

Purchasing Policy and Process Design



Purchasing policy and process design
Procurement policies are often seen as sets of rules governing practice and procurement processes, rather than the foundations upon which strategic procurement capability relies.



CIPS members can record one CPD hour for reading a CIPS Knowledge download that displays a CIPS CPD icon.

Purchasing policy and process design Procurement policies are often seen as sets of rules governing practice and procurement processes, as little more than workflows around electronic purchase to pay systems, rather than the foundations upon which strategic procurement capability relies.

This CIPS Knowledge Insight document aims to achieve the following learning outcomes;

- to help understand the need for practice rules and controls
- to help get the best out of procurement policies and processes and ensure their appropriateness
- to help challenge inefficient policies, practice and processes, or the established position, and learn to recognise where they inhibit the success of an organisation, or prevent it from getting the best out of its resources and suppliers
- to help understanding of factors which shape policy and process
- to highlight issues to consider when reviewing or designing policies, practice and processes, and developing contemporary solutions, meet the current needs of your organisation.

Introduction

This paper seeks to broaden understanding of procurement policies and processes. It advocates continual improvement as a means of mitigating the cost and risk of not having contemporary, appropriate, and effective policies and processes, the consequences of which may manifest as:

- poor cost control with little understanding of who is spending how much, with which suppliers, what is being bought, and are the right payments being made
- exposure to fraud through lack of control over accountabilities, responsibilities, records and audit trails, gifts and hospitalities, and vested interests
- poor reputation through late payment, adversarial behaviour, lack of regard for environmental and corporate social responsibilities, lack of regard for disreputable, unethical, or illegal practice
- insecure supply chains through poor understanding of supply markets, inadequate supplier management, lack of demand knowledge, invisibility of technical and commercial change.

It does not seek to provide a panacea for process design, but it may facilitate an improved route to success.

Regardless of the size or complexity of a trading organisation, clear procurement processes and compliant practice will help ensure delivery of key business goals, objectives, and success.

Definitions

For the sake of simplicity, the term 'policies and processes' is given to mean policies, processes, procedures, practices and allied prescribed activities.

The terms, buying, purchasing, and procurement are taken to be synonymous.

CIPS' positions on practice

CIPS views, opinions, and beliefs are stated throughout the document; however, the broad practice statements that underpin the text are as follows:

CIPS believes that purchasing and supply management professionals should:

- be trained to have a thorough understanding of policy and processes and be able to determine what is appropriate for their organisation
- maintain a body of knowledge of extant and emerging practice to sustain continual improvement
- have a full understanding of rules, regulations, law, and guidelines which impact on policy and process
- ensure that policy and process mitigate business risk and manage cost
- ensure that policy and process are developed to deliver the objectives, vision and/or mission of the organisation
- ensure supply chain compliance or alignment with adopted policy and process through supplier assessment and evaluation
- formalise policy and process development.

Guidance

The following guidance notes are based on observations around implemented purchasing policy and process frameworks. They address the fundamentals of approach, rather than detail content; most are capable of transfer between organisations, and are believed to be good practice (the converse being considered poor practice). A list of core subject headings is provided in Tools and Templates to help identify appropriate policy and processes, special policy and process requirements are generally excluded.

Language

Language we use to record our thoughts is of no use if it is ambiguous, contradictory, misunderstood, or misinterpreted.

Numerous glossaries of terms used in our profession illustrate the difficulties we have in expressing what we mean. How many definitions are there of 'procurement' and how does it differ from 'purchasing'? If the very terms process, procedure, policy, and practice are not clearly understood, then what chance for terms such as 'sustainable procurement'?

Issues to consider:

- beware the use of jargon, acronyms, and expressions, which obscure common understanding and clarity.
- use plain English
- be concise
- provide clear and simple definition of terms you use, for example, what you mean by policy, procedure, strategy, and so on.

