

# **When it is necessary or not necessary to start horizontal purchasing collaboration in developing countries: The case for Uganda public procurement units.**

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## **Purpose of the paper**

The paper is part of the PhD project on horizontal collaborative purchasing in developing countries, and particularly in Uganda.

There is no doubt about the contribution of collaboration to the performance of organizations. The practice has been successful in most developed countries.

However, this significant performance is less for the developing countries, especially Uganda. Besides, the procurement discipline is relatively newer in developing countries than the developed ones, yet it contributes more to the economies. Much as the concept of collaboration is well grounded in other disciplines, there is need to tailor it to procurement, which after all saves more costs for the organization.

This paper recognises the fact that whereas collaboration has been appreciated as one of the strategies to achieve organisational objectives, and whereas the numerous successes have been witnessed, there are failures that must be deliberately investigated. The paper recognises causes of collaboration failure as being part of the process and operations of collaboration itself, as well as being associated with the starting phase.

There is relatively enough literature on conditions necessary to start collaboration in the developed countries, which may not necessarily be similar to the case with developing countries. This paper will therefore make an analysis on when to start or not to start a horizontal purchasing collaboration in the developing countries, with particular emphasis to Uganda.

## **Literature addressed**

Collaboration cuts across several disciplines. Therefore several literature sources will be considered to get an exhaustive view of the subject. These will include; social theory, networking theory, cooperative theory, alliance theory, transaction cost theory and resource based theory.

## **Main contribution**

### ***Theoretical***

Not enough literature has been documented about purchasing. Yet purchasing has a big potential for saving costs for the organization. Most of the constructs used are borrowed from the other disciplines like sociology, marketing, finance, accounting, production etc. These concepts wouldn't be exactly used in the same way when transferred to a different discipline.

The study will identify why some collaborations fail to start, or to be sustained, from the perspective of when it is relevant or not relevant to collaborate, rather than associating the failures with the situations that arise after collaboration has started.

### ***Managerial***

Leaders of purchasing units will be able to appreciate that not all circumstances are right for them to get into collaboration. This will enable them avoid collaboration failures and associated negativities. They will appreciate that first knowing when to or not to collaborate can help them avoid rushing into sub optimal decisions to collaborate.

## Introduction

Horizontal purchasing Collaboration is an arrangement where two or more independent organizations that join together, either formally or informally, or through an independent third party, for the purpose of combining their individual requirements for purchased materials, services and capital goods to leverage more value added pricing, service and technology from their external suppliers than could be obtained if each firm purchased goods and services alone (Hendrick, 1997). More benefits of collaboration have been well documented in literature; including accurate information, lowered procurement costs, improved asset and capacity utilization, elimination of barriers caused by distance and time, efficient use of scarce human resources in purchasing, increased reliability, and increased ownership of operational policies. Besides, the ever changing business context (like internationalization, developments in Information and Communication Technology, government regulation and increased public attention to the way business is done) makes the need for collaboration real. According to Day, (1995); collaboration of units by linking themselves together could become a trend in the future.

If saving costs, elimination of barriers caused by distance and time, efficient use of scarce human resources in purchasing, increased reliability, and several others are the goals of collaboration, then developing countries and Africa in particular are qualified to be the home of collaboration. We continue to witness low levels of purchasing collaboration in African countries. For example, under the World Trade Organisation (WTO), participating members are supposed to ratify the Government Procurement Agreement (GPA). This is some kind of collaboration between the member countries. Of the 28 countries that had signed up to the GPA by 2003, none was from Africa, and there was no plan for any of the East African countries to join.

The PPDA Act NO.1 of 2003 made PPDA a regulatory authority in all public procurement activities in Uganda, with advisory, data management, capacity building and audit functions. It is noted, however, that the PPDA act does not deliberately contain a procedure on how horizontal collaboration can be done. This is a hindrance to the collaboration initiatives, because unlike private procurement, public procurement must be executed within strict limits imposed by legal rules and organisational procedures (Telgen, 2006). The horizontal purchasing collaboration between public units is not deliberately backed by the law, though of course one would argue that even if these laws were in place, they would be mutually contradictory or elusive (Telgen, 2006).

