The Strategic Context for Competent Procurement

1. Introduction

This study note is set in the context of the examination of those elements in the organisation that either have a significant impact on purchasing and supply management strategies or thinking and approaches that can make significant contributions to corporate strategy and the achievement of overall organisational corporate objectives.

This section of module A attempts to examine the facets of organisational and business level strategy and seeks to set them in the context of purchasing and supply chain management in respect of their ability to aid or facilitate effectiveness and competence for the organisation.

2. Strategic Context

Strategy is a very wide subject; there are many aspects to consider in the development of strategies and in making strategic decisions.

No single definition exists for the term ‘strategy’. An investigation of the meaning of strategy has provided a summary of some of the definitions found in various texts:

“Strategy is not a detailed plan or program of instructions; it is a unifying theme that gives coherence and direction to the actions and decisions of an individual or organisation.”

Grant 1998.

A strategy according to this author is a plan for deploying resources in order to gain a better position for instance, competitively in the market. Strategy also can define what business the company is in or is to be in and the kind of company it is or is to be.

“What business is all about is . . . competitive advantage . . .. The sole purpose of strategic planning is to enable a company to gain as efficiently as possible, a sustainable edge over its competitors. Corporate strategy thus implies an attempt to alter a company’s strength relative to that of its competitors in the most efficient way.” Kenichi Ohmae 1983.

The achievement of competitive advantage over others operating in the market can be achieved, purchasing professionals would say, through the competent and effective management of the purchasing and supply function and the chain which extends from it. This will be explored later in the notes.

A general definition of strategy taken from Johnson and Scholes is provided here, however there will be a need to research other views that elaborate on how strategy can develop within an organisation; these definitions add more life to the term strategy. There is a tendency to feel that ‘a corporate strategy’ is an inactive and static statement of intent rather than an active progressive plan of action.
“Strategy is the direction and scope of an organisation over the long term: which achieves advantage for the organisation through its configuration of resources within a changing environment, to meet the needs of markets and to fulfil stakeholder expectations.” (Johnson and Scholes 1999)

Strategy as a conceptual viewpoint deals with the approach to strategy and its dimensions and seeks to review the origins of strategy. Essential elements of a formal strategy emerge as follows:

- The most important goals or objectives to be achieved.
- Significant policies guiding or limiting actions
- The major sequences or programmes that are to accomplish the defined goals within the set limits or constraints. Mintzberg et al, 1998

Effective strategies develop around a few key concepts giving cohesion balance and focus. Formal strategies do not just deal with the unpredictable but include any known factors.

Mintzberg defines strategy in terms of its appearance in different guises in the organisation. He asks us to consider the effect that these guises have on how strategies develop within the organisation. The five ‘P’s’ of strategy, represents the various guises that he suggests might appear. These help to bring life to the concept of strategy making it perhaps less removed from every day business issues. The five ‘P’s’ are identified as follows: Plan: PLOY: Pattern: Position: Perspective (Johnson & Scholes 1999.)

All of these definitions offer a range of views of what strategy is. We see more life being introduced into the term strategy as we move away from the definition of strategy as a plan toward a definition of strategy as the heart or personality of an organisation (Perspective). Strategy should be seen as almost as a breathing mechanism oiling the direction, goals, objectives, culture and activities within the organisation. These definitions all inter-relate and must be taken as a collective analysis of the concept. It will depend on the organisational situation and on the stages of the formulation of the strategy for a specific business as to which definition is most appropriate in that time frame. No one view takes precedence over any other. Mintzberg sees these definitions as very much complementary to one another.

Most of the definitions provided in the texts as quoted above offer the view that strategy is a planned formal approach to the corporate management of a business usually for the purpose of business gain. Strategy in this context is set at the highest level in the organisation and is all encompassing in terms of the direction goals and business activities undertaken. Therefore we deal mostly with the corporate strategy. However, Mintzberg et al state that corporate strategy is an organisational process in many ways inseparable from the structure, behaviour and culture of the business in which it takes place. Viewed as a planned and formal process strategy takes on an analytical approach to managing business. Under this approach there is a belief that senior management objectively analyse the organisation and its environment and are able to formulate a strategy that maximises business success in the near future. A series of strategic decisions in a logical process of rational analysis of the business, its performance,
current state of development and profile and its external environment are all examined in the effort to formalise a strategy. This view of strategy is known as the rational planning model. Here we begin to see that as a strategy is formulated for the business it is being used to manage that business. At this high level of management we can introduce the term strategic management as the outcome of strategy formulation and the implementation of a chosen direction.

However, when strategy is viewed as ‘a pattern’ (Mintzberg 1998) there is less emphasis on this formal planning and more on consistency of action that forms a behaviour that is viewed as a strategy as it ultimately affects the overall direction of the business and its opportunities for success. Here we introduce another school of thought that views the formulation of strategy as less structured.

Quinn implies that strategies are both deliberate and emergent.
Intended and realised Strategies

Deliberate and emergent strategies, Quinn, The Strategy Process, Mintzberg & Quinn

Deliberate strategies are those that were intended and have been actually realised but emergent strategies are patterns that develop in the absence of intentions or despite them, which went unrealised at an earlier stage in the strategic development process. Where there is no consistency there can be no strategy or at least unrealised strategy (Mintzberg).

Strategic development can take various forms and as the above diagram shows there can be an intended course of action that has been decided upon, within the organisation for the business to follow. This will form the business's deliberate plan. However, there can also be in operation, and evolve over a series of events and action sequences, an emergent pattern of consistent behaviour that has been influenced by many factors within the course of business. These too form strategies and rather than being deliberate (an intended plan) strategic decisions, emerge as strategies (patterns of behaviour).

Mintzberg states that a pattern of decisions that are generated from individual managers who make decisions based on uncertainty in the market and to changing external environmental circumstances emerge as the business continues to operate. Mintzberg also suggests that a formal or rational plan needs to be communicated throughout the business and that the interpretation of such planning can be distorted or re-shaped revealing a different strategy than the one intended. The flow diagram, above, adds a third dimension of unrealised strategies; those intended plans which where once thought to be valid and were intended to be enacted but business events changed the course.

A further approach to strategy formulation is known as ‘logical Incrementalism’. Theorists Quinn and Voyer developed this. (Mintzberg et al 1998) Essentially this approach to formulation of strategy suggests that both the rational analytical method and the emerging ideas of individual managers are working in tandem to produce realised strategy for business. The authors Mintzberg and Voyer state that this approach is a purposeful, effective active management technique designed to improve and integrate both the analytical and behavioural aspects of strategy formulation.
Johnson and Scholes offer a sound basis as to why this approach would be perhaps the most realistic of those mentioned already, certainly more appropriate than strategy as a plan.

“Given the complexity of organisations and the environments in which they operate, managers cannot consider all possible strategic options in terms of all possible futures and evaluate these against pre-set, unambiguous objectives, especially in an organisational context in which there are conflicting views, values and power bases. So the idea that strategies can be managed through neat, logical, sequential planning mechanisms is unrealistic.”

Johnson & Scholes, 1999

It is argued that to make a strategic choice and to proceed with this choice to implementation requires a process of successive limited comparisons from a range of options measured against set objectives that could achieve the best outcome for the organisation. Rather than launching major changes managers are suggested, in this approach, to have a view of where they want the organisation to be in, say five years time, and try to move towards this position as an evolutionary process. They try to do this through the insurance of successful but flexible core business areas by building on experience as the strategy implementation progresses. By building up the clearer picture managers with a logical incremental view of strategy, can benefit through more relevant and current information upon which to base the strategic decisions at that time. A more flexible organisation able to change when faced with a series of unpredicted environmental events would result from this approach (Johnson and Scholes)

“Logical Incrementalism does not see management in terms of a neat sequential model. The idea that the implementation of strategy somehow follows a choice, which in turn has followed analysis, does not hold.” Rather strategy is seen to be worked through in action within this view. (Quinn 1998)

This is so not only because of internal organisational divergence from the ‘plan’ as eluded to above but because of external responses from competitors and the wider market place that can serve to deflect the organisations’ intended plan and behaviour as created circumstances no longer make the intended approach appropriate.

3. Critical Strategic Issues

Mintzberg et al 1998, cite a series of ‘hard’ and ‘soft’ factors around which decisions are made and upon which strategies can be effected:

- The design of an organisation’s structure
- The characteristic management style in the firm
- A firm’s external relations
- Acquisition, divestitures or divisional control issues
- A firm’s internal posture and relationships
- An organisations innovative capabilities
- The effects of an organisation’s growth on the motivation of its personnel
- Values and expectation changes and their effects on worker and professional relationships in the organisation
• Technological changes that affect the organisation

There are so many factors that can affect which kind of strategy, how it is formulated and the nature and content of the strategy that a total analytical approach would not provide a sufficiently rigorous solution. To this end the combination approach of logical Incrementalism would allow the above-mentioned hard and soft factors to be accounted for in the solution.

The choice of strategy that an organisation makes at corporate level will have ramifications throughout the organisation. The business and operational level strategies will act as the vehicle to permeate the strategy down through the organisation. The practical dimensions of how the strategy will take effect will be added along the way.

It is therefore important that in evaluating and selecting a strategy, that management take account of how the overall strategy will affect the business at these two strategic levels. Due to the inter-relationship between these various levels, the strategies at business level can enhance the corporate strategy by adding to it, specific ways to achieve the desired outcomes.

The wider scope and considerations of the business can be expressed through identification of the strategic intent and diversity. At business level the corporate level strategy will be delivered through strategies perhaps revolving around price, differentiation or specific focus.

A competitive approach will seek to achieve competitive advantage for the organisation. Once chosen the strategy must be managed into implementation. There are several aspects which need to be considered in this phase:

• Resource allocation
• Planning and control
• Organisation structure
• People issues
• Change management

The main purpose behind the implementation process is to deliver the desired objectives, goals and mission set out for the business earlier in the strategic management process. This phase can often be the most difficult to complete as many factors can affect the success of the implementation. Uncertainty within the market environment and within the business needs to be addressed.

It is important to examine the importance of implementation process and its relationship to the other phases of strategic management. The corporate objectives need to be translated through the business functions. Examples of this are marketing objectives, operational objectives, human resource objectives etc. Each of these is translated into action plans for the functions. The success of the implementation process can depend upon communication and co-ordination. Lynch 1997 suggests that these elements are essential so as to avoid confusion, define business objectives clearly and to ensure co-operation and understanding of the strategy to be adopted. Information capability is also a key resource for success in the implementation process.
4. Competent Procurement

Supply chain management is concerned with the regulation of the flow of materials and information between customer and suppliers. It operates as a series of interrelated activities that plan co-ordinate and control materials, parts and finished goods from suppliers to the customer. The scope of the supply chain begins with the sources of supply and ends at the point of consumption”

As such supply chain management encompasses supplier management, purchasing materials management, production scheduling, facilities planning, logistics and customer service, amongst other elements. Depending on the stage of development of the purchasing and supply function and how it is recognised within that organisation the level of impact on the organisation pertaining to these activities will either be operational or strategic. Several models exist to explain the evolution of the purchasing and supply function and supply chain management within the organisation. These should be explored in more depth but here are a couple of examples: Barnes and McTavish 1983: Reck and Lang 1988

In respect of procurement, if the value of bought in goods accounts for a large proportion of the total cost of production, within an organisation then a proactive focus upstream to suppliers is important. (Stevens 1993) A proactive approach is viewed as a strategic approach.

According to Saunders the supply chain system can be viewed as a pipeline or chain. A connection between the internal operations network and external operations usually linked to supplier performance is established. Views of the supply chain explored as a network will be explored in the module too.

Saunders sets out a basic input/output model to represent the transformation process reflected internally and externally to the firm.

<table>
<thead>
<tr>
<th>INPUTS</th>
<th>OUTPUTS</th>
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<tbody>
<tr>
<td>Money, Materials, Equipment, Building</td>
<td>Transformation/Conversion Process</td>
</tr>
<tr>
<td>People, Information, Procedures, Policies</td>
<td>Goods/Services</td>
</tr>
<tr>
<td></td>
<td>Scrap/Waste</td>
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<td>Recycle? Recovery value?</td>
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Saunders in this model offers a different way to assess the value chain within an organisation as it is based upon structural elements and supporting infrastructural activities. People, systems, processes and procedures for control and planning the movement of goods and services along the chain internal and external to the organisation are key elements to value here. Internal and external activities need to be performed in
balance and their importance recognised in the competent and effective management of the whole supply chain and the business too.

Towill 1994 reproduces a traditional supply chain model.

This approach to the model explains the flow through the supply chain:
- Flow of goods that imply source of supply exists and the logistics to back it up.
- Flow of orders that imply customer demand, administration and management processes.
- Flow of money that imply contracts, Value for Money and criteria such as time cost and performance

Particularly within this model there are inefficiencies at each stage in respect of delays, inventory, decisions and rules and uncertainties. Saunders too discusses inefficiencies that firms wished to rectify. The model introduces supply chain issues whilst not explicitly. Over the past twenty years we have seen a demonstrated development of procurement and supply chain activities to match the change in environmental and business recognition of the worth of the area to the overall corporate strategy and competitive position or the reduction of costs.

Many aspects of any business are managed through supply chain management. Key elements and responsibilities such as integrated purchasing strategy, supplier integration, buyer supplier partnership, supply base management, strategic supplier alliances, supply chain synchronisation, network supply chain, value added chain, lean chain approach, supply pipeline management, supply network and value stream fall within the remit of Purchasing and Supply functions within business depending on the stage of development of the organisation. Most of these terms focus on the external links with the firm and are largely strategic in their effect on the firm.

As the relationship between buyer and supplier improves, and there are moves within organisations to concentrate on 'core business', more work is being transferred out of organisations to more specialist suppliers. Suppliers are becoming involved with the design of products. They work with those experts in the buying organisation to simultaneously engineer new products. They are involved far earlier in such developments than in the past, and they use Electronic Data Interchange (EDI), Computer Aided Design (CAD) /Computer Aided Manufacture (CAM) and other techniques to interface more efficiently with buying organisations. Such developments have greatly increased the efficiency of the supply chain and added value to the various customers. These new developments have also led to dramatic changes in supply chain structures.

Saunders makes the point that most of the work/discussion about the supply chain has been centred upon manufacturing. He suggests that strategies need to be developed for support chains that involve the flow of consumables or MRO items, capital equipment and, of course, services.

For many organisations in the Service Sector, the support chain is the supply chain as the product that the purchasing organisation sells is a service. The need to take account of design, technological change and opportunity is just as prevalent in this support supply chain. The use of technology has been a key to offering new services such as electronic
banking, electronic point of sale recording of sales information (which has a critical bearing on stock levels and supply chain in the retail sector) and on electronic purchasing itself. The use of purchase cards has revolutionised the way in which low value purchases can be handled to the significant benefit of many organisations.

Carnall 1999 explains that many pressures exist for the organisation to develop in the climate of growth to mature developed economies; to globalise trade; to develop competences for specific markets; to work within wider competition; and to move away from the approach that integrates the entire value chain toward the development of core competences.

These pressures have had a significant effect on the importance and development of the supply chain and the value added expected throughout that chain. By adopting World Class Concept throughout the supply chain, and by introducing a more responsiveness organisational structure, underpinned by empowerment, team building and greater cross-functional approaches to management helped to increase efficiency and to reduce costs.

Of specific interest is the strategic management of the supply chain in terms of added value and cost reduction. An inefficient or incompetent supply chain leads to the buying organisation paying far more than it needs for its products and services. Today it is argued that both the buyer and supplier working together effectively in a strategic long-term relationship can reduce unnecessary costs and bring down prices or at least maintain them over a much longer time. Traditional costing methods employed by many organisations have tended to encourage organisations to price on a full cost basis, and refuse to disclose information on their costs.

Japanese and more forward looking organisations have suggested that once a partnership has been developed, there is a need to continually drive costs down by being more efficient. This does not necessarily mean reducing the seller's price; it means reducing costs within the supply chain, thereby enabling the buyer to be more competitive in his final market.

With rapid innovation and change, finding suppliers who are prepared to get involved in such techniques as value engineering can further reduce costs. Often, early supplier involvement or simultaneous engineering further reduce cost. Cooperation rather than aggressive buying offers better prospects for improving the value of products in the supply chain.

Leading Japanese organisations are concerned that they have an 'open book' policy with their suppliers. Once a partnership has been established, both sides work together to achieve a 'target cost' by exchanging information that can help drive costs down. The idea is that both parties work closely together to identify opportunities for cost reductions and progressively seek to drive costs and prices downwards. The application of appropriate tools and techniques are contained in philosophies concerned with applying world-class concepts.

It is essential that the capacity available on the supply side is adequate for the buyer's demand. A failure in the supply chain to provide goods and services when required can lead to higher prices, shortages and eventually buying organisations going out of business. Too great a supply over demand would force prices down and, eventually, put
sellers out of business. Ideally, if buyers and suppliers work together, they introduce stability into the market place. Both buyers and suppliers should be aware of each other's needs and institute the necessary strategic capacity planning that will allow this to happen. The ideal situation would occur when customer demand pulls goods and services smoothly and efficiently through a well-developed supply pipeline, where costs are minimised.

Different sectors have their own distinctive input problems, e.g. production, capital, equipment, consumables, repair, operating supplies and goods for resale. All require planners to take into account different considerations.

Strategic planning should focus on ways of developing material flow by concentrating on such factors as the following.

- Customer requirements - how does the customer want goods delivered? What is the pattern of demand?
- Structural features of the supply chain need to be discussed and resolved by all interested parties
- A planning and control system needs to be established to provide correct information; this allows planning and control of capacity
- Future developments - successful benchmarking could lead to improvements.

It is important for any organisation to understand its customers and to appreciate the factors that motivate them to buy goods and services. Competition in many industries is fierce and so encouraging the customer to stay loyal to specific products or services is necessary to help sustain competitive advantage.

It is now accepted that those organisations that merely satisfy customer demands are not likely to be successful in business. New ideas from such writers as Philip Kotler and Tom Peters, argue that you must go much further and talk about ‘delighting the customer’. Delighting the customer, they argue, is ‘noisy’, while satisfying is silent. What this means is that if the customer, whether internal or external, is delighted with your product or contribution, they will tell everyone else how good you are. This leads to increased sales or recognition of the contribution you make in the organisation. Merely satisfying is no longer good enough.

All the newer management ideas of the 1980s and 1990s put the customer first. Competitive advantage and corporate prosperity is seen very much in terms of the customer and being able to react quickly to changing customer demands. The demands on business to change their operating practices due to the need to respond to customer needs will affect the strategies adopted by that business and the operation of the purchasing function and the supply chain too.

5. Conclusions

We have explored the concept of strategy from the perspective of definitions by many theorists. These definitions have served to bring the term strategy to life rather than a formally documented plan. Strategy is a living mechanism used for the purpose of developing and progressing the business in its environment. We have also examined
how strategies come into being. They can be formed through a formal deliberate plan (rational planning model) or through continuous patterns of behaviour conducted by workers and managers in the business (emergent strategy). More likely than these two extremes is the possibility of a combination of the two cited approaches that was explained as logical Incrementalism. Corporate strategy is important as it deals with the fundamental issues that affect the future of the organisation and as such involves the entire organisation.

The concept of the supply chain and its importance in the attainment of strategic goals is examined. The advantages of a well-managed effective and competent supply chain are explored, and some of the major difficulties explained. Strategic management of costs is concerned with co-operation between buyer and supplier to eliminate unnecessary costs throughout the supply chain. This can only be achieved through an effective strategic partnership agreement, with everyone in the supply chain committed to making world-class concepts work. Today the buyer has to take a leading role in strategic cost reductions, not just with his main supplier, but also throughout the supply chain. As you might expect, this is much easier to accomplish if you are buying for large multi-national organisations like Ford, Nissan or Rover. However, smaller organisations have also had success in the process.

Successful planning requirements and control of supply chains can yield substantial improvements in efficiency. If it is to be successful however, it needs all those involved in the supply chain to work closely together.
6. **Directions for Further Study**

**Principal essential reading:**

  ISBN 0-13-080740-0

- Saunders M (1997) Strategic Purchasing and Supply Management

**Supplementary Texts**


  ISBN 0-13-263856-8

- Hughes, Ralf and Michels 1998, Transform your Supply Chain: Releasing Value in your Business
  ISBN 1-86152-054-9

- Lamming R and Cox A eds. 1999, Strategic Procurement Management, concepts and cases.

  ISBN 0 7506 1941 4

**Practice Articles**

- I.P.S.E.R.A. Conference Papers,

  ISBN 1-86124-000-9

Self-assessment questions

1. What are the main advantages and disadvantages to viewing strategy from a rational planning standpoint?

2. What benefits might there be for the organisation if one adopted strategy from a logical Incremental standpoint?

3. What have been the main drivers for the evolution of purchasing and supply function from an operational to a strategic impact upon the organisation and what implications has this change for the overall success of the organisation.

4. Explain how the view of a supply chain as a pipeline differs from it as viewed as a network.

5. Explain how the role of the purchasing and supply function might change as the organisation concentrates on its ‘core business’ function?

6. Identify the ‘ Value-Chain or stream’ that exists for a manufacturing company and for a service organisation.

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