

A VITAL COMPONENT

Procurement capability can be hampered when purchasing decisions are beset by organisational challenges and ‘soft’ issues. In this extract from Sigi Osagie’s new book Procurement Mojo, he discusses why organisations must give equal focus to both procurement effectiveness and efficiency if they want to build a credible procurement brand and capability to match.

By **Sigi Osagie** | February 2015



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Effectiveness is not a requirement that is peculiar to procurement. Rather, it is central to success in any realm of life. The fundamental concept of doing the right things to achieve the outcomes we want remains the same, even when those outcomes are results as complex as outsourcing a key business process or building a successful procurement function.

The challenge often comes because we get muddled in our thinking, not helped by the societal or environmental factors that confront us daily, whether in our private lives or in our organisational existence. Economic activity and most organisational endeavours are measured by numbers – gross domestic product (GDP), unemployment, sales revenue, profit margins, ROI, cost savings, and so on. So it is understandable that most of us end up viewing our activities at work and measuring ‘success’ by numbers. Typically, these numbers are direct or indirect measures of efficiency – how much output we achieve for our input efforts.

But efficiency measures never tell us whether the outputs we achieve, or are pursuing, are the right ones. Efficiency just tells us how slick we are at getting the outputs. Effectiveness, on the other hand, forces us to consider what we really want in the first place. Focusing on effectiveness demands that we maintain a strong sense of appropriateness, even in the midst of an efficiency-biased environment. We really have no choice; because, in the long run, whether we are talking about procurement functions or entire organisations, an entity’s ability to consistently achieve its goals, and, thus, deliver long-term sustainable performance success, depends on the actions it takes. The landscape of corporate history is littered with abundant examples for us to learn from. I was part of some of that history in a small way while at Marconi, as the company fought desperately for survival in the early 2000s.

Hindsight, they say, is a great thing. I can see many things we did well in my six years with Marconi. For instance, internal communications to employees during the dark days of negotiating the debt-for-equity swap – the act that saved Marconi for a while – was excellent. We were kept informed of what was being done to salvage the business by regular update briefings, usually via the company’s intranet which employees across the world could access. (The news wasn’t great though; it was like being a passenger on the Titanic after it had struck the iceberg.)

I also recall several strategic moves that, perhaps, we really shouldn’t have made. And you don’t need a PhD in business to work out the first of those: dumping our interests in several other sectors to focus the entire business on telecoms. But let’s not get into the minutiae of that episode; that’s another story, one which has been well covered by the financial press. The bottom line is that we didn’t take the right actions to safeguard the long-term future of the company. This sort of oversight is one that more than a few organisations are guilty of, at enterprise and functional levels.

Organisational success

Many procurement functions are guilty of such oversight; they fail to take the right actions to strengthen functional capability and raise awareness of their aggregate value-add to the enterprise. When we think broadly about the role effective purchasing plays in the success of an organisation, it far exceeds the financial benefits delivered through good spend management. In today’s industrial world, where third-party products and services provision is dominant, the suppliers we bring to the table in procuring goods and services for our organisations are, in effect, extensions of our organisations. If the suppliers are sub-standard, so will our organisation become eventually. If they are stellar performers, we will reap stellar benefits too.

When procurement sources supplies from distant regions, perhaps for cost benefit reasons, we inherently create greater risks in our extended supply chains – risks which inevitably affect the organisational capability of the wider enterprise. We could go on to list several other examples of procurement’s direct and indirect influence on the capability and success of organisations. How strong these influences are depends on the positioning of the procurement function. Even if we do choose to focus purely and myopically on the impact of procurement through spend management, the potential return on investment an organisation gets is obvious. It is a result that directly affects the bottom line, irrespective of the squabbles the department often gets into with budget-holders and finance.

A key challenge for procurement functions is always balancing the myriad of conventional factors that affect ‘success’ – purchase price, cost savings, non-financial benefits, supply reliability, supply risks and organisational perceptions. But there are other factors to be considered, especially when we talk about long-term sustainable success. Issues like alignment to the corporate agenda, development of human capital and avoiding those internal squabbles, for instance, immediately spring to mind. These are the sorts of issues which impact long-term success but may not always hinder short-term performance results if ignored.

Things may have changed in the last decade or so, but progress has not been as marked as most of us would like. Still far too few people really understand and appreciate the value of effective purchasing in many organisations. Despite being the function with the most financial impact on enterprise profitability, procurement is still not perceived as a strategic lever or an enabling function in most organisations. Its reputation is the ball and chain that slows progress. That reputation still centres on a narrow perception of procurement as a function that exists solely for cost savings, supporting bids, drafting contracts, raising purchase orders, chasing suppliers and general policy enforcement.

Procurement’s importance to any organisation is profound when properly understood. Many companies that have demonstrated long-term success and retained top positions in rankings of corporate performance recognise the power of effective purchasing. Harnessing procurement’s true value proposition is something they have come to master, though the trap of complacency will always be close by. Companies like Vodafone, Cisco Systems, Coca-Cola Enterprises, Apple, Samsung and others, many of whom quietly get on with their business and shun the limelight, have reaped the benefits of economies of learning from their repeated efforts to leverage procurement’s true value-add. Organisations like these appreciate much more the direct impact procurement has on the bottom line, though such impacts may not always be easily visible or quantifiable. Sadly, many organisations – the laggards – do not even display a rudimentary understanding of this impact as yet.

This article is an adapted extract from ‘Procurement Mojo: Strengthening the Function and Raising Its Profile’ written by Sigi Osagie and published by Management Books 2000 (£14.99). Visit www.procurementmojo.com