Building a FlexSustainAble Procurement

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For a business to successfully serve its shareholders, remain financially profitable, and create competitive advantage, it will not only need to have a strong interface with its customers, but also be required to build a dynamic supply base and procurement function. Procurement is a key component of any supply chain as well as a major source of cost efficiency and risk management. In addition, procurement decisions and actions are detrimental to the value production and delivery, and whether factors such as product specification and demand requirements of customers can be effectively addressed.

A world-class procurement function must develop capabilities, such as flexibility and sustainability, and enable an enterprise to excel in global production and value chain networks. Procurement flexibility is the ability of making efficient and timely changes across supply sources and suppliers in response to supply chain uncertainties. On the other hand, procurement sustainability refers to the ability of integrating environmental and social priorities into the upstream supply chain decisions.

Both of these capabilities (i.e., procurement flexibility and sustainability) are crucial to maintain operations and serviceability, while catering to diverse stakeholder requirements – hence should be embedded into the decisions, designs, and operations of a world-class procurement function. This, however, is prone to spur paradoxical tensions within procurement, as flexibility and sustainability might be perceived as contradictory (yet inter-related) capabilities. For example, multiple sourcing, while having the potential to enhance sourcing flexibility, creates new sources of relationship management, audit, and monitoring/control, which from a sustainability point of view are costly to manage. We address such paradoxical tensions and discuss how procurement managers can integrate flexibility and sustainability capabilities to build a both flexible and sustainable (hereafter FlexSustainAble) procurement.

Therefore, we have undertaken a study across various manufacturing and retailing businesses to understand how Australian procurement professionals create both, flexibility and sustainability across their procurement operations. This article reports a summary of the key findings.

How to build a FlexSustainAble procurement?

According to the findings of our study, procurement managers are constantly dealing with flexibility – and sustainability-related issues in their procurement decisions. There are however, no formal mechanisms or...
guidelines that can inform procurement managers' cognition, behaviour, and decision in such matters. In essence, no formula exists that encapsulates or governs simultaneous attention and response to both, flexibility and sustainability as part of developing a FlexSustainAble procurement.

This makes the whole process more challenging and highly reliant on individuals' experiences and intuitions. In spite of this, an alternative strategy for creating a FlexSustainAble procurement can be proposed, which centres on understanding and managing the contingencies that underlie the paradoxical tensions associated with the (contradictory yet inter-related) capabilities of flexibility and sustainability. Consequently, we argue that it is imperative for procurement managers to gain further insights on these contingencies, which – based on our study – can be categorised in terms of supply chain, organisational, and functional contingencies (see Figure below).

**Supply chain contingencies**
These contingencies relate to the network structure (entailing actors, resources, and activities) of the supply chains that a procurement function should transact with and service. Based on our study, supply chain position and supply market are among key supply chain contingencies relevant for building a FlexSustainAble procurement.

**Supply chain position:** refers to the position/role of a company within its key supply chains. This gives an indication on the level of power that a company can exert across its supply chain, which has substantial implications for the procurement function. Therefore, managers' decisions on developing a both flexible and sustainable procurement function is significantly driven by the relative position of their company within the supply chain, specially its level of proximity to the consumer-end of the chain.

This results in an important managerial paradox for some companies, as despite their interest in improving environmental and social performance, they have to constantly tackle downstream pressures. These pressures demand cost reduction strategies that may largely ensue from flexible procurement systems. This has the potential to create a sub-optimal, inharmonious, and an unaligned supply chain, where companies tend to concentrate their resources on responding to the often short-term requirements of their customers in order to lower price. This creates organisational silos within the supply chain and compels procurement professionals to keep staying focused on flexible procurement at the cost of relegating the responsibility for sustainability to the upstream supply chain members.

**Supply market:** Procurement decisions are highly contingent on the characteristics of the supply market such as availability, expertise, and power of strategic suppliers, as well as their geographical location. These factors considerably impact managerial decisions in relation to creating a both flexible and sustainable procurement. More specifically, findings from our study identified the congruence in perception, the nature of input material, and the level of compliance, as crucial supply market contingencies affecting flexibility and sustainability of the procurement. Congruence in perceptions and philosophies are fundamental in developing and maintaining relationship with suppliers.

This approach serves a dualistic function in a sense, that a buyer who perceives sustainability as a priority will make every effort to work with a supplier who shares similar perception and philosophy. Conversely, a buyer who does not perceive environmental and social issues as prime to their current business strategy may not be overly concerned about the sustainability state of their existing or potential supplier. However, things might be different when it comes to the nature of input materials. For example, strategic inputs (where there might be limited sources of supply) and commodities items (where there might be abundance of supply sources) will require different procurement approaches and strategies.

Therefore, procurement managers might face limitations on finding the suppliers that positively contribute to both, the flexibility and the sustainability state of their procurement.
The findings associated with supply market contingencies show that the level of compliance of supplier is also cornerstone to the procurement manager's decision of working with that supplier. This brings a significant other layer of complexity into the consideration that deals with the procurement functions' perception of working with local or international suppliers, and how this might impact their flexibility and sustainability state.

