beneficiary department, division, and sub divisional offices as required. Therefore, the efficient performance of these activities has a great role for the success of the organization. In the local purchasing division however, the following problems are identified as the major limitation of purchasing activities.

Sometimes it shows delay in local purchasing process and low price oriented purchasing practices which may result in low quality goods and services.

1.3 Research Questions

The above statement led the student researcher to raise the following questions.

- What does the Local Purchasing practice in ETC look like ?
- What are factors that affect the local purchasing practice of ETC?
- How does the Local Purchasing division evaluate its purchasing performance?

1.4 Objective of the study

General Objective

The general objective of this study is to assess the purchasing practices of Ethiopian Telecommunication Corporation particularly on the Local purchasing practice

Specific objectives of the study are:

- To investigate what the Local purchasing practice of ETC look like
- To identify factor that affect the local purchasing practice of ETC.
- To investigate the local purchasing division self evaluation methods, means and parameters of its purchasing performance. Because it will be giving some insight for the researcher.

1.5 Significance of the study

- This study is believed to provide some insight to what factors are deemed important in ETC in the effective purchasing practice.
- The researcher also believes that the study can also serve as a basis for detailed and further study for others who want to make research on purchasing management.
- The study shall create awareness among employees, managers and other members of different functional departments about the need of effective purchasing management. It also draws attention of other in the role and importance of effective purchasing practice

1.6 Delimitation of the study

This study was been delimiteded only to recent local purchasing practice of in local purchasing division of ETC which is located in Head office. Whether it was assess dalliance in local purchasing process and in order to low price oriented purchase low quality goods and services. But it was not cover purchasing practices in regional and Zonal offices of the ETC.

1.7 Operational Definition of terms

“ETC” A sole telecom operator providing service through Ethiopia

1.8 Research Design and Methodology

1.8.1 The Research design

Descriptive research has been used in this research because this helped the researcher to describe the situation of the Local Purchasing practice of ETC.

1.8.2 Population and Sampling Technique

In ETC there are 250 permanent employees which are relevant to the study which have direct and indirect relationship to the local purchasing activity of the corporation out of which 24% of them were selected as a sample to select the given sample from the total population stratified random sampling technique was employed to select the respondents. The strata and the stratification is indicated in the table below. After being stratified, simple random sampling technique was used to select the specific respondents from each.

No.	Department	Population	Sample Plan	Sample Plan in %
1	Finance and business control Department	167	40	72
2	Service delivery	9	2	4
3	Local Purchasing division	19	5	12
4	Material management	10	2	5
5	Legal advisory and contract affairs	45	11	7
	Total	250	60	100

1.8.3 Source of Data/ Types of Data

As sources of data both primary and secondary data were obtained. Primary data were obtained from the company employees. Secondary data were collected from written materials which are related to the study. Documents analysis provides information on how things are documents and manuals, organizational charts, rules, reports and procedures which to the topic how studied.

1.8.4 Method of Data Collection

The study population is those departments who regularly interact with purchasing activity. The data gathering tool were questionnaire and interviews checklist. Both questionnaires and interviews checklist will be constructed in Amharic in a way that they would help to generate useful information for the study. From the organization the researcher selected 5 departments because they have strong relationship with purchasing department. A total of 60 copies of the questionnaire distributed..

1.8.5 Data analysis methods

The data collect through questionnaire was analyzed by using frequency count, percentage and presented in a tabular form

1.9 Organization of the study

The research paper consists of four chapters. The first chapter contains problems and its approach, the second chapter contains review of the related literature, the third chapter presents the analysis of data observed through various means and the basic part of the research. Finally chapter four holds summary, conclusion and recommendations.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

This chapter is trying to indicate relevant facts about purchasing essential by the author for the understanding of purchasing management/practice. And also it is composed of sub topics, which are thought to be related to the problem under study.

2.1 Procurement Vs purchasing

As stated on en.Wikipedia.org/wiki/procurement, although the term “procurement” and “purchasing” are used interchangeably, the following definitions show some difference of these terms. Procurement is the acquisition of goods and/or services at the best possible total cost of ownership, in the right quantity and quality, at the right time, in the right place and from the right source for the direct benefit or use of corporations, or individual, generally via a contract. Simple procurement may involve nothing more than repeat purchasing complex procurement could involve finding long-term partners (Ibid)

Organizational Purchasing may be defined as that function responsible for obtaining by purchase, lease, or other legal means equipment, materials, supplies and services required by undertaking for use in production. It is managerial activity that goes beyond the simple act of buying and includes planning and policy activities (Lysons Kenneth, 1996:1)

2.2 Purchasing process

- 1) Coordination with user department to identify purchase need
- 2) Discussions with sales representatives
- 3) Identify the potential suppliers
- 4) The conduct of market studies for important materials
- 5) Negotiation with potential suppliers
- 6) Analysis of proposals
- 7) Selection of suppliers
- 8) Issuance of purchase orders
- 9) Administration of contract and resolution of related problems.
- 10) Maintenance of variety of purchasing records.

During the early years, the purchasing function tended to be handled in a reactive, “staff support” manner. Subsequently, it was conducted more professionally with managerial emphasis. But it was still viewed largely as a group of tactical activities. In those firms that have not moved toward the development of the procurement or supply management concept, the importance of the purchasing function has not diminished, but often it is not being fully realized because it still has a functional operations:- oriented focuses (Ibid)

In essence, procurement tends to be border and more proactive, with some focus on strategic matters, as compared with the typical implementation of the purchasing concept (Ibid)

Management

On important factor for the success of business organization is management. Plunket and Anttner(1986:5) defined management as the process of planning, organizing, staffing, directing controlling and coordinating the activities of an organization to set an achieve the organizational goal. Generally purchasing management is concerned with the planning organizing, directing, controlling and coordinating the flow of purchasing from the environment in to the organization, within the organization until they are distributed *(dispatched) to the environment. It is also concerned with providing the right quality of inventory with the right quality at the right price and at the right time from the right source (supplier) to achieve organizational goal.

Importance

Purchasing has come to say as the most important function of material management. The moment a buyer place an order the commits a substantial portion of finance of the corporation which affects the working capital and cash flow position. He is a highly responsible person who meets various salesman and thus can be considered to have been contributing to the public relation efforts of the company. Thus the buyer can make or mar the company’s image by his excellent or poor relation with the vendors. (Gopalakrishnan P. and M. Sundaresan, 2004:55)

2.3 Objectives of purchasing and supply management

Unlike consumer buyers, business buyers do not buy goods and service for personal consumption. They buy goods and services to make money or to reduce operating cost, of to satisfy social or legal obligations. To buy the needed goods and services, business buyers move through a purchasing or procurement process, which is accomplished by purchasing department. By accomplishing the

process, purchasing and supply management assists the business buyers to achieve its objectives, but, what are the objectives of purchasing and supply management. According to Dobler (1996:41-45) the objectives of purchasing and supply management can be viewed from three levels:

1. A very general managerial level
2. More specific functional or operational level, and
3. A detailed level at which precise strategic buying plans is formulated.

From a top managerial perspective, the general objectives have traditionally been expressed as the five rights that management expects the department to achieve the acquisition of materials: of the right quality, from the right suppliers, in the right quantity, at the right time, at the right price. A sixth factor implied in these items includes the desired service necessary for optimal supply and utilization of the materials.

From operating or functional perspectives, then it is necessary to probe more deeply to develop a set of statements that provide practical and useful targets for decision-making.

Purpose in this sense, the eight basic of purchasing and supply management are identified.

1. To support company operations with an uninterrupted flow of materials and service. This is the most fundamental of all purchasing and supply objectives. In a logistical sense, this is a key reason for the existence of the department. Responsibility for performance of the function typically is located in a single operating unit, thereby facilitating coordination and control of the supply activities.
2. To buy competitively and wisely. Buying competitively involves keeping abreast of the forces of supply and demand that regulate prices and an ability of materials in the market place. A buyer who purchases materials or service generally is not buying competitively.
3. To buy widely. Buying widely involves a continual search for better values that yields the best combination of quality, and price, relative to the buyers need. This frequently involves coordination with users in defining the need. This may also involve coordinating and reconciling user's needs with supplier's capabilities, perhaps through the use of cross-functional design teams to achieve optimal value considering both issues.

