



Chalimbana University

Integrity. Service. Excellence

DIRECTORATE OF DISTANCE EDUCATION

PRODUCTION & OPERATIONS MANAGEMENT

First Edition 2020

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First Edition 2020

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Acknowledgements

The Directorate of Distance Education wishes to thank Fulumaka Hope Mutale for writing Production and Operations Management.

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MODULE OVERVIEW

Pre-requisite: None

Introduction

Procurement and sourcing covers all the steps from identifying a need for product and services through procuring the product, receipt, invoicing, and processing of payment with vendors. Procurement processes can be configured toward specific business needs by defining purchasing policies and workflows. The primary objective of sourcing is excellent business and user satisfaction, combined with a low total cost of ownership. To succeed in attaining these goals, sourcing must achieve, maintain and utilise a strong negotiating position towards the suppliers.

Welcome to the course 'Purchasing and Sourcing'.

Rationale of the study

This course provides an overview of how Companies practice Purchasing and Sourcing to gain a competitive advantage in local and global markets through the integration systems. The management of the physical flow of products and information throughout the entire supply chain is examined, including production of goods, physical distribution, transportation, warehousing, customer service, materials management, third-party and global logistics, systems planning, and operations and management of the supply chain.

Aim

The aim of this course is to gain the knowledge of possibilities of efficient sourcing of goods and information at efficient level for the organization in order to achieve optimized ability by the organization in its endeavor to achieve its goals.

Learning Outcome

At the end of this course, learners should be able to:

- To understand the purchasing process in an organizational setting with students being able to understand the language and inner working of the purchasing process.
- To provide an overview of the key activities performed by the purchasing and sourcing arms of management including variations of sourcing strategies, steps taken in purchasing and other key cycles involved in the purchasing and sourcing process.
- To view purchasing and sourcing as more than an operational function that passively executes a plan, but as a strategic function that creates value and competitive advantage.
- To Understand the various steps that go into sourcing and adopt the various selection criteria that is used in sourcing for the organizational setting for optimized efficient operations.

Summary

The module looks at Purchasing and Sourcing

Study Skills

As an adult learner, your approach to learning will be different to that of your school days: you will choose when you want to study, you will have professional and/or personal motivation for doing so and you will most likely be fitting your study activities around other professional or domestic responsibilities.

Essentially you will be taking control of your learning environment. As a consequence, you will need to consider performance issues related to time management, goal setting, stress management, etc. Perhaps you will also need to acquaint yourself with areas such as essay planning, searching for information, writing, coping with examinations and using the internet as a learning resource.

Your most significant considerations will be *time* and *space* i.e. the time you dedicate to your learning and the environment in which you engage in that learning.

It is recommended that you take time now before starting your self-study to familiarise yourself with these issues. There are a number of excellent resources on the web. A few suggested links are:

<http://www.how-to-study.com/>

The “How to study” website is dedicated to study skills resources. You will find links to study preparation (a list of nine essentials for a good study place), taking notes, strategies for reading, text books, using reference sources and test anxiety.

<http://www.ucc.vt.edu/stdysk/stdyhlp.html>

This is the website of the Virginia Tech, Division of Student Affairs. You will find links to time scheduling (including a “where does time go?” link), a study skill checklist, basic concentration techniques, control of the study environment, note taking, how to read essays for analysis, memory skills (“remembering”).

Timeframe

You are expected to spend at least 18 hours of study time on this module. In addition, there shall be arranged contact sessions with lecturers from the University during residential possibly in April, August and December. You are requested to spend your time judiciously so that you reap maximum benefit from the course.

Need Help?

In case you have difficulties during the duration of the course, please get in touch with your lecturer for routine enquiries during working days (**Monday-Friday**) from 08:00 to 17:00 hours on Cell: +260977308107; **E-mail:** h_mutale@yahoo.ca ; **website:** www.chau.ac.zm. You can also see your lecturer at the office during working hours as stated above.

You are free to utilise the services of the University Library which opens from 07:00 hours to 20:00 hours every working day.

It will be important for you to carry your student identity card for you to access the library and let alone borrow books.

FURTHER READING

Procurement, Principles & Management (11th edition) –By Peter Bailey, David Farmer, Barry Crocker, David Jesson and David Jones.; **The Procurement and Supply Manager’s Desk Reference – 2nd Edition.** By Fred Sollish, John Semanik.; **Spend Analysis: The Window into Strategic Sourcing 1st Edition** – By Kirit Pandit & H. Marmanis; **Supplier Evaluation & Performance Excellence.** By Sherry R. Gordon; **Law of Purchasing and Supply – Third Edition.** By Margaret Griffiths and Ivor Griffiths; **Essentials of Negotiation – 6th Edition.** By Roy Lewicki, Bruce Barry and David Saunders; **Getting to Yes: Negotiating Agreement Without Giving In** – By William Fisher, William L. Ury & Bruce Patton

List of Equipment

In this module you will need the following tools;

Note books

Assessment

In this course you will be assessed on the basis of your performance as follows:

Continuous Assessment	50%
Assignment	10%
Project	15%
2 Tests of equal weight	25%
Final Examination	50%
Total	100%

UNIT 1

INTRODUCTION AND HISTORY OF PURCHASING



Learning Outcomes:

By the end of this unit students should be able to;

- Define Purchasing
- Outline the history of purchasing
- Describe the Evolution of Purchasing

Purchasing is one of the basic processes common to all organizations. It is the process of acquiring goods, services, and equipment from another organization in a legal and ethical manner. Purchasing was initially a tactical contributor to the organization, focusing on transactional relationships and low price (Table 1-1). However, over time the role of the purchaser, and the purchasing department, has changed significantly and the function has become strategic to organizational competitiveness.

History of Purchasing

Table 1-1

Period	Status
Late 1890s	Purchasing rarely used as a different department except in the railroad.
Early 1900s	Purchasing considered clerical work.
World War I and II	Purchasing function increased in importance due to the importance of obtaining raw materials, services, and supplies to keep the mines and factories running.
1950s and 1960s	Continued to gain stature, processes more refined, and more trained professionals. Still considered order placing clerical in a staff-support position.
Late 1960s– early 1970s	Integrated materials systems introduced, materials became part of strategic planning, and importance of department increased.

Period	Status
1970s	Oil embargo and shortages of basic raw materials turned the focus of the business world to purchasing.
1980s	Advent of just-in-time with an emphasis on inventory control and supplier quality; quantity, timing, and dependability made purchasing a cornerstone of competitive advantage.
Early 1990s	Value proposition of purchasing continued to increase; cost-savings became the buzzword.
Late 1990s	Purchasing evolved into strategic sourcing, contracts were more long term, and supplier relationship building and supplier relationship management started.
2000s	Purchasing shifted its myopic focus on cost to much broader terms. Some of the widely used developments: spend analysis, low-cost country sourcing, procurement technology evolved (ERP, e-sourcing), procurement outsourcing evolved (P2P), total cost of ownership, data mining and benchmarking, and lean purchasing.

Globalization has forced companies to improve their internal processes, such as supply management, to remain successful. The level of competition in the marketplace expanded to include both domestic and international markets. Purchasers no longer discuss “lowest price” but share information, collaborate, and talk to their suppliers about total costs, life-cycle costs, and

cost reductions. This requires a focus on process improvements instead of short-term relationships and price reductions.

The primary goal of the purchasing organization is to purchase the right item or service, in the right quantity, at the right price, and at the right time. An abundance of competitors and seasoned customers demand higher quality, faster delivery, and products and services customized to their needs, at the lowest total cost. These demands are made at an even greater speed because of the influx of technology and social media into business-to-business applications. Information and data flow between supply chain members are increasing, making it challenging for organizations to continuously adapt to the ever-changing needs of the customer.

