

Joint purchasing among private companies in Uganda

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Purpose of the paper

Joint actions in purchasing enable organizations to achieve economies of scale none can realize alone. This study investigated the factors that hinder efficient functioning of joint purchasing activities among private companies in Uganda such that when addressed, they would equally reap the benefits of working together.

Introduction

The private sector in Uganda accounts for over 95% of the businesses and is fundamental to the economic development of the country (Badagawa, 2002). However, there are still bottlenecks towards making Uganda's private sector a major economic entity and a real engine of growth responsible for the country's economic growth. In today's competitive environment, companies need to find ways to create more value. Therefore, building a strategic relationship with similar companies in the field of purchasing practices is one way of achieving this. However, there are few cases of joint purchasing in Uganda.

Joint purchasing is defined as the cooperation between two or more organizations in a purchasing group in one or more steps of the purchasing process by sharing and/or bundling their purchasing volumes, information, and/or resources (Schotanus, 2007). Unlike in the public sector where the companies get assistance from the Government to boost their performance, private companies' survival depends on the hard work of the owners. This therefore, creates the need to take up various competitive strategies; of which joint purchasing is one.

Purchasing has assumed an increasingly fundamental strategic role, evolving from an obscure buying function into strategic business partner (Ellram & Carr, 1994; Cooper & Ellram, 1993) and firms that emphasize cooperation are more likely to achieve greater economic benefits (Dyer, 2000). In Uganda few private firms engage in joint activities. Worse still such activities remain largely operational. This does not optimize benefits realized from joint purchasing.

Statement of the problem

Joint actions enable members to achieve goals none can realize alone (Chisholm, 1998). One would assume that private companies in Uganda are rational, and therefore would equally take up joint purchasing to reap the benefits. There are, however, a few cases of joint purchasing. This situation has not been empirically analyzed, creating a knowledge gap, which this study addresses.

Research objectives

The objectives of the study were; to find out the benefits that accrue from purchasing jointly, establish the current status of joint purchasing between private firms in Uganda and to investigate factors that hinder efficient functioning of joint purchasing in Uganda.

Main contribution

The research provides information about joint purchasing both for companies that wish to join purchasing groups and for those already carrying out joint purchasing to improve.

The research helps universities and other training institutions which teach procurement related courses, to design appropriate curriculum suited for practicing purchasing personnel.

The study also provides literature for future researchers in the area of purchasing.

Literature Review

Introduction

Joint purchasing has so far been differently defined in the existing literature. It is referred to as horizontal cooperative purchasing, group purchasing, collaborative purchasing, collective purchasing, consortium purchasing, shared purchasing, bundled purchasing, et cetera. (Schotanus, 2007). Cooperative/joint purchasing is defined as the cooperation between two or more organizations in a purchasing group in one or more steps of the purchasing process by sharing and/or bundling their purchasing volumes, information, and/or resources.

A purchasing group is defined as an organization in which cooperative purchasing processes take place. A purchasing group consists of dependent or independent organizations that share and/or bundle together in order to achieve mutually compatible goals that they could not achieve easily alone (based on Hendrick, 1997; Lambe et al, 2002)

A purchasing consortium consists of 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. The main goal of these alliances is to leverage aggregated purchasing power of the group to optimize cost reduction and value added contractual terms and conditions from the external supplier relationships (Gray, 2002)

Benefits of joint purchasing among firms

Joint purchasing leads to better quality and value for customers and stronger partnerships with suppliers through commitment to contracts (SCEP, 2005). Anderson and Katz (1998) identified three types of cost reductions for which joint purchasing can generate benefits: price, administrative costs, and utilization costs. Cram (2006) says that, joint purchasing helps companies to obtain; lower prices, increased leverage, increased efficiency, easy access to innovation, access to better expertise, cross fertilization of information and ideas.

Rumman and Blagojevich (2006), add that in most cases, joint purchasing results in reduced costs, derived from improved specifications and increased price competition.

