

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

**PURCHASING PROCEDURE AND PRACTICE IN KALITI**  
**METAL PRODUCTS FACTORY (KMPF)**

**BY:**  
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**JUNE 2011**  
**SMUC**  
**ADDIS ABABA**

**PURCHASING PROCEDURE AND PRACTICE IN KALITI  
METAL PRODUCTS FACTORY (KMPF)**

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## **ABSTRACT**

The paper is aimed at examining the purchasing procedure and practice of Kaliti Metal Products Factory. By observing the current situation of the factory, the efficiency of purchasing division is not increasing from time to time because, the importance of purchasing division is not recognized in the factory. The study is based on both secondary data, which are collected from company publications and records and primary data which are collected through interview conducted with key officials of different department and division heads of the factory and also used observation and distributed questionnaire. Information that gathered through interview and questionnaire are analyzed qualitatively by referring to concepts cited in the literature review. The basic objective of this study is to assess the purchasing practices and its overall impaction on organizational objective of Kaliti Metal Products Factory. The policy of the factory encourages most of purchasing decisions to be made by purchasing committee, general manager or board of directors, because of these purchasers do not strive to achieve larger cost savings. In order to achieve higher efficiency and increased cost saving through dedicated and competent purchaser, the purchasing policy should give them full purchasing authority.

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1. Background of the Study**

Purchasing (or procurement) refers to a functional activity carried out in just about every organization. The term purchasing most often refers to the day-to-day management of material flows and information. Note also that the terms "purchasing" and "procurement" are used interchangeably, most of the time.

The types of activities most frequently carried out by this function include:

- Commodity analysis – researching the requirements for a commodity purchase.
- Market research – determining the market characteristics for a commodity purchase.
- Purchase order tracking and follow-up-managing the procurement process.
- Determination of needs and specification for internal customers-matching market and commodity information to customer needs.
- Transmitting forecasts of future needs to suppliers-letting suppliers know what future requirements will be.
- Suppliers performance measurement (on-going) – tracking costs, quality, delivery, and service performance.
- Management of suppliers quality – ensuring that suppliers products and services match the specified requirements.
- Contract management and negotiation – developing appropriate contracts and terms as scheduled and are on-time.
- Price/cost analysis-carrying out on-going analysis of price and cost trends.

The field of purchasing has evolved significantly in the last two centuries, in recent years, the growing pressures of global competition have led to the

recognition that purchasing is an important contributor to the competitive advantage of the firm (Dobler and Burt, 1996: 58).

In the popular business process, a growing and perhaps enduring awareness has developed that sourcing strategy can contribute significantly to increased profitability. Market share, and technological innovation. Executives have come to recognize the important role procurement plays in developing sustainable competencies through important value in the form of suppliers capabilities to the organization (P. Gopalakrishnan, 1990: 9)

However, only part of the buyer's task involves satisfying internal organizational needs. There is an external dimension that makes the task even more complex. The structural features of the market can place constraints on the choices available to a buyer. Contemporary supply chain responsibilities require that the purchasing manager act as an initiator and facilitator or strategic inter-firm relationships rather than a buyer peruse. The increasing by critical task domain of the purchasing field has finally led to management recognition and appreciation of the field's potential for contributing to long-term competitive advantage.

Developing countries like our country Ethiopia needs successful implementation of purchasing management for rapid economic growth. Purchasing management control is a great importance to all organization-large or small, public or private, financial of non-financial. It is the means by which new products are conceived, developed and brought to the market. Proper purchasing process is vital for the survival and growth of organization. To be competitive in the market, the customer-focused organization use purchasing to acquire new or imported information systems and capital facilities, through purchasing organization can deliver goods and services of greater quality at lower costs.

Governmental, private and non-governmental organizations undertake purchasing of materials and services to attain their respective missions. To assess an organization's overall performance, it is essential that the top management consider the rate of return produced by the total capital invested in the firm. The effective use of the firm's resources is equally important.

The management of any organization expects the purchase department/division to achieve the five rights in the acquisition of materials, i.e. right quality, right supplier, right quantity, right time and right place. The sixth factor implied in these items includes the desired services necessary for optimal supply and utilization of materials. In order to obtain the best required quality materials and services, the purchasing unit should work closely with individuals responsible for quality specifications.

Generally purchasing management is the process to be followed in accordance with the financial capability of the organization to purchase goods and services economically in meeting the objective of the organization (Dobler and Burt, 1996: 58).

## **1.2. Background of the Organization**

Kaliti Metal Products Factory (KMPF) was established in 1968 by an Italian national by the name Mr. Riso Sprando, as a major share holder with an initial paid up capital of birr 500,000.00 (five hundred thousand birr). This factory was the first steel industry in Ethiopia. When it was established, the number of employees was 50 and the majority of the technical task was accomplished by foreigners (KMPF Annual Journal 1<sup>st</sup> Publication 1999 E.C).

In February, 1975 the factory was confiscated by the "derge" regime and had been administered under the supervision of the National Metal Works Corporation (NMWC) for about 16 years. During those years the capital was increased to birr 2,000,000.00 (two million birr) and the total number of

employees reached to 86 out of which 9 were foreigners (KMPF Annual Journal 1<sup>st</sup> Publication 1999 E.C).

However, after the EPRDF led government came to power, the factory was re-established as public enterprise by the council of ministers regulation No. 54/1992 in accordance with provisions of public enterprise proclamation No 25/1992 (KMPF Annual Journal 1<sup>st</sup> Publication 1999 E.C).

The factory is administered by a Board of Director which consists of 6 members 4 of them represent by government and two members by employees and its accomplishment of day to day performance follow-up by the management committee. The management committee is consists of 7 members, one general manager and six department managers, namely, commercial department manager, production and technique department manager, human resource and development department manager, finance department manager, audit which is communicate dual communication with the board of directors and with the governments development enterprises supervision agency department manager, product quality and service control management and information system service manager. (KMPF Annual Journal 1<sup>st</sup> Publication 1999 E.C)

It is obvious that the purchasing division is the most important asset of the company. To increase productivity and profitability of the firm purchasing division plays an important role. In this research paper the student investigate the existing purchasing practices in KMPF.

