

GORDON INSTITUTE
OF BUSINESS SCIENCE

University of Pretoria

**A Comparison of the South African Procurement
Environment with Global Best Practice**

Gareth David William Rule

A research project submitted to the Gordon Institute of Business Science,
University of Pretoria, in partial fulfilment of the requirements for the degree of
Master of Business Administration.

14 November 2007

Abstract

The aim of this research was to investigate the ways in which South African organisations are embracing the potential to improve their performance through the use of effective strategic sourcing practices. Four specific indicators for effective strategic sourcing were identified, around which four research questions were formulated.

This research was qualitative in nature. An exploratory, applied research process based on experience survey methodology was followed, using two survey instruments. Questionnaires were issued through a professional body to all its members, and key informant interviews were conducted with a number of subject matter experts. Content analysis was applied to the data collected.

The results of this research support the idea that the procurement function in South African organisations is involved in the overall strategic planning process, is appropriately positioned and structured for effective strategic sourcing, is attempting to use appropriate tools and techniques where possible, and is applying appropriate performance measurement methods. However, improvement in a number of areas is still required if these organisations wish to achieve the full benefits that strategic sourcing can offer.

The results of this research could be used by procurement managers in South Africa for guidance in terms of how to structure and manage their own functions in order to derive the greatest possible performance improvements.

Declaration

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other university.

Gareth David William Rule

14 November 2007

Acknowledgements

I wish to acknowledge the contributions made by, and express my sincere appreciation to the following people, all of whom have made this research report possible.

- First and foremost I want to recognise the fabulous support provided by my wife, Natalie. Thank you for your kindness and understanding.
- I would like to thank my research supervisor, Dr. Charlene Lew, whose valuable guidance has contributed immeasurably to this report.
- To Kraai van Kraayenburg at IPSA for his assistance with the distribution of the questionnaire.
- To Deon Moche, Steven Yatt and Andre Basson who agreed to allow me so much time off in order to attend lectures.
- To all my colleagues who took up the load during my studies; your support has been fantastic.
- To all of those who agreed to either complete a questionnaire or participate in an interview, thank you for the gift of your valuable time.

Table of Contents

Abstract	i
Declaration.....	ii
Acknowledgements	iii
Table of Contents.....	iv
Index of Figures	viii
Index of Tables	ix
Chapter 1: Introduction to Research Problem.....	1
1.1 Introduction.....	1
1.2 Significance of the Research.....	2
1.3 The Objectives of the Research	3
1.4 Scope of the Research	4
1.5 Structure of this Research Report	5
1.6 Assumptions.....	6
Chapter 2: Literature Review.....	8
2.1 Introduction.....	8
2.2 The Relationship Between Purchasing and Corporate Strategy.....	8
2.3 Definition of Strategic Sourcing	10
2.4 Benefits of Adopting a Strategic Sourcing Process	13
2.5 Indicators for Effective Strategic Sourcing.....	15
2.6 The Purchasing Function's Role in the Corporate Strategic Planning Process (CSPP)	16
2.7 Positioning and Structure for Effective Strategic Procurement.....	18
2.8 Tools and Techniques to Aid Strategic Procurement	21
2.9 Measuring the Performance of the Procurement Function	23
2.10 Concluding Remarks	31
Chapter 3: Research Questions.....	32
Chapter 4: Research Methodology	34
4.1 Introduction.....	34
4.2 Research Methodology.....	35
4.3 Population	37
4.4 Sampling and Sample Size	37
4.5 Unit of Analysis.....	38

4.6	Questionnaire and Interview Schedule Design	38
4.7	Data Collection	39
4.8	Data Analysis	41
4.8.1	Recording and Arranging Data Obtained	41
4.8.2	Analysis of Simple Yes/No Questions.....	42
4.8.3	Content Analysis of Open Ended Questions	42
4.9	Research Limitations	43
4.10	Concluding Remarks	43
	Chapter 5: Results	45
5.1	Introduction.....	45
5.2	Sample Information	45
5.3	Background Details for Respondent's Organisations	47
5.3.1	Annual Turnover and Spend Under Management.....	47
5.3.2	Responding Organisations by Sector.....	48
5.3.3	Types of Goods or Services Purchased.....	49
5.4	Involvement in the Corporate Strategic Planning Process.....	49
5.4.1	Is procurement involved in the organisation's strategic planning process?	51
5.4.2	Does the purchasing function have a good knowledge of the organisation's strategic goals?	52
5.4.3	Does purchasing professional's development focus on elements of competitive strategy?	52
5.4.4	Does the purchasing department play an integrative role in the purchasing function?	54
5.4.5	Is purchasing's focus on longer term issues that involve risk and uncertainty?	55
5.4.6	Does the purchasing function have a formally written long- range plan?	56
5.5	Positioning and Structure	57
5.5.1	What is the title of the most senior manager in the procurement function of the company?	57
5.5.2	To whom does the most senior manager in procurement report?.....	58
5.5.3	Does the most senior procurement manager also sit on the company's executive committee?	60
5.5.4	How many levels of reporting are there between the most senior procurement manager and the CEO?	60

5.5.5	Is the procurement function centralised, decentralised, or is a combination of both structures used?	61
5.5.6	Is top management supportive of efforts to improve the purchasing department?	62
5.6	Tools and Techniques Applied	63
5.6.1	What are the main objectives of the procurement function?	64
5.6.2	What basic principles are applied in purchasing practice?	65
5.6.3	Is there a clear connection between purchasing and business strategy?	66
5.6.4	Is there a clear focus on the development of purchasing plans and strategies?	67
5.6.5	Does purchasing make use of recognised tools?	67
5.6.6	Are e-Procurement tools used to aid in the effectiveness of the purchasing function?	68
5.7	Performance Measurement Tools Applied	69
5.7.1	Is purchasing performance measured in terms of its contribution to the organisation's success?	70
5.7.2	Does purchasing benchmark itself against other comparable purchasing organisations?	70
5.7.3	Does purchasing recognise the concept of an internal and external customer?	71
5.7.4	Does purchasing participate in design and/or specification design of goods and services?	71
5.7.5	Does the purchasing strategy actually impact on corporate performance?	72
5.7.6	Does purchasing have a purchase research group?	73
5.8	Concluding Remarks	73
Chapter 6: Discussion of Results		74
6.1	Introduction	74
6.2	Involvement in the Corporate Strategic Planning Process	74
6.2.1	Review of Background Theory	74
6.2.2	Discussion of Results for Research Question 1	75
6.2.3	Summary of Findings for Research Question 1	78
6.3	Positioning and Structure	78
6.3.1	Review of Background Theory	78
6.3.2	Discussion of Results for Research Question 2	79
6.3.3	Summary of Findings for Research Question 2	83
6.4	Tools and Techniques	83

6.4.1	Review of Background Theory	83
6.4.2	Discussion of Results for Research Question 3	83
6.4.3	Summary of Findings for Research Question 3	86
6.5	Performance Measurement	87
6.5.1	Review of Background Theory	87
6.5.2	Discussion of Results for Research Question 4	87
6.5.3	Summary of Findings for Research Question 4	91
6.6	Overall Findings	91
Chapter 7: Conclusion		94
7.1	Introduction.....	94
7.2	Recommendations to Management.....	94
7.3	Further Research.....	98
7.4	Concluding Remarks	99
Reference List		101
Appendix 1 Questionnaire.....		106
Appendix 2 Interview Guideline		111
Appendix 3 List of Respondents		123

Index of Figures

Figure 2.1: Porter’s Five Forces Theory of Industry Structure	9
Figure 2.2: A Model of Strategic Purchasing	12
Figure 2.3: The Strategic Triangle	17
Figure 2.4: Purchasing at Different Organisational Levels.....	19
Figure 2.5: Stages of Purchasing Sophistication	22
Figure 2.6: The Purchasing Portfolio Matrix	22
Figure 2.7: House of Sourcing	28
Figure 2.8: Procurement Measurement Index.....	29
Figure 6.1: Common Positions of South African Procurement Departments in the Organisational Hierarchy	81

Index of Tables

Table 2.1: Appropriate Performance Measures in Relation to Managements View of the Importance of the Purchasing Function.....	25
Table 2.2: Top 10 Procurement Key Performance Indicators (KPIs)	26
Table 2.3: Top Strategies for Increasing Spend Under Management	26
Table 5.1: Sample Description of Questionnaire Respondents	46
Table 5.2: In-Depth Interview Subjects.....	47
Table 5.3: Annual Turnover and Spend Under Management.....	48
Table 5.4: Responding Organisations by Sector.....	49
Table 5.5: Types of Goods or Services Purchased	49
Table 5.6: Descriptive Statistics Relating to Involvement in the Corporate Strategic Planning Process	50
Table 5.7: Procurement’s Involvement in the Strategic Planning Process.....	52
Table 5.8: Development of Strategic Skills	53
Table 5.9: Purchasing’s Integrative Role	54
Table 5.10: Focus on Long Term Issues of Risk and Uncertainty	56
Table 5.11: Existence of Long Range Plans	56
Table 5.12: Titles of the Most Senior Procurement Officer.....	58
Table 5.13: Who Procurement Reports To.....	59
Table 5.14: Incidence of Procurement Involvement in EXCO.....	60
Table 5.15: Levels of Reporting Between Procurement Head and the CEO	60
Table 5.16: The Incidence of the Procurement Function as a Centralised, Decentralised or Combination Structure.....	61
Table 5.17: Content Analysis of the Combination Approach to Centralisation of the Procurement Function	61
Table 5.18: Top Management Supportive of Efforts to Improve the Purchasing Department	62
Table 5.19: Descriptive Statistics Relating to Tools and Techniques	63
Table 5.20: The Main Objectives of the Procurement Function	64
Table 5.21: The Basic Principles Applied in Purchasing Practice	65
Table 5.22: Types of Tools Used by Purchasing?	68

Table 5.23: Descriptive Statistics Relating to Measurement Tools69

Table 5.24: Descriptive Statistics Relating to Measurement Tools71

Chapter 1: Introduction to Research Problem

“Purchasing is by far the largest single function at AT&T. Nothing we do is more important.” William Marx, AT&T’s Executive Vice President for Telephone Products (Tully, 1995, p. 1).

1.1 Introduction

According to Tully (1995) purchasing exerts far greater leverage on earnings than any other function. Fifty-five percent of revenue goes towards the purchasing of goods and services in a typical manufacturing business. By way of comparison, only six percent goes towards labour, and as little as three percent on overheads.

Purchasing can take two major forms within an organisation: (i) tactical purchasing, and (ii) strategic sourcing. Tactical purchasing encompasses a short-term horizon, is a functional activity associated with the day to day management of material flows, and is conducted in virtually every organisation. Strategic sourcing encompasses a longer-term horizon. Its focus is on building cross-functional processes and teams that are able to manage, develop and integrate with suppliers in order to build competitive advantage (Monczka, Trent and Handfield, 2002). Thus effective strategic sourcing can contribute to improved corporate profitability.

The specific area of interest for this research is Strategic Sourcing.

1.2 Significance of the Research

Purchasing plays a more important role in the strategy of the firm today than it has in the past, but the purchasing function can only influence corporate profitability when it operates at a strategic level (Ellram and Carr, 1994).

Where traditionally the purchasing organisation within a company had a simple task - buy what the company needed while spending as little as possible - the expectation has evolved into something far more complex: ensure an uninterrupted flow of goods and services, help improve product quality, reduce cycle time or time-to-market, and increase the rate of innovation. Leading companies tend to pursue cost reduction in a variety of innovative ways, and view procurement as an agent of innovation (Niezen, Weller and Deringer, 2007).

Chen, Paulraj and Lado (2004) argue that strategic purchasing can engender sustainable competitive advantage for a firm by enabling them to foster close working relationships with a limited number of suppliers, promote open communication among supply-chain partners, and develop long term strategic relationships oriented to achieving mutual gains. They find that purchasing can contribute directly to the firm's bottom line, through enhanced buyer-supplier relationships, enhanced operational performance, and enhanced financial performance.

However, while firms may recognise that procurement provides an important strategic role, often the first instinct is to evaluate the functions performance simply on the basis of money saved (Likierman, 2005). Berglund (2006) suggests that the procurement function has to justify its reasons for being more than any other business operation. This could be a result of many companies not being able to objectively measure their sourcing function's performance, mostly due to fragmented systems and data (Jacoby, 2005).

1.3 The Objectives of the Research

The above discussion indicates that the procurement function can significantly influence the overall performance of a company if it is able to function effectively. The aim of this research was to investigate the ways in which South African organisations are embracing the potential to improve performance through the use of effective, strategic procurement practices, if at all. Four specific areas were investigated:

- (i) the ways in which procurement is involved in the formulation of the organisation's overall strategy, if at all;
- (ii) the positioning and structure of the procurement function in a manner that supports the overall strategy of the organisation;
- (iii) the tools and techniques that are being applied to ensure that the function performs at the highest possible level; and
- (iv) the performance measurement systems that are applied to encourage superior performance.

A two step process was followed. First of all, a thorough review of the available literature was undertaken in order to gain a deeper understanding of the purchasing function from a global best practice perspective. Secondly, experience surveys in the form of a questionnaire issued via a professional body to its entire membership base, and key informant interviews with selected individuals were undertaken. The information obtained from the second step provided an understanding of what South African organisations were doing, which could then be contrasted with the best practices identified in the first step.

A proposed outcome of this research is that the results could be used by procurement managers in South Africa for guidance in terms of how to structure and manage their own organisations, what tools and strategies are available and most effective, how best to measure the performance, and how to sell the importance of their function to senior management within their respective organisations.

1.4 Scope of the Research

An effort was made to include as diverse a base of respondents, from various sectors and from government and private enterprise, as possible. This approach was adopted in order to provide an indicator for the South African business environment in general, not just one or two specific segments. However, since the research approach was qualitative in nature the results can in no way be generalised to all industries, sectors or organisations.

The only limitation imposed was that the organisation had to have a minimum turnover of R100 million. This limitation was adopted to ensure that the procurement function in the organisation could be responsible for a sizeable value of spend and would have opportunities to achieve a significant impact on the organisation's performance through their activities.

1.5 **Structure of this Research Report**

The research report follows the following structure, arranged by chapter:

Chapter 1: Introduction

This chapter provides a brief description of the specific area of interest and the objectives of the research.

Chapter 2: Literature Review

The literature review details much of the recent research and published material relating to strategic sourcing, including definitions of strategic sourcing and discussions on the four specific areas that have been explored, namely the involvement of purchasing in the Corporate Strategic Planning Process (CSPP), the structure and positioning of the procurement function within the organisation, the tools and techniques applied by the function, and the various methods available to measure its performance.

Chapter 3: Research Questions

Four specific research questions are proposed in this chapter.

Chapter 4: Research Methodology

The research methodology that was adopted for this study is described, including a discussion of the identified population, sample groups, and the data collection methods and analysis techniques applied.

Chapter 5: Presentation of Results

The results of the research are presented in this chapter.

Chapter 6: Interpretation of Results

The results of the research are discussed and interpreted in this chapter.

Chapter 7: Conclusion and Recommendations

The findings from this research process are summarised, recommendation for management are discussed, and suggestions for further research flowing from this study are provided.

1.6 Assumptions

The following assumptions were made:

- (i) South African companies have recognised the value-adding potential of purchasing and have already taken steps towards positioning and aligning the purchasing function at a higher level.

- (ii) Purchasing operates at a sophisticated enough level in South Africa for the participants to be sufficiently knowledgeable about this area of research.

Chapter 2: Literature Review

2.1 Introduction

“For the entire firm to experience a consistent level of success in today’s rapidly changing environment, purchasing operations and activities must be synchronised with the strategy of the firm and attuned with the variable external forces.” (Freeman and Cavinato, 1990, p. 6)

For reason proposed by Freeman and Cavinato above, it is critical to understand how operations should be structured and what practices should be adopted to ensure that the proposed synchronisation is most effective. This literature review explores the relationship between purchasing strategy and corporate strategy, the possible benefits to the organisation of adopting a strategic approach to purchasing, and four areas that are considered to be key indicators for effective strategic sourcing, these being the purchasing function’s role in the creation of the organisations overall strategy, the positioning and structure of the purchasing function, the tools and techniques that are applied by the procurement function, and finally the way in which the function measures its performance.

