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REVIEW ARTICLE

THE IMPERATIVES FOR BEST PRACTICE IN THE PROCUREMENT FUNCTIONS OF ODL INSTITUTIONS

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ABSTRACT

The study was prompted by the quest to assess the quality of procurement in Open and Distance Learning. This research used a case study method in which documentary analysis was the main technique used to evaluate the procurement regime at the Zimbabwe Open University which is the only open and distance learning university in Zimbabwe. The Zimbabwe Open University's procurement model was found to be significantly meeting international best practice hence the need for it to be shared with other Open and Distance Learning Universities the world over. Continuous improvement in procurement management was identified as one of the main areas the University should invest in as it is imperative especially in this volatile business era.

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INTRODUCTION

Universities have seen a development in their operations management. The issue of procurement has become topical and central in a bid to remain accountable to the public and government. Although universities are autonomous bodies, they are supposed to be accountable to the government (Jongbloed, Enders and Salerno, 2008). Open and Distance Learning universities have not been spared. Procurement is a concept that is geared to improve the process of purchasing and supply (Walker, Gough, Bakker, Knight and McBain, 2009). Procurement is an important policy instrument to improve efficiency in public spending and use resources effectively (World Bank, 2005). This paper reviews the framework for administering the procurement function in open distance learning institutions through an analysis of the Zimbabwe Open University (ZOU) model. ZOU is an Open and Distance Learning (ODL) university which is state run and provides quality education to the higher education landscape (Zimbabwe Open University Strategic Plan (2010-2014). Procurement is growing to be an important function in organisations as it has the potential to drive costs down while providing aid the quality management operations (Procurement Act Chapter: 22:14; Kotler and Keller, 2006). With increased competition especially in the Higher Education sector (Ernst, 2007). Zimbabwe's higher education institutions have been seeking

more cost effective ways of creating a sustainable competitive advantage hence the growing importance of an effective procurement function.

ODL Universities are huge entities catering for large numbers of students; the University of South Africa had more than 350000 registered in 2014 (Baumunt, 1997; Ernst, 2007). There is demand for printing of large quantities of learning materials timeously and in line with best practice. This calls for the procurement of goods and services in large quantities to service the student population hence the importance of a world class procurement function. ODL institutions are largely decentralised by nature. The process of acquiring such large numbers of learning materials should ensure that quality is everyone's business (Crosby, 1996). Procurement activities by various campuses and centres of the same University become problematic hence require serious monitoring, coordination an appropriate procurement strategy to minimize risk. In the event that procurement is conducted in a manner that is divorced from other organizational functions, the whole organization becomes distorted and would send an inconsistent message to the external environment.

Procurement is done with the aim of preventing fraud and corruption within an organisation. Fraud is the worst enemy for development. According to the ACFE (2012), fraud is deception or misrepresentation that an individual or entity makes knowing that the misrepresentation could result in some unauthorized benefit to the individual or to the entity or to some other party. To combat fraud, organisations must be

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managed using the following four strategies, namely, policy and procedure (ICS), leadership and management, audits, and ethics awareness and training in order to prevent thefts by employees (Knechel, 2001). In such a scenario, procurement becomes a clean process.

### **Problem Statement**

The Procurement function is integral to an effective University administration system as it is responsible for the timely availability of resources in the right quantities and quality. Though the function is important, not much research has been carried out to develop best procurement models for open and distance learning institutions.

### **Purpose of the study**

This study seeks to analyse the Zimbabwe Open University Procurement model with an endeavor of developing best practice model of procurement in open and distance education. The paper therefore addresses two aspects;

- The risk inherent in organisations that do not have quality in their procurement systems
- The things that must be put in place to guarantee best practice in procurement.

### **Research Objectives**

- To evaluate the ZOU procurement practice and establish whether it is in line with international best practice.
- To establish a guiding framework of best practice in ODL procurement

### **Research Questions**

- Does the ZOU procurement practice match international best practice?
- What framework could ODL institutions employ to enhance the procurement function?

### **Significance of the study**

The procurement function if properly managed has the potential to enhance service quality and the general environment in the organisation by providing quality inputs, materials and services for the organisation and its employees. The study will enable the University's procurement function to operate in a world class way as it evaluates and matches the University's procurement practice to best practice. A world class procurement department would enhance the University's relationship with suppliers by adhering to the highest standards of professionalism.

The study will contribute much to addressing the knowledge gap which has existed on procurement in ODL and higher education. The study produces a guiding framework for procurement which could help standardize the function and enable institutions to meet international best practice.

### **Conceptual framework**

The concept of procurement could be understood as given by authorities below. Procurement is the acquisition of goods and/or services at the best possible total cost of ownership, in the right quality and quantity, at the right time, in the right place and from the right source for the direct benefit or use of corporations, individuals, or even governments, generally via a contract (Mukhopadhyay, 2011, p.21).

