

A STUDY ON PROCURMENT SYSTEMS IN SELECTED INSTITUTIONS/ SECTORS IN BANGLADESH

**Dissertation submitted in partial fulfillment of the
Requirement for the Degree of
Masters of Procurement and Supply Management**

Submitted by

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**Masters of Procurement and Supply Management 2014-15
November 2015**



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CERTIFICATION

It is certified that the dissertation entitled “A Study on procurement systems in selected institution or sectors in Bangladesh” is the original work of Mr. Md. Sharif-Ul-Alam that is completed under my guidance and supervision. So far I know, the dissertation is an individual achievement of the candidate’s own efforts and it is not a conjoint work. I also certify that I have found the dissertation satisfactory for submission to BRAC Institute of Governance and Development (BIGD), BRAC University which is a partial fulfillment of the requirements for the degree of Masters in Procurement and Supply Management.

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Chapter 1

INTRODUCTION

Honing and systematizing the performance of the procurement processes in both private and public sectors' supply chain has lately become more thought provoking. Matters related to ineptitudes as well as administrative processes have resulted in procurement challenges, and hence, supply chain have been affected, particularly those that occur at the first stage of the procurement cycle (planning and budgeting; purchasing activity, contract management). Furthermore, procurement process is now functioning in an atmosphere that is becoming more intense because of the introduction of technology (like e-procurement), program reviews of funded projects, and political opportunities for service improvements (McGrath, MacMillian, & Tushman, 1992; McIvor, Humphrey, & McAleer, 1997 ; Stock, Gresis & Kasarda, 2000)

Lysons and Farrington (2006), points out that the purchasing or procurement function within government agency and private companies has become increasingly important in recent decades. The main causes are globalization, information technology and changing approaches to production and management and the emphasis on core competencies. Similarly the escalating importance of supply chain management has also led to an intensifying recognition of the strategic role of purchasing or procurement (Anderson & Rask 2003). Ellram and Carr (1994) added that procurement has advanced from a sheer buying function and activities into a strategic function. Furthermore, Chen and Paulraj (2004) articulated that it has recently been accepted as a essential driving force in the strategic management of supply chains. Despite the fact that purchasing or procurement is receiving much consideration in many firms and organizations, the procurement function within these organizations and firms are at difference levels of strategic development and growth, with its role ranging from simply administrative to integrative (Cavinato, 1999; Reck & Long, 1988). The studies done by Cavinto (1999), Monczka, 1992, Reck and Long (1998) indicate varied levels of procurement.

Van de Stouwe, Omta, Reijners, and Hagelaar (2012) strongly pointed out that the increasing importance and the emerging need of creating a procurement system is primarily because companies and government agencies have to converge on their functions, which initiated a trend towards subcontracting. According to them, one typical example is the car manufacturing industry, from production (almost everything was produced in-house) it is now developed into an assembly industry, where approximately 80% of the cost consists of purchasing value and 20% is value added by labor. Due to the highly intensified part in the cost price, the procurement function of a company or government agency utilizes a strong influence on the business returns.

There are also other factors (indirect effects) that underwrite in the escalation in the importance of procurement function of companies, organizations and government agencies. The urgency for increasingly shorter time-to-market times and shorter product life cycles, firms and organizations are becoming less adept with keeping product development within their own organizations. Strategic and innovative initiatives in partnership with directly suppliers, but increasingly also to ensuing connections in the chain, is expanding such as conglomerate and collaborative Research & Development (R&D). In this collaboration and partnership with suppliers, the procurement functions play a foremost, and persistently leading or harmonizing task.

At present, in Bangladesh, the procurement system is of particular significance not only in the public or government sector but also in the private sectors as well as local and international non-governmental organizations (NGOs) due stringent procedures mandated by the government and the funding agencies. Procurement system and procedures under the Government of Bangladesh (GOB) is regulated by the guidelines of the GOB known as the Delegation of Administrative and Financial powers at different levels by Establishment Ministry (World Bank, 2002). For instance, stationary, furniture repair, maintenance etc. are procured

under these delegations either directly by the Government Departments or through Supply and Inspection Department. In the private sectors, specific procurement manuals or guidebooks are also being used to regulate procurement process and supply chain. Efficacy in the procurement process is always considered an gauge of a efficacious organization or a business enterprise.

Because of this surge in importance of procurement system, particularly in Bangladesh, it is the conception of this study to investigate and document the procurement system in the country based on the experiences of procurement officers from selected sectors/institutions. After all, without proper use of procurement tools and systems, the organizations and institutions with high purchasing volume run stern risk with regards to their return and efficiency. The necessity of devoting importance to procurement this is expected to encompass a corresponding increase in attention of top management and a glaring need for control regarding the procurement systems. A good grip on this matter diminishes risk of institutional and operational failures.

A. Objectives of the Study

Recently, attention has focused on improving the performance of the procurement system in various sector supply chains. The demand of procurement system and efficient purchasing system in much needed and inevitable, particularly in Bangladesh, where development in all sectors and institutions are prominently emerging.

This study aimed to document the procurement systems in selected sectors or institutions in Bangladesh, in particular, those that occur at the first stage of the procurement cycle:

- (i) planning and budgeting
- (ii) purchasing activity
- (iii) contract management

Moreover, this study intended to investigate on the issues and challenges. The value-added feature of this study is to distinguish what the practitioners have done to improve

procurement systems in their organizational environment. Thus, the study draws from first stage experiences of selected institutions or sectors in Bangladesh

B. Statement of the Problem

The main problem of this study is to investigate the procurement system of selected sector/institutions in Bangladesh with the goal in mind of learning from them what would describe the procurement system in the country.

Specifically, this study aims to answer the following questions:

1. What is the profile of the procurement officers/staff in selected sectors/institutions in Bangladesh in terms of:
 - a. Length of experience?
 - b. Education and training related to procurement system?
2. What are the practices observed in the procurement process related to the following procurement activities:
 - a. Supply planning?
 - b. Budgeting?
 - c. Purchasing? And
 - d. Contract management?
3. What are the major issues and challenges related to procurement process perceived by the respondents?

