

Professionalising purchasing in organisations: towards a purchasing development model

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ABSTRACT

How does purchasing develop as a discipline over time in large international organisations? What are the drivers and enablers behind the development of purchasing? Is there an ideal growthpath for purchasing in organisations? These subjects are discussed in this paper by, firstly, providing an overview of current literature and analysing the models which have been published in management literature. Based on our analysis we propose an integrated framework which may help practitioners in developing their future courses of action with regard to purchasing and supply strategy and organisation. Currently, this framework is tested through empirical research.

Keywords: purchasing development, strategy, organisation

1. Introduction

Purchasing structures in large companies nowadays are a lot different from what they were in the eighties or seventies, and they will, beyond doubt, be different in the future. Two decades ago concepts like purchasing portfolio management, total cost of ownership, supplier-partnerships, early supplier involvement and cross-functional buying teams were not known. Since then many new strategic and organisational concepts in the field of purchasing and supply chain management have been developed. The professional development of the purchasing function in organisations can be analysed from different angles and/or aspects. It is reflected by the more differentiated way in which supplier relationships are managed today. From 'competitive bidding' companies nowadays apply differentiated supplier strategies such as 'co-operative buying' and partnering (Burt; 1993). Another aspect, which is relevant for purchasing's professional development is the information technology which is being used. In this area increasing sophistication can be perceived (Stekelenborg, 1997).

The way purchasing develops within a (manufacturing) organisation is the major concern of this paper. We set out in this paper how purchasing as a discipline may contribute to an organisation's long-term growth, its strategic position, and its overall competitiveness. It is hypothesised that changes within purchasing may be both developmental and ad hoc. Supply shortages on the market, or other external, unforeseen events may cause fast and unplanned changes in purchasing strategy and organisation as well as in supplier relationships (Heberling, 1993). We even hypothesise that the professional development of purchasing organisationally may be set back, when external pressures on the company (gradually) disappear. Our research project is aimed at trying to test these challenging hypotheses and will try to find out whether purchasing development in practice is the result of careful long term planning or the result of short term opportunism.

2. Looking at organisational development

Organisational Development (OD) can be defined as a response to change. It usually encompasses a complex educational strategy intended to change the beliefs, attitudes, values and structure of organisations so that they can better adapt to new technologies, markets and challenges (Child et.al., 1981). OD may take different forms: it may relate to continuous improvement (KAIZEN) aimed at improving the internal processes within the company, but it may also relate to improvement measures between subcontractors and their suppliers

(*supplier development* or *supplier alignment*). Continuous improvement is characterised by small steps which are consistently conceived through a bottom-up, multidisciplinary team-based approach. Organisational Development may also take the form of Business Process Reengineering (Hammer, 1993), which is aimed at restructuring business processes in organisations, or Transformation Management, which is aimed at changing organisational structures. These types of change management are much more top-down, expert based. Contrary to continuous improvement it has more an ad hoc character. If continuous improvement is one end of the continuum, crisis management (often conducted through interim-managers or outsiders that are brought into the organisation) is the other end. This approach is often valid when drastic measures are required in order to restore the balance between the organisation and its environment. As research evidence shows (Imai (1994)) Japanese companies tend to develop at the left side of the change-spectrum, whereas Western companies seem to develop much more according to the right side of the spectrum (see Figure 1)

Insert Figure 1 Organisational development and management of change

We think that the literature on the theory of organisational behaviour and management of change is important for purchasing practitioners. Based upon our discussions with many executives it is our impression that purchasing managers mostly rely on simple or intuitive rules of thumb and implicit knowledge about managing change in their purchasing organisations. There seems to be little awareness of theoretical insight on how organisations develop over time (as has been described by among others Greiner (1972); Lievegoed (1993); Bolwijn en Kumpe (1992) . Insight and knowledge of organisational behaviour and organisational development is important since it may lead to a better understanding of how purchasing may develop over time in an organisational context. Based on these theories we have tried to describe through a coherent, though (still) theoretical model how purchasing may develop organisationally within a (manufacturing) organisation. More specifically our objective is to answer the following research questions:

- how does purchasing develop as a discipline or business function over time in large international organisations?
- what are the drivers behind the professional development of purchasing in organisations?
- what dilemma's must be overcome in order to move from one stage to the next stage of development?
- if there is one, what is the most appropriate growthpath for purchasing in organisations?