4. To keep inventory investment and inventory losses at a practical minimum. Although maintaining a large inventory is one way to achieve objective, it is also costly. Generally speaking, it costs most firms between 25 and 35 percent of the average inventory available, hence, the supply management job is to achieve a reasonable balance between the level of inventory required to support operations and the cost of carrying the inventory. Just-in-time production (inventory system help considerably in achieving this objective).
5. To develop effective and reliable source of supply. Cooperative suppliers that are willing to work with a buyer to help solve the buying firm's problems and to minimize its materials-related costs are invaluable resources. Progressive buyers today tend increasingly to "buy suppliers" as opposed to simply "buying products" The identification, investigation, selection, and in some cases development of competent and responsive is a buyer's paramount responsibility. It is difficult indeed for a firm to perform optimally if it cannot depend on the planned performance of a reliable contingent of suppliers. It is this vital requirement that has led many firms to develop partnering arrangements or strategic alliance with their key suppliers. This can be an effective way of working cooperatively to achieve the objective.
6. To develop good relationships with the suppliers community and good continuing relationships with active suppliers. Good relationships with suppliers are imperative and good relationships with potential suppliers are invaluable. The achievement of the preceding objective on a continuing basis is virtually impossible if mutually satisfactory continuing relationships are not maintained. Potential suppliers are much more interested and eager to acquire a firm's business if the buying firm's likely to be a "good customer".
7. To achieve maximum integration with the other department of the firm. It is essential for buyers to understand the major needs of their using departments, so that these needs can be translated into material support actions. While these actions vary from firm to firm they normally require the purchasing and supply operation to support a using department in its major responsibilities.
8. To handle the purchasing and supply management function proactively, in a professional, cost-effective manner. Management should expect the preceding seven objectives to be achieved in a professional manner at a cost that is commensurate with their value to the total organization. This involves among other things, the continuous examination of the purchasing process for responsibilities to streamline it and enhance its "value added" capabilities.

These objective (the first and second levels) apply in principle to all categories of industrial buying activities manufacturing concerns, governmental unit's hospitals, and all other types of buying units that they buy for consumption or conversion.

The third level focuses on the detailed objectives that are developed when precise buying plans are made (usually annually) for each of the major categories of materials the firm uses in its operations. These objectives are spawned from the functional-level objectives just identified and are applied to fulfill the specific need associated with each type of purchase. The precise set of objectives for each material typically varies because the usage requirements, the operating conditions, and the markets in which each material is purchased usually are different. (Dobler, Donald W. 1996:41-45)

2.4 Purchasing Principles, Procedures and Practices

Be it either a small scale industry, medium-scale on of a large-scale industry, purchasing is thought to be one of the most important function but, it is a supportive function to production and other user departments. Therefore, it follows that it must provide the service efficiently and economically. Industrial purchasing is, however, entirely different from personal buying practices, Here, there is no room for personal liker or dislikes.

All businesses consist of the following ingredients and by coordinating and integrating these, the desired results are achieved.

1. **Creation** :- the idea or product concept, which is a design function;
2. **Capital**:- financing the operation, that is, resource planning for investment in plant, equipment and other factors of production.
3. **Personnel** :- recruitment of human resources and retaining them;
4. **Purchasing**:- buying of plant, machinery and equipment, materials and service;
5. **Conversion**:- manufacturing process to produce economic goods to satisfy human needs, and.
6. **Distribution**:- selling and marketing of goods to ultimate consumers.

It has been observed that without successful purchasing at some stage or the other, it is impossible to achieve results for which the business exists. But purchasing practices may vary according to the policy of management, and the size and type of industry, yet, there are some broad well-recognized principles of scientific buying (DATTA A.K,2003:54)

Purchasing parameters

Basic principles may be enumerated as follows;

1. Buying the right quality
2. Buying the right quantity
3. Buying the right price
4. Buying from the right source
5. Buying at the right time and place

Accordingly, certain procedures have to be followed, although actual practices may vary according to time and place.

Right quality First and foremost, quality must be properly defined. No general description of the character of the material or desired attributes will be sufficient, like 'high quality' or 'poor or low quality', etc.. the definition must be in greater detail and this must be described in the purchase order. This description then becomes the essence of the purchase order. Significant elements like, dimension, physical, chemical and other properties, suitability and purpose must all be clearly stated.

Right quantity This is also one of the basic considerations. It has special meaning in this context, that is to say, what quantity should be purchased at a time. Since quantity is a mathematical measure, there have been many attempts to determine the optimum quantity which is most economical. Besides this, there are many other considerations which have to be taken into account, However, this will be dealt in further detail in a later chapter.

Right price price is not just one of the terms and conditions of the purchase order, but is an important economic consideration which is a guiding factor. A most common equation used in this connection is;

$$\text{Value} = \frac{\text{Quality}}{\text{Price}}$$

This is not just a mathematical formula, but expresses an axiomatic truth that value varies in direct proportion to quality and inversely to the price paid. But where quality is defined in a specification, it is a constant and the comparison of value can be made in terms of price alone. It follows, therefore, that the lower the price, the greater the value.

Right source source selection is also an important factor. Besides the factors mentioned earlier, reliability and timely delivery have to be seriously reckoned with. Actually, there are four stages of source selection.

Are four stages of source selection

1. Survey stage
2. Enquiry stage
3. Negotiation stage
4. Experience stage

In purchasing, the starting point is the recognition of the need for a material or a product. Though the exact specifications may or may not be fixed, its general nature and purpose are known. What is available in the market? Who makes such a product? Or, who can make it our supply it most economically or satisfactorily? All these questions must be answered before a supply order is placed.

Right time Right time implies that in order to be effective, purchases should be made, in such a way that stores and materials are made available in time when needed, it being purchasing department's duty to see that the delivery schedule is honored. As such, timing is an important element in every purchase order, except when such purchases are made for stock purposes. Even then, in order to get some price advantage when seasonal purchases are resorted to, timing plays its due role.

Right place right place means right place of delivery. Every purchase contract, in addition to time of delivery, must clearly state the place of delivery and such other terms like free delivery or ex-factory delivery. Generally, F.O.B (Free on Board), F.O.R. (Free on Rail), C.I.F. (cost, insurance and freight) paid terms are part of the price agreement. (DATTA A.K,2003:55-56)

2.5 Legal Aspects of purchasing

All purchase orders signed by the purchaser on behalf of his company and commitments made therein legally binds his company. It creates a contractual relationship as to the contract made between the buyer and the seller as per the terms and conditions agreed to in the course of a deal. The purchase order or contract is, therefore, a legal document which has a direct bearing on the company as to the performance of the contract. It is not enough that the purchase must be economically sound so that the parties, the buyer as well as the seller, may be in apposition to get the agreement enforced by the law of the land.

However, law is a complicated subject and, therefore, its application and interpretation must be left to those who are competent to deal with it, As a primary rule, all purchasing men should consult competent counsel on doubtful or controversial points. If the company has an established legal department or retains legal counsel for advice on corporate matters, the purchasing department should avail of the facility in all important matters concerning terms and conditions in the purchase contact, or in the use of the phraseology of the clauses that are to be included in the purchase contract. (DATTA A.K,2003:81)

2.6 The Essence of purchasing Management

The essence and the two basic types of purchasing exist in business world; these are: purchasing for resale and , purchasing for consumption or conversion.

2.6.1 Purchasing for Resale

The basic problem here is to ascertain what consumer want, buy it at a price to which they can add a profitable markup, and sell it to the customer at a satisfactory level of quality and service.

2.6.2 Purchasing for consumption or conversion (industrial buying)

1. Beside the above mentioned problem (i.e. to ascertain what the consumer wants) industrial buyers participate in determining what products their company should make, and what components or parts of these products the company should manufacture, and what components or parts should be purchased from outside suppliers. They correlate their purchasing actions with sales forecasts and production schedules. (Ethiopian management institute purchasing management training manual 1999:12).

2.7 Basic Operating Policies

What is policy? A policy is a statement that describes in a very general terms an intended course of action. After fundamental objectives of an activity are established. Policies are developed to serve as general guidelines in making operating decisions that channel action toward achievement of the objective. To facilitate this process, a set of operating procedures is subsequently developed that details the specific actions to be taken to get the job done (Dobler, 1996:45)

2.7.1 The policy Manual

After the fundamental objectives of any activity are established and policies are developed, they must be placed in written form called policy manual. It helps a give enterprise to disseminate its objectives and politics to the concerned parties.

