REAPPRAISING THE PURCHASING DEPARTMENT'S FUNCTION: THE INFLUENCE OF PARTNERSHIP SOURCING PRACTICES

ABSTRACT

The importance of the Purchasing Function in increasing the competitiveness of a company has changed over time. One of the major factors that stimulate companies to reappraise the role of the purchasing department is the desire to implement partnership sourcing. This paper looks in depth on how changes in purchasing and supply management practices have changed the role of the purchasing function in organisations from a clerical towards a strategic one.

Buyer-supplier relationships, strategic purchasing

INTRODUCTION

The major purpose of this paper is to highlight the impact of partnership sourcing practices on the role of the purchasing function. Recently, the nature of buyer-supplier relationships have changed in favour of more collaborative relationships based on long term commitment and mutual trust with suppliers. Among other factors, changing the nature of buyer-supplier relationships has particular impacts on the function of the purchasing department of an organisation. While in the past purchasing was usually seen as a clerical function, nowadays it is viewed as a strategic function. The study described here, through critically examining the purchasing and supply chain literature, shed light to the impact of supply chain practices on the purchasing department’s function in an organisation. Therefore, the first part of this paper looks briefly into factors fuelling changes in the nature of buyer-supplier relationships. Next, the nature of buyer-supplier relationships are reviewed in terms adversarial and collaborative (partnership) relationships. Then, the basis on which suppliers are appraised and selected in different kind of relationships is examined. Based on this background information the impact of implementing partnership sourcing practices on the role of the purchasing function is discussed in depth.

2. FACTORS FUELLING CHANGES IN THE NATURE OF BUYER-SUPPLIER RELATIONSHIPS

Before examining the different kind of buyer-supplier relationships it is useful to understand the (environmental) pressures that result in changes in buyer-supplier relationships. As pointed out by Slack1 for most industries the nature of buyer-supplier relationships has changed fundamentally during the last decade. For example in the automobile and consumer electronics industries due to stress brought about by competition and recession the adversarial nature of buyer-supplier relationships have been replaced by more cooperative relationships. The changing nature of buyer-supplier relationships also means that purchasing needs to change from a function which is concerned with making decisions about what to buy to a function which is concerned with how to buy. This change means that more emphasis is placed on the development of long term relationships with suppliers.

relationships have been altered towards more collaborative forms. Lamming argued that structural changes in the automotive industry could be attributed to economic, technological, and commercial forces. Lamming acknowledged that as a result of the increasing competition in the market and changes in the production and product technologies the traditional (adversarial) buyer-supplier relationships changed in a phased manner towards a more collaborative nature. Slack pointed out that Lamming's findings have important lessons which stretch beyond the automotive industry. Similarly Morris and Imrie by examining the changes in buyer-supplier relationships in Britain stated that "by the mid-1970's, a combination of a profit crisis, the decline in international competitiveness, and difficulties posed by over capacity, led major British producers to reappraise specific parts of production organisation, not the least of which was the adversarial model of buyer-supplier relations".

The impact of these forces was also observed in other countries. Adkins and Diller stressed that a great number of manufacturers in American industry are altering the nature of buyer-supplier relationships towards more collaborative forms. They described this change as a quiet revolution. According to Adkins and Diller the pressure for this is the need for companies to find ways of lowering costs and enhancing product quality in order to cope with the increasing Japanese competition, and to overcome the issues related to recession. As manufacturers realised that major economies and improvements could be made by working more closely with the firms that supply raw materials and parts they started to change traditional buyer-supplier relationships. Sriram, Krapfel and Spekman asserted that in order to enhance their competitive posture through achieving cost reductions, immediate access to technological and manufacturing advancements, and/or greater operational flexibility major American companies (e.g. Xerox, Motorola) moved towards more collaborative relationships with their suppliers. Helper also pointed to increasing competition as a stimulus to the current changes in buyer-supplier relationships in the US automotive industry. Gules, Burgess and Lynch in their taxonomy of buyer-supplier relationships for a developing country, i.e. Turkey, also observed the impact of changing economic, commercial, and technological factors on the nature of buyer-supplier relationships.

