

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

**An Assessment on Foreign Purchasing System in  
National Tobacco Enterprise (Ethiopia) Share Company**

**By:**

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**June, 2011**

**SMUC**

**Addis Ababa**

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

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**St. Mary's University College**  
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## **Acronyms**

CIF	Cost and Fright
EOQ	Economic Order Quantity
FAS	Free Along Side
FOB	Free on Board
NTE	National Tobacco Enterprise
MTSE	Maritime and Transit Service Enterprise

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# **CHAPTER ONE**

## **INTRODUCTION**

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

Purchasing is a basic and integral part of business organization. It is impossible for any organization to achieve full potential without a successful purchasing activity.

Purchasing means the process of buying-learning a need, selecting a supplier, negotiating a price and fixing terms for delivery and payment (DATA A.K. 2003: 92) according to Nair (1990). Purchasing is the function of buying machinery tools, general supplies raw material, required by an organization. Purchasing implies the act of exchange of goods and services for money (DATA A.K. 2003: 52).

Purchasing is the acquisition of required materials, services and equipments. Historically, the performance of many purchasing managers and their organization was measured and evaluated on changes in the purchase price of materials, their ability to keep the production line running and the cost of their department's operation. Today, many world-class organizations expect their purchasing and supply management function to focus on the following five value adding outputs of proactive procurement or supply management:

- Quality. The quality of purchased materials and services should be virtually defect free (Doubler D.W: 1996: 10).
- Cost. The purchasing and supply management function must focus on strategic cost management (Doubler D.W: 1996: 10).
- Time. The purchasing and supply management function and its outside suppliers must play active roles in reducing the time required to bring new products to market (Doubler D.W: 1996: 10).

- Technology. The purchasing and supply management function has two key responsibilities in the area of technology: (1) it must ensure that the firm's supply base provides appropriate technology in a timely manner. (2) It must ensure that technology which affects the firm's core competencies (the "thing" that gives the firms its unique reason for being) is carefully controlled when dealing with outside suppliers (Doubler D.W: 1996: 10).
- Continuity of supply. The purchasing and supply management function must monitor supply trends, develop appropriate supplier alliances, and take such actions as are required to reduce the risk of supply disruptions (Doubler D.W: 1996: 10).

In this research paper an attempt will be made to assess the contribution of purchasing system for the business success in competitive market to National Tobacco Enterprise Share Company.

### **Background of the Organization**

National Tobacco Enterprise was established in 1943 owned by government and had undergone several reformatory changes. In 1999 the enterprise has been reestablished with a capital of 250 million. The total share was allocated as 78% of government share and 22% of private share. It has one cigarette and one candle factory in Addis Ababa and four tobacco plant farms in Showarobe, Bilata, Awassa and Waliyta.

The National Tobacco Enterprise is directed by the Board of Director appointed by the public enterprise supervising authority to provide management guidance for the proper administration of the factor. The general manager is responsible for the overall execution of the enterprise objective, and is accountable to the board of director.

The objective of the enterprise is to produce tobacco and other products to satisfy the needs of the country and export them.

The business purpose of the company as stipulated in its memorandum of association is as follows.

- a. To grow and process and manufacture, import, export distribute, prepare sell and purchase tobacco and tobacco products.
- b. To produce mater manufacture paper and the preparation of cigarettes
- c. To carry on any other activities necessary for the successful achievement of the above mentioned purpose of the company.  
(Corporate strategy plan of the company 2007-2011:1).

## **1.2 Statements of the Problem**

Purchasing is one of the most important function in an organization the quality of success of the purchasing process affects the overall success of a given company.

Today purchasing management is rapidly growing function in any type of organization. Modern manufacturing business rapidly growing service sector use purchasing system as a factor of growth for company. This is because, profit which is an important element for many company is highly dependent on the existence of the company by reducing cost and increasing profit. In addition to the increasing customer's demand on the cost of availability of material purchasing management determines the survival of the organization by determining the size of its profit.

National Tobacco Enterprise share company spend a large amount of money for purchasing of raw materials like tobacco leaf, packing material, wrapping materials, making materials, machines, spare part,

chemicals, and others. But due to less attention given to the purchasing department, there is poor purchasing system that results in increasing unnecessary cost which directly or indirectly affects the profitability of the company. Hence, the enterprise is unable to secure the potential profit due to unorganized and unsystematic purchasing system.

When we come to the National Tobacco Enterprise share company due to the poor purchasing system of the company there are various observable problem resulted in the purchasing function the student /re-searcher/ makes observation from finance department that most customers are claimed in the purchasing system of the enterprise, such as purchase of materials are not performed timely or delay, absence of automated system, having incomplete specification which resulted purchasing of material not as per specification, inappropriate selection of supplier which affect delivery time.

Therefore, this paper tried to assess the problem of foreign purchasing system of national tobacco enterprise.

### **1.3 Research Question**

In order to come up with the solution for the problem maintained, the following basic questions were raised by the researcher.

- ❖ Does the enterprise have necessary purchasing policies and procedures?
- ❖ What is the responsible body to handle the purchasing function?
- ❖ What is the main delay of international purchase?
- ❖ What are the factors to purchase poor quality goods?

## **1.4. Objective of the Study**

This study has two parts general and specific objectives.

### **1.4.1. General Objective**

The general objective of the study was to assess foreign purchasing system of the National Tobacco Enterprise

### **1.4.2. Specific objective of the study includes:-**

The present study has the following specific objectives

- To assess the rules of foreign purchase at national tobacco enterprise.
- To assess and recommend the possible solution the responsible body about international purchase.
- To identify the cause of purchasing delay in national tobacco enterprise.
- To investigate the major factors to the problems of purchasing goods.

## **1.5. Significant of the Study**

The study had so many contributions among which

- It can be as a reference for further researchers.
- It can be used as a reference material for students in the library.
- It can be used by the purchasing department if the enterprise to take corrective action.

## **1.6. Delimitation of the Study**

It is better to include all the departments and branches of the enterprise to conduct this research but due to shortage of time and money this research was delimited the foreign purchase of the National Tobacco Enterprise head office the study doesn't focus on domestic purchase and

it was limited for the last two years 2001 and 2002 in assessing activities involved from purchase requisition for material up to receiving the material.

## **1.7. Research Design and Methodology**

### **1.7.1. Research Design**

The research tries to assess foreign purchasing system in National Tobacco Enterprise Share Company. The research method was descriptive method. Since the descriptive research enables the researcher to describe the existing situation of national tobacco enterprise foreign purchase system.

### **1.7.2. Population and Sampling Technique**

The unit of analysis of the study was 160 employees of the National Tobacco Enterprise. The researcher was used stratified sampling technique i.e. proportionate stratified sampling technique. This sample technique is used because the company has different department. I.e. Local purchase division, foreign purchase, stores, Inventory control, human resource development and Transport and garage Divisions. It gives equal chances of being selected was taken randomly from one department selected 30% of the population.

<b>No</b>	<b>Department</b>	<b>Population</b>	<b>Percentage</b>	<b>Sample</b>
1	Supply department	53	30%	16
2	Administration and human resource development	27	30%	8
3	Production department	59	30%	18
4	Quality control department	21	30%	6
	<b>Total</b>	<b>160</b>		<b>48</b>

In this company the total number of employee are 160 from this population size select 30% i.e. 48 employees as a sample size the researcher believe the selected samples had enough to give adequate information for the researcher.

Finally for this research paper, the unit of analysis was employees working in the company.

### **1.7.3. Types of Data Collected**

In this research the student researcher had intended to use two types of data these are primary and secondary data. Primary data was collected from the respondents through interview and distribution of questioner. On the other hand secondary data was collected from foreign transaction documents, purchasing manual of the company, and other published document.

