

# Creating Corporate Advantage through Purchasing: Toward a Contingency Model

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**This study was undertaken to address the need for empirical research for improving and sustaining corporate advantage through purchasing. This article explains how large corporations may effectively manage purchasing synergies among individual business units. It will become clear that in doing so, corporate purchasing officers (CPOs) need to tailor their approach depending on three constructs, i.e., purchasing maturity, corporate coherence, and business context. Based upon these constructs, they may select five different coordinating mechanisms to foster purchasing synergies within their corporation.**

## SUMMARY

## INTRODUCTION

From the 1980s till early 1990s, many corporations preferred to trade off corporate synergy in order to give their business units greater independence. As a result, corporate staff departments were slashed, while at the same time entrepreneurship at the business unit level was fostered. Today, faced with an increasingly competitive environment, greater pressure from capital markets for shareholder value, and the unwieldy possibilities of information and communication technology, many firms are going through a consolidation process (Collins 1998). This consolidation takes place not only in areas such as marketing, research and development, and production but also in purchasing. More and more firms recognize the potential benefits of pooling (common) materials requirements (Van Weele 1994) and start implementing coordinated corporate purchasing strategies. Over the years, large multinational companies, such as Daimler-Chrysler, AT&T, GM, IBM, Philips Electronics, Shell, and Unilever, announced corporate cost reduction programs, aimed at saving millions of dollars through corporate purchasing initiatives. Research data from the United States (Monczka and Trent 1995) indicates that there has been an actual increase in the corporatwide volume consolidation of purchases since 1990.<sup>1</sup> An ever-increasing number of firms appears to stimulate the sharing of purchasing information and "best practices" (knowledge) across their business units. As part of this process, a number of firms nominated a corporate purchasing officer to manage purchasing coordination across business units, and installed corporate lead buyers or cross-functional commodity teams to manage more effectively the supply needs of multiple businesses within the firm (Matthyssens and Faes 1997; Van Weele and Rozemeijer 1996). Overlooking the numerous initiatives that large corporations have embarked on to manage their often huge purchasing spend across their business units, the question emerges: What coordination structure under what circumstances is most effective? Given the large variety in approaches

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<sup>1</sup> The average score increased from 3.76 in 1990, to 4.73 in 1993 on a 7-point scale ranging from score limited consolidation occurs (=1) to high consolidation occurs (=7).

by companies, the answer to this question seems far from simple.

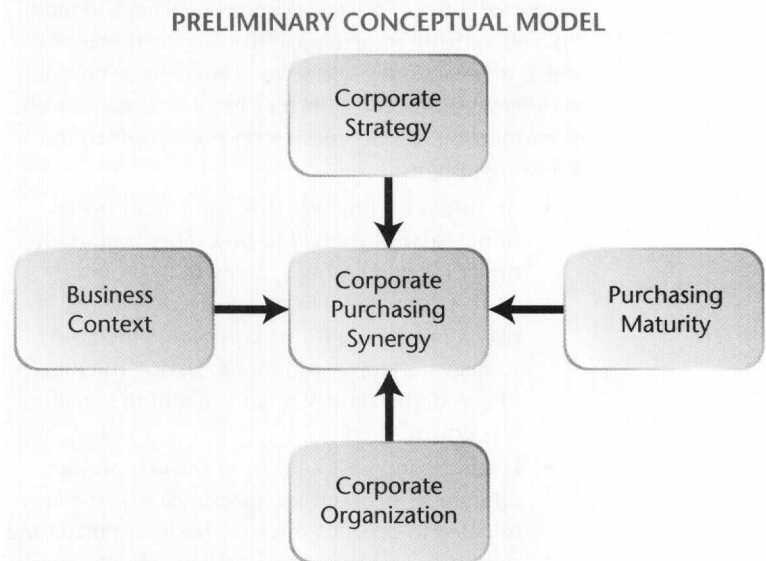
The way in which firms try to resolve the problems and issues related to creating corporate advantage through purchasing has to our knowledge not yet been the topic of academic research. Some publications present successfully implemented new practices or suggest standardized solutions for improving purchasing coordination across business units and/or geographically dispersed parts of a corporation (i.e., global sourcing) (Smith 1999; Arnold 1999, 1997; Essig 1999; Faes and Matthyssens 1998; Hughes et al. 1998; Jones 1997; Van Weele et al. 1996; Monczka et al. 1991a, 1991b, 1992). However, very few publications illustrate the context in which certain practices are implemented, and investigate the contingencies that need to be considered in order to implement corporate purchasing strategies effectively.

