



# **A Study on Effectiveness of Procurement Strategies of Small Organizations**

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## **ABSTRACT**

The objective of this study are to study the effectiveness of inventory of a company, to analyze the level of satisfaction towards “dealers incentive schemes” and to know whether the relationship of the dealers with the company is effective or not and to know the quickness in responding to order process is effective. This study helps any organization to have an effective indent process evaluation. This also helps the company to know their relationship with the vendors and the dealers and also help to know the ways to retain the dealers. This gives an idea to the company to have an effective inventory and the modes of payment. Any organization, with a well established organizational structure with the top level management, the middle level management, the bottom level management is always a prerequisite. The suppliers have maintained good relationship towards the company. Suppliers prefer communication through phones. Most of them are following traditional means of communication such as telephones so they have to be educated in modern communication systems. Purchase department is very good in negotiation this is good sign for the company as they will get optimum business. However, looking deeper, adequate measurement of procurement success is a big issue. There has been increased pressure for the merging of procurement procedures and objectives with the organization’s goals. The supply chain or procurement process has been directly linked to the overall company performance and this has therefore made procurement practices vital to company success. Procurement practices positively impact an organization’s financial performance, the success of a new product depends on procurement and supplier involvement. Therefore, it is very important for any organization to measure its procurement performance, efficiency and effectiveness.

Key words – Procurement, Supply Chain, Purchase

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## **1. INTRODUCTION:-**

Procurement excellence is increasingly becoming an important factor in delivering efficient operations within successful of any organization. Procurement processes are important functions within any enterprise. Procurement is the process of acquiring, buying goods or services or works from an external source, often via a tendering or bid process. The procurement cycle typically starts with the requirement of a material or a service, and ends with processing payment to the supplier. The process of procurement management involves managing the ordering, receipt, review and approval of items from suppliers. Procurement activities are divided in to two different categories which are direct and indirect based on the consumption purpose. Direct Procurement affects the production process of manufacturing firms. It encompasses all items that are part of finished products, such as raw materials, components and parts. The indirect procurement activities deal with operating resources that a company purchases to enable its operations. It comprises of a large or vast variety of goods and services, ranging from standardized low value items like office supplies and machine lubricants to complex and costly products and services. For effective and efficient working of any company it is important to measure procurement performance and effectiveness. But effectively measuring procurement performance is no rocket science.

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## **2. RESEARCH METHODOLOGY**

Descriptive research was used in this study. A descriptive research is a research that attempts to gather facts from a population so as to establish the existing status of the respondents in regards to the variables. A design study is the culmination of a chain of resolutions by a researcher regarding how the research was performed. This study addresses effects of procurement practices on organizational performance. Research design focuses on how the research is to be conducted. It includes all main fractions of the research study such as the samples or groups, measures, treatments or programs, etc and work together in order to address the research questions. This is the precise population on which data is needed and in this case they are members of staff from the Supply Chain Department; Procurement section, Operations Planning and Logistics, Stores, Weighbridge and the staff and Payables section (pays suppliers) from random industry.

### 2.1 Sample Design:-

Stratified random sampling technique will be utilized to choose the sample. This is an estimate with precision. This is a sampling technique that relies on probability where the whole population is divided into subsections, then systematically selecting the final topics uniformly from unlike sections. For research purpose survey circulated in organization using google form. For this study form was send to about 30 employees randomly who are related with procurement department. This technique has a high statistical accuracy which saves on time and resources. This technique uses the same sampling proportion for each division irrespective of the diversities in population size of the divisions.