### **1.7.4. Methods of Data Collection**

The methods of data collection used in this research paper were both close and open ended questionnaire to the sample respondents and interview were conducted open ended questions for supply manager of the company and foreign purchasing department head.

### **1.7.5. Methods of Data Analysis**

The collected data were analyzed based on the response the response of the sample population by grouping similar response together and by using percentage. The analyzed data was presented in the form of table.

## **1.8. Limitation of the Study**

There are so many challenges that limit the research work among those problems the researcher get lack of sufficient money, unwillingness of respondents to fill the questionnaire and return back on time, and also

prolonged appointment were seen conduct interview. These are some of the challenges faced by this study.

### **1.9. Organization of the Study**

The paper was organized in four chapters; the first chapter consists of background of the study, organization of the study, statement of the problem, objectives of the study, research question, significant of the study, delimitation of the study, definition of terms, research design and methodology, organization of the study. The second chapter consists of the literature review, the third chapter includes data presentation, analysis and interpretation and the final chapter incorporates, summary of the findings, conclusions and recommendations part of the study and other necessary documents of the research like reference, list of bibliography, appendices, sample questions, interview were attached to the research work.



## **Chapter Two**

### **Review of Related Literature**

#### **2.1 Introduction**

Every organization on earth need supplier no organization can survive with out suppliers. Every organization also needs customer therefore all organization exist between supplier and customer the purchasing and supply function has primary responsibility for this side of each organization while marketing has the primary responsibility on the other side (Lender Johnson, Flynn Fearson 2006: 2).

#### **2.2 The Objective of Purchasing**

- Proper quality standard based on suitability criteria must be maintained.
- Materials must be procured at lowest possible cost consistent with quality and service requirement
- To supply the organization with a steady flow of materials and services to meet its needs.
- To ensure continuity of supply by maintaining effective relationships with existing sources and by developing other sources of supply either as alternatives or to meet emerging or planned needs.
- To buy efficiently and wisely, obtaining by any ethical means the best value for every pound spent.
- To maintain sound co – operative relationships with other departments, providing information and advice as necessary to ensure the effective operation of the organization as a whole.

- To develop staff, policies, procedures and organization to ensure the achievement of the foregoing objectives (Data A.K. 2003 and Peter Baily and David Farmer, 2005: 57).

## **2.3 Purchasing Principle**

The essentials of efficient purchasing are right quality, right quantity, right time, right price, right source and delivery at the right place. These are dealt with briefly as follows (Data A.K. 2003:55):-

### **2.3.1 Right Quality**

Quality can be defined by several means through specifications that is dimensions, chemical property, physical a good vendor communication program, to determine the right quality. It may be advantageous to ask questions on specifications, or supply value engineering techniques, to arrive at the term quality instead of satisfying the user's requirement since he will invariably insist on the best quality. Therefore, the major trust of purchasing division should be towards the procurement of quality products at competitive prices (Data A.K. 2003:55).

### **2.3.2 Right Quantity**

The quantity to be purchased may vary with the production and need strategy and planning of an organization. The right quantity can be determined in comparison to the volume of production in advance or the required service. User departments should request the appropriate quantities of the purchasing item, i.e. how much of the item should be ordered are the short-term operating questions that must be answered. This is the concept of Economic Order Quantity (EOQ) (Data A.K. 2003:55).

EOQ model can be determined based on the following assumptions:

1. Annual demand is assumed to be constant.

2. Carrying cost per unit year is fixed.
3. Stock is replaced instantaneously.
4. Ordering size is uniform.

The emphasis of EOQ is to understand the behavior of inventory related cost factors in order to make decisions about managing inventory. A manager must determine whether which items should or should not be carried which items should or should be carried for specific items, and what order quantities are appropriate for a given item.

### **2.3.3 Right Price**

The lowest price needs not necessarily to be best price, but the lowest responsible price is the right price. Obviously the basis for deciding on the right price will depend upon the type of material, market condition, availability, supply demand and socio-politico economic aspects (Data A.K. 2003:55).

### **2.3.4 Right Source**

Source selection is also an important factor. Besides the factors mentioned earlier, reliability and timely delivery have to be seriously reckoned with. Actually, there are four stages of source selection (Data A.K. 2003:56):

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

### **2.3.5 Right Time**

Right time implies that in order to be effective, purchases should be made, in such a way that stores and materials are made available in time when needed, it being purchasing department's duty to see that the delivery schedule is honored. As such, timing is an important element in

every purchase order, except when such purchases are made for stock purposes. Even then, in order to get some price advantage when some seasonal purchases are resorted to, timing plays its due role (Data A.K. 2003: 56).

### **2.3.6 Right Place**

Geographical location of the supplier affects the cost of transportation and lead-time, which certainly occupies a prominent place while evaluating a supplier. A vendor located at a relatively far-off place compared to a local stockiest or sort distance supplier, is much more difficult to follow up even in this age of advanced communicating world (Data A.K. 2003:56).

## **2.4 Purchasing in the Organization Structure**

Where should purchasing be in the organization structure? This question clearly has no simple answer. In some cases the function may not be significant, and will be placed in a subordinate position in the hierarchy. The converse is true when the size of purchase expenditure relative to corporate turnover is such that a very senior executive is appointed to control the function, or when key supplies emanate from volatile markets, or when the proportion of the cost of a product which is bought in is significant. Between these extremes, on what might be thought of as a continuum, lie many variants (Peter Baily and David Farmer, 1977, 22).

There are organizations where the function is subordinated, most often to production. That position probably reflects traditional attitudes in the organization as well as the quality of the supplies staff. "If you pay peanuts you get monkeys!" A subordinate role and a commensurate salary etc. will not attract staff with the ability to perform the function at a higher level, thus either the wider functions are performed by other

people or it is assumed that they are. In such circumstances, competent purchasing staff may need to bring to the attention of traditional managements the potential of the function (Ibid, 23).

## **2.5 Purchasing Cycle**

The purchasing cycle consists of the following steps:

1. Receiving and analyzing purchase requisitions.
2. Selecting suppliers. Finding potential suppliers, issuing requests for quotations, receiving and analyzing quotations, and selecting the right supplier.
3. Determining the right price.
4. Issuing purchase orders.
5. Following-up to assure delivery dates are met.
6. Receiving and accepting goods.
7. Approving supplier's invoice for payment. (J.R. Tony Arnold, 1988, 173).

**Receiving and analyzing purchase requisition.** Purchase requisitions start with the department or person who will be the ultimate user. In the material requirements planning environment, the planner releases a planned order authorizing the purchasing department to go ahead and process a purchase order. At a minimum, the purchase requisition contains the following information:

- ❖ Identify of originator, signed approval, and account to which cost is assigned.
- ❖ Material specification.
- ❖ Quantity and unit of measure.
- ❖ Required delivery date and place.
- ❖ Any other supplemental information needed.

**Selecting suppliers.** Identifying and selecting suppliers are important responsibilities of the purchasing department. For routine items or those that have not been purchased before, a list of approved suppliers are kept. If the item has not been purchased before or there is no acceptable supplier on file, a search must be made. If the order is of small value or for standard items, a supplier can probably be found in a catalogue, trade journal, or directory (J.R. Tony Arnold, 1988, 173).

**Requesting Quotations.** For major items, it is usually desirable to issue a request for quotation. This is a written inquiry that is sent to enough suppliers to be sure competitive and reliable quotations are received. It is not a sales order. After the suppliers have completed and returned the quotations to the buyer, the quotations are analyzed for price, compliance to specification, terms and conditions of sale, delivery, and payment terms. For items where specifications can be accurately written, the choice is probably made on price, delivery, and terms of sale. For items where specifications cannot be accurately written, the items quoted will vary. The quotations must be evaluated for technical suitability. The final choice is a compromise between technical factors and price. Usually both the issuing and purchasing departments are involved in the decision (J.R. Tony Arnold, 1988, 174).