Sometimes, collaboration may be “too close for comfort” (Macdonald, 1995); and not all collaborative efforts have been successful. Several reasons given include; the costly asset co specialization which increases opportunism by the partners (Williamson, 1985), a firm foregoes the chance to build economies of scale and achieve low cost position (Dyer, 1996), collaboration leads to dependence of knowledge, therefore reducing capacity for own future challenges (Fine and Whitney, 1996). It may also be risky relying on the other party during a turbulent environment (Singh and Mitchell 1996), and the dependent partner may look for the alternative sources of supply, willing to defect as soon as a window of opportunity opens up. The following causes of collaboration discontent have been identified by various scholars: organizational economics (Williamson, 1985), poor structures (Jensen and Meckling, 1992), incongruent strategic objectives (Bowersox, 1990), unsynchronized decision making (Simatupang and Sridharan, 2002), information asymmetry (Lee and Whang, 2000), and the lack of trust and commitment (Morgan and Hunt, 1994).

The reasons that make collaborations uncomfortable are more common in developing world. There is no specific literature seen that describes the common situations under which collaboration may not be the optimal choice for the developing countries, and specifically Uganda. Collaboration may not be viable in all circumstances. Developing countries specifically have unique circumstances since the legal, ethical and cultural dimensions are different (Gemunden, 1997). This calls for careful decisions to collaborate. In our exploratory study for Ugandan public procurement units, there is evidence to show that some public procurement entities want to work alone, and achieve the goals individually. There is no clear coordinating body to start up and most importantly sustain collaboration initiatives. Each unit

has its own strategic orientation, and decisions are not taken basing on their implications to other units. All these are warning signs that public units should not jump onto the collaboration bandwagon.

### **Statement of the problem**

Whereas the benefits of collaboration are well appreciated in literature and practice, there is evidence to demonstrate that horizontal purchasing collaboration has not yielded such benefits in the developing countries and Uganda in particular. The fact that sometimes collaboration works out well, and badly in other cases, indicates that those to make the decision to collaborate should know when to collaborate and when not to. This has not been done in Uganda, resulting into a mixture of collaboration successes and failures.

### **Literature review**

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#### ***Perceived differences in the intended collaboration***

It's logical that to go into collaboration, there will be some gain. The participating members in a collaboration are goal seeking entities that aim at realizing their individual goals (Eliashberg and Michie, 1984). As long as the entities perceive differences in the anticipated collaborative arrangement, which may affect their performance or personal benefits, they are likely to avoid the collaboration.

In his survey, Moberg et al., (2003), identified seven barriers that consistently block chain members from collaboration success: Lack of trust, little commitment to collaboration principles, fear of relinquishing control, different goals and objectives, inadequate information systems, a short term “Wall Street” focus on outcomes, and involvement in too many chains.

#### ***Causes of perceived collaboration discontent.***

Literature identifies the following:

*The organizational economics* considers the rational behavior of collaborating entities in optimizing their own performance instead of that of the overall collaboration (Williamson, 1985).

*The poor structures* make information costly to produce and transfer among actors (Jensen and Meckling, 1992). A poorly designed boundary spanning interfaces contribute to the failure of collaboration.

*Incongruent strategic objectives*, where entities have different emphases on strategic options (Bowersox, 1990) can be a cause for failure of collaboration.

*Unsynchronized decision making*, brings misrepresentation. Decisions are made without consulting all the various parties such decisions will affect (Simatupang and Sridharan, 2002).

*Information asymmetry* is also a reason why collaboration may fail. It occurs when one player has better access to certain information sources compared to other players (Lee and Whang, 2000). The superior member can take advantage over others, especially where the trust and commitment elements are not yet strong. Such big entities would perceive collaboration with

smaller ministries as not beneficial. Alternatively, the smaller entities see the bigger ones as beyond their operations.

### ***Other circumstances under which collaboration is not the best option***

All parties in the collaboration need to have almost equal powers (Schootanus and Telgen, 2005). One or a few should not have unchallenged power to influence the outcome. This would bring unfairness in the operations and sharing the outcomes of the collaboration. The parties involved should have similar or same ideological underpinnings. This enables them to have common targets and goals, with fewer contradictions.

The parties in the collaboration at some occasions will have differences in operations or ideologies. The individual entities are likely to have selfish interests, especially when high trust levels have not yet been realized. They tend to be self seeking, and to exploit situations that they feel put them to advantage over others (Williamson, 1985).

## **Main Research question**

Is horizontal purchasing collaboration in developing countries always desirable?

### **Research method**

This general research for the PhD project is a methodological pluralist approach using both quantitative and qualitative designs (Creswell, 1994); both advocates of both positivist and naturalist research methods should declare "...rhetorical cease-fire".

The case study method is appropriate for the study. This is because the method is intensive and is needed to capture all relevant collaboration features in sufficient detail (Henrikki, 1998). Both in-depth and questionnaire designs will be applied. The comparative design will also enable the comparison between those units whose conditions encourage collaboration with those whose conditions don't.

