

PURCHASING MANAGEMENT OF SERVICES A CASE STUDY OF THREE ROMANIAN COMPANIES

Pop Sitar Corina

Universitatea de Nord Facultatea de Științe Str. Victoriei Nr. 76 sitarcorina@yahoo.com Tel: 0742130678

Toader Rita

Universitatea de Nord Facultatea de Științe Str. Victoriei Nr. 76 ritatoader@yahoo.com Tel: 0720060556

Hordău Anne-Marie

Universitatea de Nord Facultatea de Științe Str. Victoriei Nr. 76 annemariehordau@yahoo.com Tel: 0745253343

Over the last years many countries have turned into real service economies. As a result the strategic importance of purchasing services has increased. This article aims to present the complexity of the process of buying services. In the first part of the article we emphasis the importance of buying services and we make a literature review about the purchasing of services. Furthermore the paper presents the findings from the interviews done in three romanian companies. At the end of the paper we present the conclusions about how it can be improved and monitorized the purchasing process of business services.

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1. Literature review

Until recently, academic interest in purchasing was very manufacturing oriented with an emphasis on production buying. The purchasing of services has only gained limited attention from management and researchers (Fearon and Bales, 1995; Telgen and de Boer, 1995).

The role of the Purchasing Department in the purchasing process varies from company to company and from situation to situation. In general, the Purchasing Department's involvement is highest in purchasing of raw materials, special and standard production items and MRO supplies. The involvement of the Purchasing Department is smaller or absent in the purchase of non-product related (nontraditional) goods and services, such as:

- Capital equipment (vehicles, lathes, etc);
- Services, which are all those purchases that have a high content of personal input (health care plans, insurance, advertising, legal assistance, and telecommunications);
- Resale items (e.g. the tires sold in a petroleum firm service station).

A number of previous studies (U.S. Bureau of the Census, 1991; Fearon and Bales, 1995) indicate that the role of the Purchasing Department is much smaller in the purchase of services than commonly believed. These areas, such as insurance, utilities, consultancy, travel and advertising, are likely to be purchased without the involvement of professional buying practice and skills. For example, the Center for Advanced Purchasing Studies (CAPS) in a study in 1993 (Fearon and Bales, 1993) found that in a surprisingly large percentage of firms, the Purchasing Department had no input to the purchase of nontraditional goods and services (e.g. in 39% of the firms, there was no involvement in the purchasing of services, in 55% of the firms there was no involvement in the purchasing of utilities).

Similarly, in another study made in 1995, Center for Advanced Purchasing Studies (CAPS) found that from the total of \$ 140.3 billion purchased by the 116 organizations, only 41 percent was spent by the purchasing department, 59 percent was spent outside of the purchasing department. From these 59 percent: 41.55 percent was spent by some other nine departments (transportation, finance, administration, human relations, etc.) and for 17.45 percent the study couldn't identify the buyers. The research highlights the purchase dollars spend of the total 116 organizations for the largest ten goods and services. The purchasing department apparently had very little input in the purchase of the majority of services.

Business services have a number of characteristics which may contribute to the fact that they are purchased outside of the Purchasing Department:

- wide range of services which are often coupled with an even larger numbers of suppliers;
- relative high frequency of initial purchasing activities;
- high level of internal end-user involvement, especially in the initial steps of the purchasing process;

Also, purchasing of business services is not seen by managers as a necessity, compared to the purchasing of goods and raw materials for the primary process. As a consequence of this undervaluation, structural attention and management of purchasing of services is not considered as a means for improving effectiveness and reducing expenditures. Because of the lack of clear and direct insight in the size and contents of the purchasing volume of business services, managers are missing opportunities for adding value to their organizations.

In Michels' view (1996), a purchasing department can be involved in three different ways:

- purchasing can be directly involved in purchasing of services;
- purchasing can act as an internal consultant/advisor for service purchase buyers;
- purchasing can act as a cross functional team member dealing with purchasing expenditures.

While benefits of involving purchasing department in the purchasing process of services may be numerous there are also several major challenges of involving purchasing department in the service procurement (see table 1).

Major benefits of involving PD in buying services	Major challenges of involving PD in buying services
<ul style="list-style-type: none"> - cost savings - service and quality improvement - reducing service cycle time - improved process efficiency - greater compliance to pre-negotiating contracts - controlled costs - legal protection - a better informed and prepared supplier 	<ul style="list-style-type: none"> - gaining the acceptance, confidence and cooperation of the using department - capturing attention of top management - developing a value proposition for key customers and management - limited availability of NPR purchasing data and information - rivalries among separate business units or managers - emotional issues that users have in terms of being comfortable with doing things in certain ways

Table 1: Major benefits and challenges of involving PD in buying services

Source: C. Nowikow (1999); W. Atkinson (2000); A. Porter (1999)

2. Purchasing management of services in three romanian companies

In the attempt to develop a model for the purchasing process of business services we made three in-depths interviews in three romanian companies in order to see how are things in practice. With the interviews we wanted to find out the answers to the following questions:

- If the business services are bought outside of the purchasing department?
- How often does this happen?
- Which of the business services are bought more frequently outside of the purchasing department?
- Is top management interested in purchasing process of business services?
- If the purchasing process of business services is controlled by top management?
- Etc.

The interviewers were the purchasing managers from the following companies:

- SC Adiss SA (Baia Mare);
- SC Faimar SA (Baia Mare);
- SA Amisa SA (Baia Mare).

From these three companies, the purchasing process of business services is best organized at SC Faimar SA. At this company there is a clear methodology for the purchasing process of business services. Also, general manager is interested in the purchasing of services and knows what is going on in the company: who is buying what? from which supplier? .This fact is obvious in the way that the process of buying services is organized and controlled. In this company it has been established very clear what types of services are bought through the Purchasing Department and what types are bought outside.