**Determining the right price.** This is the responsibility of the purchasing department and is closely tied to the selection of suppliers. The purchasing department is also responsible for price negotiation and will try to obtain the best price from the supplier. Price negotiation will be discussed in a later section of the chapter (J.R. Tony Arnold, 1988, 174).

**Issuing a purchase order.** A purchase order is a legal offer to purchase. Once accepted by the supplier, it becomes a legal contract for delivery of the goods according to the terms and conditions specified in the purchase agreement. The purchase order is prepared from the purchase

requisition or the quotations and from any other additional information needed. A copy is sent to the supplier; copies are retained by purchasing and are also sent to other departments such as accounting, the originating department, and receiving (J.R. Tony Arnold, 1988, 174).

**Following-up and delivery.** The supplier is responsible for delivering the items ordered on time. The purchasing department is responsible for ensuring that suppliers do deliver on time. If there is doubt that delivery dates can be met, purchasing must find out in time to take corrective action. This might involve expediting transportation, alternate sources of supply, working with the supplier to solve its problems, or rescheduling production.

The purchasing department is also responsible for working with the supplier on any changes in delivery requirements. Demand for items changes with time, and it may be necessary to expedite certain items or push delivery back on some others. The buyer must keep the supplier informed of the true requirements so that the supplier is able to provide what is wanted and when (J.R. Tony Arnold, 1988, 174).

**Receiving and accepting goods.** When the goods are received, the receiving department inspects the goods to be sure the correct ones have been sent, are in the right quantity, and have not been damaged in transit. Using their copy of the purchase order and the bill of lading supplied by the carrier, the receiving department then accepts the goods and writes up a receiving report noting any variance. If further inspection is required, such as by quality control, the goods are sent to quality control or held there for inspection. If the goods are received damaged, the receiving department will advise the purchasing department and hold the goods for further action. Provided the goods are in order and require no further inspection, they will be sent to the originating department or to inventory (J.R. Tony Arnold, 1988, 174-175).

A copy of the receiving report is then sent to the purchasing department noting any variance or discrepancy from the purchase order. If the order is considered complete, the purchasing department. If it is not, the purchase order is held open awaiting completion. If the goods have also been inspected by the quality control department, they, too, will advise the purchasing department whether the goods have been accepted or not (J.R. Tony Arnold, 1988, 175).

**Approving supplier's invoice for Payment.** When the supplier's invoice is received, there are three pieces of information that should agree: the purchase order, the receiving report, and the invoice. The items and the quantities should be the same on all; the prices, and extensions to prices, should be the same on the purchase order and the invoice. All discounts and terms of the original purchase order must be checked against the invoice. It is the job of the purchasing department to verify these and to resolve any differences. Once approved, the invoice is sent to accounts payable of payment. (J.R. Tony Arnold, 1988, 175)

## **2.6 Basic Purchasing Policies**

### **Definition of policy**

Policy is a statement that describes in very general terms an intended course of action. After the fundamental objectives of an activity are established, policies are developed to serve as general guidelines in making operating decisions that channel actions toward achievement of the objectives (Doubler and Burt, 1996, 45). Every purchasing department has policies, whether or not they are put into writing. They are one of administrative tools of departmental management and a reflection of top management philosophy (Doubler and Burt, 1996, 45).

An established policy serves two functions;

- It serves as a base to be used in formulating operating procedures.



- It serves as a general guide in making decisions about unusual problems, which fall outside of clear cut procedural boundaries.

### **Policies defining purchasing responsibility**

The following purchasing responsibilities should be clearly and unequivocally stated in the firm's policy manual (Doubler and Burt, 1996, 48-49).

1. Centralization or Decentralization of purchasing
2. Liaison responsibility for external contracts
3. Selection of suppliers and contract provisions
4. Review of material specifications and requests.

### **Policies on supplies sources**

Sources of supplies decisions frequently produce substantial impact on both inside and outside the buyer's firm. For this reason, it is essential that carefully conceived policies be included in the policy manual with regard to:

- The number and size of sources
- Sources selection criteria
- Local sources
- Foreign sources
- Development of new sources etc...

### **The policy Manual**

If policies are to function effectively, it is imperative that they be placed in written form. A policy is a communication. It is important that the message reach those who are to receive it as clearly and accurately as possible. The complexity of a modern firm necessitates the establishment of many diverse policies, all of which can not possibly be remembered with accuracy. Because policies are general statement, minor differences

in interpretation are inevitable. It is essential, that care should be taken to ensure the accuracy of policy communication. Consequently, most firms disseminate policy statements to their employees via some type of written policy manual. The use of policy manual clearly facilitates consistent basic conduct among all departmental personnel. It is particularly important to foster consistent performance among buyers because their dealings with suppliers can significantly influence the firm's public image (Doubler and Burt, 1996, 57-58).

## **2.7 Make or Buy Decision**

When thinking of making or buying an item one consider whether adequate quantity will be obtained in the required quality at a satisfactory price by making or buying (Nair, 1990: 149).

Making things in one's own plant enables one to utilize spare capacity it any; to keep control over quality and cost and to be sure of delivery particularly of urgent requirements. On the other method of commencing the manufacturer of a product or increasing the production, as it is mostly a question of utilizing facilities already in existence, although there is the uncertainty about price. Also when production is at a high rate the additional requirements of plant – manufactured item are obtained from outside but during slack periods it pays to make an item in one's own plant as it absorbs some of the fixed overheads (Doubler and Burt, 1996, 149).

The factors involved in a decision to obtain the components from out side are whether the requisite technical ability is available with outside firms; whether prices will be steady; whether quality and flow of supply will be maintained; whether there will be frequent labor troubles in the firms; whether it will be advisable to give details of process or designs of a confidential nature to outside firms, etc. (Doubler and Burt, 1996, 149)

## **2.8 Buying Internationally**

The increasing internationalization of trade manufactured goods and spread of specialization to countries where until recently almost everyone earned a living by producing primary rather than secondary goods has means for many purchase departments, a much greater involvement with buying internationally (Baily and Farmer 1986: 187).

Purchasing products and services of foreign origin can be extra ordinary challenging in the one hand, virtually all of the practices and procedures of purchasing should be applicable. At the same time many new issues must be addressed is sourcing team's to ensure that its organization receives the right quality in the right quantity in time with the right service at the right price (Doblers Burt 1996: 267).

- Delivery time of high weight –low value item may be high
- Communication problem
- Differences in contractual and transport arrangement
- Expediting foreign firms is more difficult because of distance
- The risk of supply interruption due to political or other problem.
- Currency fluctuation for payment of supplier.
- Problems of quality due to misunderstanding of specification

## **2.9 Import Purchasing Procedure**

In the case of import clearance obtained if the item is not banned for import if affirm has to follow the following foreign purchasing procedure (Data A.K. 2003: 176-177).

- Locating a foreign source – unless on established foreign source is known to the importing firm.
- Procurement – at this stage the importing firm is involved with the foreign source of supply, his own user department and governmental institution.

- Documentation – some of the special document is used in foreign purchase are
  - a. bill of loading
  - b. invoice
  - c. certificate of origin
  - d. weight certificate
  - e. insurance policy
  - f. marketing of package

### **Contract Terms and Liability in Foreign Trade**

- CIF Cost Insurance and Fright – seller is liable for goods until the party destination and selling price cover ocean freight and insurance to that point.
- C&F Cost and Fright similar to CFF except that the buyer arranges insurance.
- FOB Free on Board – seller is usually liable for goods until they are on board ship and pays for transport and handling to the point.
- FAS Free along Side – usually as the right part of export (Baily and David Farmer 1986: 193).

