



INDIRA GANDHI NATIONAL OPEN UNIVERSITY

School of Management Studies

**Name: HAREGEWOIN KITAW BEYENE
ID NUMBER: 109100953**

**The Assessment of Foreign Purchase Practices at
Labora International Trading Plc**

**In Partial Fulfillment of the Requirements for a Master's Degree in Business
Administration (MBA) of Indra Gandhi National Open University**

MS-100: PROJECT REPORT

ADVISOR: DEREJE GELANA

**Submitted to: The Coordinator (Projects) School of Management Studies,
IGNOU, Maidan Garhi, New Delhi - 110068**

September 2014

CERTIFICATE OF ORIGINALITY

This is to certify that the project titled **“The Assessment of Foreign Purchase Practices at Labora International Trading Plc”** is an original work of the Student and is being submitted in partial fulfillment for the award of the Master’s Degree in Business Administration of Indira Gandhi National Open University. This report has not been submitted earlier either to this University or to any other University/Institution for the fulfillment of the requirement of a course of study.

SIGNATURE OF SUPERVISOR:

SIGNATURE OF STUDENT:

Place: Addis Ababa

Place: Addis Ababa

Date: _____

Date: _____

ABSTRACT

The study assessed the foreign purchase practice at Labora International Trading PLC. However, the company's Foreign Purchase Practice, process and performance has been identified and proved to be inefficient and ineffective to meet its strategic objectives maximization of profit and minimization of cost by maximizing the satisfaction of its customers and the case study designs qualitative type. The qualitative data collected through open ended questions and in-depth interview. There is severe Cash shortage to perfectly accomplish its Foreign Purchase practice.

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LIST OF ACRONYMS

LIT	Labora International Trading Plc
MD	Managing Director
MR	Management Representative
IMP	Import Department
ISO	International Organization for Standardization
QMS	Quality Management System
EFMHACA	Ethiopian Food, Medicine and Health Care Administration & control Authority
IA	Import Assistance
IH	Import Head
IC	Import Clerk
FLW	Flow Chart
OP	Operating Procedure
OF	Operating Form
PO	Purchase Order
CAD	Cash against document
L/C	Letter of Credit
GIT	Goods in Transit
TT	Telegraphic Transfer
NBE	National Bank of Ethiopia
PI	Performa Invoice
ERCA	Ethiopian Revenues and Customs Authority
SOPB	Supplier Oriented Purchasing Behavior

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CHAPTER 1

INTRODUCTION

1.1 Background of the study

Purchasing has been referred to as doing “The five rights” i.e. getting the right quality, in the right quantity, at the right time, for the right price, from the right source.

Purchasing system is a method used by businesses to buy products and/or services. A purchasing system manages the entire acquisition process, from requisition, to purchase order, to product receipt, to payment. Purchasing systems are a key component of effective inventory management in that they monitor existing stock and help companies determine what to buy, how much to buy and when to buy it. A popular purchasing system is based on economic order quantity models.

In our country National Bank of Ethiopian declared Foreign Exchange Directives which high lights of the Current Foreign Exchange Regulation of the country.

The current foreign exchange regulations fully liberalize current account international payments for various purposes. Accordingly, the regulations allow payments for all imports of goods, except goods that are believed to be detrimental to the health of the public and security of the nation. Payments for imports can be made by letter of credit, cash against documents, advance payment, etc. Imports of second hand or used goods are also allowed, more specifically various used vehicles, machinery and equipment, in which foreign exchange is availed to these items in relation to their service year after manufacture and the original FOB price.

How the Foreign Purchase Department is carried foreign purchase accordingly with the rules and the regulation of the Company

How the foreign Purchase Department work effectively and efficiently its job in order to meet the company main objectives?

Does the foreign purchase department deliver the goods at the right time?

Is the department submitting the goods with the right quality to its customers?

Is the department hand over the goods with the right quantity and with the right price to the customer?

If the customers are unsatisfied it makes a shift to other competitor and loss of business will occur.

Is the foreign Purchase Department had close relationship with the supplier or not is the department expedite timely settlement of credit to respect the regulation of Bank do the company had healthy Financial Management to settle its credit is the company had close follow-up to shipping lines is it by Air or ship or Postal is the Department made a follow-up timely transporting from Port to Addis on the time frame or schedule do the Foreign Purchase Department uses dry port to smoothly deliver goods from abroad within the schedule time or not all foreign Purchase activity is taken into consideration to study and assess the foreign purchase practice in the company and its efficiency and effectiveness .

In Labora International Trading the Foreign Purchase department is under the close supervision of The Managing Director of the company since the company major activity is importing all the Medical equipments, pharmaceuticals and reagents from abroad and distributed to the government hospitals, pharmacies Higher, Medium clinics etc. The Purchasing function is centralized in this company by Foreign Purchase Department head.

1.2 Statement of the problem

Labora International trading is a merchandising Firm Importing goods and distributing to whole sellers in the country .During the Foreign Purchase activities most of the time the company participate in a big Tender there is a very long process after winning the Tender for Performa approval ,getting hard currency in the Bank they have to wait for one order up to six months delay in approval of L/C,CAD etc after approval and starting the process their suppliers are not able to supply the goods because their manufacturing dead line is passed and they sell the product for other customers this creates a delay for the process ,secondly the shipment is most of the time by ship the shipment schedule also didn't meet the dead line then there is also another delay after long procedure the goods will be shipped to Ethiopia .Now a days there is a dry port usage in the country and there are 4 dry ports this dry ports are not organized and accomplish their job without plan and schedule the goods will be lost and miss located with other site which is not mentioned in the schedule located after delivering the goods there is a poor quality goods and due to improper arrangement of goods and due to sensitivity of the goods it may be spoiled, there will be specification problem due to the reason that the delay process creates problem in the supplier side he may ship under specification ,the quantity may be less ,the quality will be poor due to long procedure brings the company totally un able to deliver the goods on time frame, there is always a complain in the sides of the customer and loses most of big tender this time .

The researchers observe this condition and bring Basic Research question. The overall effort of the study was engaged in seeking answer to the following basic research questions.

- What is the practice of Foreign Purchase at Labora International trading plc?
- Do The Company properly assigned Budget for Foreign Purchase transaction?

- Do the company faces problem in getting Hard Currency?
- Is Performa Invoice approved by EFMHACA on time to start the process?
- How is the Multi Modal Shipment usage helping the company to meet its dead line?

1.3 Objectives of the study

1.3.1 General Objective

The main objective of the study is to review the organization's purchasing procedure from the purchase request till the delivery of goods or services.

1.3.2 Specific Objectives

The study investigates and gives knowledge on the following points.

- It gives full understanding about how the Foreign Purchase practice in the company satisfied and meet the companies objectives or not .
- Investigate if there any Budget Constraint to finished the process and meet the dead line. Assess if there is any Hard Currency problem to complete its process with a specific date or time.
- To Investigate whether there is a delay in Performa Approval by government body or not.
- To Assess the shipment condition and the Multimodal usage suitable or not for the company.
- To Give chance or used as a source document for other researchers for further studies in the area of Foreign purchase at sector and over all at country level to be conducted in future.

1.4 Significance of the study

The outcome of the study can influence

1. Influence the top management give due attention to the Foreign Purchase Management function so that the Foreign Purchase Management Function can add to the accomplishment strategies and policies of LIT Objective.
2. Add to the existing knowledge and inform top management while they set plan and implement objectives, strategies and policies of the foreign purchase practice.
3. Use the findings of the study as an input for organization's foreign purchase functions to carry out its objective effectively and in other areas with similar characteristics to this case study.
4. It provides importance in encouraging the Top management to review literature and strengthen their decision making capability.
5. To provide basic information for further studies in future.

1.5 Scope and Limitations of the study

1.5.1 Delimitation

Particular emphasis will be given to examining the Foreign Purchase process, in the organization the scope of the study is delimited to focus on Labora International Trading Company only.

1.5.2 Limitations

The Research makes assessments about the Foreign Purchase activities, from the beginning, up to the end in the Labora International Trading Plc.

1.6 Research Methodology

1.6.1 Research Philosophy

Research philosophy leads to develop knowledge during the research process. (Saunders, M., et al, 2003). Since the intention of the researcher is to evaluate and examine the current situation of the company, the best way of getting a more reliable result is the case using an interpretive Approach (Ann, C.L., 1998) explains that positivist work seeks to identify qualitative data with proportions that can then be tested or identified in other cases, while interpretive work seeks to combine those data into systems of belief whose manifestations are specific to a case this approach helps to understand the peoples experiences, and view points through exploratory their terminology and symbols. (Saunders, M., et al, 2003)

A qualitative approach is used because the researcher is seeking to grab the reality from the interviewee's point of view who is dealing with the issues in the top company position. According to (Bryman, A., and Bell, E., 2003) "the qualitative method is the process where researcher and respondents interact."

The study utilizes descriptive techniques in analyzing the issues and the research question that have been raised in the study. The researcher will carry out an inclusive interview and group discussion with the Deputy Managing Director of the Labora International Trading PLC, Foreign Purchase division head, transistors and foreign purchase clerk and other staff connected to the Foreign Purchase Department. Accordingly, Primary and secondary data are to be collected to get answer to the research question. Secondary data is used to supplement the primary data for the analysis of the study.

1.6.2 Research Design

In this research it is conducted qualitative type of case study an Interview and questionnaire will be designed and conducted on the site in Labora International Trading Plc .Questionnaire and unstructured interview will be conducted to collect data. The participant will be the whole staff in the Foreign Purchase department. The Interview that had been conducted was unstructured so as to allow the participants to fully express his /her opinion.

1.6.3 Data collection method

Data will be collected by using an interview and questionnaire method the collection of data will be made in written form that is while interviewing the participant, notes can be taken. The notes that will be taken during each interview will be reviewed and developed into a written form.

The Primary Data will be collected from managing Director Labora International Trading plc and Foreign Purchase Department Head by conducting Interview; from Transistor, Foreign Purchase clerk, Finance Manager, Store Head &store clerks by using Questionnaire.

Secondary data is obtained from company's policy & procedure manuals for foreign Purchase.