### **1.3. Statement of the Problem**

In most developing countries like Ethiopia manufacturing industries are contributing few, and are not so productive to the maximum possible efficiency.

This is because of the efficiency in different department of such industries is not maximized. In addressing efficiency, among others, purchasing department

plays a great role. However, the majority of the organizations don't give due consideration to purchasing function and purchasing department.

When we see the 2002 E.C total purchase of the enterprise it was around birr 157,448,000 and the total expenditure of the enterprise, it comprise around 80% of the total expenditure. (KMPF 2002 E.C Annual Financial Report)

This means that the largest proportion of expenditure in the firm is purchase expenditure. As can be seen from the structured in under commercial department. Other departments and divisions communicate the purchasing division usually though commercial department.

This clearly indicates that, KMPF does not give due consideration for purchasing division as its mission, when structured the factory's different sections and it cause as hinder for the efficiency of the division.

#### **1.4. Research Questions**

This paper ties to address the following research questions:

- Is there audit and control of purchasing division?
- How performance evaluation is carried out in the purchasing division to improve efficiency?
- Does the enterprise have purchasing policy?
- Does the enterprise communicate the manual to the concerned party?
- What is the nature of supply market, it is competitive or not?
- Is the nature of supply market, give importance to purchasing division?

#### **1.5. Objective of the Study**

##### **1.5.1. General Objective**

The general objective of this study is to assess the purchasing practices of KMPF.

##### **1.5.2. The Specific Objectives of the Study**

In line with the general objectives the research addressed the specific objectives as the following.

- To identify sources of supply that the enterprise uses: local, foreign or both.
- To describe the purchasing procedures used for procuring different classes of items from different sources.
- To identify whether there is performance evaluation in the purchasing division, so that efficiency of the division is improved.
- To assess the nature of supply market of the enterprise.

## **1.6. Significance of the Study**

Undertaking a research on purchasing practice in manufacturing firm help KMPF in particular and similar firms in general, to identify the currently existing weakness and mechanisms to alleviate such weaknesses, by doing so, it helps the firm to minimize cost and hence maximize profit. Besides, the study will invite other researchers to make further investigation on such issues.

## **1.7. Delimitation of the Study**

Purchasing is a broad area which needs due consideration like other major organizational functions as; production, finance, marketing etc. in affecting organizational success – to indicate precisely the significance of purchasing in organizational success; at list the administration department, finance department, production and technical department and other departments of the factory could have been investigated. However, because of time and financial constraints, the study is made only on a single division of purchasing in KMPF.

## **1.8. Research Design and Methodology**

### **1.8.1. Research Design**

The research study used descriptive research method, because the main purpose of this study was to describe the current Kaliti Metal Products Factory Purchasing Practice.

### **1.8.2. Population, Sample Size and Sampling Techniques**

The researcher used purchasing division, sales division and store and supply division. The number of the population is 30, no need sampling technique, because the researcher used census method.

### **1.8.3. Types of Data used and Collected**

Both primary and secondary data were collected. The primary data was collected by using questionnaire, interview and personal observation.

Secondary data was collected from different the factory's published documents and other relevant sources, like annual journal of the factory.

### **1.8.4. Data Analysis Techniques**

After gathering the information, the data is presented through table, percentages and frequencies are applied by processed the data. Then, the data is analyzed by using descriptive method.

## **1.9. Limitation of the Study**

There were some factors that affected the study not to be carried out as was expected. Among these factors the following are mention.

- Shortage of time or time constraint
- Some staff managers does not give clear information.
- Budget constraint/includes secretarial service charge and computer typing and printing expenses as well as traveling and telephone expenses to conducted the research proposal.

## **1.10. Organization of the Study**



This paper is organized in four chapters the first chapter deals with background of the study and profile of the firm. The second chapter concerns with literature review and the third chapter deals with data analysis and interpretation. The last chapter deals with summary, conclusions and recommendations.

## **CHAPTER TWO**

### **REVIEW OF RELATED LITERATURE**

#### **2.1. Definition of Material Management**

Material management is a process of management which coordinates, supervises and executes the tasks associated with flow of materials to, through and out of an organization in an integrated fashion. In other words, the quantity, quality and cost of materials are determined through a total systems, performance and functional approach (Datta 2003: 9).

Material management is an integrated systems approach to the coordination of

materials activates and the control of total materials costs (Dobler and Burt; 1996: 131).

## **2.2. Purchase Parameters**

At the time of purchase material using the right purchase parameter is very important to handle properly the material and access effectively purchase system. At the time of purchase material use the following parameters very effectively.

### **2.2.1. Right Price**

Purchasing an item at the right price is the primary 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. Price negotiation also helps to determine the right price on the basis of evaluation of prices offered by alternative suppliers.

### **2.2.2. Right Quality**

The quality has to be ensured right at the input materials stage. This means the purchase department has to ensure the input quality while buying the materials from the suppliers because the product quality very much depends on quality of inputs. (Dobler and Burt; 1996: 62)

### **2.2.3. Right Quantity**

This is the most important parameter in buying because both over ordering or under ordering increase costs of inputs. Over ordering increases inventory carrying cost whereas under ordering results in idling of machines and labor and stoppage of production due to storage of materials. So the buyer has to use his knowledge, experience and common sense to determine the quantity to be bought after taking into consideration factors such as price structures,

discounts, availability of the item. (Ibid)

#### **2.2.4. 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. 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.

#### **2.2.5. Right Time**

For determining the right 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. The buyer should negotiate with suppliers to reduce the lead time for supply of materials. The buyer should have contingency plans when the suppliers are not able to supply materials within the promised lead time due to uncontrollable factors such as strike, lockout, floods, earth quakes etc. (Dobler and Burt; 1996: 62)

#### **2.2.6. Right Transportation**

The buyer should decide about right mode of transportations, trading off between time needed for transportation from supplier's premises to the buyer's premises and the transportation cost.

