

CHALLENGE OF PURCHESING PRACTICE (IN CASE OF
WOLKITE TOWN FINANCE AND ECONOMIC OFFICE)



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Abstract

The main objective of this study was assessing the challenge of purchasing practice in case of Wolkite town finance and economic development office. The researcher used descriptive methods of research design to describe the current situation of organizations purchasing practice. The relevant data have been gathered from primary and secondary data. Primary data was collected through questionnaire by using census survey to get first hand information's from all employees of the organization and secondary data were collected by analyzing different documents. After the relevant data were collected the researcher used quantitative and qualitative data analysis techniques to analysis the collected data. The major findings of the study in the organization found that there were poor performance of purchasing process, little consideration to purchasing principles and lack of authority delegations to user department so, in order to overcome such problems the organization should develop best practice of purchasing process, should focus on purchasing principles and should delegate authority to user department.

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CHAPTER ONE

1. INTRODUCTION

1.1 Background of the study

Purchasing is one of the basic functions of common to all type of business enterprise. These functions were basic because no business can operate without them. All business administered or managed by coordinating and integrating these function. Purchasing refers to a business or organizations attempting to acquiring goods or services to accomplish the goals of its enterprise. Though there were several organizations that attempt to set standards in the purchasing process can vary greatly between organizations. Purchasing as a process of buying, it involves as determining the needs, selecting the supplier, arriving at proper price, specifying terms and conditions, was suing the contract and following up to ensure proper delivery(Donald Widowers 2010).

Purchasing is an essential management activity which was used to fulfill the material requirement of all organization either profit oriented or nonprofit oriented, smaller or larger, government or non-governmental purchasing responsibilities were to be obtain purchase material and services in required at minimum cost. Therefore, purchasing was a key sub function of management uniquely involved in frequently contract with different groups. Purchasing must cooperate closely with other management function such as manufacturing as well as important contract with supplier of goods and services, good communication with these various groups was essential. Purchasing is acquiring materials and part as a requisition to meet quality, quantity and time specifications. Purchasing was responsible for acquiring raw material, component part, tools and other items outside supplier. The fundamental purchasing activity includes selection of accessible venders and negotiation of terms, revision quality level and other factor of purchasing, placing purchasing order for new and recorded material. Parts and service consideration, priority of order expediting, delivery of material and parts to meet inventory requirement and maintain supply system data base (Kenneth).

An international level purchasing has a vast role in economy to source goods and services among countries in the world and help countries economy by decreasing total cost of goods and services. However, if there was good purchasing within the organization the total expense of the organization decreased. Purchasing was also important to strength international partnership.

Purchasing was acquiring materials and part as a requisition to meet quality, quantity and time specifications. Purchasing was responsible for acquiring raw material, component part, tools and other items outside supplier. The fundamental purchasing activity includes selection of accessible vendors and negotiation of terms, reversion quality level and other factor of purchasing, placing purchasing order for new and recorded material. Parts and service consideration, priority of order expediting, delivery of material and parts to meet inventory requirement and maintain supply system data base (Donald , 2010).

Benefits of effective purchasing secured by purchasing winners include control of product quality, the integration of purchasing into group strategy and product plans, minimum costs of goods purchased, the use of standardized components/materials specifications, minimum work in progress stocks, security of supplies, partnerships with key suppliers, and retrospective discounts. Effective purchasing teams aim to beat market prices by continually monitoring what others were buying, and taking immediate action to remedy any divergences of prices paid by competitors. Winners also embrace just-in-time or lean purchasing and benchmark their performance. Wellmanaged procurement ensures that supplies of the required quality were available at the right time, place and cost. Supply chain managers help to: Reduce costs and improve profitability bulk buying can provide economies of scale Reduce waste by selecting inputs that generate less waste and also lower costs. Manage demand, through just-in-time supply Improve cash flow by securing favorable prices and payment terms ,Improve efficiency by making sure suppliers deadlines ,improve the competitiveness of the business by seeking out innovative products and services to add value in the organization where safety was a central concern, effective management of purchasing and supply was a vital role. Its procurement managers need to have good people skills, sound common sense, commercial and business skills and the ability to communicate appropriately at all levels, to develop appropriate purchasing procedures and closely monitor the operation of organization.

1.2 Statement of the problems

Purchasing department in government organizations operate under authority granted to them by proclamation states and in the case of government ordinates. Many state and local government also operate in accordance with regulations developed by policy boards created specifically for that purpose purchasing by government organizations tends to be somewhat more regulated by legal requirements and more open to public scrutiny (Nair, 2006).

Today most companies and government organizations have a separate purchasing department and should have their own purchasing policy and procedures to achieve their goals and manage their purchasing department because of purchasing department provide goods and services to which was the back bone of any organization (Donald, 2010).Wolkite town finance and economic development office also have a separate purchasing department to sustain their goals but there were problems and challenges such as poor performance of purchasing process, little consideration to principles of purchasing and lack of authority delegation to user department and other problems related to purchasing policy and procedures in the organization which motivates the researcher to conduct the study(Wolkite town finance office, 2011).

1.3 Research questions

The main intention of the study was to answer the following questions.

1. What look likes the purchasing practice in Wolkite tow finance and economics office?
2. What was the method of purchasing practice was performed in Wolkite town finance and economics office?
3. What were the major challenges of purchasing practice in Wolkite town finance and economics office?

1.4. Objective of the study

1.4.1. General Objective

The general objective of the study will be to assess the challenge of purchasing practice in Wolkite town finance and economic office.

1.4.2. Specific objectives

The specific objectives of the study were:

1. To identify the purchasing practice in Wolkite town finance and economics office?
2. To investigate the method purchasing practice was performed in Wolkite town finance and economics office?
3. To determine the major challenge of purchasing practice in Wolkite town finance and economics office?

1.5. Significant of the study

The study would have the following signification:

- ✓ The information going help the organization to develop effective purchasing policy and procedures
- ✓ The study would help the researcher to get more experience and provide directions to those who wants to make further study
- ✓ To enables the organization and organizations which have the same policy and procedures to solve the problems of purchasing.
- ✓ The recommendation given at the end of the study would help the organization to identify their weakness in performing the purchasing policy and procedures and to take corrective action on their weakness.