### 2.2 Data collection technique:-

The data collected from both primary and secondary data source. Primary data is information that collect specifically for the purpose of research. An advantage of primary data is that it is specifically tailored to research needs. Primary data can be explained, therefore, as information collected from sources such as personal interviews, questionnaires or surveys with a specific intention and on a specific subject, and observation and discussion by the researcher him or herself, which information is then assessed by that person. The secondary data is the data related to the study of Procurement Management is to be collect from the various sources such as reports, internet, etc. This is the data that have been already collected by and readily available from other sources for the purpose of research. The study used a questionnaire to collect primary data from the respondents. A questionnaire comes in handy when gathering standardized information over a short period of time in a short time frame. The questionnaire was according to the research objectives. This information was useful in comparing responses between various groups. The question explored the challenges affecting procurement performance. Primary and secondary data will be gathered. Primary data will be collected using unstructured questionnaire with closed and open-ended questions on the basis of background information, supplier selection procedures, buyer-supplier relationships, organizational capacity and lastly ethical practices. A structured and unstructured question saves on time and is easier to analyze. Questionnaires are efficient, cheap and easy to be administered.

## 3. Data Analysis:-

### 3.1 Mode of placing the order

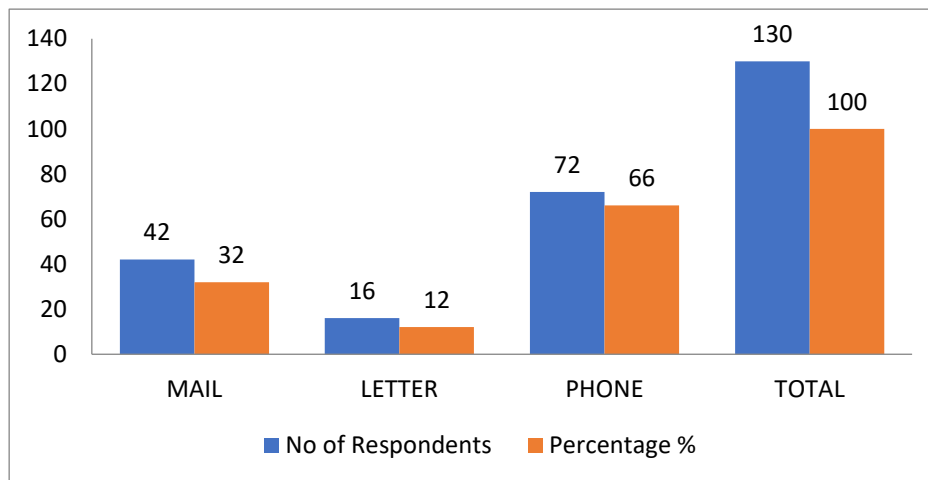


Fig 3.1:- Mode of placing the order

### INFERENCE:-

From the above analysis it is inferred that majority of order are placed through phone rather through neither internet nor letter because phone is simple means of communication and they are less technical in others modes.

### 3.2 The relationship that have with organization:-

The relationship that have with organization has mean value of 3.37 out of 5 scale ratings, Infers that the relationship the organization has with its suppliers is considerable as per the evidence from the analysis, most of respondents are satisfied as they rated very good and excellent.

### 3.3 Negotiation with buyers:-

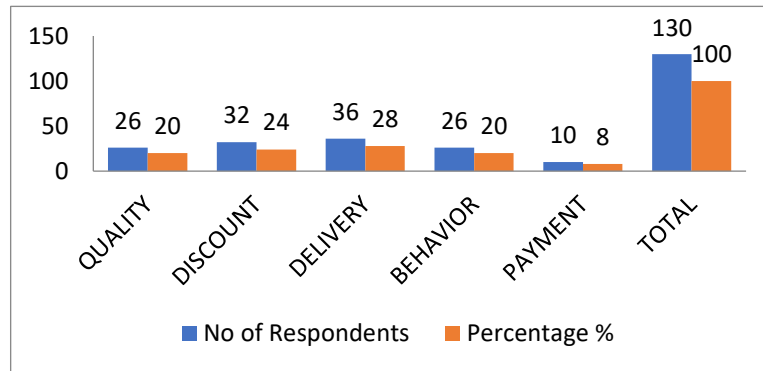
Negotiation with buyers has a mean value of 3.83 out of 5 scale ratings, infers that majority will negotiate effectively and highly effectively because since, buyers are aware of benefits of negotiation and most of them does not do business without negotiation.