2.2 The Relationship Between Purchasing and Corporate Strategy

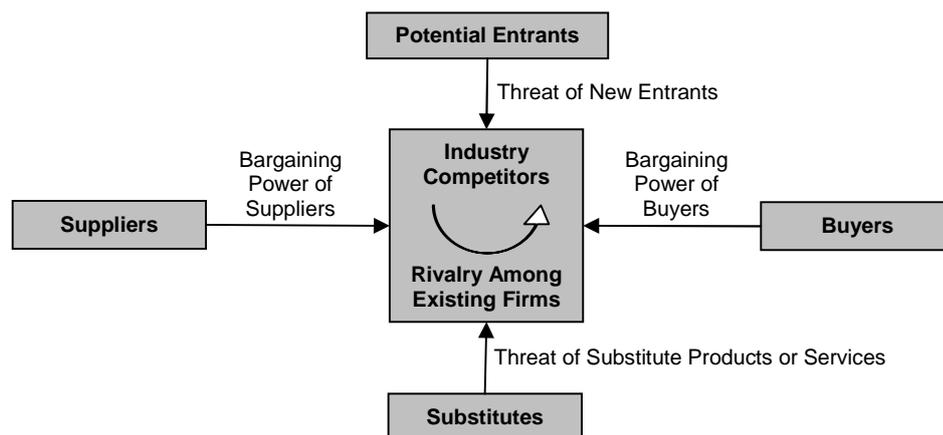
There has long been a debate amongst academics regarding the inclusion of purchasing in the corporate strategy of a company. Cousins (2005) and Ramsay (2001) both propose that this debate was started in the 1970’s

through David Farmer's efforts to raise the purchasing function's strategic profile (see Farmer 1976, 1978, and 1981).

The recognition of purchasing as a strategically valuable function was enhanced significantly when Porter emphasised the importance of the buyer in his five-forces model (see figure 1) (Ellram and Carr (1994), Carr and Smeltzer (1997)).

Hogan and Armstrong (2001) show that a strategic purchasing function can assist to sustain competitive advantage in three ways: (i) by providing value in the area of cost management, (ii) by providing valuable information regarding supply trends that enables the company to make better decisions, and (iii) by establishing close relationships with suppliers which lead to improvements in efficient quality and delivery of materials.

Figure 2.1: Porter's Five Forces Theory of Industry Structure



Source: Silbiger (1999)

The purchasing function can be characterised as a strategic function if it is integrated into the company's Corporate Strategic Planning Process. The

goal of a strategic purchasing function is to support a company's efforts to achieve its long-term goals, and in so doing, it can help to increase the company's competitive advantage (Carr and Pearson, 2002).

Carr and Pearson (2002) proved that strategic purchasing has a significant relationship with a company's financial performance, and that it can add value to a firm. The purchasing function is elevated to a strategic level in companies that recognise the value adding potential of purchasing.

While purchasing alone can be considered as a strategic differentiator in a business, the alignment of purchasing and organisational strategies is important. Purchasing managers should therefore understand the company's competitive pressures and priorities and align their purchasing strategies to fit these demands (Cousins, 2005).

It is clear from the above discussion that strategic sourcing can add significantly to a company's performance. But what exactly is strategic sourcing and how should it be implemented to provide the greatest benefit?

2.3 Definition of Strategic Sourcing

The previous section has shown a clear movement towards the recognition of strategic sourcing as a value-creating function for companies. The rest of this chapter will explore what strategic sourcing is,

and how companies can implement an effective strategic sourcing approach.

It is evident from the literature reviewed that three terms are used to describe the concept of elevating purchasing to a strategic level with an organisation:

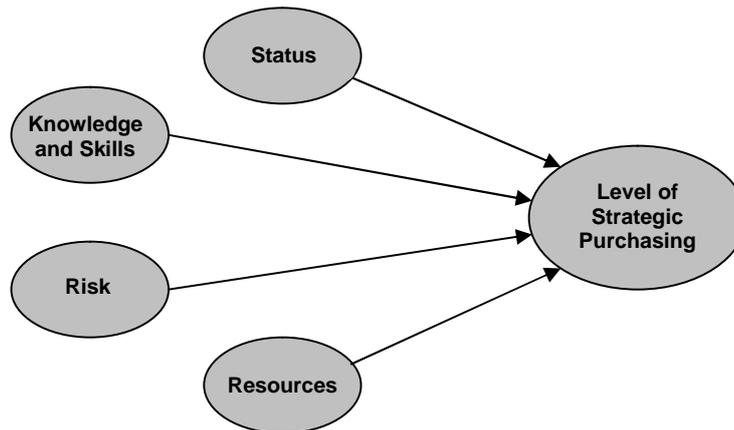
- (i) **Strategic Purchasing** (Ellram and Carr (1994), Carr and Smeltzer (1997), Carter, Carter, Monczka, Slight and Swan (2000), Carr and Pearson (2002), Chen et al (2004), Cousins, Lawson and Squire (2006));
- (ii) **Strategic Procurement** (Quayle, 1998); and
- (iii) **Strategic Sourcing** (Jennings (2002), Ryder and Fearne (2003), Bearden and Morton (2006), Kocabasoglu and Suresh (2006), Sandholm, Levine, Concordia and Martyn (2006), Vermaas (2006)).

The more recent bias seems to be towards the use of the term Strategic Sourcing and, for the sake of clarity, this term has generally been adopted in this report. However, throughout this Literature Review the term favoured by the referenced author has been used.

Strategic Purchasing is defined as: *“The process of planning, implementing, evaluating, and controlling strategic and operating purchasing decisions for directing all activities of the purchasing function towards opportunities consistent with the firm’s capabilities to achieve its long-term goals”* (Carr and Smeltzer, 1997, p. 201). Four underlying

factors contribute towards the level of strategic purchasing in a firm, as depicted in Carr and Smeltzer's model of Strategic Purchasing (see figure 2).

Figure 2.2: A Model of Strategic Purchasing



Source: (Carr and Smeltzer, 1997)

Strategic sourcing is a cross functional process used to manage, develop and integrate supplier capabilities to achieve a competitive advantage, involving members from all functions of the organisation (Monczka et al, 2002)

Strategic sourcing can be regarded as a process whereby spending is analysed and categorised according to the importance and cost of the purchases, and the complexity of the supplier base. The supply base is then investigated to ensure that the correct relationship is formed with suppliers in the various categories of goods. The strategic sourcing process is managed by cross functional teams according to best practices in support of business objectives (Fourie, 2003).

Strategic sourcing is about managing the cost of purchased goods and services, and can be one of your most important value creation levers (Vermaas, 2006).

2.4 Benefits of Adopting a Strategic Sourcing Process

As a result of increasing competition, many companies find that they have no choice but to reduce their cost base in order to stay competitive. The strategic impact of purchasing becomes particularly apparent when one considers the potential quality related costs that an organisation can incur as a result of price-focused purchasing. The materials management philosophies that arose from the Toyota production system - Total Quality Management and Just in Time logistics - teach that purchasing is about far more than price alone; lean processes and low inventory levels can release much needed cash for the company (Anonymous, 2005).

A strategic purchasing function can help a firm to sustain its competitive advantage in a number of ways. First, it provides value in the area of cost management, second, it provides valuable information concerning supply trends that will enable the firm to make better decisions and achieve its goals, and third, it establishes close relationships where appropriate with suppliers to improve the efficient quality and delivery of materials. Thus a strategic purchasing function is one that fits the needs of the firm and strives for consistency between its capabilities and the competitive advantage being sought by the firm. Furthermore, strategic purchasing has a significant relationship with a company's financial performance, and

adds value to the company. Increased emphasis on strategic purchasing can lead to some improvements in the financial performance of the company, and in companies that recognise this value-add, the purchasing function is elevated to a strategic level (Carr and Pearson, 2002).

A study conducted by the Chartered Institute of Purchasing and Supply found that adopting an effective purchasing strategy could increase profitability by up to thirty percent, but that very few companies were making the necessary changes in order to unlock this potential value (Thompson, 1996).

Adopting a close alignment with suppliers can lead to significant competitive advantage. Billington, Cordon and Vollmann (2006) describe four levels of collaboration with suppliers. At the highest possible level, referred to as a super collaborative relationship, the close working relationship will double the value/cost produced. As a concrete example, they cite Honda of America's experience over a six year period, during which they were able to reduce costs through super supplier collaboration by nineteen percent, while a big competitor experienced an increase of seven percent. The net competitive gain to Honda in this instance was a staggering twenty-six percent.

In 2000, Delta Air Lines embarked on a strategic sourcing initiative with the stated goal of achieving savings of \$300 million within four years. The initiative proved extremely successful, with the company cutting

\$400 million from its \$9 billion supply chain cost base. In addition, the initiative helped the company survive a global recession, the 9/11 terrorist attacks and increasing competition from low cost carriers. Three key lessons that Delta learned during this process were (i) get support from the top, (ii) align sourcing strategy with the needs and initiatives of the business, and (iii) ensure proper metrics and measurement systems are in place before employing a sourcing strategy (Anonymous, 2006).

2.5 Indicators for Effective Strategic Sourcing

The investigation into the current literature on strategic procurement highlights four key focus areas, which can be viewed as indicators for effective strategic sourcing:

- (i) the purchasing function's involvement in the formulation of the overall strategy of the company (Corporate Strategic Planning Process);
- (ii) the position of the purchasing function within the company, and the structure of the purchasing team;
- (iii) the tools and techniques applied by the purchasing function in order to achieve the goals and objectives that have been identified through the strategic planning process; and
- (iv) the performance measurement tools and key performance indicators that the company uses to track and measure the purchasing function's contribution to the overall performance of the business.

Each of these is now discussed individually.

2.6 The Purchasing Function's Role in the Corporate Strategic Planning Process (CSPP)

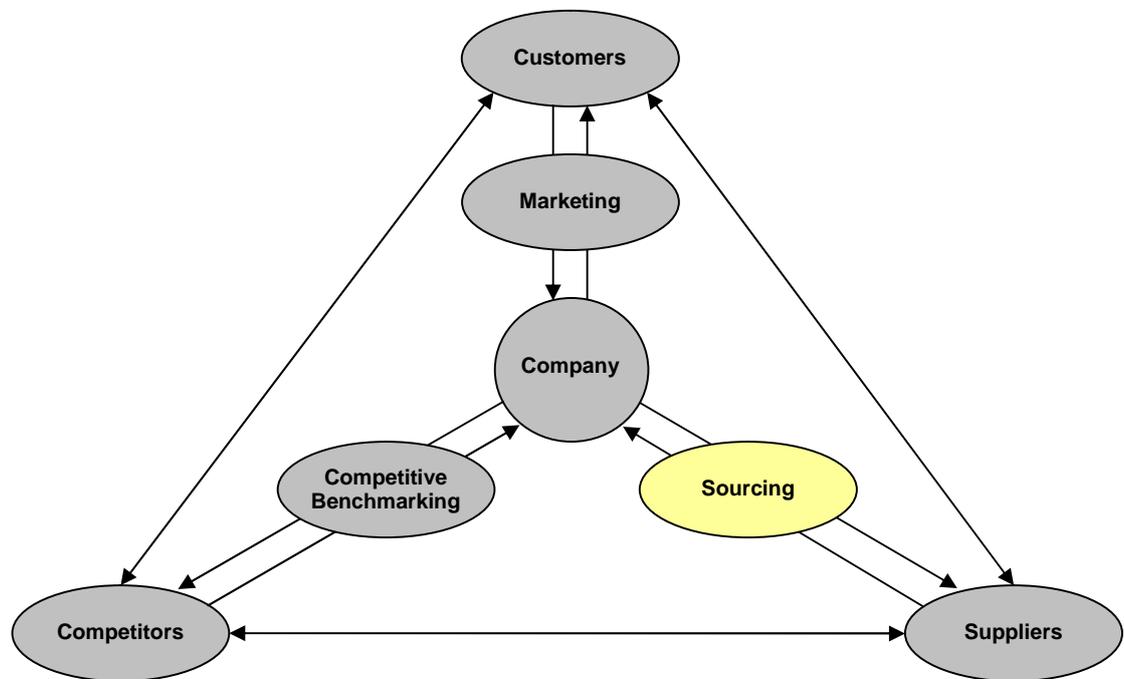
In order to deal with threats to the assured availability of inputs, companies need to change from an operational perspective (purchasing) to a strategic perspective (supply management) (Kraljic, 1983).

Ellram and Carr (1994) show that as a result of a move towards global sourcing, rapid changes in technology, and increased competition, the purchasing (procurement) function is increasingly required to take a more active role in the development of strategies that support corporate strategy directly. Purchasing can play a key role in the company's long term success through the selection and development of suppliers best able to support the strategic objectives, through an ability to reduce input costs, and through their ability to monitor the supply environment and forecast the availability and cost of materials required for future needs. They argue that Purchasing can play an effective strategic role when included in the strategic planning and implementation process at the same level as other functional areas.

An organisation's ultimate competitive position can be considered as the result of three factors: (i) how the organisation is positioned relative to its major customers, (ii) its sustainable, distinct advantage relative to its competitors (both direct and indirect), and (iii) its positioning relative to its major suppliers. Figure 3 demonstrates these relationships. Many companies have a clear strategy with regard to customers and

competitors, but fail to give equal attention to the sourcing dimension (van Weele, 2005).

Figure 2.3: The Strategic Triangle



Source: van Weele (2005)

A company can enhance its market position by adopting a procurement strategy that is aligned with and focuses on its own competitive strengths. If the purchasing strategies stem from and are consistent with the company's competitive strategy, then procurement can become strategic in nature (Knudsen, 2003).

Procurement managers must continually recognise the strengths of their function and its ability to positively influence the bottom line through its involvement in the CSPP, and demonstrate to senior management that it is able to positively impact the company's bottom line if it wishes to remain

strategically involved at a high level (Ferguson, Hartley, Turner, and Pierce, 1996).

In 1990, fifty percent of purchasing managers claimed to be making strategy presentations to the executive committee of organisations. By 1998 that number had grown to eighty-three percent (Trent and Monczka, 1998).

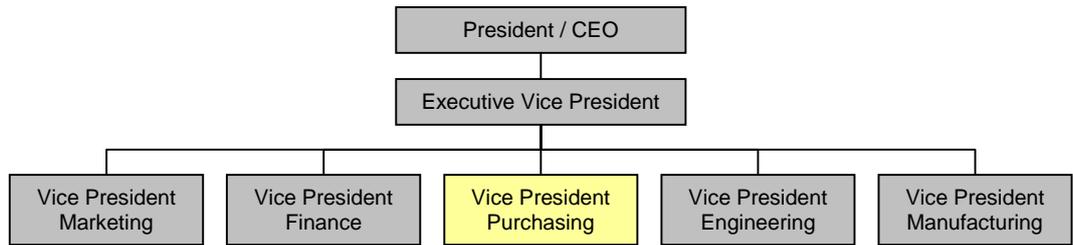
2.7 Positioning and Structure for Effective Strategic Procurement

During a long-term study of the trends and changes in purchasing and supply management throughout the 1990's, Trent and Monczka (1998) found that the right organisational structure is essential for the effective implementation of leading edge procurement strategies.

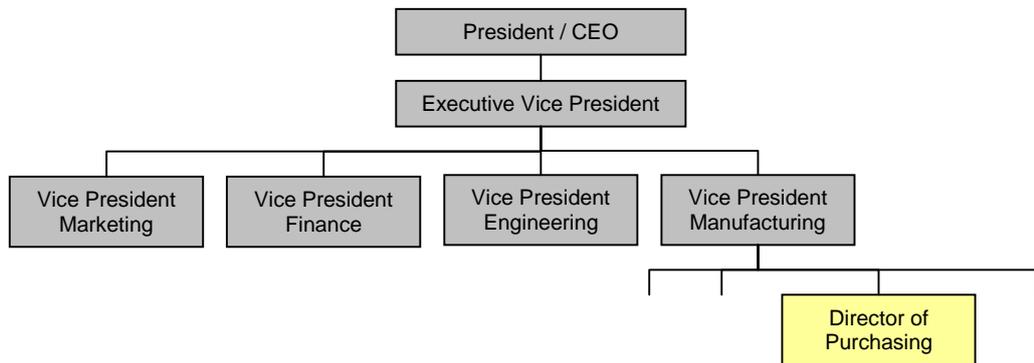
Purchasing can be incorporated into an organisational hierarchy at one of three different levels, as depicted in Figure 2.4. In general, the higher the function is positioned in the organisational hierarchy, the greater the role it is able to play in the strategy development. A number of factors can influence the positioning of the purchasing function: (i) the organisation's history and the philosophy of the founder, (ii) the type of industry in which the organisation operates, (iii) the total value of goods and services procured, (iv) the type of goods or services purchased, and (v) the ability of procurement to influence the overall performance of the organisation (Monczka et al, 2002).

