

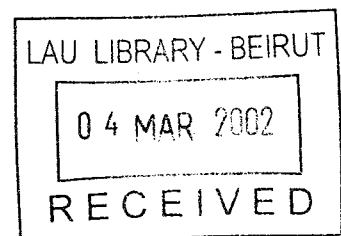
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Purchasing Principles & Applications  
in Ten Lebanese Organizations

By

Hani Chreiteh

August 1995



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## DEDICATIONS

To my family especially my mother

who inspired & encouraged me a lot

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APPROVAL OF RESEARCH TOPIC

CANDIDATE : HANI CHREITEH Date: AUGUST, 1995

DEGREE : MASTER OF SCIENCE IN BUSINESS  
MANAGEMENT

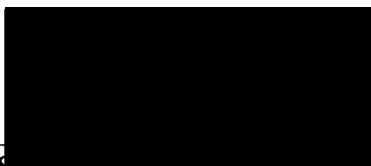
ADVISOR : DR. HUSSEIN HEJASE

TITLE OF RESEARCH TOPIC: PURCHASING PRINCIPLES &  
APPLICATIONS IN TEN  
LEBANESE ORGANIZATIONS

The following professors nominated to serve as the advisors of the above candidate have approved his research work.

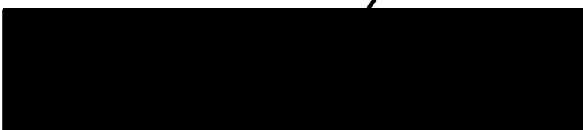
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PURCHASING PRINCIPLES & APPLICATIONS  
IN TEN LEBANESE ORGANIZATIONS

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A RESEARCH TOPIC  
PRESENTED TO THE BUSINESS SCHOOL  
OF LEBANESE AMERICAN UNIVERSITY

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IN PARTIAL FULFILLMENT  
OF THE REQUIREMENTS FOR THE DEGREE  
MASTER OF SCIENCE IN BUSINESS MANAGEMENT

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BY  
HANI CHREITEH  
AUGUST, 1995

## ABSTRACT

*Purchasing Principles & Applications that are used by developed countries should also be adopted by developing countries, like Lebanon, if these countries wish to survive and compete internationally.*

*According to the results of this research, practices in Lebanon varied from one organization to another. However, they all seemed to follow a common general trend, i.e. clear Purchasing Principles & Applications.*

*Recommendations to the Lebanese Organizations stress the direction towards clearer Policies through deeper Systemization of Procedures & Policies. Moreover, they are recommended to integrate planning and computerization into their Purchasing Practices in order to further develop their research work in this field. Finally, the Lebanese authorities are invited to organize and further legalize the Trade Practices in the Lebanese Market.*

## ACKNOWLEDGEMENTS

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## CHAPTER I

### Introduction

#### 1.1 An Overview

The past decade has been marked by numerous important developments - technological, economic, and social. Many of these have impacted both the significance and the conduct of an organization's materials management activities. As a result, the purchasing and materials has undergone a complete reevaluation by top management.<sup>1</sup>

In line with this newly gained significance, which is beginning to be reflected in vice-presidential positions for the heads of Purchasing in major corporations, the framework of *objectives* and *responsibilities* of Purchasing Management looms large. Obtaining the right quantity in the right quality at the right time at the right price from the right source is only the tip of the iceberg. A more comprehensive set of charges covers everything from vendor cultivation to customer satisfaction. And responsibilities include every aspect of the materials function from original requisition to stock levels.<sup>2</sup>

Purchasing plays an increasing role in making today's companies more profitable. While it has been recognized for some time that net purchasing savings result in a direct contribution to the bottom line, it is now shown that not all purchasing savings come from reduced prices of purchased goods and services. The benefits companies derived from effective purchasing came about as a result of Purchasing efforts in areas other than price reductions. They resulted from finding new sources of supply, finding substitute products, making recommendations for specification changes that allowed for the use of less costly and scarce materials, and making changes in ordering and delivery patterns that

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<sup>1</sup> Dobler, Donald W., et. al., Purchasing and Materials Management, 5th edition, (Singapore: Mc Graw-Hill, 1990), p.xvii

<sup>2</sup> Scheuing, Eberhard E, Purchasing Management, (N.J.: Prentice Hall, Inc., 1989), p.3

resulted in lower levels of inventory. All of these actions allowed Purchasing to fulfill their role as the expense controller for the corporation and increased regard for the Purchasing Department as a contributor to profits.<sup>3</sup>

There are two basic types of purchasing in the business world: purchasing for resale and purchasing for consumption or conversion. Purchasing for resale is performed by merchants and speculators. Purchasing managers who buy materials for internal consumption or conversion are called industrial buyers. These buyers are faced with problems different from those of merchandise buyers. They participate in determining what products their company should make, what components or parts of these products the company should manufacture, and what components or parts should be purchased from outside suppliers. They correlate their purchasing actions with sales forecast and production or demand schedules. They select suppliers from whom purchases can be made on a continuing and mutually profitable basis. Most important, they integrate the efforts of their departments with those of the other departments in the firm.<sup>4</sup>

Organizational purchasing may be defined as that function responsible for obtaining by purchase, lease or other legal means, equipments, materials, supplies and services required by an undertaking for use in production. In this definition, the term production is used in the economic sense of creating utilities, i.e. goods and services that satisfy wants. It is not, therefore, confined to manufacturing output but also applies to servicing organizations.<sup>5</sup>

## 1.2 Statement of the Problem

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<sup>3</sup> Heinritz, Stuart, et. al., Purchasing Principles and Applications, 8th edition, (N.J.: Prentice hall, Inc., 1991), p.3

<sup>4</sup> Dobler, Donald W., et. al., 5th edition, p.4

<sup>5</sup> Lysons, CK, Purchasing, 2nd edition, (London: Pitman Publishing, 1991), p.1

Should we adopt Purchasing Principles & Applications in the Lebanese organizations. In fact, the past period of war in Lebanon witnessed a disordered and illegitimate market. In addition, smuggling and illegal trade practices contributed in the domination of exceptional unusual factors or parameters controlling the Lebanese market. Under those circumstances, the application of structured Purchasing Principles was almost impossible and unfeasible. Nowadays, in aftermath period, the situation is not the same any more. In the postwar period, Purchasing and Materials are of great importance especially in this stage of development and reconstruction. Industrialization which will accompany the reconstruction process, will also require the services and expertise of buying personnel to coordinate and manage increasingly complex production purposes. The following research contributes in assessing the adoption of Purchasing Principles & Applications in the Lebanese organizations.

### 1.3 Purchasing in Lebanon in the Last Decade

The last decade witnessed the last phase of the Lebanese civil war. During that period, the Lebanese market was still disorganized and chaotic. In fact, the war encouraged illegal trade practices that do not appear in normal conditions, e.g. smuggling and related price disorders. Moreover, the war fostered the phenomenon of brokers and secondary suppliers. All those factors contributed in the creation of some exceptional and unusual circumstances under which a normal and legitimate functioning of Purchasing would be faraway.

### 1.4 Purpose of the Study

The purpose of the study is to assess how far the Purchasing Principles & Applications in the Lebanese organizations are conform to the reported literature (American Standard). This was done through examining ten well known Lebanese organizations. An appraisal of what is going on in those organizations followed in order to better understand how they adapt to reported Purchasing Principles & Applications.

### 1.5 Organization of the Paper

The organization of the remaining chapters is as follows:

Chapter II presents a review of literature covering Purchasing Procedures, Policies, Ethics, Organization, Planning and Computerization derived from the American Standard.

Chapter III describes and justifies the methodology used for this research, including research design, data collection methods, sampling, and data analysis.

Chapter IV presents the findings of the research in detail, and is divided into two sections. The current practices in ten Lebanese organizations, and a qualitative analysis of the findings.

In Chapter V, conclusions are drawn in the form of a brief summary of the whole paper and recommendations given to the Lebanese organizations and the Lebanese Government. Finally, the limitations of the study are outlined and future research is suggested.

## ChapterII

### Literature Review

#### 2. Introduction

The famous saying "a product well bought is half sold" is very important in showing the importance of the purchasing function in every business enterprise. With many manufacturing firms spending up to 65% of their sales revenues on purchased goods and services, the role of the purchasing function is becoming an increasingly important one. This transition can be seen in the evolution of purchasing from its roots as a purely clerical function in the early part of this century, to its more traditional role of expense control through most of the century, and now to its role as manager of outside manufacturing. As the nature of the function has changed, so have the requirements for purchasing professionals.<sup>1</sup>

Previous research on Lebanese business entities regarding Purchasing topics is not found. Then, the introduction of different Purchasing Procedures, Policies, Ethics, Organization, Planning and Computerization would be an asset for the successive evaluation of the treated organizations against those standards currently followed (American Standards).

#### 2.1 Procedures

A procedure outlines in detail the specific actions to be taken. In short, it establishes the way of doing things. Procedures should be developed in accordance with four fundamental concepts.

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<sup>1</sup>Heinritz, Stuart, et. al., Purchasing Principles and Applications, 8th edition, (N.J.: Prentice hall, Inc., 1991), p.2

First, procedures are not an end unto themselves. They are means to an end. The objective is to develop a series of procedures that facilitate the accomplishment of a task with minimum effort. This means that procedures should be as simply defined as possible and should be placed in writing to ensure accurate communication.

Second, procedures must be designed to facilitate communication and coordination of the efforts of one group with another. He or she must consider its relationship to existing procedures, particularly with respect to timing, and then design the new procedure to ensure efficient integration with the other parts of the entire system.

Third, effective operation requires that responsibility be assigned clearly for the accomplishment of each step for each procedure. Failure to do so results in gaps or the overlapping of effort and in troublesome conflicts between operating personnel.

Finally, procedures permit "management by exception". A procedure thus enables an employee to handle an activity with minimum of direct supervision. Consultation with a manager is required only when conditions arise that are not covered by the procedure.<sup>2</sup>

## **2.2 General Procurement Procedures**

### **2.2.1 Transmission of the need**

The need for a purchase typically originates in one of a firm's operating departments or in its inventory section. The transmission of the need for purchase of materials is usually accomplished through the following forms:

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<sup>2</sup>Dobler, Donald W., et. al., Purchasing and Materials Management, 4th edition, (N.Y.: Mc Graw-Hill, 1984), p.490



### 2.2.1.a Standard Purchase Requisition

A purchase requisition is a document used for requisitioning materials that have to be ordered from suppliers. It is used typically when a need for materials arises in one of a firm's operating departments or in its inventory section for reasons of replenishment. The purchase requisition is an internal document, in contrast with the purchase order, which is basically an external document. Purchase requisition formats vary widely because each company designs its formats to simplify its own particular communication problems. The essential information which every requisition should contain includes a description of the material, quantity and date required, estimated unit cost, operating account to be charged, the date and the authorized signature.

### 2.2.1.b Traveling Purchase Requisition

Many companies use a "Traveling Requisition" to communicate the material needs that originate in the inventory control section to the purchasing department. The following data typically appear on a traveling requisition:

- 1- A complete description of the item
- 2- A numbered list of approved suppliers and their addresses
- 3- Last prices paid to various suppliers
- 4- Reorder point and order quantity values
- 5- A record of usage

When the stock level drops to the reorder point in a manual system, an inventory clerk takes the traveling requisition from the file, notes the current stock level and the desired delivery date on the card, and sends it to the purchasing department. The purchase order is then prepared directly from the traveling requisition. After the buyer signs the purchase order, the traveling requisition is returned to the inventory control section and refiled with its

respective inventory record card. In companies using computerized inventory control systems, the work of the inventory is done automatically by a computer. In such cases, the computer typically produces a purchase requisition that contains essentially the same information as the traveling requisition.<sup>3</sup>

### 2.2.2 Definition and Description of the Need

Clear, complete, and appropriate definition and description of the need is a joint responsibility of the user and the buyer. One of the reasons why every purchase requisition should be approved by designated departmental supervisors is to ensure that requisitions are initially reviewed by qualified individuals and subsequently come to purchasing in correct form. The buyer's responsibility is then threefold. First, he or she checks the requisition for accuracy and completeness, including internal data such as the account to which the purchase will be charged. Second, the buyer determines that the need has been adequately defined. And finally, he or she must ensure that the appropriate method of description has been used to guarantee a satisfactory purchase for the user and, at the same time, provide all possible latitude in the selection of the supplier.

#### 2.2.2.a The Stock Check

Purchase requisitions are checked to see if the requested item is carried in stock. If adequate stock is on hand, no purchase is necessary. Some companies route all requisitions for tools, supplies, and production-type materials to inventory control before they are sent to purchasing. If a sizable percentage of a firm's requisitions involve store-type items, this procedure expedites the supply

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<sup>3</sup> Dobler, Donald W., et. al., Purchasing and Materials Management, 5th edition, (Singapore: Mc Graw-Hill, 1990), p.52

process and reduces clerical work in the purchasing department. It also informs inventory control of the non-stock items that are being ordered repetitively and, therefore, might advantageously be carried in stock.

#### 2.2.2.b Supplier Selection and Preparation of the Purchase Order

The purchase order is the instrument by which goods are procured to fill a requirement. In case of routine items for which supplier relationships have already been developed, little additional investigation may be required to select a good source. The purchase of a new or a high-value item, on the other hand, may require a lengthy investigation of potential suppliers. It should be emphasized that in most cases the purchase order becomes a legal contract document. For this reason, the buyer should take a great care in preparing and wording the order. Quantity requirements, price, and delivery requirements must be precisely described. In short, the order should include all data required to ensure a satisfactory contract, and it should be worded in a manner which leaves little room for misinterpretation by either party. In addition to those provisions which are unique to each contract, most firms also include as a part of each contract a series of terms and conditions that are standard for all orders. Each company develops its terms and conditions of purchase in accordance with its own unique needs. Multipart forms provide enough copies of the order to satisfy both internal and external communication needs.<sup>4</sup>

#### 2.2.3 Acknowledgement and Follow-Up the Order

The original copy of the purchase order which is sent to the supplier constitutes a legal "offer" to buy. No purchase "contract" exists, however, until

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<sup>4</sup> Dobler, Donald W., et. al., 5th edition, pp.55-56

the seller "accepts" the buyer's offer. The seller's acceptance can take one of two forms:

- 1- Performance of the contract
- 2- Formal notification that he accepts the offer

The purpose of sending the supplier an acknowledgement form along with the purchase order is twofold. First, it is a form he can conveniently complete and return to the buyer, acknowledging acceptance of the order. Also, he can indicate whether or not he is able to meet the desired delivery date. If the supplier ships the ordered item immediately from stock, he frequently disregards the acknowledgement form. Some suppliers prefer to use their own forms. The buyer should check the acceptance closely to see that the supplier has not taken exception to any provisions of the order.

Follow-up is selective. A study of prevailing policy shows that less than one third of all companies follow up every order issued for delivery. An additional one third follow up orders classified as "important" or production orders as distinguished from orders for stock. In the other companies, follow-up is restricted to those that are actually and seriously overdue to special, rush, or emergency orders. Numerous follow-up systems can be used. In a manual system, the follow-up copy of the order is simply filed in a calendar file under the date the order is to be checked. In another system, the orders are filed alphabetically by supplier. In all systems, follow-up communication with the supplier usually takes two forms. A letter, a wire, or a telephone call is typically used for most critical orders. Finally, some firms maintain a force of field expeditors especially for heavy construction or negotiating contracts involving long lead times and complex requirements.<sup>5</sup> The field expediter makes regular progress reports to the purchasing department during the life of the order or contract, and his or her reports, checked with the schedule of requirements, show at all times the prospect of satisfactory fulfillment of

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<sup>5</sup> Dobler, Donald W., et. al., 5th edition, pp.59-60

delivery dates and indicates in advance the likelihood and extent of any delay that may be encountered.<sup>6</sup>

#### 2.2.3.a Receiving

After a shipment has been inspected for quantity and for general condition of the material, the receiving clerk prepares a receiving report. The trend in most companies today is to reduce the clerical work by preparing the receiving report forms during the same typing or printing operation that prepares the purchase order.<sup>7</sup> The receiving clerk writes the identification and receiving figures in the appropriate spaces included on the form.

#### 2.2.3.b Inspection for Quality

Not all materials require formal inspection for quality; in a large proportion of deliveries on a normal procurement program, simple visual inspection meets every practical need. Secondly, many firms today precertify their suppliers' quality. Shipments of material from suppliers who are certified bypass incoming inspection and are sent directly to the storeroom or into production. The inspection report may be made on the same copy as the receiving report; otherwise, a separate inspection report is required, certifying that the materials are satisfactory or, if not, giving the reason for rejection.<sup>8</sup>

#### 2.2.3.c The Invoice Audit and Completion of the Order

Sound accounting practice dictates that some type of review procedure precedes payment to the supplier. A typical procedure involves a simultaneous

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<sup>6</sup>Heinritz, Stuart, et. al., pp. 75-76

<sup>7</sup>Dobler, Donald W., et. al., 5th edition, p.61

<sup>8</sup>Heinritz, Stuart, et. al., pp. 77-78

review of the purchase order, the receiving report, and the invoice. By checking the receiving report against the purchase order, the purchaser determines whether the quantity and type of material ordered were in fact received. Then, by comparing the invoice with the purchase order and the receiving report, he verifies that the supplier's bill is priced correctly and that it covers the proper quantity of accepted material. Finally, by verifying the 'Total' figure of the invoice, he determines the correctness of the total invoice figure. Invoice audit should be conducted soon after the receipt of the invoice to permit the accounting department to make prompt payment and obtain any applicable cash discounts. Many companies do not verify accuracy of low-dollar-value invoices.

Invoice auditing is technically an accounting function. Some firms, however, assign the invoice auditing responsibility to purchasing. In the purchase of complex or technical materials, a strong case can be made to assign the auditing task to the buyer who handled the order. This individual is familiar with the materials and their technical nomenclature, with prices and contract provisions, and with all ensuing negotiations. Invoices for such orders are often difficult to interpret and evaluate without a detailed knowledge of these things.

When purchasing audits the invoice, its records are closed after the audit. Closing the order simply entails a consolidation of all documents and correspondence relevant to the order; the completed order is then filed in the closed order file.<sup>9</sup>

### **2.3 Purchasing Department Records**

The files of a purchasing department contain an endless flow of operating data. Despite its huge volume, much of this information can be useless in daily

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<sup>9</sup> Dobler, Donald W., et. al., 5th edition, p.63

operations unless it is organized in a manner which makes it readily accessible. The following basic records are essential for the effective operation of most purchasing departments:<sup>10</sup>

- 1- File of open orders
- 2- File of closed orders
- 3- Purchase log
- 4- Commodity record
- 5- Supplier record
- 6- Contract record

### 2.3.1 File of Open Orders

All buyers need immediate access to information concerning the status of their outstanding orders. The filing system is customarily indexed alphabetically by supplier's names. Within each supplier's subfile, orders are arranged in ascending numerical sequence. Some firms also maintain a separate numerical file of purchase requisitions. The file makes it easy to locate a purchase order needed to answer questions from a requisitioner who can identify the purchase order only by requisition number. Other firms maintain a separate file ordered by requisitioning departments and/or projects.

