



ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES

ASSESSMENT OF PURCHASING PRACTICE AND
ITS CHALLENGES IN COMMERICAL
BANK OF ETHIOPIA

By
Banchamlak Muluaem

December 2014
ADDIS ABABA, ETHIOPIA

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**A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY, SCHOOL OF
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ST. MARY’S UNIVERSITY
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DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Dr. Wubshet Bekalu. All sources of material used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institutions for the purpose of earning any degree.

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Signature

December, 2014

ENDORSEMENT

This thesis has been submitted to St. Mary's University, School of Graduate studies for examination with my approval as a university advisor.

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December, 2014

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Abstract

The purpose of this study was to assess the procurement process and identify major challenges in Commercial Bank of Ethiopia. The issues studied include identify the merits and drawbacks of the purchasing policy, guidelines and manual, examining the steps involved in the purchasing process and assess their importance and related challenges and make viable recommendations to improve the purchasing management. To this end, the researcher has collected data from primary sources using questionnaire, interview and personal observations; and referred secondary sources including the purchasing manuals and other documents related to purchasing in Commercial Bank of Ethiopia. The major findings of the study are lengthy process of purchasing with long approval period by different committees, late delivery of goods and poor quality of goods purchased. Based on these findings, the researcher recommended that the procurement unit of CBE shall sort out frequently requested items and handle them separately; the purchasing unit establish long term mutually benefiting relationship with reliable suppliers since this will reduce suppliers cheating problem, to a certain extent tackle low quality purchases, delayed deliveries and minimize the purchasing quantity approval period, establishing systematic ways of expediting and follow up of the purchasing process. To enhance feasible and efficient procurement process which save time and resource substantially.

Key words:

Purchasing, procurement, right quality, right quantity, right price, right time, right supplier,

CHAPTER ONE

INTRODUCTION

1.1 Back ground of the study

The survival of any business today is no longer solely dependent on its own ability to compete but rather on the ability to cooperate within the supply chain. Supply chain management is a major concept for today's rapidly growing business organizations. The term supply chain is basically a group of independent organizations connected together through the products and services that they separately and/or jointly add value on in order to deliver them to the end consumer (Dawei Lu, 2011: 9).

The seemingly independent relation between the organization and organizations within the supply chain becomes ever more interdependent. Generally the supply chain management in any organization is influenced by strategic challenges that have long term or overall impact on the architecture and management of the supply chain varying from time to time. Business dimensions in market, technology, resource and time are the major challenges of supply chain.

Purchasing is one of the major activities of all organization to function and run. Purchasing function covers the sourcing end of supply chain management interfacing with the delivery end of the suppliers, while the classical definition of purchasing is 'to obtain materials and/or services of the right quality in the right quantity from the right source, deliver them to the right place at the right price.' (Alijan, 1973: 1-3). Purchasing is one of the major activities of all organization to function and run. Significant amount of budget is spent on purchase of material and services to accomplish and support the organization's goal. Organizations use different system and policy to maximize the efficiency and minimize the risks and cost of purchase. The word procurement is used interchangeably but it has a broader sense. (Alijan, 1973: 6)

Every business has its own procurement process in order to conduct purchasing of items or service. According to Leenders et al. (1989), the essential steps in procurement procedure are;

Recognition of need, Accurate description of desired commodity, Selection of possible source of supply, Analysis of bids, Preparation of the purchase order, Follow-up and expediting, Receipt and inspection of goods, Clearing the invoices and Payment and finally maintenance of records. There are different procurement methods defined in the procurement regulations and directives which are applicable depending on the items under consideration. (Leenders et.al., 1989)

Procurement practitioners constantly facing with internal and external challenges (organizational, and non-organizational) According to Thai, organizations ability to accomplish procurement objectives and policies is influenced very much by internal forces including; interactions between various elements of the procurement systems, various actors and sub-agencies within a department or executive agency. An external challenge also includes marketing environment, legal environment, Political environment, Social, Economic and other environment forces.

The objectives of purchasing department can be classified into general managerial level, functional level and operational level objectives (Dobler, 1996:43). The standard statement of the overall objectives of the purchasing function is that it should obtain the right materials in the right quantity, for delivery at the right time and place from the right sources the right service (after and before sale) and the right price. One of the biggest Ethiopian Governmental organizations spending huge budget on purchasing every year is, Commercial Bank of Ethiopia.

Commercial Bank of Ethiopia (CBE) is the largest commercial bank in Ethiopia having 780 branches throughout the country as of January 6, 2014 according to the 2014 annual report. CBE allocates huge budget and processes procurement centrally through the department of procurement. And all central and regional offices plan budget for procurement and CBE processes it centrally at the procurement department of the Bank.

CBE is operating in a business environment characterized by unprecedented global competition and technology change which inadvertently obliged the bank to implement up to dated supply chain management.

The supply chain management of the Bank follows the specific CBE procurement manual and guideline prepared based on the public procurement manual prepared by Public Procurement and Property Administration Agency (MoFED, 2011). This department was responsible to procure

and distribute materials such as capital equipment, electronic items and stationeries as per the CBE procurement manual.

This study tries to assess the procurement process and explore challenges by focusing on the most critical items since they have important implication on the budget and on the operation of the Banks.

1.2 Statement of the Problems

Purchasing plays a key role for the attainment of organizational objectives by providing right quality of inputs for users at the right time and cost. However, the purchasing department of CBE is not playing this role effectively.

There are various instances of items purchased that don't match with items requested (wrong quality) such as office furniture and electronic equipment; and purchased items arrive end users late (wrong timing). These are some of the challenges that faced this unit and becoming obstacle for the organizations goal attainment.

Therefore, this paper intends to identify the causes of the inefficient purchasing, identify the major challenges faced during the process and assess the consequences.

1.3 Research Questions:

The study addressed the above objectives by giving answers for the following researchable questions.

- What are the impacts of the purchasing policy and manual on efficient purchasing practice?
- What major purchasing process steps are in CBE and their effect on efficient purchasing practice?
- What are the challenges of the purchasing practice in CBE?
- What are the users' opinions towards the purchasing practice of CBE?

1.4 Objective of the study:

The general objective of this study is to analyze the existing procurement process and related challenges in Commercial Bank of Ethiopia.

1.4.1 Specific Objectives:

The specific objectives of the study are:

- 1 Identify the merits and drawbacks of the purchasing policy, guidelines and manuals
- 2 Examine the steps involved in the purchasing process and assess their importance
- 3 Identify procurement procedure related challenges.
- 4 Make viable recommendations to improve the purchasing management.

1.5 Significance of the Study:

This study identified the reasons behind CBE's inefficient purchasing practices and the implications on accomplishment of its mission. It conducted a study which analyzed the procurement process and the related challenges providing the necessary information to improve the existing procurement practice.

Moreover, it recommended practical mechanisms to enhance feasible and efficient procurement process which would save time and resource substantially.

The study would also be used as a useful input for further research on the area.

1.6 Scope and Limitation of the study:

The study is geographically limited to procurement department and Addis Ababa branch offices of CBE due to time and cost constraint. However the findings of this study apply to the entire CBE and other financial organizations with large volume purchase can benefit from the findings of this study. It would also suggest areas of improvements by mitigating the existing procurement challenges.

Furthermore, busyness of the key informant groups has forced the researcher to cancel lots of appointments and it took longer time than expected for the completion of the research.

1.7. Organization of the study:

This paper is organized in five chapters. The first chapter presents introduction, brief statements on the research problem and the study purpose and the scope and limitation of the study. Chapter two presents review of related literature. Chapter three presents the methodology used to collect and analyze data. Chapter four presents the finding through data presentation, analysis and interpretation of the assessment results. Finally, chapter five presents the summary of the finding the conclusions and the recommendation forwarded.

1.8 Definitions of Key Concepts & Terms:

Right Price: purchased item with reasonable costing

Right Quantity: purchasing of goods or items without less or more quantity delivery

Right Time: Deliver the purchased item at the right time

Right Quality: purchased item with the desired specification

Right Source: purchase items from right supplier who have equal quality for money value

Efficiently: The best procurement is simple and swift, producing positive results without protracted delays (Thai: 2009)

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1. Introduction

The efficiency and effectiveness of an organization based on the management and giving due consideration for every function of the firm in particular the function dealing with procurement and supply system has paramount importance. Most organizations have spent a sizeable amount of their budget for purchasing goods and service. Due to this fact, procurement is common activity in all types of business enterprise. It is imperative that these purchases are made following a uniform, systematic, efficient and cost effective procedure, in accordance with existing documents of the organization. This chapter will review the general literature on procurement, the process & the challenges on the process.

2.2 Definitions of terms

It is common to see people confusing the terms purchasing and procurement. On the other hand, some use terms like acquisition, public contract and supply management equivalently to procurement.

According to Dobler and Burt, purchasing comprises the essential activities associated with the acquisition of the materials, services and equipment used in the operation of an organization. Public procurement, on the other hand, comprises a wider range of supply activities than those included in the purchasing function. It typically includes a broadened view of the traditional buying role, with more buyer participation in related material services (Dobler and Burt 1998:).

The terms purchasing and procurement are used interchangeable and also referring as material management, logistic, etc. It may therefore be helpful to start by clarifying some of these terms and concept.

a. Purchasing:

Defined as the activity responsible for getting the right material to the right place, at the right time, in the right quantity, at the right price (Herel, Encyclopedia: 994).

The process by which an individual, a company (or other organization) contracts with third parties to obtain the goods and services required to fulfill its business objectives in the most timely and cost-effective manner (Timothy: 2001).

b. Procurement:

According to procurement manual of Commercial Bank of Ethiopia), procurement means the overarching function that describes the activities and processes to acquire goods and services.