1.6. Scope of the study

The studies were delimited to the challenge of purchasing practice in Wolkite town finance and economics office because of time and financial constraint. It also the study was conducted only in Wolkite town finance and economic development office even the case was concerned other organization.

1.7. Limitation of the Study

The possible limitations that encountered in the study were Lack of adequate data from the organization, during data analyses was some respondents give less attention to the question and it resulted data lose and Lack of experience to research.

1.8. Organization of the study

The research paper contains five (5) chapters. The first chapter include, background of the study, statement of the problem, objective of the study, significance of the study, scope of the study, limitation of the study and organization of the study. The second chapter deals with related literature review, the third chapter deals with research methodology, research design, types and sources of data, target of population, method of data collection. The forth chapter deals with data presentation, data analysis and interpretation. The fifth chapter deals with summery, conclusion and recommendation.

CHAPTER TWO

2. LITERATURE REVIEW

2.1 Definition of purchasing

According to Nair (2006), purchasing is the function of buying machinery tools, general supplies, materials and etc, required by organizations. He also states that the work of purchasing was performed by purchase section. Purchasing is the process of acquiring goods and services to be used in production process at right time, with right quality, at the quantity by the right price from the right suppliers, with the desired levels of services and at the right place. Every organization both in public and private sectors are in a varying degree depending on the materials and services provided or supplied by other organization. Therefore, purchasing is one of the basic and common functions of every organization to achieve the desired level of success and objectives effectively and efficiently as established framework of the organization (Burt, 1990). Purchasing refers to a function in business where by the enterprise obtains the inputs for what is produced as well as other goods and services it requires. Purchasing is one of the basic function common to all type of enterprise. These functions are basic because no business can operate without them (Dobler, 1964, p.27).

Purchasing the activity of acquiring good and services to accomplish the goal of organization. Different scholars have given different definitions for purchasing. The main objective of purchasing are:

- (1) To maintain the quality and value of company product
- (2) To minimize cash tied up in inventory,
- (3) Maintain the flow of inputs and
- (4) strengthening the organization competitive position purchasing may also involve (a) developing and review of the product specialization, (b) receipt and processing of requisition, (c) advertise for bid, (d) evaluation (e) award of supply contracts (f) inspection of goods received and (g) their appropriate storage and release purchasing is the acquisition of goods

and service in exchange for something of value its material management function concerned with process of buying the right type of material at the right price and time purchasing is essential to all organization manufacturing, non-manufacturing, profit making, nonprofit making and government (Eugene, Miranda and John, 1995, p. 247).

Different scholars have given different definitions for purchasing. “Purchasing is disciplined entrepreneurial activity directed toward providing profit” (parsons and W.J 1982). In narrow sense the term purchasing simply describe the process of buying, however, in a broad sense, the term involves determining the need selecting the supplier, arrive at proper price terms and conditions issuing the contract or order and following up to ensure proper delivery (Aljian George, 1973).

2.2 Significance of purchasing

The type of activity for performed by the purchase groups varies from company to company. The assignment of the activity depends up on companies’ organizational size and geographical dispersion. It is important to the success of the material or logistic management group that all purchasing all activates be assigned and that all individual be fully informed to their responsibility (Eugene, Magadha John, 1995 p. 252).

The importance of purchasing is also a significant in service giving companies they are able to execute several activities more efficiently than the manufactures their added and therefore purchasing storage transformation and marketing services material must be available at the proper price, in the proper quality, at the proper time and at proper place. However, failure to accomplish any of these responsibilities concerning materials and company cost it decrease company sale.

2.3 The scope of purchasing

As the type, site and nature of the product of business enterprise vary the volume of work the amount of money expended and the degree of sophistication affecting purchasing will also vary regardless of this wide divergence the procurement process should be accomplished in the most professional and capable in 1968, it is estimated that the united states manufacturing and associated industries purchased material and services to tailing and 322 billion, which shows the needs for an efficient performance of purchasing activity” (Aljian, 1973, p 1-6).

2.4 Purchasing policy

Purchasing policy was largely determined by the finance available but, every organization has its own policy, whether they were put it to writing or not. However, an established policy eliminates the necessity of making of rash decision every time when a comparable situation arises. A written policy ensures that decision and action will be contestant and such an approved policy statement gives authority to the purchasing peoples (Aswathappa, 2010).

Purchasing department was responsible to establish administer policies institute report necessary to permit analysis of purchasing performance negotiate and approve terms of control and analyze price paid for material and generally define how to obtain saving and coordinating purchasing procedures (Alijian & George, 1990).

2.4.1 The essential purchasing policies and principles

The essentially efficient purchasing has the following basic principles.

- **Right quality:-** quality was the dimensional limited compensation, performance, durability, etc of material quality was the compensation grade for a machine component, it's the grade of the material and various dimensions and tolerance for an auto – mobility, the grade of material also used economical running durability and soon quality can be measured by physical test. Chemical analysis, dimensional measurement and etc depending up on commodity (Nair, 2006).
- **Right time:-** purchaser must make available materials at the right time such that when material were required, materials that would available before the organization required them involves cost such as carrying cost, deterioration cost, obsolescence costs (Nair, 2006).
- **Right price:-** the right price was which brings ultimate value. It needs not be the lowest price, the factors that affect the prices of items were quality and quantity of the product required (Nair, 2006).
- **Right source:-** in purchasing the starting point was the recognition of the need for material or products, though the exact specification may or may not be fixed, its general nature and purpose were known what was available the market? Who makes

such product? Or who can make it or supply it in most economically or satisfactory all these questions must be answered before a supply order was placed (Datta, 2004).

- **Right place:-** right place means right place of delivery. Every purchase control in addition to time of delivery must clearly state the place of delivery and such other terms like free delivery or ex- factory delivery.