#### **2.2.7. Right Place of Delivery**

The supplier should try to arrange supply of materials directly to the consuming units or departments.

#### **2.2.8. Right Procedure**

Buyer should develop the right procedure to be used at the pre-purchase, post-purchase stages of the purchasing activity.

### **2.2.9. Right Contract**

Purchase order is a legal document which binds the supplier and the buyer firms, the buyer should clearly indicate various terms and conditions regarding insurance, sales tax, excise duties, custom duties, breach of contract, settlement of disputes etc. in the purchase order or in the purchase contract executed between the buyer and supplier (Bhat S. 2003: 466-468).

### **2.3. Purchasing Procedures**

A procedure outlines in detail the specific actions to be taken to accomplish a given task, within the guidelines of any applicable policies. In short, it establishes the way of doing things (Dobler and Burt; 1996: 64).

The Purchasing department buys many different types of materials and services, and the procedures used in completing a total transaction normally vary among the different cycle (Bhat S. 2003: 468).

#### **2.3.1. Recognition of the 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 (2) a material requirements planning (MRP) schedule (Dobler and Burt; 1996: 64).

#### **2.3.2. Description of the Need**

Regardless of how the need is transmitted to the purchase department by the industry or user department, material requirements must be defined clearly and described in detail with part name, part number, coding, specifications, and quantities required etc.

#### **2.3.3. 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.

#### **2.3.4. Determination of Price and Availability**

After selecting the potential sources of supply the next step is to secure the price for the items to be purchased. Can be done by three way:

1. For standard items, vendor's catalogues and price lists available.
2. Negotiation with potential suppliers for establishing the price
3. Inviting tenders of quotations from the potential suppliers.

#### **2.3.5. Preparation and Issue of Purchase Order**

When 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.

#### **2.3.6. Order acknowledgment by the Supplier**

The original copy of the purchase order which is sent to the supplier constitutes a legal "offer" to buy.

#### **2.3.7. Follow up and Expediting**

The purchasing department's responsibility for an order does not terminate with making of a satisfactory contract with seller by placing a purchase order. Bears full responsibility for an order until the material is received and accepted.

Follow up is usually done through a fax or a telephone call for critical orders. Routine follow up for the less critical orders is usually accomplished by mailing a preprinted enquiry to the supplier.

#### **2.3.8. Receipt and Inspection**

After the consignment of materials received has been inspected for quantity and general condition of the material, the receiving clerk issues a receiving report.

#### **2.3.9. Checking the Invoice and Approval for Payment**

The inspection is completed and if all the quantities ordered are supplied and accepted, then the purchase executive checks the inspection cum receiving receipt by him/her with the copy of the purchase order and verifies the bill sent by the supplier for payment.

### **2.3.10. Closing the Purchase Order**

The supplier supplies materials in quantities as specified in the purchase order and if no rejection occurs, then the order can be closed. Closing the order entails a consolidation of all documents and correspondence relevant to the order, the completed order is then filed in the closed order file as a part of historical record (Bhat S. 2003: 470-473).

### **2.3.11. Procedures 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 (Bhat S. 2003: 476).

## **2.4. Purchasing Policy**

It is a written statement policy ensures that decisions and actions will be consistent and such an approved policy statement gives authority to the purchasing people (Datta, 2003: 58).

Every organization needs purchasing guidelines with in which purchasing decisions are made and the day to day activities of the buyer are carried out. Well-established purchasing policies reduce the number and complexity of the purchasing decisions that must be made by the buyers and ensure a reasonable uniformity of action (Bhat. S. 2003: 473).

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 (Bhat S. 2003: 473).

- A definition of authority and responsibility for purchasing.
- Relationship with vendor/suppliers.
- Treatment of sales representatives of vendor/supplier firms.
- Proper handling of competitive bidding.
- Proper handling of vendor technical service and design work.
- Reciprocity.
- Employee purchases.
- Ethical practices in purchasing.

#### **2.4.1. Purchasing Manuals**

Purchasing manuals are designed to avoid conflicts between departments, to clarify responsibility, and to provide consistent instruction covering the regular activities of the purchasing department.

#### **2.4.2. 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 (Bhat S. 2003: 476).

### **2.5. Forms of Purchasing Organization**

In purchasing department to buy the material using different way of purchasing system for the responsibility. There are three ways in which responsibility for purchasing is organized:

#### **2.5.1. Centralized Purchasing**

Responsibility for purchasing function should be centralized whenever it can be done without sacrifice of the efficiency due to restriction of local initiative.

With

Centralize purchasing; all purchase records are kept in one place and under one supervision and control, which facilitates easier compiling and consulting the records.

Centralized purchasing is thus more effective for taking action to meet changing market conditions.

### ***Advantages***

- Undivided responsibility
- Consistent purchasing policies
- High degree of purchasing power.

### **2.5.2. Decentralized purchasing**

Decentralized, purchasing use easily, when manufacturing plants are widely dispersed geographically and manufacture different products having different material requirements.

### **2.5.3. Centralized- Decentralized purchasing**

Centralized- Decentralized purchasing is apply in many firms operating several 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.

A general purchasing department may be setup to establish general purchasing policies and to do actual buying of common parts and materials and also to supervise and direct the work of local purchasing department which are set up at each plant (Bhat S. 2003: 484-485).

## **2.6. Fundamental Objectives of Purchasing**

### **2.6.1. Types of Fundamental Objectives of Purchasing**

- To maintain continuity of supply to support production schedules.
- Use minimum investment in stores and materials inventory.
- Avoided, wastes, duplication, purchases, and costly delays.
- Proper quality standards based on suitability criteria.
- Purchase material at lowest cost.
- Material costs are concerned company's competitive position in the market.



