

End Users Role in Procurement in an Organization

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ABSTRACT

Procurement department in any establishment is a service department providing services to the end user in an organization. Users (employees) are one of the key determinant factors that should be put into consideration in the process of engaging with suppliers to procure goods/services if procurement professionals want to save enough money for the company through negotiations. This is because, a user play's key roles either positively affecting the organization overall profit or negatively affecting the organization by incurring more cost in procuring goods/services with same quality, lead time, right source and delivery location. Every organizations primary aim is to make profit, managements desire is for Procurement professionals to save more money for the company. This research work is going to take a holistic view on the role the user plays in the process of engaging vendor(s) and to make recommendation to the procurement managers and top management to look at the procurement chain in order for them to see the need why users should be involved in any kind of activity either procurement of goods or services to be rendered. A detailed questionnaire will be designed and distributed to the users in different sector

1.0 Introduction

^[1] Define procurement as the process of buying goods, services and works from external suppliers. The procurement process begins when a need to buy something is identified and will generally end after the contract is awarded

^[2] interest in purchasing as a separate, important, and profit-contributing function of management has gained substantial momentum within the decade of the 1950s and up to the present. As one reviews the development of, and attention to, this function, he cannot help being impressed by the progress which has been made in the last few years. Perhaps the recent, rapid advances in knowledge concerning the proper role of purchasing within the modern organization overshadow completely the early work and study devoted to this function. Some authors have indicated that such attention is solely a phenomenon of the last few decades. It is important to understand how the purchasing function has developed to the level and position it occupies today. A knowledge of what has happened in the past often will give one a keen insight into the problems of today and a better picture of what may occur in the future. A true comprehension of where we are today requires an understanding of where we have been and how, and in what areas, progress has been made. This understanding can be gained, at least in part, by a review of the available literature on purchasing to determine the concepts of early authors and to highlight the types of problems, and recommended action, presented in this literature. Such a review will show that the purchasing function was established as an important area of activity, and was being written about, much earlier than is commonly assumed ^[2].

^[3] In well managed procurement function, users are involved in strategic planning decisions of procurement activities, development of procurement strategy and execution of the proposed strategies throughout the life cycle of the procurement exercise backed with implementation, review and corrective actions. On delivery of materials, users are involved in providing technical

expertise and input to support the bid assessment processes. They prepare the technical recommendation in any bid assessment report and approve key review stages throughout the procurement process. It is important to note that product users who are occasionally the buyers may exhibit certain purchasing behavior based on certain internal and external stimuli. In order for the purchasing department to deliver products and services that meet the user's needs, there is need to involve the users when making decisions relating to purchasing. For services, service user involvement may lead to a number of benefits.

^[3] The first set of benefits is to the service users. End user involvement for services leads to increased confidence and self-esteem. In addition, user involvement in service selection may lead to greater satisfaction among the users, and improved quality of work, enhanced user friendliness and health responsiveness especially for people with disabilities who have had greater control in purchasing decisions when they are involved in purchasing decisions. Lastly, involvement of service users in service selection process may also help create a stronger sense of community.

^[3] The other set of benefits are associated with the organization such as Enhanced planning of procurement and purchasing activities, Enhanced achievement of procurement and purchasing goals in relation to demand requirements and Enhanced monitoring and evaluation of purchasing activities. User involvement maintains product user's welfare and motivates staff, promotes and facilitates day to day purchasing decisions enhancing the chances of purchasing the right products and services. User involvement may facilitate individual centered support planning to set and achieve short- and long-term purchasing goals of the organization.

The aim is to come up with facts why most companies incur more cost in procurement despite spending a lot of money to get high volume of production especially in the oil and gas sector. Its objectives include:

- i. To establish that the user department plays vital role in saving more money
- ii. Outline possible causes why company incur more despite spending a lot of money to get high volume of production
- iii. Outline the causes why end users work with vendors to inflate the price of goods and services
- iv. Outline possible solutions to top management that will improve the profit/savings in an organization.

1.1 Research Hypotheses

- i. A user(s) plays vital role in saving more money for the organization
- ii. A user (s) makes an organization to incur more cost

2.0. REVIEW OF RELATED WORKS

^[2] Literature prior to 1900 one of the early classic books in management provides evidence that purchasing was established as a separate industrial function well over 100 years ago. Charles Babbage's book. On the Economy of Machinery and Manufactures (1832), referred to the purchasing function in two places. In discussing the organization of duties for a mining concern, one of the ten officers responsible for operating the mines was "a materials man who selects, purchases, receives and delivers all articles required. Later he mentioned, "It will have been found necessary to establish an accounts department and this department must be in communication with the agents who purchase the raw produce; And in describing the importance of the division of labor he further noted that, a great reduction in the cost of the article which is brought to market can be accomplished by utilizing the precise amount of skill necessary for the execution of each process and throughout every stage from that in which the raw material is procured, to that in which the finished product is conveyed into the hands of the consumer. Certainly, this early author

recognized the basic importance of the purchasing function to the overall success of an organization. It also is interesting to note that he recognized a "materials man" who would have control of several functions, in addition to purchasing, which are embraced under the now-popular "materials management concept".