Joint purchasing initiatives help to streamline and standardize the procurement of goods and services, sharing best practices that allow scarce administrative resources to be allocated to other areas, provide access to a wide array of high quality goods and services by leveraging the collective buying power and create economies of scale resulting in significant cost savings (PEJE partnership for excellence in Jewish education, 2006).

Though joining a purchasing consortium (also known as Group Purchasing Organization or GPO) has obvious advantages, ideally, these cost savings have to outweigh the expenses of setting up and maintaining the consortium for all parties involved (Pye, 1996).

According to Barton (2005), benefits of joint purchasing include; increased cohesion, access, and standardization within a high quality. Financial gains include a sharing of overhead costs and reduced administrative costs (Keim, 1999). Other than financial benefits, cooperative arrangements allow shared resources and expertise; enhanced quality and breadth of services offerings; greater access to products and services; opportunities to build skills around cooperation; increased dialogue among colleagues in a network of different institutions/ organizations; greater diffusion of best practices; and mobilization for effective planning and control in organizations (Konrad & Small, 1986; Keim, 1999).

As access is undoubtedly an important goal for all organizations, consortium arrangements can significantly increase access to services and programs to many of its member organizations.

According to Gray (2002) purchasing consortiums or similar alliances can be a valuable strategic initiative worth serious consideration by supply managers today. There is undeniable evidence that properly managed consortiums are bringing significant and immediate value to their members. Moreover, with today's climate of "doing more with less" these purchasing alliances can help supply managers not only leverage the group's spend for more competitive pricing but also leverage the group's resources where he may be understaffed. Participation in a consortium is rewarding experience for not only the organization, but for the supply manager as well.

According to Rozemeijer (2000), joint purchasing brings about pooled negotiation power ('buying together'): by combining their purchases, different companies can gain greater leverage over suppliers, reducing the cost or even improving the quality of the goods they buy. A number of companies have identified large benefits through common purchasing of inputs used by several of their businesses. Companies can also gain similar benefits by negotiating jointly with other parties, such as competitors, customers, governments, universities or other non-competitors. A lot of references of pooled negotiation power with other stakeholders can be found (Essig, 1998). Based on a research project in Germany, Essig (1999:183) reports an average volume increase ranging between 800% and 1200% for the 13 companies participating in co-operative sourcing arrangement. This volume increase resulted in savings ranging from 1% to 15% for the thirteen participating companies. Vizjak (1994) estimates that unit cost reductions of up to 10% are achievable as a result of co-ordination of activities, exchange of information and concentration of buying power.

Factors that hinder joint purchasing

Purchasing consortia are becoming more and more common practice. However, premature endings of existing purchasing consortia still occur regularly and other purchasing consortia do not flourish (Schontanus, 2004)

Joint purchasing has been mainly utilized in the public procurement for several years to gain economies of scale (Meyer, 1994). These practices should also be increasingly applied in the private sector. However, Private companies have different organizational structures, different networks, and different purchasing needs. These factors are considered to hinder joint purchasing. Issues such as trust, limited information sharing, risk

of leaking secret information, complexity, cultural issues, cooperation, and limited supply base instill reluctance for some companies to join purchasing groups but long term benefits justify it.

Barriers to collaboration as identified by (Hedra, 2005) are cultural factors like fear of change, leadership, and maintaining individual and operational issues such as capacity, experience and cost also have a significant impact.

According to (Wyrnstra, 2000), the success of joint purchasing is greatly dependent on team performance. Failure of team work will render consortia fruit less. The sources of barriers to team performance include: the organization, the leader, or the team members themselves. Among organizational barriers, there is a lack of vision clarity and insufficient resources in terms of time, money and personnel. Individual skill is as important to the group's success as are other factors. When skills don't develop to serve goals beyond the individual's own organization, the consortium struggles to remain viable. Within most successful groups, however, one usually finds individuals who can assume a leadership role in mentoring and training opportunities

Reasons for hesitation to join purchasing groups mentioned by Hendrick (1997) are: anti-trust (legal) issues, disclosure of sensitive information, supplier resistance and the "fear of parasites". The last reason means that a firm does not see the advantage of joining a consortium as it believes it already has a good leverage. Therefore, the (perceived) result of joining would be that the rest of the consortium would benefit parasitically on its leverage.