**3.4 Ensuring quality of the material:-**

Ensuring quality of the material has a mean value of 3.72 out of 5 scale ratings, infers that most of them are satisfied with quality of material, this depicts that they are more cautiousness the quality.

**3.5 Rank the issues that are critical:-**

Rank the issues which are critical on relationship between buyer and supplier,



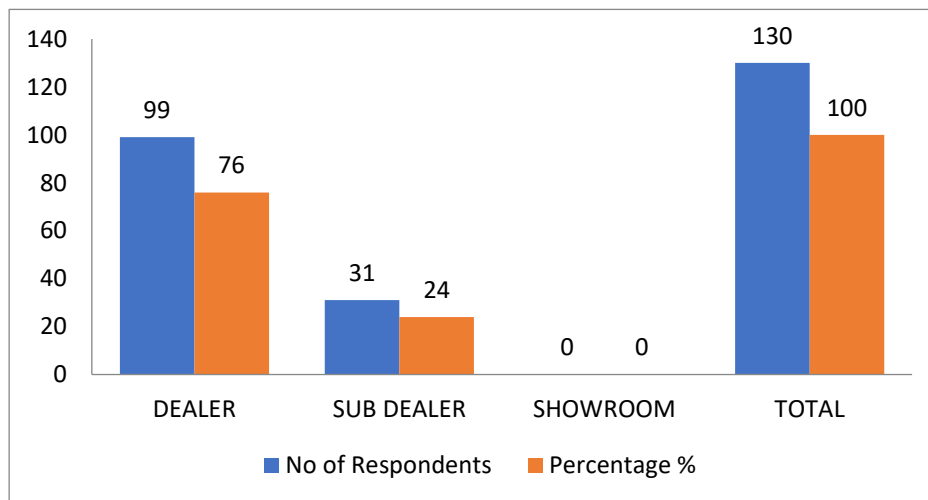
Infers that delivery has been graded highest and for payment it is least because to reduce lead time and also payment is delayed as credit facility is given.

**3.6 Evaluation of tender process:-**

Evaluation of tender process has a mean value of 3.56 out of 5 scale ratings, infers that most of the suppliers are effective and highly effective in tender process because there is intense competition in supplying raw materials.

**3.7 Type of dealer:-**

Type of dealer has a population is biased towards dealership,

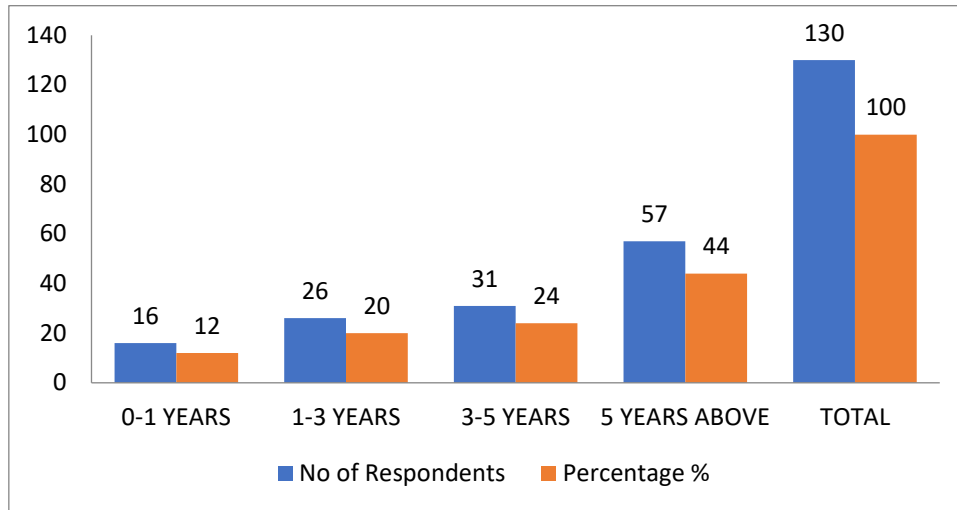


**INFERENCE:-**

As per the above information the any organization its dealing its business with respect to dealers as main consideration and sub dealer is also as its channel, that is majority are direct dealers and few are sub dealers.

