

ST. MARY'S UNIVERSITY COLLEGE
BUSINESS FACULTY
DEPARTMENT OF MANAGEMENT

AN ASSESSMENT OF LOCAL PURCHASING PRACTICE
AND ITS PROCEDURE AT ETHIOPIAN
TELECOMMUNICATIONS CORPORATION

BY
HELEN DEGEFA

JUNE 2010
SMUC
ADDIS ABABA

AN ASSESSMENT OF LOCAL PURCHASING PRACTICE
AND ITS PROCEDURE AT ETHIOPIAN
TELECOMMUNICATIONS CORPORATION

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CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Purchasing is one of the basic function common to all types of Business enterprise. It is impossible to the organization to achieve its full potential without a successful purchasing activity. (Dobler, 1996:20) An organization needs inputs of goods and services from external supplies or provides to reform their various functions. One method of acquiring these goods and services is by purchasing them (Starling, 2004:23).

The overall objective of purchasing is understood as buying materials of the right quality, in the right quantity, at the right time, at the right price and from right source. This objective indicates broadly the scope of purchasing function which also involves policy decisions and analysis of various alternative possibilities (such as make- or- buy or evaluating alternative vendors) before the act of purchase (Bhat, 2003:646).

Be it either a small-scale industry, Medium-scale one or a large scale industry purchasing is though to be one of the most important functions.

1.2 Background of the organization

Ethiopian Telecommunications Corporation (ETC) was established as an autonomous legal entity by proclamation NO-131 in 1945 E.C. and was known as the imperials Board of Telecommunications of Ethiopia Nearly as far four and half decodes of operation it was reestablished with anew vision and registered as a sole Telecom operator public enterprise by

proclamation NO.25184 and council of Ministers Regulation NO.10189.

In its long history corporations has contributed considerably in satisfying the societal and economic needs for telecom services of the Nation the development of the telecom technology from the simple open wire telephony era to the Complex digital era and the increased need of society and the economy for faster and reliable telecom and digital information / data exchange services necessitated corporations to improve its service delivery. Accordingly, to cope up with the fast growing global technology and to cater for the ever increasing needs of the society and the economy, the corporations embarked up on an extensive corporate reform programs that have far reaching implications on the corporation's capacity to roll-out various telecom services with speed, efficiency and quality and there by ensure its survival through sustainable income generation.

Vision

- ETC envisions information based Ethiopian Society where all our people have access to
- Information infrastructure on equitable basis
- ETC shall be an internationally recognized, agile, strong and vibrant world – class ICT
- Infrastructure and services provider

Mission

- Provide world – class telecommunication services including basic telephony, mobile and internet and multimedia services.
- Provide training, education and research in the field of ICT.

Motto

- Connecting Ethiopia to the future! (Hello millennium, 2008:19)

1.3 Statement of the problem

Since Ethiopian Telecommunication Corporation is profit making organization, it is crucial to give attention to the purchasing activity, because purchasing plays a very important role to organizations profitability. There is a large division of purchasing in the organization, this implies that the organization is giving due consideration for its purchasing practice. However, there are different problems with the overall practice and procedures. For instances, there are cases where organizations carry out purchase without uniform policies that result in several rush orders and also result in an interruption of the operation of the business. And also if the need to material is not addressed to the desired level it can affect harmonious relationship with other departments. If it doesn't ensure the quality of purchased material it may difficult to have smooth operation. These kinds of problems holds true for all business enterprises. For this reason this problems are also common to ETC.

1.4. Basic Research Questions

1. What does purchasing practice of the corporation look like?
2. Is harmonious relation ship with other departments maintained?
3. Does the purchasing practice ensure supply of material of right quality and quantity at the right price in the right time from right source?
4. Is local need addressed to the desired level?

5. What does the purchasing policy of the corporation look like?

1.5. Objectives of study

1.5.1 General Objective

The main objective of this research is to assess the overall practice of the local purchasing division of the corporations. So as to suggest on how it should be run in order to help the organization to achieve its goal.

1.5.2 Specific Objectives

In line with the general objective there are also specific objectives.

These are:-

- To assess what the purchasing practice of corporations is look like.
- To assess if harmonious relation with other departments is maintained.
- To assess whether the purchasing parameters are ensured.
- To assess if the need is addressed to the desired level.

1.6. Significance of the study

Purchasing is one of the basic functions of the organization. It is impossible to use a company's full potential with out successful purchasing practice and it is also difficult to achieve organizational goal. This study may let the organization to know its weakness and strength in its purchasing practices. By knowing this it may lead to minimize its cost and maximize its profit. The student researcher can also be able to know more about research and be expert in the field of this study. And also this study may invite other researcher to investigate more about this issue.

1.7. Delimitation of the study

The study is delimited to the local purchasing division and other user departments at the head office. The study focused on the current status of ETC in the field of the study.

1.8. Research Design and Methodology

1.8.1 Research Design

In this study the researcher used descriptive type of research. Descriptive research design is chosen because the research involves answering question like what, who, where and how.

1.8.2 Population and Sampling techniques

At the head office there are 450 employees which are relevant to the study. Out of the total population 20% is selected as a sample element. In this study the researcher used stratified sampling method to choose the number of respondents. The sampling unit of the study was including purchasing division and different users departments. A stratified sampling is preferred because it enables the researcher to select the sample members from each stratum randomly. The researcher select respondents from procurement departments on purpose who are relevant to study. The selected sample size of the research from different stratum is given below.

Department	Population Size	Sample size
Procurement Department	30	$30/450 \times 90=6$
Human Resource Department	60	$60/450 \times 90= 12$
Internal Support Department	320	$320/450 \times 90= 54$
Legal Department	30	$30/450 \times 90= 6$
Information system department	90	$90/450 \times 90= 18$
Total	450	96

(Source: Secondary Data)

1.8.3 Types of Data used

For this research both primary and secondary data is used. The primary data was collect from staff of the organization and the secondary data is collected from available documents (policy manual, procedure manual) from the organization.

