



The 12 Myths of Procurement



CIPS Australasia



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Most developing professions gather misconceptions about their past and present state of development. This paper briefly addresses a series of myths that I believe are still associated with Procurement or purchasing (this, perhaps, is the first point of divergence). The myths are expressed from an Australian's perspective so readers in the UK and in other countries may wish to take issue with some of my comments, as, no doubt, will many Australian Procurement leaders. Hopefully this will lead to the discussion 'we had to have' (Keating, 1990).

Procurement is the agreed name of the Purchasing and Supply profession

What's in a name? Plenty if you need precision and certainty. This is a topic that certainly attracts attention in Australia. Here the terms *Procurement* and *Purchasing* tend to be used to define the level of staff status attached to the role. Procurement reflects more seniority with policy and, strategy-focused activity. Purchasing is used to define the basic tasks associated with the actual buy. In the UK and Europe the term Purchasing has a greater hold and seems to be used more seamlessly than in some other places. Many other terms crowd

the space without clarification: acquisition, supply, supply chain management, sourcing, commissioning and so on.

Buyers all belong to the Procurement profession

This is a myth that I believe is associated with the lack of agreed profession-wide terminology. There exist significant pockets of 'buyers' who still remain beyond the reach of the profession. The proliferation of supply associations in their various forms and names adds to the confusion. Buyers in the retail industry often seem to see themselves as a specialised race. Furthermore in some countries buyers cannot or should not have been associated with sales and marketing (even though most Procurement occurs on a business to business or business to government basis).

Procurement is a product of the nineteenth or twentieth century

It is surprising that Procurement (or Purchasing) is seen as a comparatively recent event. There is evidence of Procurement activities involving China and Greece, parts of Europe and the Middle East regions. For example, Sumerian societies (around 3000BC) erected sophisticated public buildings. The need to source widely was generated by demand for glass and other products not available locally. Much later, the emergence of Roman Law created the notion of obligation between contracting parties and the foundations of agreement, agency, partnership and sale. Maine (1861: 261) tells us:

At the earlier dawn of jurisprudence, the term in use for a Contract was ... nexum, and the parties to the contract were said to be nexi ... The notion that persons under a contractual engagement are connected together by a strong bond or chain, continued to the last to influence the Roman jurisprudence of Contract; and flowing thence it has mixed itself with modern ideas.

William the Conqueror used the creation of the Domesday Book to provide a comprehensive record of land ownership which, if nothing else, helped the Crown procure funds and service from the nobility.

There is also a rich history of Procurement and supply in UK naval and military history and elsewhere, the sophistication of which can be judged from the following excerpt from the French soldier and engineer Vauban (1685):

There remains several remnants of the works of the last years that are not finished and will never be finished, simply because, your Eminence, of the confusion caused by the frequent cuts which are made to these works. Breaking of contracts, failures to honour verbal agreements and new adjudications, only serve to attract those firms which do not know which way to turn, rogues and ignoramuses, and to make those with the knowledge and capability of directing firms, beat basty retreats. I would add that they delay and inflate considerably the cost of these works, which are the worst since these cuts and the cheapness sought are imaginary. For the contractor is ruined, and like a drowning man who clutches at anything, he clutches at anything he can as a contractor. He does not pay the merchants who supply the materials, pays badly his employees, cheats on those he can, has only the worst, and since he is cheaper than the others, uses the poorest materials, quibbles about everything and is always crying for mercy from this one and that one. That is enough, your Eminence, to show you the folly

of this way; leave it and in the name of God, go back to plain dealing; pay the price for the works and do not deny an honest salary to a constructor who fulfils his duties; that will always be the best deal you can find ...

A nineteenth or twentieth century notion indeed!

Procurement needs an agreed Body of Knowledge

Is this issue a Procurement myth? Maybe ... probably! Once again we have limited agreement on this topic. The Project Management profession makes much of PMBOK - the project management body of knowledge - but is the knowledge really exclusive to that profession (or vocation)?

Much of our professional knowledge relates to the usage of a widely based set of rules. For example, Pythagoras' Equation is used in a number of industries (including project management) to solve particular problems. The equation is not part of the exclusive knowledge of one profession though it might be adopted by many professions as a pathway to forming a professional judgement. I have examined the content of my accounting degree in some detail and cannot say the knowledge it contained has only one application. It is more a collection of particular pieces of knowledge from many sources that enable a member to demonstrate their professional knowledge, claim membership and exercise professional judgement.

Procurement: It's just a Process

This myth takes me back to the start. I like to define Procurement as 'the art and science of supply' (though I have only very recently added the 'art'). To me Procurement is every activity associated with the acquisition and supply of goods and services from the inception of an idea requiring and leading to a 'buy' decision, to the disposal of the goods or the conclusion of the service. It's a very large canvas that moves a long way from a simple process. Of course the process issue is important as it defines our systems as well as providing some surety that, in corporate and public governance, requirements are



continuously met. The process is the comparatively 'easy' part of Procurement, though it still causes a lot of difficulty, as the following myth about Procurement and IT suggests.