[6] An organizational challenge first emerges when a business expands beyond a single manufacturing location. Establishment of a second plant location does not necessarily affect the marketing operation; after all, it is possible to keep up sales and related activities just as though the company still had a single production operation. However, buying isn't quite the same. Management has several organizational choices to consider with respect to optimizing the purchasing function.

Various organizational arrangements accompany business growth. Buying can be done (1) from the original plant with existing people; (2) by new buyers at the second plant reporting to the new plant manager, or (3) back to the purchasing manager at the original plant, or (4) to other top management personnel.^[6]

There are four basic types of organization: (1) line, (2) line-and-staff, (3) functional, and (4) committee. In practice, purchasing departments are combinations of these four types. Though they seldom appear in pure form, it helps to distinguish them for analytical purposes.^[6]

These organizational setups are usually depicted by a box chart, but others such as a concentric or circular graph are occasionally useful. The concentric type has the advantage that no one is represented as inferior or of "lower rank" than anyone else. It is employed by at least one of the country's largest businesses and serves its purpose well.

[6] Charts can be a useful management tool to the head of purchasing. They help in setting lines of authority and responsibility for both buyers and managers, and also in depicting formal communication lines. They show who has the right to hire, to promote and discharge, and to establish an orderly allocation of "jobs to be done." Deficiencies in an organization can often be detected through the use of well-prepared charts. In cases where a chart has never before been attempted, channels of reporting, for instance, may be more clearly recognized. Responsibilities should be spelled out as clearly as possible; so, should limits of authority. This is where use of job descriptions and a purchasing manual come into play. The chief purchasing officer (CPO), like most leaders, is constrained by tradition, practicality, requirements of teamwork, and other demands of the organization.

⁴¹ "Procurement is the business management function that ensures identification, sourcing, access and management of the external resources that an organization needs or may need to fulfil its strategic objectives".

[5] Explained that "Purchasing plays a key role in corporate strategy through the selection and development of suppliers that support the organization's competitive position. An understanding of the true cost implications of the purchasing process can make a significant contribution to the achievement of lower costs".

[7] The primary role of the procurement function is to:

- provide professional, qualified procurement expertise, advice and Services;
- provide strategic procurement advice;
- ensure that business needs are met through its procurement of goods, services and works;
- contribute to the aims and objectives of the organization, as detailed in its corporate plan;

- pro-actively manage and develop the supplier base, including small and medium-sized enterprises (SMEs) and third sector and voluntary sector organizations, identifying and managing any supply risks or value add opportunities;
- ensure that value for money is achieved, including through implementation of national contracts;
- advise, guide and support the development of and adherence to procurement policy, best practice and law;
- develop, promote and implement appropriate procurement strategies and procedures;
- establish and address training needs, utilizing national/sector specific training opportunities or contracts where appropriate;
- co-ordinate training development and registering of procurement officers across the organization;
- assess procurement competencies across the organization, using tools such as the Scottish Procurement Competency Framework;
- promote and engage in collaboration and information sharing with relevant partner organizations;
- support sustainable policies through procurement processes;
- comply with and, where appropriate, promote equalities legislation and policy; and
- Promote and engage in the implementation of relevant technology solutions, including e-procurement, to minimize purchase to pay costs.

3.0 METHODOLOGY

This chapter is focused on the research method used in carrying out this research paper. The following will be discussed in this chapter such as research strategy, research design, Research method, sampled population, method of analysis, data collection, limitation of research

3.1 Research Method

Research Methods are the tools and techniques for doing research. Research methods are a range of tools that are used for different types of enquiry, just as a variety of tools are used for doing different practical jobs, for example, a pick for breaking up the ground or a rake for clearing leaves. In all cases, it is necessary to know what the correct tools are for doing the job, and how to use them to best effect. They represent the tools of the trade, and provide you with ways to collect, sort and analyse information so that you can come to some conclusions. If you use the right sort of methods for your particular type of research, then you should be able to convince other people that your conclusions have some validity, and that the new knowledge you have created is soundly based[8]

3.2 Research Design

[8] There are numerous types of research design that are appropriate for the different types of research projects. The choice of which design to apply depends on the nature of the problems posed by the research aims. Each type of research design has range of research methods that are commonly used to collect and analyze the type of data that is generated by the investigations.

The Research design used in this research paper is descriptive research design.