Getting products to customers at the right time, place, cost, and quality constitutes an entirely new type of challenge. Technology and an improved logistics network have opened up a world of opportunity to better enable competition through an expanded, globally oriented network of suppliers. The availability of low-cost labor and other alternatives in emerging countries has led to unprecedented shifts toward outsourcing and offshoring (discussed further in Chapter 5). China has become a major world competitor, introducing even more challenges for United States organizations in both the manufacturing and services sectors. The services sector now accounts for approximately 70 percent of the Gross Domestic Product (GDP), introducing more opportunity for effective supply management involvement in this sector. All these changes and challenges have helped propel supply management to the forefront of strategic decision making. The importance of appropriate management of suppliers that provide materials and services has become a key consideration for executives. There are many instances seen daily in which companies have received negative publicity due to the actions of suppliers, the location of suppliers, or the performance of suppliers. Competition is now between supply chains. The

companies that configure the best supply chains, with a highly performing supply base, will be the market winners and gain competitive advantage.

IMPORTANCE OF PURCHASING

In order for a product to go from the manufacturing stage and into the hands of a consumer, it must follow a long journey guided by purchasing and supply management professionals who make important decisions regarding cost, quality and scheduling. These decisions can affect whether or not someone will buy a company's product, and also make a big impact on the company's revenue and sales. Purchasing and supply management professionals focus on ensuring the right products are available at the right time and right place for their consumers.

Reducing Costs and Improving Savings

Purchasing has a direct impact on two of the most important factors that drive a company's bottom line: cost and sales. Through initiating process improvements, product improvements and supplier relationship development, purchasing professionals are responsible for garnering cost savings for their organizations without trading off quality. On average, the cost of materials is two and a half times the value of all labor and payroll costs. As a result, companies see great value in purchasing and supply management professionals who are able to increase their savings and improve their costs.

Negotiating Successful Contracts

Directly related to procuring cost savings, purchasing and supply management professionals are tasked with negotiating terms with suppliers that benefit both parties. This important aspect not only affects revenue and sales, but also the relationship between the organization and the

supplier. Strong negotiation skills and the ability to foresee long-term business relationships are two aspects successful purchasing and supply management professionals rely on. In addition to managing costs, fruitful contracts focus on the quality of the materials in addition to how and when they will be delivered. Time is a key factor of successful deals as the materials need to be available on schedule.

Developing Long-Lasting Supplier Relationships

Making one-off purchases is unusual and costly. Companies typically require supplies on an ongoing basis, and as a result, it's important to develop enduring relationships with suppliers. This aspect of purchasing and supply management can add tremendous value to a business. By working with the supplier on a long-term basis, purchasing and supply management professionals can garner higher cost savings, increase competitive advantage and fine-tune schedules. Long-term relationships benefit both the purchaser and supplier and builds a level of trust, enabling both parties to succeed.

Mitigating Risk

Understanding the potential risks and developing innovative strategies to manage them is an important aspect of purchasing and supply management. Having a strong risk mitigation strategy can greatly affect an organization's bottom line. Potential risks include fraud and transparency, intellectual property and counterfeit materials. In addition, purchasing and supply management professionals need to have a plan in place if supplies are delayed or the schedule changes.

EVOLUTION OF PURCHASING

Over the years, purchasing has become more strategy-oriented, rather than transactional. Purchasing professionals have evolved from the processing of traditional purchase orders and similar responsibilities to involvement in higher value and higher impact ROI projects. Technological advances enable purchasing professionals to offer so much more to an organization today. This section will navigate through a number of drastic transformations to show you how to become a more involved player by taking advantage of a shifting technological landscape.

Procurement pros have a growing number of tools in their arsenal to help make their lives easier and their projects more successful:

Spend Analysis Software – Get a better understanding of the Total Cost of Ownership (TCO) of goods and services. To get the most out of any software, the backing of the supporting department and program is essential. For example, with supplier relationship management software, a thorough strategy containing performance management and risk mitigation plans allows a software solution to serve with a full-circle advantage.

Cost Savings Tracking – identify cost savings opportunities and aid in the verification of implementation. Aside from the straight-forward benefit of tracking immediate cost savings, these tools can be used to remain competitive by ensuring that these savings are sustained over time and supplier rates remain locked at negotiated levels.

Supplier Report Cards – Ensure that expectations are being understood and met by both suppliers and internal stakeholders. These serve as an asset as new technology is presented and suppliers are scorecarded for future endeavors. As the technological landscape shifts, suppliers who don't "keep up with the times" can be eliminated.

Stronger Legal Controls – minimize the need to involve a legal department or outside counsel when engaging in contractual negotiations. As heavily-regulated industries see a new or adapted regulatory climate, these legal controls assist in preventing penalties or a stigma attached to a brand as a result of internal or third-party noncompliance.

Purchasing has been incorporated into the more inclusive Supply Chain operation – it is no longer just a function of buying what is needed at the right time, at the right price with the right quality. Supply Chain activities encompass Strategic Sourcing, Supplier Relationship Management (SRM), Logistics, Planning and Quality. All of these new factors make purchasing a strategic function and the key to being able to meet or exceed the customer’s expectations.

New options abound for management and procurement professionals alike

Organizations have reduced the number of individuals required to get work done. Thirty years ago a typical Purchasing Department could include a Purchasing Manager, Buyers, expeditors and clerks. That amount of manpower is simply not needed today. Electronic efficiencies have virtually eliminated clerical positions, and due to more efficient MRP systems, transactions are completed in less time allowing more time to source strategically, build stronger relationships with suppliers, and engage more with customers and stakeholders. Furthermore, employers today have many more options for staffing.

There are permanent, temporary, contract-to-hire, and various staffing options specific to the procurement industry. Procurement consulting is a viable option for companies wanting to obtain subject matter expertise on a particular spend category.

Likewise, supply chain professionals have access to a wider range of educational options to up their game: Logistics, Planning, Procurement, Supplier relations to name just a few. Not only are degrees available in Supply Chain but certifications from accredited institutions and groups are also available to a much greater extent.

The evolution of the Purchasing function has developed and will continue to do so. The change is necessary for organizations to continue to prosper. To stay ahead of the curve, remember to always monitor developments and consider what areas of improvement are possible – this will pave the way to not only personal gains but also further changes in the industry.



Assignment

Prepare a presentation showing the changes of Purchasing in one particular industry of your choosing showing the difference in methods of purchasing over the years and the evolution that industry has made to accommodate modern times.



Summary

The summation of this unit can be restated in this paragraph, All these changes and challenges have helped propel supply management to the forefront of strategic decision making. The

importance of appropriate management of suppliers that provide materials and services has become a key consideration for executives. There are many instances seen daily in which companies have received negative publicity due to the actions of suppliers, the location of suppliers, or the performance of suppliers. Competition is now between supply chains.⁵ The companies that configure the best supply chains, with a highly performing supply base, will be the market winners and gain competitive advantage.

UNIT 2

THE PURCHASING PROCESS



Learning Outcomes:

By the end of this unit students should be able to;

- State the steps in the purchasing process
- Identify the objectives and responsibilities of purchasing
- Establish how technology and other factors are improving the purchasing process

What is the Purchasing Process?

It's often considered interchangeable with the term procurement process, but the purchasing process itself is more confined to actually obtaining goods and services, while procurement refers to the overall framework established to optimize that purchasing for maximum value, savings, and efficiency.

A better synonym for the purchasing process is the procure-to-pay (P2P) process. The purchasing process is, at its most basic, as simple as conducting a transaction. Much in the same way a consumer might research and purchase the best appliance for their home, your procurement team uses the purchasing process to requisition goods and services through your supply chain.

The primary benefit of a formal process for purchasing is avoiding waste due to fraud, rogue spend, theft, and other financial pitfalls that accompany undocumented, non-optimized buying habits. But because procurement sits at the heart of the value creation process for your company, formalizing and optimizing your purchasing process is also important to:

- Creating an efficient and effective buying process for not just direct spend (e.g., raw materials) but indirect spend (e.g., office supplies, IT services, etc.).
- Successful supplier relationship management.
- Optimal supply chain management and strategic sourcing (for both cost savings and value)
- Streamlining the procurement cycle and all its sub-processes.
- Providing a solid audit trail for internal and external review.
- Establishing a model for business process management that can be applied across your entire organization.