SC Adiss SRL has just started the process of reorganization of purchasing services. A big step was made because the general manager and the manager of the purchasing department realized the great importance of the services purchases. In the process of reorganization of purchasing of services , they are trying to centralize all the purchases of business services inside the Purchasing Department.

At SC Amisa SA NPR purchasing is not considered a priority neither for general manager, nor for manager of the Purchasing Department. This can be observed in the way that purchasing process is organized. In this case, there are not clear define procedure for the purchasing process of services and it is not clear who is responsible for the purchasing of each type of business service.

General manager does not know the answer to the following questions:

- How much money are spent for each type of business service?
- Who buys each type of business service?

From which suppliers?

Etc.

The lack of clear purchasing policies and procedures influences the organization of the entire purchasing process. Based on the results from the interviews we can draw some conclusions:

The Purchasing Department's involvement in buying business services is still limited and problematic because of the frictions between the specialists from the Purchasing Department and from the other departments in the organization;

The involvement of the Purchasing Department in the purchasing process of services can offer many advantages, including improved control over the purchasing of services;

The problem of involving or not the Purchasing Department in the purchasing process of business services is ignored sometimes by management.

As we have seen during the interviews, in two organizations the majority of business services are purchased without the involvement of the Purchasing Department. This is not necessarily bad but it requires management to control these purchases in order to make sure the organization's interest is well served. Two approaches can be used in performing the control phase of purchasing management: *problem prevention (pre-action control)* where possible, followed with a monitoring system that detects problems (*post-action control*) that slip through the prevention net. With regards to control of the purchasing performance the following methods are used in practice:

A. Pre-action control:

1. Budgeting - In the purchasing area several budgets may be used e.g. per purchasing package and/or per department.

2. Limited buyer authority. The manager can control expenditures by requiring larger expenditures to be signed by a purchasing manager.

B. Post-action control:

1. Monitoring purchasing cost savings - These refer to the extent to which the purchasing function is able to lower total costs of services purchased.

2. Ratios and indices

3. Purchasing reports - Information on how the purchasing function operates may be regularly reported to top-management.

4. Audit - The purchasing audit is a review-procedure to ensure that proper procedures relative to purchasing and management principles have being applied.

All of these methods do have significant shortcomings in practice (Weele, 1984); especially in so far as they are applied to the purchasing activities outside of the purchasing department. For controlling the purchasing performance most of these methods are inadequate.

For example, the budgets can indicate the maximum spending but they can't control the quality of purchasing: what are we buying? ; at what price? ; from which supplier?. Budgeting in purchasing in most cases only includes the direct or production materials and departmental expenses, whereas indirect materials and other items remain out of focus.

Most of the purchasing ratios and indices serve primarily as indicators or warning-signals, but it is not clear what to do with them.

A problem with purchasing reports is that these usually do not explain why certain problems occur.

The purchasing audits are little used in most of the companies because of the time and costs involved. If they are used the translation of their results into management control is still very difficult.

Also, for all of these approaches to be manageable we have to create within the organization appropriate structures and to provide appropriate training, supervisory guidance and motivation for personnel in order to be able to do it properly.

3. Conclusions

As we have seen earlier the current control methods have significant shortcomings and they are not working properly when they are applied to purchasing of business services.. Therefore there is a clear need for new methods and approaches for managing purchasing of business services.

In developing tools for managing purchasing of services we also have to take into account the fact that for some activities it may be good or even desirable that they are performed outside of the Purchasing Department . Some of the typical daily operational activities (ordering, incoming items control, administration) can be performed successfully outside of the Purchasing Department. The Purchasing Department might still want to provide tools,

methods and training to help (teach) people to buy in a correct way, but there is no reason why they should be directly involved.

Activities regarding initial and tactical purchasing (setting up long term contracts, preparing and developing purchase order specifications, selection and contracting of suppliers in general and programs aimed at supply-base reduction in particular, etc) usually belong to the responsibility of the Purchasing Department. Some disadvantages may arise from performing these activities outside of the purchasing department:

- lack of economies of scale ;
- no uniform attitude towards suppliers ;
- the impossibility of a tighter control on overall purchases performed in a company ;
- probably different commercial purchasing conditions for different business units (departments);
- etc.

Relating the findings from the interviews and literature review, we arrive at the following conclusions.

-If top management does not clearly communicate the different possibilities for professional (specialised) purchasing involvement, effective involvement from an internal purchasing department will remain problematic. The examples suggest that internal customers may refrain from involving the internal department, not so much because they believe the purchasing department has little value to offer but because they fear that involving the purchasing department will necessarily imply involvement from other internal customers. Another problem that becomes apparent from the interviews is that the lack of a clear structure for possible specialized purchasing involvement seriously harms top management's credibility regarding future policies on purchasing of services.

-The internal purchasing department may also have to more consciously rethink its approach towards the internal customers in terms of the value they could add. In many cases, for examples regarding the purchasing of ingredients for catering, the purchasing activities are closely complementary to the internal operations and/or require very specific (dissimilar) knowledge regarding the content. This suggests that the internal purchasing department would add most value by developing a dedicated co-operation relationship to this particular internal customer and/or facilitate the process of bringing in outside specialists. As mentioned before, given the wide variety of services, the internal demand for specialist involvement in each individual item or service will simply be too small and infrequent to justify such an internal specialist.

All in all, we conclude that top management – at least in theory – could improve its grip on purchasing of services by more clearly creating the conditions for a self-regulating 'economic system' within the firm which offers internal departments different possibilities for organizing their respective purchasing activities.

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