

## **TOPIC FIVE: PURCHASING AND SUPPLY ORGANIZATION**

An organizational structure is a system used to define a hierarchy within an organization. It identifies each job, its function and where it reports to within the organization. A structure is then developed to establish how the organization operates to execute its goals.

The top management level has the most decision making responsibility. Each job is considered vital in the organization but every employee is answerable to the person above him or her.

### **Importance of organization structure in purchasing and supply**

- ✓ It will lead to smooth operation of purchasing and supply
- ✓ It helps in contract management.
- ✓ Aspects of approvals of the procurement processes i.e. the head of department must have to approve before issue of goods.
- ✓ It minimizes fraud within the organization through having clear segregation or separation of duties
- ✓ It helps for easy follow up since one is able to know what to do at what time.
- ✓ It reduces conflicts arising within the organization

### **Factors considered in organizing purchasing and supply activities**

- ✓ Materials handling equipment- i.e. material handling equipment is essential in any organization when it comes to organizing purchasing and supplies activities since they are used to move materials from one place to another
- ✓ Availability of infrastructure-i.e. some of the tools and equipment that could be used to enhance operations within the organization for example computers and other sophisticated technology.
- ✓ Availability of capital or finance- Any organization needs adequate financial resources to help it to run its operations without experiencing frequent stoppages of the operations.
- ✓ Availability of manpower or workforce- In any business entity competent and experienced manpower is key to achieve the organization bottom line.

### **Factors considered in designing purchasing and supply organization**

- ✓ **Size of the organization-** i.e. it plays a substantial role in determining the ideal structure of the organization. The larger the organization the greater the need for increased complexity and division to achieve synergy.
- ✓ **The financial capability-** i.e. the finance plays a very fundamental role when it comes to designing a purchasing and supply organization. It will help in buying some essential infrastructures to the organization as well as to pay the personnel.

- ✓ **The nature of the operations provided-** before designing purchasing and supply organization the nature of operations done in the organization should be taken into consideration. Every organization's performs different operations. For instance if an organization is a manufacturing or production industry its operation should be different from those of the service industry.
- ✓ **Technology-** It impacts organization design and productivity by enhancing the efficiency communication and the resource flow. For instance if the organization wants to operate on real time and not manual then it needs to invest heavily.
- ✓ **The space-** Space is very paramount for the organization needs to expand in the future. Therefore, it should be taken into consideration when designing purchasing and supply organization
- ✓ **The framework policy of the organization-** In this case the Act can discourage one person to do every job. The segregation of duty must prevail. Hence, once designing the purchasing and supply organization this should be taken into consideration
- ✓ **The company's strategic plan-** that is if the organization wants to come up with the design of the purchasing and supply function it has to be tailored with its strategic plan.

### **Organization of Purchasing and Supply activities**

They include the following systems:

- ✓ Centralized purchasing system
- ✓ Decentralized purchasing system
- ✓ Hybrid or combined system

### **Centralized Purchasing System**

Centralized purchasing means that a single department controls and manages the purchasing for the whole organization. Ideally a manager oversees the purchasing department regarding what materials need to be purchased and in what quantity.

In centralized purchasing buying and managing process is performed from one location to all locations within an organization.

### **Centralized Purchasing – Pros**

- ✓ Purchasing in bulk quantities reduces cost to the organization.
- ✓ Good relations developed with the supplier can lead to better discounts and bargain in the future.
- ✓ Since shipments are consolidated, the transport cost is also reduced.
- ✓ Duplication of work can be avoided through centralized purchasing.
- ✓ Policies formulated for purchasing can be maintained uniformly through centralized purchasing.
- ✓ Centralized records can be maintained.

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- ✓ Since a single department is involved, the quality of the materials can also be maintained.
- ✓ It will enable the purchase of standardized items through standardized procedure.

### **Centralized Purchasing – Cons**

The centralized purchasing suffers from the following limitations:

- ✓ The specific requirements of the individual items may not be attended successfully.
- ✓ The centralized standard procedure may result in delays in receiving the materials. It is likely that the centralized buying staff may not be expert in buying varied types of items.
- ✓ People in charge of purchasing may not be efficient and this can lead to poor quality of materials purchased and even incorrect quantity being purchased.
- ✓ In case of an emergency, work can be delayed drastically since materials cannot be purchased locally.
- ✓ Delay in replacement of defective materials.
- ✓ If the wrong amount of material is purchased, it will be a loss to the organization.