2.4.2 Advantages of the purchasing policy

Having written and implied policies provides opportunities to define and clarify top management objectives policy statement were a means for executive management to communicate its leadership and views. Executive management should develop a series of high level policy statements that provide guidance to employees at all level. Another advantage of policy was that provides a frame work for constant decision making and action.

2.4.3 Disadvantages of purchasing policy

- ✚ A policy was difficult to communicate throughout large organization.
- ✚ A danger exists that employees view policies as a substitute for effective management policy statements were guidelines outlining management's belief or position a topic.
- ✚ They were not a set of how to instruction designed to provide specific answer for every business decision.
- ✚ Policy development can also restrict innovation and flexibility. Too many policies accompanied by cumbersome procedures can become an organizations worst enemy.

2.5 Organization of Purchasing Regulation

Materials requisition from the customer unit or individuals that have been authorized to make such a request users of the stock items for instance may submit materials regulation from the stores to purchasing units for non stock items the authorized individual or units fill the purchase unit.

The information in the purchase requisition form includes

- The name of the material required
- The code number and part number
- The quantity required
- The time when the material is required.
- Specification and standard.

2.6 Verification of purchasing Regulation

The purchasing unit verifies whether the purchase requisition is authorized and whether other requirements have been fulfilled appropriately questions cleared in the verification includes.

It the requesting unit or individual authorized to make such a request?

Is there a budget to meet the request?

2.7 Methods of procurement

The following procurement methods were approved as per article 33 of the proclamation

Open bidding

Except as other provided in proclamation and directives, public bodies shall use open bidding as the preferred procedures of procurement public body may use a method other than open bidding only where conditions for use of such other methods stimulated in the proclamation and that directives were satisfied a public body using a method of procurement other than open bidding pursuant to article 33 /3 of the proclamation. (Proclamation 649/ 2009)

Restricted bidding method

The restricted bidding methods of procurement limits those invited to bid to only a few suppliers. The restricted bidding procedures constants of two distinct stage selecting of suitable bidders and evaluation of bids. At first stage the only criteria which may be used to select prospective bidders were economic and financial standing or technical knowledge or capability of carrying out a specific assignment. The public body shall not close the identity of candidates invited to participate in procurement by restricted bidding (proc. 649 /2009)

Condition for use of restricted bidding

- 1) When goods and related services and works and physical services, because of their specialized nature, were available only from a limited number of suppliers or contractors.
- 2) Where a repeated advertisement of the invitation to bid fails to attract bidders in respect of procurement subject.
- 3) The cost of procurement does not exceed the threshold specified in respect of restricted bidding in the directive
- 4) At least five candidates shall be selected in a fairly manner from suppliers list.

Direct procurement

Direct procurement happens when a public body for some justified reasons, procures goods, works or services from only one source. A public body may use direct procurement method for procuring goods and related services, works and physical services and intellectual and professional services directly from one single source without going through all the requirements of a full bidding process. Ahead of a public body shall strictly control the direct procurement method in order to ensure that there was no abuse and that its use was only where conditions, specified in the proclamation and directives was satisfied (Proc, 649/ 2009) .

The conditions for use of direct procurement were the following;

1. Small value contract
2. Availability of only one single sources
3. Extension of existing contract
4. For captivity reasons and
5. Emergency situation s

Two stage bidding

Two stage bidding method was used when the procurement process was split in to two phases. The first phase identified suitable candidates, who were then invited in the second phase to submit their firm bids. Since the purpose of the first stage was to draw up detailed schedule of requirements based on proposals from candidates the bidding document prepared by public body for the first stage shall state the requirement of the public body in general terms and incorporate

the necessary description and questionnaires. The technical proposal submitted by candidates during the first stage shall be opened in the absence of the candidates in the manner stated in the invitation to bid. (Proc. 649 /2009)

Conditions for use of two stage bidding

- ❖ When the public body may not be capable of preparing all the technical specification because alternative technical approaches may be available but not within the knowledge of the public body.
- ❖ In such circumstances, it was better for public body to learn from bidders about the most appropriate, fit for purpose solution to meet its procurement requirements.
- ❖ In the case of large or complex contracts of goods, services and or work such as turnkey contracts for manufacturing process plant.

Request for quotations

Sometimes referred as shopping, request for quotation method was used to buy items of low value. The head of a public body shall strictly control the use of RFQ as a method of procurement in order to ensure that there was no abuse. A decision to use request for quotation method shall be approved in writing by the head of a public body the reason for selection of procurement by the request for quotations method shall be documented in the records of procurement. In any procurement made by means of request for quotation, not less than three candidates as far as possible, shall be selected from the supplier list so ensure fairness in the selection same supplier or (s) shall not be selected repeatedly

2.8 Purchasing procedures

Procedures were the outlines in detail the specific action to be taken in short it establishes the way of doing things. Purchasing and material executives should develop their department's procedures in accordance with four fundamental concepts. First procedure were not end up themselves the objective to develop as a service procedures, second procedure must be designed to facilitate communication and coordination of the efforts of one work group with another. Third effective operations requires that responsibility be assigned clearly for the accomplishments of each step of each procedure finally procedure should established at the

lowest possible organization level the best method for conducting or outline activity (Aswuthappa, et al 2010).