#### **2.9.1 Transportation in Foreign Trade**

All five basic of freight transport road, rail, air, water and pipeline are used in international transaction although the last named is of course highly specialized.

A considerable amount of information needs to be collected and analyzed for instance freight rates, port facilities, sailing times, labor condition, comparative cost and time. Allowances should always be made for great of delay when buying abroad (Baily and Farmer 1986: 194).

One form of insurance against transit delay is to carry stocks in the country of import at the expense either of the importer or the exporter this can be expensive and one of the selling points of air freight is its lead time economy the very short transit time enables stocks to be kept low. Time is a vital exporting and importing goods which are going abroad need to be available in time to allow packing documentation custom formalities. A one day delay in a domestic transaction may result in only one day for the receiver but a one-day delay which results in export consignment missing a selling may cause many weeks delay at the distribution (Baliy Farmer 1986: 195).

## **2.10 Source of Supply**

The selection of the right source of supply is an important factor in obtaining the desired quality, quantity, price and service (N.K. Nair, 1990: 129).

As far as possible, the source of supply should be near one's plant. It will be found advantageous to have more than one source of supply for important production materials. This can be done either by dividing the orders if the quantities required are sufficiently large or by placing the orders on different suppliers in rotation. Buying from more than one source encourages competition, keeps the prices down and ensures supplies if one supplier faces labor trouble, raw material shortage or machine break down. But at the same time it should be said that for certain commodities buying from one source may result in quantity discounts, lower packing charges etc. (N.K. Nair, 1990: 129)

For repetitive purchase, the factors to be taken into account are, adherence to delivery promise, help rendered to overcoming critical shortage; maintenance of quality; rate or rejection of supplies; prompted

of replacement; price fluctuation shown when there is dearth of supplies; etc. (N.K. Nair, 1990:13).

The purchase section should always be on the look out for cheaper but reliable source of supply. When there are too many prospective suppliers for one commodity, it may be necessary to keep some of them in the waiting list (N.K. Nair, 1990: 13).

### **2.10.1 Factors in Selecting Suppliers**

The previous section discussed the importance of function, quantity, service and price specifications. These are what the supplier is expected to provide and are the basis for selection and evaluation. Considering this, there are several factors in selecting a supplier.

**Technical ability.** Does the supplier have the technical ability to make or supply the product wanted? Does the supplier have a program of product development and improvement? Can the supplier assist in improving the products? These questions are important since, often, the buyer will depend upon the supplier to provide product improvements that will enhance or reduce the cost of the buyer's products. Sometimes the supplier can suggest changes in product specification that will improve the product and reduce cost.

**Manufacturing Capacity.** Manufacturing must be able to meet the specifications for the product consistently while producing as few defects as possible. This means that the supplier's manufacturing facilities must be able to supply the quality and quantity of the products wanted. The supplier must have a good quality control program, competent and capable manufacturing personnel, and good manufacturing planning and control systems to ensure timely delivery. These are important in ensuring that the supplier can supply the quality and quantity wanted.

**Reliability.** In selecting a supplier, it is desirable to pick one that is reputable, stable, and financially strong. If the relationship is to continue, there must be an atmosphere of mutual trust and assurance that the supplier is financially strong enough to stay in business.

**After-sales service.** If the product is of a technical nature or likely to need replacement parts or technical support, the supplier must have a good after sales service. This should include a good service organization and inventory of service parts.

**Supplier location.** Sometimes it is desirable that the supplier be located near the buyer, or at least maintains an inventory locally. A close location helps shorten delivery times and means emergency shortages can be delivered quickly.

**Other considerations.** Sometimes other factors such as credit terms, reciprocal business, and willingness of the supplier to hold inventory for the buyer should be considered.

**Price.** The supplier should be able to provide competitive prices. This does not necessarily mean the lowest price. It is one that considers the ability of the supplier to provide the necessary goods in the quantity and quality wanted, at the time wanted, as well as any other services needed.

In a modern business environment, the type of relationship between the supplier and the buyer is crucial to both. Ideally, the relationship will be on going with a mutual dependency. The supplier can rely on future business, and the buyer will have an assured supply of quality product, technical support, and product improvement. Communications between buyer and supplier must be open and full so both parties understand the problems of the other and can work together to solve problems to their mutual advantage. Thus, supplier selection and supplier relations are of the utmost importance. (J. R. Tony Arnold, 1998, 180-181)

### **2.10.2 Supplier Evaluation**

The factors to be taken into account to rate a supplier are location, technical capabilities, price, past performance, i.e., delivery delays, maintenance of quality and percentage of rejection, reliability, and cooperation, etc. (N.K. Nair:131).



## Chapter Three

### 3. Data Presentation, Analysis and Interpretation

This chapter deals with the presentation analysis and interpretation data collected from National Tobacco Enterprise Share Company of the head office.

Data were gathered through interview and questionnaire the interview collected with to department heads and questions were distributed the employees out of the total no of 160 from this population size select 30% i.e. 48 employees were selected as a sample size, out of this 42 (85.7) were returned and 6(14.3%) of the questionnaire was not returned. This indicates the majority of respondents have responded to the distribution questionnaire properly.

#### 3.1 Characteristics of Respondents

In this section general background information about respondents were be presented including sex, age, educational background and work experience the following table therefore presents the general characteristics of respondents.

**Table 3.1.1 General Characteristics of the respondents**

<b>No</b>	<b>Department</b>	<b>Sample size</b>	<b>No respondents</b>
1	Supply department	53	14
2	Administrative and human resource department	27	7
3	Production department	59	16
4	Quality control department	21	5
	<b>Total</b>	<b>160</b>	<b>42</b>

**Table 3.1.2 Characteristics of the study of population**

No	Item	Alternative	No of respondents	Percentage
1	Sex	Male	29	69%
		Female	13	31%
	<b>Total</b>		<b>42</b>	<b>100%</b>
2	Age	Less than 20 years		
		Between 20-29	10	23.8
		Between 30-39	18	42.8
		Between 40-49	12	28.5
		Grater than 50	2	4.89
	<b>Total</b>		<b>42</b>	<b>100%</b>
3	Educational background	Certificate	5	12%
		Diploma	12	28.5%
		Degree	20	47.6%
		Above Degree	5	12%
	<b>Total</b>		<b>42</b>	<b>100%</b>
4	Work experience	0-5 year	4	9.5%
		6-11 year	10	23.8%
		12.17 year	20	47.6%
		More than 18 year	8	19.1%
	<b>Total</b>		<b>42</b>	<b>100%</b>

According to table 3.1.2 item 1, out of the total respondents 29(69%) are male and 13(31%) respondents are female this indicates that national tobacco enterprise share company have more male than female.

Item 2 in table 3.1.2 out of the total respondents 10(23.8%) were between 20-29 years old, 18(42.8%) were between 30-39 years old, 12(28.5%) were between 40-49 years of old, and the remaining 2(4.9%) were greater than 50 years old. The above information indicated that more than half of the employee of the companies' was the age of 30-39. This indicates that the employee is more experienced and the employees are composed of efficient and hot work force.

Item 3 table 3.1.2 presents educational background of the respondents the data indicates that 5(12%) respondents were certificates 12(28.5%) respondents were diploma holder, 20(47.6%) respondents were degree holders and the remaining 5(12%) respondents were above degree holders. According to the above information the majority of the companies employees 20(47.6%) had attained degree holder. This data reveals that the company helps its employee to up grade their educational level.

The last item in table 3.1.2 indicates the work experience of respondents in the company thus 4(9.5%) respondents between 0-5 years experiences 10(23.8%) respondents between 6-11 years work experiences 20(47.6%) of respondents were between 6-11 years work experience 20(47.6%) of respondents were between 12-17 years work experiences and the reaming 8(19.1%) of the respondent were more than 18 years work experience. According to this information the majority of employee (47.6%) had between 12-17 year work experiences of the company. This implies that most of the employee gave service to the company for more than twelve up to seventeen years and stay long in the company service.