Figure 2.4: Purchasing at Different Organisational Levels

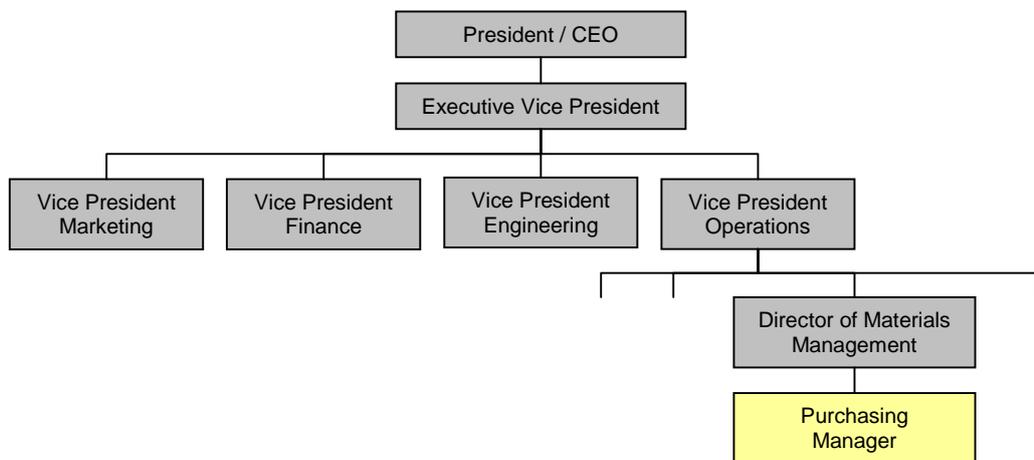
A) Purchasing as an upper-level function



B) Purchasing as a second-tier function



C) Purchasing as a lower level function



Source: Monczka et al (2002)

In the author's opinion, model A as presented in figure 2.4 provides the best opportunities for the head of procurement to influence the organisation's strategic development. Model B could still allow a certain degree of influence, while model C would probably make it impossible for the head of procurement to have any influence whatsoever.

Cousins et al (2006) undertook research aimed at investigating the different patterns of purchasing function configurations, and the relationships between these patterns and organisational performance. They found that purchasing organisations can be separated into four types based on their levels of strategic planning, status, internal integration and skills. They name these four groups *Undeveloped Purchasers*, *Celebrity Purchasers*, *Capable Purchasers*, and *Strategic Purchasers* and described how the effectiveness of the purchasing function increased as they move from undeveloped to strategic. Strategic purchasers were found to be heavily involved in strategic planning, were closely aligned with internal business requirements, and were highly regarded by top management. In order to be effective at a strategic level, purchasing needs to develop and foster cross-functional integration within the organisation. In most medium to large organisations purchasing is accepted as having a significant impact on the firm's competitive position. However, in order to perform at a more strategic (important) level it is imperative that purchasing has the appropriate configuration and focus.

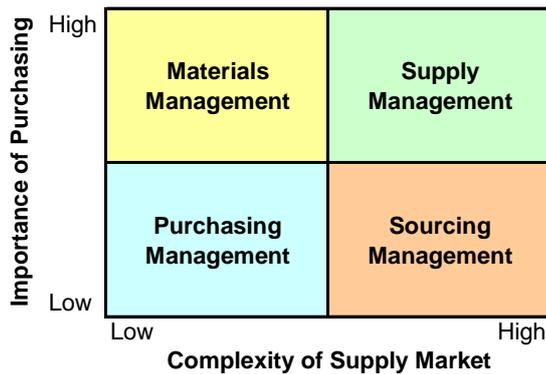
Xideas and Moschuris (1997) found that the type of item purchased will force enterprises to focus on different aspects of structure. Specifically, they found that the purchasing process for complex products will be more structured (better articulated, formalised, centralised, and sophisticated) than would be the case for items that are characterised by uncertainties in the supply market.

2.8 Tools and Techniques to Aid Strategic Procurement

In a Harvard Business Review article published in 1983, Peter Kraljic suggests that a company's need for a supply strategy is dependent on (i) the strategic importance of purchasing in terms of the value added by the product line, the proportional contribution of raw materials to total costs and their impact on profitability, and (ii) the complexity of the supply market in terms of micro-economic factors (Kraljic, 1983). Kraljic proposes that companies can assess their situation in terms of these two variables in order to determine the most appropriate supply strategy for each material / input, by applying the Purchasing Portfolio Matrix, a tool developed by him. The following four-phase process is used to classify and determine the appropriate strategy:

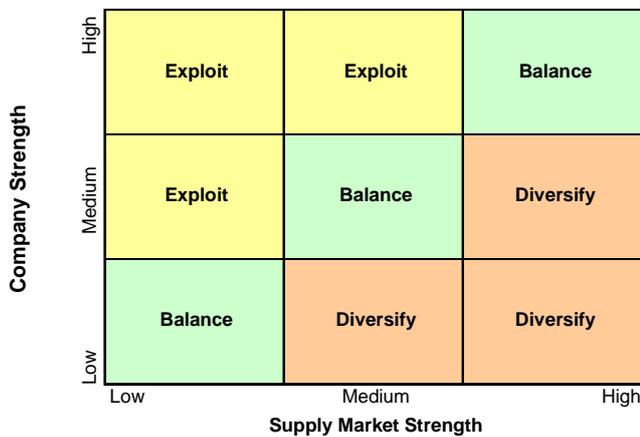
- Phase 1: Classify each supply item in terms of profit impact and supply risk. A four quadrant model is provided for this purpose (see figure 1).
- Phase 2: Analyse the market, and the relative bargaining power of the company and its suppliers,
- Phase 3: Position each material in the Purchasing Portfolio Matrix (PPM) (see figure 2),
- Phase 4: Develop action plans for each material based on their PPM classification.

Figure 2.5: Stages of Purchasing Sophistication



Source: Kraljic (1983)

Figure 2.6: The Purchasing Portfolio Matrix



Source: Kraljic (1983)

The Purchasing Portfolio Matrix has become the standard tool for the classification of spend and development of purchasing strategies - with many other authors having proposed models that are similar to the Kraljic model - although it has come in for severe criticism because it categorises complex business decisions in a very simplistic, two dimensional manner (Gelderman and van Weele, 2005).

In addition to using tools for classification of spend and development of purchasing strategies, purchasing managers can also use various economic indicators, such as the PMI (Purchasing Managers Index) to analyse and forecast business cycles. Decision aids such as these can provide valuable assistance to procurement managers in their long and short term planning (Lindsey and Pavur, 2005).

If the firm's success lies in a move towards supplier management, as proposed by Kraljic (1983), then the ability to establish effective contracts must also be an important contributor to the company's success (Martínez-de-Albéniz and Simchi-Levi, 2005)

Trent and Monczka (1998) observed a trend away from tactical purchasing and towards strategic or value-adding tasks. This move was accompanied by a tendency for organisations to take actions that reduced the purchasing function's responsibility for lower-value purchases or goods and services. A number of tools have been developed to enable this action, including purchasing cards (p-cards) and an expanded use of information technology

2.9 Measuring the Performance of the Procurement Function

Monczka et al (2002) propose that there are four primary reasons why a company would want to measure the performance of the procurement function. Firstly, the process of measurement will make performance and results more visible, which should lead to better decision making since it

will help to identify those areas where performance falls short. Secondly, the existence of performance expectations requires improved communication to ensure that all stakeholders understand their roll in meeting the objectives. Thirdly, because the results are more visible, the performance feedback allows for the prevention and correction of problems. Finally, the process of measurement will motivate and direct behaviour in the most desirable direction.

The way in which performance is measured will depend to a large extent on how management views the role and importance of purchasing. Table 2.1 below summarises four possible view points and appropriate performance measures for each. Purchasing performance can be considered in terms of two elements, effectiveness and efficiency, and along four dimensions, a price/cost dimension, a product/quality dimension, a logistics dimension, and an organisational dimension. Effectiveness is related to the goals and objectives of the purchasing function, and efficiency is related to the resources which are required to realise these goals and objectives (van Weele, 2005).

Purchasing performance can therefore be defined as “... *the extent to which the purchasing function is able to realise its predetermined goals at the sacrifice of a minimum of the company’s resources...*” (van Weele, 2005, p. 255)

Table 2.1: Appropriate Performance Measures in Relation to Managements View of the Importance of the Purchasing Function.

Alternative Viewpoints	Performance Measures
Purchasing as an operational administrative function	Number of orders, order backlog, purchasing administration lead time, authorisation, procedures, etc.
Purchasing as a commercial function	Savings, price reduction, ROI-measures, inflation reports, variance reports
Purchasing as a part of integrated logistics management	Savings, cost-reduction, supplier delivery reliability, reject-rates, lead time reduction
Purchasing as a strategic business function	'Should-cost' analysis, early supplier involvement, make-or-buy, supply base reduction

Source: van Weele (2005)

Procurement managers have a very wide range of key performance measures available to them for measuring and tracking the performance of their functions. Checketts and Bartolini (2006) however identified the top ten key performance indicators used by procurement managers (Table 2.2). Of specific relevance is the fact that cost saving ranks high on the list even though best-in-class procurement managers generally tend to be conservative in their savings estimates, preferring smaller, more consistent year-on-year gains. Table 2.2 is ranked in terms of the KPIs most relevant for best-in-class managers. Increasing spend under management was considered as the most important KPI by all other managers (best-in-class excluded).

Given that Increasing spend under management is considered as the most important KPI by the majority of procurement managers, Checketts and Bartolini (2006) then looked at the top strategies for improving this aspect, with the overwhelming preference being to analyse and distribute spend data (Table 2.3). The primary motivation for this is the belief that end users and procurement staff should be enticed as well as compelled to comply with the defined policies and procedures.

Table 2.2: Top 10 Procurement Key Performance Indicators (KPIs)

1.	Negotiated cost reduction savings
2.	Implemented / realised cost reduction savings
3.	Percentage of total spend under management
4.	Cost avoidance
5.	Procurement ROI (savings / operating costs)
6.	Percentage of suppliers = 80% of spend
7.	Supplier performance (price, delivery, quality, service, etc.)
8.	Contract compliance
9.	Requisition, PO or invoice transaction volume
10.	Subjective feedback (structured, survey-based)

Source: Checketts and Bartolini (2006)

Table 2.3: Top Strategies for Increasing Spend Under Management

1.	Analyse and distribute spend data
2.	Improve compliance visibility
3.	Increase automation
4.	Policy changes and mandates
5.	Hire and train commodity experts
6.	Pricing and process benchmarks
7.	Internal sales and marketing

Source: Checketts and Bartolini (2006)

Ferguson et al (1996) recognised that the purchasing function will only be involved in the corporate strategic planning process for as long as they can demonstrate that this involvement results in a positive impact on the bottom line of the business. It is the responsibility of purchasing management to market the strengths of the function to upper management.

How then should a purchasing manager go about marketing the benefits that they are able to provide to the organisation?

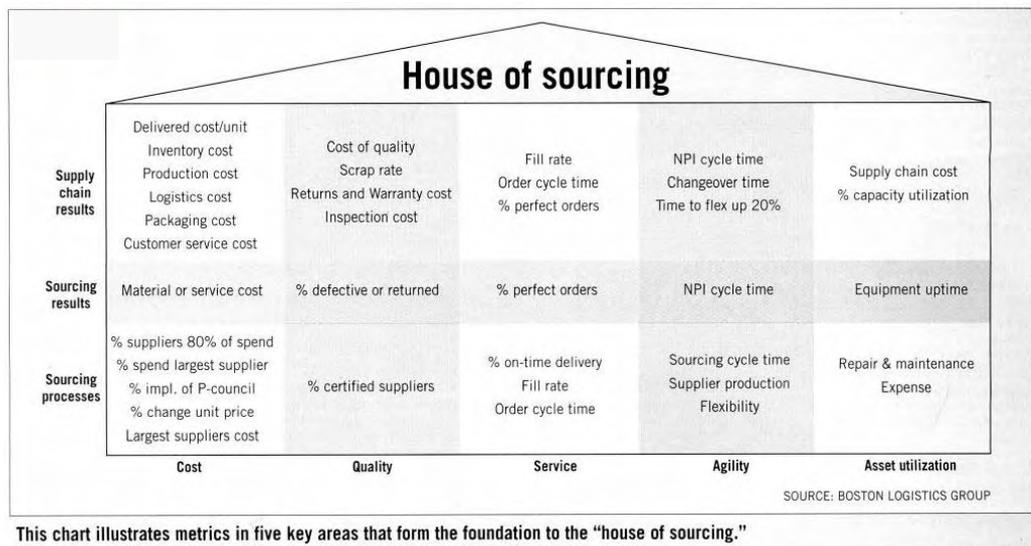
Procurement is likely to get the highest level of visibility to senior management if it correlates its performance measurement with the company's financial metrics, such as earnings per share. Relating procurement successes back to financial fundamentals is a critical step towards elevating the perceived strategic role of procurement as an enterprise function (Checketts, 2006).

Shepherd and Günter (2006) argue that measuring supply chain performance can facilitate a greater understanding of the supply chain, positively influence actor's behaviour, and improve its overall performance. However, they show that historically, measurement systems designed to evaluate supply chain performance have been widely criticised for their limitation. A model - the Supply Chain Operations Reference (SCOR) - was developed as an attempt to respond to these criticisms. The model is a systematic approach for identifying, evaluating and monitoring supply

chain performance, based on the guiding principle that supply chain performance cannot be based on a single indicator. This model allows for analysis at five levels: reliability, responsiveness, flexibility, cost, and efficiency.

Jacoby (2005) observed that many companies cannot objectively measure their sourcing performance due to fragmented systems and data, and organisational ambiguity of the procurement organisation. He proposes a model which he calls the House of Sourcing, which uses “process” and “results” metrics in five key areas (cost, quality, service, agility, and asset utilisation) in order to measure the Purchasing function’s performance.

Figure 2.7: House of Sourcing

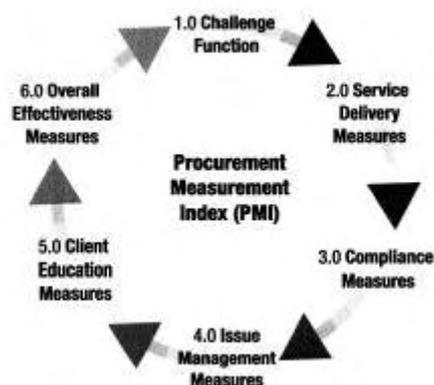


Source: Jacoby (2005)

According to Shane and Lafferty (2006) procurement organisations often measure what is available instead of what is important, and as such management decisions are almost always reduced to intuitive decision-

making based upon experience, values and interests. They show how the Procurement Measurement Index can be used as a mechanism to determine procurement performance targets such as baseline information, service standards and benchmarks. The Procurement Measurement Index is an integrated and index based performance measure based on eight key components: Challenge Function, Service Delivery Measures (Cost of Goods and Services, Throughput Time, and Internal Procurement Costs), Compliance, Issue Management, Client Education, and Overall Effectiveness of Procurement Operations.

Figure 2.8: Procurement Measurement Index



Source: Shane and Lafferty (2006)

Billington et al (2006) propose that there are four levels of collaboration between companies and their suppliers: Combative, Cooperative, Partnerships, and Super Collaborative. A super collaborative relationship can lead to strategic competitive advantage for both companies, but the authors sound a warning: if the only means of measurement applied to the procurement function is price reduction, then the tendency will be for a

combative negotiation approach to be adopted. Little or no effort will go towards building the necessary relationships with suppliers that can lead to competitive advantage.

To be truly effective, performance measurement must take into account the circumstances and environment surrounding an organisation, and the measurement and improvement methods should be closely aligned. Useful questions that can be applied in evaluating the effectiveness of the procurement function include: (i) how much does the purchasing operation actually cost, (ii) how much overall value does it deliver, (iii) are the goals aligned with the organisation's overall strategy, (iv) how effectively have the goals been met, (v) is procurement accountable for the basic load of the company, (vi) is infrastructure being developed to meet the company's needs, and (vii) how effective is the staff development plan at increasing their professional competence (Chadwick, 1995).

The question of measurement and reward in procurement strategy is not only an internally focused issue. Narayanan and Raman (2006) claim that alignment of incentives throughout a supply chain will lead to increased profits for all of the supply chain partners. However, often companies look after their own interests, ignoring those of their network partners. The resulting misalignment of incentives can cause excess inventory, stock outs, incorrect forecasts, inadequate sales efforts and poor customer service. The authors propose that incentives should be aligned not only at the inter-company level, but also within the individual companies to ensure

that practitioners are encouraged to act in the best interests of the entire supply chain.