Organisational contingencies

Procurement functions are under the influence of certain organisational contingencies that impact their progress with developing a FlexSustainAble procurement. As per our findings, product and value centres are the key contingencies associated with an organisation.

Product: Product characteristics such as type (e.g., functional, innovative), and demand (e.g., stable, volatile), are among key contingencies that affect the procurement function in a variety of different ways. These range from the decision to source domestically or from overseas, and implementing a push or pull system, to formulating key business priorities. These decisions, individually or in combination, will have varying impacts on the flexibility and sustainability of the procurement.

For example, the fluctuating profit of a product category might force the procurement function to transform a predominately push system of sourcing into a pull design driven by customer needs, fit-for-purpose and design-to-cost measures. This transformation has the potential to improve the level of flexibility, as it enables the re-specification of products to fit the exact requirements of the customers. While this might imply more investment on quality of raw materials, it can also result in lower total cost and better performing operation.

The product characteristics can influence procurement decisions in terms of devising a priority system that delineates what aspects of the input materials should be carefully monitored and assessed in relation to flexibility and sustainability. This denotes a way through which procurement functions strive to minimize the flexibility and sustainability trade-offs by ensuring that they have got the basic criteria right (e.g., material does not contain things such as palm oil) without being overly concerned about the minor issues (e.g., how much electricity is used or where is the source of packaging).

Value centres: The ability of the procurement function to create a both flexible and sustainable procurement that is influenced by whether it (the procurement function) is truly seen as a value creation centre within an organisation. Value centre, in this context, refers to the functions or activities within an organisation, where most of the profit generation is taking place. This follows the rationale that no business is going to say sustainability first, profit second. This also raises important issues in relation to flexibility-sustainability trade-offs and the complexities associated with the interaction between flexibility and sustainability within functions, organisations, and supply chains. Further, this relates to the companies' tendency to concentrate resources on their perceived value centres when it comes to creating flexibility and/or sustainability.

In essence, the value centre view comes at a cost of lack of attention to other functions that may not act as major contributors to the profit mass but do contribute to the value creation process. If flexibility and sustainability are not systematically built into these so-called non-value centres, then the value centres, in order to remain viable, should use their resources to respond to the potential shortcomings (resulting from lack of control and monitoring) of the non-value centres. This has the potential to transform value centres into cost centres for an organisation. If procurement functions are perceived as value centres within an organisation, they will be vested with more power, authority, and resources, to invest on managing flexibility and sustainability and their trade-offs, which is completely in contrast to the situation where they are perceived as a non-value centre.

Functional contingencies

These are the most immediate contingencies that impact procurement and its flexibility and sustainability. Important functional contingencies associated with a FlexSustainAble procurement, are the key performance indicators (KPIs), and the significance of procurement.

KPIs: These construct a 'micro' framework that drives the procurement decision-making process. Ultimately, it is the procurement function's role to configure their strategies and initiatives to address their KPIs, and, of course, this needs to be managed in light of organisational and supply chain contingencies (the 'macro' framework) discussed earlier. Therefore, flexibility and sustainability trade-offs within procurement are also associated with procurement KPIs. Our findings show that cost is, by far, the most important performance category for procurement managers; other notable performance categories were supplier reduction, environment, and timelines. Supplier-related KPIs (e.g., supplier, financial, environmental, and social state), are equally important and have direct impact on some key procurement decisions.

Significance of procurement: The significance of procurement function within an organisation allows procurement professionals to influence other parts of the organisation and obtain more resources in relation to implementing their programs and developing a FlexSustainAble procurement. The findings of our study lend support to the idea that the relative significance of procurement varies with the industry, scale of procurement (i.e., purchasing,
merchandising, supply management), and the role of a company within its supply chain. Companies that identified procurement function as significant in their operations had more leverage to work on managing their procurement flexibility and sustainability trade-offs. Thus, procurement decisions can be contingent on the perception of procurement professionals about how significant their function is, in view of the top management.

Conclusion
Flexibility and sustainability are contradictory, yet inter-related, capabilities. Despite their importance, the development of both, flexible and sustainable (FlexSustainAble) procurement, creates paradoxical tensions and subsequent challenges for procurement managers. However, a world-class procurement function must be able to develop these capabilities to remain competitive within the global production and value chain networks. In this article, we have proposed an alternative strategy for the development of a FlexSustainAble procurement, centred on the understanding and management of contingencies that underlie tensions arising from integrating both flexibility and sustainability; namely, supply chain, organisational, and functional contingencies. Designing a sustainable operation should assist companies and procurement functions to reduce their costs.

The widely used total cost of ownership can be considered as a pragmatic decision-making tool in developing a FlexSustainAble procurement function that exercises the right balance of flexibility and sustainability for the business, in both, the short- and the long-term.

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