It also means the act of obtaining or buying goods and service. The process includes preparation and processing of a demand as well as the end receipts and approval of payment (Business dictionary).

c. Supply chain management (SCM):

According to Stephen Lemay, David J. Bloomberg, and Joe B. Hanna, SCM is: “The process of planning, organizing, and controlling the flow of materials and services from suppliers to end users/customers. This integrated approach incorporates suppliers, supply management, integrated logistics, and operation (manufacturing system) (Stephen, David and Hanna 2002)

2.3 Supply chain Management

The survival of any business today is no longer solely dependent on its own ability to compete but rather on the ability to cooperate within the supply chain system. Supply chain management is a major concept for today’s rapidly growing business organizations. The term supply chain is basically a group of independent organizations connected together through the products and services that they separately and/or jointly add value on in order to deliver them to the end consumer (Dawei L, 20011: 9).

The seemingly independent relation between the organization and organizations within the supply chain becomes ever more interdependent. Generally the supply chain management in any organization is influenced by strategic challenges that have long term or overall impact on the architecture and management of the supply chain varying from time to time. Business dimensions in market, technology, resource and time are the major challenges of supply chain.

When you manage a supply chain, you coordinate supply management, operations, and integrated logistics into a seamless pipeline to maintain a continual flow of products or services to include all firms and sectors involved, from the raw materials source to the final product and delivery.

2.4 The Purchasing Process at CBE

Commercial Bank of Ethiopia has procurement manual that describes detail direction and specification for the practice of procurement in all branches. There are different types of purchasing methods applied to different situations where list of requirements are to be met.

The major types of purchases used in the bank are:

1. Open local bid
2. Open international bid
3. Purchase made by invitation for interest
4. Closed bid
5. Purchase made by invitation for quotation / Proforma invoice/
6. Purchase from a single supplier

The selection criteria and detail description of the individual process is stated in the procurement manual.

2.4.1. Procurement Process

The general procurement procedure implemented in CBE has the following phases:

2.4.1.1. Need recognition

Although CBE make procurement centrally, there is a system of collecting needs for procurement from all branch offices, including the head office and compiling to allocate budget in respective fiscal year. There are four district offices in Addis Ababa region.

Branch offices prepare purchase request and estimate the budget needed, how much capital items required related with additional man power, or related with expansion or other needs in a period called a budget call for the upcoming year. These branch offices send their request with justification to a district level on the 3rd quarter for the following fiscal year.

2.4.1.2 Verification of purchase requisition

Purchase requests submitted by branch offices are evaluated by respective district offices from different angle. The district offices evaluate the purchase requests submitted by branch offices in the district to justify and submit to the Ad hoc committee for evaluation around June – July of each year.

The ad hoc committee evaluates all budget requests for procurement from district offices and approved the budget requests fulfilling the minimum criteria. All the budget requests are categorized to 3 categories, IT equipment, furniture and office equipment. The evaluation process includes trends of the previous year procurement. The committee assesses the request for under- or over- request and it has specific period to complete the evaluation.

Once a request is evaluated by the ad hoc committee, it forwarded to the process committee and these committee evaluate and forwards the request with the necessary budget to the board of directors for final decision and procurement process. The time elapsed for the approved planned annual requests only left 3 month for the process of procurement and delivery.

Directorate director of procurement

2.4.1.3. Bid preparation

The procurement department start processing the procurement process for purchase requests evaluated and approved by the ad hoc committee even before the final approval by the board of

directors are passed to buy time for preparation of purchase summary and for airing / floating the bid tender. By doing so, the procurement unit can mitigate delays and decrease the time for delivery.

2.4.1.4. Invitation for the bid:

Once the procurement unit get the approval from the ad hoc committee, it prepare Bid document to be aired/ advertised to known newspapers with wider coverage and other medias. The bid stays open for 30 days if it is a local purchase and for 90 days if it is an international bid according to the CBE procurement guideline.

2.4.1.5. Bidders shall fill the bid document and return

Potential bidders submit the completed bid document as per the requirement. Bidders usually submit the completed bid document at the closing time and follow the process with scrutiny. The procurement unit of CBE is open to provide the necessary information on the bid until the closing time.

2.4.1.6. Technical committee verifies bid documents

CBE procurement unit designate a committee to process evaluating the completed bid documents submitted by potential bidders. The committee first prepares evaluation criteria that includes verification of the validity of the submitted document. Procedurally the team evaluates & verifies the technical part in accordance with the requirement AND specification stated in the bid announcement. Here further clarification, presentation or exhibition of sample or request for extension may be considered. Once the technical evaluation process is complete, the financial part of the bid document will be opened and analyzed step by step as per the CBE procurement manual. As the director explained, the peak time for processing the technical aspect of the bid document will take up to 30 days for asking extension and clarification.

2.4.1.7. Suppliers' evaluation:

After the technical and financial evaluations are complete, the evaluation committee evaluates the suppliers' financial document before analyzing the top 3 winners. The selection of the winner

is based more on the technical evaluation (70%) and financial evaluation (30%). The evaluation committee declares the final list of winner(s) and once the list is communicated, the winners will be communicated and the purchase agreement will proceed soon.

2.4.1.8. Presentation of purchase order:

Once the winner(s) list is officially declared by the evaluation committee, the procurement team will prepare purchase agreement and send to the winner and make agreement.

2.4.1.9. Delivery of items:

After the winner(s) enters into agreement to supply, they supply the items they won to the CBE store and the store receive ensuring the item for the right quality and right quantity. there is a significant delay from setting purchase request from branch offices to the supply of the items to the store, on average more than 9 months.

According to the procurement director, in order to take advantage for this year the management permit almost 100million budget from contingency budget and the procurement department purchased commonly requested different items without following the lengthy tender process, rather purchase directly from manufacturers by asking 'proforma' invoice; items like computer and others and due to this fact it is advantage for us, if any items delay we can send to the user from these items and can replenish when some time it may retender and delay the delivery of the items.

2.4.1.10. Quality check:

While checking for the technical proposal, for technical items like computers, the CBE technical expert(s) will check given items against the specification on the bid document and purchase order and if items are non technical, quality committee shall check the items against purchase order and recommends the items if accepted. The final delivery process to the store involves approval for quality item before reception to store.

2.4.1.11. Confirmation for receiving:

The tender committee confirms the items shall be accepted and receiving invoice shall be issued. The store will issue good receiving note for items procured and delivered to the CBE store.

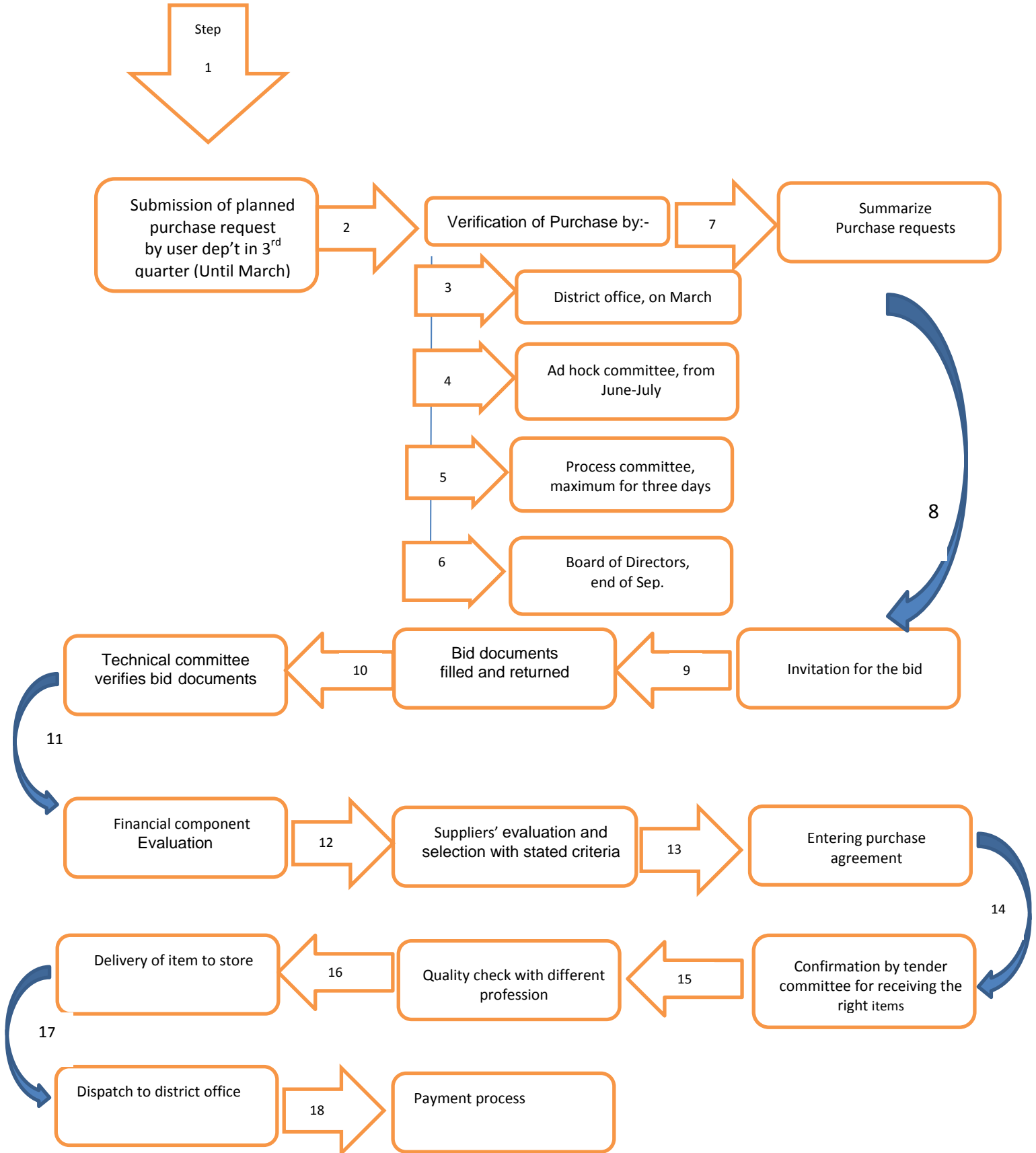
2.4.1.12. Finance prepares the cheque for the payment

For delivered items, where there is already good receiving notes issued, the procurement unit confirms/ approves that financial settlement can be done by CBE finance team. Checking the necessary documents for respective procurement orders, the finance unit processes payments using the accepted modalities, cheque or cash.

