

**STRATEGIC PROCUREMENT: EFFICIENCY IMPROVEMENT IN
PROCUREMENT SYSTEMS AT PHN INDUSTRY SDN. BHD.**

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DECLARATION

“I declare that this thesis entitle „Strategic Procurement: Efficiency Improvement in Procurement Systems at PHN Industry Sdn. Bhd.“ is my own work except the citation and excerpts of each of which I have mentioned in the references”

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Date : 20th June 2014

DEDICATION

Bonda, Ayahanda

Terima kasih untuk setiapnya kau tak pernah pergi

Apa layak aku bagi? Tak terbalas sampai mati

Kau sungguh yang paling tinggi, Istanamu Syurga nanti

Kakanda Adinda

Sahabat selamanya

Mereka-mereka yang aku tahu siapa.

(Sarah Saa'din, 2013)

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ABSTRACT

Despite *e*-procurement's benefits, most firms are slow in adopting it. The performance of procurement process has been attracting great attention from the practitioners, academicians and researchers due to poor performance resulting from non-adherence to proper processes and procedures. This research has primarily focused on a single company by investigating the factors that affecting the procurement performance and analyzing the effectiveness and contributions of efficiency improvement. This research employed quantitative research method and the data are collected from primary sources only where 100 structured questionnaires has been distributed to three branches of PHN Industry Sdn. Bhd. located at Shah Alam, USJ and Melaka. This research using Statistical Package for Social Sciences (SPSS), to analyzed the collected data. As the result, all the independent variables which are the barriers to efficiency, the effectiveness and contributions of efficiency improvement have a positively relationship with the dependent variable which is the procurement systems efficiency. Results also show that the management's role in lowering the knowledge and skills barriers will helps the company to improve its efficiency of procurement systems. As a conclusion, the findings suggest that, by overcoming different barriers affecting efficiency of the procurement performance, procurement department can contributes more than just clerical functions in the company by achieving more competitive advantages.

ABSTRAK

Meskipun e-perolehan sangat bermanfaat, sebahagian besar organisasi lambat untuk melaksanakannya. Prestasi proses perolehan yang kurang memberangsangkan telah menarik perhatian sebahagian besar ahli akademik dan penyelidik disebabkan ketidakpatuhan kepada proses dan prosedur yang betul. Kajian ini lebih tertumpu kepada satu syarikat dengan mengkaji faktor-faktor yang memberi kesan kepada prestasi perolehan dan menganalisis keberkesanan dan sumbangan peningkatan kecekapan. Penyelidikan ini menggunakan kaedah penyelidikan kuantitatif dan data dikumpul daripada sumber-sumber utama sahaja di mana 100 borang kaji-selidik berstruktur telah diagihkan kepada tiga cawangan PHN Industry Sdn. Bhd yang terletak di Shah Alam, USJ dan Melaka. Kajian ini menggunakan Statistical Package for Social Sciences (SPSS), untuk menganalisis data yang telah dikumpul. Menurut daaptan kajian, kesemua pembolehubah bebas yang terdiri daripada halangan kepada kecekapan, keberkesanan dan sumbangan peningkatan kecekapan mempunyai hubungan yang positif dengan pembolehubah bersandar iaitu kecekapan sistem perolehan. Dapatan kajian juga menunjukkan bahawa peranan pengurusan dalam mengatasi halangan pengetahuan dan kemahiran akan membantu syarikat untuk meningkatkan kecekapan sistem perolehan. Kesimpulannya, dapatan kajian mencadangkan bahawa dengan mengatasi halangan yang berbeza yang mempengaruhi kecekapan prestasi perolehan, jabatan pemerolehan dapat menyumbang lebih banyak kepada syarikat daripada sekadar fungsi perkeranian dengan mencapai kelebihan kompetitif.

TABLE OF CONTENT

CHAPTER	TITLE	PAGE
	DECLARATION	i
	DEDICATION	ii
	ACKNOWLEDGEMENT	iii
	ABSTRACT	iv
	<i>ABSTRAK</i>	v
	TABLE OF CONTENT	vi
	LIST OF TABLE	x
	LIST OF FIGURE	xi
	LIST OF ABBREVIATION	xii
	APPENDIX	
CHAPTER 1	INTRODUCTION	
	1.1 Introduction	1
	1.2 Problem Statements	2
	1.3 Research Objectives	3
	1.4 Scopes and Limitations of the Study	4
	1.5 Significance of the Study	5
CHAPTER 2	LITERATURE REVIEW	
	2.1 Introduction	7
	2.2 Overview of Procurement	8
	2.3 Strategic Procurement	9
	2.4 Efficiency	10