C. Significance of the Study

This study is significant to both public and private sectors and institutions in Bangladesh because by devoting time and effort to good procurement system, organizations or institutions will lower the overall cost of their operations, thereby allowing them to invest on the things that really matter to them. Additionally, well-run procurement contracts will save time and allow

organizations and institutions to focus on running their organizations and realizing their mission, vision and goals.

This study will definitely significant to various sectors and organization or firms who are involved heavily in procurement of goods and services. The results of this study will allow them improve their system, as well as to identify the best competencies needed for their human resources needs related to procurement process.

This study will also be significant to present and future procurement staff, officers, specialists and directors. The knowledge and information about the current practices in the country will allow them to improve their practices as well as align their practice with the international best practices.

Lastly, this study will be significant to the educators and training providers for procurement and purchasing education and training. The results of this study will provide insights on how to improve the training and study programs on procurement. This way, they are able to meet the present and emerging of procurement specialists in the country and beyond.

D. Scope and Limitations of the Study

This is study attempted to survey the practices, issues and challenges of procurement system in Bangladesh. Practices in the procurement system are limited to supply planning, budgeting, purchasing and contract management. Other activities in the procurement process are not included in this study.

The study is also limited into looking into the procurement practices that reflect the procurement system as perceived and reported by selected procurement staff, procurement officers, procurement department heads, and procurement specialists of selected sectors and institutions. The study does not include the perception of suppliers of goods and services of the selected respondents.

Chapter 2

REVIEW OF RELATED LITERATURE

This chapter discusses the definition of procurement, evaluation of procurement or purchasing, the procurement cycle, the procurement environment of Bangladesh.

A. Definition of Procurement

Procurement is referred to as the act of acquiring and buying good and services. The process comprises planning and processing of a demand of goods and services as well as the end receipt of good and services and approval of payment for the goods and services. It often entails actions such as – purchasing planning, standards determination, specifications development, supplier research and selection, value analysis, financing, price negotiation, making the purchase, supply contract administration, inventory control and stores, and disposal and other related functions. The procurement process is one of the essential strategies of government agencies and private organization because the ability to purchase goods and services will determine if their operations will continue and successful. Among private companies, it is a common belief that a business will be not able to survive if it's price of procurement is more than the profit it makes on selling the actual products.

Lysons and Farrington (2012) defines procurement as the process of acquiring goods, works and services covering both acquisitions from third parties and from in-house providers. The process extends the complete lifecycle from identification of needs, through the end of the useful life of an asset. It involves options appraisal and critical “make or buy” decision.

In summary, procurement (*sometimes referred to purchasing*) is simply the process of acquiring goods and services. A good procurement is getting goods and services at the best possible price, in the right quantity and quality, in the right place and form the right source.

B. The Growth and Development of Procurement System

Based on the works of Fearon (1989), Lysons and Farrington (2012) summarized the evolution of procurement or purchasing that can be categorized into seven periods and discussed below:

Period 1: The early years (1850 – 1900). Some authorities in the field of procurement define the early years of purchasing history as beginning after 1850. Evidence implies, however, that the purchasing function received recognition before this date. Charles Babbage's book on the economy of machinery and manufacturers, published in 1832 (in Fearon, 1989), denoted the importance of the purchasing function. Babbage (1832, in Lysons & Farrington, 2012) wrote that a central officer responsible for operation mines was "*a materials man who selects, purchases, receives, and delivers all articles required*". The utmost curiosity in and development of purchasing during the early years took place after the 1850s – an era that saw the advances of the American railroad. By 1866, the Pennsylvania Railroad had considered the purchasing function as a departmental category, under the heading of Supplying Department. After few year later, the head-purchasing director at the Pennsylvania Railroad reported directly to the president of the railroad. The purchasing function was such a chief provider to the performance of the organization because the chief purchasing manager was bestowed a top managerial status. The comptroller of the Chicago and Northwestern Railroad wrote the first book wholly about the purchasing function, 'The Handling of Railway Supplies – Their purchase and Disposition', in 1887. He examined and explained purchasing matters that are still considered critical nowadays, including the demand for technical know-how and skills in purchasing staffs along with the need to concentrate the purchasing department under a single individual. The writer also remarked on the absence of consideration given to the selection and recruitment of personnel to fill the position of purchasing personnel.

Period 2: Growth of purchasing fundamentals (1900 – 1939). The second period in the development and growth of purchasing started around the turn of the 20th century and persisted until the instigating of the Second World War. According to Fearon (1989), articles specifically tackling the industrial purchasing activities started emerging with increasing standards beyond other railroad trade scientific journals and publications. Engineering publications in particular concentrated consideration on the requirements for qualified and competent purchasing staff and the development of specifications for materials. Purchasing grew importance during the World War 1 because of its role in acquiring critical war equipment. This was due largely to purchasing's dominant focus of raw material procurement during this period (versus buying complete or semi-complete goods). Paradoxically, the years during the First World War figured no publication of any major purchasing books. Harold T. Lewis (in Lysons & Farrington, 2012), an esteemed purchasing specialist during the 1930s through the 1950s, observed that there was considerable uncertainty about the presence of any universal recognition of purchasing as being essential to a company. Lewis documented that from the World War 1 to 1945, at least a slow if sparse acknowledgment developed of the significance of comprehensive procurement to company operation.

Period 3: The war years (1940 – 1946). The Second World War or World War II ushered in a new era in purchasing history. The emphasis on getting vital (and limited) materials during the war shaped the advancement in purchasing concern. In the early 1930s, only nine colleges offered courses related to purchasing in the US. By 1945, this number grew to 49 colleges. The membership of the National Association of Purchasing Agents rose from 3,400 in 1934 to 5,500 in 1940 to 9,400 in the autumn of 1945. A study done during this time disclosed that 76 % of all purchase requests included no specifications or provision of the product. This evoked that other departments within the firm recognized the importance and significant role of the purchasing personnel in defining sources of supply of goods and services.

Period 4: The quiet years (1947 – mid 1960s). The intensified awareness of purchasing that occurred during the World War II was not sustained to the post-war years. John A. Hill (in Lysons & Farrington, 2012), a noted purchasing professional, commented about the condition of purchasing during this period: *“For many firms, purchases were simply an inescapable cost of doing business that no one could do much about. So far as the length and bread of American industry is concerned, the purchasing function has not yet received in full measure the attention and emphasis it deserves”*. Feoron (1989) underscored that articles started appearing during this period explaining the practices of various companies and organizations employing staff members to collect, analyze and present data for purchasing decisions. The Ford Motor Company, for example, was one of the first private organizations to establish a product and services research department to provide short-term procurements needs information. The Ford Motor Company also established a purchase analysis department to provide buyers support on product and price analysis.

