

PURCHASING PRACTICE IN ZIMBABWEAN STATE UNIVERSITIES

Felix Chari

Department of Economics
Bindura University of Science Education, Zimbabwe

Anna Chingarande

Department of Economics
Bindura University of Science Education, Zimbabwe

Bongani Edwin Mushanyuri

Department of Economics
Bindura University of Science Education, Zimbabwe

Roseline Karambakuwa

Department of Economics
Bindura University of Science Education, Zimbabwe

ABSTRACT

This research studied five state universities in Zimbabwe to evaluate the extent to which purchasing is regarded as a strategic activity. Interviews were conducted at each of the five universities. It was found out that two of the universities had a well structured purchasing and supply function. The results of this study are in agreement with other empirical research findings that purchasing at an advanced stage of development results in phenomenal cost savings being realised. These universities were also found to have rationalised supplier bases in place and properly managed. However the opposite was also found to be true for the other three universities where purchasing is regarded as a clerical activity. A comprehensive review of literature was also carried out to corroborate the findings of the study.

Key words: Purchasing practice, Strategic Purchasing

Introduction

This paper explored purchasing practice in Zimbabwean state Universities with a specific focus on Bindura University of Science Education (BUSE), Chinhoyi University of Technology (CUT), Lupane State University (LSU), National University of Science Technology (NUST) and Midlands State University (MSU). The paper also examined the extent to which purchasing and supply is regarded as a strategic activity by State Universities. It will also look at the key approaches or strategies to purchasing that can leverage universities in their quest to improve purchasing decision making. It is imperative to state at this point that all state universities' procurement practice is governed by the State procurement Act Chapter 22:44. The Act provides clarification on how public institutions carry out their purchasing activities.

This study was motivated by cases of poor service delivery in universities as evidenced by incidence of poor quality products being purchased and lack of supplier data bases. The importance of purchasing and supply cannot be over emphasized. In essence, purchasing is all about exploiting supplier capabilities. In recent times purchasing has become a source for competitive advantage. This state of affairs is largely brought about by changes in the global market that have resulted in shortages and price increases of materials and products. Most importantly there has been a shift from producer power to consumer power. As a result, the consumer dictates what should be on the market placing pressure on the purchasing function to be on high alert and be able to meet the ever changing consumer demands.

Literature Review

Lysons and Farrington (2006) wrote that “purchasing is a reflection of the evolution of civilised human relations as it enables a desired object to be obtained by trading rather than by conquest, plunder or confiscation”. This view, shows that purchasing brings with it order and foster relationships for mutual benefit to the buyer and supplier. For a very long time, organisations have competed in various fronts, but now the only feasible front to compete can be found in purchasing. Hartmann et al (2012) concur with (Carr and Pearson, 1999; Narasimhan and Das, 2001; Rozemeijer et al., 2003; Sanchez-Rodriguez et al., 2003) that purchasing impact positively on a variety of operational and financial performance measures. Chen et al (2004) points out that purchasing has assumed an increasingly pivotal strategic role, evolving from obscure buying function to a strategic business partner. This importance is largely credited from the fact that purchasing spent constitutes 60 to 80% of a firm's sales (Saranga and Moser, 2010). Ramsay and Croom (2008) suggest that companies that focus on costs would place purchasing as central to any strategic efforts. This is consistent with Porter (1985)'s cost leadership strategies. Lintukangas et al (2009) noted that several studies have suggested that long-term planning, collaborative supplier relationships and supply management capabilities are the factors that reflect the importance and strategic status of purchasing and supply management.

Purchasing level of development

The strategic thrust of purchasing is likely to be obscured were purchasing is accorded clerical status. The Reck and Long model (1998) as observed by Lysons and Farrington (2006) suggests that at the passive stage, the purchasing function has no strategic direction and primarily reacts to the requests of other functions. At the passive or clerical stage, purchasing is largely transactional and concern is placed on price only. Jones (1999) found out that when purchasing is at its infant or awakening stage, the organisation realise less than five percent savings on cost. Savings on cost can be an important source of competitiveness especially in perfect markets where price plays a major role in attracting and retaining customers. Therefore if a firm is not making meaningful cost savings, profit margins may be squeezed as a result of competition.

