ORGANISATION FOR PURCHASING

1. Introduction

The aim of this topic is to provide a guide to some of the main aspects of the organisation and design of the purchasing function. There is a considerable body of literature on the structuring of organisations in general: the emphasis in this topic will be on the application of theories and models to the purchasing function. This includes:

- examination of key success factors in the organisation of purchasing
- analysis of organisational design characteristics, including structural configurations, product or service characteristics, centralisation and decentralisation and mixed structures
- visions of the future of purchasing from both the USA and Europe, and their implications for purchasing organisation
- recent research findings focussing on the issues of driving and managing change, the use of purchasing teams and the use of consortia in procurement.

2. Key Success Factors

The purchasing function exists to ensure that the organisation procures the right goods, services and capital projects. Purchasing provides a service to internal customers and must measure its success in terms of customer satisfaction. To do this, a purchasing function requires the following (Treasury 1993: ch 3):

- a clear strategy for purchasing (see Topics A1, A2): this has to be articulated so that internal customers and purchasing staff all understand it and can use it to direct their activities and expectations, and to monitor success.

- effective management information and control systems: in common with other business functions, purchasing needs to organise the information it uses in a way that facilitates accuracy and speed of use. It is also necessary to co-ordinate these systems with those of suppliers (see Topic D9).

- development of expertise: in addition to the need to develop people constantly, the design of the purchasing function must include a significant, continuous increase in the strategic awareness of its staff, to a point where all but the most junior can appreciate its higher purpose and relate to the concept of internal customer service (see Topic D11).

- a role in corporate management: in order to bring to the organisation the financial and technical benefits which lie within strategic purchasing’s potential, the function must develop and maintain a role in the corporate planning and direction of the company as a whole. This ‘place at the table’ must be won by purchasing, on the basis of proposals for development made by the purchasing director to other senior management. In particular, initiatives such as partnership with suppliers must receive the commitment of several functions other than purchasing and this can only be achieved by developing a strategic profile.
entrepreneurial and proactive approach: the need for flair is great when trying to alter the way in which the function is perceived. Purchasing has the resources and efforts of the supply base to help it in this objective. The possibilities for innovation between customer and supplier are discussed in Topic?

These concepts are discussed in Lamming and Cox (1995), Syson (1992) and Van Weele (1994).

Case Study 1 Developing a Role in Corporate Management in UK Central Government

A procurement input into corporate issues such as efficiency improvements, contracting out, market price forecasts and expenditure profiles underpinning budgets has been identified as potentially the most valuable contribution Heads of Procurement can make (Treasury 1993).

However, this is dependent on progress in the other areas identified as success factors, in particular the attainment of a level of professionalism and expertise to be able to deliver a value for money service to customers, and to contribute to the government’s wider goals (see Topic D11).

“although much Purchasing has often been devolved the successful procurement organisations visited have a strong central function which includes an overview of all procurement activity, suitable management information systems and the appropriate authority to introduce improvements.” (Treasury 1993 p. 26)

Subsequently, following the publication of Efficiency in Civil Government Procurement (Treasury/Cabinet Office 1998, pp 14-15), procurement has been made the responsibility of a single government Minister for Civil Procurement, and departmental Top Management Boards are to include a member with specific responsibility for procurement.

In April 2000, the Office of Government Commerce was set up, chaired by the Chief Secretary to the Treasury, with Permanent Secretaries of major spending departments as Board members (Gershon Report on Civil Government Procurement, April 1999)

3. Organisation Structure

3.1 Design Characteristics

There is a need to align structure with strategy, goals, staff, skills and the environmental characteristics of the organisation (Quinn, Mintzberg and James 1986). Mintzberg (1979) provides a methodology for analysing the nature of the organisation and determining the overall structure appropriate to its particular characteristics.