1.8.4 Method of Data Collection

The student researcher used questionnaires and interview as a primary data. Secondary data were collected by reading documents like policy and procedure manual.

1.8.5 Methods of data analysis

The collected data through questionnaires is analyzed by frequency counts and in the form of percentage and also using tables and the interview was analyzed by using qualitative method.

1.9. Limitation of the Study

In conducting this study the researcher faced the following limitations:

- Financial and time shortage
- The researcher limited knowledge about research

1.10 Organization of the study

The paper has four chapters. The first chapter briefly outlined the introduction part, which mainly contains background, statement of the problem, objectives, Researcher Questions, Significance Delimitation, research methodology, limitation of the study and organization of the study. The second chapter is review of related literature. The third chapter is concerned about data presentation

and analysis and the last chapter is containing summary of findings, conclusions and recommendations.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1. Definition

Purchasing refers to the function of procuring of materials, supplies, machines, equipments, tools, spare parts and services required for meeting the needs of production department and maintenance department (Bhat, 2003: 461). Bhat also define purchasing in its broad & narrow sense.

In its narrow sense, 'purchasing' refers to merely to the act of buying an item at a price. In a broader sense, purchasing is a managerial activity involving planning and policy formulation, research & development strategies required for the proper selection of materials and sources of supply, negotiating with supplies for best price terms, placing purchasing orders, follow up to ensure timely delivery, inwards inspection, stores and accounting (bills payable section).

In line with the above definition Dobler describe purchasing in the following manner:

The purchasing function comprises the essential activities associated with the acquisition of the materials, services, and equipment used in the operation of an organization. The major activities are

1. Coordination with user departments to identify purchase needs
2. Discussion with sales representatives
3. Identification of 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 contracts and resolution of related problems
10. Maintenance of a variety of purchasing records.

2.2. Roles of purchasing

The roles of purchasing in business can be viewed in three different ways:-

- i. Purchasing as a function of business
- ii. Purchasing materials as elements required for productive work.
- iii. Purchasing as the manager for outside manufacturing

i. Purchasing as a function of business

Purchasing is one of the basic functions common to all types of business enterprise. These functions common to all types of business can operate without them. All business is managed by coordinating and integrating these six functions:

1. **Creation** – the idea or design function, usually based on research
2. **Finance** – the capital acquisition and Financial planning and control function
3. **Personnel** – the human resources and labor relations function
4. **Purchasing** – the acquisition of materials into economic goods and services
5. **Conversion** – the transformation of materials into economic goods and service
6. **Distribution** – the marketing and selling of goods and services produced.

There fore, this implies that purchasing is a basic and integral part of business management.

ii. Purchased materials as Elements required for productive work

The basic goal of any industrial activity is the development and manufacture of products that can be marketed at a profit. This goal is accomplished by the appropriate blending of what management authorities historically have called the five M'S machines, manpower, materials, money, and management. Materials are the life blood of industry. Materials of the appropriate quality must be available at the right time, in the proper quantity, at the needed location, and at an acceptable total cost. Failure to fulfill any of these responsibilities concerning materials adds to company costs and decrease company profit just as surely as do outmoded production methods, inefficient personnel, and ineffective marketing activities.

iii. Purchasing as the manager for outside Manufacturing

The materials that go into a typical company's product can originate from either of two sources. The company's production department is the first source: this department converts raw materials into processed parts. The company's purchasing department is the second source. This department not only purchases raw materials, which the production department converts into processed parts, but also purchases finished parts and components. The parts made by the production department are combined in assembly with the items bought by the purchasing department to make the company's final product (Dobler 1998:19-23).

2.3. Objectives of Purchasing

The objectives of purchasing can be viewed from three levels:-

1. a very general managerial level
2. a more specific functional or operational level
3. a detailed level at which precise strategic buying plans are formulated (Dobler, 1996:41).

The general objective of purchasing is to obtain the right quality of material from the right supplier, in the right quantity, at the right time and at the right price.

From the specific operational level objectives of purchasing are:

1. To support company operations with an uninterrupted flow of materials and services. 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.
2. To buy competitively. It involves keeping a breast of the forces of supply and demand that require prices and availability of materials in the market place. And also an understanding of a supplier's cost structure, and then to negotiate price and service arrangements that are fair relative to the supplier's actual costs.
3. To buy wisely. It involves a continual search for better values that yield the best combination of quality, service and price, relative to the buyer's needs. This frequently involves coordination with users in defining the need. Also involve coordinating and reconciling user's needs with suppliers' capabilities.
4. To keep inventory investment and inventory losses at a practical minimum. To achieve a reasonable balance between

the levels of inventory required to support operations and the cost of carrying the inventory.

5. To develop effective and reliable source of supply. The identification, investigation, selection, and, and in some cases development of component and responsive suppliers is a buyer's paramount responsibility.
6. To develop good relationships with the supplier community and good continuing relationships with active suppliers. Good relationships with suppliers are imperative, and good relationships with potential suppliers are invaluable. Potential suppliers are much more interested and eager to acquire a firm's business if the buying firm is likely to be a good customer.
7. To achieve maximum integration with the other departments 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 materials support actions. While these actions vary from firm to firm, they are normally required the purchasing and supply operation to support a using department in its major responsibilities. The most common types of support involves actions such as developing materials standardize programs, forecasting future prices and general business conditions, performing economic make - or - buy analyses, and serving as a repository of information and data from suppliers regarding new materials, processes, prices and materials, processes, prices and materials availability.

8. To handle the purchasing and supply management function proactively in a professional, cost-effective manner (Dobler, 1996:42-44).