Period 5: Materials management comes of age (mid 1960s to late 1970s). The mid-1960s saw a spectacular advancement of the materials management concept. Although interest in materials management grew during this period, the historical beginnings of the concept date back to the 1800s. Establishing under the materials management concept was widespread during the latter half of the 19th century in the US railroads. The amalgamated related functions such as purchasing, inventory control, receiving and stores were under the authority of a single person. The conduct of purchasing during this time was noticeable. Purchasing managers underscored multiple sourcing through competitive bid pricing and hardly viewed the supplier as a value-added partner. Buyers sustained close and coordinated relationships with suppliers. Competitive pricing was the major factor controlling supply contracts. The purchasing strategies and behaviours that evolved over the last half-century were scarce when the severe economic recession of the early 1980s and the emergence of foreign global competitors occurred.

Period 6: The global era (late 1970s – 1999). The global period, and its effect on the relevance, structure, and conduct of purchasing, has already demonstrated different from other historical periods. These differences include the following:

- Not once in our industry history has competition become so forceful and quickly.
- Global firms more and more acquired world market share from domestic US companies, and underscored various strategies, organizational structures and management approaches contrasted with their American complements.
- The range and speed of technology transformation during this time was extraordinary, with product lifecycles turn out to be briefer.
- The capability to organize global purchasing undertaking by exploiting worldwide data networks and the World Wide Web (via Intranets) developed.

This extremely competitive episode observed the advancement of supply chain management. Promptly, more than ever, firms started to follow a more coordinated perspective of managing the movement of goods, services, funds and information from suppliers through end customers. Managers began to perceive supply chain management as a way to gratify concentrated cost and other development pressures.

Period 7: Integrated supply chain management (beyond 2000). Purchasing and supply chain management beyond 2000s echoes an expanding prominence vis-à-vis the importance of suppliers. Supplier relationships are progressing from an adversarial scheme to a more cooperative system with chosen suppliers. The events that the present-day purchasing organization must consider are diverse from just a few centuries ago. Development of supplier, involvement in supplier-design, the utilization of maximum-service, supplier development, total – cost supplier selection, long-term supplier relationships, strategic cost management, and cohesive Internet linkages and shared databases are now perceived as means to generate innovative value within the supply chain. Purchasing behaviour is repositioning dramatically to

reinforce the performance commitments of the new period. It is expected to achieve the closures about this new era. Primarily, the reforming of the character of purchasing in the current economy is proceeding in account to the challenges presented by global competition and quickly altering technology and customer prospects. Secondly, the inclusive significance of the purchasing function is rising, predominantly for organizations that contend with industries characterizes by global competition and rapid innovations. Third, purchasing must endure to become more cohesive with client requirements, as well as with business operations, logistics, human resources, finance, accounting, marketing, and management information systems. This improvement will take time to happen completely, but the integration is foreseeable.

Reck and Long (1988) have identified four strategic stages of development that purchasing must go through to turn out to be a competitive defence in the clash for markets. Reck and Long (1988) also identify the effect at each of the four stages of 12 non-operational development variables, as shown in Table 1.1.

Other attempts to draw the history and process of purchasing are those of Syson (1992) and Morris and Calantone (1992) who each identify three stages. Syson (1992) refers to 'the changing focus of purchasing as it advances from a purely clerical routine activity to a commercial stage in which the prominence is on cost savings and finally a proactive strategic function concerned with materials or logistics management.' Morrriis and Calantone (1992) discriminate between (i) clerical, (ii) 'asset management' and profitability, and (iii) 'core strategic' function stages.

Table 1.1. Strategic Stages of the Development of a Purchasing Function

Stage	Definition and Characteristics	
Stage 1 <i>Passive</i>	<i>Definition</i>	<i>Purchasing function has no strategic direction and primarily reacts to the requests of other functions</i>
	<i>Characteristics</i>	<ul style="list-style-type: none"> • <i>High proportion of time of quick-fix routine operations</i> • <i>Functional and individual communications due to purchasing's low visibility</i> • <i>Supplier selection based on price and availability</i>
Stage 2 <i>Independent</i>	<i>Definition</i>	<i>Purchasing function adopts the latest purchasing techniques and processes, but its strategic direction is independent of the firm's competitive strategy</i>
	<i>Characteristics</i>	<ul style="list-style-type: none"> • <i>Performance based primarily on cost reduction and efficiency disciplines</i> • <i>Coordination links are established between purchasing and technical disciplines</i> • <i>Top management recognizes the importance of professional development</i> • <i>Top management recognizes the opportunities in purchasing for contribution to profitability</i>
Stage 3 <i>Supportive</i>	<i>Definition</i>	<i>The purchasing function supports the firm's competitive strategy by adopting purchasing techniques and products, which strengthen the firms' competitive position</i>
	<i>Characteristics</i>	<ul style="list-style-type: none"> • <i>Purchasers are included in sales proposal terms</i> • <i>Suppliers are considered a resource, with emphasis on experience, motivation and attitude</i> • <i>Markets, products and suppliers are continuously monitored and analysed</i>
Stage 4 <i>Integrative</i>	<i>Definition</i>	<i>Purchasing's strategy is fully integrated into the firm's competitive strategy and constitutes part of an integrated effort among functional peers to formulate and implement a strategic plan</i>
	<i>Characteristics</i>	<ul style="list-style-type: none"> • <i>Cross-functional training of purchasing professionals and executives is made available</i> • <i>Permanent lines of communication are established with other functional areas</i> • <i>Professional development focuses on strategic elements of the competitive strategy</i> • <i>Purchasing performance is measured in terms of contribution to the firm's success</i>

(Adapted from Reck, R.F. and Long, B. (1998). Purchasing: A competitive weapon. *Journal of Purchasing and Material Management*, 24(3), pp. 2-8)