Mintzberg uses organisational design characteristics, including co-ordinating mechanisms, design parameters (specialisation, training, indoctrination, behaviour formalisation, grouping, unit size, planning and control systems, liaison devices, and decentralisation), and situational factors (age and size, technical system, environment, power) to determine optimum structure. From these, a number of ‘ideal type’ structural configurations are developed; the following are appropriate for purchasing:
• **Machine Bureaucracy**: co-ordination by standardisation of work (programming) e.g. the way buyers follow tendering procedures. The key design parameters are: formalised behaviour, central planning, centralised decisions via hierarchy. The key situational factors are external control and a simple environment. This would be the typical configuration for a large, mechanistic organisation with routine procedures facing a slowly changing or stable environment with strict accounting, auditing and reporting requirements to an external, hierarchically dominant, organisation. This configuration may describe the structure appropriate to traditional, clerical approach to purchasing.

• **Professional Bureaucracy**: co-ordination by standardisation of skills and norms. The key design parameters are: extensive training, administrative liaison devices and decentralised decision making by professionals. The key situational factors are: control by professional management and a complex environment. This would be the typical configuration for organisations providing highly specialised outputs where client demands produce a complex environment requiring autonomous work processes, flexibility, an organic form and relative freedom from external and internal controls. This configuration would be appropriate for a professional procurement function where staff are empowered to apply their knowledge and skills in complex relationships with customers and suppliers.

• **Divisionalised form**: co-ordination by standardisation of outputs, e.g. targets and output measures. The key design parameters are: indoctrination of divisional managers, formalisation of behaviour within divisions, market or client grouping, extensive performance control and limited decentralisation of decisions to line managers (vertical hierarchy). The key situational factors are: very large, old organisations and diversified client bases. This is a typical organisational form where clients have different demands and knowledge requirements, but demands of accountability and control need to be met whilst minimising their constraining effects on performance. The classic example of this form is the retail sector in general, and Marks and Spencers in particular, where there is central determination of overall stock, allocated to individual stores on the basis of size of sales.

### 3.2 Analysis of Products and Services
Purchasing may benefit from the use of planning matrices, within the context of providing a service to internal customers, to determine such factors as centralisation/decentralisation by nature of products and services. This is commonly done by placing the ‘complexity of supply market and product’ (from high to low) on one axis of the matrix, and ‘value for money opportunities/common need’ on the other (from high to low). (Kraljic, 1983; see also Van Weele, 1994 p120).

The following would be a typical result of such a planning process:

• Products of high complexity but low value for money opportunities or common needs are appropriate for central advice and assistance.

• Products of low complexity and low value for money opportunities or common needs, where a low level of skills is required, are appropriate for delegated or local procurement, or contracting out to an external buying organisation.
• Products of high complexity and high value for money opportunities or common needs, where a high level of skills is required, are appropriate for central procurement.

• Products of low complexity and high value for money opportunities or common needs are appropriate for centrally co-ordinated procurement, for example, setting up contracts for call-off by dispersed users.

The structure of the overall organisation may also determine the purchasing structure i.e. organisations with dispersed offices may require more local freedom. Federal departments or those with departmental agencies may find a centralised structure difficult to implement, requiring central co-ordination, but some centralised authority will be required to ensure the use of co-ordinated contracts, to achieve strategic purposes, and to maintain common standards and procedures. See Baily et al (1997), Van Weele (1994) and Saunders (1997).

3.3 Centralisation and Decentralisation
Arguments for centralisation include:

• Economies of scale from consolidating requirements; avoidance of price anomalies and competition between group units; better stock management and utilisation; economies of staffing and uniformity of procedures and specifications (Baily et al 1997)

• Better quality control from buying on one contract; deliveries under one contract can be directed to local plants as necessary; one plant’s surplus can be used to fill another’s needs; losses from obsolescence of parts can be minimised; higher degree of specialisation of purchasing skill for specific products rather than broader spread of product buy locally; greater leverage through consolidation of requirements (Heinritz et al 1991: 109)

• Simpler design and implementation of management information and control systems; assists in meeting professional standards and legal requirements; facilitates centralised training; enables corporate objectives to be met more easily (Treasury 1993:40-1)

Centralised Purchasing is suitable where:

• close control of all procurement is vital to success;
• there are many high value, sensitive and complex purchases requiring a high level of skill;
• economies of scale are available;
• the organisation is small, with few locations and relatively standard purchasing needs.