Now that we have briefly discussed several ways on how theories on organisational behaviour and development may be used to describe purchasing's organisational development, let's have a closer look at the theories that have been, so far, most influential in the field of purchasing development. This has been the starting point of our research. It is the focus of this paper.

3. Directions and stages of organisational development

In order to be able to get an insight in the evolution of the purchasing function different purchasing development models have been analysed. Our findings are summarised in Figure 2. Authors and contributions have been ranked in historical order.

Insert Figure 2 Contributions from literature on purchasing development

From Figure 2 it can be concluded that since 1988 there has been a steady flow of ideas regarding the development of purchasing. This probably reflects the growing interest of academics and particularly consultants for the integration of purchasing and supply management in the broader framework of business and corporate strategic plans. All authors assume a stage-wise or stepwise development of purchasing within organisations.

Let's have a closer look at the models which have been presented and let us appraise the major commonalities and differences:

- *Integrated final stage*: Most authors assume the existence of a final stage of excellence towards which all improvement efforts should be directed. Almost all models show a final phase where purchasing is integrated in the major lines of business. At this stage line management is actively involved in purchasing strategies and tactics. Also at this stage, as it is assumed, purchasing processes are organised around multi-disciplinary, team-based structures.
- *Purchasing's organisational status*: Most models point out that purchasing firstly reports rather low in the organisational hierarchy. Next we may see some degree of centralisation, which in a business unit structure will turn to some form of co-ordinated purchasing (where responsibility for purchasing policy resides within the individual business units)
- *Supplier management*. The development of supplier management is an other similarity in the different development models. In the first stage supplier management seems to be reactive ('crisis management'). In the next phase, it becomes more proactive, and the last phase it becomes relationship management.
- *Supplier relationships*. Most authors assume that as purchasing moves through the different stages of development relationships with suppliers will change. Starting with a purchasing department handling many suppliers at 'arms length'. In the next stage, purchasing has reduced its number of suppliers considerably so that closer relationships with a smaller number (preferred) suppliers are able to develop. The final stage often shows that supplier relationships have turned into partnership type of relationships.

Most development models have been based on a limited set of parameters, such as:

- *Top management commitment* i.e. the degree to which top management shows active interest in and is actively involved in purchasing strategy and supply matters
- *Functional leadership* relating to the management style which is employed, the way change management is being applied (see paragraph 2 of this paper)
- *Purchasing strategy* relating to the degree of formalisation with which plans have been made, the extent to which purchasing strategies have been integrated in overall business planning, the actual contents of purchasing strategies and plans
- *Purchasing activities* covering the extent to which the purchasing department is involved in product development, supplier selection, contract management, order handling and supplier evaluation.
- *Supply management* relating to the way supplier relationships are being managed within the company
- *Organisational issues* such as reporting relationships, communication structures, information systems being used in purchasing and supplier relationships, role and position of purchasing departments within the organisation.
- *People issues* such as degree and characteristics of training and education, career development, buyer skills profiles
- *Performance measures* which are being used to monitor purchasing and supplier performance (such as quality-indices, cost savings reports, delivery reliability of suppliers, purchasing order cycle time, etc.)

We consider the approach as has been described by Keough (1993) as one of the most interesting ones. For it is very detailed, it identifies five stages of development and assumes a direct causal relationship between the

industry a company is in and the stage of development in purchasing. For the remainder of this paper we have taken this model as point of departure. We have tried, however, to integrate and combines some valuable insights from other contributors in order to arrive at, what we hope will become an integrated purchasing developmental model.