2.4.1	Barriers to Efficiency	11
2.5	Efficiency Improvement	12
2.5.1	Contributions of Efficiency Improvement	13
2.6	Effectiveness	14
2.7	Background of PHN Industry Sdn. Bhd.	15
2.8	Procurement Systems in PHN Industry Sdn. Bhd.	16
2.9	Theoretical Framework	18
2.10	Research Flows	19
2.11	Summary	20
CHAPTER 3	RESEARCH METHODOLOGY	
3.1	Introduction	21
3.2	Research Design	22
3.2.1	Explanatory Study	22
3.2.2	Quantitative Method	23
3.3	Research Strategy	24
3.3.1	Survey Questionnaires	24
3.4	Data Resources	25
3.4.1	Primary Data	25
3.4.2	Secondary Data	26
3.5	Location of Research	27
3.6	Data Analysis	27
3.6.1	Statistical Package for the Social Sciences (SPSS)	28
3.6.2	Descriptive Analysis	28

3.6.3 Reliability Analysis	28
3.6.4 Validity Analysis	29
3.7 Reliability	30
3.8 Validity	31
3.9 Summary	31
CHAPTER 4 DATA ANALYSIS	
4.1 Introduction	32
4.2 Reliability Analysis	33
4.2.1 Cronbach's Alpha	33
4.3 Descriptive Analysis	33
4.3.1 Gender	34
4.3.2 Age and Race	35
4.3.3 Highest Education Level	36
4.3.4 Service Period	37
4.4 Validity Analysis	37
4.4.1 Users' Barriers to Efficiency	38
4.4.2 Management's Barriers to Efficiency	39
4.4.3 Organizational Barriers to Efficiency	41
4.4.4 Effectiveness of Efficiency Improvement	42
4.4.5 Contributions of Efficiency Improvement	43
CHAPTER 5 DISCUSSIONS, CONCLUSION AND RECOMMENDATIONS	
5.1 Introduction	45

5.2 Demographic Responses	45
5.3 Answering Research Questions	47
5.3.1 Research Question 1 – Barriers to Efficiency	47
5.3.1.1 Users’ Barriers	38
5.3.1.2 Management’s Barriers	49
5.3.1.3 Organizational Barriers	50
5.3.2 Research Question 2 – Effectiveness of Efficiency Improvement	51
5.3.3 Research Question 3 – Contributions of Efficiency Improvement	52
5.4 Recommendations	54
5.5 Limitations	55
REFERENCES	57
APPENDIXES	61

LIST OF TABLE

TABLE	TITLE	PAGE
3.1	Cronbach's Alpha (N = 30)	29
4.1	Cronbach's Alpha (N = 100)	33
4.2	Age of Respondents	35
4.3	Race of Respondents	35
4.4	Respondents' Service Period	37
4.5	Users' Barriers to Efficiency	38
4.6	Management's Barriers to Efficiency	39
4.7	Organizational Barriers to Efficiency	41
4.8	Effectiveness of Efficiency Improvement	42
4.9	Contributions of Efficiency Improvement	43

LIST OF FIGURE

FIGURE	TITLE	PAGE
2.1	Theoretical Framework	18
2.2	Research Flows of the Study	19
4.1	Gender of Respondents	33
4.2	Highest Education Level of Respondents	36

LIST OF ABBREVIATION

ABBREVIATION	MEANING
<i>e</i> -PR	e-Purchase Requisition
SPSS	Statistical Package for the Social Sciences

CHAPTER 1

INTRODUCTION

1.1 Background of the Study

Purchasing is the process undertaken by the organizational unit that, either as a function or as part of an integrated supply, is responsible for procuring or assisting users to procure, in the most efficient manner, required suppliers at the right time, quality, quantity and price, and the management of suppliers, thereby contributing to the competitive advantage of the enterprise and the achievement of its corporate strategy (Lysons and Farrington, 2006).

Traditionally, purchasing department is only seen as a mere administrative that functions as to support the operational requirements by buying products and services at the right time, from the best source and as what the end user requested. Based on the researcher opinion, procurement itself also carries the same meanings as purchasing but procurement emphasizing more on its strategic roles within the company. According to Baily et al. (2008), strategic procurement is a proactive strategic procurement operation can give the organization it represents a competitive advantage by reducing waste in the value chain. Based on the researcher's understanding, strategic procurement consists of applying the correct sourcing strategies that cannot be developed within single functional department, which means it involves the integration of several functional departments.

