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**ASSESSMENT OF THE EXISTING PURCHASING POLICY AND PRACTICES AND ITS
EFFECT ON PERFORMANCE: THE CASE OF ETHIOPIAN AIRLINES**

**A Thesis submitted to Indira Gandhi National Open University (IGNOU),
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(MBA)**

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DECLARATION

I hereby declare that the dissertation entitled: **ASSESSMENT OF THE EXISTING PURCHASING POLICY AND PRACTICES AND ITS EFFECT ON PERFORMANCE – THE CASE OF THE ETHIOPIAN AIRLINE:** Submitted by me for the partial fulfillment of MBA in Business Administration to Indra Gandhi National Open University (IGNOU), New Delhi, is my own original work and has not been submitted earlier either to IGNOU or to any other institution for the fulfillment of the requirement for any course of study. I also declare that no chapter of this manuscript in whole or in part is lifted and incorporated in this report from any earlier work done by me or others.

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This is to certify that this thesis is prepared by **Betelehem Shiferaw** - a student of Master of Business Administration (MBA) from IGNOU, New Delhi was working under my supervision and guidance for her project entitled: **ASSESMENT OF THE EXISTING PURCHASING POLICY AND PRACTICES AND ITS EFFECT ON PERFORMANCE – THE CASE OF THE ETHIOPIAN AIRLINES** which she is submitting is her genuine and original work and complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

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ABSTRACT

The study on the assessment of purchasing performance of the EAL presents critical analysis and interpretation of the key purchasing performance measures namely, delivery on time, cost saving, increased quality, efficiency, quantity, undertaking research and transportation improvement which are common to all purchasing departments in different business organizations.

The emphasis of the study was to assess the purchasing performance of the EAL against its goal and general procurement policy requirements of the purchasing department function. The primary function of the department is to provide the correct item at the required time at the lowest possible cost. Therefore the study on assessing the performance of the EAL has taken into account these elements as well.

This assessment makes use of qualitative and quantitative data available to answer the research questions of the assessment and to illustrate the purchasing performance of the EAL. The result of the qualitative and quantitative analysis has revealed that a key element contributing to the success of the EAL is its organizational and qualified management team and its cost effective and efficient procurement policy and procedures supported by qualified purchasing professionals. In addition to this, the employment of cost effective up-to-date regional and international aircraft, using up-to-date electronic informational and aviation technologies that meets the demands of the market and the route has resulted to a high level of service and efficiently meeting the needs, wants, comfort and safety of passengers that ensured the EAL's rapid acceptance and competitiveness in the market.

It is the combination of the earlier mentioned factors with both physical and human capital that has played a significant role for its effective purchasing practice that ultimately has led to its profitability and capacity for a higher market share both regionally and globally.

In conclusion, the researcher proposes that the airline can make use of the recommendations for better and continuous improvement of its procurement performance to sustain its world class standard in the air transportation industry for the years to come.

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ACRONYM

AOG	Aircraft on Ground
ASK	Available Seat Kilometer
CEO	Chief Executive Officer
CN	Change Notice
EAC	East African Community
EAL	Ethiopian Airlines
EOQ	Economic Order Quantity
ILS	Inventory Locator System
M&R	Memo and Reply
MO	Material Order
RAR	Repair Action Report
RPK	Revenue Passenger Kilometer
SAR	Stock Action Report
SAR	Stock Action Report
STO	Stock Order
TWA	Transcontinental and Western Airlines

CHAPTER ONE: INTRODUCTION

1.1 BACKGROUND

On contemporary world, different kinds of industries were established with a lot of investment for providing service and with the ultimate goal of making profit. Among such service giving organizations, Airline industries take the top rank with huge investment.

A lot of Airlines in the world start this business and most of them due to the volatile and complex nature of the business have automatically went bankrupt. Different reasons can be cited for this and few of the reasons are - lack of skilled manpower, mismanagement of the operation, marketing problem, etc.

Since its establishment in 1945 the Ethiopian Airline has encountered a lot of challenges. In spite of the challenges it has faced, the Airline has survived for more than six decades with remarkable success and it has become one of the famous air transportation firm in the airlines industry.

Ethiopian Airline now works in very competitive environment. Profit margins are very minimal and competition is based on providing cost effective and quality services and products. In order to achieve the high level of competitiveness, the different departments of the airline should be aware of the fact that cost reduction, saving and preventing inefficiencies and frauds in various areas of operations guarantee further strengthening and success of the airline.

Currently EAL has designed a strategy and every division of the airline works towards the attainment of this strategy. In order to make the strategy to be effective, well-organized performance of each division and section of the airline is mandatory. Among the different divisions of the airline, the Purchasing Division is the one whose performance is directly related to the efficiency and cost effectiveness of the airline.

The purchasing strategy of the organization should be developed in line with the total organizational strategy for achieving its ultimate goal in managing spending, supporting operations, and minimizing risk which will contribute to the profitability and implementing a cost reduction operation of the airline.

The basic functions of Purchasing Divisions is to support the Airline's operating requirements for materials and services by obtaining the right material, the right quantity, delivered on time, at the right place from the right source and at the right price. Within the purchase division based on specialization and a functional break out, there are four departments delegated to accomplish purchasing activity from local as well as international market. These are, General Purchase, Technical purchase, Repair and Overhaul and Purchase support service.

In this paper an attempt is made to reassess the purchase practice of Ethiopian Airline and the implications to the overall performance of the organization. The researcher believes that in organization that is investing huge amount of money to carrying out its daily activity for executing its operations, efficient and effective functions of the purchasing sections have a great impact on the overall performance of the airline.

Ethiopian Airline is a government owned company found in the capital city of Ethiopia - Addis Ababa, with its head office located at Bole International Airport (Ethiopian Fact Sheet 2011). The Airline, which was established in 1945, is one of the worlds and Africa's oldest airlines, with over sixty years of existence (Iches et.al 2005). On April 8, 1946, the Airline started its operation by making its first domestic flight to Gondar and international flight to Cairo (Saunders 1971). This makes the airline to take the pioneer position in African air transport industry (Bahru1988).

Air transport provides several far reaching benefits to different countries worldwide. In general Air transport industry is essential to create employment opportunity, growth and sustainability of tourism, fast and efficient trade, sustainable economic growth and the likes to a country. In view of this, EAL provides several benefits to the country as well as to different stakeholders through the provision of different services to its customers (Civil Aviation Authority 2007). For instance, by being source of direct and indirect employment and hiring essential amount of human resource, it plays a significant role in an attempt to overcome the problem of high unemployment in the country (Nyaringo 1964). Besides, it encourages the national tourism sector by facilitating transportation for a number of tourists from different parts of the world and it also has other benefits (African Aviation 2006; Civil Aviation Authority 2011), which would be discussed later in detail.

Additionally, different literatures categorize Ethiopian Airline as one of the successful airlines found in Africa and as a major industry in Ethiopia (Ethiopian Factsheet 2010). In a thesis entitled African Air Transport in the 21st Century: a case study of a contrasting experience of Nigeria and Kenya, describes Ethiopia as a country which has a successful air transport experience and in the detail analysis Ethiopian Airlines is recognized as a successful airline (Fatokun 2005). Similarly, in a thesis entitled as The Economic Effects of Progressive Air Transport Liberalization in Africa: The Case of City- Pair Routes to/from Addis Ababa, Ethiopian Airlines is considered as a successful African flag carrier Airline (Megersa 2007). Moreover, the Airline's 2010 annual report confirms that the Airline's significant revenue increase despite the apparent declining of world's aviation revenue due to the global economic downturn (Ethiopian Annual Report 2010). Likewise, different studies pointed out several factors for the exhibited success of the airline.

Accordingly, the credibility of its training facility is one reason for the outstanding record of service that the Airline has maintained (Saunders 1971). In line with this, the utilization of Information and Communication Technology (ICT) at organizational level plays a major role for the success of the institutional business. And, it is asserted that Ethiopian Airlines uses such technology at a large scale. Hence, this in turn, has played a significant role in enabling Ethiopian Airlines to make major enrichment in its business (Selamta 2001). The up-to date electronics, informational and aviation technologies, the safety record of the airline has also played a vital role for its success (Bofinger 2009). In addition to this, dedication of the human resource, promotion activities and others are also mentioned as factors for the great performance of the company (African Aviation 2006; Nyaringo 1964).

All in all, the aforementioned list of contributing factors for the success of Ethiopian Airline might not be taken as exhaustive. Therefore, the purpose of this research is to see whether they actually are the reasons for its success or not. And also, it is to see if there are other factors to that effect. Thus, with the support of extensive research, an attempt is made to throw light into the success story of Ethiopian Airline so that other public companies can also learn a valuable experience. In doing so, the determinant factors are identified and can be used as a tool for performance upgrading of other public companies in Ethiopia.

1.2 STATEMENT OF THE PROBLEM

The EAL obtains materials and services which are necessary either for its regular operations or to accomplish its short and long run plans through purchasing from both domestic and international markets. These purchased materials include a wide range of supplies and services such as bulk stationery materials and supplies up to big Air crafts and their spare parts which is worth millions of dollars. Purchasing is an activity that incurs costs.

For organizations which operate in revenue earning activities the efficient and effective performance of purchasing sections have great impacts towards saving money, reducing costs and achieving organizational objectives as well. The same is true for EAL. Wrong purchasing practice costs too much because there are several considerations that a buyer makes in purchasing. This include: quality consideration, good negotiation skill for fair price and discount, legal issues and evaluating instruments on selection of supplies and form or mode of payment etc..

The above considerations have their impact to undertake purchasing in the right way specially to accomplish the purchasing objectives. These purchasing objectives are purchasing the right quantity, the right quality, the right time, the right price and from the right supplier. Missing one or more of these purchasing objectives may lead the organization to incur unnecessary huge

amount of cost. Therefore, purchasing is one of the main areas in an organization that needs a close attention of the top management. To do this, the EAL organizes purchasing at a division level. The effectiveness of this division has a big role in the quality and cost effectiveness of the organization's operations.

Having a low per capita income, Ethiopia is among the countries with an appalling level of poverty in the world (Mankiw 2008; Daniel 2011). As a result, the government of Ethiopia has made different reforms at different times out of which, the 1992 reform has two major objectives which include reducing poverty and enhancing economic growth of the country. Therefore, to meet the aforementioned objectives ; the government has planned different strategies and building capacity of the public sector (Alemayehu & Tadele 2004).

Public sector refers to the group of enterprises owned by a government that sell goods and services in a market (Jones 1982). Especially in developing countries, services such as telecommunications and postal services, electric and gas utilities, forms of non-road transportations; mainly airlines and railroads, banks, security and defense etc. are publicly owned (Megginson & Netter 2001). One major justification for the need of such public enterprises is the fact that they are considered as necessary tools to promote economic growth (Rondinelli & Iacono 1996 cited by Megginson & Netter 2001).

In Ethiopia the Airline industry, banking industry, oil industry etc. are publicly owned enterprises. More specifically, some of the government owned enterprises in Ethiopia include the Ethiopian Airline, the Ethiopian Shipping lines, the Ethiopian Telecommunications Corporation and Commercial Bank of Ethiopia etc (Alemayehu & Tadele 2004).

EAL is a publicly owned company and thus the concern of the researcher here is to evaluate the purchasing mechanism of this company. Therefore the purpose of this assessment is to look into the successes and the challenges of the procurement process of EAL in order to determine the lessons that can be drawn from its experience which the researcher believes might help to build the capacity of the other public sectors. This in turn, helps to meet one major aim of the country i.e. enhancing economic growth of Ethiopia.

1.3 RESEARCH QUESTIONS

1. What are the policies and procedures of EAL regarding purchasing activities?
2. What main challenges were faced while going through implementing the policies and procedure of EAL purchasing activity?
3. What kinds of purchasing systems and techniques are being used in the division?

4. What is the effect of purchasing policy and practice on an overall performance of the Airline?
5. Does the division use its facilities efficiently? What are the limiting factors?
6. Does the organization regularly evaluate its purchasing performance based on the key purchasing performance criteria such as on time delivery, cost effectiveness, quality, quantity and the likes?

1.4 OBJECTIVE OF THE STUDY

The objective of this study is classified as general and specific objectives. The general objective specifies the general purpose of the study and then based on this general objective; the specific objective will be included in order to satisfy the research questions.

1.4.1 General objective

The general objective of this study is to review the actual purchasing practices of the Ethiopian airline so as to analyze its implications on overall performance of the Airline. This needs somehow to compare with the internationally accepted standards of purchasing principles against the existing practice of EAL. Thus; this study tries to investigate and identify major problems encountered and suggest possible solutions regarding these problems.

1.4.2 Specific Objective

In light of the general objective, and in order to satisfy the research questions, the specific objective includes:

1. To obtain an understanding of the existing purchasing practices of EAL which focuses on
 - ✓ How purchase requests are received and approved from different departments?
 - ✓ How quantity purchase is decided?
 - ✓ How purchasing and delivery time of materials is determined?
 - ✓ How suppliers in the market are selected?
 - ✓ How suppliers' prices are compared and selected?
2. Identify the major constraints faced by Purchasing Division which aims
 - ✓ To assess the gaps regarding staff qualification
 - ✓ To assess the main cause of problem in the division
 - ✓ To provide some recommendations and suggestions regarding the problem areas so that the division will be able to increase its contribution to the company

Answering these questions will show us how purchasing is done in the EAL and based on the findings a clear understanding will be established as to whether there is a problem or not regarding the purchasing practices of the EAL.

1.5 SCOPE OF THE STUDY

The scope of this study is confined to investigate the existing purchasing practices in the EAL. It also focuses on both domestic and international purchases. The study is conducted based on the data gathered from Ethiopian Airlines staff members which specifically is from head office of the Airline (Bole International Airport).

1.6 METHODOLOGY AND ANALYSIS

The research utilizes descriptive techniques in analyzing the issues and research questions that have been raised in this study. The data for the analysis of the findings have been generated from both primary and secondary sources. Primary data have been collected through interview, personal observation and questionnaire to supplement the secondary data and for the analysis of the qualitative data. . Employees directly involved in purchasing activities and supportive staffs of the Purchasing Division are being used as key informants who are expected to be very instrumental in enlightening the researcher with the existing purchasing policy and practice and its effect. The primary information sources have been chosen using a proportional stratified sampling method and the secondary data have been gathered from literature review, purchasing manuals and procedures of EAL, from past and present research documents from internet and other relevant sources.

1.7 SIGNIFICANCE OF THE STUDY

As pointed out earlier, the government of Ethiopia has launched developmental interventions in order to eradicate poverty from the country. The purpose of such developmental venture is to enhance the economic growth of the country through different initiatives. Thus the main focus of this initiative is building the purchasing capacity and putting in place successful mechanism of purchasing practices. Hence, the primary significance of this study is to look for a means that can enhance successful purchasing procedures based on the lessons learned from the EAL and to contribute for the overall developmental strategy of the country. The study also seeks for educative findings on the issue that can be used as a basis to conduct other related research work in the future.

1.8 LIMITATION OF THE STUDY

While conducting this study a number of limitations have been encountered which constrained the scope and sample size of the study. Therefore, the main limitations of the study include:

- Limited sample size due to the fact that Ethiopian Airlines does not allow having large sample size for such study which is in fact is a justifiable reason since it consumes much time of the workforce and affects work efficiency in the company.
- This study could not carry out a comparative analysis between Ethiopian Airline and other public companies.
- Few qualitative data depend on respondents' individual perception and opinion towards the purchasing activities of the EAL and the determinant factors as well.
- This research does not go in to detailed analysis about purchasing performance evaluation of the airline due to time and resource limitations.
- This research finding might not reflect the comprehensive nature of the EAL purchasing practices taking into account the diverse and complex supply chain and huge purchasing cost and related activities undertaken.

1.9 POPULATION AND SAMPLE DESIGN

Population Definition: Currently, the total populations under purchasing division of the company are 200 and out of which only 150 employees are operational, personnel administration and top management staffs.

Sample Size: The research has considered a total population of 150 employees as a unit of analysis for the study purpose. From the total population size, a sample size is determined to be 50% of the total population, i.e. $50\% * 150 = 75$. Thus, a sample of seventy five (75) employees has been selected using proportional stratified sampling technique. The questionnaire and interview was conducted for the selected sample size.

1.9.1 Data Sources

a) Primary data source

The primary data was gathered based on questionnaire and interview which was distributed to the respondents during the data collection phase.

Interview: The primary data was gathered by conducting interview with top and middle level management, including concerned employees of purchasing division, especially in the level of supervisor and purchaser. The researcher has also added her own personal observations.

Questionnaire: The primary data was collected through structured questionnaire distributed for purchasing division and user departments.

b) Secondary data source

The secondary data was collected from literature review, purchasing manuals and procedures of EAL, from past and present research documents, internet and other relevant sources.

1.9.2 Data collection

As stated in the preceding sections of this paper, the data source are primary and secondary data. The primary data in relation to purchasing was gathered based on questionnaire and interviews based on the sample size of 75. In the case of primary data collection using questionnaires , it was designed and distributed to purchasing department and selected user departments of different hierarchical levels of the company such as purchasers , top management and middle level management and others. This has helped to classify the understanding and responses of different types of respondent during data analysis.

Responses of the questionnaire for qualitative data analysis are being classified and measured based on the Likert type scale of measurement using on five points scale such as 1= very important (very satisfied), 2 = important (Satisfied) , 3= moderate (normal), 4 =not important (unsatisfied) and 5= very unsatisfied. The secondary data are also gathered from books, journals, from literature review, purchasing manuals and procedures of EAL from past and present research work, internet and other relevant sources

1.9.3. Data Analysis

The collected data was organized, classified, coded and encoded into a computer. The variety of information collected from questionnaires was tallied and tabulated. It was analyzed using SPSS software to calculate percentages and to produce tables and bar graphs. The qualitative data gathered using the interview was interpreted and presented in a narrative form. After analyzing the data the findings are summarized and appropriate conclusion has been drawn and possible recommendations are presented.