Objective of purchasing the overall objectives 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 the right source. This objective indicates broadly the scope of purchasing function which also involves policy decisions and analysis of various alternative possibilities as (such as make-or-buy or evaluating alternative vendors) (Bhat S. 2003: 464).

### **2.6.2. The Specific Objectives of Purchasing**

- To obtain the necessary materials and supplies of proper quality.
- To procure the materials and supplies in time for plant requirements and have them delivered to the proper place.
- To procure them at the lowest possible ultimate cost.
- To keep inventories as low as possible without affecting the smooth flow of production.
- To develop satisfactory source of supply and maintain good vendor relationships.
- To ensure good vendor performance including prompt deliveries and acceptable equality.
- To employ high caliber personnel and train and develop them to their maximum abilities.
- To achieve a high degree of co-operation and coordination with other departments in the organization.
- To keep to management informed of the latest development taking place in the field of materials which would affect company's performance and profits.
- To keep the expenses incurred by the purchase department as a cost centre as low as possible.
- To ensure continuity of supply of raw materials, sub-contracted items and spare parts and at the same time reduce the ultimate cost of the finished goods.

## **2.7. International Buying**

Import or buying international is the material from outside of the country essential economic function.

### **2.7.1. Import Policy**

Import or buying international is the material from outside of the country essential economic function.

To facilitate the easy flow of goods, the government announces its annual import policy at the beginning of the new year on 1<sup>st</sup> of April. The Import Trade Control, ITC, policy, popularly known as the Red Book, is issued in two volumes. The first volume deals with policy of the government with regard to user's import of materials and the second volume deals with the government policy with regard to registered exporters (Gopalakrishnan 2004: 254).

### **2.7.2. Letter of Credit**

Letter of credit is an arrangement, where by the obligation to pay an exporter is undertaken by a bank. The bank's credit is available to an importer who is not known outside, and who otherwise would not be trusted with goods by a trader in another country. Once a credit is received from a bank, the credit standing of the importer is of little consequence. What becomes important to the exporter is the credit standing of the bank issuing the letter of credit (Gopalakrishnan 2004: 259).

## **CHAPTER THREE**

### **DATA PRESENTATION, ANALYSIS AND INTERPRETATION**

To see how much the procurement service accomplish its objective and the level of satisfaction of its users, a questionnaire was prepared and distributed to 30 purchasing, inventory control and sales staffs and interview was conducted with two division heads and two department managers. The two division heads selected are those they have direct contact with purchasing and supply management process of the factory and the two department managers selected are those they have request the purchase goods frequently and controlled the performance of the purchasing task according to the factory policy. All distributed questionnaire were completed and returned.

**Table 3.1: Characteristics of the Study Population**

<b>No</b>	<b>Items</b>	<b>Response</b>	<b>Frequency</b>	<b>Percentage (%)</b>
1	Education level of the respondents	▪ 10 + 2	2	6.7
		▪ Diploma	12	40
		▪ BA Degree	14	46.6
		▪ MSC/MA, PHD	2	6.7
		<b>Total</b>	<b>30</b>	<b>100</b>
2	Year of service of the respondents in the organization	▪ Below 3 years	2	6.7
		▪ 3-6 years	10	33.3
		▪ Above 6 years	18	60
		<b>Total</b>	<b>30</b>	<b>100</b>
		3	Age distribution of the respondents	▪ Below 25 years
▪ 25-35 years	14			46.7
▪ Above 35 years	16			53.3
<b>Total</b>	<b>30</b>			<b>100</b>
4	Sex distribution of the respondents			▪ Female
		▪ Male	20	66.7
		<b>Total</b>	<b>30</b>	<b>100</b>

*Source: Computed by the Author, A.A. 2011*

Item 1 of table 3.1, respondents were asked about their educational background. Accordingly 2(6.7%) are 10+2 complete, 12(40%) are diploma holders, 14(46.6%) are with first degree and 2(6.7%) are holds 2<sup>nd</sup> degree. Therefore, majority of them could have awareness with regard to purchasing procedure and practice in KMPF by understanding the materials provided in the factory.

Item 2 of table 3.1, was designed to identify the respondents year of service in the organization (factory). Therefore, accordingly 2(6.7%) worked below 3 years in the factory, 10(33.3%) of the respondents worked for 3-6 years and majority of the respondents 16(60%) worked above 6 years. from this finding, we can

understand that, majority of the respondents have long experience in dealing with purchasing procedure and practice of the factory/KMPF). Item 3 of table 3.1 covers the age distribution of respondents where the 14(46.7%) are aged 25-35 years and the majority 16(53.3%) are aged above 35 years. this indicates that majority of the staff are matured to provide valuable responses to the raised questions.

Item 4 of table 3.1, tries to see the sex distribution. Those, the majority 20(66.7%) of them are male and 10(33.3%) are female. From this data, we can understand sex distributions of respondents are relatively fair.

**Table 3.2: Purchase Requisition, Proper Plan and Specification of Goods**

<b>No</b>	<b>Items</b>	<b>Response</b>	<b>Frequency</b>	<b>Percentage (%)</b>
1	Is there purchase requisition practice by the respondents?	▪ Yes	22	73.3
		▪ No	8	26.7
		<b>Total</b>	<b>30</b>	<b>100</b>
2	Is there availability of proper plan for purchase of goods?	▪ Yes	24	80
		▪ No	6	20
		<b>Total</b>	<b>30</b>	<b>100</b>
3	Is there ability to identify specification of goods by the respondents?	▪ Yes	24	80
		▪ No	6	20
		<b>Total</b>	<b>30</b>	<b>100</b>

*Source: Computed by the Author A.A. 2011.*

According to the factory objective, different staffs request different materials for their day to day activities. The questions forwarded to respondents regarding the purchase requisition were whether they are involved in requesting the goods to be purchased. In this regard, in the above table 3.2 of item, 22(73.3%) of respondents were forwarded purchase requisition and 8(26.7%) were no forwarded purchase requisition. According to the majority respondents

responses, the major respondents are forwarded purchase requisition. The common materials purchased, as the respondents replied were office equipment, stationery, safety materials, raw materials, spare parts, manufacturing machines (plants), vehicles, accessories and other relative goods. This implies that all respondents were involved in one or another way of purchases requisition.