2.4. Purchasing Policy

A policy is a statement that describes in very general terms an intended course of action (Dobler, 1996:45). Purchasing policy is largely determined by the finances available, but every organization has its own policy, whether they are put into writing or not.

A written policy ensures that decisions and actions will be consistent and such an approved policy statement gives authority to purchasing people. Policy must be stated clearly and in unambiguous terms so that it can be easily understood by all.

There should be clear policy regarding to supply sources whether preference should be given to local suppliers. Policy of maintaining multi-source is almost universal since this overcomes the difficulty in case a particular supplier fails (Datta, 2003:58).

Purchasing policies define the basic decisions of top management as they relate to buying actions, whether first time or repetitive. In most companies, the following areas are covered by policy statements:

- i. A definition of authority and responsibility for purchasing
- ii. Relationship with vendors /suppliers.
- iii. Treatment of sales representatives of vendors/ Supplier firms
- iv. Proper handling of competitive bidding
- v. Proper handling of vendor technical service and design work.
- vi. Reciprocity

- vii. Employee Purchases
- viii. Ethical practices in purchasing.

Further the purchasing function is influenced by certain policies. These policies refer to: (a) make or buy decision, (b) ancillarisation, (c) Speculative buying, (d) vendor rating, (e) purchasing ethics, (f) reciprocity , (g) purchasing for employees, (h) gifts and (i) value analysis (Bhat, 2003:473).

Purchasing Manuals

Purchasing manuals are designed to avoid conflicts between departments, to clarify responsibility, and to provide consistent instructions covering the regular activities of the purchasing department. Two types of purchasing manuals are: (i) The policy manual and (ii) the procedures manual. These manuals may be issued separately or together.

- i. Policy manual:-** is a written statement of the company's general purchasing policies for use by all concerned, both inside and outside the company. Copies of the purchasing policy manuals may be made available to the vendors.
- ii. Procedure manual:-** is a detailed precise statement of the intra – company procedural responsibilities. This helps to ensure that all repetitive actions carried out in the purchasing department will be performed in a consistently efficient manner.

2.5. Purchasing Procedure

Procedure means the manner through which a purchase proposal is carried into effect (Datta, 2003:58).

A procedure outlines in detail the specific actions to be taken to accomplish a given task, within the guidelines of any applicable policies (Dobler, 1996:62).

General Procurement Procedures

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

1. Recognition, Definition, Description and Transmission of need

The need for a purchase typically originates in one of a firm's operating departments or in its inventory control section. The purchasing department is usually notified of the need by one of two basic methods: (1) a standard purchase requisition or (2) a material requirements planning (MRP) schedule. If the need is a one time purchase then an engineering bill of materials is sometimes used (Dobler, 1996:64).

- ❖ **Standard Purchase Requisition:-** The purchase requisition is an internal document, in contrast with the purchase order which is basically an external document. Most companies use a standard, serially numbered purchase requisition form for requests originating in the operating departments. The user generally makes a minimum of two copies one copy is sent to purchasing; the other is retained in the using file. Some companies use as many as nine copies of requisition for communication with other interested departments. Purchase requisition formats vary widely

because each company designs its format to simplify its own particular communication problems. The essential information which every requisition should contain includes a description of the materials, quantity, and date required, estimated unit cost, operating account to be charged, the date and an authorized signature. (Dobler, 1996:64)

- ❖ **Material Requirement planning schedule:** - when a design engineer completes the design of a part or an assembly, he or she makes a list of all the materials (and quantity of each) required to manufacture the item. This is called an engineering bill of materials. In firms using computerized production and inventory planning systems, such as an MRP system, the engineering bill of materials is first reconfigured into a structured multi level bill of materials. This structured bill of materials each item being manufactured can then be used in determining specific materials requirements for a given production schedule during a specific time period.

2. Definition and Description of the need

Regardless of the form of transmission used, material requirements must be defined effectively, and the most appropriate methods of description should be selected for the situation at hand. The point to be understood here is that clear, complete, appropriate definition and description is a joint responsibility of the user and the buyer. One of the reasons why every purchase authorization document should be approved by designated departmental supervisors is to ensure that it is initially reviewed by qualified

individuals and subsequently comes to purchasing in correct form (Dobler 1996:66).

3. Supplier Selection and Preparation of the purchase order

❖ Supplier selection

As soon as a need has been established and precisely described, the buyer begins an investigation of the market to identify potential sources of supply. In the case of routine items for which supplier relationships have already been developed, little additional investigation may be required to select a good source. The purchase of a new or a high-value item, on the other hand, may require a lengthy investigation of potential Suppliers.

If the item to be purchased is complex or highly technical, the firm may utilize a cross-functional sourcing team, first to qualify potential suppliers and perhaps eventually to make a team decision about the most desirable supplier. After qualifying a preliminary group of potential source, the buyer may employ the techniques of competitive bidding or negotiation (Dobler 1996:66).

❖ Preparation of the purchase order

Once a supplier has been selected, the purchasing department prepares and issues a serially numbered purchase order. In most cases the purchase order becomes a legal contract document. For this reason, the buyer should take great care in preparing and wording the order. Quality specifications must be described precisely. If engineering drawings or other related documents are to be considered an integral part of the order, they should be incorporated clearly by reference. Quantity

requirements, price, and delivery and shipping requirement must be specified accurately. In the event that statistical process control or sampling inspection is to be used, conditions of acceptance should be stated or referenced on the order. Similarly, any other important factor affecting the acceptability of the product should be stated precisely (Dobler, 1996:67).

4. Acknowledgement and follow – up of the order

In most cases, the original copy of the purchase order which is sent to the supplier constitutes a legal offer to buy. No purchase contract exists, however, until the seller accepts the buyer's offer. The seller's acceptance can take one of two forms: (1) performance of the contractor (2) formal notification that the offer is accepted.

