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PURCHASING CULTURE: can we change it?¹

Over the past decades procurement as a business function has moved from the backroom into the corporate boardroom. Procurement specialists have as a result assumed a powerful negotiating position vis-à-vis their suppliers and supply markets. This article gives evidence of some of the power plays initiated by buyers, leaving little room to maneuver for suppliers. It discusses the effects and outcomes of these practices. As competition intensifies and business models change, procurement orientation also needs to evolve. Procurement should change its traditional cost focus into a value and business driven focus. This however, is easier said than done since it will call for a drastic change of procurement culture i.e. the whole of knowledge, beliefs, customs and habits that organizational members hold in engaging with external suppliers. Although, procurement culture is hard to change, it is not impossible. This article discusses procurement culture, its underlying variables and some ideas that can be used to make change happen.

Procurement power play in action

In the summer of 2009 ING bank, a major Dutch bank with offices all over the world, pushed suppliers to pay a kickback on all services and products delivered since the beginning of that year. The kickback amounted to 12% of the suppliers' sales turnover since January, 1st. The kickback needed to be transferred to a special bank account of the Group Procurement department. This would enable Group Procurement to show its added value to the Board of Directors. As a result of the financial crisis, ING operated at a loss. Procurement action was needed to control the damage.

This action was inspired by ABN Amro Bank, which was acquired by the Royal Bank of Scotland in 2008. Here, Group Procurement was requested to get a refund from their suppliers amounting to 10% over the sales turnover of 2007. Both ABN Amro Bank and ING bank informed their suppliers that, if they would not pay such refunds, they would assume that suppliers would not be interested in future business.

In 2016 Ahold, the Dutch global retailer, merged with Delhaize, the leading retailer in Belgium. Both companies put their massive retail volumes together and negotiated new deals with their suppliers and manufacturers. In August 2016, buyers requested suppliers a significant discount based upon the sales turnover realized in 2016 until that moment. This was necessary to make up for the total cost of the merger which was estimated at € 300 million. The message to suppliers was the same: if suppliers would not pay a refund, Ahold-Delhaize would assume that suppliers would not be interested in future business. Next, their products would be removed from the shelves.

In August 2016 Volkswagen was forced to reduce work hours and production at six of its German factories. This was due to the fact that the carmaker was unable to negotiate a settlement over a contract dispute with two of its suppliers. The production of VW's Passat and Golf models was severely affected by a temporary plant closure. The dispute related to

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CarTrim, which makes seats, and ES Automobilguss, which constructs the housings for gearboxes. Both companies are owned by the parent company Prevent DEV GmbH. The two companies did accuse Volkswagen of canceling contracts without explanation or offering compensation for what they said would be tens of millions of euros in lost revenue.

These examples demonstrate the power play that is going on in many markets today². Procurement as a function has come from the back room to the boardroom (Van Weele et al. (2014)). This change, which took many years, has not gone unnoticed to suppliers. The prominent position that procurement has today in many companies has eroded margins in many supplier markets. Not only in retail, automotive and banking: we also perceive excessive price pressure in industries such as catering, cleaning, healthcare and care for disabled people.

The strong price- and cost focus of procurement organizations today raises the question whether procurement as a function is not overreacting. It is suggested that procurement should make the transition from primarily price- and cost driven, to a value driven business function. However, making such a transition seems difficult as it would require a significant change in vision, strategy and cultural change. The implications in terms of vision and strategy are widely addressed in literature (Van Weele et al. (2014)). Very little has been written about the implications for procurement culture. Can we change the culture of procurement? What would it take to transform procurement into a value driven business function? What is the role of the CFO and CPO in this transformation? This is what this article is about. First, we will discuss culture and define it. Next, we will shortly describe the transition that procurement went through during the past decades. Finally, we will discuss some key elements of traditional procurement culture and we will explain why procurement will need to adopt different paradigms. And why it will be so difficult to do.