For Doubler, (1996:47-48), it is important that the message reach those who are to received it as clearly and accurately as possible. The complexity of a modern firm necessitates the establishment of many diverse polices, all of which cannot possibly be remembered with accuracy. The normal turnover of employees and mangers compounds the difficulty. Moreover, because policies are general statements, minor differences in interpretations are inevitable. It is essential therefore, that care be taken to ensure the accuracy of policy connection.

2.7.2 Policies defining Purchasing Responsibilities

It is not necessary for the responsibility for all the activities associated with purchasing to lie with in the purchasing department. In fact organizational buying is a shared decisions-making process involving personnel from different parts of the company. It is, however, necessary to have someone who is responsible for co-coordinating all these inter-functional purchasing responsibilities, and if purchasing is to contribute strategically to corporate policy then this co-coordinator should be a member of the management team. It most companies this will of course be the purchasing manager and if he is not already a board member as a purchasing director), then he should report to one.

In small manufacturing companies it may not be appropriate to have a fully fledged purchasing department. In this case the strategic purchasing activities should be handled by the managing director with a buyer who handles the day to day activities to him.

According to Person (1982:73) whatever the size of the organization, purchasing authority and responsibility must be clearly defined. Within the buying department individual's responsibility should be defined and if possible should be divided by product or commodity type. In this way buyers can specialize thereby concentrating and improving their performance in their own specialist areas. If specification of this sort exists, then the possibility of duplicated research effort is also reduced.

2.8 Purchasing process

The organization needs to ensure that purchased products and services meet purchasing requirements. The purchasing group must be based on the suppliers' ability to provide products and services that meet order specifications, especially product and service quality requirements. The extent of the controls depends on the importance of the purchased goods in the finished product. Finally, records must be kept showing how purchased products and services were evaluated. (ISO, ISO easy, <http://www.exit109.com>.)

2.9 Purchasing information and verification of the product

Clearly describe on purchase orders the product or service being ordered. Consider including the following specification:

- How products, procedures, and equipment are approved for purchase,
- Required competencies for contracted personnel,
- Requirements for the supplier's quality management system.
- Review and approve purchasing requirements before sending them out. And carry out a plan for verifying that purchased services and materials are adequate i.e. meet purchase specification. From Internet (ISO, ISO easy, <http://www.exit109.com>.)

2.10. Choosing Supplier

Assuming a choice of suppliers is available for a given commodity or item, the next step is to select the most suitable. It is important to remember that in trying to reduce overall cost to a company one may not necessarily be looking for the cheapest supplier. Failures of quality and delivery can easily outweigh any price or discount advantage. A slightly more expensive material or item may result in significant reductions in onward production cost.

The function of the purchasing department is to produce the optimum corporate solution. According to Parson (1982:51), factors of cost to be considered are:

- Price and discount
- Reliability of quality
- Reliability and speed of delivery
- Service

2.10.1 The importance of Source Selection

A good supplier is an invaluable resource to the organization requiring its product or service. Such suppliers make a direct contribution to a firm's development, value analysis, and timely delivery of the desired level of quality. Good buyer-seller relations facilitate the buyer's efforts to gain superior performance, extra service, cooperation on cost reduction programs, and a willingness to share in new process procedures.

According to Dobler (1996:212-214), selection and management of the right supplier is the key to obtaining the desired level of quality, on time, and at the right price: the necessary level of technical support: support and the desired level of service. Buyers must take six important supplier oriented actions in order to satisfy his responsibility. The buyers must:

- Develop and maintain a viable supplier base.
- Address the appropriate strategic and tactical issues.
- Ensure that potential suppliers are carefully evaluated and that they have the potential to be satisfactory supply partners. Decide whether to use competitive bidding or negotiation as the basis of source selection.
- Select the appropriate source or be the team leader responsible for his task. Manage the selected supplier to ensure timely delivery of the required quality at the right price.

2.11 General Characteristics of Buyer-Seller Relationships

Business transactions between buyers and sellers may differ greatly from one another. At one end of spectrum there are simple deals in which a person from the buying firm has a limited number of contracts with a person from the selling firm, and in which the products and conditions of their discussion are virtually standardized. At the other, a large number of officials representing several

function at the buying firm have contacts with officials in corresponding positions at the selling firm. In this case a large number of technical administrative, and economic problems are ventilated. In any ways a firm's good relation with its suppliers is vital for both parties.

According to GAddle and Haleson (1993:76-77) the main characteristics of a firms conclusion is that relationships with suppliers are very important. They have considerable economic impact because such a large proportion of the firm's activities are channeled through them. As a rule, more than half of the total turnover of the firm (sometimes up to 70 percent) is handled within these relationships. They are important from a technical point of view, as they integrate the technology of the purchasing company with that of the supplier. Consequently, they also become central from an innovative point of view. They are one of the most important interfaces at which the knowledge possessed by the firm encounters other large bodies of knowledge. GAddle and Haleson (1993:76-77)

Secondly, supplier relations comprise major investments. It requires a great deal of work both to establish a relative and to adopt the firm to it internally. Consequently, well established supplier relations are one for the important resources any firm has. GAddle and Haleson (1993:76-77)

2.12. Buying in International Market and Buying Locally

According to Dobler, 1996:225-226 a buying firm can get its material requirements from either of the two sources

- In International Market
- In Local Market

Importation means purchasing from foreign sources. No country in this world is self-sufficient in respect of all materials needs. Even the most advanced countries import some materials, plant and machinery, spare parts and components, tools, etc.. or any other item. Even sometimes it imports food grains and other agricultural inputs.

All large and medium industries, both in public and private sector, to a varying degree import their materials requirements, which are not available with in the country, As such foreign purchase forms a good part of their buying activities. It involves not only a good knowledge of foreign sources of supply, but also of the import policy of a country, import and export trade council act, foreign exchange regulations, custom clearance and excise duty, etc. In short, it requires also a careful handling of the whole affaire, since buying in international market is entirely different. It creates

reciprocal trade relation, develops mutual friendships between countries and promotes international understanding.

2.12.1. Reasons for Foreign Buying

The reasons for buying foreign sources are many and vary with the specific commodity needed. However, the underlying reason for using a foreign vendor is that better value is perceived to be available from the source than from a domestic vendor. Some of the specific reasons that may cause a foreign vendor to be selected as the preferred source are:

- Lower price
- Higher quality than from domestic source
- Unavailability of items domestically
- Faster delivery and continuity of supply
- Better technical service
- Foreign vendors advancement in technology than domestic supplies
- Marketing tool (To sell domestically made products in certain foreign countries, it may be necessary to agree to purchase agreed on dollar amount from vendors in those countries).

2.12.2 Buying Locally

Local buying sometimes can be justified solely on an economic basis. A local supplier often can furnish smaller quantities of material at a lower price than could be obtained from distant sources. Local supplier also can maintain and finance a well-balanced inventory of materials for continuing local users. Working with local sources of supply and encouraging them to be capable suppliers is a part of progressive purchasing.

Two basic considerations are involved when deciding to buy locally or nationally. First, large dollar purchases should be placed at sources obtain optimum prices and discounts. Second small and medium dollar purchases should be placed with local sources when price differentials are small or when such action is necessary to keep materials physically available in the immediate area.

Most buyers prefer to patronize local sources whenever such action is prudent. A Stanford university research study found that approximately three fourth of 152 buyers surveyed indicated a preference to pay slightly higher prices to gain to advantage of better service and immediate availability of materials offered by some local suppliers.

Just in time manufacturing requires dependable sources of defect-free materials which arrive within a very tight time frame. Suppliers to JIT (job instruction Training) customers are meeting this requirement in three ways: 1. they are locating close to their customers(2) suppliers are implementing responsive manufacturing systems: and (3) they are taking aggressive action to control the transportation of their materials to their customers.

