



Emmanuel Chimi

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## Abstract

Compared to Western countries and economies in some emerging countries, the general business environment in Africa shows many peculiarities that need to be taken into account when selecting suppliers (or building them) and managing relationships with partners. In general, more flexibility and cultural tolerance should be observed in cooperation along the value chain. Emergency scenarios should also be built into the planning and design of supply chains. This chapter discusses the peculiarities of procurement in the African context. The focus is on the following questions: How do you find suitable suppliers or how can you build them? How can local conditions be best taken into account in decisions and daily activities? The usual SCM performance criteria will also be included in the explanations.

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E. Chimi (✉)  
Douala, Cameroon  
e-mail: [e\\_chimi@hotmail.com](mailto:e_chimi@hotmail.com)

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## 17.1 Introduction

Supply Chain Management (SCM), the management of the supply chain, has established itself as a current paradigm in business management and the management of business processes in recent years. The reference company, i.e., the manufacturer offering the final product on the market, is at the center of a value chain consisting of a series of suppliers upstream and several customers downstream. According to the principles of SCM, all business processes (procurement, logistics, purchasing, delivery, disposal, etc.) within the supply chain should be integrated and handled.

Procurement and the associated logistics are among the business processes crucial for the success and competitiveness of any company. In the decision-making process regarding procurement, the selection of suppliers (also known as sourcing) is particularly important. This chapter will focus on the peculiarities of procurement in the African context. The focus will be on questions such as: How do you find suitable suppliers or how can you build them up? How can local conditions be best taken into account in decisions and daily activities? The explanations will also include common SCM performance criteria for orientation.

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## 17.2 Context for Procurement

The starting situation varies from one industry to another. The automotive industry, for example, has been developing in Nigeria and South Africa for several decades. In recent years, other countries such as Kenya, Ghana, and Rwanda have followed. The agro-industry is the second sector that can be mentioned as very visible. Unfortunately, the value chain in this area is much less clear than in the automotive industry. As surprising as it may be, milk powder and other raw materials are still imported for the production of yogurt or juice drinks, to the detriment of local production possibilities. The brewing industry is also described as successful in many countries. However, it remains too dependent on the import of the raw materials used, although the situation has been criticized repeatedly for years.

In some countries, the production and marketing of so-called cash crops such as coffee and cocoa were organized with known actors, especially at the level of the marketing chain. However, these networks were disorganized or simply disappeared after liberalization took place in many countries. In many cases, these were structures that were solely oriented towards the export of these products in their raw state. Now we are witnessing the creation of local processing units in some places, which have to start from scratch to set up their supply and marketing chains. The situation is even more opaque for other agricultural products. Producers in the countryside use informal channels to sell their products on the local market—generally at the nearest market. Part of the agricultural

production is also exported to neighboring countries, often via unstructured channels. The execution could be extended to other economic sectors such as the clothing industry, telecommunications, or the service sector. The conclusion is: Africa offers opportunities in almost all sectors; however, flexibility and construction work are necessary in procurement to have local suppliers. However, additional efforts in building the supply chain can prove to be very profitable in the long run.

The macroeconomic conditions for procurement vary from one country to another. Essentially, those countries in West and Central Africa that still use a currency controlled by France (called Franc CFA) can be distinguished from the rest of the countries in Sub-Saharan Africa. This currency, which is not adapted to the economic conditions of the respective countries, and its semi-convertibility, represents a major obstacle to the competitiveness of local suppliers.

For all countries, the inefficiency of public administration is another problem that must be mentioned. This inefficiency can have several reasons: Structural reasons with administrations whose responsibilities are not always clear; administrations represented by people who do not have the necessary competencies; or administrations that have a technological deficit in the working tools. Another reason is certainly corruption: Sometimes we face situations where the administration itself causes a blockage to induce economic actors to “negotiate”.

Another important element of procurement in Africa is achieving an appropriate level of local content; that is, the integration of a high percentage of local components and accessories into the products manufactured and sold on the market. This may be prescribed by the government in some places. But the entrepreneur’s commitment in this direction should also take place without state constraints. A study ten years ago found that the lack of competitiveness of the South African automotive industry was due to the low percentage (average 35%) of local content in the final product (Naude & Badenhorst-Weiss, 2011). On average, South Africa as a vehicle manufacturer was 20% more expensive than Western Europe, and China was 32% cheaper. In other African countries and in other economic sectors, the positive effects of local content are expected to be even higher.