1.10 ORGANIZATION OF THE STUDY

The study is organized into four chapters

- The first chapter focuses on introduction which includes back ground information of the study, scope of the study and the research techniques used to collect data.
- The second chapter attempts to relate the study with various literatures written about purchasing
- The third chapter deals with the current practices of purchasing department of EAL and describes what is actually being done with regard to purchasing

- The fourth and final chapter concentrates on data presentation and analysis. This chapter also comprises the conclusion and recommendations on the overall study based on the analysis of data collected.

1.11 BACKGROUND HISTORY OF THE WORLD, AFRICAN AIR TRANSPORTATION AND EAL

This chapter initially reviews about the international, African and Ethiopia's history of Air transport briefly. Then, discussion proceeds with the back ground history of Ethiopian Airline and important events of the Airline during the different regimes of the country. The Airline's contribution to the economic growth of Ethiopia is also presented. Finally, justifications are made for the reviews presented.

1.11.1 Brief History of the World and African Air Transportation

Air transportation is a means of transportation by which people and materials move from one place to the other through Air (Donohue & Zellweger 2001). The main advantage of this transportation method is the amount of time saved because of the high speed of the flight (Faulks 1969). The history of Air transportation in the world began in the year 1903 with the first flight made by Wright brothers in North Carolina (Trani 2005). Afterwards, on January 1, 1914, the world's first scheduled flight was made across the bay separating Tampa and St. Petersburg, Florida (Bowen & Rodriguez 1988-2011).

Subsequently, commercial aviation has progressed starting from World War I and World War II during which better aircrafts were quickly designed and important technological advance in the air transportation was made, which has resulted growth in the Air transportation (Bowen & Rodriguez 1988-2011). As Bowen and Rodriguez put it, more than a century after the first flight, the aviation now is intertwined in everybody's life across much of the world.

The aviation history in Africa has dual facet - on the one hand the size and terrain situation of the continent calls for a developed aviation. On the other hand lack of cooperation among the regions especially at the early time of the industry establishment led for isolated development among the regions and no integration of the African continent with the rest of the world (MyFundi 2011). As a result, the initial history of the commercial aviation in Africa is presented separately dividing the continent in to four regions as East Africa, West Africa, South Africa and North Africa.

On the east side of the continent, three countries which include Kenya, Tanzania and Uganda together formed East African Airways (EAA) Corporation in 1946 (Goldstein 1999). Subsequently, in 1967 these three countries formed an economic union called East African Community (EAC) (Debrah & Toroitich 2005). However, after a decade due to the political

divergence among the capitalist Kenya and Socialist Tanzania as well as the crisis of Uganda under the rule of Idi Amid led the termination of the EAC and the creation of three autonomous Airlines (Goldstein 1999; Debrah & Toroitich 2005).

Likewise, on the west side of the continent, west African countries including Benin, Cameroon, Central African Republic, Chad, Congo Brazzaville, Gabon, Coat d'voire, Mali, Mauritania, Niger, Burkina Faso and Senegal jointly signed a treaty which brought Air Afrique in 1961 (Bofinger 2009; Goldstein 1999). However, after being sold to private investors and Air France for \$69 million with debt of \$500 million it collapsed in the year 2001 (Bofinger 2009). Unlike, the Eastern and Western counterparts the history of the South African commercial aviation has different evolution (**MyFundi n.d**). The contemporary South African Airways was formerly known as Union Airways before it was bought by the South African government and renamed as South African Airways in 1934 (Goldstein 1999; MyFundi n.d). As per the former encyclopedia (MyFundi n.d), a year later, another Airway named as South West African Airways was incorporated to the South African Airways. Then, this airline prospered since 1980s and now it is the continents biggest and successful Airline (Iches et.al 2005; Demuren 2007; Bofinger 2009).

Finally, the Northern region of the continent was dominated by two major Airlines which are Royal Air Maroc and the slightly larger Egypt's national carrier of Egypt Air (Bofinger 2009). In this regard, contemporarily African Air transport industry progresses at different speeds in the different parts of the continent (Fatokun 2005). According to Fatokun, countries such as South Africa, Kenya, Egypt and Ethiopia are relatively successful in their Airlines industry, while countries such as Nigeria are referred as relatively less successful.

Similarly, another survey reveals that Egypt Air, South African Airways, Kenya Airways, Air Maroc and Ethiopian Airlines are considered as successful flag carrier airways whereas Nigeria Airways, Ghana Airways, Air Afrique, Cameroon Airways and Air Gabon are regarded as less performing Airways across the continent (Demuren 2007).

1.11.2 Historical Background of Ethiopian Airline

In Ethiopia, Air transportation has a long history. The Air transport technology was introduced two decades after the Wright brothers made the first flight in 1903. Therefore, the aviation history of the country dates back to 1921 when Ethiopia's government officials have made a visit to Yemen (Civil Aviation Authority 2007; Eyob 2001). Along with, detail explanation about aviation history with particular attention to Ethiopian Airlines is presented as follows.

1.11.3 The Pre- foundation and Beginning of EAL

Pre - Foundation:

In Ethiopia, prior to the Aircraft technology came into existence, the country largely has depended on horses and mules for journeys across the impossible mountain ranges (Bahru 2007; Bahru 1988). The existence of such terrain situation of the country made these means of transport to be dangerous and more time consuming. Hence, Airplane, which does not require heavy road, terrain or bridges, provides a perfect solution for such problems that prevailed in most parts of the country (Bahru 1988). So, this new technology becomes feasible when the first two Aircrafts had landed in the late 1920s which was regarded as a very historical moment in the country's history of air transport (ibid). It was on August 18, 1929 that the first Aircraft arrived at Gefersa, which is 15 kilometers west of Addis Ababa (Abel 1972; Bahru 2011). Few months later, the second Aircraft had arrived bringing the first air mail delivery (Bahru, 1988).

Training of Ethiopian pilots started in 1930 which was held within and outside the country (Civil Aviation Authority 2007). In line with this, in 1935, the country owned a large size of Aircraft through gifts and purchase (Ministry of Information 1965). In such a way, it had accumulated different types of aircraft including the Potez25 A-2 type with a leading position (Bahru 1988). After a while, the first aircraft named as 'Ethiopia 1' had assembled in the country which revealed that the craft technology crossed a new frontier (Civil Aviation Authority 2011). However, in the same year, the Fascist Italy had invaded the country which accompanied by the bombardment and destruction of the whole country using a considerable number of Aircrafts (Mak 2006). Consequently, the progress had been affected by the war until the Italian were defeated in 1941 (Nayrigo 1964; Ministry of Information 1965; Bahru 1988).

When the country began to reassert its control on aviation, first it was in the military sphere (Bahru 1988). Then, in 1944 and 1945 Ethiopian Air force was born based on the Ivo Olivetti Airport used by the Italian during occupation and later used to serve Ethiopian Airlines (Mak 2007). Consequently, the training ground was shifted to its present city Harar Meda in Bishiftu. Later on, Emperor Haillessilassie, who was interested in the money and military matters for its existence was not so happy to ally with the British which had the same interest (Bahru 1988). As a result, the Emperor looked for new partner and selected Americans which had a marginal effect in the war (ibid). Hence, it was around this time that Ethiopian Airlines came in to being.

Beginning:

The present day Ethiopian Airlines was founded in September 8, 1945 by an agreement made between Ethiopian Government and Transcontinental and Western Airlines (TWA) (Mak 2006;

Civil Aviation Authority 2007). Sooner, both had signed for the creation of an Airline which was called Ethiopian Airlines (Bahru 2007). Following that, the corporation was enjoying an exclusive right of providing domestic air service and TWA was acting as an agent for purchase of aircrafts and spare parts, hiring of personnel to flight, maintenance, accounting, communication and traffic. Moreover, TWA was committed in hiring maintenance and flight crew and other key personnel as well (Ministry of Information 1965; Bahru 1988).

Ethiopian Airline began to deliver domestic and international service soon after its foundation. Then, the Airline had acquired five Douglas C-47 sky trains and made the first scheduled international flight to Cairo in April 8, 1946 (Ethiopian Herald 1946). Very soon, weekly flight service to Cairo, Djibouti and Aden as well as domestic service to Jimma had started (Saunders 1971). However, the Douglas Aircraft was incapable of providing service for the growing demand and thus the Airline had acquired four more sky trains which still could not address the problem. Hence, three more sky trains were purchased and these were the first air crafts to wear the colorful Ethiopian Airlines livery (Selamta 2001).

Progress:

Few years after the inauguration, three quarter of the Airline staffs were Ethiopians with key posts still held by the expatriate (Selamta 2006). Subsequently, the Ethiopian government and TWA made a new agreement aiming at overtaking the responsibility of managing the overall affairs of the Airline entirely by the Ethiopian personnel (Bahru 1988). Then, in 1957 the first Ethiopian commercial commander Alemayehu Abebe has made his solo flight as captain and the Airline also established maintenance facility at Addis Ababa (Selamta 2006; Bahru 2007).

The Airline continued to be strengthened during the subsequent years. It was expanded in all aspects and new services were introduced. For instance, the year 1960 for Ethiopian Airline was a year to enter the jet age and after extensive study it was decided that the Boeing 727 B best met its requirement (Mak 2006; Bahru 2011). In addition to this, the Lideta Airway which was built in 1936 by the Italian, was too short to meet this need and building new Airport at Bole became the only solution and which subsequently became operational in 1962 (Mak 2007). Besides, in 1965 the company changed its legal status from a corporation to share company and changed its title from Ethiopian Air Lines to the more modern name Ethiopian Airlines (Selamta 2006). Consequently, in 1971, Colonel Semret Medhane was appointed as the first Ethiopian general manager (Bahru 1988).

Later, in 1989, the cargo management department was established to render special attention to the development of the Airline's cargo service, which constituted one third of the revenue for the

company (Selamta 2006). In February 1999, the Sheba miles frequent flyer program was launched and construction of a new ultra- modern terminal building at Bole international Airport had started (Selamta 2006). Years later, the new terminal was finished and became operational in the year 2003 (Selamta 2001; Selamta 2006). In 2007, Ethiopian Airlines received awards for its excellent financial performance, passenger growth, and route network expansion, fleet modernization, in flight service and overall customer care from African Aviation Journal (Ethiopian Airlines (B) n.d). In 2009, the airline ordered 35 new airplanes direct from the manufacturers and lately in 2010 Ethiopian opened new Service to Pointe Noire, which is the second largest city in Republic of Congo (Ethiopian Airlines (B) n.d).

1.11.4 Destinations and Fleet

As discussed earlier, the Airline made its first international flight to Cairo and it then passed through different stages towards its destinations. Initially, its service was mainly to Djibouti, Aden, Asmara, Khartoum, Cairo, Jeddah and Jimma (Ethiopian Herald 1946; Bahru 1988; Selamta 2006; Ethiopian Factsheet 2010). And then, as it is indicated in some writings, Ethiopian Airline currently gives service to 60 international and 17 domestic destinations (Ethiopian Fact Sheet 2011). Likewise, Ethiopian Airline has accumulated and owned various types of aircrafts (fleet) through grants and purchase at different periods of time (Bahru 1988).

In 2010, Ethiopian Airline owned one Boeing 777-200LR, eleven Boeing 767-300, eight Boeing 757 200, two Boeing 757, two 60F (cargo) ,two Boeing 747F (cargo),twoMD-11F (cargo), five Boeing 737-700NG, five B737-800W, seven Q 400 and 5 Fokker 50 fleets (Ethiopian Fact sheet 2010). In short, Ethiopian Airline owns a total of 47 different combination of fleet and it has also ordered a total of 34 different types of fleet including 10 Boeing 787 Dream liner Jets from Boeing and 12 A350-900 from Airbus (Ethiopian Fact Sheet 2011).

1.12 ETHIOPIAN AIRLINE ACROSS DIFFERENT REGIMES

Under this sub-topic, the researcher gives emphasis on different kinds of issues about Ethiopian Airlines which happened during different government periods: Emperor Hailesselase I, the Dergue, the Transitional government and EPRDF.

1.12.1 During the Emperor Regime

Prior to 1974, the imperial era was on power with market economic system ideology where, most economic activities were on private control and relatively limited control of economic resources were by the public sector (Tewodros 2010). It is during this period that a French Potez25 type of fleet has been landed in Ethiopia for the first time piloted by Andre Maillet (Abel 1972). In addition, the first air craft called Ethiopia1' was assembled in Ethiopia and in 1935 large numbers

of aircrafts existed in the country; which were acquired through gifts and purchase (Civil Aviation Authority 2011).

However, in 1936 the fascist Italy came to Ethiopia to revenge the Adwa victory of Ethiopians or the humiliation it has suffered 40 years back. Then it had caused a huge destruction in the country until Italy was defeated by Ethiopian patriots and British army in 1941 (Bahru 1988). Hence, this situation has forced the government to put on hold its effort regarding the development of aviation as well as other developmental ventures of the country by focusing on the war (Bahru 1988). In contrast, it was during the Emperor's period that Ethiopian Airline was founded by an agreement which was made between Ethiopian government and the Trans World Airlines (TWA) to establish a corporation named as Ethiopian Airline (Semret 2005). Subsequently, the Airline was heading on progress until the down fall of the Emperor's regime in 1974.

1.12.2 During the Dergue Regime

In Ethiopian history the period from 1974-1991 is referred as the Dergue regime where the involvement of the government in the economy was so much intensified (Tewodros 2010). During this period the government pursued command economic system and public sectors were expanding at the expense of the private sector (Tewodros 2010). During this period the country was under the rule of Mengistu Hailemariam and there were some changes at the Airline following the socialist revolution of 1974 (Ethiopian Airlines (A) n.d). By the end of 1970, the Airline had nearly 3400 employees and quality of the Airline service crashed down as staffing becomes enlarged. Captain Mohammed Ahemd, a long time experienced person of the company, was designated chief operating officer in 1980 and tasked with implementing a turn around. He cut the staff by more than 10 percent while running Ethiopian Airlines on a strictly commercial basis (Ethiopian Airlines (A) n.d).

The new government had also established strong relation with the Soviet Union but ET continued to choose western made aircraft (Ethiopian Airlines (A) n.d). The fleet was replenished with purchase of Boeing 727 in 1979 and wide body Boeing 767 in 1984 (Selamta 2006). Interest payment on the new planes, unfavorable exchange rate and a slowdown in business from the drought conspired to wipe out the companies restored operating profits in the mid-1980s (Ethiopian Airlines (A) n.d). Captain Mohammed explained to the New York Times that ET continued to have a good reputation for maintenance and training. It also had an implacable credit rating. By the end of the decade, Britain financial times were calling it the most profitable Airlines in Africa. It posted net income of \$24 million of revenue in the 1988/89 fiscal year (Ethiopian Airlines (A) n.d).

1.12.3 The Transitional Government Period and EPDRF Period

After the end of the Dergue regime, the Transitional government took power with a reform that transforms the command economic system to market based system (Tewodros 2010). And currently, Ethiopia is under the rule of Ethiopian People's Revolutionary Democratic Front (EPRDF) and this government has adopted market oriented economic system (Tewodros2010).

During the down fall of Mengistus' regime, the fighting approached to the capital that ET temporarily relocated its planes to Nairobi (Ethiopian Airlines (A) n.d). In spite of the disruption and chaos, a downturn in the global aviation industry and the weakening of tourism due to the war, Ethiopian Airline managed to post a profit (Ethiopian Airlines(A) n.d).

For a second time, in 1998 war once again disrupted the Airline's operation due to the border dispute between Ethiopia and Eretria. Then, Ethiopian Airline again relocated its main operations to Nairobi for most of the two years conflict period which resulted an enormous increase in fuel costs due to rerouting the international flights out of Eretria airspace. But, even with this challenge the routes and frequencies of Ethiopian Airline flights were increasing and in the late 1990 its financial losses were minimal (Ethiopian Airlines (A) n.d). Ethiopian Airlines continued to survive in the down turn of global aviation which followed the 11th September 2001 of attack on United States by terrorists (Ethiopian Airlines (A) n.d).

In the year 2003, the Airline changed its livery for the first time in 56 years and new terminal was built and ET named Ato Girma Wake as its latest chief executive officer following the retirement of Ato Bisrat Nigatu (Selamta 2001; Ethiopian Airlines (A) n.d). "Deduction brought us this far and passion will take us even further" was the slogan of the company in the 60th anniversary and Ethiopian Airlines, which is the loyal Boeing customer, began operating its first Airbus A330 on leased base in 2006 (Selamta 2006; Ethiopian Airlines (A) n.d). Since then, the Airline is on progress in every aspect of its business.

1.13 CONTRIBUTION OF ETHIOPIAN AIRLINE TO THE ECONOMIC GROWTH OF ETHIOPIA

Under this section, the researcher attempts to show the nexus between the Airline and economic growth of the country. In other words, an attempt is made to show the roles and contributions of the airline on the different sectors of the economy which include the transport and tourism sectors, employment and other sectors and ultimately on the economic growth of the country.

1.13.1 The Airline and Transport Sector

Like some developing countries, the problem of transportation and communication is not unique to Ethiopia (Ministry of Information 1965). As it was mentioned earlier, before Aircrafts came in to being in the country, horses and mules were used to transport people as well as commodities from one place to the other (Bahru 2007). And, these methods were time consuming and dangerous regarding to the existing terrain system of the country (Bahru 1988). In addition, especially in the early 1920s, the land terrain of the country was so rugged and the road system was so poor that it makes communication and transportation so much difficult (Ministry of Information 1965; Selamta 2001). Then, this causes the need for other means of transportation to solve the aforementioned problems.

In light of this the Ethiopian Airlines provides solutions for these problems by availing a means of transport for passengers as well as commodities through its domestic and international flight services (Bahru 1988). In addition, during the imperial period it has assisted the government administratively by bringing provincial centers much closer to the central government (Nyaringo 1964). Thus, the airline had played a significant role in achieving economic growth by improving the infrastructural facility of the country. Therefore, on the one hand, there is a fact that transport and communication are inseparably linked to the development of a country, and a social and economic welfare of its people (Simon 1996). On the other hand, the Airline is an important means of transport which helps the country not to be isolated from the rest of the world and also enhances globalization (Saunders 1971; Ministry of Information 1965). Then, the relation between the Airline and economic growth and hence economic development of the country would be created through the transportation sector.