Traditionally, the purchasing process is a cycle, with each step requiring the exchange of information and various approvals to move forward. Every business will have its own unique touches to add, but generally speaking, the purchasing process follows a well-established pattern of events.



Purchasing usually starts with the buyer recognizing the need for a product and preparing the specifications. Market sourcing, through the selection or tendering process, assists identification of a suitable product and supplier. Thereafter, buyer and seller negotiate the terms and conditions of sale for the goods being purchased, i.e. how and when they are to be shipped and insured, and how and when payment is to be effected. Once agreement is reached, the buyer issues a purchase order, an accepted pro-forma invoice or a contract. The buyer may place this against a framework agreement already established with preselected suppliers. Transport of the goods is arranged according to the delivery terms stated in the sales contract. Upon acceptance of delivery (or as otherwise arranged to facilitate the transaction, e.g. through advanced billing), the seller prepares a commercial invoice for payment. The buyer processes the payment according to the contract. Purchasing involves two primary parties: buyer and supplier or seller. Other entities may become part of the process as intermediaries. They are secondary stakeholders, for example, agents for purchasing, trade and credit. Purchasing agents, acting on behalf of the buyer (and sometimes the seller as well), are used especially by small and medium enterprises (SMEs) for tendering, offering, evaluation, invoicing and payment procedures, which may be combined with other responsibilities, such as packing, marking, shipment, export licensing and Customs tracking.

PURCHASING OBJECTIVES

Purchasing is not about buying goods or services for a business for the lowest price. Purchasing professionals broadly contribute to their company's success by working to make the right buy, at the right time, for the right price and from the right source. From meeting business requirements to controlling costs and maintaining relationships, effective purchasing management strategies and tactics help companies meet key business objectives.

Purchasing professionals have a number of objectives including cost control, developing and managing supplier relationship, encouraging innovation and diversification of the supply chain.

Reducing Costs

Getting the lowest price for a particular product or service may not be necessary, but purchasers strive to save money for their businesses by getting the best prices and terms overall. Capitalizing on incentives and discounts that suppliers offer is important. So too are negotiating favorable contract terms that improve cash flow by prolonging payment and reducing long-term costs by cutting waste and avoiding defective products.

Diversifying Supply

Spending too much with one supplier is risky. If that supplier should have trouble fulfilling their obligations or raise their prices significantly, the company that depends on them may have to delay delivery of goods to their customers or raise their prices, which could cost them business. So, ensuring the security of supply by expanding the supplier base is a key objective for purchasing management.

Fulfilling Business Requirements

Doing business with the right suppliers can matter as much as pricing and supplying. For example, companies may want to ensure that they support small businesses by allocating a certain percentage of their purchasing budgets accordingly. They also may want to avoid suppliers with bad reputations or business practices. Purchasing management can support the achievement of such objectives.

Sparking Innovation

Purchasing professionals can support their company's growth by obtaining innovative solutions to business problems and opportunities. They do so by working closely with vendors, sharing their company's needs and exploring how suppliers can help. Together, they can develop better

technologies and products for customers, and refine processes that allow them to deliver goods and services more efficiently.

Managing Relationships

Purchasing professionals can work with just about anyone in their companies. They may deal with representatives from marketing, finance and logistics departments to name just a few. Given the broad range of goods and services that they buy and the impact that their decisions have on their company as a whole, you can see how purchasing connects departments and aligns their efforts in pursuit of the company's general goals.

Spending Wisely

Purchasing often accounts for more than half of a company's spending. Investing purchasing dollars correctly can help a company expand market share and increase its sales by allowing it to bring quality products to market first. Purchasing management also can improve profitability by efficiently developing those products and services through collaboration with suppliers who are similarly invested in the company's success.



Discussion

In groups, Discuss and list all possible outcome of NOT achieving the above stated objectives in a company and the long term repercussions on the company's growth.

TECHNOLOGY AND PROCUREMENT

The constant improvement of technology has created an environment that allows for all industries and departments to constantly improve despite the nature of work being done on those facets of the work environment. Purchasing too has been affected by the surge of technological development.

Electronic procurement, or e-procurement, is the business to business (B2B) process of requisitioning, ordering, and purchasing goods and services over the internet. At the enterprise level, a chief procurement officer (CPO) or official procurement department will set the policies for procuring goods and services for the business, with the goal of acquiring what the business needs at the best possible price or with the greatest value at the time it's needed.

To accomplish this goal, procurement staff establishes relationships with suppliers, negotiate contracts, and set guidelines or purchasing limits on the types of purchases that are allowed and the kinds of items the money can be spent on. There are some very important benefits to e-procurement that you may not have considered.

When you factor in the reduction in procurement errors, costs, and paperwork, a switch to e-procurement might just have your employees and the environment thanking you. The advantages of promoting the use of e-procurement and improved technologies in the work environment are;

Reduced Costs

E-procurement saves you money by preventing duplicate spending, leveraging volume buying, and saving you costs associated with paper-based systems (for example, the cost of stamps to mail your paperwork).

Transparent Spending

Electronically conducting your procurement makes it easier to write and analyze reports on your procurement systems, meaning you can ensure that your procurement procedures conform to your policies.

Increased Productivity

Once you've learned the system, e-procurement is less time-consuming than traditional procurement. Having your records stored electronically makes it easier to submit reusable tenders. Meanwhile, use of templates means paperwork can be filled out more quickly.

Eliminating Paperwork

Tired of finding new space to store all that paperwork? With e-procurement, everything can be saved and stored electronically. This not only saves you from needing more room, it also makes the process of finding older tenders more simple.

Increased Transaction Speed

E-procurement is both time-saving and efficient. As the electronic handling of tasks supports and simplifies the purchasing process, transaction speed is increased. Also, because of e-enabled relationships with suppliers, procurement cycle times speed up. The e-procurement process eliminates unnecessary activities, allowing you to focus on more valuable tasks.

Standardized Buying

When you have various departments making procurement decisions, there can be differences in what and how they purchase. Conducting purchasing electronically makes it easier for every department to conform to company procurement standards.

Reduced Errors

Electronic paperwork is streamlined and thus easier to check for errors—there's no messy printing to get in the way either. Along with this, past orders are more easily referenced, meaning there's a greater chance that your company can compare orders to ensure new ones are correct.

UNIT 3

PUBLIC PROCUREMENT POLICY



Learning Outcomes:

By the end of this unit students should be able to;

- Understand the basics of the constitution's take on public procurement
- State steps take in the procedure that is undertaken during purchasing

Overview

Public procurement plays a very critical role in the development programmes of any country and is accountable for 10 – 15% of GDP. Therefore, a country's procurement system needs to be effective and efficient in order to obtain value for money. A well-functioning procurement system is based on transparency, accountability, and fairness. Proper procurement of public goods, works, and services is crucial for good economic management and addressing leakages of government funds. Failure to properly manage the procurement process can lead to wasted effort and poor development results consequently to increased poverty and deprivation of social and economic rights of the citizenry.

The observation within civil society is that there are high levels of corruption in the procurement processes in Zambia. Zambia loses millions of Kwacha due to corruption and corrupt tendencies

every year. For Example, according to the Auditor General's Report of 2010, the government in 2010 lost K649,210,800 due to non-delivery of materials.

This state of affairs has been attributed to the lack of transparency and accountability in the procurement system, lack of enforcement of transparency and accountability provisions in the legal and regulatory frameworks and lack of capacity by civil society organisations (CSO) and citizens to effectively participate in the procurement process.