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3 N SLACK, p. 170
5 L. ADKINS, L. W. DILLER, 'Industry's Quiet Revolution', *Dun's Business Month*, June, 1983, pp. 72-75
6 ADKINS-DILLER, pp. 72-75
8 S. R. HELPER, Supplier Relations at a Crossroad: Results of Survey Research in the US Automotive Industry, Working Paper No. 89-26, School of Management, Boston University, 1989, p. 4
3. ADVERSARIAL AND COLLABORATIVE TYPE BUYER-SUPPLIER RELATIONSHIPS

Buyer-supplier relationships are often characterised by reference to two major types: 'adversarial' and 'collaborative'. The adversarial relationship is variously called exit, antagonistic, arm's length contractual relationship (ACR) or competitive. In contrast, the collaborative relationship is called voice, co-operative, obligational contractual relationship (OCR) or partnership sourcing. In general, the literature points to relationships evolving towards more collaborative forms. The emerging type of relationship is being driven strongly by the desire to emulate the Japanese approach that favours a collaborative relationship primarily based on mutual benefit and trust. It is common in the literature to use the two terms collaborative relationship and Japanese Style Partnership (JSP) interchangeably. It is useful to look briefly into the features of JSP as an introduction to the examination of the changes in buyer-supplier relationships.

Womack, Jones and Roos, in examining the automotive industry, described JSP as the 'Lean Supply' approach and stated that "suppliers are involved in the design of a car and they are not selected on the basis of bids, but on the basis of past relationship and mutual benefit rather than mutual suspicion". Although Womack et al's observations are based on the relationships in the automotive industry, there are a number of reasons for using this definition elsewhere. First of all, the automotive industry is a large and competitive industry that has a strong influence on the whole of industry. Secondly, it is a dynamic industry where buyer-supplier relationships are subject to scrutiny and a great deal of effort has been deployed to change them.

According to Imrie and Morris, the new supplier-buyer relationships, of which JSP is an example, are built on closer interfirm collaboration, improved quality assurance and flexible delivery times:

"In theory, the emergent model is increasingly emphasising factors other than price in determining the supply of goods of buyers. These include an ability of suppliers to respond quickly to customer needs, consistency and quality of production, and flexible deliveries."

Dyer and Ouchi acknowledge that there is a shift towards a JSP that is primarily based on the following characteristics:

- mutual assistance,

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11 M. SAKO, Prices, Quality and Trust, Inter-Firm Relations in Britain and Japan, Cambridge University Press, 1992.
- long-term contract,
- intensive and regular sharing of technical and cost information to improve performance,
- setting prices which share equally the rewards of the relationship,
- trust building practices (owning stock, transferring employees),
- willingness by suppliers to make investment in plant, equipment, and personnel as well as sharing valuable technical information.

According to Saunders\(^\text{15}\) the main characteristics associated with the two types of relationships can be summarised as follows.

**Features of the adversarial relationship:**
- Arm’s length, formal communication approach,
- Adversarial attitudes,
- Lack of trust,
- Aggressive, “win-lose” approach in negotiations -price focus,
- Emphasis on individual transactions and short-term contracts,
- Little direct contact and involvement in design activities,
- Reluctance to share information,
- Reliance on goods inward inspection.

**Features of the collaborative relationship (Partnership Sourcing):**
- A high frequency of both formal and informal communications,
- Co-operative attitudes,
- A trust building relationship,
- Problem solving, “win-win” negotiating styles, with an emphasis on managing total costs,
- Long-term business agreements,
- Open sharing of information by multifunctional teams,
- Vendor certification and defect prevention approaches.

In the literature a move towards a JSP style buyer-supplier relationship is favoured, based on the belief that this new type of relationship will support (if managed adequately), and strengthen a firm’s competitiveness. The consensus in the literature on the shift towards a more collaborative relationship, is not matched by a consensus on the degree (or extent) of this change. While for some authors the new relationship is collaborative, others argue it can be best described as a new form.