2.4.1.13. Purchased items shall be dispatched to users:

The purchased items received in the store are to be distributed to the requesting units and branch offices. The purchasing department compiled each items and send to the district office as per their request and the district office distribute to the user branch office.

A flowchart of CBE purchasing process



2.5 Objectives of Purchasing

The objectives of purchasing can be classified into three levels including: general managerial level objectives, functional level objectives and detail/ operational level objectives (Dobler 1996:43).

2.5.1 General Managerial Level Objectives of purchasing

"The standard statement of the overall objectives of the purchasing function is that it should obtain the right materials in the right quantity, for delivery at the right time and place, from the right source with the right service {after and before sale) and the right price" (Leenders 1989:24). In practice, it is difficult to fulfill all these equally for there exist inherent conflicts between some of the objectives in some buying situations. Hence some trade-offs become inevitable.

From the top managerial perspective, purchasing has the following objectives, which can be explained in terms of the 5R's of purchasing.

2.5.1.1. Right Quality:

Quality is a much more complicated term than it appears. Dictionary definitions are usually inadequate in helping a professional understand the concept. It seems that every quality expert defines quality in a somewhat different way.

Right Quality is defined as simply 'fitness for purpose' or the British standard institution defines as "the totality of features and characteristics of a production or service that bear on its ability to satisfy a given need" (Nair, 1990: 125).

Meeting this objective, purchasing must select items which have sufficient quality to fit users' requirements which are described in terms of specifications. And generally, the quality decisions are made by the technical staff.

The term quality as used in the field of purchasing carries quite a different meaning to the meaning that we usually associated with this word. In common usage, it refers to the excellent features of the subject, "The right quality is the suitability of an item for a given purpose" (Nair, 1990: 125).

2.5.1.2 Right quantity

The right quantity is more relevant to the purchase of consumables or parts or assemblies for manufacturing than for project buying. Fulfilling these objectives will enable to provide a continuous and uninterrupted material at the minimum cost. In most organization the decision of how much to purchase is more important by the close relationship of purchases quantity and schedule use. (Parson, 1982:25)

The right quantity of the materials is determined on the basis of economic ordering quantity (E.O.Q). The EOQ describes the size of the order at which the ordering costs and the inventory cost will be minimized. The ordering cost involves costs related to inventory, paper work processing the quantification, preparation and processing of bid and costs related to placing order, inspection, and receiving. As the size of the order increases, meeting the annual requirements with lower ordering cost as the number of orders placed would tend to be less. Conversely, ordering with increased size brings issue of storing; hence storing cost consists of interest on funds locked up in storing, cost of storing, cost of insurance and taxes. If few orders involving large quantities are placed, the carrying cost will increase; however, the ordering cost will decrease due to less number of orders. Thus ordering cost and carrying costs are mutually exclusive. At EOQ level both these costs equate each other and at this point, the total inventory cost would be at the minimum. The EOQ is calculated on the basis of the following equation:

$$EOQ = \sqrt{2RD / CS}$$

Where

R = annual requirements of the materials in units

D = Ordering cost per order

C = Cost per unit (carrying cost)

S = Storing cost as the value of materials stored.

The decision of how much to acquire follows clarification of what is acquired. Therefore, considering factors that complicate the quantity decisions is essential before making any decision.

2.5.1.3 Right price

A traditional purchasing objective is to obtain the lowest possible purchase price. However, the common practice is to obtain the best life cycle price or the lowest total acquisition cost. "The factor that affect the price of items are quality and quantity required, urgency of requirements, demand and supply of materials in the market, whether there is room for competition or not, whether the past business relationship was good or not strained " (Parson, 1982: 145).

The investments in inventories are determined by the prices charged for them. All attempts should be made to procure the materials at right price because a slightest reduction in the price results in substantial absolute monetary gain. It should be noted that the low bidder is not always the best bidder. The right price can be availed through searching for the proper sources of supply and comparing all such sources on some scientific basis. The quotations of various suppliers are compared after bringing them all on some common footing, the specification. Due considerations are also given to the factors such as regularity of supply, character of the supplier on financial standing etc. The price is an agreement between the buyer and the supplier, the former considers the utility while the latter takes into account the cost of production. The market conditions greatly affect the price determination.

2.5.1.4 Right time

The delivery of the contracted item to the right place at the right time is also an important function of procurement process. Proper purchasing enhances delivery schedules without loading warehouse with excessive inventory and minimizes the unfavorable effects of price changes and stock outs. In case of regularly used or procured items, right time may mean the time when the stock reaches the minimum level adhering to the responsibility shared both by the purchasing unit and the approving body. The purchase action needs to be initiated at a time when the material reaches to its pre-decided reordering level. The reordering level is decided on the basis of the rate of consumption and the lead time. It should be decided on the basis of the probability of maximum periodic consumption and maximum lead time. As stock holding is directly related with the lead time, efforts should be directed towards the reduction of the lead time so that carrying costs can be reduced to the minimum.

2.5.1.5 Right supplier

Identifying the right source is fundamental component or the major purchasing objectives. Basic information about the number and location of potential suppliers, the nature of products, prices charged and forecasts of the economic condition need to be acquired when analyzing the supply market effectively. But there are problems faced by the purchasing units, like emending and securing the right and permanent source of supply. The first problem is identifying potential source of supply, then come selecting the right reliable supplier. But the most difficult challenge is to secure long-term relationship with the identified right suppliers because of the dynamic nature of the business environment. Hence periodic revision of the status of the relationship and making the necessary amendments in agreements with post purchase rating of the supplier is required. (Donald W. Dobler: 1996)

2.5.2. Functional Level Objectives of Purchasing

The operational (functional) level perspective probes more deeply to develop a set of statements that provide practical and useful targets for **decision-making** purpose. This perspective contains eight basic objectives:

- To support company operations with uninterrupted flow of materials and services. This is the most fundamental of all the purchasing and supply objectives. In a logical sense, this is a key reason for the existence of the department.
- To purchase competitively: It involves keeping abreast of the forces of supply and demand and regulates prices and availability of materials in the market place. It also involves understanding of the suppliers cost structure and then negotiate price and service arrangement that are fair relative to the suppliers actual cost.
- To keep inventory investment and inventory loss to a minimum. Maintaining a large inventory is one way to achieve objective one, but it is also costly, hence the supply management job is to achieve a reasonable balance between the level of inventory required to support operations and the cost of carrying the inventory.

- To buy wisely. Buying wisely involves a continual search for better values that yield the best combination of quality, service and price relative to buyers' need. It may also involve coordinating and reconciling user's need with supplier's capabilities, to achieve optimal values considering both issues.

- To achieve maximum integration with the other departments of the firm. It is essential to understand the major needs of their using departments, so that these needs can be translated into materials support actions. The most common types of support actions are forecasting future prices and business conditions, performing economic make or buy analysis.

- To handle the purchasing and supplies management function proactively in a professional, cost effective manner. Management should expect the preceding the above objective to be achieving in a professional manner at a cost that is appropriate with their value to the organization.

- To develop effective and reliable sources of supply. Cooperative suppliers that are willing to work with a buyer to help solve the buying organizations problems and to minimize its materials related costs are valuable resources.

- To develop good relationship with the supplier community and good continuing relationship with potential suppliers. The achievement of the preceding objective on a continuing basis is 'possible' when mutually satisfactory continuing relationships are maintained (Dobler, 1996:42 44).

2.5.3. Detail Level Objectives of purchasing

At this level, precise strategic purchasing plans are formulated. The focus is on the detailed objectives that are developed when precise buying plans are made for each of the major categories of materials the firm uses in its operation. These objectives are produced from the second level objectives and are applied to fulfill the specific needs associated with each type of

purchase. The precise set of objectives for each material typically varies because the usage requirement, the operating conditions and the markets in which each material is purchased usually vary. These objectives focus on points like quality, sourcing, pricing, production and inventory planning.

2.6. Principles of Public Procurement

According to Thai (2009), the principal hallmarks of proficient public procurement are:

Economy: Procurement is a purchasing activity whose purpose is to give the purchaser best value for money. For complex purchases, value may imply more than just price, for example, since quality issues also need to be addressed. Moreover, lowest initial price may not equate to lowest cost over the operating life of the item procured. But the basic point is the same: the ultimate purpose of sound procurement is to obtain maximum value for money.

Efficiency: The best public procurement is simple and swift, producing positive results without protracted delays. In addition, efficiency implies practicality, especially in terms of compatibility with the administrative resources and professional capabilities of the purchasing entity and its procurement personnel.

Fairness: Good procurement is impartial, consistent, and therefore reliable. It offers all interested contractors, suppliers and consultants a level playing field on which to compete and thereby, directly expands the purchaser's options and opportunities.

Transparency: Good procurement establishes and then maintains rules and procedures that are accessible and unambiguous. It is not only fair, but it is seen to be fair.

Accountability and Ethical Standards: Good procurement holds its practitioners responsible for enforcing and obeying the rules. It makes them subject to challenge and to sanction, if appropriate, for neglecting or bending those rules. Accountability is at once a key inducement to individual and institutional probity, a key deterrent to collusion and corruption, and a key prerequisite for procurement credibility.