3.2.2 Descriptive Research Design

This design relies on observation as a means of collecting data. It attempts to examine situations in order to establish what is the norm, i.e. what can be predicted to happen again under the same circumstances. Observation can take many forms depending on the type of information sought,

people can be interviewed, questionnaires distributed, visual records made, even sounds and smells recorded. Important is that the observations are written down or recorded in some way, in order that they can be subsequently analysed. The scale of the research is influenced by two major factors: the level of complexity of the survey and the scope or extent of the survey ^[8]

3.3 Sample Population

The data will be collected from three different companies in the Oil and gas Sector such as Nagos Project Ltd, Heritage Energy Operational Services Ltd, and Salvic Petroleum Resources Limited

3.4 Data Collection

Primary method is used to collate data for analysis through the use of a well-designed structure questionnaire comprising of eight (8) questions in total (i) User department plays vital role in saving more money for the company (ii) Rewards and awards is a source of motivation for an employee to put company interest before self-interest (iii) Lack of incentive plans for employees also contribute to an employee conniving with vendors to inflate prices for goods or services (iv) Lack of a well define career growth path can make an employee to put self-benefit before company interest when dealing with vendors (v) Poor salary scheme for employee made most employees to place their self-immediate benefit as top priority before the company benefit (vi) Inadequate information provided by end user to engage a vendor during negotiation (vii) Most employee are the causes of companies incurring more cost in the process of purchasing goods or services (viii) Inadequate planning by the end users result to increase in price of goods and services

3.5 Method of Analysis

Data will be analyzed using the descriptive statistics method of analysis using measures of central tendencies of mean, median, mode and standard deviation. Pie Chart and Bar chat will be used for data presentation

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4.1 FINDINGS AND ANALYSIS

Chapter four is mainly for discussion and interpretation of results. The aim is to come up with facts why most companies incur more cost in procurement despite spending a lot of money to get high volume of production especially in the oil and gas sector. Emphasis were placed on three major companies such as Heritage Energy Operational Services Limited, Nagos projects Limited and

Salvic petroleum Resources Limited but was extended to few more companies in order to get reasonable amount of data for my analysis.

A detailed questionnaire was designed to collate data from employees from the above-mentioned companies for my report

4.2 Response Rate

^[9] Response rate has referred to the percentage of individuals who responded to a survey that was administered to them. Response rates are often used as a measure of the quality of survey data because non-response is often not random. The higher the response rates, the more reliable the results

Based on the definition of response rate by ^[9]; The target was for 100 respondents but as at the time of collating data for this report, total of 89 respondents which is a reliable rate for data analysis

Table 4.1 Target Population

Company Name	Number of respondents	Percentage
Heritage Energy Operational Services Limited (HEOSL)	52	58%
Nagos Project Limited (Nagos)	31	35%
Salvic Petroleum Resources Limited (Salvic)	6	7%
Total	89	100%

From the data collected, 58% respondents were from HEOSL, 35% respondents were from NAGOS, 7% respondents were from SALVIC. From our sample population, our target was from the mention companies.

Table 4.2 Respondents by Department

Department	Number of respondents	Percentage
Admin	3	4%
Audit	1	1%
Capital Projects	1	1%
Commercial	1	1%
Community Relations	4	5%
Contracts and Procurement	12	16%
Corporate Services	6	8%
Engineering	5	6%
HSSEQ	5	6%
Human Resources	3	4%
ICT	6	8%
Finance	8	10%
Joint ventures Relation	1	1%
Logistics	2	3%
Maintenance	1	1%
Media	1	1%
Operations	7	9%
Projects	6	8%
Subsurface	1	1%
Wells and Drilling	3	4%
Empty Department	12	
Total	89	

4.3 Data Presentation

Data is presented using Pie chart. Pie chart is one of the easy to understand data presentation tools;

4.3.1 Data presentation by company name

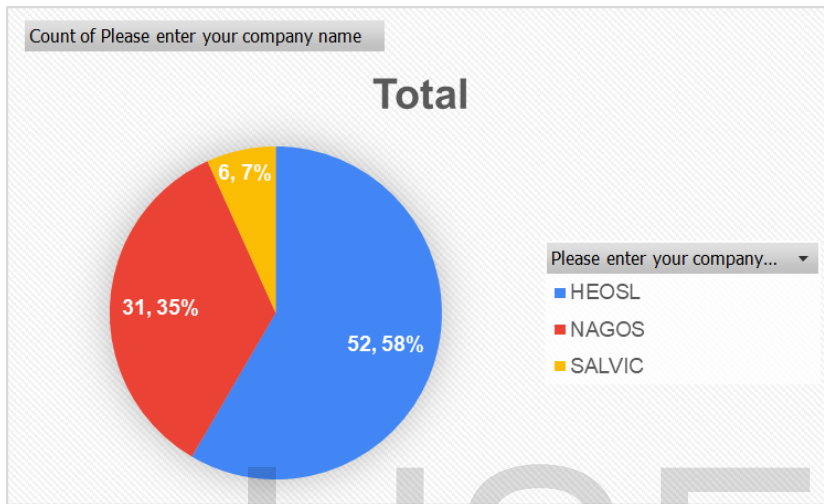


Figure 4.1

58% respondents were from HEOSL, 35% respondents were from NAGOS, 7% respondents were from SALVIC. From our sample population, our target was from the mention companies.