The principal purchasing procedures were the following

- Organization of procurement
- Verification of purchase requisition
- Request for bidding
- Evaluation and selection of suppliers
- Evaluation of suppliers
- Evaluation of performance purchase
- Follow up and expediting
- Receiving and inspection
- Payment

2.9. Purchasing process

The purchasing process was cycle consisting of five major steps;

Identify user need for product or services

The purchasing process begins with identifying or anticipating a material or services needed by users. Material requirement may include equipment, components or raw materials, subassemblies or even completely finished goods. Internal customer requirement were expressed in a variety of ways, including:-

- ✓ Purchase requisition /statement of work
- ✓ Cross functional new product development teams
- ✓ Traveling purchase requisition /bar codes
- ✓ Customer order and fore cost
- ✓ Reorder point system
- ✓ Stock checks

2.10 Bidding, negotiation and supplier selection

Supplier selection –final supplier selection occurs once purchasing completes the activities required during the supplier evaluation process. Selecting supplier was perhaps one of the most important activities performed by companies errors made during the part of purchasing cycle can be damaging and long lasting Bidding or negotiation – bidding and negotiation were the two common methods used when making supplier selection decision. The process was typically initiated when the purchasing manager sends a request for quotation form to suppliers. The objective was to award business to the most qualified bidder. Competitive bidding was effective under certain conditions:-

- 1 Volume was high enough to justify the method of business.
- 2 The specification or requirements were clear to seller
- 3 The market place was competitive
- 4 Buyers ask for bids only from technically qualified suppliers who want the contract
- 5 Adequate time was available for suppliers to evaluate the request for quotation.
- 6 The buyer does not have preferred suppliers for that item.

2.11 Purchase approval

After the supplier was selected or requisition for a standard item was received, purchasing grants an approval to purchase the product or services. They accomplished through several different approaches, depending on the type of system in place.

- 3 Purchase order
- 4 Blanket purchase order
- 5 Material purchase release

2.12 Release and receive purchase requirement

The phase of the purchasing cycle consist the physical transmittal of purchase requirements. They should be a fairly routine, although not necessarily most efficient, part of purchasing cycle. Some organization transmits orders electronically, while others send material release through the mail or by fax. Purchasing or material requirement minimize the time required to release and receive material.

2.13 Objectives of purchasing function

Purchasing has final authority over certain spending area. The typically set forth in a policy describing the general objectives or principles.

The following describes one company's purchasing objectives:-

1. To select supplier that meet purchase and performance requirement
2. To purchase material and services that comply with engineering and quality standards
3. To treat all supplier fairly and ethically
4. To promote buyer seller relationship and to encourage supplier contribution
5. Treating suppliers fairly and with integrity
6. To work closely with other department
7. To conduct purchasing operations so they enhance community and employee relation
8. To support all corporate and objectives and policies
9. To maintain qualified purchasing staff and develop the professional capabilities of the staff.

2.14 Major Challenge that hinders purchasing practice

In the real world organizational purchasing process deviate from the model observation of numerous companies and institutions over many years has demonstrated that the purchasing process can be observed by the following situations.

- i. Supplier specification or brand: specification were worked out in detail by the user, i.e. a technical specialty, and written for one specific supplier. The use of a particular brand or supplier specification seriously limits the buyer commercial latitude (in terms of negotiations) with the supplier, who in most cases of the selection of the product.
- ii. In adequate supplier selection: selecting a supplier was one of the most important decisions in the purchasing process, particular if it be products delivered require many years of maintenance and services.
- iii. Personal relationship:- purchase orders were placed with suppliers whom the use has a friendly relationship; that was one reason why long relationship between organization may exist.
- iv. Lack of good contractual arrangement – contracts, when available were stated in general terms, they were not compute and have not passed legal scrutiny and clear description of the product or supplier may be massing.
- v. Too much emphasis on price:- especially when buying capital equipment buying decisions need to be based up on total cost of ownership (TCO) rather than price only. Much equipment manufacturers have adopted a sales strategy where they charge a fairly low price for their equipment.
- vi. Poor administrations processes: in some cases the supplier may have actually made the delivery and now the purchasing department was requested by the user to produce a purchase order with a purchase order number to be issued to the supplier so that payment can be made.
- vii. Delivery problems: that the state of delivery problems occur supplier deliver to late deliveries were not complete, products were damaged or do not meet quality requirements, packaging was unsound and information labels cannot be read by bar code systems. The reason for these problems usually can be traced back to unclear specification or a careereless supplier selection.

2.15 Purchasing manual

Essentially, a purchasing manual was a medium for communicating information regarding purchasing policies, procedures, instructions and regulations. (Kenneth, 2006)

- ✓ Policies may be general or consequential general policies state in broad terms the objectives and responsibility of the purchasing function. Consequential policies state in expanded from how general policies were applied in specific activities and situations such as selection of supplier(Kenneth,2006)
- ✓ Procedures prescribe the sequence of activities by which policies were applied such as the receipt of bought out goods (Kenneth, 2006)
- ✓ Instructions give detailed knowledge or guidance to those responsible for carrying out policies or procedures such as suppliers with who call off center acts have been negotiated(Kenneth, 2006)
- ✓ Regulations detailed rules regarding the conduct of purchasing and ancillary staff in the various situations arising in the course of their duties such as concerning the receipt of gift from suppliers (Kenneth, 2006)

2.15.1 Advantages of purchasing manuals

- ✓ Writing it down helps with precisions and clarity
- ✓ The preparation of the manuals provides an opportunity for consultation between purchasing and other department to look critically at exiting policies and procedures and where necessary changes them.
- ✓ Procedures were prescribed in terms of activity under taken or controlled by purchasing, thus promoting consistency and reduction of the needs for detailed supervision of routine tasks
- ✓ A manual was a useful aid in training and guiding staff.
- ✓ A manual can help the annual audit
- ✓ A manual coordinates policies and procedures and help to ensure uniformity and continuity of purchasing principles and practice as well as providing a point of reference against which such principles and practice can be evaluated.

- ✓ A manual may help to enhance the status of purchasing by showing the top management attaches importance to the procurement function.

2.15.2. Disadvantages of purchasing manual

- ✓ Were costly to prepare
- ✓ Tend to foster red tape and bureaucracy and stifle initiative
- ✓ Must be continually updated to show changes in procedures and policy

2.16 Principles and standards of purchasing practice

According to (Brain Harrington, 2006) the following were principles and standards of purchasing.