In summary, Local buying has the following advantages

- Closer cooperation between buyer and seller is possible because of close geographical proximity. JIT deliveries are thus facilitated.
- Delivery dates are more certain since transportation is only a minor factor in delivery.
- Lower prices can result from consolidated transportation and insurance charges. A local supplier, in effect, brings in many local buyers orders in effect, brings in many local buyers orders in the same shipments.
- Shorter lead times frequently can permit reduction or the elimination of inventory. In effect, the seller produces JIT.
- Rush orders are likely to be filled faster
- Disputes usually are more easily resolved
- Implied social responsibilities to the community are fulfilled (Dobler, 1996:225-226)

2.13 Operating procedures

A procedure outlines in details the specific action to accomplish a given task, within the guidelines of any applicable policies, In short, it establishes the way of doing things, Procurement procedures, and the documents they utilized, serve two fundamental purposes within a firm.

They provide the frame work and the direction for accomplishing the supply and materials management activities effectively and efficiently.

They provide the means for processing information inputs from outside the department to produce output communications needed by individuals in other departments to do their jobs in a coordinated and timely manner. (Dobler, 1996:62)

2.14 General procurement procedures

A purchasing department buys many different types of materials and services, and the procedures used in completing a total transaction normally vary among the different types of purchases. However, the general cycle of activities in purchasing most operating material and supplies is fairly standardized. The following steps constitute the typical purchasing cycle.

- Recognize, define and describe the need transmit the need
- Investigate quality, and select the supplier.
- Prepare and issue the purchase order.
- Follow-up the order (including expediting and de-expediting)
- Receive and inspect the material (except in the case of some JIT systems and some partnering agreements)
- Audit the invoice.
- Close the order. (Dobler, 1996:63)

Role of purchasing in organization and business management

The past two decades have witnessed a fundamental change in the role of purchasing functions in many organizations. Traditionally purchasing has had a rather obscure position in most companies, as it has been considered as a separate function just dealing with operational issues, such as making orders and receiving deliveries from suppliers (Hines 1996) However, nowadays the role of purchasing among.

Organisations activities has become more and more important (Gadde and Hakansson 1993, Koskinen et al. 1995, Trent and Monczka 1998, Laios and Moschurries 2001), and several reasons for this kind of development have been presented in the literature, Hakansson and Gadde (1993) have argued that the importance of purchasing has grown in several industries as a result of increasing specialization, which characterizes the industrial system as a whole. The more highly developed the society becomes, the greater the degree of differentiation and the more specialized units in organizations that we can anticipate. In other words, the needs of the customers are to become more sophisticated and therefore the offerings provided by companies are to be more differentiated as well. Thus, also the purchasing function has to be more sophisticated in order to ensure the

effectiveness of the firm. This of course requires a well-designed and competent purchasing function playing an important role in the company's business processes.

The productivity of purchasing is particularly significant for most organizations, because of the fact that the gains attained through successful purchasing operations influence directly the bottom line of the companies income statement (Gadde and Hakansson 1993, Buvik and Jon 2000) Organisations'

Purchasing functions often involve large expenditures, draining a large proportion of a company's income (Laios and Moschuris 2001) or a public organisation's budget (Kotler 1997). As the customer requirements are not only diversifying, but also tightening in relation to the quality and added value of the end products, companies are faced with increasing demands as to performance improvements across a variety of the end products, companies are faced with increasing demands as to performance improvements across a variety of performance categories, such as purchasing (Trent and Monczka 1998). It has been generally acknowledged that purchasing function has an integral part to play in the composition of a company's competitive position in the markets (Johnson et al. 1998). If the integration and organization of purchasing function with the operational functions is not satisfactorily organized and managed, disruptions to output, income losses and different inds of adverse effects on competitiveness of the company may result (Laosis & Moschuris 2001).

It has been argued that as organization are realizing the benefits to be reaped from deeper, more long-term co-operation with supplier, more attention is given in organizations to the purchasing practice and vendor management (Gadde and Hakansson 1993). It can be reasoned that as the current tends in business-to-business marketing emphasise close co-operative relationships between buyers and sellers, this also has an impact on the way customer companies perceive their supplier relationships. As supplier companies are aiming tweords joint value cration (Normann and Ramirez 1993, Wikstrom et al. 1994, Storbacka et al. 1999) with their customers, customer organizations are bound to ralise this and the possibilities that the supplier is offering through different kinds of co-operative arrangements (Heide and John 1990). The marketing efforts could in some way be said to be more or less mirrored in the purchasing relationship management. Accourding to Hakansson and Gadde (in Ford 1997), purchasing companies have gradually been making and transition towards tighter and more solid connections with suppliers.

Closely related to purchasing, the concept of outsourcing has been a central topic in management trends during the last decades (Brandes et al. 1997, McIlvor 2000). Companies are concentrating on their core competencies (Prahalad and Hamel 1990) and core skills (Reve 1990), and other parts of the business processes are being outsourced as a result of strategic make-or-buy decisions (Reve 1990, Brandes et al 1997). One common topic in the management literature during the last decade has also been 'lean management' (Warnecke and Huserb 1995, Hines 1996), according to which companies are to focus on managing only core processes internally and to externalize other resources and processes (Hines, 1996). In this way, companies become 'leaner' and this increases the importance of purchasing related functions in the company. Purchasing can be seen as having evolved from a mere buying function to a more strategic function among companies' business processes (Carr and Pearson 1999). The concepts of purchasing and outsourcing have been used parallel on many occasions, both in the literature and in practice, and it is evident that the two concepts are more or less overlapping. However, it is commonly understood that the term outsourcing is referred to as being a more comprehensive function than purchasing. However, a variety of same kinds of issues have been researched under both of these concepts, and therefore also outsourcing literature is to be taken a look at in the proceeding parts of this chapter. But what is essential here is to take notice of the impact that outsourcing and lean management as management practices have on purchasing. They increase the importance of purchasing related knowledge in organizations.

The importance of purchasing can also be discussed in relation to the several tasks that the purchasing functions have to fulfill in companies, the cost rationalising role as a good example. As has already been discussed, the economic impact that purchasing has on the organisation's financial state is direct and easy to understand. In addition to this cost relation, purchasing also has a developmental role, as suppliers and their product innovations are seen as an important potential development resource (Gadde and Hakansson 1993). Also, it can even be argued that companies can use purchasing or outsourcing to gain not only more non-core resources, but also core capabilities (Baden-Fuller et al. 2000). This would further indicate the growing importance of purchasing in the current economy and also illustrate the possibilities that companies may have if they can thoroughly take advantage of purchasing knowledge.

Identification and discussion of the main perspectives in industrial purchasing research

The increasing importance of purchasing has generated a variety of different literatures related to these issues. Moreover industrial purchasing research has been approached from different theoretical perspectives. In the following, I will discuss three perspectives to industrial purchasing that can be identified from the existing literature. In addition to these three, also other streams could no doubt be identified. However, the purpose of the presented discussion in relation to the three identified perspective is to provide a critical discussion of the nature and applicability of the different theories in increasing our understanding of industrial purchasing and moreover, the market process elements. To present this kind of literature review is also important due to the fact that purchasing research has not yet found a natural home in any existing academic discipline or field (Ramsay 2001 P. 257). The existing purchasing literature can be seen as being rather fragmented and unstructured. However, in this study, I will exploit the industrial purchasing theories rather widely from various streams of the purchasing research and thus it is essential to discuss these different perspectives here.

One of the earliest streams of perceiving purchasing lies in the organisational buying behavior literature, which still continues to provide a basis for more current research as well. The research in the area of organizational buying behavior has provided a range of models describing the different issues related to the purchasing functions inside organizations. However, it is important to understand that the literature dealing with organizational buying behavior takes the point of view of the marketer understanding the buying behavior of its industrial customer (Robinson and Faris 1967, Sheth 1973, Parkinson and Baker 1994). The development of managerial practices of the purchasing company is not the central focus in such studies. It is thus assumed that in order to successfully implement industrial marketing, it is essential to understand the customer organisation's buying behavior, just as in consumer marketing researchers have been interested in understanding the behavior of customers as individuals. This can be illustrated through the definition of organizational buying behavior presented by Parkinson and Baker (1994 P.6), saying that 'Organisational Buying Behavior is the purchase of a product or service to satisfy organizational rather than individual goals'. Accordingly the question of satisfying organizational goals is essential, and this can be seen as reflecting the marketer's point of view, bearing in mind that to satisfy customer needs is the common goal of marketing presented in many textbooks (Kotler 1997).