### 2.3.2 File of Closed Orders

The closed order file provides a historical record of all completed purchases. It frequently serves as a useful reference when questions arise concerning past orders and when certain historical data are needed to guide future decisions. Normally, any order files kept beyond three years should be

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<sup>10</sup> Dobler, Donald W., et. al., 5th edition, p.64

retained on a highly selective basis because records retention is costly especially in a large firm.

### 2.3.3 Purchase Log

The purchase log is a numerical record of all purchase orders issued. It should contain the purchase order number, the supplier's name, a brief description of the material purchased, and the total value of the order. The purchase log serves as a convenient record from which summary administrative data can be extracted concerning such matters as the number of small orders, rush orders, and total orders issued; the volume of purchases from various suppliers; the value of outstanding commitments;...

### 2.3.4 Commodity Record

Typically included on the card is a complete description of the material or service, with full reference to necessary engineering drawings and specifications which might be filed elsewhere. Also included should be a list of approved suppliers and their price schedules. In deciding how much detailed information to record in its commodity cards, each firm must weigh the value of the information against the cost of transcribing it.

### 2.3.5 Supplier Record

A separate card is maintained for each major supplier. On this card is recorded his address, telephone numbers, and the names of personnel to contact on specific matters of inquiry. Many firms additionally summarize on this record the supplier's delivery and quality performance, as well as the annual



volume of material purchased from him. These records enable a buyer to obtain a wealth of summary information about any important supplier.

### 2.3.6 Contract Record

In addition to providing immediate access to all contract documents, this file also informs all buying personnel of the materials that are purchased in this manner.

## 2.4 Rush Orders

Even in the case of emergencies, it is unwise to accept verbal requisitions in person or over the telephone. Too much chance for erroneous interpretation of the requirement exists. The requisitioner should state the need in writing and have a messenger deliver it to the buyer. In no case, however, should an order be placed without assigning it a purchase order number. A confirming purchase order subsequently should be mailed to the supplier. Yet, purchasing should not permit users to take unfair advantage of its emergency service. Rush orders always cost more than if they were handled through the normal purchasing system.<sup>11</sup> Higher prices frequently are paid because rush purchases are not investigated as thoroughly as those handled in the normal routine, and premium-cost transportation typically is used. Furthermore, the interruption of a buyer's schedule work by the emergency request invariably produces inefficiency in normal purchasing department activity. Therefore, steps should be taken to discourage all rush orders that arise because of poor planning in the using departments. One approach would be to require the requisitioner to obtain approval from a general management executive for all emergency requisitions.

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<sup>11</sup> Dobler, Donald W., et. al., 5th edition, p.67

Another approach assesses the requisitioning department a predetermined service charge for each emergency requisition processed.

## 2.5 The Small Order Problem

When the cost of requisitioning, ordering, receiving, and accounting for an item, for example, is greater than its value, the use of complicated systems to procure is foolish. This dilemma, known as the small-order problem, is faced by most purchasing departments by simplified systems sometimes marked by the reduction of administrative cost rather than lower price without losing control of the whole process.<sup>12</sup>

### 2.5.1 Centralized Stores System

When experience shows that the same supply items are ordered in small quantities time after time, the logical solution is to order these items in larger quantities and place them in centralized inventory for withdrawal as needed.

### 2.5.2 Blanket or Open-End Order System

A blanket or open-end order system helps solve the problem for the thousands of items a firm cannot carry in inventory, as well as some it does carry. On the basis of an analysis of past purchases, the buyer determines which materials should be handled in this manner. The buyer selects a supplier for each item, or family of items, and issues a blanket order to each supplier. The order includes a description of each item, a unit price of each item when possible, and the other customary contract provisions. However, no specific order quantities are noted. The blanket order typically indicates only an

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<sup>12</sup>Heinritz, Stuart, et. al., pp. 78-79

estimated usage during the period of coverage. It also states that all requirements are to be delivered upon receipt of an authorized release from the buyer. On receiving a requisition for one of the materials, the buyer merely sends a brief release form to the supplier. On the release form are noted the blanket order number, the item number, and the quantity to be delivered. Receiving reports are filed with the original order, and at the end of the month are checked against the supplier's monthly invoice. A note should state that by having the material shipped in as needed, the buyer transfers some of the carrying cost to the vendor.<sup>13</sup>

### 2.5.3 Telephone Order System

Telephone ordering system is used to reduce the paperwork associated with small-order purchasing. When the purchasing department receives a requisition, it does not prepare a formal purchase order. Instead, the order is placed by telephone.

### 2.5.4 Petty Cash System

It is often less expensive for an individual user or a purchasing delivery employee to buy minor items personally and pay for them from a petty cash fund, than is to buy them through the conventional purchasing system. Any inefficiencies that may arise because of a lack of buying skill are more than compensated by saving the costs of placing a purchase order.<sup>14</sup>

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<sup>13</sup> Dobler, Donald W., et. al., 5th edition, pp.68-69

<sup>14</sup> Ibid, pp.71-72

## **2.6 Policies for Purchasing Practices**

A corporation's mission statement and strategies lead to its policies. They are one of the administrative tools of departmental management and a reflection of top-management philosophy.<sup>15</sup> A policy is a statement which describes in very general terms an intended course of action. After the fundamental objectives of an activity are established during the planning process, policies are developed to serve as general guidelines in channeling future action toward the objectives. Policies as distinguished from procedures, do not set down a series of explicit steps to be followed in performing a task. Rather, they state broadly the intended course of action. After a policy has been formulated, specific procedures are then developed for handling common recurring decisions.<sup>16</sup>

From an operating manager's point of view, an established policy serves several functions. First, it serves as a base to be used in formulating operating procedures. Second, it serves as a general guide in making decisions about unusual problems which fall outside clear-cut procedural boundaries. Third, an approved policy gives authority to the indicated course of action. Fourth, An approved policy provides a standard for evaluating performance. Fifth, an approved policy assists in preparation for audits. Sixth, it helps to coordinate the activities of executives in their efforts to achieve the objectives of the undertaking and in their relationships with each other.<sup>17</sup>

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<sup>15</sup>Heinritz, Stuart ,et. al.,p.62

<sup>16</sup> Dobler, Donald W., et. al., 5th edition, p.32

<sup>17</sup>Heinritz, Stuart ,et. al.,p.63

## **2.6.1 Policies Defining Purchasing Responsibility**

### **2.6.1.a Centralization of Purchasing**

Centralization of purchasing function is essential for attainment of both optimum operating efficiency and maximum profit. Centralization exists when the entire purchasing function is made the responsibility of a single person. This person is held accountable by top management for proper performance of purchasing activities. Decentralization of purchasing occurs when personnel from other functional areas of a business -production, engineering, marketing, finance and personnel- decide on sources of supply, negotiate with vendors directly, or perform any of the other major functions of purchasing.<sup>18</sup>

Complete centralized purchasing is neither always possible nor always desirable. Some situations justify some decentralization. One example would be of companies that process single natural raw materials; they tend to separate the purchase of these materials from the purchase of other materials. Another example exists in technically oriented firms that are heavily involved in research. However, when specifications become firm, the purchasing department should assume the responsibility for procurement. A third example is found in the operation of multiplant operation firms.

For many small purchases, the cost of the paperwork exceeds the cost of the item purchased. Even though the user may pay more for the item if it is bought through petty cash without purchasing assistance, the extra cost is more than offset by the saving in processing costs.

Generally speaking, if 95% or more of the purchasing is performed by the purchasing department, decentralization should not be considered a problem. However, the appropriate level of decentralization must be determined for each firm from an analysis of the individual factors involved in its operations.

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<sup>18</sup> Dobler, Donald W., et. al., 5th edition, p.32

### 2.6.1.b Implementing and Maintaining Centralization

The firm's policy manual must contain a precise statement to the effect that the purchasing department holds full authority for negotiating, concluding, and following up purchases. This does not neglect the fact that purchasing might need the request of technical assistance from operating departments.

Various unique and emergency conditions, however, may produce a situation where it is in the firm's best interest to delegate specific purchasing authority. In such cases, delegation of authority should be accompanied with adequate plans and constraints to ensure that the purchasing department does not lose control of its purchasing responsibilities. A firm must also make sure that its purchasing department is placed in the best possible bargaining position. Toward this end, it should be clearly understood that no one outside of purchasing is to give vendors any indication of product preference, current sources of supply, price or performance data for competing products, or any other information which would weaken the firm's purchasing position.

To the interest of controlling expenditures, the firm should delegate the authority to approve purchase requisitions only to specified individuals in each department. This practice establishes the groundwork for a policy requiring that all requests for purchase be submitted in writing, usually on a printed requisition form. Except in a rare emergency, oral requisitions should not be accepted. This policy obviously eliminates numerous costly communication errors. More important is the fact that it requires operating departments to plan their material requirements more carefully.<sup>19</sup>

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<sup>19</sup>Dobler, Donald W., et. al., 5th edition,, pp.35-36

## 2.6.2 Policies Affecting External Relationships and Image

### 2.6.2.a Vendors

The development of sound vendor relations is a major responsibility of the purchasing department. Good vendor relations contribute to the formation of a good public image. Moreover, the treatment and service that a supplier gives a customer depends to a great extent on the way the supplier feels about the customer.<sup>20</sup>

### 2.6.2.b Reciprocity

One of the most troublesome and controversial policy questions purchasing executives have faced is that of reciprocity. It happens with the systematic use, by a sales department, of purchasing data in communicating with suppliers; or a discernible pattern of dealing between supplier and purchaser notwithstanding better price, quality, or service available from competitors.<sup>21</sup>

### 2.6.2.c Salespeople

Favorable vendor relations tend to be promoted by treating all salespeople fairly and courteously. Regular calling hours for vendor's representatives permits more efficient planning and utilization of a buyer's time.

### 2.6.2.d Orientation and Policy Booklets

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<sup>20</sup>Dobler, Donald W., et. al., 5th edition,, p.37

<sup>21</sup>Heinritz, Stuart ,et. al.,p.65

Orientation booklets inform a firm's vendors of its basic policies and procedures. A buyer must always bear in mind that statements which are not made in oral discussions with a vendor's representatives may tell the vendor more than statements that are made. Incomplete communication can give rise to incorrect rumors and speculations highly detrimental to the relationship. Written statements prove to be more effective media of communication.<sup>22</sup>

#### 2.6.2.e Samples

It is an inexpensive and effortless way of learning about new, potentially useful products. If the cost of the sample is more than several dollars, the buyer should elect to pay for the sample. Such prudence removes any possible obligation that could result from accepting free material. In the interest of good vendor relations, therefore, a definite policy and related procedures should be established to ensure fair and uniform treatment of all samples by all buyers.

#### 2.6.2.f Plant Visits

Plant visits yield three distinct benefits. First, they provide an opportunity for a buyer to learn more about the current technical and manufacturing aspects of the materials he buys. Second, such visits enable a buyer to discover a great deal of inside information about specific suppliers. Third, plant visits permit a buyer to develop valuable personal acquaintances and friendships among suppliers' personnel.<sup>23</sup>

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<sup>22</sup> Dobler, Donald W., et. al., 5th edition, pp.37-38

<sup>23</sup> Ibid, pp.40-41



#### 2.6.2.g. Contact with Suppliers

A sensible and commonly accepted policy on this point is to require that such contacts be made through the purchasing department and that in such interviews no commitments are to be made by plant personnel as to the preference for products or sources, which might weaken the position of the purchasing department in subsequent negotiations.<sup>24</sup>

#### 2.6.3 Policies Affecting Internal Relationships

Policies in this category include such matters as the authorizations required on requisitions to purchase, permissions for vendors' sales representatives to contact plant personnel, the final responsibility for specifications, the procedures to be followed in standardization and value analysis recommendations involving engineering changes, and similar points on which conflicts of function and authority may arise.<sup>25</sup>

#### 2.6.4 The Policy Manual

If policies are to function effectively, it is important that they be placed in written form. It is important that the message reaches those who are to receive it as clearly and accurately as possible. The complexity of a modern firm necessitates the establishment of many diverse policies, all of which cannot be remembered accurately. The normal turnover of employees and managers compounds this difficulty. Because minor differences in interpretation are inevitable, it is essential that care be taken to ensure the accuracy of policy communications. A policy manual has at least two sections, one containing

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<sup>24</sup>Heinritz, Stuart, et. al., p.68

<sup>25</sup>Ibid, p.66

company policies and one containing departmental policies. What is important is that all major policies and operating procedures be committed to writing. They must be stated simply and unambiguously in a manual that is easy to use and that is kept current.<sup>26</sup> Representative short-form manuals customarily include sections on customer and interdepartmental relationships, ethical considerations, and the like, emphasizing teamwork and cooperation in practical terms. Some companies have found it advantageous to supply copies to the entire list of vendors, and it has proved to be a potent means of developing good business relationships and cooperation. Of particular importance in any policy manual is a statement from top management that establishes departmental policy as company policy and thus gives the entire code an authority that would otherwise be lacking.<sup>27</sup>

#### **2.6.5 Ethics in Purchasing**

Ethics is the science of human conduct. Conduct in this context means conscious and purposeful action or action directed to an end. Purchasing ethics considers the principles on which people habitually act, and, in business, may be considered as an extension of the commercial practices and rules which the majority of businessmen recognize as essential to good, continuing relationships.<sup>28</sup>

#### **Ethical Obligations**

##### **2.6.5a Obligations to the Employer**

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<sup>26</sup>Dobler, Donald W., et. al., 5th edition, p.45

<sup>27</sup>Heinritz, Stuart, et. al., pp.63-64

<sup>28</sup>Lysons, CK, Purchasing, 2nd edition, (London: Pitman Publishing, 1991), p.271

- 1- A buyer must protect any information that is confidential or proprietary to his or her employer
- 2- All buyers are obligated to protect and enhance the reputation of the firm
- 3- Purchasing personnel must not become involved in any situation that dilutes their performance for the firm to achieve personal gain.

The purchasing manager has an ethical responsibility to the company not to be put under special obligation to any supplier by the acceptance of excessive entertainment or by permitting sales representatives consistently to buy his or her lunches , even though this may be done in the spirit of ordinary business courtesy. Such relationships should be kept on a thoroughly equitable basis. For this reason, progressive companies provide their purchasing executives and buyers with expense accounts.<sup>29</sup>

#### 2.6.5b Obligations to Suppliers

- 1- Buyers are obligated to strive for an equitable settlement of business dealings for both firms - the buyer's and the supplier's firm
- 2- A buyer must treat all vendors fairly.
- 3- Purchasing personnel are obligated to protect a vendor's proprietary information - such as design concepts, pricing structure,...

In case of bids, if revisions are to be permitted, the same opportunity should be frankly offered to all bidders, and if the specifications are changed because of an alternative product offered by one of the bidders, all should be invited to bid on the new specification. The purchase manager, however , is not responsible for a vendor's error in calculating a bid. Moreover, once an order or

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<sup>29</sup>Heinritz, Stuart ,et. al.,p.64

contract has been placed on the basis of a legitimate bid, the buyer is not responsible for assuring the bidder a profit on the transaction.<sup>30</sup>

#### 2.6.5c Obligation to Professional Colleagues

All individuals engaged in purchasing work are regarded by outside observers as members of emerging profession. They have an obligation to protect and enhance the reputation of that body of professionals

#### 2.6.5d Professional Behavior

If a vendor believes that a buyer has not been entirely ethical, the buyer and his firm both suffer as a result of the vendor's false impression. Therefore, definite policies on all matters involving ethics should be formulated and clearly communicated to all personnel. In addition, an attempt should be made to create a working environment where unethical temptations seldom become realities. Departmental policy should make it clear that buying personnel engage in any unethical activity are at the risk of losing their jobs.

After the basic policy framework has been established, the surest way to encourage ethical conduct is to develop a working environment conducive to such conduct. The foundation of such an environment consists of the personnel themselves. Purchasing management will be repaid many times for the effort put into thorough, careful investigation and selection of buying personnel. Finally, it is beyond doubt that the actions and attitudes of supervisors are the most influential single factor in determining the attitudes of a workgroup. Also, the way to keep employees is to pay them enough to live a decent life.<sup>31</sup>

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<sup>30</sup>Heinritz, Stuart, et. al, p.49

<sup>31</sup> Dobler, Donald W., et. al., 4th edition, pp.483-484

#### 2.6.5e Employee Purchases

When a purchase is made for the personal use of an employee, the individual employee is receiving the discount earned by the company's purchasing power. Is it ethical for a firm to use its purchasing power in this manner to benefit its employees? The answer depends on how the supplier feels about the transaction. If he opposes the idea, or if the buyer in any way coerces him to accept the order, this is clearly an unethical practice. On the other hand, if the supplier is completely willing or offers to enter into such an agreement, the question of ethical impropriety becomes less clear. However, over the long run a buyer certainly becomes obligated to a supplier who continually makes such concessions.<sup>32</sup>

#### 2.6.5f Conflict of Interest

Conflict of interest occurs when a buyer's loyalty is divided between his firm and an external organization with which he has an opportunity to do business. The critical determinant factors are:

- 1- The relative size of the buyer's investment
- 2- The buyer's ability to influence the supplier's profit position

A wise purchasing person clearly should make every effort to avoid buying situations that have even the slightest possibility for producing a conflict of interest.<sup>33</sup>

#### 2.6.5g Business Gifts

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<sup>32</sup> Dobler, Donald W., et. al., 4th edition, p.481

<sup>33</sup>Ibid, p.485

Policies with regard to the receipt by buyers of gifts from suppliers, especially at Christmas, vary widely. The three most common policies are:

- i- buyers are forbidden to accept gifts of any kind and those received must be returned;
- ii- buyers may retain gifts that are clearly of an advertising nature, e.g. calendars, diaries, pencils, etc.;
- iii- buyers are allowed to decide for themselves whether a gift is an appreciation of cordial business relationships or an attempt at commercial bribery.