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### 17.3 Criteria for Selecting Suppliers

In a recent study on how leading supply chain management companies minimize risks and maximize opportunities, the authors conclude (Oxford Economics/SAP): “Companies must be able to deliver high-quality products at the required speed while achieving sustainability goals, building relationships with suppliers and sub-suppliers, predicting demand for products and resources, minimizing risks, and quickly introducing new technologies without disrupting normal business.”. From this, a number of criteria can be derived that should generally be pursued in the selection and development of suppliers:

- Quality of products
- Responsiveness
- Sustainability
- Management of relationships
- Minimizing risks
- New technologies

The ability to innovate, product design, reliability (and especially adherence to delivery dates), and costs are further performance criteria that are usually considered in industrialized countries and to some extent in emerging countries. Product design can be understood as quality. Reliability and responsiveness can be understood as synonymous. The following will interpret the various criteria for the African continent and highlight the peculiarities.

### **17.3.1 Quality of Products and Ability to Innovate**

Product quality and a supplier's ability to innovate are closely linked. When we talk about product quality, we are talking about the quality of the final product and the quality of the inputs at all levels along the supply chain. It is obvious that the resulting quality of the final product depends on the quality of the various components it contains. For the African continent, it will be difficult to make the ability to innovate visible in the first evaluation of potential suppliers: Quality and ability to innovate are target criteria that must first be developed within the supply chain. The company leading the supply chain should position itself as responsible and carrier of the supply chain and support its supplier partners in building their capacities with regard to these criteria. This role should not only be seen as a burden. It also offers a means to commit suppliers in the sense of a lasting business relationship.

In some areas such as the food industry, quality standards are usually prescribed by the applicable norms. However, the weakness of local administrations, which cannot always enforce compliance with these standards, allows products of poor quality (i.e., quality below the standard) to circulate in various countries again and again. For example, we see many food products (butter, margarine, juice, etc.) from North African countries like Tunisia, Egypt, or Morocco being delivered to the markets of the countries of Africa south of the Sahara. Some sources indicate that these products do not meet the quality level required for European markets, which is why these manufacturers turn to the less monitored market south of the Sahara. We know that Asian producers do the same. However, an investor is not advised to rely on such weaknesses. One must commit to quality in business conduct to maintain one's competitiveness and invest sustainably.

### 17.3.2 Costs and Reliability

In Africa, production costs seem to be the essential criterion for selecting the supplier. The latter includes labor costs, logistics costs, and transaction costs. The main goal is to reduce costs. Logistics and transaction costs are determined more by the environment of the country in which we are located. The infrastructure deficit, especially in the road network and energy supply, tends to lead to an increase in these costs. The scope of action available in procurement lies in the choice of supplier locations. The aim should be to minimize the distance between the production sites of different companies in the supply chain.

Labor costs are a very sensitive aspect in terms of total costs. African countries already have a very low wage level. However, local entrepreneurs and many locally operating branches of multinational corporations have so far not given human resources the place they deserve and that they receive elsewhere. If someone wants to build a supply chain that is supposed to be economically successful, the necessary importance must be given to human resources.

Through procurement, a manufacturer has an important lever in hand with which the reward of work at suppliers can be positively influenced. The purchasing power of a company can become a unique driver for positive changes in society (Global, 2010). Companies must use this power to make their supply chain a means for inclusive growth. In a developing economy like Africa, the majority of the workforce is employed in the unorganized sector, which often represents the last stage of the supply chain. If this workforce enjoys the benefits of good and clean business practices, this has a great impact on their lives, but also on the economic and social development in the country.

Adherence to delivery dates, which characterizes the reliability of a supplier, depends heavily on environmental conditions. Here, the infrastructural possibilities of the country are particularly worth mentioning (roads, telecommunications networks, administration, means of payment, etc.). These conditions can be worsened seasonally by weather conditions. Reliability also requires good management of the supplier company. As explained below for sustainability, the manufacturer should influence the cooperation to ensure that the partner companies respect a certain minimum of management rules.

### 17.3.3 Sustainability

Sustainable economic action is now considered indispensable and a key criterion in assessing corporate responsibility. This sustainability affects the environment, society, and the company itself. In the following formulation, these three dimensions are linked in this way (UN Global, 2015): “Managing the social, environmental, and economic impacts of supply chains and combating corruption is the economically sensible and the

right thing to do.” Especially in procurement, a positive impact on sustainability can be made.