4.3.2 Data presentation by Department

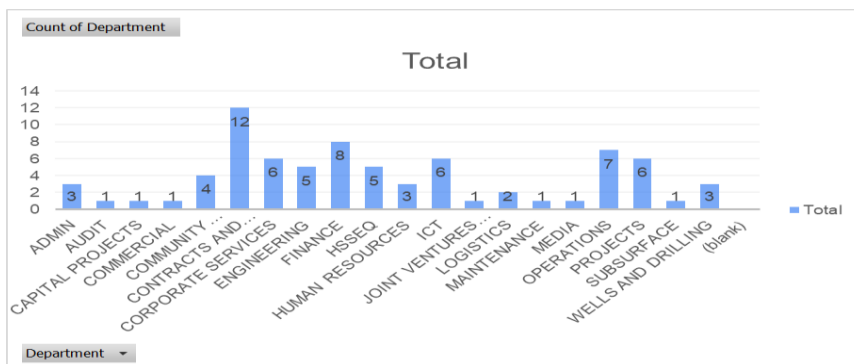


Figure 4.2

Bar chart is used to depict the total number of responded from each department as shown above in figure 4.2. in Table 4.2, the total number of respondents is shown in a tabular form for easy understanding.

4.3.3 User department plays vital role in saving more money for the company

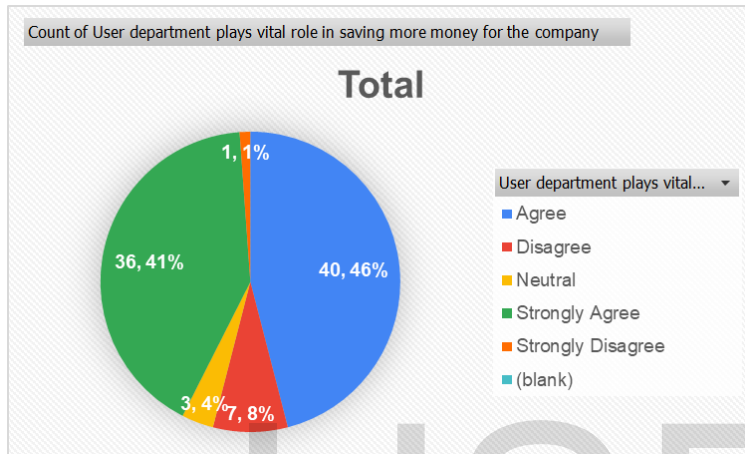


Figure 4.3

4.3.4 Rewards and awards is a source of motivation for an employee to put company interest before self-interest

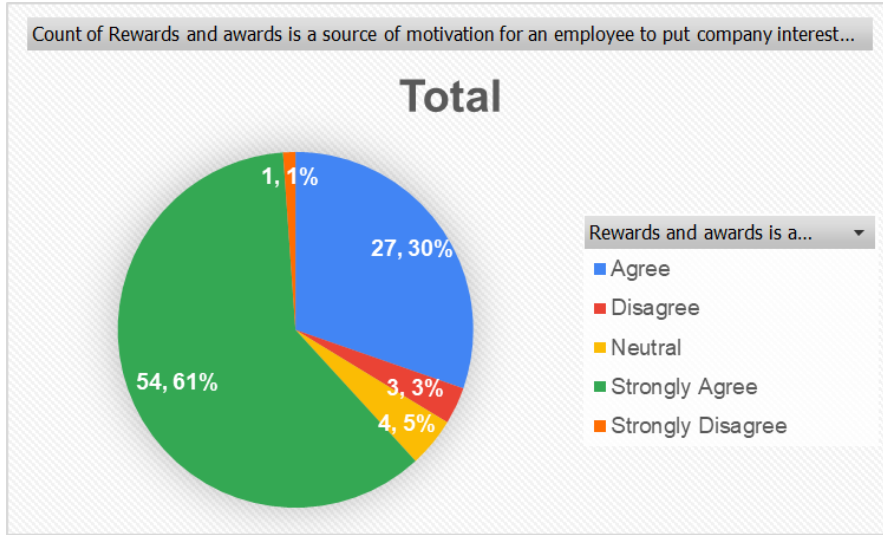


Figure 4.4

4.3.5 Lack of incentive plans for employees also contribute to an employee conniving with vendors to inflate prices for goods or services