The last policy is the best since it regards purchasing staff as responsible individuals capable of distinguishing a gift from a bribe. It is wise for an employee to make a disclosure of gifts offered or received to his employer who then has the responsibility of deciding whether the gift can be accepted or returned and what action, if any, should be taken against the individual or undertaking proffering the gift. Many purchasing departments have established a definite policy against the acceptance of such favors.<sup>34</sup>

#### 2.6.5h Confidential Information

The buyer is under no ethical compulsion to answer questions other than those that relate directly to the proposal. Competitive price information is regarded as confidential and should not be disclosed under any circumstances. And although it is generally true that full and frank discussion leads to a better mutual understanding and perhaps to a better purchase, there are circumstances in which factors other than price are also of a confidential nature.<sup>35</sup>

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<sup>34</sup>Lysons, CK, pp.273-275

<sup>35</sup>Heinritz, Stuart ,et. al.,p.49

### 2.6.5i Purchase of Design Work

One facet of the problem centers about the matter of ownership of the special design. Another facet concerns the supplier's recovery of sunk costs in design work and tooling. When a supplier agrees to design and manufacture a special component, who owns the resulting design -the supplier or the buyer? Who has the right to apply for a patent on the item? Who owns the special tooling the supplier must obtain to produce the item? The answers to these basic questions should be specified in the purchase contract. By taking these precautions, the buyer can avoid the uncertainties and distasteful misunderstandings which at times accompany such purchases. The most desirable method of pricing is one which separates the supplier's charges into three categories:

- 1- Price for design and development work
- 2- Price for special tooling and equipment
- 3- Price for manufacturing<sup>36</sup>

### 2.7 Purchasing Organization

Purchasing organization involves the logical structuring of people and activities so that they can interact smoothly for optimum performance. As the purchasing organization is designed, reporting and working relationships are determined, authority and responsibilities are assigned, methods and procedures are specified, and checkpoints are established. This enables the purchasing team to work well together and make its contribution to the company's overall performance.<sup>37</sup>

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<sup>36</sup>Dobler, Donald W., et. al., 4th edition, pp.478-479

<sup>37</sup>Ibid, 5th edition, p.73

There is a significant distinction between the purchasing *function* and the purchasing *department*. The former is a basic function common to all types of enterprise. The latter is an organizational unit of an undertaking, the duties of which vary according to the nature of the business, its historical development and its management orientation. This diversity of purpose and activity is reflected in a corresponding diversity of organization structures, which is correct, since the organization structure should suit the undertaking and not vice versa.

There are many advantages in establishing a specialist department through which all purchasing is channeled. They include:

- a) Economies of scale
- b) Coordination of activity
- c) Control of activity

The main argument against channeling purchases through a specialized department is that user departments are the best judges of what to buy and where to buy it from. They tend to resort to informal procedures where the formal channels are unreliable, too slow or otherwise unsatisfactory. The best way is for purchasing to set up consultative procedures through which user departments can express their views and preferences, and to offer such a standard of service to production and other functions that the need to circumvent purchasing does not arise.<sup>38</sup>

### 2.7.1 Two Types of Purchasing organization

Two major types of purchasing organization can result from the organization effort. The first type, the *structural organization*, organizes purchasing people in terms of their reporting relationships, determining who reports to whom, and who is responsible for what. This form of organization is

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<sup>38</sup>Lysons, CK, pp.20-23



also known as the "chain of command" and is best illustrated by the organization chart. The structural purchasing organization tends to be stable and static over time. The second type, the *process organization*, deals with structuring activities in the most efficient manner. Work sequences have to be organized so that responsibilities are clear, time is saved, and deadlines are met. Since purchasing activities take place over time and their outcomes are affected by environmental conditions, their organization has to be dynamic and updated regularly. The organization of the purchasing process can be shown in a flow diagram.<sup>39</sup> For a better comparison and contrast between the two types see Exhibit 1:

Exhibit 1- Purchasing Organization<sup>40</sup>

Elements:	People	Activities
Type:	Structural	Process
Content:	Reporting	Work
	Relationships	Sequences
Nature:	Static	Dynamic
Diagram Format:	Organization	Flow
	Chart	Diagram
Example:	Product	PERT
	Specialization	Network

<sup>39</sup>Scheuing, Eberhard E, *Purchasing Management*, (N.J.: Prentice Hall, Inc., 1989), pp.73-74

<sup>40</sup>*Ibid*, p.74

### 2.7.2 Principles of Purchasing Organization

In designing the structure of a purchasing department, a number of organization principles have to be taken into account. They consist of specialization, control, coordination, communication, and the separation of line and staff functions.

Through *specialization*, individual members of the purchasing team can concentrate their efforts on a particular type of tasks; develop appropriate knowledge, skills, and contacts; and become highly proficient in the execution of these tasks. Too highly specialized purchasing job, however, may become too boring for the employee and too difficult for a colleague to perform on an emergency basis. To overcome the boredom factor that eventually results from specialization, purchasing personnel should be rotated through reassignment within the department or promoted to a higher and larger realm of responsibility.

The next organizational principle, *control*, can be defined as the ability to influence events and keep them on the desired course. The span of control to be exercised over purchasing operations is dependent upon the type of business, the skill levels of the purchasing professionals involved, and the philosophy of the head of purchasing.

The third organizational principle of *coordination* relates to the finetuning of a number of interrelated activities toward a common objective. This requirement has to be satisfied both internally within the department and externally in its interactions with the other functional units of the firm.

*Communication* encourages and facilitates the external and internal flow of information to and from the purchasing department, which thus becomes the essential communications link with the world of supply.

Taken from the military, the separation of *line* and *staff* functions concept basically divides purchasing personnel into decision makers (line) and advisors (staff).<sup>41</sup>

### 2.7.3 The internal Organization of Purchasing Departments

Within the department itself, the form of organization selected influences the types of levels and expertise developed and also, to a great extent, the effectiveness with which the talents of individuals are utilized. In small firms, purchasing duties may be handled by a purchasing manager and one or two assistants. In large organizations, the department may consist of 100 to 150 purchasing professionals.<sup>42</sup>

#### 2.7.3a The Division of Responsibility for Buying Operations

Among the bases on which purchasing may be subdivided are:

- a) by major groups of purchased items
- b) by the products for which purchased items are to be used
- c) by stage of manufacture
- d) by plant location
- e) by customer

#### 2.7.3b Organization of Support Services

Supporting activities can be organized on a *vertical* or *horizontal* basis. In the vertical system, supporting services such as stock control, progressing and

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<sup>41</sup>Scheuing, Eberhard E, pp.79-80

<sup>42</sup>Dobler, Donald W., et. al., 5th edition, p.94

typing are completely covered in each section and form a vertical line. In the horizontal system services are distinct functions.

Advantages of a horizontal system:<sup>43</sup>

- i) staff concentrate on a specific activity such as stock control in which they become specialists. This will help in a better assessment of the organization needs.
- ii) easier staff training program
- iii) preparation of departmental statistical and other statements is facilitated when such activities are the responsibility of a specialized section
- iv) possibly increased job satisfaction for support staff since they report directly to the chief purchasing officer and not to a buyer

Disadvantages of a horizontal system:

- i) support staff attached to a particular section of buying will have a better knowledge of the work of that section
- ii) communication may be slower since a buyer requiring information on the progress of an order has to refer the matter to another section head instead of someone in his own section
- iii) staff in an integrated section obtain a better grasp of how their function relates to the work of the whole section
- iv) irritation may be caused to suppliers when they deal with different sections for purchasing, progressing,...
- v) people employed in supporting activities may have less opportunity of becoming buyers than if they were attached to a vertically integrated section<sup>44</sup>

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<sup>43</sup>Lysons, CK, p.30

#### 2.7.4 Location of the Purchasing Function in an Industrial Organization

The location of a purchasing function in the management hierarchy of a firm is important, for this decision either facilitates or limits the influence purchasing policies and actions can have on the firm's total performance.

Where should the purchasing function fit in a firm's organizational structure? In fact, the importance of purchasing in any specific firm is determined largely by four factors:<sup>45</sup>

- 1- Availability of Materials: Are the major materials used by the firm readily available in a competitive market? Or are some key materials bought in volatile markets subject to periodic shortages and price instability? If the latter condition prevails, creative performance by analytical purchasing professionals is required.
- 2- Absolute Dollar Volume of Purchases: If a company spends a large amount of money for materials, the sheer magnitude of the expenditure means that top-flight purchasing can usually produce significant profit. Small unit savings add up quickly when thousands of units are purchased.
- 3- Percent of Product Cost Represented by Materials: When a firm's materials costs are 40 percent or more of its product cost, small reductions in material costs increase profit significantly. Top-level purchasing usually pays off in such companies.

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<sup>44</sup>Ibid, pp.28-31

<sup>45</sup>Dobler, Donald W., et. al., 5th edition, p.96

- 4- Types of Materials Purchased: Many large companies use a wide range of materials, many of whose price and service arrangements definitely can be influenced by creative purchasing performance. On the other hand, some firms use a fairly small number of standard production and supply materials, thus there is no need for creative purchasing performance.

Purchasing may be

- a) a top or senior management function
- b) a middle management function
- c) a routine clerical procedure

The place of purchasing in the management hierarchy depends largely on whether the executive in charge of the function is mainly concerned with non-programmed or programmed decisions.<sup>46</sup>

Many firms can benefit from high-caliber, creative purchasing department. In such firms, purchasing should be a top level, profit-making function that receives close attention from general management. In other firms, purchasing performs primarily a service activity for a major operating function to which it properly reports.

#### 2.7.5 Organization for Purchasing in a Single-Plant Company

Purchasing work divides naturally into five distinct classifications. The classifications can be further divided into more specialized tasks, each of which still involves working with different problems, different products, and different

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<sup>46</sup>Lysons, CK, pp.26-27

vendors. This permits the attainment of a high degree of specialization, without creating motivational problems for most purchasing personnel.<sup>47</sup>

The five classifications of work in purchasing operation are:

- i- Management: It involves the development of policies, procedures, controls, and the mechanics for coordinating purchasing operations with those of other departments. It also involves the management of unique supplier and commodity problems.
- ii- Buying: It involves a wide variety of activities, such as working with users to develop requirements and specifications, reviewing requisitions, analyzing specifications, investigating vendors, analyzing vendors capabilities, interviewing salespeople, studying costs and prices, analyzing bids, negotiating, and selecting suppliers. Some firms have expanded the buying job to see it as "supplier management". It involves continuing work to improve supplier capability and performance, particularly in the quality area.
- iii- Follow-up and expediting: It involves various types of supplier liaison work, such as reviewing the status of orders, writing letters, telephoning and telegraphing suppliers, and occasionally visiting supplier's plants.
- iv- Special research work: It involves formal value analysis, economic and market studies, special cost studies, special vendor investigations, and systems studies.

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<sup>47</sup>Dobler, Donald W., et. al., 5th edition, p.97

- v- Clerical: Every department must write orders and maintain working files, catalog and library materials, and records for commodities, suppliers, prices, and so on.

#### 2.7.5a The Typical Organization Structure<sup>48</sup>

- 1- Manager of Purchasing: In a small department, he or she usually performs major buying activities as well as the required management duties. As the department grows, most of the manager's time is devoted to management issues, except for the negotiation of a few major contracts.
  
- 2- Buyers: For buying purposes, materials can be grouped in two ways: (1) materials whose purchase requires similar buying skills and technical knowledge, or (2) materials that are used in the same finished product (or by the same operating department). Grouping materials that have similar buying and technical characteristics permits a buyer to become a technical specialist. As materials become more complex, specialized knowledge of their characteristics, manufacturing processes, and markets is indeed required to purchase them intelligently. When materials are grouped by end use, this form of organization can in some cases have two disadvantages. First, when the autonomous divisions use many of the same materials, savings can be lost through the failure to consolidate requirements and exploit the company's full buying potential. Second, some duplication of buying effort always exists.
  
- 3- Buying Supervisors: The size of the buying staff and the complexity of the purchases handled determine the need for buying supervision. Buyers are organized into larger groups on the basis of similar commodity characteristics. An intermediate manager, who reports to the chief executive, is assigned to each

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<sup>48</sup>Dobler, Donald W., et. al., 5th edition, p.98



group. The duties of these individuals typically encompass both managerial and actual buying activities.

4- **Expeditors:** Some firms require each buyer to do his or her own expediting. Because of the buyer status and intimate knowledge of the order, these firms believe that a buyer can obtain more effective results from suppliers than can someone of lesser status in the organization. Companies using this approach want the buyer to assume total responsibility for each of his or her orders. They feel that the buyer can do this best by personally participating in all phases of the purchase. Additionally, it is easier to measure and control his or her performance.

Since much follow-up and expediting is routine work, it often represents an inefficient use of the buyer's time. To achieve the benefits of specialization, the follow-up and expediting is assigned to a separate expeditor. The expeditor does his or her work as directed by the buyer, and the buyer is held fully accountable for his or her own orders. The expeditor usually handles all routine follow-up inquiries and calls on the buyer assistance with the difficult or delicate expediting problems. This form of organization tends to be less flexible and more costly, especially in small firms. However, this approach helps develop an internal source of new buyers.

5- **Staff Research Personnel:** The number of staff specialists employed depends on the size of the department, the complexity of its operation, and the types of materials it purchases. In making prepurchase investigations, good buyers should perform nearly all the activities such staff specialists are hired to do. Under the pressure of daily operations, most buyers simply do not have time to conduct all desired investigations in adequate depth. This is particularly true for complicated purchases that influence future procurement efficiency. This fact, coupled with an awareness of the benefits specialization can produce in

planning and research, has led many firms to organize such activities functionally within a special staff group. For these activities to yield their optimum benefits, it is essential that their organization and implementation be carefully planned from a *companywide* point of view.

### 2.7.6 Materials Management

Materials management is defined as "the management process which integrates the flow of supplies into, through, and out of an organization to achieve a level of service which ensures that the right materials are available at the right place at the right time, of the right quantity and quality and at the right cost. It includes the functions of procurement, materials handling, production and inventory control, packaging, transport and associated information systems and their application throughout the supply, manufacturing, service and distribution sectors."<sup>49</sup> (The Institute of Materials management(GB))

Materials management provides an *integrated systems approach* to the *coordination* of materials activities and the *control* of total materials costs. It advocates assigning to a single operating department all major activities which contribute to the cost of materials. The objective is to optimize performance of the materials *system*, as opposed to suboptimizing the performance of individual operating units that are parts of the materials system.<sup>50</sup>

In general, the Materials Management approach is especially applicable when:

- a) material costs make up a large part of total costs;
- b) purchasing is regarded as profit-oriented rather than a service function.

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<sup>49</sup>Lysons, CK, pp.36-37

<sup>50</sup>Dobler, Donald W., et. al., 5th edition, p.110

### 2.7.6a Advantages of Materials Management:

- i) Improved coordination of related functions and a reduction in conflict between activities which, if departmentalized, might have different objectives.
- ii) The MM approach facilitates the introduction of data processing and operational research techniques which improve decision making, coordination and control. "The growth of materials administration as a development of the systems approach to company control runs parallel with the increase in computer-oriented thinking in a large part of industry."(Ericson)
- iii) Materials management encourages the coordination of materials 'flow' from supplier to the plant once within the plant.
- iv) Reduction in costs of purchased items, inventory, materials handling, transportation, clerical procedures and staff.
- v) Improved supplier relations.
- vi) Improved customer service due to smoother scheduling of requirements and purchases.
- vii) Improved morale, especially for smaller subfunctions which recognize more clearly their contribution to the effectiveness of the organization.

### 2.7.6b Disadvantages of Materials Management:

- i) Materials Management may be unsuitable for some undertakings, e.g. industries which process basic raw materials such as sugar where materials prices are subject to frequent fluctuation and material quality is crucial
- ii) Coordination between activities such as purchasing and production can be achieved through other coordinating mechanisms, e.g. committees or

liaison personnel such as purchase liaison engineers. In any event the emphasis of modern management is on participation and consultation rather than on autocratic relationships.

- iii) Materials managers having a sound grasp of all the diverse activities involved are difficult to recruit.<sup>51</sup>

## 2.8 Purchasing Planning

Planning means managing a company's future business. In the field of purchasing, this involves deciding now what the team should strive for in the year ahead and mapping out the actions to be taken to get there. Properly executed, purchasing planning produces a number of invaluable benefits:<sup>52</sup>

### 2.8.1 Nature and Significance of Purchasing Planning:

- i- Thinking ahead means *being prepared* to counter emerging threats with swift defensive moves and capitalize early and aggressively on opportunities before competitors have had a chance to preempt and lock up supplier activity.
- ii- Taking the initiative and managing events instead of simply responding to them leads to *better resource utilization and purchasing performance*.
- iii- The performance standards contained in the purchasing plan provide the basis for *measurement and evaluation* of actual results, thus indicating

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<sup>51</sup>Lysons, CK, pp.38-39

<sup>52</sup>Scheuing, Eberhard E, p.130

the level of achievement and acting as a *motivational force* to encourage exceptional effort.

- iv- Purchasing planning *heightens sensitivity and responsiveness to environmental changes* because it creates the ability to assess their consequences promptly for the company's operations.
- v- The purchasing plan is a *powerful means of communication*, conveying clearly to everybody concerned the objectives to be pursued and the tools to be used, *fostering a spirit of commitment* to a common cause.<sup>53</sup>

### 2.8.2 Strategic Planning

*Strategic Planning* is the managerial process by which corporate and purchasing resources are utilized to deal effectively with environmental constraints and capitalize on available opportunities in the pursuit of the firm's objectives.

