

Delivering Policy through Procurement



[A policy is] a body of principles, expressed or implied, laid down to direct an enterprise towards its objectives and guide executives in decision making (Lysons and Farrington, 2006).



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Introduction

A policy as a body of expressed or implied principles guide executives in their decision-making (Lysons and Farrington, 2006). Whether formal policies support procurement, marketing, HR, or any other organisational function, they are usually mandatory and must be adhered to by any employee group that they implicate (CIPS: Purchasing Policy and Procedures; Lysons and Farrington, 2006). Effective procurement policies exhibit six reinforcing characteristics. These are action-oriented, relevant, concise, unambiguous/well-understood, timely and current, and guide problem solving and behaviour (Monczka et al., 2009).

Although many examples of procurement policies exist, they typically fall into one of five policy categories (Monczka et al., 2009). (1) Policies defining procurement's role: this policy set describes procurement's authority, objectives, and the responsibilities of the numerous buying levels. (2) Policies defining social and minority business objectives: it is often in a company's best interest to use its power to support social and minority business objectives, such as to transact with small or local suppliers, or deal with qualified minority vendors. Social responsibility towards minority suppliers is important because these vendors encounter many problems, not least access to capital. (3) Policies defining the conduct of procurement personnel: such policies clarify management's commitment to ethical and honest behaviour and serve to guide personnel who are confronted with ambiguous or problematic scenarios. In short, they help to shed light on grey areas where ethical issues might potentially arise. (4) Policies defining buyer-seller relationships: the topics covered in these policies are far-ranging, such as policies supporting positive supplier relationships, i.e. fairness, integrity, awarding contracts, quality, performance criteria, and prompt payment. (5) Policies defining operational issues: these might cover issues such as purchasing hazardous materials and the suitability of suppliers, supplier responsibility for defective materials, management's position on continually evaluating purchased items, legislative compliance, restrictions on source selection beyond the procurement function, and the proper disposal of material assets (Monczka et al., 2009).

Definition

Policy refers to all directives, both explicit and implied, "that designate the aims and ends of an organisation, and the appropriate means used in their accomplishment" (Monczka et al., 2009). In the broadest sense, policies delivered through procurement address the objectives of the purchasing function and define the responsibilities of the various buying levels. More specific or nuanced policies may then arise from these broad-based policies (Monczka et al., 2009).

Successful Application

Three basic principles should guide the procurement policies of individual organisations: (1) Policies should aim to select and procure, in an economically rational and preferably sustainable manner, the best possible goods and services available; (2) Suppliers worldwide should be eligible to participate in procurement transactions on open, fair and transparent principles (and with straightforward procedures); and (3) Procurement transactions should make an important contribution to society worldwide, for example, preserving natural resources and protecting the environment (Lysons and Farrington, 2006).

Steps to Successful Application

- Evaluate the written/unwritten policies that currently exist and that apply to procurement activities. Are these action-oriented, relevant, concise, unambiguous/well-understood, timely and current? Do they guide problem solving and behaviour?
- Identify if there is a procurement manual. How frequently is this updated and who is responsible?
- Evaluate the guidance provided to procurement personnel on: the value an individual at a particular grade can commit the enterprise to spending, supplier relationships (e.g. disputes, prompt payment), ethical and environmental policies, conflict of interest such as gifts and entertainment etcetera.
- Explore how current policies handle those who breach the rules, who has the power to enforce sanctions against breaches and whether current sanctions are effective?

Lysons and Farrington (2006); Monczka et al. (2009)

Hints and Tips

- It is essential to regularly undertake policy reviews and policy formation activities as this ensures that policies remain current and relevant to any recent changes that may have occurred in the organisational environment or with procurement legislation (Monczka et al., 2009).
- Policies should be delivered in sets and reinforce and support one another. Conciseness, clarity, and consistency in policy sets is important: cumbersome, poorly articulated policies can lead to confusion for employees and require greater maintenance by the company when time for review (CIPS: Purchasing Policy and Procedures).
- Managers should demonstrate that they are correctly following policies to reinforce to employees the correct procedures to adopt. Although policy training is often appropriate, managers can help to implicitly reinforce procurement rules and expected behaviours in their day-to-day behaviours (Monczka et al., 2009).

Potential Advantages

- Policies provide a platform for managers to execute consistent decision-making: when objectives are well-defined and clarified, decision-making is more transparent (CIPS: Purchasing Policy and Procedures).
- Policies set-out management's expectations for the behaviour and conduct of personnel relating to procurement activities (Monczka et al., 2009).
- Formal standards and policies are important in reducing role ambiguity so that employees can work effectively (Ghorpade et al., 2011).

Potential Disadvantages

- Policies are only effective when appropriately enforced by management. When a policy is broken, it is important to apply the necessary sanction at the appropriate level corresponding to the policy breach, otherwise the policy becomes superfluous and ineffective (Ghorpade et al., 2011).
- Policies require maintenance. They may become ineffective, counterproductive or counter-intuitive if they fall out of sync with organisational changes (Lysons and Farrington, 2006).

- Implicit or 'implied' policies can lead to ambiguity. These types of policy are likely to be less effective than explicit written policies because rules may be misinterpreted or applied inconsistently by different types of workers. Consequently, it is more difficult for managers to enforce sanctions on employees that break implicit policies (Monczka et al., 2009).

Performance Monitoring

- Benchmarking of social and minority business objectives: underpins how well the company supports sourcing from local suppliers or the process of awarding business to minority suppliers (Monczka et al., 2009).
- Benchmarking of ethical sourcing activities: if breaches are found among suppliers, immediate remedies or sanctions should be actioned (Hughes and Day, 2011).
- Supplier scorecards: provide a reliable and valid way to measure supplier performance and to align this information with policies on financial spending details with each supplier (Eakin, 2003); also help to measure compliance to negotiated contractual agreements (Bartolini and Dwyer, 2008).

Case Studies

- US-based advanced technology firm Lockheed Martin was ranked number one in an online minority supplier pole. The 2007 survey of over 525,000 individuals found that the company had the best supplier policies supporting women- and minority-owned businesses. According to Lockheed Martin, small businesses in particular help provide agile, cost-effective global security solutions to end-users (Monczka et al., 2009).
- Wal-Mart has famously strict purchasing policies and will pursue any employees who break these rules. In 2007 a disgruntled marketing executive accused Wal-Mart's ex-Chief Executive, H. Lee Scott, of accepting 'sweetheart deals' from suppliers, such as purchasing a diamond ring for his wife through a Wal-Mart vendor at preferential rates. Despite discrepancies over the allegations, considerable reputational damage was incurred as well as legal costs (Monczka et al., 2009).
- In January 2012 Hewlett Packard adjusted its policies to establish more favourable relationships with SME vendors for its public sector IT work. An additional 150 small technology firms will join the 600 smaller businesses already in HP's UK sub-contracting chain. The policy change reaffirms HP's commitment to the government's Prompt Payment Code: at HP, signatories agree to honour payment terms in their supplier contracts within 30 days on government contracts (Supply Management, 2012).

Further Reading/References

CIPS Source Downloads

- CIPS: Purchasing policy and process design
- CIPS: Standards in procurement

Web Resources

- Office of Government Commerce Publishes 'Policy through Procurement'
[://www.gmcvo.org.uk/node/](http://www.gmcvo.org.uk/node/)

- Innovation procurement policy : [://www.gov.uk/government/policies/investing-in-research-development-and-](http://www.gov.uk/government/policies/investing-in-research-development-and-)
- European travel buyers lack policy : [://www.supplymanagement.com/news/2010/european-travel-buyers-lack-mandatory-business-travel-policies/?locale=](http://www.supplymanagement.com/news/2010/european-travel-buyers-lack-mandatory-business-travel-policies/?locale=)
- The World Bank on procurement policies : [://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/PROCUREMENT/0,,contentMDK:50002392~pagePK:84269~piPK:60001558~theSitePK:84266,00](http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/PROCUREMENT/0,,contentMDK:50002392~pagePK:84269~piPK:60001558~theSitePK:84266,00).
- Creating a 'green' purchasing policy : [://www.green-office.org.uk/audit.php?goingto=](http://www.green-office.org.uk/audit.php?goingto=)

Books

- Purchasing & Supply Chain Management, Monczka, Handfield, Giunipero & Patterson ISBN 978-0324381344
- Sustainable Supply Chain Management, Cetinkaya, Cuthbertson, Ewer, Klaas-Wissing, Piotrowicz & Tyssen, ISBN 978-3642120220
- Purchasing and Supply Chain Management, Lysons and Farrington, ISBN 978-0273694380
- Corporate Strategy, Lynch, 978-0273701781
- Global and Transnational Business, Stonehouse, Campbell, Hamill and Purdie, ISBN 978-0470851265

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Video

Sustainable Procurement

[://www.youtube.com/watch?feature=player_embedded&v=J9OVks-](http://www.youtube.com/watch?feature=player_embedded&v=J9OVks-)

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