Procurement will be 'saved' by more powerful IT systems

Here is the most expensive myth: big beautiful systems will save Procurement. It's true they will help, but only if you have a good system in existence already and can convince the supplier to provide a product that suits your needs and system. Perhaps the myth is best exposed by a recent comment that I heard which was: '... don't try to adapt an IT system, adapt your organisation to fit the system'.

Furthermore, IT systems create Procurement nightmares within themselves. Cost estimation for bespoke IT systems is fraught with difficulties that remain unresolved. The problems are not just with the scope, specification and schedule, but also the interference from a wide range of sources in addition to those engaged in the program construction and testing. They are also affected by all the politics, relationships and organisational issues associated with an IT development project. The detail is too great to explore in this presentation, but just remember that the accountants and IT managers involved in IT systems building have not got together in 40 years to address

these types of issues. Maybe this is because the accountants are too busy doing management consulting and the IT managers just don't see the problem. But whatever the cause, IT has not yet "saved procurement".

Procurement is a by-product of Supply Chain Management or Logistics or...?

Supply chains affect their organisation because the number of supply chain members and their relative performance affects stakeholders in different ways. As organisations have outsourced many non-core activities, their supply chains have become more complex. The outsourcing process creates simultaneous complex interdependencies between the buyer and actual provider of the outsourcing products or services. In these circumstances, the performance of the supply chain partners in the so-called virtual organisation is critical.

It is often convenient to divide a supply chain into a number of subgroups or a subsystem. The naïve approach to supply chain management suggests that each element of a complex supply chain can be measured and managed, but the reality is that the exact structure of each supply chain can change very swiftly and in ways that are not obvious to the principal contracting parties. Just as the management process relies on delegation of tasks and responsibilities to subordinates, the outsourcing process results in a delegation to contractors and sub-contractors who form a supply chain that may be governed by commercial terms and conditions of contract, but has no chain of command to direct and control activities.

While a 'supply chain' can be defined in terms of the economic behaviour between the conception of a need for a particular product or service and the ultimate satisfaction of that need, the focus is on relationship management. This is important to Procurement, but is only one part of a complex chain of tasks, events and people.

I guess it was Michael Porter who made Procurement the support activity in the mid-1980s. At that time he saw logistics as a core function, but that was before



outsourcing became popular. It was probably only the beginning of the rapid evolution of the international services movement too.

The myth of 'logistics needs creating a Procurement requirement' is still talked about but in my head is long passed. Of course logistics and its management are clearly important, but the link between Procurement and logistics is, or should be, quietly dying away. They are increasingly very separate activities even though both the Procurement profession and the logistics profession claim the supply chain as their own.

Procurement is 'unglamorous'

This nasty adjective for Procurement practitioners was used by an academic some 15 years ago, little knowing that it would be widely quoted elsewhere, at least by me! But it serves to let us look to the past and reflect on what is coming ...

I have been involved in Procurement and Purchasing research and education since the early 1990s. At that time there were few organisations that really paid much attention to Procurement. Some public entities were examining the consequences of supply policies they had used for perhaps 60 years; the NSW Electricity Commission being one, the Western Australian government being another, Ontario Hydro in

Canada and so on. BHP Ltd (as it then was) and British Airways were two public entities that come to mind that were also doing different things with Procurement. But it didn't seem to be Procurement people doing these things - they were new players. What they were doing, though, was far from 'unglamorous'.

Today, the typical new players in Procurement seem to come from accounting, economics, engineering, law and marketing. The younger ones arrive with a first degree and are looking for a glamorous career.

What's glamorous? Money, influence, innovation, initiative - to start with.

These new players bring new demands. While I am very conscious CIPS has just reviewed its education programs, I suspect there will continue to be pressure for further advancement. In Australia for example, the structure of the post-school education systems makes a university degree the first stage in the establishment of a person's professional status. This suggests to me that, at least in the former colony of Australia, CIPS would be well served by moving towards post-qualification professional development programs. This may sound like heresy at the moment, but in Australia, at least, a professional needs a degree at the starting blocks and then the professional bodies swoop to provide membership, membership services and Continuing Professional Development.

Procurement is simple

I can't say whether this is a myth or a bad joke. Not so long ago a senior public servant said to a Conference audience: 'I wish you well in the Procurement profession. I'm glad I am leaving because it's becoming too hard!' He wasn't being mean or silly - it reflects the challenges procurement professionals now face.