Procurement culture and how it develops over time

Some experts have defined culture as ‘the complex whole which includes knowledge, belief, art, morals, law, custom and any other capabilities and habits acquired by man as a member of society’ (Tylor, (1974)). This definition explains that culture basically is all about behavior, which people learn from the context they live in (i.e. the society they live

in or the organization they work for). A more general view on culture is that culture includes ‘the way of life, especially the general customs and beliefs, of a particular group of people at a particular time’. Culture is different among different groups of people. Not only among nations, but also within companies where different functional disciplines (e.g. procurement, marketing, R&D) seem to have their own beliefs, habits and behaviors. This idea is reflected by Trompenaars et al. (1998), who describes culture as ‘the way in which a group of people solves problems and reconciles dilemma’s’. This definition adds to the fact that culture apparently is reflected in people or group decision-making (i.e. things that people value and think are important in their daily lives, both private and at work). Building on these definitions we would define purchasing culture as the ‘whole of knowledge, beliefs, customs and habits that organizational members hold when engaging with external suppliers to do business and/or to solve issues and dilemma’s’.

Procurement culture embodies the behavior of the entire organization in its relationships with external suppliers. As we see it, it is not limited to the purchasing³ department. When discussing procurement culture, beliefs, morals, habits need to be studied. Based on the foregoing, procurement culture may change depending on the time frame. Next, procurement culture seems to be reflected in procurement decision-making and behavior.

In understanding procurement culture, the procurement development model may be helpful (Van Weele (2014) (see Figure 1). The procurement development model explains that procurement develops over time through different stages. Traditionally, procurement operates from a transaction orientation. Which implies that procurement specialists need to serve the factory and secure deliveries at the request of internal customers. Here procurement has an administrative and operational orientation. Its orientation is passive; its attitude is: ‘be obedient to your internal customers’. This orientation changes when the board of management becomes aware of the money that is spent on suppliers. Then, procurement specialists may adopt the *commercial orientation* in their work. This implies that every purchase that is made is put at a market test. All purchases are to be made based upon competitive bids (i.e. obtaining competitive bids from a number of suppliers). When doing so, procurement appears to be able to contribute significantly to

² Some observers may feel that these examples demonstrate just a lack of ethical behavior and has little to do with culture. We would disagree here as (non-ethical) behavior seems an important element of culture.

³ Although we are aware of the slight differences between the terms we use ‘purchasing’ and ‘procurement’ as alternative terms in this article.

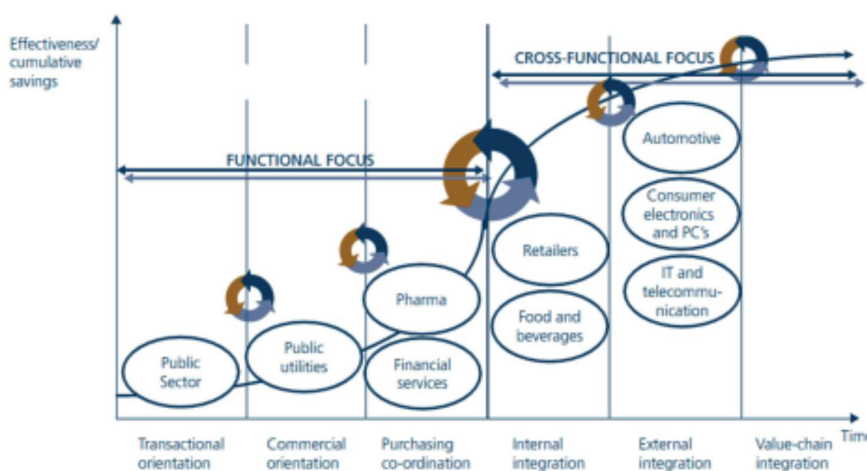
the company's bottom line. As one Euro saved, is one Euro extra profit. At this stage the Board experiences that leveraging volumes across different business-units within the company, creates a strong bargaining position vis-à-vis suppliers. Hence, in the next stage, purchasing coordination, the coordinated buying of standard parts and services, common to most business-units, is enforced by the Board. The problem here is that coordinated procurement interferes with the traditional corporate governance structure, where business-unit managers are profit and loss responsible. These managers do not like to give in on this responsibility. Hence, they will try to undermine corporate procurement agreements by showing that they can close better deals with local suppliers. Contract compliance definitely emerges as an issue at this stage of development. As a result a strong focus on contractual governance emerges: business-units and local buyers are supposed to follow the corporate contracts. The same holds for suppliers.