An example of the strategic procurement is the implementation of the e-procurement, which defines by Tonkin (2003), as to the use of electronic methods in every stage of the purchasing process from identification of requirements to payment, and potentially to contract management. One of the extensive efforts from the government is the introduction and implementation of e-procurement (known as e-Perolehan in Malaysia) to replace in stages the conventional and traditional procurement system (Hui, W. S., Othman, R., Omar, N. H., Rahman, R. A., & Haron, N. H., 2011). Throughout these years, it has been proven that the purchasing department can contribute more competitive advantages to the organization by playing its strategic roles in achieving the corporate goals.

1.2 Problem Statements

According to Lysons and Farrington (2006), there are several disadvantages of purchasing manually, which includes costly to prepare and time consuming, manual purchasing tends to foster red tape and bureaucracy and stifle initiative, and must be continually updated to show changes in procedures and policies. One role of the purchasing department is to procure the materials needed by the company for its production and daily operation, which involves many departments in order to keep the production line running.

Based on the researcher experiences, it is really hard in handling procurement systems manually because it is time consuming and costs a lot. An example of a problem faced by a company in managing the procurement risk issues, as pictured by Russill, R. (2010), a possible disruptive event might be a strike at the haulage company that will

involve a lot of work to get the money back, and still leave dissatisfied ultimate customer whose order has not been fulfilled.

Thus, this shows the importance of improving the efficiency level of the procurement systems to achieve the strategic procurement goals. Therefore, in order to gain the competitive advantages with more efficient procurement systems, the company needs to demolish the barriers that prevent the department from being a strategic function in the organization. Based on the problems stated, this research will explore more on the following research questions:

Research Questions:

1. What are the barriers to efficiency in procurement systems within the organization?
2. Does the implementation of efficiency improvement in the procurement systems is effective?
3. What are the contributions of efficiency improvement in the procurement systems to the organization?

1.3 Research Objectives

The best way to demonstrate the value that procurement can deliver to the organization is by performing well and delivering real, measurable results. If you are in a purchasing department that has not gotten much respect or attention over the years, you may need to ask the management to make an investment in improving procurement performance (Dominick and Lunney, 2012). So, the objective of the research basically is

to identify the key saving potential areas and the correct procurement strategies that contribute in the efficiency improvement of the procurement systems.

The objectives of the research are as stated below:

1. To investigate the factors that restrains the efficiency in the internal procurement systems.
2. To determine the effectiveness of efficiency improvement in the procurement systems.
3. To analyze the contributions of the efficiency improvement in the procurement systems to the organization.

1.4 Scopes and Limitations of the Study

The scope of this research is to examine carefully the barriers that prevent the procurement systems within the organization from achieving its targeted efficiency improvement level. This is to have a better insight of the current situations and problems that the organization is facing. The objective of the study leads to another scope of the research in analyzing on what the efficiency improvement can offers to the procurement systems that will helps the organization in gaining more competitive advantages in the marketplace. Besides that, this research also discovers the effectiveness of the efficiency improvement implemented in the procurement systems by measuring the performance efficiency of the procurement has achieved.

This research is restricted to few limitations. The range of data collected and the number of interviewees are limited to a single company only. This is because the researcher would like to ensure that the results of the study are compatible and

applicable to the procurement systems and parallel to the organization goals. Therefore, the results of the research may only applicable to the company that has the same medium-to-large production as PHN Industry Sdn. Bhd. Since the research is based on the real situation in PHN Industry Sdn. Bhd., the results of the study may also applicable to the company with the same base of procurement systems. The main reason on why the researcher only focuses on one company is because the researcher hopes that this research can contributes some additional values to the organization's procurement systems and the efficiency improvement can be sustained throughout time.

1.5 Significance of the Study

An obvious way of planning for the future is firstly to take a step back and objectively examine the current positioning of purchasing both within the organization but also within the spectrum of potential that the function can progress to (Royslance, 2008). This shows the significance of the main objective of the study to scrutinize the organization's current situations and to have a better understanding on the problems that they are facing, by carefully study the factors that restrain efficiency in procurement systems.

This research is a practical study that benefit on the company that has the medium-to-large production scale by emphasizing the strategic functions of purchasing department rather than traditionally sees the department as only a mere administrative. It is essential to prove that the purchasing department can contribute more competitive advantages to the company by analyzing the contribution of the efficiency improvement to the performance of the procurement systems. Other than that, this research will also measures the effectiveness of the efficiency improvement once it is successfully

implemented within the procurement systems, as to prove that later it will offer different capabilities and competitiveness in the market.