\(^{15}\) M. SAUNDERS, *Strategic Purchasing and Supply Chain Management*, The Chartered Institute of Purchasing and Supply, Pitman, 1994, p. 218
of adversarial relationship where customers demand from their suppliers (high) quality, frequent delivery and flexibility in addition to low prices.

Similarly MacBeth and Ferguson assert that “the degree of take up of the approaches has been limited to relatively few and even there, in some cases, close questioning of the parties often indicates the rhetoric being more impressive than the practice”. A similar comment is made by Carlisle and Parker who claim that only a few firms are actually behaving differently and “this is disturbing given the increasing dependence on supplier co-operation (not just supplier qualification) by companies with advanced manufacturing technologies and information systems”. Imrie and Morris also argue that the new relationship still has adversarial, as well as collaborative, characteristics. This is evident when suppliers are told, as they often are, that they must provide the lowest price, the highest quality, and the best delivery if they are to receive a contract. Many buyers implement a general policy of paying for design and tooling, and keep the right to place business with the lowest cost supplier. Imrie and Morris, when drawing from the work of Wilson and Gorb, observe that recent changes in buyer-supplier relationships are mainly dominated by quality and short-term cost minimisation objectives, and have little to do with creating new efficient supply lines. Considerable costs result from identifying, investigating and evaluating suppliers, and either rejecting or accepting new suppliers. In this sense reducing the number of suppliers, to single sourcing, can be seen as a pragmatic response by buyers to intensified competition and cost pressures. It could be argued that collaborative relationships imply some balancing and sharing of power between the two parties. However, an important issue raised by Imrie and Morris is that the new relationship is primarily shaped by buyers and has a top-down (hierarchical control) characteristic.

In summary, the general position in the literature is that there is a shift towards more collaborative buyer-supplier relationships. However, for some the new relationship is best described as a new adversarial relationship as it still carries certain adversarial features. In essence, the changes are primarily driven by buyers’ actions.

4. SUPPLIER APPRAISAL CRITERIA

The above comments show that the basis on which suppliers are appraised and selected differs in different kind of relationships. In more adversarial relationships buyers put more emphasis on price/cost criteria rather than on non-price factors such as quality, delivery, and technological capability when appraising

19 IMRIE-MORRIS, pp. 641-652.
20 IMRIE-MORRIS, pp. 641-652.
22 MORRIS-IMRIE, p 46.
23 IMRIE-MORRIS, pp. 641-652.
suppliers. Conversely in more collaborative relationships the importance given to non-price factors is expected to be very high. The increase in the emphasis given to non-price factors, in comparison with past practices, is seen as an indicator that buyer-supplier relationships are moving towards more collaborative forms. For example, Turnbull et al. report that in comparison with the past practices the importance given to non-price factors had considerably increased. By looking into this change Turnbull et al. conclude that "the data indicate a change in the nature of buyer-supplier relations, at least to the extent that major customers are clearly pushing the onus onto the supplier for quality, R&D and the like, this does not necessarily imply a partnership or stronger vertical relationship between the tiers" (emphasis in original). Similarly, Helper and Shapiro argue that the decrease in the relative importance of non-price factors should be treated cautiously as it does not necessarily means that relationships have become more collaborative. In other words attention to non-price factors is a necessary but not a sufficient condition for collaborative relationships. As an illustration, over the past ten years quality has become an increasingly important issue and buyers expect suppliers to perform better on this dimension. A corollary to this is that measuring change in collaboration is not necessarily the same as measuring change in the characteristics that buyers expect to see when choosing suppliers.