- Ethical perceptions – the results of perceived impropriety may become, over time, more durative or damaging than an actual transgression.
- Responsibilities to the employees – the purchasing professional for most responsibilities was to achieve the legitimate goals established by the employer. It was her duty to ensure that actions taken as an agent for the employer will benefit the best interests of the employer to the exclusion of personal gain.
- Conflict of interest – purchasing professionals have the right to engage in activities which were of a private nature outside of their employment. However, they must not use their positions, in any way to induce another person to provide any benefit to themselves.
- Gratitudes – gratuities include any material goods or services offered with the interest of providing the potential for, influencing a buying decision.
- Confidential information – purchasing professionals were in positions that influence buying decisions deal with confidential or proprietary information of both the employer and the supplier. It was the responsibility of purchasing professional to ensure that such information, which includes information that may not be confidential in the strictest sense but was not generally known, was treated in a confidential manner.
- Treatment of supplier – it was the responsibility of purchasing professional to promote mutually acceptable business relationships with all suppliers. The reputation and good standing of the employer. The purchasing profession and the individual will be enhanced

by affording all supplier representatives the same courtesy and impartially in all phases of business transaction.

- Personal purchasing for employee – the function of purchasing was to supply material requirement of the employer. Personal purchase programs divert organizational resources and dilute the effectiveness of purchasing function. In certain state trade diversion way prohibit personal purchase for employees when such materials were not manufactured by the employees or required for the with or safety of the employee situations in which personal purchase programs were justifiable involve items such as work related safety.

2.17 Evaluation and selection of suppliers

Suppliers are evaluated and selected on the basis of the criteria. Selection of capable supplier is one of the most important responsibility of purchasing professional. The development of new suppliers, also additional suppliers for existing purchased items will be needed in order to lower cost, better quality, on time delivery, and improved technical service. Some of the sources are. Sales man contracts, purchasing contracts, Trade directors, scalawags, Trade shows and conventions. (Eugene, Maganda and John, 1995). Evaluation of supplier is critical to obtain an uninterrupted flow of material and developing reliable supplier. Some of the criteria's of selection of supplier are: Financial condition: Quality, capacity, service, plant visit, supplier rating, supplier certification to obtain the needed amount without un interruption.

2.18 Purchasing procedures

Purchasing procedure often vary depending on the type of items to purchase. A purchase procedure outlines in detail the specific actions to be taken accomplished a given task within the guide line of any applicable policies it establish the founding objectives (Dobler and Donald, 1996).

- Full fill each tasks satisfactory with minimum of time effort and paper work
- Effectively communicate and coordinate the effort of one work group with another.
- Minimum overlapping effort and group conflict □ Permit effective management by exception.

Nevertheless, the procedures given by different authors seem more comprehensive it can be also using the flow chart prepared (J.H. Westign, 1985). The principal purchasing procedures are listed as follows.

2.18.1 Organization of Purchasing Regulation

Materials requisition from the customer unit or individuals that have been authorized to make such a request users of the stock items for instance may submit materials regulation from the stores to purchasing units for non stock items the authorized individual or units fill the purchase unit.

The information in the purchase requisition form includes

- The name of the material required
- The code number and part number
- The quantity required
- The time when the material is required.
- Specification and standard.

2.18.2 Evaluation of purchase performance

The efficiency of the purchasing section can be judged the following basis, such evaluation result in improved performance (Nair, 1990).

- 1) Number of person employed
- 2) Whether the work has been properly distributed and whether the staff has a broad program of work
- 3) Time taken ordinarily to process a purchase requisition.
- 4) Whether materials of correct quality are being purchased and incidence of rejection.
- 5) Number and value of overdue orders.
- 6) Proportion of purchase department operating cost to value of total purchase cost per order.

2.18.3 Contract purchase order

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

1.18.4 Follow-up and expediting

After purchase order has been made the purchaser should not wait until the supplier delivers the materials we need to follow up to make sure that suppliers will deliver the materials on the agreed data expediting requires a special type of agreement for it may require the supplier extra effort and cost.

2.18.5 Receiving and Inspection

Receiving inspection and storing are made after the materials are delivered and verified with the purchase order and invoice if there are discrepancies in the receiving and inspection of the material such as shortage, overage and damages.

2.19 Organization purchase

Purchasing is the function of buying machinery, tools, general supplies, raw material etc. required by an organization (Nair, 1990). The work of the purchasing is performed by the purchase sector and in the broader senses their functions and responsibilities including the following:

1. Obtain the right quality and quantity of material at the right time, so that production is not hampered.
2. See that the purchase are made at the most competitive price.
3. Nearly 80 percent of annual expense of a factor represents purchase, it is their responsibility of purchase section to see that the fund are utilized on the purchase with what most discretion.
4. Cost reduction
5. See that purchases are made only against authorized purchase requisitions and proper functions.
6. Deal with the supplier regarding shortage, rejections etc, reported by the store.

7. In case of delay in obtaining suppliers against any purchase requisition keep the department concerned informed of the progress.
8. Suggest latest and more economical material for use by the manufacturing departments this could be done because of its contract with the outside source of supply.

2.19.1 Centralization versus decentralization

Centralization of purchasing means that the requirement of any departments of a plant or of different units of the same company or associated companies of the same group will be purchased by a single purchasing department (Nair, 1990).

Decentralization purchasing provides authority of purchase to the lower unit in order to purchase their own material according to (Nair, 1990) decentralization purchasing is the power to be delegated to sub group or subordinates. The power is not centralized within one party.

2.19.2 Merits of centralization purchasing

- ❖ Quality discount
- ❖ Effective use of limited and highly specialized skilled purchase staff.
- ❖ Standardization of purchase materials and purchase procedure.
- ❖ Avoidance of significant difference in price between them in case of short supply.

2.19.3 Merits of decentralization purchasing

- ❖ Advantage would be taken of locally available product leading to possible cost reduction and more suitability.
- ❖ Delegation of authority to a various unit price moral of involved personnel and taken advantage of their local acquaintance and knowledge.
- ❖ Suitable for department or plant that require different type of item.
- ❖ Enable local management to exercise control over its cost and selection of material in addition to enhancing its relation with local suppliers and its social responsibility to the local community.

2.19.4 Demerits of centralization and decentralization purchasing

By and large the advantage of centralizing reflects the disadvantage of decentralization and the advantage of decentralization indicate the main short coming or disadvantage of centralization.