As stated in the review, planning and schedule of purchasing is more significant. Hence, as indicated in table 3.2 of item 2 the respondents were asked whether they have an experience in planning the purchase of goods. Therefore, majority of the respondents 24(80%) replied that they tried to proceed on as per their plan/schedule. Where as, 6(20%) respondents have replied that they were going with out plan.

In addition to this, in the interview conducted with the management staffs they said that there is no uniformity in planning instead of the nature of company. For some goods there is timely plan and for others there is no timely plan.

In general, the management gave emphasis on the fact that planning and scheduling were implemented in the factory based on the current conditions.

As indicated in the review, profit making/businesses organizations should make the process of purchasing clear before purchasing the quality goods through standardization, specification and signing agreements. As shown in table 3.2 above, item 3 majority of respondents 24(80%) have identified specification of goods, where as 6(20%) have not identified specification of goods or not know it.

Moreover, as the interview conducted with the management of the factory should, the staffs experience in identifying the specification of goods is almost strong. Although the staff members replied they have experience in identifying of goods, the management being close to such function that the work in this respect is satisfactory.

**Table 3.3: Purchase Requisition per Quarter and Duration of Requisition and Purchase**

<b>No</b>	<b>Items</b>	<b>Response</b>	<b>Frequency</b>	<b>Percentage (%)</b>
1	Forwarded purchase requisition per quarter on average time of the respondents	▪ Below 5 times	-	-
		▪ 5-10 times	15	50
		▪ Above 10 times	15	50
		<b>Total</b>	<b>30</b>	<b>100</b>
2	Gap of days to get request goods by the respondents	▪ Below 5 days	-	-
		▪ 5-10 days	12	40
		▪ Above 10 days	18	60
		<b>Total</b>	<b>30</b>	<b>100</b>

*Source: Computed by the Author, A.A 2011*

The general procurement procedure that was indicated in the review of procedure used in completing a total transaction normally varies among the different types of purchasing most operating materials and supplies are fairly standard. Regarding this, in table 3.3 item 1 15(50%) respondents 5-10 times or days and 15(50%) respondents above 10 times/days, requested per quarter. In this regard, the staffs follow as a strategy the following methods user identification, checking whether the working budget is enough to purchase the goods by the finance department, top management approval, collecting pro-forma and inviting the suppliers through different tender methods.

This implies the respondents have actively participated in forwarding the purchase requisition. As a result, since there is a frequent requisition of goods to the procurement section, I can be said that the purchasing activity is implemented.

As mentioned in the review, the objective and policies of purchasing management is that the standard materials should be purchase with the right

quantity at the right time with the right price and right quality. Where as, from the findings, as table 3.3 of item 2 one can see that, 12(40%) respondents replied that the time gap between requesting goods to purchased takes 5-10 days and 18(60%) replied that the process takes more than 10 days.

In relation to this question the respondents were asked the reason for the delay of the purchased goods. They mentioned the following as major factors, management approval taking longer time, lack of manpower, lack of market supply, lack of efficient procedure.

The management also shares this assertion as it is conducted in the interview. Therefore, we can understand that the implementation processes of the factory's purchasing service are affected by internal and external factors.

**Table 3.4: Shortage of Materials**

<b>No</b>	<b>Items</b>	<b>Response</b>	<b>Frequency</b>	<b>Percentage (%)</b>
	Encountered with shortage of goods of the respondents for the last 12 months	▪ Yes	6	20
		▪ No	24	80
		<b>Total</b>	<b>30</b>	<b>100</b>

*Source: Computed by the Author, A.A. 2011*

As indicated in table 3.4, above 6(20%) respondents are faced shortage of material and 24(80%) respondent says have not complaining shortage of material. One can clearly see from this table that, since the factory could not strictly follow proper planning in purchasing, the effect is reflected in the shortage of material occurring in the organization.

**Table 3.5: Quality and Cost of the Good and Comparison of Past and Present Purchasing Services**

<b>No</b>	<b>Items</b>	<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
-----------	--------------	-----------------	------------------	-------------------



				<b>(%)</b>
1	Attitude of the respondents about the purchased goods regarding quality	▪ Good quality	15	50
		▪ Fair quality	9	30
		▪ Neutral	5	17
		▪ Low quality	1	3
		<b>Total</b>	<b>30</b>	<b>100</b>
2	Comparison of the respondents regarding to the past and present service of purchasing in the organization	▪ Improved	15	50
		▪ No difference	12	40
		▪ Neutral	3	10
		▪ Deteriorated	-	-
		<b>Total</b>	<b>30</b>	<b>100</b>

*Source: Computed by the Author, A.A. 2011*

As indicated on the review of related literature quality is subjective. However, it can be possibly tested against what is required to achieve and the target set for that particular quality achievement or goal. In this case it is assumed that respondents consider quality as the purchasing division provided to the factory by procurement services without repeated back and forth correspondences without failure in getting the right product service that fits requirement and with less time and fair price. In this regard respondents were as led about the quality of purchased goods. Hence, as shown on table, 3.5 of item 1 15(50%) of the total respondents replied the quality is good, 1(3%) of the respondents replied low, 9(30%) of the respondents replied fair and the 5(17%) of the respondents replied was neutral.

This implies the percentage of respondents who say that the quality of goods purchased is good and fair respectively, is greater than the ones who say that quality of the goods low and the neutrals.

With regard to this, as the interview conducted with the management staff indicated, the quality and the cost of the goods is almost proportional. This

leads one to assert that majority of the respondents and satisfied with the quality of the goods purchased.

As indicated in the literature, effective purchasing contributes significantly to the organizational success and an organization expects its purchasing management function to focus on five value adding (proactive management quality, cost, time, technology and continuity).

