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An Investigation into the Purchasing Practices by Small to Medium Enterprises (SMES) in the Leather, Clothing and Textile Manufacturing in Zimbabwe – Case of Harare SMES

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Abstract:

This research set out to investigate purchasing practices by Small and Medium sized Enterprises in the leather, clothing and textile manufacturing sector in Zimbabwe. 14 SMEs were investigated. Survey questionnaires were sent out to the respondents and also interviews were carried out. Using a sing test procedure which is a non parametric test at 10 percent significance level, it was established that there are certain aspects of purchasing which are perceived to be insignificant. This however, was in agreement with findings from literature review that purchasing is not perceived by SMEs as an important activity. The reluctant up take of purchasing by SMEs was attributed to many reasons chief among them is the lack of resources by SMEs. While most of the reasons given were also true to the Zimbabwean context, in this research corruption stood out. Purchasing critical success factors were also identified as well as challenges faced by SMEs in their practice of purchasing in Zimbabwe. It was also recommended that SMEs in Zimbabwe should form consortiums in order to leverage their purchasing and achieve purchasing economics capable to making them competitive. Since most owners were responsible for purchasing, it was recommended that the owners undergo training in purchasing to enhance their knowledge about the phenomenon.

1. Introduction

In Zimbabwe, SMEs contribute over 60 percent of the country's growth domestic product and also over 90 percent of private sector employment (Mudavanhu et al, 2011). Maphosa (1999) noted that the most important economic benefit for SME business to the Zimbabwean economy is employment creation. Employment creation is of high priority in economic policies of most African countries (Apthorpe, 1970 p107; World Bank, 1978). In similar cases Pressey et al, (2009) noted that SMEs are crucial in today's business climate as they are a major source of innovation and an important catalyst for economic development, both in Europe and in the United states of America (Homer, 1985; Ghobadian and Gallear, 1996). The importance of SMEs cannot be over emphasised hence they have attracted a lot of attention from researchers. The realisation of the importance of SMEs in Zimbabwe resulted in the government establishing the Ministry of Small to Medium Enterprises which has the primary objective of promoting the creation of SMEs and ensuring their survival until they graduate into large corporations. This research however focused on the purchasing practices of SMEs situated in Harare that are in the leather, clothing and textile manufacturing business. In large corporations, a proper purchasing and supply chain structure may not be a strange phenomenon; however the same cannot be said for SMEs.

2. Literature Review

Research in the field of purchasing practices by small-to-medium enterprises is gaining momentum among researchers worldwide. While there are several research papers on this subject, Pressey et al (2009) offers a more persuasive piece of work on purchasing practice by SMEs in their study of purchasing practice in UK SMEs. It is also important to point out that according to Park and Krishnan (2001) strategic purchasing is relevant to firms of all sizes to be able to hold their own in highly competitive markets. This assertion provides an important dimension to the fact that there is no argument on the 'strategic' importance of purchasing to firms of all sizes. It also points to the fact that the market has become highly competitive and thrusts purchasing as an important deciding factor in the equation. Pressey et al (2009) also found out in their research that there is limited evidence of purchasing being applied strategically by SMEs. They attributed this state of affairs to the fact that:

1. Purchasing in SMEs was generally carried out by the owner or a few key employees (Dollinger and Kolchin, 1986) as part of running the business.
2. Purchasing by SMEs in the United Kingdom was impaired by lack of resources hence many SMEs accorded purchasing low status.
3. SMEs lack of awareness that an efficient purchasing function can influence profitability.

There is evidence from a number of research studies that purchasing activities are different based on country specific situations. A study by Morrissey and Pittaway (2004) revealed that SMEs in the UK purchase from local markets and they are reluctant to engage in cooperative relationships with their competitors. On the contrary Mudambi et al (2004) in their examination of

successful SMEs in the UK concluded that purchasing was not viewed as a low priority activity hence firms engaged in cooperative relationships with their suppliers. In a study of Welsh SMEs by Quayle (2003) procurement was found to rank highly compared to other activities. A study of Danish SMEs by Overby and Servais (2005) also revealed that firms were more inclined to buying from the international markets to attract reduced prices and quality.