**3.8 Duration of association of dealers:-**

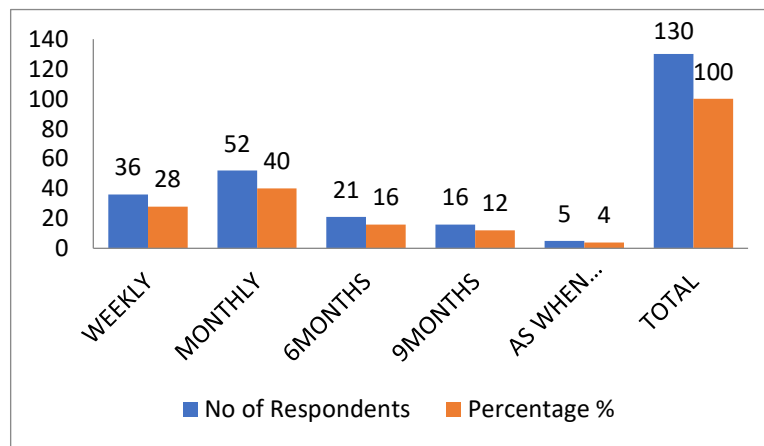
Duration of association of dealers with small organization,



**INFERENCE:-**

As it is evident from the chart dealers remained loyal to the company from the longer period of time is larger in number.

**3.9 Frequency of placing the order:-**



**INFERENCE:-**

The orders placed by the dealers are greater in number in monthly basis, weekly and once in 6 months is also considerable but very less orders are placed once in 9 month as and when required. This depicts the dealers are proactive in moving the goods to market.

**3.10 Dealers rating on the timelines:-**

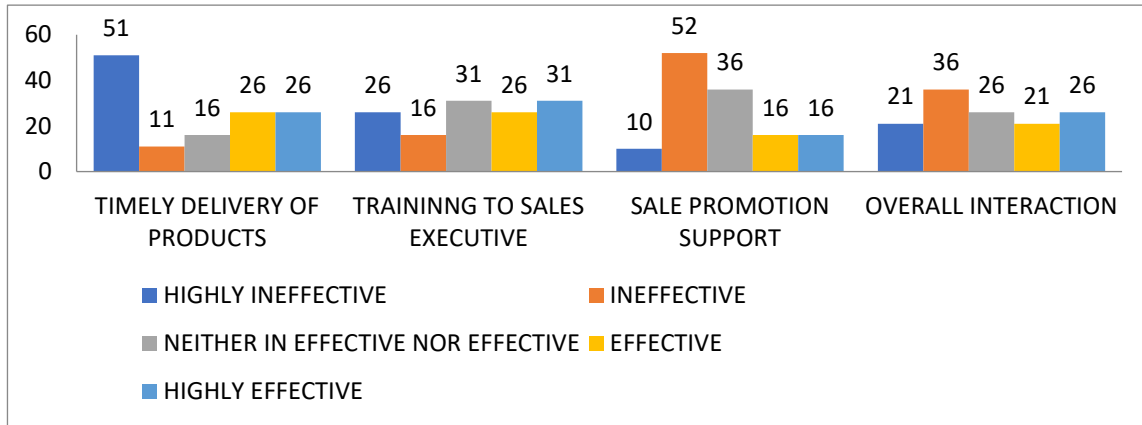
Dealers rating on the timelines of small organizations has a mean value of 3.86 out of 5 scale, in response to requests and inquiries, infers that buyers view the management timelines as per the small organizations concerned for the requests and inquiries from the dealers is not in time and delay is intolerable.