In this research paper, we wanted to fully understand the current horizontal collaborative purchasing in Uganda, thus we undertook an exploratory research exercise. This approach is consistent with Van Aken (1994), who emphasizes that for research to meet both the rigour and relevance tests (Andriessen, 2004), it is important to know *How do organizations work in practice?* Before embarking on *How should organizations work?* This design is even more relevant to Uganda where no previous work has been undertaken in this area.

We considered the Procurement and Disposal Units in 16 government ministries in Uganda. We excluded 5 ministries because their data is not easily available to researchers for security reasons. We were also able to interview the procurement officers and accounting officers in the respective units to get the necessary information.

## **Findings on the exploratory study on the current horizontal collaborative purchasing in Ugandan government ministries**

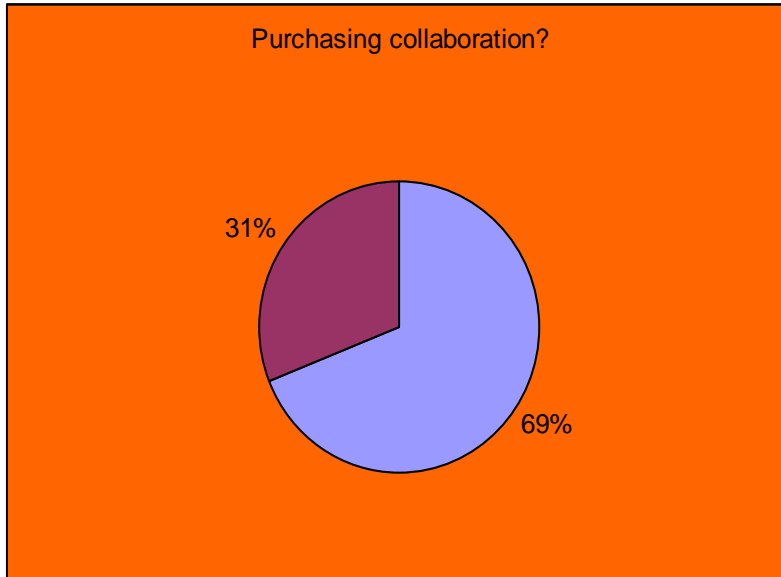
### ***Question: Is there collaboration in various government ministries in Uganda?***

All the respondents in the 16 ministries clearly answered 'yes', meaning in general terms, there is horizontal collaboration between ministries. They identified collaboration to be in preparation of policy and regulation, planning and budgeting, running joint programmes and service support.

This is an indication that collaboration is not entirely new; it already exists but needs to be enhanced, and improved in specific areas like procurement.

### ***Is there horizontal collaborative purchasing in Ugandan ministries?***

11 out of 16 ministries said there is collaboration in purchasing. This is about 69%. Only 31% of the cases (5 ministries said there is no horizontal purchasing collaboration).



**Figure 1: Existence of horizontal collaborative purchasing in Uganda**

The activities where this collaboration takes place include the following, capacity building like training procurement cadres and conferences, drawing specifications together especially for services, supplies and works that are too specialized and such expertise lacks in a particular ministry, using similar shortlist of prequalified suppliers, especially if one ministry cant prequalify or needs a product urgently or does not have a qualifying supplier in that particular supply, service or works, using standard bidding documents, price comparisons, and other operating and challenging procurement aspects.

As noted above, most of the collaboration is on the initial stages of the procurement cycle. There is less collaboration in the final stages of the cycle. This would be good if they can exhaustively collaborate at the initial stages especially the needs specification stage, as most of the decisions that leverage and optimize the benefits of purchasing are at this stage (Telgen, 2005)

***Priority attached to purchasing collaboration in ministries***

Of the 16 ministries that responded, 4 said the priority given is less, 6 that it is not given priority, 5 that it is minimal and 1 said it is high priority. The reason could be that the procurement officers in these ministries are not in decision making positions. They don't attend top strategic meetings in their respective ministries, so no priority will be given to procurement activities. It is also evident from the responses that there is a lot of selfishness in the individual ministries, and collaboration is not welcomed. Responses are shown below.