But, the above fact does not mean that air transportation is free from problems. One the problems is, it would be difficult to use air transport for bulky commodities because of its expensive price (Nyaringo 1964). That is, as Nyaringo puts it out, it would be better to transport light commodities in airplane than the bulky ones. To see the difference, he calculated the cost of shipping goods from Gore to Addis Ababa by air and truck. And, found out that the former is more costly than the later which clearly shows that air transport is expensive to transfer bulky commodities (Cited by Nyaringo 1964 from Taffare DeGuefe 1959).

1.13.2 Tourism Sector

Tough air transportation provides several benefits worldwide; tourism and trade are heavily reliant on this mode of transportation (Dempsey 2008). For that reason, the airline industry is a major player in world economy that it contributes significantly to the development of tourism

sector (Parahoo nd). Apparently, one third of African countries are landlocked that it makes air transportation more important to expand trade and inflow of tourism to the continent (Megersa 2007). Likewise, Ethiopia is a landlocked country that requires air transportation for the development of such sectors and growth of the country (Semret 2005). For many underdeveloped countries, especially for eastern African countries, tourism accounts higher value in their national income due to the fact that these countries have various tourist attraction cities (Nyaringo1964). According to Nyaringo, Ethiopia, like the other east African countries unexploited potential in this sector with vast historical tourist attraction sites which can play a vital role in contributing for the tourism sector and hence for economic growth and development of the country as well.

Besides, as Ethiopia is a strategic partner and a center of international, regional and sub- regional institutions, it is benefiting from conference tourism which entirely uses air transport for such purposes (Civil Aviation Authority 20011). Air transport also contributes its share towards the development of trade and tourism in Ethiopia and maintains its role as major player for the development of aviation in Africa (Best Practices 2010). Hence, Ethiopian Airlines l contributes a lot in fostering economic growth and development of the country by enhancing the tourism sector (Nyringo 1964).

1.13.3 Employment

Several countries in the world benefit from the direct and indirect employment potential that the airline industry has (Simon 1996). In contrast, one common problem that almost all underdeveloped countries are facing is the higher unemployment rate and curbing this problem is one of their major objectives (Nyaringo 1964) In this case, the contribution of air transport to solve this problem would be significant.

In Ethiopian case, one of the government policies is to curb the problem of higher unemployment level of the country (Nyaringo 1964). In doing that, Ethiopian Airline has played a great role to fight this problem by creating a vast employment opportunity to be employed in the air transportation sector (Civil Aviation Authority 2011). Furthermore the airline has created employment opportunity indirectly in allied business like hotels, travel and tour agents, taxis, guard service providers, temporary workers and so forth (Civil Aviation Authority 2011). Therefore, it is obvious that the airline plays a significant role in curbing the problem of higher unemployment rate and hence contributes in the economic growth and development of the country.

1.13.4 Other Sectors

Ethiopian Airlines has also several more benefits which can contribute to the economic growth as well as the overall development of the country. Unlike the period before its establishment, when there was no in and out of service in Ethiopia, currently it is stretching its routes to many countries all over the world which therefore helps the country to facilitate trade and promote the export sector which then helps the government to reduce trade deficit problem (Saunders 1971; Best Practices 2010). Besides, it benefits the country through the foreign exchange contribution it made by making international flights which is equivalent to the foreign exchange generated from export trade. It also promotes foreign direct investment, build the national image etc (Civil Aviation Authority 2011).

Justifications of the review:

The above review is made with an objective of providing a brief insight for the reader about commercial aviation in the world, Africa and including Ethiopia. Then, the background history of Ethiopian Airline is dealt due to the importance of the raised issues. For instance, the issues related to the history of the EAL formation, destinations and fleets and other factors are believed to be related with the success of the Airline. And, it is believed that this helps to meet the objective of the research by giving background information about such factors. The discussion about the Airline's operation during different regimes is aimed at providing background information for making convenient trend analysis of the Airline's performance. Besides, the contribution of the Airline to the economic growth of the country is also presented with an intention that other institutions or public companies may take a lesson from it. Also, it is to show that how much the Airline is contributing to achieve one major objective of the Ethiopian economy, which is, economic growth.

1.14 STRATEGIC PLAN OF ETHIOPIAN AIRLINE

Planning is a forward looking process in which we decide what to do, how to do it, when and whom to do it (Mohammed 1995). In planning, managers determine the goals of the organization or workgroup and develop the overall strategies to achieve them (Ferguson et.al 1986). In line with this, planning has several benefits where it facilitates professional growth, provide the framework for organization, aids in delegating authority, help monitor work etc (Kinard 1988).Moreover, it helps to avoid errors, prevent wastage and avoid delays and also aids to have an effort of becoming both effective and efficient (Ferguson et.al 1993).

A given organization can have different planning levels where, strategic plan is one among them. Strategic planning is the process in which overall company objectives are set and strategies for each segment of the organization are formulated (Mohamed 1995).

Ethiopian Airline is an enterprise which has its own strategic plan which includes its vision, mission, and values. These plans are set by the top management which comprises short term and long term plans. Prior to the vision of 2025 Ethiopian Airlines had five years plan for the year 2010 which has several targets to meet.

Ethiopian Airline in the year 2003/04 had 44 destination places and had a plan to make it 60 in 2010. It had increased 13 destination places and attained 98% of its target by stretching its service to a total of 59 international destinations. Regarding the fleet size, it had 23 fleets in 2003/04 and it planned to make it 30 in 2010 but fortunately it had acquired 2 more fleets beyond its target and in 2010 Ethiopian Airline had 32 fleets which is 107 % achievement of its plan in terms of its fleet size.

Likewise, in the year 2003/04 Ethiopian Airline had served 1.2 million passengers (PAX number), and earned 390 million US dollars Revenue and Operating Profit of 31 million US dollars. After having achieved this plan, the airline had a plan to serve 3 million passengers with a target of 949 million US dollars revenue and 75 million operating profit in the year 2010. However, in the same year, the Airline had surpassed its planned targets and obtained 105%, 135% and 136% achievement in the three variables respectively. From the above given evidence one can understand that Ethiopian Airline had met its target plan very well even by surpassing its targets which is the result of rigorous effort and commitment of its staff. Similarly, the company again set a fifteen year plan with a vision of becoming the most competitive Airline and a leading aviation in Africa by the year 2015.

The Airline's far reaching objective constitutes providing safe transport of passengers and cargo, to be market driven and customers focused, undertaking aviation training, provision of flight catering services, Maintenance Repair and Overhaul (MRO), and ground services (Ethiopian Annual Report 2010). Besides, Ethiopian Airline had envisaged for the provision of the aforementioned services with better quality and price than its competitors, ensuring of being an Airline of choice to its customers, employer of choice to its employees, and an investment of choice to its owners (Ethiopian Annual Report 2010). It also has a mission to contribute positively to socio- economic development of Ethiopia in particular and the countries to which it operates in general by undertaking its corporate social responsibilities and providing vital global air connectivity (Ethiopian Annual Report 2010).

Regarding to values of Ethiopian Airlines, it gives priority to safety and then it has the following values: It values high performance and to be a learning organization with continuous improvements, innovation and knowledge sharing, it accepts change for growth, brings opportunity and it always seeks for and apply the best ideas regardless of their sources. In addition to this, it recognizes and rewards employees for their performance and demonstrate integrity, respect to others, honesty and team work. It acts in an open fashion and be result oriented, creative and innovative, adopts zero tolerance to indifference, inefficiency and bureaucracy. It encourages free flow and sharing of information and always looks for ways to make it easier for customers to do business with the company and it is an equal opportunity employer (Ethiopian Airlines unpublished material source 2010). Hence, having the above mentioned vision, mission and values; Ethiopian Airline is expected to work so hard to meet those objectives and strategic plans.

1.15 OPERATIONAL LEVEL AND FINANCIAL PERFORMANCE OF ETHIOPIAN AIRLINES

A given company/enterprise can use several parameters to measure the operational level and financial performance of its business. Likewise, Ethiopian Airline has used different operational performance measuring parameters which include capacity availed in terms of Available Seat Kilometers (ASK), Revenue Passenger Kilometers (RPK), Load Factor etc.

To start with ASK, is the product of passenger seat capacity measured in seats available by distance flown and it measures available passenger capacity (Annual report of ET 2010/11, Aviation & Allied Business 2006). ASK was increasing steadily until the down fall of the imperial regime. Subsequently, it had a stable trend which is due to the political instability in the country. However, it slightly was increased up to the end of the Dergue regime.

During the EPDRF regime ASK has increased consistently especially in the recent years due to, major changes made in its network, its acquisition of new airplanes and opening of new destinations.

RPK, which is number of revenue passengers carried multiplied by the distance flown, measures actual passenger traffic (Aviation & Allied Business 2006, Ethiopian Airlines 2010). RPK had a stable trend between the initial operational period of the Airline and the end of the imperial regime. Consequently, it had a stable trend until the mid-regime of the Dergue period and it increased steadily up to the end of the regime. In the early EPDRF period, it has again stable trend and from that time onward it later has showed an upward trend / increased consistently. And this is due to the above mentioned justifications for ASK, which it also applies for RPK as well as ATK.

ATK is another measuring variable, which refers to the overall capacity measured in tones available for carriage of passengers and cargo load multiplied by the distance flown and it measures available total capacity (Ethiopian Annual Report 2010, Aviation & Allied Business 2006). ATK has insignificant contribution almost for the two consecutive regimes. However, it had stable trend between late Dergue regime and early EPRDF periods. Later on, it showed consistent upward trend during the EPRDF regime due to efficient strategy applied by the Airline since 2003/04. This is evidenced by its vision for the year 2010 and it has significantly impacted the Airlines growth.

1.15.1 Ethiopian Airline Route/Destination Details

Ethiopian Airlines has passed through different stages of development to expand its flight destinations. Initially, its main destinations were Djibouti, Aden, Asmara, Khartoum, Cairo, Jeddah, and Jimma (Ethiopian Herald 1946; Baheru 1988). Subsequently, when Ethiopian Airline celebrated its 25th anniversary, the number of destinations increased to 44. And, it has diversified its destinations and has linked East and West Africa countries as well as started new international flights (Saunders 1971).

In its 50th anniversary, the route network stretched from Europe (London, Frankfurt, and Rome) to China (Beijing) and Thailand (Bangkok). Middle East and Indian sub-continent were well represented and African route reached Senegal and Ivory Coast in the west, Cairo in the north and Johannesburg and Durban in the south.

Ethiopian Airline gives service to 39 destinations in Africa region which takes the largest share from the overall destinations followed by its service to Middle East & Asia (15). Besides, the Airline has 7 destinations to Europe & America and 17 destinations in Ethiopia.

1.15.2 Ticketing Offices and Sales Agent of Ethiopian Airline

Ticket sales are one part of an Airline activity which can be done by the Airline itself or else, by independent travel agents, who gets paid commissions based on the gross value of the tickets sold (Ferguson et.al 1993). Regarding to Ethiopian Airline, it sales tickets using its own ticket offices and through its sales agents, which they are paid commissions by selling the tickets.

Ethiopian Airlines has domestic as well as international ticketing offices to deliver its ticket to its customers of which, it has 17 offices domestically and more than 25 internationally. On the other hand, in the year 2009/10 Ethiopian Airline had about 60 general sales agent offices spread over different parts of the world.

1.15.3 Ethiopian Airline Fleet Details

Being an Airline which operates the newest and youngest fleets, Ethiopian Airline has accumulated and owned various types of aircrafts through grants and purchase at different time periods (Bahru1988).

Starting with five Douglas C-47 sky trains which are acquired during its establishment, Ethiopian Airline has used different kinds of aircraft to provide its passengers and cargo transport services. Some of them include Convair 240, Dc-68 cloud master, Fokker 50, ATR-42, DHC-6 Twin Otters, Boeing 720, Boeing 720 flight simulator, Boeing 727, Havilland ,Canada DHC-5 Buffalo, Boeing 737, Boeing 757, Boeing 767, Boeing 707, Boeing 757, Lockheed L-100 commercial Hercules, DHC – 5 Buffalo and so forth (Baheru 1988; Ethiopian Annual report 2010/11) . In addition, other kinds of aircrafts for passengers and cargo have been also used by this Airline during its service life and currently Ethiopian Airline owns a fleet mix Aircrafts.

The passenger's fleets are used for domestic and international flights. And, most of the fleets used are jet fleets of Boeings. However, the Airline also uses other kinds of fleets such as Bombardier Dash Q-400, Fokker 50 and it also had ordered A350-900 of Airbus. From these fleets, some are owned and others are leased from other carriers. Besides, the airline has ordered 12 A350-900 Airbus & 10 Boeing 787 Dream liner jets from the manufacturers of the two companies respectively. Moreover, for its international service it mainly uses Boeing fleets such as Boeing 777-200LR, Boeing 767-300ER, Boeing 757-200, Boeing 737-700 and Boeing 737-800 and it uses Bombardier Dash Q- 400 and Fokker 50 for the domestic service.

1.16 CRITICAL EVALUATION OF THE EMPIRICAL FINDINGS

Ethiopian Airline is a successful national flag carrier Airline due to several factors which is the main concern of this analysis. Hence, from the findings of the data analysis it is possible to observe that there are different factors that determine the purchasing practices of an Airline. It is worth noting at this point that the focus of the study is to identify effective purchasing practices that should be maintained and to provide recommendations to improve malpractices that need to be improved if there are any.

CHAPTER TWO: LITRATURE REVIEW

2.1 PURCHASING DEFINITION

Purchasing is the acquisition of goods and services in exchange for something of value. It is the materials management function concerned with process of buying the right type of materials at the right price and time. This involves co-ordination of each major functions of the business for the success of the entire company. These major functions commonly include; Research and Development, Purchasing, Human Resource, Marketing and Finance. The Purchasing department in any organization acts as interface between suppliers of the materials/service and the production and operation function. The responsibility of purchasing department includes learning the material/service needs of the organization, monitoring costs, qualities and delivery performance. The concern of this study is the purchasing function, which is acquiring goods and services or ideas or products in general in exchange for money. Different authors give different definitions for purchasing as follows:

1. "Purchasing refers to all activities concerned with the acquisition of goods and services including ordering, commercial negotiations, and delivery chasing. Also known as buying or procurement "(Johnson, and Hano, 1990.p.241)
2. "Purchasing is disciplined entrepreneurial activity directed towards improving profit" (Parsons, and W.J 1982 p.3)
3. "In a narrow sense the term purchasing simply describes the process of buying, however in a broad sense, the term involves determining the need, selecting the supplier, arriving at proper price terms and conditions and , issuing the contact or order, and following up to ensure proper delivery." (Aljaian George, 1973.p.1-3)

The above three definitions of purchasing describe the term in similar manner i.e. as one of the basic and common function of every organization.

2.2 TYPES OF PURCHASING

There are three types of purchasing based on timing. These are

1. Hand to mouth buying
2. Speculative buying
3. Forward buying

2.2.1 Hand to mouth buying

It is the practice of buying materials/services to satisfy current operating requirement in quantities smaller than those normally considered economical (usually 3 to 4 weeks requirement)

Conditions suitable for a hand to mouth buying policy are:

If material/service is purchased in unstable market and when prices are dropping, it saves money. When introduction of new machinery or design, which will render a lot of materials, is anticipated. Problems of cash flow and desire to reduce inventory carrying costs. It will lead to higher procurement and probably higher total inventory costs. Danger of running out of stock in case of supplier failure or late delivery.

2.2.2 Speculative buying

It may refer to: Buying an item at one price with the intention of profiting on the transaction by selling it at a higher price and The purchasing of material in excess of foreseeable requirements anticipating that a need will arise for the material and that the firm will profit by making the purchasing at the current price. Therefore, The first type of purchasing activity has no place in the normal function of a purchasing department. In the second case the decision should be taken with the consultation and approval of top management.

2.2.3 Forward buying

It is the practice of buying materials in a quantity exceeding current requirements but not beyond actual foreseeable requirement. Its objective is to buy in quantities large enough to get favorable prices. Such economic order quantity entails discount and volume freight rates, which lead to lower unit costs. It also reduces the risk of inadequate delivery, possible transportation difficulties or the possibility of unreliability performance by a supplier.

2.3 THE ROLE OF PURCHASING

The role and importance of purchasing have gone through a significant change in the decades after 1970 (Wainer, and Malcolm, 1996,p.421). Purchasing has traditionally been considered as a clerical function, with the quite restricted short-term goal of buying specified products as possible.

Today however, quite a number of companies regard purchasing as a function of major strategic importance. Since purchasing is one of the basic functions common to all types of business enterprises and thus managers are becoming aware of the importance of purchasing. But the importance of any business function within a specific organization depends upon a number of factors such as type of business, its goal, its economic circumstance and its environment.

The importance of purchasing is also significant in service giving companies. The rational of their existence, may be found in the following activities such as sales and promotion, purchasing, storage, transportation, and marketing services. Materials must be available at the proper price, in the proper quantity, at the proper time and place. However, failure to accomplish any of these responsibilities concerning materials significantly increases the company costs and decrease company sales.

2.4 OBJECTIVES OF PURCHASING

Establishing purchasing department represents recognition of purchasing as organized activity. It is also characterized by clear objectives. In order to make an effective contribution to the company, purchasing activities must be directed towards meeting the overall objectives of the organization.

Therefore the major of purchasing functions are - Determine material requirement, ensuring continuity of supply, minimize the total material acquisition and possession cost, provide the appropriate quality of material, develop good sources of supply and favorable supplier relations, determine the required lead-time and ensure prompt delivery, forecast the speculative market conditions and internal demand for materials, assist in buying, leasing and capital equipment purchase decision, establish harmonious working relationship with other departments, conduct purchasing research and participate activities in value analysis activities with the view of reducing cost, using funds optionally and maintaining competitive portion, administer purchasing personnel effectively and designing and use systematic purchase procedures and information systems.

The objective of purchasing can be expressed in to what are called the “ Five Rights” of purchasing and these are:-

The right quality: Purchasing is responsible to obtain items of appropriate quality. In purchasing sense the right quality doesn't mean the best quality. The right quality material is the material that is acquired with less cost and at the same time serves the purpose. Determination of standards and specifications are some of the tools that purchasing uses to determine the right quality.