2.7. Assessment of Procurement Process

Management of the procurement process are very much concerned with efficiency and effectiveness, they control the performance of procurement function to be efficient. It is very important to assess how well the procurement process has gone, identify any weakness or problems and needed action to prevent it from future occurrence. Procurement processes are required by law to conduct formal procurement evaluation or audit to assess its performance. The assessment is conducted based on determined criteria already in the tender document.

2.7.1. Key Operational Performance Indicators (KOPs) of Procurement

There are some key indicators that are used to measure procurement performance in order to achieve operational goals. These consist of right quality with defect- free products or material delivered on time in order to respond quickly to the market needs. Products or material availability in right quantity to reduce storage cost and lead time of the entire procurement process should be short in order to avoid shortage in the system.

2.7.2. Relationship between Procurement and operational performance

There is a strong relationship between procurement process and its operational performance if the process is very efficient in sourcing materials for operation use; clearly it has a positive impact on the performance by getting the right product on time with right quantity ensuring 95% availability rate with the overall lead time. However the process in vice versa is inefficient.

2.7.3. Causes of Poor Performance of Procurement Function

Poor performance of procurement can be attributed to many factors like lack of planning and funds, bureaucracy in the system and lack of understanding by stakeholders to the process. The absence of infrastructure for information communication technology can also attribute to the poor performance in shortening the lead time.

2.8 Challenges of Public Procurement

Public procurement like other public processes with limited operation documents face different challenges on implementation. According to Thai (2009), challenges of public procurement can be seen as internal and external (organizational and non-organizational). Which Commercial bank of Ethiopia is not an exception.

2.8.1 Internal Challenges

According to Thai, the ability of organizations to accomplish procurement objectives and policies is influenced by internal forces including organizational set ups and interactions between various elements of the system, like

- _ Professionalism or quality of procurement workforce;
- _ Staffing levels (e.g., ratio of procurement personnel to contract actions) and budget resources,
- _ Procurement organizational structure such as the issue of centralization vs. decentralization,
- _ Procurement regulations, rules and guidance; and
- _ Internal controls and legislative oversight.

2.8.2 External Challenges

According to Thai, public procurement faces challenges imposed upon by a variety of environment factors which include market, legal, political, socio-economic and technological factors.

2.8.2.1. Market Environment

According to Thai, market conditions have a great influence on effort to maximize competition to select best supplier. Market environment influenced by demand fluctuation at the consumer market level poses a serious challenge to the asset configuration of supply chain capacity. It determines whether or not socio-economic objectives of procurement are accomplished, whether or not a governmental entity can fulfill its needs; the timeliness of accomplishment; and whether or not the quality and costs of purchased goods, services and capital assets are as demanded. As there are also different levels of economic growth among countries in the world, market

conditions are generally favorable in industrialized countries, while they may be unfavorable in developing countries (Khi V. Thai 2009).

2.8.2.2. Legal Environment

Apart from procurement regulations and rules, the legal environment refers to a broad legal framework that governs all business activities including research and development (regulations dealing with safety and health of new products), manufacturing (safety and health regulations at workplace and pollution control), finance (regulations dealing with disclosure of information), marketing (regulations dealing with deceptive advertising, disclosure of product characteristics), personnel (regulations dealing with equal opportunity for women and minorities). It also includes scopes and contents of contracts. Indeed, in developing and low income countries, where legal systems are not comprehensive, government contracts may need detailed provisions (Khi V. Tahi: 2009).

2.8.2.3 Political Environment

Procurement creates opportunity for many individuals, groups, and organizations in the private sector including trade associations, professional associations, and business firms or companies (commonly known as interest groups). Having various interests, objectives and beliefs, interest groups are involved in the procurement system in several ways such as lobbying legislative bodies to pass or alter procurement statutes, influencing implementation of these statutes, and influencing budget authorization and appropriations processes. Normally, a government program that is eventually adopted is a compromise among different views of interest groups, policy makers and management (N.K. Nair: 1990).

2.8.2.4 Social, Economic, and Other Environment Forces

While some countries impose social policies on their public procurement practices (such as a policy placing a fair proportion of government acquisitions with woman/ minority-owned small business, or economically disadvantaged areas), most governmental entities --be it a developed or developing country or federal, state, and local governments-- use their large procurement outlays for economic stabilization or development purposes by preferring national or local firms over firms from other countries or other geographic locations (Khi V. Tahi: 2009).

CHAPTER THREE

RESEARCH METHODOLOGY

This section describes the methodology which is the theoretical analysis of the methods proposed for the research. It contains details about the setting of the study, the study design and details about data collection and analysis.

3.1. The Research Design

This research is intended to explicitly describe and analyze the procurement process in CBE with its major challenges that impaired its efficiency.

Therefore the study design is a descriptive one which is a cross – sectional type. The approach followed for this research is a multi-method approach where both qualitative and quantitative methods are used. Qualitative approach is employed for data collected through interview with procurement staff and the procurement director and quantitative data is collected using questionnaires for the CBE branch office staff. A quantitative research design also considered to be the most suitable for this study which used to assess variables such as right quantity, right place, right time and right supplier for the process of procurement.

3.2. Data Source and Instrument

The data collection instruments are designed in such a way that captures both quantitative and qualitative data.

Two types of instruments were employed in this research,

- Self- administered questionnaires for branch office staff which has 21 questions, both open ended and close ended, which assess, the users opinions towards the purchasing practice of CBE in different factors that affect the procurement activities and challenges in the CBE.

- A semi structured interview guide which was used to frame the in-depth interview with procurement director (who is directly responsible to oversee the purchasing activities) and seven randomly selected procurement department employees who are involved in the procurement process from the total of ten procurement department employees.

In order to have a proper understanding of the procurement practices of the Bank, the various sources such as the CBE procurement manual, official websites and existing procurement document were also reviewed.

3.3. Validity and reliability

The researcher compiled and adapted the researcher instrument after reviewing literature and consulting experts in the field. Moreover the adviser evaluated and ensured that the addresses of the study questions.

3.4. Sampling:

Sample is subset of a population selected to participate in a study. In this study the researcher took sample of the CBE AA office population as it would not be cost effective and almost difficult to interview the whole population through questionnaires. The target population confined to all staff of Addis Ababa CBE branch offices in order to evaluate their opinions regarding the procurement process. In addition, the employees of CBE procurement department are particularly involved in the study in order to see the process and challenge of the process.

Participating branch offices were selected using purposive non – random sampling from the four district offices in Addis Ababa.

3.4.1. Sampling procedure:

In this research the researcher used purposive sampling to interview participants in each branch office. CBE has a total 159 branch offices in Addis Ababa under four districts as of April 2013 report. On average each district has 35 -40 branch offices. From each district, nine branch offices were selected using simple random sampling, making a total of 36 participating branch offices. And from each branch office, two staff was purposively selected for interview. A total of

seventy two questionnaires were distributed assuming two branch staff whose job were directly related to the procurement process would fill the questionnaire from each branch office. Participants were those branch staff who were involved in annual procurement planning process and stayed in the branch for at least one year. In-depth interview was done with procurement department head and selected key informants from the procurement department.

3.5. Data Analysis:

The collected data was entered into a computer, and the data analysis was done using SPSS software version 20. The qualitative information collected using the in-depth interview was described and further analyzed being categorized and organized to thematic areas. The results are displayed with Tables, graphs and narrations in the next chapter.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

INTRODUCTION

This chapter focuses with the presentation, analysis and interpretation of data on the basis of information gathered through questionnaire and interview. Questionnaires were distributed to 72 respondents, purposively selected from 36 branch office who have jobs directly related with the planning for next year budget requirement. Out of 72 questionnaires distributed, 58 questionnaires were returned completed, making the response rate 81%.

The findings of the study are displayed as tables, figures and narratives as follows.

4.1. Respondents' Profiles and Composition

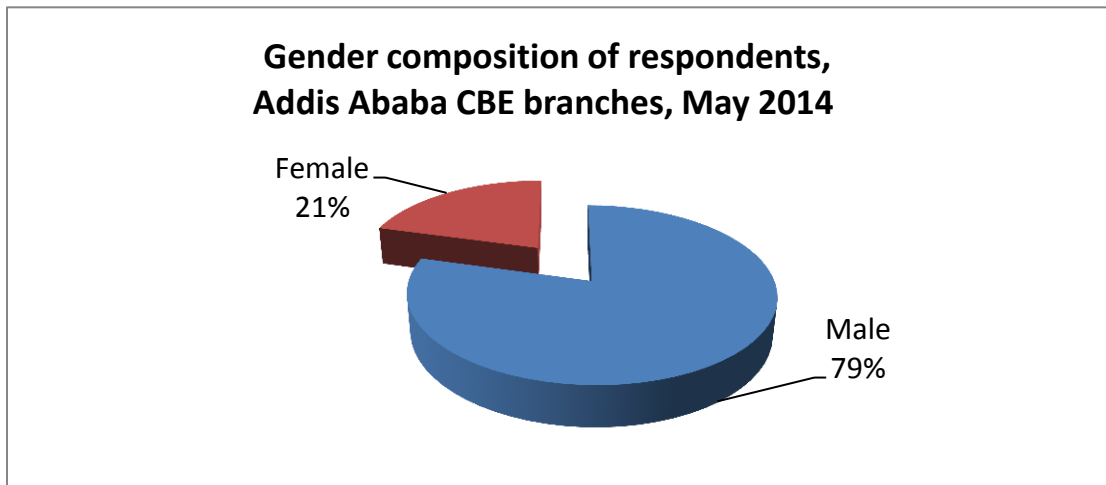


Figure 4.1.1: Respondents profile and composition, (N=58)

The data showed that majority of the respondents, 79.3% of the total respondents, are male.

From the qualitative data collected it has been revealed that the more experienced with female headed branch managers found to be more accurate planned purchase request as compared to the experienced male headed branches.