CSO and citizens can only participate effectively in the procurement process if they had access to adequate information about the procurement process. Release of adequate information also promotes accountability and transparency in the procurement system. However, studies undertaken in the health, education and construction sectors revealed weaknesses in the legal and regulatory frameworks with regard to release of information and accessibility to such information. The studies also revealed the lack of capacity of CSO and citizens to actively and effectively participate in public procurement. The studies further revealed poor procurement practices.

PUBLIC PROCUREMENT

Public procurement is ' the purchase of commodities and contracting of construction works and services if such acquisition is effected with resources from state budgets, local authority budgets, state foundation funds, domestic loans or foreign loans guaranteed by the state, foreign aid as well as revenue received from the economic activity of state. Public procurement thus means procurement by a procuring entity using public funds (World Bank, 1995). The items procured range from simple goods or services such as needle or cleaning services to large commercial projects, such as the development of infrastructure, including road, power stations and airports (Odiambo et al, 2003).

Procurement has two fundamental elements to the delivery of specific services to the communities; • it makes more transparent the actual levels of performance achieved by different ministries and spending agencies of the government, making it possible for them to be held

accountable for their actions and creating a positive incentive for government agencies to improve their performance for the betterment of the people they are serving, the community; and

- it also makes it easier to estimate the volume of public money that flows through the procurement process.

Public procurement is estimated to account for between 10 and 15% of GDP and is therefore one of the top three types of spending (besides salaries and debt payments), if not the most important. In Zambia, this is estimated at 10% of GDP. Therefore, a well-functioning procurement system based on transparency, competition, economy and efficiency and accountability is critical for good economic management and addressing leakages of government funds, improving the effectiveness of public expenditure in poverty reduction and enhancing the public's confidence in government intentions and programmes.

Failure to properly manage the procurement process and systems can lead to wasted effort and poor development results consequently increased poverty and deprivation of social and economic rights of the citizenry.

A major impediment in achieving effective and efficient public procurement systems in countries like Zambia has been the fragmentation, ambiguities and limited scope of laws, implementing regulations, and procedures. This has given rise to inconsistency, confusion and lack of accountability in the procurement process. In countries where modern procurement laws have been promulgated, such as Zambia, poor implementation and enforcement of the provisions of the legal and regulatory framework has led to inefficient procurement practices and providing opportunities for corrupt practices. This has also limited the ability for political leaders to meet their promises of economic and social improvements which is strongly related to how well procurement functions.

The Zambian Public Procurement System

Legal and Regulatory Framework Public procurement in Zambia is governed by the Public Procurement Act No. 12 of 2008 and the Public Procurement Regulations of 2011. Prior to this,

public procurement was governed by the Zambia National Tender Board Act, Act No. 30 of 1982.

The objectives of the Public Procurement Act of 2008 are to:

- (i) ensure transparency and accountability in public procurement;
- (ii) regulate and control practices in public procurement in order to promote;
 - integrity;
 - fairness; and
 - public confidence.

The Act also provides for the total decentralisation of procurement whereby procuring entities will be responsible for all their procurements without referring to any other body. The Act, which is based on the UNCITRAL Model Law on Procurement, has adopted clauses for international best practice.

Institutional Framework; The Act has provided for an institutional framework for the effective and efficient implementation of the Act, with provisions for separation of functions, enhancing transparency and accountability, appeals mechanism and an oversight function.

The Act has established the Zambia Public Procurement Authority (ZPPA) as an oversight and regulatory body, responsible for policy, regulation, standard setting, compliance and performance monitoring, professional development and information management and dissemination.

Under the Act, a procuring entity is responsible for the management of all procurement activities within its jurisdiction while the controlling officer or chief executive officer is responsible and accountable for ensuring that all the procurements of the procuring entity are undertaken in accordance with the Act.

The Act requires a procuring entity to appoint a procurement committee which is the highest approvals authority in the procuring entity and responsible for ensuring that all procurement is undertaken in accordance with the provisions of the Act. The procurement committee is required to have not more than two members from the private sector.

The Act further requires the establishment of procurement units within the procuring entity to be responsible for managing all procurement activities.

Procurement system weaknesses and challenges The Zambian procurement system despite having a relatively modern legal and regulatory framework faces a number of challenges resulting from non-enforcement or weak enforcement of the provisions of the Act, including sanctions for breach, resistance to change, limited capacity and simply incompetence in some cases. The Act for example, requires procuring entities to publish annual procurement plans and contract awards but these requirements are not being adhered to by most, if not all procuring entities. The publications are meant to enhance transparency and accountability and therefore the non-adherence to the provisions is not only a breach of the law but also inhibits transparency and accountability. The Auditor General has, year in year out, been reporting cases of procuring entities not complying with procurement procedures in the procurement of goods, works and services with no sign of this practice coming to an end.

The general challenges which are still being faced include, but are not limited to, the following;

1) Non-preparation of Annual Procurement Plans: Although the law requires procuring entities to prepare annual procurement plans as part of the budget preparation process, many have not developed these plans leading to haphazard implementation of programmes. Associated with this has been the underfunding of the work plans which dampens the interests of the staff and disorganises activity plans

2) Lack of Capacity by the private sector to participate in public procurement: Private sector participation in the supply of goods, works and services to the public sector are minimal. Local traders, suppliers, consultants, contractors, architects and engineers have not built enough capacity to participate in procurement opportunities particularly when the values are big. Local suppliers and contractors often do not have capacity to raise credit and bid securities from local banks and insurance companies due to the high interest rates and other conditions such as collateral. As a result a large proportion of contracts are awarded to foreign companies.

3) Suppliers who would like to participate in public procurement find the procurement procedures cumbersome: Local suppliers are sometimes excluded when the procurement is too big and they find the procedures unfamiliar and cumbersome.

4) Poor Procurement practices: An assessment of procurement practices in the Zambian procurement system undertaken in 2007 (OECD-DAC, 2007), revealed that: • the percentage of invitations for open tenders publicly advertised was at 36.67% which was low. This was due to the fact or some tenders the special formal tendering (selective) method was used.

- there were no contracts with completion reports.

- the percentage of open tenders opened publicly and recorded was at 67% when it should have been 100%. • 77% of tenders were rejected during the tendering process. This was a high figure. This could be an indicator of lack of capacity of the private sector to submit responsive bids or a faulty tender evaluation process.

- It was noted that the average number of days between tender closing and contract signing was 113 days.

5) Enforcement: There is particular concern about the lack of enforcement of the provisions of the procurement legal and regulatory framework by the ZPPA. The result of which is the poor compliance by MPSAs leading to misprocurements, increasing opportunities for corrupt practices, etc. 6) Oversight: The Office of the Auditor General exercises oversight over public procurement and has been doing a commendable job in exposing weaknesses, poor practices, corruption cases etc. in the public procurement system resulting in losses to Government and poor service delivery.

Over the years these revelations by the OAG have been submitted before Parliament but there does not seem to be any improvement in the performance of MPSAs in this regard. Every year the Auditor General's Report contains recommendations by the Public Accounts Committee which remain outstanding. There is therefore, particular concern with how Parliament keeps an eye on the activities of the Executive. It is precisely in the oversight function that many commentators detect the greatest weakness of the Zambian Parliament. Various studies have

noted serious lack of ministerial accountability to Parliament. Parliament is not able to hold individual ministers accountable for their performance because they are supposed to be collectively accountable, and moreover doing so is perceived as infringing upon the presidential prerogative since the President appoints the ministers and they are accountable to him for their performance, and only he has the power to sanction them.

The principle underpinning the disclosure of information to the public is that transparency and accountability are enhanced. Governments need to be accountable in the management of public resources as the citizens have a right to know that their money was being used properly.

Transparency through the release of information is an effective way of improving value for money by reducing opportunities for corrupt practices. Transparency enhances investor confidence. The lack of an Information Act, however, has been identified as one of the weaknesses in information disclosure. The other major hindrances to information disclosure are the provisions and/or lack of them, in the Public Procurement Act of 2008 and the non-enforcement of laws.

