



ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING

DEPARTMENT OF BUSINESS ADMINISTRATION AND MANAGEMENT

EXAMINATION PAPER

COURSE CODE : CPS 401

COURSE TITLE : INTERNATIONAL PURCHASING

SPECIAL REQUIREMENTS : NO SPECIAL REQUIREMENTS

DURATION : 3 Hours

LEVEL : 4:1

DATE :

17 FEB 2022

INSTRUCTIONS TO CANDIDATES:

1. No cell phones are allowed in the examination venue.
2. **QUESTION ONE IS COMPULSORY**
3. Answer **QUESTION ONE AND ANY THREE (3)** questions.
4. Begin each question on a new page.
5. The number of marks for each question or part question is shown in brackets []
6. Use of practical examples where necessary is encouraged

Trust, risk and transaction costs in international trade.

The evolution of trade for past decades has prompted trading partners of different nations to effectively communicate back and forth conquering the entire world into a global village. This made international transactions much easier facilitating an instant feedback, shortened the lead times as well as instant supplier payment among other benefits. Obviously, the transaction costs in the contact, contract and control phase are closely linked to the trust problem. The trust problem is at the core of finding reliable information about business opportunities, about potential business partners and about their trustworthiness (contact phase). Trust is also important when negotiating on how to split international trade costs and what to put in the contract and it is a dominant factor at the decision on how and to what extent the agreement will be monitored and enforced (contract phase).

Greif sees trust problems as an inherent consequence of the character of sequentially of most transactions and labels this as the fundamental problem of exchange: “one will not enter into an objectively profitable exchange relationship unless the other party can *ex-ante* commit to fulfil his contractual obligations *ex-post*” (Greif 2000: 254, original italics). In fact, in many circumstances trust between trading parties can be seen as a co-operative solution of a prisoners’ dilemma where the trigger mechanism built in the repeated game does not completely exclude cheating. So placing trust in international trade is not a free lunch, there are risks involved. That makes agents/trading partners (buyer) cautious to gather reliable information about potential foreign business partners (supplier) to carefully follow procedures and formulate agreement as well as adequately monitor and enforce it until receiving the goods. **What do buyers indulge to accept the risks and to trust the supplier, or how can this risks be contaminated so trust can develop?** To answer this question, we have to distinguish the main payment method of trust generating mechanism, respectively with a formal basis known within buyers’ organisation. Trust mechanisms with a formal basis are the mechanisms that build trust that is, in the end, based on formal (legal) agreements and enforced by formal (legal) procedures.

However, the increasing risks pertaining to lack of trust has significantly reduced the volume of transactions as shipment went missing, suppliers disappear after receipt of the payment.

Adapted from: Trade, Trust and Transaction Costs, Frank A.G., den Butter & Robert H.J. Mosch <https://www.econstor.eu/bitstream/10419/85953/1/03082.pdf>

As the Procurement Executive of **ADJ (Pvt) Ltd**, identify other risks that are faced by organisations when buying on international market and recommend mitigation strategies.

(25 Marks)

QUESTION 2

Evaluate the arguments put forward by companies for engaging in intercontinental procurement.

(25 Marks)

QUESTION 3

As an international buyer, examine **4 (four)** methods of payment available to the buyer when settling international suppliers' debts.

(25 Marks)

QUESTION 4

Analyse the various forms of countertrade that an organisation may use in executing its global sourcing.

(25 Marks)

QUESTION 5

An organisation can maximise its competitiveness through embarking on offshoring their operations. Discuss.

(25 Marks)

END