2.10 Concluding Remarks

While there are numerous areas in which companies can direct their focus in order to achieve substantial benefits from a strategic sourcing process, the four areas identified during this literature review can provide a very good indication of the level of sophistication of the purchasing function.

The research process will attempt to investigate the ways in which South African organisations are embracing the potential to improve performance through the use of effective strategic procurement practices.

Four research questions, derived from the literature reviewed, are presented in the following chapter. These are based on the four indicators for effective strategic sourcing discussed in item 2.5 of this chapter. The responses to these research questions should provide a good understanding of how South African organisations are embracing the potential performance improvements offered through the application of strategic purchasing techniques.

Chapter 3: Research Questions

The proposition of this research is that South African companies do view the purchasing function as a strategically important function, and that sophisticated techniques to structure, align and measure the performance of procurement are being applied locally.

Research Question 1

Is the procurement function in South African organisations involved in the Corporate Strategic Planning Process?

Kraljic (1983) observed that procurement needed to change to a strategic perspective in order for organisations to deal with the threats to assured availability of input. According to Trent and Monczka (1998) eighty-three percent of procurement managers were making strategy presentations directly to the executive committee in 1998.

Research Question 2

How are South African procurement departments positioned and structured, and is this appropriate for effective strategic sourcing?

In general, the higher the purchasing function is positioned in the hierarchy the greater the role it can play in the strategy development (Monczka et al, 2002). Cousins et al (2006) found that purchasing had to have the right configuration in order to perform at a more strategic level.

Research Question 3

Are appropriate tools and techniques applied by South African procurement professionals?

While the purchasing portfolio matrix has become the standard tool for the classification of spend and development of strategies (Gelderman and van Weele, 2005), there are a number of other available tools that can enable purchasing to move towards a greater focus on strategic or value adding tasks (Trent and Monczka, 1998).

Research Question 4

What performance measurement tools are applied by South African procurement managers, and are these appropriate?

Ferguson et al (1996) showed that procurement had to continually demonstrate the positive impact that its activities had on the bottom line in order to remain involved in the strategic planning process. There are a wide range of tools that measure and track procurement performance and that can be used by procurement managers to demonstrate their function's effectiveness (Checketts and Bartolini, 2006).

Chapter 4: Research Methodology

4.1 Introduction

An exploratory, applied research process was adopted for this study, following an experience survey technique which comprised two data gathering tools, namely self-administered questionnaires and key informant interviews.

The sample frame included procurement practitioners from both public/private enterprise and government institutions. The unit of analysis was defined as the entire procurement function within the South African public/private sector and government.

The data obtained was either bimodal in nature based on simple yes/no questions, or more complex based on open ended questions. The simple questions were analysed using simple descriptive statistics, and the more complex questions were analysed using a content analysis approach which allowed the researcher to identify the key themes from the responses received.

Being exploratory in nature, the results of this research cannot be generalised. Since this research is qualitative in nature it is not possible to generalise to the entire South African business environment at large.

4.2 Research Methodology

This research is qualitative in nature; it attempts to identify how South African companies are embracing the concept of strategic sourcing, if at all.

An exploratory, applied research process, aimed at achieving a better understanding of the current status of strategic procurement in the South African business environment was chosen because it can be used to diagnose a situation, screen alternatives, and discover new ideas (Zikmund, 2003). The data thus gathered could be used to clarify, amongst other things, what South African companies believe strategic procurement to be, how they are implementing it (if at all), and how they are tracking and measuring their performance.

The experience survey technique was selected as the primary exploratory research technique with both interview and questionnaire methodology being applied, following a two-step process. Firstly, a simple questionnaire comprising yes/no and some open-ended questions was distributed via a professional body to all of its members. This questionnaire covered five primary areas relating to the company and procurement function, as described in more detail later. Secondly, in-depth Key Informant Interviews were conducted with South African procurement managers at Director or Senior Management level.

The first step was intended to enable the gathering of a large quantity of information from diverse sources in order to allow the researcher to develop an understanding of the procurement environment and to identify any trends that may have developed. The questionnaire was distributed by the Institute of Purchasing and Supply, South Africa (IPSA) to all of its members.

The second step then allowed for more in depth discussions with a limited number of senior procurement managers. The second step was chosen to introduce an element of local groundedness; qualitative data, focusing on ordinary events collected in naturally occurring settings allows the researcher to get a strong handle on what “real life” is like (Miles and Huberman, 1994). The interview process also provided an opportunity to explore any conclusions that may have been drawn from information obtained from the questionnaires. Finally, this second step allowed for specific areas of interest to be interrogated / explored in greater depth.

No attempt was made to conduct research that could be used to draw any conclusions about the South African business environment at large. This research was carried out in order to develop an initial understanding of the local procurement environment, against which possible future research can be conducted. Various opportunities for further research are presented in Chapter 7.

4.3 Population

The relevant population was defined as all procurement personnel employed by companies or organisations that operate in South Africa, that have a dedicated procurement function, and that have a minimum turnover of R100 million per annum.

The minimum turnover provision was introduced in order to ensure that the procurement function in the specific company was able to play a meaningful role in the overall performance of the company and as such could have been considered by the company for inclusion in the strategic planning process.

4.4 Sampling and Sample Size

The sample frame included procurement practitioners from both public and private sector organisations as well as from government institutions in order to get as broad a perspective as possible.

The questionnaire sample was initially drawn from the membership database of the Institute of Purchasing and Supply, South Africa (IPSA), which has 1,500 members. In order to improve the response rate, approximately fifty additional questionnaires were sent directly to colleagues of the author.

The key informant interview subjects were selected using a purposive sampling technique, whereby potential subjects were selected based on a

desire to obtain a sample that would represent a number of different industries while also representing some of South Africa's largest organisations. Introductions were obtained through friends, colleagues or by simple cold calling. All but one of the potential subjects approached agreed to be interviewed.

4.5 Unit of Analysis

The research focused on the entire procurement function within the South African public / private sector and government.

4.6 Questionnaire and Interview Schedule Design

The questions contained in the questionnaire and interview schedule were drawn from the literature review undertaken and adapted to suit the research being undertaken.

The questionnaire was split into five major themes:

- (i) General Background of the Organisation;
- (ii) Involvement in the Corporate Strategic Planning Process;
- (iii) Positioning and Structure;
- (iv) Tools and Techniques Applied; and
- (v) Measurement and Reward.

The draft questionnaire was given to four colleagues of the author in order to test the clarity of the questions asked and the simplicity of use of the instrument. These individuals were selected as they had extensive

experience in the procurement field. The reviewers found the questionnaire to be clear and easy to use. However, one question was rejected on their recommendation.

The interview schedule was initially designed for an unstructured interview process. This instrument was tested in the first interview and found to be unsuitable as the unstructured nature made it difficult to maintain the necessary pace, which made it impossible to complete the interview in the intended one hour time frame. For this reason a structured interview approach was adopted for all subsequent interviews.

4.7 Data Collection

Two data gathering techniques were used:

- (i) Self-administered questionnaires were sent to a large and diverse group of procurement personnel, and
- (ii) Key Informant Interviews using a structured interview process were conducted with a small number of senior procurement managers from large companies.

The questionnaire was issued via email to all members of the Institute of Purchasing and Supply South Africa (IPSA). The membership database of IPSA numbers 1,500 current members. In addition, the questionnaire was distributed to selected students within the author's MBA class who were asked to pass it on to the relevant procurement personnel in their company and to pass it on to any other prospective targets that they may

know. These students were selected on a judgement sampling basis with consideration given to the size and type of organisations for which they worked; as with the key informant interview subject selection process the selection criteria were defined in order to get a good spread of different industries represented by large companies. Finally the questionnaire was sent to past and present colleagues of the researcher.

Several prospective key informant interview subjects were identified based on references from friends and colleagues. Suitable candidates were then selected in an attempt to get representation in a number of different industries, and from companies that were amongst South Africa's largest and most successful. Potential subjects, once identified, were approached telephonically with a request to be interviewed. In all cases except one the individuals approached agreed. The interviews were conducted at the interviewee's office, with detailed notes being taken by the researcher. Where possible the researcher asked probing questions in order to gain additional insights into specific areas. Interviews were scheduled for one hour and generally lasted about one and a quarter hours.

Sampling was conducted on a convenience basis. Since this is a non-probability sampling technique it was not necessary to ensure that a rigorous statistically valid process was followed in the selection of samples.

4.8 **Data Analysis**

Since the data gathered was obtained in one of two forms, two different data analysis techniques were applied. The questions either asked for simple yes/no answers enabling a simple descriptive analysis of the bimodal data, or were open ended, calling for more detailed responses and therefore requiring a more complex analysis technique.

4.8.1 **Recording and Arranging Data Obtained**

The questionnaire responses received were transcribed verbatim into a simple matrix format, organised by question. The interview notes were also transcribed into a separate matrix format grouped by question, but the notes as originally written down were amended in order to clarify the comments made and ensure that the key thoughts were captured correctly.

The approach of arranging the data simply according to how it was collected is considered reasonable by Holliday (2002), and arranging the data by question is consistent with the Analytical Framework Approach described by Paton (2002).

Prior to commencement of the analysis process data obtained from the questionnaires and interviews were combined to increase the total sample and improve the richness of the data and quality of insights obtained.

4.8.2 **Analysis of Simple Yes/No Questions**

Where the questionnaire required a simple yes/no response, simple descriptive statistical analysis was applied to the bimodal data, with the total number of each type of response being calculated and presented in tabular format, by question. In addition, because the interview process allowed for discussion on each of these questions, further insights that may have been obtained during the interviews were presented along with the tabulated results. Where there were numerous valid insights these were analysed using the content analysis technique described further below, and where only a few insights were obtained the most salient were simply presented as is.

4.8.3 **Content Analysis of Open Ended Questions**

Content analysis was conducted on the open ended questions that required a detailed response and the results of which could not be simply presented. Content analysis is a data analysis technique that can be used to reduce and make sense of qualitative data by attempting to identify core consistencies and meanings (Paton, 2002).

The responses received were analysed by question. Each response was broken down into its core statements, and the individual core statements from all responses were then compared and common ideas were identified. These common ideas were then grouped and the number of occurrences for each was counted with the final results being presented in tabular format.

4.9 **Research Limitations**

Since this research is qualitative in nature it is not possible to generalise the results to the entire South African business environment at large.

The choice to limit the sampling population to IPISA members only could mean that certain companies or procurement managers that are effectively applying strategic sourcing techniques but that are not members of the institute will be excluded.

This research will focus on four specific areas of procurement which have been identified in the literature review as relevant indicators of procurement sophistication. There may be other aspects that have been excluded from this research that could also provide a valid means of measuring procurement sophistication.

Since four separate areas are being analysed, the amount of attention given to each area will be reduced. Research into each of these specific aspects in isolation could be beneficial. However, this research report should provide a good foundation for future, in-depth research into each of these aspects.

4.10 **Concluding Remarks**

In summary, an exploratory, applied research process was adopted for this study, following an experience survey process. Two survey techniques were used to gather the required data, questionnaires and key

informant interviews. Questionnaires were issued via a professional body to its full data base of members, and key informant interview subjects were selected based on a judgement sampling technique. Data was analysed using either simple descriptive statistics or through content analysis.

The results of the data analysis are presented in the next chapter.

Chapter 5: Results

5.1 Introduction

The research results are the subject of discussion in this chapter. The chapter starts with a description of the sample, and then discusses the findings for each of the four research questions, based initially on the survey results, followed by the further insights obtained through the interview process.

5.2 Sample Information

The first stage of the research was conducted via questionnaire. Thirty nine responses to the questionnaire were received, of which seven were rejected for the reasons described below. The remaining sample set obtained from the questionnaire comprised thirty two valid responses from twenty four discreet organisations (three responses were received from unknown organisations, but since the organisation name was not requested in the questionnaire these responses were accepted). The total sample is displayed in Appendix 3.

The seven rejected questionnaire responses were rejected for one of three possible reasons:

- (i) The organisation's annual turnover was below R100 million, which was set as a benchmark figure to ensure that the annual spend would be sufficient to allow effective strategic procurement opportunities to exist;
- (ii) A response submitted by fax was illegible; or

(iii) The organisation’s annual turnover was not given.

The annual spend under management figure was checked before a response was rejected on the basis described under item (iii) above. The response was not rejected if this figure - where provided – exceeded R100 million.

Table 5.1: Sample Description of Questionnaire Respondents

Factor	Count
Total number of questionnaire responses received	39
Total number of questionnaire responses rejected	7
Final Sample Size	32
Companies represented in final sample	27
- from public / private companies	20
- from government departments	3
- from parastatals	1
- unknown	3

The second stage of the research was conducted via interview. In-depth interviews were conducted with a total of nine senior procurement managers from different companies. Interview subjects are summarised in Table 5.2.

Data obtained during the interview process were added to those obtained from the initial questionnaire responses prior to final analysis in order to enlarge the final sample size to forty one responses. This was necessary due to the poor response rate achieved during the first phase of the research, during which only thirty nine total questionnaires were returned, of which only thirty two were considered valid.

Table 5.2: In-Depth Interview Subjects

Organisation	Title
ABSA	Chief Procurement Officer
Anglo American	General Manager: Supply Chain
Business Connexion	Senior Commercial Manager
Cell C	Acting Exec. Head: Procurement
Gauteng Shared Services Centre	General Manager: Procurement
MTN	Procurement Manager
SAB Miller	Commercial Manager
Spoornet	Chief Procurement Officer
Standard Bank of South Africa	Procurement Manager

5.3 Background Details for Respondent's Organisations

The first section of the questionnaire requested basic information about the organisation for which the respondent worked. While this information does not form part of the formal analysis relating to strategic sourcing, it does help to obtain a picture of the range of organisations represented in the sample. The following is a brief discussion on the organisations represented in the final sample of forty one responses.

5.3.1 Annual Turnover and Spend Under Management

The annual turnover figure for the last full financial year was included in the questionnaire as a simple indicator of the potential for procurement to affect the bottom line performance of the relevant organisation. Responses that indicated an annual turnover below R100 million were rejected.

Annual spend under management (i.e. the total value of the organisation's total spend that was controlled by procurement) was included as this is considered to be the most important KPI by the majority of procurement managers (Checketts and Bartolini, 2006).

If the annual turnover was not given, annual spend under management was used as the qualifying criteria. The response was considered valid provided that spend under management was at least R100 million.

Table 5.3: Annual Turnover and Spend Under Management

	Turnover	Spend Under Management
Sample Size	30	32
Average	R20,6 billion	R5,7 billion
Median	R14,5 billion	R5 billion
Highest	R86 billion	R23 billion
Lowest	R200 million	R72 million

The annual turnover figure for government departments was excluded from this table as these organisations are not revenue generating.

5.3.2 Responding Organisations by Sector

Reponses received represented government and nine discreet sectors of industry, as detailed in Table 5.4.

Table 5.4: Responding Organisations by Sector

Sector	Count	Sector	Count
Mining	8	FMCG	3
Industrial Products	5	Financial services	3
Local Government	4	Construction Materials	2
IT & Telecommunications	4	Healthcare	1
Freight & Logistics	3	Agriculture & Produce	1

5.3.3 Types of Goods or Services Purchased

Respondents were asked to provide a brief description of the types of goods or services that they purchased. The results obtained through a content analysis of the data provided is summarised in Table 5.5.

Table 5.5: Types of Goods or Services Purchased

Description	Count	Description	Count
CAPEX	23	Packaging	3
Consumables	22	Utilities	3
Services	17	Explosives	2
Production materials	16	Marketing	2
Professional Services	10	Advertising	1
MRO	10	All 3rd party spend	1
I.S. equipment	6	Anything	1
Fuel	4	FMCG	1
OPEX	4	Indirect	1
Food	3	Travel	1
Freight and logistics	3		

5.4 Involvement in the Corporate Strategic Planning Process

The following observations were made relating to the research question “Is the procurement function in South African organisations involved in the Corporate Strategic Planning Process?”

All of the questions included in the questionnaire for this research question required a simple Yes/No response. Table 5.6 presents the descriptive statistics relating to these questions. It is clear that there is strong evidence to support the fact that procurement has a good knowledge of the organisation's strategy and that procurement plays an integrative role in the purchasing function (ninety percent positive response rate). However, the positive response rate regarding procurement's involvement in the creation of strategy is much lower, only seventy percent. Furthermore, only seventy percent of respondents agree that procurement has a formally written long-range plan.