CHAPTER THREE

3. RESEARCH METHODOLOGY

3.1. Research design

The study use descriptive type of research design method for the study, because the method was very useful to clearly describe the present state of an area of investigation to cover wide magnitude in order to obtain pure information as it occurs and it helps that explain the study in terms of the conditions.

3.2. Population Sampling Technique

The study use census method because the employee sufficiently small in number the number of employees were below 100. Due to the reason census was an appropriate than sample the reason behind the researcher used census survey method. It was attractive for small population eliminates sampling error. Provide detailed information on an all individual population. In addition to the it was possible to obtain high quality and reliable information from the respondent. The numbers of employees were 46 for the reason census survey was more appropriate to the study.

3.3. Data collection Technique

In conducting the study, the researcher will use both primary and secondary data collection techniques. The primary data were collecting by the researcher himself through preparing questionnaires to the permanent employees of Wolkite town finance and economics office to get first hand information from respondents. Secondary data were collecting by reviewing and analyzing the purchasing manuals, books, annual report and different related documents.

3.5. Data analysis Technique

In the study both qualitative and quantitative data analysis will be utilized because the data gather through questionnaires and interview were mostly qualitative and Quantitative data analysis gather from manuals and annual report of the organization were use in order to cover inherent facts to explore new facts and was simple and easy to understand by the users of the study. While qualitative data analysis provides answer to research questions through direct quotation and careful description to explore new facts or interpret existing data .finally all the data were present through tables and simple percentage.

CHAPTER FOUR

4. DATA ANALYSIS AND PRESENTATION

4.1 Data analysis

This part of research is the most prominent part of the study because analysis, presentation and interpretation of the study are conducted in this chapter. So under this chapter significant and basic topics of the study investigated well. The necessary data and information gathered from respondents through questionnaires have been analyzed, presented and interpreted. A total of 46 questionnaires were distributed to total population of 46 employees. Out of 46 questionnaires 40 questionnaires were properly completed and returned. This gives the response rate of 80%, which implies that the majority of the respondents replied to the distributed questionnaires attractively.

4.2 Data presentation

Table 4.1 Background information about respondents

No	Items	Option	Response	percentage
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1	Sex	Male	13	32.5%
		Female	27	67.5%
		Total	40	100%
2	Age	18-27	12	30%
		28-35	18	45%
		36-47	10	25%
		48-57	-	-
		58 and above	-	-
		Total	40	100%
3	Education level	Certificate	-	-
		Diploma	-	-
		First degree	40	100%
		Master and above	-	-
		Total	40	100%
4	Work experience	0 years	-	-
		1-5 year	18	45%
		>6 year	22	55%
		Total	40	100%

Source: own survey, 2019

According to the above table 4.1, 13 (32.5%) employees of Wolkite town finance office respondents are male and the remaining 27 (67.5%) of respondents are female from this it can be concluded that the majority employees of the organization dominated by female employees.

According to the above table 4.1 items number 12 (30%) employees were between 18-27 age and 18 (45%) of the respondents were between' 28-35 ages, 10 (25%) often were between 36-47 age, and there is no respondent between 48-57 and 58 and above.

As shown on the above table 4.1, 40 (100%) employees of Wolkite town finance office of respondents were first Degree. This indicates that all of the respondents were with the organization were first Degree holders.

As indicated on the above table 4.1,18 (45%) of respondents have work experience of 1-5 years and 22 (55%) of the respondents have work experience of above 6 years and there are no respondents 0 years have work experience. therefore the employees of the organizations are familiar with the work environment.

Table 4.2, response related to purchasing practice

Item	Option	No of respondents	Percentage
What look like the purchasing practice in your organization?	Very good	6	15%
	Good	30	75%
	Bad	4	10%
Total		40	100%

Source: own survey, 2019

As it can be understand from table, 4.2, 30 (75%) employees of Wolkite town finance office were respond good , 6 (15%) respond very good and 4 (10%) respond bad about the purchasing practice. The majority of the respondents were aware as good with the purchasing practice in the organization. As per statted in the literature the purchasing practice inthe organization were more advantageous in order to get there desired material from supplier organization.

Table 4.3 Respondent’s attitude towards purchasing policy

Items	Option	Number of respondent	Percentage
What type of purchasing practice is followed by your organization?	Centralized purchasing	21	52.5%
	Decentralized purchasing	13	32.5%
	Both	6	15%
	Neither nor	-	-
Total		40	100%

Source: own survey, 2019

As shown on the above table 4.3, 21 (52.5%) of the respondents were answered as the organization follow centralized purchasing practice, 13 (32.5%) of the respondents replied that the organization follow decentralized purchasing, 6 (15%) of the respondents replied that the organization follow both Centralized and Decentralized purchasing practice and none of the respondents replied neither nor. From this the researcher understands that the organization follow centralized purchasing policy to purchase the materials required by any department of the organization. According to

(Nair, 1990) Centralization of purchasing means that the requirement of any departments of a plant or of different units of the same company of associated companies of the same group will be purchased by a single purchased department.

Table 4.4 response towards level of employee satisfaction with purchasing practice

Items	Options	No of respondent	Percentage
What is your satisfaction level in the organization purchasing practice?	Very high	8	20%
	High	18	45%
	Medium	10	25%
	Low	4	10%
	very low	-	-
		40	100%

Source: own survey, 2019

As it can be seen in the above table 4.4, show that 18 (45%) of respondents were reported that they were highly satisfied with the organization purchasing practice, 10 (25%) of the respondents responded that they were medium with the organization purchasing practice, 8 (20%) and 4 (10%) of the respondents responded that they were Very high and Low respectively. This implies that the organization employees were satisfied with the purchasing of materials in accordance with the settled procedures. as per stated in the literature the objective purchasing department were to achieve maximum integrations with other departments of the firm this essential for buyers to understand the major need of their using departments so that this needs can be translated in to materials support to action.