On the other hand Saranga and Moser (2010) recons that, an effective and efficient management of purchasing and supply activities allowed many global companies to become a competitive leader in their industries. Monczka et al, (2000) as cited by Lawson et al, (2009) asserts that the purchasing function is becoming widely recognised as an important contributor to strategic success, helping firms meet the

challenges of an increasingly competitive and dynamic environment. This is largely because most markets are becoming price sensitive. In support of this view the Reck and Long model (1998) identified the progressive stages of purchasing from the passive to independent to supportive up-to the integrative stage. At the integrative stage, the purchasing function is fully integrated into the organisation's competitive strategy and will be responsible for formulating and implementing strategic plans. Jones (1999) in his model points out that, at the advanced stage of development, purchasing can achieve cost reductions of up to 25 percent. Carr and Smeltzer (1999) as observed by Lawson et al, (2009) also identify purchasing as a strategic weapon, centred on its ability to create collaborative relationships for a firm's advantage. The term "strategic weapon" is deliberately used to show that purchasing can be used as a means to fend off competition.

Purchasing and the type of the organisation

There is not much literature on the impact of purchasing on different types of firms or industries. Saranga and Moser (2010) assert that an effective management of purchasing is beneficial to organisations irrespective of the industry in which they are operating in. whether a company is in the manufacturing, construction, service, oil and gas, mining or public institution, the purchasing function will equally be of strategic importance. Park and Krishnan (2001) as cited by Pressey et al (2009) wrote that strategic purchasing is relevant to firms of all sizes in order for them to respond to challenges of increasingly competitive markets. Global corporations such as Wal-Mart, Dell, and Nokia among others have demonstrated that it is possible to achieve industry leadership through the efficient and effective management of purchasing and supply practices irrespective of the nature of the industry (Saranga and Moser, 2010). In order to optimise on purchasing capabilities, organisations follow best practices in recruiting and training employees in the purchasing and supply management function and establishing processes that enable cross-functional collaboration and developing systems for supplier collaboration (Saranga and Moser, 2010). The foregoing discussion clearly shows that the type of an organisation does not in any way influence how purchasing is viewed.

Benefits of strategic Purchasing

Chen et al (2004) proposed that strategic purchasing can engender sustainable competitive advantage by enabling firms to foster close relationships with a limited number of suppliers, promote open communication among supply chain partners and develop long-term strategic relationship orientation to achieve mutual gains. To add to this Das and Narasimhan (2000) as cited by Saranga and Moser (2010) points out that strategic purchasing results in cost savings, better quality of products, or co-innovations with suppliers. They went to state that the strategic importance of purchasing cannot be overemphasized in the current economic scenario where firms are plagued by price pressures and margins are driven primarily through cost savings. This assertion is particularly important now when most economies are going through economic recession and competition having turned into a red ocean. As has been alluded to before, purchasing can help create the space for the company to make meaningful profit margins.

Monczka et al (2005) wrote that strategic purchasing helps improve product and process designs. They attributed this to early involvement of suppliers in product development and process designs. They also concluded that companies that involve suppliers very early in product development and process designs achieve enormous material cost reduction, improved material quality and reduction in product development time. Chen et al (2004) complimented this statement by stating that "Given the increasing emphasis on building and managing buyer-supplier relationships" this can create the basis for sustainable competitive advantage for organisations.

Kraljic (1983) asserts that purchasing maximise supply security and reduce costs, by making the most of an organisation's purchasing power. In his model, he identifies four important stages namely purchase classification, market analysis, strategic positioning and action planning. This model makes purchasing to be more systematic and focused to effectively deal with supply uncertainties and effectively managing risk. The Kraljic purchasing portfolio model can only be useful and successfully implemented were the purchasing function is strategically integrated into the organisation. Not only does the model make purchasing more effective, but also makes purchasing institutionally accepted and legitimate (Carr and Smeltzer, 1997). Another important paradigm that the model brings is the complete shift of purchasing from a transactional perspective to a strategic perspective. Simms (2006) as observed by Ramsay and Croom (2008) strengthen this view when he said "the cheapest deal is not necessarily the best deal, and negotiating on price and around margins will only deliver a small percentage of potential savings. Big wins come from improving business processes and influencing how the organisation behaves at more strategic level". This has thrust the purchasing function as the epicentre of an organisation to impact positively on the operational and financial performance through effective interactions with internal and external stakeholders.