Table 5.6: Descriptive Statistics Relating to Involvement in the Corporate Strategic Planning Process

Question	Sample Size	Response	
		Yes	No
Is purchasing included in the firm's strategic planning process?	40	28 (70%)	12 (30%)
Does the purchasing function have a good knowledge of the firm's strategic goals?	40	36 (90%)	4 (10%)
Does purchasing professional's development focus on elements of competitive strategy?	40	33 (83%)	7 (18%)
Does the purchasing department play an integrative role in the purchasing function?	40	36 (90%)	4 (10%)
Is purchasing's focus on longer term issues that involve risk and uncertainty?	40	33 (83%)	7 (18%)
Does the purchasing function have a formally written long-range plan?	40	28 (70%)	12 (30%)

These questions were explored in more detail during the interview phase of the research process. The themes identified during the content analysis of the interview notes are discussed in the following sections.

5.4.1 **Is procurement involved in the organisation's strategic planning process?**

The results from the initial questionnaire process indicated that seventy percent of respondents felt that procurement was involved in the organisation's strategic planning process. This is somewhat supported by the interview process, but only four of nine subjects felt that the function was fully involved in the process, with two of nine stating that procurement provided an advisory or information gathering role only, and the other three respondents stating that procurement played no role whatsoever in the creation of strategy.

Other interesting observations included the view that procurement was considered to be a key strategic resource (mentioned three times), and the procurement function was actively involved in the organisation's long range (three to five year) planning process (mentioned three times).

On the negative side, four references were made to strategy being developed at a group or executive level and cascaded down into the organisation. Even worse, one respondent went as far as stating that procurement was not seen as strategically important at all.

Table 5.7: Procurement’s Involvement in the Strategic Planning Process

Observation	Count
Procurement is fully involved in the process of strategy development	4
Strategy is developed at a high level and cascaded down	4
Procurement has no involvement in the process of strategy development	3
Procurement is involved in the development of long term organisational plans	3
Procurement has been identified as a key strategic resource	3
Procurement has some input in the development of strategy	2
Procurement is not seen as strategically important	1

5.4.2 Does the purchasing function have a good knowledge of the organisation's strategic goals?

Ninety percent of respondents to the questionnaire agreed that the procurement function had a very good knowledge of the organisation’s strategic goals. Eight out of nine interview subjects agreed with this. No further insights were obtained from the interview process other than two respondents confirming that the organisation’s strategy was well communicated to all stakeholders.

5.4.3 Does purchasing professional’s development focus on elements of competitive strategy?

Only eighty-three percent of respondents felt that the skills development in procurement focused on strategic issues. However, this was not supported by the interview process where a strong emphasis on high level skills development was evident.

While basic skills development (process improvement, improved efficiencies, basic skills development) featured prominently, there was strong evidence to suggest that organisations are taking the skills levels of procurement staff very seriously, looking to recruit or train to a high level (MBA or CAPS (Centre for Advance Procurement Studies) level), developing competency based programs, implementing programs that have a strong strategic focus, and making extensive use of the UNISA's Strategic Sourcing programs.

On the negative side, one organisation observed that the skills levels amongst its procurement staff were very low, and that there was very little demonstrated interest by these staff members in self-improvement. Another organisation confirmed that while they consider strategic thinking to be very important, they have no specific training in place.

Table 5.8: Development of Strategic Skills

Observation	Count
Training based on general process / efficiency / skills improvement	5
Train / recruit to high level (MBA / CAPS / etc.)	5
Competency based training programs	3
Focus on strategic thinking	3
UNISA strategic sourcing program	2
Training based on IPSA requirements	1
No specific training	1

5.4.4 **Does the purchasing department play an integrative role in the purchasing function?**

Ninety percent of respondents stated that procurement played an integrative role in the purchasing function.

Table 5.9: Purchasing’s Integrative Role

Observation	Count
Purchasing is fully centralised	5
Only common and strategic goods are centralised	2
Procurement is responsible for the full procure-to-pay process	2
Quarterly procurement forums are held with all regional buying staff	1
Currently decentralising - regional procurement to become direct responsibility of the regional business unit	1
No rationalisation exists between regions and clients	1

Of the nine interview subjects, seven stated that the procurement function was either fully centralised or that responsibility for procurement of all strategic goods was centralised. One of the organisations held quarterly procurement forums with all procurement staff, during which elements of process, commodity strategies and BEE initiatives were discussed. Two organisations claimed that procurement was responsible for the entire purchase to pay process. One organisation was in the process of decentralising all non-strategic spending as a result of which procurement will no longer have any involvement in the process. This decision was taken in order to improve turn-around times. Finally, one respondent felt that there was no integration whatsoever between procurement and business.

5.4.5 **Is purchasing's focus on longer term issues that involve risk and uncertainty?**

This question was answered positively by eighty-three percent of all respondents.

Table 5.10 sets out the key themes that emerged from the nine interviews conducted. The strongest indicators of effective strategic sourcing that emerged were a clear focus on ensuring sustainability of supply, either by focusing on business continuity management or sustainable procurement practices, and a clear focus on risk, specifically as a result of demand exceeding supply or of contracting with emerging vendors who may not yet be able to deliver to the required quality.

A further strong indicator was in taking a longer term view, both in planning and in the making of longer term commitments to suppliers.

On the opposite end of the scale, there was a strong sense from three of the interview subjects that the procurement function in their organisations was purely reactive, and in one instance the subject felt that procurement was not considered to be capable of making long term decisions.

Table 5.10: Focus on Long Term Issues of Risk and Uncertainty

Observation	Count
Focus on long term sustainability / securing supply / business continuity management	4
Recognition of risk due to demand exceeding supply / emerging vendors being contracted / quality of supply	4
Procurement not proactive / only reactive to clients needs	3
Longer term focus in planning / supplier relationships	3
Engage with stakeholders to plan forward, anticipating market conditions	1
Procurement not viewed as technically capable to make long term decisions	1
Company very dynamic so hard to take long term view	1

5.4.6 Does the purchasing function have a formally written long-range plan?

Only seventy percent of respondents agreed that the procurement function had a formally written long range plan.

Table 5.11: Existence of Long Range Plans

Observation	Count
Formal 3 to 5 year plans are in place	5
Formal 1 or 2 year plans are in place	2
Plans are based on balanced scorecard	2
No formal plans, but procurement is included in the organisation's 5 year plan	1
No plan - simply react to clients needs	1

This low result was supported by the interview respondents, where only five of nine confirmed that their respective organisation's had a three to five year plan (and of these, one even stated that the plan had not been

implemented). A further two respondents confirmed that one to two year plans were in place.

5.5 Positioning and Structure

The following observations were made relating to the research question *“How are South African procurement departments positioned and structured, and is this appropriate for effective strategic sourcing?”*

Only one of the questions relating to this Research Question lent itself to simple descriptive statistical analysis. Content analysis was therefore done on each of the questions individually, with the results described as follows.

5.5.1 What is the title of the most senior manager in the procurement function of the company?

Responses to this question were grouped according to similar titles. For instance, the titles “Group Procurement Manager” and “Procurement and Services Manager” were foreshortened to “Procurement Manager” and added to the appropriate count.

Table 5.12: Titles of the Most Senior Procurement Officer

Observation	Count
Procurement Manager	11
General Manager	6
Head of Procurement	5
Chief Procurement Officer	4
Executive Head	3
Director	2
Supply Chain Manager	2
Commercial Director	1
Commercial Manager	1

No further insights were obtained during the interview process.

5.5.2 To whom does the most senior manager in procurement report?

Once again, responses to this question were grouped according to similar titles.

Three interesting insights were obtained during the interview process:

- (i) One of the respondents interviewed reported to the Chief Operating Officer. This reporting line was considered to be most appropriate for this organisation as it allowed procurement to be close to the department responsible for the greatest spend. The respondent was also of the opinion that it is inappropriate for procurement to report to the Chief Financial Officer as this did not allow for effective segregation of responsibilities, and encouraged a “numbers-only” approach to procurement.

- (ii) A second respondent, who currently reports to the Chief Financial Officer, mentioned that the reporting lines would change over time such that the head of procurement would report directly to the Chief Executive Officer. This change was being planned in recognition of the growing strategic importance of the purchasing function.
- (iii) A third respondent, who currently reports to the Head: Technical Services noted that in the past the reporting line was directly to the Chief Executive Officer. However this was changed because of the difficulty in obtaining sufficient face-time with the CEO. The procurement head was now able to spend more time with his manager as a result of moving the reporting line down one level. This enabled the function to become more effective.

Table 5.13: Who Procurement Reports To

Observation	Count
Financial Director / Chief Financial Officer	15
Managing Director / Chief Executive Officer	7
Supply Chain Director	3
Chief Commercial Officer	2
Chief Operations Officer	2
Assistant Chief Executive Officer	1
Divisional Manager - Production	1
Financial Controller	1
Head of Technical Services	1
Manager Materials Management	1

5.5.3 Does the most senior procurement manager also sit on the company's executive committee?

The summary of results is reflected in Table 5.14.

Table 5.14: Incidence of Procurement Involvement in EXCO

Observation	Count
Yes, the senior procurement officer sits on EXCO	12 (35%)
No, the senior procurement officer does not sit on EXCO	22 (65%)

This result was supported by the interview respondents. However a number of them pointed out that while the head of procurement was not actually an official member of the Executive Committee they did play an active role in the EXCO process, largely in an advisory capacity.

5.5.4 How many levels of reporting are there between the most senior procurement manager and the CEO?

The summary of results is reflected in Table 5.15.

Table 5.15: Levels of Reporting Between Procurement Head and the CEO

Observation	Count
Procurement head reports to the CEO	7 (21%)
1 level between the procurement head and the CEO	19 (55%)
2 levels between the procurement head and the CEO	7 (21%)
6 levels between the procurement head and the CEO	1 (3%)

No additional insights were obtained during the interview process.

5.5.5 Is the procurement function centralised, decentralised, or is a combination of both structures used?

The summary of results is reflected in Table 5.16.

Table 5.16: The Incidence of the Procurement Function as a Centralised, Decentralised or Combination Structure

Observation	Count
Combination of Centralised and Decentralised Structure	22 (65%)
Centralised Structure	10 (30%)
Decentralised Structure	2 (5%)

Where the response to this question was a combination of centralised and decentralised, respondents were asked to describe the combination structure. Table 5.17 details the results of a content analysis of the responses received, including the comments made during the interview process.

Table 5.17: Content Analysis of the Combination Approach to Centralisation of the Procurement Function

Observation	Count
Strategic centralised - non strategic decentralised	6
Centre-Led	5
Regional commodities/services purchased at regional level	2
Below R50,000 at branch level	2
Act as service provider	1
Purchasing at Business Unit level; contracts at head office	1
Certain commodities centralised	1
Centre responsible for strategy and direction	1
Central control; decentralised functions	1
All purchasing at centre level	1

It is worth noting that one of the organisations was in the process of increasing the scope of decentralisation in an effort to improve efficiency (turn-around times). This organisation is the same as the one reflected in item 5.5.4 as having more than two levels of reporting between the head of procurement and the Chief Executive Officer, which may indicate that the procurement function requires a position of strength for centralisation to be effective or even accepted.

5.5.6 Is top management supportive of efforts to improve the purchasing department?

Table 5.18 reflects the responses to this question obtained during the questionnaire phase of the research.

Table 5.18: Top Management Supportive of Efforts to Improve the Purchasing Department

Observation	Count
Yes, management is supportive of efforts to improve the purchasing function	25 (74%)
No, management is not supportive of efforts to improve the purchasing function	9 (26%)

This result was mirrored during the interview process, with seven out of nine respondents confirming that management is very supportive of efforts to improve the purchasing function. The reasons given by the other two for not believing that management was supportive of efforts to improve the purchasing function were:

- (i) Procurement was not seen as a value adding function; and

- (ii) The head of procurement and his direct manager (Head of Finance) did not agree on the role of procurement.

5.6 Tools and Techniques Applied

The following observations were made relating to the research question “*Are appropriate tools and techniques applied by South African procurement professionals?*”

Four of the questions included in the questionnaire for this research question required a simple Yes/No response. Table 5.19 presents the descriptive statistics relating to these questions.

Table 5.19: Descriptive Statistics Relating to Tools and Techniques

Question	Sample Size	Response	
		Yes	No
Is there a clear connection between purchasing and business strategy?	33	27 (82%)	6 (18%)
Is there a clear focus on the development of purchasing plans and strategies?	33	25 (76%)	8 (24%)
Does purchasing make use of recognised tools for the formulation of strategies?	34	27 (79%)	7 (21%)
Are e-Procurement tools used to aid in the effectiveness of the purchasing?	34	20 (59%)	14 (41%)

The results for each of the questions relating to this research question are discussed in more detail in the following sections.

5.6.1 What are the main objectives of the procurement function?

Table 5.20 sets out the results of the content analysis of the response to the question “What are the main objectives of purchasing?” Since the question is open ended, the questionnaire and interview responses have been combined in this analysis.

Table 5.20: The Main Objectives of the Procurement Function

Observation	Count
Lowest price	13
On time delivery	13
Ensure correct quality / specification	12
Reducing Cost	12
Security / sustainability of supply	11
Best Total Cost of Ownership	8
Customer service	7
Achieve best possible value	6
Comply with BEE / Charter requirements	6
Ensure compliance with corporate governance	6
Establish long term relationships	4
Improve systems / efficiencies / effectiveness	4
Innovation	2
Vendor management / improvement	2
CSR / Socio-economic goals	2
Apply global best practice principles	1
Procure goods and services	1
Optimise inventory	1

Cost reduction is obviously a major theme, occurring thirty three times if “Lowest Price”, “Reducing Costs” and “Best Total Cost of Ownership” are combined.

The social transformation requirements driven by BEE and the various industry charters also came out strongly. Interestingly though, some respondents felt that it was no longer necessary to pay a premium in order to contract with an empowered supplier.

5.6.2 What basic principles are applied in purchasing practice?

The question “What basic principles are applied in purchasing practice?” was open ended. Table 5.21 sets out the results of the content analysis carried out on the combined questionnaire and interview responses.

The principle theme relates to the use of Total Cost of Ownership as an evaluation tool. This indicates a move away from the simple “lowest-price” decision method.

Table 5.21: The Basic Principles Applied in Purchasing Practice

Observation	Count
Apply Total Cost of Ownership principles	9
Award based on best price, quality and delivery time	8
Establish partnerships / long term relationships	7
Ensure ethical behaviour and fair dealings	7
Use formal tender process for high value items	6
Establish cross functional / commodity team approach	4
Include BEE requirements in evaluation criteria	4
Use three quote system for low value items	3
Use appropriate technology	2
Segment spend and develop appropriate strategies	2
Apply standardised vendor management principles	2

5.6.3 Is there a clear connection between purchasing and business strategy?

Eighty-two percent of respondents felt that there was a clear connection between purchasing and business strategy.

Three key insights relating to this question were obtained during the interview process:

- (iii) One of the respondents, representing a major bank, advised that this was particularly necessary at the time of the interview as a result of the newly implemented National Credit Act, and the recent global sub-prime credit crisis. Both of these factors were affecting the organisation's cost base so procurement's ability to influence costs had become more important.
- (iv) Two respondents stated that their respective organisations were very good at cascading strategy down into the functional units and ensuring their alignment with the organisation's objectives.
- (v) One of the respondents who responded in the negative to this question gave an example of the need for this connection to be in place, where the marketing department had recently launched a product that the organisation's technology could not in fact support, rendering the product useless.

5.6.4 Is there a clear focus on the development of purchasing plans and strategies?

Seventy-six percent of the respondents felt that there was a clear focus on the development of purchasing plans and strategies.

Four of the interview respondents pointed to the fact that purchasing plans were being derived from and aligned with the organisation's long term planning process.

5.6.5 Does purchasing make use of recognised tools?

Seventy-nine percent of respondents confirmed that the purchasing function made use of recognised tools for the classification of spend and identification of strategic materials, and the formulation of purchasing strategies for these.

Respondents who answered this question in the affirmative were asked to describe the tools that were used. Table 5.22 details the main tools that were identified.

Table 5.22: Types of Tools Used by Purchasing?

Observation	Count
Purchasing portfolio matrix	12
Spend analysis	6
Excel	5
Purchasing Managers Index	3
SAP (ERP)	3
Use Total Cost of Ownership methodology	3
Commodity prioritisation matrix	2
Strategic sourcing toolkit	2
BCG Model	1
Coding standards	1
Linear procurement	1
McKinsey methodology	1
MyMarket for planning purposes	1
Not possible because tools are non existent	1
SAS data mining tool for spend analysis	1
Should cost modelling	1
Strategic commodity management framework	1

5.6.6 Are e-Procurement tools used to aid in the effectiveness of the purchasing function?

Only fifty-nine percent of respondents said that their organisations made use of e-procurement tools to aid in the effectiveness of the purchasing function.

Only three of the interview respondents confirmed that their organisations made use of e-procurement tools. Two others were currently evaluating the benefits of adopting appropriate tools. One of the respondents that did make use of e-procurement tools was not

convinced that the tool helped the function to be more effective, and in fact increased their transaction costs.

Two of the respondents stated that their respective organisations were not ready for e-procurement tools.

5.7 Performance Measurement Tools Applied

The following observations were made relating to the research question “*What performance measurement tools are applied in South Africa, and are these appropriate?*”

All of the questions included in the questionnaire for this research question required a simple Yes/No response. Table 5.6 presents the descriptive statistics relating to these questions.

Table 5.23: Descriptive Statistics Relating to Measurement Tools

Question	Sample Size	Response	
		Yes	No
Is purchasing performance measured in terms of its contribution to the organisation’s success?	34	27 (79%)	7 (21%)
Does purchasing benchmark itself against other comparable purchasing organisations?	34	29 (85%)	5 (15%)
Does purchasing recognise the concept of an internal and external customer?	34	33 (97%)	1 (3%)
Does purchasing participate in design and/or specification design of goods and services?	34	23 (68%)	11 (32%)
Does the purchasing strategy actually impact on corporate performance?	34	32 (94%)	2 (6%)
Does purchasing have a purchase research group?	33	15 (46%)	18 (54%)

5.7.1 Is purchasing performance measured in terms of its contribution to the organisation's success?

Seventy-nine percent of respondents stated that purchasing performance was measured in terms of its contribution to the organisation's success.

Interesting observations from the interview process included:

- (i) two respondents mentioned that their bonuses were impacted by the savings achieved by procurement;
- (ii) one respondent's bonus was measured in terms of the procurement function's impact on the organisation's bottom line; and
- (iii) in once instance, the head of procurement's bonus was dependent on production targets being achieved.

5.7.2 Does purchasing benchmark itself against other comparable purchasing organisations?

Eighty-five percent of respondents responded in the affirmative.

Table 5.24 sets out the results of a content analysis on the comments made by the interview subjects.

Table 5.24: Descriptive Statistics Relating to Measurement Tools

Observation	Count
Employed consultant to carry out benchmarking exercise	3
Participated in benchmarking study	3
Benchmark within the group	3
Commodity specific benchmarking carried out	2
Benchmark at a global level	1
Benchmark at a local level	1

5.7.3 Does purchasing recognise the concept of an internal and external customer?

Ninety-seven percent of respondents agreed that purchasing recognised the concept of an internal and external customer.

Two of the interview subjects noted that customer satisfaction was one of their performance management metrics. Other important comments included the fact that it is important for procurement to understand the needs of business, and that procurement should realise that a supplier could also be a customer of the business.

5.7.4 Does purchasing participate in design and/or specification design of goods and services?

Only sixty-eight percent of respondents agreed that the purchasing function in their organisation participated in design and specification activities.

This weak response was well supported during the interview process, with only one respondent indicating that procurement was actively involved in product development at a high level.

5.7.5 Does the purchasing strategy actually impact on corporate performance?

Ninety-five percent of respondents believed that the purchasing strategy had a positive impact on the organisation's performance.

The interview subjects responded favourably to this question, providing numerous examples of how procurement had impacted on corporate performance, both at a financial and non-financial level. Examples of this impact include:

- (i) Total savings of R500 million in the last financial year,
- (ii) Total savings of R432 million in the last financial year,
- (iii) Savings of tens of millions of rand through development of a new manufacturing process,
- (iv) Savings in excess of R10 million per annum through a reduction in the number of courier companies from thirty six to one,
- (v) Impact on Income Statement as well as the Financial Services Charter and Corporate Social Responsibility scorecards, and
- (vi) Strong impact on Return on Capital Employed.

One respondent, who didn't feel that the procurement function in his organisation was taken seriously, stated that the company purchased

poorly and without any strategy and procurement was therefore unable to positively impact on the organisation's performance.

5.7.6 **Does purchasing have a purchase research group?**

Forty-six percent of respondents confirmed that their organisations had a purchase research group.

However, all interview subjects without exception provided a negative response to this question. The overall view was that research was the responsibility of the commodity managers / analysts, and that they could not do their jobs effectively without carrying out detailed purchasing research themselves.

5.8 **Concluding Remarks**

The results presented in this chapter are interpreted and discussed in the following chapter, with reference to the best practices identified during the literature review described in chapter 2.

Chapter 6: Discussion of Results

6.1 Introduction

The results presented in the previous chapter are interpreted and discussed in this chapter, with reference to the best practices identified during the literature review described in chapter 2. The discussion has been structured in line with the research questions detailed in chapter 3.

During the research process, four of the organisations represented were considered by the researcher to be excellent examples of organisations that are doing most things correctly and many of their comments are taken as positive indicators in the ensuing discussions. At the opposite extreme, two of the organisations represented were very poor examples and some observations from these interviews are used as negative indicators.

6.2 Involvement in the Corporate Strategic Planning Process

The first research question stated in chapter 3 was, *“Is the procurement function in South African organisations involved in the Corporate Strategic Planning Process?”*

6.2.1 Review of Background Theory

Cousins (2005) and Knudsen (2003) explained that because organisations can enhance their market position by adopting a procurement strategy that is aligned with and focuses on its own competitive strengths, purchasing managers need to understand the organisation’s competitive pressures and priorities and align their

purchasing strategies to fit these demands. Procurement can thus become strategic in nature if the purchasing strategies stem from and are consistent with the organisation's competitive strategy. Carr and Pearson (2002) noted that the procurement function can be characterised as a strategic function if it is integrated into the organisation's strategic planning process.

6.2.2 Discussion of Results for Research Question 1

Section 5.4 in this report details the results of the research conducted.

Only seventy percent of respondents confirmed that the procurement function in their organisation was included in the strategic planning process, but ninety percent confirmed that the function had a very good knowledge of the organisation's strategic goals.

The first result should be seen as problematic, particularly when considering that involvement in the strategy process does not necessarily have to be direct, but can take the form of simple information gathering or communication of expected future trends in supply markets in order to assist senior management in the strategy creation process. The second result is far more encouraging. Even if procurement is not actively involved in the creation of strategy, the fact that the function has a good knowledge of the organisation's strategic goals should enable procurement managers to create appropriate purchasing strategies that will support the overall strategy.

Three of the excellent organisations represented in the interview process mentioned that the procurement function was considered to be a key strategic resource, and was actively involved in the organisation's long range planning. This clearly indicates that there is recognition of the fact that procurement can add substantial value. However, in one of the poor organisations procurement was not seen as strategic at all. This observation is particularly powerful when one considers that this company is listed on the main board of the Johannesburg Stock Exchange.

Given that procurement has a good knowledge of the organisation's strategic goals, the next question to ask is whether or not the procurement function itself has the necessary competency to create appropriate purchasing strategies.

Eighty-three percent of respondents confirmed that the personal development of purchasing professionals in the organisation focused on elements of competitive strategy, and an equal percentage confirmed that the function had a focus that was on issues that involve risk and uncertainty. What this indicates is that purchasing staff have or are developing the skills to think in a strategic manner, and that the function itself is focusing some of its efforts on long term issues instead of simply reacting to the current demands. A good example of the kind of long term issue that was being considered was the sustainability of strategic supply partners, and the impact that they could have on

business continuity, and in the possible benefits of concluding long term agreements with these suppliers.

Given these findings it would appear that procurement should have the necessary competency to develop purchasing strategies that will support the organisation's overall strategic goals, so the next question is, are they in fact creating these strategies, and are they effective?

Only seventy percent of the respondents indicated that the purchasing function had formally written long range plans. This is not encouraging; it suggests that while procurement has the capability to create effective strategies that support the organisation's overall goals and that it is taking some steps to consider long term issues, it is not taking the final step of actually creating the plans and strategies that will guide the purchasing effort towards supporting the organisation's long term strategy.

The final element that was considered regarding procurement's involvement in the strategic planning process was whether or not the function had the ability to actually influence the way in which the organisation procures goods and services. Purchasing strategies can only be effective if the procurement function plays an integrative role in determining and controlling how separate business units function with respect to purchasing. In this regard, ninety percent of respondents

confirmed that the procurement function in their organisations played this integrative role.

6.2.3 Summary of Findings for Research Question 1

Given these findings it would appear that the procurement function in South African organisations is involved in the Corporate Strategic Planning Process, either directly or indirectly, although probably not to the extent that would be required in order to become truly competitive in a global environment.

6.3 Positioning and Structure

The second research question stated in chapter 3 was, *“How are South African procurement departments positioned and structured, and is this appropriate for effective strategic sourcing?”*

6.3.1 Review of Background Theory

The right organisational structure is essential for effective implementation of leading edge procurement strategies (Trent and Monczka, 1998). In general, the higher the procurement function is positioned in the organisational hierarchy the greater the role that it is able to play in the strategy development (Monczka et al, 2002). In order for the function to perform at a more strategic level it is important for purchasing to have the appropriate configuration and focus (Cousins et al, 2006).

6.3.2 Discussion of Results for Research Question 2

Section 5.5 in this report details the results of the research conducted.

Seventy-six percent of all respondents reported that the procurement function in their organisations was either an upper-level or second-tier function, in terms of the structures proposed by Monczka et al (2002). In other words, three quarters of respondents stated that the head of procurement either reported directly to the Chief Executive Officer or to one of the Chief Executive Officer's direct reports. All but one of the remaining respondents reported two levels of separation between the head of procurement and the Chief Executive Officer. The sole outlier, representing one of the top four financial institutions in South Africa, reported six levels of separation!

The most common reporting line (forty-four percent) was into the Chief Financial Officer, followed by twenty-one percent into the Chief Executive Officer. This is very much in line with global best practice. The head of procurement reporting to the Chief Financial Officer is the most common reporting line in use today globally, while best-in-class organisations tend towards a direct reporting line (Checketts and Bartolini, 2006).

Interestingly, none of the four excellent organisations identified by this researcher had an upper-level structure, although in one case plans were being made to change to this format. Furthermore, the head of

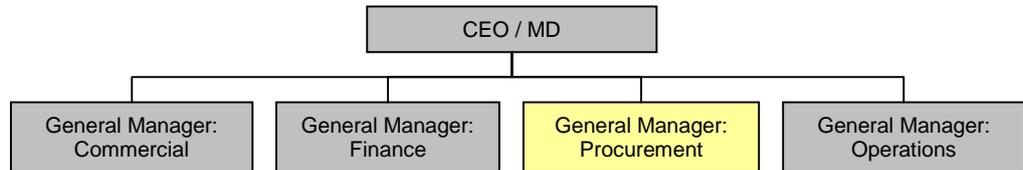
procurement reported to the Chief Financial Officer in only one of these organisations, and this was the one set to change to an upper-level structure.

Two interesting observations emerged from the interview process. One of the interview subjects stated that in his opinion reporting to the Chief Financial Officer was bad practice for two reasons, firstly because it doesn't allow for appropriate segregation of duties, and secondly because it then forces a "numbers-first" attitude towards procurement. A second interview subject related how the head of procurement in his organisation had in the past reported directly to the Chief Executive Officer but that they had decided to adopt a second-tier structure as the procurement head could not get sufficient time with the CEO to be able to function effectively. Both of these observations came from excellent organisations.

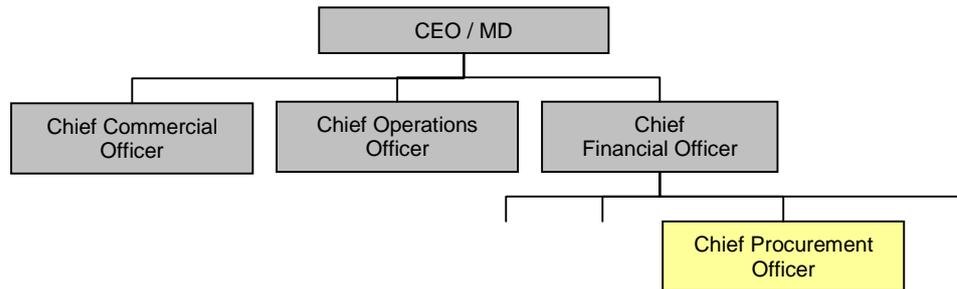
Table 6.1 below has been adapted from the three possible levels of incorporation proposed by Monczka et al (2002). The various titles used have been taken from the sample data collected for this research, with the most common for each model being applied. Although it may seem incongruous for "Chief Procurement Officer" to be included as a second-tier function, four out of four CPOs identified in this study were in fact positioned this way.

Figure 6.1: Common Positions of South African Procurement Departments in the Organisational Hierarchy

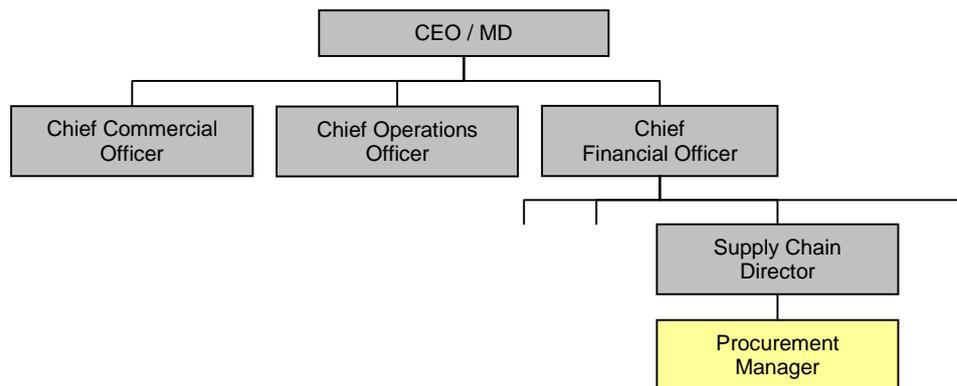
A) Purchasing as an upper-level function



B) Purchasing as a second-tier function



C) Purchasing as a lower-level function



Adapted from: Monczka et al (2002)

These findings support the idea that South African organisations are appropriately structured to allow the procurement function to play a significant strategic role and have the greatest positive impact on corporate performance.

Referring once again to Checketts and Bartolini's study (2006), poor purchasing organisations will display a decentralised approach to procurement and have very little executive level support, while best-in-class organisations will have a centre-led or globally centralised approach to procurement, with strong support at the Chief Executive Officer's level.

Thirty percent of respondents indicated that their procurement function could be described as centralised, five percent as decentralised, and the balance (sixty-five percent) claimed that their organisations followed a combination approach. Of those that applied a combination structure, the most common approach was to centralise all strategic activities and decentralise the non-strategic activities, such as security and cleaning services. Centre-led was used to describe the structure by five respondents. In addition, seventy-five percent of respondents confirmed that the management of their organisations was very supportive of efforts to improve the purchasing function.

The low incidence of decentralisation is very encouraging and indicates that organisations may indeed be taking procurement seriously. This view is supported by the high incidence of management support. Procurement should be better placed to have a positive impact on the overall performance of the organisation by centralising the strategic activities and control functions, and management support of these efforts should make it easier to implement centralisation.

6.3.3 Summary of Findings for Research Question 2

Given these findings it would appear that South African procurement departments are appropriately positioned and structured for effective strategic procurement, although the structure and positioning mirrors the global industry average, but falls short of what could be considered global best practice.

6.4 Tools and Techniques

The third research question stated in chapter 3 was, “*Are appropriate tools and techniques applied by South African procurement professionals?*”

6.4.1 Review of Background Theory

There are a number of tools and techniques available to procurement professionals. The Purchasing Portfolio Matrix (PPM) has become the standard tool for the classification of spend and development of purchasing strategies (Gelderman and van Weele, 2005). In addition, there are a number of economic indicators, such as the Purchasing Managers Index (PMI) which facilitate the analysis and forecasting of business cycles (Lindsey and Pavur, 2005). Finally, a number of information technology solutions have been developed, which enable a shift in focus from low-value processing functions to high-value strategic initiatives (Trent and Monczka, 1998).

6.4.2 Discussion of Results for Research Question 3

Section 5.6 in this report details the results of the research conducted.

The first question asked what the main objectives of procurement were, as this would guide the application of appropriate tools and techniques. Unfortunately, the top four most frequently occurring themes were very typical of an old-style approach (achieve the lowest price, ensure on time delivery, ensure quality is maintained, and reduce costs). The two strongest strategically focused themes, security and sustainability of supply, and achieving best total cost of ownership only ranked fifth and sixth in terms of frequency mentioned, with other themes such as establishing long term relationships with suppliers, improving systems and efficiencies, innovation, and the application of global best practice principles ranking much further down the list and only receiving a handful of mentions between them.

This suggests that a cost or savings driven approach is still dominant, which could tie back to the earlier finding that most procurement departments report into the head of finance.

More encouraging was the high frequency of strategic procurement principles that are being applied. The most frequently mentioned principle was the application of the Total Cost of Ownership (TCO) approach, which received nine mentions. Establishing partnerships or long term relationships was mentioned seven times (ranked third overall), the use of a cross-functional team approach ranked sixth overall with four mentions, and segment spend and develop appropriate strategies was mentioned twice (tenth overall).

This would suggest that while the typical cost or savings driven goals are still prevalent, strategic sourcing principles are being applied in an effort to achieve these goals.

Almost eighty percent of respondents agreed that recognised tools were being used for the classification of spend, identification of strategic materials, and formulation of procurement strategies. The most frequently mentioned tool was the Purchasing Portfolio Matrix (PPM), followed by spend analysis, receiving twelve and six mentions respectively. Use of the Purchasing Managers Index received three mentions, and the McKinsey methodology and BCG Model each received one mention. This clearly indicates that recognised tools are being applied. Of concern though is the fact that Excel was mentioned five times as a recognised strategic sourcing tool even though this is not an application that has been purpose designed for procurement activities. Even worse, one respondent stated that it was not possible to apply recognised tools, as none existed.

A more recent development with regard to procurement specific tools is the emergence of e-procurement, which allows for much closer integration between buyer and supplier organisations. Only fifty-nine percent of respondents were making use of e-procurement tools.

One could conclude from this that there is a high prevalence of the use of recognised tools, but that some organisations were not aware of what

tools are available. Also, the very low adoption rate of e-procurement could indicate that South African organisations are laggards when it comes to embracing new technologies.

Finally, in order to test if the use of tools was being effectively applied, respondents were asked if there was a clear connection between purchasing and business and a clear focus on the development of purchasing plans and strategies.

Eighty-two percent of respondents confirmed that there was a link between procurement and business strategy, and seventy-six percent believed that there was a clear focus on the development of purchasing plans and strategies. This clearly indicates that the procurement effort is being well channelled in directions that support the overall performance of the organisation.

6.4.3 Summary of Findings for Research Question 3

These findings support the idea that South African procurement professionals are attempting to apply the appropriate tools and techniques where possible. However, the use of these tools seems to be constrained, to a fairly large degree, by their organisation's failure to release procurement from a cost-based paradigm. This may also explain the slow acceptance of e-procurement functionality as these tools could be considered too expensive to implement.

6.5 Performance Measurement

The fourth research question stated in chapter 3 was, “*What performance measurement tools are applied by South African procurement managers, and are these appropriate?*”

6.5.1 Review of Background Theory

The way in which performance is measured will depend to a large extent on how management views the role and importance of purchasing (van Weele, 2005). Procurement managers have a wide range of key performance measures available to them for measuring and tracking the performance of their functions (Checketts and Bartolini, 2006). The act of measuring supply chain performance can facilitate a greater understanding of the supply chain, positively influence actors’ behaviour, and improve its overall performance (Shepherd and Günter (2006). To be truly effective, performance measurement must take into account the circumstances and environment surrounding the organisation, and the measurement and improvement methods should be closely aligned (Chadwick, 1995).

6.5.2 Discussion of Results for Research Question 4

Section 5.7 in this report details the results of the research conducted.

Seventy-nine percent of respondents confirmed that the purchasing function was measured in terms of its contribution to the organisation’s overall success, while fully ninety-four percent believed that the

purchasing function's strategy did in fact impact on the organisation's performance. Examples of the impact that purchasing had had included initiatives that improved a manufacturing technique, and a huge reduction in the number of suppliers for one particular service. Both of these initiatives resulted in savings in excess of R10 million per year. In addition, in a number of instances the head of procurement's performance bonus was directly related to either the total savings achieved, or the bottom line impact resulting from procurement's actions. One procurement head's bonus was even dependent on certain production targets being met, which indicates that this organisation recognises the indirect impact that procurement can have on the organisation's ability to meet its overall goals.

These results are very encouraging. They indicate that the organisations in question understand the importance of procurement, have set up relevant performance targets, and base the potential rewards for good performance on procurement's ability to deliver in accordance with the organisation's strategic objectives.

It is clear then that the organisations included in this study recognise the potential impact that procurement can have, and set performance goals accordingly. But are these performance goals appropriate, or do they ensure that procurement is functioning at a competitive level? In order to determine this, organisations need to compare the performance of their purchasing function with that of other similar organisations.

Benchmarking is considered to be a valuable tool for this purpose, and eighty-five percent of respondents indicated that the procurement function in their organisations benchmarked itself against other comparable organisations. The most common methods of benchmarking took the form of hiring a consultant to carry out a benchmarking exercise, participating in an independent benchmarking study, or benchmarking within the group.

All three of these benchmarking techniques have the potential to enable organisations to compare their performance against local and international best practice. These findings support the view that South African procurement organisations are doing what is necessary to compare their practices and performance against global best practices.

Benchmarking as a tool enables organisations to compare what other organisations have done in the past or are doing currently. In order to be truly effective procurement needs to anticipate what is likely to happen in future and develop innovative strategies that will allow them to stay ahead of the competition. Research is a critical enabler in this respect, but only forty-six percent of respondents worked for organisations that had an independent purchase research group. The overall view was that the commodity managers should carry out their own research, but it is this researcher's opinion that analysis and strategy creation should be separate functions, allowing those responsible for each to focus fully on their specific area of expertise.

This result reflects poorly on South African procurement organisations, and may reflect some immaturity. A purchasing research group would be entirely non-tactical; their performance could not be tied directly back to specific performance improvements or savings targets. Not being able to measure performance in terms of monetary value may make it difficult to argue in favour of an independent research group, particularly considering that almost half of the procurement functions surveyed reported to a financial manager.

Although not directly related to performance measurement, two further areas that were included in the research question included procurement's involvement in the design of goods and services, and procurement's recognition of internal and external clients. Both of these factors reflect on how procurement views its own role in the organisation. A procurement function that considers itself important to the organisation's overall performance will recognise the importance of engaging with other stakeholders, getting involved as early as possible in an effort to impact performance from the earliest possible moment, instead of simply reacting to need at the last minute.

Ninety-seven percent of respondents confirmed that they recognised the concept of an internal and external customer, but only sixty-eight percent participated in the design of goods and services. This indicates that while procurement may want to get involved early, the reality is that

procurement is still very tactical in nature, reacting only to a business need when the commercial transaction has to take place.

6.5.3 Summary of Findings for Research Question 4

Given these findings, it would appear that South African procurement organisations are applying appropriate measurement tools, are benchmarking themselves against their peers and against global best practice, and are using appropriate reward structures that encourage strategic procurement practices. However, in order to be truly world-class, more emphasis should be placed on procurement specific research and early involvement in product or service design.

6.6 Overall Findings

The aim of this research was to investigate the ways in which South African organisations are embracing the potential to improve performance through the use of effective strategic procurement practices.

Four indicators were identified which can be used to assess the status of strategic procurement practices. These were:

- (i) the purchasing function's involvement in the formulation of the overall strategy of the company (Corporate Strategic Planning Process);
- (ii) the position of the purchasing function within the company, and the structure of the purchasing team;

- (iii) the tools and techniques applied by the purchasing function in order to achieve the goals and objectives that have been identified through the strategic planning process; and
- (iv) the performance measurement tools and key performance indicators that the company uses to track and measure the purchasing function's contribution to the overall performance of the business.

The principle findings of this research support the idea that:

- (i) The procurement function in South African organisations is involved in the Corporate Strategic Planning Process, either directly or indirectly although probably not to the extent that would be required in order to become truly competitive in a global environment,
- (ii) South African procurement departments are appropriately positioned and structured for effective strategic procurement, although the structure and positioning mirrors the global industry average, but falls short of what could be considered global best practice,
- (iii) South African procurement professionals are attempting to apply appropriate tools and techniques where possible. However, the use of these tools seems to be constrained to a fairly large degree by the organisations failure to release procurement from a cost-based paradigm, and
- (iv) South African procurement organisations are applying appropriate performance measurement tools, are effectively benchmarking themselves against their peers and against global best practice, and are using appropriate reward structures that encourage strategic

procurement practices. However, in order to be truly world-class, more emphasis should be placed on procurement specific research and early involvement in product or service design.

Chapter 7: Conclusion

7.1 Introduction

The results presented in chapter 5, and the discussions of these results presented in chapter 6 are summarised in this chapter. Key issues are highlighted and recommendations for action and future research possibilities are presented. Finally, the chapter and this research report closes with some final remarks from the researcher.

7.2 Recommendations to Management

To quote Freeman and Cavinato (1990, p 6) again, *“For the entire firm to experience a consistent level of success in today’s rapidly changing environment, purchasing operations and activities must be synchronised with the strategy of the firm and attuned with the variable external forces.”*

There are a number of recommendations for heads of procurement and executive management that can be drawn from the findings of this research, which can enable the activities of the purchasing function to be synchronised with the strategy of the organisation, and hopefully allow the organisation to achieve a higher level of success.

Firstly, organisations should reconsider the role that procurement plays in the corporate strategic planning process. Carr and Pearson (2002) recommended that the procurement function should be integrated into the strategic planning process. This research highlighted the fact that procurement was involved in the strategy creation in only a relatively low

proportion of the organisations surveyed. Perhaps even more surprising was the relatively low incidence of procurement departments that had formally written long range plans. Ferguson et al (1996) argued that the procurement function will only be allowed to participate in the strategic planning process if it can demonstrate its success in improving the organisations bottom line. This being the case, procurement managers should be making every effort to develop long term purchasing strategies, communicate their objectives to business, ensure that the function achieves these long term objectives, and provide feedback of the successes on a regular basis. Procurement will be in a much stronger position to influence the strategic planning process once it has demonstrated that it can indeed impact positively on the organisation's overall performance.

From a structure and positioning perspective, South African organisations are very much in line with the most common practices world wide, with the majority of purchasing organisations reporting to the head of finance. However, Checketts and Bartolini (2006) showed that the best in class procurement departments tend to report directly to the Chief Executive Officer, and some of the key informant interview subjects felt that reporting to the head of finance was inappropriate for two reasons, firstly because it encouraged a numbers-only approach, and secondly because it didn't allow for appropriate segregation of responsibility. With the seeming growth in awareness of and movement towards a greater focus on strategic procurement, South African organisations should consider

breaking the traditional finance based reporting structure and establish more effective relationships. In the South African context it may be inappropriate for procurement departments to report directly to the Chief Executive Officer, particularly with the emphasis on social transformation issues that they now face. However, other reporting lines, such as into operations, may prove more appropriate and effective. Certainly one of the interview respondents felt that this particular reporting line allowed him to be much closer to the biggest spenders in the organisation and therefore allowed for greater control and effectiveness.

While this research indicated that procurement is becoming more centralised, there is certainly a lot of room for improvement, with less than one third of respondents claiming that procurement in their organisations was completely centralised. For procurement to have a positive impact on overall performance it should be able to implement purchasing strategies to the greatest extent possible. This would require that as much of the purchasing effort as possible is either centralised or centre-led. Procurement managers therefore need to take appropriate steps to increase the percentage of total spend under management.

It is clear from this research that there is still a very strong cost-based approach to procurement. While reducing the cost base is clearly important to ensuring competitive advantage, a singular focus on cost reduction is not necessarily the best approach to procurement. Securing the future availability of resources at the lowest possible total cost of

ownership could result in far greater long term benefits. Procurement managers need to engage with other stakeholders in the business to determine their future needs, engage with potential suppliers to develop partnership strategies that will ensure sustainable supply, and develop strong market and economic analysis capabilities in order to anticipate future constraints and identify opportunities as early as possible.

E-procurement has the potential to dramatically impact on the purchasing function's performance, yet very few companies are making use of this tool. A few of the interview subjects stated that their organisations were not yet mature enough for e-procurement, and one stated that while he was making use of some e-procurement functionality, he was not realising any real benefits. Procurement managers should look more closely at the performance improvement potential of e-procurement, identify the constraints to effective implementation and areas of greatest possible benefit, and develop strategies that will enable them to take maximum advantage. This area is potentially one in which South Africa could very quickly fall behind global norms and procurement managers need to guard against the threat that this poses to their organisation's global competitiveness.

Finally, two specific areas of weakness were identified. Procurement has a very low tendency to get involved in the design and specification of goods and services, and does not place as much emphasis on research as may be necessary to remain globally competitive.

Procurement managers should look at their expectations for their staff, and take the necessary steps to encourage early involvement in product design and specification. If necessary, specific training needs should be identified and programs should be developed to ensure that staff are capable of making a contribution in this area. Performance measurement systems should include an element of early involvement to ensure that procurement professionals are not simply focused on achieving short term savings.

The most common reason given for not having a dedicated research group was that commodity managers should be doing their own research. This may indicate that there is an unrealistic work load expectation on procurement personnel, and research, like involvement in product design and specification, is being subordinated by the need to achieve those short term savings. Procurement managers should give consideration to establishing dedicated research teams. These teams can be staffed with individuals who are highly skilled in research thus ensuring the best possible results.

7.3 Further Research

This research was exploratory and qualitative in nature, and could be used as a basis for further quantitative analysis. The research set out to determine the ways in which strategic sourcing was being applied by organisations in South Africa. Quantitative research on the factors or forces that are causing companies in South Africa to either adopt or resist

strategic sourcing, and the extent to which this is being done could be interesting.

An industry specific approach would also be useful. Industry specific objectives, tools, techniques, and focus areas could be identified. This would allow procurement managers to compare themselves with their peers at a sector level and provide them with more relevant information that could enable them to improve their functions ability to positively impact on the organisation's performance.

South Africa could be considered unique with respect to the social transformation requirements. Although not tested in this research there were indications, particularly during the interview process, that the need to comply with sector charters and government regulation with respect to Black Economic Empowerment was constraining procurement's ability to adopt strict strategic sourcing methods. Research into the extent to which these restrictions plays a role, and what organisations are doing to address these challenges, could be useful to purchasing managers struggling to develop their own empowerment strategies.

7.4 Concluding Remarks

The aim of this research was to investigate the ways in which South African organisations are embracing the potential to improve performance through the use of effective strategic procurement practices.

This research indicates that South African procurement organisations are taking many effective steps towards the implementation of strategic sourcing, although there are still a number of areas where they fall short of global best practice. Specific recommendations have been made which, if applied, may enable procurement managers to significantly improve the performance of their functions and achieve sustainable long term benefits and bottom line improvements for the organisation at large.

Reference List

Anonymous (2005) Strategic Sourcing - Best Practice from Motorola, Honda and Toyota. *Strategic Direction*. Vol. 21, No. 11, pp 29-32.

Anonymous (2006) *Delta's Strategic Sourcing Initiative Yields High-Flying Results*. Aberdeen Group, Boston.

Bearden, B. and Morton, A. (2006) A Road Map for Federal Strategic Sourcing. *Public Manager*. Vol. 35, No. 1, pp 34-39)

Berglund, L. (2006) Prove It. *Summit*. Vol. 9, Iss. 6, pp 10, 3 pages.

Billington, C., Cordon, C. and Vollmann, T. (2006) Super Supplier Collaboration. *Perspectives for Managers*. June 2006, 134, pp 1- 4.

Carr, A.S. and Pearson, J.N. (2002) The Impact of Purchasing and Supplier Involvement on Strategic Purchasing and its Impact on Firm's Performance. *International Journal of Operations and Production Management*. Vol22, no. 9, pp 1032-1053.

Carr, A.S. and Smeltzer, L.R. (1997) An Empirically Based Operational Definition of Strategic Purchasing. *European Journal of Purchasing and Supply Management*. Vol. 3, No. 4, pp 199-207.

Carter, P.L., Carter, J.R., Monczka, R.M., Slaughter, T.H. and Swan, A.J. (2000) The Future of Purchasing and Supply: a Ten-Year Forecast. *Journal of Supply Chain Management*. Vol. 36, No. 1, pp 14-26,

Chadwick, T. (1995) *Strategic Supply Management*. Butterworth-Heinemann, Oxford.

Checketts, V. (2006) *The CPO's Agenda: a Measuring Stick*. Aberdeen Group, Boston.

Checketts, V. and Bartolini, A. (2006) *The CPO's Strategic Agenda: Managing People, Managing Spend*. Aberdeen Group, Boston.

Chen, I.J., Paulraj, A. and Lado, A.A. (2004) Strategic Purchasing, Supply Management, and Firm Performance. *Journal of Operations Management*. Vol. 22, pg 505 – 523.