Table 4.5 response towards supply of items to user department

Items		Options	No	Percentage
Is purchasing department select suppliers who are responding in the short time?		Strongly agree	-	-
		Agree	34	85%
		Disagree	6	15%
		Strongly disagree	-	-
Total			40	100%

Source: own survey, 2019

As it can clearly explain in the above table 4.5, show that 34 (85%) of employees were respond agree that purchasing department select supplier who is respond in short period of time, 6 (15%) of the respondents response disagree. That implies the researcher conclude that the purchasing department can consider time while selecting potentialsuppliers who are responding in the short time. As per stated in the literature purchasing department select Suppliers and evaluated on the basis of the criteria. Selection of capable supplier is one of the most important responsibilities of

purchasing professional. The development of new suppliers, also additional suppliers for existing purchased items will be needed in order to lower cost, better quality, on time delivery, and improved technical service.

Table 4.6 attitude towards source of materials

Items	Option	No of respondent	Percentage
From where do you purchase most of the needed item or material?	Local supplier	32	80%
	International supplier	2	5%
	Both	6	15%
Total		40	100%

Source: own survey, 2019

According to the above table 4.6, show that 32 (80%) the respondents replied that they purchase materials from local supplier while 6 (15%) of the respondents replied that the organization purchase from both supplier and 2 (5%) of employees replied that international source from this the researcher understands that the organization procures most of their materials from both source of supplier. The organization purchase materials from local suppliers in order to increase the country supplier well-being or to expand the local market availability of supplier.

Table 4.7 response towards implementation of purchasing practice

Items	Options	No of respondent	Percentage
What is the purchasing practice of that your organization implements?	contract based purchasing	2	5%
	Building supplier relation	1	2.5%
	Follow up and expediting	34	85%
	Just in time purchasing	-	-
	All	3	7.5%
Total		40	100%

Source: own survey, 2019

As it can be understood from the above table 4.7, show that 34 (85%) of the respondents replied that the organization implements Follow up and expediting practice, 3 (7.5%) of the respondents replied that the organization buys goods and services by all means listed above, and only 2 (5%), 1 (2.5%) contract based purchasing and Building supplier relation respectively. From this the researcher understands that the organization issued to team based purchasing systems the organization cannot adopt purchase just in time. As per stated in the literature After purchase order has been made the purchaser should not wait until the supplier delivers the materials were need to follow up to make sure that suppliers will deliver the materials on the agreed date expediting requires a special type of agreement for it may require the supplier extra effort and cost.

Table 4.8 Response to wards methods of purchasing are applied

Items	Option	No of respondent	Percentage
Which methods of purchasing are applied in your organization?	Open bidding	37	92.5%
	Restricted bidding	2	5%
	Direct purchasing	1	2.5%
	Request for quotation	-	-
	Two stage bidding	-	-
	Request for proposal	-	-
Total		40	100%

Source: own survey, 2019

As shown in the above table 4.8, 37(92.5%) of the respondents answered that the methods of purchasing applied in the organization to purchase the needed materials is open bidding, 2 (5%)

of the respondents replied that Restricted bidding,1 (2.5%) of the respondents replied that Direct purchasing. There for the organization apply open bidding to purchase goods and service needed for operation of organization. Public body's use open bidding as the preferred procedures of procurement use a method other than open bidding only where conditions for use of such other methods stimulated in the proclamation and that directives were satisfied a public body using a method of procurement other than open bidding pursuant to article 33 /3 of the proclamation. (Proclamation 649/ 2009)

Table 4.9 response related to major problems faced in the organization related to purchasing process

Items	Option	No of respondent	percentage
What are the major problems that you have faced in your organization related to purchasing process?	Delivery problem	31	77.5%
	Transport problem	1	2.5%
	Poor administration problem	6	15%
	No problem	2	5%
Total		40	100%

Source: own survey, 2019

As it can be understood from the above table 4.9,31(77.5%)of the respondents responded that there was delivery problem in the organization, 6(15%) of the respondent reported that there was Poor administration problem in the organization,2(5%) of the respondent reported that there is No problem in the organization and 1(2.5%) of employees replied Transportation problem. From this the researcher concludes that there is delivery problem to purchase the materials this means the materials purchased by purchasing departments are procured with delivery problems that the state of delivery problems occur supplier deliver to late deliveries were not complete, products were damaged or do not meet quality requirements, packaging was unsound and information labels cannot be read by bar code systems. The reason for these problems usually can be traced back to unclear specification or a carrels supplier selection.

Table 4.10 response related to guide lines of purchasing

Items	Option	No of respondent	Percentage
What are the guidelines for	Selecting qualified supplier	8	20%
	Negotiation techniques	4	10%

purchasing practice that your organization applies?	Preparing and evolution bids	2	5%
	All	26	65%
Total		40	100%

Source: own survey, 2019

As it can be seen in the above table 4.10, 65% of the respondents were replied all purchasing guidelines used for purchasing materials, 20% of the respondent answered on selecting qualified supplier, 10% of the respondent reported that the organization used negotiation techniques and 5% of the respondents said the organization implements the purchasing practice by preparing and Evaluation of bids in order to get the right quality materials with right quantity at right price.

Table 4.11 responses related to purchasing principles achieved in the organization

Items	Option	No of respondent	Percentage
Which of the purchasing principles are being achieved in your organization?	Right quantity	-	-
	Right time	28	70%
	Right quality	7	17.5%
	Right source	-	-
	Right price	-	-
	All	5	12.5%
Total		40	100%

Source: own survey, 2019

According to the above table 4.11, 28(70%) of the respondents were replied on Right time principles, 7(17.5%) of the respondent agreed to right quality and 5 (12.5%) of respondent replied on all purchasing principles. As the result shows that the majority of respondent were replied Right time. As per stated in the literature purchaser must make available materials at the right time such that when material were required, materials that would available before the organization required them involves cost such as carrying cost, deterioration cost, obsolescence costs (Nair, 2006).

