

P&SM: Linking Strategy and Purchasing



Raising the profile of purchasing and supply management within an organisation can be done by ensuring that the business objectives are identified and linked directly to the overall business strategy.



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Introduction

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This practice paper is about the importance of raising the profile of purchasing and supply management within an organisation. This can be done by ensuring that the business objectives are identified and linked directly to the overall business strategy. All too often there is a disconnect between objectives and strategy that relegates the role of P&SM to a compliance function because it is not seen as strategically important as other business objectives within say sales, marketing or production.

Background

In recent years the value of purchasing and supply management has been recognised as adding value to the organisation and this recognition has often given it a place in the boardroom. Most organisations now develop purchasing and supply strategies that help support and implement the overall corporate strategy. Detailed below are some of the main characteristics that CIPS believes can play a key role in ensuring that P&SM is recognised as being strategically important, regardless of the sector of the organisation:-

- Ensuring that as far as possible P&SM strategies and objectives are in alignment with the time-scales and objectives of the corporate strategy
- The P&SM team should have an in-depth appreciation of the strategic objectives of the organisation and how purchasing and supply management can contribute to the achievement of corporate goals. They should also have sound commercial skills that enable them to consistently add value to their organisation
- The Chief Procurement Officer (CPO), or equivalent, is a member of the senior management team and responsible for planning and implementing the strategic P&SM objectives that cascade from the corporate goals identified within the corporate strategy

Explanation

Corporate Goals

Corporate goals will differ according to each organisation but typically, once agreed by the leadership, they will drive the direction of the company and allocate resources. They should also be specific, measureable, achievable, realistic and timely (SMART). Corporate goals generally cover the following areas but, of course, may differ by industry. They should ensure that, as far as possible, P&SM strategies and objectives are in alignment with the time-scales and objectives of the corporate strategy which is vital for the development of the business.

- Increasing profitability
- Customer satisfaction
- Financial performance

- Sustainable growth
- People
- Safety and reliability

Each of these areas will be further defined and contain (as far as possible) SMART objectives. Example of SMART objectives linked to the environment for an airline might be:

- Reduce our average noise per aircraft by 10% by 2015
- Become 25% more carbon-efficient by 2020 (83 g CO₂ /pkm reduced from 111 g CO₂ /pkm)

The public sector is not driven by profit motives but by the provision of public services and protection of people. It is complex and devolved and has to take into account many factors when deciding on their goals. These factors include government policy, political pressure, funding and regulatory restraints. An example of a policy goal is the UK Governments' intention to promote the growth in the tourism sector. 2012 is not only the year London hosts the Olympic Games but also the Queen's Diamond Jubilee celebrations and, from these events, the Government has identified many goals that they believe will help them to boost the tourism sector. The following is just one of these goals¹:

- To fund the most ambitious marketing campaign ever to attract visitors to the UK in the years following 2012. The £100m campaign, co-funded by the government and the private sector, aims to attract four million extra visitors to Britain over the next four years. That equates to £2bn more spend in our economy, and 50,000 new jobs

Government policy must cascade to all public sector bodies including central/civil, local and the third sector and so all public sector bodies have to be aware of the importance of goal setting to not only implement government policies, but also to define their own goals that will be based on government targets and objectives. If we take the above detailed goal for the promotion of tourism as an example, then a local authority in London might bid for some of the campaign money for their borough and, in order to do that, they will have to put together a business case containing community outcomes, goals and objectives that will persuade those assessing the bids of their merit to receive funding.

Integrating P&SM with Other Corporate Functions

Purchasing and supply management strategies should be visible and demonstrable. A balanced scorecard² approach is recommended to ensure consistency across the organisation (Kaplan and Norton, 1996). It can also be argued that in times of increasing organisational change, the objectives of an organisation must be integrated carefully to ensure that it remains focused on the central strategic objectives.

The organisation's individual functions, eg. P&SM, marketing, operations and human resources then generate their own goals and objectives that support and align with the organisation's

¹ Government Tourism Policy, Department for Culture, Media & Sport (February 2011)

² WWW: Balanced Scorecard Institute

<http://www.balancedscorecard.org/BSCResources/AbouttheBalancedScorecard/tabid/55/Default.aspx>
last accessed 08/11/2012

corporate objectives and strategies. It is also important that each functions' goals must dovetail with each other so that they are in alignment with the corporate strategy.

It is important that P&SM professionals have sound commercial skills that can be used cross functionally. CIPS encourages P&SM professionals to work with other functions in teaming, bid preparation, supplier management activity and also with senior management when considering more strategic alliances such as large capital projects, joint ventures or outsourcing.

P&SM - Responding to Change

Managing change is a part of the corporate landscape and P&SM professionals should be able to adapt and flex according to corporate needs. All organisations are realising the importance of agility especially within their supply chains. The global nature of today's trading patterns means that both governance structures and corporate goals must be robust yet agile. This is a difficult balance to achieve especially for the traditional organisation that has a hierarchical structure and is only focused on shareholder gain. The modern organisation embraces fluid structures and technology and focuses on the needs of their customers who are ever more demanding for less standardisation and more customisation.

Agile organisations³ have unique capabilities that allow them to move from strategy to execution far more efficiently by having a common business language and flexible structure, including its supply networks, and this permits the use of predictive modelling. The leaders must also have a clear understanding of the innovations that contribute to corporate goals so can ensure the right level of resource and talent.

P&SM within the Corporate Hierarchy

P&SM professionals have always sought to influence corporate objectives and strategies and in some cases have raised the profile sufficiently to secure a place within the senior management team. However, the power to influence is often directly related to the status of the head of P&SM, and so if this person is a well-respected member of the senior management team, the level of influence is likely to be significantly more than a person who reports to a senior manager.

Heads of P&SM should possess leadership qualities as they must understand and appreciate the contribution that they can make to the overall success of their organisation. Changes of key personnel can also affect the influence of P&SM within an organisation. When heads of P&SM leave for any reason the influence often declines and the self-promotion cycle has to start again.

In general, senior management boards are only interested in the specific P&SM projects that are on their agenda. For example, if they are concerned about surging oil prices, the foresight of the P&SM team in hedging the oil prices will interest them as it saves them substantial cost and allows them to plan without worrying about market price volatility.

³ **WWW:** Cheese P, Silverstone Y et al Creating an Agile Organisation
http://www.accenture.com/SiteCollectionDocuments/PDF/OutlookPDF_AgileOrganization_02.pdf, last accessed 08/11/12

P&SM should maximise these opportunities when the spotlight is on them, to promote their contribution to the organisation. If the team is able to secure the support of the board in particular projects that have successful outcomes the level of trust may often develop, which can then result in P&SM being approached by the senior management on subsequent occasions when other projects or initiatives are under consideration.

A Leading Role for Purchasing and Supply Management Professionals

P&SM professionals are often the key interface with the supply market and are therefore in a position to influence behaviours that are important in protecting brand identity. Corporate policies relating to business ethics, sustainability and governance should be influenced by the P&SM team as these areas are an integral element of corporate governance and brand integrity.

P&SM professionals should always maintain the highest levels of competency for their particular role. Continuing professional development (CPD)⁴ is essential to maintain their effectiveness for the organisation and that is the reason why CIPS offers CPD to all its members.

Conclusion

CIPS believes that P&SM has a pivotal role to play in the formulation, implementation and evolution of an effective corporate strategy and that it is incumbent on all P&SM professionals to strive to promote and influence the strategic direction of our profession.

⁴ Continuing professional development

<http://www.cips.org/en-GB/Careers/continuingprofessionaldevelopment/> last accessed 08/11/2012

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