### 3.2 Analysis the finding of the Study

**Table 3.2.1 Awareness about foreign purchase**

No	Item	No of respondents	Percentage%
	What is your awareness or understand about foreign purchase?		
A	Very high	10	23.8%
B	High	25	59.5%
C	Medium	7	16.7%
D	Low	-	-
E	Very low	-	-
	<b>Total</b>	<b>42</b>	<b>100%</b>

Table 3.2.1 indicate that respondents 10(23.8%) respondents were awareness about foreign purchase is very high level, as the same time 25(59.5%) of them had high level of understanding about foreign purchase 7(56.7%) of the respondents were medium level of awareness about foreign purchase. The above figure tells as the majority of the respondents i.e. 25(59.5%) of the respondents consider high awareness/understanding about foreign purchase.

**Table 3.2.2 foreign purchasing follow the right specification**

No	Item	No of respondents	Percentage
	To what extent foreign purchase follow the right specification?		
A	Strong agree	5	12%
B	Agree	12	28%
C	Neutral	6	14.5%
D	Disagree	13	31%
E	Strongly disagree	6	14.5%
	<b>Total</b>	<b>42</b>	<b>100%</b>

Table 3.2.2 Indicates that 5(12%) respondents were foreign purchase follow the right specification strongly agree 12(28%) respondents agree, 6(14.5%) remaining 6(14.5%) of the respondents strongly disagree the above figure indicates that 13(21%) of the respondents were foreign purchase department is not follow the right specification.

In the interview foreign purchasing department head materials, chemicals and packing material specification prepared by technical committee which is constituted from quality control manager and production department head wrong incomplete specification transmitted to purchasing department is rare but in the case of spare parts purchasing, mostly wrong or not genuine parts we buying due to incomplete specification.

Based on this the researcher understand that lack of knowledge, skill. in purchasing department of the company tend to inefficient purchase system thus also leads the company to be inefficient and utilization of resource. These causes the companies for additional expense which are indirectly affect the company's profitability.

**Table 3.2.3 Purchasing policy**

No	Item	No of respondents	Percentage
	Do you have purchasing policy?		
1	Yes	42	100%
2	No	-	-
	<b>Total</b>	<b>42</b>	<b>100%</b>

Table 3.2.3 Indicates that all the respondents 42(100%) of the respondents were consents and admitted that there is a purchasing policy in the company.

In the interview the supply manager replied that the purchasing department of NTE has well developed and organized procedure but there is no developed and approved purchasing policy in the organizational level.

The interview recognized that there is no stock policy in determine how much order and when to order in the case of material purchase from abroad it considers 7 months lead time and 3 months of safety stock.

Based on the research understand that this policy not included in the manual, but the employee working on that section may tell you this unambiguously. In the first place the lead time and safety stock was calculated some years back. Because of not making them up to date they lead to wrong lead and safety stock they in turn make delay of raw material that cause of interruption of production.

And also understand that the company didn't implement the policy in efficient way the reason for the failure of implementing the procedure among there is high process on implementation of policy and procedure, lack of knowledge, skill and negligence.

**Table 3.2.4 Criteria of the best supplier**

No	Item	No of respondents	Percentage
	What are the selection criteria to choose the best supplier?		
1	Quality	5	12%
2	Price	30	71.5%
3	Service	1	2.3%
4	Time	2	4.7%
5	All	4	9.5%
	<b>Total</b>	<b>42</b>	<b>100%</b>

Table 3.2.4 the above table indicates that 5(12%) of the respondents was selection criteria to choose the best supplier is quality 30(71.5%) of the respondents were price, 1(2.3%) of the respondents were service 2(4.7%) of the respondents were time, and the remaining 4(9.5%) of the respondents were all that means quality, price, service and time generally the respondents indicates that the selection criteria to choose the best supplier is quality, price, service, and time. As desired in current status of purchasing system of the organization the company gives more attention for price.

In the interview foreign purchase department head said that the selection criteria in foreign purchase are right quality, right quantity, right quantity, right time, right price, right source, and delivery at the right place idealistically however in practice the foreign purchasing department can rarely fulfill them all equally because in some procurement the company policy and procedure may limit them. So

usually some trade off must be made from a practical point of view the foreign department seeks a reasonable balance among them.

This implies foreign purchase department doesn't follow the purchasing principle.

**Table 3.2.5 Frequency of failure of supplier**

Item	More frequently		Frequently		Less frequently		Total	
	No	%	No	%	No	%	No	%
Frequency of failure of supplier to fulfill contract agreement?								
Delivery time	5	12.9	22	52.5	15	35.5	42	100%
Packing material	6	14.5	4	9.5	32	76	42	100%
To supply good quality of material	8	19.8	30	71.5	4	2.5	42	100%
To supply accurate quantity of material	15	35.7	14	33.3	13	31	42	100%
Compensate of lose and damage goods	9	21.5	16	38	17	40.5	42	100%

Table 3.2.5 indicates according to the sample respondents of frequently of failure of suppliers to full fill contract agreement is due to delivery time 5(12%) more frequently, 15(35.5%) frequently, 22(52.5%) rarely packing materials 6(14.2%) more frequently, 10(23.8%) frequently, 26(62.5%) rarely to supply good quality of material 8(19%) more frequently, 30(71.5%), frequently used 4(9.5%) rarely. To supply accurate quantity of material 7(16.6%) more frequently, 12(28.4%) frequently, and the remaining 23(55%) rarely and the rest response compensate of loss and damage is 9(21.5%) more frequently, 16(38%) frequently and, 47(40.5%) less frequently respectively. Generally the respondents indicates that the company faces a problem frequently with supply good quality of material as the contract agreement 30(71.5%) of the employee responded that



failure of supplier to fulfill contract agreement to supply quality of material is frequently.

**Table 3.2.6 Purchasing conduct at the right time**

No	Item	No of respondents	Percentage
	Purchasing material conduct at the right time?		
1	Yes	13	31%
2	No	29	69%
	<b>Total</b>	<b>42</b>	<b>100%</b>

As indicated in table 3.2.6 13(31%) of the respondents were faced purchasing material conduct at the right time, and 29(69%) of respondents have complaining purchasing material not conduct at the right time. In general this data indicates that the respondents 29(69%) of the responsible said purchasing material all not conduct at the right time. For the respondents who answered by saying no for the above questions alternative are given to express opinion reason out.

**Table 3.2.7 Reasons of delayance**

Item	No of respondents	Percentage
- shipping line arrangement	6	14.3%
- bidding process	24	57.2%
- documentation	8	19%
Customer formalization	4	9.5%
If others		
Total	42	100%

From the above table 3.2.8 indicates that 6(14.3%) of the respondents is shipping line arrangements, as the same time 24(57.2%) of the

respondents were bidding process, 8(19%) of the respondents were documentation process and the remaining 4(9.5%) of the respondents were customer formalization.

In general from the total respondents the majority 24(57.2%) of the respondents said that the reason for purchasing of law material from abroad is dalliance to the bidding process.

In the interview from the supply manager of the company the cause of dalliance were to long biding process, contract agreement by the supplier side and due to small size of ware house which is the delay of material will cause interruption of production that reduce the profit of the company.

Based on this the researcher can understand that the delay of raw material that bidding process take long period most of the procedures are routine, time consuming from opening tender up to payment of supplier the company showed try to shorter receiving and inspecting time procedure by assigning active professionals and using modern computer system.