Table 4.12 perception of employee towards principles and standards of purchasing practice

Item	Option	No of respondents	Percentage
How do you perceive the purchasing standards and practice of your organization?	Very good	4	10%
	Good	30	75%
	Poor	6	15%
Total		40	100%

Source: own survey, 2019

According to the above table, 4.12,30(75%) of the respondent replied that organization has good principles and standard of purchasing, 6(15%) of respondent reported that the organization has poor principles and standards of purchasing, 4 (10%)of the respondent answered that the organization has very good principles and standard of purchasing. Thus implies that the perception of organization purchasing standards were favorable as the respondent replied.

CHAPTER FIVE

5. SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary of finding

This study was conducted to assess the challenge of purchasing practice of Wolkite town finance and economic office. The study was to describe the activity as well as the purchasing practice followed by mandatory department in order to address the objectives of the study. Out of 46 questionnaires distributed to the respondents of the case organization 40 of them were properly filled and returned .based on the response of respondents the following summary were drawn:

- ✓ As respondents responded majority of the employees are first degree holder and they are familiar with work environment.
- ✓ Majority of employees said that the organization follow centralized purchasing policy.
- ✓ Majority of the respondents said the organization cannot supply materials for user department and they are not happy with organizations supplier selection.
- ✓ As majority of the respondents answered the organization purchase most of the materials from local source of suppliers.

- ✓ The organizations implement follow up expediting of purchasing practice.
- ✓ According to the respondents response the organization performs open bidding and restricted bidding purchasing methods in order to purchase the necessary materials.
- ✓ The organization faces challenges and problems of delivery purchasing process when purchasing materials from suppliers.
- ✓ As majority of respondents responded the organization used principles and guidelines of purchasing practice.
- ✓ Obtain the right quality and quantity of material at the right time, so that production is not hampered.

5.2 Conclusions

By using respondents answer as a base the researcher outline the following conclusion:

The respondents responded the Wolkite town finance and economic office follow purchasing practice and used guidelines on practice of purchasing to purchase materials for the organization. Purchasing processes very long and some unnecessary step to perform and there is activity post pond to other day. Regarding the principles of purchasing the organization gives little attention to right time, right source and right price and the purchasing department of the organization is not work properly and does not meet to the needs and wants of the user department and also supplier are exercising despite full practices and this causing challenges for purchasing and bring poor quality of materials.

As employee and managers of purchasing department of the organization responded that organization implements the team based and minimizing risk practice of procurement in order to minimize the poor performance of purchasing process and the organization used decentralized purchasing policy. Finally the organization applies principles and standards of purchasing and the employees of the organization faced challenges such as unavailability of necessary materials, lack of price and budget.

5.3 Recommendation

- In order to enhance its relation with local supplier and social responsibility to the local community the organization should be delegate authority to sub group /department to purchase materials.
- The organization should develop and implement right time on the practice of purchasing to minimize delaying of purchased materials.
- The organization can be improveand use e-procurement or online system to purchase the materials needed in order to minimize cost, lead time and to reduce shortage of materials.
- To overcome the challenges such as unavailability of necessary material, The organization should buy materials from both local and international sources and should have their own transportation service and hiring purchasing personnel.
- To overcome poor performance of purchasing process the organization should implement best practice of purchasing process.
- To gate the right material the organization should strongly focus on right time, right source and right price in addition to right quality and right quantity.
- Obtain the right quality and quantity of material at the right time, so those products were not hampered.
- Deal with the supplier regarding shortage, rejections etc, reported by the store.
- In case of delay in obtaining suppliers against any purchase requisition keep the department concerned informed of the progress.
- It is more favorable that Delegation of authority to a various unit price moral of involved personnel and taken advantage of their local acquaintance and knowledge.
- Decentralization of purchasing enable local management to exercise control over it cost and selection of material in addition to enhancing its relation with local suppliers and its social responsibility to the local community.
- Develop good relationship with the supplier, continuing relationship with active supplier and good relationship with potential suppliers.

- Buying wisely involves continual search for better value that yields the best combination of quality, services and price, relative to the buyers need.
- Keep inventory investment and inventory loses as a practical minimum although maintaining a large inventory is one of achieving objectives from top manager perspective.
- The purchasing unit verifies whether the purchase requisition is authorized and whether other requirements have been fulfilled appropriately questions cleared in the verification includes.

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APPENDIX

WOLKITE UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF MANAGEMENT

Questionnaire for Wolkite town finance and economics office Employees

Dear respondents:

This questionnaire is considered for academic research purpose and prepared by a student of Wolkite University in management on the assessment of challenge of purchasing practice. The information gathered from you will never disclose to other parties and plays a greater role to complete my research paper. So, please give your answer honestly and openly. **Instruction: -** Writing your name is not allowed.

- Use this mark (√) for your answers in the box provided

Part –I Personal information

1. Sex: Male Female

Age: 18-27 28-35 36-4748-57 58 and above

Educational level: Certificate Diploma First degree Master & above

Work experience: 0 years 1-5 years > 6 years

Part –II : About the organization

2. What look like the purchasing practice in your organization?

Very good Good Bad

3. What type of purchasing practice are followed by your organization?

Centralized purchasing decentralized purchasing

Both neither Nor

4. What is your satisfaction level in the organization purchasing practice?

Very high high medium low very low

5. Is purchasing department select suppliers who are responding in the short time?

Strongly agree Agree disagree
Strongly disagree

6. From where do you purchase most of the needed item or material?

from Local supplier international supplier both

7. What is the purchasing practice of that your organization implements?

Contract based purchasing Building supplier relationship
just in time follow up and expediting all

8. Which methods of purchasing are applied in your organization?

Open bidding restricted bidding direct purchasing
Request for quotation

9. What are the major problems that you have faced in your organization related to purchasing process?

Delivery problem transportation problem
No Poor administration problem

10. What are the guidelines for purchasing practice that your organization applies?

Selecting qualified supplier Negotiation techniques
Preparing and evaluation of bids All

11. Which of the purchasing principles are being achieved in your organization?

Right quantity right time right
quality
Right source right price all

12. How do you perceive the purchasing standards and practice of your organization?

Very good good poor