Against this background, we have initiated a research project aimed at generating knowledge on this subject. The challenge was to generate knowledge regarding how to structure and manage corporate purchasing synergy effectively given the firm-specific contingencies. Our goal was to develop a coherent set of specific, organizational design principles that may help companies create effective coordination and synergy mechanisms in purchasing. In order to reach this objective, we applied four different research methods. First, we conducted a literature study and defined a preliminary conceptual model. Second, we conducted a series of five in-depth case studies to explore the topic and develop the constructs of the preliminary model and their mutual relationships in more detail. Third, an action research project was executed to test our findings from the cases in a real-life setting and to refine our conceptual model. Finally, we tested the design principles and the model through a survey among 46 of the largest corporations in the Netherlands. This article covers only the results from the last part of our project, i.e., the survey.

## DEFINITIONS AND CONCEPTUAL FRAMEWORK

As we have noticed during our project, purchasing professionals do not speak of corporate advantage through purchasing or purchasing synergy; they rather talk about corporate cost reduction programs, leverage initiatives, standardization of specifications, coordination of decentralized purchasing, negotiating corporate agreements, or reduction of suppliers. However, in order to be able to study corporate advantage through purchasing, it is helpful to define clearly what it is and from what sources it can be derived. From our analysis of the relevant literature and the case studies, we describe purchasing synergy here as any benefit resulting from any form of cooperation between two or more business units belonging to the same corporation. Such cooperation may result in different benefits to the group, i.e., cost savings, a stronger position vis-à-vis suppliers and/or supply markets, important gains in terms of productivity and leadtimes, better

Figure 1



relationships with suppliers (e.g., better quality and delivery from suppliers), and a better use of the supplier's expertise (e.g., contribution to product innovation). Of course, these benefits only are gained by the fact that resources are being spent on coordination activities. Therefore, we define purchasing synergy as the net effect, i.e., total benefits minus total costs, of these activities. If a corporation creates more synergies in purchasing than any of its rivals, we feel that this would lead to corporate advantage (see also Campbell et al. (1999) and Collins and Montgomery (1998)).

In order to gain a thorough understanding of our subject of study, we turned to several theoretical models in the management literature. A preliminary model that we used to try to explain the nature and extent of purchasing synergetic activities in large corporations was built around four constructs, i.e. (see Figure 1):

- *Business context*, based upon the assumption that companies will foster synergy in purchasing depending on the pressure that they experience in their market, technology, and competitive environment.
- *Corporate strategy*, reflecting the often advocated need to link purchasing strategy firmly to the corporation's long-term objectives and strategies.
- *Corporate organizational structure*, based upon the insight that purchasing synergetic initiatives should be firmly anchored in the corporate organization.
- *Purchasing maturity*, reflecting the level of professionalism in purchasing at the business unit level. This construct was derived from different so-called purchasing stage or development models that have been published over the last decade by international consultants and academics (see above).