Pressey et al (2009), conceded that purchasing practices of SMEs vary considerably and that SMEs should not be regarded as a homogenous group. As such, results of studies cannot be used to generalise for SMEs that are located in different parts of the world. With regards SMEs in Zimbabwe, the findings by Pressey et al (2009) may or may not be sustained due to the peculiarity of the business environment as discussed earlier in this chapter. The business environment in which these SMEs operate in Zimbabwe is completely different from the one obtaining in Europe. Past studies on SME failure in Africa show that lack of managerial experience as one of the main reasons for SME failure. In a case study in Ghana, Inkoun (2003) found out SMEs performance is closely linked to entrepreneurial skills of the proprietor. He also found out that proprietors with business related qualifications tended to survive by 30 percent more than non-qualified proprietors. As such there is a clear gap of information that needs to be investigated in order to find out if there are any other purchasing practices that are peculiar to SMEs in the Zimbabwean context. There are other constraints that make procurement in developing countries peculiar; these include high levels of inflation, heavy political influences, high levels of corruption and the fact that most of these economies operate more in the primary industry.

2.1. The Clothing and Textile Industry in Zimbabwe

According to Nkala (2012), the clothing and textile sectors play a major economic role in many developing countries especially in Africa and Asia. The history of the Zimbabwe textile and clothing industry dates back to 1920 when the government intensified efforts to diversify the economy (Mlambo, 2006). Mlambo (2006), further pointed out that the 1980's was a period of rapid expansion of the Zimbabwean clothing and textile industry. However from 1990 to 1999 the sector witnessed a downward trend in the economic performance of the sector with the advent of the introduction of the Economic Structural Adjustment Programme (ESAP) in 1991. According to Nkala (2012), the liberation of trade, reduction of tariffs and elimination of export incentive schemes led to 100 clothing firms and 6 textile firms permanently shutting down. This was compounded by the depreciation of the Zimbabwean dollar in the late 1990's (Mlambo 2006) against major trading currencies. Nkala (2012) explained that the period 2000 to 2010 has been the most difficult period for the textile and clothing sectors. During this period Zimbabwe witnessed the highest inflation rate 231 million percent as at August 2008. However Mutopa and Ndlovu (2012) stated that from 2010 going onwards, there has been significant improvement in the sector due to the adoption of multi-currency system. Mlambo identified the following challenges facing the clothing sector; (1) financing challenges as evidenced by difficult in obtaining loans from banks and high cost of borrowing, (2) high utilities and (3) the influx of cheap clothing products from the Asian countries. According to Mutopa and Ndlovu (2012), consumer preference for imports at the expense of Zimbabwean textile products is attributed mainly to the price disparity, and importers have been quick to realise that in a market where buying behaviour is motivated by short term needs, low cost is the principal driver (also Hwengwere, 2011).

2.2. The Importance of Purchasing and Supply Management Function

Lysons and Farrington (2006 p.9) put it aptly when they said "Purchasing represents a stage in the evolution of civilised human relationships as it enable a desired object to be obtained by trading rather than conquest, plunder or confiscation". This statement shows how purchasing was done back in time and how it has graduated into a more organised function capable of creating value for organisations that embrace it as a strategic activity. The evolution of purchasing is well documented as it has become the subject of research in recent times. There seem to be agreement in all the models that purchasing and supply has evolved from being clerical to levels where it has gained legitimacy as a strategic function of a business. Jones (1999) formulated a model which high lights purchasing contributions as the function move forwards being strategic. According to Jones (1999) where the function is developed to the advanced stage, savings of up to 25 per cent can be realised. This state of affairs is independent of size of the business. Also, one of the most referenced evolution models is the one by Reck and Long (1988). It is in a greater way agreeing with Jones' purchasing development stages and performance capabilities. Infact, the Reck and Long model is the basis on which many of the later models are built. Most importantly, at the integrative stage of development, purchasing strategy is fully integrated into the firm's competitive strategy and constitutes part of an integrated effort among functional peers to formulate and implement a strategic plan. At this stage, purchasing is characterised by cross-functional training of purchasing professionals and executives being made available. Permanent lines of communication are established with other functional areas and professional development focuses on strategic elements of the competitive strategy. Purchasing performance is measured in terms of contribution to the firm's success.

Monczka et al, (2005 p.20-25) identifies seven stages in the evolution of purchasing and supply. However most importantly, they identified globalisation, increasing shortages and prices of materials and the advent of information technology as the major drivers of the increasing status of the purchasing and supply function as a strategic activity. Chen et al (2004) proposed that strategic purchasing can engender sustainable competitive advantage by enabling firms to foster close relationships with a limited number of suppliers, promote open communication among supply chain partners and develop long-term strategic relationship orientation to achieve mutual gains. To add to this Das and Narasimhan (2000) as cited by Saranga and Moser (2010) pointed out that strategic purchasing result in cost savings, better quality of products, or co-innovations with suppliers. They went to state that the strategic importance of purchasing cannot be overemphasized in the current economic scenario where firms are plagued by price pressures and margins are driven primarily through cost savings. This assertion is particularly important now when most

economies are going through economic recession and competition having turned into a red ocean. As has been alluded to before, purchasing can help create the opportunity for the company to make meaningful profit margins.