**3.11 Level of satisfaction:-**

Level of satisfaction towards “Dealers Incentive Schemes” of small organizations, has a mean value of 3.6 out of 5 scale, infers that a small organization is concerned about the dealers for the same are not satisfied with the incentives that the organization providing because of incentives are given less than the performance and expectation.

**3.12 Satisfaction level:-**

From the following parameter kindly rate satisfaction level as indicated below



**INFERENCE:-**

From the above analysis of the graph it is inferred that 40% respondents say that timely delivery of product is highly ineffective and 40% respondents say that sales promotion is ineffective and 8% respondents say that sale promotion support is highly ineffective.

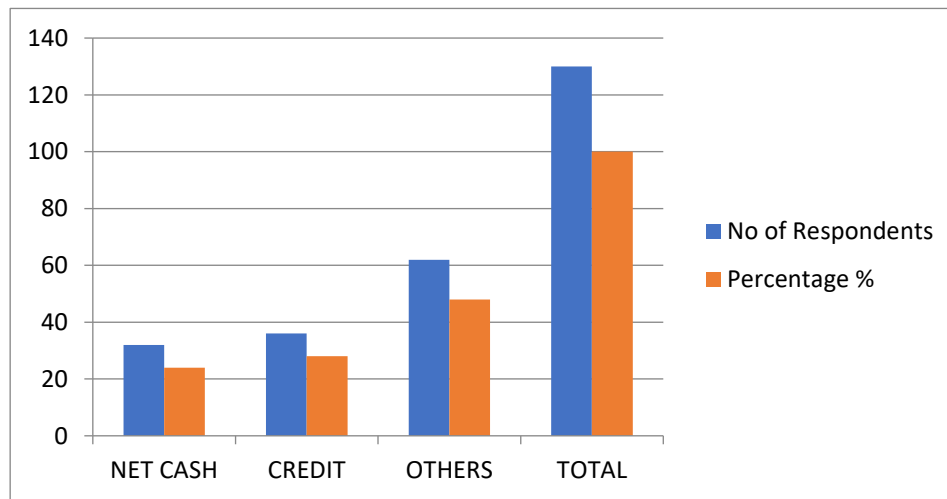
**3.13 Quickness in responding:-**

Quickness in responding to order processing, has a mean value of 2.7 out of 5 scale, infers that the process of orders are quite effective as its significant for the small organizations to respond to dealers apply and see that dealers are satisfied.

**3.14 Relationship with small organizations:-**

Dealer's relationship with small organizations, has a mean value of 2.6 out of 5 scale, infers that dealers are maintaining good relationship with small industries since they respond very effectively to dealers.