Joint purchasing challenges include; prolonged communication and/or "ineffective" decision making processes, respecting institutional autonomy, lack of cohesion due to potential lack of trust and commitment as well as competition among members; unarticulated roles and expectations; unclear mission, structure and philosophy; insufficient literature on best practices for these types of arrangements; poor visibility in each member institutions; and lack of participation from various groups of people (Konrad & Small, 1986; Johnson, 1988; Baus & Ramsbottom, 1999; Keim, 1999; Lang, 2002).

Lack of trust is a critical issue in several forms of inter-institutional cooperative arrangements. While this may have an impact on cohesion and level of commitment, it is a fundamental challenge that requires resolution in order for consortia to survive. Most often, lack of trust is a "side effect" of institutional autonomy and territorialism or competition. In fact, Johnson (1988) argues that "autonomy is a term that consortium directors hear frequently in connection with the failure of cooperative ventures to gain support" (p.194). According to Johnson (1988), trust can be resolved by members getting to know one another both professionally and personally. Trust can also be accomplished and competition diminished by focusing on the agreed upon mission and goals of the consortia (Gray, 1996).

While members may have differing institutional missions, it is sometimes recognized as an excuse to not cooperate instead of a good reason to cooperate. For the latter, the diversity of institutional missions actually makes it possible for the institutions to complement each other via cooperation of some form (Johnson, 1988). In order for a consortium to succeed, board members must fully develop, comprehend, and support the mission and objectives of the consortium (Horgan, 1999). The articulation of a consortium mission is best achieved through full participation and consensus of the members. In addition, a mission should serve all of its members while not being too narrow in scope; rather, it should be broad. Once a mission statement is established, it may pave the way for articulation of roles and expectations within the consortium.

Since consortia can include diverse and large numbers of members, participation in decision-making is often a challenge. A structure that embraces a "bottom-up" communication system and acknowledges the voices of all stakeholders is true to the notion of cooperation. As such, it can improve communication and increases visibility of the consortium within member institutions (Wolvin, 1991; Larrance, 1999).

Joint purchasing may not be success full because of the disadvantages which follow from factors such as an increased complexity of the purchasing process (Tella & Virolainen, 2005) and loss of flexibility and control, increased coordination costs (Johnson, 1999), member commitment issues (Doucette, 1997), the 'fear of free-riding group members' (Hendrick, 1997), set-up costs, having to change specifications, and losing existing relations with suppliers. In addition, a purchasing group can have a negative impact on the supply market in the long run. A large group may cause suppliers to withdraw from the market or merge with other suppliers (Nollet and Beaulieu, 2005) and new suppliers might encounter market entry barriers (Zweig & Zellner, 1998). Also, under certain circumstances, the purchase price can increase due to cooperative purchasing. This might be the case when a purchasing group becomes so large that only a very limited number of suppliers is able to supply the group.

Literature Gap

Though many scholars have researched and written about joint purchasing, little is known about joint purchasing in Africa and in particular Uganda. The information in the literature review above is general. Hardly is there any literature about the current status and the factors that hinder efficient functioning of joint purchasing in Uganda.