The risks associated with centralised purchasing may include: slow and bureaucratic procedures, inward looking policy making, inefficiency, and excessive concentration on routine tasks (Treasury 1993:40-1)
Arguments for decentralisation include:

- the local buyer has better knowledge of needs, local suppliers, transport and storage; quicker response to emergencies; better liaison with and tighter control by local management (Baily et al: 1997)

- responsibility for the profitable operation of plant, to which purchasing is a major contributor, lies with the local manager; if local unit is large enough to be a profit centre, it is large enough to achieve economies from volume purchases; each division may have unique requirements and differences in operating conditions; good public relations can be fostered through local purchasing; quicker and more efficient in meeting user needs (Heinritz et al 1991: 108).

Decentralised purchasing may be suitable where:

- spend is too low to secure leverage with suppliers;
- there is extensive delegation of budgets;
- there are several sites with different needs;
- skills are available locally;
- low value, simple and largely ‘one-off’ purchases;
- where there is no need for central control over standards and legal compliance.

Risks with decentralised purchasing may include:

- difficulty in demonstrating objective consideration of value for money; poor co-ordination of procurement (especially in developing good practices); difficulty in maintaining professional skills, ethics and standards; inefficiency through duplication of effort; less opportunity for separation of responsibilities between budget holder and spender; increasing risk of fraud; possibility of supplier domination; lack of central reporting (e.g. as required by Treasury and EC); loss of advantages of corporate strategic view; loss of ability to bring about corporate change (Treasury 1993: 45-6).

"the choice between centralisation and decentralisation will always be a compromise. Settling for the benefits of one always means sacrificing the potential benefits of the other" (Gadde and Hakansson 1993: 124)

"When the pendulum swings too far towards one end of the scale, the disadvantages in terms of centralisation or decentralisation are so tangible that the organisation has to be changed" (Gadde and Hakansson 1993: 125)

### 3.4 Mixed Structures

A combination of decentralisation and centralisation may be possible, with the following features:

- policy and strategic aspects dealt with centrally

- executive functions split by: value (delegated limits), commodity (lead buyers, buying groups), locality, and activity (different parts of process)

This may be suitable for organisations with mixed purchasing needs, e.g. both complex and simple products and markets, which are geographically dispersed, with natural groupings and procurement skills away from the centre, where delegation is well established.
Organisations which choose this route may expect to:
- preserve the benefits of aggregation of the purchasing spend;
- make efficient use of resources by concentrating purchasing skills on complex areas;
- retain the flexibility of decentralisation;
- take advantage of structures and expertise already in the organisation e.g. lead buyers;
- develop professional staff by moving them between central and devolved units;
- monitor and control to ensure compliance with law, professional standards and policy;
- give users freedom to order items themselves if this is more efficient;
- use IT systems to co-ordinate activity, provide transparency and ensure efficiency through performance monitoring;
- make use of clear procedures and model documentation.

There may also be problems:
- users may be unclear about which purchases are to be made locally and centrally;
- control may be lessened, with the consequent risk of impropriety;
- local staff may not have the skills required for the responsibility given to them;
- there may be insufficient separation of responsibilities;
- purchasing authority may be subject to uniform automatic delegation;
- inefficiency may arise through duplication, e.g. contract terms and conditions (Treasury 1993 p. 45-7)
- the best mix may be different for each division within a group; the same might be true for the various products or services handled;
- the required mix may change over time, affected by changes in environment, corporate strategy, etc.;
- the best mix may not match other company structures: this may adversely affect communications within the organization as a whole;
- the mix may not be popular: it may be seen as reducing local freedom or implying that the job is not being done correctly;
- the mix may be complicated, requiring much planning and explanation (Heinritz 1991 p. 113)

3.5 Mechanisms for Centrally Co-ordinated Purchasing
There are, of course, many different ways of arranging the purchasing function for either centralised or decentralised operation. Here are some of the characteristics of a centralised function:

- lead division buying: units with appropriate expertise buy specified products on behalf of all;
- regional buying groups: separate units within same region join forces to negotiate common contracts;
- worldwide buying committees: every plant in a large multinational has a representative on committee responsible for buying a specific commodity or product;
- corporate purchasing councils: purchasing managers from various divisions, each member responsible for purchase of company-wide requirements for which their division is largest user;
- corporate steering committee: similar to above but more advisory (Heinritz et al 1991 p. 110-1)
Detailed procedures might include:

- uniform policies, forms and procedures at all plants via a purchasing manual;
- copies of purchasing orders routed to central office, monthly reports from branches, collated with buying recommendations by centre;
- major contracts negotiated centrally, called off by users at all locations;
- central contracts for items in common use, but branch plant buyers able to buy locally if better terms (Heinritz et al 1991 p.113)

3.6 Choosing a Structure

The rationale for selection of a purchasing organisational structure include:

- **product related**: consideration of the nature of raw materials, services, and major capital equipment (Brandes 1994)
- **process related**: the nature of plant-based manufacturing: is it a service company, a retailer, in the public sector, etc.?
- **staff related**: what is the availability of purchasing skills?
- **size related**: is the organization small, medium or large? What factors does this raise?
- **corporate strategy and structure**: what implications for purchasing are there in top-level plans (and *vice versa*)?
- should a matrix approach be used, combining several factors? (Treasury: 1993 pp. 36-38)

Co-ordination of the Purchasing Function in UK Central Government

Treasury (1993: 27) states that:

“although much Purchasing has often been devolved the successful procurement organisations visited have a strong central function which includes an overview of all procurement activity, suitable management information systems and the appropriate authority to introduce improvements.”

A matrix is commended to departments as a means of planning and organising procurement activity efficiently (Treasury 1993: 37).

4. Visions of the future development of the procurement function

Carter and Narasimhan (1996) examined the future direction of purchasing and supply through research combining the opinions of American and European Purchasing executives obtained through round tables and an academic focus symposium with a survey of 2500 NAPM and CAPS members. The trends that emerged from the research were presented in 10 propositions:

1. The strategic importance of purchasing and supply management will increase and emerge as a key element of business strategy
2. The strategic reach of purchasing and supply management will increase: from suppliers through the internal value chain, to the firm’s market and on to the ultimate customer
3. Purchasing will become “management of external operations”, with an emphasis on obtaining world class suppliers and outsourcing, requiring greater general management skills than previously
4. Strategic alliances will increase in number and importance: suppliers will play a key role in time-based competition e.g. time to market
5. Purchasing and supply management will play a key role in strategic cost management as the use of life-cycle costs and target costing increases
6. “Verticalization” of purchasing and supply management practices in organizations will increase, with the vertical distribution of functional specialists in cross-functional teams along the value chains of key business processes
7. Flattening of organizations will continue through horizontal, self-managed teams: smaller central units, providing knowledge creation and dissemination of strategies and strategic priorities
8. Management of “white space” will become increasingly important for purchasing and supply management executives, managing the interfaces with other functional units within each supply chain
9. Purchasing and supply management will come under the influence of ‘the learning organization’: improving skills, sharing knowledge, and developing technical and managerial skills
10. New realities of performance evaluation will emerge: linked to corporate goals, ‘economic value added’ and ‘market value added’

Whilst the above research relates to mainly American, private sector experiences many of the trends identified are equally relevant to the public sector in Europe. A European perspective on the future development of the function based upon changes in the workplace identified by Moss Kanter related to purchasing is provided by van Weele and Rozemeijer (1998). These are:

- from vertical to horizontal: the functional orientation is replaced by cross-functional buying teams internally and joint improvement teams externally with suppliers
- the new work setting is no longer based on one but many places: a fixed location is no longer necessary, as computer networks will enable buyers to communicate with suppliers and colleagues from any location; database management will be more important than archiving and paperwork
- from fat to lean, the new staffing principle: reliance on external contractors; electronic commerce reduces the need for clerical staff; integrated systems make purchasing’s added value more transparent, therefore there is a greater need to deliver
- from status and command rights to expertise and relationships, the new power source: leadership of ad hoc teams is more important than fixed formal roles; purchasing must contribute to relationships with customers, suppliers and specialists through providing essential information from interactive multimedia sources
- from position to performance, the new reward principle: future buyers’ salaries will be only partially fixed, augmented by rewards related to individual and group targets
- from ‘employment’ to ‘employability’, the new security: job security will come from the ability to develop skills and reputation, portable career assets applicable anywhere; knowledge will become redundant with rapid change; the ability to learn, networking and wide experience are the most valuable assets.
From this analysis the authors propose the ‘virtual purchasing organisation’, comprising hard and soft cores:

- **hard core**: small highly specialised purchasing staff at company HQ providing specialist product knowledge and superior purchasing process skills to business units, where buyers provide process expertise in teams with technology and product engineers.

- **soft core**: purchasing professionals working in functional areas meet local supply needs, backed up by the hard core’s sophisticated tools, product and market knowledge; component buyers may move to R & D and product development, non-production materials buyers will be within user departments.

If we apply the authors analysis to the development of procurement in UK central government, we find that the size and fragmentation of central government, and the public sector generally, mean that solutions appropriate for single private sector companies may not be easily applied throughout the public sector. There are nevertheless signs of a move towards the small hard core (Treasury Procurement Group and departmental procurement units) with soft cores based upon divisional units and value chains, providing central co-ordination and expertise with local decentralised buying. There is also increasing evidence of the use of cross-functional teams (see Topic D10). As ever in the public sector, however, universal and consistent implementation of the proposals in the Treasury/Cabinet Office 1998 paper on Efficiency in Civil Government Procurement is not guaranteed, and will depend upon strong central direction allied to additional resources and demonstrable evidence that benefits will flow to departments from the changes proposed.

Whilst dealing more narrowly with organisational issues, van Weele and Rozemeijer agree with Carter and Narasimhan on restructuring along horizontal value chains, the need for the development of expertise and the importance of demonstrating value adding performance. There is however a stronger focus on the impact and contribution of information systems which will facilitate new ways of organisation and working.

5. **Recent research findings**

Erridge et al (2001) provide a number of chapters relevant to the issues discussed in this topic, focussing on the issues of driving and managing change, the use of purchasing teams and the use of consortia in procurement.

Chapter 11 by Jon Hughes analyses the ‘options, issues, roadblocks and realities of driving change in purchasing and supply’. Hughes acknowledges the academic debate in the area of the management of change but wishes to move, in his words, ‘beyond ... ideology into considered action’. Indeed, he comments that academic theory on managing change in purchasing has a relatively low influence on practitioners, even amongst those who are leading change agents within major UK companies. From a survey of 60 global corporations and 119 UK based practitioners, Hughes examines the practical issues of design and implementation of sustainable change and the ‘people issues’ associated with building commitment. The research findings give an example of the gap between practitioners and academics in the field of purchasing and supply. In discussing the factors rated important for organizational success, strengthening teamwork across the business rated highest, with outsourcing and...
privatization ranking 14th in the list despite the high profile of these issues in the professional press and academia.

As noted above, Hughes found that the highest rated factor for the importance of organizational success was the strengthening of teamwork across the business. In Chapter 13, Johnson et al examines the influence of the industry sector, firm size and organizational structure on the use of purchasing teams. Based on a sample of 269 large North American supply organizations, this chapter examines the use of seven different approaches to team-based purchasing: purchasing councils, supplier councils, commodity teams, cross-functional teams, teams involving suppliers, teams involving customers and teams involving both suppliers and customers. Factor analysis was used to classify seven team-based purchasing techniques into two groups: internal and external. The authors examine whether certain combinations of teams tend to be more common and whether certain types of teams are used more frequently in the service, process and discrete goods industries. Why use purchasing teams? The motivation to use purchasing teams is well established they combine the skills and resources of several stakeholders, they are temporary and they are frequently created to focus resources on the completion of a temporary project. However, there is little research into the extent to which purchasing teams are used and no research that investigates how firms approach team use by combining various forms of purchasing teams as a method of influencing team or firm performance. Literature cited suggests that team-based purchasing is expanding a reflection of flatter and leaner organizations and the benefits of cross-functional input into decisions. However, the reported level of use of team-based purchasing techniques was lower than anticipated, indicating that many firms are still hesitant to use purchasing teams extensively. The respondents cited cross-functional purchasing teams, commodity teams and purchasing councils as the most frequently used team-based purchasing techniques. The authors recognize the need for further research in the area: whilst the indications are that size and sector influences purchasing team use, how and why this occurs has not been addressed.

In Chapter 14 Ritchie and Chadwick examine the use of purchasing consortia using the experiences of the Joint Procurement Policy and Strategy Group (JPPSG) as an example. Progress and problems in moving from a price-based approach to a strategy of achieving overall best commercial value monitored by effective performance measures are described. The paper sets out the current and future roles for the HE purchasing consortia including step changes such as the ‘one-stop shop’ system for supplies that even third party suppliers are encouraged to join: the benefits of this agreement include price/cost reductions on services and products, and the ability to analyse supplier and product ranges. The next logical step, according to the authors, is the provision of value added services to include professional procurement and recruitment advice. In addition there are a number of supporting activities or objectives that need to be achieved, such as customer focus, business planning, marketing strategy and benchmarking. The authors acknowledge that there are barriers to optimum effectiveness: individual institutions may not wish to participate in the process and insecure purchasing staff may fear a loss of status. The importance of performance measurement, both qualitative and quantitative, is emphasized, along with the need for all consortia and constituent member institutions to use performance measurement in a consistent way. The authors recognize that these measures will evolve over time.

Together these chapters provide a wealth of insights into best practice in building an effective purchasing organization, drawing upon a range of UK and North American empirical evidence from both surveys and case studies. The issues examined are common to most organizations regardless of industry sector and ownership, although
it might be argued that they are more relevant to medium or large, rather than small, organizations.

6. Conclusions

This topic has examined the key subject of designing the shape of the purchasing function within the organisation. Considerable research is still required into the optimum structures for the purchasing function, particularly the key variables and their importance in overall performance. Conclusions on the specific issues covered in this topic include:

- key success factors in the organisation of purchasing have been identified;
- organisational design characteristics have been analysed, particularly in relation to the structural configurations, product or service characteristics, centralised, decentralised and mixed structures appropriate to purchasing in different organisational and sectoral contexts
- the implications for purchasing organisation of visions of the future of purchasing from both the USA and Europe have been examined: both support a move towards a more organic form, supported by integrating electronic information systems
- recent research findings demonstrate the increasing importance of teams and consortia in purchasing, but also suggest a worrying lack of communication and knowledge transfer between academic researchers and practitioners.

7. Directions for further reading

Books


**Articles**


Self-assessment questions

1. In relation to section (2) Key Success Factors

Identify the main mechanisms by which a role in corporate management was developed for Purchasing in UK Central Government. How relevant are these to your own organisation? What does the similarity or difference between the mechanisms in the case study and in your own organisation suggest about the processes of change towards a more strategic role in different organisations and sectors?

2. In relation to section (3) Organisation Structure

Structure should follow strategy (Mintzberg). In what way does the structure of the purchasing function in your organisation facilitate the achievement of:

a) purchasing goals and strategies?

b) overall corporate goals and strategies?

What changes may be required to improve the extent to which a) and b) are achieved?

3. In relation to section (3) Co-ordination

Use the matrix to analyse your own procurement organisation in relation to the nature of the goods and services purchased, and how the procurement activity is organised. Identify some examples for each of the four boxes. Does the matrix help to indicate how your procurement activities might be organised more logically?

4. In relation to section (4) Visions of Future Development

Can you relate the propositions to your own knowledge and experience? Which of the propositions are most relevant to the public sector, and which are not? What changes are taking place to meet the anticipated trends, and what are the major constraints or obstacles?

5. In relation to section (4) Visions of Future Development

What similarities and differences are there between the two perspectives on the future of the purchasing and supply function presented?