Summary

There has been a convergence of concern with regard to the procurement system and process in Zambia. This has been exacerbated by not only lack of information but also the inadequate capacity of the CSO and communities resulting into little participation in procurement deliberations by the communities and the private sector in contributing effectively to the process. In many cases there is no institutionalized participation to provide for opportunities for improved assessment of needs and service responsiveness to the communities. This has caused the inadequate procurement space in which users could develop their own identities and voice as the authorities decide what is best for the communities instead of the communities deciding for themselves.

Procurement and contract management will result into improved transparency and accountability in the procurement process, enhanced citizens' confidence in government intentions, less opportunity for corrupt practices. The benefits that will accrue to the various stakeholders will

ultimately result into an active participation by the citizens in procurement decisions that affect them and an improved standard of living for the citizens.

Regardless of your industry and products or services, you're buying things to keep your business up and running. When you're not planning your purchases as well as you could be, you not only increase the chance that you're not getting value for money, but you're also risking poor quality goods and subpar customer service from your suppliers. Neglecting to give purchasing the proper attention could lead to the cost of business becoming much higher than it needs to be, making things harder to manage. The more your operating expenses rise, you'll have to choose between raising prices (and potentially upsetting your customers, or worse, losing some of them) or cutting your profit margins.

To make the most of your budget, you must buy quality goods and services in the right quantity at the lowest price possible, and at the right time, from the best vendor out there. When the organization is new and still small, chances are the owner is the one deciding what to buy, when to buy it, who to buy it from, and when to make the purchase. It's fairly easy to manage in the beginning, hence why many businesses fail to create formal procurement policies.

As your business grows, the purchasing process easily grows more complex. There's more to do, and the owner moves onto other tasks. When it gets delegated to someone else or a team of people, there's less risk for duplicate orders and wasted money.

You do not need to have a full-time purchasing manager in house to handle everything if your business isn't big enough to warrant it. Choose a staff member who can clearly communicate with all your suppliers and is willing to do the work in addition to their other duties. It's important to remember, however, that purchasing is much more than placing orders. It involves gathering orders and checking them for completeness and accuracy, while ensuring everything stays within the preset spending limits, choosing the appropriate vendors, checking the goods and materials upon receive, reconciling the invoice, and sending it to the accounting department, or the person in charge of accounting.

Getting your purchasing policy established before delegating the tasks to someone else is necessary to ensure optimal spend management and cost control.

Sample Procurement Policies & Procedures

According to the Small Business Administration, your purchasing policy needs to answer the following:

Who has purchasing authority? What items can that person (or people) purchase? Who has the authority to award contracts? If you have multiple departments, consider putting one person in charge of spending for that department, to streamline the process.

What, if any, spending limitations are there? Are the limits different for each department?

What are the requirements for adequate supplier competition? What evaluation criteria should be used to choose potential suppliers?

What types of contracts can the business enter with vendors and successful bids?

What is the company position on conflict of interest? What's the position on personal loans from suppliers? Conflicts of interest arise when in the course of performing job duties, a person can be influenced to make a decision that benefits them personally.

What is the company position on accepting gifts?

What types of information is considered confidential?

What is the procedure for addressing legal questions?

Other questions to consider answering in your procurement policy include:

Under what circumstances, if any, is competitive bidding required?

Under what circumstances, if any, can the competitive bidding requirement be waived?

At which spending limit is prior approval required?

How, where, and for how long should procurement records be kept?

When a contract has been established with a supplier, under what, if any, circumstances can purchases be made from a competitor?

What categories of diverse categories does the business recognize?

How does a supplier's diversity status factor into the decision to use that supplier?

What processes are used to make different types of purchases?

The Ordering System

The process your purchase manager or anyone on the purchasing team uses to request goods and services, order, then receive and pay for the orders, is the bulk of your ordering system. The right ordering system will ensure you maintain good relationships with your suppliers, keep a steady cash flow, assist with inventory control, and increase overall profitability.

Purchase Orders

When purchase managers receive requisitions from someone else in the company, the manager will need to choose a supplier and check the price of the items order. After the price has been agreed on, the manager will send a purchase order to the supplier. This is the formal request for the supplier to send the materials or goods according to the terms and pricing agreed upon in any established contract.

Both requisitions and purchase orders are helpful in tracking ordering and spending. You can use the requisition to make sure the correct items are ordered and refer to the order to make sure you received all the correct items in the right quantity before paying any invoices associated with the orders. Keeping record of the orders also supports any legal claims that may arise between you and your suppliers.

UNIT 4

PURCHASING AND SUPPLY CHAIN ORGANISATION



Learning Outcomes:

By the end of this unit students should be able to;

- Understand how different entities perform purchasing duties.
- Identify how different companies have different forms of purchasing organisation

A company's purchasing function is critical to the long-term success of a business. Shrewd negotiations with vendors let purchasing departments economically source quality items that are integral to the manufacturing process and essential to providing customers with desirable

finished products. Contrarily, a purchasing arm's operational inefficiencies can lead to high material costs, product inconsistencies, and customer dissatisfaction. Types of procurement structures range from a single person with responsibility for purchasing, to a large, centralized department or decentralized organization with procurement professionals working in separate locations or business units. Getting the right structure is essential, because procurement typically accounts for half of an organization's expenditure. It also plays an important part in a company's competitive strategy.

Small Business

Unlike large corporations, small businesses tend to have small purchasing desks run by a single individual, who cultivates personal relationships with vendors and can quickly act when issues arise. On the downside, as businesses grow, single purchasing professionals can easily become overwhelmed with the responsibilities of maintaining relationships and tracking deliveries. Therefore, small businesses should grow their purchasing desks in lockstep with their overall growth.

In a startup or small business, one person — such as the finance director — may take responsibility for procurement. Alternatively, individual members of the management team, such as the production manager, office manager or marketing manager, may purchase products or services to meet their own departmental requirements. In this scenario, the company would not have a consistent purchasing procedure and would lack any purchasing power to negotiate better deals from a fragmented group of suppliers.

Central Purchasing Department

As it grows, the company may appoint a procurement manager with professional qualifications to allow for a formal procurement organization structure. The company may also recruit one or more purchasing assistants if the scale of procurement grows. The manager or team takes responsibility for purchasing supplies for all departments, discussing their requirements, identifying suppliers and processing orders.

By coordinating procurement, the company can place larger orders with preferred suppliers. It may be able to negotiate lower rates and impose consistent quality standards on suppliers.

Centralized Purchasing

Larger companies often create centralized purchasing structures, where a purchasing executive leads a team of individuals, housed in a central location. With this hub approach, a company with seven plants across the US would buy materials for all plants. This gives purchasers the advantage of buying in bulk, for lower overall costs. Centralized purchasing also gives professionals tighter control over the purchasing process.

Companies with a number of locations, operating divisions or business units have a choice of operating centralized or decentralized procurement organization models. In the centralized model, a single procurement department takes responsibility for purchasing on behalf of the company. The department, which may consist of a purchasing director, managers and assistants, imposes standard policies and procedures across the organization with the aim of reducing costs, increasing purchasing efficiency and achieving consistent quality.

To improve the service to different locations, the department may appoint specialists responsible for purchasing specific categories of supply.

Decentralized Purchasing

Organizations with multiple locations may adopt a decentralized purchasing model, that lets each facility or a group of facilities carry out their own purchasing activities. This model can benefit organizations with multiple profit centers and various business lines. This system is also advised for companies that acquire businesses divergent from their core operations. Decentralized purchasing helps companies deal with local vendors, who can make sudden deliveries at a moment's notice, in order to keep the manufacturing process flowing smoothly.

Contrarily, centralized purchasing desks often transact with national vendors who may not be able to nimbly fulfill sudden purchase orders.