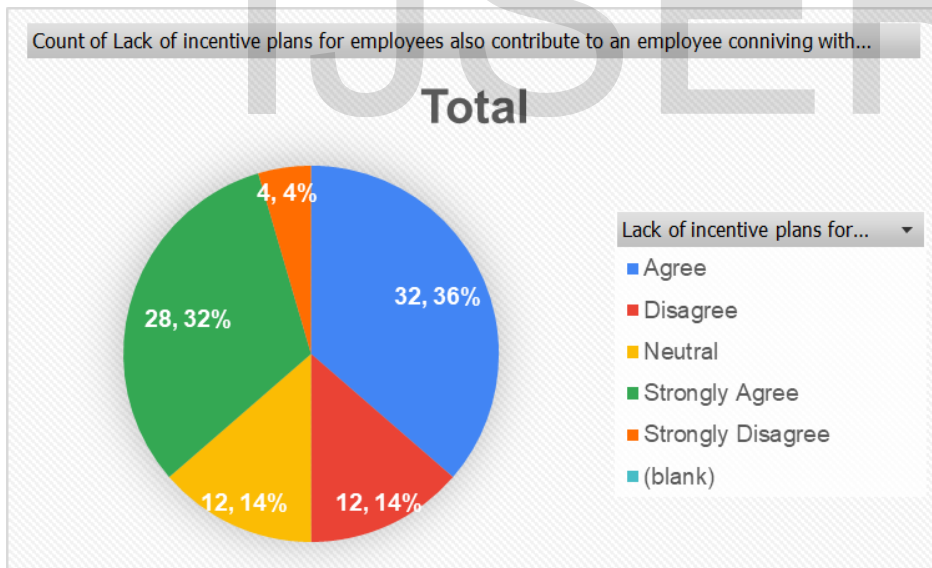


Figure 4.5

4.3.6 Lack of a well define career growth path can make an employee to put self-benefit before company interest when dealing with vendors

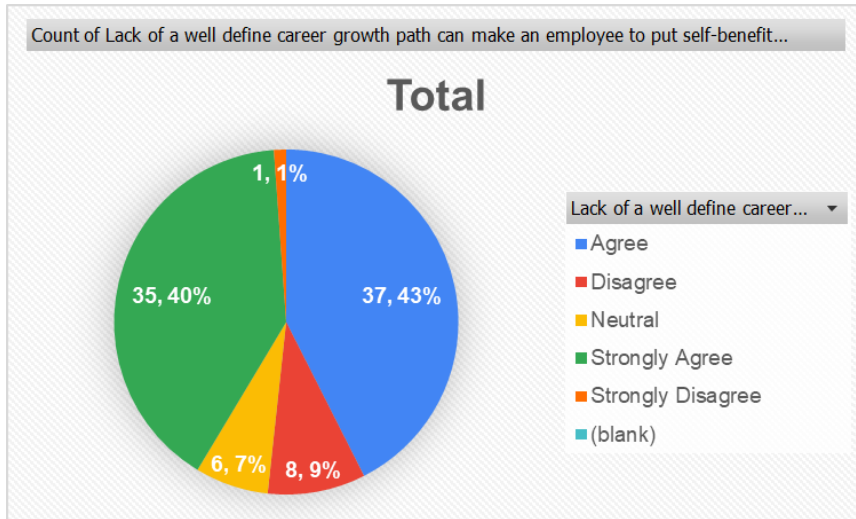


Figure 4.6

4.3.7 Poor salary scheme for employee made most employees to place their self-immediate benefit as top priority before the company benefit