**Table 3.2.8 Replenishment policies, procedures and principles of the company**

<b>Item</b>	<b>No of respondents</b>	<b>Percentage</b>
Does the company replenishment policies, procedures and principles of the company.		
Needs total review	18	42.8%
Needs partial review	24	57.2%
No need to partial review	-	-
<b>Total</b>	<b>42</b>	<b>100%</b>

From the above table all can understand that 18(42.8%) and (57.2%) of the respondents have suggested that the company purchasing policies, procedures and principals stated in the purchasing manual should be partially and totally revised respectively.

**Table 3.2.9 Absence of computerized system you dalliance**

<b>No</b>	<b>Item</b>	<b>No of respondents</b>	<b>Percentage</b>
	Do you think that the absence of computerized system makes dalliance on foreign purchase?		
1	Yes	33	78.5%
2	No	9	21.5%
	<b>Total</b>	<b>42</b>	<b>100%</b>

From the above table 3.2.9 understand that 33(78.5%) of the respondents were absence of computerized system make dalliance on foreign purchase and 9(21.5%) of the respondents were the absence of computerized system is not make dalliance on foreign purchase the above data indicates that the majority of the respondents 33(78.5%) were absence of computerized system make dalliance on foreign purchase.

In the interview foreign department head to modernize our purchasing process in national tobacco share company planned to design computerizing system which can create fast and reliable purchasing system.

Based on this the researcher understand that the reason for the absence of computerized system make dalliance on foreign purchase did not use proper ordering level, no stock policy and also the maximum and minimum stock is not known.

**Table 3.2.10 Fulfill the Right Quality**

No	Item	No_ of_respondents	Percentage
	Does the material that the purchasing department bought for your section fulfill the right quality?		
1	Yes	17	40.5%
2	No	25	59.5%
	<b>Total</b>	<b>42</b>	<b>100%</b>

The above table 3.2.10 indicates 7(40.5%) of the respondents were the right quality, and 25(59.5%) of the respondents were purchasing department is not bough fulfill the right quality. In general from the total respondents the majority i.e. 25(59.5%) of responded that purchasing department bought is not fulfill the right quality.

Based on this the researcher the can understand that the reason for bought low quality of materials is low in price, lack of knowledge and skill from employee. Based on this reason materials which are bought for the need section doesn't fulfill the right quality.

**Table 3.2.11 Purchasing Evaluation**

<b>No</b>	<b>Item</b>	<b>No of respondents</b>	<b>Percentage</b>
	Does the purchasing department take purchasing evaluation after purchase?		
1	Yes	12	29%
2	No	30	71%
	<b>Total</b>	<b>42</b>	<b>100%</b>

The above table 3.2.11 indicates that 12(29%) of the respondents were purchase department take purchasing evaluation after purchase, and 30(71%) of the respondents were purchasing department is not take purchasing evaluation after purchase.

In general from the total respondents 30(71%) responded that purchasing department is not take evaluate after purchase.

In the interview the purchasing department head response that regarding with controlling mechanisms and availability of purchasing evaluation methods the manager answered that, the purchasing department possess different controlling mechanisms during purchasing is made. The common bases for this are the availability of quantity of materials and delivery time. Based on these parameters, the purchasers as well the purchased materials can be controlled on every purchasing evaluation methods which made purchaser, requested department or suppliers who render the materials under take into accountability. On this regard the modern intention of purchasing department in NTE will fall under question mark.

### 3.2.12 Poor quality of raw material supplier problem

Item	No of respondents	Percentage
Poor quality of row material may be supplied by the suppliers this problem is the result of		
- In accuracy of sample test	1	2.3%
- un reliability of supplier	39	93%
- poor handling system of packing	2	4.7%
If others		
<b>Total</b>	<b>42</b>	<b>100%</b>

Table 3.2.12 indicates that 1(2.3%) of the respondents were in accuracy of sample test, 39(93%) of the respondents unreliability of supplier and the remaining 2(4.7%) expressed poor handling system of packing.

In general from the total respondents of 93.1 of responded that unreliability of the supplier is the main problem of supply poor quality of material.

In the interview held the foreign purchasing department head of the company they made clear that samples, which proved to be tested and accepted during the supplier selection, would lead the company to conclude an agreement to purchase material.

And also make clear that most of the time the company conclude an agreement to compensate loss and damage material. But most of the suppliers were not voluntary to compensate for loss and damage goods to their contract. If there is any discrepancy, damage or lost, notify the insurance company to make their final survey and make insurance claim for compensation.

### 3.2.13 Do you foreign purchasing department knowledge skill

No	Item	No of respondents	Percentage
	Do you believe foreign purchase department employee enough knowledge or skill?		
1	Yes	12	28.6%
2	No	30	71.4%
	<b>Total</b>	<b>42</b>	<b>100%</b>

Table 3.2.13 Indicates that 12(28.6%) of the respondents foreign purchase department employee have enough knowledge skill and, 30(71.4%) of the respondents were foreign purchasing department is not enough knowledge or skill.

In the interview foreign purchasing department head said that related with knowledge and skill he answered that the performance of the employee that assigned to foreign purchasing department doesn't fit with their job. The reason are employees assigned for that job positioning greater emphasize was given for internal growth and development of employee rather than being evaluated select and placing of employee based on the needed qualification.

### 3.3 Major finding in purchasing manual

The companies purchasing manual is the guide line that contain purchasing policies, procedures and principles. however some of the articles in the manual is not established in the way that facilitate purchasing activities.

Indicated in the purchasing manual companies policy is not included in the manual in the interview the supply manager replied that the purchasing department of NTE has well developed and organized procedure in the organizational level but the purchasing manual doesn't describe how to develop suppliers which identify a social class supplier that is able to meet its need the buyer firm should select the most attractive suppliers and then develop the supplier in to capable of meeting its present and future needs.

Purchasing activity is centralized by one tender committee. This type of purchasing system which allows buying a huge amount of material both the local and foreign only with one committee will lead the system to be corrupted.

The purchasing policy of the company has its own tender process the analysis of bidding process takes a long period most of the procedures are routine and time consuming from opening tender up to the payment of the supplier the company should try to shorter receiving and inspecting time procedure by assigning active professionals and using modern computer system.

The researcher also finds stronger side of the company manual that states how the purchasing department accomplishes the activities during supplier section use of mode of purchasing and how long each activity should take. Regarding the existing purchasing policies procedures and principle of questionnaires and the following responses are made.

The company's purchasing manual, interview with the supply manager and foreign purchase department head are the main source of organizing and presenting the current purchasing system of the company.



### **3.3.1 Purchasing Manual of the Company**

The company purchasing manual is the guideline that contains purchasing policies, principles and procedures. The manual also contains detail description of mode of procurements, preparation of tender document and its composition, purchase committee members, procedure to be followed in tender opening, evaluation factors award of contract, preparation of purchase order, application for foreign exchange, delivery follow up etc.

### **3.3.2 Tender Committee**

The company purchase committee is formed in order to evaluate Performa invoices for goods and services costing more than birr 10,000. The following purchase committee members are assigned by the General Manager and are entitled to recommends mode of procurement, verifies whether the bid analysis is correctly filled, recommends the award to the first three winners and signs on each offer analysis sheet and prepares and maintains minutes in every meeting. The committee's decision should be approved by General Manager. The committee consists as follows:

Production Head .....	Chairman
Head of the farms .....	Member
Local purchase Head .....	member
Quality control head .....	Member
Foreign purchase head .....	member and secretary

### **3.3.3 Types of Purchasing in the enterprise**

**Small purchasing:** In this type of purchase that all purchase requisitions for materials and services costing below birr 500 are authorized by local purchase section head. It's practiced for materials such as stationeries and office equipments.

**Local Purchase section:** is a responsible buying material and services which are available locally. It's make sure that the goods received are within the agreed specification and contract agreement. In local purchases, depending on the magnitude of value of goods to be purchased the purchase procedure maybe handled by tender or purchases committee members.