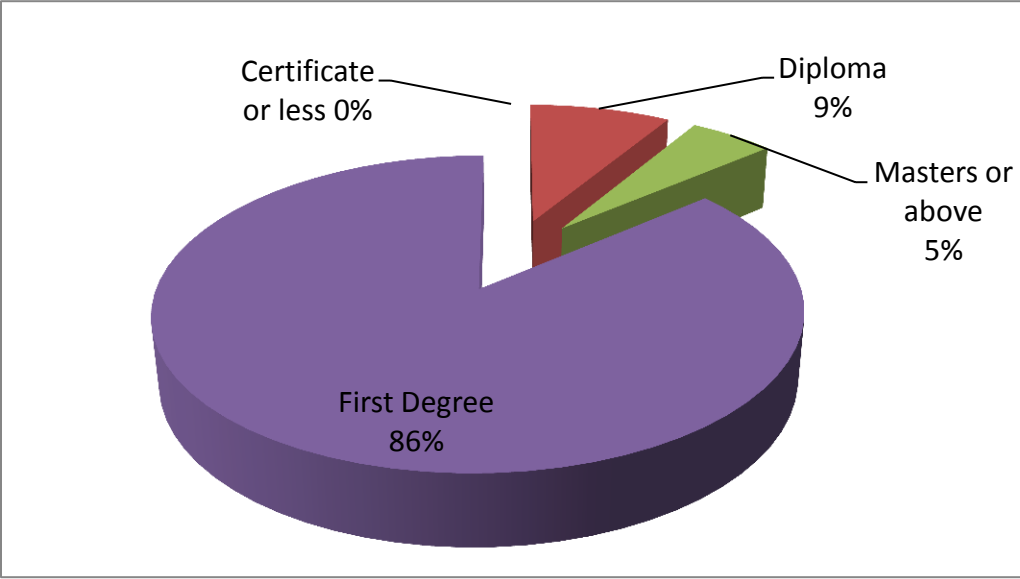


Figure 4.1.2 Pie chart of Educational Background of respondents, (N=58)

As shows in Figure 4.1.2, majority of the respondents (86%) are first degree holders, and the remaining 9% and 5% are Diploma level and masters or above level graduates, respectively. No certificate holder has been interviewed.

This shows that majority of the branch level activities like setting purchase requests are carried out by trained qualified professionals.

Table 4.2.1 Work Experience

Year served	Frequency	Percentage
< 5 years	23	40%
5 to 12 years	22	38%
12 to 17 years	10	17%
17 – 25 years	1	2%
> 25 years	2	3%
Total	58	100%

The result indicated on Table 3 shows that 40% of the respondents had served the Bank for less than 5 years, 38% served for 5 to 12 years, 17% served for 12 to 17 years, and only 5% of respondents served for more than 18 years, respectively.

The information presented indicates that the majority of the respondents in CBE has a lot of work experience and due to this fact, they gave reliable and accurate data for the researcher.

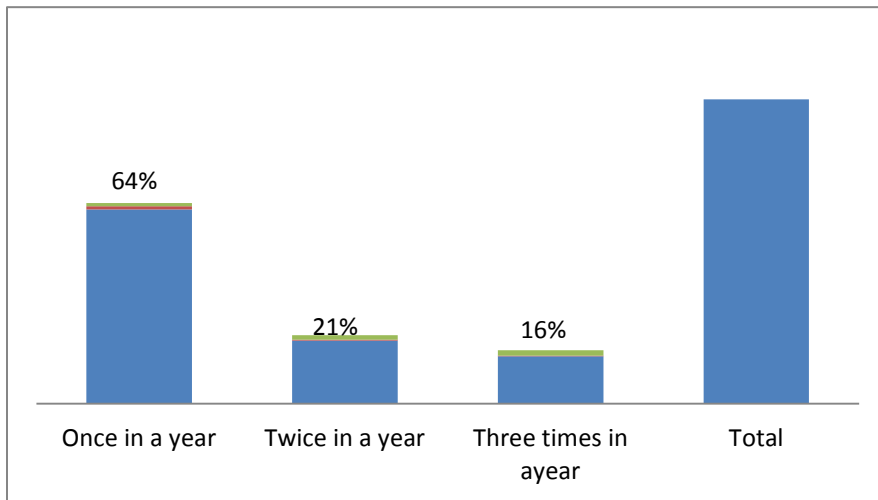


Figure 4.1.3 Bar chart of Frequency of making purchase requests by respondents,

The research revealed that majority of respondents (64%) make purchase requests once in a year, as planned. The remaining respondents make additional requests, the 21% made twice and the 16% made three times in a year. This significant number of setting multiple requests (37%) shows that more unplanned purchasing process and it affects the efficiency of the purchasing process.

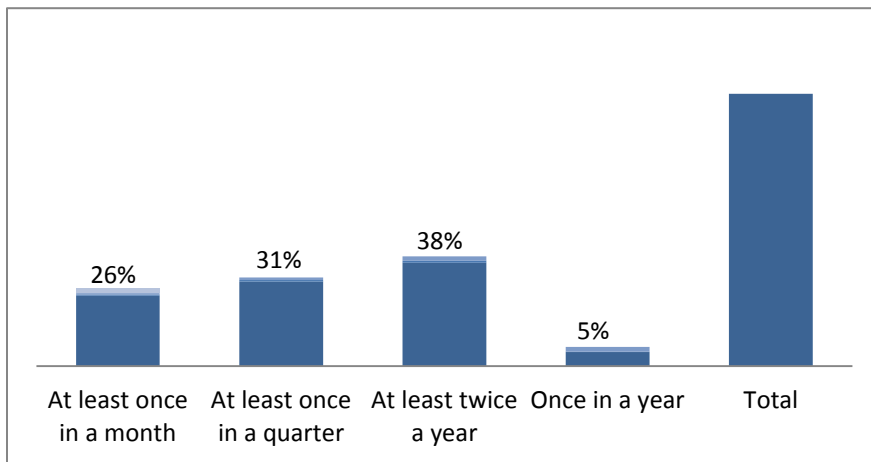


Figure 4.1.4. The frequency bar graph of responses on urgent purchase requisition (outside planned ones)

As the figure displays, all of the respondents reported that they have urgent purchase requests set at least once a year and 95% of them made at least twice a year.

This shows that making urgent request at least once is inevitable in the branch offices. This implies that the unplanned urgent requests from branch offices put additional burden to the procurement staff.

According to the procurement director, the procurement unit tried to handle some of the urgent requests by securing buffer stocks.

“As per CBE procurement manual, purchase requests of each branch office shall be planned in advance and as much as possible all branches including the head office send their planned purchase requests in quarter 3, once in a year; but most of the time there is shortage of certain items and urgent needs for procurement, in that aspect the unit puts buffer stocks in the planned procurement to handle such cases.”

Directorate Director of Procurement

Table 4.2.2 Respondents response on Frequently requested purchase request items

Purchase Request Items	Frequency	Percent
Stationeries	34	59%
Pass book	9	16%
Computers & Accessories	6	10%
Pass book printers, cash count etc.	5	9%
Office supplies	4	7%
Others	0	0%
	58	100%

As indicated the above table 59% of the respondents identified stationeries items as a first priority need, and passbook was taken as priority item by 16% of respondents. Computers & accessories, different machines and office supplies were stated as priority items by 10%, 9% and 7% of the respondents.

According to the interview done with the procurement staff, there is a grand bulk procurement process running once in a year in order to create smooth flow of the procurement process and distribution will be done to districts and district offices distribute further to branch offices level. The procurement office responded to urgent requests for procurements by acting from buffer stock. And stationary items are one of the common purchase requests set urgently by branch offices. “The office takes buffer stock for certain items which have frequent demand turnover, and when it receives unplanned urgent requests, it checks on buffer stock and manages from the stock if available.

Table 4.2.3 Respondents reply on turn- around time to receive the requested items

Time taken	Frequency	Percent
Less than a quarter	12	21%
Two quarters	12	21%
More than 2 quarters but less than a year	8	14%
More than one year/ beyond the fiscal year	26	45%
Total	58	100%

More than half of participants responded that it took them more than 2 quarters to receive items they requested. Forty five percent of respondents also stated that they get the items after the intended fiscal year is complete. Majority of respondents (57%) agreed that it took too long beyond reasonable time to receive the requested items.

From this, the researcher clearly identified that there is delay in the process, lengthy procurement process.

Table 4.2.4 Respondent reply on the reasons for delay in delivery

Possible reason for delay	Frequency	Percent
Lengthy purchasing process	30	52%
Bureaucratic red tape	6	10%
Work load on the purchasing staff	2	3%
Suppliers problem	20	34%
Total	58	100%

Respondents from CBE branch offices reasoned out for the delay in delivery of requested as lengthy purchase process (52%) as major factor and they also stated suppliers' problem (34%) as external factor for delay. Only minority of respondents mentioned bureaucratic red tape (10%) & workload on purchasing department (3%) as causes for delay respectively.

Therefore, the research identified that the procurement process has long purchase process and majority of branch staff who makes purchase requests identify this as a major problem/ reason for the delay in the process besides the external factor.

