

Research Summary:

Identifying the 'real world' challenges faced by today's procurement professional

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Executive Summary

The environment in which procurement professionals operate has undergone rapid and dramatic change over the past few years. Whilst there is considerable academic research on the evolution of the procurement function, there has been little investigation of the effects of this transition on practitioners' development needs.

Existing studies focus largely on an administrative purchasing function, concentrating on basic negotiation and technical skills. However, this research paper is uniquely positioned as it analyses the linkage between the evolution of the procurement role, the 'real world' challenges faced by practitioners and the skills and competencies needed by today's procurement professional.

The research involves detailed responses given by 124 senior and director level procurement professionals, chosen from a range of multinational companies operating across a number industry sectors.

The interviewees expressed wide-ranging views on how the procurement function is positioned and perceived within their organisation and gave very contrasting views, with a real dichotomy of opinions between traditional and strategic procurement.

However, the findings demonstrate overwhelmingly that the evolution of procurement to a strategic function creates severe intra-company challenges, which must be addressed before procurement can be a true source of competitive advantage.

Even when procurement is given a strategic, board level mandate, practitioners were found to face the following challenges:

- That their role is not sufficiently valued, recognised or acknowledged by internal stakeholders
- They face severe difficulties achieving corporate 'Buy in' to their procurement strategy
- There is a serious lack of involvement in the early stages of the buying process

Statistical analysis demonstrated that the challenges faced are universal and not specific to any single industry sector or company size.

Given that procurement has increasingly become central to corporate strategy, the practical relevance and financial implications of these findings are profound. As highlighted, even when a board level mandate is given to make procurement a core strategic function, unless practitioners can effectively sell the value of their role and develop the intra-company status to be acknowledged as a true source of competitive advantage, they will only ever be involved by stakeholders in the 'downstream' phase of the buying process.

The study reveals unequivocal agreement by practitioners, that to deal effectively with the internal challenges they face as their role evolves, they must develop advanced internal selling, strategic influencing, change management and stakeholder management skills. Therefore, it is vital that investments are made in training and developing procurement professionals to become dynamic relationship leaders, capable of building and managing cross-functional strategic teams.

The intra-company cost of ignoring the need to update skills and competencies is incredibly significant. The success of procurement transformation initiatives and the creation of value and innovation within the supply chain are dependent upon procurement's ability to master the evolution towards a strategic function and the corresponding management of internal and external customers.

About the research

The original remit was to determine the negotiation training needs of today's procurement professional. It was believed that the evolution of procurement to a strategic function caused a corresponding shift from an adversarial (distributive) negotiation approach to collaborative (integrative) negotiation via use of cooperative partnerships and strategic alliances.

From the initial exploratory research and scoping interviews, it was apparent that procurement professionals were facing more fundamental and severe challenges associated with the evolution of procurement to a strategic function. Moreover, following an exhaustive academic literature review, it was evident that there was a distinct lack of research on the impact of the changes on practitioners' development needs.

Existing development studies focused largely on an administrative purchasing function, concentrating on basic negotiation and technical skills. Whilst negotiation development was acknowledged as an essential core procurement skill, the research scope was changed to identify the linkage between the evolution of the procurement role, the 'real world' challenges faced by practitioners and the skills and competencies needed by today's procurement professional.

Drivers behind the change

The evolution of procurement from an administrative function to a strategic role has consumed the academic world for the previous 20 years. Simply put 'Strategic Procurement' now means practitioners are:

- Managing strategic alliances and single-source partnerships, not adversarial relationships
- Involved at the early stages of decision-making and engaged in cross-functional teamwork
- Acknowledged as a source of competitive advantage

However, the reality on the ground is very different from the current management consensus. Being thrust into a strategic role demands a different skill-set than those of the traditional procurement professional and has profound implications for their development needs.