The right quantity: Purchasing is responsible in acquiring the right quantity of materials that guarantees a smooth and uninterrupted supply of materials to user's quantity that is not too small to interrupt operations or too much that will result in cost of holding materials. Tools such as economic order quantity (EOQ), Economic production quantity (EPQ) and Materials requirement plan (MRP) will help in determining the right quantity.

The right price: Refers to obtaining the best possible price consistent with objectives of purchasing. Purchasing is required to procure materials with maximum value for the money spent. Tools such as theories of pricing and negotiations are useful in acquiring the right prices.

The right time: provide materials in time for use so that operation will not run out of stock and the same time inventory items will not be over stocked. Tools such as the reorder level, review periods are useful in determining the right time.

The right supplier: Select the right supplier that meets the requirements set by the organization. Purchasing must continually seek new vendors and be able to evaluate their potential to the company. The knowledge of vendor analysis and negotiations are essential in selecting the right supplier.

2.5 RELATIONSHIP OF PURCHASING

In accomplishing its objectives purchasing makes relationships with internal and external parties.

Internal: In order to achieve the objectives of the firm the purchasing section has to work harmoniously with all other internal departments or sections. Purchasing has strong relationship especially with Production, Marketing, Finance and Accounting, Stores and Inventory Control. Their relation is a bilateral relationship. The relationship of a purchasing department is represented in a diagram as shown below.

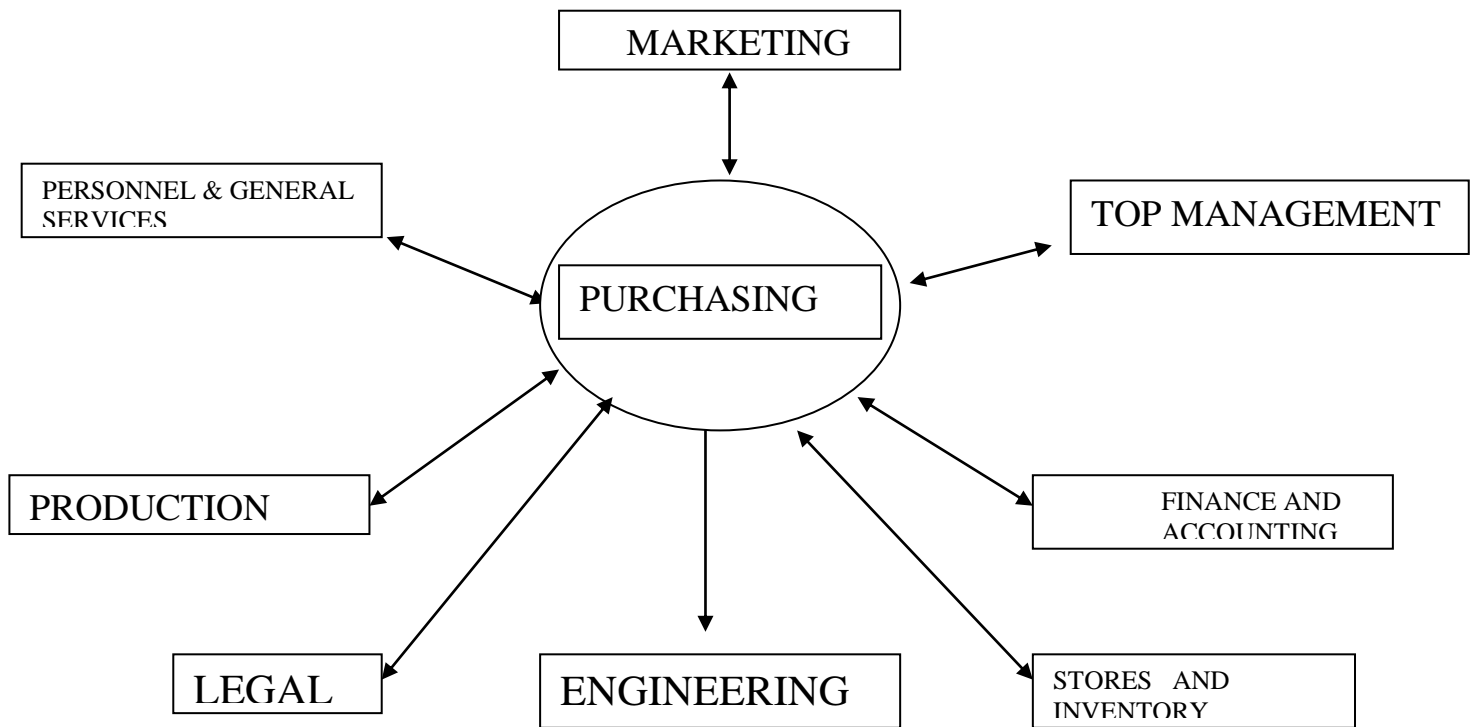


Fig-2.1 Relationship of purchasing with internal departments

External: Purchasing department has to work harmoniously with external organizations and individuals to procure materials/services efficiently. The main external units with which purchasing department interact with are the vendors, banks, insurance, freight forwarders, transport agencies and customs office. In all its external relations purchasing should consider the legal, political, economic, social and technological factors.

The relationship of a purchasing department with external agencies is shown in the diagram below.

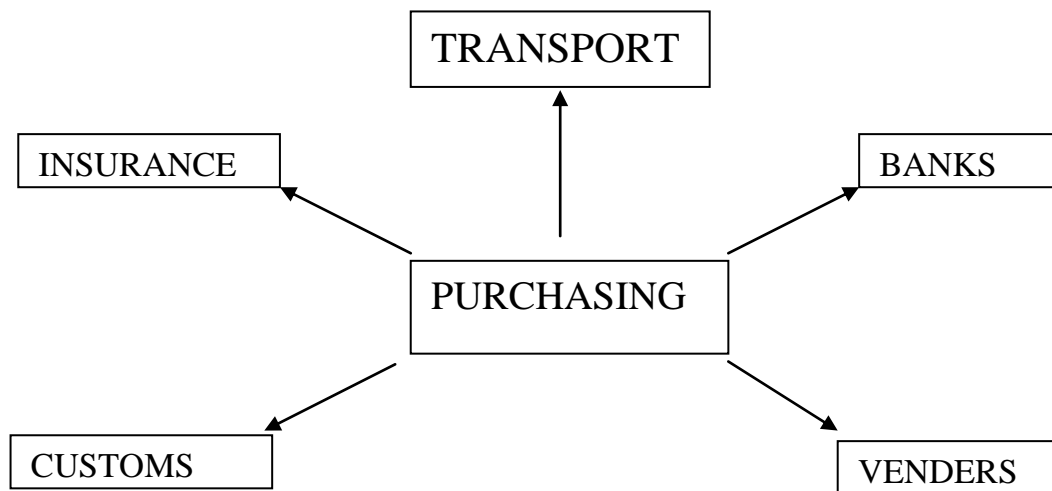


Fig-2.2 Purchasing-Outside relationship

2.6 PURCHASING POLICIES

Purchasing policies are general statements or undertakings, which guide or channel thinking and action in carrying any purchasing transactions and objectives in an optional manner. It is a statement that describes in very general terms the an intended course of action (Dobler and Donald, 1996.9.41).

If policies are to function effectively, it is imperative that they should be in a written document for a purpose of communication. A policy manual typically has at least two distinct sections - one containing company policies which spell out in clear terms the responsibility and authority of all departments and the other containing departmental policies which inform purchasing personnel of their expected patterns of conduct for major buying activities and relations with suppliers.

Purchasing policies have various characteristics: These characteristics are - policies limit an area with in which a decision is to be made and assure that the decision will be consistent and contribute to objectives they tend to produced issues, avoid repeated analysis, and give a unified structure to other type of plans, thus permitting managers to delegate authority while maintaining control, clarify and improve relationship with other functions, training new personnel and communicating approved practices, promote suppliers understanding and co-operations and fulfill management and/or governments requirements, provide standards for evaluating performance and evaluate and improve purchasing function.

The specific format and contents of purchasing policy manuals vary widely. What is important is that all major policies and operating procedures shall be committed to writing. They must be stated in a simple and unambiguous way in a manual that is easy to use and kept updated.

Purchasing policies serve two general functions. (Ibid.9.56)

- a) They establish the ground rules for the department's relationship with other departments.
- b) They inform purchasing personnel about the expected conduct of departmental activities.

Purchasing policy places the authority and responsibility for purchasing in the department. The purchasing department is responsible to establish and administer purchasing policies, institute reports necessary to permit analysis of purchasing performance, negotiate and approve term of contracts, and analyze prices paid for materials, and generally define how to obtain savings and co-ordinate purchasing procedures.(Alhan & George,1993.p.3-7).

Purchasing policies may be developed for more than 100 areas and from a very general to a specific one. Some of the areas in purchasing, which require policy formation, are:

- | | | |
|-------------------------------|------------------------------|----------------------------|
| i) Acknowledgments | xi) conflict of interest | xx) insurance |
| ii) Adjustment | xi)samples | xxi) invoice approval |
| iii) Bank-order | xii)standardization | xxii) long term agreements |
| iv) Bid evaluations | xiii) supplier evaluation | xxiii) patents |
| v) Blanket orders | xiv)suppliers selection | xxiv) rush orders |
| vi) Buyers' assignment | xv)terms and conditions | xxvi)service purchases |
| vii) Buyers' authority | xvi) expediting | xxvii) verbal orders |
| viii) Cancellation and claims | xvii)foreign buyer's | xxvii) warranties |
| ix) Cash discount | xvii)government regulations | |
| x) Change orders | xix) inspections | |

2.7 PURCHASING PROCEDURES

Purchasing procedures often vary, depending on the type of items to purchase. For instance, large capital expenditures often require competitive bids based on detailed technical specifications and legal contracts, whereas small items can be ordered by departmental secretaries through catalogs or purchased outright without any formal procedures.

A procedure outlines in detail the specific actions to be taken to accomplish a given task, within the guidelines of any applicable policies. It establishes the way of doing things. Generally speaking properly designed procedures should accomplish the following four objectives.(Dobler and Donald,1996 p. 64)

- a) Fulfill each task satisfactorily with a minimum of time, effort and paper work.
- b) Effectively communicate and co-ordinate the efforts of one work groups with another.
- c) Minimum overlapping efforts and group conflicts.
- d) Permit effective management by exception.

A purchasing procedure usually begins with an estimate of the demand for particular item. Based on this estimate the assortment policy and the distribution strategy will be determined, and then the investigation of new suppliers can be started. At the same time preparations can be made for renegotiating contracts with existing suppliers. (Vanweele land A.J.P.254). Nevertheless the procedures given by Wasting and other authors seem more comprehensive and will be discussed by using the flow chart prepared. (Wasting, 1997 P.45-49).

THE PRINCIPAL PURCHASING PROCEDURES

2.7.1 Origination of Purchase Requisition

Purchasing requisition is originated from the users units or individuals that have been authorized to make such a request. For example, users of stock items submitted materials requisition form to the stores. Purchase requisition for the stock is originated from the stores. For non-stock items, the authorized individual or unit fills the purchase requisition and forward it to the purchasing unit. The stores complete the purchase requisition form when the stock level reaches at some predetermined stock level called reorder level.

Information in the purchase requisition form includes: the name of the material required, the code number, part number, the quantity required, the time when the material is required, the quantity required and specification and standards

2.7.2 Verification of Purchase Requisition

The purchasing unit verifies the purchase requisition is authorized and other requirements have been fulfilled appropriately. Questions cleared in the verification include:

- a) Is the requisition authorized to make such a request?
- b) Is there a budget for the request?

2.7.3 Request for Bidding (Quotation)

The purchasing unit (committee) considers bids are required for the particular purchase. Organizations have policies on whether to go for a bid or make a direct purchase. For example an item whose purchase is repetitive, low value items and items that have known suppliers and the only supplier may not require bidding. Whereas items of high value, whose purchase is not repetitive, items whose suppliers are not known, may require bidding. If bidding is necessary, then purchasing requires deciding whether the bid should be open, or closed.

Open Bid: Prospective suppliers are invited for a contract advertised in media, the lowest tender generally being accepted although the advertisers usually stated that they are not bound to accept the lowest or any tender.

Restricted Open Bid: Prospective suppliers are invited to compete for a contract. The advertising which is restricted to selected suppliers who are invited to compete to supply the material.

If bidding is required, purchasing department needs to prepare the bid document. The bid document is a document, which stipulates the requirements and the manner in which bidders are required to compete.

2.7.4 Evaluation and Selection of Suppliers

Suppliers are evaluated and selected on the basis of the criteria set for the purpose of the specific purchase. The criteria may be segregated in to financial and non-financial criteria. There are different techniques of evaluation. Two of the most common methods are the weighted point method and the cost ration method.

2.7.5 Contract, Purchase Order

The contract is awarded to the best supplier candidate with the highest score on the criteria set. If purchase order is to be used it can be produced in several copies depending on who is to receive them.

2.7.6 Follow-up and Expediting

After the purchase order has been made, the purchaser may not wait until the supplier delivers the materials. He needs to follow up to make sure that the supplier will send the materials on the agreed delivery date.

Expediting may be required in case the purchaser requires the material before the delivery day. Expediting requires a special type of agreement for it may require the supplier extra effort and cost.

2.7.7 Receiving and Inspection

Receiving, inspection and storing are made after the materials are delivered and verified with the purchase order (contract), and invoices. If there are discrepancies in the receiving and inspection of the material, such as shortage, overages and damages, the purchaser needs immediately inform the supplier and receive instructions on what actions to undertake. Receiving, Inspection and storing reports are made to various units including finance.

2.7.8 Payment

There are different modes of payment depending whether the purchase is local or international. The payment will be effected on the basis of the contract.

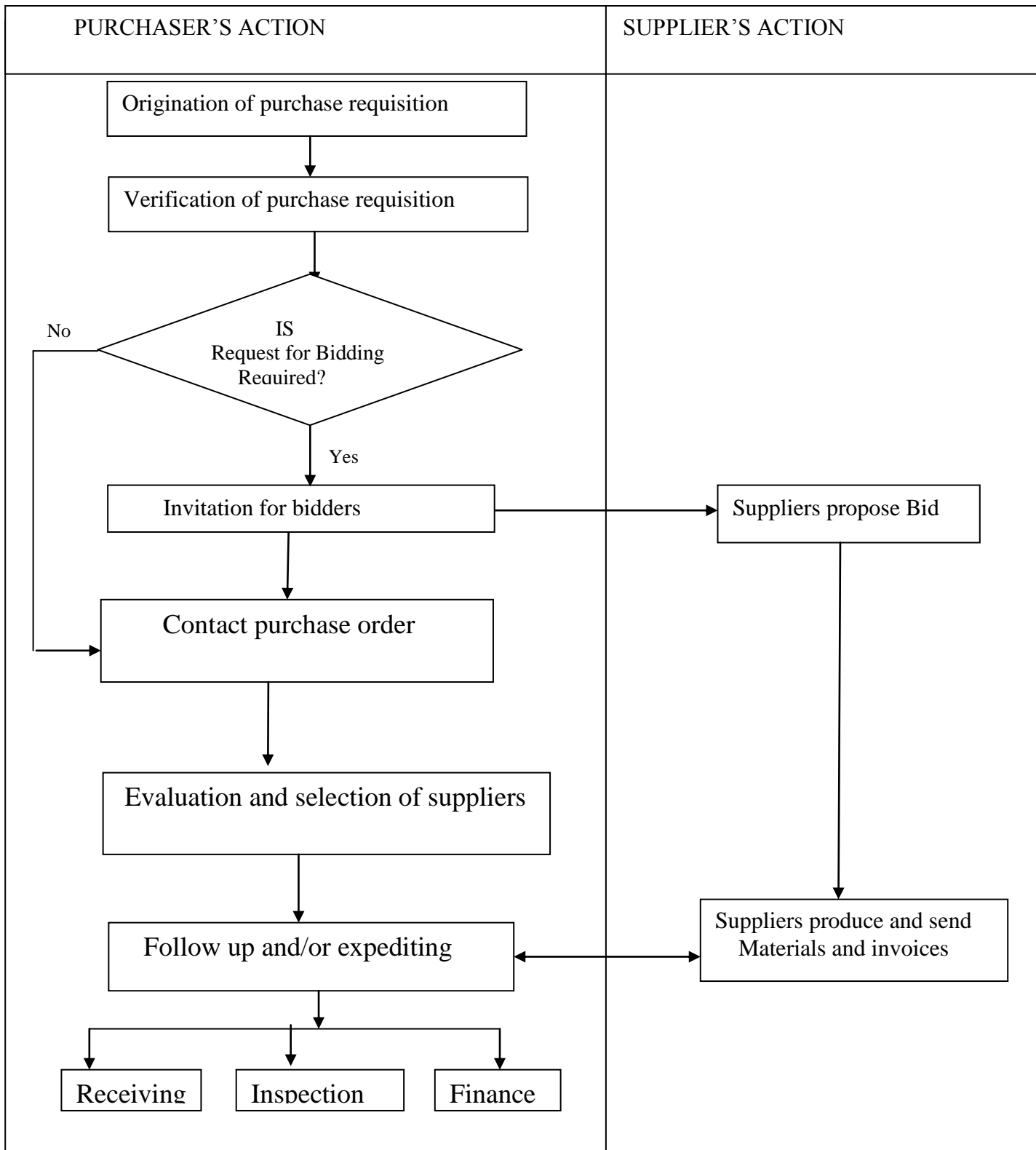


Fig-2.3 Procedures of Purchasing

2.8 ORGANIZATION FOR PURCHASE

In purchasing there are two organizational problems.

1. The place of purchasing department in the overall company structure - two basic issues involved in this problem are:
 - a) the desired degree of centralization of purchasing function within the company
 - b) the executive (division) to whom the purchasing officer should be responsible.
2. The internal organization of the purchasing department

The existence of good organization may be thought of in two dimensions. One deals with motivating the individual and sub groups of the purchasing department to get them to contribute optimally. The other deals with the pattern of formal inter relationship that ties a numbers of departments together.