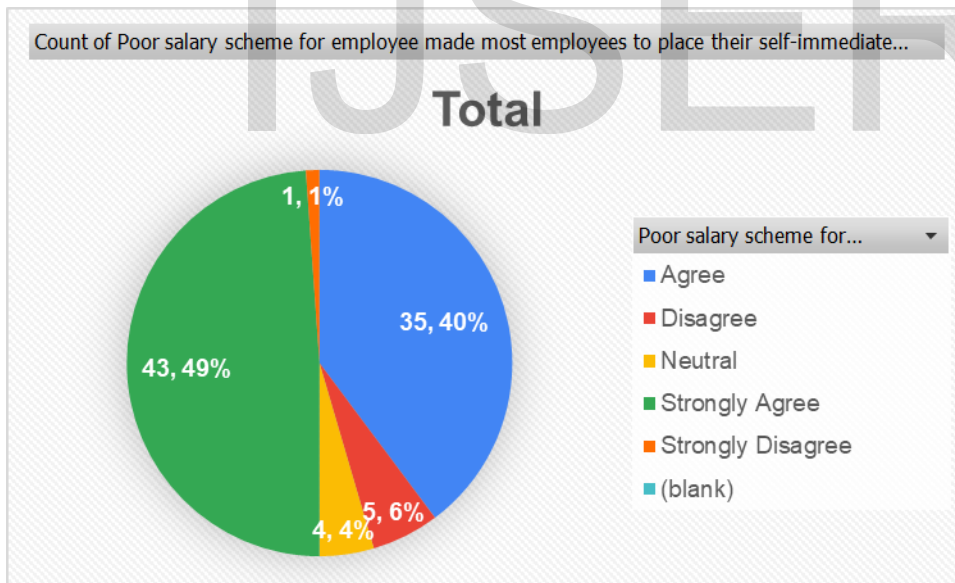


Figure 4.7

4.3.8 Inadequate information provided by end user to engage a vendor during negotiation

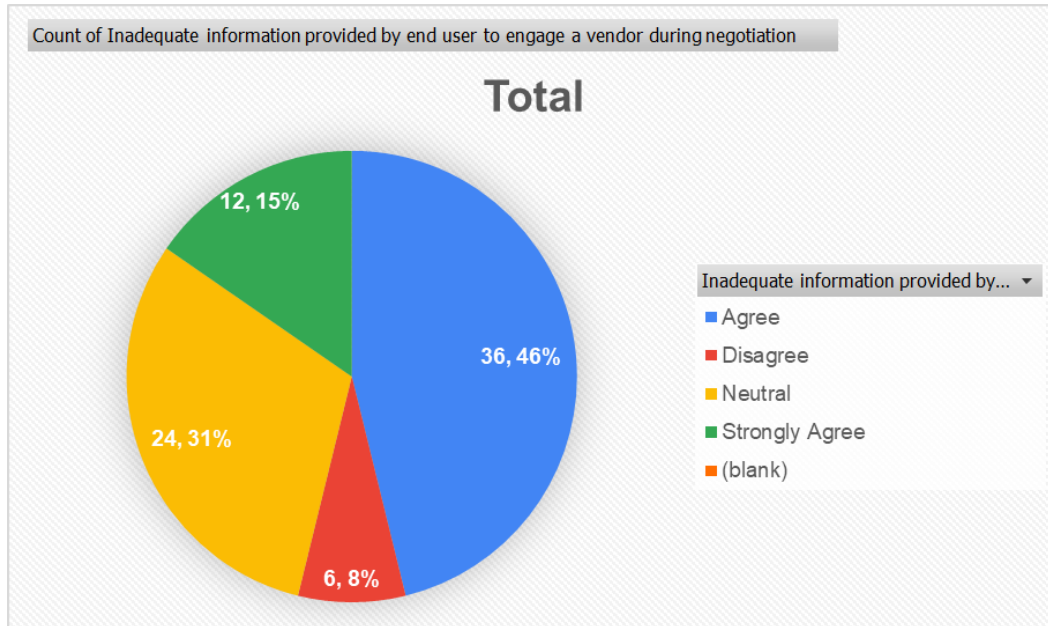


Figure 4.8

4.3.9 Most employee are the cause of companies incurring more cost in the process of purchasing goods or services

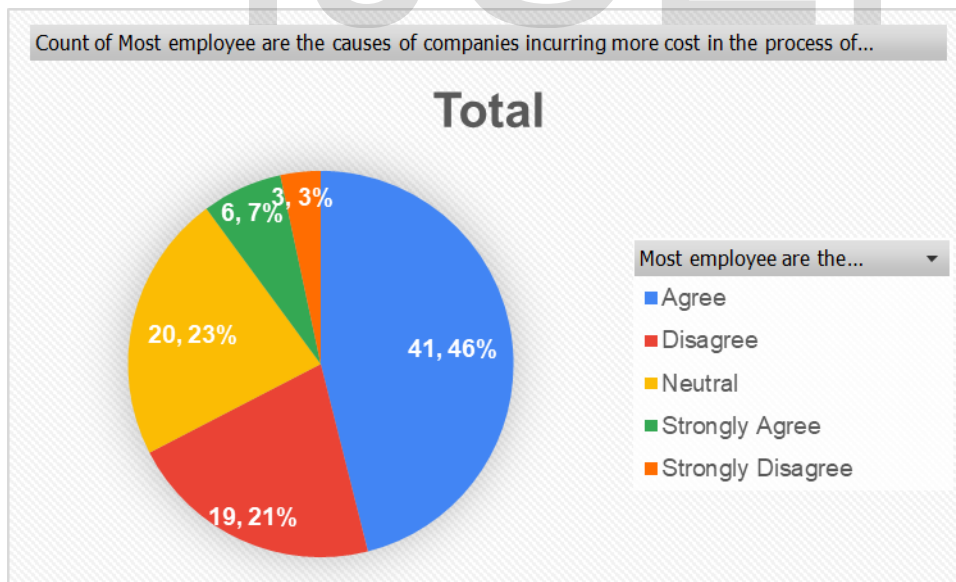


Figure 4.9

4.3.10 Inadequate planning by the end users result to increase in price of goods and services

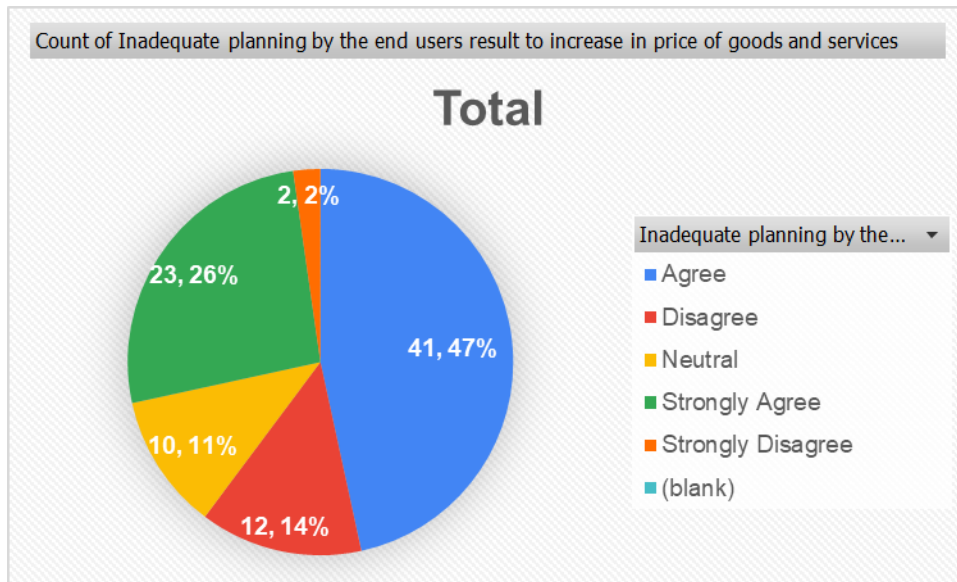


Figure 4.10

4.4 Data Analysis

Data will be analyzed using the descriptive statistics method of analysis using measures of central tendencies of mean, and standard deviation

Table 4.3 Data analysis by mean and Standard Deviation

SN	Questions	Agree	Disagree	Neutral	Strongly Agree	Strongly Disagree	Total	Mean	STDEV
1	User department plays vital role in saving more money for the company	40	7	3	36	1	87	17.4	18.98157001
2	Rewards and awards is a source of motivation for an employee to put	27	3	4	54	1	89	17.8	22.84075305

	company interest before self-interest								
3	Lack of incentive plans for employees also contribute to an employee conniving with vendors to inflate prices for goods or services	32	12	12	28	4	88	17.6	11.86591758
4	Lack of a well define career growth path can make an employee to put self-benefit before company interest when dealing with vendors	37	8	6	35	1	87	17.4	17.18429516
5	Poor salary scheme for employee made most employees to place their self-immediate benefit as top priority before the company's benefit	35	5	4	43	1	88	17.6	19.79393847
6	Inadequate information provided by end user to	36	6	24	12		78	19.5	13.3041347

	engage a vendor during negotiation								
7	Most employee are the causes of companies incurring more cost in the process of purchasing goods or services	41	19	20	6	3	89	17.8	15.02331521
8	Inadequate planning by the end users result to increase in price of goods and services	41	12	10	23	2	88	17.6	15.07647174

Table 4.3 shows the mean and standard deviation value for each of the questions as shown above.

5.0 INTERPRETATION OF RESULTS AND DISCUSSION