1.6.4 Data Gathering Tools

The purpose of this study is to do a case study analysis .Naturally the means to fulfill this purpose is to conduct a case study. Usually case studies refer to research that investigate a few cases ,often just one ,being an intensive and depth study of a specific organizations ,individual ,institutions or a whole national society (Gomm,Hammersley and Foster,2000)

Case study research is used in order to give an understanding of a complex issue or object and can extend experience or add strength to what is already known through previous research.

Case studies emphasize contextual analysis of a limited number of events or conditions and their relationship (Soy, 1977). Researcher Robert K. Yin (1984) defines the case study research as "An empirical inquiry that investigates a contemporary phenomenon within its real life context" and in which multiple source of evidence are used (cited in Soy, 1977). A case study can give you several indications to what factors might be operating in the current situation and how the problem might be solved. Picking the right case for the study, understand and correctly translating the research findings are critical for successful problem solving (Sekaran, 2003)

The purpose of the case method is to obtain information from one or few situations that are similar to the researcher's problem situation (Zikmund, 2000), in this study the best suited data are collected from the usage of literature, questionnaire, and examination of existing information resource from the industry.

Unstructured questionnaires and observation were used in order to access the data respective to organizations Foreign Purchase practice, analysis of weakness and strengths of the organization as perceived by the interviewed.

Finally a collected data is reported in an exploratory way that would transform most complicated issues in to readable and digestible material by average readers or stake holders. While this report often refers to detailed observation and analysis, it also portrays the major conclusion and presents an overall image of the study.

1.6.5 Reliability and Validity of Data

The reliability of a measure indicates the extent to which it is without biases such as interviewee or interviewer biases. The stability and consistency of the thesis is also measured in level of reliability (Sekaran, 2003). Interviewer biases are characterized by the comments, to normal verbal behavior of the interviewer during the interview situation

(Saunders, M., et al, 2003) According to (Bryman, A., and Bell, E., 2003) reliability refers to extent to which a concept reach the result, and validity is ensured by having access to best information and data. Therefore the researcher acknowledges that the study is reliable and the same result would come up If it was done by another researcher and the collected data through interviews and questionnaire ensured the validity and reliability of data is full filled.

1.7 Organization of the paper

Structurally, the study is divided into four chapters. The first chapter gives introduction. Under this chapter, background of the study, Statement of the problem, Objective of the study, significance of the study, the scope delimitation, limitations, Research Questions and Research Methodology, Research Philosophy, Research Design, Data Collection, Data Gathering tools, Reliability and validity of Data are presented. The second chapter covers the theoretical and conceptual literature review. The third chapter makes data analysis and presents results and discussions. Finally, the fourth chapter gives conclusion and recommendations.

CHAPTER 2

LITERATURE REVIEW

This section contains a brief literature review on the procedures, rules, regulations and policies of the procurement activities. It also highlights the concept of Purchasing, purpose, principles, process and purchasing methodologies. Theories and principles that are helping this research paper will be discussed in detail. And also extract from websites & from different Books to make complete this research.

2.1 Purchasing as a function of business

Purchasing is one of the basic functions common to all types of business enterprise. These functions are basic because no business can operate without them. All business is managed by coordinating and integrating these six functions.

1. Creation the idea or design function, usually based on research.
2. Finance, the capital acquisition and financial planning and control function.
3. Personnel, the human resources and labor relations function.
4. Purchasing, the acquisition of required materials, service and equipment.
5. Conversion, the transformation of materials into economic goods and services.
6. Distribution, the Marketing and selling of goods and services produced.

By its very nature, Purchasing is a basic and integral part of Business Management. Why is this fact important? For a business to be successful, all its individual parts must be successful. It is impossible for any organization to achieve its full potential without a successful purchasing activity. In the long run, the success of a business enterprise depends every bit as much on the Purchasing and supply executive as it does on the executives who administer the other functions of the business (*Donald W. DOBLER, David N. Burt 1990 Page 18-20*)

Today, the purchasing function is once again in the forefront of corporate attention, due largely to the pressure of intense foreign competition. To meet this challenge,

management is directing its attention to several critical purchasing strategies. These include:

- Quality Purchasing- too often the question of price is the determining factor in buying. Little consideration is given to other phases of the transaction. The buyer must consider price and quality together. For one's special and particular needs. The highest quality may be the cheapest. Profit Purchasing. This country has traditionally solved the problem of getting more profit by making more sales. Conservation of natural resources and competition has forced a realization. An increase in advertising and marketing will not increase profits in proportion to the increase in expenses; hence, the need for reducing costs.
- Strategic Purchasing-The purchasing department makes a large proportion of the expenditures for a business. The success of a business is a function of the amount of thought given to this department and the judiciousness with which the purchases are made. The success or failure of a business may be the direct result of good or bad buying.
- Just-In-Time Purchasing-The buying function should furnish the goods and materials at the time and in the quantity required. Buying at inopportune times or in excess of requirements is liable to entail severe losses. An accumulation of goods and supplies beyond what is required means the following losses are incurred: depreciation, insurance, value of space occupied, and loss of interest on investment. *(Heberling, Michael E ,1993)*

The Purchasing Function

The Purchasing function is usually performed most effectively and efficiently by a Centralized unit made up of buying specialists, who at times may work in conjunction with a more comprehensive cross-functional team of specialists. The activities performed by Purchase department .today "Buying" includes activities such as interviewing sales people, Negotiating with potential suppliers, analyzing bids, selecting suppliers, issuing purchase orders, handling problems with suppliers, and maintain appropriate records. A review of the data makes it clear that the primary

responsibilities of the typical purchasing department today focus on buying activities, materials studies and purchasing market studies.

Purchasing function, sometimes, and supply chain management, perhaps to a greater degree will have the kind of attributes that can lead them to be a source of competitive advantage for a firm. Indeed, there are numerous examples of where this has occurred —

Some of which are quite prominent in Toyota's purchasing system, a system that has helped Toyota implement its lean manufacturing approach, has both path dependent and tacit attributes which have reduced the speed at which other automobile firms have been able to imitate it (Iyer et al. 2009). Moreover, the supply chain management literature has also identified several examples of where the purchasing and/or supply chain management functions are a source of sustained competitive advantage. (*Journal of Supply Chain Management* 3265 Volume 48, Number 2 April 2012)

Ethical Issues in Purchasing

As the importance of the purchasing function in businesses increases, there has been a concurrent increase in the importance of purchasing ethics. The Purchasing function is critical to effective business operations while high-quality raw materials and supplies available on a timely basis are required for global competitive success. Successful companies understand the importance of ethical behavior in the purchasing function in maintaining dependable supplier relationships and, consequently, satisfied customers. (*Motwani, Kumar & Mohamed, 1998*)

Purchasing professionals are expected to serve as a communication link with the external business community and to develop and maintain long-term relationships with the firm's vendors. (*Turner, Taylor & Harley, 1995*).

Of necessity, they are entrusted with spending millions of dollars of a company's resources. Emergence of purchasing as a strategic function has not only broadened the scope of purchasing; it has also changed the responsibilities of the purchasing managers by empowering them to spend large sums of money in procuring goods

and services. All these empowerment, responsibilities and pressure to succeed in today's highly competitive business environment often leads to situations that require managers to take actions deemed questionable from ethical standpoint. (Turner et al., 1995). However, this has also presented them with an array of ethical dilemmas involving questionable purchasing practices. Unethical purchasing practices retard fair business competitions since the Kickback from a deal rather than concern for the company's benefits becomes the basis for purchasing. With the business environment in general becoming increasingly competitive and tumultuous in recent years, purchasing professionals continue to face a challenging ethical environment. Hence, their ethical behavior when faced with such dilemmas has become an issue of concern.

Purchasing ethics is based on the principles which people act out of habit in the business world, and may be viewed as an extension of trade practices and rules which business people in a society regard as important to maintain good relationships. (Joyce, 2006)

Unethical behavior in the purchasing process is sometimes considered as even more unethical, possibly because larger amounts of money and personal enrichment of the individual are often involved. Unethical behavior by purchasers may damage relations within the purchasing department, the relationship with other departments in the company, and with suppliers as well (**Baden horst, 1994**). Purchasing professionals are likely to face ethical issues, particularly as multiple suppliers compete for the business and may thus offer gifts or favors in return for securing a sale (Baden horst, 1994; Browning & Zabriskie, 1983; Trawick, Swan & Rink, 1989; Turner et al., 1995; Wood, 1995). As boundary spanners of a company, purchasing professionals also face ethical issues more subtle than gift giving because tension may occur between the purchasing professional's responsibility to both the employer and the supplier. Acting as an agent for the company, the purchasing professional's responsibility is to achieve the best possible negotiation with the supplier with regard to quality, price, and delivery date. Purchasing professionals could interpret this responsibility to

mean that deception and manipulation of the supplier is an accepted means of achieving the desired outcomes. An amount of researchers have proposed several ethical issues encountered by purchasing professionals (*Forker and Jansen (1990)* concluded eight ethical issues in purchasing:

1. Exaggerating a buyer's or a supplier's problem to achieve a desired outcome,
2. Giving preferential treatment to purchasers or suppliers that top management prefers,
3. Allowing personalities to influence buying/selling transactions,
4. Engaging in the practice of reciprocity,
5. Offer/acceptance of free gifts, meals, and trips,
6. Seeking/giving information on competitors' quotes,
7. Gaining competitive information unfairly, and
8. Showing bias against sales people who circumvent the purchasing department.