According to table, 3.5 of item 2 15(50%) purchasing service provided by the service given compare to last years is improved, 12(40%) are replied still no difference, 3(10%) are replied neutral/no idea.

The interview with the management staff gave emphasis on the fact that the purchasing service of the factory is almost dynamic.

**Table 3.6: Distribution of Respondents Regarding Purchasing Policy**

<b>No</b>	<b>Items</b>	<b>Response</b>	<b>Frequency</b>	<b>Percentage (%)</b>
1	Respondents idea on the availability of purchasing policy in the organization	▪ Yes	30	100
		▪ No	-	-
		<b>Total</b>	<b>30</b>	<b>100</b>

*Source: Computed by the Author, A.A. 2011*

Purchasing policy, procedure and guidelines as depicted on the literature are essential to implement purchasing management activities for any organization. In this regard, as table 3.6 indicates 30(100%) respondents replied that the factory has a policy.

In relation to this, the management asserted that the factory's policy is established.

Respondents were asked some open ended questions and they mentioned some points regarding the purchasing activity of the factory the first two questions were specifically presented to the management staff.

The interview questions conducted to the management were concerning the experience of the factory in line with continually fluctuating market and government policy etc. The management staff replied that purchasing activity was performed in the factory almost by bank over draft, by the cause of budgetary limits. Since market fluctuation and government policy is beyond the control of the organization, it usually estimates the average price of goods and technical evaluation before purchasing. However, this has not been major problem facing the factory.

The second question presented to the management was what methods the factory follows to select supplier in term of their provision of goods according to quality, cost and technology. According to the management staff replied the supplier to be selected by different methods of tender (open, closed and restricted tender) and by collecting three or above pro-forma invoice. Regarding this the bidders document evaluated by the purchasing committee and approved by general manager or board of directors.

Where as, in the literature it is indicated that supplier selection constitutes and important part of the purchasing function. Good sources of supply are one assurance of good quality to day and progressive thinking and planning is a further assurance of improved quality tomorrow.

The major challenges in the purchasing service faced by the staff of the organization are the following. Firstly, the purchased goods are mostly foreign purchase, so be cause of the suppliers location or the country's of origin is far there is deliance. There is shortage of manpower to implement the service, lack of focus on the structure of purchasing division by the top management according to organizing.

The recommendations forwarded by the staff members to alleviate the above mentioned problems and others are the participation of users in some of the purchasing activities, timely purchase of requested materials should be done and organizational analysis must be conducted. Orientation on system and procedure on planning and giving specification should be provided for staff members. The factory should take measures to improve the purchasing procedure and users should follow up requests they made. A planned purchasing system should be designed and the goods to be purchased should be taken from reliable suppliers and transparency, accountability, purchasing policy and procedure should be in place.

## **CHAPTER FOUR**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

In this chapter based on the basic question raised and the objective, the findings obtained the following summary, conclusions and recommendations are forwarded.

#### **4.1. Summary**

The following findings are summarized from the data collected through questionnaire and interview.

- According to education level, the majority (46.6%) of the respondents were BA degree holders, and have adequate concept on the purchasing practice of the factory.
- Year of service, the majority (60%) of the respondents were above 6 years serve, and they were experienced and skilled staffs.
- Age distribution of the respondents, the majority (53.3%) of the respondents was above 35 years, and at matured class.
- Sex distribution of the respondents, the majority (66.7%) of the respondents sex was male, and it was fair on the selecting requirement of that he used.
- With regard to purchase requisition, the majority (73.3%) of the respondents involved in this activity. Another thing that could have been stated was that identifying specification of goods was less applicable.
- According to gap of days to get request goods by the respondents, the majority (60%) of the respondents were responded above 10 days, and it shows delay of purchase.
- As the planning for the purchasing activity majority (80%) of the respondents was responded that they tried to proceed on as per their plan/schedule.

- The quality of the purchased goods was satisfactory as the factory's trend on identifying the specification of goods shows as the majority (80%) of the respondents was responded.
- With regard to the average time of forwarded purchase requisition the respondents was responded each group 50% (5-10) times and above 10 times according to their trend.
- The gap of days to get request goods majority (60%) of the respondents was responded that the request goods take above 10 days and the reason for the delay of the purchased goods were management approval taking longer time, lack of manpower, lack of market supply and lack of efficient procedure.
- Encountered with shortage of goods was not shown according to the majority (80%) of the respondents was responded for the last 12 months.
- The purchased goods, regarding cost and quality, the majority (50%) of the respondents was responded, it is good quality and fair cost, and applicable.
- With regarding compression of to the past, and present service of purchasing in the organization, the majority (50%) of the respondents was responded that it improved.
- As the all (100%) of the respondents was responded, there were established policies and guidelines regarding purchasing activity. This led the factory to make the process of purchasing clear before purchase the quality goods through standardization and specification.

## **4.2. Conclusions**

The main objective of the study is to assess purchasing procedure and practice of KMPF. Concepts regarding purchasing have been reviewed in literature review part. Both primary and secondary data were collected analyze the actual purchasing procedure and practice in the enterprise.

Based on findings in the analysis part, the following conclusions are made:

- Even though, the largest proportion of enterprise's expenditure is made on purchase of items, the purchasing division is not given due attention. This is clearly indicated by the organization structure of the enterprise that purchasing division is structure under commercial department. This intern prohibited the division not to have direct relationship with departments like production and technique finance, human resource, audit...etc.
- The enterprise uses both local and foreign source of supply and the nature of its supply market is competitive. However, it has not developed a good relationship with its supplier and do not motivate them. This is because the policy manual of the enterprise does not include policy concerning supplier relationship and motivation. Furthermore, the policy encourages most of purchasing decisions to be made by purchasing committee, general manager or board of directors. They spend most of their time on follow-up and expediting rather than selecting the right supplier and negotiating prices.
- During selection of supplier, time is not considered as a key factor. This has resulted in occurrence of overstocking, which intern caused capital tie-up in the enterprise.
- Purchasing manual is communicated neither to purchasing personnel (except division head) nor suppliers. This leads to less coordination with suppliers and inefficiency in the purchasing division.
- The internal audit and control division of the enterprise is concerned with checks for integrity rather than checks for efficiency and effectiveness. It does not independently review-purchasing organization,

operating policies and procedures of the division. Moreover, there are no standards used to measure efficiency (performance of purchasing practice in the factory).