Therefore, there researcher sought to find out this and add on the available literature

Methodology

The research was exploratory and descriptive in nature based on a case study design. The researcher used both primary and secondary data. Interviews and questionnaires were used to collect the primary data while secondary data was used to back up primary sources. Pre-testing of the instruments was done to ensure validity and reliability. The study sample was composed of 56 private companies in Kampala. Simple random sampling without replacement was used to identify the respondents and the data was analyzed using SPSS and Microsoft excel. The information was presented in tables, and in a descriptive form

Findings of the study

Benefits of joint purchasing in Uganda

It was found out that the major benefits of joint purchasing in Uganda are reduced supply risks, better quality, lower prices, elimination of administration duplication and getting an opportunity to build skills around the cooperation

There is also reasonable evidence that the following benefits come from practicing joint purchasing; easy access to innovation, standardization purchasing better terms and conditions of purchase, increased dialogue among colleagues in a network of different institutions/ organizations.

The following are not known as benefits of joint purchasing in Uganda although scholars like (Konrad & Small, 1986; Keim, 1999; Faes & Matthijssens (1998); Hendrick 1997; Lambe et al. 2002), found out that the above are benefits that accrue from joint purchasing; efficient utilization of scarce resources, shared resource and expertise, information sharing, reduced lead time, improved asset and capacity utilization, increased cohesion, accuracy of information. The respondents in Uganda were not sure whether they can achieve the above benefits by purchasing jointly with other companies

Current status of joint purchasing in Uganda

44 (78.6%) out of 56 respondents said that they purchase all their goods and services needed in the company independently and 12 (21.4%) respondents said that they sometimes purchase jointly with other companies. This implies that joint purchasing is carried out on a limited scale in Uganda.

Factors that hinder efficient functioning of joint purchasing in Uganda

According to respondents the major hindrances to efficient functioning of purchasing groups are; poor performance of existing purchasing groups, lack of sensitization and awareness, companies do not trust each other hence they fear to leak sensitive information that would hinder a company's competitiveness, failure of companies to recognize the strategic relevance of the purchasing function and differing purchasing needs and strategies.

There is also some reasonable evidence that complexity of purchasing process, failure of team work that renders consortia fruitless, lack of cooperation, lack of cohesion, poor information exchange, Supplier resistance and the fear of 'parasites', insufficient resources (time and money), differing organizational structures and networks, preference to maintain individually operational issues, hinder joint purchasing in Uganda

The respondents were not sure whether the following factors affect joint purchasing in Uganda or not; anti trust issues, ineffective decision making process, fear of change, although Hendrick (1997) and other scholars in the literature say that the above hinder efficient performance of joint purchasing.

According to the respondents, there is no evidence at all that Cultural issues hinder joint purchasing in Uganda yet (Hedra, 2005) says that cultural factors like fear of change, leadership, and preference to maintain individually operational issues such as capacity, experience and cost also have a significant impact on the performance purchasing groups.

Conclusion and recommendations

Despite the benefits of joint purchasing, in Uganda only 21.4% of the companies that were interviewed carryout joint purchasing and even among the firms that carryout joint purchasing, it's still on a limited scale. It is only in a few cases that they do purchase jointly with other companies. This implies that joint purchasing is done on a limited scale in Uganda.

According to the literature, the main benefit of joint purchasing is lower costs and in the Ugandan case it is reduced supply risks and better quality. It is interesting that the benefits that accrue from purchasing jointly in developing countries are somehow different from those enjoyed in developed countries.

scholars like Hendra (2005), Wyrnstra (2000), and Martins (2002) say that the main factors that hinder joint purchasing are cultural factors, failure of teamwork and lack of trust respectively, surprisingly the major challenges/ hindrances of joint purchasing in Uganda like poor performance of the existing purchasing groups, lack of sensitization and awareness and failure of companies to recognize the strategic relevance of the purchasing function are not mentioned in the literature. This implies that different countries have different challenges.

It was recommended that training and awareness of joint purchasing be conducted by various training institutions and organizations involved in purchasing. Private companies should take purchasing as a strategic function, companies to collaborate with each other and join their purchases. The companies currently involved in joint purchasing should share information, apply ethics and professionalism in the purchasing process in order to improve their performance and attract more companies to join. This will help joint purchasing in Uganda to grow.

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