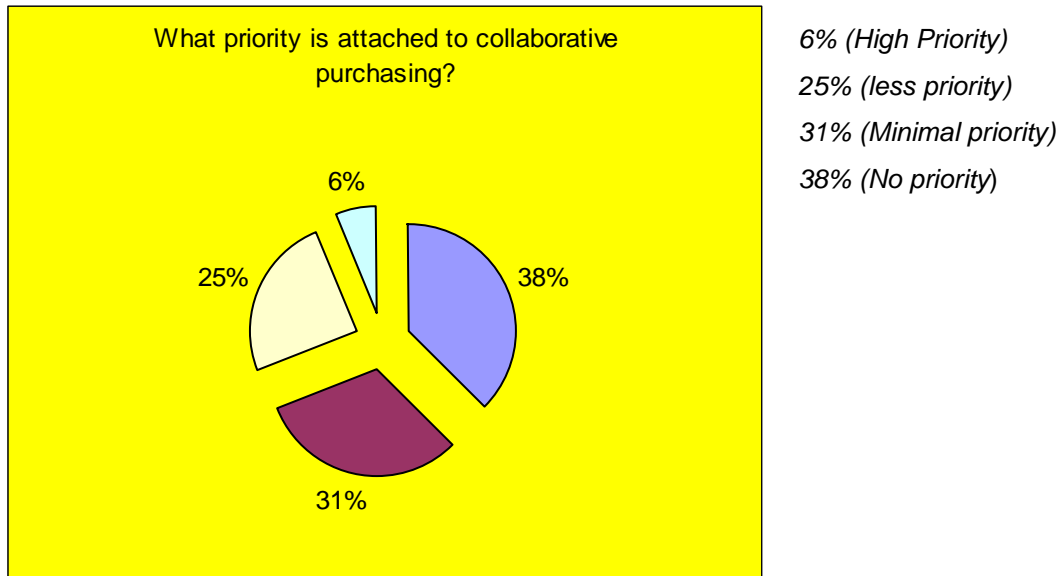


Figure 2: Priority attached to collaborative purchasing

#### ***Interest by ministries to collaborate***

14 out of 16 ministries expressed interested in purchasing collaboration. Even those that don't have a clear system of collaboration acknowledge the need to collaborate.

The reasons given for need to collaborate are: reducing financial costs, better prices because of bargaining power, sharing information, to avoid repeated tasks that are boring and costly, to optimize because of synergy, get access to skilled personnel which is still a problem in Uganda, improve service delivery, standardize purchasing activities, and that ministries purchase same items, from same source, at similar times but at extremely different prices.

#### ***Various activities/processes of purchasing collaboration in Uganda ministries***

Ministries indicated the following activities: prequalification, drawing specifications together, scope of works, terms of reference, contract management, appraisal, preparation of standard bid documents, using the same supplier list (which was jointly compiled by the PPDA), initiating framework contracts, business relationship and supplier development, preparation of bid document, and evaluation of bids.

However, despite the collaboration in these processes/stages, there is no legal obligation to do so. The PPDA act 2003 is not specific about this. One can opt out of such arrangement.

#### ***Commodities/services suitable for collaboration in Uganda***

Ministries suggested that from the experience of purchasing in their entities, considering costs, convenience and creating value for money, these commodities are most suitable for collaborative purchasing in Uganda: Common user items like stationery, fuel, office equipment (like computers), communication equipment, furniture, and even strategic goods that involve a lot of spend, capital buying assets like heavy machinery and motor vehicles.

Services include cleaning services, security, repair services and insurance services. These are in most cases similar, and yet not core. They can be jointly outsourced from the same supplier.

#### ***Commodities/services unsuitable for collaboration in Uganda***

Because of the uniqueness, unrepeated use, and specificity, the following commodities/services were suggested as not suitable for collaborative purchasing:

Commodities are chemicals which are specific to various ministries, classified products like fire arms and other weapons in the ministries like defense and one responsible for police (internal affairs) cant be purchased together with other ministries, for national security reasons and besides, the purchasing is exclusive to those specific ministries. Others are non common user items that are used once in while.

They also identified services like consultancy as it is specific and unique, heterogeneous services whose performance varies by customer and provider, core services to the ministry

e.g. national election process, and services that don't cut across ministries like expertise on treatment of Ebola disease.

#### ***Whom do you collaborate with?***

All ministries decide who to collaborate with in as far as there is a specific need to collaborate. This is usually because of the specific skills and talents of personnel. Whereas it is inevitable for some ministries like Ministry of Energy and Minerals to collaborate with Ministry of Lands and Environment and Ministry of Works (because they are the line ministries and experts in environmental and mining affairs) in the exploration of oil, or all ministries referring to the Ministry of Justice for contracting processes, others simply solicit for expertise from other ministries without any followed guidelines. Therefore, there is no clear model of how a certain ministry comes to collaborate with another ministry, and not the other. The searching for whom to collaborate with, starting, growing the collaboration and sustaining it (Kanter, 1994) are some of the issues that our next phase will clearly bring out.