Transition problems also occur when procurement moves from coordination to the next stage: internal integration. Here, the Board argues that procurement is too important to leave it only to procurement specialists. Business managers at this stage are supposed to deploy the often complex procurement procedures and processes within their own area of responsibility. They often are hesitant to do so. Another problem is that procurement specialists need to assume a different role. They need to develop from negotiating specialists to sourcing process facilitators. They also need to develop a strong business orientation (i.e. they need to understand what it takes suppliers to support the business

goals and strategies). This is a problem to those procurement specialists that have until then specifically been driven to reduce supplier prices and costs. Moreover they lack the capabilities to engage and connect to internal stakeholders and business managers. This is why many companies have problems to make the transition to the *internal integration* stage. First, business managers do not want or are incapable of assuming their new responsibility. Next, procurement specialists are not able to make the transition from a price and cost orientation to a business orientation. Third, the procurement specialists often lack the basic competences to connect and engage with their internal stakeholders. However, the small number of companies that is able to deploy internal integration, next, face the challenge to move to the following stage: external integration. Here, suppliers are actively engaged in the company's operational processes and new product development processes. Suppliers actually become part of the company's customers value proposition (example: DHL, UPS, FedEx) and determine end user satisfaction. Here, different contract models and more particularly relationship models (SRM) need to be applied. Finally, companies may arrive at the last stage of development i.e. value chain integration. Here the company together with some of its key suppliers i.e. partners develop new business models that generate income for all partners in new markets i.e. business domains (see Box 1).

■ Box 1: Value chain integration at Interface⁴.
 Examples are companies that integrate sustainable of circular principles in their business strategies, Such as Interface, the global carpet manufacturer that today leases

Figure 1: Purchasing and supply development model (Van Weele (2014), p.68)



⁴ See: www.interface.com

⁵ Porter, M. and Kramer, P. (2012)

carpets to business customers that are made from wasted fishing nets. Fishing nets are collected globally, from emerging countries, allowing poor fishermen some extra income. Next carpets and carpet tiles are leased to business customers. When the lease contract expires, the carpet and carpet tiles are taken back by Interface, they are reprocessed into new carpets and re-leased again. To enable this highly successful new business model a complete new sourcing strategy and network needed to be developed. It is a nice example how to create shared value⁵ through new business models, supported by value driven sourcing supply networks.

The procurement development model is partly derived from practice. For the other part it is conceptual in the sense that it provides a future roadmap for procurement as a business function to develop. Recent research (VanPoucke (2016)) has shown that indeed it makes sense to involve procurement specialists into the early stages of the procurement process. Evidence shows that the earlier you involve procurement specialists, the bigger the savings are. However, the same research shows also that internal customers are highly reluctant to do so. The major reason for this seems to relate to prevailing traditional procurement culture, where procurement professionals primarily pursue cost savings rather than internal customer satisfaction and business alignment.

Traditional procurement culture: some observations

We conclude from the foregoing that procurement culture is related to the beliefs, morals and habits that procurement specialist develop over time when working together. The procurement culture is reflected in actual behavior and daily decision-making. Let's now explore a few elements of purchasing culture.

Serving the factory is not a simple task for procurement specialists. First, procurement specialists deal with unprecedented complexity in terms of the number of products that they need to buy, the number of suppliers they need to engage with, the number of orders in transactions that they need to process. Dealing with ten thousands of products, thousands of suppliers and 10,000s of orders, things can easily go wrong. When a supplier misses out on delivery, the reaction of the business is forceful: procurement has not been able to order the required materials in time. As a result, the business suffers from thousands of Euros of damage. Such often overreacting internal customers make procurement specialists cautious and risk averse.

Procurement traditionally is looked upon as an administrative and operational activity. Administrative and operational

effectiveness and efficiency are important, since if procurement is unable to select the right suppliers, this will immediately lead to problems in delivery and quality and hence, lack of credibility, and harm the relationship with internal customers. This is why originally procurement staffed with administrative and operational people. This explains why procurement specialists are procedure driven, rather than business driven.