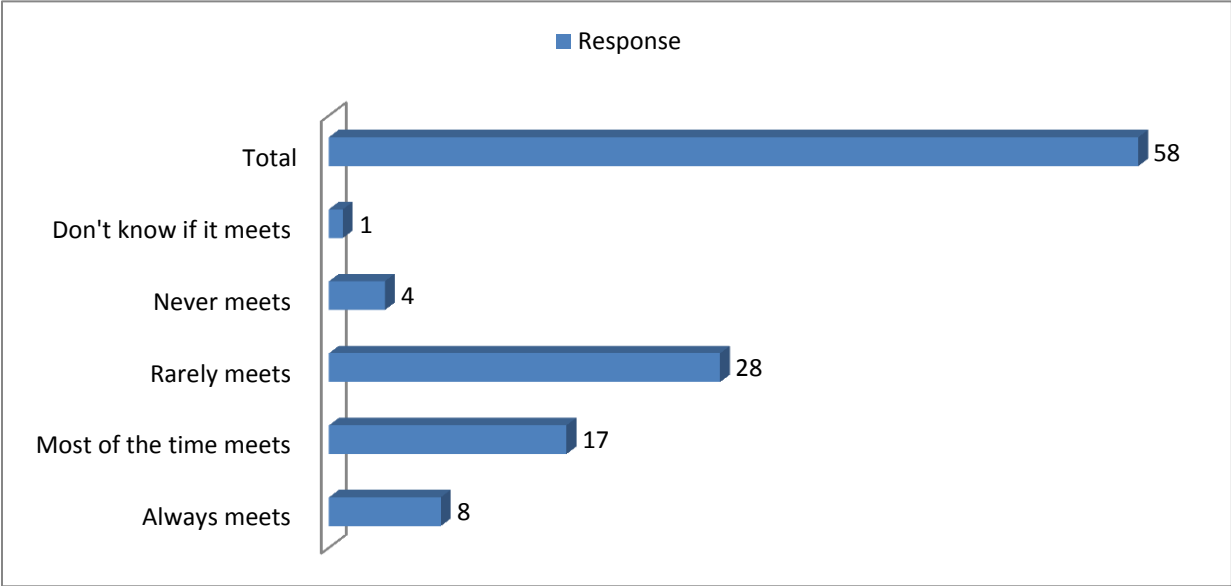


Figure 4.1.5 Respondents rating of the purchasing performance in purchasing 'quality' items (Right quality)

As shown in the figure above, majority, i.e., thirty two respondents mentioned the purchased items rarely meets the right quality and twenty five respondents stated that the purchased items most of the times meets the right quality and only one respondent chose 'do not know'.

Most of the respondent rating shows that final users are not satisfied with the quality of the items purchased, quality being fitness for the intended purpose or with the desired specification and serving for certain period.

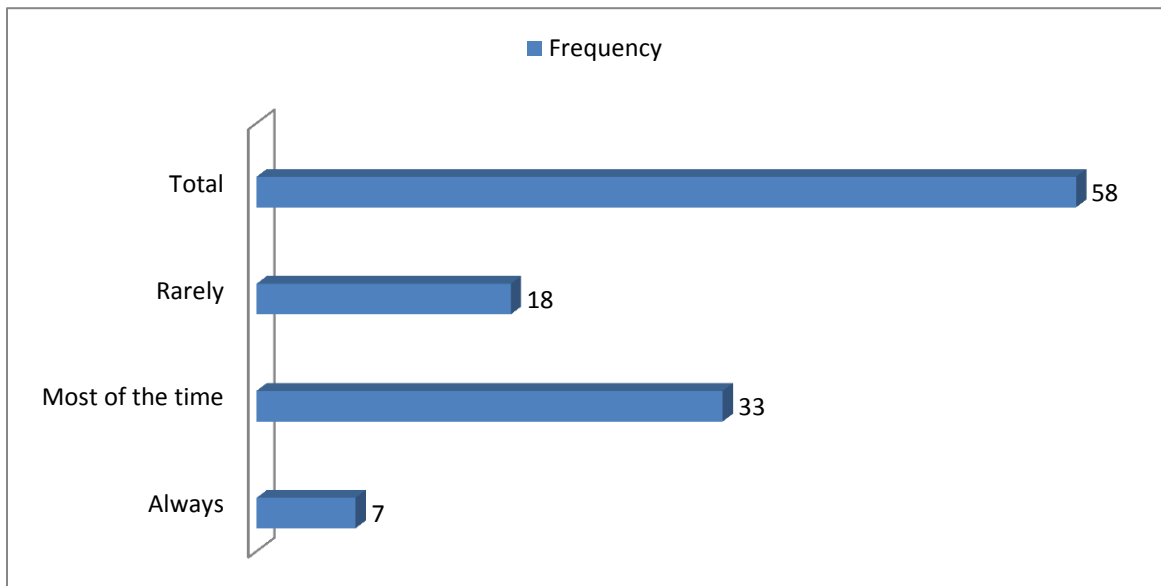


Figure 4.1.6 Respondents rating of the purchasing performance in purchasing ‘right amount’ of items (Right quantity)

More than two- third of the respondents replied that they are satisfied by the quantity of items purchased most of the time, and less than a third of respondents replied that the purchasing unit rarely makes the right quantity purchases.

The research shows that the purchasing unit has no significant problem with delivering the right/ required quantity of items.

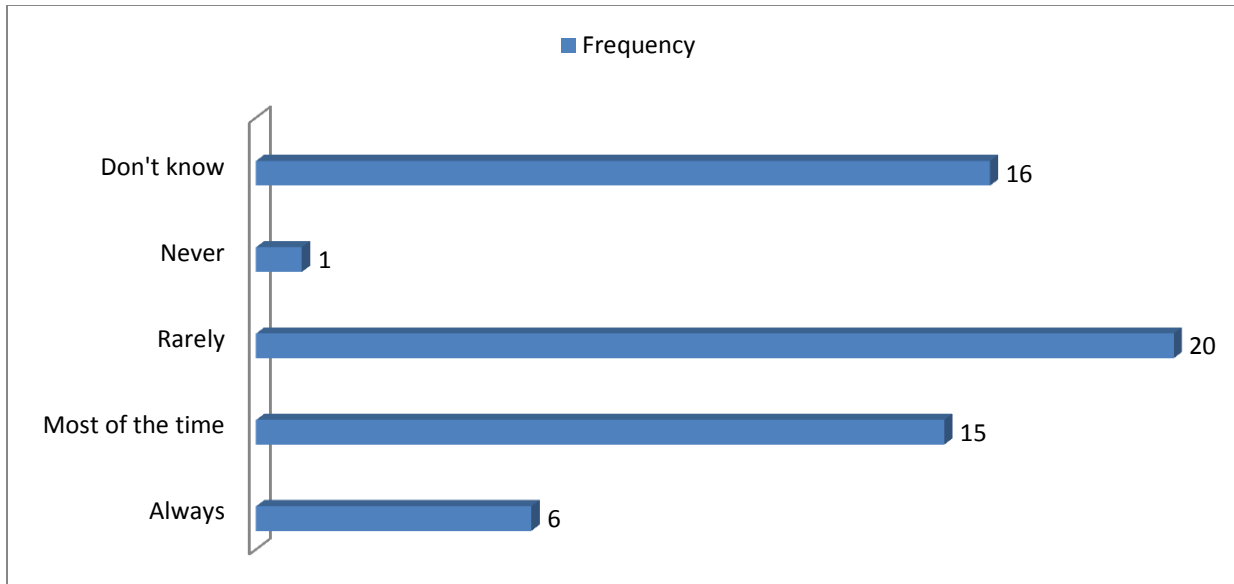


Figure 4.1.7 Respondents reply on rating the performance of purchasing function with equal quality for money value (Right source)

Equal amount of respondents replied that the purchasing function rarely or never made the purchasing from the right source & most of the time the purchasing is from the right source. On contrary, 16 respondents stated do not know if the purchasing process is from the right sources. This shows that end users need not necessarily know who might supply the items. The interview with the procurement director also support this finding that it is not easy to find reliable supplier for the agreement is usually limited for fixed period.

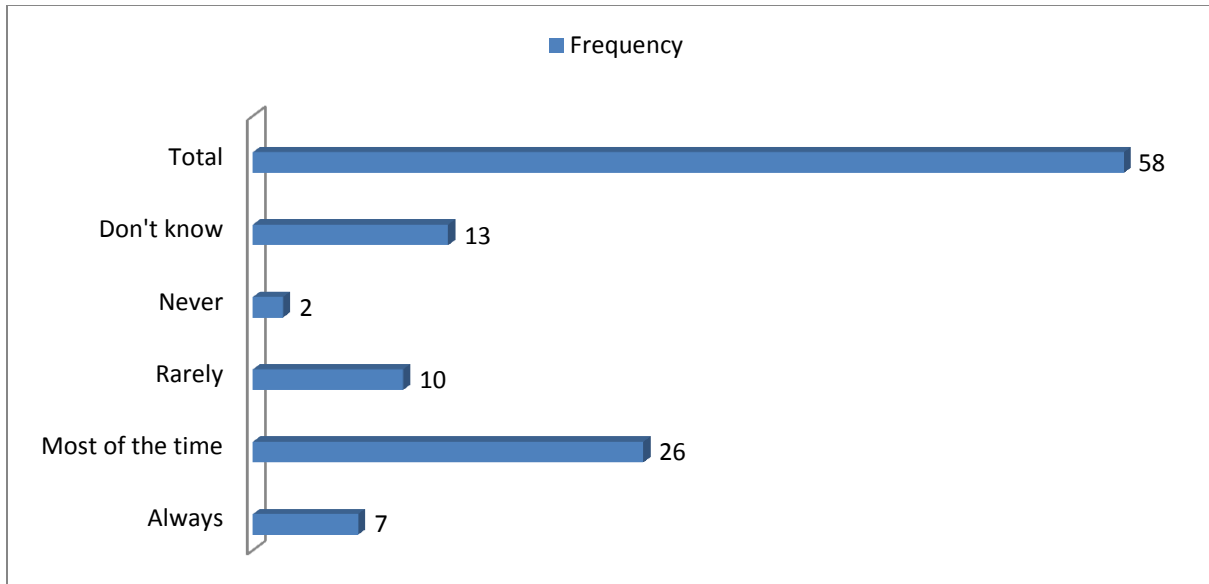


Figure 4.1.8 Respondents reply on how do you rate the performance of purchasing function in reasonable costing (Right price)

As shown in the above figure, majority of the respondents (33) reported that purchasing is made for the right price always or most of the time. And 12 respondents reported that the purchasing has never been or rarely be made for the right cost.. Thirteen respondents (22%) replied that they do not know if the purchasing is made for the right cost.