#### ***Duration of collaboration***

All the ministries indicate starting the collaboration in 2003, when the PPDA act came into force. This is infact when purchasing was decentralized. It means the collaboration arrangements are only 3 years old. Yet, effective collaboration takes time to evolve, according to stages theory (Kanter, 1994), though according to the stages theory, it can occur in unstructured and unpredictable manner at any point in time (Ford and Rosson, 1982; Ford et al., 1986).

#### ***Forms of horizontal purchasing collaboration in Uganda***

This was mainly to answer how collaboration is done. There are not yet any fully developed structures of operation. However, the ministry with a need to collaborate contacts the one(s) it feels it should work with. It is mainly out of the contingent conditions, which states that the conditions prevailing at a point in time, determine the next course of action (Batonda and Perry, 2003).

Information is shared at the same level, but from the technical and more knowledgeable ministry, there is no influence by one over the other, since all such ministries are relatively at the same level, in terms of authority, needs and resources.

#### ***Initial factors for horizontal purchasing collaboration.***

Literature identifies the factors that are necessary for a successful horizontal collaboration. The behavioural aspects include trust, commitment, dependence and reciprocity. However, other factors were clearly identified. These include, government intervention (like setting up policy as PPDA does), internal support from members and top management of ministries (probably because procurement cadres are still at low levels in their respective organisational hierarchies, making them unable to take strategic decisions), collaboration structure, communication, and presence of human and technical resources.

Factors that did not score highly include good relations with suppliers, time, influence on collaboration (because all ministries are at same level and enjoy relatively equal rights) and differences between collaborative entities.

#### ***Ugandan findings on whether to collaborate or not to collaborate***

In the Ugandan case, even when all ministries are expected to be at the same levels in terms of resources and authority, they still differ. Ministries have different budgets and authorities. For example Ministry of Finance, gets more than twice the resources of Ministry of Gender, Labour and Social Welfare. Ministry of Finance also gives permission to other Ministries on how to spend certain levels of their budgets. These may not easily collaborate. Besides, there are no strong legal bases that govern the collaboration initiatives. Each ministry has mandate to operate on its own, and can opt not to take up what the group has decided on. Collaboration becomes meaningless without the power to implement and enforce final decisions (Scott, 2007).

Whereas all public procurement entities are presumed to be working towards the same goal, of achieving similar national goals; to achieve fairness, transparency, accountability and value for money (PPDA Act, 2003), they still want to individually be seen to achieve them. Each unit is accountable to its own stakeholders. From our exploratory study findings, there is evidence

to show that some public procurement entities want to work alone, and achieve the goals individually.

There is no clear set up of a coordinating unit in Uganda to start up and sustain collaboration. The PPDA largely is a regulatory body for advisory, data management, capacity building and audit functions (PPDA Act 2003). It is not specifically for coordinating collaborative initiatives between the public procurement entities.

It is also important to note that procurement and disposal entities have incongruent strategic options. For example Ministry of Trade, Tourism and Industry would want to spend more in order to achieve its ministerial objective of "selling" Uganda (Ministry Report, 2005/6) where as Ministry of Finance, planning and Economic Development would want to minimize the expenditure, to save funds for other activities (New vision, May 4, 2006), which is the ministry's strategic orientation.

Decision making in some cases is not synchronized, which means misrepresenting the interested parties that are affected by the decision. According to the report on performance of Members of Parliament of the Republic of Uganda, few members consult their electorate on suggestions they have towards a certain bill. Likewise, according to an interview with the Procurement Officer, Ministry of Lands, Water and Environment, the PPDA does not always consult the various entities on the various directives issued out.

The issue of information asymmetry also applies to Uganda, because some of the public procurement entities have access to more information than the others because of their large size, priority position they occupy in the government or because of having more competent personnel. For example there are major ministries with the biggest spend. These are Ministry of Health, Ministry of Defense, Ministry of Energy and Minerals, Ministry of Education and Sports, Ministry of Agriculture, Animal Industry and Fisheries, and Ministry of Lands and Environment. These have access to more training opportunities; their staffs are more experienced and at the rank of Principal Procurement Officers, while all the other entities stop at Senior Procurement Officer or simply Procurement Officer Rank. This brings question marks when it comes to procurement, as such big ones can perceive less benefits from the collaboration (Eliashberg and Michie, 1984).

## Conclusion

From the above discussion, we can state that the strong support for collaboration as published may encourage organizations to "jump on the collaboration bandwagon". Organizational units in developing countries and Uganda in particular should first critically understand the implications of collaboration, by studying the factors which may affect it, in a given setting.

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