### 2.8.3 Purchasing's Role in Corporate Planning:

In well-managed firms, purchasing planning is an integral part of the corporate planning system. To fulfill its mission and contribute actively to the success of the company, the purchasing plan has to be coordinated and integrated with the functional plans in the corporate planning system. This coordination is three dimensional:

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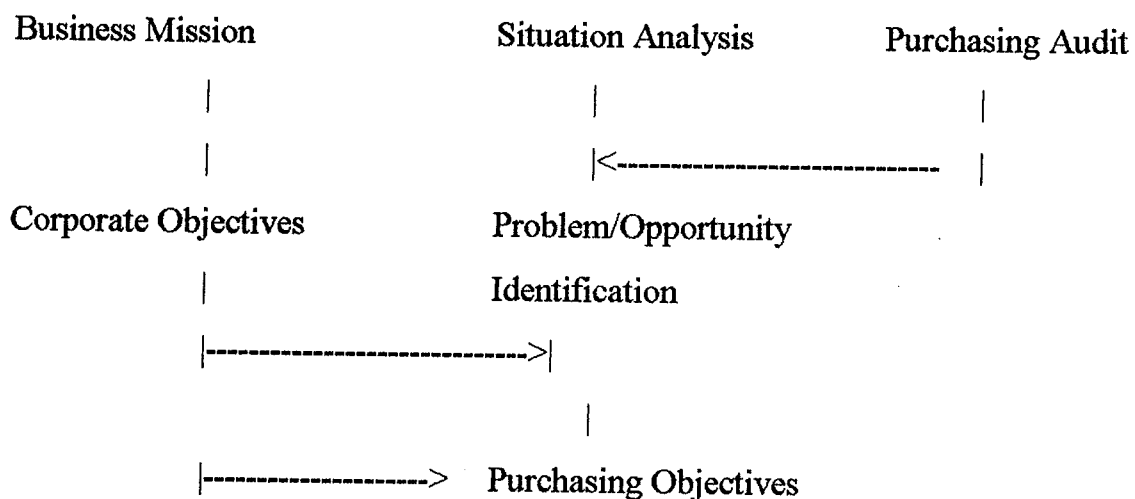
<sup>53</sup> Scheuing, Eberhard E, pp.131-132

- i- Quantity: The number of finished product needed by marketing to satisfy the customer demand has to exploded via bill of materials specifications into materials requirements that purchasing must fulfill.
- ii- Time: Taking target dates and lead times into account, schedules have to be synchronized so that materials are available when needed.
- iii- Money: Any plan will come to pass only if proper funding is available in a timely fashion, which means that cash flow requirements have to be identified and reconciled to make the overall system work smoothly.

Moreover, purchasing plays a key role in a company's planning system. Its contributions to corporate strategic planning include

- Monitoring supply trends
- Interpreting the significance of these trends to the firm
- Identifying the material needs of the various business units
- Developing an array of supply options<sup>54</sup>

#### 2.8.4 Developing and Implementing a Purchasing Plan



<sup>54</sup> Scheuing, Eberhard E, p.132



Exhibit 2 Model for Purchasing Planning<sup>55</sup>

The above exhibit shows that purchasing planning is a continuous, cyclical process that involves making decisions, implementing them, and reviewing their results. Every purchasing plan essentially derives from two roots: the business mission and environmental conditions. An organization's mission is shaped by five key elements:

1. Its history
2. The current preferences of its management and owners
3. Environmental considerations
4. Its resources
5. Its distinctive competencies

<sup>55</sup> Scheuing, Eberhard E, p.136

Annual and long-term corporate objectives are not conceived in vacuum but rather are directly derived from and are natural outgrowths of the business mission. Purchasing objectives are in turn derived from the corporate objectives, simply representing purchasing's contribution to the overall corporate performance objectives. However, environmental constraints as well as opportunities have to be taken into account so that the desire has to be reconciled with the possible. A purchasing audit can be defined as a comprehensive, systematic, independent, and periodic examination of a company's purchasing environment, objectives, strategies, and tactics to identify problems and opportunities and facilitate the development of appropriate action plans. Purchasing audits should genuinely be soul-searching efforts aimed to produce a better, more aggressive purchasing department. Each year's purchasing audit is synergistically complemented by a hard-hitting, thorough situation analysis. This is a factual, no-holds-barred report on historic trends, current data, and projected future developments. It should be kept strictly objective and contain no interpretation. From the facts assembled and reported in the situation analysis, the purchasing manager can now distill the purchasing area's strengths and weaknesses. In this interpretative step of problem-opportunity identification, the manager pinpoints challenges and opportunities and identifies action options. The purchasing objectives give direction and impetus to the selection of suitable purchasing strategies. Then, tactics provide the implementation details that transform strategies into specific activities. The purchasing plan is then put into action, in careful concert with the other component plans of the corporate planning system. The simultaneous control phase compares the actual with the planned results. Where differences occur, their reasons are explored and appropriate plan revision or corrective action is undertaken.<sup>56</sup>

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<sup>56</sup>Scheuing, Eberhard E, pp.135-138



The document that is generated and used in the process of developing, implementing, and controlling a purchasing plan tends to follow a fairly standardized format that mirrors the process itself and is illustrated in the following outline:<sup>57</sup>

- I- Situation Analysis
  - A. Macroenvironment
  - B. Supply market
  - C. Competitors
  - D. Customers
  - E. Performance record
- II- Problems and Opportunities
  - A. Problems
  - B. Opportunities
- III- Purchasing Objectives
  - A. Assumptions and projections
  - B. Purchasing objectives
- IV- Purchasing Strategies
  - A. Sourcing strategies
  - B. Purchase timing
  - C. Risk-cost containment strategies
- V- Purchasing Tactics
  - A. Materials budget
  - B. MRO (Maintenance, Repair, Operating Supplies) budget
  - C. Capital equipment budget
  - D. Operating budget
- VII- Purchasing Control
  - A. Reporting mechanism

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<sup>57</sup>Scheuing, Eberhard E, p.139

## B. Review procedures

### 2.9 Computers in Purchasing

With the increasing and continuous need for readily available actionable information, and with the incrementing costs of manual processing, combined with its slowness making it prohibitive, computerization has become the solution of choice in many purchasing departments. This process has been greatly facilitated by the fact that both the cost of acquiring and operating a purchasing computer system have declined sharply.

The word computer describes an integrated system of hardware and software that enhances a user's ability to generate, process, store, and retrieve data and text at high levels of efficiency and accuracy. As such, it is a powerful, invaluable tool of modern purchasing management and an important part of a purchasing management information system. Purchasing managers have been recognizing the significant contributions that computers can make to modern purchasing practice and accordingly have been integrating computers into their purchasing operations. Computers can substantially increase the amount and quality of information available to purchasing decision makers while delivering this information in a fraction of the time previously needed and at a sharply reduced cost.<sup>58</sup>

#### 2.9.1 The Advantages of Computerized Purchasing

Specifically, some of the benefits to purchasing and stores from an integrated computer system include the following:

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<sup>58</sup>Scheuing, Eberhard E, pp.174-175

- (a) Reduction of routine clerical activity by the automatic generation of documents, e.g. purchase requisitions, orders, acknowledgement forms and progress letters.
- (b) Formalizing procedures and paperwork, achieving a streamlining which might not otherwise be contemplated.
- (c) Provision of accurate and up-to-date information essential for routine purchasing, e.g. forward material requirements, supplier data, outstanding and overdue orders.
- (d) Reduction of staff and consequent costs.
- (e) A computer can easily cope with fluctuations in workload.
- (f) Rapid calculation of order quantities, consolidation of orders, EOQs and variations in price from standards and budgets with price increases related to material and labour indices.
- (g) Ultimately, savings due to improved stores recording and inventory control, e.g. stock/order information and analysis , ABC classifications, stock reports and minimizing of inventory .
- (h) Rapid provision of reports at prescribed intervals, e.g. daily, weekly, monthly, etc., enabling more informed decision-making to be undertaken.
- (i) As a result, the purchasing officer can devote the time saved to such activities as :
  - 1- preparing for negotiations which will be based on more and better information;
  - 2- sourcing suppliers;
  - 3- studying the performance of the department;
  - 4- measuring the performance of the department;
  - 5- enhancement of the purchasing department's standing and reputation for accuracy and reliability throughout the organization.

Often the routine aspects of purchasing take up a disproportionate amount of time, leaving the more significant jobs undone, the reduction of routine clerical activity may also increase the job satisfaction of purchasing staff although the number of staff required in comparison with manual procedures may be considerably less. Finally , the introduction of a new system into a working situation often has the effect of a change agent in that it provides an opportunity for management to review all existing practices and procedures.<sup>59</sup>

### 2.9.2 Disadvantages of Computerized Purchasing

- (a) Management, unless properly advised, may underestimate the high cost in money and effort of installing a computerized purchasing and supplies systems.
- (b) Errors can be difficult to rectify, e.g. when an incorrect code number is entered. One such error can result in the computer rejecting many correctly completed transactions.
- (c) A computerized system is inflexible in comparison with manual procedures. Once a computer has been programmed the routine of operations must be followed since deviations lead to confusion and mistakes.
- (d) Steps must be taken to protect both purchasing records and sensitive purchasing information from being accessed by unauthorized persons.
- (e) The audit trail of purchasing transactions may be lost.
- (f) In on-line systems with remote terminals there may be telecommunication difficulties resulting in a high mainframe but low total system availability.

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<sup>59</sup>Lysons, CK, pp.75-76

- (g) Computer methods are, in general, more appropriate to undertakings involved in batch or line production techniques than jobbing work where materials are ordered on a one-off basis.
- (h) While the computer can provide relevant information it cannot make commercial judgments and is therefore only an aid to increasing the efficiency of skillful and experienced buyers.<sup>60</sup>

Recent changes in technology can overcome most of the disadvantages. However, it is the implementation and management support that will govern the system to be successful or not.

Next, chapter three will show the methodology followed to realize the study under question.

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<sup>60</sup>Lysons, CK, p.77

## CHAPTER III

### Research Design and Methodology

Before presenting the findings of this research, we explain in this chapter the data collection methods in order to clarify the scope of this study as well as its limitations.

#### 3.1 Research Design

As the title of this project indicates, the purpose of this research is to assess how far the purchasing principles and applications followed by Lebanese business entities are conform to the reported literature (American Standard). Because no previous literature on Lebanese organizations exists about this topic, the research had to be exploratory. Indeed, this study can be considered as a source of background information, and may be the starting point for a more elaborate and sophisticated research whose design could be that of a statistical or even experimental research. In other words, the main purpose of the research was to give a preliminary assessment of the present situation, that of the purchasing principles and applications in Lebanon.

Because the research was exploratory, much of the data was qualitative in nature. In fact, "Exploratory information from an experience survey is not expected to be conclusive: Often an experience survey consists of interviews with a small number of experienced people who have been carefully selected. Some formal questions may be asked, but the respondents will generally be allowed to discuss the questions with few constraints. Knowledgeable people should be selected because they are articulate individuals, rather than a

representative probability sample. The purpose is to clarify concepts, rather than develop conclusive evidence."<sup>1</sup>

### 3.2 Data Collection Methods

Secondary data was extracted from books on the subject. This data was covered in chapter two. Field data was collected exclusively through face-to-face interviews. Ten interviews were conducted with the principals and/or persons responsible for the purchasing function at ten known Lebanese Organizations.

The advantages of personal interviews are numerous. They give the opportunity for feedback between the interviewer and the respondent, and high participation and interaction from the respondent who only has to talk and is not required to do any reading or writing. Moreover, personal interviews give room for probing and more elaboration of the questions asked. "Probing refers to interviewers asking for clarification or expansion of answers to standardized questions. Probing allows the interviewer some flexibility."<sup>2</sup> Probing is important mainly because it breaks new grounds through the exploration of different avenues with the respondents. In short, the interviews were unstructured; however, a standard set of questions were posed to the respondents. A sample of the questions can be found in appendix A.

### 3.3 Sampling

The reader should be reminded that this study was to assess the conformity of Purchasing Principles and Applications to reported literature rather than develop a conclusive evidence .

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<sup>1</sup> Zikmund, William G., Business Research Methods, 3rd ed. (New York: Harcourt Brace Jovanovich College Publishers, 1991), p.79

<sup>2</sup> Ibid, p.163

The sample chosen was 10 interviewees, a number that can weakly be a representative sample of the population. It does not need to be so because in exploratory research "a researcher may search for numbers to indicate trends, but a rigorous mathematical analysis is not performed."<sup>3</sup> Table 3.1 shows the distribution of organizations selected for this research project.

### 3.4 Data Analysis

The interpretation of the findings was largely based on judgment and the data collected was treated qualitatively. The reason for this is that the sample was not strongly representative. However, some averages and percentages were used to support generalizations and conclusions.

Table 3.1

- 1- University 1
- 2- University 2
- 3- University 3
- 4- Soft Drink 1
- 5- Soft Drink 2
- 6- Aviation 1
- 7- Engineering 1
- 8- Engineering 2
- 9- Commerce 1
- 10- Commerce 2

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<sup>3</sup> Zikmund, William G., p.76



CHAPTER IV  
Results and Findings

This chapter is divided into two sections. The first section presents the experience of ten different organizations that apply Purchasing. In the second section, an analysis of the findings is performed.

4.1 Current Practices in Ten Different Organizations

In this section, a summarized narrative of the interviews conducted at each of the ten organizations will be presented. The organizations will be called such as University1, Soft Drink1,..... for reasons of anonymity. Then a compare and contrast table will be drawn from the results in an attempt to find a pattern or a general trend for Purchasing Principles & Applications in Lebanon.

4.1.1 University 1

In University 1 the Purchasing procedure is as follows. A non-catalogue requisition is issued by the requisitioning Department on computer. If a very specific requisition occurs, it must be justified by the originator. The requisition is received by the Purchasing Department for processing. If materials are available in stock, the non-catalogue requisition is canceled and replaced by a storing requisition. Else, a purchase order is issued by the Purchasing Department. Care should be taken to make a compromise between price and quality for the order to be processed. For this reason, a minimum of 3 suppliers is contacted to get the cheapest acceptable offer. The materials are usually ordered by telephone (unless a

very specific order) and the supplier is informed of the order number. It should be noted that processing of orders follows a fixed standard such as:

Order < \$1000	call for verbal quotes
\$1000 <= Order < 5000	call for sealed written quotes
Order >= 5000	call for bids

Rush orders follow the same routine Purchasing Procedure. In case of small orders, petty cash applies up to \$300 especially for suppliers with non established relationship. In addition, stores also help in the small order problem. Furthermore, statistical consumptions and quantity discounts are also a marked benefit of the stores. In the Purchasing Department, the filing includes requisitions, purchase orders, bids, contracts (mainly maintenance) and catalogues. Orders are centralized through the Purchasing Department; benefits could be quantity discounts and more control. User Departments may call suppliers; but Purchasing is not obliged to stick to the suggested supplier or specifications unless justified. The policy of Purchasing is to deal with all suppliers equally with preference given to the speed in processing and service. Salespeople are received courteously unless there is some basic important reason for not doing so (e.g. a major dispute or misunderstanding exists with the concerned supplier). Moreover, the bulletin board is open for everybody. Samples are received for trials with no payment. Suppliers are visited for the reasons of market survey, physical inspection of fixed assets, performance demonstration in case of equipments, and familiarity with supplier conditions. No major conflicts of function and authority with Departments may arise because of clear policies especially for specifications' justification and preset annual budgets. A policy manual exists, it includes internal and external policies, it is confirmed by higher authorities and kept up to date. Ethical obligations are held on an individual basis towards the employer. Equitable dealings relating to bids, and follow up of payments are of major ethical obligations towards suppliers. Regulations exist in

the policy manual to prevent any conflict of interest between a buyer's interest and the university's interest. Employee purchases and gifts of advertising nature during Christmas and new year are authorized. Confidential information could be presented by prices and bids that are open with supplier presence. The main advantages of a Purchasing Department could be that of consolidating requirements and exposure to all options in the market. A structural type of organization applies for the Department and a horizontal type of organization applies for the support services. The University used to have a Director of business services acting as a Head of Materials Department. The main titles in the Purchasing Department are:

- 1- Director
- 2- Assistant Director
- 3- Purchasing agent
- 4- Secretary

Purchasing activities are divided according to the group of purchased items. The respondent rates the Purchasing Department in University1 as a Senior Management Function reporting directly to the Vice President. Purchasing planning is conducted by the Stores for reasons of replenishment. Computerization exists and is implemented by the Information System Office. The main advantages of computers are reduction of clerical work, storage capacity and speed in inquiry. Although the Lebanese market is somehow tight, you can find materials, brands and qualities. Purchasing practices are according to internal and external environments.

#### 4.1.2 University 2

In University 2, requisitions are issued through a Purchase Request endorsed with concerned approvals. Purchasing receives the request and checks stores for

availability of materials. If not available, pricing and budget estimations occur for issuing a purchase order. In case of instructional equipments, orders need to be endorsed & signed by the Dean and the Vice President for Academic Affairs. Whenever endorsed, the order is processed by inspecting a list of approved suppliers and selection is based on price, quality, service and support. In case of an order >500, Purchasing invites suppliers for bidding. Then, two analysis reports are issued; one by Purchasing and another by the requisitioning department. On the basis of these two reports, a target supplier is selected to carry out the order. Receiving is mainly performed by the Stores for maintenance and supplies (consumables, sanitarries, operational repairs). Otherwise, the originator receives materials. Quality is inspected by checking manufacturing (uncovering equipments) and through demonstration (if applies). Invoices are sent to Purchasing for audit and a statement of invoices is issued to Finance for preparing cheques. Purchasing is marked for using a Blanket or Open-End Orders in the past; it did not prove to be effective for reasons of long run involvement. Rush orders or urgent orders are allowed only for Instructional & Academic requisitions. Otherwise, requisitions follow the normal Purchasing procedure and the planning of requisitions is encouraged. As for the small order, stores are used only for a certain group of materials (supplies, sanitarries, consumables). Petty cash is used for minor services, consumables < \$100 and request for services. The files maintained by Purchasing are:

- 1- Open orders sorted alphabetically by Supplier and by Department
- 2- Bids & offers, analysis reports, closed orders (including P.O. & Invoice) by Department
- 3- Purchase log by order number
- 4- Supplier record including a company profile & brochures
- 5- Contract record

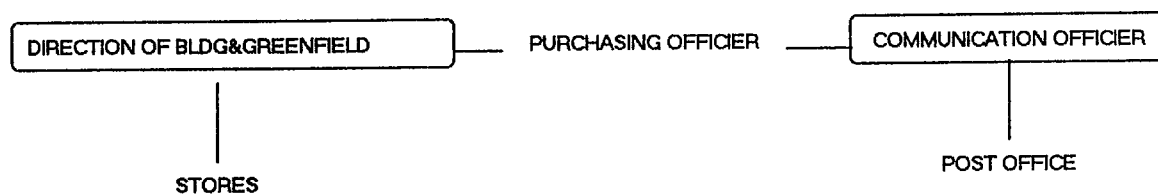
Purchasing is decentralized regarding different locations. In the main campus; however, Purchasing is centralized. Nevertheless, some delegation for supplier negotiation occurs in cases of very technical requisitions. Purchasing policy regarding suppliers is as follows : suppliers are clients, care should be taken to maintain a friendly and fair relationship on the basis of price, quality and service. As for salesmen, they are interviewed on a weekly basis. Samples are accepted according to their application to a related Purchasing work at University<sup>2</sup>. Equipments are demonstrated and furniture is kept for one week. Purchasing rarely visits suppliers because they usually come to visit the Purchasing officer. However, these visits may occur for more information about the supplier and in cases of a first exposure. Moreover, exhibitions' visit is an asset. Conflicts occur with Departments in the "to be delivered" section of the Purchase Order. However, clear policies are set to avoid those incidences. No policy manual exists. A future manual may include:

- 1- A code of ethics and standards and morale
- 2- A section related to suppliers
- 3- A section related to Departments
- 4- A section related to faculty and staff
- 5- A guideline of forms to fill clarifying the Procedure

Ethical obligations toward suppliers relate to price confidentiality, supplier reputation and discounts. As for the employer, care is already taken of the quality of employees positioned in such critical positions. Advertising gifts are accepted and employees are oriented by Purchasing in cases of personal purchases; but Purchasing does not order for them. Confidential information covers prices and

comparison of analysis reports. The respondent's opinion about a Purchasing Department is that it offers a link between requisitions of different Departments and controls the in-out transactions as a whole. A structural organization applies for the department; however, flexibility occurs and reporting suggestions take place. Support services are organized on a horizontal basis as follows:

**DIRECTOR OF ADMINISTRATION**



As for titles and the division of Purchasing activities, the Purchasing Department includes only one Purchasing officer that performs a one-man show. The respondent rates the Department as a routine clerical procedure reporting to the Director of Administration. Planning is implemented by visualizing the end use of materials, budgets planning, materials planning,.....The result would be a consolidation of requirements leading to better quantity discounts on bids. Computerization would be implemented very soon. As for the market in Lebanon, it is considered "a very tight market with a very wide competition. Too much competition exists for nothing." Purchasing seeks the best combination of price, quality and service. The hope is for a better future if economically stable in the long run and considering the possibility of authorized representatives to come back in Lebanon.