4 Towards an integrated purchasing developmental model

Based upon these general parameters we have identified the following six-staged purchasing developmental model (see Figure 3):

Stage 1 'Transaction orientation; Serve the factory'

In this first stage the primary task of purchasing is to find appropriate suppliers and ensure that the plant does not run out of raw materials and supplied components. There is no explicit purchasing strategy in place. Formulation of purchasing goals is very rudimentary and intuitive. The value added of the purchasing function is considered to be securing availability of the right materials and goods for production. The organisational structure can be characterised by a decentral sub-department at plant level, mostly under the responsibility of a production or logistics manager. The purchasing function is strongly orientated on operational and administrative activities. Non production buying is predominately done by users themselves, and is considered by purchasing as of secondary importance. There is very little knowledge of what is exactly the total purchasing spend of the company. The culture is 'reactive'. Management is based on complaints. No complaints means purchasing does a good job. The information systems, if in place already, are developed by purchasing and very much administratively oriented. The purchasing staff consists usually of operational and administrative buyers, strongly task oriented, and with little education for the job.

Stage 2 'Commercial orientation; lowest unit price'

At this stage a pro-active type of purchasing manager is recruited who can negotiate credibly with suppliers for lower prices. Striving for the lowest unit cost requires some independence from functions like product development, engineering and manufacturing. As a result purchasing, while reporting to a senior executive, has more autonomy at lower organisational levels (Lysons, 1996). Purchasing strategy in this stage is characterised by an sharp focus on low prices. The purchasing function has its own department at plant level, reporting directly to the plant manager, who is interested in the savings purchasing adds to the bottom line. At this stage the purchasing function more and more becomes a specialist function. Specialist buyers are organised around different product groups. Buyers are concentrating on negotiating and contracting 'good deals'. The culture is that of playing hard negotiations with many suppliers. Management monitors on low prices and savings. Performance measurement is focused primarily on price (-variance) and delivery performance of the suppliers. Cost savings are used as a prime performance indicator for assessing purchasing 's overall effectiveness. Purchasing staff consists of operational and initial buyers with 'hands on' experience. Important skills are negotiating skills and the ability to make price comparisons.

Stage 3 'Co-ordinated Purchasing'

Led by a strong central purchasing department to implement uniform buying policies and systems, the emphasis here lies on cross unit co-ordination and compliance with nationally negotiated contracts. This stage may lead to purchasing bureaucracy and lack of responsiveness from the decentral business units. At this stage for the first time there is some kind of strategy formulation, aimed at capturing the benefits from internal co-ordination and synergy. Apart from price and costs, the purchasing function is seen as having an important influence on the quality level of purchased products. The importance of the non-production purchasing

becomes recognised by purchasing. Slowly the purchasing function is getting some attention from top management. However, the rest of the organisation is still not convinced of the value adding potential of the purchasing function. Supplier management is a central issue at this stage and is characterised by looking for synergy by bundling purchasing power of the different divisions and adoption of differentiated supplier strategy based upon portfolio-thinking (van Weele, 1992). The organisational structure of the purchasing function is a centralised purchasing department on divisional level. Formalisation of the purchasing process and -procedures is in full speed. The purchasing organisation is (still) strongly product oriented. The culture is characterised by a great amount of attention for communication and the intention to co-operate more internally between business units. Computerised information systems are in place now, but still not linked to each other. The stand alone databases are linked over the divisions, but not yet fully integrated. Purchasing staff has a specific purchasing background and training and there is a large number of different purchasing jobs in place. Training is aimed on analytical skills, total quality management and communication skills.

Stage 4 'Internal integration cross-functional purchasing'

At this stage the emphasis is on cross-functional problem solving with the objective of reducing total systems cost and not just the unit cost of purchased components. These cross-functional efforts often include key suppliers as joint problem solvers and a move from confrontational to partnership sourcing (Lysons, 1996). Until this stage the purchasing function was very much functionally oriented, and trying to organise the company around the purchasing function. At this stage purchasing is becoming more process-oriented, trying to organise the purchasing function around the internal customers. In this stage there is serious attention for non-production purchasing. The strategic importance of the purchasing function comes to full recognition, and purchasing is involved in strategic issues like core / non-core questions and make-or-buy decisions. The structure is 'center-led'; operational buying disappears in the line i.e. is integrated with materials planning and/or scheduling or line planning. The culture is characterised by team-based management often by means of cross-functional teams. Improvement actions are aimed at integrating the purchasing processes over the different divisions. In this stage the focus is still internal, however, process oriented. Information systems are integrated with that of other departments/functions and divisions, but not yet with those of the most important suppliers. Purchasing performance measurement is done in the form of internal customer satisfaction surveys and benchmarking. People involved in the purchasing process have a broad business perspective and a high educational level. Skills looked for at this stage are strong team-building abilities, strong communication skills. Besides this, purchasing people need to have insight in the formulation of specifications, and a long term vision on the company .