5. THE IMPACT OF BUYER-SUPPLIER RELATIONSHIPS ON THE PURCHASING FUNCTION’S ROLE

The foregoing discussion of buyer-supplier relationships and supplier appraisal criteria suggest that the role the Purchasing function plays within the organisation is, and indeed should be, changing. The contribution of the Purchasing and Supply function to the business increases in importance as operations become more focused on a tightly defined set of tasks and companies buy in more of their materials and services from specialist suppliers. However, in the past purchasing was usually seen as a clerical function in comparison with more centrally regarded functions such as production with no real strategic role. Cousins argues that:

"Its role has been primarily to procure the various products and commodities that the organisation requires at the ‘best’ (often cheapest) price available, and to ensure that they are delivered on time and at an acceptable level of quality."

26 TURNBULL et al., pp. 48-63.
28 SHAPIRO, p. 9.
Recent studies show that companies have started to reconsider the purchasing function's role. As Cousins\textsuperscript{32} posits, purchasing as a function is becoming more strategic with smaller numbers of highly qualified buyers, decentralised control of non-value adding items, and greater planning activity horizons. A number of forces stimulate companies to reappraise the role of the purchasing department and to adopt a more strategic perspective. These forces can be summarised as follows:

- the evolution in ideas about strategic management in general and how these ideas can be applied to purchasing and supply management\textsuperscript{34},

- the development of the partnerships approach, and the drive to reduce cost and add greater value\textsuperscript{35},

- the implementation of new manufacturing methods and techniques\textsuperscript{36},

- the change in external (environmental) factors such as impact of inflation on material prices and fluctuations in exchange rates\textsuperscript{37}.

A number of authors\textsuperscript{38} have tried to portray the strategic importance of purchasing to the organisation in an attempt to support the argument that purchasing should be viewed as a strategic function. Cousins\textsuperscript{39}, through an extensive literature review, has summarised the major studies on "Strategic Purchasing" as illustrated in Table 1.

The foregoing discussion demonstrates that the role of purchasing function has been changing from a clerical one towards a more strategic one. Various authors\textsuperscript{40} have developed a set of frameworks illustrating how the role of purchasing has changed over time. For example, Reck and Long\textsuperscript{41}, as cited in Cousins, provide a four-stage model of purchasing's evolution to a strategic function (i.e., passive, independent, supportive and integrative stages). Syson\textsuperscript{42} proposes the following three phases: clerical (transactional), commercial and strategic. These stage models are useful in that they help companies to evaluate their current position and plan the necessary changes if they would like to move purchasing to a strategic function.

\textsuperscript{34} SAUNDERS, p. 110.
\textsuperscript{35} COUSINS, 1996.
\textsuperscript{36} SAUNDERS, p. 111.
\textsuperscript{37} SAUNDERS, p. 111.
\textsuperscript{39} COUSINS, 1996.
\textsuperscript{41} RECK-LONG, pp. 2-8.
\textsuperscript{42} SYSON, 1992.
<table>
<thead>
<tr>
<th>Author(s)</th>
<th>Methodology</th>
<th>Major Findings</th>
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<tr>
<td>Caddick and Dale (1987)</td>
<td>empirical - case study</td>
<td>Purchasing must develop strategies and link purchasing and corporate strategy.</td>
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<tr>
<td>Spekman (1981)</td>
<td>conceptual</td>
<td>Purchasing needs to be integrated into corporate strategy. First, purchasing must think and develop strategically.</td>
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<tr>
<td>Landers and Monzka (1985)</td>
<td>empirical - interviews</td>
<td>Purchasing can support the firm's strategic positioning using co-operative buyer-seller relationships.</td>
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<tr>
<td>Browning et al. (1983)</td>
<td>Conceptual</td>
<td>Purchasing is linked to corporate strategy because it supports corporate strategy in terms of monitoring and interpreting supply trends, identifying way to support strategy, and developing supply options.</td>
</tr>
<tr>
<td>Burt and Soukop (1985)</td>
<td>conceptual</td>
<td>Purchasing can have an impact on achieving success in new product development if purchasing is involved early in the new product development process.</td>
</tr>
<tr>
<td>Carlson (1990)</td>
<td>empirical - case study</td>
<td>Purchasing strategy is important to product development and long-term goals of the firm.</td>
</tr>
<tr>
<td>Reid (1990)</td>
<td>conceptual</td>
<td>Purchasing should be involved early in the firm's development of strategy in order to develop strategies that are compatible with the firm's strategic plan.</td>
</tr>
<tr>
<td>St John and Young (1991)</td>
<td>empirical - survey questionnaire</td>
<td>Purchasing, production, and production planning managers agree on long-range strategy. However, their daily activities are inconsistent with the long-range strategic plan.</td>
</tr>
<tr>
<td>Saunders (1994)</td>
<td>conceptual</td>
<td>Purchasing is no longer a service function. A discussion of practical approaches for strategic purchasing.</td>
</tr>
<tr>
<td>Hines (1994)</td>
<td>empirical - case study and interview</td>
<td>Strategic rationalisation of the supply chain. Particularly concerned with the development and application of Japanese supplier association management techniques on UK supply chains.</td>
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As a result of this evolution change has been observed in the educational and demographic structure of the purchasing department. Cousins writes that in comparison with past practices purchasing personnel are now better qualified and more professional in their outlook and approach to the task. Similarly Matthysseans and Van den Bulle posit that as the purchasing function evolves from a clerical/technical orientation towards a critical business function the job environment and the job description of the typical purchasing employee exhibit changes. For example, the buyer "becomes an initiator who contacts, develops and tries to convince suppliers to manufacture new products that are tailor-made or to serve as a second source".