Chen et al (2004) believes that a strategic perspective of purchasing foster cross-functional integration among supply chain activities, among other purchasing activities. He went on to assert that purchasing plays a key liaison role between external suppliers and internal organisational customers in creating and delivering value to external customers. This is clearly in support of Kraljic's assertion that purchasing is responsible for more than just transactional activities. Chen et al (2004) states that strategic purchasing allows the function to play a greater role in corporate planning, reduces a firm's exposure to opportunistic behaviours, and is more likely to lead to successful collaborative relationships. Lawson et al (2009) argue that it is not enough for a firm to possess a strategic purchasing orientation; they must also create conditions that allow the buyer and supplier to contribute and develop the relationship. Van Weele (2009) identified what he termed the purchasing agenda. This agenda includes purchasing responsibility to balance risk management, value improvement and purchasing cost reduction. He also states that it is the duty of purchasing to see to it that results and activities that have been planned are realised within the available financial resources. Purchasing should also produce periodic reports on savings and cost reductions realised through purchasing activities and also vendor performance reports. These reports are crucial to assess the purchasing function performance, and also can be used in formulating purchasing strategies.

Findings

It was found out that at all the universities that were study, purchasing activities are carried out by personnel with proper purchasing and supply qualifications. However this alone is not enough to making a conclusion that purchasing is viewed as a strategic activity. It was imperative to enquire on the structural position of the function as can be seen below.

Bindura University of Science education	<ul style="list-style-type: none"> • Purchasing function at Bindura University is not developed and not strategic in nature. • Its main role is transactional. • The position for purchasing is clerical and not a management position
Chinhoyi University of Technology	<ul style="list-style-type: none"> • Purchasing functions at Chinhoyi University is developed and strategic in nature; it is influential in planning and decision making. • This is also supported by the higher grade that the Purchasing Manager is placed on the organizational structure. • The Purchasing Manager makes high value purchasing decisions independently.
Lupane State University	<ul style="list-style-type: none"> • Purchasing function at Bindura University is not developed and not strategic in nature. • Its main role is transactional. • The position for purchasing is clerical and not a management position
Midlands State University (MSU)	<ul style="list-style-type: none"> • Purchasing functions at MSU is developed and strategic in nature; it is influential in planning and decision making. • This is also supported by the higher grade that the Purchasing Manager is placed on the organizational structure. • The Purchasing Manager sits on the Planning committee and Administration committee.
National University of Science and Technology	<ul style="list-style-type: none"> • Purchasing function at Bindura University is not developed and not strategic in nature. • Its main role is transactional. • The position for purchasing is clerical and not a management position

It was also found out that phenomenal cost savings were realised in universities that have purchasing strategically positioned. This is in agreement with Jones (1999)'s assertions that at an advanced stage of development, purchasing can realise up 25 per cent savings on costs. This is in sharp contrast with the other universities that still have purchasing as a clerical activity. In these universities there is no performance measurement standards hence generating little value to the university. Where purchasing is clerical, supplier bases were in total disarray and no supplier visits are carried out. It was also found out that some of the challenges faced by those in underperforming universities emanated from lack of resources, especially vehicles to enable them to carry out supplier visits.