### **Theoretical framework**

Issues to do with procurement have attracted much attention in the world today. Academics started analysing US procurement processes practised by the Department of Defence (DOD) during the early cold war period. Peck and Scherer (1962) documented the economic analysis of the processes. Both the studies were based on US defence procurement. It is noted that theoretical advances in the literature on procurement were ignited by Laffont and Tirole (1993) and McAfee and McMillan (1986). The main thrust of this literature hinged on procurement by the public sector. Three reasons were advanced for this approach.

- Its sheer importance to the economy in terms of monetary value;
- Public procurement often sets standards which get adopted for almost all future transactions in the country; and
- The objectives of public procurement as well as the procurement mechanism are often varied and conflicting.

This study is centred on public procurement since universities are state run and have to be accountable to the public and government. To that end, the theoretical framework is useful and relevant to the current study.

### **Literature**

Deloitte forensics Australia (2009), offers tips for companies reviewing their procurement fraud approach:

#### **Establish the right culture**

Organisational culture is key in setting the right ethical tone which instills a sense of integrity in the organization and dissuades staff from participating in corrupt and unethical practices in the procurement process.

#### **Hire the right people**

The procurement department and the whole process must be manned by qualified people, well vetted on recruitment, with the correct attitude and integrity to maintain the integrity of the procurement process.

#### **Establish internal controls**

Deliberate internal controls should be institutionalized and continuously assessed and improved to mitigate the risk of fraud. Adherence to controls is vital as fraud in the procurement process as fraud commonly happens when

controls are deliberately overridden, by either the individual who knows he will not be challenged, or a collusive group able to use its knowledge to hide fraudulent activity.

### **Know your supplier**

Performing background checks and integrity due diligence can ensure that the manufacturers are of reputable standing as well as highlighting the manufacturer's interests, associations, related parties and possible conflicts of interest. The supplier must be subjected to regular due diligence checks to ensure that it is complying with all its legal and regulatory requirements.

### **Monitor the procurement process**

The following vices should be looked out for in the procurement process in Zimbabwe:

- Production of counterfeit goods
- Outsourcing manufacturing to third parties
- Offering bribes to government officials to avoid being sanctioned for non-compliance with regulatory requirements
- Producing fraudulent financial statements
- Tax evasion.

### **Enhancing quality in the field of procurement**

Hui *et al.* (2011) suggested five pillars which ODL universities can adhere to enhance quality in procurement, there are

- good board/unit practices
- transparent disclosure
- effective control processes
- well defined ethical values
- board/unit commitment

### **Methodology**

The researchers used the case study method, which falls within the qualitative research methodology. Documentary survey, participant observation and direct observation were the main data gathering techniques used to explore and analyse the internal ZOU procurement processes. The research techniques above have been criticised on their greater likelihood of producing biased outcomes. The research techniques, however, have greater potential of giving a more in-depth insight into the research problem.

### **Findings and discussion**

#### **Alignment of the procurement function to the institution's vision**

The study noted that the Zimbabwe Open University procurement function works with a vision to provide world class procurement services to the Zimbabwe Open University in line with the University's vision of being 'a world class open and distance learning university'. The University's procurement department hence views adherence to international best practice as a priority. The department was

therefore found to be compliant to a larger extent with the ISO 9001 standards during the University's quality audit.

### **Centralised Procurement**

The research observed that the University's procurement system is significantly centralized. The Regional Centres, Faculties and Departments make most of their purchases through the procurement department. Centralized procurement has enabled the University to receive discounts through bulk purchases and also to maintain close control of the procurement process from the head office.

### **Adherence to the State Procurement Act**

The Zimbabwe Open University is wholly owned by the Zimbabwean government hence subject to the State Procurement Act. The study revealed that the University's procurement department strictly observes and adheres to the requirements of the State Procurement Act as spelled in the University's procurement procedure manual. The object of the Act is to advance government priorities and objectives by a system of procurement directed towards fostering accountability and maximizing value for local industry (Lindblom and Woodhouse, 1993; Procurement Act Chapter: 22:14). The study revealed that, in the case of high value purchases for example the purchase of service vehicles for Directors and other senior managers, the procurement department goes through a tender process and seeks authority from the tender board.

The study revealed that the procurement act also guides the University in engaging in Public-Private Partnerships in line with government policy. It is argued that institutions of higher learning run by the government should share uniform concerns about procurement policies that ensures procurement processes are efficient, transparent and attain the stated objectives (World Bank 2003).