Cousins, P.D. (2005) The Alignment of Appropriate Firm and Supply Strategies for Competitive Advantage. *International Journal of Operations and Production Management*. Vol. 25, No. 5, pp 403-428.

Cousins, P. D., Lawson, B., and Squire, B. (2006) An Empirical Taxonomy of Purchasing Functions. *International Journal of Operations and Production Management*. Vol. 26, No. 7, pp 775-794.

Ellram, L. M. and Carr, A. (1994) Strategic Purchasing: a History and Review of the Literature. *International Journal of Purchasing and Materials Management*. Vol. 30, Iss. 2, pp 10-18

Ferguson, W. C., Hartley, M. F., Turner, G. B., and Pierce, E. M. (1996) Purchasing's Role in Corporate Strategic Planning. *International Journal of Physical Distribution and Logistics*. Vol. 26, No. 4, pp 51-62.

Freeman, V.T. and Cavinato, J.L. (1990) Fitting Purchasing to the Strategic Firm: Frameworks, Processes, and Values. *Journal of Purchasing and Materials Management*. Vol. 26, No. 1, pp 6-10.

Fourie, I. (2003) *Purchasing, Sourcing and Supply Management Approaches Used by Wholesalers in South Africa*. University of South Africa, South Africa.

Gelderman, C.J. and van Weele, A.J. (2005) Purchasing Portfolio Models: a Critique and Update. *The Journal of Supply Chain Management: a Global Review of Purchasing and Supply*. Summer 2005, pg 19 – 28.

Hogan, J.E. and Armstrong, G. (2001) Toward a Resource-Based Theory of Business Exchange Relationships: The Role of Relational Asset Value. *Journal of Business to Business Marketing*. Vol. 8, No. 4, pp 2-28.

Holliday, A. (2002) *Doing and Writing Qualitative Research*. Sage Publications, London.

Jacoby, D. (2005) Measuring Sourcing Performance: What's the Mystery? *Purchasing*. Vol. 134, Iss. 10, pp 60.

Jennings, D. (2002) Strategic Sourcing: Benefits, Problems and a Contextual Model. *Management Decision*. Vol. 40, No. 1, pp 26-34.

Knudsen, D. (2003) Aligning Corporate Strategy, Procurement Strategy and E-Procurement Tools. *International Journal of Physical Distribution and Logistics Management*. Vol. 33, No. 8, pp 720- 734.

Kocabasoglu, C. and Suresh, N.C. (2006) Strategic Sourcing: an Empirical Investigation of the Concept and Its Practices in U.S. Manufacturing Firms. *The Journal of Supply Chain Management: a Global Review of Purchasing and Supply*. Vol. 42, No. 2, pp 4-16.

Kraljic, P. (1983) Purchasing Must Become Supply Management. *Harvard Business Review*. Sept-Oct 1983, pp 109 - 117

Likierman, A. (2005) Measurably Better. *Supply Management*. Vol. 10, Iss. 14, pp 20-23.

Lindsey, M.D. and Pavur, R.J. (2005) As the PMI Turns: a Tool for Supply Chain Managers. *The Journal of Supply Chain Management: a Global Review of Purchasing and Supply*. Winter 2005, pp 30 - 39.

Martínez-de-Albéniz, V. and Simchi-Levi, D. (2005) A Portfolio Approach to Procurement Contracts. *Production and Operations Management*. Vol. 14, no. 1, Spring 2005, pp 90 – 114.

Miles, M.B. and Huberman, A.M. (1994) *Qualitative Data Analysis, Second Edition*. Sage Publications, California.

Monczka, R.M., Trent, R.J. and Handfield, R.B. (2002) *Purchasing and Supply Chain Management – Second Edition*. South Western, Cincinnati.

Narayanan, V.G. and Raman, A. (2006) *Aligning Incentives in Supply Chains*. Harvard Business School Publishing Corporation, Boston.

Niezen, C., Weller, W. and Deringer, H. (2007) Strategic Supply Management. *MIT Sloan Management Review*. Winter 2007.

Paton, M.Q. (2002) *Qualitative Research and Evaluation Methods, Third Edition*. Sage Publications, California.

Quayle, M. (1998) The Impact Of Strategic Procurement In The UK Government Sector. *International Journal of Public Sector Management*. Vol. 11, No. 5, pp 397-413.

Ramsay, J. (2001) The Resource Based Perspective, Rents, and Purchasing's Contribution to Sustainable Competitive Advantage. *Journal of Supply Chain Management*. Vol. 37, No. 3, pp38-47.

Ryder, R. and Fearne, A. (2003) Procurement Best Practice in the Food Industry: Supplier Clustering as a Source of Strategic Competitive Advantage. *Supply Chain Management: an International Journal*. Vol. 8, No. 1, pp 12-16.

Sandholm, T., Levine, D., Concordia, M., Martyn, P., Hughes, R., Jacobs, J. and Begg, D. (2006) Changing the Game in Strategic Sourcing at Procter and Gamble: Expressive Competition Enabled by Optimization. *Interfaces*. Vol. 36, No. 1, pp 55-68.

Shane, B. and Lafferty, P. (2006) Building Blocks to Better Procurement. *Summit*. Vol. 9, Iss. 1, pp 18 – 19

Shepherd, C. and Günter, H. (2006) Measuring Supply Chain Performance: Current Research and Future Directions. *International Journal of Productivity and Performance Management*. Vol. 55, No. 3/4, pp 242-258.

Silbiger, S. (1999) *The 10-Day MBA*, Butler and Tanner, London.

Trent, R.J. and Monczka, R.M. (1998) Purchasing and Supply Management: Trends and Changes Throughout the 1990's. *International Journal of Purchasing and Materials Management*. Vol. 34, No. 4, pp 2-11.

Thompson, M. (1996) Effective Purchasing Strategy: the Untapped Source of Competitiveness. *Supply Chain Management*. Vol. 1, No. 3, pp 6-8.

Tully, S. (1995) Purchasing's New Muscle. *Fortune*. Vol. 131, No. 3, pp 75-80.

van Weele, A.J. (2005) *Purchasing and Supply Chain Management – Analysis, Strategy, Planning and Practice*. Thomson Learning, London.

Vermaas, G. (2006) *Director's Insight: Beneath the Surface of Strategic Sourcing*. Miraculum Blueprint. Available from <http://www.miraculum.com/blueprintmar02.html> (accessed on 8/12/2007)

Xideas, E. and Moschuris, S. (1997) The Influence of Product Type on the Purchasing Structure. *European Journal of Marketing*. Vol. 32, no. 11/12, pp 974 – 992.

Zikmund, W. (2003) *Business Research Methods*. Thompson South-Western, Ohio.

Appendix 1 Questionnaire

A Comparison of the South African Procurement Environment with Global Best Practice

Purpose of this research

This research is being conducted in partial fulfilment toward a Masters in Business Administration. The primary aim is to assess the maturity level of the procurement function in South African businesses.

Four specific areas have been identified for analysis: (i) the procurement function's involvement in the Corporate Strategic Planning Process; (ii) the internal structure of the function, and its positioning within the organisation; (iii) the tools and techniques which the procurement function applies in carrying out its duties; and (iv) how the functions performance is measured and rewarded.

The benefit of this research will be to provide Procurement / Purchasing / Supply Chain Managers with some guidance on how their departments could be structured and aligned with other business units, what tools are available to them, and what measurement systems they could apply to ensure that their departments are performing as effectively as possible.

Guidelines for answering this questionnaire.

Two different types of form field have been incorporated into this questionnaire to make it as user-friendly as possible.

The first is a text form field, which looks like this: . Text based answers can be typed into this field. There is no limit to the length of a response.

The other is a check-box field, that looks like this: . Respondents need only click on the box which corresponds to their response to the question. A cross will appear in the box selected, like so .

Returning the questionnaire.

Once you have completed the questionnaire, you can either save it as a text file and email the completed document to **garethr@esscubed.co.za**, or if you prefer, completed documents can be printed out and faxed to **011 373 5827**.

You are kindly requested to return completed questionnaires by the 31st of August 2007.

Your assistance with this research will be most appreciated by the researcher.

1. **General Background of the Company**

1.1 What was the company's turnover in the last full financial year?

1.2 Describe the company's main activities?

1.3 What are the company's principle products and markets?

1.4 What is the annual purchasing spend-under-management?

1.5 Briefly describe the goods/services purchased by procurement.

2. **Involvement in the Corporate Strategic Planning Process.**

2.1 Is purchasing included in the firm's strategic planning process?

Yes No

2.2 Does the purchasing function have a good knowledge of the firm's strategic goals?

Yes No

2.3 Does purchasing professional's development focus on elements of competitive strategy?

Yes No

2.4 Does the purchasing department play an integrative role in the purchasing function?

Yes No

2.5 Is purchasing's focus on longer term issues that involve risk and uncertainty?

Yes No

2.6 Does the purchasing function have a formally written long-range plan?

Yes No

3. **Positioning and Structure**

3.1 What is the title of the most senior manager in the procurement function of the company?

3.2 To whom does the most senior manager in procurement report?

3.3 If the most senior procurement manager reports to the CEO, does he/she also sit on the company's executive committee?

Yes No

3.4 If the most senior procurement manager does not report to the CEO how many levels of reporting are there between him/her and the CEO?

3.5 Is the procurement function centralised, decentralised, or is a combination of both structures used?

Centralised Decentralised Combination

If a combination is used, briefly describe.

3.6 Is top management supportive of efforts to improve the purchasing department?

Yes No

4. Tools and Techniques Applied

4.1 What are the main objectives of purchasing?

4.2 What basic principles are applied in purchasing practice?

4.3 Is there a clear connection between purchasing and business strategy?

Yes No

4.4 Is there a clear focus on the development of purchasing plans and strategies?

Yes No

4.5 Does purchasing make use of recognised tools (for instance, the Purchasing Portfolio Matrix or similar) for the classification of spend and identification of strategic materials, and the formulation of purchasing strategies for these?

Yes No

Briefly describe the tools used.

4.6 Are e-Procurement tools used to aid in the effectiveness of the purchasing function?

Yes No

5. **Measurement and Reward**

5.1 Is purchasing performance measured in terms of its contribution to the firm's success?

Yes No

5.2 Does purchasing benchmark itself against other comparable purchasing organisations?

Yes No

5.3 Does purchasing recognise the concept of an internal and external customer?

Yes No

5.4 Does purchasing participate in design and/or specification design of goods and services?

Yes No

5.5 Does the purchasing strategy actually impact on corporate performance?

Yes No

5.6 Does purchasing have a purchase research group?

Yes No

Appendix 2 Interview Guideline

A Comparison of the South African Procurement Environment with Global Best Practice

Purpose of this research

This research is being conducted in partial fulfilment toward a Masters in Business Administration. The primary aim is to assess the maturity level of the procurement function in South African businesses.

Four specific areas have been identified for analysis: (i) the procurement function's involvement in the Corporate Strategic Planning Process; (ii) the internal structure of the function, and its positioning within the organisation; (iii) the tools and techniques which the procurement function applies in carrying out its duties; and (iv) how the functions performance is measured and rewarded.

The benefit of this research will be to provide Procurement / Purchasing / Supply Chain Managers with some guidance on how their departments could be structured and aligned with other business units, what tools are available to them, and what measurement systems they could apply to ensure that their departments are performing as effectively as possible.

Interview Guideline

Participant Information:

Name of Company: _____

Name of Respondent: _____

Position in Company: _____

Date of Interview: _____

Place of Interview: _____

1. **General Background of the Company**

1.1 What was the company's turnover in the last full financial year?

1.2 Describe the company's main activities?

1.3 What are the company's principle products and markets?

1.4 What is the annual purchasing spend-under-management?

1.5 Briefly describe the goods/services purchased by procurement.

2. Involvement in the Corporate Strategic Planning Process.

Research Question: To what extent is the procurement function in South African companies involved in the Corporate Strategic Planning Process?

2.1 Is purchasing included in the firm's strategic planning process?

2.2 Does the purchasing function have a good knowledge of the firm's strategic goals?

2.3 Does purchasing professional's development focus on elements of competitive strategy?

2.4 Does the purchasing department play an integrative role in the purchasing function?

2.5 Is purchasing's focus on longer term issues that involve risk and uncertainty?

2.6 Does the purchasing function have a formally written long-range plan?

3. Positioning and Structure

Research Question: How are South African procurement departments positioned and structured, and is this appropriate for effective strategic sourcing?

3.1 What is the title of the most senior manager in the procurement function of the company?

3.2 To whom does the most senior manager in procurement report?

3.3 Does the most senior procurement manager also sit on the company's executive committee?

3.4 If the most senior procurement manager does not report to the CEO how many levels of reporting are there between him/her and the CEO?

- 3.5 Is the procurement function centralised, decentralised, or is a combination of both structures used? If a combination is used, briefly describe.
- 3.6 Briefly describe the structure of the procurement department.
- 3.7 Is top management supportive of efforts to improve the purchasing department?
- 3.8 What specific challenges does the procurement function face in this business, and what steps are being taken to address these?

4. Tools and Techniques Applied

Research Question: Are appropriate tools and techniques applied by South African procurement professionals?

4.1 What are the main objectives of purchasing?

4.2 What basic principles are applied in purchasing practice?

4.3 Is there a clear connection between purchasing and business strategy?

4.4 Is there a clear focus on the development of purchasing plans and strategies?

4.5 Does purchasing make use of recognised tools (for instance, the Purchasing Portfolio Matrix or similar) for the classification of spend and identification of strategic materials, and the formulation of purchasing strategies for these? Briefly describe the tools used.

4.6 Are e-Procurement tools used to aid in the effectiveness of the purchasing function?

4.7 The following list shows the top 10 Goals of CPOs, as identified by Aberdeen. Which of these do you consider important?

		Important	Unimportant
1	Enhance procurement team skills		
2	Improve supplier development and collaboration		
3	Rationalise supply base		
4	Source from low-cost companies		
5	Transition to centre led		
6	Increase automation		
7	Increase spend under management		
8	Improve spend visibility		
9	Improve compliance		
10	More involvement with product development		

4.8 Are there any other goals not included in the above list?

5. Measurement and Reward

Research Question: What measurement and reward tools are applied in South Africa, and are these appropriate?

5.1 Is purchasing performance measured in terms of its contribution to the firm's success? How?

5.2 Does purchasing benchmark itself against other comparable purchasing organisations? How?

5.3 Does purchasing recognise the concept of an internal and external customer?

5.4 Does purchasing participate in design and/or specification design of goods and services?

5.5 Does the purchasing strategy actually impact on corporate performance?
Please provide an example of this impact.

5.6 Does purchasing have a purchase research group?

5.7 What specific KPIs are in place to measure the performance of
procurement staff and the department in general?

5.8 How are these measured, tracked and confirmed

Appendix 3 List of Respondents

Questionnaire Respondents

No.	Organisation Represented	Accepted / Rejected	No.	Organisation Represented	Accepted / Rejected
R001	Gauteng Government	Accepted	R020	Gauteng Government	Rejected (**)
R002	Rainbow Farms	Accepted	R021	Anglo Platinum	Accepted
R003	Afrisam	Accepted	R022	NPA	Rejected (**)
R004	AirLiquide	Accepted	R023	Gold Fields	Accepted
R005	Transnet	Accepted	R024	Unknown (*)	Accepted
R006	NBL	Accepted	R025	SARS	Accepted
R007	PGWC: Health	Rejected (**)	R026	Engen Oil	Accepted
R008	Maloti	Rejected (**)	R027	Gauteng Government	Rejected (**)
R009	Holcim	Rejected (**)	R028	Kumba	Accepted
R010	JT-International	Accepted	R029	Brolaz	Accepted
R011	Unknown (*)	Accepted	R030	Anglo American	Accepted
R012	Transnet	Accepted	R031	Holcim	Accepted
R013	Holcim	Accepted	R032	Netcare	Accepted
R014	Smiths Manufacturing	Accepted	R033	Business Connexion	Accepted
R015	Element Six	Accepted	R034	De Beers Group Services	Accepted
R016	Transnet	Accepted	R035	Gauteng Shared Service Centre	Accepted
R017	Unknown (*)	Accepted	R036	Transnet	Accepted
R018	Santam	Accepted	R037	Mondi	Accepted
R019	AngloGold Ashanti	Accepted	R038	Deerfield Projects	Rejected (**)

(*) The name of the organisation represented was not specifically requested in the questionnaire. The organisation names reflected in this table have been determined from the respondents email signature, email disclaimer, email address, or fax header information.

(**) Questionnaires were rejected if the minimum turnover provision was not met, if the spend under management was too low (only considered where turnover was not disclosed), or if a response submitted by fax was illegible.