### **Decentralized Purchasing System**

Decentralized purchasing refers to purchasing materials by all departments and branches independently to fulfill their needs. Such a purchasing occurs when departments and branches purchase separately and individually. Under decentralized purchasing, there is no one purchasing manager who has the right to purchase materials for all departments.

### **Advantages of Decentralized Purchasing**

- ✓ Materials can be purchased by each department locally as and when required.
- ✓ Materials are purchased in right quantity of right quality for each department easily.
- ✓ No heavy investment is required initially.
- ✓ Purchase orders can be placed quickly.
- ✓ The replacement of defective materials takes little time.
- ✓ There is reduction of lead time
- ✓ In case of fire outbreak there will be less damage

### **Disadvantages of Decentralized Purchasing**

- ✓ Organization loses the benefit of a bulk purchase.
- ✓ Specialized knowledge may be lacking in purchasing staff.
- ✓ There is a chance of over and under-purchasing of materials.
- ✓ Fewer chances of effective control of materials.
- ✓ Lack of proper co-operation and co-ordination among various departments.
- ✓ It can lead to duplication of purchases
- ✓ It is expensive based on the number of staffs to be employed

### **Hybrid Purchasing Structure System**

This is the combination of both centralized and decentralized purchasing system.

#### **Study Question**

Question. By citing a company that uses either a centralized or decentralized purchasing system. Compare and contrast the difference between centralized and decentralized purchasing while including both the advantages and disadvantages of both systems (10 Marks)

### **Approaches to organizational structure**

An organizational structure is a system used to define a hierarchy within an organization. It identifies each job, its function and where it reports to within the organization. A structure is then developed to establish how the organization operates to execute its goals.

#### **Factors that determine the hierarchy of structure include:**

- ✓ Workflow.
- ✓ Leadership style.
- ✓ Type of an organization.
- ✓ Size of an organization.
- ✓ Specialization among the work.

#### **Types of organizational structure**

- ✓ Functional or horizontal organizational structure
- ✓ Line or vertical organizational structure
- ✓ Matrix organizational structure
- ✓ Team-based or project organization structure

### **Functional or horizontal organizational structure**

It classifies people according to the functions they perform i.e. their professionals.

-It results with departments that perform distinct / specific functions e.g. production, finance, procurement, human resource, marketing & sales.

-All these departments are placed at the same level and are given equal importance and hence the term horizontal.

#### **Advantages of Horizontal / Functional structure**

- ✓ There is high degree of specialization.
- ✓ Easy accountability for the work done.
- ✓ Work is performed efficiently and fast.

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- ✓ Duplication of work is eliminated.
- ✓ All departments are given equal importance.
- ✓ Departments are consulted before decisions are made hence decisions made are better.
- ✓ There is communication across departments.

### **Disadvantages of horizontal or functional structure**

- ✓ Decisions cannot be made fast.
- ✓ There is no clarity on authority and responsibility since all workers are given equal importance.
- ✓ It becomes difficult to advance in career upwards resulting with less motivation for workers.

### **Line or Vertical Structure**

In line organization structure directives/orders and communication come from top to bottom, in a line flow.

There are only line departments i.e. departments directly involved in accomplishing the primary goal of the organisation.

It is suitable for smaller organization for it allows easy decision making.

### **Advantages / merits of line or vertical structure.**

- ✓ Decision making is fast since there is no consultation.
- ✓ It is simple structure to comprehend or understand
- ✓ Strict authority results with better discipline.
- ✓ There is a clear career advancement prospect for individuals i.e. one can be promoted from a lower level to a higher level.
- ✓ It tends to simplify and clarify authority, responsibility and accountability relationships
- ✓ Because line organizations are usually small, managements and employees have greater closeness.

### **Disadvantages / demerits of line or vertical structure.**

- ✓ The head of the organization can be biased against some people.
- ✓ There is no specialization.
- ✓ Departmental head can be burdened by a lot of work.
- ✓ Communication only happens from the top to the bottom.
- ✓ Seniors may misuse their power for their own benefit.
- ✓ Decisions made by one person may be inferior/wrong.
- ✓ As the firm grows larger, line organization becomes more ineffective.

### **Matrix organizational structure**

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Matrix organizational structure is a blend of the functional, line, functional and project organizational structure.