Usually users might not know the price and cost of the items purchased and this indicates that the findings on the right source and the right price might not be explained by customers.

The procurement unit addressed the issue of right source & right price as by implementing open tenders and select the reliable suppliers for reasonable price.

“We use open tender to purchase most of our items and by doing so, it is expected that right suppliers have liberty to compete and the selection criteria prepared to evaluate the bid process address the price and cost issues.”

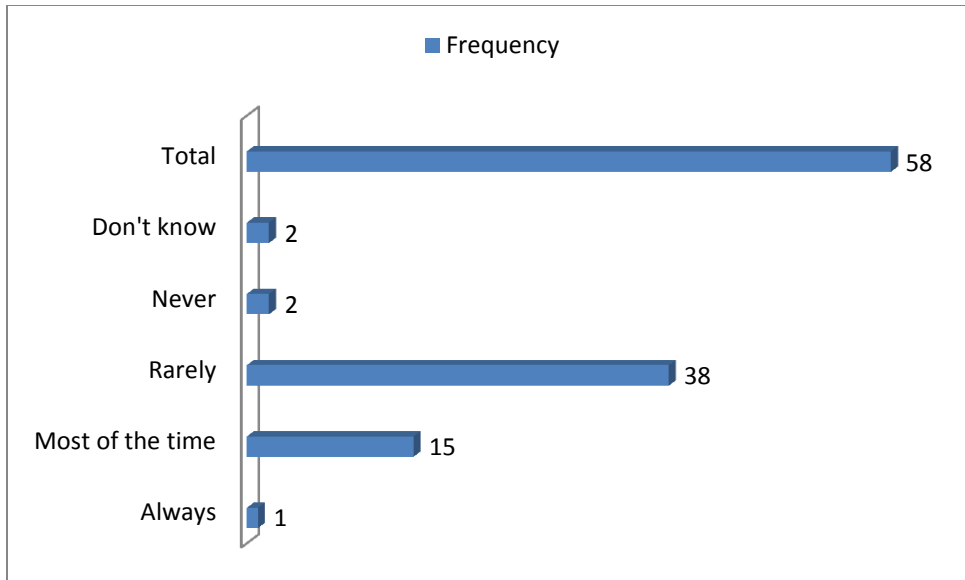


Figure 4.1.9 Respondents reply on how do you rate the performance of purchasing function in Delivered at the right time (Right time)?

Majority (40) of the respondents replied that the requested items are rarely or never delivered as scheduled. Almost a quarter of the respondents reported that requested items are delivered as scheduled in most of the times. From this one can learn that there is delay on the delivery of items to requesting units. .

Table 4.2.5 Respondent reply on the strength of the purchasing function

Areas of Strength	Frequency	Percent
Right quality	10	17%
Right Quantity	28	48%
Right Price	18	31%
Right Source	1	2%
Right time	1	2%
Total	58	100%

Large number of respondents (48%) selected right quantity as a measure of good performance of the purchasing function. This shows that many of the respondents are satisfied with the amount/ quantity of items delivered by the procurement unit for their request. However, from users' side, right quantity might not necessarily mean sufficient number; it might also mean excess in requirement hence surplus supply. In that case, right quantity can't be taken as a measure for strength of the purchasing performances unless combined with additional criteria.

Next to right quantity, right price is selected as strength of the procurement function by 18 participants (31%) merely for the fact that purchasing is through open tender using best price criteria to select suppliers. Ten respondents replied that right quality is still the strength of the purchasing function. Right timing and right sourcing are voted by a respondent each.

Table 4.2.6 Respondents preference to improvement in purchasing function

Area of improvement	Frequency	Percent
Right quality	38	66%
Right Quantity	6	10%
Right Price	2	3%
Right Source	4	7%
Right time	8	14%
Total	58	100%

Significant number of the respondent (66%) voted that purchasing function needs improvement on quality of items purchased. Fourteen & 10% of the respondent needs improvement on right time & right quantity purchase respectively, 7% & 3% of the respondent replied that right source and right price purchasing function needs improvement respectively.

The survey report shows that purchasing has critical problem in making quality purchases. The poor performance of purchasing has a lot of work interruption and it affects the performance of the organization totally.

Table 4.2.7 Respondent reply for instance when different items are received other than requested ones

	Frequency	Percent
Yes	21	36%
No	37	64%
Total	58	

According to the above table 64% of the respondents agree with that there was no instance when different items other than requested were received and this shows that somehow it is a clear specification on purchased item, and 36% of the respondent said that there was instance where different items received other than the requested.

Table 4.2.8 Respondents reply on reasons for delivery of different item other than the requested

	Frequency	Percent	Frequency among respondents
Unclear Specification of the items	20	34%	70%
Purchasers' lack of knowledge to identify the items	4	7%	14%
Suppliers don't have the item	5	9%	16%
Total	29		

Only 50% of the respondents addressed this question, 70% of the respondent voted that mismatches in purchases happen because of problems in specifying the item. Additionally,

almost equal proportion of the respondents addressed lack of knowledge of purchasers and unavailability of items with suppliers, meaning supplying different item instead, as possible cause for difference in delivery.

This particularly was seen with technical items like IT devices where neither the purchasers nor the receiving party have expertise.

Table 4.2.9 Respondents reply on if poor performance resulted to problem

Encountered problem due to poor performance	Frequency	Percent
Yes	30	52%
No	28	48%
Total	58	100%

According to the above table respondent have different opinion, 52% of the respondents agree that there are problem encountered because of poor performance, whereas 48% of the respondents have agreed with that there is no problem encountered because of poor performance of the purchasing department.

Table 4.2.10 Respondents reply on instance that purchase failed for items requested

Instance of purchase failure	Frequency	Percent
Yes	22	38%
No	36	62%
Total	58	

About 62% of the respondents reported that there was no instance that items request failed to be purchased and the remaining 38% of the respondents mentioned they had instances that item they requested failed to be purchased. The studies showed that majority of the supplied items are as per the request.

4.3 Discussion

A semi-structured interview guide was used with procurement department staff including the procurement director to describe the process and challenges encountered in the procurement process. The researcher also reviewed the main point and summarized as per here under below by comparing with the existing manual & procedure used in the organization.

4.3.1 Purchasing methods in CBE:

Commercial Bank of Ethiopia implements different types of purchasing methods applied to different situations where specific list of requirements are to be met. The major types of purchases CBE used are Local & international Open bids, Closed bid, Purchase made by invitation for interest and invitation for quotation (i.e., proforma invoice) and purchase from a single supplier.

4.3.2 Purchasing procedure of CBE:

Commercial Bank of Ethiopia organized the procurement unit centrally and carryout procurement centrally. CBE has a procurement manual that describes the detail description of the procurement process that branch offices follow. The procurement manual describes the setting of purchase requests by branch offices, compiling to allocate budget in respective fiscal year, and the selection criteria.

Branch offices prepare purchase request and estimate the budget needed, how much capital items required related with additional man power, or related with expansion or other needs in a period called a budget call for the upcoming year. These branch offices send their request with justification to a district level on the 3rd quarter of the preceding fiscal year.

The district offices evaluate the purchase requests submitted by branch offices in the district to justify and submit to a committee established to evaluate and prioritize purchase requests around June – July of each year.

This ad hoc committee evaluates all budget requests for procurement from district offices and approved the budget requests fulfilling the minimum criteria. All the budget requests are categorized into 3 categories, IT equipment, furniture and office equipment. The evaluation process includes trends of the previous year procurement. The committee assesses the request for any under- or over- request and it has specific period to complete the evaluation.

Once a request is evaluated by the ad hoc committee, it is forwarded to the process committee and this committee evaluates and forwards the request with the necessary budget to the board of directors for final decision and approval of the procurement process. Significant amount of time is elapsed before the procurement request is verified and approved leaving only 3 months for the process of procurement and delivery.

After the quantity of items to be purchased is determined, the procurement department start processing the purchasing process, preparing bid document, approval of the bid document by technical committee, evaluation of suppliers, setting of purchase order, delivery of items with quality check and the final dispatch to district office.

4.3.3. Critical step for the delay of the procurement process:

As per the CBE purchasing manual, there are a lengthy processes to get approval for quantity and budget of the requested item. After the branch offices send the planned annual purchase request to the district office, it takes long time to confirm the quantity with budget and send the request to the purchasing department.

4.3.4 Mechanism to expedite the purchasing process:

The procurement department proceeds with procurement process once the ad hoc committee approved the purchase requests without waiting the final approval by the Board of Directors to buy more time for the procurement process. Although the manual explicitly describe the steps, waiting for the BOD approvals & preparation of the paper work for floating bid or soliciting supplier takes unnecessary time; the procurement unit starts the process immediately after getting the approval of the ad hoc committee on quantity & specification of the purchase request to

expedite the process. The tender policy lets adjustment up to 10% on quantity for a floating tender.

4.3.5 Major challenges for procurement process:

The procurement practice in CBE is not free of challenges. The procurement manual of CBE states the level of budget for specific procurement methods. The branch offices are allowed to perform purchases within a budget ceiling of 3,000 ETB without involving the procurement department. Respondents from branch offices and the procurement unit staff mentioned that this budget ceiling is too small for current market value and branch offices push their requests to the procurement department unnecessarily.

The procurement process encountered internal challenges from within the organization and external factors. Respondents from the procurement unit identified internal problems as lengthy budget approval process, late delivery of purchased goods/ service; and the external factors related with the market are existence of few or limited number of suppliers for some items, reliability of suppliers both in terms of availability & quantity for specific items or services and the continuous market inflation.