Stage 5 'External integration; supply-chain management'

This stage is characterised by a outspoken outsourcing strategy combined with extra attention for co-operation with supply partners on product development and pre-production planning. The purchasing function concentrates on the effects the supply chain has on the resources of the company. Non-production buying is fully supported and/or executed by the purchasing function. Users order themselves against corporate contracts through advanced computer systems to which some major suppliers have been hooked up. This is especially true for the non-production area. Purchasing works hard to make things simple for their internal customers, by using systems contracting, purchasing-cards, Electronic business and catalogues and/or EDI. Supplier management becomes supply chain management at this stage. Companies invest a lot to really involve supply partners in different business processes, in stead of just buying goods and services from them as efficient and effective as possible. Responsibility for initial purchasing resides at cross-functional teams (inter-divisional and inter-organisational). There are residential engineering teams, and improvement teams with members from different disciplines, divisions and organisations (suppliers).The initial buying is no longer executed by a separate department but is spread around the company. Integration with other disciplines, divisions and especially suppliers is in full speed, to make integrated supply chain management possible. The

management style is results driven, though supportive and coaching at the same time. The culture is characterised by participation and consensus style decision making. Important skills are knowledge of total-cost-of-ownership principles, strategic supply chain management, and general managerial and leadership abilities. Information systems are not only internally integrated, but also with those of the partner suppliers.

Preliminary stage 6 *'Value chain orientation'*

The 'purchasing' strategy in this stage will be based on the recognition that most important for success is delivering value to the end-customer. To satisfy the needs in end-customer markets, subcontractors seek for support among their suppliers. Suppliers are consistently challenged to support their product/market strategies and to actively participate in product development. The goal is to design the most efficient and effective value chain possible to serve the end-customer. Purchasing strategy is evaporated in the total business strategy. The orientation is both stream upwards as well as downwards. In fact the traditional marketing and purchasing functions are integrated, and have become 'virtual' in the company. The functioning is based on a shared vision carried by all organisational members. The culture is entrepreneurial. Information systems are integrated as much as possible.

Insert figure 3 Towards a coherent purchasing development model

5 Some questions for further research

Of course we realise that the model which has been presented before has some important drawbacks. The most important one is that it never has been thoroughly tested, which is our aim for the coming years. It is important to question and test the validity and reliability of this model. Apart from this, however, some other questions need to be raised. Just to mention a few:

- Is the process of development in purchasing a rational process or rather an irrational one? Organisations may choose for a certain organisational strategy. However, as Mintzberg (1991) has pointed out, strategy may also emerge as the result of a political process. What change strategies underlie purchasing development processes in organisations?
- Does purchasing development really take place as a process of continuous change (as suggested by most of the models we have described) or is it characterised more by step-changes? And if so, do all organisations follow all the stages that we have just identified? Stage theories suggests that all purchasing organisations follow the same sequence of stages in development towards greater complexity and successive integration of the accomplishments of earlier stages. It may appear, however, that the process of purchasing development is not a smooth, continuous process, but implies abrupt and discrete changes in policies, contexts and structures.
- To what extent are purchasing managers the most decisive actors in the process of purchasing development. Or are they rather receptive in general and are the real change agents coming from other disciplines? More research is warranted in order to get a better understanding of the actual role that purchasing managers play in this process

At this point some important methodological observations need to be made about the studies which have been reviewed in this paper. Most discussion and research on organisational development have been concerned with industrial business enterprises. Although some commonalities have emerged from comparisons between these manufacturing companies and other types of organisation, it is doubtful whether many conclusions drawn from one field of organisation would apply, without qualification, to others. Moreover most studies have used

cross-sectional rather than longitudinal data. Cross-sectional comparison will usually lead to different insights than research based on longitudinal analysis. Finally, most models do not reflect the conditions which should be met in order to let purchasing move effectively from one stage of development to the next.