This chapter interprets the results of the findings from the study. The aim is to come up with facts why most companies incur more cost in procurement despite spending a lot of money to get high volume of production especially in the oil and gas sector

5.2. Discussion of results

The results will be discussed on a question by question basis

5.2.1 User department plays vital role in saving more money for the company

From figure 4.3, 41% of the respondents strongly agree, 46% of the respondents agree, 4% of the respondents were neutral, 8% of the respondents disagree and 1% strongly disagree.

Over 80% agree that end users play a critical role when it comes to cost savings for the company. This simply means, users(employees) are very much aware that they play vital role when it comes to saving money for the company they are working for. If a company is incurring more cost then there should be a review of the particular department where that cost is coming from. The end users are the initiator of request for the company. Contract and Procurement department serve as a service unit providing all the support needed to user department to facilitate their process. Procurement professional are the middlemen between external suppliers and user department.

5.2.2 Rewards and awards is a source of motivation for an employee to put company interest before self-interest

From figure 4.4, 61% of the respondents strongly agree, 27% of the respondents agree, 5% of the respondents were neutral, 3% of the respondents disagree and 1% strongly disagree.

From our analysis, it has been shown that rewards and awards go a long way to motivate employees and boost their morale to always put company interest in all their dealings with any external parties. Reward can come in form of presentation of awards, gifts, bonuses and appreciation note to employees (staff)

5.2.3 Lack of incentive plans for employees also contribute to an employee conniving with vendors to inflate prices for goods or services

From figure 4.5, 32% of the respondents strongly agree, 36% of the respondents agree, 14% of the respondents were neutral, 14% of the respondents disagree and 4% strongly disagree.