#### 4.1.3 University 3

In University 3, Purchasing is performed via three methods:

- 1- Open bidding usually for an estimated order  $\geq$  \$10,000 \_\_\_
- 2- Closed bidding without announcement or with limited announcement
- 3- Purchasing practice for purchases with specifications difficult to identify

According to the respondent, the descriptions or specifications of the materials specify the method for Purchasing. Regardless of this method, a Purchase Order is ultimately issued for the procurement of materials after the selection of a target supplier. A receiving committee is responsible for the receipt of the materials ordered and the agreement with the specifications on the Purchase Order. It is constituted of:

- 1- A Purchasing member
- 2- The requisitor
- 3- A storekeeper
- 4- A technician

Rush orders do not usually occur because orders of that nature are cautiously stocked at the Stores. Moreover, planning of purchases occurs continuously and petty cash is used for small orders. The files maintained at the Purchasing Department are Local Suppliers, Foreign Suppliers and Catalogues. Purchasing is centralized through the Purchasing Department and this could be beneficiary for the following reasons:

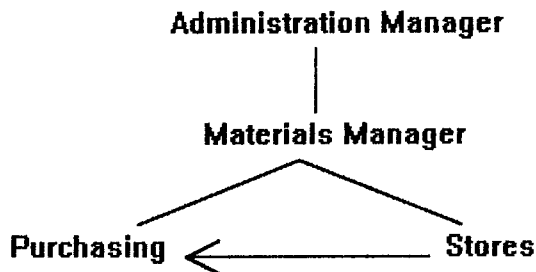
- 1- Control the purchase of circulated, stored and to be stored materials
- 2- Consolidation of orders and better discounts
- 3- Specialization for different kinds of materials
- 4- The dealing of suppliers with a unique Department

#### 5- Reservation and control of budgets

Some delegation may occur, however, for emergency reasons. For example, an equipment or machine failure may occur before or during a certain celebration. Then, the necessity to activate emergent purchases prevails. University 3 deals with its suppliers on the basis of good price and quality. In case of equal proposals, the order is divided equally between them. It is noted that Purchasing practices the selection of different parts from different bids (according to a certain floor for the amount of dealing in a specific offer) forming a good portfolio for purchasing the requested materials. Any supplier that is selected on the basis of a proposed bid is requested to fill a special form called "Request for Registration in the Suppliers List". This form includes fill in the blanks covering many critical information concerning a particular supplier and it is used as a control measure forcing the supplier to give accurate information about his/her organization in addition to keeping University 3 legally covered. Samples related to field of work are accepted and visiting suppliers' place of work is a control measure to be sure of his/her not being illusionary. Interdepartmental conflicts can be resolved by referring to higher authorities. A policy manual exists and includes only internal policies. Suppliers try always to bribe the Purchasing employee and certain behaviors give indication for distrust. Accordingly, commissions are prohibited to the extent of kicking out according to internal regulations. Moreover, periodical seminars are conductive to create an inductive environment towards Ethical behavior. Design work is implemented at University 3, employee purchases are authorized and gifts are transferred to the Administration for subsequent distribution to employees. Suppliers' proper information (prices & offers) is considered confidential and changeable committees could be considered a control measure to keep this confidentiality. A Purchasing Department is important for experience purposes, fast processing of orders with lowest prices, and dealing with



main agents. Some exceptional authorities or delegation occur for Purchasing personnel which would then be close to a Process Organization for the Department. Horizontal organization is found, however, for support services as follows:



This form of organization controls the consumption of materials and is noted for a supervisory authority of Purchasing over Stores. The main titles found in the Purchasing Department are:

- 1- Manager
- 2- Assistant Controller
- 3- Specialized Researcher
- 4- Clerk

The Purchasing Department is rated as a Top or Senior Management function supported by the General Manager represented sometimes by the Administration Manager through delegation. Furthermore, Purchasing is always procured by up to date information regarding new technology and suppliers. Purchasing planning is rated top important according to the respondent and is conducted on an annual basis. Accordingly, Purchasing requests an estimate of anticipated consumptions for a coming year and studies the validity of those estimations. A subsequent reservation of budgets occurs and priorities are rated as follows:

- 1- Secure necessities of work
- 2- Luxury materials

### 3- Unexpected materials

Computerization is applied and contributes in keeping a low number of employees, accuracy of information and inquiry at any time. The Lebanese market is difficult, relatively organized, and references from abroad are called for the reasons of accurate information regarding main agents. No specialization in Trade exists for reasons of short run profits and the direct result would be the involving of customers in special kinds of materials. Secondary suppliers may have cheaper prices because of their special discounts on gross sales. Finally, the respondent hopes for a better future where main agents will return to the Lebanese market.

	<b>1</b> University1	<b>2</b> University2	<b>3</b> University3
<b>Rush Orders</b>	Routine Procedure	Instructional & Academic Requests	Do not happen
<b>Small Orders</b>	Petty Cash, Stores	Petty Cash, Stores	Petty Cash, Stores
<b>Centralization</b>	Centralized	Centralized, delegation for specific	Centralized, delegate emergency
<b>Centralization (multiplant)</b>		Decentralized	
<b>Policy with suppliers based on</b>	Speed in processing, service	Price, quality, service	Price, quality
<b>Accept Salesmen</b>	Courteously	Weekly basis	acc. to field of work
<b>Accept Samples</b>	no payment	related to field of work	related to field of work

Visiting Supplier	performance demonstration, market survey, supplier condition	more information about supplier	first exposure
Interdepartmental conflicts	not major	delivery date	refer to high authorities
Policy Manual	exists, internal & external policies	does not exist	exists, internal policies
Obligations towards supplier	equitable dealing, follow up payments	confidential price & discount	suppliers try to bribe
Obligations towards employer	individual basis	care already taken to the quality of employees	no commissions
supplier obligations towards Purchasing			
Employer's obligations towards employee			
Employees' Purchases	authorized	authorized	authorized
Accept Business Gifts	advertising nature	advertising nature	delivered to Administration
Confidential Information	prices, bids	prices, analysis reports	prices, offers
Process or Structural Organization	structural	structural	process
Vertical or Horizontal Organization	horizontal	horizontal	horizontal
Division of Purchasing Activities	group of purchased items	one man show	division of research work

Rating of Purchasing	Top Management Function	Routine Clerical Procedure	Top Management Function
Planning	for replenishment	budgets, materials	top rating, annual basis
Computerization	applied	soon	applied

#### 4.1.4 Soft drink 1

In soft Drink 1, two kinds of Purchasing exist: Local Purchasing and Imported Purchasing. In case of local requisitions, the stock is checked for materials availability. If not available, the Purchasing Department issues a Purchase Order which is then endorsed by the Administration for processing. In the case of mostly recurrent items, a list of approved suppliers is checked for supplier selection; in the case of new unexpected items, Purchasing calls for bids. Contracts are usually signed for raw materials. Whenever processed, materials inspection for quality is held as follows:

- 1- Plant manager for raw materials
- 2- Technical manager for spare parts
- 3- Purchasing for cars' spare parts

Receiving is performed by Stores that sign for the receipt of materials. Purchasing signs on invoices that are transferred to Finance for payment; Proforma invoices act as a price control measure for invoice audit. In case of rush orders, materials are purchased on the spot followed by routine paperwork for regularization. Petty cash and stores may be effective measures to solve the small order problem. Purchasing maintains its files as follows:

- 1-L.C.'S (for imported Purchasing)

- 2- Offers & contracts, supplier correspondence (local Purchasing)
- 3- Raw materials
- 4- Closed order (Imported materials)
- 5- Open order by supplier
- 6- Contract records

Centralization is maintained for non consumable materials between locations. This form of Centralization usually involves some delay because of the routing of paperwork that usually takes time. Internally, delegation of Purchasing responsibilities occurs only in matters that are directly related to Production. These delegations are the privilege of the Plant Manager and the Technical Manager. Purchasing deals with its suppliers in an equal fashion. It accepts all kinds of samples that are usually of low Dollar value and consumable. The Purchasing Manager does not visit suppliers at their place of work, because the contrary usually happens. Interdepartmental conflicts rarely occur because Plant and Technical Managers sign for quality inspection on Receipt Vouchers. A policy manual does not exist. Purchasing follows up supplier payments within due date, mutual confidence exists with the employer. Employee purchases do not occur, gifts of advertising nature are accepted, and Design work is not paid for. L.C.'s (imported) and prices (local) negotiations are considered confidential and take place only with Purchasing. A Purchasing Department is important because it offers:

- 1- Contacts, follow-up and correspondences
- 2- Experience in quality and import procedure
- 3- Negotiations in terms of payment and prices
- 4- Public relations
- 5- Enough time for the best choice

The department is organized following the structural type of organization. Stores, however, are organized according to the horizontal type of organization for support services as follows:

Purchasing ← → Plant manager



Storekeeper

The main advantage of such a horizontal organization is presented by the control of in-out transactions that will lead to clear statistical consumptions. The titles in the Department are Purchasing Manager, Assistant Purchasing Manager, Delegates (two) and a Secretary. Purchasing activities are not divided on any specific basis. The Purchasing Department is rated (according to the respondent) as a Top or Senior Management function reporting directly to the General Manager. The reason is that it forms the focal point for Production and Sales continuity. Planning is very important for being on the safe side regarding Production. It involves:

- 1- A forecast of sales
- 2- A forecast of production
- 3- A forecast of Purchasing

Budgets are estimated for all these entities besides raw materials estimations. Computerization is not applied. The Purchasing Manager views that Purchasing in Lebanon does not follow any specific strategy. There are too many suppliers and many choices for nothing. He might deal with secondary suppliers according to price and quality; and may change quality for equivalence. His future view is marked with more action; the number of suppliers will multiply four to five times reflecting a variety of choices and products. Then, better prices and qualities will follow.

#### 4.1.5 Soft drink 2

In Soft drink 2, requisitions are issued to Stores. If the materials are not found in Stores, the requisition is sent to Purchasing for processing through a Purchase Order. The selection of the supplier is according to an approved list of suppliers especially for raw materials. Moreover, pre certified suppliers are selected for some usually recurrent items. If unexpected items, suppliers are invited to bid. Follow-up is performed by Purchasing. Receiving and inspection for quality are performed by Stores. The storekeeper issues a receipt voucher, attaches it to the supplier's invoice and sends these two documents with the Purchase Order to Finance. The latter then audits the invoices for prices and discounts usually applied according to previous agreement with the supplier. Rush orders; especially those for production purposes, are processed directly and paperwork follows. Petty cash, stores and telephone ordering are used for small orders. The filing system is maintained as follows:

- 1- Purchase orders for closed order record
- 2- Purchase orders by Department followed by serial number for open order record
- 3- Commodity file

As for the supplier record, it does not exist; and the contracts are filed at the Finance Department. Centralization is applied between locations for materials such as equipments, furniture, computers,....However, low-Dollar value and consumables are purchased locally for each location. In the main plant, some delegation occurs for some purchases; but the final decision for specifications and suppliers remains the privilege of Purchasing. Moreover, some purchases are made on the spot for emergency reasons especially for mechanical disorders. The advantages of this system could be control of expenditures, statistical

consumptions, budgeting, verification of materials receipt through stores,..... The relation with suppliers follows supply & demand and long run relationship with main agents is preferred. Suppliers' visits are for the reason of establishing a good and strong relation, following up orders, and solving any problem. Samples and salesmen are received on the basis of their relation to own field of work. As for probable conflicts between Purchasing and other Departments, higher authority usually interferes to resolve. A policy manual does not exist. As for ethical obligations, suppliers are supposed to offer best price, quality and discount; and Purchasing staff must not accept commissions. The Purchasing manager, however, does not interfere between a delegate and a supplier only in cases that conflict strictly with the company's interest. Employees' purchases are allowed and gifts of advertising nature are accepted. Confidential information includes any Purchasing information that may give indication to the production quantities. Prices, however, are not considered confidential because they are widespread. According to the Purchasing Manager, a Purchasing Department plays an important role. First, Purchasing staff have valuable experience in the market through continuous market survey. Second, Purchasing saves time that would be lost by other departments looking for their own purchases. Third, Purchasing that normally opens door to trading could be controlled by a carefully selected Purchasing staff. Structural organization applies for the Department except in cases of absence where delegations of authority may occur. Support services are organized following the horizontal basis. According to the Purchasing Manager, this prohibits any wrong use of authority on those services. The fact of being independent makes them responsible for their actions. The Financial Manager plays the role of a Material Manager because Purchasing, Stores and Production (only in financial matters) report directly to him. The Purchasing Department includes a Purchasing Manager and two Purchasing officers. Purchasing activities are divided on a daily basis



according to the location of the suppliers. The Purchasing Department is rated as a Top Management function for reasons of its huge budget, its importance for production and its direct reporting to the General Manager in many circumstances. Planning occurs in Soft Drink2 as follows: The Sales Department puts the annual sales figure. Accordingly, the Production Department then inspects its production capacity regarding raw materials, machines, equipments and manpower. The role of Purchasing finally comes to integrate the whole process by procuring the needed materials to accomplish the target figures. The significance of planning then comes at the top because it prohibits any probable shortage in production quantities in addition to preserving and increasing the market share of Soft Drink2. This importance of planning has urged Soft Drink2 to establish a new department known as Planning & Budgeting Department. Computerization does not apply for reasons of difficulty: The diversity of the materials purchased makes it unfeasible to computerize the process that urges the classification and coding of those materials. However, Purchasing can benefit of the computerization applied at the Finance Department. In fact, Purchasing can inquire Finance in a very effective manner and with multiple indexes that could be found in the Finance computer system knowing that Finance classifies materials under fixed preset categories usually reported to official authorities. Purchasing in Lebanon is usually based on favoritism, commissions and personal interests. This explains why people usually yearn for working in Purchasing. Materials, qualities and equivalents could always be found. The future could be marked by promoting the Purchasing Manager financially & morally, and supporting him with a professional team leading thus to a target Marketing Intelligence. In any way, the Lebanese market couldn't be a fair market for rating a Purchasing Manager because different parameters control it. These facts necessitate stricter regulations and supervisions from the part of the Lebanese Government.

	<b>4</b>	<b>5</b>
	<b>Soft Drink1</b>	<b>Soft Drink2</b>
<b>Rush Orders</b>	Processed directly	Processed directly
<b>Small Orders</b>	Petty Cash, Stores	Petty Cash, Stores, Telephone
<b>Centralization</b>	Centralized, delegate for production	Centralized, delegate emergency
<b>Centralization (multiplant)</b>	Centralized for fixed assets	Centralized for fixed assets
<b>Policy with suppliers based on</b>	Equality in dealing	SS & DD, agents preferred
<b>Accept Salesmen</b>	acc. to field of work	acc. to field of work
<b>Accept Samples</b>	inexpensive	related to field of work
<b>Visiting Supplier</b>	they visit Purchasing	good relation, follow up
<b>Interdepartmental conflicts</b>	rare	refer to high authorities
<b>Policy Manual</b>	does not exist	does not exist
<b>Obligations towards supplier</b>	follow up payments	
<b>Obligations towards employer</b>	mutual confidence	no commissions

supplier obligations towards Purchasing		good price, quality & discount
Employer's obligations towards employee		
Employees' Purchases	do not happen	authorized
Accept Business Gifts	advertising nature	advertising nature
Confidential Information	prices, L.C's	production quantities
Process or Structural Organization	structural	structural
Vertical or Horizontal Organization	horizontal	horizontal
Division of Purchasing Activities	no basis	location of suppliers
Rating of Purchasing	Top Management Function	Top Management Function
Planning	very important for production	very important for production
Computerization	not applied	applied at Finance

#### 4.1.6 Aviation 1

In Aviation 1, requisitions occur via three documents:

- 1- Commercial Supplies Requisition & Delivery Note
- 2- Stationery Stores Demand / Delivery Note
- 3- Stores Requisition / Receipt Voucher (originating from Stores)

Quotations from two to three suppliers are required to select a supplier for purchases  $\geq$ \$150. As for purchases  $\geq$ \$1000, suppliers' quotations are listed on an "Adjudication Form" and selection of the target supplier is performed by a committee that is constituted of Finance, Administration Vice President and Audit. The Purchasing Officer follows up purchases based on the Manager's orientations, and priority is given to rush orders. Material Control inspects for quality and quantity of materials received, and Material Control of the requisitioning department signs for the receipt of those materials. Invoices are received by Purchasing and audited before being sent to Finance for payment. Rush orders must be issued via the usual requisition form holding a minimum of two signatures. Stores, petty cash (up to \$200) and telephone order are used for the small orders. Purchasing maintains its files as follows:

- 1- Closed order by supplier
- 2- Supplier record (including quotations)
- 3- Contracts record

As for open orders, they are not filed because they are processed fast. Centralization is applied as follows: Printed materials and other various items are procured centrally through Commercial Supplies of the main location. Some delegation, however, occurs in the main location regarding supplier's negotiation for very strict specifications. Then, the need for justifying those specifications arises. The main advantages of centralization would be control, supervision and uniqueness of policy. The policy of dealing with suppliers would be that of equality in dealing with priority given for authorized agents (distinguished for their price, quality and fresh goods) and those who buy tickets or deal extensively with Aviation<sup>1</sup>. Salesmen for well known suppliers and agents are received and suppliers are visited only by Purchasing delegates. Samples usually inexpensive are accepted from well-known suppliers and transferred to concerned departments.