According to Tanner (1999), the early buying theories can be categorized into theories describing the buying centres, those illustrating the buying process and theories pursuing to reveal the factors affecting the buying centres and processes. For example, the different kinds of buying situations that organizations may be facing (Robinson et al. 1967) have been identified. Issues such as the buying centre, the buying decision process and buying situation were introduced by Webster and Wind as early as in 1972. During the last decades the interest in the research concentrating on organizational buying has also been focusing on the process of discrete purchase decisions. It is important to notice here that to understand the customer organisation's buying behavior is not that same as developing organisation's purchasing practices. The point of view is clearly different, but this literature has also been broadly used in understanding purchasing challenges as well. It can be assumed that as there is a wide literature taking the marketer's perspective to understand customer's purchasing, it is evidently useful to use this research information in order to understand the purchasing phenomena from the customer organisations' perspective and even to develop the purchasing management practices.

Industrial purchasing has also been studied from a more strategic perspective, focusing on the role that purchasing has in relation to other business processes such as production, new product development and marketing. The role of purchasing in creating competitive advantage has been understood as being pivotal, and the management of the supplier base and strategic make-or-buy decision have been seen as issues central to purchasing. Purchasing practices such as vendor management and subcontracting have all moved the organisations' purchasing practices towards concentrating more on establishing and maintaining close co-operative relationships with a few selected strategic suppliers. The purchasing is understood as an integral part in the whole logistic chain in which the company is operating. Management philosophies such as lean management (e.g. Hines, 1996) have presented the role of purchasing as an essential part of strategic business management. These management approaches originate from the studies undertaken to understand the Japanese automotive industry in the 1970s and 1980s (Womack et al. 1990). The lean management philosophy is based on the idea that companies determine jointly with their suppliers the value streams for the products. The purpose of lean production is to organize work into teams between companies and functions and eliminate all activities that do not add value (Hines 1996). Companies become 'lean' in the sense that operations are minimized, so that only the most value-

creating issues are carried out and all additional work is done by a supplier, or totally abandoned. In this view, competition is taking place between value chains consisting of several companies, and not between individual companies.

The research on business relationships and networks (see e.g. Hakansson and Snehota 1995, Ford et al. 1998) has studied inter-organisational business relationships from a variety of different perspectives and provided a number of models and theories on the nature, content and development of these relationships. The emphasis has been on acknowledging the complexity of business relationships and their context. Although the focus has mostly been on customer relationships, one of the main ideas relevant to the purchasing research has been that in studying relationships, supplier relationship management and customer relationship management confront rather similar issues, and that the difference between the two ends of the relationship become blurred. Many of the models and theories are applicable regardless of the side we are operating in. Therefore, many of the business relationship models are very useful also in the purchasing sense and used also in this research. In addition to this generality, there are also a number of supplier relationship specific studies, especially from the supply network management perspective (see e.g. Hagberg-Anderson et al. 2000, Dubois and Pedersen 2001, Wynstra and Echelt 2001, Ahonen and Salmi 2003, Fredriksson and Gadde 2003, Juhantila, Y Virolainen 2003).

The three identified perspectives of industrial purchasing research in Figure have been identified 5. The three identified perspectives can be seen as differing many respects. Some of them could be argued as being more theoretical, some of them as more practically oriented etc. Chosen to describe the perspectives on the basis of two factors, Firstly, different levels of internal or external focus exist in the perspectives. The organizational buying behavior literature and the industrial purchasing models emanating from this tradition clearly have a firm internal focus. In other words, the buying organisation's internal procedures and processes are emphasized. The interface to a firm's external issues is merely seen as an issue of an organisation's internal processes. On the other hand, strategic purchasing, including the supply chain approach, also has a firm external focus, as it concentrates on managing the chain of suppliers and customers effectively as a part of the company's strategy. However, the relationship and network view can be seen as have an even more external focus as it seen the management of resources available in the wider network as the key issue in purchasing.

Another factor in relation to which the three theoretical perspectives vary is the level of operational or strategic focus. Organizational buying behavior provides rather practically oriented models for purchasing practice. Thus, it has an operational focus. The strategic purchasing perspective can be seen as being more strategic in the sense that it also emphasizes strategic issues in purchasing. However, it also includes very practically oriented models, having thus to some extent an external focus as well. The relationship and network perspective, however, can be seen as being more strategic in the sense that it does not actively aim at providing operational models and normative guidelines for how the purchasing work is to be conducted.

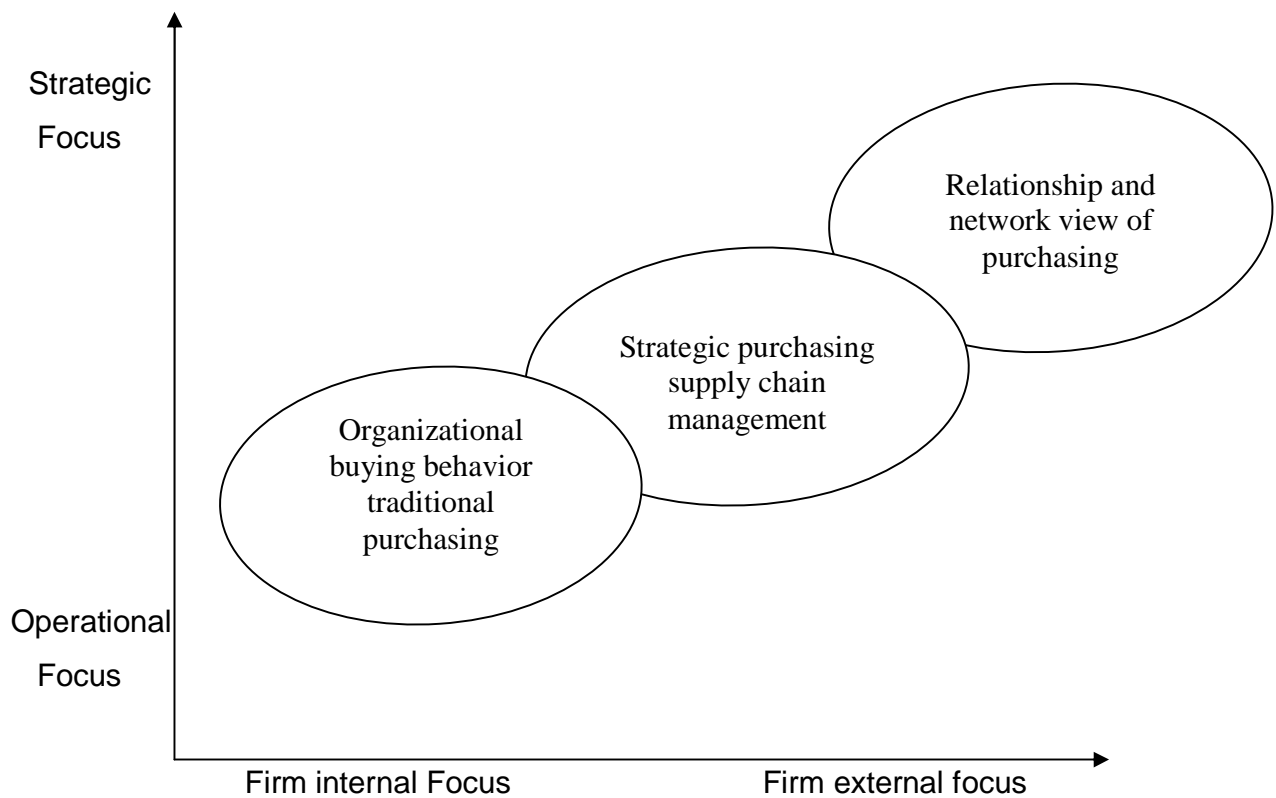


Figure 5.

Source :- Ahonen and Salmi 2003:28

Figure 5. Perspectives of industrial purchasing research applied in this research

In this research, the software component market is studied from the perspective of the industrial buyer. The analysis takes place on the level of both the market and the buyer company. The study takes into account both firm internal and firm external issues. Thus, in this study it is not sensible to merely.