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Entrepreneurship and the purchasing Function

Much less is known about the application of entrepreneurship within specific functional areas. The purchasing function provides a case in point. Although traditionally managed in a fairly conservative fashion, purchasing offers abundant opportunities for innovation and change. This department typically spends close to 60 percent of company revenues. Moreover, it represents a major vehicle for interaction between a company and the external environment .Purchasing has evolved from a largely clerical function prior to World War II to an asset management and profit-contributing function by the 1970s, and a core strategic function as we move into the 1990s. Professionals whose major tasks were ensuring supplier reliability and satisfying user departments while saving the firm money are today being challenged to adopt a strategic approach to supply and relationship management.[16]

The strategic perspective defines purchasing as a proactive source of competitive advantage in companies. Examples of possible opportunities for purchasing in this context include:

- Managing supplier relationships to achieve the lowest" All-in-cost or lowest cost when all is said and done* Locking up new, advantageous technologies through exclusive agreements with suppliers
- Establishing arrangements with suppliers to share the risks involved in new technology and product development.
- Motivating suppliers to improve quality at lowest cost, and to continually enhance their own skills
- Working to incorporate newer purchasing-related technologies into operations, such as JIT, MRP, and EDI
- Reducing the supplier pool to establish longer term, more cooperative relationships
- Developing new options to lease instead of buy, freeing up capital
- Identifying candidates for deletion from the firm's Own product line based on trends in material costs, Availability and technologies
- Moving the firm toward a reliance on external providers for services traditionally produced in-house
- Identifying suppliers that are potential candidates for acquisition

Opportunities such as these suggest a significant role for entrepreneurship in purchasing. Not only does each of these position the purchasing department as an agent of change, but each requires innovative thinking and a degree of risk taking. Moreover, a champion is needed to take responsibility for dealing with the rigors of implementation. (Morris, Michael H.; Calantone, Roger J. | September 22, 1991)

2.1.1 Objectives and policies

From a top managerial perspective the general objective has traditionally been expressed as the five rights that management expects the department to achieve the acquisitions of materials.

1. Of the right quality
2. From the right supplier
3. In the right quantity
4. At the right time
5. At the right price

(Donald W.DOBBLER, David N.Burt 1990 Page 41-43)

Surviving in an era of rapid change and intense competition requires a commitment to develop the skills of purchasing professionals, use information technology throughout the sourcing process, pursue activities and strategies that capture the full benefit of a world-class supply base, and create responsive new organizational structures. The competitive environment of the year 2000 and beyond requires purchasing to play an active role in helping achieve an organization's cost, quality, time, and technology goals. Without purchasing input, organizations risk losing market share to competitors who have positioned themselves to receive the benefits offered from world-class supply management.

(Trent, Robert J.; Monczka, Robert M. | Copyright) | September 22, 1998)

2.1.2 Selection of Suppliers and contract provisions

One of the most important responsibilities of a purchasing organization is to locate and /or develop suppliers that are competent and uniquely qualified to fulfill the buying firm's needs staying a breast of the large number of potential suppliers. In the Market place and their respective capabilities and potential, can be a difficult and time-consuming task if it is done well. Consequently, most firms have a policy that requires buyers to spend certain percent age of their time searching for identify and investigating potential suppliers in the markets for their most important – materials.

(Donald W.DOBBLER, David N.Burt 1990 (page45)

2.1.3 Supplier –Oriented Purchasing Behavior

This article defines Supplier-Oriented Purchasing Behavior (SOPB) as purchasing strategies or practices designed to establish a position as an attractive or

preferred customer relative to targeted suppliers. When applying SOPB strategies, the focus of purchasing becomes understanding and satisfying the needs of targeted suppliers and the development of mutually beneficial buyer-seller relationships. The domain of SOPB may include the following activities:

- Acquisition and use of technical knowledge to benefit the supplier
- Buying across a broader range of goods and services
- Collaborative communication

Strategic planning [12] | Meier, Ronald L.; Humphreys, Michael A.; Williams, Michael R.) | September 22, 1998 /

Decision criteria used by organizational buyers to select suppliers have been examined in numerous studies. While there is some variation in the criteria across different purchase situations and product types, general themes of product/quality, price, delivery, and service consistently emerges. [5]The relative importance of these selection criteria has been examined over various purchasing situations. In an industrial commodity market, product characteristics were significantly more important than were support, service, or price issues.[6] On the other hand, Pacheco assigned relative weights to customer service (0.5), product quality (0.2), delivery (0.2), and salesperson quality (0.1) in a situation where competing suppliers provided comparable products. [7] In a study comparing single versus multiple-sourcing situations across different industries and product types, it was found that in multiple sourcing environments, emphasis should be placed on price, quality, and delivery, while in single sourcing situations, the focus should be on technical support and reliability of the product. [8] One study of office products and another in the plastic products industry found that customer service-related attributes were significantly more important than were product, price, or promotional attributes. [9] For differentiated, administrative (operational) products, distribution-related attributes were more important than were price or product-related attributes. [10]Supplier Selection Criteria in the Healthcare Industry:

A Comparison of Importance and Performance (Lambert, Douglas M.; Adams, Ronald J.; Emmelhainz, Margaret A. | Copyright) | January 01, 1997 |

Purchasing and supply management must analyze on a periodic basis their supplier abilities to meet the firm's long-term needs. The areas that need particular attention include the supplier's general growth plans, future design capability in relevant areas, role of purchasing and supply management in the supplier's

strategic planning, potential for future production capacity and financial ability to support such growth (Fisher, 1997). Supply chain partnership is a collaborative relationship between a buyer and seller which recognizes some degree of interdependence and cooperation on a specific project or for a specific purchase agreement (Ellram, 1991; van Hoek, 2001). Such a partnership emphasizes direct, long-term association, encouraging mutual planning and problem solving efforts (Maloni and Benton, 1997). Supplier partnerships have attracted the attention of practitioners and researchers (Macbeth and Ferguson, 1994; Ellram, 1991; Graham et al., 1994). All have contended that partnership formation is vital in supply chain Operations and as such for efficient and effective sourcing. Partnership maintenance is no less important. Performance evaluation of buyers' or suppliers is simply not enough—relations.

(International Journal of Production Economics 87 (2004) 333–347 Department of Management Information Systems, the University of Central Arkansas, Conway, AR 72035-0001, USA)

2.1.4 The review of Material specifications and requests

The purchasing department responsibility and authority to critically review material specifications and purchase requests is a policy of paramount importance .It must be stated clearly and unequivocally in the firm's policy manual. One company phrases its policy this way. *(Donald W.DOBLER, David N.Burt 1990 (page 49-50)*

2.1.5 Competitive Bids

Although competitive Bidding is not used for all purchases, nothing offers more potential danger to a firm's reputation for fairly dealing than a poorly handled competitive –bidding situation .Consequently, most firms establish definite policies to guide all buying personnel in handling bidding activities both before and after the issuance of requests for bid. *(Donald W.DOBLER, David N.Burt 1990 (Page 51-52)*

2.1.7 The Policy Manual

If policies are to function effectively, it is imperative to function effectively, it is imperative that they be placed in written form. A policy is a communication in an important one .It is important that the message reach those who are to receive it clearly and accurately as possible. The purchasing activities are always subject to audit and hence the systems should be so designed that they do not give rise to any strictures. *(Donald W.DOBLER, David N.Burt 1990 (page 57-58)*

2.2 General Procurement Procedure

The general cycle of activities in purchasing most operating materials and supplies is fairly standardized. The following steps constitute the typical purchasing cycle.

- Recognize, defines, and describes the need.
- Transmit the need
- Investigate, qualify and select the supplier.
- Prepare and issue the purchase order.
- Follow-up the order (including expediting and de =expediting)
- Receive and inspect the material, (except in the case of some JIT system and some partnering agreements)
- Audit the invoice
- Close the order.

The important to note, however, is that a properly controlled purchase requires extensive communication with numerous work groups, procumbent procedures constitute the frame work with in which this task is accomplished (*Donald W.DOBLER, David N. Burt 1990 (page 60-61).*)

The procurement cycle follows specific steps for identifying a requirement or need of the company through the final step of the award of the product or contract. The 10 Steps of the Procurement Cycle are discussed in the sections.

Step 1: Need Recognition

The business must know it needs a new product, whether from internal or external sources. The product may be one that needs to be reordered, or it may be a new item for the company. The need for a purchase typically originates in one of a firm's operating departments or in its inventory control section. The Purchasing department is usually notified of the need by one of two basic methods.

1. A standard Purchase requisition
2. A material requirements Planning (MRP) Schedule

If the need is a one-time purchase, then an Engineering bill of materials is sometimes used.

Step 2: Specific Need

The right product is critical for the company. Some industries have standards to help determine specifications. Part numbers help identify these for some businesses. Other industries have no point of reference. The company may have ordered the product in the past if not, and then the business must specify the necessary product by using identifiers such as color or weight.

Step 3: Source Options

The business needs to determine where to obtain the product. The company might have an approved vendor list. If not, the business will need to search for a supplier using purchase orders or research a variety of other sources such as magazines, the Internet or sales representatives. The company will qualify the suppliers to determine the best product for the business selection of proper source of supply.

Step 4: Price and Terms

The business will investigate all relevant information to determine the best price and terms for the product. This will depend on if the company needs commodities (readily available products) or specialized materials. Usually the business will look into three suppliers before it makes a final decision. (Deciding on quantity and quality)

Step 5: Purchase Order

The purchase order is used to buy materials between a buyer and seller. It specifically defines the price, specifications and terms and conditions of the product or service and any additional obligations.

Step 6: Delivery

The purchase order must be delivered, usually by fax, mail, personally, email or other electronic means. Sometimes the specific delivery method is specified in the purchasing documents. The recipient then acknowledges receipt of the purchase order. Both parties keep a copy on file. Finalizing delivery schedule and price.

Step 7: Expediting

Expedition of the purchase order addresses the timeliness of the service or materials delivered. It becomes especially important if there are any delays. The issues most often noted include payment dates, delivery times and work completion.

Step 8: Receipt and Inspection of Purchases

Once the sending company delivers the product, the recipient accepts or rejects the items. Acceptance of the items obligates the company to pay for them.

Step 9: Invoice Approval and Payment

Three documents must match when an invoice requests payment – the invoice itself, the receiving document and the original purchase order. The agreement of these documents provides confirmation from both the receiver and supplier. Any discrepancies must be resolved before the recipient pays the bill. Usually, payment is made in the form of cash, check, bank transfers, credit letters or other types of electronic transfers.

