PURCHASING MANAGEMENT AND ITS IMPORTANT ROLE IN PROVIDING VALUE ADDED TO ORGANIZATIONS

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Nowadays, in the knowledge based society, purchasing management has become one of the most important tool for improving the profitability of organizations. Because of its important role, purchasing is the function that has a tremendous impact on these efforts to create value in the organizations. This article summarizes the main value that can be provided by the purchasing function to the organizations. The paper starts with the presentation of the evolution stages of purchasing management. Furthermore, we present the strategic role of the purchasing management in the knowledge based society. Based on the results of a questionnaire we summarized the main value added by purchasing in the companies from Maramures county. Finally, we draw conclusions and we elaborate some guidelines for managers.

**Keywords:** purchasing management, value added, knowledge based society  
**Coduri JEL:** O32, M19

1. Introduction

The term “knowledge society” was used for the first time in 1969 by Peter Druker but it was better defined by Mansell & When (1998) and Stehr (1994). We can find the keys to knowledge society following the steps of what we call the information society, heading towards a much more collaborative global world of knowledge sharing: a globalization of knowledge. The proliferation of information technology create opportunities and threats for organizations. The adoption of E-procurement helps member of the supply chain networks to penetrate new markets and find new customers’ segments. Lederer et. al (2001) suggested that an organization can use E-procurement to create strategic advantage through improved customer relationships resulting from greater business efficiency and better information access and flexibility. The aim of this article is to present the strategic role of purchasing management in the knowledge based economy. The article starts with the evolution stages of the purchasing management. Furthermore, the paper presents the main value added that can be provided by purchasing management. Next, we summarized the main value added by purchasing in organizations from Maramures county. The paper ends with conclusions and recommendations for managers.

2. The evolution of purchasing management

The purchasing function has became lately one of the most important tool for improving profitability of the organizations. This reputation was received because of its important contribution to the costs reduction and to the quality improvement. Until it has reached this stage of development and the recognition from management, the purchasing function has passed through several stages over time. In the first stage, purchasing management was focused only on the supply of raw materials necessary to carry out the production process and purchasing was considered only an administrative function. In the next stage, purchasing is receiving a commercial orientation due to the achievement of short-term profit by negotiating prices and selecting the suppliers which offered the lowest prices. In the third stage, purchasing had a logistic orientation which aimed at obtaining the smallest total cost of purchasing through the optimization of the purchasing process. Nowadays, purchasing management has a strategic orientation and contributes to the achievement of long term benefits.
In table 1 you can observe some of the differences between the traditional and the strategic role of purchasing. We identified the differences at the organizational level, at the suppliers’ level and at the operational factors. As you can notice, the role of the purchasing has change at all levels and it became a strategic function of the organizations.

It has been changed also the way managers look at the purchasing function. This is visible through the hierarchical position occupied by the purchasing function in the structure of organizations. Thus, if the purchasing is seen only as an administrative function, it does not occupy an important place, only a low position in the organizational structure. If is viewed as a commercial function, purchasing is reporting directly to the top management. If purchasing is part of the logistics, it is integrated with the other functions in the organization. As purchasing becomes a strategic function, it is represented in top management of the organization.

**Tabel 1: The main differences between the traditional and strategic role of purchasing**

<table>
<thead>
<tr>
<th>Concept</th>
<th>The traditional role of purchasing</th>
<th>The strategic role of purchasing</th>
</tr>
</thead>
<tbody>
<tr>
<td>I At the organizational level</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The decision process</td>
<td>Limited at the operational decisions or at tactical decisions</td>
<td>Implication in the strategical decisions</td>
</tr>
<tr>
<td>The contribution to the organizational profit</td>
<td>Costs reduction through negotiation of better prices and discounts</td>
<td>Main tool for improving profitability of the organizations</td>
</tr>
<tr>
<td>The organizational structure</td>
<td>Accent on centralization</td>
<td>Accent on decentralization in order to be closer to the possible problems</td>
</tr>
<tr>
<td>The purchasing department status</td>
<td>At the lower levels</td>
<td>At the highest levels, demonstrating professionalism</td>
</tr>
<tr>
<td>II At the suppliers level</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Relationships with suppliers</td>
<td>The suppliers are considered as an enemy which has to be caught</td>
<td>The suppliers are considered as partners</td>
</tr>
<tr>
<td>Negotiations with suppliers</td>
<td>Win or lose</td>
<td>Win-win</td>
</tr>
<tr>
<td>Suppliers’ portfolio</td>
<td>Big, based on the assumption that more suppliers can assure better the resources needed by the organization</td>
<td>Small and based on an efficient logistic</td>
</tr>
<tr>
<td>Suppliers’ location</td>
<td>Locally or national</td>
<td>Globally</td>
</tr>
<tr>
<td>II I I Operational factors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategy</td>
<td>Departmental plan</td>
<td>Business plan</td>
</tr>
<tr>
<td>Decision</td>
<td>Fragmented decisions</td>
<td>Decisions based on total cost</td>
</tr>
</tbody>
</table>
3. The strategic role of purchasing management in the knowledge based society

Plăiaș (2006) considers that an efficient purchasing management can produce the following types of impacts onto the organizations:

- fundamental impact;
- information impact;
- impact on the organization image.