Monczka et al (2005) wrote that strategic purchasing helps improve product and process designs. They attributed this to early involvement of suppliers in product development and process designs. They also concluded that companies that involve suppliers very early in product development and process designs achieve enormous material cost reduction, improved material quality and reduction in product development time. Chen et al (2004) complimented this statement by stating that “Given the increasing emphasis on building and managing buyer-supplier relationships” this can create the basis for sustainable competitive advantage for organisations.

Chen et al (2004) pointed out purchasing and supply management foster cross-functional integration among supply chain activities, among other purchasing activities. He also goes on to state that purchasing plays a key liaison role between external suppliers and internal organisational customers in creating and delivering value to external customers. This clearly supports Kraljic’s assertion that purchasing is responsible for more than just transactional activities. Chen et al (2004) states that purchasing and supply allows the function to play a greater role in corporate planning, reduces a firm’s exposure to opportunistic behaviours, and is more likely to lead to successful collaborative relationships. Lawson et al (2009) argue that it is not enough for a firm to possess a strategic purchasing orientation; they must also create conditions that allow the buyer and supplier to contribute and develop the relationship.

Van Weele (2009) identified what he termed the purchasing agenda. This agenda includes purchasing responsibility to balance risk management, value improvement and purchasing cost reduction. He also states that it is the duty of purchasing to see to it that results and activities that have been planned are realised with the available financial resources. Purchasing should also produce periodic reports on savings and cost reductions realised through purchasing activities and also vendor performance reports. These reports are crucial to assess the purchasing function performance, and also can be used in formulating purchasing strategies.

2.3. Purchasing Practice by SMES

Park and Krishnan (2001) as cited by Pressey et al (2009) wrote that purchasing and supply management is relevant to firms of all sizes in order for them to respond to challenges of increasingly competitive markets. However, there is a view that purchasing may not be of strategic significance in small to medium size (SME) organisations (Pressey et al, 2009; Ramsay, 2001; Quayle, 2000). Carr and Pearson (1999) as observed by Pressey et al (2009) state that strategic purchasing is unsustainable to SMEs, this is largely because, according to Zheng et al, (2007) as cited by Pressey et al (2009) their purchasing is fragmented and non-strategic as they often buy in small quantities due to cash flow constraints. Quayle (2000) as cited by Pressey et al (2009) sighted lack of resources and power as other reasons why SMEs are reluctant to invest in long term relations with suppliers. Dollinger and Kolchin (1986) found out that lack of awareness about the profitability impact of an efficient purchasing as another reason by SMEs’ failure to see the strategic importance of purchasing. As a result purchasing has only been practiced as an integral part of running the business (Gadde and Hakansson, 2001). Pressey et al (2009) found limited relevance of strategic purchasing to SMEs due to lack of strategic planning.

Mudambi et al (2004) in their research of successful SMEs discovered that SMEs which were successful were imitating strategies of larger firms through deliberate co-operative purchasing strategies with suppliers. On the other hand, global corporations such as Wal-Mart, Dell, and Nokia among others have demonstrated that it is possible to achieve industry leadership through the efficient and effective management of purchasing and supply practices irrespective of the nature of the industry (Saranga and Moser, 2010). In order to optimise on purchasing capabilities, organisations follow best practices in recruiting and training employees in the purchasing and supply management function and establishing processes that enable cross-functional collaboration and developing systems for supplier collaboration (Saranga and Moser, 2010). The foregoing discussion clearly shows that the size of a firm may contribute to how purchasing is viewed in a particular organisation. Big companies have the resources to establish and sustain long term relationships with suppliers for mutual benefit. Purchasing consortiums is another strategy which is very popular with SMEs in their quest to leverage their purchases. The purchasing consortium is explained below.

3. Methodology

3.1. Importance of Purchasing and Supply Management Activity

We use non parametric tests to establish the statistical significance of the SME’s perception of the importance of the purchasing function. Specifically, the sign test is employed for this purpose. It is a non parametric test based on the sign of a ranking of particular preferences into an ordinal scale (Lind et al, 2010). In this study, the SMEs ranked purchasing function as 1 or 0 indicating its usefulness or non usefulness on particular aspects of the organization. On analysis, the plus (+) sign is allocated to those raking the purchasing function as useful and the minus (-) sign otherwise. Appendix 3 shows the calculation of the binomial probabilities used to determine the critical value to judge the number of plus signs necessary to reject the hypothesis of the purchasing function being not useful to the SMEs.