The purpose of sending the supplier an acknowledgment from a long with the purchase order is two fold. First, it is a form that can be completed conveniently and returned to the buyer, acknowledging acceptance of the order. At the same time, the supplier can indicate whether or not it is able to meet the desired delivery date.

The purchasing department's responsibility for an order does not terminate with the making of a satisfactory contract. Purchasing bears full responsibility for an order unit the material is received and accepted (Dobler, 1996:71).

5. Receipt and Inspection

When a supplier ships material, it includes in the shipping container a packing slip which itemizes and describes the contents of the shipment. The receiving clerk uses this packing slip in conjunction with his or her copy of the purchase order to verify that the correct material has been received. After a shipment has

been inspected for quantity and for general condition of the material, the receiving clerk issues a receiving report.

Before some shipments can be accepted, technical inspection is necessary. In some companies distribution of the receiving report is withheld until the technical inspection report has been prepared. In order companies, distribution of receiving report precedes distribution report to every department gets a receiving report. So their records of actual receipts will be complete. Other companies provide copies only to purchasing, accounting and inspection (Dobler 1996:72).

6. The invoice Audit and Completion of the order

Occasionally, a supplier's billing department makes an error in preparing an invoice, or its shipping department makes an incorrect or incomplete shipment. To ensure that the purchaser makes proper payment for the materials actually received, sound accounting practice dictates that some type of review procedure precede. When purchasing audits the invoice, its records are closed after audit. Closing the order simply entails a consolidation of all documents and correspondence relevant to the order, the completed order is then filed in the closed-order file.

2.6. Purchasing Organization

There are three ways in which responsibility for purchasing organized:

1. Centralized purchasing
2. De-centralized purchasing
3. Centralized – Decentralized purchasing

1. Centralized Purchasing

Responsibility for purchasing function should be centralized when ever it can be done without sacrificing the efficiency due to restriction of local imitative with centralized purchasing, all purchase records are kept in one place and under one supervision and control, which facilitates easier compiling and consulting the records.

Centralization aids in the standardization of specification and tends toward lower inventory investments. The order quantities on vendors will be high resulting in lower purchase price. Usually any organization having a single location must adopt centralizing purchasing as a rule. (Bhat, 2003:484)

2. Decentralized Purchasing

When manufacturing plants are widely dispersed geographically and manufacturing different products having different material requirements, decentralized purchasing is better than centralized purchasing. In such cases each manufacturing plant will have its own purchasing department. The purchasing manager directly reports to the chief executive of the plant or to the general manager directly (material management). But the individual purchase departments of various plants will have functional relationship with director (materials management) at the corporate management level.

The corporate director for materials management will establish and enforce general purchasing policies and procedures for all the purchase departments of different plants of the organization. (Bhat, 2003:485)

3. Centralized-Decentralized purchasing

Many firms operating secular plants whose geographical locations may not be too widely scattered and whose product and material requirements may cover a large number of similar parts and materials used in common and in large quantities, may adopt centralized decentralized purchasing approach (Bhat, 2003:485).

2.7. Purchase parameters

- 1. Right price:** purchasing an item at the right price is the primer concern of purchase department. But right price need not be the lowest price. While it is difficult to determine the right price, the cost structure of the product can be used as a guide to arrive at the right price.
- 2. Right quality:** quality of product depends on the quality of its inputs i.e. raw materials, parts and components that build the product as well as the quality of manufacturing processes used to convert the inputs in to outputs. Quality of the outputs depends on quality of design and quality of conformance. The design specifies the quality characteristics or specification of raw materials and components and purchase department ensures that these quality specifications are met by the materials purchased by it. (i.e. the quality of conformance or the extent to which the purchased materials and components conform with their specifications).
- 3. Right quantity:** this is the most important parameter in buying because both over ordering or under ordering increase costs of inputs. Over ordering increase inventory carrying costs whereas under ordering results in idling of machines and labor and stoppage of production due to storage of materials. The

purchase manager has to take two important decisions while buying :(1) how much to buy? And (2) when to buy?

4. **Right source:** the source of supply of material should be dependable and capable of supplying materials of uniform quality. The buyer should decide which material should be directly purchased from which supplier/manufacturer. Aspects such as source development and vendor rating help buyer to choose the right source. Right source also requires the analysis of transportation costs along with basic price to choose between a local supplier and a distant supplier.
5. **Right time:** for determining the time to purchase, the buyer should have information regarding lead time for all items to be purchased. Lead time is the total time elapsed between the recognition of the need for an item till it arrives and is made available for use.
6. **Right place:** the supplier should try to arrange supply of materials directly to the consuming units or departments so that rehandling of materials is reduced to the minimum.

2.8. Source of Supply

2.8.1. Choosing the Suppliers

When Suppliers are Chosen, a number of Considerations arise. Even though qualities of the product of the products or services and on time delivery are the most important considerations, there are many other factors that must be taken into account (Bhat, 2003:488):

Among Them

- Lead times and on-time Delivery
- Quality and Quantity assurance
- Flexibility
- Location
- Price
- Product or service charges
- Reputation and financial stability
- And other accounts

2.8.2. Evaluating a potential supplier

After developing a comprehensive list of potential suppliers, the buyer's next step is to evaluate each prospective supplier individually. By a process of elimination, a selected list of potential suppliers is developed with whom the buying company may be willing to do business. Unless a decision has been made to employ a single source of supply, the suppliers list should be complete enough to bring to bear every type of competition desired, including:

- Technological and quality competition, resulting from identifying potential suppliers who excel in good ideas, engineering planning, design, material quality, and production techniques
- Price competition resulting from identifying the lowest-cost producers or distributors
- Service competition, resulting from identifying those suppliers that are especially anxious to get contracts and that are willing to add "plus" values over and above functional value (quality) and price (Dobler, 1996:239).