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44 COUSINS, 1996.
Another important issue regarding the changing role of purchasing is that it becomes essential for companies to align all functions of the organisation throughout the value chain. Purchasing should be seen as an integral part of the manufacturing or service process. Brown and Cousins state that the purchasing function should be fully involved in the design of new products and in the planning of new operations processes. In other words, it is important for companies to break down barriers between departments, such as R&D, engineering, production and purchasing, and to improve the internal relationships between (and within) them. Internal organisational partnerships should be established based on trust, risk sharing, joint problem solving and decision making. This calls for a free (and rich) flow of information. Creating internal partnerships is particularly important for establishing closer relationships with suppliers and for effectively managing the whole supply chain. Matthysens and Van den Bulte posit that partnerships tend to increase the requirements for intra-organisational integration. As Birts and Cousins argue:

"partnerships will not operate effectively unless internal partnerships are in place, departments must trust one another with confidential company information as this is the only way to prevent (reduce) segmentalism and to allow the organisation(s) to achieve their full potential for synergy and ultimately competitive advantage via the partnering process."

Macbeth and Ferguson argue that "narrowly functional organisations need to reconsider their structural organisations to fully develop and implement new approaches". They also state that under the new approach to buyer-supplier relationships there is a need for cross-functional solutions to problems arising in relationships. Paradoxically, this necessitates that functions other than purchasing become involved with managing a company's suppliers.

CONCLUSION

The conclusions of this paper generate certain implications for the purchasing function of manufacturing organisations. In the past, purchasing has too often been viewed as an adjunct or Cinderella function in comparison with more centrally regarded functions such as production. This study demonstrates that modifications to core aspects (implementing partnership sourcing) have important consequences for both the company and its suppliers. Corporate management needs to recognise the increasingly central role that purchasing occupies in attaining improved business competitiveness through such changes. Conversely, purchasing personnel will have to accept the challenges and responsibilities that flow from this changed regime. More and more they will need to look both inwards to the purchasing practices of their organisation (current and projected), and outwards to their suppliers' capabilities (current and potential). Purchasing staff are the gatekeepers in the growing interplay between the organisation and its suppliers.

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46 COUSINS, 1992, pp. 193
47 D.BROWN & D.COUSINS, "Start at The Very Beginning", The TQM Magazine, 1(2), April 1992, pp. 89-93
48 COUSINS, 1992, pp. 193
49 MATTHYSSENS-VAN den BULTE, pp. 50-55
51 MACBETH-FERGUSON, p. 134
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