Making the transition from a *transactional* towards a *commercial orientation*, requires procurement specialists to adopt a more commercial approach. This can only develop if buyers are relieved from their transactional tasks. Hence, a differentiation between transactional buyers and commercial buyers is made. Commercial buyers need to play the market, negotiate low prices and report on the savings they make. Based upon their positive results, gradually cost savings targets become part of their annual bonuses. Which make procurement specialists even more eager to drive price reductions in their supplier negotiations, while neglecting other opportunities or interests of both internal customers and suppliers (e.g. quality, logistics, and innovation).

Given their background, procurement specialists are reactive rather than proactive when it comes to following up on internal customer requisitions and securing a seamless order to pay process. As incidents may happen, procurement specialists become risk averse and introvert. Internal customers in the relationship with procurement will stress that they as a budget owner are in charge of procurement decision-making (setting specifications, selecting suppliers) referring to: 'who pays, decides'. In order to prevent delivery problems from happening, procurement specialists will build up buffers in inventory and supplier capacity to never miss out on product availability. Internal customers will stress that procurement is there to serve the business (i.e. do what their internal customers want them to do). As a consequence procurement is seen as a business function that should serve internal customers rather than challenge them.

By moving to the *commercial orientation* procurement specialists need to assume a commercial profile aimed at driving prices and costs down when negotiating with suppliers, rather than total cost of ownership (TCO). This may create problems in the sense that these price and cost savings are claimed by procurement, rather than by budget owners, who fear future budget cuts when procurement cost savings prevent them from full budget deployment. Also, procurement specialists might be accused to be penny wise and pound foolish, as they focus too much on short-term savings, and are not kept responsible for extra inventory, supplier switching costs, organizational learning cost in case of supplier change etc.. Weak supplier performance may



drive business owners to take over responsibility for supplier selection and contracting themselves. A situation in which corporate procurement agreements are neglected, and local deals with suppliers are made and preferred. Hence, contract compliance becomes an issue. That need to be solved by professional contract management, i.e. securing that contract terms and conditions are respected by both internal customers and suppliers.

Focusing on price and cost savings in negotiations with supplier, reinforced by CFOs and relentless pressure for cost reduction, leaves procurement specialists with a suspicious mind. In negotiations you should never give away your position, you should never show your real face... The dyadic approach to supplier negotiations ('You win, I lose' and vice versa) gradually leads to procurement specialists having suspicious minds and only looking at their self-interest, focusing on sharing the cake in dealing with the supplier, rather than looking for opportunities to create a bigger cake by collaborating and developing a closer relationship. The latter is not in the nature of the buyer. The very nature of the work makes procurement specialists cautious, suspicious and secondary in their reactions to business issues. It explains why buyers over time have relied on formal coordination mechanisms (i.e. contractual governance) rather than informal coordination mechanisms (relational governance) in their work. We will now elaborate a little more on both variables to propose our Procurement Culture Model to explain cultural differences in procurement.

Understanding procurement culture: a model

As we have argued when discussing the Purchasing Development Model, procurement culture changes over time. It seems to be the outcome of the mix of formal coordination mechanisms (**contractual governance**) and informal coordination mechanisms (**relational governance**).

Contractual governance relates to all the 'hard' elements used by procurement specialists to drive performance from suppliers. Contractual governance includes contracts, contract models, procedures, guidelines, instructions, specifications etc. Relational governance relates to the 'soft' elements used by procurement specialists to drive performance from suppliers. Relational governance includes trust, commitment, consistency, ethical behavior, compassion, empathy, knowledge and expertise. Clearly, a combination of both contractual and relational governance is necessary to achieve results in supplier relationships. Combining both variables leads to four different cultures (see Figure 2):