Therefore, the aims of this research are to:

- Explore the level of change in the procurement function
- Identify the 'real world' challenges faced
- Ascertain the key development needs of today's procurement professional

The research concludes by consolidating the 'real world' skills and competencies required to ensure procurement professionals can add value to their businesses competitive position.

Research

The research involved 24 in-depth interviews with senior or director level procurement professionals from FTSE 250 companies.

These data were complemented by 96 responses from an online survey that was sent to 300 multinational organisations. The sector analysis is detailed below:

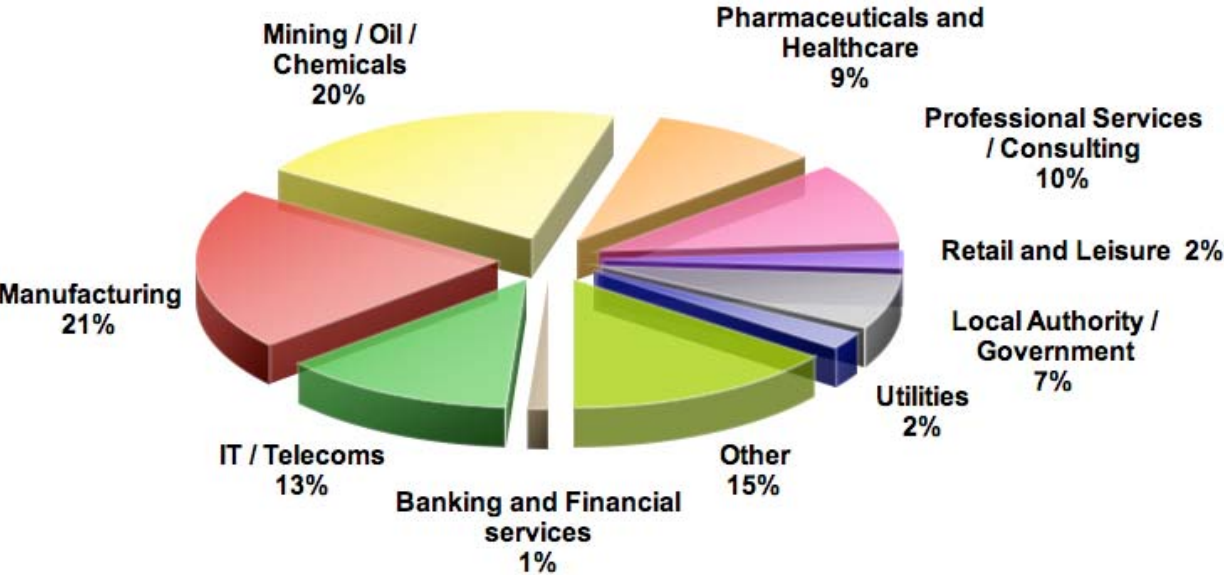


Figure 1 Industry sector analysis

Participants were drawn from a range of multinational organisations and industries, representing the services, manufacturing and local government sectors, mostly from UK and Ireland but also Continental Europe, Africa, the Middle East and Pacific Rim. The sample contained a range of firms with a significant majority having corporate revenues greater than £1 billion. The participating companies' annual revenues are detailed below:

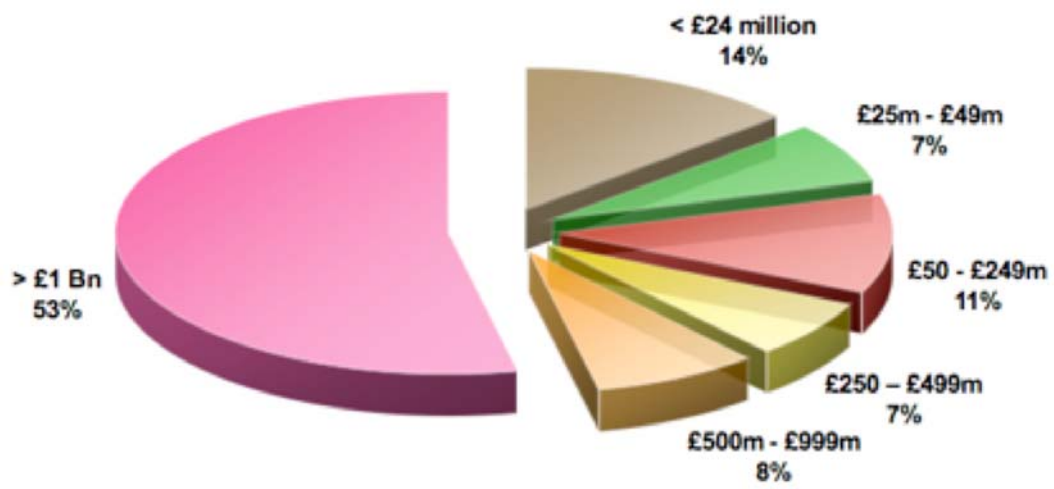


Figure 2 Participating companies annual revenues.

Findings

For brevity, only the key highlights are detailed. A comprehensive 128-page report is available on request from the author and the following section will present a summary of the research findings:

The Level of Change in the Procurement Function

To understand the level of change occurring, we asked the procurement practitioners if they felt the procurement function was seen as strategic by the senior management and company directors. The responses show strong agreement that the role is now indeed perceived as strategic.

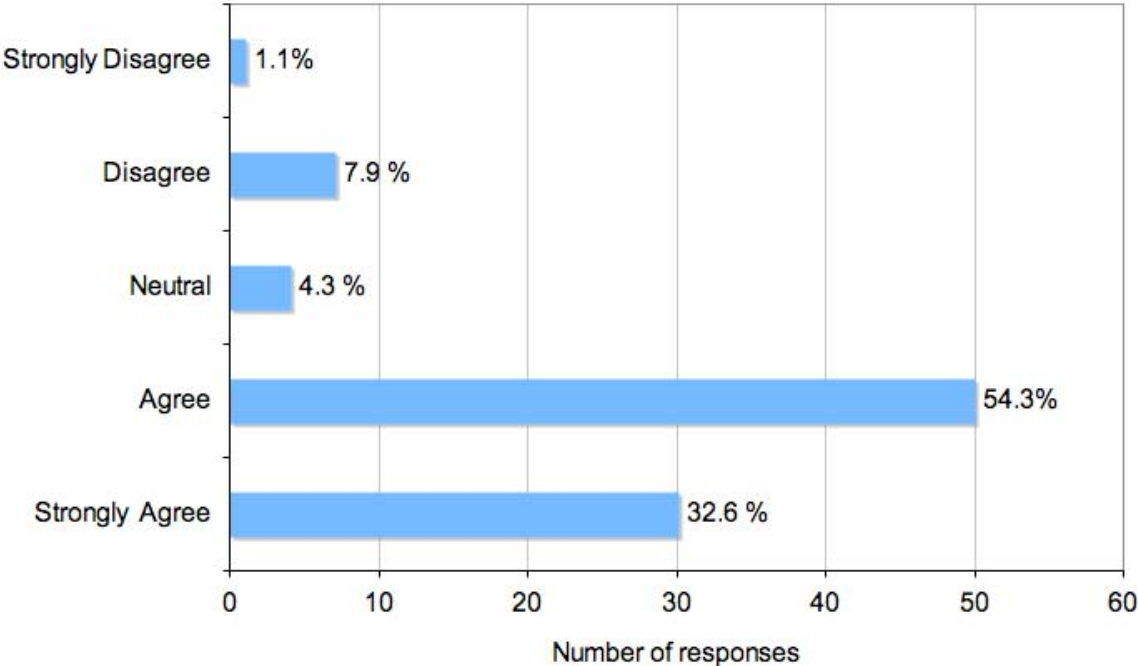


Figure 3 The procurement role is seen as strategic by management

However, when practitioners were asked if they believed if their procurement role is still an administrative function, the results revealed a real polarity between those that agreed and those that disagreed:

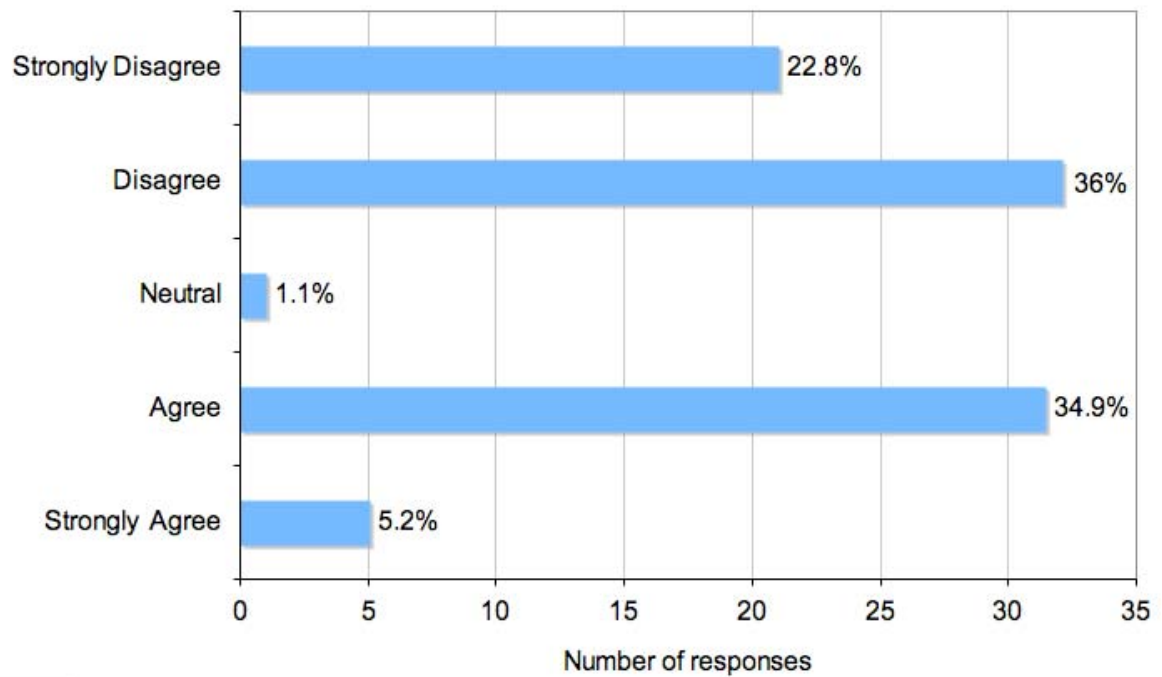


Figure 4 The procurement role is still an administrative function.

Statistical analysis demonstrates with 99.9% confidence that practitioners in companies with revenues greater than £1 billion, significantly disagree that their role is administrative when compared with the rest of the population; indicating that larger businesses have more consistent alignment between the corporate and procurement strategy and that they have invested in a 'procurement transformation' initiative.

Finally, practitioners were asked if they believed that the role is changing, affecting the skills needed. The majority overwhelmingly agreed, identifying the critical need for training and development programs:

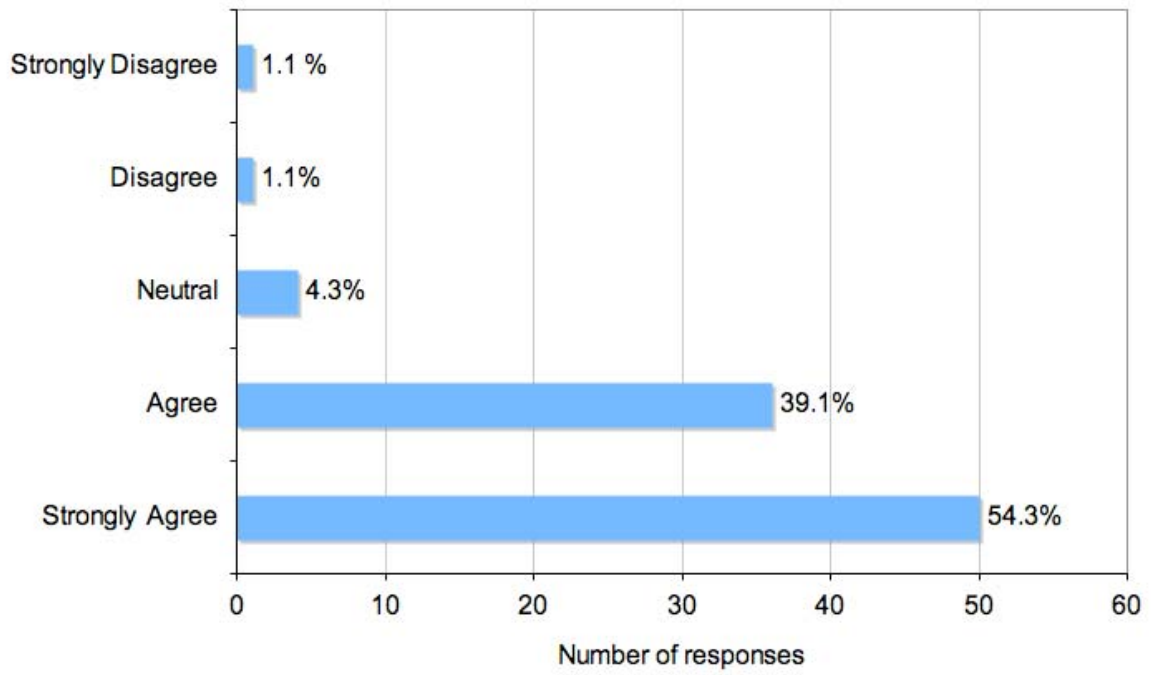


Figure 5 The procurement role is changing, affecting the skills needed

Challenges created by the change

Overwhelmingly practitioners identified intra-company issues and struggles as the biggest challenges faced in their role. Practitioners especially face difficulties being recognised and acknowledged by internal stakeholders for the value they can create, achieving ‘buy in’ to procurement strategy and getting early involvement in the purchasing cycle. Technical, legal and external environmental challenges were found to be less commonplace amongst practitioners but still relevant to some.

Challenge	Percentage
Intra-company challenges:	68.3%
<i>Being acknowledged internally</i>	18.4%
<i>Getting ‘Buy In’ to procurement strategy</i>	14.1%
<i>Lack of early involvement in decision process</i>	12.6%
<i>Having staff with necessary commercial skills</i>	10.6%
<i>Alignment with corporate strategy</i>	7.6%
<i>Cultural barriers and resistance to change</i>	5.0%
Technical	8.4%
Globalisation	6.4%
Supplier selection and management	6.5%
Legal aspects	5.7%
Shift to sourcing and operational involvements	4.7%
Total*	100.0%

Table 1 Frequency count of challenges faced

***Collated from 124 participants**

Statistical analysis demonstrated that the internal challenges faced are universal and not specific to any single industry or sector and even faced by those with corporate revenues greater than £1 Billion.

The following sections explore the four biggest intra-company challenges faced in more detail and provide some notable quotations given by senior practitioners that encompass respective attitudes to their role:

Internal Acknowledgment

The most powerful finding is that, with few exceptions, practitioners struggle to get the business to acknowledge value of their role. Even with a board-level mandate, practitioners struggle to get relevant stakeholders on board with their initiatives and involvement with investment decisions.

“We struggle with the concept of advising the senior directors (budget holders) on where to direct their funds. Nobody likes to be questioned or challenged by procurement.”

Head of Procurement, Global Telecommunications Company

“People see spend is power – so we find it difficult to get them to relinquish control.”

Senior Purchasing Consultant (Internal), Global Insurance Company

“The organisation views procurement as an inconvenient and possibly unnecessary step in the process of securing the goods or services required.”

Procurement Director, UK Financial Services

Achieving ‘Buy In’ to Procurement Strategy

Achieving internal recognition is essential before procurement can truly contribute to the organisation’s competitive advantage. Moreover if key stakeholders do not view the procurement role as strategic, this creates further difficulties for practitioners to achieve ‘buy in’ to their proposed strategy.

Clearly, developing strategic influencing and persuasion skills are essential for these practitioners to ensure they can generate internal ‘buy in’ to their strategies and communicate the value that they can create.

“The challenge is to get other staff to buy into strategy. The battle is getting in early enough to make an impact and to influence the alignment with initiatives.”

Procurement Director, Professional Services

“The biggest challenge is to control the actual spending after the contract has been signed.”

Procurement Manager, UK Telecommunications Company

Lack of early involvement in decision process

However, not being involved early enough to make an impact is the clearest indication that the function is not truly strategic or recognised within the organisation and essentially means that procurement is not viewed as an integral part of decision-making and investment process.

If practitioners are only involved in the ‘downstream’ phase of the buying process, that they cannot add or create any real value in this capacity. Contrary to the current management consensus, the viewpoints expressed by senior procurement professionals indicate the difficulties that they are experiencing:

“Whilst procurement is now being seen as strategic by our company, it is still an uphill battle to ensure early involvement. It is this early involvement that will reduce the risk to the business of inadequate contracts and satisfy the shareholders by benefiting the bottom line.”

Procurement Manager, European Electronics Manufacturer

“Some stakeholders feel that we are there just to get lowest price. They come to us having just done a deal and ask ‘will you now do the contract?’ our answer is no.”

Head of Procurement, UK Insurance Services

One practitioner demonstrated the low strategic importance of procurement in their organisation when they were brought in to negotiation with a supplier *after* the invoice had been received!

Resistance to Change

Procurement professionals also face severe challenges with intra-company politics and resistance to change. Even those considered to be in a strategic role face challenges to impose change on an intransigent corporation, both within their own teams and those of other departments.

The comments of some of the respondents, encapsulate the type of resistance to change that exists in organisation: within organisations due to lack of communication and other barriers; lack of understanding of the full role of the procurement professionals; and the behavioural factors that are the “human” responses to change as a lack of understanding and communication.

Thus, there is a need for change management skills to be an integral component to ensure procurement professional can overcome the resistance they face:

“The biggest issues are to break down the barriers, facilitate synergies between the silos and communicate with other departments”

Procurement Director, Consumer Goods Manufacturer

“Acquiring back-up and support across the business even though supported by top management. Difficulty in making relevant stakeholders see that procurement savings are not only direct price savings but also savings due to enhancement of working capital and streamlining processes.”

Procurement Manager, UK Healthcare Services

“Getting different areas of companies to work together towards the same goal with out the natural human response of feeling threatened and fearful of change.”

Purchasing Manager, Global Chemicals Manufacturer

Real world skills needed

The role of the procurement professional now involves managing complex intra-company and inter-organisational relationships. To understand the linkage

between the challenges faced and the new skills needed to overcome the difficulties, the practitioners were asked to highlight the importance of 20 skills.

The top six skills that were considered to be important or very important are summarised in table 2 with the average score for each respective skill.

Skills Needed	Response Average*
Influencing and persuasion skills (Selling value of procurement internally)	4.51
Stakeholder management skills	4.21
Advanced negotiation skills for complex projects	4.18
Change management skills	4.15
Communication skills (including listening development)	4.14
Relationship management skills	4.07

Table 2. Most important procurement skills needed:

* Ranked by the response average measured by a 5 point Likert scale, where 1 = not important, 2 = low importance, 3 = Neutral, 4 = Important and 5 = Very Important.

All procurement professionals felt they were strong on “basic” negotiation skills but an overarching trend was the need to develop professional selling skills so they can communicate the value they can bring. Some of the most enlightened practitioners highlighted this during the qualitative interview process:

“A core value is influencing skills to get buy in internally or there is zero adoption of strategy”.

Head of Procurement, Financial Services

Influencing and persuasion skills are found to be crucially important in the development of the procurement professional. There is also a need for advanced negotiation skills, and it is considered imperative that practitioners possess

stakeholder and change management, communication and relationship management skills. Practitioners who have undergone a 'procurement transformation' process highlighted that:

“Procurement must have stakeholder management and people management skills to communicate and sell benefits of what you do to create joint synergy within firm and buy in from different organisation departments.”

Procurement Director, Professional services

“The procurement professional should work heavily on stakeholder mapping. How do the organisation feel about procurement? Who should be included in decisions and ensure contact is taken with relevant stakeholders to find out early enough when things are happening? Procurement must be proactive and not wait for people to come to them for help.”

Senior Purchasing Consultant, Insurance Services

Cross Functional Development

As decisions about sourcing become the responsibility of cross-functional teams, procurement professionals must routinely interact with other managers to ensure they are given the opportunity to be involved in the decision-making process. Moreover, It is a cross-organisational project, internally as well as externally, to get the procurement professional involved at the beginning of the buying process.

Indeed, of the 24 respondents that had already implemented cross-functional teams the majority demonstrated that they did not experience the aforementioned intra-company challenges. The profile of procurement professionals that had implemented cross-functional teams indicated that:

- They belonged to very large corporations with revenues of over £1 billion (76%)
- Their role was perceived as strategic (92%)
- They are involved early in the decision process (96%)

One practitioner operating within an organisation that has undergone a 'procurement transformation' programme, including internal sales, stakeholder and change management training, states that:

Procurement is now seen as core activity with very high visibility. The barriers have been broken down and politics of buying services dealt with buy in from all parties and budget holders.

Head of Procurement Performance Improvement, Financial Services

Conclusions

This study highlights the dichotomy and lack of consensus on the magnitude of change taking place in the procurement vertical. However, the findings demonstrate overwhelmingly that the evolution of procurement to a strategic function creates severe intra-company challenges, which must be addressed before procurement can be a true source of competitive advantage.

Even when procurement is given a strategic, board level mandate, practitioners were found to face the following challenges:

- That their role is not sufficiently valued, recognised or acknowledged by internal stakeholders
- They face severe difficulties achieving corporate 'buy in' to their procurement strategy
- There is a serious lack of involvement in the early stages of the buying process

Procurement practitioners must sell and communicate the value of their role. A board level mandate alone not sufficient for success. The four stages of procurement development are detailed below:

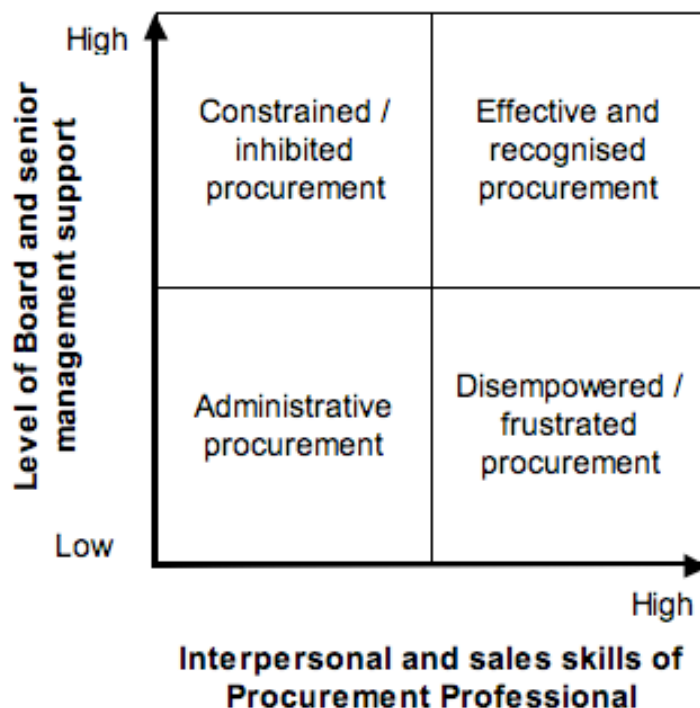


Figure 6 Procurement recognition matrix.

The study reveals unequivocal agreement by practitioners that they must develop advanced internal selling, strategic influencing and change management skills.

To enable practitioners to cope with the evolution of their role, a proposed skill development model for procurement professionals is below:

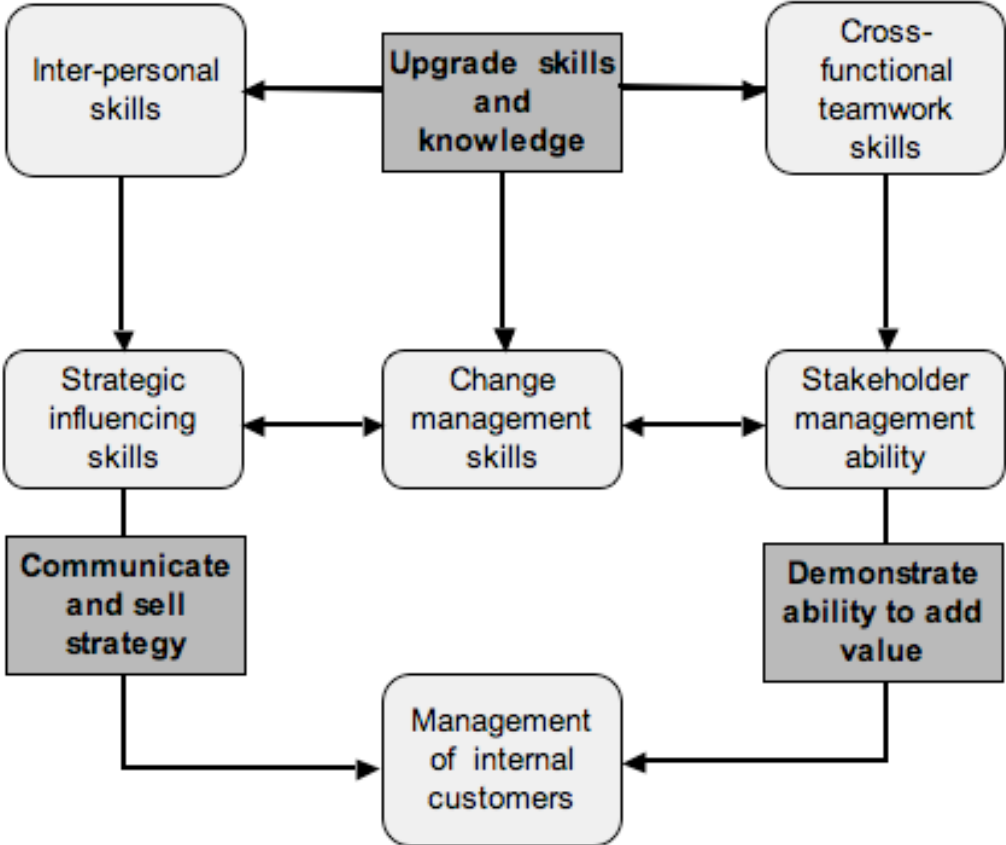


Figure 7 Procurement Skill-Flow Development Plan

Implications

Given that procurement has increasingly become central to corporate strategy, the practical relevance and financial implications of these findings are profound. As highlighted, even when a board level mandate is given to make procurement a core strategic function, unless practitioners can effectively sell the value of their role and develop the intra-company status to be acknowledged as a true source of competitive advantage, they will only ever be involved by stakeholders in the 'downstream' phase of the buying process.

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