Table 1.2 Stage Characteristics – Rech and Long’s Development Model

Characteristics (Variable)	Passive	Independent	Supportive	Integrative
<i>Nature of long-range planning</i>	<i>None</i>	<i>Commodity or procedural</i>	<i>Supportive of strategy</i>	<i>Integral part of strategy</i>
<i>Impetus for change</i>	<i>Measurement demands</i>	<i>Competitive parity</i>	<i>Competitive strategy</i>	<i>Integrative management</i>
<i>Career advancement</i>	<i>Limited</i>	<i>Possible</i>	<i>Probable</i>	<i>Unlimited</i>
<i>Evaluation based on</i>	<i>Complaints</i>	<i>Cost reduction and supplier performance</i>	<i>Competitive objectives</i>	<i>Strategic contribution</i>
<i>Organizational visibility</i>	<i>Low</i>	<i>Limited</i>	<i>Variable</i>	<i>High</i>
<i>Computer systems focus</i>	<i>Repetitive</i>	<i>Techniques</i>	<i>Specific to concern</i>	<i>Need of concern</i>
<i>Sources of new ideas</i>	<i>Trial and error</i>	<i>Current purchasing practices</i>	<i>Competitive strategy</i>	<i>Interfunctional information exchange</i>
<i>Basis of resource availability</i>	<i>Limited</i>	<i>arbitrary/affordable</i>	<i>Objectives</i>	<i>Strategic requirements</i>
<i>Attitude towards suppliers</i>	<i>Adversarial</i>	<i>Variable</i>	<i>Company resource</i>	<i>Mutual interdependence</i>
<i>Professional development focus</i>	<i>Deemed unnecessary</i>	<i>Current new practices</i>	<i>elements of strategy</i>	<i>Cross-functional understanding</i>
<i>Overall characteristics</i>	<i>Clerical function</i>	<i>Functional efficiency</i>	<i>Strategic facilitator</i>	<i>Strategic contributor</i>

(Adapted from Reck, R.F. and Long, B. (1998). Purchasing: A competitive weapon. *Journal of Purchasing and Material Management*, 24(3), pp. 2-8)

Table 1.3 Purchasing Development Stages and Performance Capabilities

Stage of development	Capabilities	Estimated organizational contribution
<i>Stage 1 Infant</i>	<i>Fragmented purchasing</i>	<i>None of low</i>
<i>Stage 2 Awakening</i>	<i>Realization of savings potential</i>	<i>Clerical efficiency. Small savings via consolidation 2-5 per cent</i>
<i>Stage 3 Developing</i>	<i>Control and development of purchasing price/negotiation capabilities</i>	<i>Cost reduction 5-10 per cent</i>
<i>Stage 4 Mature</i>	<i>80/20 recognized specialist buyers cost reductions commencement of supplier base management</i>	<i>Cost reduction 10-20 per cent Acquisition costs 1-10 per cent</i>
<i>Stage 5 Advanced</i>	<i>Devolution of purchasing strong central control supply chain management</i>	<i>Cost reduction 25 per cent Cost of ownership Acquisition cost and supply chain management 30 per cent + Leverage buying Global sourcing Understanding and practice of acquisition cost and cost of ownership</i>

(Adapted from Reck, R.F. and Long, B. (1998). Purchasing: A competitive weapon. *Journal of Purchasing and Material Management*, 24(3), pp. 2-8)

C. The Procurement Process

Most literature describe procurement as a simply the process of acquiring goods and services (e.g., Lysons & Farrington, 2012; Walter & Rowlinson, 2008). An organization or institution will procure a wide range of good and services – from cleaning to consultancy, to stationery and furniture. Except for salaries, most spending done by any organization or firm will fall under the category of “procurement”. The procurement process emphasizes the getting of goods and services at the best possible price, in the right quantity and quality, and the right place and from the right source.

By dedicating time and effort to good procurement, the organization or firms can lessen costs of non-staff spending thereby letting them to invest in the things that really matter for their

companies or firms. Additionally, well-managed contracts will save time and allow them to focus on running their business and institutional activities.

Figure 3.1. shows the three stages of good procurement – Planning, Purchasing and Managing. Jointly, these three create the procurement cycle.

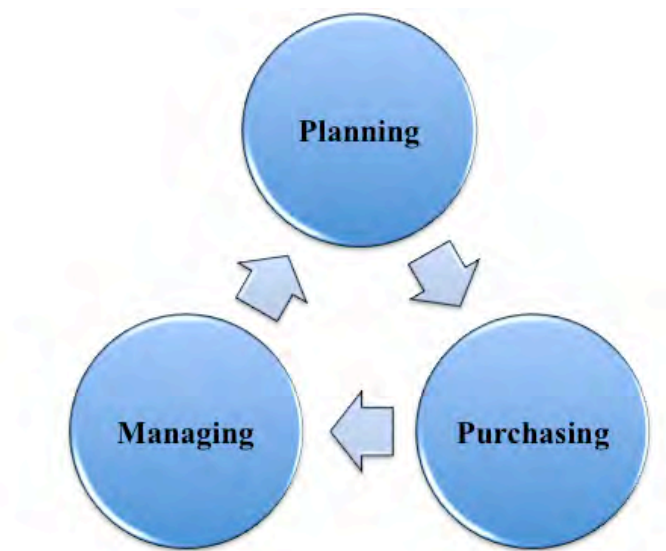


Figure 3.1. The Procurement Cycle

Planning, purchasing and managing are the main stages of systematic and good procurement practice and regime. In each stage, there are a number of steps and procedures that are taken. Ensuing these steps will definitely guarantee that best results and great possibility of getting the value of money from the procurement process.

Cycle 1: Planning. The planning stage starts when the organizations or firms determine the need for new goods and services or decide to review and renew existing ones. This stage involves the following key activities:

- i. Defining the supply (of goods and services) requirements.
- ii. Preparation of budget and getting approval of the budget
- iii. Submission of procurement requisitions or requests

- iv. Releasing of funds to procuring units.

This stage also requires benchmarking and understanding where you can procure goods and services before you finally make a decision to do actually procurement.