According to Drucker a good organization structure doesn't by itself produce good performance – just as a good constitution doesn't guarantee great presidents, or good laws, or a moral society. But a poor organization structure makes good performance is impossible, no matter how good the individual managers may be improving organizational structure... will therefore, always improve performance. (Drucker, 1954, p.225).

Purchasing organization refers to the grouping of purchasing activities, assignments of duties and responsibilities to purchasing personnel, forming the appropriate sections in the purchase department determining the degree of centralization and decentralization and placing the purchase department in the proper prospective is the overall organization structure.

Structure of purchasing organization for smaller and medium size firm are shown below

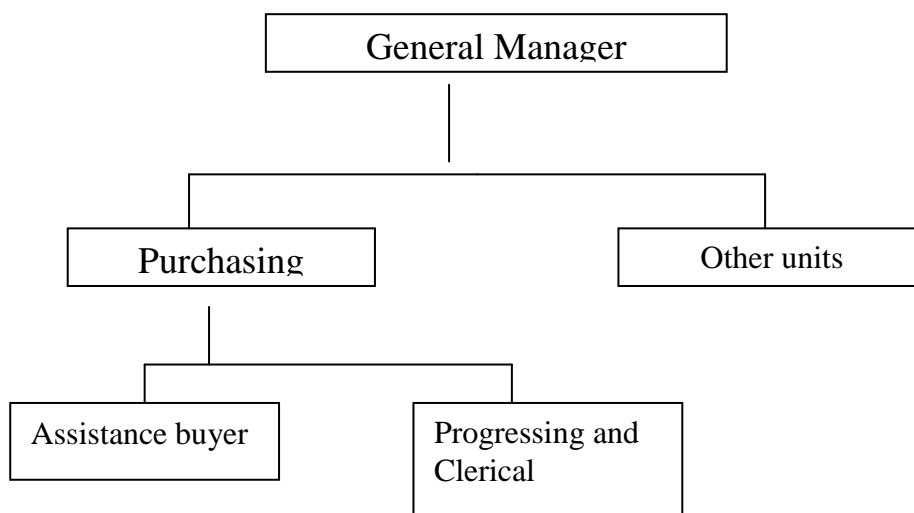


Fig.2. 4. Purchasing organization – small size firm

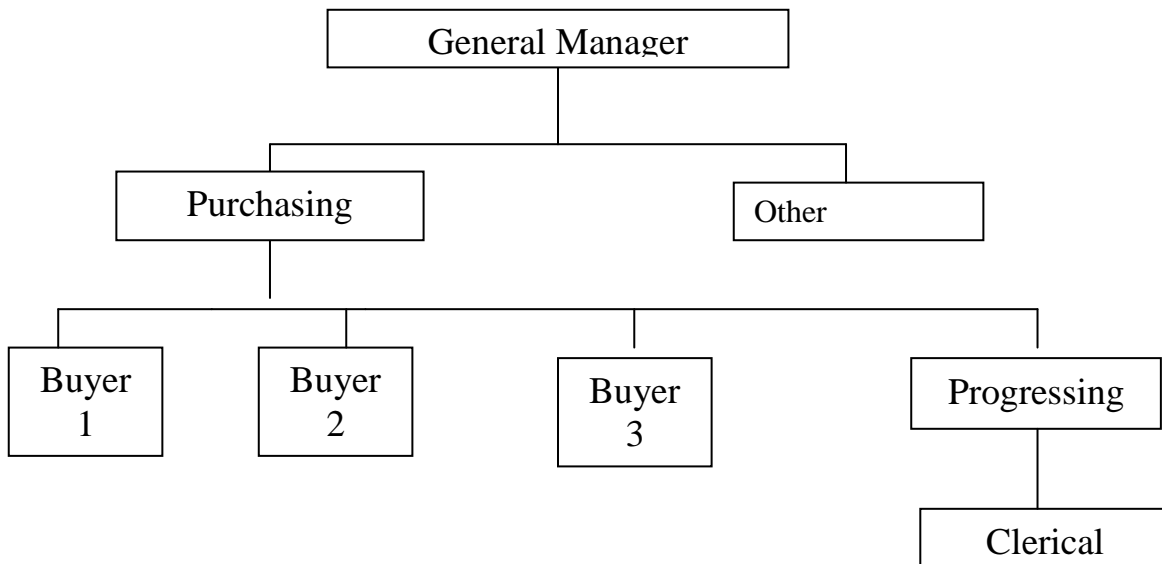


Fig. 2.5 Purchasing Organization – Medium size form

2.8.1 Centralization Vs Decentralization Purchase

A company which practices decentralized purchasing; its user departments and branches of the organization have the authority to process their purchases independently. On the other hand in a fully centralized purchasing all materials acquisitions are processed through a single purchase department.

The question in purchasing is not whether one should completely centralize or decentralize the buying process but rather on issue of determining the appropriate mix and degree of centralized and decentralized purchasing.

The appropriate mix of centralization and decentralization depends upon various factors such as the size of the organization type, and complexity of operations, the geographical dispersion of branches and plants, availability of skilled personnel, long term plan and leadership style of the firm.

2.8.2 Advantages of Centralized Purchasing

- a) Quality discounts
- b) Effective use of limited and highly specialized skilled purchasing staff
- c) Standardization of purchased materials and purchase procedure
- d) Integrated, consolidated and timely purchase information and information system
- e) Avoidance of significant differences in price between various purchasing groups and conflicts that may arise between them in case of short supply

2.8.3 Advantages of Decentralized Purchasing

- a) Red tape involved in centralized purchasing would be minimized
- b) Shorter lead time
- c) Advantage would be taken of locally available products leading to possible cost reduction and more suitability.
- d) Delegation of authority to various units would raise moral of involved personnel and take advantage of their local acquaintance and knowledge.
- e) Suitable for departments or plants that require quite different type of items
- f) Enables local management to exercise control over its cost and selection of materials in addition to enhancing its relations with local suppliers and its social responsibility to the local community

2.8.4 Disadvantages of Centralized and Decentralized Purchasing

By and large the advantages of centralization reflect the disadvantages of decentralization and the advantages of decentralization indicate the main shortcomings or disadvantages of centralization.

2.9 INTERNATIONAL AND LOCAL PURCHASING

International purchasing refers to transactions, which take place between buyers and sellers in different countries. There are three types of international purchasing namely import, export and foreign purchasing. Import purchasing refers to buying from abroad for delivery to locations in the home country. Export purchasing is domestic procurement for supplying foreign operations. Foreign purchasing is the procurement of goods in one foreign country for use in another.

Our focus here will be on import purchasing, as it is the most common transaction in international purchasing. Both international and local purchasing procedures follow the principles of general purchase procedures. The differences and complications encountered in buying abroad which are not found in domestic purchase include communication problems, nature and customs of people, fluctuations in the relative values of currencies, regional pacts, differences in contractual form and legal system and payment modes etc.

2.10 EVALUATING PURCHASING PERFORMANCE

Evaluation in business is an everyday occurrence. Managers evaluate for the purpose of determining whether their organization is moving towards their objectives and according to agreed upon plans. It is a function of central evaluation to undertake evaluation without understanding why it must be done, and how to do it. Evaluation in terms of measuring purchasing performance, for too long has been thought to be an inter-company measurement rather than an intra-company one. (Ealjian and George, 1993, P37)

2.11 OVERALL PURCHASING PERFORMANCE OF ETHIOPIAN AIRLINE (EAL)

2.11.1 Management and Organizational Structure of Ethiopian Airlines

Management in a business performs several tasks. It undertakes transaction on behalf of the firm by identifying and negotiating contracts with input suppliers and output buyers, it arranges and coordinates activities of the firm and identifies the direction the firm is to take, is responsible for the implementation of the strategy and evaluates and enforces the overall activities of the firm (Ferguson et.al 1993). In short, management of a business has a vital role in the performance and well-functioning of a given enterprise.

EAL is a State owned enterprise which is managed by Board of Directors appointed by the minister in charge of the appropriate government department. Having one chair person, these board members are taken from the organization and outside the organization. Accordingly, the members represent higher government officials, employees as well as different individuals selected by stakeholders to represent their interest in managing the airline. Then, a Chief Executive Officer (CEO) for the company will be appointed by the board members which he then will again appoint his own management team members. Subsequently, all team members of the management will be approved by the board of director members which mostly are with a position of vice presidents of different departments, executive vice presidents, chief operating officers, acting general managers etc.

In the Ethiopian Airline, the term of the Chief Executive Officer to stay in his position is undetermined. This means he can stay in the position until his retirement period so long as he works very hard and the board members believe that he is doing his duty and career very well and so right. Hence, this long time experience will enable him/her to internalize every activities and situations of the airline so that he/she can be a good decision maker. Although the airline is fully owned by the government it is independent & commercially driven company that it makes decision based on set of applicable principles and standards. In line with this, each management division in the airline has its own duty and obligation that one undertakes transaction on behalf of the company, while the other coordinates the activities of the business and is responsible for the implementation of the planed strategies; the other division will evaluate and enforce the overall situation in the company.

Accordingly, the board management is the higher body that manages and supervises the enterprise, decide strategic issues and supervise the plan and performance of the enterprise. On the other hand, the management team together with the CEO, which is one member of the team, manages and

allocates expenditure within the limit of authority, is responsible for the successful operation of the airline and decides day to day activities.

However, this does not mean that there is no room for the employees to contribute in the planning and performance of the enterprise rather they also participate on the enterprise plan and its performance being represented by the labor union. Thus, business activities are subdivided in to sub groups that there is a specialization which this makes the airline to be more productive.

Moreover, the hierarchical management of the enterprise allows accountability of one management division to the other. That is, the board which is accountable to the government (owner) will watch the activities of the CEO which, he then watches for the team management members. The team, on the other hand, will watch the activities of other lower management divisions and staff members of the enterprise.

Organizational Structure of Ethiopian Airline:

From business point of view, there are different forms of organizational structure. Starting from the simplest form associated with a small business where the owner directly controls and performs managerial tasks, to different types of organizational structures which include unitary organizational form, multidivisional form etc (Ferguson et.al 1993). These different organizational forms have different characteristics of their own and also have merits and demerits as well.

For instance, some airlines adopt a hierarchal unitary (U-form) organizational structure, which incorporates a branching or pyramid management structure organized according to functional specialism. This form has two disadvantages for a large size firms: control loss and cost inefficiency. Whereas, some others use multidivisional (M-form) of organizational structure, which offers distinct advantages for the large and diversified enterprise with economies of scale advantage (Fergusson et.al 1993).

Picking an organizational structure which fits the type of business would be important for a well-functioning and good performance of a given company (Kuzman et.al 2009). Therefore, due to the fact that the efficiency of an airline does not merely depend upon its business activities but also on the form of its internal organization (Fergusson et.al 1993), Ethiopian airline has developed its own organizational structure which alters itself based on the change in the business environment.

Accordingly, Ethiopian Airline is one among others which uses the multidivisional organizational form which comprises two or more unitary form. It uses such organizational structure with an intention to decentralize decision making and give responsibility for employees. So that, the flexibility of the firms' response to changing market conditions would increase. The board of

management supervises the chief executive officer which he is advised by the two vice presidents of internal audits compliance & legal counsel and corporate secretariat respectively.

The vice presidents together with the Director of CEO office gives auditing and consultant service for the rest of the management divisions. On the other hand, the chief executive officer directly supervises the operating, commercial and financial chief officers as well as the vice presidents of the three divisions: corporate human resource management (HRM), Aviation academy and Alliance & Corporate strategy planning respectively. In line with this, the aforementioned chief officer intern supervises vice presidents of their lower department. Likewise, the vice presidents of the above three divisions manage directors of their lower departments. Moreover, these lower divisions in their turn supervise other lower sub division managers and this process proceeds till it reaches to the ordinary staff member of the enterprise.

CHAPTER – THREE: PRUCHASEINING PRACTICES OF EAL

Ethiopian Airline started with its inaugural flight to Cairo via Asmara on April 8, 1946 although the story begun nearly a year earlier in June 1945 when the Ethiopian delegation was in San Francisco for signing ceremony. Weekly services to Djibouti and Aden followed, as well as a domestic service to Jimma. (Selamta, Vol. 18 No. 3, 2001, p.9). For its initial equipment the airline bought five US Government surplus Douglas C-47 Sky train transport military versions of commercial DC-3, which arrived Addis Ababa on 01 February 1946. (Selamta, Vol. 18 No. 3, 2001, p.9).

Ethiopian Airlines hereafter referred to as simply “Ethiopian” or “EAL” is considered as a pioneer in its effort at “Bringing Africa together”- and for “Connecting Africa to the rest of the World”. Today, the motto of Ethiopian is “Africa’s link to the World” A Chief Executive Officer (CEO), under the direct supervision of Board of Management, manages EAL’s overall activity. There are seven executive offices, which directly report to the CEO. Since Ethiopian Airline’ operation is mainly directed overseas, it is vital that it maintains offices abroad. Therefore, Ethiopian has a number of out station offices to support both Marketing and Aircraft Maintenance.

EAL’s major activity and source of revenue is transportation of people and cargo both within and across countries and continents. The other source of revenue is Maintenance and Engineering Service. Some of the major services are Aircraft Maintenance, Engine Maintenance & Component Overhaul.

3.1 ORGANIZATION OF THE PURCHASING DIVISION

In order to understand the purchasing function and procurement procedures of the EAL, the researcher has gone through the “Purchasing Policy and Procurement Manual of the year 2006” which illustrates and elaborates the overall purchasing and procurement activities of the organization. In the purchasing policy and procurement manual the detail activities of the purchasing and procurement functions are presented in this chapter as follows.

Therefore as per the purchasing policy and procedures of the procurement manual indicated in the above paragraph, the Purchasing Division is delegated for the procurement of goods and services of the Company. According to this policy, except for the purchase of Fuel and Aircrafts, the approach of Ethiopian is to centralize all other purchasing activities in order to enjoy the typical benefits of a centralized system as compared to decentralized system. Aircraft and Fuel are

purchased by E.O Corporate planning and the Insurance section of E.O Finance respectively. As mentioned earlier, about 90% of the purchase is from international sources. The major reason for this is to maintain international standards required by regulatory bodies as well as by market forces or competitions. Within the Materials Management Division, the overall purchasing activity is organized on the basis of functional breakdown and specialization. (*Refer to Annex 2*).

There are four departments entrusted with the task of Purchasing.

1. Mechanical and Engine purchase department
2. General Purchasing Department
3. Avionics and Interior purchase Department
4. Purchasing Support Services Department

The Major activities performed by each of the above departments are highlighted as follows.

1. Mechanical and Engine purchase Department

This department Provides services to Operational & Technical Departments. The other divisions of the Company and third party (customer) works through procurement of spare parts and materials required for aircrafts and engines, by administering repair and overhaul of aircraft and non-aircraft repairable parts including, but not limited to air conditioning, flight control, fire detection and protection, and also landing gear.

2. General Purchasing Department

It provides purchasing services to system-wide requirements by procuring non-aircraft parts and materials such as commissary items, uniforms, stationeries, general hardware tools, test equipment, advertising materials, vehicles, chemicals, foodstuffs, duty free items, legumes, cigarettes, and raw materials for aircraft structure and small scale fabrications, etc.

3. Avionics and Interior purchase Department

- ◆ Provides services to Operational & Technical Department, other divisions of the company and third party works through procurement of spare parts and materials required for aircrafts and engines, by administering repair and overhaul of aircraft and non-aircraft repairable parts including, but not limited to, aircraft interior, electrical equipment and furnishing, information system and also navigation.
- ◆ Performs value analysis on rotables & repairable.
- ◆ Administers and monitors all warranty items.

In addition to the activities described above, each of the departments:-

- ◆ Locates potential vendors, analyze vendor offers and negotiates with vendors on prices, method of shipments, F.O.B. points, delivery dates, terms and conditions of purchase agreements.
- ◆ Conducts market research in coordination with Purchasing Support Services Department for better purchasing techniques.
- ◆ Participates in the development of policies and procedures that ensure cost efficient and effective purchasing methods.

4. Purchasing Support Services Department

- ◆ Provides services by directing, controlling and coordinating purchasing research function.
- ◆ Develops and recommends new and better purchase policy, procedures, techniques and systems.
- ◆ Facilitates purchasing transportation services by selecting, negotiating and signing contracts with freight agents and carriers for better freight movements and customs clearance.
- ◆ It is responsible for insuring all incoming and outgoing shipments and raises insurance claims for damaged or lost company materials and employee personal effects.
- ◆ Centrally administers and controls overall Purchases Division reference files and documents.
- ◆ Coordinates invoice payments between Purchase Division, OPT Finance Division, Ethiopian area sales offices and vendors.
- ◆ Develops, recommends and implements computer applications and educational programs in the Purchases Division.

Table 3.1: Major types of materials or services purchased by EAL

<i>Types of Material/Services</i>	<i>Types of Activities</i>	<i>Examples</i>	<i>Source</i>
Aircraft Parts	Line Replaceable units	Navigation systems, flight controls Aircraft interior parts, seats, Gally(Kitchen)items, Headsets, aircraft wheels & breaks, flight monitoring systems	Foreign
	Expendables	Screws, resistors, bolts, tires, nuts, transistors, fuses, bulbs	Foreign
Ground Support Equipment (GSE)		Generator, tow bar, ground power units, test benches, stairs, cargo lifting vehicles and their parts.	Foreign
In flight Service Items	Entertainment	Cassettes, soft drinks, liquors, perfumes and other luxury free items	Foreign & Local
	Food items	Apple, juice, fish, coffee, mineral water	Foreign
	Use and throw	Plastic (tumbler), fork, knives, tissue papers	Foreign
Supplies		Tag, stickers, pens, paper products, formats	Foreign
Others		Uniforms, bags, protective clothing, furniture, computers, chemicals, food for cafeteria	Foreign & Local
Services	For EAL	Repair & Overhaul	Local &
	For third party		Foreign

3.2 PURCHASING AUTHORITY DOCUMENTS

Purchasing issue Purchase/Repair orders) after receipt of purchase Authority Documents. The most frequently used ones are set forth in this section:-

1. Authority for Expenditure (FORM STO-1)

FORM STO-1 is used to authorize purchase of non-stock items, which are any one of expense, capital or service item.