2.8.3. Buying Locally

Local buying sometimes can be justified solely on an economic basis. A local supplier often can furnish smaller quantities of materials at lower prices than could be obtained from distant sources local suppliers 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 as close to the manufacturer as possible to 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 (Dobler, 1996:225).

In general, local buying has the following advantages:

1. Closer cooperation between buyer and seller is possible because of close geographical proximity
2. Delivery dates are more certain since transportation is only a minor factor in delivery
3. Lower price can result from consolidated transportation and insurance charges. A local supplier, in effect, brings in many local buyers' orders in the same shipment.
4. Shorter lead times frequently can permit reductions or the elimination of inventory.
5. Rush orders are likely to be filled faster
6. Disputes usually are more easily resolved
7. Implied social responsibilities to the community are fulfilled

CHAPTER THREE

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

This part of the paper presents the fact regarding the purchasing practice and procedure of ETC. The fact includes primary data and secondary data. Primary data were collected through questionnaire and interview. The questionnaires were distributed to 90 employees of user departments; out of which 86 respondents have filled and returned properly where as 4 questionnaires were not properly filled and returned. The interview was held with 5 personnel from purchasing division. The secondary data were collected from organizational document that is from policy & procedure manual. The data collected through both questionnaire and interview are presented using table and analyzed through description of the existing phenomenon followed by interpretation.

3.1. General characteristics of respondent

Table 1: General background of the respondents

Item	Responses	Frequency	Percentage
Sex	Male	67	77.9
	Female	19	22.1
	Total	86	100
Age	18-25	8	9.3
	26-35	67	77.9
	36-45	5	5.9
	46 and above	6	6.9
	Total	86	100
Educational background	Under 12	-	
	12 complete	-	
	Certificate	-	
	Diploma	9	10.5
	Degree	67	77.9
	Maters	10	11.6
Total	86	100	
Years of service	Below 1 year	-	-
	1-5 Years	24	22.9
	6-10 Years	43	50
	Above 10 years	19	22.1
	Total	86	100

(Source: Primary Data 2010G.C.)

Table 1, focused on the general characteristics of the respondent which include sex, age, educational background and years of services. The sex distributions of the respondents were 77.9% male and 22.1% are female. From this data, one can understand that sex distribution of respondents is more dominated by male.

The age distribution of the respondent is such that 9.3% are between the age of 18 and 25, 77.9% are within the age of 26 and 35, 5.9% are with in age of 36 and 45 and 6.9% are in the age of 46 and above.

The educational backgrounds of the respondents show that 10.5% of the respondents have diploma, 77.9% of the respondents are degree holders and 11.6% of the respondents have masters.

According to the table 1 the respondent's years of service in the organization indicate that 27.9% of them are between 1 and 5 years, 50% are 5-10 years and 22.1% are above 10 years.

From this one can understand that the majority of the respondents have long service years in the organization.

Therefore the respondent's responses about the practice and procedures of purchasing could be taken to be great.

3.2. Analysis of the finding of the study

3.2.1 Interruption of production due to shortage of materials

Table 2: Shortage of raw materials

Item	Response	Frequency	Percentage
Have you ever faced interruption of production due to shortage of raw material?	Yes	46	53.5
	No	40	46.5
	Total	86	100

(Source: Primary Data 2010G.C.)

According to table 2, above 53.5% of the respondents claim that they faced interruption of operation due to shortage of material, where as 46.5% claim that they didn't face any interruption of operation due to shortage of materials. The 53.5% of the respondent give different reasons about the shortage of materials during operation. Some of the respondents claim that delay in

material purchase request by material management division, late delivery of requested materials, long chain of business process, lack of proper working mechanism and long procedure to purchase a certain item leads to interruption of operation.

3.2.2. Prevalence of defective materials during operation

Table 3: Defective materials in operation

Item	Response	Frequency	Percentage
Have you ever faced defective materials during operation?	Yes	48	55.8
	No	38	44.2
	Total	86	100
If your answer is YES for the above question for how many times did you received defective materials?	Always	3	6.25
	Usually	-	-
	Rarely	45	93.75
	Never	-	-
	Total	48	100

(Source: Primary Data 2010G.C.)

As stated in table 3, above 55.8% of the respondents confirm that defective materials occur during operation, out of which 93.75% claim it to be rarely happening, there still is 6.25% of the respondents who claim the prevalence of defective items on operation is always.

There also is a significant proportion (49.2%) of respondents who claim the non prevalence of defective materials during operation. This implies that the prevalence of defective items is more or less not significant.

3.2.3. Delay of required material

Table 4: Delay of required materials

Item	Response	Frequency	Percentage
Do you get the material without any delay?	Yes	22	25.5
	No	64	74.5

	Total	86	100
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(Source: Primary Data 2010G.C.)

According to the above table 4, 25.5% of the respondents claim that they get materials without delay, however, the majority of the respondents that is, 74.5% of them are argue that they gets material with delay. This implies that delay in material is more significantly exists. The respondents state different reason for the delay of materials. From these reasons long purchasing procedure to acquire goods is the most frequently stated reasons. Unavailability of the material in the market, workload at purchasing division, the system that the corporation follow to acquire materials are stated as the reasons for material delay.

3.2.4. User satisfaction with dispatch procedure

Table 5: User satisfaction with dispatch procedure

Item	Response	Frequency	Percentage
Are the procedures of asking and receiving materials are satisfactory?	Yes	38	44.2
	No	48	55.8
	Total	86	100

(Source: Primary Data 2010G.C.)

From the total respondents 44.2% are said the procedure of asking and receiving of material is satisfactory, where as 55.8% of the respondents claim that it is unsatisfactory. This implies that unsatisfactory dispatch procedures exist. The reasons for unsatisfactory procedure are long time between request and receiving of goods, because the procedure of asking and receiving of goods, because the procedure of asking and receiving materials are expected to pass many steps, these are some of the reasons stated by the respondents.