In the decentralized model, the company delegates purchasing authority to locations and divisions. Procurement managers and assistants purchase supplies for local needs, although they may receive support from a small central unit. While a decentralized structure enables autonomy and reduces bottlenecks, it may lead to purchasing inefficiency, inconsistent standards and increased overall procurement costs.

Some companies have adopted a hybridized centralized/decentralized purchasing approach. In these cases, certain facilities have the purchasing responsibility for some critical production items, while the central purchasing organization is tasked with purchasing non-critical or shared services items.

Strategic Sourcing Model

Companies that need essential supplies such as critical engineering components, or want to harmonize quality across a range of suppliers, have moved from traditional procurement practices to long-term relationships with strategic supply partners. Members of the procurement team responsible for strategic sourcing focus on critical supplies, leaving the purchase of commodity supplies to other team members.

The strategic sourcing team places long-term supply contracts and collaborates with supply partners to drive down costs, harmonize quality and production levels, and undertake joint product development projects

CENTRALIZED VS. DECENTRALIZED PURCHASING

What is Centralized Procurement?

Centralized procurement means that a single department controls and manages the purchasing for the whole organisation. Ideally a manager oversees the purchasing department regarding what materials need to be purchased and in what quantity. The single purchasing department is generally located in the headquarters.

What is Decentralized Procurement?

With this method, rather than leaving the purchasing control with a single department, it is granted to local branches or departments. They have the authority to purchase items necessary as per their requirements.

Centralized Purchasing – Pros

1. Purchasing in bulk quantities reduces cost to the organization.
2. Good relations developed with the supplier can lead to better discounts and bargain in the future.
3. Since shipments are consolidated, the transport cost is also reduced.
4. Inventory investment can be minimized through centralization of purchase.
5. Inventory management gets drastically reduced.
6. Duplication of work can be avoided through centralized purchasing.
7. Policies formulated for purchasing can be maintained uniformly through centralized purchasing.
8. Centralized records can be maintained.
9. Since a single department is involved, the quality of the materials can also be maintained.
10. A centralized store can be maintained under centralized purchasing.

Centralized Purchasing – Cons

High initial cost can be a deterrent.

2. People in charge of purchasing may not be efficient and this can lead to poor quality of materials purchased and even incorrect quantity being purchased.
3. If branches are spread out geographically, then centralized purchasing may not be suitable.
4. In case of an emergency, work can be delayed drastically since materials cannot be purchased locally.
5. Delay in replacement of defective materials.
6. If the wrong amount of material is purchased, it will be a loss to the organization.

In the end, it depends completely on the company to decide which approach is better for them. While a centralized purchasing will save money for the company, decentralized purchasing will

give authority to individual departments to purchase what they require. The way the business is run will decide which method of purchasing will benefit them the most.

Critical Elements of Procurement Management

Using procurement management processes, business professionals purchase the resources they need from suppliers or vendors to conduct business. Effective procurement management policies and procedures enable purchasing professionals to negotiate prices from suppliers and vendors to get the best quality materials and services for business operations. Because large companies purchase resources in large volumes, they typically utilize formal procurement management processes. Smaller enterprises use more informal techniques to get the goods necessary for their businesses.

Benefits

Transforming the contract management role from an administrative function to a strategic process involves proving that a business depends on effective procurement process management. Developing critical procurement management expertise allows business professionals to increase their knowledge of production and inventory management, improve efficiency by streamlining processes across the supply chain using accurate forecasting techniques, maximize customer satisfaction by delivering products and services in a timely manner and enhancing credibility among peers, employers and suppliers.

Developing Contract Management Processes

Effective procurement management starts with acknowledging that managing the processes used to sign contracts benefits the company. Once an organization establishes standard documentation of policies and procedures associated with contract management, personnel can be held accountable for adhering and complying with these standards. At the beginning, only high-visibility contracts meeting budget thresholds fall under these guidelines, but as the organization's procurement function matures, procurement professionals apply these standards to other deals.

Automating Contract Management Processes

As procurement management professionals institutionalize standard policies throughout their company, they establish documentation and procedures that must be completed to complete a transaction. Using software tools, automating these functions depending on contracting type, terms and conditions, dollar amount or other requirements streamlines the process.

Integrating Procurement Processes

As contract management processes mature, organizations integrate critical procurement functions with other core operational processes, such as financial management, performance management and engineering design. Providing training to all employees ensures that each department follows established best practices. Since 1973, the Association for Operations Management has provided critical education to more than 90,000 manufacturing professionals on topics including procurement management. Additionally, by using production metrics from each department, procurement professionals can analyze data to negotiate more effectively with suppliers and make decisions about quality and service that impact the entire company's long-term profitability.

Evaluating Efficiency

Evaluating efficiency includes continuous process improvement efforts made by procurement professionals. These projects, designed to improve the contract management process, reflect the experiences and lessons learned by previous projects. By ensuring that the organization follows the most efficient work flow with the fewest approval signatures needed, a company achieves the highest level of procurement capability.



Summary

Some experts relate that the purchasing function is responsible for determining the organization's requirements, selecting an optimal source of supply, ensuring a fair and reasonable price (for

both the purchasing organization and the supplier), and establishing and maintaining mutually beneficial relationships with the most desirable suppliers. In other words, purchasing departments determine what to buy, where to buy it, how much to pay, and ensure its availability by managing the contract and maintaining strong relationships with suppliers.

UNIT 5

SOURCING



Learning Outcomes:

By the end of this unit students should be able to;

- Define Sourcing in this context
- Differentiate between sourcing and procurement.

DEFINITION

Sourcing is the process of evaluating and hiring individual businesses to supply goods and services to your business. Sourcing refers to the identification of suppliers for a particular service, evaluation of the supplier and finally contracting with the supplier to deliver the required products/ services. Simply put Sourcing is the generation of a contract. The sourcing process includes every activity that revolves around identifying and assessing potential suppliers as well as selecting and engaging with an appropriate supplier who offers the best value. At the end of the sourcing process, usually a contract is signed or an agreement is reached between the buyer and the supplier on what is to be procured and the terms of contract. Sourcing professionals evaluate the supply market, develop and execute strategy, negotiate terms of contract and finally develop the contractual agreement with the suppliers. Sourcing, also known as procurement, is the practice of locating and selecting businesses or individuals based on set criteria. Sourcing is carried out in business in many different areas and for different reasons. One of the most common uses of sourcing is in supply chain management. Businesses that can find the most appropriate suppliers at the lowest cost can develop a competitive advantage. The sourcing process includes every activity that revolves around identifying and assessing potential suppliers as well as selecting and engaging with an appropriate supplier who offers the best value. At the end of the sourcing process, usually a contract is signed or an agreement is reached between the buyer and the supplier on what is to be procured and the terms of contract. Sourcing professionals evaluate the supply market, develop and execute strategy, negotiate terms of contract and finally develop the contractual agreement with the suppliers.

Sourcing is also a sub-set of recruitment, which is proactively searching for the most talented candidates for a particular role.

Differences between sourcing and procurement

Sourcing, also known as procurement, is the practice of locating and selecting businesses or individuals based on set criteria. Sourcing is carried out in business in many different areas and for different reasons. One of the most common uses of sourcing is in supply chain management. Businesses that can find the most appropriate suppliers at the lowest cost can develop a competitive advantage.

Both involve the materials you need to operate your business. Sourcing happens to make procurement easier. The main difference is sourcing focuses on direct goods and services, while procurement focuses on indirect goods and services. This, of course, isn't a hard and fast rule. Many factors come into play, such as the size of the organization, industry, and business structure.

Sourcing and procurement typically work together, but that doesn't have to be the case with all purchasing needs. You don't always need a sourcing team to find and vet suppliers. The procurement department can address ordering and managing indirect goods or services.

At the same time, you don't always need a procurement team to be involved in direct goods ordering. In certain situations, the sourcing team can place bids in an auction-style purchasing environment that allows purchases to be made without procurement. It's also possible sourcing can make purchases with suppliers where a long-term contract is in place. In larger organizations, these contracts are often established by a legal team or contract management team, bypassing the need for procurement.