Table 1 shows the results of the sign test of significance of the SMEs perceptions regarding the usefulness of the purchasing function at the 10 percent level. The sign test shows that the purchasing function is viewed as important for only two aspects of the organization which are reduction in purchasing price and that purchasing contribute up to 60 percent of an organisation’s total spend. For the other questions, there is no statistical significance which implies that the purchasing function in these cases is viewed as not important.

Question	Yes (+)	No (-)	Critical value	Significant at 10%
Purchasing function helps the organization to be competitive	5	9	10	No
Purchasing help in establishing long term relations with supplier	4	10	10	No
Purchasing is crucial in supporting corporate objectives	8	6	10	No
Purchasing can best be carried out by professionally trained personnel	5	9	10	No
Purchased inputs make over 60 percent of total firm expenditure	14	0	10	Yes
Purchasing is all about buying at the lowest price	14	0	10	Yes
Purchasing is not important at all	7	7	10	No

Table 1: Results of the sign test

3.2. Binomial Probabilities and the Sign Test Procedure

Table 2 shows the calculation of binomial probabilities for a variable x that follows a binomial distribution with 14 numbers of trials and with probability of success 0.5.

Number of Successes	${}^n C_x$	$p^x q^{(n-x)}$	Probability of success	Cumulative Probability
0	1	6.10352E-05	6.10352E-05	1
1	14	6.10352E-05	0.000854492	0.999938965
2	91	6.10352E-05	0.005554199	0.999084473
3	364	6.10352E-05	0.022216797	0.993530273
4	1001	6.10352E-05	0.061096191	0.971313477
5	2002	6.10352E-05	0.122192383	0.910217285
6	3003	6.10352E-05	0.183288574	0.788024902
7	3432	6.10352E-05	0.209472656	0.604736328
8	3003	6.10352E-05	0.183288574	0.395263672
9	2002	6.10352E-05	0.122192383	0.211975098
10	1001	6.10352E-05	0.061096191	0.089782715
11	364	6.10352E-05	0.022216797	0.028686523
12	91	6.10352E-05	0.005554199	0.006469727
13	14	6.10352E-05	0.000854492	0.000915527
14	1	6.10352E-05	6.10352E-05	6.10352E-05

Table 2: Calculation of binomial probabilities

3.3. Procedure for Calculating the Sign Test

Using the first research question in table 4.1, we illustrate the five step hypothesis procedure used for the sign test as follows:

- Step 1:

$H_0 : \pi \leq 0.5$ The purchasing function is not important or there is no difference in opinion of whether it is important

$H_1 : \pi > 0.5$ The purchasing function is important

The symbol π refers to the proportion in the population with the characteristic of interest in this case, perceiving the purchasing function important. If we do not reject the null, it means that the purchasing function is not important or there is no difference in opinion of whether it is important. On the other hand, rejecting the null indicates that the purchasing function is viewed as important.

The test statistic follows a binomial distribution with the following characteristics:

1. Only two outcomes success and a failure. These are indicated by the signs + or – respectively.
2. There is a probability of success for each trial assumed to be 0.5 and it is the same for all trials.
3. The total number of trials is fixed, as indicated by the number of interviews which is 14.
4. Each trial is independent, implying that the perception by one SME of the usefulness of the purchasing function is not related to that of the other SME.

- Step 2: Selection of significance level. The significance level selected for this study is 10 percent.

- Step 3: the test statistic

This is the number of plus signs obtained from the interviews.

- Step 4: Decision rule

This is a one tailed test since the alternative hypothesis gives a direction (>) which implies that the direction of rejection is in the upper tail. According to Lind et al (2010), for a significance level of 10 percent, the number of pluses required to reject the

hypothesis is found in the column of successes. It is the one corresponding to the cumulative probability closest to 0.1. This probability is 0.0898 and it corresponds to 10 pluses.

- Step 5: Decision

5 out of 14 SMEs indicated that the purchasing function is important and this is below the critical value of 10 pluses.

- Step 6: Conclusion

We conclude that the purchasing function is viewed as not important at the 10 percent level of significance. However, this does not mean that purchasing does not play an important role in the survival of SMEs in Zimbabwe. The SMEs must maximise on their total spend in order to be competitive and stand a chance to survive. It is also recommended that the SMEs form a purchasing consortium in order to leverage their purchases.

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