This research contribution will provide a simple way on improving the procurement systems by considering every little detail of ideas that can give out such great value of results to the company. Besides aiming for efficiency improvements, the company gains many minor contributions along the systems such as waste reduction which helps the organization in time and costs saving.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

This chapter deliberates on the overview of the procurement and narrowing the scope within the strategic procurement theory and on how an organization can achieve the competitive advantages by fully uses the crucial functions of purchasing department rather than only managing purchasing activities. The best strategic procurement practices translating into the efficiency improvement are also being discussed in this chapter which pointing out on how simple practices can grant great advantages and contributions to the company.

Throughout this research, the researcher will also carefully investigate the constraints that the company faces in order to enhancing their productivity efficiency. These important factors are needed to be understood to achieve the targeted level of performance efficiency, since procurement department affects business performance through its integration with other functions and relationship with suppliers.

Within this chapter, the researcher elaborates on the outcomes of having a serious strategic view of the purchasing department rather than the traditional functions of department which has been emphasize by Roylance (2008), as realization grows of the role that efficient procurement can play in increasing both bottom-line contribution

and competitive advantage, taking advantage of economies of scale leverage becomes more attractive. This will be further explained by the researcher in the contributions of the efficiency improvement section in this chapter.

2.2 Overview of Procurement

According to Turner (2011), purchasing—or procurement—is an entity on the organizational chart responsible for buying goods and services that the organization needs to carry out its business. Basic functions performed by procurement and purchasing are supplier identification and selection, supply market research, bidding and buying (creating purchase orders, negotiating and contracting, and supplier measurement and performance).

While in the past, the procurement professional's area of responsibility was clearly relegated to efficient "processing" of purchase orders, the pace of today's business environment has expanded that role to control of the entire sourcing and acquisition process (Solish and Semanik, 2012). They also emphasize on employing best practices in procurement to ensure the procurement professional and the organization makes correct decisions. This means that the organization must develop plans that are in alignment with its goals and best interests.

Some organizations do not know the value that purchasing department can contribute to the organization. Turner (2011) also describes procurement as ownership of supply management and is actually a cross-functional approach and may involve representatives from Purchasing, Receiving, Warehousing and Shipping, Transportation,

Production/Operations, Maintenance, Engineering, Industrial Engineering, and Marketing, if applicable.

Procurement is an important department in any organization, large or small, and can have a dramatic impact on the financial performance of an organization and the efficiency of its internal operations. Procurement has to take a total strategic approach to exceeding management's expectations, embracing a broader supply chain role, delighting its internal customers (Dominick and Lunney, 2012).

2.3 Strategic Procurement

According to Roylance (2008), a definition of strategic purchasing is that procurement needs to be moved away from its traditional role of being a downstream, reactive, service function to being one of an upstream, forward thinking, and top-level partner within the organization. The researcher agrees that strategic procurement is the extension of the traditional functions of purchasing department that can be a major tool to form new concept of business models seeking efficiency improvements. Strategic procurement can go further by interpreting what the company needs, how it fits into the company structure and the most important thing is whether the existing opportunities can add extra value via its systems improvement.

Effective procurement requires the utilization of business practices that maximize value to the organization through the acquisition of goods and services. Recognizing the importance of the procurement department in overall organization performance, most progressive firms today are paying close attention to their procurement department and have attempted to improve the management of their

supplier relationships. Also, recent writings have begun to recognize the importance of purchasing in formulating corporate-level strategies (Watts, Kim, and Hahn 1992). This shows the importance of the research flows which first, the researcher needs to have an overview of the current positioning of the purchasing department and its systems to have a better insight of the constraints that prevent the organization to improve its performance efficiency.

Organization can achieve competitive advantages from efficient strategic procurement. This issue also being debated by Turner (2011) saying that supply management and procurement is a concept and philosophy, within and of itself, that uses specialized tools and focuses on specific techniques and processes to maximize effectiveness and add value to an organization's procurement services that produce increased profitability for an organization. Turner (2011) also agreed that supply management and procurement can add to an organization's profitability by engaging in process beyond its basic functions.

2.4 Efficiency

Enos (2007) explains efficiency as the organization creates, produces, and then sells and delivers its products at a competitive cost of money, time and other inputs. Efficiency is defined as a lower level of inputs to outputs, where it focuses on the amount of time and resources that it takes for the organization to create and have available whatever product or output is important to its success.

In general, the researcher describes efficiency as the extent to which effort and other resources are well used for the intended task or purpose. The term –efficiency”