Based upon our in-depth case studies,<sup>2</sup> which were conducted through detailed document studies and more than 60 in-depth interviews at five large corporations, which were randomly selected and which were operating in different business sectors (i.e., food, pharmaceuticals, electronics, oil, and financial services), we gained the following insights:

- An initial finding was that short-term operational savings seemed to be a more important driver for purchasing synergy than product/market strategies, which apparently seemed to play a minor role in the corporate purchasing strategy development process. Hence, the impact of corporate strategy as an explaining variable was downplayed.
- Furthermore, we found from the case studies differences between the measures, which were initiated to benefit from cross-business purchasing synergies, and the results, which actually were gained. In other words, some actions that we saw happening did not result in the intended benefits and therefore after some time were discarded, resulting in less effective behavior at the operating unit level. In many cases, the purchasing function at the business unit level did not have the position and/or authority to make sure that its company backed up actions. Hence, the importance of purchasing maturity as a construct was strengthened.
- Next, the case studies showed the importance of corporate culture and organization. When we found that purchasing synergy initiatives suffered from effectiveness, it seemed that those corporations also suffered from lack of effectiveness of synergetic measures in other areas. Or, stated otherwise, corporations that had effective purchasing coordination also proved to be successful in fostering synergy in other business areas (such as marketing, human resources, public affairs, and legal). Internal cohesion in different functional areas in the corporation emerged as an important variable.<sup>3</sup>
- Finally, the case studies showed that communication and cooperation among a limited number of key stakeholders is crucial for fostering effective purchasing coordination. Hence, we decided to study more in-depth the relationship and communication patterns between the CEO, CPO, business unit managers, and business unit purchasing managers.

Since these insights came over time, we had to review our conceptual model often. Through our research, we obtained a better understanding of corporate purchasing synergy management and its most important constituent variables, i.e., the external business context of the corporation, corporate coherence, and purchasing maturity.

Since these constructs are important for the remainder of this article, they are explained in more detail below.

### Corporate Purchasing Synergy Management

What requirements are necessary to realize purchasing synergy across business units? The data from our research suggest that interaction among four main stakeholders within the company is crucial for reaping the benefits of initiatives aimed at fostering corporate purchasing synergy. These stakeholders are the CEO (or top management), chief purchasing officer (CPO, corporate purchasing coordination group or individual), business unit managers, and, last but not least, the business unit purchasing managers (or purchasers). They all have their specific roles and responsibilities in managing sustainable purchasing synergy. To facilitate this interaction, we have found that companies may use *formal* organizational mechanisms (e.g., corporate steering boards, commodity teams, working groups), *informal* networking mechanisms (e.g., annual purchasing conferences through which purchasing managers from different business units can meet each other and establish relationships, recruiting only people who fit the current working culture, management development programs, and job rotation), advanced corporatewide purchasing *information and communication systems* (e.g., intranet, corporate databases, GroupWare), and advanced *management and control systems* (e.g., plan-do-check-act cycle, working procedures, incentives rewarding joint efforts).

In the case studies and in the action research, we have observed that companies may use different mechanisms at the same time. Further, we observed that the number and type of the mechanisms used differs across the different companies. Some companies prefer to use informal mechanisms, others prefer formal mechanisms. The reasons behind this, it seems, are related to the three specific contingency factors, which have already been mentioned, i.e., business context, corporate coherence, and purchasing maturity.

### External Business Context

Data from our literature suggest that the higher the competitive pressures to innovate and to reduce costs, the more measures are taken to establish stronger corporate purchasing functions. Corey (1978) was one of the first researchers who claimed this relation to exist between the business context and the corporate purchasing strategy. More recent research from Birou et al. (1997) claimed a close relation between stages in the business life cycle and purchasing strategies and structures. Keough (1993) claimed a direct causal relationship between the industry a company is in and the stage of development of the purchasing function. Based on these research results, we hypothesized a positive relation to exist between external business context on one hand

<sup>2</sup> See for a detailed description Rozemeijer (2000b), Chapter 4.

<sup>3</sup> This variable was later referred to as "corporate coherence."

and the degree of sophistication in how a company manages corporate purchasing synergy on the other.