Both departments maintain high levels of contact with suppliers and both maintain actionable data that can further improve processes. The sourcing department focuses their effort on ways to speed up the process of looking through purchase activity and transaction history. They will analyze supplier list and performance and pay more attention to the risk potential of each supplier. Sourcing is more concerned with how to get the product that meets all the business needs – time, quality, location, and quantity – at the best price.

Though there is a clear difference between the functions of procurement and sourcing in that sourcing happens before procurement begins, often times, smaller organizations combine the two. Viewing them as two separate “departments” with their own goals, key performance

indicators (KPIs), and challenges helps ensure a smoother experience for your entire organization.

Sourcing is the entire set of business processes required to purchase goods and services. If you are in supply chain field, you should know that it's a major decision whether you outsource your production/function or perform in-house.

TYPES OF SOURCING

As the term implies, sourcing is concerned with finding the best supplier for goods and services. Sourcing is the subset of procurement that comes before any purchases are made. A successful sourcing strategy requires a thorough understanding of a company's business strategy, the resources required to deliver that strategy, the market forces and the unique risks within the company associated with implementing specific approaches. A periodic review of the sourcing strategy ensures achievement of desired results and continued alignment with business objectives. Some of the sourcing strategies that are used in supply chain management today include: A further subset can be made to show the different types of sourcing. Crowd sourcing, outsourcing, global sourcing, and low cost country sourcing are a few of the many types of sourcing strategies.

Single Sourcing - A method whereby a purchased part is supplied by only one supplier. A JIT manufacturer will frequently have only one supplier for a purchased part so that close relationships can be established with a smaller number of suppliers. These close relationships (and mutual interdependence) foster high quality, reliability, short lead times, and cooperative action.

Outsourcing results in the supply chain functions being performed by a third party. Outsourcing is a common technique where businesses contract out a business function, typically something non-critical such as payroll, to a third-party supplier. As part of the outsourcing process, businesses will draw up a list of potential third parties and choose the most appropriate for their needs. The process of having suppliers provide goods and services that were previously provided internally. Outsourcing involves substitution—the replacement of internal capacity and

production by that of the supplier. While traditional sourcing with a partner company you should be first learn about the strengths and weaknesses of other nations. Initially, people only think of China for their outsourcing of manufacturing services. As China's economy shifts into a service based economy, their potential for other, non-manufacturing services is increasing.

China, being a developing country, has an ever maturing services sector with increasingly adequate professional services for various tasks. China's manufacturing capabilities offer a good compromise between professionalism and price. However, China lags behind other Southeast



Asian countries in services.

Thanks to advances in information technology and logistics, many of the normal business processes that need to be conducted no longer have to be centralized within your company. Other companies will allow you to make use of the expertise and skills required for certain jobs by being specialized in certain back office or front office functions.

Therefore, you can spend more time focusing on the core revenue generating roles, while knowing the outsourced tasks will still be completed by handing over responsibility to other companies (abroad).

With issues regarding the set-up, quality concerns, lead times and miscommunications being discouraging to potential purchasers, these can all be addressed by using the help of a 3rd party sourcing services provider.

Accessing premium suppliers through using procurement and sourcing companies can minimize risks not only for the initial identification process, but also by other procurement services such as, for instance, 3rd party quality testing and factory inspections.

Strategic sourcing is a sourcing method that involves applying different strategies while sourcing products or services. Strategies are selected based on real-time circumstances of each acquisition and influenced by factors such as the value of spend, risk in the category and the supply market character. Strategic sourcing is an approach to supply chain management that formalizes the way information is gathered and used so an organization can use its consolidated purchasing power to find the best possible values in the marketplace and align its purchasing strategy to business goals.

Strategic sourcing is growing in popularity, as digital transformation is causing procurement and supply chain processes to evolve. It requires analysis of what an organization buys, from whom, at what price and at what volume. Strategic sourcing differs from conventional purchasing because it places emphasis beyond initial purchase price to focus on total cost of ownership and optimizing the sourcing process through ongoing market analysis and building relationships with suppliers. Businesses can use strategic sourcing to make their procurement processes less shortsighted and focused on price. A sourcing plan can instead allow them to develop an adaptable system that contributes to the overall value of the business long term. The process begins with analyzing business needs and historical spending, followed by outlining a strategic plan, and then conducting data collection and market analysis that guides selection of a roster of suppliers.

Once selection and negotiations have taken place, strategic sourcing also involves measuring performance and improving the process on a continual basis. Strategic sourcing is generally practiced by large organizations with many suppliers. The strategic sourcing process has many variations, but is most commonly broken into seven steps popularized by consulting firm A.T. Kearney.



Discussion

Assignment: With the help of illustrations List and discuss all the steps involved in A.T Kearney in strategic sourcing

Internal sourcing- A decision to produce goods within the organization when it is the best possible option for saving money and producing the necessary goods to continue operations. The goods or services are developed internally

External sourcing - Definition Popular Terms A decision to buy goods from third party organizations when it is the best possible option and the lowest cost for securing items necessary for operations. Some of the factors influencing the decision to look outside the organization include capability of the company, the necessary skills, scheduling, and financing requirements.

Home sourcing - A practice wherein firms outsource to people's homes instead of hiring regular personnel. This enables the firm to cut costs as home-sourced workers are hired as independent contractors and not as regular employees.

Multiple sourcing - The purchase of individual items used to create a product from different, multiple providers in order to keep production on track in the event of a failure to produce at one particular source. This reduces production risk in the event that the supply chain has a problem. Procurement of a good or service from more than one independent supplier. Companies may use it sometimes to induce healthy competition between the suppliers in order to achieve higher quality and lower price.

Competitive bidding

Competitive bidding is a common procurement practice that involves inviting multiple vendors or service providers to submit offers for any particular material or service. Competitive bidding allows transparency, equality of opportunity and the ability to demonstrate that the outcomes represent the best value. Hence, high value acquisitions usually undergo the competitive bidding process.



Summary

It is hard to run a business in the globalized world without hearing of the advantages of sourcing to China. Without a doubt, China (as well many other Asian countries) can help giving your company a competitive advantage in today's dynamic business environment by taking their individual capabilities into consideration. However, the first step to achieving this objective is to thoroughly understand the process and sourcing methods that are connected to this broad subject.

The underlying process of sourcing and all the different sourcing methods is called procurement. Sourcing is the stage of evaluating new relations with suppliers in the act of buying goods or services from an external source. Other equally important steps in the procurement process include communications, negotiations, logistics and other administrative tasks.

Sourcing does not strictly mean only looking to purchase cheap products but the emphasis is on acquiring newly formed business partnerships. While many companies only look to benefit from cheaper manufacturing, others look for specialized skills or the creation of leaner operations. Furthering efficiency and ultimately achieving business objectives are common goals of sourcing.

The term sourcing is usually used as a synonym for outsourcing in everyday language.

UNIT 6

ETHICS IN SOURCING



Learning Outcomes:

By the end of this unit students should be able to;

- State the Importance of ethics in purchasing
- Identify unethical practices in purchasing

Ethics play a major role in procurement and are considered more important as technology and consumer behavior change. Being ethical means being in accordance with the rules or standards for right conduct or practice, especially Ethics in Procurement: What are you doing to keep procurement ethical? the standards of a profession. For instance: procurement is involved in supplier selection, evaluation, negotiation, contracts sign off and awarding business to suppliers. When interacting with suppliers, procurement should treat them in fair and unbiased manner.

Procurement professionals must conduct their business practices in the most ethical manner. Failing to abide to ethical practices can lead to immoral and illegal practices such as bribery, favoritism, illegal sourcing etc. The immediate reaction to the idea of unsatisfactory procurement ethics is that it will be damaging for public relations, if those ethics become public knowledge.