6 Conclusions

Although the different models differ in both focus and underlying parameters, when combined they provide a fairly comprehensive view of the process of developmental change in purchasing. Theories and models are useful because they help us systematically organise and make sense of the large body of knowledge on organisational behaviour and management of change. Theories also stimulate new thinking and research and guide managers and professionals in their day-to-day work within organisations. These theories can help organise more easily and effectively what we already know about purchasing development. It can also help broaden and deepen understanding of the principles, processes, and stages underlying professionalisation of purchasing within organisations. As we see it, it is necessary to conduct time consuming empirical, longitudinal research in order to validate the assumptions underlying purchasing developmental models in order to guide (purchasing)managers better in their journey to purchasing professionalism.

7 Literature

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Figure 1 Organisational development and management of change

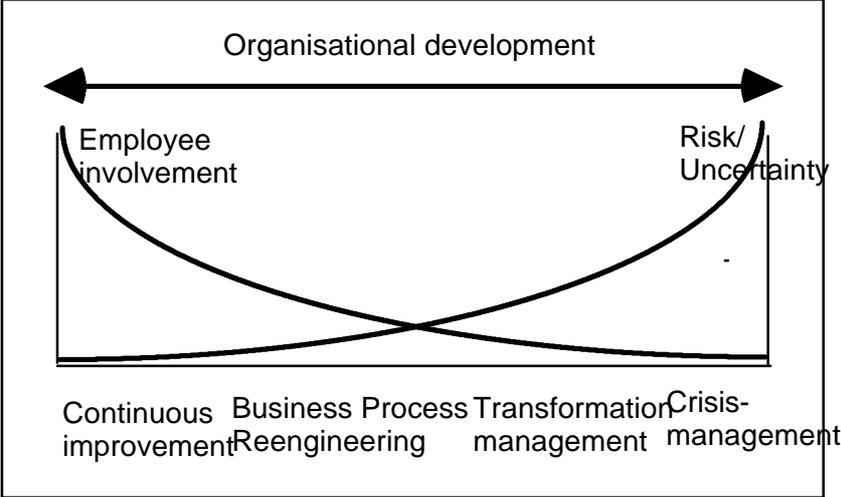


Figure 2 Contributions from literature on purchasing development

Author	Stage 1	Stage 2	Stage 3	Stage 4	Stage 5
Reck and Long (1988)	Passive	Independent	Supportive	Integrative	--
Syson (1989)	Clerical (transactional)	Commercial	Strategic (proactive focus)	--	--
Bhote (1989)	Confrontation	Arms length	Goal congruence	Full Partnership	--
Cavinato (1990)	Buying (at low prices)	Purchasing	Procurement	Supply acquisition	Facilitate networks
Cammish and Keough (1991)	Serve the factory	Lowest unit cost	Co-ordinated purchasing	Strategic procurement	--
van Weele (1992)	Operational / administrative orientation	Commercial orientation	Logistic orientation	Strategic orientation	--
Burt (1993)	Reactive	Mechanical	Pro-active	Strategic supply management	--
Keough (1993)	Serve the factory	Lowest unit cost	Co-ordinated purchasing	Cross functional purchasing	World class supply management
AT Kearney (1994)	Transaction	Control	Functional excellence	Integration	--
Monczka (1994)	Manufacturing support	Price buying	Consolidation	Integrated strategic sourcing and supply chain management	--
Chadwick (1995)	Clerical	Commercial	Supportive	Strategic	--
Barry and Cavinato (1996)	Basic MRO purchasing processes	Enhanced MRO procurement practices	World-class MRO procurement practices	--	--

Figure 3 Towards a coherent purchasing development model