Conclusion

The foregoing discussion clearly brings to the fore the strategic importance of the purchasing function to organisations regardless of the organisation's size, type or industry. Literature has also shown that there are a lot of benefits that accrue to firms that embrace purchasing at strategic level. These benefits range from cost savings to collaborative partnerships that enhance a company's competitive edge over its competitors. As a result, the purchasing function has gained recognition as an important department. On the other hand research has also shown that companies that do not have a purchasing function may be exposed to some opportunistic behaviour by suppliers. They also miss out on exploiting resources of suppliers due to unstructured purchasing. To this end, the importance of purchasing cannot be overemphasized; it affects the top and the bottom lines of an organisation. It cuts across functions and act as the interface for the organisation with suppliers. The strategic relevance and the potential future impact of purchasing cannot be ignored and to reap the benefits brought about by purchasing, it is imperative that the universities accord purchasing the status it deserves. As has been alluded to earlier purchasing is essentially about exploiting supplier capabilities

References:

1. Carr, A. S., Pearson, J. N., 1999. *Strategically managed buyer-supplier relationships and performance outcomes*. The Journal of operations management.
2. Carr, A. S., Smeltzer, L. R., 1999. *The relationship of strategic purchasing to supply chain management*. The European Journal of purchasing & supply management.
3. Chen, J. I., Paulraj, A., Lado, A. A., 2004. *Strategic purchasing, supply management and firm performance*. The Journal of operations management.
4. Das, A., Narasimhan, R., 2000. *Purchasing competence and its relationship with manufacturing performance*. The Journal of purchasing & supply chain management.
5. Dollinger, M. J., Kolchin, M. G., 1986. *Purchasing and the small firm*. The American Journal of small business winter.
6. Gadde, L., Hakansson, H., 2001. *Supply Network Strategies*. Wiley, Chichester.
7. Hartmann, E., Kerkfeld, D., Henke, M., 2012. *Top and bottom line relevance of purchasing and supply management*. The Journal of purchasing & Supply management.
8. Kraljic, P., 1983. *Purchasing must become supply management*. The Harvard Business Review.
9. Lawson, B., Cousins, P. D., Handfield, R. B., Petersen, K. J., 2009. *Strategic purchasing, supply management practices and buyer performance improvement: an empirical study of UK manufacturing organisations*. The International Journal of Production research.
10. Lintukangas, K., Smirnova, M., Jumpponen, J., Kouchtch, S., Panfilii, V., Virolainen, V. M., 2010. *The status of purchasing and supply management in Finland and Russia*. The Journal of purchasing & supply management.
11. Lysons, K., & Farrington, B., 2006. *Purchasing and Supply Chain Management*, 7th Edition, Prentice Hall.
12. Monczka, R. M., Trent, R. J., & Handfield, R. B., 2005. *Purchasing and Supply Chain Management*, 3rd Edition, South-Western Cengage Learning.
13. Mudambi, R., Schrunder, C. P., Mongar, A., 2004. *How co-operative is co-operative purchasing in small firms? Evidence from UK engineering SMEs*. Long Range Planning.
14. Park, D., Krishnan, H. A., 2001. *Supplier selection practices among small firms in the United States: testing three models*. The Journal of small business management.
15. Porter, M. E., 1985. *Competitive Advantage: Creating and Sustaining Superior Performance*. The Free Press.
16. Pressey, D. A., Winklhofer, M. H., Tzokas, N. X., 2009. *Purchasing practices in small-to medium-sized enterprises: An examination of strategic purchasing adoption, evaluation and supplier capabilities*. The journal of Purchasing & Supply Management.
17. Quayle, M., 2002. *Purchasing in small firms*. The European Journal of purchasing & supply management.
18. Ramsay, J., Croom, S., 2008. *The impact of evolutionary and development metaphors on purchasing and supply management: A critique*. The Journal of purchasing and supply management.
19. Saranga, H., Moser, R., 2010. *Performance evaluation of purchasing and supply management using value chain DEA approach*. The European Journal of operational Research.
20. Simms, J., 2006. *The shape of things to come*. Career development supplement. Supplymanagement.com.
21. Van Weele, A. J., 2009. *Purchasing and supply chain management: Analysis, Strategy, Planning and Practice*, 5th Edition. Cengage Learning, Andover.
22. Zheng, J., Knight, L., Harland, C., Humby, S., James, K., 2007. *An analysis of research into the future of purchasing and supply management*. The journal of purchasing & supply management.