**Foreign Purchase section:** It's responsible to buy raw materials, capital items packing materials, and spare parts etc. which are not available locally. Since the enterprise uses more than 70% of the total input purchase from outside, the performance of this department making great changes to the profit and create value to the customer.

#### **3.3.4 Purchasing Cycle of the Enterprise**

The procedure involves a series of steps in acquiring products:

**Recognition of need:** user departments fill out store requisition forms for the goods they require and submitted the original copy to the stores. The store identifies the items required and issued to the user department if they are available in stock.

However, the items required are not available in the store, and then identified the type of item whether they need specification and technical analysis. In the case of raw material, packing materials and chemicals, the store sends the requisition to quality control to prepare specification. Then, based on detailed specification store prepare purchase requisition and transfer it to inventory control. The preparation of these requisitions in turn depends on the availability of an approved budget in the case of recurrent operations, or managerial approvals for unforeseen emergencies.

If the items requested are fixed asset or capital goods, the requisition presents to the technical committee for correction and then comment then the store prepare purchase requisition.

After items are identified and subjected to local and foreign purchase the next task is the determination of the mode of procurement.

**Selecting Suppliers:** The purchasing department investigates whether the purchase requisitions are properly specified and filed. Then, identify the source of supply if the requested goods and/or services are obtainable from foreign sources; recommend the most advantageous sources and the mode purchase. If the requested items are beyond the authorized financial limit of the department then the case brought to the purchase committee for recommendation either to collect Performa invoices or to float a tender.

The enterprise adopted four types of mode of procurements:

- Open tender
- Limited tender
- Direct purchase
- Contractual purchase

**Open Tender:** This method of procurement of goods and services is carried out by open advertisement. It is normally used in absence of sufficient information as to the number of manufacturers of the product.

**Limit Tender:** Where the number of prospective suppliers for particular goods to be acquired is proved to be limited, procurement may be undertaken through limited competition. Before conducting this type of tender procurement division has to prepare a dependable suppliers

roster for each product. When processing limited tender the suppliers in the short list are approved by the General Manager.

**Direct Purchase:** The enterprise sometimes obtains the procurement through direct negotiations with one supplier. Before entering into negotiations with one supplier the concerned body make sure that the following be full filed.

- The requested materials are obtainable only from one manufactures, holding exclusive patents and manufacturing right.
- Ensure that only one bidder participated in the past subsequent open tenders.
- If the required items are spare parts that are only be obtainable from the manufacturers of the machine for which the parts are requested.
- Direct purchase is recommended by the tender committee and approval by the General Manager is secured.

**Contractual Purchase:** Contractual purchase is one of the modes of purchases where by the enterprise purchase committee and a seller negotiate and sign a written agreement on long term deliveries of materials.

In all aspects of mode of procurements depending on the type of goods required the supplier may asked to present sample and financial quotations.

**Determining the right price:** The Company considers the lowest price to purchase the goods, in the foreign purchase the suppliers may present financial offer in different currency. So, to facilitate the competition all

currencies changed in to birr and need to evaluate based on foreign exchange rate that declare on the date of tender opening.

For a foreign purchase orders prepare by purchasing department in line with tender committee's recommendations and the General Manager's approval. Before mailing the purchase order the person in charge of the purchasing department of the factory assures whether adequate performance security is issued by the concerned bank on behalf of the supplier. He also makes sure that cash against document orders are approved by the National Bank of Ethiopia prior to their dispatch to the suppliers.

**Follow up:** The necessary follow-up be made by both local purchase department and foreign purchase department starting from the date of the purchase order to the date the goods are handed over to the factory's stores. It's accomplished through telephone, writing a letter and fax to the suppliers.

In the case of foreign purchase, the complete documents should be transmitted to Maritime and Transit Service Enterprise (MTSE). And, ascertain that operation number from MTSE is obtained upon advance payments and made close contact with it to insure timely clearance and delivery of goods to the stores.

**Receiving and accepting goods:** When the goods arrived to the factory's stores the person in charge verifies them against purchase order, supplier invoice and packing list. Then, notify with a formal document to qualify control department for inspection of the whole lot or informed to the user department to ensure the items arrived correctly as specific on the purchase order. If there is any discrepancy, damaged or lost, notify

the insurance company to make their final survey and make insurance claim for compensation.

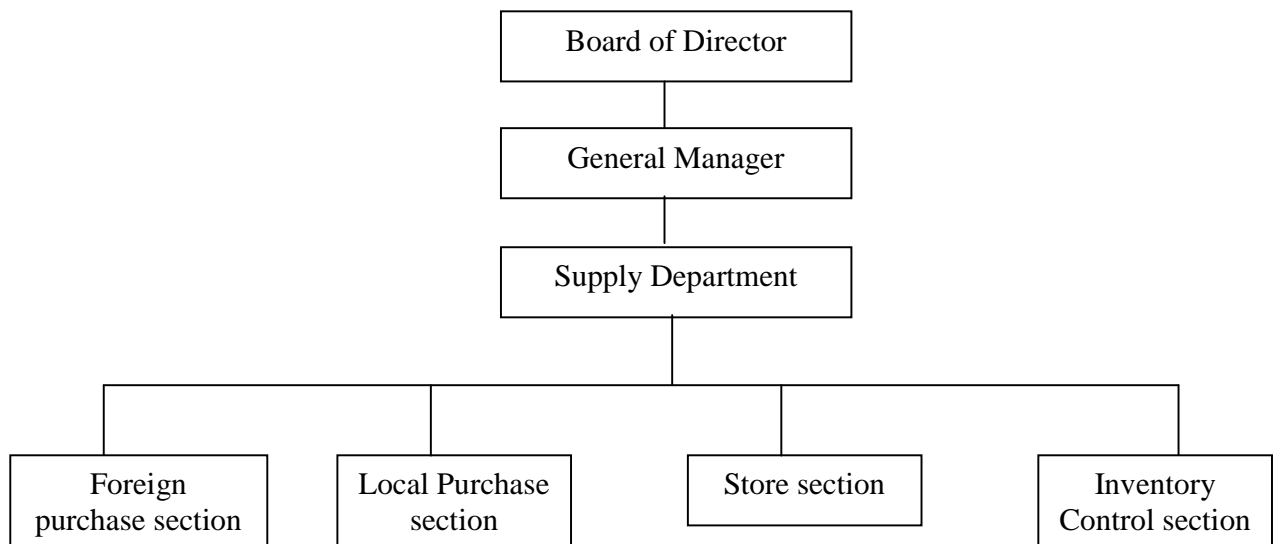
Based on the results of quality control and the user department store will prepare a goods receiving note and distribute to the concerned department within two days.

**Approving Supplier's Invoice for Payment:** Payment is made by finance department after verifying the purchase order, supplier invoice, goods receiving note and inspecting report.

### 3.3.5 Purchasing in the organization Structure

Both local and foreign purchase sections are under the control of supply department. And, the supply department head is a accountable for General Manager of the factory.

#### Department of Supply Organization Chart



### **3.3.6 Centralization of Decentralization of Purchasing**

The company uses centralization of purchasing. It indicates clearly in the purchasing manual. The manual describes that stores section have to collect, complied and summarized the store requisitions. These are requests by the user department of the head office and requests from farms, in order to facilitate and purchase the goods which ware not available in stock.

## **Chapter Four**

### **Summary, conclusion and Recommendation**

#### **4.1 Summary**

In this Era of globalization the purchasing system is considered as competitive advantage for most business firm and it affects greatly the profitability of the factory.

National tobacco share company spend large amount of money for purchasing of raw material from abroad but due to less attention given to the foreign purchasing system that result unnecessary cost which directly or indirectly affects the profitability of the company.