### **The ZOU Procurement Procedure Manual**

The study revealed that the ZOU procurement function harmonises organisational procurement procedures with organizational objectives and values of fostering transparency, accountability and providing for quality assurance in the procurement system. The ZOU procurement procedure manual facilitates the realization of these organizational objectives as it is applied as an internal control mechanism as well as a quality assurance manual.

### **The ZOU Finance Procedures**

The study revealed that through the Finance Procedures manual, ZOU uses a stringent system of documentation in the procurement process that minimises the risk of procurement fraud and other financial losses. It is an integral component of the sound ZOU governance system that has so far successfully cultivated a culture of accountability and honesty in the procurement process. The Finance regulations requires the completion of a paper trail of documentation which includes copies of quotations, requisitions and goods receipt notes as a control mechanism.

## International best practices in procurement

The study revealed that the quality audit carried out by the University's Quality Assurance Unit in 2014 confirmed that the Zimbabwe Open University was on course to full compliance with ISO 9001 standards on procurement. ISO 9001:2008 specifies three aspects of the purchasing process, Supplier Evaluation, Purchase Orders and Goods receipt checks. These are the main anchors of the university's quality assurance in the procurement function.

### Supplier Evaluation

The study revealed that the procurement department conducts consistent quarterly supplier evaluations; these are based on their previous performance, conformance to state and institutional requirements such as tax clearance and their present ability to meet requirements. The procurement department keeps a supplier database as a record of suppliers and consistently updates the database with ratings of previous performance and other necessary information of the suppliers. Records are an important organizational asset; they provide the primary route for evidence based verification and traceability since they demonstrate compliance with requirements and reliable evidence about performance. Records prove the efficacy of a quality management system. It is thus the researchers' view that ZOU's procurement practice is in line with international best practice in this respect.

### Purchase Orders

It is the Procurement department's requirement that Purchase orders must clearly specify the product required. The basic data is retrieved from the initial request from the respective departments who forward requests to the procurement department. Quantity, quality, other specifications and delivery dates are also specified.

### Goods receipt checks

It is the Zimbabwe Open University's policy that purchased items must be checked and signed for by a responsible and accountable authority. The authority makes sure that the right goods of the right quality have been delivered.

A critically important factor to consider when discussing best practices in procurement is that no two companies are exactly alike (Donaldson and Preston, 1995), and therefore the Zimbabwe Open University appreciates that there is no single approach to best procurement practices. While recognizing the differences that always exist from one organisation to the next, there are some factors that are usually or always present when a company successfully develops and deploys one or more procurement best practices. The Zimbabwe Open University adopted the following factors as the critical success factors in procurement;

- Active support from top management
- Deep understanding of cost drivers
- Cooperative supplier relations
- Culture of continuous improvement

- Cross-functional approach
- Appreciation of advanced communications technology
- Investment in procurement/supply management

## Documents in the Zimbabwe Open University Procurement process

This section looks at the documents that are involved in the procurement process. The study revealed that the documents involved in the ODL University procurement process are primarily the Purchase Requisition and Quotations. Staff members and all University stakeholders of the procurement function were appraised of the documents for transparency purposes.

### The Purchase Requisition

The study revealed that the procurement process is triggered by a document called an internal requisition. This document is generated by a person who is responsible for the safekeeping and distribution of the particular goods or services. The requisition form must be authorized by the Head of Department after checking and confirming availability of funds in the relevant budget. The Zimbabwe Open University has pre-printed Internal Purchase Requisition books. The requisition forms are pre-numbered and are in duplicate. The requisition forms must be used sequentially in ascending order. The requisition has the following information: department/unit where goods or services are required; allocation or vote number; description of the goods or services; quantity required; preferred supplier and last price if known; date of requisition; date when goods are required; name and signature of person making the requisition and the signature of the head of department. The signature of the head of department at this stage authorizes the sourcing of quotations for the requested items. The top copy of the authorized requisition is sent to the person responsible for the procurement and the other copy remains with the initiator as a record.

### Importance of the purchase requisition

The purchase requisition is important in the following respect; firstly it notifies the procurement staff of the need to make a purchase. Secondly, it identifies the location where the need has arisen. The purchase requisition also specifies the goods or services that are needed in terms of quantities and quality required. The purchase requisition also identifies the vote to be charged with the expenditure. Finally, it is evidence or reason for the Procurement Manager to make a purchase.

### Quotations

Upon receiving a duly approved purchase requisition, an officer responsible for procurement, sources for quotations from at least three suppliers. However, in order to have more competition, it is advisable to source for quotations from more than three companies. In the process of sourcing for quotations, a request for quotation (RFQ) document must be used so that standard information and instructions are given to all participants. According to the Zimbabwe Open University Financial Regulations and Procedures and the Procurement Act, the Zimbabwe Open University, being a public institution,

is required to deal with suppliers who meet legislative requirements, especially with regards to their tax obligations. It is also mandatory for one to deal with suppliers on the approved lists from the State Procurement Board (SPB).