Step 10: Record Maintenance

In the case of audits, the company must maintain proper records. These include purchase records to verify any tax information and purchase orders to confirm warranty information. Purchase records reference future purchases as well. (www.Business Dictionary .com down load dated 5/8/2013)

2.2.1 Classification of key Purchasing Decision issues using Cluster Analysis.

Internal Analysis Roles

1. Review Materials Requirements
2. Develop Specifications
3. Analyze Data for Make-or-Buy Decisions
4. Standardize Materials Purchased
5. Determine Inventory Levels of Purchased Items
6. Determine Quality Requirements for Materials Supplier Interface and External Data Gathering Roles
7. Negotiate Price/Terms
8. Supplier Selection
9. Problem Solve with Supplier
10. Gather Information from Supplier

11. Communicate Specification Changes to Supplier
12. Productivity/Cost Improvements
13. Sourcing Strategy
14. Gather Market Information Planning and Strategic Roles
15. Price Forecasts
16. Long-Range Plan for Purchasing
17. Determine Purchasing Policy
18. Conduct Value Analysis of Purchased Items

(Pearson, John N.; Ellram, Lisa M.)(June 22, 1993

2.2.2 Supplier Selection and preparation of the purchase order

As soon as a need has been established and precisely described, the buyer begins an investigation of the market to identify potential sources of supply. In the 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. If the item to be purchased is complex or highly technical, the firm may utilize a cross-functional sourcing team, first to qualify potential suppliers and perhaps eventually to make a team decision about the most desirable supplier.

After qualifying a preliminary group of potential sources, the buyer may employ the techniques of competitive bidding or negotiation, or both, when competitive bidding is used; the buyer initiates the procedure by requesting quotations from a reasonable number of firms with whom the buying group is willing to do business. Once a supplier has been selected, the purchasing department prepares and issues a legal contract document. *(Donald W. DOBLER, David N. Burt 1990. page 66-67)*

Acknowledgements and follow-up of the order

The purpose of sending the supplier an acknowledgement form along with the purchase order is twofold. First, it is a form that can be completed conveniently and returned to the buyer, and acknowledging acceptance of the order. At the same time, the supplier can indicate whether or not it is able to meet the desired delivery date. If a supplier ships the ordered item immediately from stock, it frequently disregards the acknowledgement form.

If shipment is not made immediately, an acceptance should be sent the buyer. Although the acknowledgement from usually serves this purpose, some sellers prepare to use their own forms, which state their terms and conditions of sale.

The Purchasing departments responsibility for an order doesn't terminate with the making of a satisfactory contract. Purchasing bears full responsibility for an order until the material is received and accepted (*Donald W.DOBLE, David N.Burt 1990, page 71*)

Receipt and inspection

The next step in the traditional Purchasing cycle is receipt and Inspection of the Order. When a supplier ships material, it includes in the shipping container a packing slip with itemizes and describes the contents of the shipment. The receiving clerk uses this packing slip in conjunction with his or her copy of the purchase order to verify that the correct material has been received.

After a shipment has been inspected for quantity and for general condition of the material, the receiving clerk issues a receiving report. In some cases, the report is prepared on separate receiving department forms; however, the trend in most companies today is to reduce the clerical work by using an online computer –based system, compiled with bar code identification, or by preparing a receiving report form during the same typing or printing operation that prepares the purchase order. In the latter situation a receiving report form is included in the snap-out purchase order form. (*Donald W.DOBLE, David N.Burt 1990 Page 72*)

2.2.3 Tender System

Tender system is adopted to procure materials at the most competitive rates and to eliminate chances of undue favor to any supplier. The Prime objective is to avoid nepotism and give opportunity for all vendors. This system is normally adopted in government departments and public sector undertakings, as they will have to choose the best supplier without any bias. Buying should be as impersonal as possible and should foster a spirit of competition, so that the prices quoted in the tender are most competitive. A major disadvantage of tender buying is that, the administrative lead-time for order placing will be longer compared to other systems. The power of delegation are clearly well defined for various levels in the system. Three kinds of tenders are open tender, limited tender and simple tender. Through proper advertisements in at least three or four leading national English language newspapers tenders will be called for in open tender system. The tenderness will usually have to quote in prescribed tender firms along with an earnest money deposit. The tender documents are priced publications of the company –the specifications, terms and conditions of supply etc; are given in the

documents .The tenderness are given sufficient time to give their quotations, once the quotations are received and the tenders are opened publicly ,a comparative statement is made and the tender is awarded to the lowest tender meeting in the technical specifications. Sometimes the technical bids are initially scrutinize and then decisions on commercial bids are taken. Whenever deviations in price, quality, delivery, etc; are noted, discussions and negotiations take place before a settlement is made. (PGOPALAKRISHNAN Administrative staff college of India 1990 page 136)

2.2.4 E-Procurement

These market places promised, among other things, increased market research for buyers and suppliers, reduced procurement costs and paperless transactions.

(David simchi-Levi (2000) edition (Page 183)

Telephone /Fax order system

Most companies now use a telephone or fax ordering system to reduce the paper work associated with small order purchasing.

(Donald W.DOBLER, David N.Burt 1990 page 83)

Electronic ordering system

A number of electronic communication systems currently are available to transmit material purchase requests without writing orders or talking on the telephone. *(Donald W.DOBLER, David N.Burt 1990)(Page 83-84)*

Electronic auctions on the Internet have several distinguishing Characteristics, which explain their growing popularity. First, online auctions eliminate the geographical limitation of many traditional auctions, enabling people from all over the world to participate in any auction. Second, in terms of duration, Internet auctions can last for several days (usually a week) and allow asynchronous bidding, which gives both sellers and bidders more flexibility. Third, these webs Sites can run auctions at substantially lower operational costs than traditional auction houses and can thus charge lower commission fees and attract more sellers and buyers. These characteristics of online auctions account for their growing popularity as a way to buy and sell goods and services. *(Lawrence Erlbaum Associates, Inc. Copyright © 2003, Journal of Consumers Psychology, 13(1&2), 113-123)*

The fast growth rate of the online electronics market presents a challenge for retail outlets and supermarket chains competing for share, in terms of balancing their online and offline investments. A better understanding of the triggers which influence the adoption (and the discontinuation) of online electronics shopping is vital for the strategic management of this sector, both in the developing Andhra Pradesh market and

2.2.5 E-Commerce and E-Business

In general, e-business is used in the broadest sense. It includes buying and selling on-line, but also other aspects of on-line business activity, such as purchasing, tracking inventory, managing production and handling logistics, customer support services, supply chain management and collaborative engineering. Electronic Commerce, or e-commerce, is buying and selling on-line. It is part of the broader term e-business and involves transactions. In simple words B2B commerce can be defined as "doing business electronically" or business that is conducted over the Internet.

2.2.6 E-Market Place

In economics, a market is defined as a virtual meeting-place of supply and demand. E-marketplaces fulfill the same purpose. E-marketplaces are a Business to Business relationship model (B2B) in which multiple organizations, both sellers and buyers, can communicate, collaborate, and perform commercial transactions by means of a Web platform which is common to all those participating in the market. The main advantage of the e-marketplace compared with other B2B models is that it allows a purchasing company access to multiple selling companies and to selling companies access to multiple purchasing companies. *(International Journal of Research in Commerce, Economics & Management) (Volume No: 1 (2011), Issue No. 1 (MAY) ISSN 2231)*

Ethical Issues in Purchasing

As the importance of the purchasing function in businesses increases, there has been a concurrent increase in the importance of purchasing ethics. The Purchasing function is critical to effective business operations while high-quality raw materials and supplies available on a timely basis are required for global Competitive success. Successful companies understand the importance of ethical behavior in the purchasing function in maintaining dependable supplier relationships and, consequently, satisfied customers (Motwani, Kumar & Mohamed, 1998). Purchasing professionals are expected to serve as a communication link with the external business community and to develop and maintain long-term relationships with the firm's vendors (Turner, Taylor & Harley, 1995). Of necessity, they are entrusted with spending millions of dollars of a company's resources. Emergence of purchasing as a strategic function has not only broadened the scope of purchasing; it has also changed the responsibilities of the purchasing managers by empowering them to spend large sums of money in procuring goods and services. All these empowerment, responsibilities and pressure to succeed in today's highly

competitive business environment often leads to situations that require managers to take actions deemed questionable from ethical standpoint (Turner et al., 1995). However, this has also presented them with an array of ethical dilemmas involving questionable purchasing practices. Unethical purchasing practices retard fair business competitions since the Kickback from a deal rather than concern for the company's benefits becomes the basis for purchasing. With the business environment in general becoming increasingly competitive and tumultuous in recent years, purchasing professionals continue to face a challenging ethical environment. Hence, their ethical behavior when faced with such dilemmas has become an issue of concern. Purchasing ethics is based on the principles which people act out of habit in the business world, and may be viewed as an extension of trade practices and rules which businesspeople in a society regard as important to maintain good relationships (Joyce, 2006). Unethical behavior in the purchasing process is sometimes considered as even more unethical, possibly because larger amounts of money and personal enrichment of the individual are often involved. Unethical behavior by purchasers may damage relations within the purchasing department, the relationship with other departments in the company, and with suppliers as well (Baden horst, 1994). Purchasing professionals are likely to face ethical issues, particularly as multiple suppliers compete for the business and may thus offer gifts or favors in return for securing a sale (Baden horst, 1994; Browning & Zabriskie, 1983; Trawick, Swan & Rink, 1989; Turner et al., 1995; Wood, 1995). As boundary spanners of a company, purchasing professionals also face ethical issues more subtle than gift giving because tension may occur between the purchasing professional's responsibility to both the employer and the supplier. Acting as an agent for the company, the purchasing professional's responsibility is to achieve the best possible negotiation with the supplier with regard to quality, price, and delivery date. Purchasing professionals could interpret this responsibility to mean that deception and manipulation of the supplier is an accepted means of achieving the desired outcomes. An amount of researchers have proposed several ethical issues encountered by purchasing professionals. Forker and Jansen (1990) concluded eight ethical issues in purchasing:

1. Exaggerating a buyer's or a supplier's problem to achieve a desired outcome,
2. Giving preferential treatment to purchasers or suppliers that top management prefers,
3. Allowing personalities to influence buying/selling transactions,
4. Engaging in the practice of reciprocity,
5. Offer/acceptance of free gifts, meals, and trips,
6. Seeking/giving information on competitors' quotes,
7. Gaining competitive information unfairly, and

8. Showing bias against sales people who circumvent the purchasing department.

*(International Journal of Research in Commerce IT & Management (Volume No. 3 (2013), Issue No. 06 (June)
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2.3.1 Risks of Unethical Behavior

Buyers who practice unethical behavior subject themselves and their firm to increased risk. These risks fall into three categories (legal, personal, and company risk) a buyer who performs an unethical act runs the risk that the act is also illegal for Example, a government buyer who accepts illegal payment from a contractor clearly committed an unethical and illegal act .If this payment becomes known, the buyer risks legal penalty as defined by the law. The buyer's firm also risks a legal penalty .The next category is personal risk .An important professional asset is a buyer's professional reputation .Personal risk is a risk due to unethical or dishonest behavior. A third risk of unethical behavior is the risk to a firm's reputation. A Buyer who makes purchase decisions based on factors other than legitimate business reasons risks the reputation of an entire firm.