Clarity of Purpose

Clarity of purpose is essential in creating policies and processes relevant to your business, and which can be understood. Explain why policies and processes are necessary and factors which shape them.

Issues to consider:

- embed corporate governance understanding and controls within policies and processes to facilitate fraud prevention, mitigate risk, and implement delegation of powers and authorities

- include only those elements of external influences (for example ISO9001, Sarbanes Oxley, EU Directives, legislation, customer requirements, industry codes, corporate social responsibilities) which directly impact on procurement, and can be owned by you
- avoid ownership of accountabilities and responsibilities of other functions within your business (such as specification of requirements).

Accountability and Roles

Accountability for policy and process must be at the highest level within your organisation and together with role clarity, within and outside of procurement, will help ensure compliance.

Issues to consider:

- be clear on who owns procurement policies and processes;. It may be that the head of procurement is accountable for them, but the audience needs to know who to contact for advice and support
- identify those in need of detailed knowledge and understanding of your policies and processes; use them to familiarise and increase awareness across the wider audience
- bar casual users from direct access to policies and processes, instead refer them to your cadre of experts
- enable local accountability for policy and processes where decentralised corporate structures, or national teams require differing solutions; aim to avoid duplication and ambiguity, and heavy handed central control where this may inhibit efficient and effective local practice
- retain change management and version control; beware the webmaster, or document controller you do not control, their actions may impede delivery of your aims and objectives.

Access and Availability

CIPS believes that P&SM professionals should project manage the planning, development, consultation, launch, rollout, and marketing of your policies and processes to ensure effective access to, and ongoing use of your policies and processes. Access to your information must be quick and easy if it is to be effective.

Issues to consider:

- adopt a corporately branded house style to reinforce procurement's role in the organisation
- consider a single source of truth. Implement effective version control (old versions may need to be retained for reference)
- choose the most appropriate media to deliver ongoing ease of access:
- design for use, not abuse (avoid 'door-stop' manuals)
- decide when and where information can be viewed
- templates may enable uniformity of style but may restrict flexibility;
- printed documents may meet your immediate needs but are difficult to control and update
- electronic documents may be easier to control and distribute but may not be conveniently accessible
- do not underestimate the difficulty users experience in searching for information; create simple but effective navigation tools (contents, indexing, or menus)
- time the launch of major updates to avoid holiday periods and other significant corporate activities.

Design and Content

The most fundamental pre-requisite to successful content design is to know what you want the content to facilitate. You may choose to rely on:

- prescriptive manuals which lock down processes and practices as a means of delivering compliance, or
- guidance notes with minimal constraints to facilitate creativity, or
- something in between.

With care a balance of control and freedom to express individuality will promote both willing compliance and success in the face of changing circumstances, and the ability to exploit opportunities.

Issues to consider at design stage:

- compliance, governance, and assurance are words to strike fear or loathing into the hearts of buyers; carefully consider the perception others have of your tools and of the staff you engage in their deployment. If your ambassadors or tools turn people off you will facilitate confrontation and non-compliance
- be cautious of adopting a prescriptive style, it may offend experienced staff, or stifle creativity and innovation; avoid creative inhibitors by using fewer “thou shalt” instructions,
- replacing them with “when engaging in x/y/z, consider... a/b/c”
- if you choose to adopt a position on a particular issue then support this with explanatory notes. Close down opportunities for misinterpretation
- avoid systems driving behaviours or processes; fix the business process first, then facilitate it by using a system. Consider embedding workflow to facilitate compliance
- map the scope of your policies and processes and clearly illustrate interfaces with systems, support and dependent processes (for example, accounts payable and budgeting systems and processes), and other functions’ processes (such as environment, safety, technical, legal)
- establish a simple rule set for your design parameters:
- plain English, no acronyms, no jargon
- confidentiality and access rights
- concise
- single source of truth
- use of images vs. text.