2. Inventory Status Report (FORM-901-1693)

Inventory Status Report (ISR) is a computer-generated document issued when the stock status of an item reaches reorder level, safety level or nil stock for stock replenishment purpose.

3. Engineering Order (E.O.) - (FORM –700-700f)

EO is used to authorize the procurement of initial spares (capital or expense), equipment, outside services or tooling for modification of aircraft, engines, components and special projects.

4. Request For New Stock Item (FORM-STO-51)

Parts and materials found to be repetitively used in a year shall be established as a stock item by user department. The user department fills in this form indicating sufficient information to establish the need to add the new items to stock.

5. Requisition for Local Purchase (FORM TSV-204)

This is used as an authority to purchase non-stock items with value not exceeding Birr 300.00. However, if purchase order is in excess of Birr 300.00, an approved STO-1 will be used.

6. Foreign Repair Tag (FORM TSV-263), Foreign Repair Justification, Warranty/Defect Form/ Local Repair Justification.

These forms are used as authorities to send aircraft or non-aircraft spares, equipments, machines, etc, for foreign or domestic repair/ overhaul facilities.

The inventory audit and control department after verification, hands over the document to the Purchases Department -Repair & Overhaul unit. The Repair & Overhaul unit searches for appropriate repair facility; places repair orders and sends unit to selected repairer. Repairer may be located by requesting Repair/overhaul capability using ILS and SPEC-2000.

3.3 SOURCE IDENTIFICATION AND SUPPLIER SELECTION

Among the various sources of supplier/repairer information, the principal sources of potential vendors consist of:

- Existing Vendor File
- Price Catalogs and Repair Capability

- Aviation Directories, Buyer's Guide and Brochures
- Maintenance Manual
- Inventory Locator System(ILS)
- Spec-2000 (ordering and follow-up system) - currently outdated
- Part Repairer Information Supplied by original Equipment manufacturer

Usually Purchasing Department prepares a list of the already familiar and new sources and reduces this to a short list by screening the vendors using certain criteria discussed below.

3.4 VENDOR SELECTION

Suppliers of aircraft and non-aircraft materials are selected based on a reasonable set of criteria.

These are:

- a) Competitive price and delivery
- b) Quality control system
- c) Warranty support
- d) Storage facility and size of inventory
- e) Proximity or F.O.B. Point
- f) Communication facility
- g) CASE (Coordinating Agency Supplier Evaluation) and EASE (European Agency Supplier Evaluation) registers
- h) Terms of payment, financial status, reputation, industry rating etc
- i) After sale support
- j) Licenses
- k) Past performances with Ethiopian
- l) Physical audit (i.e. visits by Ethiopian Managers)

3.5 PRICE DETERMINATION

Purchase order shall be placed or a contract can be concluded with the selected vendor after obtaining and evaluating at least three offers from competent sources. This can be done by requesting quotation or competitive bidding depending on the policy set by the departments.

Sometimes, purchase order may be placed using the available price information, if adequate quotations are not received within the time frames specified below.

- a) AOG/ Imminent AOG- 24 hours
- b) Critical/ Urgent - 3 Calendar days
- c) Routine- 10 Calendar days

3.6 BIDDING /TENDERING

- Purchase of goods and service that have continuous demand and/ or high value and /or whose price is subject to fluctuation are made on contract basis after processing competitive bidding.
- Purchase of non-aircraft goods and services whose estimate cost is between Birr 20,000 and 100,000 are advertised for bidding to selected pre-qualified vendors in the short list with Purchase Division.
- Purchase of non-aircraft goods and services whose value is up to Birr 20,000 per purchase order and which have no continuous usage, are made through regular Request for Quotation in accordance with the procedures in this section.

3.7 ORDER ADMINISTRATION

- A buyer places an order, after receiving any of the Purchase Authority Documents described earlier.
- It is the Policy of Ethiopian to Purchase all goods and services against written Purchase or Repair Orders with clearly defined terms and conditions.
- Purchase of some services made through contract agreements, such as, freight transportation services, handling charges, etc are made per terms and conditions in the contract without the need for the usual purchase order forms.
- If the goods and services can be manufactured in-house, a Production Order (Form TSV-241) is initiated and forwarded to concerned department for production. Buyer shall retain copy of TSV-241 for follow-up and future reference.
- Purchase /Repair Orders should be closed within a maximum of three months time, unless a valid reason exists for failing to do so.
- After securing approvals per limits of Authority, Orders shall be distributed as follows:
 - a. First and second copies to vendor
 - b. Disbursement copy (third copy) to Finance OPT.
 - c. Fourth copy (PO copy) in Purchase/Repair order file
 - d. Fifth and Seventh copies to Area Sales Office or Foreign purchase desk if the item/service is going to be paid with foreign currency.
 - e. Sixth copy shall be passed to Purchasing Support Services Department for insurance filing purpose.
 - f. Eighth copy (follow-up copy) to the concerned buyer. (How about the seventh copy?)

- For orders entered by wire, copies that are sent to vendors and Area Sales Manager shall be stamped “CONFIRMING ORDER/DO NOT DUPLICATE” in order to avoid possible duplicate shipment.

3.8 ORDER ENTRY AND FOLLOW-UP PROCEDURES

1. Purchase order will be entered with and mailed to vendors as follows:
 - a. AOG purchase orders are entered through telephone, telex, fax and e-mail and regular mail.
 - b. CRITICAL/URGENT Purchase Orders are entered through telex, fax, mail or regular mail.
 - c. ROUTINE Purchase Orders are transmitted to Vendor by e-mail or regular mail.
 - d. For vendors utilizing their own automated order transaction, like Boeing, Pratt & Whitney, etc and for vendors using Spec-2000 orders are entered and followed up through the automated order administration system.
2. Purchase Order must be acknowledged by vendors from date of order entry or transmittal within the following time frames.
 - a. AOG Orders- Within 4 hours
 - b. CRITICAL- Within 72 hours
 - c. ROUTINE- Within 15 calendar days
3. If no acknowledgement message is received within the above time period, the buyer makes the first follow-up and continues to make follow ups until order is acknowledged.
4. Once order is acknowledged, follow-up will begin at about the delivery date furnished during quotation, unless delivery time has been revised in the intervening period.
5. After shipment is delivered to Ethiopian’s forwarding agent or carrier, follow-up action will be directed at the forwarding agent and/or carrier.
6. Upon receiving forwarding information (Air Way Bill, Flight Number...), a buyer should coordinate with Purchasing Support Services (PSS) Department for uplift. If shipment is urgently required the buyer shall submit Priority Uplift Request (typically known as “DID YOU KNOW” request) to the PSS.

The PSS will then arrange immediate uplift in coordination with cargo marketing department and outstation offices. Change Notices (CN) on orders may be issued to establish quantity changes,

price changes, order cancellation or other reasons. Distribution and number of copies of change notices is made in the same way as the original orders.

3.9 THE PURCHASING PROCESS

3.9.1 Purchase of Goods and Aircraft Parts

In the purchase of goods and aircraft parts, first the need for a material is communicated to Stores and Distribution Department through Material Requisition. The Stores and Distribution Department then checks whether the material is a stock item or not.

3.9.2 Purchase of Repair and Engine Overhaul Services

The Supplies Division (Material Planning & Inventory Control Dept.), upon receipt of Foreign Repair Justification, prepares Repair Action Report (RAR), .(*refer to annex 12*) estimates cost and routes it to the buyer at the Purchases Department (Repair & Over haul unit , the buyer then checks whether or not the manufacturer has the repair capability, after receiving the RAR.

3.10 APPROVAL OF ORDERS

Orders with zero prices require only the initial of the supervisor and the department manager. But change notices require series of approval along the hierarchy.

Purchase of Goods and aircraft parts

The buyer, after creating a purchase order with catalogue or quoted price will write his initial and forwards it to the supervisor. After the approval of the supervisor, the Department Manager, the Division Manager and the Executive Officer will put their respective signature according to the following limits of authority.

- Supervisor- up to 5, 000 Birr
- Department Manager- over 20,000 (unlimited)

The production Manager is required to sign only if the RAR needs re approval.

Purchase of Repair and Overhaul services

A repair order that has been invoiced will be reissued with a change reflecting the actual invoice amount. The buyer processes the CN and places his/her initial before forwarding to the supervisor. The supervisor will also check, verify and puts his/her initial on the document before forwarding to the manager. Similarly the Department Manager and progressively the Production Manager, the Division Manager and Executive Officer will also review the documents prior to placing their signature. The signatures are required according to the following limits of authority.

- Supervisor – up to 5,000 Birr
- Department Manager - up to 20,000 Birr

It is worth noting that the signature of the production manager must necessarily appear on the CN irrespective of the CN amount since they are by policy the decisive party in the entire transaction (discussed earlier).

After passing through the above processes, closed orders are sent to the file clerk where disbursement copies are sent to Finance Office and the file is stored in the central file with the follow up copy.

CHAPTER FOUR: FINDINGS AND ANALYSIS

4.1 DATA PRESENTATION AND ANALYSIS

The assessment of this study is based on the sample of 60 respondents. Originally, the sample size was determined to be 70 sample populations. But 10 of the sample population did not complete the questionnaire due to time constraint. In addition to this, it is worth noting that an interview was conducted for 5 interviewees from purchasing department to gather their personal opinion on the purchasing practice of the EAL.

Therefore in this section data obtained from purchasing department and selected user departments by way of questionnaire, interview, and personal observation of the researcher are being analyzed and interpreted. In view of this 60 questionnaires distributed to two separate sample respondents. The first sample respondents were 39 from the staff of purchasing department out of which 27 (69.2%) were male and 11 (28.2%) of them were female. The second sample respondents were 21 from user departments out of which 14 (66.7%) were male and 7 (33.3%) were female. Accordingly, two separate questionnaires were distributed for both purchasing department and user department sample respondents 60 employees.

To characterize sample respondents, sex, work position, education level and experience of the respondents were considered. These important variables are discussed and presented in the following section.

4.1.1 Characteristics of Sample Respondents

Table 4-1: The Sex Composition of Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	27	69.2	71.1	71.1
	Female	11	28.2	28.9	100.0
	Total	38	97.4	100.0	
Missing		1	2.6		
Total		39	100.0		

When we consider the sex composition of purchasing department, among the total 39 respondents, there was only one user-missed value regarding sex of the respondent. As presented in the table above, It was found that 71.1 valid percent (27 respondents) were male while the remaining 28.9 valid percent (11 respondents) were female.

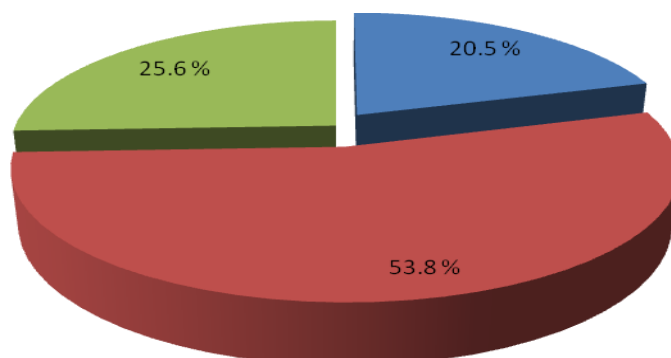
Table 4-2: The Work Position of Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Manager	8	20.5	20.5	20.5
	Supervisor	5	12.8	12.8	33.3
	Senior buyer	6	15.4	15.4	48.7
	Supply and Logistic	7	17.9	17.9	66.7
	Junior buyer	3	7.7	7.7	74.4
	Sr. Material Control	6	15.4	15.4	89.7
	Buyer	4	10.3	10.3	100.0
	Total	39	100.0	100.0	

The other characteristic considered was the work position of respondents. Among the 39 total sample respondents, 8 of them were managers, 5 of them were supervisors, 6 of them were senior buyers, 7 of them were supply and logistic officers, 3 of them were junior buyers, 6 of them were senior material controllers, and 4 of them were buyers. This is shown in the table above.

Regarding the education level attained by the sample respondents, the pie chart depicted below shows that 20.5 percent (8 respondents) had completed diploma, 53.8 percent (21 respondents) had completed first degree and 25.6 percent (10 respondents) had completed above first degree. Accordingly, about 79.4 percent of the respondents (Figure 4:1) had first degree and above level of education. The fact that the majority of the staff in the purchasing department has an educational qualification of above first degree is an evidence that the purchasing activity is carried out by educated professionals that can ensure the quality of their work. The same is true for the educational level of the user department staff. Therefore as shown on table 4:19 among the 21 staff members of this department 16 (76.2%) have an educational level of above first degree.

Figure 4-1: Education Level Completed by Sample Respondents



The experience respondents have developed in the current position was also assessed. Accordingly, the response of the responders given below in the table shows that only 15.4 percent of the respondents had less than 5 years of experience in the current job. Besides, 12.8 percent, 23.1 percent, and 48.7 percent of the respondents had worked above 16 years, 11 to 15 years, and 5 to 10 years on the current position respectively. The assessment of the work experience of the purchasing and user department staff as shown on table 4:3 and 4:20 respectively shows that 33 (84.6%) respondents from purchasing department and 14 (66.7%) respondents from user department had a work experience of more than 5 years and 16 years.

Table 4-3: Respondents experience in their current Position

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	less than 5 years	6	15.4	15.4	15.4
	5 to 10 years	19	48.7	48.7	64.1
	11 to 15 years	9	23.1	23.1	87.2
	above 16 years	5	12.8	12.8	100.0
	Total	39	100.0	100.0	

4.1.2 Data Presentation on major Research Variables

The research questionnaire covered different variables that were expected to explain the objective of the research. In doing so, respondents were asked appropriate questions to assess their respective opinion towards the variables considered regarding the purchasing function. The first major variable discussed was respondents' perception of the purchasing function of Ethiopian airlines.

As shown in the table below among 34 valid respondents, 91.2 percent of them considered centralized, only 5.9 percent of them considered both centralized and decentralized, and only 2.9 percent considered decentralized. It is important to notice that 5 respondents from the total 39 respondents did not respond to this question.

Table 4-4: Respondents perception of purchasing function of EAL

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Centralized	31	79.5	91.2	91.2
	Centralized and decentralized	2	5.1	5.9	97.1
	Decentralize	1	2.6	2.9	100.0
	Total	34	87.2	100.0	
Missing		5	12.8		
Total		39	100.0		

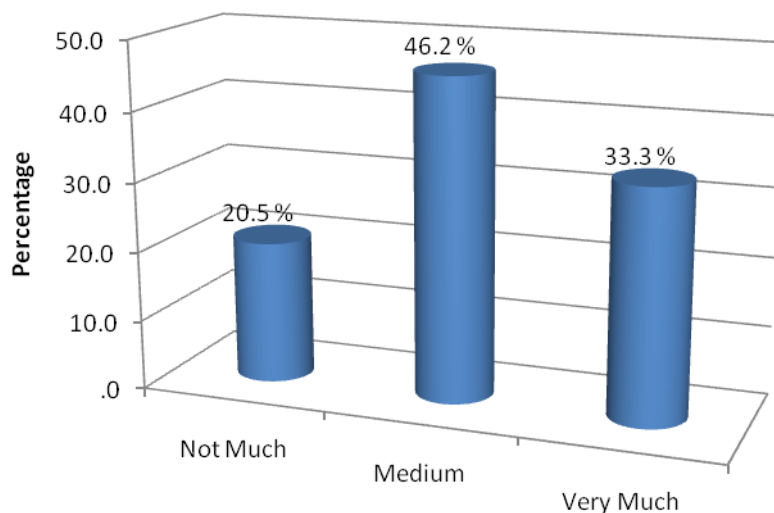
To assess respondents' awareness about applying purchasing manual of the organization, they were asked if they were aware and work in line with the manual. The table below showed that 34 respondents replied 'yes' while only 5 respondents replied 'no' from the total 39 respondents to the question 'are you aware of and work in line with the manual?'.

Table 4-5: Are you aware of and work in line with the procurement manual and purchasing policy?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	34	87.2	87.2	87.2
	No	5	12.8	12.8	100.0
	Total	39	100.0	100.0	

Given most of the respondents are aware and work in line with the manual of organization, the questionnaire tried to assess respondents level of know how about the purchasing practice and procedures of EAL. Respondents self-assessment presented in the graph below explains that 20.5% (8 respondents), 46.2 percent (18 respondents) and 33.3 percent (13 respondents) rated their know-how as 'not much', 'medium' and 'very much'.

Figure 4-2: How much do you think you know the purchasing practice and procedures adopted by EAL?



Respondent were requested to evaluate the number of staff in the purchasing departments. Accordingly, their response showed that 15 (38.5%) of them recognized the staff size as enough while 24 (61.5%) of them did not think there were enough number of staff in the department. This is given in the table below.

Table 4-6: Is the number of staff in the department enough?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	15	38.5	38.5	38.5
	No	24	61.5	61.5	100.0
	Total	39	100.0	100.0	

Besides assessing the adequacy of the number of staff in the purchasing department, respondents' opinion was also assessed whether they are paid enough salary or not. Therefore, 17 (43.6%) of respondents considered the salary was enough while 22 (56.4%) of them on the other hand considered the salary was not enough. This clearly is shown in the following table 4:7 below.

Table 4-7: Opinion of the employees regarding their Monthly salary

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Enough	17	43.6	43.6	43.6
	Not Enough	22	56.4	56.4	100.0
	Total	39	100.0	100.0	

To evaluate the purchasing practice of EAL, respondents were asked the question 'Does purchasing department conduct purchasing research on standardization, value analysis, etc.?' The response presented in the table below shows that 64.1 percent of them confirmed that the department conduct research, while the remaining 35.9 percent of them did not agree that the department conducted research on standardization, value analysis, etc.

Table 4-8: Does purchasing department conduct research on market and other areas such as standardization, value analysis, etc

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	25	64.1	64.1	64.1
	No	14	35.9	35.9	100.0
	Total	39	100.0	100.0	

On the other hand, the sample respondents' response also explains the relationship of the purchasing department with other user departments. In doing so, respondents were asked to rate the relationship of purchasing department with other department from excellent to poor levels. The table below presented their ratings.