### Corporate Coherence

Corporate strategies and organizations are continuously changing in their quest for synergy and local entrepreneurship. Do corporate purchasing organizations follow these changes or do they follow their own track? Akbar and Lamming (1996) stressed that for a coordinated “federal purchasing organization”<sup>4</sup> to be effective, an appropriate corporate management style (as expressed in corporate strategy, structure, and culture) should be present. We hypothesized that the corporate culture in which corporate purchasing synergy measures are initiated determines to a large extent their effectiveness. In other words, the more synergies are managed at the corporate level in other functional and business areas, the more successful such initiatives in purchasing probably will be. We will use the concept of *corporate coherence* to describe this corporate attitude toward synergy. This concept, which describes the *ability* of a multi-product, divisionalized corporation to generate and explore synergies of various types, was first introduced by Teece et al. (1994). This ability is often measured in traditional management literature by the proxy concept of “relatedness” in terms of products and/or underlying resources and capabilities, the underlying rationale being that such relatedness indicated the presence of economies of scope. The use of corporate coherence as an explaining variable followed, as we have explained before, from our case research. It appeared that even when opportunities for corporate advantage were high from a purchasing perspective (e.g., homogeneous specifications across business units), initiatives to materialize these opportunities in some cases were not taken. It turned out that the lack of a clear corporate strategy (e.g., no strategic focus on related businesses, conglomerate growth strategy, no emphasis on cross-business synergies), the lack of an integrated corporate structure (e.g., high level of business unit autonomy, small size of corporate staffs), and a weak corporate culture (e.g., low level of trust among business units, no shared identity) were major roadblocks for successfully implementing a corporate purchasing strategy. As one purchasing manager stated it: “...more than 80 percent of the efforts of formulating and implementing a corporate purchasing strategy are related to internal issues; only 20 percent of the efforts are external and related to suppliers.” Based upon these insights, we hypothesized that different levels of corporate coherence would influence both the sorts of synergies that will be pursued in the purchasing area and the means that are used to pursue them.

### Purchasing Maturity

The use of purchasing maturity (the level of professionalism in the purchasing function) as an explaining variable was inspired by the work of Perrow (1967, 1970).

He was the first to describe the relation between “*departmental technology*” (main characteristics of the work processes) and “*departmental structure*.” Studies have found that when structure and communication characteristics did not reflect the underlying departmental technology, departments tended to be less effective (see Daft 1992). Further, other authors (Galbraith 1995; Mintzberg and Quinn 1991; Daft 1992) regard the nature of an organization as an important situational factor for the design of coordinating mechanisms. In line with this work, we expect that when a firm’s purchasing function develops from a traditional ordering function toward supply chain management, the approach used to create corporate advantage in purchasing should adapt to that, in order to be effective. Also, we expect that certain corporate interventions require a minimum purchasing skill base in the business units and at headquarters. Campbell et al. (1999) stated that all corporate interventions require specific skills on the part of the “parent” organization (i.e., corporate headquarters). The parent needs specialized knowledge of the particular synergy, the ability to make business managers pay attention, and the processes and interpersonal skills to bring about the desired result. The idea of appointing a purchasing specialist to advise businesses on achieving benefits from pooled purchasing power may be excellent, but if the parent does not have the right person to do it, the new appointment will end up irritating and alienating the businesses. Alternatively, trying to achieve the same result through a wider sharing of purchasing information may, in theory, be sound, but if the outcome is simply indigestible mountains of paper that the businesses are unwilling or unable to wade through, the initiative will sink under its own weight. In other words, effective corporate purchasing synergy management occurs, provided that purchasing is developed in some degree. This hypothesis is supported by the work of, among others, Collins and Montgomery (1998), Hughes et al. (1998), Smeltzer (1997), Jones (1997), and Keough (1993).<sup>5</sup>