The social dimension of sustainability is largely manifested in the relationships between partner companies in a supply or value chain. While the focus is usually on one’s own operational benefit, space must also be given to the interests of suppliers in the design of partnerships. This is all the more important as here, with many suppliers, a business relationship is entered into with personal companies: If a single physical person (or a few) bears all risks through self-financing, she can inevitably get into difficulties at the first difficult situation. In Africa, there can also be problems with continuing a company in case of illness or even after the departure of the founder. Therefore, after integration into a (successful) value chain, care must be taken to ensure that a formal structured management is gradually achieved at the suppliers. This can be influenced indirectly through appropriate formal procedures and processes. In addition to sustainability, transparent management of partner companies also has the potential to improve quality along the supply chain and in the final product. As markets and relationships within the supply chains are constantly evolving, good management of partner companies is also a prerequisite for successful adaptation to changed conditions. In the execution about costs, it was noted that the payment of consistent wages to employees in the sense of inclusive growth also contributes to the sustainability of the business.

Combating corruption is another important aspect of the social dimension of sustainability. Corruption is diametrically opposed to sustainability. In fact, the assertion can be made that everything based on corruption is not sustainable. If an investor accepts to pave the way for his project through corruption or to obtain other favors, he makes himself blackmailable at the same time on this occasion. Thus, he puts himself as a “prisoner” in dependencies. Among the risks is, for example, that we are dealing with public administrative structures that are occupied by people (by appointment), which can be replaced from one moment to the next. And from the moment a representative of the administration is replaced, the entrepreneur is back at the beginning and sometimes he runs the risk of being exposed to a scandal in public.

#### **17.3.4 Management of Relationships and Minimizing Risks**

Nowadays, the management of relationships with partner companies is an important factor for success in business. In procurement, it is about the management of relationships with supplier companies, for which the term Supplier Relationship Management (SRM) is known. To be able to effectively control and manage the entire supply chain, there must be a strategy for Supplier Relationship Management. For Africa, cultural aspects must also be taken into account in this strategy. It can be stated in advance that relationships with partners in the African environment should be based on cooperation as much as possible. Conflicts that are fought out in court must be avoided as far as possible. For this, the legal uncertainty is still too often present: The laws are not always clear and

suitable, the duration of the procedures can be unpredictable and the jurisprudence is not always objective. The legal risks can be prevented in advance when designing the relationships: Interfaces must be clearly described. Here, it is mainly about a description of the activities/services and procedures in a way that is understandable for the supplier.

Actually, cooperation is a common word, but it may not always be easy to clearly interpret or even correctly recognize it in the context of daily business activities. In the context of Supplier Relationship Management, cooperation means intensive work for a manufacturer: A systematic, company-wide evaluation of the (production) capacity and capabilities of suppliers with regard to the entire business strategy of the company, a determination of the activities to be carried out with different suppliers, as well as the planning and execution of all interactions with suppliers in a coordinated way over the entire relationship lifecycle, in order to maximize the value achieved through these interactions. A prerequisite for maximizing value is the development of mutual, respectful, and mutually beneficial relationships with supplier partners. Such relationships will contribute to achieving a higher level of innovation (or at least improvement of the status quo) and competitive advantages than would be possible through traditional purchasing agreements. Cooperation in this sense is more than the overlap of common defined cooperation goals. It must be a deep, collective determination to achieve a common goal. It is precisely at this determination that there can sometimes be hurdles in Africa. For example, it can happen that a supplier does not meet his obligations because the resources required for this have been used up for other activities in the company. An opaque management and lack of priorities can always lead to such situations, even if the partner commits to the contracts.

### **17.3.5 Application of New Technologies**

The management of economic activities within the framework of supply chain management is based on intensive use of information and communication technologies. Indeed, mastering the complexity of modern supply chains requires strategic thinking, flexibility, and involved employees. Many companies leading in the SCM field focus on the application of intelligent technologies such as automation, machine learning, and artificial intelligence (AI) to streamline processes, automate routine tasks, and support the effectiveness of the Internet of Things (IoT), blockchain, augmented and virtual reality, as well as drones (Oxford Economics & SAP).