- *Operations driven procurement culture.* Here the dominant paradigm is that procurement should serve the factory i.e. should secure flawless delivery of goods and services (at all cost). When supply is secured, buyers should buy at the lowest possible price. This situation would reflect the first two stages as described in our Purchasing Development Model. It would resemble both a low level of contractual and relational governance.
- *Contract and procedure driven procurement culture.* Here the dominant paradigm is that procurement should follow procedures and secure contract compliance. This situation reflects the procurement culture of large companies and governmental institutions that need to follow the corporate i.e. European Procurement Directives when engaging suppliers. Contracts, when concluded, are managed by professional contract managers that want suppliers to follow up on the letter of the contract. Apart from larger governmental institutions, also large process driven companies, such as oil and chemical companies, seem to serve as an example of this type of culture. This situation would reflect both a high level of contractual governance and a low level of relational governance. The overriding paradigm here is to foster cost savings whilst at the same time reduce procurement risk. This may be appropriate for organizations where following up to procedures is more important than the results obtained from that. What has been agreed in the contract and reducing risk, rather than the intent of parties when concluding the contract or the intended outcome of the contract, is characteristic for this procedure driven and formal procurement culture.
- *Service driven procurement culture.* When buyers have been able to secure supplies of goods and services to a fair level, procurement culture may change from a reactive, passive culture to a more proactive and service driven culture. This is reflected in additional performance measures on its dashboard: apart from administrative measure and cost savings, internal customer services emerges as an important KPI for procurement. The higher this KPI the more the procurement organization seems to meet the needs and demands of internal customers. However, this KPI may become threatened in cases where buyers challenge internal customer requirements too much or show a-political behavior. This situation would reflect both a low level of contractual and a high level of relational governance. Working with suppliers to reduce waste, i.e. lean management and continuous performance improvement in supply chain relationships may reflect this type of culture.



- *Business driven procurement culture.* This culture may emerge either from the second or third situation. It will emerge when the board of management decided that business management will be responsible and liable for deploying carefully designed and tested procurement procedures. It will also emerge when the strict procurement and contract management procedures have resulted in loss of flexibility in internal business processes. This situation would reflect both a high level of contractual and relational governance. The paradigm here is that procurement decisions are not made primarily to serve internal customer needs, rather business needs are central here. This helps to align procurement and internal customer interests. Such a culture may be important in companies that need to engage suppliers early in new product development, that want suppliers to engage on a risk and gainsharing basis in projects. It is also important for organizations that want to include circular economy principles in their business and supply strategies.

Our model explains that one procurement culture is not necessarily better than the other. It all depends on the specific context and the demands of senior management on the procurement organization.

The case examples at the beginning of our discussion clearly reflect an operations and price/cost driven procurement culture. We doubt whether the effects of this culture are sufficiently acknowledged by the companies involved (i.e. ABN Amro bank, ING Bank, Ahold-Delhaize, and Volkswagen). It is doubtful whether these practices will work out positively

in the long term. Long-term interests seem to be neglected, effects on future supplier relationships are not considered. As other disciplines in the organization (operations, facilities, logistics, and finance) need to work with the suppliers involved, and will suffer from problems, long-term credibility and trustworthiness of procurement is at stake. Moreover, little differentiation was made in terms of the supplier segments that were addressed in the effort to reduce cost i.e. get refunds.

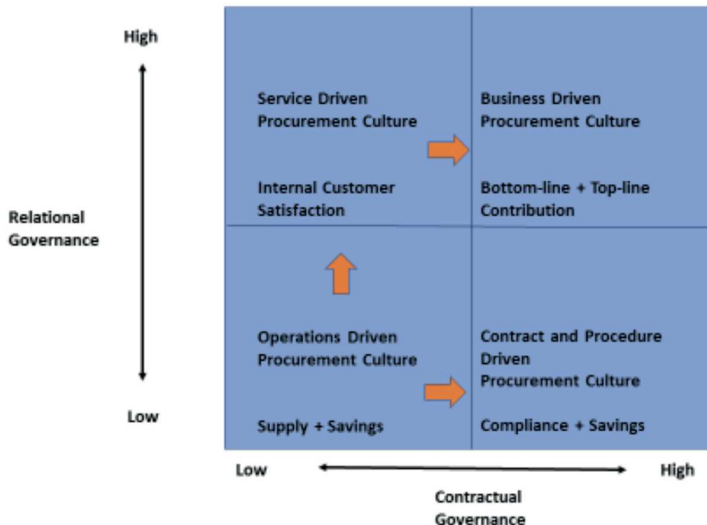
We would argue that as in many organizations procurement has developed over the years from the backroom into the boardroom (van Weele ea. (2014)), procurement needs to change its paradigms i.e. should be sensitive in tailoring its culture to what is needed by the business. The question is: can a traditional procurement organization make the transition? What will it take to do so?