Table 4-9: Relationship of the purchasing department with other department

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Excellent	7	17.9	17.9	17.9
	Good	23	59.0	59.0	76.9
	Fair	8	20.5	20.5	97.4
	Poor	1	2.6	2.6	100.0
	Total	39	100.0	100.0	

As shown in the table above, 17.9 percent, 59 percent, 20.5 percent and 2.6 percent of the respondents rated the relationship of purchasing department with other departments as excellent, good, fair and poor (table 4:9). From this data analysis we can understand that the majority of the purchasing staff 20 (76.9%) respondents confirmed that the relationship of the purchasing staff with the staff of other departments is excellent and good.

Table 4-10: Is there any problem encountered in the existing purchasing practice?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	24	61.5	63.2	63.2
	No	14	35.9	36.8	100.0
	Total	38	97.4	100.0	
Missing		1	2.6		
Total		39	100.0		

When asked if there are any problems encountered in the existing purchasing practice, the sample respondents' response showed that 63.2 valid percent of them revealed that the existing purchasing practice of the organization had encountered problem. On the other hand 36.8 valid percent of the respondents responded that there is no problem (table 4:10). When asked to specify the problem, as shown on table 4:11 below 28 (71.8%) respondents indicated different problems. Please see the details in the data analysis stated in the paragraph below the table.

Table 4-11: what will be the reason for the problem that encountered in the existing purchasing practice?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Payment problem	5	12.8	17.9	17.9
	Payment problem and Long lead times	3	7.7	10.7	28.6
	Payment problem , Long lead times, and poor follow up	1	2.6	3.6	32.1
	poor follow up and Payment problem	2	5.1	7.1	42.9
	Long lead times	6	15.4	21.4	64.3
	Poor follow up	3	7.7	10.7	75.0
	Payment problem , Long lead times, poor follow up, Evaluation and selection of suppliers problems	8	20.5	28.6	100.0
	Total	28	71.8	100.0	
Missing		11	28.2		
Total		39	100.0		

To indicate the reasons for the problems that occurred in purchasing practice of the organization, respondents, who replied there was problem in the practice, were required to mark among the possible reasons. As shown in the table above, 17.9 valid percent of them considered payment problems as sole reason, while 10.7 percent of them payment problem and long lead times as the reasons. On the other hand 21.4 percent of the respondents considered long lead times as sole reason, while 10.7 valid percent of them poor follow up as the sole reasons. Besides, 28.6 percent of the respondents considered all listed as reasons for the problems encountered in the purchasing practice of the organization. Here, it is important to notice 28.2 percent (11 respondents) were reserved to reply for this question.

With regard to the major causes of purchasing practice, respondents were asked to specify the major causes and 14 (46.7%), 11 (36.7%) and 1 (3.3%) of the respondents respectively considered vender related problems, lack of interest in the job and poor infrastructural facilities as sole major causes associated with the problems encountered in the purchasing practice of the EAL. However, 12 (13.4%) of the respondent considered vender related and lack of interest to the job as major causes of the problems encountered (table 4:12). The same percentage of respondents also considered vender related problem and poor infrastructural facilities as major causes. It is worth noting here that 9 respondents have not submitted their response and thus the data is missing.

Table 4-12: Major causes you observed about the problem that encountered in the existing purchasing practices

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Vender related Problem	14	35.9	46.7	46.7
	Vender related Problem and Lack of interest of the job	2	5.1	6.7	53.3
	Vender related Problem and poor infrastructure facilities	2	5.1	6.7	60.0
	Lack of interest of the job	11	28.2	36.7	96.7
	poor infrastructure facilities	1	2.6	3.3	100.0
	Total	30	76.9	100.0	
Missing		9	23.1		
Total		39	100.0		

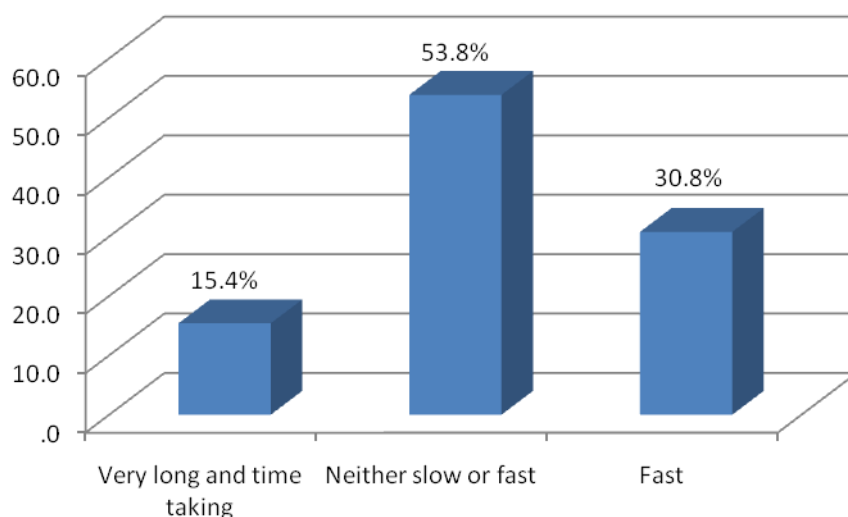
Based on the response of sample respondents regarding selection of suppliers, respondents revealed that EAL select suppliers using different methods. Therefore, 57.9 Valid percent of respondents said that suppliers had been chosen based on the company procedures, 26.3 valid percent of respondents in their regard replied the criterion of cost had been applied by the company. As shown in the table on table 4:13, 6 (15.7%) respondents also said that suppliers had been chosen based on mix of different criteria.

Table 4-13: How do you select suppliers to your company?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Based on the company procedures	22	56.4	57.9	57.9
	Based on the company procedures and Based on cost	4	10.3	10.5	68.4
	Based on the company procedures , and Based on cost ,and It varies from suppliers to suppliers	1	2.6	2.6	71.1
	Based on the cost	10	25.6	26.3	97.4
	It varies from suppliers to suppliers	1	2.6	2.6	100.0
	Total	38	97.4	100.0	
Missing		1	2.6		
Total		39	100.0		

Given that most of the respondent accepted the role of time factor in the purchasing process, they rated the process how fast the purchasing process had been. As presented in the Figure 4:3 below, 15.4% of them said it was very long and time taking, 53.8% of them said it was neither slow nor fast and 3.8% of them in their regard considered the process was fast.

Figure 4-3: In your Opinion how do you do evaluate the overall purchasing process?



Respondents were asked to express their opinion whether the purchasing policies and practices are aligned with the overall strategy of the EAL or not. From the sampled respondents as shown on table 4:15 below 23 (59%) respondents of them considered that the purchasing policies and practices are aligned with the overall strategy of Ethiopian airlines. Even if 20 (30.8%) of them accept this alignment, they raise some irregularities and 3 (7.7%) of them do not agree that purchasing policies and practices are aligned with overall strategy of the organization.

Table 4-14: Are purchasing policies and practices in line with the overall strategy of the airlines?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes, they are	23	59.0	59.0	59.0
	Yes but there are some irregularities	12	30.8	30.8	89.7
	No	3	7.7	7.7	97.4
	I am not quite aware of that	1	2.6	2.6	100.0
	Total	39	100.0	100.0	

In order to evaluate the level of participation during purchasing policy preparation, respondents' opinion was assessed. Therefore, the table 4:16 bellow showed that 21(53.8%) of the respondents had been participants in the preparation while 18 (46.2%) of the respondents had not been participants.

Table 4-15: Do you participate in any of the purchasing policy of the airlines?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	21	53.8	53.8	53.8
	No	18	46.2	46.2	100.0
	Total	39	100.0	100.0	

Among the sample respondents, 86.5 percent of them replied that they had the necessary knowledge to evaluate suppliers. On the other hand, 13.5 percent of the respondents replied that they had no the necessary knowledge to evaluate suppliers. This is presented as shown in the table 4:16 below.

Table 4-16: Do you have the necessary knowledge to evaluate the suppliers

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	32	82.1	86.5	86.5
	No	5	12.8	13.5	13.5
	Total	37	94.9	100.0	
Missing		2	5.1		
Total		39	100.0		

The regular training given to staff was considered as very unsatisfactory, unsatisfactory, moderate, satisfactory, and very satisfactory by 2.6 percent, 5.1 percent, 20.5 percent, 41.0 percent and 30.8 percent of the respondents respectively. The table 4:18 complements this explanation. From this data analysis we can understand that 28 (71.8%) respondents confirm that the training provided is satisfactory and very satisfactory which is very useful to improve the quality of the purchasing performance of the organization.

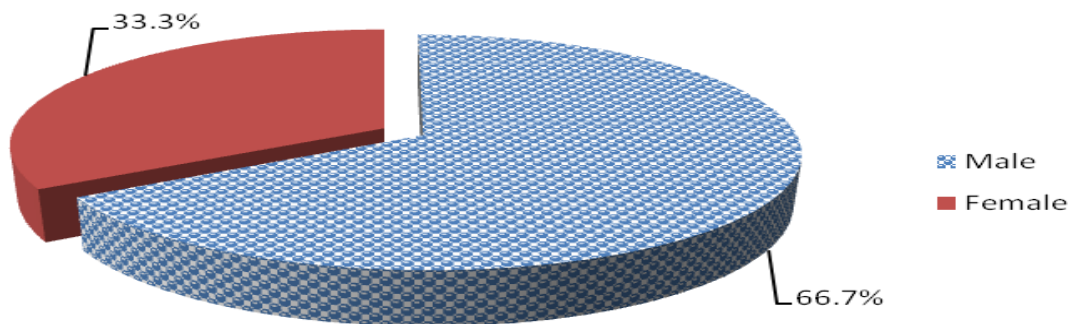
Table 4-17: In your Opinion, how can you level the regular training given to enhance staff performance?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very Unsatisfactory	1	2.6	2.6	2.6
	Unsatisfactory	2	5.1	5.1	7.7
	Moderate	8	20.5	20.5	28.2
	Satisfactory	16	41.0	41.0	69.2
	Very Satisfactory	12	30.8	30.8	100.0
	Total	39	100.0	100.0	

Data Presentation – User Departments

Sample respondents were also taken from the user department of the purchasing department of the Ethiopian Airlines. Accordingly, 21 questionnaires were collected and presented as follows. At the very beginning, respondents representing the user department are characterized based on demographic variables.

Figure 4-4: Sex composition of Sample respondents from user department



The sex composition of respondents from user departments is depicted using the pie chart above. As shown, 66.7 percent of the respondents were male, while the remaining 33.33 percent were female respondents.

On the other hand, the education status of these sample respondents was also assessed. The table presented below shows that 23.8 percent (5 respondents), 66.7 percent (14 respondents), and 9.5 percent (2 respondents) were diploma, first degree, and above first degree qualification holders.

Table 4-18: The Education Status of the respondents (user department)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Diploma	5	23.8	23.8	23.8
	First degree	14	66.7	66.7	90.5
	above first degree	2	9.5	9.5	100.0
	Total	21	100.0	100.0	

Beside sex and education status of respondents from user departments, information was collected on their experience in the current position. As given in the table below, 33.3 percent of the respondents had less than 5 years of experience and 5 to 10 years of experience each. On the other hand, 28.6 percent and 4.8 percent of the respondents had 11 to 15 years and above 16 years of experience.

Table 4-19: How long have you been working in your current position

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	less than 5 years	7	33.3	33.3	33.3
	5 to 10 years	7	33.3	33.3	66.7
	11 to 15 years	6	28.6	28.6	95.2
	above 16 years	1	4.8	4.8	100.0
	Total	21	100.0	100.0	

From the total valid 20 user department sample respondents, 95 percent of them perceive that the purchasing function of EAL as centralized, while only 5 percent of them perceive as decentralized. The detail is shown in the table below.

Table 4-20: How do you perceive the purchasing function of EAL

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Centralize	19	90.5	95.0	95.0
	Decentralize	1	4.8	5.0	100.0
	Total	20	95.2	100.0	
Missing		1	4.8		
Total		21	100.0		

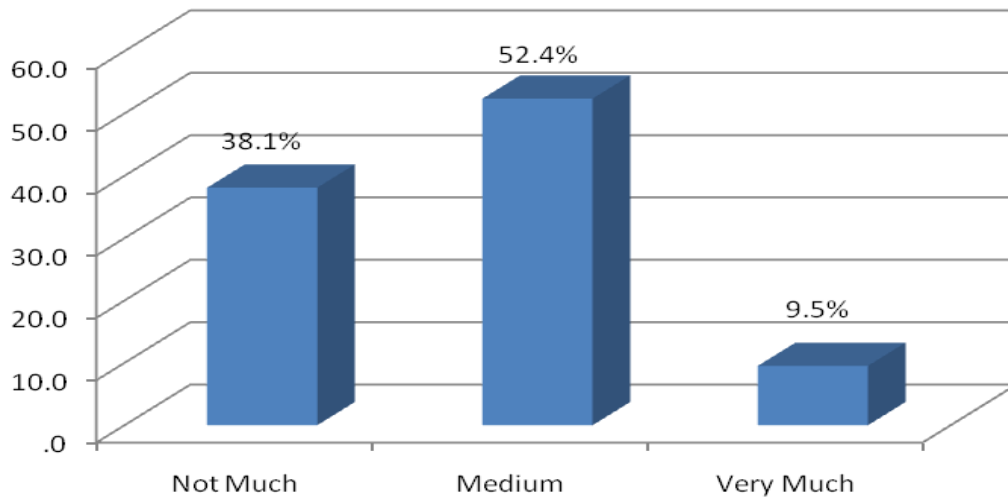
Given their perception on one hand, respondents' preference from centralized and decentralized purchasing system to optimize their own benefit was also evaluated. Based on their opinion, 85.7 valid percent of the respondents prefer centralized, while only 14.3 valid percent of the respondents prefer decentralized. However, it was found that 14 values were missed.

Table 4-21 User department' respondents' system preference

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Centralize	6	28.6	85.7	85.7
	Decentralize	1	4.8	14.3	100.0
	Total	7	33.3	100.0	
Missing		14	66.7		
Total		21	100.0		

Sample respondents from user department were requested to explain their level of know how about the purchasing practice and procedures applied by the organization. Accordingly, as shown in the graph below, 52.4 percent of the respondents considered their know-how was medium while 38.1 percent and 9.5 percent of the respondents considered their know-how was not much, and very much respectively.

Figure 4-5: Level of know how about the purchasing practices and procedures



User departments request purchase to the purchasing departments, and the purchasing department makes the purchase from suppliers. Accordingly, sample respondents from user departments were asked when their request had been initiated to purchasing department. Therefore, responses summarized under the table below shows that 45 valid percent, 35 valid percent and 20 valid percent of the respondents revealed that orders were initiated only when the item is out of stock, based on the annual budgeted intake, and based on re-order respectively.

Table 4-22: When do you initiate a request for purchasing an item?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Only when the item is out of stock	9	42.9	45.0	45.0
	Based on the annual budgeted intake	7	33.3	35.0	80.0
	Based on re-orders	4	19.0	20.0	100.0
	Total	20	95.2	100.0	
Missing		1	4.8		
Total		21	100.0		

Sample respondents satisfaction level to the quality of purchase from purchasing department was also considered in this study. As shown on the table 4:24 below, respondents rated their satisfaction. Therefore, 7 (35%) and 10 (50%) of the respondents were very satisfied and satisfied respectively. On the other hand, only 1 (5%) of the respondents was unsatisfied. Besides, 2 (10%) of the respondents rated moderately the quality of purchase provided to their department from purchasing department.

Table 4-23: In your opinion, how can you level the quality of purchase provided to your department?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very satisfactory	7	33.3	35.0	35.0
	Satisfactory	10	47.6	50.0	85.0
	Moderate	2	9.5	10.0	95.0
	Unsatisfactory	1	4.8	5.0	100.0
	Total	20	95.2	100.0	
Missing		1	4.8		
Total		21	100.0		

4.2 SUMMARY OF FINDINGS

As described in the preceding sections of this paper, the objective of the research is to assess the existing purchasing policy and practices and its effect on the performance of the EAL. As part of the assessment task, available literatures were reviewed and the necessary data was gathered through distributing questionnaires to the total number of 60 respondents (39 from Purchasing Department and 21 from User Department). The data collected was analysed and interpreted using SPSS software.

In addition to this, the real situation has been observed through a visit of the Purchasing and User Departments by the researcher and an interview was held with selected 5 staff members from the purchasing department. In the preceding sections of this chapter the findings of the data analysis is presented on tables and graphs. The major findings are summarized and presented as follows.

- ✓ The majority of the staff of the purchasing department 31 (91.2%) know that purchasing is a centralized activity in EAL. However, 2 (5.9%) scores EAL purchasing process to be mix of both centralized and decentralized systems
- ✓ The purchasing division has put in place purchasing policy and procedure manual and the purchasing practice is done in line with policy. Besides, the policy manual has not been persistently updated to keep it abreast with contemporary market development.
- ✓ Though 15 (38,5%) of the purchasing department staff believe to the contrary, most of the staff 24 (61.5%) of the respondents in the department claims that the number of employees in the department is not enough.
- ✓ Most of the respondents 31 (79.5%) of the purchasing department confirmed that the current job distribution among them is equitable though others 4 (10.2%) strongly disagree and 4 (10.3%) were neutral.
- ✓ The majority of the respondents 24 (61%) from the purchasing department expressed that the salary they are paid is not to be commensurate with service and position they hold.
- ✓ As for training opportunity, most of the employees 28 (71%) claim they are satisfied with the regular trainings that they are being provided by the company. albeit few 3 (7.7%) agree there is some but raised questions on its satisfactoriness and 8 (20.5%) said that they are moderately satisfied.
- ✓ Majority of the employees 25 (64.1%) know the fact that the departments conduct purchasing research. But from the response of others 14 (35%) said that they do not know

that the department is carrying out a research and this might imply that the research work lacks transparency and involvement of all employees.