Cycle 2: Purchasing. This stage of the procurement cycle is where the actual acquisition or buying of products and services take place. This procurement cycle involves key steps as follows:

- i. Planning the purchasing work
- ii. Preparing bidding documents and obtaining approvals
- iii. Inviting offers – advertisements, providing bidding documents, holding pre-bid meetings, responding to questions of potential bidders and suppliers.
- iv. Selecting suppliers and service providers and obtaining approval – opening of bids, preparing preliminary examination worksheet, bid evaluation, committee deliberations and making decisions, submitting decisions for required approvals.
- v. Awarding contracts – notifying successful bidder, publishing results, negotiation of minor points, processing acceptance and signatures, obtaining performance security, if needed.
- vi. Arranging payment guarantee – making down payment, issuing letter of credit

Cycle 3: Managing. At this stage of procurement cycle, the performance of the suppliers and service providers are monitored to ensure that the contracted goods and services are up to the agreed levels and quality. The following are the key activities under this procurement cycle:

- i. Processing order and manufacture goods.
- ii. Performing pre-shipment inspection and testing of goods.
- iii. Delivery to port entry or delivery of services as agreed in terms of timing
- iv. Clearing of goods and services

- v. Performing post-shipment inspection and evaluation of services.

D. The Importance of Procurement

The procurement function in virtually all organizations and institutions is developing very speedily. In spite of the long history of procurement or purchasing, it was only in the latter half of the 20th century that the significance of efficient and systematic procurement was extensively acknowledged and even later when its strategic goals and objectives – as opposed to operational significance - was noted with an emphasis on purchasing processes, relationships and performance rather than on products and services.

According to Dubois and Pederson (2002), suppliers have also become more and more relevant as they account for a large part of the value creation related to procuring firm's products and services. As a result, managing the firm's supplier base is becoming a vital strategic procurement matter, and therefore the need for discerned methodologies and approaches to procurement behavior increases.

The diversity in procurement needs, and thus the need to purchase in varied ways, is also escalating in its importance, which confronts firms with new challenges. Several authors describe the development of procurement by means of various stages or phases (Morries and Calantone, 1992; Reck & Long, 199; Syson, 1992).

Lyson and Ferrington (2006) opined that that at least three drivers are prompting changes in procurement philosophies, processes and procures. These are – globalization, information technology and changing approaches to production and management and the emphasis on core competencies.

E. Overview of Procurement in Bangladesh

The World Bank Report No. 241144-BD (2002) provides a country procurement assessment of Bangladesh. This document reports that procurement under GOB's own guidelines known as Delegation of Administrative and Financial powers at different levels by Establishment Ministry is limited to Government Departments and mostly to low cost items under revenue budget. Stationary, furniture repair, maintenance etc., are procured under these delegations either directly by the Government department or through Supply and Inspection Department. The reports indicated that the GOB guidelines need updating modification and rationalization. Similarly manual of supply and inspections, Public Works Building Codes, RHD Codes, and manuals of some organizations require updating and reprinting.

In Bangladesh, each government agency and public sector corporation or board has its own established set of procurement procedures. As a rule, they often follow and implement the open bid system – which comprises of public advertisement in the press, pre-qualification if appropriate, formal bidding and contract documents, bid and performance securities, public bid opening, evaluation of bids, and award to the lowest (evaluated) bidder – generally along with the lines of funding agencies' guidelines on national competitive bidding (NCB) and international competitive bidding (ICB). The World Bank report noted that there is no major disagreement exists between government procedures and World Bank Procurement Guidelines. Except for some exceptions, the report indicated that the process is far from satisfactory, and significant delays occur in most of the procurement activities some of the unsatisfactory features of procurement system in Bangladesh include the following (p. 4):

- Poor advertisement
- Short bidding period
- Poor specifications
- Non-disclosure of selection criteria

- Award of contract by lottery
- One-sided contract documents
- Negotiation with all bidders
- Rebidding without adequate grounds
- Other miscellaneous irregularities
- Corruption and outside influences.

The procurement system in the private sector in Bangladesh, particularly in the manufacturing area is considerably still not well developed. The private sector comprises mostly commodity traders and local agents of foreign manufacturers. Excepting a few, construction contractors are largely labour intensive, they lack finance and equipment, and they count on generally to mostly government contracts. On the other hand, the consultancy or consulting industry is equitably well developed and stable because of the accessibility of experienced experts and professionals.

The following are key findings of this report:

1. In spite of limited facilities there are some arrangements for central monitoring of procurement under public sector. The Implementation Monitoring and Evaluation Division (IMED) of the Ministry of Planning is doing this, however, it is still done manually. IMED is tasked to get progress reports in approved formats of all cases of procurement of Taka two crore and above quarterly.
2. IMED has considerable data on status of procurement including the challenges and issues related to procurement such as failure or delay at different stages of procurement process including corruption at different levels, among others. For ensuring accountability for the delays, IMED reported to have been trying it best under present conditions and policies of the government. Furthermore, IMED aims to do monitoring using computer facilities.

3. Successful completion of procurements in both public and private sector, specially imports, demand action cooperation of all concerned agencies like Ministry of Commerce (MOC), CCIE, National Bureau of Revenues, Customs, Ports, etc. The cooperation between and among these agencies is still seriously lacking. Coordinated efforts of these and other concerned organizations are essential for successful completion of any procurement program.
4. It was also evident in the report of the World Bank that good number of organizations has no experience and expertise in procurement. The services of a Procurement Agency for such organizations deserve consideration. IMED, however, has planned a paper on this issue.
5. Strong political commitment ensures project success. For instance, the Jamuna Multipurpose Bridge is the best example in this regard. Solution of procurement problem, eradication of corruption, or checking undue interference of CBA and others can easily achieve through strong political commitment.

In summary, in Bangladesh, if public procurement is to work effective and to the benefit of the people, the business community of suppliers, contractors, and consultants must be trained in the concepts of public and private procurement, made technically and professionally competent, given access to finance and construction equipment, made to adopt to strict code of ethics, and must complement the efforts of the public purchaser to make the whole process economic, efficient, transparent, and free of corruption. This is the aspect that is more often than not, disregarded.

Chapter 3

RESEARCH METHODOLOGY

This chapter outlines the research approach and methodology, respondents and sampling strategy to be used to carry the study. It also includes discussion on the proposed data collection tools and the methods of data analysis in answering the research problems.

A. Research Approach

This research study is descriptive in nature. It attempted to investigate the procurement systems of selected sectors/institutions in Bangladesh. Specifically, it investigated the practices, activities and challenges of procurement system of the country.