### Opening of tenders

According to the Zimbabwe Open University Financial Regulations and procurement procedures manual, in order to ensure fairness, transparency and accountability, a number of issues have to be observed when bids are being opened (Freeman, 1984; Procurement Act Chapter: 22:14). No bids must be opened before the closing time that was communicated to all participants. Quotations must be opened in the presence of more than one official, who must countersign received bids to acknowledge their presence in the opening process. The person responsible for procurement must prepare cost comparative schedules and make recommendations on how quoted items are to be purchased.

### Cost Comparative Schedule

There is need to compare costs (Benslimane *et al.*, 2005). The cost comparative schedule is prepared by the Procurement Manager. The aim is to compare, evaluate and ultimately select the best offer among those received at tender closing time. The comparative schedule looks at: adherence to specifications; product availability; track record of supplier; quotation validity; payment terms and the price. The price determines the winner of the tender after all other salient factors have been cleared. After analyzing the cost comparative schedule, the Procurement Manager must highlight the preferred or selected supplier when making recommendations. Tender evaluation and awarding must be based on an item-by-item basis.

### Purchase Order Writing

Purchase order writing is a policy procedure and helps to guard against corruption (Lindblom, 1993). After successfully completing the analysis and the cost comparative schedule, the next step is to write a purchase order for each and every successful supplier for the highlighted items under the supplier's name (Wilmshurstand Frost, 2000). The Procurement Manager must include all of the following information on the purchase order: name of the supplier; contact person and details if known; date of order; date of delivery; full description of the goods or services and their quantities as per the internal buying requisition; the unit price and total price of the purchased items; the vote to be charged with the purchase as per the purchase requisition and other special terms and conditions for each specific order maybe needed. Upon finishing writing the purchase order, the Procurement Manager must have it approved by the Head of Department. For approval and authorization to take place, the internal purchase requisition, cost comparative schedule and all the quotations used with the order must be attached.

### Delivery and Receipt of Goods

When the supplier gets the order, the Procurement Manager makes sure that the goods are supplied within a reasonable period of time especially on agreed terms. To this end, follow

ups should be made when delays occur. When goods are finally delivered, the person responsible for their safekeeping, who should in normal circumstances be the initiator of the purchase, receives the goods. In receiving the goods, the person receiving the goods must check the correctness of the following as compared to the order or purchasing requisition: Description of goods, quantity of goods and order completeness and price quoted for goods.

### Procurement Audit

Since procurement represents expenditure of organisational funds, this has to be done in the most economic, efficient and effective ways (Transparency International, 2006). The procurement department conducts audits from time to time so as to maximise the benefits of efficiently managed Procurement Systems. In order to enhance the successful implementation of audits, the following documents are availed; all internal purchase requisitions received and processed; cost Comparative Schedules and their quotations; all copies of Purchase Orders, processed and those cancelled and the goods received notes (attached to invoices forwarded to Finance Department for payment purposes).

### Dealing with disputes

The process of procurement requires that disputes are dealt with effectively (Lindbloom, 1993; Suchman, 1995). This is done to provide lenses to the whole process and ensure quality management (Jura, 1995; Kistan, 1999). Procurement is at the centre of three parties with conflicting interests that require balancing. These parties are end users, suppliers and the Finance department. Of the three, two are internal parties (*users and Finance dept*) and the other one (*suppliers*) an external party. Whilst disputes with internal parties also require a cautious approach, the procurement department observes that it is necessary to be extremely careful when dealing with aggrieved external stakeholders as such cases have potential to damage relations with suppliers and also attract negative publicity from newspapers.

### Conclusion

The study concludes that the ODL University has established a world-class procurement function that meets the criteria of international best practice. The ZOU procurement model should be adopted for use by decentralised institutions for like ODL institutions as it enhances accountability. A world-class procurement unit should be established with a vision which is compatible with the vision of the institution. Accountability in a decentralised institution is enhanced through adherence to standards, statutory requirements and internal control systems.

### Recommendation

Having made the above conclusions, this research put forth the following recommendations:

1. The procurement function should be centralised into a department that is responsible for the development of effective procurement policies, procedures and standards

- as well as monitoring the overall procurement system within an organisation.
2. Adherence to international best practice adapted to the specific requirements of an organisation is central to the successful realisation of the immense benefits inherent in the running of a professional procurement function.
  3. The operating environment is continuously changing due to technological advancement and the ever increasing pool of knowledge. It is therefore essential that the culture of continuous improvement is adopted as part of the procurement function and as part of the whole organisational culture.

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