Procurement is about a system of decision making in complex environments. It is widely neglected in other professions, probably because of the cross-disciplinary nature of the knowledge and activities that need to be brought together. Law, finance, accounting, governance, engineering, risk management,



project management, social psychology, marketing, organisational behaviour and change management are all discipline areas or activities that jostle within the Procurement space. For example, as an accounting student I learnt about 'make or buy' decisions; a fundamental of outsourcing. But the complexities of outsourcing were never discussed nor were the implications for management. It was mostly about cost.

The key elements of procurement may be embedded in the management of complex, cross-disciplinary issues such as the formulation of contract terms and conditions, project accountability, delegated responsibility, intrinsic motivation, relationship management and the leadership of buying and supply. Simple indeed!

Service contracting is well defined

The growth of outsourcing has automatically created a need for much greater levels of service contracting management. Yet the methodologies for describing and measuring service performance are often simplistic, being largely focused on concrete, readily-measurable performance criteria (Halachmi, 2005, Tesch, Kloppenborg & Frolock, 2007). What is missing is a language for precise description of many aspects of service delivery: the key

performance indicators (KPIs) and the users. The origin of these difficulties were discussed by Parasuraman, Zeithaml and Berry as long ago as 1985, namely that there are 'three features unique to services: intangibility, heterogeneity, and the inseparability of production and consumption' (Parasuraman, Zeithaml & Berry, 1988, p. 13). As a consequence, service contracting combines the multi-faceted structure of Procurement with a description of intangible activities and outcomes - a precise specification of a service and its performance standards. It's fairly easy to define floor cleaning and the cleanliness standard, but how do you define and measure the performance of a consultant?.

If we look at some typical examples of service contracting we find many subjective terms and conditions that may be fine when the contract is going well, but create embarrassment for the parties when they attempt to argue over specific yet vague terms and conditions.

We have a long path to travel - it's a myth we have service contracting well defined.

Procurement has a limited future

It is pretty clear from the foregoing discussion that Procurement has a vibrant history ahead. There is too much to be done and too little time, as the March hare tells us. I have very high hopes for the future of this field, though we all need to realise that the creation of a new profession generates significant opposition and also indifference, as Machiavelli reminds us.

It will therefore take a lot of work and courage to continue the upward trajectory of Procurement and to build the profession and its status among the business and public communities at large. Can I suggest we need persistence, hard work and luck!!

Globalisation – Procurement has it all sorted

Globalisation is often spoken of as a current happening. This clouds the fact that both globalisation and Procurement have long and fascinating histories.

That globalisation is not new is no news to people who presided over the British Empire, the French Empire, the Ottoman Empire and all the many empires that have existed through history. Nor is it news to the businesses that constantly seek to reduce cost to satisfy the demands of their stakeholders.

What is also news is the complexity of understanding the impact of international cultures upon buying behaviour. Buyers and suppliers are finding they still have much to learn about each other, as the current global economic and financial crisis demonstrates.

In conclusion ... I would like to conclude by reading an extract from a piece of poetry that unwittingly describes the complexities of friendly relationships and the challenges of putting ourselves, as Procurement professionals, in the place of the service supplier. This is offered, with some considerable apology to AB Paterson, the renowned Australian poet:

*I had written him a letter which
I had, for want of better
Knowledge, sent to where I met
him down the Lachlan years ago;
He was shearing when I knew
him, so I sent the letter to him,
Just a note addressed as follows,
'Clancy, of The Overflow.'*

*And an answer came directed in
a writing unexpected (And I think*

*the same was written with a thumb-nail dipped in tar);
'Twas his shearing mate who wrote it, and verbatim
I will quote it: 'Clancy's gone to Queensland, and we
don't know where he are.' [buyers can never really
control their supply chain - that is a myth!!]*

*.....
I am sitting in my dingy little office, where a stingy Ray
of sunlight struggles feebly down between the houses
tall, And the foetid air and gritty of the dusty, dirty city,
Through the open window floating, spreads its foulness
over all. And in place of lowing cattle, I can hear the
fiendish rattle Of the tramways and the buses making
hurry down the street; And the language uninviting
of the inventory managers fighting Comes fitfully and
faintly through the ceaseless tramp of feet.*

*.....
And I somehow rather fancy that I'd like to change
with Clancy, Like to take a turn at droving where the
seasons come and go, While he faced the round eternal
of the PO and the journal But I doubt he'd suit
Procurement, Clancy, of The Overflow*

In conclusion, these 12 myths of Procurement are intended to uncover some of the more contentious issues that affect the ability of Procurement professionals to project their role more forcibly into their organisations. This is likely to be a passing phase as the cross-disciplinary demands of Procurement and the benefits provided by Procurement professionals prepared to work across the disciplines becomes more widely appreciated. The path to the future will require continuing work on the part of all members of the profession, but it is the role of the senior members of the profession to also be the leaders of the profession and pave the way for younger members to further advance the future of Procurement within business and government.

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