2.3.2 A Frame Work of Ethical Behavior

How a buyer responds an ethical situation is a function of four variables each variable affects a buyer's ethical perspective to some degree. However, each variable doesn't exert an equal influence .Depending on the situation, and one variable could dominate. A buyer's ethical perspective results in a personal judgment that influences behavior. The four Variables include

2.3.3 Organizational Environment

An organization may have a certain level of accepted ethical behavior or norms. This behavior may be formally or informally accepted throughout the organization .Also, different managers within the same firm may have different ethical values, which can further influence a buyer's ethical perspective.

2.3.4 Personal Perspective

Each buyer's personal experiences affect his or her ethical perspective. These experiences affect a buyer's moral and ethical beliefs about what is right and wrong.

2.3.5 Cultural Environment

Society affects a buyer's ethical perspective by further defining the boundaries of right and wrong. Certain behaviors' may be accepted in one culture and totally unaccepted in another. Cultural environment exerts a strong influence on behavior through the passage of laws and regulations.

2.3.6 Industry Environment

Accepted or common practices within an industry can affect a buyer's perspective and behavior. These can also define acceptable boundaries of behavior. If each variable supports the same response to a perceived ethical issue, a buyer can easily make a judgment and act accordingly. Conflict arises when one or more of the variables pressure a buyer to act in different ways.

CHAPTER 3

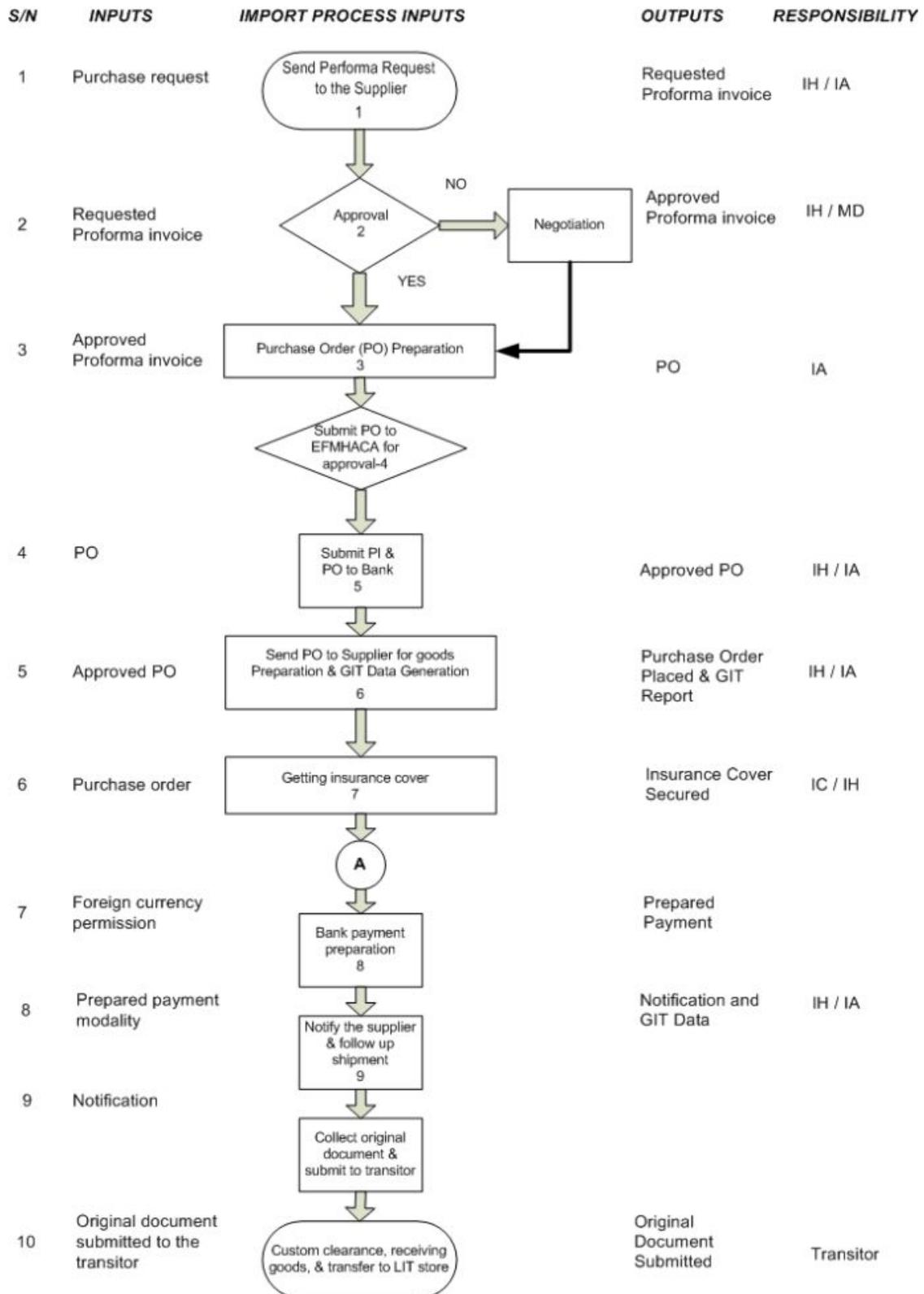
DATA PRESENTATION AND ANALYSIS

This chapter deals with presentation, analysis and interpretation of secondary data and primary data gathered through observation and questionnaire with the foreign purchase department of LIT. The purpose of data collection is to obtain information about Foreign Purchase practice in LIT. The questionnaire was designed with unstructured questions in which the respondent could tell about his experience and observation.

3.1 Presentation of the Company's Foreign Purchasing Procedure

The company's import procedure is as follows:

LIT FOREIGN PURCHASE PROCEDURE



Import Process Procedure

3.1.1 Order Receiving

All Purchase orders are received checked for correctness and approval by authorized person. Performa Invoice are invited from probable supplier in Performa request from through e-mail, fax & telephone if necessary to get prompt response (by using request for Performa Invoice /IMP/OF/12).

After receipt of Performa invoice it is approved by higher authority for further process.

After approval of Performa Invoice, Purchase order is prepared and signed by concerned person and sent to EFMHACA for approval (By using Purchase Order /IMP/OF/13).

Follow up action is initiated by concerned person to get approval from EFMHACA.

Purchase Order is released and communicated to selected supplier PI & PO is sent to bank for foreign currency application.

The purchase order that contains only list of items & quantity shall be distributed with updated GIT to top management and concerned departments every week (by using GIT Report /IMP/OF/05).

1. Preparation of Bank Payment

- After Permission of Foreign currency by the banks, insurance company is contacted to obtain insurance for the import of products (the normal practice is to cover from warehouse to ware house).
- After Receipt of Insurance policy it is checked for correctness detail are noted in insurance checklist and referred while checking up on payment (by using Insurance check List /IMP/OF/08).
- Payments are released to the suppliers by way of Letter of Credit (LC), Cash against Document (CAD), Telegraphic Transfer (TT) .Preference is given to CAD, LC and last TT.

- For obtaining LC from bank details are stated in bank format and submitted to bank with necessary documents (Bank Permit, LC Application, copy of purchase order, insurance cover, Trade License.).
- Necessary follow-up action is made with the bank for release of LC.
- For payments to supplier by CAD the concerned person prepares necessary application to the bank with other documents (Performa Invoice, purchase order, Insurance and Trade License (By Using Purchase Order /IMP/OF/13).
- Necessary follow up action is made with the Bank for release of CAD.
- For Payments to supplier by TT the concerned person prepares necessary advance payment request to the bank with other documents (Performa Invoice, purchase order, insurance and trade license etc) by using request for Money Transfer /IMP/OF/01).
- For Payments to supplier by LC, CAD, TT Bank documents are checked before submission to bank (By using Bank Payment Document Check List /IMP/OF/03.
- Up on receipt of bank document it is checked for correctness and in case of mistake bank is notified for alteration and amended copy from bank is received (By Using Request for Amendment /IMP/OF/02).
- After verifying the correctness of Bank documents, the bank advice is transferred to Finance Department (By Using Import Document Transfer Register /IMP/OF/06).
- Supplier is intimated about payment advice (LC, CAD, and TT) by fax, email or telephone (BY Using Payment Notification /IMP/OF/11).
- In case an amendment of payment advice is requested by supplier, the request is checked for benefits of the company.
- If amendments are not of considerate nature, the request of amendment is made (By Using Request for Amendment /IMP/OF/02).
- Suppliers request is forwarded to bank.

- Amended document from bank is received and checked for correctives and communicated to supplier (By Using Amendment Notification /imp/of/07).