Concentrate on employing one of the three perspectives, but rather, each of the three identified perspectives are needed. In elaborating the six market process elements in the following parts of the chapter, I was apply literature from each of the parts of the chapter, I was apply literature from each of the identified perspectives of purchasing research, the organizational buyer behavior, supply chain management as well as relationship and network perspective. The analysis of the differences of the perspectives presented above enables us to understand the way these perspectives can be applied in the same study as will be done in the following parts of this section.

In the following, the six elements of the market process that were identified in the previous chapter (Own need, industry demand, object of exchange, exchange mechanism, exchange counterpart and supply) are more thoroughly studied on the basis of the purchasing literature described above. The purpose is to give an industrial purchasing content to these elements and to find out how these elements have been dealt with in the industrial purchasing literature, or whether they have even been.

CHAPTER THREE

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

This chapter presents the empirical data gathered through questionnaires and interview from ETC in tabular form followed by its analysis and interpretation. The respondents were employees from local purchasing division, Finance and business control department, material management division, Foreign Purchase division and legal advisory and contract affair division workers.

Table 3.1 Total population and sample plan

No	Department Division	Total Population	Intended sample size	Actual sample size
1	Local Purchasing Division	15	8	6
2	Finance and business control division	35	23	16
3	Material Management division	22	16	12
4	Service Delivery Division	20	11	9
5	Legal Advisory and contract affairs	8	2	2
	Total	100	60	45

According to table 3.1: the respondents were selected using stratified random sampling. From the questionnaires distributed to each divisions, 6 questionnaires from the local purchasing division are filled out and returned. From the Finance and business control department 16 questionnaires are filled out and returned. From material management division 12 questionnaires are filled out and returned. From Service delivery division 9 questionnaires are filled out and returned. From legal advisory and contract affairs division 2 questionnaires are filled out and returned. Hence the response rate is 45. This results in a rate of return which is $45/60$ (75%)

For analysis purpose, the researcher presented the responses in all departments in the next table expressed through percentage with the corresponding interpretation of data in each table.

3.1 Data Presentation and Analysis Based on Employees Responses.

3.1.1 Background characteristics of respondents

The demographic characteristics of respondents in terms of their age, sex and educational background presented in the following table.

Table 3.2 Characteristics of the Sample Population

No	General Characteristics	From 5 department and division with sample population	
		No.	%
1	No. of Employees		
	Sex		
	Male	22	48
	Female	23	52
	Total	45	100
2	Age level (in Year)		
	30 to 35	16	35.5
	36 to 40	19	42.2
	41 to 45	8	17
	46 and above	2	4.4
	Total	45	100
3	Length of service (In Year)		
	5 to 10	21	46.6
	11 to 15	10	22.2
	16 to 20	6	13.3
	21 to 25	8	17.7
	26 and above	-	-
	Total	45	100
4	Educational background		
	Elementary	-	-
	12 complete	2	4.4
	Diploma	26	57.7
	First degree and above	17	37.7
	Total	45	100

According to the above table the respondents of the corporation are characterized by their sex, age level, length of service and educational back ground based on this out of the total 45 respondents 22 (48%) of them are males and 23(52%) of the other ones are females. This shows that in all department division the number of females exceed much from that of males.

Regarding the age distribution of the respondents out of the total 45 respondents 16 (35.5%) of them ranges their age from 30-35 years, 19(42.2%) of the other one ranges from 36-40 years old apart from this 8 (17%) of the respondents range from 41-45 years old at last but not least 2(4.4%) of them have an age range > 46 years. This shows that most of the workers of the corporations are in the age level between 30 to 35 this in its case implies that workers in all departments of ETC are long active to the corporation.

With concern to the service length or work experience of the respondents out of the total 45 respondents 21(46.6%) of them have 5-10 year work experience, 10 (22.2%) of the other one have the work experience 11-15 years, other 6(13.3%) of them also have a work experience 16-20 years apart from this 8(17.7%) of the other respondents have a work experience 21-25 years from this most of the employees of all department of the corporation have many years of experience and are relatively well qualified.

With regared to the educational background out of the total 45 respondents 2(4.4%) of 12 complete, 26(58.7%) of the other ones have and educational background diploma holders and the other remaining one 17(37.7%) of the respondents are 1st degree and above holders.. Most of the respondents pf the corporations are relatively well qualified.

3.1.2 Analysis on the attitude of employees toward purchasing activities.

Here in this section the researcher is trying to present and analyzes the attitude of employees toward local purchasing activities of the Corporation.

3.3 degree of formalization of policies and procedures of purchasing practice

No	Item	Purchasing Employees	
		No	%
1	As local purchasing personnel how is your awareness about the rules, policies and procedures related to the local purchasing practice of the ETC? It is		
	a. High	2	33.3
	b. Medium	3	50
	c. Low	1	16.7
	Total	6	100
2	Is the local purchasing division performing its activities based on the local purchasing rule, policies and procedures of ETC?		
	a. Yes	4	66.6
	b. No	2	33.4
	Total	6	100
3	What do you assume for the case your response is No?		
	a. Lack of skill	1	16.6
	b. By not applying of those rules, policies and procedures	3	50
	c. Nature of the purchasing system.	2	33.4
	Total	6	100

Regarding item 1 of table 33.3% and 50% of the employees in the local purchasing division have replied that their awareness about rules, policies and procedures that are related to the local purchasing practice of ETC is “high” and “Medium” respectively. This implies that all employees in the local purchasing division of the corporation do not have similar or common understanding about those rules, policies and procedures that are related to the corporation local purchasing activity.

As indicated in the table 66.6% of the employees in the local purchasing division answered that their division performing its activities based on the rules, policies and procedures of the corporation’s local purchasing activities, while the remaining 33.4% of replied that it does not. This implies that the corporation’s purchasing department is not performing its entire activities by following the rules, policies and procedures.

Therefore, the local purchasing division demand additional effort to enforce the implementation of rules and polices in performing its activities as required.

Among those who have said that the division is not performing its activities based on those rules, policies and procedures related to the local purchasing practice of ETC, three of them reasoned out the problem as being caused by the absence of these rules, polices and procedures in their division. One of them also added the response by reasoning that the problem is due to the characteristics of the job.

Thus, according to the reason mentioned by two of the respondents, the characteristic of the job does not allow them to implement the rules and policies. Therefore, it is possible to state that ETC is required to revise the way the activities are done in the local purchasing division and make adjustments.

Table 3.4 Buyers – seller Relation

No	Item	Purchasing Employees	
		No	%
1	Does the local purchasing division have the authority to deal about price, quality, and payment method etc of these goods and services directly?		
	a. Yes	4	66.6
	b. NO	2	33.4
	Total	6	100
2	The corporation find it goods and services suppliers through		
	a. Direct contract	-	-
	b. Open tender	6	100
	c. Intermediaries	-	-
	Total	6	100

From the above table it is possible to see that 66.6% of the employees in the local purchasing division replied that local purchasers have the authority to deal with about the price quality, payment method, etc. of the goods and services directly with suppliers. Where 33.3% of them answered that they do not have the authority to deal with.

Local purchasing division head replied during the interview that the division does not have the authority to deal with about the payment method, quality, price etc. of the goods and services directly with suppliers.

This shows that the purchasing department personnel's are not allowed to negotiate directly with suppliers about the payment method, quality, price, etc. of the goods and services purchased.

Regarding item 2 of table 3.4 100% of the employees of ETC answered that the enterprises finds its material suppliers through open tender. This shows that the enterprises uses open tender to find its potential and reliable vendors so as to meet its goods and services requirements.

In line with issue, head of the local purchasing division, added that since the enterprise involved in bulky purchase, it uses open tender to acquire its goods and services requirements. In the case of local purchase, the bids newspaper called bids; is used as a means to announce the tender. Whereas, the newspaper called; Addis Zemen; is as a means to find those potential and reliable vendors, but Performa is also used to get its potential as well as reliable sources for the enterprise. This shows that it uses different methods that enable the enterprise to get potential as well as reliable suppliers for its material requirements.