Interview checklist was used to collect empirical data based on the research objectives. This was done by conducting key informant interview (KII) and administering an interview checklist to the purposively samples respondents. Most of the interviews were done over the phone since the majority are not available for a face-to-face KII.

Both qualitative and quantitative approach was followed. Qualitative research was primarily exploratory, which was used to gain understanding of underlying reasons and opinions (Wyse, 2011). It provided insights into the problem or helped to develop ideas for quantitative research. On the other hand, quantitative research related to aspects that can be quantified or be expressed in terms of quantity and numerical terms. Quantitative data collection was used in line with the research aims to produce a single piece of evidence that will be used to meet the study objectives. In an attempt to understand the research questions, interview guide was developed and designed on the bases that:

- Interview responses were gathered in a standardized and objective way.
- Information was collected from a purposively selected sample of respondents with high return rates from all the targeted respondents.

B. Research Instruments

The Interview Guide was developed in accordance with the goals and objectives of the research study. The first part of the interview inquired about the information of the respondents' length of experience in procurement process and their education and training related to procurement process. The second part of the question probed on the main tasks of the respondents related to procurement activities. This part also investigated the specific activities. The last item in the interview guide asked about the issues, challenges and recommendations in the procurement process of their sectors/institutions. A copy of the interview guide is in Appendix A.

Before the actual administration of the research instrument, it was pre-tested or piloted to at least 5 procurement staff. Consequently it was finalized integrating all comments and suggestions provided by the pilot sample

C. Sampling Methods

The study used purposive sampling technique, which is a non-probability sampling technique. This sampling technique was adopted with the reason that the researcher needs to gather information from individuals who have particular experience, knowledge and expertise on the research aims. This method of data collection assumes that the sample represents the general view of the population.

In this study, 25 sample respondents who are either – procurement officer, procurement staff and procurement director of selected sectors/institutions in Bangladesh. The main inclusion criterion in selecting the 25 respondents was that they should have at least two (2) years experiences in the procurement activities of their organizations.

D. Data Analysis and Reporting

The collected primary data organized, collated and analyzed using Relative Importance Index (RII). The data are presented using tables, charts, and diagrams or figures in the next chapter. Data presented in tables, charts and figures are described explicitly and implicitly using simple statistical analysis such frequency counts, and percentages.

Chapter 4

PROCUREMENT SYSTEMS IN BANGLADESH: SELECTED ORGANIZATIONS

This chapter discusses the procurement system in Bangladesh based on the data gathered from the respondents of this study.

A. Profile of the Respondents

The first question posed for this study is – *“What is the profile of the procurement officers/staff in selected sectors/institutions in Bangladesh in terms of – a) length of experience; and b) education and training related to procurement system?”*

The following tables (Table 4.1 to 4.3) present the data collected to answer this specific question.

Twenty-five (25) purposively selected respondents were included in this study. Table 4.1 shows the distribution of respondents according to sector or institutions. Almost half or 48% of the respondents come from international NGOs including foreign embassies. There are five respondents each from government and non-government agencies, comprising 20% each, and 40% combined. There is only one respondent from banking and financial institutions. There are 3 respondents (12%) who opted to keep their organization confidential.

Table 4.1. Distribution of Respondents According to Sector/Institutions

Sector/Institutions	No. (N=25)	Percentage
1. International NGO	12	48%
2. Government Agencies	5	20%
3. Private/Non-government organizations	5	20%
7. Others / Not classified	3	12%
Total	25	100%

In terms of educational background and training, as reported in Table 4.2, 16 out of 25 or 64% have formal education studies in procurements. It was noted that all of these 16 who reported that they have had formal training in procurement and supply management, all of them have taken or presently taking a Master of Procurement and Supply Management from BRAC University Institute of Governance and Development.

While the 9 respondents do not have formal educational degree in procurement, they have all attended at 3-day training on procurement and supply management. The trainings they have attend include the following:

- i. Basic and practical concept of supply chain management for conglomerate business
- ii. Training on construction project management and use of monitoring tool
- iii. Training on USAID Rules and Regulations on Grants and Cooperative Agreements
- iv. Training on Procurement Planning and Execution
- v. Training on procurement and intellectual and professional services
- vi. Capacity development on procurement process
- vii. Pubic procurement management
- viii. In-house training programs on procurement

Table 4.2. Distribution of Respondents According to Educational Background and Training

Sector/Institutions	No. (N=25)	Percentage
1. Studied or presently studying formal degree program in procurement and supply chain	16	64%
2. No formal studies on procurement and supply chain but have attended trainings	9	36%
Total	25	100%

Table 4.3 summarizes the profile of respondents according to their years of experience in procurement and supply management. More than half, 14 out of 25 or 56% have been working as procurement staffs for five to ten years, while 8 or 32% are working less than five years. Only 3 or 12% have been working for more than 10 years in the procurement department or section of their organizations. It was noted however that the years of experiences in procurement are acquired in more than two organizations or firms. This implies, that the respondents have transferred to different company or organization but still in the same line of procurement and supply management.

Table 4.3. Distribution of Respondents According to Yeas of Experience in Procurement and Supply Chain

Sector/Institutions	No. (N=25)	Percentage
1. Less than five years	8	32%
2. Five to ten years	14	56%
3. More than ten years	3	12%
Total	25	100%

B. Procurement Practices and Activities

The second specific question put forward for this study is – “*What are the practices and activities observed in the procurement process related to the following procurement activities: a) supply planning; b) budgeting; c) purchasing; and d) contract management?*”.

The following tables present the answers of the respondents and the number of respondents performing each procurement activity.

The respondents were asked to list their main procurement activities. Without asking them elaborate, Table 4.4 summarizes the main activities reported by the respondents related to procurement and supply management.

Table 4.4. shows the main procurement activities being done by the respondents in their organizations. The respondents were asked to check as many of the four activities listed. Majority or 52% of the respondents reported that they are doing purchasing related activities, followed by supply planning (48%) and contract management (36%). 4 or 16% of the respondents only performs budgeting related activities to procurement. Hence, from this table is can be implied that purchasing related activities is the main activities done by the respondents, and budgeting is the least performed by the procurement staff and officers included in this study.

Table 4.4. Main Procurement Activities Done

Procurement Activities	No. (N=25)	Percentage
1. Supply planning	12	48%
2. Budgeting	4	16%
3. Purchasing	13	52%
4. Contract Management	9	36%

C. Procurement Practices – Procurement Cycle

a. Cycle 1: Planning

When the respondent asked about specific supply planning activities they perform, Table 4.5 shows their responses. The respondents revealed that defining supply requirements and performing budgeting approval are among the most performed or practice procurement activity under this first procurement system activity – planning. Eleven or 44% of the respondents reported that they perform these two activities under supply planning cycle of procurement process. Ten out of the 25 respondents or 40% also reported that they do submission of procurement requests and facilitation of release of funds for the procurement of goods and services. From this table, it can be implied that almost all the respondents perform the key activities of the first cycle of procurement – planning.

Table 4.5. Supply Planning Activities Done

Supply Planning Activities	No. (N=25)	Percentage
a. Defining supply requirements	11	44%
b. Budgeting and approval process	11	44%
c. Submission of procurement requisition and specifications	10	40%
d. Release of funds to procuring units	10	40%

b. Cycle 2: Purchasing

Another concern of this study is to know what and how many of the respondents perform the purchasing component of the procurement cycle. Table 4.6 shows that answers of the respondents. In almost all of the activities related to purchasing per se, only over one-third (32 and 36%) of the respondents are performing. The results would imply that majority of the samples do not perform all the purchasing related activities of procurement process.

Table 4.6. Purchasing Planning

Purchasing Activities	No. (N = 25)	Percentage
a. Planning the purchasing work	8	32%
b. Preparing bidding documents, obtaining approvals	9	36%
c. Inviting offers – advertisement, providing bidding documents, holding pre-bid meetings, responding to questions of potential bidders	9	36%
d. Selecting suppliers and obtaining approval – opening of bids, preparing preliminary examination worksheet, bid evaluation, committee deliberations and making decisions; submitting decisions for required approvals.	9	36%
e. Awarding contracts – notifying successful bidder, publishing results, negotiation of minor points, processing acceptance and signatures; obtaining performance security	9	36%
f. Arranging payment guarantee – making down payment, issuing letter of credit	8	36%

c. Cycle 3: Management

The last component of the procurement cycle is managing contracts and monitoring of the delivery of goods and services. Table 4.7 presents the number of respondents who perform management related activities of procurement. Noted from the results of the interview that lesser

number of respondents is performing the management component of procurement. Except for processing order and manufacture of goods, wherein, 6 out 25 or 24% of the respondents reported doing this, all the other activities are performed by less than one-fifth of the sample respondents. The results imply that management of procurement activities are the least performed activities of the procurement officers and staff included in this study.

Table 4.7. Management of Procurement Activities Done

Management of Procurement Activities	No. (N=25)	Percentage
a. Processing order and manufacture goods	6	24%
b. Performing pre-shipment inspection and testing	4	16%
c. Delivering to port entry	3	12%
d. Clearing goods through customs	5	20%
e. Performing post-shipment inspection and testing	3	12%

D. Issues and Challenges in Procurement System in Bangladesh

The last question asked for this study – *“What are the major issues and challenges related to procurement process perceived by the respondents?”* From the answers of the respondents, the following are considered the major issues and challenges in the procurement system of Bangladesh.

a. Lack of supply and suppliers of good and services. One of the major issues articulated by the respondents is related to supply availability and sourcing of available goods and services in the country. Three respondents identified the availability of supply in the country and availability of suppliers and providers. The procurement officers and staff are one in saying that in order for the programs and activities of the organizations, all goods and services must be delivered on time. Hence, they see this as one of the issues and challenges of procurement system in Bangladesh.

b. Weak in planning and time management. Related to this issue is the internal problem wherein some departments of the organizations most often place their requests for

goods and services on the eleventh hour. Some of the requesting departments submit their procurement requisition within a limited time even if there is a policy within the company to give lead time for the procurement department for purchase requests, particularly hard-to-find supplies and goods. Planning for procurement is considered a very important aspect of an effective procurement system.

c. Weak Internal control. Another issue major issue on procurement system is the lack of practice and implementation to undertake suppliers' rating system. Seven respondents identified supplier rating as one of the issues. Related to this issue is the quality control of the items delivered and/or services rendered. While they reported that they have well-established procurement policies, like those of international NGOs and embassies, implementing suppliers' rating, inventory control and quality control of goods and services still remain as one of the procurement system in the country.

d. Lack of Transparency and accountability. Transparency and accountability is also presented as one of the issues and challenges in the procurement system. While only few articulated this as issue and challenge, it is considered a significant issue. Even if it is only an allegation, it was mentioned that there are instances that some suppliers complain of rigging the bids, accepting goods that are less than those specified in the contract, and adjusting of specifications and bidding methods to favour some suppliers.

e. Weak capacity of procurement personnel. While majority of the respondents have taken or taking formal studies on procurement and supply management, some respondents disclosed that there is still much room and demand to improve the capacity of the procurement personnel. In particular, some procurement personnel as not yet so much proficient and competent in handling inventory control and contract management. Hence, it can implied that still much capacity building and training is needed to improve the efficiency of procurement system in the country.

Chapter 5

DISCUSSIONS OF FINDINGS

Procurement and supply management is viewed as an emerging profession in the country. From the results of the study, the strategic role of procurement in any organization is widely recognized. As Paulraj, Chen and Flynn (2006) puts, purchasing has evolved rapidly and its importance in many organizations can no longer be denied. Chen, Paulraj and Lado (2004) also argued that purchasing is now considered a driving force in the strategic management of supply chain.

Notably from the results, procurement has been given much attention in the past decades in the country as most of the firms would require skilled and well-trained procurement staff to handle the purchasing activities. It has been found out that most of the procurement officers and staff included in this study have taken or taking formal graduate degree in procurement and supply management. BRAC University could be a witness of the growing need to train and professionalize procurement and supply management in the country. Since its initial offering some few years, it has graduated a significant number of procurement personnel who are now actively implementing procurement system in the organizations they belong. Likewise, its enrolment in the Master of Procurement and Supply Management is steadily growing over the years.

Individuals who have acquired experiences over the years handle the procurement system in the country. The results show that most of the respondents have an average of 5 years to 10 years of work experience in the same area. This implies that individual who continue to improve their crafts as well as the system that they are in mans the procurement system in Bangladesh.

Strategic procurement system is noted to be emerging in the country. While the study limited to investigating the activities in the basic procurement cycle – planning, purchasing and

managing, the data showed encouraging results that most of the activities under each cycle are performed by a significant number of the respondents. The respondents seem to be focused on their activities. As Carr and Smeltzer (1999), strategic involvement in personnel is essential in ensuring that strategic procurement is practiced. It is also noted that among the respondents, there is a growing support for each other as they reported to have been sharing some basic practices in their procurement system.

As articulated by various researchers (e.g. Ellram & Carr ,1994; Freeman & Cavinato, 1990; Gadde & Hakansson 1994; Shapiro, Singhal & Wagner, 1993; Vickery, Jayaram, Droge & Calantone, 2003), procurement is becoming a professional area that requires competence in understanding customer-side and supply-side. Indirectly, these are acknowledged by the respondents as issues and challenges in the procurement system in Bangladesh.

Among the three major procurement activities, those activities on supply planning are the most performed by the respondents, followed by purchasing and management contracts. In the planning cycle, defining supply requirements and budgeting and approval process are the activities that are performed by significant number of respondents.

Another concern of this study was to investigate what and how many of the respondents perform the purchasing component of the procurement cycle. It was revealed that almost all of the activities related to purchasing per se, are performed or practiced by the respondents.

Among the issues and challenges raised – it is alarming that transparency and accountability was raised. Mahmood (2010) noted that issues related to transparency and corruption is not a new phenomenon in Bangladesh. In fact, he mentioned that corruption could be traced as early as 1757 when the East India Company seized power in Bengal and perpetuated a highly corrupt system.

Chapter 6

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

A. Summary of Findings and Conclusions

The following are the major findings and conclusions of this study:

1. Majority of the procurement personnel performing procurement activities in various sectors/institutions have acquired sufficient education and training to perform their jobs and tasks related to procurement. Hence, it can be said that all the procurement personnel performing the procurement activities are qualified.
2. Most of the procurement personnel have been working in the procurement department of their organization for an average of 5 years. Some even have more than 10 years of experience as procurement personnel. The results imply that all the procurement have sufficient years of experience in the field.
3. All the main procurement activities – such as supply planning, budgeting, purchasing and contract management, are performed by significant number of the respondents. However, not all the respondents are performing the specific activities under each cycle. Moreover, budgeting is the least performed activity in the procurement cycle.
4. There are major issues and challenges identified. These include –
 - a. Lack of supply and suppliers of goods and services
 - b. Weak planning and time management
 - c. Weak internal control
 - d. Lack of transparency and accountability
 - e. Weak capacity of procurement personnel

B. Recommendations of the Study

While it is widely recognized that the procurement system is emerging in the country, there are still much room for improvement. The education and training to equip the procurement personnel to become more skilful and competent is undeniably implied in this study. It is therefore important to institutions like BRAC University to ensure that they offer programs that are responsive to the needs of the procurement staff in the country. It is recommended that the program that they offer must ensure that the students who go through will be able to hurdle all the issues and challenges raised in this study. They should also offer short-term and non-degree programs to meet the challenging capacity building needs of the procurement personnel in Bangladesh.

On the other hand, it is also important for the director and heads of organizations and institutions to understand the basic cycle of procurement system. Among the identified issues by the respondents are more often than not, some departments in their organizations and firms make procurement requests on the eleventh hour, giving them less ample time to respond to their requests. Hence, it is also recommended that there is a need to provide education to the entire department in an organization about the procurement process and the system in order to provide them an efficient procurement system.

Lastly, it is strongly recommended that a wider study will be conducted to obtain a more generalized conclusion on the status of procurement system in Bangladesh. The study only covered limited organizations and selected respondents. Hence, a bigger and wider scope should be conducted in the future.

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APPENDIX A: THE INTEVIEW CHECKLIST

**BRAC INSTITUTE OF GOVERNANCE AND DEVELOPMENT
BRAC UNIVERSITY
MASTERS IN PROCUREMENT AND SUPPLY MANAGEMENT**

Interview checklist for Procurement Officers/Staff

NOTE: *The research is for academic purpose only and your response will be treated with ultimate confidentiality, Please tick (✓) and write where appropriate on your point of view(s) on the subject area.*

- i. Name of you organization:.....
- ii. Name of respondent:
- iii. Designation of respondent (position):
- iv. Years of experience in procurement:

0-5 years [] 5-10 years [] 10 years and above []

- 1) What are your main activities or duties as Procurement Officer/Staff?

- 2) How long have you been working or doing procurement tasks in your organization?

- 3) Did you study formally procurement and supply chain? ___ Yes ___ No
 - a. If yes, could you please describe your formal studies related to procurement and supply chain management?

 - b. If no, what trainings did you get to help you do your tasks as procurement officer?

4) What are your main tasks related to the following the procurement activities?

- a. Supply planning
- b. Budgetting
- c. Purchasing activity
- d. Contract management

5) What are your practices in relation to the following procurement activities:

Activities	Practices
A. Supply planning	
a. Defining supply requirements	
b. Budgeting and approval process	
c. Submission of procurement requisition and specifications	
d. Release of funds to procuring units	
B. Purchasing activity	
a. Planning the purchasing work	
b. Preparing bidding documents, obtaining approvals	
c. Inviting offers – advertisement, providing bidding documents, holding pre-bid meetings, responding to questions of potential bidders	
d. Selecting suppliers and obtaining approval – opening of bids, preparing	

preliminary examination worksheet, bid evaluation, committee deliberations and making decisions; submitting decisions for required approvals.	
e. Awarding contracts – notifying successful bidder, publishing results, negotiation of minor points, processing acceptance and signatures; obtaining performance security	
f. Arranging payment guarantee – making down payment, issuing letter of credit	
C. Contact Management	
a. Processing order and manufacture goods	
b. Performing pre-shipment inspection and testing	
c. Delivering to port entry	
d. Clearing goods through customs	
e. Performing post-shipment inspection and testing	

6. Please share some process related challenges you encounter in your procurement activities.
7. What suggestions can you give to eliminate or minimize these obstacles in the procurement process?
8. What recommendations can you suggest to improve your procurement process?