

Knowledge Management in Procurement – Still in its Infancy

a report by

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Generally, the procurement function is regarded as one of experience. Most professionals acquire their knowledge by the conducting of their business. In many ways, it can be looked on as a craft.

A market survey was conducted to gauge the extent to which the procurement function is knowledge-driven. Based on the assumption that the largest companies are the most advanced in the degree of professionalism that they can call on, the study focused exclusively on the cream of Dutch business. Procurement managers in 17 companies assisted with this study and were interviewed personally. Together, they represent a combined procurement volume in excess of €130 billion, or more than 17% of the Netherlands' gross domestic product. The hypothesis underlying this study was that the more clearly defined the professionalisation of the procurement function becomes, the more prominent the role that knowledge plays in the conduct of this function.¹

The survey revealed that this hypothesis is correct. The respondents exhibit an unmistakable thirst for knowledge. The use of knowledge management rates high on the list of priorities of the procurement managers (100% listed it in their top five priorities and as much as 65% in their top three). At the same time, it appears that there is a major discrepancy between the need for knowledge and its availability. This is illustrated chiefly by the finding that most procurement managers only have an overall impression of the size and composition of the volume of purchases for which they are responsible.

There is still no framework for knowledge management within the procurement function. This conclusion may be drawn from the extent of the inconsistency between maturity and professionalism evident in the responses given. The findings give the impression that the professional development and

ambitions of procurement managers are decisive in determining the extent to which an organisation is oriented towards knowledge. Evidence of a comprehensive approach to the use of knowledge management in procurement could not be found in the case of a single respondent. Nevertheless, there are companies that direct their attention to parts of it, for example, training. It would appear that the knowledge that people tap into is preferably close at hand. They usually consult sources within their own company but also, to a limited extent, external sources as well, which, in turn, are domestic sources primarily. There were only several instances in which more international sources of knowledge were accessed.

Procurement Maturity

One could assume that there is a more pronounced orientation towards knowledge, the more an organisation develops from a professional point of view. In order to chart this, the respondents broke down their own organisations in line with the procurement model developed by the Technical University of Eindhoven. This revealed that just under 60% considered themselves to be commercially oriented and active in enterprise-wide procurement co-ordination. More than 40% showed themselves to be process oriented.

One of the most noticeable aspects of the survey is that it did not encounter the professional stage that follows this – that of supply chain management. The second noticeable aspect is that consistency between procurement maturity and the attendant concepts and techniques that are applied is found in little more than 40% of companies. The same applies to the relationship between procurement maturity and the procurement structure. The higher that companies rate their maturity, the lower the level of consistency. Only 12% of the respondents actually demonstrated that they had advanced to the stage of process-

1. In the field of knowledge management, knowledge is defined as the combined result of information and personal skills and competencies. For the purposes of this study, however, knowledge was isolated from competencies and was held to refer to the overall information on which a procurement professional draws in order to conduct business more effectively. The study therefore focuses primarily on the acquisition of explicit knowledge about procurement.

The Emergence of Knowledge Management

The information era is making way for the knowledge era. Literature and science have summarised a number of arguments that underline the importance of knowledge management. In this connection, it is unquestionably relevant that knowledge management is a cornerstone for the construction of a self-tutoring organisation, and knowledge provides the ultimate competitive advantage. Technology and methodology that promote the development and application of knowledge are the keys to success in contemporary business. The elements of knowledge management are:

- generation of new knowledge;
- access to valuable knowledge from external sources;
- use of available knowledge in decision-making processes;
- imbedding knowledge in processes, products and services;
- incorporating knowledge into documents, databases and software;
- facilitating the development of knowledge with the aid of culture and rewards;
- spreading available knowledge throughout one's organisation; and
- measuring the value of components of knowledge and/or the influence of knowledge management.

oriented procurement. There appears to be a surprising correlation between volume and maturity of procurement. In the first instance, maturity rises in step with volume but declines in the case of the absolutely largest companies. On the one hand, this could point to the fact that, from a certain level, the size of an organisation can impede professional procurement. On the other hand, it could mean that the need for professionalism is most acute and evident in the largest enterprises, which, in turn, increases the disparity between its growing importance and actual achievement. It also appears that the greater the proportion of overall procurement accounted for by production-related purchases, the more maturely that procurement occurs.

Procurement Theory

As one respondent strikingly put it, "Corporate buyers are practical people, but procurement is no longer an intuitive business." On average (score of 7.6), people attached great importance to having a knowledge of the theoretical and conceptual aspects of procurement. The responses varied from an organisation stating that its procurement team is mainly of a level equivalent to that of senior vocational education (a score of 3), to a company boasting professionals holding Masters of Business Administration (MBAs) who systematically scour the globe for best practices (a score of 10). With an average score of 5.5, actual achievements lag far behind.

The most acute disparity between importance and achievement is evident in the financial sector, transport and logistics and technology businesses. The absence of theoretical knowledge is primarily due to:

- historical reasons (i.e. the technical orientation of

a company and the level of expertise of the more established buyers);

- the inferior status of the procurement function;
- internal customers who challenge buyers, based on the latter's practical achievements; and
- the lack of funds and time for knowledge development.

Having access to procurement models and concepts was, however, cited as a means of making the procurement sector more attractive to outsiders.