Changing procurement culture: some ideas.

Changing culture in organizations is difficult. Changing procurement culture and organizations seems to our experience even more difficult. Certain beliefs and behaviors that have evolved over many years, are difficult to change within a few years. What will be needed to change the procurement from an operational, price driven culture to a business and value driven culture? Our suggestions are the following:

- *Change from a shareholder focus to stakeholder focus to guide your business strategy.* Culture is context specific. Changing procurement culture would certainly call for a change of the business context and requirements. Here, we

Figure 2: Procurement culture model





consider the CFO the most important stakeholder. As the CFO is the representative of finance, this explains his/her strong focus on cost reduction in his relationship with procurement specialists. The current role of CFOs is heavily criticized today. There is a call for changing the traditional *shareholder* focus of companies to a *stakeholder* focus. Only when the CFO is able to impose long-term targets on procurement in terms of risk reduction and value creation, rather than short-term cost reductions, changing procurement culture has a chance to succeed. As a result the focus will change from contractual governance to more focus on relational governance. We postulate that if CFOs do not change their focus, traditional procurement culture will not change.

- *Ownership of procurement process by business managers.* Making business managers the owner of the procurement process and procedures, and forcing them to deploy these in their organizations, is one of the most effective cultural interventions in procurement. However, this is only going to be successful if this cultural change is translated into a change of the procurement professional's profile. Rather than dealmakers, these procurement specialists should be able to engage and connect with their internal and external stakeholders, making social skills, project management skills etc. a prerequisite. As a result, this change in procurement governance should be accompanied with a drastic change in the skills profile of procurement leadership and staff. Future procurement staff should primarily be recruited from talented young professionals and business managers with a proven record in other business domains. Recruiting procurement professionals with a procurement profile only will not change traditional procurement culture, as they will overtly rely on contractual governance rather than relational governance.
- *Procurement attitude.* Changing skill profiles in procurement will not be sufficient to promote cultural change. As a former CPO once confided to the author: 'When it comes to procurement, we recruit attitude and we train for skills'. What he meant was that he needed people who were business driven, self-starting, proactive, confident, business driven, self-aware... This profile is looked for by many recruiters for many management positions. Hiring this kind of profile for procurement will

be necessary to make the transition from cost to value driven procurement. However, the results of this will be a higher rotation of procurement staff. Making human resource management a key factor for making the cultural change happen.

- *Procurement measures and KPIs.* Procurement organizations like to measure supplier performance and results. In most cases this type of performance measurement is unilateral. In the best cases it is measured bilateral. As suppliers only can perform well if they are managed properly by their customers (in terms of clear specifications, accurate materials planning, on time payment, etc) some procurement managers are interested to know how they perform as a customer in the supplier relationship i.e how attractive they are for their suppliers. However, in most cases KPIs and measures reflect only contractual governance. Very few companies measure relational governance i.e. the quality of the relationship between buyer and supplier as perceived by key stakeholders from both sides. We feel that such measures are needed to allow buyers to shift from a dominant contractual governance to a more prominent relational governance in their dealings with suppliers⁶.

Of course, a transition from cost driven to value driven procurement, will require significant support and guidance from the senior leadership (CEO, and more particularly CFO). Next, it would also require effective transition management by the CPO. The CPO should be recruited based on his transition and change management skills, rather than his commercial and deal making skills. It is therefore that future CPO positions should be primarily staffed by business leaders, which have been successful in other disciplines and business areas.

This probably will all be necessary to prevent cases to happen as is described at the beginning of this chapter. Procurement is too valuable to destroy business value. Making the transition happening from cost to value driven procurement, apart from strategy and leadership, requires dramatic cultural change. Changing procurement culture will often mean: changing both the context, the procurement leadership and the traditional performance measures that are used to assess procurement performance.

⁶ See for recent research on this Van der Krift (2016)



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