Issues to consider on content:

- beware emerging practice and fashion statements. Strike a balance between pragmatism and innovation, but retain the flexibility to support continual improvement
- avoid the temptation to minimise content by concentrating on “what works today”, instead adopt a “craftsman’s tool chest” approach capable of supporting competency development and lessons learned analyses
- keep it simple
- segment components into:
 - rules - what must be done
 - guidance - things to consider when engaging in x/y/z
 - checklists - as aides-mémoires
 - template documents – improve consistency and speed up process
 - system guides
 - publications

- data links, including web addresses.
- Use of integrated process maps, mind maps, and RACI (Role/Accountability/Consultation/Inform) activity diagrams.

Continual Development

A well-developed suite of policies and processes will not ensure compliance with corporate governance, continuing good practice, or improved performance, but it will help. Successful policy and process regimes continually monitor their successes and failures; their challenge is to continuously adapt to change, and drive change to improve. Issues to consider:

- procurement practitioner competency measurement and development
- induction training for new starters
- compliance audit, and self-audit protocols to challenge practitioner behaviours rather than process
- ask yourself - have I got it right, is it being used?
- how to identify or develop better practice
- how to manage organisational change
- how to manage version control, obsolete documents, and historic records
- consider benchmarking or peer comparison
- consider accreditation or certification by a professional body.

Special Practices

Practice related to the following may not transfer well between organisations or business sectors:

- European Union (EU) Procurement Directive driven practice will not transfer between organisations working to Consolidate or Utilities Directives, and between such organisations and the rest of the private sector
- private sector practice, unrestrained by EU Directives and the Freedom of Information Act, will not transfer into public sectors; particular care must be taken when private sector organisations trade with public sector organisations and practices conflict
- regulation often demands special procurement practice, this may be irrelevant to unregulated organisations
- defence industry security related practice may not transfer well to other sectors, and conversely other sector practice may not be permitted within the defence sector
- organisations who dominate their markets may infringe the provisions of the Competition Act by exploiting their power over customers and suppliers, whereas lesser players may influence customers and suppliers in similar ways within the law
- practice needed to acquire effective research, design, or development from suppliers will be of little or no use to those who buy simple goods, services, or works
- monopoly or monopsony supply chains drive the need for long-term relationships, partnering, and collaboration; these practices would be of little use in volatile markets where demand and supply may be short lived, where wide fluctuations in supply and demand are common, where technology moves rapidly leading to high churn of suppliers, or where the best business deals are met by spot markets and auctions.

Impact on Procurement

Good procurement policy and processes will facilitate:

- clarity of purpose within procurement and across the organisation

- a shift of focus from resolution of procurement issues to that of providing business solutions, by improved alignment with strategic business objectives
- demonstration of fair, equitable and transparent processes, where necessary
- appropriate corporate governance and compliance
- certification to established standards (ISO, CIPS, AMEM and so on.)
- continual professional development of procurement staff
- consistent delivery of business objectives.

Risks

Risks associated with inadequate, or poorly maintained policies and processes include:

- policies and processes are ignored, with non-compliance leading to poor cost control, fraud, reputational damage, or supply chain insecurity
- loss of trade arising from high-cost base, poor reputation, county court judgements for poor payment, or prosecution
- systems drive inappropriate processes and practice
- use of language confuses procurement and the business
- inaccessibility, lack of clarity, and poor accountability impede compliance and continual development
- mandate too much and you will stifle creativity and innovation;
- mandate too little and you risk loss of control, lack of consistency, or anarchy
- loss of certification to standards (ISO, CIPS, AMEM and so on.)
- inability to recruit or retain high performing professional staff
- failure to deliver business objectives.

Barriers and Enablers

Barriers to successful policy and process include:

- lack of funding or direction from senior management for the development, implementation, and continual improvement of a professional procurement resource
- inadequate or inappropriate purchase to pay systems which divert energies from progressive procurement practice to transaction management
- closed mindsets which inhibit development and innovation ('Not how we do it here', 'If it isn't broken then don't fix it', 'I am happy with the service I receive today, don't mess with it', 'You are a service department, let me worry about impact on the business')
- cultures of non-compliance in which offenders are not held to account, disciplined, or dismissed
- regulated into stasis
- lack of challenge, low expectation of success, or absence of anyone with the vision to know what 'doing well' looks like.

Enablers to successful policy and process are the converse of the above but also include:

- a willingness to seek out good practice and learn from within your organisation, within your market sector, and from completely different sectors and professions
- learning from your mistakes, what works well and what does not
- combining the best of lean process and practice efficiency savings with an adaptable approach to change, to deliver an agile forward looking development plan capable of meeting
- whatever new business needs materialise.

Policy and Procedure Checklist

Below is a checklist of core areas to address the developing procurement policies and procedures:

Rules ('you must do' statements)

- Accuracy & Completeness of Information
- Advance Payments
- Anti-competitive Behaviour
- Approval of Suppliers
- Code of Conduct
- Confidentiality Agreements
- Construction Industry Scheme (CIS)
- Contract Award Notification
- Contract Documents
- Contract Price Adjustment
- Credit Periods
- Disposal of Assets
- Dispute Resolution
- e-auctions (when to use)
- Employee Purchases
- E-procurement Catalogues
- Ethics
- Factoring
- 'Fit for purpose'
- Foreign Currency Payments
- Framework Agreements
- Heads of Agreement
- Instructions to Proceed
- Insurances
- Intellectual & Commercial Information
- Inviting & Receiving Tenders
- Invoice Payment
- Invoices or Certificates
- Late Payment
- Law of Contract
- Letters of Intent
- Limitation of Liabilities
- Liquidated Damages
- Non-solicitation of Staff
- Parent Company Guarantees
- Partnerships & Limited Liability
- Partnerships
- Payment
- Performance Bonds
- Policy Development
- Policy Process
- Post Tender Negotiation
- Provisional Sums
- Purchases made outside Purchasing
- Purchasing Cards
- Reciprocal Trading

Records
Recovery of Sums Due
Requests for Information
Retention & Bonds
Retrospective Contracts & POs
Rights of Third Parties
Risk Assessment
Safety & Business Critical Suppliers
Statutory & Case Law Compliance
Collateral Agreements
Single Tender Sourcing
Software Piracy & Intellectual Property
Rights
Supplier Employment Practices
Supplier Financial Probity
Supplier References
Supplier Registration
Tender Documents
Tender Evaluation
Termination & Suspension
Terms & Conditions of Contract
Trading with Joint Ventures and
Consortia
Travel & Entertainment Policy
TUPE
Unacceptable Supplier Behaviours
Unsuccessful Tenderers

Communication (selling messages)

Conferences
Forum
Publications
Websites

Organisation and Competency (roles and skills)

Organisation definition and charts
Role descriptions with accountabilities
Personal objectives
Qualification and continual development
Measuring Procurement Performance
Alignment with Business Objectives
Supplier satisfaction
Whistleblower hotlines for suppliers and staff

Guidance ('how to' guides)

Automatic Provisioning
Award Criteria & Evaluation
Award Recommendations
Category Management
Claims Management
Competition Act - Compliance

Contract Management
Contract Planning
CSR
Design Competition
Dispute Resolution
Environment & Sustainability
ESCROW
EU Directives
'Fit for Purpose'
Framework Agreements
Fraud Prevention
Health & Safety - Contractor
Health & Safety - Hazardous
How to Buy
Insolvency
Inspection on Receipt
Key Supplier Partnering
Knowledge Management
Make vs. Buy
Materials Management
Negotiation
Obsolescence
Operational Purchasing Planning
Operational Purchasing Review
Outsourcing
Process Maps
Procurement Strategies
Product Evaluation
Purchase to Pay System Processes
Qualifications/Tender Selection
Relationships
Requisitions & Ordering Systems
Research and Development
Risk Mitigation
Specifications
Stock Control
Strategic Purchasing Planning
Supplier Assurance
Supplier Development
Supplier Employment Practices
Supplier Financial Probity
Supplier Performance Management
Supplier Pre-qualification
Supplier Relationship Management
Supplier Risk Rating
Supply Base Management
Supply Chain Mapping
System User Guides
Team Development
Tender Documents
Tendering

Unacceptable Supplier Behaviours
Unsuccessful Tenderers
Waste Management

Controls (Governance)

Authorisation of Expenditure (budget control)
Authority to Approve Claim Settlements
Authority to Approve Single Tender
Action
Authority to Approve Variations
Authority to Contract (commitment)
Authority to Make Payment (accounts payable)
Authority to Pay Ex-gratia Sums
Delegated Powers under Procurement
Contracts
Execution of Deeds
Executive or Board Approvals
Gate Review Mechanism
Self-audit - Compliance and Improvement

Templates (Standardised documents)

Checklists
Forms
Letters
Notices
Questionnaires
Sample Agenda
Surveys

Conclusion

Procurement is plagued by those who know better, each with opinions on the 'right' approach to writing policy and processes. Implementing such opinions comes at a price.

There is no simple recipe for success when compiling policies and processes but there are proven guidelines. The wealth of extant material, some successful, some not, lies hidden with its owners. Some are willing to share their experiences, network to learn, learn to develop, develop to succeed. Successful practitioners do not discard tools proven to work well, but retain them for future use; they beg, borrow, or steal other's successes, modifying them to suit their purposes; and create new tools when needed.

In summary, a policy and process regime needs to accommodate successful and new ideas, presenting them in a pragmatic way tailored to meet the demands of its owners. In simple terms, it must include "stakes in the ground" identifying what must be done, "child restraints" to help the less enlightened meet compliance needs, and "craftsman's tools" to facilitate better procurement practice and understanding.

Further Reading

CIPS:

- Knowledge How to Purchasing Policies and Procedures

- CIPS Organisational Certification Excellence in Procurement Policies and Procedures (PPP)
- CIPS Certification Excellence in Strategic Procurement Capabilities (SPC)
- [://www.cips.gov.uk](http://www.cips.gov.uk)

Central Procurement Directorate – Procurement Processes and Procedures

[://www.cpdni.gov.uk/index](http://www.cpdni.gov.uk/index).

OGC – Procurement Policy and Standards [://www.ogc.gov.uk/index](http://www.ogc.gov.uk/index).

Web search on 'procurement purchasing policy processes procedures' to find published examples.

Author

Stuart Foster FCIPS

September 2007

CIPS Group Easton House, Easton on the Hill, Stamford, Lincolnshire, PE9 3NZ, United Kingdom
T +44 (0)1780 756777 F +44 (0)1780 751610 E info@cips.org

CIPS Africa Ground Floor, Building B, 48 Sovereign Drive, Route 21 Corporate Park, Irene X30, Centurion, Pretoria, South Africa
T +27 (0)12 345 6177 F +27 (0)12 345 3309 E infos@cps.org.za

CIPS Australasia Level 8, 520 Collins Street, Melbourne, Victoria 3000, Australia
T 1300 765 142/+61 (0)3 9629 6000 F 1300 765 143/+61 (0)3 9620 5488 E info@cipsa.com.au

CIPS Middle East & North Africa Office 1703, The Fairmont Hotel, Sheikh Zayed Road, PO Box 49042, Dubai, United Arab Emirates
T +971 (0)4 327 7348 F +971 (0)4 332 5541 E mena.enquiries@cips.org

©CIPS 2013



*Printed on stock containing
50% post consumer
recycled content*

www.cips.org

CIPS™ is a registered trademark of the
Chartered Institute of Purchasing & Supply