Table 3.5 coordination of local purchasing division with the user department and division

No	Item	local purchasing Employees		Finance and business control Employees		Material management Employees		Service delivery Employees		Legal advisory and contract affairs Employees	
		No.	%	No.	%	No.	%	No.	%	No.	%
1	Do you believe that administration and managerial activities of ETC are performed in such as way to facilitate its purchasing?										
	a. Yes	2	33.3	9	56.3	9	0.75	5	55.5	10	50
	b. No	4	66.6	7	43.7	3	0.25	4	44.4	1	50
	Total	6	100	16	100	12	100	9	100	11	100
2	Do you believe that purchasing division has an integrated relation with user department and division?										
	a. Yes	4	66.6	10	62.5	9	75	6	66.6	2	100
	b. No	2	33.4	6	37.5	3	25	3	33.4	-	100
	Total	6	100	16	100	12	100	9	100	2	100
3	What do you assume the case if your response is “No”?										
	a. Lack of skill on the side of the enterprise.	3	50	9	0.60	4	33.3	4	44.4	1	50
	b. Lack of coordination.	2	33.3	3	0.20	6	50	5	55.5	1	50
	c. Characteristics of the purchasing practice of ETC.	1	16.7	3	0.20	2	16.7	-	-	-	-
	Total	6	100	15	100	12	100	9	100	2	100

Item 3 :- The different division respondents have their own response on the stated question. So the response gathers for each of the department response.

Regarding item No. 1 of table 3.5 :- 33.3% of the employees in the purchasing division replied that the administration and managerial activities of the enterprises are performing in such a way to facilitate the activities of their department, while 66.6% of them answered that the administrative and managerial activities are not performing in such a way to facilitate the activity of their department.

As it is shown from item 2 of the same table among those who have said that administrative and managerial activities are not performing in such a way to facilitate the activities of the purchasing department lack of skill on the side of the supervisors, lack of coordination and characteristics of the jobs are a reasoned out as factors by all respondents in the purchasing division, hence, the enterprise shall look all these factors carefully and study to simplify the job method, which reduces employee's energy spent, and increase productivity.

Likewise 66.6% of the employees in the purchasing division answered that purchasing division has an integrated relationship with users department and division, 33.7% of them replied that the division does not have integrated relationship with users department, division pertaining to worker's response in the material management, 75% of them replied that local purchasing division has an integrated relationship with their department, division while the remaining 25% them answered that it doesn't.

This implies that even though 44.4% of the employees in the local purchasing division have said that there is an integrated relationship with user departments and division, their answers is proved to be somewhat contradictory by 50% of the workers response in the Service delivery division. This shows, even though all employees in the local purchasing division answered that they make materials available to the users department division as per their specification, their answers is proved to be unrealistic by 50% (3) of the workers in the Service delivery division. So the corporation has poor interdepartmental integration.

Table 3.6 Service Delivery interruptions

No	Item	Local purchasing Employees		Service Delivery Employees	
		No.	%	No.	%
1	Are there service delivery interruptions in the Corporation due to the activities of local purchasing divisions?				
	a. Yes	4	66.6	2	100
	b. No	2	34.4	-	-
	Total	6	100	2	100
2	Do you believe purchasing division has an integrated relation with user department, division?				
	a. Yes	4	100	4	100
	b. No	-	-	-	-
	Total	4	100	4	100
3	What do you assume the case if your response is “Yes”?				
	a. Local purchasing below the requirement	1	16.6	2	50
	b. Increase in consumption	-			
	c. Low quality of purchased materials, service	3	50	2	50
	d. Inability to buy materials on time	2	33.3	-	-
	Total	6	100	4	100

As shown in table 3.6 above 16.6% of the employees in the local purchasing division answered affirmatively by saying that there were items when service delivery division interruption takes place, because of the activities of their division, while the remaining 50% of them replied that there were no legal advisory and contract affairs division interruption due to the activities of local purchasing division. From viewing workers response in the service delivery division, 50% of them answered that there were times when service delivery division interrupts due to the activities of local purchasing division. This leads to say that there are times when production interruption occurs in the Corporation.

From the above finding one can clearly observe that most of the employees in both departments i.e 50% from local purchasing division and 50% from work admitted that interruption occurs due to the activities of the local purchasing division of the corporation.

Among those in local purchasing division who have said that there are times when work interruption occurs due to their performance, the cases were local purchase below the requirement; low quality of goods and services purchased and lack inability to buy material on time. As far as workers' response in the service delivery who has said that there were times when work interruption occurs, all of them reasoned out that the reasons where purchase made below the requirement, low quality of materials and service purchased and inability to buy materials on time.

This as the response given from both the local purchasing division and service delivery worker's interruptions are caused by low quality. Local purchase below required quality, and failure to purchase timely. Hence, it can be said the ETC required quality, and failure to purchase timely. Hence, it can be said the ETC requires improvement in this aspect.

Table 3.7 performance of the purchasing process

No	Item	Local purchasing Employees		Finance and business control Employees		Material management Employees		service delivery Employees		Legal advisory and contract affairs Employees	
		No.	%	No.	%	No.	%	No.	%	No.	%
1	Do the corporation a system to control the activities of the purchasing department?										
	a. Yes	6	100	10	62.5	8	66.6	6	66.6	2	100
	b. No	0	0	6	37.5	4	34.4	3	34.4	-	-
	Total	6	100	16	100	12	100	9	100	2	100
2	Is there any body in the Corporation that has the authority to inspect materials after they are bought according to the specification?										
	a. Yes	6	100	12	75	12	100	8	89	2	100
	b. No	-	-	4	25	-	-	1	11	-	-
	Total	6	100	16	100	12	100	9	100	2	100
3	Is the corporation making materials available (in quality and quantity) to user departments per their specification?										
	a. Yes	4	66.6	12	75	10	83.4	6	66.6	1	50
	b. No	2	34.4	4	25	2	16.6	3	34.4	1	50
	Total	6	100	16	100	12	100	9	100	2	100

Regarding Item number 1 Table 3.7 100% of the employees in the local purchasing division answered that the corporation has a system to control the activities of the local purchasing division.

In line with these issues, head of local purchasing division added that the corporation has internal Finance and business control department. As he said the internal material management division evaluates the activities of the local purchasing division at any time, as required, it may be daily, weekly, monthly, etc. Moreover an external audit(out side of the organization) also evaluates the corporation's performance once in a year. To facilitate this activity, as he replied, the department makes available all documents, which portray information from purchase requisition up of the acquisition to the requested materials. The corporation also do have its own ways of controlling mechanisms to the activities of the local purchasing division. But, some times raw material supplied by the suppliers, which do not fit to the sample given during purchase negotiation time because the factory does not have an agreement with suppliers to inspect raw material in the arrival time in addition to the first sample test.

From the finding 100% (6) of the employees in the purchasing department answered that the corporation has one body that has the authority to inspect material after they are purchased as per their specification. As per worker's response in the Finance and business control 75 % of them replied that the corporation has one body that has authority to inspect materials after they are their specification while 25% of them answered that it doesn't have. From open ended question No. 12 on the questionnaire given to the local purchasing division personnel and question No. 11 on the questionnaire given to workers in the production department, most of the respondents replied that after material are purchased there is a need for incoming inspection by quality control section. This shows that the corporation has its own method of controlling to ensure that whether these materials are purchased as per their specification or not.

From the data collected it is observed that, 66.6% of the employees in the local purchasing division answered that their department makes materials available to user department as per their specification. On the other hand 34.4% of them replied that it did no make materials available to them as per their specification.

CHAPTER FOUR

SUMMARY, CONCLUSION AND INTERPRETATIONS

4.1 SUMMARY

This research conducted an assessment of local purchasing practice in the case of ETC and the research procedure was stratified sampling.

The following are the major findings of the study:

- With regard to the age and educational level the study shows that 42.2% of employees are between 36-40 years old and 57.7% of them are diploma holders and 37.7% employees are degree holders.
- With regard to experience and sex composition of the employees, the study shows that 66.6 % of the respondents of employees of the corporation have greater than 15 years of experience and 20% of the sample size of the employees are male respectively.
- Concerning the local purchasing division 66.6% of employees replied that the corporation's local purchasing division is not performing its entire activities by following the rules policies and procedures.
- The corporation performs its purchase related activities through general manager and purchasing committee.
- Head of purchasing division replied that ETC usually purchase its materials from two sources: Local and foreign. About 86% of materials and services required are obtained from local vendors.
- The local purchasing division does not have the authority to deal about the payment method, price, and quality etc. of the materials directly with suppliers as replied by 66.6% of employees in the local purchasing division.