Interdepartmental conflicts usually occur when unjustified quantities are requested for certain items. A control measure would be the periodical distribution of the list of authorized signatures. A policy manual will soon be prepared. The relation with the employer is based on confidence, devotion, concern, honesty and discipline. As for suppliers, care is taken to always expedite the payment of invoices and cheques are sent to suppliers' place of work. Commissions and bribery are discovered quickly. Moreover, reliable references are observed for the selection of Purchasing delegates. Employee purchases occur, gifts of advertising nature are accepted and prices are considered confidential. A purchasing Department is established following the policy of higher authorities for the interest of Aviation<sup>1</sup>. A structural organization applies for the department, and Stores are under the control of Purchasing (vertical organization) for their interest according to the Purchasing Manager. The main titles in the department are:

- 1- Senior Manager (reporting to Vice President Administration)
- 2- Manager
- 3- Assistant Manager
- 4- Superintendent
- 5- Supervisor
- 6- Officer

Purchasing activities are divided according to major groups of purchased items (Equipments, Printed materials, Spare parts,...) The Purchasing Department could be rated as a middle management function. Planning usually occurs through replenishment of stored materials and preset budgets. Computerization is newly applied for stock items. The main advantages of computers are speed in inquiry, ordering and accuracy of information. The prospects of Purchasing in Lebanon are as follows: There are no Ethics in Trade and profits are unjustifiably high. Purchasing personnel are confused in a market where haphazard prices

predominate. Then, it is advisable to check prices with more than one supplier. The market, however, is not tight and things are going better. Internally, the reorganization of Aviation1 is going on and the Purchasing Manager is hoping for a better future.

	<b>6 Aviation1</b>
<b>Rush Orders</b>	<b>Routine Procedure</b>
<b>Small Orders</b>	<b>Petty Cash, Stores, Telephone</b>
<b>Centralization</b>	<b>Centralized, delegation for specific</b>
<b>Centralization (multiplant)</b>	<b>Centralized for fixed assets &amp; Printed materials</b>
<b>Policy with suppliers based on</b>	<b>Equally, priority for agents and customers</b>
<b>Accept Salesmen</b>	<b>well known suppliers</b>
<b>Accept Samples</b>	<b>inexpensive</b>
<b>Visiting Supplier</b>	<b>visited only by delegates</b>
<b>Interdepartmental conflicts</b>	<b>unjustified quantities</b>
<b>Policy Manual</b>	<b>soon</b>
<b>Obligations towards supplier</b>	<b>follow up payments</b>

Obligations towards employer	quality of employees, no commissions, confidence
supplier obligations towards Purchasing	
Employer's obligations towards employee	
Employees' Purchases	authorized
Accept Business Gifts	advertising nature
Confidential Information	prices
Process or Structural Organization	structural
Vertical or Horizontal Organization	vertical
Division of Purchasing Activities	group of purchased items
Rating of Purchasing	Middle Management Function
Planning	budgets, replenishment
Computerization	applied in stores

#### 4.1.7 Engineering 1

In Engineering 1, requests are issued on a Request form originated by Stores, Print Shop, and Computer Department. The Purchasing Committee

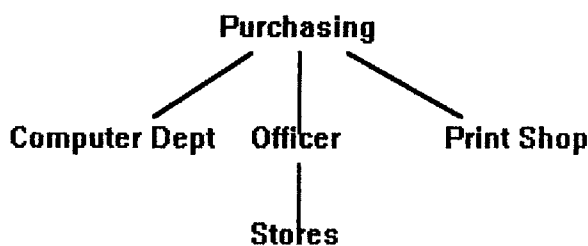
approves for quantities and descriptions before calling for bids. The best offer is chosen on the basis of price and quality, and the issuing of a Purchase Order by the Purchasing Committee follows to process the request. Receipt is done with the presence of an Accounts Department member (accidentally present) who signs for receipt. In case of very specific requirements, quality is inspected by the requisitor who signs for the receipt of materials. Invoice audit is done by Purchasing. Rush Orders are processed quickly by telephone after the origination of a Purchase Request. A subsequent Purchase Order is issued; however, the bidding practice is skipped. Petty cash and Stores help in solving the small order problem. Records are mainly maintained at the Accounts Department. However, some records such as the commodity record and the closed order record are maintained on a selective basis by supplier order providing thus a beneficiary source of Supplier by Trade. Moreover, the contract record is maintained at Purchasing. Decentralization of Purchasing applies for the different locations overseas except in the case of special purchases occurring frequently in between. Internally, centralization of purchases controls mainly the In-Out transactions. Delegation occurs for special projects, and purchases would then be charged on the specified project. Purchasing deals with its suppliers on the basis of good price, quality and service. Moreover, an approved list of suppliers is found for specified categories of materials. Salesmen are received on appointment basis and samples are accepted if related to any department's field of work. They are sent to the concerned Department for trial, and expensive ones are paid for upon supplier's request. Only Purchasing Officers visit supplier's place of work and any new technology is introduced by the supplier himself. User Departments usually complain of the bureaucracy of a Purchasing Procedure. However, Purchasing encourages planning and gives priority for securing necessities of work. Periodical memos play the role of a Policy Manual. The supplier must be ethically responsible for the quality and specifications of



materials cited in his offer and for not changing prices suddenly. On the other hand, Purchasing must respect the deadline for those offers. Purchasing personnel must work at Engineering 1 as if their own organization. Then, they must look for savings and accept no commissions. When any deviation from those ethical standards occur, the employee is faced by facts. Employees' purchases are allowed without any known effect on mutual relationship with suppliers and gifts of advertising nature are accepted. Purchasing is responsible for the disclosure of suppliers' offers (especially sealed offers) and prices. Moreover, a policy to control someone is considered confidential. Regarding the argument saying that user departments are the best judges of what to buy and where to buy it from, the respondent agrees on the "quality" part of this argument. On the other hand, she says that user departments cannot control the In-Out transactions. This could be true only in small organizations. A somehow Process organization applies for the Purchasing Committee in Engineering 1. This could be true because its members do not have Purchasing as their full time job. The structure or composition of the Committee may change according to work circumstances or the type of Purchasing. It now includes:

- 1- A lawyer
- 2- Three Engineers (Electrical, Structural, Irrigation)
- 3- A Sociologist

The division of Purchasing activities occurs on the basis of the group of materials purchased. Support services are organized in a vertical fashion as follows:



This organization contributes in restricting the suppliers' dealings and negotiations with Purchasing. The Purchasing Committee used to be rated as a Senior Management Function in the past having one of the partners of Engineering 1 as a member. In the present time, it could be rated as a Middle Management Function with no reporting to a fixed person or authority. It could also be rated as a Clerical Procedure regarding the Stores activities. Planning occurs on a six months basis. However, the committee misses the computer statistical consumptions reports considered the basis for planning activities. In fact, the computer system stopped functioning for some reasons and the Purchasing Committee hopes having it back. Its probable benefits would be storage capacity, reporting and inquiry, price control, supplier control,...The respondent views Purchasing Practices in Lebanon directed by favoritism and commissions. The Lebanese people originate from a mercantile society and do not like to stick to any system. In sales, they have their own way to convince the customer. The Lebanese market is considered wide where you can find needed quality and equivalents. Some materials, however, are ordered from abroad for unavailability. In any way, the Lebanese market is not considered stable with brokers offering sometimes substantially different prices.

#### 4.1.8 Engineering 2

In Engineering 2, Purchase Requests are issued by user departments via memos. The request is approved by concerned supervisors and sent to Purchasing who will buy needed materials. Two to three suppliers are checked for prices and a list of approved suppliers exists for principal categories of materials. The suppliers send the ordered materials to Purchasing who inspects for quality, audits invoices and signs for receipt. Some delay usually occurs before sending invoices to

Finance for reasons of quality verification of the received materials with the originating Department. Rush orders are processed directly. Petty cash and storage of certain materials at each floor of the organization contributes in solving the small order problem. Purchasing maintains the supplier record and the closed order record in its files. Moreover, special engineering tools are reported in the personnel file of the concerned employee. Purchasing of materials is mainly centralized through Purchasing except computer purchases which are directly related to the Computer Department. Some delegation of different purchases occurs for some managers on the basis of mutual confidence. Engineering 2 deals with its suppliers on the basis of price and quality; it usually prefers dealing with managers instead of salesmen. Purchasing and Engineering staff visit periodically suppliers for market survey purposes. Samples related to own field of work are usually accepted and deducted from total quantity ordered in case of any subsequent order. No major interdepartmental conflicts happen because confirmation on specifications is guaranteed by authorized managers. A policy manual does not exist and ethical obligations could be summarized under clear conscience and honesty. Employee purchases rarely occur, gifts of advertising nature are usually accepted and no major confidentialities exist regarding Purchasing work. A Purchasing Department controls a Purchasing function according to the respondent. A simple form of stocking (support service) is found at each floor in Engineering 2. Titles at Purchasing are as follows:

- 1- Administrative and Public Relations Manager
- 2- Assistant Finance and Administration Manager
- 3- Administrative Manager

Purchasing could be rated as a Middle Management Function reporting to the Financial Manager. Planning and Computerization are not applied at Engineering2. The Lebanese market is characterized by unstable prices; it is tight

but not impossible. A monopoly exists for the trading in Engineering Tools & Equipments; the necessity to expand this trade prevails. The future prospects for Purchasing in Lebanon obey the Supply and Demand rules.

	<b>7</b>	<b>8</b>
	<b>Engineering1</b>	<b>Engineering2</b>
<b>Rush Orders</b>	<b>By telephone</b>	<b>Processed directly</b>
<b>Small Orders</b>	<b>Petty Cash, Stores</b>	<b>Petty Cash, Stores</b>
<b>Centralization</b>	<b>Centralized, delegate special projects</b>	<b>Centralized except computer purchases</b>
<b>Centralization (multiplant)</b>	<b>Decentralized</b>	
<b>Policy with suppliers based on</b>	<b>Price, quality, service</b>	<b>Price, quality</b>
<b>Accept Salesmen</b>	<b>appointment basis</b>	<b>prefer managers</b>
<b>Accept Samples</b>	<b>related to field of work, pay for high value</b>	<b>related to field of work</b>
<b>Visiting Supplier</b>	<b>they visit Purchasing</b>	<b>market survey</b>
<b>Interdepartmental conflicts</b>	<b>complain from procedure</b>	<b>not major</b>
<b>Policy Manual</b>	<b>periodical memos</b>	<b>does not exist</b>

Obligations towards supplier	respect deadline for offers	clear conscience & honesty
Obligations towards employer	no commissions, work as own company	clear conscience & honesty
supplier obligations towards Purchasing	committed to quality & specifications	
Employer's obligations towards employee		
Employees' Purchases	authorized	rare
Accept Business Gifts	advertising nature	advertising nature
Confidential Information	prices, offers, control policy	no major exist
Process or Structural Organization	process	structural
Vertical or Horizontal Organization	vertical	
Division of Purchasing Activities	group of purchased items	no basis
Rating of Purchasing	Middle & Clerical Management Function	Middle Management Function
Planning	six months basis	not applied
Computerization	was applied	not applied

#### 4.1.9 Commerce 1

In Commerce 1, a Purchase Request is originated by user departments and signed by authorized persons. Materials requested are checked for their availability in Stock. In case of unavailability, offers for different suppliers are detected and final choice is based on price and quality. Follow-up, receiving and inspection are handled by Purchasing. However, the requisitor signs on the invoice to ensure complete satisfaction and verification for specifications. Invoices are audited by Purchasing and a Payment Order will follow in order to secure payment for suppliers. For purchases that relate to equipping buildings and the similar, a committee is formed to handle this responsibility. It is usually constituted of Finance and Administration staff. Rush orders are processed on the spot (usually by telephone) and routine paperwork follows. Stores, petty cash and telephone order are used for the small orders. Files are maintained by class of materials order and supplier records are found under that order. Open orders are kept under no specific order and closed orders are filed in the Accounting Department. Moreover, contracts and catalogues are filed at Purchasing. Decentralization applies between different locations except for a certain group of materials like furniture, equipments,... In the main location, Purchasing except Computer related is centralized. However, some delegation with price negotiation may occur for different purchases and priority is given for securing necessities of work. In any way, invoices will eventually be submitted to Purchasing for payment. Purchasing deals with different suppliers on the basis of price, quality and speed of processing. Salesmen are received and appointments are given whenever busy. Suppliers are visited in case of emergency orders, but the norm is that they visit Purchasing themselves. Samples related to own field of work are accepted, and those of high value are paid for. Many interdepartmental conflicts may occur, but Purchasing

tries not to let them develop. A policy manual does not exist; it would show different policies in a transparent manner if present. A Purchasing employee is committed ethically not to escape his responsibilities and not to accept any commission. The latter act, however, could be discovered easily because auditors of Commerce 1 know most of the suppliers with whom dealing occurs. Thus, any conflict of interest is prohibited to the extent of being fired. Commerce 1 is obligated to promote the salaries of Purchasing staff and deal with them on the basis of mutual confidence. Design work is usually half paid, employees' purchases are allowed and gifts of advertising nature are accepted. Confidential information mainly includes suppliers' offers. Prices, however, are not considered confidential. Purchasing is a very important and responsible entity according to the respondent, and user departments have no sufficient time to follow up their own purchases. The respondent rates Purchasing at Commerce 1 as a Top Management Function reporting directly to the General Manager. It actually includes three employees that serve approximately five hundred persons. Structural organization applies for the department, and the respondent plays the role of a Storekeeper besides his being a Purchasing Officer. He prefers having different responsible employees for different support services to relieve the pressure of work. The Department consists of a Purchasing Manager and two Purchasing Officers. Purchasing activities are divided among the officers as follows:

- a- Purchasing Officer 1 responsible for Maintenance and Locomotives
- b- Purchasing Officer 2 responsible for Accessories and Supplies

No planning for purchases occurs and computer use is limited to input invoices and charge them on different departments. The respondent views the Lebanese market as a strong one where everything is in principle available. However, you do not always have a good quality. Purchasing may deal with secondary suppliers but prefers dealing with agents. The future prospects will witness more suppliers,

brands and qualities. Then, this would lead to a variety of choice, more competition and better prices.

#### 4.1.10 Commerce 2

In Commerce 2, requisitions are issued via two forms:

- 1- FAB document usually used for consumables
- 2- CERA document for fixed assets(entities that are listed in the registers of the company) and for special projects. Those requests usually need the Head Office approval and are subject to price analysis

(Note : clarification for the abbreviations was not given for unknown reasons)

Stores exist in different locations and obey different requests in those locations. For new materials , Purchasing invites for bids and analysis occurs on the basis of price, quality, speed of processing and experience in previous dealing with the concerned supplier. Contracts are usually signed for major supplies related to catering. Invoices will eventually be sent to Purchasing for payment. Rush orders are processed directly and paperwork follows. Petty cash is used at each location for the small orders and its amount is usually relative to the volume of transactions in that location. Furthermore, some of the Purchasing staff may be available at each location to follow up the execution of contracts. Purchases are in principal centralized through Purchasing especially for global projects. However, the budget of those purchases is not found within that of the Purchasing Department. The latter decides and follows up for Purchasing practices but some delegation with price negotiation may occur according to some circumstances. For example, a location or department manager may negotiate for a dealing or contract during his visit to some exhibition or a foreign country. A subsequent analysis for the whole issue is held by Purchasing that does not hold responsibility for any discrepancy.



Commerce 2 respects its suppliers and considers them honest competitors. It deals with them courteously (e.g. sends Greeting Cards on special occasions) and emphasizes the importance of Public Relations in the Purchasing work. This would result in a special treatment from the part of the suppliers regarding prices and services. In fact, the respondent regards good relations with suppliers as the "ABC de la métier" that contributes in solving many problems. The transparency in dealing with suppliers may reach the extent of discussing with them the weak points in their rejected offers after an apology letter for rejection. Salesmen know the visit periods to the Purchasing Department in Commerce2; usually in June, July, December and January during which the contracts are renovated. Furthermore, they might be accepted on the basis of their relation to any location's existing or probable field of work and the Assistant Manager may receive them in case of the Manager's absence. Samples are transferred to concerned locations and paid for upon the supplier's request. Suppliers are visited by the Manager for respect of their multiple visits but this is not desirable after all. In case of interdepartmental conflicts, the Head Office may interfere to resolve and standardization of purchases (especially for equipments) is encouraged in the same location. A Policy Manual does not exist and is replaced by periodical memos that explain the Purchasing Procedure. Commissions are extremely prohibited to the extent of kicking out. The policy of Commerce 2 is to consider discounts as realized profits. Accordingly, Purchasing staff are given a certain percentage of the gross amount of discounts on a yearly basis. The dealing with the employer and the supplier is based on mutual confidence, seriousness and morale reflected by daily facts. Employees' purchases or circular offers from suppliers take place and the latter consider the treatment for Commerce2 the same for the personnel of Commerce2 without affecting negatively the mutual relations. Purchasing usually calls for some "avant projets" ideas before requesting any design work that would be

expensive to prepare. Confidential information includes offers from suppliers before analysis. Prices, however, are not considered confidential. A Purchasing Department is necessary for experience purposes, offering centralization , consolidation of orders and subsequent discounts & bonus quantities. The structural organization applies for the Department, and support services are organized in a vertical manner under each location contributing in relieving the pressure of work on the main location. In any way, this is naturally imposed by the fact of geographical sites of those locations. The Purchasing Department is composed of:

- 1- Purchasing Manager
- 2- Assistant Purchasing Manager
- 3- Secretary
- 4- Purchasing Officers (in the main and different locations)
- 5- Price Analysts

Purchasing activities are divided among different Purchasing personnel according to the directions of the Purchasing Manager. A certain distinction in processing for some officers might lead to some division of the Purchasing activities accordingly. The respondent rates his Department as a Top Management Function reporting directly the Head Office or the Regional Manager. Planning occurs especially for catering contracts in order to keep on schedule and be on the safe side. Computerization is implemented and offers a very valuable Data Bank. Inquiries may include price history, addresses of suppliers, supplier by trade, supplier by item,...The Lebanese market is one of the rare markets that includes different kinds of goods with various brands and qualities. Not all suppliers, however, have a moral conscience regarding their profits and they vary in the seriousness of their dealings. Commerce 2 may purchase from outside markets in cases of mother companies with cheaper prices or the absence of local agents.