**3.15 Mode of transaction the business:-**

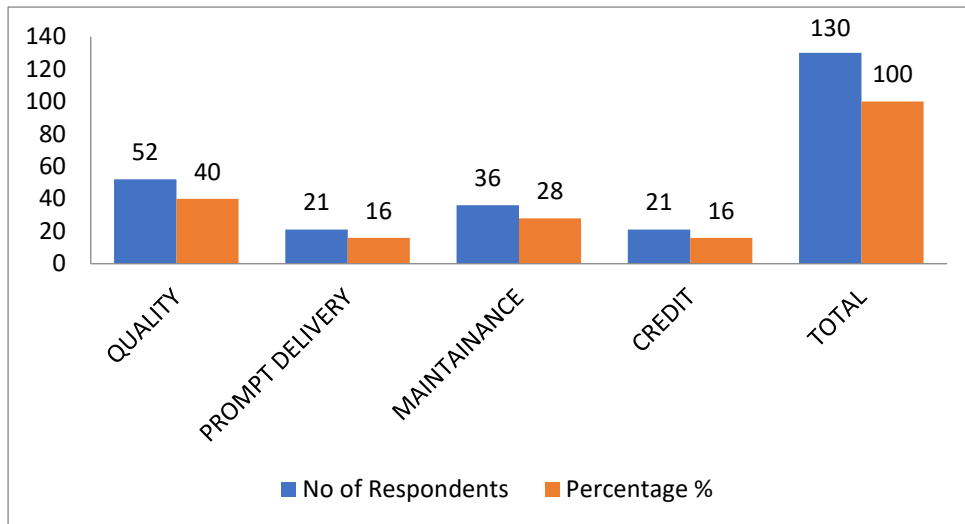


**INFERENCE:-**

From the above graph it is inferred that majority of dealers do not pay net cash as they go for Credit facilities and other facilities such as installments.

**3.16 Selection of suppliers:-**

Small organizations, choose supplier



#### INFERENCE:-

From the above graph we can say that the respondents like to choose their suppliers on the basis of the quality products they deal and maintenance other than for prompt delivery or credit basis.

#### 3.17 Evaluation of indent process:-

Evaluation of indent process, has a mean value of 2.6 out of 5 scale, infers that they are very effective as department is very dynamic in responding to various departments to fulfill their requisites it be hurdle if there is any delay.

#### 3.18 Selection of vendor:-

Selection of vendor, has a mean value of 3.8 out of 5 scale, infers that, employees are very effective in analyzing the offers from the suppliers because they can go for optimum offers.

#### 3.19 Negotiation with suppliers:-

Negotiation with suppliers, has a mean value of 4 out of 5 scale, infers that, employees are very good in negotiating with suppliers because they look for very effective prices and they look in availability of resource quality.

#### 3.20 Finalizing the purchase order:-

Finalizing the purchase order, has a mean value of 3.4 out of 5 scale, infers that, the employees are quite effective in finalizing the purchase orders because employees have knowledge about requirements.

#### 3.21 Monitoring the execution order:-

Monitoring the execution order, has a mean value of 3.4 out of 5 scale, infers that, the employees are very effective in monitoring the execution orders as they match the requirements with customer orders.

#### 3.22 Inspection of the material:-

Inspection of the material, has a mean value of 3.5 out of 5 scale, infers that, the employees are very effective because they look into the quality and price of the materials.

## 4. Statistical Analysis

### 4.1 Chi-SQUARE TEST :-

#### Null hypothesis (H<sub>0</sub>):-

There is no association between suppliers association with small industries.

**Alternate hypothesis (H1):-**

There is association between suppliers association and the small organization.

	VALUE	df	ASYMP. SIG.(2-SIDED)
<b>Pearson Chi – Square</b>	337.212	16	.000

Degree of Freedom = (r-1) \*(c-1)

$$= 4*4 = 16$$

Calculated value = 337.212

Tabulated value = 26.296

Z = Z cal > Z tab

Z = 337.212-26.296

Hence, the Alternate hypothesis [H1] is accepted.

**INFERENCE:-**

Since the calculated value is greater than the tabulated value, we accept the alternate hypothesis and hence there is association between suppliers association with small industries.

**4.2 ONE-WAY ANOVA CLASSIFICATION:-****Null hypothesis (Ho):-**

There is a significance difference between duration of association with small industries and level of satisfaction towards "dealers incentive schemes" of small industries.

**Alternate hypothesis (H1):-**

There is no significance difference between duration of association with small organizations and level of satisfaction towards "dealers incentive schemes" of small organizations.