3.1.2 Shipment Process

- Shipment of goods is closely followed and necessary shipping documents are obtained in original by Carrier Company (In case of TT). In the mean time supplier is requested to fax or e-mail copy of documents for verification (By Using Request for Shipment Status /IMP/OF/15).
- Anticipated Cash need Request Format /IMP/OF/18).
- Original shipping document are collected from bank checked for correctness (By Using Shipping Document Checklist /IMP/OF/10).
- In case of discrepancies, corrective actions will be initiated to correct the discrepancies.
- Packing list is sent to store department to prepare free storage area for the coming cargo (By Using Import Document Transfer Register /IMP/OF/06/).
- In case of sea shipment freight amount is requested from shipping company and application be sent to bank for freight settlement .The payment advice shall be sent to shipping company with container deposits and payments be effected. In case of air shipment ,air freight payment is effected and master air way bill be collected from the shipping company all payment advice and recipients are transferred to finance department (By Using Request To Transfer Freight Payment /IMP/OF/14 & Import Document Transfer Register /IMP/OF/06).
- After Payment of freight and container charges documents are sent to transistor for custom clearance.
- Payment of customs duties and advices is also verified by referring to harmonized code provided by government .Upon advice by transistor, custom duty is paid and receipt is obtained.
- Payment of custom duties is made known to finance department.

- Simultaneously customs department is intimated by transistors for goods verification & clearance.
- .Follow up actions constantly made with transistor for clearance of products.
- Goods are transferred from inland container deposited to warehouse.
- .While unloading the products is verified on the presence of transistor, by store department referring to packing list.

- .Medical technicians are informed about receiving of products for checking functionality and quality (By Using Incoming Item Inspection Register /TECH/ST/OF/12).
- In case of short supply or defects in the product suppliers are intimated about the same by e-mail.fax, telephonically.
- .Approved products are taken into store by store unit (By Using Goods Receiving Voucher /TECH/ST/OF/10).
- Custom Declaration is collected and copy shall be given to Finance Department.
- Follow up action is made with the NBE (National Bank of Ethiopia) for obtain clearance document.
- Clearance document received from NBE is filed for record and copy is submitted to finance department (Import Document Transfer Register /IMP/OF/06).
- All payments pertaining to transistor charges, warehouse cost, loading an unloading, inland transport charges are submitted to finance department for payment.
- Credit notes are collected from shipping companies for receiving back the deposits made & transferred to finance department (Import Document Transfer Register /IMP/OF/06).

3.1.3 Storage and Handling of Products

- Temperature in the cooling system is checked twice a day Format Ref. Temperature Log Register Format No .OPR/STO/FT/06.
- For the products approaching expiry date are kept for issue on urgency bases.
- The storage area kept clean by dusting and floor cleaning once a day, safety and security of the products are also checked.
- For products bought by customers and not delivered are quarantined at proper location by labeling the products with all details stock is updated and new purchase requisition is issued.

3.1.4 Issue of Products

- The store manager issues the items to the customer as per the credit and /or cash sales invoice issued by marketing department .Format Ref. Cash Sales Invoice Format No. OPR/STO/FT/07 and Credit Sales invoice Format No OPR/STO/FT/08
- Prior to issue of products are inspected for its functions. Format No Delivering items Inspection Register Format No OPR/STO/FT/09
- Prior to delivery at customer's premises, delivery person also checks the product along with store manager .Format Ref Delivery Transfer Register Format No OPR/STO/FT/10.
- For products required for replacement sampling, display it is delivered by issuing store issue voucher with the approval of concerned person and stock is updated. Format Ref Store Issue Voucher; Format No OPR/STO/FT/11.
- Products issued on consignment basis with approval of higher authority, stock is updated and consignment issue notes are prepared. Format Ref Consignment Issue Note. Format No OPR/STO/FT/12.
- Transfers are approved by higher authorities. Format Ref Inter Store Transfer Form Format No OPR/STO/FT/16

3.1.5 Updating Stock information and Purchase Requisition

- Details stock balance is intimated to all concerned departments and stock movement is reported in item movements report on weekly basis. Format Ref. Daily Stock Balance Format No OPR/STO/FT/01.
- Expiry date alert report is prepared on 1st day of every month and distributed to the concerned department. Format Ref Expiry date Alert Report Format no. OPR/STO/FT/14.
- For the products that are imported, when it reaches re-order level, other products supplied by the same supplier is considered for re-ordering. Format Ref Foreign Purchase Requisition Format No OPR/STO/FT/15.
- When the items reach its re order level the store manager generates purchase requisition using the format .Format Ref Foreign Purchase Requisition Format No OPR/STO/FT/15.
- When the purchase requisition prepared for one supplier the balance of other items that don't reach the reorder level are also taken into account to avoid unnecessary multiple imports.

3.2 Presentation and Analysis of Primary Data

General Information of the Respondents

The data below is collected from the participants of the research as general information with regard to job title, department, year of services and qualifications.

This questionnaire *primary data* is designed and shown in the form of table

Table 4 .1 Respondents Department Employees Job title, Years of service Qualifications and No. of staff.

S.NO	Department	Job Title	Year of service	Qualification	No of Staff
1	Management	Deputy Managing Director	12	Master of Business Administration	1
2	Foreign Purchase	Foreign Purchase Head	6	Master of Business Administration	1
3	Finance	Finance Head	5	B.A in accounting	1
4	Foreign Purchase	Transistor	10	Diploma in Accounting	1
5	Ware House	Store Head	6	B.A in Pharmacy	1
6	Ware House	clerk	4	Diploma in Pharmacy	3
7	Finance	Senior, Junior accountant	4	Diploma in Accounting	4
8	Foreign Purchase	Clerk	6	Diploma in Accounting	2
9	Marketing	Marketing Head	5	PHD. In Veterinary Medicine	1

Total Number of Respondents in the primary Data Questionnaire equals 15.all were filled and returned to the researcher .The researcher has taken due care in selecting the respondents so that all key informants from different levels of management are represented.

Table 4.2

Male Respondents	Female Respondents	Total	Age	
			30-40	41-50
8	7	15	13	2

1. Are policies and procedures relevant to the Purchasing cycle and are these policies and procedures clearly stated and systematically communicated is the store department strictly follow-up the ISO procedure?

- All the respondents 15 of them say yes. Always there is an ISO Audit department in the company.

The company is an ISO Certified company and the company Top Management along with its employees prepared a standard for Foreign Purchase practice based upon this standard there is an ISO Audit Department which mostly made a follow up to check and review whether the department is following the standard procedure for completing the job and every time surprise audit is carried out in each department

2. Is the requested item and Performa invoice first & foremost gets approval by EFMHACA and supplier selection approved by EFMHACA?

- All the respondents say yes. Because without getting approval from EFMHACA the foreign Purchase department is not able to start processing.

There is an import procedure in our country which is controlled by National Bank of Ethiopia every sector to import goods should get approval from the respected Authority .For example if a company is engaged in a business in Importing machinery the company should first and foremost get approval from the respected Authority .Here the company is engaged in Importing Medicine ,Medical equipment and Laboratory Agent the Government assigned an Authority body is EFMHACA without the approval of this Authority the company is not able to import the above goods from abroad .Un less the Authority select the supplier the company is not able to import Medicine, Medical Equipments, Laboratory reagents and X-RAY Machines .

3. Does the company allocate a Budget for Medicine, Reagent, and Medical Supplies & Medical Equipments?

➤ All the respondents say yes. The company had developed 3 years strategic plan (from 2012-2015 (to run the business based upon the strategic plan The company allocate the Budget in the beginning of the physical period there is always prepared an action plan, but the problem is in proper using of this budget for example if the budget allocated for Medicine may be in actual practice use it for another purpose which means for an intended purpose.

4. Do the company had suppliers list & are price lists and other appropriate records of price quotations maintained by the purchasing department?

6 respondents say yes but 9 of the respondents say no.

➤ In fact the company had suppliers list but they didn't have price lists and don't have appropriate records of quotations maintained by purchasing department .Most of the records are filed and there is no reference in filing the document.

5. Does the company have a centralized purchasing system and is an adequate record of open purchase orders and agreements maintained?

9 respondents say yes and 6 respondents say no for this question.

➤ The company had centralized Purchasing system the Deputy Managing Director is the one who controlled the Foreign Purchase Department activity there is an agreement and purchase order is maintained during carried of this transaction.

6. Is there a delay in the process ,delay in shipment mode of carrier by ship is the multi modal shipment encounter a delay in delivering goods to the customer on time .

15 of the respondents say yes .because there is a delay in the process, multi modal shipment and delivering goods to customer on the right time.

➤ There is a delay in the Process it started from the approval of the EFMCHA a government authority it takes time in the approval secondly after getting approval the company should wait to get Foreign currency it is a queue after getting the currency the company may not have sufficient amount of money in his account in order to settle the cost of the goods they may use it for unintended purpose then they will wait until they have sufficient amount of money after getting the money they have to schedule the mode of shipment (Air, Sea (the shipping lines may have got its own schedule unless it meets its schedule will never carry the goods after getting the ship then there is time for the shipment arrival at Djibouti after Djibouti the goods may send to Dry port most of the time the information provided by the ESL is not accurate the dry port may be miss lead them and in final analysis the process will be delayed and doesn't meet its objective.

7. Is the imported goods which is found in customs waiting clearance does this item included in the HS CODE Directory in order to allocated taxes

All of the 15 respondents say yes.

➤ There is a government rule and regulation in the country that all Imported items before getting approval of the purchase order it must full fill HS CODE the supplier is obliged to mention its HS CODE in the performa invoices .This helped for Ethiopian Revenue and Customs Authority to lay upon taxes in the item otherwise if the HS CODE is not presented in the purchase order the Bank don't approve it the purchase order it is obligatory.

8. Does Internal Control appear adequate for the purchasing system?

All of the 15 respondents say no.

➤ The internal control is not adequate why because the Budget allocated for a particular Import item is wrongly utilized by another user department .For example the Board of Directors decide to expansion project without considering their Budget then they will start taking the cash and implement in the expansion project this expansion project don't conduct a study or carried a research whether it is profitable or not so the foreign purchase department is not able to accomplish its duty based upon his schedule this creates the on time delivery of goods and creates customer dissatisfaction.

9. Are Merchandise materials and supplies inspected for condition and counted, weighted or measured, coming goods inspection in the receiving department is the copy of the receiving report or other permanents record of material received & kept in the receiving department, is Goods receiving note prepared for all purchased goods signed & dated. Is the store when it encountered discrepancies or shortage does them immediately informed to purchasing department?

All of the 15 respondents say yes.