- Half of the employees in the purchasing division believe that administrative and managerial activities are not performed in such a way to facilitate their activities.
- With regard to material availability 34.4% of local purchasing division employees replied that local purchasing division doesn't make material available to user department and divisions as per their specifications.
- Concerning to time to service delivery interruption 66.6% of service delivery and 25% of material management employees replied that there is the time to production interruption because of the poor activities of local purchasing division.
- The corporations have a system to control the activities of the local purchasing division; the corporation has one body that has the authority to inspect materials after they are purchased as per their specification.
- Head of local purchasing division replied that some times materials supplied by the suppliers, which do not fit to the sample given during purchase negotiation time because the enterprise does not have an agreement with suppliers to inspect raw materials in the arrival time in addition to the first sample test.

4.2 Conclusions

- As it is mentioned in the statement of the problem, ETC has not yet well developed local purchasing activity. The stated problem almost coincides with the findings of the paper. The following conclusions are drawn.
- The local purchasing division of the corporation does not have similar or common understanding about those rules, policies and procedures.
- Local purchasing division is not performing its activities based on those rules, policies and procedures related to the purchasing practice.
- The local purchasing division does not emphasize to get material as right quality, right specification and right place and at the right time.
- The general manager and local purchasing committee has their own role in deciding as to what extent the purchase shall be made.
- The division does not have the authority to deal with about the payment method, quality, price etc of the material directly with suppliers which can be a dominant factor that affects the local purchasing practice of ETC
- It seems that the local purchasing division of ETC does not have enough coordination with user departments and divisions. In addition to this the purchasing division did not evaluate its purchasing practice.
- There were times when service delivery interruption occurred in ETC due to the activities of its local purchasing division.

4.3 Recommendations

The following points are recommended in relation to ETC's practices in particular and to improve the purchasing activity at a country level in general.

The corporation should minimize unclear specification and only low price orientation from its manual. But, to develop this issue with a clear and precise manual that is related to its purchasing practices and make its purchasing personnel's to be aware of manual developed to know and perform their own duties and responsibilities as they are expected to perform.

The local purchasing division should follow the stated policies, rules and procedures to perform its activities as required.

It is possible to state the ETC is required to revise the way the activities are done in the purchasing division and make adjustments. To scale up the knowledge of purchasing personnel's training is indispensable. The corporations, therefore, should arrange purchasing related training for purchasing employees at least in the work places in order to get higher productivity in combination with their educational qualification and experience.

To achieve the Corporation objectives, coordination among local purchasing division and user department and divisions in ETC should be integrated.

Since most of the problems on the quality of materials arise on materials, which are bought on the basis of the least price, the corporation should not purchase its materials requirements only on the basis of the least prices. Therefore, should allow purchasing personnel's to acquire the requested materials per user department and division's specification rather than acquiring them only on the basis of the least prices.

In addition to price to ensure the quality of materials and service the Corporation shouldn't conduct agreement with suppliers to supply materials only by first sample test. Sample inspection should also make in the arrival of materials in the Local purchase before they are used for production that whether the requested materials are purchased as per user department and division's specification or not.

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APPENDICES

St. Mary's University College Faculty of Business Department of Management

A questionnaire to be filled by relevant employees with the local purchasing practice

The purpose of this study is to collect relevant information concerning the local purchasing performance of Ethiopian Telecommunication Corporation. This study is to be conducted as a partial fulfillment for a Bachelor of Arts in Management

Getting relevant information has a decisive role for the completion of this study. Your honest information and genuine opinion will have contribution to the success of the research. Your response will be kept confidential and used solely for academic purpose.

- N.B
- No need of writing your name
 - Put "X" mark in the box that corresponds to your choice.
 - You can give more than one answer where marked "MR"
 - You are kindly requested to answer all questions

The researcher highly appreciates the dearest time you spend on filling this questionnaire.

Part I Personal Back ground

1. **Sex** Male
 Female
2. **Age** 18 - 24 25-31 32-38
 39-45 46-52 53-59

3. Educational Status

- | | |
|----------------------------------------------------------|---------------------------------------|
| <input type="checkbox"/> 2 nd degree or above | <input type="checkbox"/> First degree |
| <input type="checkbox"/> Diploma | <input type="checkbox"/> Certificate |
| <input type="checkbox"/> Others | |

4. Work Experience in the Corporation

- | | |
|-------------------------------|-------------------------------------|
| <input type="checkbox"/> 1-2 | <input type="checkbox"/> 3-4 |
| <input type="checkbox"/> 5-6 | <input type="checkbox"/> 7-8 |
| <input type="checkbox"/> 9-10 | <input type="checkbox"/> 11 & above |

Part II Purchasing practice

5. Do you have any contribution on the purchasing procedure of the company?

- | | |
|------------------------------|-----------------------------|
| <input type="checkbox"/> Yes | <input type="checkbox"/> No |
|------------------------------|-----------------------------|

6. If your answer for question No. 5 is “Yes”, what is your contribution?

.....
.....

7. Is the purchasing performance of the local purchase is well performed?

- | | |
|-----------------------------------------------------|--------------------------------------------|
| <input type="checkbox"/> Strongly agree | <input type="checkbox"/> Disagree |
| <input type="checkbox"/> Agree | <input type="checkbox"/> Strongly disagree |
| <input type="checkbox"/> Neither agree nor disagree | |

8. What are the pre-conditions to purchase one product? (MR)

- | | |
|--------------------------------------------------|--------------------------------|
| <input type="checkbox"/> Quality | <input type="checkbox"/> Price |
| <input type="checkbox"/> Performance of supplier | <input type="checkbox"/> other |

9. What are the measurements in selecting suppliers? (MR)

- Efficiency Securing optimal quality
 Stable supply of parts and materials Leading technology

10. What is level of comparative process of the suppliers in local purchasing process of the corporation?

- very high High Medium
 low Very low

11. What do you think the role of purchasing system of the organization in its general performance?

- Very high High Medium low very low

12. How often you face material delay after your order?

- Very Often Often Sometimes Rarely
 Very rarely

13. If Your answer for question No. 12 is “very often or often”, what do you think is/are the reason(s)? (MR)

- Because of lengthy procurement procedure
 Because of suppliers performance
 Because of the ETC staffs performance
 Because of low price oriented

14. Where do you rate the local purchasing performance of the corporation based on the following parameters.

Indicators of purchasing practice	Very high	High	Medium	Low	Very low
Dalliance effectiveness					
Quality of goods					
Reliability of purchased goods/services					
Purchasing of right goods with fair price					
Maintainability of purchased goods					

15. Where do you rate the quality of the goods purchased by the local purchasing division in most of the time?

- Very high Medium
 High Low Very low

16. If your answer for question No. 15 is “low or very low”, what do you think is/are the main reason(s)? (MR)

- Lack of clear specification
 The purchasing committee focuses only on the lower price
 The same specification bring with different brand and quality with different price, so it is difficult to select best quality.
 Ethical problem of the purchasing committee.
 If others, Specify

17. What are the main short comes of local purchasing? (MR)

- | | |
|------------------------------------------------------|--------------------------------------------------|
| <input type="checkbox"/> Dalliance goods and service | <input type="checkbox"/> Poor quality of product |
| <input type="checkbox"/> Poor supplying performance | <input type="checkbox"/> poor price oriented |

18. What should be done to improve the quality of goods to be purchased? (MR)

- Specify the required quality on request for quotation and select quality product/service whatever its price is.
- Specify the required quality on request for quotation and select quality product or service with reasonable price
- Compare the quality of the offers and their relative price and select the one with goods quality and fair price.

If others, please state

.....

.....

.....

19. Is there any evaluation method for the purchasing practice of the Corporation?

- Yes No

20. If your answer for question No. 19 is “Yes”, what is this method?

.....

.....

.....

Declaration

I the undesired declare that this senior essay/project is my original work prepared under the guidance of Ato Terefe Feyera. All source of materials used for the manuscript haven been delay Acknowledged.

Name Zelekash Tamene

Signature _____

Place of submission Faculty of Business
Department of Management
Addis Ababa

Date of Submission 22/06/2010

Submission Approval Sheet

This senior research paper has been submitted to the Department of management in partial fulfillment for the requirements of B.A Degree in management with my approval as and advisor.

Name _____

Signature _____

Date of Submission _____