**TEST OF HOMOGENEITY OF VARIANCES:-**

Duration of association with small industries, Levine

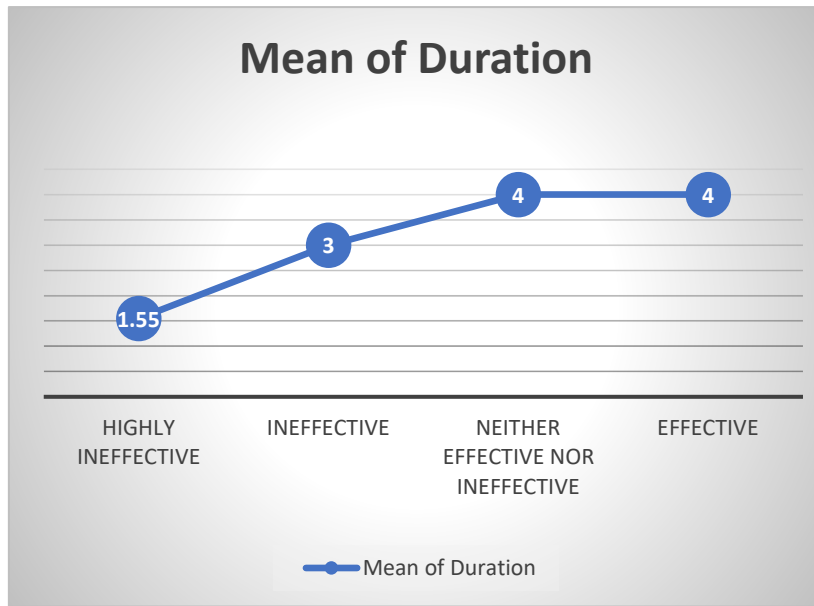
Levene Statistic	df1	df2	Sig.
28.770	3	126	.000

**4.3 ANOVA:-**

Duration of association with small organizations

	Sum of squares	df	Mean Square	F	Sig.
<b>Between Groups</b>	127.127	3	42.376	268.780	.000

Level of satisfaction towards “ Dealers Incentive Schemes” of small industries



**ANOVA CALCULATION:-**

Tabulated value = 2.70

Calculated value = 268.780

F = F cal > F tab

F = 268.780 > 2.70

Hence, the alternative hypothesis (H1) is accepted.

H0 is rejected.

**INFERENCE:-**

Since the calculated value is greater than the tabulated value, we accept the alternate hypothesis and hence there is a relationship between duration of association with small industries and level of satisfaction towards “dealers incentive schemes” of small industries.

**4.4 ANALYSIS USING KARL PEARSON'S CORRELATION:-**

**Null hypothesis (H0):-**

There is positive relationship between selection of vendor and negotiation with suppliers.

**Alternate hypothesis (H1):-**

There is negative relationship between between selection of vendor and negotiation with suppliers.

CORRELATIONS			
		Selection of vendor	Negotiation with suppliers
Selection of vendor	Pearson correlation	1	.937
	Sig. (2-tailed)		.000
	N	130	130
Negotiation with suppliers	Pearson correlation	.937	1
	Sig. (2-tailed)	.000	
	N	130	130

\*\*Correlation is significant at the 0.01 level (2- tailed).

$$r = \frac{(n \sum xy) - (\sum x)(\sum y)}{\sqrt{[n \sum x^2 - (\sum x)^2][n \sum y^2 - (\sum y)^2]}}$$

r = .937



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**INFERENCE:-**

Since r is positive, there is positive relationship between selection of vendor and negotiation with suppliers.

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**5. CONCLUSION: -**

The conclusion made on the study that procurement efficiency and effectiveness can increase or maximize by establishing clear roles and procedures within the procurement processes. To ensure value for money, there should be continuous improvement in the efficiency of internal processes and systems and public entities should maintain structures that avoid unnecessary costs.

The majority of respondents believe that procurement function is dependent on other departments that will be reduce procurement efficiency. About 56% of respondents responds that E-procurement improve the performance of the procurement function. Hence is it clear that by implementing the e procurement the performance and efficiency or effectiveness of the procurement will be increase. The study finds that the evaluation of supplier is very important for effective procurement management.

The software like SAP or ERP has made procurement faster, cheaper and transparent. It is recommended to use such software to improve the procurement performance because is automatic create purchase order, request for quotation, good receipts note and various function very fast easily. It is also found that government rules and regulation also effect of procurement performance. By using above parameter, the performance of procurement should be evaluated.

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