➤ Since the company imported Medicine and Medical Equipments and Laboratory reagents it is directly affected the society so it is properly inspected for condition and counted ,weighted ,measured for example items which needs proper protection should be kept in the refrigerator immediately .Immediately the items arrived in the store Goods Receiving note is prepared properly and dated by store head if there is a discrepancy the store head immediately prepared a shortage note and informed for Foreign purchase department if the problem is with the supplier the

department informed them if it is insurance case immediately claim to the insurance company to cover the cost of the goods and most of the time the company collect Insurance claim settlement from the insurance company.

10. Is the purchasing department strictly follow-up the discrepancies whether the supplier side or at customs area.

- The entire foreign Purchase department says yes. If it is on the supplier side they communicate immediately with the supplier and replaced it if it is in the customs area they claim the insurance and collect the refund amount.

11. Is there a separate insurance claim department found in Labora

The entire respondents 15 of them say no.

- There is no a separate Insurance claim department in the company because the company always uses the employees to participate in the multiple purpose for example in this Foreign purchase department the transistor is the one who carried all the insurance activity .

12. Are copies of receiving reports sent directly to purchasing, Accounting and, if appropriate, inventory keeping.

The entire respondents say yes.

- Receiving reports sent directly for foreign purchase department and accounting department for foreign purchase they need a follow up if all items are included or not for Finance department they need it for determination of the item cost and to determine the profitability of the goods.

13. Is the purchasing Department clears at National Bank of Ethiopia for outstanding currency Utilization?

- The entire departments say yes. If the company enters into Delinquent not by clearing the outstanding currency Utilization they are not able to get the next order.

National Bank of Ethiopia strictly declares In the Import procedure one company first and foremost should clear his outstanding currency utilization before moving on another order that is the main reason the company immediately clears its outstanding currency utilization.

14. Is the Accounting Department strictly follow-up the rules and procedure of ISO International Organization for Standardization ,is the Accounting Department properly assigned costs and calculate cost build-up to different goods check terms ,price and quantities on Invoices against purchase orders and properly post to the ledger .

- All the Accounting Department respondents say Yes to this question .Unless they properly value the item or the goods on hand the company will face problem and in the long run it had tax effect during the review of the accounts by tax auditors the company will face additional tax due to understatement or overstatement of the cost buildup .For example if the Accountant don't use custom value during building up of the cost of material at time of comprehensive Audit additional tax will be requested by the custom Authority .

15. If any Discrepancies occurred do the Accounting Department considered as shortage, is the Accounting Department properly kept each purchase order completed for further verification made by External Auditors and Tax Auditors?

- All the Accounting Department staff says yes. Shortage/overage analysis is made properly recorded in the book of accounts.

16. Are adequate records maintained of unmatched purchase order and receiving reports and UN voucher vendor's invoices and are these periodically reviewed and investigated?

- All the respondents say no. Because the Accounting department only uses the goods receiving note and properly recorded but there is no record for the unmatched purchase order and receiving report, un vouched vendors no separate record is obtained.

17. With respect to partial shipment from vendors is a control maintained clearly indicating on the P.O. information as to the payments to avoid duplicate payment upon completion of the order

- All the respondents say yes. if there is partial shipment the Bank gives permit partially and a separate record is obtained there is no space for duplication of payment the Correspondent Bank as well as the Foreign Purchase department put a separate record and strict follow up is obtained.

18. Does internal control appear adequate for the accounts payable?

- All the respondents say yes. There is an ISO Audit regularly review all the system the payment, the account receivable, the collection etc so there is adequate internal control is available in the Accounts Payable.

CHAPTER 4

SUMMARY, CONCLUSION, AND RECOMMENDATIONS

4.1 Summary

The general Objective of the study focused on the assessment of Foreign Purchase in Labora International Trading Plc determined by the Management keeping in view the specific circumstances of the Enterprise, The Nature of the Business, Scale of operations and degree of professionalism of purchasing Management. To attain the result, the overall effort of the study was engaged in seeking answer to the following basic research questions.

The following are the basic research questions to answer.

- What is the practice of Foreign Purchase at Labora International trading plc?
- Do The Company properly assigned Budget for Foreign Purchase transaction?
- Does the company face problem in getting Hard Currency?
- Is Performa Invoice approved by EFMHACA on time to start the process?
- How is the Multi Modal Shipment usage helping the company to meet its dead line?

Major Findings

1. Failed to accomplish the Import order on time the reason behind is severe cash shortage problem. The source of cash shortage is because of long outstanding Receivable in different customer account (Birr 20,000,000.00 Twenty Million only) showed in the Accounting records. And fails to collect the long outstanding receivable amount for a very long period of time and un planned withdrawal of cash spend in the

unplanned projects and expansion .The company had unprofitable sister companies which is from time to time needs subsidizing them unable to generate profit this creates severe cash shortage to meet its obligation to satisfy its esteemed customers.

2. Hard Currency problem (queue) in the Bank for a very long period of time .Due to the company cash problem by the time getting the opportunity to use foreign currency utilization they don't use the chance to utilize the amount due to the reason that they don't have money in their correspondent bank account.

- The Government Bank allow if the mode of payment is CAD to settle 100% cash, others Private Banks like Awash Bank requested them 50% settlement ,United Bank requested them to pay 100% for CAD so the company shift their mode of payment to Letter of Credit rather than CAD. There are 18 Performa's the Government Body EFMHACA approved and provide them Registration Certificate and the suppliers also produce the product it passed 5 months ago unable to cover the amount by the company if the company get the cash and import the item its shelf life is limited .if the item shelf life less than 75% it is not allowed by the Ministry of Health to enter into the country this is severe problem the company face currently.

- The company is sole supplier of Reagent, Senso card this items their turn over is high its Shelf life is so short it should be imported immediately the demand for these items is very high in the country, it doesn't tied up the capital of the company, It is fast moving item, it doesn't stay in the shelf for a long period of time The Import department schedule the type of the item, quantity of purchase the total amount of Birr located to the import based on the Marketing Budget of the company The import department schedule and requested from supplier the Performa invoice and obtained 10% discount from the supplier and hand over the format for product registration and to get Registration Certificate from the government body EFMHACA. After that submitted the

document to Bank to get Foreign Currency allocation queue is necessary to get hard currency.

- If their turn is reached and the Bank accept to give Hard currency and informed them through letter to the company to settle the payment repeatedly two or three times but the company is unable to settle the cash because the budgeted cash that should be allocated for importing items are taken by the company for other purpose or improper utilization of the assigned budget due to this reason the Import department not able to import the goods from abroad.
- There are goods which is ordered by the company from different suppliers and the suppliers are produced the goods and prepared the package in the name of Labora International Trading plc .the supplier is not able to sell the product to other users it is more than 5 months order is available even if they get the cash and bring the product the shelf life is so limited and not able to sell the product.

3. The ESL covered all the logistics activities starting from loading the goods at the port, clearing the goods from Djibouti port, transporting the goods up to dry port due to the new system implementation in the organization and also staffs are new for the system there is a large amount of discrepancies' occurred in the order starting from departure of the ship, up to miss location of the goods at the Dry port.

- The Government had a restriction to all Import and Export companies using their mode of transport in sea all companies are obliged to use Ethiopian Shipping Lines vessel only to import the goods from abroad.
- The Ethiopian Shipping Lines gives most of the time vague information for arrival of the ship In Djibouti port this is the problem as it is because to pick from the port there is a Multi modal shipment case most of the time during picking from the port

the transport agent misplaced and put the goods in the wrong location in the dry port. The item will be lost to which area is placed sometimes the document say at Modjo but the item will be found at Gelan so there is a severe problem in this area also. The company should follow each step of the Ethiopian Shipping Lines activity because all the shipping and inland transportation is carried by Ethiopian Shipping lines so the company is obliged to assign a staff to strictly follow and reach to the point of destination of the product rather than waiting to solve the problem by Ethiopian Shipping lines Authority.

- One practical example for mode of shipment is in Ethiopian Air Lines case in fact most of the time its schedule is strict but after the arrival of the plane during clearing the cargo they pick the item into different store in the air port more than 2 orders are exposed to rain and sun at the end the whole goods is damaged and the company requested a claim to Insurance company.

4. The Multi Modal system creates the misallocation of the product in the Dry port. This creates the delivery of goods delayed and additional cost incurred by the company and the goods will be damaged and the customer may be unwilling to take the item .it is practical in the case of X-Ray machine due to improper handling of the Medical Equipment and delay the X-RAY Machine is not able to deliver to the respected customer it is a loss for the company.

- Government bureaucracy such as customs duty. (The process has its own rules and regulations) sometimes the customs office laid tax a big amount of money in some of the products due to the reason they assume that the company may use it the Medical equipment as a luxury item .The Foreign Purchase Department in LIT is functioning accordance with the organization rules, regulations and procurement manual that gives proper guidance both for procurement unit requisitioners and end-users.

- During tax assessment period high taxes are laid to the some of Medical equipments because the company is unable to explain the purpose of some Medical Equipments which are used for intended purpose the tax assessor may take that this equipment may be erroneously used for another purpose like using Medical Bed for Hospitality industry in the hotel the government lay tax small amount for Medicines and Medical equipments which are used and helpful for society benefit.
- During the time to assess the goods to lay tariff at customs office they refuses to deduct tax they need to charge more in the tax regulation the standard tax allocated to Imported Medicine is allowed 5% only but employee turnover rate is high in the customs office goods imported for medical purposes such as Oxygen concentrate they assume this is helpful for maintenance purpose and they lay high tax more than 5% which is allowed by Government.
- Auto Clave this is Medical Equipment but when one assessor see this he claimed that this clave will be helpful for hairdressing so he laid tax more than 5% assuming the goods is luxury.
- Examination Bed the custom assessor claim that this material will be helpful for Hospitality Management you can use for unintended purpose so they increase the tariff more than the allowed duty by the Government.
- All these tax imposition leads the company to stay in vicious circle and face serious financial problem. The company should have strong evidence to explain the goods that are helpful for only Pharmaceutical industry and not used for another purpose during the time of clearance. There should be a strong evidence

to convince the customs authority that the equipments are imported only for the benefit of Medical Industry rather than other Industry sector.