**Fundamental impact**

In many organizations the purchasing volume represents an important percentage from the total turnover. In the Romanian economy, the purchasing volume represents approximately 62% from the total turnover, and in USA the purchasing volume is around 60%. In figure 1 you can observe that the savings made when purchasing goods and services contributes directly to the profit of the organizations.

The purchasing impact on the organizations can be direct and indirect. The direct impact refers to the purchasing price. So, if the purchasing price can be reduced without affecting the quantity, quality and the delivery conditions, then the savings made will contribute to the profit increase.

The numbers from the boxes that you can see in figure 1 represent the current performances of the organization. What you see between brackets are the new performances that result from a reduction with 7% (0.25 million) of the purchasing expenditures for buying goods and services.

This reduction of the purchasing expenditures will determine the increase of the profit rate from 9.87% to 12.96% and of the return on assets from 1.22 to 1.29. This will determine the increase of the return on investments from 11.09% to 14.25%.

As you can notice, every RON spent when purchasing goods and services leads to the increasing of profit with one RON. We can observe thus the importance of the purchasing function for the increasing profitability of the organizations.

**Information impact**

Purchasing can represent an important source of information because of its unique position in the organization. Due to its position, purchasing has a direct interface with the market where the organization is operating and also with the specific needs of the organization. Therefore, the information received from the current and potential suppliers and also from other purchasers can be useful and valuable for the other departments from the organization.
The manager of the purchasing department can play an important role in the organization based on the important information that he has.

**Impact on the organization image**

Purchasing can affect also the organization image in the environment where it operates. If an organization does not have an ethical behaviour against its current and potential suppliers, then the organization image is in danger.

**4. Main value added by purchasing in the Romanian companies**

Purchasing has become an important activity also for Romanian companies because of the main value added that can be provided by purchasing management. In the attempt to discover how are things in practice regarding to the main value added by purchasing management we applied a questionnaire to 75 companies from Maramures county. The companies were selected from different sectors of activity.

The questionnaire had two parts. The first part of the questionnaire contained questions about general data of the companies (name, object of activity, number of employers, turnover, etc.). Also, respondents had to indicate the organizational structure of the purchasing department and to attach the organizational chart.

The second part contained information about the purchasing department. In this part of the questionnaire we made several statements about the purchasing department, which respondents had to evaluate on a scale of 1 to 5 (Likert type scale).

The statements we have made include the following aspects:
- the recognition of the strategic importance of purchasing function;
- the main added value provided by the purchasing management;
- the total amount of money spent by organization on purchasing.

From the total number of questionnaires sent, we received back forty one questionnaires. Next, we present the analysis of survey results and major conclusions we have drawn from this study. Regarding the recognition of the important role of purchasing function we received the following results (see fig. no 2). In this respect we asked the respondents to express their satisfaction on the

**Figure 1: The relations between the purchasing costs and the rentability of investments**

Source: Plăiaş, I., Marketing of acquisitions, Risoprint, Cluj Napoca, 2006, p.38
statement formulated (Management recognize the important role of purchasing in the organization) on a scale from 1 to 5 where: 1 = completely against; 2 = mostly against; 3 = neither agree, nor against; 4 = mostly agree; 5 = completely agree.

![Recognition of the important role of the purchasing function in the organization](image)

Figure 2: Recognition of the important role of the purchasing function in the organization

Made by the author

If we analyze the data received we can observe that:
- most managers from Romanian companies began to perceive the huge potential of purchasing within organizations (30%);
- there are some managers who are completely against (11%), mostly against (13%) or neither agree nor against (19%) with the statement that we formulated.

In order to analyze which are the main value added provided by purchasing, we made a with the most important value added and we asked respondents to rate them on a scale from 1 to 5 where: 1= very often, 2 = often, 3 = sometimes, 4 = very seldom, 5 = never. The results obtained are presented in figure 3.

![The main value added provided by purchasing](image)

Figure 3: The main value added provided by purchasing

Made by the author

We can observe that the main value added by purchasing is costs reduction. This is followed by improved efficiency of the purchasing process and improved relations with the suppliers. Gaining competitive advantage was the value added which was very seldom provided by the purchasing management.
5. Conclusions
Based on the obtained results from the questionnaire we can conclude that most managers from Romanian companies began to perceive the huge potential of purchasing within organizations. In the same time there are also some managers that do not realize the important role of the purchasing function in the organizations.

Based on the results from the questionnaire, we can conclude that in the majority of the managers could not identify the total amount spent by their organizations on purchasing. They didn’t know how much is spent on what in their organizations. This means that purchasing is not treated by managers as a strategic function of their organizations. Because of this undervaluation, managers are missing opportunities for adding value to their organizations.

With this article we want to draw the attention of researchers and managers on the huge potential of the purchasing function to provide value added to the organizations in the knowledge based society. In order to achieve this, managers should pay more attention to the procurement process and they should create special policies and procedures for the purchasing process which can improve the efficiency and effectiveness of the procurement process.

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Books:

Journals: