

*Purchasing Practices and Its Challenges in the Case of Bahir
Dar Textile Share Company (Btsc)*

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Abstract: The study was conducted to assess purchasing practices and its challenges in the case of bahirdar textile share company. A descriptive study was employed to achieve the objective of this research. The purchasing manager of the company and 70 respondents from seven user department were involved in the study. To collect data questionnaire and interview were used. The researcher employed a purposive sampling technique with proportional allocation method for determined the number of sampling units. The data collected through questionnaire were analyzed using percentage value and the qualitative data were analyzed using written explanation. The conclusion indicate that purchasing unit of the company is unsatisfactory in purchase of items in terms of the five principles of purchasing, there is Lengthy purchasing process and bureaucratic red tape, there is no standard criteria used to select right supplier, there is lack of purchasing experts and professionals in the company. The researchers hereby recommended that assign professional and qualified experts for purchasing, create awareness for purchasing staff to purchase based on the five principles purchasing, develop formal and standard supplier evaluation and selection criteria and replace the manual purchasing practice through electronic purchasing to give fast decision.

Keywords: Purchasing, purchasing Practice, purchasing challenges, supplier, Bahirdar Textile Share Company.

I. INTRODUCTION

In current business environment, rapid changes and new avenue on cost control is crucial in order to strive through global competition. Competitive advantage in contemporary market flux does not depend solely on firms' competence in providing competitive ranges of offerings. Conversely, it draws on firms' skill to establish superior purchasing strategies in complex inter-organisational setting of numerous suppliers. (Giunipero, 2005).

According to Lu (2011) Purchasing is a means of obtaining materials or services of the right quality in the right quantity from right source delivery them to the right place at the right price.

According to Juha (2008) Purchasing commits large proportions of organizations' incomes: on average 60 percent of organizations' sales income is invested in material acquisitions. It obtains considerable amount of attention in current uncertainty business environment as key value adding function to support and sustain firm's successful performance. As a result, it is important to adopt the purchasing function into organization business strategy as every business striving hard to reduce its cost of delivering most unique products and services to their customers and at meantime to protect the interest of stake holders.

Allocation of large budget by itself is not sufficient to achieve the stated objectives of every organization. It requires proper management of resources. Thus, as other functions of organization, purchasing activities require proper purchasing

procedures, policies, accountability and transparency to achieve the stated strategies and objectives. Thus, this study tried to assess the purchasing practices and its challenges in the case of Bahirdar textile Share Company.

II. STATEMENT OF THE PROBLEM

Most organizations give less attention on the contribution of purchasing which traditionally viewed as clerical stuff (Giunipero, 2005). Failures in recognizing the importance of purchasing activities are caused by an organization's unable to integrate the purchasing function with its operational functions. In these cases organizations are faced with the danger of output disruptions, loss of income, and negative effects on competitiveness. Other sources of risks are related to the importance of the product or service, the time and financial costs involved and difficulties in measuring quality, lack of objective evaluation criteria, and low purchase experience (Juha, 2008).

During the preliminary investigation, the researcher observed various problems and perceived different complains by the staff members of the company due to less quality, delayed and stock out items. To fill the above mentioned gaps the researcher motivates to assess the purchasing practices and its challenges in bahirdar textile Share Company.

III. RESEARCH QUESTIONS

1. What are the major challenges related with purchasing practices in the company?
2. What are the purchasing methods and process practiced in company?
3. What are the evaluation criteria's used to select right suppliers in company?
4. How the five rights of purchasing are practiced in company?

IV. OBJECTIVE OF THE STUDY

General objective: To assess the purchasing practices and its challenges in case of bahirdar textile Share Company.

Specific objectives:

1. Examine how purchasing process practiced in the company
2. Evaluate how the five rights of purchasing practiced in company
3. Identify the criteria used to select right suppliers in the company.
4. Identify the major challenges and forwarding possible solutions

V. DELIMITATIONS OF THE STUDY

This paper delimited to the current purchasing practices of bahirdar textile Share Company due to these finical and time and other constraints.

VI. LIMITATIONS OF THE STUDY

Due to absence of domestic professional journals in the area of purchasing management and practices, the researcher has been forced to rely on foreign books; unpublished papers and few journals.

VII. RESEARCH DESIGN AND METHODOLOGY

Data sources

In order to get all necessary information both primary and secondary source of data were used.

Research approach

Since, the aim of this study is to assess the purchasing practices and its challenges in BTSC, mixed research approach were employed. This study was used descriptive research method. Because, using this method the researcher enables to assess the purchasing practices and identify the major problems with regard to the purchasing practices in BTSC.

Population size

Target population of this study were included 350 permanent and on-duty staffs of BTSC who are working in purchasing, production, marketing, finance, warehouse, maintenance and human resource departments.

Sample size and Sampling techniques

According to Tayie (2005) and Dornyei (2007) the size of the sample required for a study depends on at least one or more of the following points: study type, study purpose, study complexity, amount of error willing to be tolerated, time constraints, financial constraints, previous research in the area, stress, administrative support, the number of researcher, the size of the population and the amount of heterogeneity in the population. By considering the above literature, in this study 20 percent from the total target population were taken as research participants. Thus from 350 target population of the company 70 of them were taken as a sample size. The researcher divided the population based on their function in to seven departments and employed purposive sampling technique with proportional allocation method for determined the number of sampling units to select from each of the available departments.

Instruments and Procedure of Data Collection

To collect primary and secondary data, the researcher was used interviews and questionnaires.

Interviews: interview questions were prepared to gather primary data. Face-to-face Communications were made with purchasing manager and with production manager.

Questionnaires: Open-ended and close-ended questions were prepared and distributed to seventy employees.

Methods of Data Analysis

The data collected from the respondents were analysed using statistical package for social science (SPSS 20) software program. The data collected from respondents were code and analyzed through statistical package for social science (SPSS 20) software program. The results were presented by use of percentage, frequency and tables. Qualitative method was also utilized in a narrative manner to analyze the opinions, observations, feelings and attitudes of the respondents to support and interpreting the quantitative data.

VIII. RESULT AND DISCUSSION

Total 70 questionnaires were distributed to the respondents and 90% of questioners were collected.

Reliability Test

For this study Cronbach's Alpha was used for testing the reliability of the questionnaire responses. The critical point for Cronbach's Alpha is 0.7

Table 1 Evaluate matching of the purchased item with purchase request

Item 1: Are there instances that the item(s) purchased which is/are different from your requisition?		
Response	Respondents	
	Frequency	%
Yes	56	80.0
No	14	20.0
Total	70	100.0

Item 2: if your response for item 8 is" yes" what would be the reason(s)?		
Un clear specification of items on the purchase request	6	8.6
purchasers lack of knowledge to identify the item	60	85.7
Suppliers don't have the item	4	5.7
Total	70	100

As table 1 shows that, 80.0% of respondents were reported that there are/is instances that the item(s) purchased are/is different from their requisition. As can be seen on Table 1 respondents were also asked the reason that item(s) purchased different from requested. Majority (85.7) respondents reported that due to purchasers' lack of knowledge to identify the item.

Table 2 Respondents' replay on right quality purchase

Item 3: Does purchasing units make right quality purchases?		
Response	Respondents	
	Frequency	Percentage
Always	-	-
Most of the time	7	10.0
Rarely	55	78.6
Never	8	11.4
Don't know	-	-
Total	70	100.0

As table 2 shows that majority (78.6%) of the respondents replied that purchasing unit is rarely making the right quality purchase. According to the interviewee users are frequently complained formally and informally due to purchase of low quality items. Thus, this data shows that majority of users maltreats are dissatisfied due to low quality of purchased items.

Table 3 Respondents' replay on right quantity purchase

Item 3: Does purchasing units make right quality purchases?		
Response	Respondents	
	Frequency	Percentage
Always	-	-
Most of the time	7	10.0
Rarely	55	78.6
Never	8	11.4
Don't know	-	-
Total	70	100.0

As table 3 shows that majority of the respondents (50.0%) of respondents replied that purchasing unit is most of time making the right quantity purchase. On the other hand, significant number (28.6%) of respondents reported that purchasing unit is never making the right quantity purchase. Thus, it is possible to say that majority of users are satisfied with the quantity of purchased items though significant number of users are dissatisfied.

Table 4 Respondents' replay on right sourcing

Item 5: Does purchasing unit make purchases from the right source?		
Responses	Respondents	
	Frequency	Percentage
Always	-	-
Most of the time	1	1.4
Rarely	15	21.4
Never	53	75.7
Don't know	1	1.4
Total	70	100.0

As table 4 shows that majority (75.7%) of respondents replied that purchasing unit is never purchase from right sources. Thus, majority of users are dissatisfied with the source of supply.

Table 5 Respondents reply for the right price

Item 6: Does purchasing unit make purchases for the right price?		
Responses	Respondents	
	Frequency	Percentage
Always	-	-
Most of the time	3	4.3
Rarely	49	70
Never	15	21.4
Don't know	3	4.3
Total	70	100.0

As table 5 shows that most of the respondents (70.0%) of respondents reported that the purchasing unit is rarely purchase at the right price. whereas 21.4% of respondents reported that purchasing unit is never purchase at the right price. On the other hand, 4.3% of respondents reported that purchasing unit is most of time make purchase at the right price and 4.3% of respondents reported that don't know.