At this point, it is noticeable that the African continent lags behind in terms of the general technological environment. And this will not change quickly in many countries. Regardless of whether it is about predicting demand or needs, one cannot rely on known technological means such as modern customer relationship management software. The same applies to communication with suppliers and customers, even though we know that the flow of information between partners within the supply chain is a crucial pillar for the performance and success of the chain. In Africa, this deficiency can be taken into

account or even overcome when designing the chain structure: one should have shorter or even more circular chains. In the medium and long term, the solution may lie in the design of central information systems at the manufacturer. This integrated software should concentrate all technological intelligence at the reference company and, the only remaining challenge would be to enable all partners to use it effectively. Under the current and foreseeable conditions for the next few years, it would not be advisable to consider consistent computerization among partners in view of the state of technology as a goal.

### 17.3.6 Political and Ethical Aspects

In procurement, too, one must deal with human rights and the delicate issue of corruption in Africa. In terms of human rights, two principles have been formulated for investors (UN Global, 2015): First, companies should respect internationally recognized human rights and support their protection. Second, they must ensure that they have not been involved in the abuse of these rights.

Supporting the protection of human rights means that manufacturing companies must demand respect for these rights from their partners. In Africa, one should avoid making this demand a burden on relationships with supplier partners. Addressing uncomfortable and sometimes non-priority issues as seen by the partner can cause agitation. The low general awareness of basic rights increases the risk of conflicts. Human rights can be violated at various levels of economic activity: in production units with particularly unacceptable working conditions, child labor, inconsistent or unpaid work rewards, disregard for self-determination rights for employees. When selecting suppliers, information about the candidates in terms of human rights may be available in rare cases. In general, however, it is conceivable that respect for basic rights can only be achieved after the effective start of cooperation. It is also to be expected that this will be a gradual process, but it should not be too long: the image of the entrepreneur and his product on the market can be damaged at any time if there are violations of human rights somewhere along the value chain.

Beyond political instability and human rights violations, there is also a governance that can sometimes cause concern for the economy in Africa. We have the recent case with the Nigerian government, which unilaterally decided to close borders for trade with some neighboring countries like Benin. The measure was lifted a few months later without a precise explanation. In any case, this decision caused significant damage to the economy in the affected countries, but also in Nigeria itself. This example also shows the weakness of regional integration in all parts of Africa. At the current state, sourcing cannot rely too much on the regulations of regional entities like ECOWAS in West Africa or CEMAC in Central Africa.

In some countries, there are indeed promotional measures for investments that the entrepreneur can take advantage of directly or when setting up suppliers. These are



mostly tax advantages but also state subsidies. Unfortunately, the regulations are sometimes imprecise and the affected administrations do not always provide information about the existence and details of such measures.

When selecting and developing suppliers in the African market, a number of factors must be taken into account, some of which are contradictory. Costs are the decisive criterion in the selection and determination of supplier locations and must be minimized. In this context, increasing distance of the supplier's production facilities from the assembly location of the final product leads to problems with logistics and an increase in associated costs: Since the road infrastructure in many places is not capable of economically and punctually transporting components and other accessories, such a distance increases costs and primarily affects reliability. On the other hand, a political, ethically motivated requirement could be that industrial production should not be further installed in urban centers.

The general level of development of information and communication technologies is a handicap for Africa. This means that these technologies cannot be used intensively for the management of business processes as is the case with the latest state of technology. In the context of procurement, however, this situation can be effectively countered, particularly through a consistent structuring of the supply chain.

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**Dipl.-Inform. Emmanuel Chimi** studied computer science at the Technical University of Dresden and subsequently worked intermittently as an IT consultant in Germany with projects in the areas of mobile networks and banks. He has been a lecturer at the University of Douala in Cameroon since 1998 and is responsible for a variety of courses in the areas of computer networks, telecommunications, programming, and discrete mathematics.

Mr. Chimi was instrumental in the development and implementation of the bachelor's degree programs in Computer Networks and Telecommunications as well as Software Engineering at the IUT (Institut Universitaire de Technologie) of the University of Douala and is the author of professional and textbooks. He has extensive experience in the development and implementation of educational programs in higher education not only in Cameroon,

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but was involved as an expert in the development of module content for the training program for applied computer science at member universities of the AVU (African Virtual University) in Nairobi. As a national project leader in Cameroon for multilateral cooperation projects between the University of Applied Sciences Flensburg and universities in Namibia, Cameroon, and Kenya, he was responsible for current issues of economic cooperation.