### **4.3. Recommendation**

A very significant proportion of the factory's expenditure is made on purchase of raw materials, supplies and capital items. Therefore, the profit making potential of the enterprise largely depends on the efficient operation of purchasing division.

Based on this fact and conclusions made above, the researcher has made the following recommendations.

- The organizational structure of the enterprise should be rearranged in such away that enabling purchasing division to on par level with production and technique, finance, commercial and other departments of the factory. This will increase the moral of purchasing employees and efficiency in the division.
- The purchasing policy of the factory has to include policies that enable the factory to have a good buyer and supplier relationship. This will enhance public image and good will of the factory. Furthermore, in order to achieve higher efficiency and increased cost saving through dedicated and competent purchasers, the purchasing policy should give them full purchasing authority. This means the authority concerning purchasing decision making (supplier selection, price determination and other purchasing authority) should be delegated to purchasing manager.
- To avoid over-stock of items, which caused capital tie-up, the five R's (right quantity, quality, time, source, and place) of purchasing principles has to be equally considered during supplier selection.
- Overall purchasing efficiency could be attained if the purchasing division has effective coordination with all parties, which have direct relation with



the division. To do so, the factory has to communicate the purchasing manual not only to specific personnel like head of purchasing division, but also to all parties to whom communication of purchasing policy and procedures is necessary (suppliers, employees of purchasing division, etc) have to be communicated.

- Internal audit and control should serve the purchase it is established for. The auditors of the factory should see and assure the intra-and interdepartmental origination, operating policies and procedures of purchasing division independently. In addition standards, which are used to measure, purchasing performance of the division has to be developed so that efficiency in the division is enhanced.

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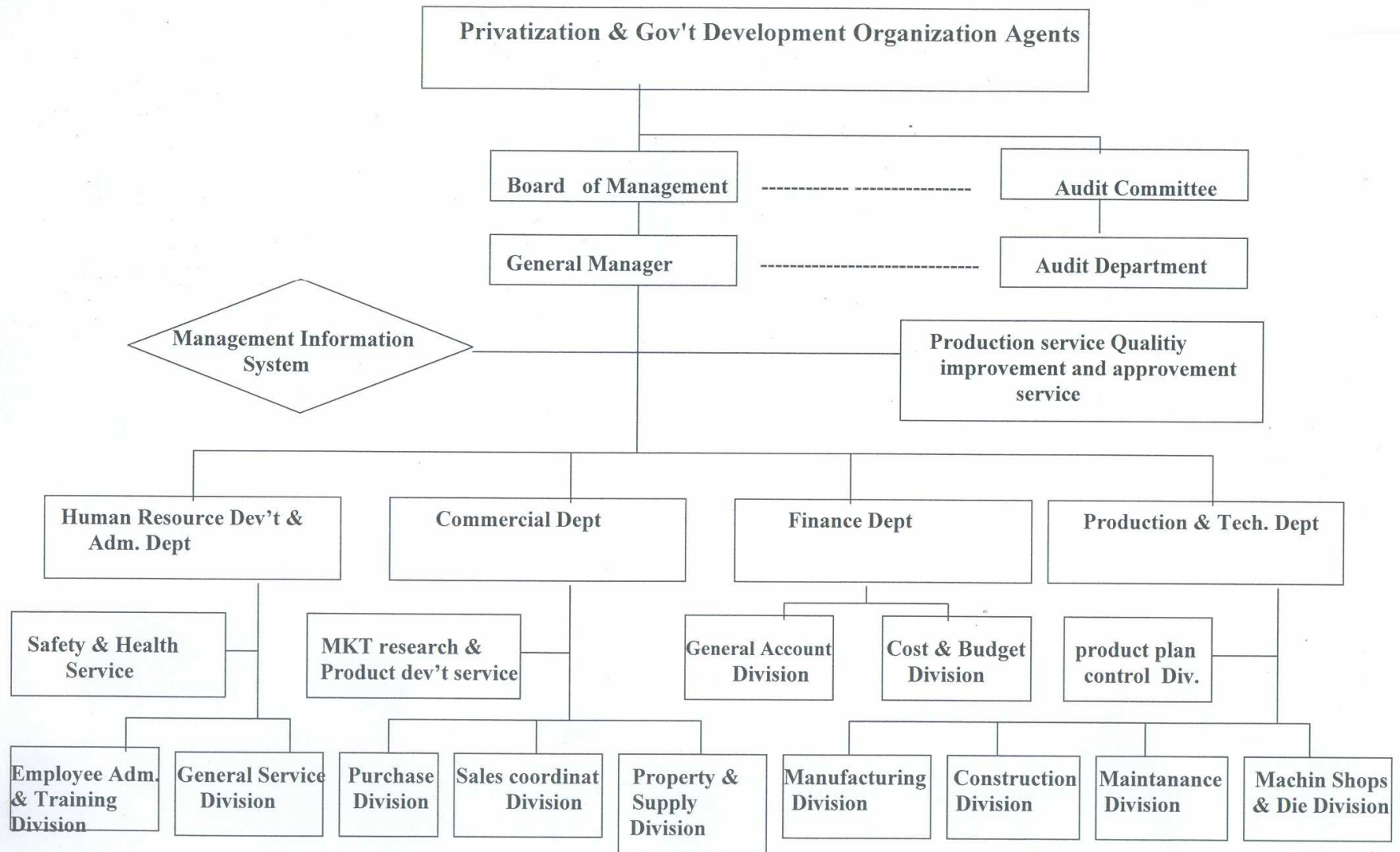
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# Appendices