	<b>9</b>	<b>10</b>
	<b>Commerce1</b>	<b>Commerce2</b>
<b>Rush Orders</b>	Processed directly	Processed directly
<b>Small Orders</b>	Petty Cash, Stores, Telephone	Petty Cash, Stores
<b>Centralization</b>	Centralized except computer purchases	Centralized, delegate on special circumstances
<b>Centralization (multiplant)</b>	Centralized for fixed assets	
<b>Policy with suppliers based on</b>	Price, quality, speed in processing	Courteously, emphasis on Public Relations
<b>Accept Salesmen</b>	appoint if busy	they know visit periods
<b>Accept Samples</b>	pay for high value	pay upon supplier request
<b>Visiting Supplier</b>	for emergent orders	for respect of their visits
<b>Interdepartmental conflicts</b>	many occur	refer to high authorities
<b>Policy Manual</b>	does not exist	periodical memos
<b>Obligations towards supplier</b>		seriousness, confidence & morale
<b>Obligations towards employer</b>	no commissions, not escape responsibility	seriousness, no commissions, confidence

supplier obligations towards Purchasing		
Employer's obligations towards employee	promote salaries ,mutual confidence	
Employees' Purchases	authorized	authorized
Accept Business Gifts	advertising nature	advertising nature
Confidential Information	offers	offers
Process or Structural Organization	structural	structural
Vertical or Horizontal Organization		vertical
Division of Purchasing Activities	group of purchased items	directions of manager
Rating of Purchasing	Top Management Function	Top Management Function
Planning	not applied	applies for contracts
Computerization	limitedly	applied

## 4.2 Analysis of the Findings

### a) Steps of the Procurement Procedure

Procedures are not an end unto themselves; they are means to an end. In fact, they facilitate the accomplishment of a task with minimum effort besides

facilitating communication and coordination. Furthermore, a procedure enables an employee to handle normal activities with minimum of direct supervision.<sup>1</sup> Then, the used Procedures and Forms relate to the type of business and the nature of its activities helping thus in facilitating the flow of work. It is obvious that most inspected organizations follow a general trend of a General Procurement Procedure. However, everyone modifies or updates according to its type of activity and its special internal needs. Following is an analysis of the findings related to the steps of the Procurement Procedures followed in the treated organizations. In fact, they all use special internal documents or forms with differing nominations (Non Catalogue Requisition, Purchase Request, Commercial Supplies Requisition & Delivery Note, FAB & CERA) to communicate the requisition of materials except in the case of Engineering 2 where requisitions are held via memos. Furthermore, some forms are designed to match a certain type of Purchase (Aviation<sup>1</sup>, Commerce<sup>2</sup>). Stores play a principal role especially in production type organizations (Soft Drink<sup>1</sup>, Soft Drink<sup>2</sup>); they procure materials and requisitions may be issued directly to them. In any way, Stores are checked for the availability of materials (especially for store type items) before initiating any Purchasing activity. In cases of unavailability, Purchasing carries out the Procurement of materials. Different ways are followed for selecting the method of Purchasing or calling for bids. Forty percent of the treated organizations follow a preset standard based on the Dollar value of the requisition or order to determine the method of Purchasing. Certain organizations (University<sup>3</sup>); however, add the Descriptions and Specifications of materials factor to specify this method. Parameters that constitute the base for the selection of a target supplier include price, quality, service and support, speed of processing and previous experience in dealing with a

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<sup>1</sup>Dobler, Donald W., et. al., Purchasing and Materials Management, 4th edition, (N.Y.: Mc Graw-Hill, 1984), p.490

certain supplier. An approved list of suppliers is usually observed in the case of mostly recurrent items. In case of new unexpected items, suppliers are called to bid or a minimum of two to three suppliers is checked. Contracts are concluded for raw materials (Soft Drink1, Soft Drink2), catering (Commerce2) and maintenance purposes. Receiving and inspection for quality is mainly the responsibility of Stores especially in production type organizations (Soft Drink1, Soft Drink2). Furthermore, a committee (University3), Material Control (Aviation1), or Purchasing (Engineering2, Commerce1) may handle this responsibility also. In the case of strict or very technical specifications; however, it is advisable that the requisitioner receives and inspects for quality to ensure complete satisfaction and adherence to requested specifications. Follow up and invoice audit are mainly handled by Purchasing except in the case of Soft Drink2 where Finance handles invoice auditing. The fact that invoice audit is mostly attributed to Purchasing is that it is familiar with materials and their technical nomenclature, with prices and contract provisions, and with all ensuing negotiations.<sup>2</sup> In certain organizations, Purchasing signs the invoices (Soft Drink1, Commerce1) or delays their payment (Engineering2) to ensure complete satisfaction of the requisitioner with the received materials.

b) Rush Orders, Small Orders

Rush Orders are handled on an individual basis according to the type of the organization and the nature of its activities. In production or commerce type of organizations, rush orders are given priority for processing even without routine paperwork (which normally follows) in order to keep normal flow of work (Soft Drink1, Soft Drink2, Commerce1, Commerce2). In other organizations, normal

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<sup>2</sup> Dobler, Donald W., et. al., 4th edition, p.503

routine procedure should be followed (Aviation1, University1) or with some eliminations (Engineering1). Moreover, Rush Orders may be allowed only for certain requests (University2), or do not usually occur because of cautious storing and planning of purchases (University3). Stores for all or some groups of materials are used by most treated organizations for the small orders. The direct benefit of using Stores would be statistical consumptions and quantity discounts. In addition, petty cash is also used by most treated organizations for different purchases and services, and its amount is relative to the abundance of the Purchasing transactions. University2 is marked for a previous use of the Blanket or Open End Order System for procuring materials; this method was stopped for lack of effectiveness. Finally, we can say that telephone is a default media for ordering used by most Lebanese organizations nowadays.

#### c) Purchasing Department Records

Different ways of filing or types of records could be found in the treated organizations. In fact, each one adapts its filing system to its own needs and circumstances. In any way, most organizations maintain in their files the closed orders, the supplier records, the contract records and the commodity records (found in the form of catalogues). Open orders and closed orders are found to be filed under different orders according to special needs of inquiry; e.g. Commerce1 initiates from the classes of materials order in its filing system. Moreover, special records (raw materials, L.C.'s,...) could be filed and open orders may happen to be filed under no specific order because they do not accumulate and are processed fast (Aviation1, Commerce1, Engineering1, Engineering2). Furthermore, some organizations rely on the Finance Department for the filing of Records (Engineering1) especially for the closed order records (Commerce1). Finally,

special kinds of filing exist for certain purposes; e.g. engineering tools are reported in the personnel file of the concerned employee for quitclaim purposes whenever leaving work at Engineering2.

d) Centralization & Decentralization

The appropriate level of centralization or decentralization must be determined for each organization by an analysis of the individual factors involved in its operations. In fact, the issue could be divided into two parts:

- 1- For one-plant organizations
- 2- For multiplant organizations

For one-plant organizations or in the main location (for multiplant organizations), centralization of Purchases through a single Department prevails. Delegation; however, occurs for very technical purchases (University2, Aviation1), special projects (Engineering1), emergency or production purchases (University3, Soft Drink1, Soft Drink2), computer purchases (Engineering2, Commerce1), or under special circumstances (Commerce2). In the latter case, delegation of some purchases is followed by a subsequent analysis held by the Purchasing Department to ensure that it does not lose control of its Purchasing responsibilities.

For multiplant organizations, centralization of Purchasing occurs for the following:

- 1- Stationery and Printed Materials (Aviation1, Commerce1, Commerce2)
- 2- Office Equipments and Computers
- 3- Local buying to save transport costs
- 4- Items used only by a certain plant



The benefits of centralization for one-plant organizations or in the main location (for multiplant organizations) could be summarized under the following:

- 1- Quantity discounts are made possible by consolidating all company orders for the same and similar materials.
- 2- The organization is able to develop and implement a unified procurement policy, enabling it to speak with a single voice to its vendors (Aviation1, University3).
- 3- Centralization develops Purchasing Specialists that will buy more efficiently and whose primary concern is Purchasing(University3).
- 4- Suppliers are able to offer better prices and better services because their expenses are reduced(University3).
- 5- More effective inventory control is possible because of company wide knowledge of stock levels, material usage, lead times and prices (Engineering1, University3).
- 6- Line Department Managers do not have to spend time Purchasing and can devote full time and effort to their basic responsibilities.
- 7- Fewer orders are processed for the same quantity of goods purchased, thus reducing purchasing, receiving, inspection, and accounts payable expense.<sup>3</sup>

As for centralization for multiplant organizations, long lines of communication would slow the Purchasing Procedure because the transmittal of information from plant to headquarters by means of conventional paperwork system typically lengthens the Purchasing Procedure by one or two days (Soft Drink1). On the other hand, decentralization for multiplant organizations permits the effective use of local sources.

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<sup>3</sup> Dobler, Donald W., et. al., 4th edition, p 472

e) Policies regarding Suppliers, Salesmen, Samples, Supplier's Visit

Most organizations report that they deal with different suppliers equally, fairly, courteously and respectfully with the preference for authorized agents and on the basis of price, quality, service, speed of processing, supply & demand. A distinction of dealing policy could be found for Aviation<sup>1</sup> and University<sup>3</sup>. The first gives priority of dealing for those who deal with or buy tickets extensively from Aviation<sup>1</sup>. The second adopts the equality in dealing in the case of an equality in offering from different suppliers. In addition, toughness prevails when forcing the supplier to fill a special form titled "Request for Registration in the Suppliers List" that covers all needed information about a certain supplier in case of accepting his offer. In any way, most organizations claim using an approved list of suppliers for fixed categories of materials. Finally, Commerce<sup>2</sup> is noted for the emphasis on the issue of Public Relations that is also found in the answer about the importance of a Purchasing Department for Soft Drink<sup>2</sup>. The Purchasing Manager of Commerce<sup>2</sup> considers Public Relations as "ABC de la métier" and offering a special treatment from the part of the supplier.

Salesmen and samples are generally received and accepted on the basis of their existing or probable relation to any organization field work. Moreover, Salesmen are reported to be received on a weekly basis (University<sup>2</sup>), courteously (University<sup>1</sup>), and on appointment basis (Engineering<sup>1</sup>). Furthermore, Engineering<sup>2</sup> prefers dealing with managers; and salesmen usually know the periods of visit for Commerce<sup>2</sup>.

Samples are accepted for trial by transferring them to the concerned Department. They are either not paid for (University<sup>1</sup>), or paid for upon the supplier's request (Engineering<sup>1</sup>, Commerce<sup>2</sup>), or paid for if expensive

(Commerce1). As for University2, equipments are demonstrated and furnitures are kept for one week.

Suppliers are usually visited by Purchasing Delegates or Officers. On the other hand, the suppliers usually visit Purchasing Managers. The latter may visit suppliers for reasons of market survey (University1, Engineering2), inspection and demonstration of fixed assets and equipments (University1), more information about a certain supplier in case of first exposure (University2, University3), establishing good and strong relationship (Soft Drink2), emergency orders (Commerce1), and for respect of their multiple visits (Commerce2). Moreover, exhibitions' visit is beneficiary (University2).

f) Interdepartmental Conflicts, Policy Manual

Interdepartmental conflicts between the Purchasing Department and other Departments occur whenever the latter deviate from the applied Procurement Procedure. Those conflicts may occur for the delivery date of materials (University2), unjustified requested quantities (Aviation1), standardization of purchased materials policy (Commerce2), or the bureaucracy of the Purchasing Procedure (Engineering1). Those conflicts can be handled by the interference of higher authorities (University3, Soft Drink2, Commerce2), or the adoption of clear policies especially regarding preset budgets, and specifications' justification and verification by authorized managers.

Concerning the subject of the Policy Manual, the findings were as follows: forty percent of the treated organizations do not have a policy manual (Soft Drink1, Soft Drink2, Engineering2, Commerce1), twenty percent are working to have it soon (University2, Aviation1), twenty percent substitute it by periodical memos that detail different policies (Engineering1, Commerce2), and twenty percent do

have a Policy Manual (University1, University3). In fact, it is clear that the existence of a Policy Manual in a certain organization depends to a great extent on its culture, and how systematic it is in activating its departments (University3). Moreover, it appears that well established organizations such as University1 (established in 1866) usually have a Policy Manual. Finally, it was noted that the Policy Manual of University1 includes internal and external policies, kept up to date and confirmed by higher authorities. As for the Policy Manual of University3, it includes only internal policies.

g) Ethical Obligations, Employees' Purchases, Business Gifts, Confidential Information

Whenever we talk about Purchasing, everyone tends to think in a parallel manner about the Ethics in Purchasing. In fact, in this controversial issue, the traditional answers to the posed questions tended to give somewhat biased results although some daring answers were reported (Soft Drink2). In most cases, big words dominated the answers to the questions related to Ethical Obligations reflecting thus the supposed idealism relating to this issue.

Ethical Obligations towards suppliers included equitable settlement of business dealings (University1), expediting the payment of invoices (University1, Soft Drink1, Aviation1), protecting suppliers' proprietary information such as prices and discounts (University2), and respecting the deadline for offers (Engineering1). On the other hand, the suppliers must offer good price, quality and discount (Soft Drink2). Moreover, they must commit themselves to the specifications, terms and conditions listed in their offers (Engineering1).

Ethical Obligations towards the employer usually focus on the issue of the commissions that are usually paid to the Purchasing employee reflecting a conflict

of interest between the buyer's interest and the company's interest. In most treated organizations, the respondents emphasized the fact that receiving commissions is prohibited to the extent of job termination (University3, Aviation1, Commerce1, Commerce2). In Soft Drink2; however, a somehow different attitude appears reflecting that the Purchasing Manager does not interfere between the delegate and the supplier only in cases that strictly conflict with the organization's interest. In other treated organizations, the respondents state that the relation with the employer is based on mutual confidence, devotion, morale, clear conscience and honesty (Soft Drink1, Aviation1, Engineering2, Commerce2). Other organizations stress on the fact that care is already taken to the quality of employees nominated to such critical positions (University2), and Purchasing Management will be repaid many times for the effort put into thorough, careful investigation and selection of its buying personnel (Aviation1). On the other hand, the employer is committed to promote the salaries of his buying personnel and offer them a decent life (Commerce1). As for design work, it is either implemented in the organization (University3), or half paid (Commerce1), or "avant projets" are requested to avoid expensive designs (Commerce2). Finally, the surest way to encourage ethical conduct is to develop a working environment inductive to such conduct. It is beyond doubt that the actions and attitudes of supervisors are the most influential single factor in determining the attitudes of a workgroup.<sup>4</sup> In the treated organizations, different measures and inductive environments towards Ethical conducts were reported. Regulations exist in the Policy Manual (University1), periodical seminars for orienting employees are held (University3), and discounts are considered as realized profits that are eventually partially distributed to the buying personnel(Commerce2).

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<sup>4</sup> Dobler, Donald W., et. al., 4th edition, pp.484-485

When a purchase is made for the personal use of an employee, the latter is receiving the discount earned by his company's purchasing power. In eighty percent of the treated organizations, those purchases occur without any known negative effect on the relationship with the suppliers. They rarely occur in Engineering2, or do not occur in Soft Drink1.

Gifts of advertising nature, e.g. calendars, diaries, pencils, etc. are accepted in most treated organizations. In University3; however, Purchasing employees make a disclosure of the gifts received to the Administration that would then distribute them to all employees.

Confidential information mainly includes prices, bids, offers and subsequent analysis reports (University1, University2, University3, Soft Drink1, Aviation1, Engineering1, Commerce1 & Commerce2 (only offers)). Prices; however, are not considered confidential in Soft Drink2, Commerce1 and Commerce2 because they are considered public. Moreover, a policy to control someone is considered confidential (Engineering1), any information giving indication to production quantities is considered confidential (Soft Drink2), or no major confidentialities exist regarding Purchasing work (Engineering2)

#### h) A Purchasing Department (Importance, Organization and Rating), Support Services, Job Descriptions, Division of Purchasing Activities

There is a significant distinction between the Purchasing Function and the Purchasing Department. The former is a basic function common to all types of enterprise. The latter is an organizational unit of an undertaking, the duties of which vary according to the nature of business, its historical development and its management orientation.<sup>5</sup>

<sup>5</sup> Lysons, CK, Purchasing, 2nd edition, (London: Pitman Publishing, 1991), p.20

A Purchasing Department is reported important for experience reasons (University1, University3, Soft Drink1, Soft Drink2, Commerce2), centralization and consolidation of requests (University1, University2, Commerce2), controlling In-Out transactions (University2, Soft Drink2, Engineering1, Engineering2), having and saving enough for user departments requests (University3, Soft Drink1, Soft Drink2, Commerce1), and having the skill in different related Purchasing techniques (Soft Drink2). Moreover, the establishing of a Purchasing Department could be a decision related to higher authorities (Aviation1). Purchasing Departments of the treated organizations are rated differently by the respondents for different reasons. Sixty percent are rated as Top or Senior Management Function (University1, University3, Soft Drink1, Soft Drink2, Commerce1, Commerce2), thirty percent as Middle Management Function (Aviation1, Engineering1, Engineering2), and ten percent as a routine Clerical Procedure (University2). Purchasing Departments are rated Top for their direct reporting to General Managers (the 60%), being a focal point for production and sales continuity (Soft Drink1, Soft Drink2), being procured by up-to-date information regarding technology and suppliers (University3), having a huge budget (Soft Drink2) or serving a large number of employees (Commerce1) or customers (Commerce2). They could be rated as Middle for their reporting to a Financial Manager (Engineering2), or rated as Clerical reporting to the Director of Administration (University2).

Purchasing organization involves the logical structuring of people and activities so that they can interact smoothly for optimum performance. The structural type of organization organizes Purchasing people in terms of their reporting relationships, determining who reports to whom, and who is responsible for what. It tends to be stable and static over time and is best illustrated by an organization chart. The process organization deals with structuring activities in the

most efficient manner. Work sequences have to be organized so that responsibilities are clear, time is saved, and deadlines are met. Then, the organization of Purchasing activities has to be dynamic and updated regularly.<sup>6</sup> Eighty percent of the treated organizations apply the structural organization for their Purchasing Departments organizing people in terms of their reporting relationships. The other twenty percent apply a somehow process organization (University3, Engineering1) because Purchasing Personnel change positions and responsibilities according to work circumstances. Fifty percent of the treated organizations apply the horizontal organization for the support services represented mainly by the Stores; with sometimes far reaching authorities for Purchasing over Stores (University3). The reported benefits for such an organization state the control of the In-Out transactions facilitating thus the preparation of departmental statistical reports and other statements (University3, Soft Drink1). Furthermore, this type of organization for support services prohibits the wrong use of authority on them. the fact of being independent makes them responsible for their own actions (Soft Drink2). The other fifty percent apply the vertical organization for their support services. The reported advantages include the restriction of dealing and negotiation with the Purchasing Department only (Engineering1), and relieving the pressure of work on one individual unit (Commerce2).