Foreign purchase department is structured under the supply department these requirements or needs will accomplish through the factory purchasing manual policy and procedure.

- As clearly shown the study 25(59%) of the respondents consider high awareness /understanding about foreign purchase.
- Based on the respondents 13(21%) foreign purchase department not follow the right specification.
- All the respondents i.e. 42(100%) of the respondents were consent admitting that there is a purchasing policy in the company.
- As indicated current status of purchasing system 30(71.5%) of the company gives you attention for price.
- Based on the respondents 18 (42.8%) respondents said that purchasing manual is totally revise 24 (57.2%) of the respondents purchasing manual is partially revised.
- According to the respondents 24(57.2%) of the respondents said that the reason for purchase of from abroad is too long bidding process.



- The respondents 33(78.5%) said that absence of computerized system make delayance on foreign purchase.
- As indicated 25(59.5%) of the respondents said that the purchasing department bought not fulfill the right quality.
- As indicated 30(71%) responded foreign purchasing department employee is not enough knowledge or skill.
- As clearly shown in the study 39(93%) of the responded that unreliability of the supplier is the main problems of quality of material.
- The majority of the respondents 30(71%) replied that purchasing department is not take purchasing evaluation after purchase.

## **4.2 Conclusion**

In Conclusion the foreign purchasing system makes great contribution to the enterprise success. And, it's necessary performing the purchasing activity proactively rather than reactively.

National tobacco enterprise use foreign purchase section to accomplish its objectivities the purchasing section are organized under the supply department and this motivates the employee to work hard and build their major this is also helps the purchasing section to make decision independently.

However, there are some problem in the foreign section for delay of raw material like too long bidding process, failure of contract agreement by the supplier side and due to small size of wear house.

As to the purchasing system in the company of this study had found the following facts.

- Materials were not delivering on time because of too long bidding process

- Materials were not delivered on the date specified time because of wrong lead time and safety stock.
- Calculation of when to order, how much to order, lead time safety stock for each item is not included in the purchasing manual.
- In appropriate supplier selection the company gives you attention with in a low price wants high quality
- The members of purchasing committees all busy in their own respective department, they give less attention to the committees work and this is the real cause not obtain the material on time.
- Sometimes in the case of spare parts, specification are not complete, clear and in appropriate this leads to the buying offer to purchase wrong material which is not fit for the required machine and not genuine parts also purchased which increase expense of the factory
- The foreign purchase section is not automated.
- Unreliability of supplier the company tender evaluation has two stage that are technical evaluation and financial evaluation in the case of financial evaluation the purchasing committee selects the supplier who offer the lowest price only the committee is not considering other factors like supplier reliability, supplier location, supplier capacity and supplier part performance so supplier some times supply poor quality of raw material offer they how been selected.
- The enterprise store are not large enough to accommodate all purchase material this is the supplier to keep the goods with them until they are told to deliver in between of the date the supplier may change his delivery schedule with different reason then this is the cause for interruption of production.

### **4.3 Recommendation**

Based on the analysis of the study the following are recommended.

- The companies include purchasing policy in the manual and amend unnecessary rules and procedures.
- The supply department must revise and update the lead time and safety stock for each item is set already and as the same time the calculation used or the policy must be included in the purchasing manual so every employee working in the supply department as a whole equally understand and implement it.
- The company considers with low price high quality of materials but not consider time, service, location, reliability and past performance.
- Duties and responsible of tender committee should be included in the purchasing manual so the members might act accordingly this used as an alternative.
- During specifying the spare parts to purchase, the concerned body should use manual to identify the right part number. Based on the manual specification of the spare part become complete clear and appropriate.
- Purchasing section should act proactively to save the companies problem in advance that greatly contribute to achieve objective in the case of purchasing research is a systematic investigation to locate better or alternative sources of supply, to improve the quality and price, to value analyze various items, standardize specification of manufacture or suppliers, their production capacity annual output, grades and qualities available.
- The purchasing system should be automated to do the work fast and reliable.
- The top manager should authorize a budget to build a new store which is large enough to accommodate all purchase material.

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## **Appendix - A**

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

Questionnaires to be filled by National Tobacco Share Company permanent employees on an assessment of foreign Purchasing System of the Company.

First I would like to thank for your willingness to answer his questionnaire the objective of the interest is to explore the on going status of you company's foreign purchasing system and which in turn to give recommendation for its improvement.

Hence, there is no collection would be make up on your answer rather it is clearly to show the level your personal opinion to the individual inquiry. Therefore, your frank and sincere reply is highly appreciated for it will positively contribute to the validity of the data to be collected.

No need your name

I appreciate your devotion of time and participation.

For the question which appear on put your answer by making '✓' mark on the box (s) or write your idea on the space provided please, as much as possible do not jump the open ended questions un answered.

### **Part I Personal Data**

1. Sex    Male                          Female
2. Age    Less than 20                       Between 20-29   
            Between 30-39                       between 40-49   
            Greater than 50

3. Educational Background

Certificate

Degree

Diploma

Above Degree

4. Work Experience

0-5 years

6-10 years

7-12 years

More than 12 year

**Part II Questions related to the study**

1. What is your awareness or understand about foreign purchase?

Very high  high  medium

Low  very low

2. Do you have purchasing policy?

Yes  No

3. To what extent foreign purchase follow the write specification?

Strongly agree  agree  neutral

Disagree  strongly disagree

4. What are the selection criteria to choose the best supplier?

Quality  price  service  time

5. Frequency of failure of supplier to fulfill contract agreement?

More frequently  Frequently  Rarely

6. Does the purchasing of material at the right time?

Yes  No

7. If the answer is no for questions no 6 what are the reason for dalliance?

a. shipping line arrangement

b. bidding process

c. documentation process

d. custom formalization

e. if others specify \_\_\_\_\_

8. Does the company replenishment policies, procedures and principle of the company?  
 a. Need total review  b. Needs partial review  c. No need review
9. Do you think that the absence of computerize system makes dalliance on foreign purchase activities?  
 Yes  No
10. If your answer for question No 8 is yes state your possible reason?  
 -----  
 -----
11. Does the material that the purchasing department bought for your section fulfill the right quality  
 Yes  No
12. Poor quality of row material may be supplied by the suppliers this problem is the result of  
 a. In accuracy of sample test   
 b. Unreliability of the supplier   
 c. Poor handling system of packing   
 d. If others specify \_\_\_\_\_
13. Do you believe that the workers that assigned to the purchasing departments have enough knowledge/skill?  
 Yes  No
14. Does the purchasing department take purchasing evaluation?  
 Yes  some times  never

## **Appendix - B**

Interview that are done with foreign purchasing department head and supply manager that you in advance for your willingness and cooperation to be interviewed regarding to my study which is made on your company's foreign purchasing systems.

The final result of the research will benefit both the company and its employee by indicating the problem area and providing recommendation so your collaboration and right response mean a lot for success of this objective.

### **Thank you again**

## **Interview**

Interview conducted for supply manager & foreign purchase lead.

These interviews are prepared for NTESC to gather information and prepare senior essay.

1. How the purchasing departments request the right specification?
2. To what extent purchasing policy control the late delivery of stocks?
3. On what criteria to select the potential supplier?
4. What is the main cause of delay of material purchase from abroad?
5. What is the effort of your organization to implement computer technology?
6. is there any difficult to conduct negotiation and acquire materials as to the contract agreement?
7. Who are responsible body to handle foreign purchase department?
8. What is the control mechanism to evaluate the employee?



## **Declaration**

The undersigned, declare that this senior essay. Project is my original work prepared under the guidance of Ato Henok Arega all sources of materials used for the manuscript have Benn duly acknowledged.

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

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

Place of Submission: St. Mary's University College

Date of submission: \_\_\_\_\_

## **Submission Approved Sheet**

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

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

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

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