Some suppliers enter into bid or even win the tender without having on hand the items both in kind or quantity. Additionally they tried to supply items with different specification.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary of the major findings

As shown in the earlier chapter, the study used primary data using interviews, questionnaires and observation and secondary data reviewing including purchasing documents, CBE manuals and CBE annual reports. The finding from both sources revealed that the purchasing process of Commercial Bank of Ethiopia has gaps and inefficiency.

Thorough analysis of the purchasing practice summarized and revealed the major challenges encountered. The major findings are summarized as:

- The purchasing process involves eighteen steps, passing through different desks for verification and approval which are procedural making the activity unnecessarily lengthy.

- Quality of purchased items is not only limited to fulfilling the specification, it also meant lasting long serving the intended purpose. Some items like tables and chairs get out of function within very short period of time for different reasons. The principle of procurement securing the 5R's, i.e., the right quality, right quantity, right sourcing, right price and right timing, could not be ensured in the real practice for it is not possible to recognize or ensure by almost all levels of decision makers. The director of the purchasing department stated that CBE had challenges of ensuring the quality of purchased items. Problem with quality of office equipment and note- counting machines in particular, is directly related with the specification initial set for the items which was not clear. In addition, specifications become unclear when the specification submitted by the requesting unit is either too long, complex or too narrow with inadequate information, or contain contradicting information, or description errors, or lay out & format problem or biased to specific products.

- As the procurement is open tender done annually and winners vary from year to year, the procurement department enters into agreement only for the budget year and similarly the guarantee agreement usually lasts for 1 year period. This arrangement by itself brings gap for items lasting more than one year like furniture which incur additional maintenance costs. CBE arranges extra agreements to accommodate maintenances, as a separate procurement items.
- CBE has a regulation of putting purchase requests for upcoming fiscal year in the third quarter by branch offices as stated in the company's procurement manual. Implementing this planning of procurement, the procurement department faces urgent requests for purchase from some branch offices, where the central office is not exceptional. The approval process of these unplanned urgent requests brings extra burden and pressure both on the procurement department and the concerned approving bodies. Urgent requests set from branches aggravate the delay in the procurement process.
- Other issues related with the purchasing process are suppliers practice. Some suppliers entered into or even won the tender without having the items available on hand both in kind or quantity wise. Some suppliers tried to supply items with different specification from the bid document. Moreover, there are few or limited number of suppliers for some items and reliability of suppliers both in terms of availability & quantity of purchase goods and the continuous inflation of goods or service are the major factors that influence the procurement.
- Finally, delivery to respective requesting unit is the concern. The purchased items are delivered to the CBE main store from where distribution to the destined users/ requesting offices takes place. Branch offices which set the requests at quarter three of previous fiscal year, start to receive respective purchased items starting around second quarter of the budget year, with almost 6 to 9 months of turn-around time. Procuring centrally also contributes for such a long delay.

5.2 Conclusion

- I. **Lengthy process:** The purchasing process is lengthy; it involves eighteen steps, which are lengthy and some of them are redundant..
- II. **Delay in delivery:** Although the requesting department sends purchase requisition 2 quarter earlier than the budget year, they receive the items on or after the third quarter. The turn- around time is unnecessarily prolonged given that adequate lead time is planned.
- III. **Lack of quality items:** Some of the purchased items usually break down before serving for the expected service period. This shows that the practice of maintaining the principle of purchasing the Right items in terms of right quality, right quantity, right sourcing, right price and right timing is not recognized or implemented at any level of the decision making.
- IV. **Lack of long term relationship with potential supplier:** The procurement department selects supplier(s) for each budget year and the agreement(s) and guarantees usually cover a period of one year. Suppliers are not usually liable for damages or problems that happen outside the agreement period. For this, CBE allocate and spend more budgets for maintenance costs for damages or problems that happen beyond the agreement period.
- V. **Urgent purchase requisition (outside the planned one):** As policy, CBE branch offices make planned purchase requests regularly for the coming year budget. However, there are unplanned purchase requests still coming to the procurement department from some branch offices after they got approval from the concerned body. It creates unnecessary work load and crowding on the unit and the procurement staff, compromising the efficiency of the procurement process.

5.3. Recommendation:

This study forwards the following recommendation once summarizing the CBE procurement process, the major gaps and challenges identified and how respondents' manage or tackle. The recommendation is intended to mitigate and alleviate the challenges and improve the practice of procurement.

- Identify frequently requested items and handle separately. Establishing effective stocking of supplies and accessories which are frequently requested by users like stationary item will reduce the delays and subsequent work interruptions and also unnecessary rush order expenses.
- Redesign the procurement process in order to minimize the quantity approval period and establish tracking system to expedite and follow the purchasing process,
- Consider long term maintenance agreement shall be considered with potential suppliers when the initial agreement is entered into for procurement of items with longer service life. To put this into action the procurement department selects suppliers to establish maintenance service agreement beyond the standard one year guarantee agreement for selected items with longer service life beyond the fiscal year like furniture and office machines/ equipment. In this case CBE can get long period of time guarantee.
- Establishing long term mutually benefiting relationship with reliable suppliers by entering agreement more than one year in order to avoid the suppliers' intent of providing less quality items, cheating on quality purchases and delayed deliveries.
- CBE has to develop standard specification for some items specially furniture in order to avoid quality defect.

- Finally, it is recommended from the study that branch offices and central office shall train or make familiar the branch and head offices staff on annual planning and budgeting fairly & minimizing the number of unplanned purchase requests process cost and totally it increase the efficiency of the procurement process.

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Annex 1: Questionnaire for Commercial Bank of Ethiopia Addis Ababa staff

St. Mary's University
School of graduate studies
MBA Department

Dear respondents:

My Name is Banchamlak Muluaem. I am a post graduate student at St. Mary University doing my dissertation, research conducted in partial fulfillment of MBA degree. This questionnaire is designed to gather information on procurement process of Commercial Bank of Ethiopia (CBE) Addis Ababa branch office. Here, I assure you that the information obtained from this questionnaire will be used only for recommendation purpose and your response will be kept confidential and anonymous in the report.

Consent: this questionnaire is a self-administered interview. Filling the questionnaire is voluntary and you are kindly asked to provide the right answer and provide your genuine opinion; Your cooperation is a valuable input for the research findings.

Instruction: -

- Please put tick mark (√) on your choice(s).
- You may choose more than one options when you feel applicable.
- No need to mention your name (anonymous)

Contact Address:-

If you have any query, please do not hesitate to contact me. I am available at your convenience through Tel. 0911-12-16-25 E-mail bancimulu@yahoo.com

Part I. Respondent's Profile

1. Sex: Male Female

2. Education back ground:

Certificate or less Diploma First Degree
 Masters or above Others

3. Work Experience: (in approximate year) _____ Year

4. How many planned purchase request do you send to procurement department within a year?

- Once in a year
- Twice in a year
- Three times in a year

Other _____

5. How often do you send purchase requisition that should be treated in urgent case, other than the planned request ?

- At least once in a month
- At least once in a quarter
- At least twice a year
- Once in a year

Other _____

6. List the following categories in the order of priority to your respective needs?

- Pass book
- Different machines – pass book printers, cash counters,
- Stationeries
- Office supplies
- Computers and accessories
- Sanitary supplies
- Others _____

7. On average what time takes you to receive an item you requested after a given procurement process particularly in open international bidding (OIB) purchase.

- less than a quarter
- two quarters
- more than 2 quarters but less than a year
- more than one year/ beyond the fiscal year

8. Do you think it takes too long beyond reasonable time to receive the items you requested?

- Yes
- No

9. If you answered yes for question 8, what do you think the reason is?

- Lengthy purchasing process
- Bureaucratic red tape
- Work load on the purchasing staff
- Lack of skill and experience by the purchasing staff
- Lack of motivation
- Suppliers problem
- Budget problem
- Others (mention)_____

How do you rate the performance of purchasing function in the following aspects?

It purchase the	Always (1)	Most of the Time (2)	Rarely (3)	Never (4)	Don't know (5)
10. RIGHT QUALITY (with the desired specification)					
11. RIGHT QUANTITY (without less or more quantity delivery)					
12. From RIGHT SOURCE (equal quality for money value)					
13. With RIGHT PRICE (reasonable costing)					
14. At RIGHT TIME (delivered at the right time)					

15. In which area do you think the purchasing function doing well?

- 1) Right quality
- 2) Right quantity
- 3) Right price
- 4) Right source
- 5) Right time

16. In which area do you think the purchasing function needs improvement?

- 1) Right quality
- 2) Right quantity
- 3) Right price
- 4) Right source
- 5) Right time

17. Are there instances that the purchasing unit supplied different items other than you request?

- 1) Yes
- 2) No

18. If yes, what do you think would be the reason?

- 1) Unclear specification of items on the purchase request
- 2) Purchasers lack of knowledge to identify the item
- 3) Suppliers don't have the item
- 4) Others _____

19. Have you encountered any problem because of the poor performance of purchasing?

- 1) Yes
- 2) No

20. If yes, please write

A. The incidence

B. The Result

21. Were there instances that the items you requested failed to be purchased?

- 1) Yes
- 2) No

If you have any other comments related to CBE existing procurement practice please specify;

Thank you very much

Annex 2: Unstructured Interview guide for CBE Procurement Directorate staff (including the director)

1. Position _____
2. Qualification _____
3. Training you take related to the task (procurement) _____
4. Briefly describe the nature of your job
5. What are different types of purchases do you have? (Open Int. Competitive bidding, restricted or short listing biding, direct biding/wavier competitive bidding, other)
6. What are the steps involved in the purchasing process?
7. Do you think any of the steps in the process are pointless at least some times?
8. Have you practiced problems in implementing a purchase process due to any of the steps involved?
9. How do you expedite the purchasing process?
10. What are the major challenges in procurement process?

Thank you very much