Incentives are contingent motivating factors that boost staff morale. When an employee knows that the company is working out plans to reward him/her for good performance will definitely put more effort to achieve high result and performance.

5.2.4 Lack of a well define career growth path can make an employee to put self-benefit before company interest when dealing with vendors

From figure 4.6, 40% of the respondents strongly agree, 43% of the respondents agree, 7% of the respondents were neutral, 9% of the respondents disagree and 1% strongly disagree.

Well define career path goes a long way to keep an employee in a company. When an employee does not know exactly where, he/she will be in the next three years in a company. Such employee will not be stable and will want to look out for better opportunities that may come. A standard company is expected to develop a staff development programme on a yearly basis to train their staff in areas they need professional training. Staff that are trained by their company has the tendency to stay longer than staff who spend their personal funds to train themselves. Every employee will want to know where he or she will be in the next one to two years in their present

companies, where such career path is not defined in a company, most employees will always look out for better opportunities in the corporate industry

5.2.5 Inadequate information provided by end user to engage a vendor during negotiation

From figure 4.7, 15% of the respondents strongly agree, 46% of the respondents agree, 31% of the respondents were neutral, 8% of the respondents disagreed and 0% strongly disagree.

When a procurement professional does not have adequate information before engaging any vendor for negotiations; it will place the vendor on an advantage over the procurement professional. From our respondent about 50% agreed, that inadequate information provided will make procurement professional not to get a better deal with vendors during negotiation. Procurement Professional may want to bring in their expertise to the table but when the information presented before them are insufficient and unclear to them, the end result will not be good as expected.

5.2.6 Poor salary scheme for employee made most employees to place their self-immediate benefit as top priority before the company benefit

From figure 4.8, 49% of the respondents strongly agree, 40% of the respondents agree, 4% of the respondents were neutral, 6% of the respondents disagree and 1% strongly disagree.

When a company fails to pay their employees with what is appropriate, such employee will definitely look for ways in which he or she can get extra cash. Some employees may want to frustrate the day to day operation of the company business, some employee may go further to plan with vendors to inflate the prices of goods and services for their personal interest. On this question, over 50% agree that poor salary scheme will make most employees to think of what they will get from any deal with proposed vendors.

5.2.7 Most employee are the causes of companies incurring more cost in the process of purchasing goods or services

From figure 4.9, 7% of the respondents strongly agree, 46% of the respondents agree, 23% of the respondents were neutral, 21% of the respondents disagree and 3% strongly disagree.

Out of the 89 respondents, 46% and above agree that employee also cause companies to incur more cost. This may come to play because the employee has interest in vendor's company, shareholder of vendor's Company, co-owner of vendor's company or employees who don't have in depth understanding of the project scope

5.2.7 Inadequate planning by the end users result to increase in price of goods and services

From figure 4.10, 26% of the respondents strongly agrees, 47% of the respondents agrees, 11% of the respondents were neutral, 14% of the respondents disagree and 2% strongly disagree.

Proper planning is important not just for purchase of goods and services but for the entire company as whole. Part of the reason as highlighted the respondents, 50% and above agree that inadequate planning by the user department will lead to an increase in procurement of goods and services. The company incur more in different forms such as introducing variation to the main contracts, incorrect scope leading to cancellation of the initial contracts etc.

6.0 Conclusion

The aim of this research paper was to come up with facts why most companies incur more cost in procurement despite spending a lot of money to get high volume of production especially in the oil and gas sector. Chapter four and five is for analysis and interpretation respectively. The result obtained from both chapters led me to conclude and justify my objectives (i), (ii) and (iii) in chapter

one. The possible causes why company incur more despite spending a lot of money to get high volume of production and why end users work with vendors to inflate the price of goods and services are drawn from chapter four and five as stated below

- i. Inadequate planning by the user departments
- ii. Poor Salary scheme for their employees
- iii. Lack of well define career path for their staff
- iv. Lack of rewards and awards to staff
- v. Inadequate information provided by the user to procurement professional
- vi. Low staff welfare.

6.1 Recommendations

One of the objectives of this research paper is to outline possible solutions to top management and procurement management that will improve the profit/savings in an organization. Based on that objectives; the following are my recommendation

- i. Procurement professional should ensure that the information presented before them is sufficient and they have good understanding for the project before engaging a vendor for negotiation and sending out of RFQ
- ii. Management and C&P managers need to emphasis on the need for proper planning from user department. Proper planning will not just only help the C&P professional but the whole company. As stated by ^[10] “planning Gives an organization a sense of direction, focuses attention on objectives and results, establishes a basis for teamwork, Helps anticipate problems and cope with change, provides guidelines for decision making, serves as a prerequisite to employing all other management function”

- iii. Management and Human Resources professionals should periodically review employee salary across board not just selected staff in the company. This will make such employee feel important and wanting to do more even though the salary increment is not as big as expected
- iv. Management should not be concern only about staff productivity but staff welfare should be put into consideration

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