

# Low-value procurement in humanitarian organizations

- the importance of using purchasing management to improve supply function efficiency.

*A case study at UNICEF*

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## Abstract

Despite improvements achieved in supply chain management across all business, public sector is still constrained by the expectations that transparency and traceability of the public funds. This affects how procurement process is conducted and supply chain experts have not yet fully grasped the maximum performance potential in this era of purchasing management. Low-value procurement is affected by how these procurement processes are conducted, since additional cost such as transactional and administrative can become a significant part of the total cost of the purchase. Furthermore, differing characteristics of local environments, both infrastructural and socio-economic, have created a significant level of variation in the operational environment in which humanitarian organizations are embedded. In this Master thesis, I present and discuss these findings, and identify key areas to be addressed in order to and propose a set of suggestions for UNICEF in order to increase the use of purchasing management practices for low-value procurement and improve the overall efficiency of the supply function.

**Keywords:** Procurement, purchasing, public sector procurement, policy management, humanitarian organization, developing countries, low-value procurement.

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## Introduction

Public sector organizations develop procurement policies and regulations to ensure appropriate funds management and practice of “best value for money” by managers and purchasing specialists. Nevertheless, while these policies ensure compliance, they often convert the procurement process in resource intensive activities. Previous literature has also pointed the existence of tension between the public expectations of transparency and accountability, and of efficiency and effectiveness of resource management (i.e. Schapper et al. 2006).

If monetary resources are scarce to solve issues such as hunger, health or education; humanitarian organizations also face other issues such as the consequences arisen from disparity in infrastructure development as industrial development is not equally spread around the globe. Humanitarian organizations need to adapt to resource limitations in each country, while complying with internal organizational regulations. It is suggested for purchasing and supply management to be considered as a strategic function (Ellram et al., 2002) to improve the

overall efficiency and effectiveness in order to reach those who are in need.

The purpose of this paper is to gain understanding of factors that need to be considered when humanitarian organizations want to improve efficiency in procurement procedures of low-value items. In order to accomplish this purpose, this Master Thesis raises the following question:

*What are the key elements affecting procurement of low-value goods in humanitarian organizations and how can purchasing management improve the overall efficiency of the supply function?*

## Method

An abductive approach through 'systematic combining' (Dubois and Gadde, 2002) was taken in this research. It consisted in matching relevant theories on public procurement and purchasing management with empirical findings from a case study research conducted at UNICEF. To challenge the way the organization is undertaking its low-value procurement, a concept model included the key elements that influence these practices and affect the overall supply function of the organization. The case study data is collected from a combination of interviews, previous studies conducted by external partner, observations and a focus group conducted with procurement specialists in the field of humanitarian aid relief.

## Findings

The starting point of this research is a study conducted in that showed potential in the organization to reduce transactional costs and simplify the procedures in purchasing operation for low-value items.

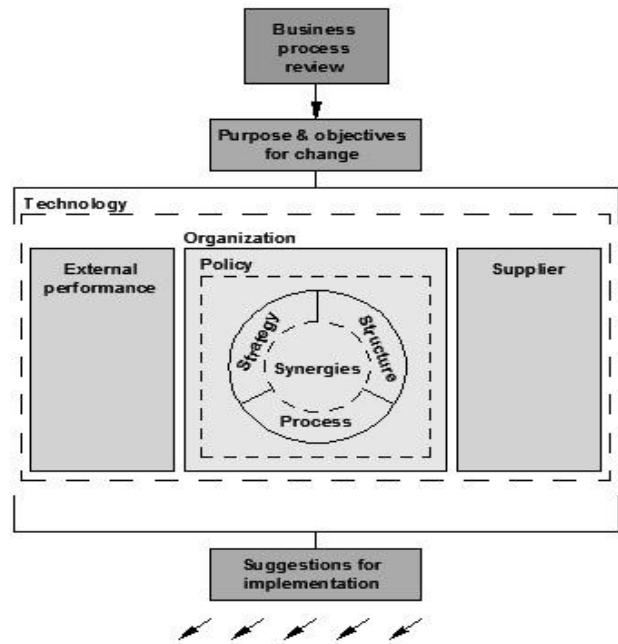


Figure 1 A conceptual model connecting relevant areas to consider when studying current practices in low-value procurement

Low-value items are products purchased under the value of US\$1,000, and are used mostly as supportive items, consumables or products used in ad-hoc situations. These items are locally available, with a low technical profile and a low financial on the total expenditure of UNICEF.

Hitherto, the key elements suggested in the concept model affecting are analyzed in procurement of low-value products at a national level, in developing countries. While UNICEF is using a very complex time and resource consuming process for very low value procurement, improvements in the efficiency of this procurement would have a widespread impact on the overall efficiency of the whole supply function. This is a global issue, with all country offices experiencing similar challenges.

The structure of the purchasing function at UNICEF has adopted a hybrid form that which divides procurement in a centralized part at UNICEF SD in

Copenhagen, and decentralized offices in each country in which UNICEF has operations (101 countries, Country Offices). This is believed to be beneficial, since UNICEF SD is focused on providing expertise on supply related issues, set common guidelines for procurement and procure strategic essential supplies, often derived from pooling volumes from Country Offices. In the other hand, Country Offices are in charge of coordinating local project and low-value procurement, which provides a faster and more flexible response to the local needs.

The procurement process for low-value purchases is conducted in 40% of the cases through the opening of a competitive bidding exercise, which adds complexity and effort. The need to conduct a tendering process and evaluation of bids extends the lead times. Although current procurement policies do not require purchasing experts to conduct low-value procurement through competitive bidding exercise, they undertake it has a more detailed traceability and control over payments, the interface is easier to use or suppliers require an official document rather than ordering by the phone or email. However, while these procedures ensure obtaining the best bid, the high resource commitment increases the cost of the transaction, adding a substantial cost to the final cost of the product.

In the other hand, innovation to create other methods for conducting low-value procurement is limited. Existing policies and regulations often constrain procurement processes and shape the way operations are to be undertaken. As an example, proper funds management is to be ensured through segregation of duties, which adds

complexity and resource commitment, which is not adequate for items which have a low financial impact over the total expenditure of the organization.

## **Conclusions**

Low-value procurement, although not considered strategic, can constitute a significant resource commitment, hence a considerable part of the time spent on operational procedures. Procurement processes are to be streamlined with purchasing management practices to avoid additional costs, not only on low-value items, but in general procurement. However, in low-value procurement, administrative and transactional costs can become a significant part of the total cost of product.

Policies, strategies, procedures and the structure of the organization are key issues to accomplish this goal. Outside of the organization, the operational environment and infrastructure availability, the technology available to manage information and link the supply chain, and the capabilities of suppliers to adapt to these practices also affect how the organization streamlines the processes.

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