Leaders have to make sure that actions are taken to follow proper ethics as this can only contribute to the success of any business.

Ethical sourcing is the process of ensuring the products being sourced are obtained in a responsible and sustainable way, that the workers involved in making them are safe and treated fairly and that environmental and social impacts are taken into consideration during the sourcing process. According to the Chartered Institute of Purchasing & Supply (CIPS), ethical sourcing also means the procurement process respects international standards against criminal conduct and human rights abuses and responds to these issues immediately if identified.

When it comes to behavior of businesses, Polski said companies often commit to ethical and sustainable practices for one of three reasons: 1) to mitigate risk 2) to reduce operating costs or 3) to elevate their brand image to grow sales.

A recent study by GT Nexus, a cloud supply chain platform provider, showed there is a demand for ethically and sustainably sourced products. The survey of more than 1,100 U.S. consumers found 52% said they would pay more for food and beverage products that were sourced under ethical and sustainable means. When it came to clothing and footwear, 45% of consumers would pay more for such products and 44% of consumers would pay more for ethically sourced over-the-counter pharmaceuticals.

The survey also found just how much consumers said they were willing to pay for ethically and sustainably sourced products. Thirty percent said they would pay up to 5% more and 28% said they would pay up to 20% more for such products. A quarter of consumers also said they actively sought sourcing origin information when they made their most recent purchase.

Such findings would make companies believe ethical sourcing practices are not only good for the welfare of workers and the environment but also a smart business tactic. However, other research on this topic showed that while consumers say they care about this issue, they do not actually follow through when it comes to shopping habits.

Take, for instance, the findings from a study conducted by Nielsen that tried to separate “passive eco-friendly” consumers from passionate ones. Respondents were largely in support of

purchasing goods that were sourced ethically, with 40% of North American study participants saying they were interested in buying from socially responsible brands. Yet when asked if they check the labels on products to ensure the company was actually committed to making a positive social and environmental impact, just 32% of North American participants said they took such action when purchasing a product.

Another study by Hershey and Kansas State University showed evidence that some millennials in particular may be among these “passive eco-friendly” consumers. The study, “Millennials and Chocolate Product Ethics: Saying One Thing and Doing Another,” stated that while millennials (identified as “MGs” in the report) said they cared about factors such as organic and certified ethically sourced ingredients in their chocolate, when it came time to buying the product, few took such factors into consideration.

“[E]ven those MGs expressing a desire for factors like organic or certified ethical sourcing often confessed that they were unwilling to pay the substantially higher price necessary to obtain these product characteristics,” the report said. “The choice study revealed that for most MGs in our sample, the preferences for the social factors were small and thus unlikely to outweigh dominating factors like price, brand and ingredients.”

A recent Quartz article also pointed to a 2005 study that showed consumers actually avoid learning about how or where a product was sourced so they do not have to address possible negative emotions. Another more recent study by the Journal of Consumer Psychology showed that more than 85% of the 147 students surveyed chose not to learn about the ethical sourcing efforts behind different brands of jeans.

Despite studies like those above creating some level of doubt about purchasing habits, it seems many companies are taking consumers at their word. Brands continue to promote ethical sourcing and sustainability efforts. See the recent announcement from Denny’s on its move to cage-free eggs as an example:

“We believe our guests care about how their food is sourced and so do we,” Denny’s President and Chief Executive Officer John Miller said in a statement. “For more than 60 years, we have listened to our guests to understand what they care about the most, without sacrificing on quality, taste or value. The humane treatment of animals remains an important part of our brand’s sourcing strategy, and our commitment to this transition underscores our confidence in the ethical evolution of supplier capabilities.”

There is opportunity for ethical sourcing and sustainability efforts, such as the one demonstrated by Denny’s above, to prove profitable for companies and to spark positive change. Polski of Cargill is also leading a joint business relationship between Cargill and PricewaterhouseCoopers to help companies improve supply chains, which involves addressing social and environmental issues.

Overall, Polski said, the conversation over ethical and sustainable products is good to have, as it may make consumers think about changing their behavior and paying more attention to what they are buying.

“Businesses today are looking at sustainability differently than they were even a few years ago,” Polski said. “It’s an exciting time to be working on supply chain sustainability and I think we’re approaching an inflection point among consumers as well.”

Why ethics are important for procurement professionals?

- Procurement represents their organization and is responsible for awarding business to suppliers. Any unethical behavior will have a negative impact on the brand image of the organization
- Procurement professionals experience enormous pressure from internal and external forces to act in unethical ways as they usually have control over large sums of money.
- Ethical behavior in conducting business helps in establishing a long term relationship and goodwill with suppliers

- An ethical person is respected in the business community. Once a buyer earns a reputation within an industry, it is difficult to change it. A professional reputation is something a buyer carries throughout his entire career.

Types of Unethical Behaviors:

- **Accepting supplier favors & gifts:** Accepting gifts, favors and freebies from suppliers is the most common unethical practice. This may affect buyer's decision to evaluate and select a supplier.
- **Conflict of interest:** Conflicts of interest arise when buyers or their close family/friends have direct financial interest in a supplier's organization. This is a major unethical practice and a serious breach of ethics.
- **Confidentiality of information:** Confidential information should be shared only when needed and with the persons who are liable to get the same as part of their profession. Confidential information should be carefully shared with the internal and external world. There are various kinds of information that need to be protected; otherwise it could hamper the business adversely. Some of the examples are pricing, T&Cs, personnel information of customers, commercial information of suppliers in case of an RFX process, cost break up, any business and trade secrets etc.
- **Fair and unbiased treatment:** All suppliers should be treated fairly and in an unbiased manner. Any biased treatment to any particular vendor raises unethical behavior.
- **Integrity:** Integrity is the quality of being honest and having strong moral principles. Any compromise on the integrity has a negative impact on the overall procurement process.

How do you ensure that your organization's procurement ethics are upheld?

An ethics policy

An ethics dispute should never be the result of a difference of opinion between the procurement department and a company employee. Every organization should have a written policy making clear what top management considers ethical and what it considers unethical.

Ethics Training

Ethics training is one of the most essential components to ensure that employees are aware of the importance of ethical practices. An innovative training will provide employees with all the important information about ethics so that they are able to deal with their day-to-day jobs in an ethical way. The great part about having an ethics policy is that the rules are in a tangible, indisputable form. The unfortunate part is that no one reads ethics policies! Supplement an ethics policy with procurement ethics training for anyone who is involved with the purchase of products or services and/or who meets with suppliers.

A process with checks and balances

Every major procurement should require management review to confirm that all guidelines were followed and that no ethical violations have occurred or will occur.

Audits

Periodically, audits should be performed to verify that all procurement activities were conducted ethically and in accordance with procedures. Audits also serve as a deterrent to future unethical behavior.



Summary

Ethical sourcing has received growing attention in academic literature. This trend is more pronounced in recent years. However, none of the research conducts an analysis showing its current status, nor does it provide insights into the evolution of this field that academics can rely on. We refer to ethical sourcing as managing all processes of supplying the firm with required materials and services from a set of suppliers in an ethical and socially responsible manner. The term ethical sourcing is often used interchangeably with other similar terms such as socially responsible buying (e.g. Maignan et al. 2002), socially responsible sourcing (e.g. Zorzini et al. 2015), and purchasing social responsibility (e.g. Carter and Jennings 2002). Each term has been defined in a unique and specific way. However, the basic concept is similar in the aspect of describing the involvement of business in sourcing decisions that cover ethical, social, and economic issues. Indeed, they are similar to the broader term sustainable sourcing, which is in

line with the triple bottom line concept. That is, organisational sustainability can be achieved only through the combination of social (people), environmental (planet), and economic (profit) performance

UNIT 7

ETHICS IN SOURCING



Learning Outcomes:

By the end of this unit students should be able to;

- State the Importance of ethics in purchasing

Identify unethical practices in purchasing