- ✓ Regarding relationship with other functional units, 30 (76.9%) respondents marked the relationship as excellent and good while 9 (23.1%) as fair and poor suggesting that a lot should be done to improve coordination and thereby avoiding overlapping activities.
- ✓ Employees face problems such as those related to payment, lead time, and follow up etc. as indicated on **Table 4:11** with varying degree of frequency. These problems are ascribed to causes such as lack of interest to job, poor information system facility, and vendors.
- ✓ The file room is not spacious enough to accommodate the many files actively used by the four departments. Consequently, the files are jam-packed in old cabinets arranged along a corridor.
- ✓ Despite few complaints, most 30 (76.9%) user departments are satisfied with the quality and quantity of items purchased to their consumption as indicated on table 4:23.
- ✓ Delivery time of purchased items is evaluated by most user departments to be so late to some times lead them to write official complaint letter.
- ✓ Almost all purchase request made by the user departments are accepted and serviced. But some requests are rejected for reasons *for* budget and standard. In addition to these:

The purchasing policy and procedures of EAL as we can see from the findings and data analysis of Table 4.4 in which 31 respondents (91.2%) stated, is essentially centralized policy of procuring goods and services. Similarly out of 20 respondents from the User Department 19 (95%) confirmed that it is centralised system. On the same note 7 sample respondents of the user department staff were asked about their system preference and 6 (85%) on Table 4:21 responded that they preferred the centralised system. It is worth mentioning that 14 persons have not responded to the questionnaire and were reserved to give their response of what so ever which is a point of concern to say that the system is preferred by most staff.

The researcher had attempted to seek an answer to the research question 2 which asks what the main challenges were faced in implementing the policies and procedures of the purchasing practice of the EAL. In view of this 28 respondents from purchasing department were asked to identify the problems or challenges to implement the purchasing policy and procedures. Out of the total respondents 8 (28.6%) as shown on Table 4:11 respondents replied that payment problems, long lead time poor follow up and problems related to evaluation and selection of suppliers are the major problems.

Understanding the kind of purchasing system was the other research question which the researcher had assessed and investigated. According to 25 (64.1%) on Table 4:8 stated that the organization undertakes a research with the view of collecting information on marketing and standards of commodities and analysing the value of goods periodically prior to purchasing and procuring goods. This is an important aspect of the purchasing department functions that should continue in the future to maintain its reputation of the world class air transportation.

In addition to this as shown on Table 4:13 selection of suppliers is one of the purchasing techniques and thus out of 38 sample respondents 22 (57.9%) replied that suppliers are selected based on the companies procedures and the other 10 (26.3%) respondents confirmed that suppliers are selected based on the fairness of cost. With regard to the staff's knowledge to evaluate suppliers and to be able to select the right suppliers 32 (86.5%) of them on Table 4:16 confirmed that they have the necessary knowledge. This shows that the EAL suppliers selection is transparent and the selection is done by professionals who have the relevant knowledge

Furthermore, as shown on Table 4.23 data analysis and as confirmed by 9 (45%) of the respondents of the purchasing department staff, the process of purchasing starts when an item is out of stock and the order is originated by user department which could be considered as the other purchasing technique.

When purchasing department staff were asked to evaluate the time it takes for purchasing of an item, 21 (53.8%) said that it is neither fast or slow while 12 (30.8%) respondents stated that it is fast while 6 respondents (15.4%) indicated that it is very long and time taking. According to the opinion of the researcher ordering an item when it is out of stock and the long delay in procuring items is not a good practice and thus they need to be given due attention by the senior management in the future in order to improve the purchasing activity of the department.

The purpose of the procurement policy is to provide broader guideline which EAL shall follow while procuring goods and services for its use (EAL Revised procurement policy, December 2008). In this connection the researcher asked sample respondents if they are aware of the existence of the purchasing policy and practice and if they work in line with the procurement manual. Out of 39 respondents 34 (87.2%) – Table 4:5, replied saying “yes there is a policy” and they comply to the guideline. Following this, the researchers have also asked if the purchasing policy and practice is in line with the overall strategy of the Airline. A total of 23 (59%) out of 39 respondents – on Table 4:14, said the purchasing policy and guideline is in line with the strategy of the Airline. As indicated on Chapter one of this paper on Strategic plan of the EAL section (1.14), the EAL has designed a strategy and every division of the Airline has to work towards the

success of this strategy which ultimately will contribute for sustainable economic growth and poverty reduction of the country. Therefore the findings with regard to the research question on the effects of the purchasing policy and practice to the overall performance of the Airline is cost effectiveness and provision of quality service which is demonstrated on its success of transporting 3 million passengers and earning 949 million US dollars revenue and 75 million operating profit in the year 2010 (Ethiopian Airline Annual Report of 2010).

As shown on Table 4:17 among 39 sample respondents 16 (41%) respondents and 12 (30.8%) respondents from purchasing department confirmed that the in-house training that they are being provided to enhance their performance and to help them acquire additional skills is satisfactory and very satisfactory respectively. This has to be encouraged and the researcher has noted that it is such good practice that has enabled the organization to improve its overall organizational efficiency and effectiveness. This finding therefore can be taken as an evidence for responding to the research question which asks whether the Purchasing Division uses its facilities effectively or not and what the limiting factors are?

With regard to the limitation, among the 39 respondents of the staff of the purchasing department 22 (56.4%) on Table 4:7 claim that the remuneration to the staff is not good enough to compensate the service they render and the position they hold. According to the opinion of these respondents most of the employees in the purchasing departments are de-motivated and hence are contributing less than their level of capacity. The other important issue that requires due attention is the inadequacy of the number of staff in the purchasing department. Among 39 respondents 24 (61.5%) of them said that the number of staff is below what is required (Table 4:6). This implies that the staffs in the purchasing department are overloaded with work and it can be concluded that this is one of the reasons why they claim to have been paid less which resulted lack of interest in their work as presented in the data analysis of Table 4:12.

The last research question that the research attempted to investigate is whether the organization regularly evaluates the purchasing performance based on the purchasing criteria such as on time delivery, cost effectiveness and quality of goods and services. As indicated earlier, the organization conducts a research periodically and thus regularly evaluates its purchasing performance based on purchasing criteria. This is revealed on Table 4:8 in which 25 (64.1%) respondents confirmed that the organization undertakes a research regularly with the aim of assessing its performance. The researcher was also informed by a number of staff members that

regular review meeting is held among purchasing department staff members for the purpose of evaluating their performance.

The other indicator used in this research as shown on Table 4:23 data analysis is related to the quality of the purchasing service provided to the user department. Among 20 respondents 7 (35%) replied that the quality of the items purchased is very satisfactory and 10 (50%) respondents responded that is satisfactory which confirms that the items purchased are the right quality needed by the users. From this and other findings and including by the personal observation of the researcher, it is possible to conclude that the effect of conducting research and regular evaluation on the purchasing performance of EAL is satisfactory which can be evidenced from the regular staff evaluation and the research conducted which has resulted high quality service that EAL is providing to its customers.

CHAPTER FIVE: CONCLUSION AND RECOMMENDATIONS

5.1 CONCLUSION

As described in the preceding chapters of this research report, the Ethiopian Airline is renowned to be the only International Airline in Ethiopia. As with any other organizations, the Purchasing Department in this company supports the overall operation in procuring goods and services necessary to achieve its goal of rendering best transportation service to passengers and customers.

.Being Under the jurisdiction of Materials Management Division, there are four specialized departments that facilitate the purchasing activity. Due to the need for the company to provide quality service in line with global standards, the majority of the purchases are made from foreign sources. The researcher had also attempted to assess the purchasing activities of the departments using questionnaire, interview and personal observation. Based on the responses and analysis of data gathered the following conclusions have been drawn.

As has been mentioned from the outset, the role of purchasing departments in EAL is supporting the overall operation of the company. This implies that the departments should interact and work in unison with other functional units on common areas of engagement. It is very useful to note that the relationship of the purchasing department with other department as confirmed by data analysis shown in table 4.9, that 7 respondents (17.9%) and 23 respondents (59%) have confirmed that the relationship is excellent and good respectively.

Finally, if the EAL has to achieve its strategy and organizational objectives, greater emphasis has to be given on training of the staff with skill and knowledge that can increase their efficiency, undertaking research on standardization and value analysis, designing and implementing cost effective and efficient procurement policy and procedures is imperative.

5.2 RECOMMENDATION

Apparently aviation plays a significant role in the world today. It supports social and economic development in both emerging and established nations. Furthermore, an international air transport is an important factor in facilitating trade and development of other sectors of an economy. Professionals in this area of field have asserted that improved air connectivity through air transport links is an essential component of economic growth as it provides personal access to different regions for business, social or recreational purposes as well as physical access to resources and markets.

As explained in the findings of this study that follows in the conclusion and recommendation section, the key elements that can contribute to the success of the EAL are employing an experienced and professional staff and management, familiarity with and commitment to the overall policy and goals of the airline, identification through market research of unserved and underserved routes, establishing a high level of operational and purchasing procedures and system are few among others.

It should also be noted that building a strong customer satisfaction and excellent reputation will enable the airline to build solid and crucially important arrangement necessary to expand its scope and customer attraction which obviously will lead to continued long term growth both within the target market area and looking toward the future. In addition to these general recommendations the researcher has listed hereunder specific recommendations.

- ◆ The draft of the purchasing policy which the researcher was told by the EAL member of staff would be useful if could be updated and subsequently approved.
- ◆ The researcher has realized through her discussion with the purchasing staff members that developing a pre-shipment in house inspection capacity would be useful to avoid the cost of external inspection of spare parts.
- ◆ The findings of data analysis regarding the purchasing process has indicated that it is neither fast nor slow according 21 (53.8%) respondents and 6 (15.4%) respondents also said that it is long and time taking (Figure 4:3). This is a significant number when compared with the total number of 39 respondents. This finding implies that there is a need to change and improve the purchasing process. Therefore this can best be improved through increasing the limit of authority within which the lower level of supervisors can act and decide. Besides, it is advisable to use Electronic Commerce which includes the use of intranets (inside the enterprise), and extranets (between an enterprise and its trading partners). If the departments use intranets for the purchasing need of their internal customers, the long purchasing cycle will be shortened. This technology also helps the buyers to set aside more time to concentrate on the critical activities like vendor selection, price negotiation, market research etc. which could at the same time boost employees moral resulting an increased performance level and satisfaction. Moreover, the application of e-commerce in addition to avoiding delays can give the company strategic advantage over the competitive forces in the global market.
- ◆ It should be noted that fostering good relationship among the different departments is very useful. This is because it can help to facilitate cooperation among the different departments and units in their best interest and to the satisfaction of every one who got involved.

- ◆ Developing an appropriate mechanism to control the movement of Repair Orders between the Purchasing Departments and user departments can obviously increase efficiency.
- ◆ Setting up a mechanism that minimize the back- and- forth movement of documents among the Stores, inventory control and audit unit, and Purchasing Departments can save time and ensure the safety and security of documents . Intranet can be one of the mechanisms that can be used for this purpose.
- ◆ A dedicated “Customer Help Desk” could be assigned at the Purchasing Division that can effectively handle customer related activities rather than mixing up customer affairs and other EAL tasks and duties all at once as it has been the practice so far. A separate customer desk is justified in light of the fact that EAL derives large revenues from third party (customer) works.
- ◆ To effectively enhance the contribution of the staff to the purchasing division, it would be important to organize on the job-trainings. This activity will also boost the staff’s moral and motivate them improve their efficiency.
- ◆ The data analysis on monthly salary payment showed that 22 (56.4%) respondents among 39 (table 4:7) respondents expressed that the monthly salary they are being paid is not enough. Therefore it would be advisable to adjust the salary of the staff to match their experience and qualification in order to avoid their grievances.
- ◆ To reduce the overload of duties and responsibilities on individual buyers, it is recommended that the department should be staffed adequately. Vacant positions should be filled as soon as possible instead of transferring duties and responsibilities to the already overburdened purchasers.
- ◆ Office equipments such as computers and printers should be increased to equip the staff with the necessary work instrument. Besides, old computers should be replaced by new ones or their capacity should be upgraded. In addition to this a dedicated Internet line should be provided to Purchasing Department to decrease frequency of connection failure and enhance efficient connectivity.
- ◆ The purchasing department should identify and keep them on a record alternative suppliers who could supply the necessary materials and services with better price and quality. Sticking to a single supplier is not advisable unless the supplier is the sole producer and/or distributor.
- ◆ As clearly stated in the company’s purchasing policy, the purchasing department should participate in the local and international trade fairs which can serve as a central source of information about new products, general price trend, market condition, etc.

In conclusion, it should be understood that establishing a high level of operation and quality control can ensure that the EAL always lives up to its marketing commitments and fulfills the promise of a high level of service, customer satisfaction, convenience and safety at a reasonable and competitive fare. On the whole, the research findings concludes that improving the purchasing functions of the EAL which ultimately results a positive impact on governments revenues, foreign exchange effects and the improvement of business communication. In so doing the EAL will be in a position to contribute its share for the eradication of poverty in the country and for the success of the country's Growth and Transformation Plan (GTP).

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**QUESTIONNAIRE ON THE ASSESMENT OF THE EXISTING PURCHASING
POLICY AND PRACTICES AND ITS EFFECT ON PERFORMANCE: THE CASE OF
ETHIOPIAN AIRLINES**

Dear Responents

The purpose of this questionnaire is to collect information about the existing purchasing policy and practices and its effect on performance of the Ethiopian Airlines. Your cooperation in providing a genuine answer to the following questions is highly important for the success of this study. Your responses will be kept confidential except that they are used only for the academic purpose. Therefore, please answer all the questions.

Section I: Persona information

1. Personal profile

Sex	Male	<input type="text"/>
	Female	<input type="text"/>

2. Position of Work

Manager	<input type="text"/>
Supervisor	<input type="text"/>
Senior buyer	<input type="text"/>
Provisioned	<input type="text"/>
Junior buyer	<input type="text"/>
Sr. material control	<input type="text"/>
Buyer	<input type="text"/>

3. Education Status

a. Diploma	<input type="text"/>
b. First Degree	<input type="text"/>
c. Above First Degree	<input type="text"/>
d. Other	<input type="text"/>

4. How long have you been working in your current position?

a. Less than 5 year	<input type="text"/>
b. 5 to 10 years	<input type="text"/>
c. 11 to 15 years	<input type="text"/>
d. Above 16 years	<input type="text"/>

Section II: Assessment of Purchasing practice and Policy Related information

1. How do you perceive the purchasing function of EAL?
 - a. centralize
 - b. decentralize
2. Which one do you prefer? Why?

.....

.....

.....
3. Are you aware of and work in line with the manual?
 - a. Yes No
4. How much do you think you know the purchasing practice and procedures adopted by EAR?
 - a. Not much
 - b. Medium
 - c. Very much
5. Is the number of staff in the department enough?
 - a. Yes b. No
6. How do you evaluate attention given by the company management to the departments?
 - a. Much attention
 - b. Enough attention
 - c. Little attention
 - d. Totally neglected
 - e. I don't know
7. What is your opinion about the monthly salary?
 - a. Enough
 - b. Not enough
8. Does purchasing department conduct purchasing research on such as standardization, value analysis, etc.?
 - a. Yes b. No
9. How is Relationship of the purchasing department with other department?
 - a. Excellent
 - b. Good
 - c. Fair

d. Poor

10. Is there any problem that encountered in the existing purchasing practice?

a. Yes b. No

11. If yes, what will be the reason for the problem that encountered in the existing purchasing practice?

- a. Payment problem
- b. Long lead times
- c. Poor follow up
- d. Evaluation and selection of supplies
- e. All of the above

12. If your answer is yes, for question no. 14 what are the major causes you observed about the problem that encountered in the existing purchasing practice?

- a. Vender related problem
- b. Lack of interest of the job
- c. Poor infrastructure facilities

13. How do you select suppliers to your company?

- a. Based on the company procedures
- b. Based on the cost
- c. It varies to suppliers to suppliers

14. Do you have the necessary knowledge to evaluate the suppliers?

a. Yes b. No

15. If selection works not based on the company policy and procedure why?

.....
.....

16. Are there any constraints that delay follow up of the ordered items?

a. Yes b. No

17. If yes, please comment

.....
.....
.....

18. Do you think that the time factor involved in the purchasing process has an impact on the overall performance of the airlines?

a. Yes b. No

19. If yes, how?

.....
.....
.....

20. In your opinion how do you evaluate the overall purchasing process?

- a. Very long and time taking
- b. Neither slow or fast
- c. Fast

21. Do you believe that the purchasing policies and practice is in line with the overall strategy of the airlines?

- a. Yes they are
- b. Yes but there are some irregularities
- c. No
- d. I am not quite aware of that

22. Do you participate in any of the purchasing policy of the airlines?

- a. Yes
- b. No

Respondents will be highly requested to tick one of the five alternatives that can represent the current practice of their organizations, from the alternatives mentioned below.

No	Description	Strongly agree (5)	Agree (4)	Neutral (3)	Disagree (2)	Strongly Disagree(1)
23.	In your opinion, the work of purchasing department is properly distributed?					
24	Do you think the suppliers selection made based on the company policy and Procedures?					
25.	Do you think that the best technique of purchasing today will also be best for the next year?					
	Description	Very Satisfactory (5)	Satisfactory (4)	Moderate (3)	Unsatisfactory (2)	Very Satisfactory (1)
26.	In your opinion, how can you level any regular training given to enhance staff performance?					
27.	Are you satisfied with the quality of purchasing system adopted in Ethiopia airlines?					

9. In your opinion, how can you level the quality of purchase provided to your department?

- a. Very Satisfactory
- b. Satisfactory
- c. Moderate
- d. Unsatisfactory
- e. Very unsatisfactory

10. If your answer is no, what is your reason?

.....
.....
.....

11. On average how long does it take the purchasing department to provide goods and place them to your department?

**KEY INFORMANT INTRVIEW GUIDE
FOR PURCASING MANAGERIAL STAFF**

1. How often EAL, policy and procedure manuals have been updated?

.....
.....
.....

2. How do you explain the step followed in the purchasing procedure?

.....
.....

3. How is Relationship of the purchasing department with other functional unit?

.....
.....

4. Is there any regular motivation and training to enhance the staff performance?

.....
.....

5. Which department is responsible for the central keeping of reference files and documents?
And how look like the record keeping?

.....
.....