3.2.5. The effectiveness of the purchasing practice

Table 6: The effectiveness of the purchasing procedure

Item	Response	Frequency	Percentage
How do you rate the effectiveness of purchasing procedures?	Very high	-	-
	High	14	16.28
	Medium	62	72.09
	Low	5	5.81
	Very low	5	5.81
	Total	86	100

(Source: Primary Data 2010G.C.)

As can be seen in table 6 above, asked about the effectiveness of the purchasing practice, 16.28%, 72.09%, 5.8%, 5.81% of the respondents claim it to be high, medium, low and very low respectively. Majority of the respondents rate the effectiveness of purchasing practice to be medium.

3.2.6. The Delivery speed of purchase materials

Table 7: Delivery speed of purchase material

According to the above table 7, 22.7%, 59.3%, 9.3% and 9.3 of the respondents claim that the delivery speed of purchased materials is said to be high, medium, low & very low respectively. Majority of the respondent rate the delivery speed of purchase materials is to be medium.

Item	Response	Frequency	Percentage
How do you rate the delivery speed of purchased materials?	Very high	-	-
	High	19	22.1
	Medium	51	59.3
	Low	8	9.3
	Very low	8	9.3
	Total	86	100

(Source: Primary Data 2010G.C.)

Regarding to the delivery speed of purchased materials, 22.1% of respondent said that it is high, 59.3% of the respondent said it is

medium, 9.3% said that it is low and the remaining 9.3% are said that it is very low.

3.2.7. The righteousness quality of materials

Table 8: The righteousness quality of materials

Item	Response	Frequency	Percentage
Do you get the right quantity of material when ever you ask?	Yes	40	46.52
	No	46	53.42
	Total	86	100

(Source: Primary Data 2010G.C.)

As can be seen in table 8, from the total respondents 46.52% are confirm that they get the right quantity of material whenever they asks however the majority that is 53.48% of the respondent claim that they didn't get right quantity of materials. This implies that the users get materials more or less in the right quantity. The reasons for this are shortage of materials in the market, budget constraint, lack of potential suppliers, when the quantity asked is not believed by the authorized person and other reasons.

3.2.8. The quality of purchased materials

Table 9: The quality of purchased materials

Item	Response	Frequency	Percentage
How do you rate the quality of goods purchased most of the time?	Very high	-	-
	High	45	52.3
	Medium	35	40.7
	Low	3	3.5
	Very low	3	3.5
	Total	86	100

(Source: Primary Data 2010G.C.)

The quality of goods is very essential factor to have smooth operation line. According to table 9, 52.3% of the respondent confirms that the quality of the purchased goods is high, 40.7%,

3.5% & 3.5% are claim that it's medium, low & very low respectively.

3.2.9. The effect of the current purchasing procedure on operation

line

Table 10: The effect of the current purchasing procedure

Item	Response	Frequency	Percentage
Does current purchasing procedure affect the operation line?	Yes	62	72
	No	24	28
	Total	86	100

(Source: Primary Data 2010G.C.)

As stated in table 10 above 72% of the respondents confirm that the current purchasing procedure affect the operation line, whereas 28% of the respondents claim that it doesn't affect at all. This implies that the current purchasing procedure has an effect on the overall operation line.

Summary of open ended questions

The summary of the responses given by the respondents to the open ended question included in the questionnaire which asks them to whom they are going to ask materials when they need, they answered that they request materials to material management division specifically to store and in some cases they ask/request materials directly to the purchasing division.

The types of goods that the user departments request most of the time are:

- Stationary materials
- Office equipments like furniture, file box

- Computer and computer accessories, printer & different office machineries
- Building and construction materials
- Electrical materials
- Sanitary materials and etc.

Finally, the respondents were asked to give their suggestions on what should be done to improve the quality of goods to be purchased. The respondents suggested the following solutions.

- The purchasing manual needs to improve in order to perform purchasing activities in a better and short way.
- Choose the right supplier of goods or the agent of manufacturer.
- Make an involvement of personnel from user department in the process of purchasing.
- Specify the required quality on request for quotation and select quality product/source what ever its price is.
- Detail specification of goods should be prepared according to the market and technological advancement.
- Purchase from those who provide quality goods
- Purchasers should evaluate by others
- Use the proper specification before tender.

From the above suggestions one can understand that to improve the quality of goods to be purchased the organization should improve its manual & choose the right supplier in order to get quality goods.

Summary of the Interview Conducted with Purchasing Division Personnel

This part of analysis presents the interview which was held with the purchasing division personnel. The interview had different kinds of questions that assessed the overall practices of purchasing. According to the findings the purchasing divisions have direct relationship with different departments. It has contacts with user department; material management division which have different sections (like store, inspection and material control and stock control units) and it also have direct relationship with finance and business control department. Its relation with material management division, with store, in receiving and asking of materials, inspection and material control unit when it inspects the purchased material and stock control send purchase requisition forms for purchasing material and purchasing division has also direct relationship with finance and business control departments in the case of payment to the suppliers.

According to the response of the interviewees, the relationship with these departments is not that much harmonious. There are different answers from the interviewees that suggests as reasons which makes the relations with those department not harmonious. With store there is delay in sending control receiving note. In the case of finance and business control department there is a payment delay to suppliers which can affect the relationships between the organization and the suppliers. There are cases when user departments ask materials without clear or no specification, sometimes they do not consider the lead time i.e. the time required to acquire the goods or services, they ask materials when they exactly need it, this leads to interruption of operation.

For the question that was asked about the criteria that used to select supplier in the organization they responded as, ETC use

different criteria to select suppliers of materials. In most cases ETC follow the purchase parameters like right quantity, right quality, right time and right source.

It also analyze the experience of the suppliers, availability of stock in the supplier's warehouse, quality of their product, reasonable price, the supplier's good relationship with the organization, supplier's willingness to follow the procurement manuals and most of all the suppliers have to meet the organization's requirement in payment and other conditions.

Concerning about how they assess the needs for materials, the interviewee's responded that they do not assess the needs for materials but there is request for material needs. At the beginning of the budget year, purchasing division will send request letter including the delivery schedule to user department and then they will purchase items accordingly. Whenever user department ask for material the purchase division has responsibility to accept the request and purchase materials as per their specification. However the purchase division will not assess the need for material every time.

According to the interviewees response the timelines of materials for operation is not satisfactory, there is delay in supplying of materials for operation because of various reasons. Even though the material specification is necessary to purchase materials the user departments fail to bring their request with clear specification for this reason, the materials couldn't reach to operation at the right time. The purchase committee that drawn from different department itself is the reasons for material delays. The committee has different bodies like evaluation, purchase and negotiation bodies. It take long time to evaluate, purchase and negotiate so

that the committee it self cause delay in supply of materials. The procurement manual also leads to delay of material supply it has 90 bid validity days which lead to ignorance to purchasing division. Lack of supplier's commitment market shortage, problems in foreign currency and etc. are reasons for material delay for operation.

According to the view of interviewees purchasing division contact with user departments though material management division when user department want materials they will send material requisition form to material control section then it will see if the stock is available in the store if there is it will give to users the materials they asks. If it isn't available in the store it will send purchase requisition letter to purchasing division and then purchase division accept the requisition and buy the materials that are required. In some cases, when users want different kinds of services like maintenance, transport and etc they will send requisition letter directly to purchase division.

Asked if they inspect and audit the quality & quantity of every purchased material, the interviewees responded that, there is inspection and audit control over the quality and quantity of purchased material. However, this is not the purchasing division duty. There is a section under materials management division which is material inspection and control section. In the case of standardized material like stationary materials, the user departments inspect the purchased material by themselves. But in the case of high technology material there will be team from IT department to inspect the quality.

If there is problem regarding to the quality of materials this section will report to purchase division. In case quantity of materials it is

acceptable whether the quantity is lesser or greater than the required amount if it doesn't bring significant change. If there is defective material it will return to the suppliers as per the agreement.

According to the interviewees, suppliers will evaluate based on the predefined the corporation's specification, based on the criteria that the organization set to select the suppliers. Earlier the corporation was practicing traditional ways of evaluating their suppliers. But nearly it launches new division which is stakeholder relation and market assessment division. Even though this is a new division it is now playing a vital role in evaluating the suppliers.

3.3. Summary of Secondary Data Analysis

In addition to the primary data procurement procedure manual were used as secondary source of data. According to these data the main objective of the manual is to provide guidance on how to organize and undertake procurement of goods, works and services taking note of the needs and requirements of ETC and the existing legal environment governing procurement so that the underlying basic principles of procurement are met. The basic principles that should be ensured in all procurements according to the manual are:-

- Quality, Economy and efficiency.
- Non discrimination
- Fairness/equal treatment
- Transparency
- Accountability

Regarding the payment method, it may be different from purchase to purchase depending on the volume, type and nature of the goods under procurement and shall be made in accordance to the prevailing financial rules and regulation of government. Payment for local procurement shall be made by checks or payment authorization letters written in favor of the supplier, consultant or constructor.

According to these data no procurements will be made which are not planned except on exceptional cases. Unplanned minor operational goods may also be bought due to reasons of unforeseen situations that can be strongly justified and approved in advance by concerned ETC officials.

ETC employed different methods in the procurement of goods and services as may be appropriate. These are:

Open Tendering by inviting qualified and eligible bidders to bid through widely spread media.

Limited/restricted competitive bidding it is a method where by an invitation to bid is sent to a limited number of qualified suppliers who are interested to participate in the tender rather than floating the invitation through open media.

Direct/single source procurement procuring goods directly from a single supplier for various reasons, mainly it is depends on negotiation rather than competition.

Request for proposal is mainly applicable to the procurement of consultancy services under such procurement arrangement a limited number of interested consultants selected by ETC are

requested to submit a proposal for the consultancy, and the competition shall be among those invited only.

Request for Quotation/Performa Purchasing. This is commonly used for low value and low volume procurement (mostly operational and stock goods) made by requesting a limited number of suppliers for quotations. The quotations are made through Performa involves.

Two stage bidding/tendering- it is a method where by two invitation to bids are issued for a single purchase. The first invitation request for technical proposals (without price quotation) and is made open to all qualified and interested suppliers while the second invitation shall be for complete of quotation (including price) based on the technical specifications formulated on the basis of responses in the first invitation and is addressed to limited number of suppliers who are selected on the basis of their technical proposals.

From this data one can understand that corporation has well structured procurement manual that includes the payment conditions procurement plane methods of procuring goods & services.

CHAPTER FOUR

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

From the analysis and interpretation made in the previous chapter the following summary, conclusion and recommendation are drawn.

4.1 Summary of findings

Based on the facts discovered so far the student researcher summarizes the findings as follows:-

- ❖ Majority of the respondents are male with an average age category of 26-35 years, degree level of education and service year of 6-10 years.
- ❖ Significant proportion (53.5%) of the respondent believes that shortage of materials exists.
- ❖ Majority (55.8%) of the respondent claim that defective materials occur during operation.
- ❖ Most of the respondents which are 74.5% claim that they face delay of the required materials.
- ❖ Significance proportion (55.8%) of the respondent are not satisfied with the dispatch procedure.
- ❖ Regarding to the effectiveness of the purchasing practice majority (72.09%) of the respondent confirm that it is medium.
- ❖ Majority of the respondents claim that the delivery speed of materials is medium.
- ❖ Most of the respondents argue that they didn't get right quantity of material when they asked.
- ❖ Majority of the respondents claim that the quality of purchased material is high.
- ❖ Regarding to the effect of the current purchasing procedure on operation line most of the respondents confirm that it affect the operation line.
- ❖ Analysis of interview shows that the purchasing division has direct relationship with user departments, material management division and with finance and business control departments and it has less harmonious relationship with these departments.

- ❖ According to the findings ETC analyzes the experience of the suppliers, availability of stock in the supplier's warehouse, quality of their product, the supplier's good relationship with organization in order to select suppliers. According to the interviewee's purchasing division contact with user departments through materials management division and in some cases users contact with purchasing division directly. The quality and quantity of every purchased material is inspected and audit by inspection and audit control section and by user departments themselves.
- ❖ Analysis of secondary data shows that in ETC will not have procurements which are not planned except on exceptional cases and it uses different methods to procure goods and services these are: open tendering, limited/restricted competitive bidding, direct/Single source procurement, request for proposal and request for quotation/Performa purchasing. Regarding the payment method it may be different from purchase to purchase depending on the volume, type and nature of the goods under procurement.

4.2. Conclusions

- ❖ Since raw material is necessary for operation, it is necessary to get materials in the right amount when it is needed, otherwise there might be shortage of materials that can lead to interruption of operation. Most of the respondents believe that the shortage of material exists. For this reason it can be concluded that the users are not getting the right quantity of materials in the right place.

- ❖ Delays in material supply leads to inflexible operation, from the total respondent majority are claiming that they face delay of the required materials. From analysis it can be concluded that there is a problem in supplying of material at the right time.
- ❖ According to the findings, the majority of the respondents are not satisfied with the dispatch procedure so that it can be concluded that the dispatching procedure is not satisfactory.
- ❖ According to the analysis made the purchasing division has relationship with different departments. However, the relationship is less harmonious.

4.3 Recommendations

The following are suggestions to concerned body to bring about better performance purchasing function in the organization.

- ❖ The corporation should keep the optimum amount of materials at its warehouse in order to avoid the shortage of materials during operation.
- ❖ To avoid the delay in material supply, the corporation has to create clear communication way with users by considering the lengthy purchasing procedure, and the users have to aware of the lead time concept, which can lead to delay for materials.
- ❖ The corporation has to revise its long purchasing procedure in order to have satisfactory dispatch procedure.
- ❖ To have harmonious relationship, the corporation should create well structured communication system and every department should communicate accordingly.

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APPENDICES

Appendix 1
St. Mary's University College
Faculty of Business
Department of Management

Questionnaire to be responded by staffs of Ethiopian Telecommunication Corporation

This questionnaire is designed by a student of St. Mary's University College to undertake a research entitled. "An assessment of local purchasing practice and its procedure at Ethiopian Telecommunication Corporation"

The student researcher is conducting this study for the requirement of partial fulfillment of Bachelor of Art Degree in management. Therefore, the researcher kindly requests your full cooperation to complete this questionnaire. Your honest information and genuine opinion will have contribution to the success of the study. Your response will be maintained completely confidential.

N.B

- No need of writing your name
- Put "✓" mark in the box that corresponds to your choice
- You are kindly requested to answer all questions

Thank you for your cooperation

PART I

GENERAL INFORMATION

1. Sex

Male Female

2. Age

18-25 36-45
26-35 46 and above

3. Educational level

Under 12 Certificate Degree
12 complete Diploma Masters Others

4. Years of service

Below 1 year 5-10 years
1-5 Years Above 10 years

PART II

1. Have you ever faced interruption of production caused by shortage of materials?

Yes No

2. If your answer for question No. 2 is "yes" what you think is/are the reason/s?

3. Have you ever faced defective materials during operations?

Yes No

4. If your answer for question No. 3 is "yes" for how many times?

Always Rarely
Usually Never

5. Do you get the materials that you ask for operation without any delay?

Yes No

6. If your answer for question No. 5 is "No" what makes it delay?

7. To whom you are going to ask material when it is needed?

8. Are the procedures of asking and receiving materials are satisfactory?

Yes No

9. If your answer for question No. 8 is "No" what makes it unsatisfactory?

10. How do you rate the effectiveness of the purchasing procedure?

Very high Medium Very low

High Low

11. How do you rate the delivery speed of purchasing material?

Very high Medium Very low

High Low

12. Do you get the right quantity of material when ever you ask?

Yes No

13. If your answer for question No. 12 is "No" what do you think the reason is?

14. What type of goods do you request most of the time?

15. How do you rate the quality of the goods purchased most of the time?

Very high Medium Very low
High Low

16. If your answer for question No. 15 is "low" or "very low" what is the main reason?

17. Do you think that the current purchasing procedure affect the operation line?

Yes No

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

Appendix 2

Interview Held with the Purchasing Department Personnel

1. With which department does the purchasing division have direct relationship and how is the relationship, is it harmonious?
2. What criteria are used to select and suppliers?
3. How do you assess the need for material?
4. Do you think that the supply of materials is timely for the operation?
5. How do you contact with the user department when material is needed?
6. Do you inspect & audit the quality & quantity of every purchased material?
7. How do you evaluate your suppliers?
8. What types of items are purchased by the division frequently?

Declaration

I, the undersigned, declare that this senior essay is my original work, prepared under the guidance of Ato Merga Mekuira. All sources of material used for the manuscript have been duly acknowledged.

Name: _____

Signature _____

Place of Submission _____

Date of Submission _____

Submission Approval

This senior research paper has been submitted to the department of management in partial fulfillment of the requirements for BA degree in management with my approval as on advisor.

Name Ato Merga Mekuira

Signature _____

Date _____