Eighty-eight per cent of respondents pursue an active educational policy in the field of procurement, though they only resort to international training courses sporadically. The professional literature paints a similar picture. The publication produced by the Netherlands Association of Procurement Managers (NEVI) is read faithfully, but few international trade journals are consulted. It is also striking to note that exceedingly little attention is devoted to trade journals covering the procurement markets and segments in which buyers operate. Although 40% access the Internet as a source of knowledge, in most cases, the information sought is of a practical nature and only 12% access sources of procurement theory on the Internet. Other sources of knowledge that people use are books on procurement, seminars and networks, albeit rarely.

Procurement Practice

This domain represents the knowledge that is derived from experience. In the course of performing initial procurement duties, a great deal

of practical knowledge is assimilated, which ideally is made retrievable to the extent that this previously acquired knowledge can be recalled in the future, thereby giving rise to a self-tutored organisation and rendering it unnecessary to 'rediscover the wheel' each time. Twenty-four per cent of the companies were honest enough to admit that they had not yet achieved this. More than 40% use properly structured procurement project files. Another 24% siphon off the knowledge they acquire in the course of projects and file it in specific knowledge systems, and just 18% reuse their previously acquired knowledge, which is what this is really all about. Almost 60% of the respondents indicated that, in addition to their normal duties, the task of each of their buyers is to collect information and/or develop their skills.

When asked what activities they conduct in order to develop, gather and disseminate knowledge, it appeared that they are exceedingly active in general. Both the number and variety of their activities revealed an existing need for knowledge, but showed simultaneously that their approach was hardly comprehensive or planned. Apparently, a frame of reference for knowledge management is lacking.

Procurement Markets

In order to perform well, knowledge of the operation and dynamics of one's procurement markets and the players active in them is needed. Companies buy goods in dozens, if not hundreds, of different procurement markets, which represents a substantial field of knowledge. There is a clear link between mature procurement and the manner in which purchasing occurs in each market. An analysis of the findings of the study reveals that only 24% of the companies were consistent. Three-quarters of the respondents were too positive in their replies to either the questions on maturity or those pertaining to their method of operation in their procurement markets. The fact that such a large group is involved is food for thought. Cautiously, it might be concluded here that we are probably less advanced than we think (or hope) in the professional practice of procurement.

The four companies in which evidence of consistency was found are also reasonably consistent to highly consistent in the level of professionalism they display in their various procurement markets (the study considered primary purchases, capital goods,

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Procurement Monitor

Insight is a prerequisite for management. For the purposes of the study, this knowledge domain was accorded a practical dimension by referring to a procurement monitor. A conclusive 94% of respondents indicated that almost all of the suggestions submitted for executive information were as important, if not crucial, for one to perform properly. One-quarter of the respondents have some type of monitoring of contract compliance, somewhat more than one-half indicated that they had some insight into the flow of purchases (although this was not backed up by the answers given to the questions dealing with the procurement volume and its composition), one-third stated that they were able to monitor their suppliers' performance, one-quarter were aware of outstanding commitments and a little more than one-half were able to measure the contribution that procurement makes to achieving their organisation's strategic objectives.

maintenance, repair and operations, packaging, transport and indirect purchases). Two of these companies still buy products, while the other two have advanced to the procurement of processes (for the sake of completion, no evidence of the final category – the procurement of competencies – was found).

Context of Procurement

The final domain covered by the study comprises a knowledge of other fields of expertise that could have an effect on the procurement business. The following areas were examined:

- key pricing figures;
- key productivity figures;
- currency-related changes;
- movements in interest rates;
- legal affairs;
- covenants;
- certification and quality;
- environmental regulations;

- safety regulations;
- import and export regulations;
- tax legislation; and
- tax consultancy.

Only 17% of the respondents consult more than half of these areas of knowledge. It was also noticeable that they were twice as likely to consult an internal source than an external one. Interestingly, mainly those organisations that exhibited a high level of maturity virtually only consulted internal sources. An explanation has not been found for this.

Conclusions

Knowledge management in procurement is definitely becoming a topic in its own right in the view of the leading industries. This will transform procurement from an intuitive practice to a knowledge-driven function. At present, however, no clear frame of reference is available for knowledge management. The result is that there is a large gap separating organisations' need for knowledge and the knowledge they are able to tap into, and that the steps they take are of a reasonably fragmentary nature and probably have difficulties taking root. Knowledge orientation can have an inhibiting effect not only due to the absence of a frame of reference,

but also as a result of misconceptions about the degree of professionalism that an organisation has acquired at any given point in time.

Only those who are frank with themselves and know exactly how to describe where they are now and where they would like to be will be able to cite in concrete terms the precise knowledge they require in order to achieve this goal. Knowledge is only meaningful if it meets actual needs in this way. At the same time, it needs to be realised that knowledge management is also a prerequisite for a self-tutoring organisation.

In conclusion, researchers urge the adoption of a broader approach to the acquisition of knowledge. What is more, the knowledge that is required in procurement has already been discovered but we will need to be prepared to look beyond the boundaries of our own countries or, even worse, the perimeters of our own organisations or networks to find it. ■

Compendium Group is an international group of consultancies active in the field of procurement and supply chain management. Comments in response to this article are welcomed and can be addressed to gerco.rietveld@compendium.com