In the matrix structure, employees may report to two or more bosses depending on the situation or project.

#### **Advantages of matrix organizational structure**

- ✓ Employees can share their knowledge across the different functional divisions
- ✓ It allows better communication and understanding of each function's role.
- ✓ By working across functions employees can broaden their skills and knowledge leading to professional growth within the company.
- ✓ There is decentralization of decision making.
- ✓ It leads to strong project co-ordination.
- ✓ It leads fast response to change.
- ✓ It allows flexible use of resources.

#### **Disadvantages of matrix organizational structure**

- ✓ Reporting to multiple managers may add confusion and conflict between managers over what should be reported.
- ✓ If priorities are not clearly defined employees may get confused about their roles.
- ✓ It has got high administration cost.
- ✓ Co-ordination may become difficult.

#### **Team-based or Project organizational structure**

A project organisation is a temporary organisation designed to achieve specific results by using teams of specialists from different functional areas in the organisation.

The project team focuses all its energies, resources and results on the assigned project. Once the project has been completed, the team members from various cross functional departments may go back to their previous positions or may be assigned to a new project.

Some of the examples of projects are: research and development projects, product development, construction of a new plant, housing complex, shopping complex, bridge etc.

#### **Advantages of team-based or project organizational structure**

- ✓ It is most valuable when work is defined by a specific goal and target date for completion.
- ✓ It is useful when work is unique and unfamiliar to the organization.
- ✓ It is essential when work is complex hence specialized skills are necessary for the accomplishment.
- ✓ It is valuable when work is not repetitive in nature.

#### **Hybrid organizational Structure.**

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This structure combines the elements of vertical and horizontal organizational structure

Most organization adopt this system where departments are given equal importance and they are at the same level but their heads report to a person at a higher level and authority.

Each department may also create other levels which take the vertical structure. It also creates accountability for workers.

#### **Advantages of hybrid organizational structure**

- ✓ There is alignment of corporate and functional goals.
- ✓ There is utilization of functional expertise
- ✓ It leads to improved efficiency.
- ✓ There is adaptability and flexibility in divisions.

#### **Disadvantages of hybrid organizational structure**

- ✓ It may result to conflicts between corporate level and functional or unit levels.
- ✓ It has got excessive administration overhead cost
- ✓ It may lead to slow response to exceptional or special situations.

#### **Disadvantages of having poor organizational structure**

- ✓ It may lead to confusion within roles
- ✓ It leads to lack of coordination among functions
- ✓ It may result to failure to share ideas
- ✓ It may lead to slow decision making on the side of management
- ✓ It may lead to stress and conflict

#### **Management Levels in Purchasing and Supply organization**

Management level in purchasing and supply organization include the following

- ✓ Strategic or Management level
- ✓ Tactical or Middle level
- ✓ Operational or Bottom level

#### **Strategic or Management level**

Every effective purchasing and supply organization begins with solid long-term decision-making. The strategy level lays the groundwork for the entire supply organization, from beginning to end, and is considered to be essential.

#### **Issues addressed at this level include:**

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- ✓ Choosing the site and purpose of business facilities
- ✓ Creating a network of reliable suppliers, transporters, and logistics handlers
- ✓ Long-term improvements and innovations to meet client demands
- ✓ Inventory and product management throughout its life cycle

### **Tactical or Middle level**

At the strategy level, general planning begins, but processes are actually defined at the tactical level. Tactical decisions play a big role in controlling costs and minimizing risks. At this level, the focus is on customer demands and achieving the best end value.

#### **Issues addressed at this level include:**

- ✓ Procurement contracts for necessary materials and services
- ✓ Production schedules and guidelines to meet quality, safety, and quantity standards
- ✓ Transportation and warehousing solutions, including outsourcing
- ✓ Inventory logistics, including storage and end-product distribution

### **Operational or Bottom level**

These are the day-to-day processes, decision-making, and planning that take place to keep purchasing and supply active. Effective operational level processes are the result of strong strategic and tactical planning.

#### **Some aspects of operational level management are:**

- ✓ Daily and weekly forecasting to figure out and satisfy demand
- ✓ Production operations, including scheduling and detailed management of goods-in-process
- ✓ Monitoring logistics activity for contract and order fulfilment
- ✓ Settling damages or losses with suppliers, vendors, and clients
- ✓ Managing incoming and outgoing materials and products, as well as on-hand inventories