Table 6 Respondents reply on whether purchases are delivered at the right time

Item 7: Does purchasing unit deliver items at the right time?		
Responses	Respondents	
	Frequency	Percentage
Always	-	-
Most of the time	2	2.9
Rarely	11	15.7
Never	56	80.0
Don't know	1	1.4
Total	70	100.0

As table 6 shows that majority (80.0%) of respondents replied that the purchasing unit is never deliver at the right time the requested item(s). According to the data obtained from interviewee, most of time, ordered items are not deliver at the right time due to suppliers failed their own contracts. Therefore, based on this analyzed data, delivery of items at the right time by the purchasing unit is not satisfactory.

Table 7 Respondents' opinion on areas that purchasing doing well

Item 8: In which area do you think that the purchasing function doing well?		
Responses	Respondents	
	Frequency	Percentage
Right quality	10	14.3
Right quantity	25	35.7
Right price	-	-
Right source	8	11.4
Right time	2	2.9
None of them	25	35.7
Total	70	100.0

Table 7 shows that 35.7% of respondents replied that right quantity is doing well by the purchasing unit. On the other hand, 35.7% of respondents replied that none of them doing well. The rest respondents (14.3%) replied that on right quality, 11.4% of respondents replied that on right source and 2.9% of respondents replied that on right time. This shows that comparatively purchase unit may be doing well sometimes regarding in quantity than other areas.

Table 8 Respondents opinion on areas that purchasing doing badly

Item 9: In which area do you think that the purchasing function doing badly?		
Responses	Respondents	
	Frequency	Percentage
Right quality	8	11.4
Right quantity	2	2.9

Right price	5	7.1
Right source	5	7.1
Right time	22	31.4
In all areas	28	40.0
Total	70	100.0

Table 8 shows that the respondents replied that purchasing performance as badly in all areas 40.0%, right time 31.4%, right quality 11.4%, right price 7.1%, Right source 7.1% and right quantity 2.9%. Thus, the report shows that even if the problem of right time and right quality requires critical attention, there are problems in all areas.

Table 9 Examine purchase of requested items

Item 10: is there instance that the item(s) you have requested never purchased at all?		
Responses	Respondents	
	Frequency	Percentage
Yes	58	82.9
No	12	17.1
Total	70	100.0

The table above shows that majority (82.9%) of the respondents reported that the item requested were never purchased at all. According to the data obtained from open-ended items, some of the reasons for requested items never purchased are due to lack of well trained and experienced purchasing unit. Therefore, this indicates that, there are problems in acquiring of requested items in the company.

Table 10 Respondents' replay on the length of time to receive the requested item

Item 11: Do you think it takes too long to receive the items you requested?		
Responses	Respondents	
	Frequency	%
Yes	65	93
No	5	7
Total	70	100.0
Item 12: If your answer for item 11 is "yes", what do you think the reason should be?		
Lengthy purchasing process	35	50
Bureaucratic red tape	25	36
Work load on the purchasing staff	-	-
Lack of skill and experience by the purchasing staff	8	11
Lack of motivation	2	3
Suppliers problem	-	-
Budget problem	-	-
Others	-	-
Total	70	100.0

As table 10 shows that the majority (93%) respondents replied that the time from request up to receiving of the item is too long. Thus, this shows that there is poor performance of purchasing units in BTSC. As can be seen on Table 10 respondents were also asked the reason why it takes long time to receipt the request item. Most of respondents (50%) replied that lengthy purchasing process. Whereas (36%) of the respondents replied that due to Bureaucratic red tape. Thus, it is possible to say that lengthy purchasing process and bureaucratic red tape are the major reasons for delay of the requested item.

Methods of purchasing involved in BTSC

According the interviewees, the company mostly uses open bidding, Request for quotation and Restricted for quotation.

IX. CONCLUSION AND RECOMMENDATIONS

Conclusion

- Purchasing staff of BTFS are efficient in purchase requisition processing.
- Most of time requested items never purchased, due to lack of well trained and experienced purchasing unit

- There is purchase of mismatch item(s) in the company due to purchasers' lack of knowledge to identify the requested item
- The purchasing unit of the company is unsatisfactory in purchase of items in terms of the five principles of purchasing
- Lengthy purchasing process and bureaucratic red tape are the major reasons for delay of the requested item.
- There are no standards and criteria used to select right supplier, suppliers are selected only based on their technical capabilities and lowest price criteria.

Recommendations

- Assign professional and qualified experts for purchasing to minimize the poor purchasing practices.
- Create awareness for purchasing staff to purchase based on the five principles purchasing (right quality, right quantity, right price, right time and right supplier) than the least price criteria.
- Develop formal and standard supplier evaluation and selection criteria
- Avoid the bureaucratic red tape of purchasing through training or other mechanisms.
- Replace the manual purchasing practice by electronic purchasing to give fast decision.

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