Three kinds of Purchasing organizations prevailed in the treated organizations:

- 1) A Purchasing Department (University1, University2, University3, Soft Drink1, Soft Drink2, Commerce1, Commerce2)
- 2) A Purchasing Committee (Engineering1)
- 3) A Purchasing Function (Engineering2)

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<sup>6</sup> Scheuing, Eberhard E, Purchasing Management, (N.J.: Prentice Hall, Inc., 1989), pp.73-74



Different classifications of the Purchasing work were found for the different treated organizations. They included:

- 1) Purchasing Manager
- 2) Assistant Purchasing Manager
- 3) Purchasing agent
- 4) Secretary
- 5) Clerk
- 6) Specialized Researcher
- 7) Superintendent
- 8) Supervisor
- 9) Price Analyst

In the case of Engineering1, a Purchasing committee handles the Purchasing Function with a flexible changing composition over time. It is now composed of:

- 1- A lawyer
- 2- Three engineers (Electrical, Structural, Irrigation)
- 3- A sociologist

As for Engineering2, it is clear that the Purchasing Function is not represented by a Purchasing Department as an independent unit. It is rather replaced by a Purchasing Function activated under the Administration Department. It is composed of:

- 1- Administrative & Public Relations Manager
- 2- Assistant Finance & Administration Manager
- 3- Administrative Manager

The Purchasing activities were found to be divided among different Purchasing Personnel on the basis of major groups of purchased items (University1, Aviation1, Engineering1, Commerce1), not divided on any specific basis (Soft Drink1), according to the location of the suppliers (Soft Drink2), or according to

the directions of the Purchasing Manager (Commerce2). It was noted that one person performs a one-man show for the whole Purchasing Function in University2. In addition, only three persons serve almost five hundred employees in Commerce1.

It is marked that University1 used to have a Director of Business Services acting as a Head of Material Department. Moreover, University3 and Soft Drink2 have persons acting as material Managers.

#### i) Planning, Computerization

Planning means managing a company's future business. In the field of Purchasing, this involves now what the team should strive for in the year ahead and mapping out the actions to be taken to get there. Properly executed, Purchasing Planning produces a number of invaluable benefits.<sup>7</sup>

In the treated organizations, it is clear that none has a clear step by step model for a standard Purchasing Plan. Rather, every one of them performs Planning on its own way. The dominating form of planning could be found under the form of Stores replenishment (University1, Aviation1), budgets and materials planning (University2, University3, Aviation1, Engineering1). In Production type organizations, Planning is marked Top important for prohibiting any probable shortage in production quantities besides preserving and increasing the market share (Soft Drink1, Soft Drink2). Likewise, planning applies in Commerce2 for catering purposes (long term contracting) in order to keep on schedule. Finally, Planning does not apply at all in Engineering2 and Commerce1.

Purchasing managers have been recognizing the significant contributions that computers can make to modern purchasing practice and accordingly have been

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<sup>7</sup> Scheuing, Eberhard E, pp.130-131

integrating computers into their purchasing operations. Computers can substantially increase the amount and quality of information available to purchasing decision makers while delivering this information in a fraction of the time previously needed and at a sharply reduced cost.<sup>8</sup> In the treated organizations, forty percent were found to be computerized (University1, University3, Aviation1, Commerce2), ten percent were partially computerized (Commerce1) and the rest (fifty percent) were not computerized. The reported advantages of computerization included reduction of clerical work (University1), storage capacity (University1, Engineering1), accuracy & speed in inquiry & reporting (University1, University3, Aviation1, Engineering1), reduction of staff and consequent costs (University3), price and supplier control (Engineering1), and the provision of a valuable data bank (Commerce2). Finally, it is noted that Purchasing in Soft Drink2 benefits of the computerization applied at the Finance Department. In fact, Purchasing can inquire Finance in a very effective manner and with multiple indexes.

j) Present and Future Prospects for Purchasing in Lebanon

Different opinions were reported regarding the present and future prospects for Purchasing in Lebanon. The Lebanese market was described as tight with very wide competition (University1, University2), or one of the rare markets including different kinds of goods with various brands and qualities (University1, Soft Drink2, Engineering1, Commerce2),....In general, Purchasing in Lebanon is based on favoritism, commissions and personal interests (Soft Drink2, Engineering1); and there are no Ethics in Trade and Profits are unjustifiably high (Aviation1). Then, it would not be a fair market for a Purchasing Manager to be evaluated because many parameters control it (Soft Drink2). University3 is marked for its calling references

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<sup>8</sup>Scheuing, Eberhard E, pp.174-175

from abroad for the reason of getting accurate information about suppliers especially main agents. Moreover, a monopoly exists in the market for the trading in Engineering Tools & Equipments (Engineering2). Furthermore, secondary suppliers may be dealt with on the basis of price and quality. They might have cheaper prices because of their special discounts on gross sales (University3). The future prospects for Purchasing in Lebanon will witness more suppliers with the possibility of authorized representatives coming back. This would be reflected in more variety in choice, more brands and qualities, more competition and better prices. Purchasing practices follow internal and external environments (University1), and do not obey any particular strategy (Soft Drink1). Finally, the fact that the Lebanese Market is disorganized and unstable with different parameters controlling it, necessitates more supervision and stricter regulations from the part of the Lebanese Government.

Comparative Table

	1	2	3	4	5	6	7	8	9	10
	University1	University2	University3	Soft Drink1	Soft Drink2	Aviation1	Engineering1	Engineering2	Commerce1	Commerce2
Rush Orders	Routine Procedure	Instructional & Academic Requests	Do not happen	Processed directly	Processed directly	Routine Procedure	By telephone	Processed directly	Processed directly	Processed directly
Small Orders	Petty Cash, Stores	Petty Cash, Stores	Petty Cash, Stores	Petty Cash, Stores	Petty Cash, Stores, Telephone	Petty Cash, Stores, Telephone	Petty Cash, Stores	Petty Cash, Stores	Petty Cash, Stores, Telephone	Petty Cash, Stores
Centralization	Centralized	Centralized, delegation for specific	Centralized, delegate emergency	Centralized, delegate production	Centralized, delegate emergency	Centralized, delegation for specific	Centralized, delegate special projects	Centralized except computer purchases	Centralized except computer purchases	Centralized, del. special circumstances
Centralization (multiplant)		Decentralize		Centralized for fixed assets	Centralized for fixed assets	Centralized for fixed assets & Printed materials	Decentralize		Centralized for fixed assets	
Policy with suppliers based on	Speed in processing, service	Price, quality, service	Price, quality	Equality in dealing	SS & DD agents preferred	Equally, priority for agents and customers	Price, quality, service	Price, quality	Price, quality, speed in processing	Courteously, emphasis on Public Relations
Accept Salesmen	Courteously	Weekly basis	acc. to field of work	acc. to field of work	acc. to field of work	well known suppliers	appointment basis	prefer managers	appoint if busy	they know visit periods
Accept Samples	no payment	related to field of work	related to field of work	inexpensive	related to field of work	inexpensive	related to field of work, pay for high value	related to field of work	pay for high value	pay upon supplier request

	1	2	3	4	5	6	7	8	9	10
	University1	University2	University3	Soft Drink1	Soft Drink2	Aviation1	Engineering1	Engineering2	Commerce1	Commerce2
Visiting Supplier	performance demonstration, market survey, supplier condition	more information about supplier	first exposure	they visit Purchasing	good relation, follow up	visited only by delegates	they visit Purchasing	market survey	for emergent orders	for respect of their visits
Interdepartmental conflicts	not major	delivery date	refer to high authorities	rare	refer to high authorities	unjustified quantities	complain from procedure	not major	many occur	refer to high authorities
Policy Manual	exists, internal & external policies	does not exist	exists, internal policies	does not exist	does not exist	soon	periodical memos	does not exist	does not exist	periodical memos
Obligations towards supplier	equitable dealing, follow up payments	confidential price & discount	suppliers try to bribe	follow up payments	follow up payments	follow up payments	respect deadline for offers	clear conscience & honesty		seriousness, confidence & morale
Obligations towards employer	individual basis	care already taken to the quality of employees	no commissions	mutual confidence	no commissions	quality of employees, no commissions, confidence	no commissions, work as own company	clear conscience & honesty	no commissions, not escape responsibility	seriousness, no commissions, confidence
supplier obligations towards Purchasing					good price, quality & discount		committed to quality & specifications			
Employer's obligations towards employee									promote salaries, mutual confidence	
Employees' Purchases	authorized	authorized	authorized	do not happen	authorized	authorized	authorized	rare	authorized	authorized

	1	2	3	4	5	6	7	8	9	10
	University1	University2	University3	Soft Drink1	Soft Drink2	Aviation1	Engineering1	Engineering2	Commerce1	Commerce2
Accept Business Gifts	advertising nature	advertising nature	delivered to Administration	advertising nature	advertising nature	advertising nature	advertising nature	advertising nature	advertising nature	advertising nature
Confidential Information	prices, bids	prices, analysis reports	prices, offers	prices, L.C's	production quantities	prices	prices, offers, control policy	no major exist	offers	offers
Process or Structural Organization	structural	structural	process	structural	structural	structural	process	structural	structural	structural
Vertical or Horizontal Organization	horizontal	horizontal	horizontal	horizontal	horizontal	vertical	vertical			vertical
Division of Purchasing Activities	group of purchased items	one man show	division of research work	no basis	location of suppliers	group of purchased items	group of purchased items	no basis	group of purchased items	directions of manager
Rating of Purchasing	Top Management Function	Routine Clerical Procedure	Top Management Function	Top Management Function	Top Management Function	Middle Management Function	Middle & Clerical Management Function	Middle Management Function	Top Management Function	Top Management Function
Planning	for replenishment	budgets, materials	top rating, annual basis	very important for production	very important for production	budgets, replenishment	six months basis	not applied	not applied	applies for contracts
Computerization	applied	soon	applied	not applied	applied at Finance	applied in stores	was applied	not applied	limitedly	applied

## CHAPTER V

### Conclusion and Recommendation

#### 5.1 Summary & Conclusion

In Lebanon, the movement of reconstruction can be greatly assisted by the use of Purchasing Principles & Applications on a wide national basis in all sectors of the economy. Due to industrialization which accompanies the reconstruction process, the Purchasing Applications will also grow.

The data was collected for this research in order to assess the Purchasing Principles & Applications in Lebanese organizations. Practices varied from one organization to another, but the general trend seemed to follow the same direction. The trends for future years will witness the growth of the number of authorized representatives; more materials, brands and qualities; leading to a variety of choice, more competition and cheaper prices.

#### 5.2 Recommendations

The trend to follow clear Purchasing Practices & Applications seems to be pushing for most of the treated Lebanese organizations. However, the situation of Purchasing in Lebanon is still chaotic. In fact, a quantum leap towards clearer policies would be translated in the deeper systemization of different Purchasing Procedures and Policies. This could be done by putting more effort in the implementation of what is known by a Policy Manual. In fact, clear policies should be committed to written form so that the message reaches those who are to receive it as clearly and accurately as possible. The direction should be towards activating special workshops in order to attain this goal that would contribute in activating the Purchasing work in a very systematic fashion. Moreover, the Lebanese organizations are advised to further



computerize their Purchasing Practices because computers have a basic role towards a more effective and efficient Purchasing work. In addition, computerization plays a principal role for research work that is very important especially in prepurchase investigations and planning ; and whenever complicated purchases influencing future procurement efficiency take place. Furthermore, a modest step towards planning practices was shown in production type organizations and in matters involving long term contracting. This step should develop and follow to include most organizations involved in the Purchasing work for different reasons:

- 1- Being prepared to counter emerging threats with swift defensive moves and capitalize early and aggressively on opportunities
- 2- Better resource utilization and Purchasing performance by being proactive instead of being reactive
- 3- Measurement and evaluation of actual results on the basis of performance standards contained in the Purchasing Plan is beneficiary
- 4- Heightening sensitivity and responsiveness to environmental changes
- 5- The Purchasing Plan is a powerful means of communication conveying clearly to everybody concerned the objectives to be pursued and the tools to be used, fostering a spirit of commitment to a common cause.<sup>1</sup>

Finally, a special attention should be shown from the part of the Lebanese Government in order to organize and further legalize the trade practices in the Lebanese Market through a combined effort from the part of concerned parties; especially the Ministry of National Economy, the Ministry of Industry, and the Ministry of Finance. Care should also be directed towards encouraging the specialization in Trade, in addition to the standardization of measurements and specifications to get rid of the problem of finding substitutes and equivalents.

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<sup>1</sup> Scheuing, Eberhard E, Purchasing Management, (N.J.: Prentice Hall, Inc., 1989), pp.131, 132

### 5.3 Limitations of the Study

As it was previously mentioned, the research is of an exploratory type. The techniques used have limitations, especially for being qualitative rather than quantitative. "Another problem with exploratory studies involves the projectibility of the findings. Most exploratory techniques utilize small samples, which may not be representative because they have not been selected on a probability basis."<sup>2</sup> Moreover, the analysis and interpretation of the findings might have been subject to the interpreter's bias, because this analysis is based on personal judgement as is the case in most exploratory researches.

Nevertheless, this research did attain its goals of clarifying problems and identifying general trends. However, since exploratory research can rarely be as conclusive as quantitative research, future projects could have the design of survey or experimental research. A larger sample could be chosen, or a statistical research could be conducted. Moreover, a quantitative research could handle the formulation of many models such as supplier evaluation and rating models.

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<sup>2</sup> William g. Zikmund, Business Research Methods, 3rd ed. (New York: Harcourt Brace Jovanovich College Publishers, 1991), p.95

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## Appendix A

### Questionnaire Sample Used for Lebanese Organizations Interviews

Dear Sir,

You are selected on purpose to help in exploring and accumulating decent and objective data pertaining to the adoption of Purchasing Principles and Applications in Lebanese organizations. This questionnaire is conducted as a research technique for finalizing my MBA research at LAU. Your responses will be kept confidential, and only used for analytical purposes.

Thank you for your cooperation.

1- Information about the organization:

- a) Type of business : \_\_\_\_\_
- c) Year established : \_\_\_\_\_
- d) Number of employees : \_\_\_\_\_
- e) Capital : \_\_\_\_\_
- f) Area : \_\_\_\_\_
- g) Profit or non-profit : \_\_\_\_\_

This questionnaire is intended toward analyzing Institutional Purchasing, that is purchasing for organizations as a service function. Please, answer the following questions:

#### Procedures

- 2- Explain and state the different steps of Procurement Procedures followed in your company  
(Please deliver us a sample of different documents and forms used in your Procurement Procedures)

- 3- How do you deal with the problem of *rush* and *oral orders*?
- 4- What measures are followed in order to face the *small order* problem?(i.e. orders of low dollar value)
- 5- What are the main *records* used in the filing system of your Purchasing Department?

### Policies

#### Centralization & Decentralization

- 6- Is the policy of your organization to *centralize* or *decentralize* purchasing? What are the advantages of your followed policy over the disadvantages of other kinds of policies?
- 7- How are authorizations dealt with regarding the contact with suppliers?

#### Organization of Purchasing in a Multiplant Firm (For Multiplant Firms)

- 8- To what extent is purchasing centralized at the corporate level? What are the main advantages for *centralizing* against *decentralizing* (or vice versa) purchasing work from the organizational context of analysis?

#### Policies affecting External Relationships and Image

- 9- What are the broad frames for dealing with your *suppliers*?
- 10- Do you visit your suppliers' place of work? If yes, what are the major benefits of visiting suppliers?
- 11- How do your organization's staff and executives adapt their *Ethical obligations* in their dealing with the supplier?
- 12- How do you deal with *Salespeople*?
- 13- How do you consider accepting different kinds of *samples*?

### Policies Affecting Internal Relationships

- 14- Some conflicts of function and authority may arise between your Purchasing Department and other departments. How do you act to avoid those incidences?

### The Policy Manual

- 15- How far do you consider the importance of a *Policy Manual*? In case of having one, how is it organized and what are its major characteristics?

### Ethics in Purchasing

- 16- How do your organization's staff and executives adapt their *Ethical obligations* in their dealing with:
- a- The employer
  - b- Purchase of design work (if applicable)
- 17- What measures (or policies) and inductive environment are you applying to prevent unethical practices resulting from a *conflict of interest* between a buyer's interest and the company's interest?
- 18- How do you deal with *employees' purchases*? (i.e. purchases for which the company's purchasing power is utilized to benefit its employees)
- 19- What policies do you adopt regarding the acceptance of *business gifts* (by buyers and managers)?
- 20- Which information do you regard as *confidential*? What regulations and policies do you adopt to protect its confidentiality?

### Purchasing Organization

- 21- What are according to you the main advantages of establishing a purchasing department? What do you comment on the argument that user departments are the best judges of what to buy and where to buy it from?

### Two Types of Organization

- 22- Which type of organization do you apply in your company?(i.e. *Process* (according to work sequences) or *Structural* (according to reporting relationships) type of organization) What are the reasons for such a selection?

### Organization of Support Services

- 23- How are *support services* (Stock control, Material control,...) organized in your company (i.e. *Horizontal*(services are distinct functions) or *Vertical* organization(services are completely covered in each section and form a vertical line))? What are the advantages of adopting a certain type of organization against neglecting the other one?

### Materials Management

- 24- Do you have a Materials or Purchasing Department in your company? If you have a Material Department, what are its main advantages against its disadvantages?

### The Internal Organization of a Purchasing Department

- 25- What are the main job descriptions or *titles* that reflect the classifications of purchasing work in your purchasing department?
- 26- According to what basis are purchasing activities divided among different purchasing personnel (which is then reflected in the division of responsibility for buying operations)?

### Location of a Purchasing Department

- 27- Where does the purchasing department fit in your firm's organization structure? Is it rated as:
- i) Top or senior management function
  - ii) Middle management function
  - iii) Routine clerical procedure

What are the main factors that classify your Purchasing Department at a specific level?

### **Purchasing Planning**

28- How do you see the significance of *planning* in a Purchasing Department?

### **Computers in Purchasing**

29- Are *computers* integrated into your purchasing operations? If yes, what are the main advantages and disadvantages of computerized purchasing?

### **Anticipations**

30- How do you see the *present* and *future prospects* for Purchasing in Lebanon?