**Appendix**  
**The Present Organizational Structure of**  
**Kaliti Metal Products Factory**



## **Appendix A**

### **INTERVIEW QUESTIONS FOR THE DIFFERENT DEPARTMENTS OF KMPF**

#### **I. Interview Questions for Purchasing Division Head**

1. With which department(s) does the purchasing division have direct relationship? Why?
2. What items are purchased by this division?
3. What is the nature of supply market:-
  - Single (sole) supplier?
  - Multiple supplier?
4. Which source(s) does (do) the enterprise use for material acquisition?  
Local? Foreign? Both? Why?
5. What criteria are used to select unique and competent supplies?  
Quality? Quantity? Price? Service? Delivery time? Other? Why?
6. Describe the nature of relationship that enterprise has with suppliers.
7. Does the enterprise make some materials for its own production process rather than purchasing? why?
8. Are there frequently encountered problems in the division? If so, what are causes of these problems? What actions are taken to solve them?

**Thank you!**

## **II. Interview Questions for Store and Distribution Division Head**

1. What are the main activities of this division?
2. At what stock level does the division send purchase requisition to purchasing division? Why?
3. Do you face difference between the recorded materials (amount ordered) and counted (actually arrived) materials? Why? Who has responsibility to inform supplier for rejected items?
4. What do you do if your receive items, which are not the same with your order?
5. How do you determine the ordering time, ordering quantity, and ordering level of the enterprise?

**Thank you!**

## **III. Interview Questions for Head of Production Department**

1. What are roles that production department play in acquisition of raw materials?
2. What is the level of inventory (raw materials) at which the production department sends materials requisition to store and distribution division?
3. Are there frequently encountered problems caused by insufficient supply? Why?
4. Is there interruption of production caused by shortage of supply of materials? How?
5. With which department(s) does the production department have direct relation in acquiring materials?

**Thank you!**

## **IV. Interview Questions for Audit and control Division Head**

1. What are the main activities and responsibilities of audit and control department?

2. Which aspects of purchasing division are controlled and audited? Why?
3. Is there any standard that internal audit uses while auditing purchasing division?
4. What procedures does the internal audit follow in conducting audit and control in purchasing division?
5. Does the internal audit report the result to the concerned party so that corrective action is taken?

**Thank you!**

## Appendix B

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

**Questionnaire to be Filled by the Kaliti Metal Products Factory  
(KMPF) Employees**

The purpose of this questionnaire is designed specially for academic consumption and hence, to the partial fulfillment of BA degree in management studied at St' Mary's University College. Therefore, I kindly request you to understand the questionnaire in this matter and feel free and independently to answer the questions listed below.

### **N.B**

- No need of writing your name
- Answer open ended question briefly
- Make a  mark for alternative answer

I appreciate the time and attention you give to these questions.

### **Part I: Personal Data**

1. Your academic qualification

10 Complete       10+1       10+2

Diploma       BA Degree       MSC/MA, PHD

2. Years of service

Below 3 years       3-6 years       Above 6 years

3. Age

Below 25 years       25-35 years       Above 35 years

4. Sex      Male       Female



## Part II: General Question

1. Have you ever forwarded purchase requisition to facilitate your work?

Yes  No

2. Would you please state some of the items that you frequently request for purchase?

a. \_\_\_\_\_

b. \_\_\_\_\_

c. \_\_\_\_\_

3. If your response is "yes" for question No 1 how many times do you request to purchase an item per quarter on average?

\_\_\_\_\_  
\_\_\_\_\_

4. What methods/strategies does the organization follow to fill requisition until purchasing goods?

\_\_\_\_\_  
\_\_\_\_\_

5. Do you have proper plan to purchase goods? Yes  No

6. If your response is "yes" to question No 5 what is the duration?

Monthly  Quarterly  Annually

7. How many working days on average does it take to get the goods you requested to be purchased?

Below 5  5-10 days  Above 10 days

8. What do you think is (are) the reason (s) for taking longer time to purchase requested items (goods)?

1. \_\_\_\_\_

2. \_\_\_\_\_

3. \_\_\_\_\_

9. Did you give specification of goods that you have requested to purchase?

Yes  No

10. If your response is "yes" to question No 9 how do you rate on the purchased goods that you request before?

High  Medium  Low

11. For the last 12 months have you ever been encountered with materials shortage for any procurement service?

Yes  No

12. If your response to question No 11 is 'yes', how did you settle this problem?

- a. \_\_\_\_\_
- b. \_\_\_\_\_
- c. \_\_\_\_\_

13. What is your attitude about the purchased goods quality? Please rate it

Good quality  Low quality   
Fair  Neutral

14. Does the organization have purchasing policy?

Yes  No

15. If your response is 'yes' to question No 14, does your organization use this policy and system for its day to day purchasing activities?

Yes  No

16. How do you rate day to day activities of the purchasing service?

Improved  Deteriorate   
No difference

17. What are the major problems in purchasing service of the organization?  
Please define below?

- a. \_\_\_\_\_
- b. \_\_\_\_\_
- c. \_\_\_\_\_

18. What do you suggest for the purchasing services of the organization to be improved?

- a. \_\_\_\_\_
- b. \_\_\_\_\_
- c. \_\_\_\_\_

## **DECLARATION**

I, the undersigned, declare that this senior essay is my original work, prepared under the guidance of Ato Merga Mekuria. All sources of materials used to the manuscript have been dully acknowledged.

Name: **Berhanu Gebre**

Signature: \_\_\_\_\_

Place of Submission: St. Mary's University College

Date of Submission: \_\_\_\_\_

## **SUBMISSION APPROVAL SHEET**

This senior essay has been submitted for examination with my approval as an advisor.

Name: \_\_\_\_\_

Signature: \_\_\_\_\_

Date: \_\_\_\_\_