5. EFMHACA

- There are lots of items which their Purchase Order not approved by EFMHACA .During the moment the items arrived at Airport the authorities requested Registration Certificate ,if the Registration Certificate is Expired the Ministry of Health refuses to clear the goods so there is a severe problem in this area also. The customs authority confiscates the goods if there is no confirmation by the above Government authorities this creates for the company loss and inability to satisfy the customer needs so the company is not able to achieve its goal satisfaction of customer demand and remaining as competitor in the market.

4.2 Conclusion

As a researcher I am deep down investigate each matter thoroughly and identify the cause of the problem .The main problem is that there is a severe cash shortage in the company the reason behind the case is fails to collect long outstanding account receivable balance and this creates severe cash shortage and unable to facilitate the Foreign purchase process.

- The Company have Immediate need cash requirement system The company don't practice Cash Budget
- Severe cash shortage for importing goods and delivering the goods on the time schedules. This cash shortage is deeply rooted to the company because of in ability to collect long outstanding receivables for the amount of Birr 20,000,000 (Twenty Million only) showed in Account Receivable ledger.

- Unable to collect long outstanding receivables with sufficient amount and most of the customers are out of the business and in the future also the probability of collecting from this bankrupt company is minimal this creates cash shortage for the company.
- The company is delayed to take the case in the court with the uncollectible amount of receivables because he needs to settle the matter peacefully this brings the company to face severe cash shortage and also if the company takes the big amount of receivables and start to finalize the case in the court it will be helpful to consider the doubtful account as loss and deduct from the Income.
- Due to cash shortage the company is not able to import Medicine and Medical equipment and fast moving items which have got big demand in the Market and the company is sole supplier of Senso Card. currently due to cash shortage unable to supply to the market and others competitors are engaged in the market to fulfill the gap. This creates lost sales. Unable to satisfy customer needs on time
- The Allocation of Budget for senso card is written in the paper but Utilization of the budget for proper Foreign Purchase Practice is on the contrary utilization of the Budget is used for Un planned and un intended purpose for subsidizing unprofitable sister companies and without conducting a research for payments of new projects and expansion horizontally such as purchasing of Soap Factory without considering the balance of cash.
- Long process to get permission from EFMHACA for approving the Performa invoice and supplier selection. And some time the Registration certificate is expired before importing the goods this creates dropped sales for the company.

- Due to Internal problem the company is unable to satisfy his esteemed customers and his customers are turned their face to other Merchandising firm this creates for the company to suffers severe working capital or cash shortage.
- Unable to minimize the time it takes in the process of communication with the supplier between the supplier and the company.
- Unable to meet their schedule in the Bank, Ethiopian Shipping Lines and Dry port due to severe cash shortage.
- Secondly The Budget allocated for Imported item is used for an intended purpose and most of the affiliated sister companies are unprofitable and the company subsidizes sister companies and share the loss.
- so many orders are lying in the table rather than accomplishment and it is the main cause for the company to exposed in lost sales and this days the suppliers are angry by the company and the company lost its reliability by its suppliers because the suppliers produce the product based on the schedule and the package of the product is in the name of LIT the supplier is not able to sale the product for other customer this creates in the side of the supplier problem the company name is damaged .LIT is unable to fulfill its commitment and an able to import the goods on time These creates and limits the growth of the company and unable to satisfy customers.
- .To be a reliable Importer the outstanding long due account receivable balance should be collected

- .the cash Budget should be assigned and properly allocated for importing goods only it should be allocated for intended purpose the company should stop unplanned expansion projects and providing cash to subsidize the sister company which are nonprofit able organization
- It is better that the sister companies should cover their costs, overcome their loss and standing with their feet by themselves instead of sharing their loss to the parent company LIT.
- It is better for the company to stop organizing UN profitable sister companies which are not helpful rather creates severe cash shortage by subsidizing them by taking the money from Labora International Trading PLC.
- .strict control of the Cash Budget is obligatory in order the company to remain in the business as competitive.

4.3 Recommendations

According to the documents the researcher was allowed to study, reply from the respondents of the questionnaire, and observations made by the researcher Management of LIT Foreign Purchase department functions as a core department towards Achieving the overall objectives of the organizations, by giving guidance in formulation of objectives, strategies and policies, and following the implementation of Foreign Purchase Department objectives, strategies and policies.

- As a researcher I want to advice the company first and foremost priority should be given for foreign purchase and the job should be accomplished based on schedule.
- The researcher strongly advised to the company that to avoid severe cash shortage problem the long outstanding receivable balance which is found in the records of book of account should be cleared and minimized collection should be in a

permanent way by assigning one group giving incentive for the cash collectors and reduce if possible eradicate the outstanding balance found In the account receivable ledger and the company should revise his policy by determining the collection period by shortening the period and giving credit should be second option it is better to enhance cash bases of sales rather than credit sales.

- A strong and visible management support for continuous improvement effort on continuous improvement the company focused on purchasing, stores management supported training designed to increase employee skills.

Based on findings and conclusions the following recommendations are made:

1. Proper cash Budget Utilization is Mandatory. And the allocation of cash should be for the intended purpose rather than utilizing the amount for unplanned expansion of the project, and spending cash in non profitable areas like subsidizing his sister companies which are not helpful for the company which doesn't fulfill the objective of the company otherwise it will lead the company out of the business and market.
2. Long outstanding balance in customer ledger should be minimized if possible eradicate collection of long outstanding receivable should be cleared .The company policy for Account receivable collection period should be revised it should be within 30 days based on credit agreement and the company should agree with potential customers who are able to settle their debt on time rather than gathering all pharmacies, Medium clinics , etc it is advisable to have an agreement with potential customers such as Government Hospitals ,Higher clinics ,NGO'S ,etc otherwise it creates for the company to be weak and inability to with stand external environment competition .

3. The company had long outstanding Account Receivable balance in the ledger of the accounting department record which is uncollectable for a very long period of time if the company started to motivate by applying different motivational schemes for the collectors to collect the balance it will be reduced to the minimum and the company will gain working capital and able to solve his cash shortage problem.

If the customers are not able to pay their debt company should not be delayed to take the case to court if they are not able to pay in order to remove from the Accounting record and to consider as an expense of the company effort should be made.

4. Expansion project needs additional Budget Allotment rather than taking the budget assigned for foreign purchase the Budget should be utilized for proper and intended purpose is obligatory.

5. The company should obey the rules and regulation of the government Authority EFMHACA without permission of the Authority not able to bring items from abroad so strict follow-up is obligatory for the dead line to meet the Registration Certificate whether it is Expired or not .

6. Communication skill is mandatory and strict follow up in the carrier vessel with ESL for identification of dry port, inland transportation, customs duty and for information the exact time of the arrival of the ship is basic in order to save time and money.

7. The organization has to find away to expedite process in the government office like Custom .If the document is not organized in the way accordingly that the customs Authority requires there will be a delay this delay creates disappointment of the customer and increases cost like storage and the medicine will be spoiled by simply waiting for the clearance for a very long period of time Medicine is perishable it will have limited shelf life it may creates a negative impact because some of the medicines requires cold room storage so strict follow-up and commitment for the job accomplishment is obligatory.

8. Proper identification of the product is necessary during the time of Approval of the item because it creates problem during the time of Customs Clearance the customs authority may lay tax more than 5% if the item creates ambiguity. The items should be clearly identified and supporting documents should be attached during clearing the goods for example some Medical equipments are used in hair dressing and Hospitality Industry such as Hotels like Medical examination bed so the company clearly identified and explain to the customs authority that the Medical equipment is used for only intended purpose in Pharmaceutical industry to avoid additional cost and to save time.
9. From the suppliers point of view the company is not able to meet the dead line the supplier of the Medical Equipment ,Medicine ,X- RAY Machine they produce the product based on the schedule most of the time the company didn't meet the schedule during this time the supplier is produced his product on the logo of LIT he is not able to sell the product in his country the product shelf life will be limited due to inability to meet the schedule when it come to Ethiopia so the company will suffer the loss no one is able to buy the product since the nature of the business is not allowed to have stock most of the time Medicine and Medical Equipment had short shelf life.
10. The above problem creates on the supplier side the company is Unreliable to continue the business it is in question mark and will create unhealthy relationship with supplier.
11. This research will either be a support to a study which had been conducted before, if any, or could serve as a background for further study or research on Foreign Purchase practice in LIT.

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APPENDIX-A

QUESTIONNAIRE

1. Are policies and procedures relevant to the Purchasing cycle and are these policies and procedures clearly stated and systematically communicated is the store department strictly follow-up the ISO procedure?
2. Is the requested item and Performa invoice first & foremost gets approval by EFMHACA and supplier selection approved by EFMHACA?
3. Does the company allocate a Budget for Medicine, Reagent, and Medical Supplies & Medical Equipments?
4. Do the company had suppliers list & are price lists and other appropriate records of price quotations maintained by the purchasing department?
5. Does the company have a centralized purchasing system and is an adequate record of open purchase orders and agreements maintained?
6. Is there a delay in the process ,delay in shipment mode of carrier by ship is the multi modal shipment encounter a delay in delivering goods to the customer on time .
7. Is the imported goods which is found in customs waiting clearance does this item included in the HS CODE Directory in order to allocated taxes
8. Does Internal Control appear adequate for the purchasing system?
9. Are Merchandise materials and supplies inspected for condition and counted, weighted or measured, coming goods inspection in the receiving department is the copy of the receiving report or other permanents record of material received & kept in the receiving department, is Goods receiving note prepared for all purchased goods signed & dated. Is the store when it encountered discrepancies or shortage does them immediately informed to purchasing department?
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15. If any Discrepancies occurred do the Accounting Department considered as shortage, is the Accounting Department properly kept each purchase order completed for further verification made by External Auditors and Tax Auditors?
16. Are adequate records maintained of unmatched purchase order and receiving reports and UN voucher vendors' invoices and are these periodically reviewed and investigated?
17. With respect to partial shipment from vendors is a control maintained clearly indicating on the P.O. information as to the payments to avoid duplicate payment upon completion of the order
18. Does internal control appear adequate for the accounts payable?