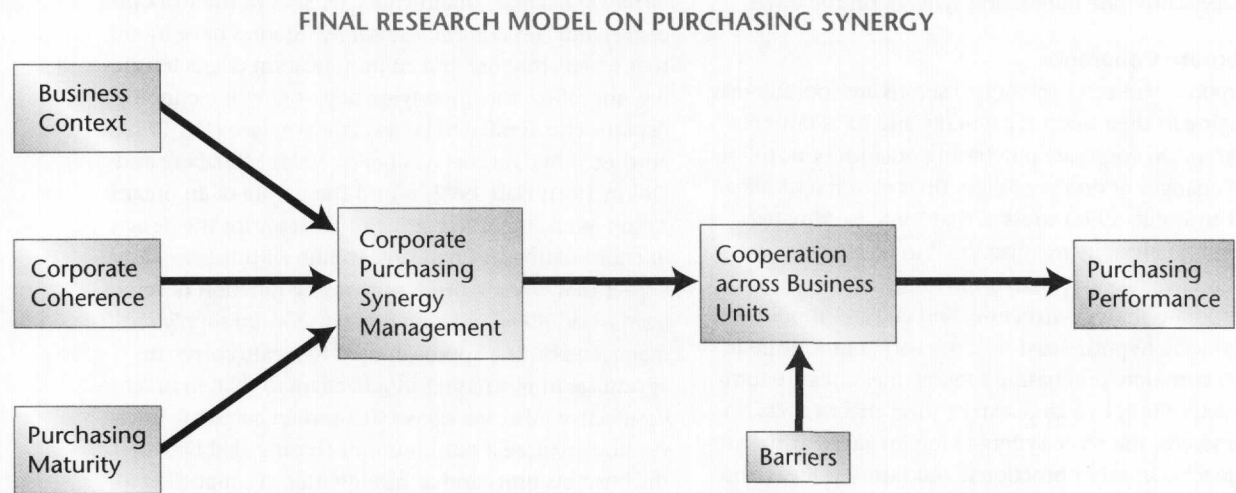
### RESEARCH MODEL, HYPOTHESES, AND METHODOLOGY

Based upon these considerations, we developed our final research model, which we have tested through a mailed survey. Our objective was to find out what kind of relationship could be found between the constructs involved. More particularly, we were interested to learn whether the variables that we defined did indeed explain the nature and effectiveness of purchasing synergy initiatives within large corporations. A schematic overview of the model is shown in Figure 2.

<sup>4</sup> These authors describe “federal purchasing organization” as a coordination structure where the decentralized buying units pool their individual purchasing volumes in order to benefit from economics of scale without interference from a corporate staff.

<sup>5</sup> (See for an overview Van Weele (2000), pp. 170-175.)

Figure 2



In order to be able to test the relationships in our research model through a survey, we have translated them into the following six hypotheses. It was assumed that:

- H1:** The competitive pressure from the business context is positively associated with the degree of corporate purchasing synergy management.
- H2:** Corporate coherence is positively associated with the degree of corporate purchasing synergy management.
- H3:** The level of purchasing maturity is positively associated with the degree of corporate purchasing synergy management.
- H4:** Corporate purchasing synergy management is positively associated with the degree of synergetic cooperation in purchasing across business units.
- H5:** Synergetic cooperation in purchasing across business units is positively associated with purchasing performance.
- H6:** The internal barriers are negatively associated with synergetic cooperation in purchasing across business units.

Based on the previous insights, we developed a structured questionnaire to test the six hypotheses. In developing this questionnaire, we have used an interactive approach consisting of four steps. First, we developed a draft questionnaire. Second, we discussed this draft questionnaire with a focus group of academics. After that, we pilot-tested the concept questionnaire among a group of purchasing managers. Finally, we developed the final questionnaire.

The seven constructs of the research model were operationalized in 97 items. A group of purchasing managers assessed the content validity of each of these items. Based on their suggestions, some parts were changed and it was then finalized. We used five-point Likert scales, because they provide the surveyor with the opportunity to compute frequencies and percentages, as well as statistics such as the mean and standard deviation scores (in turn, allowing for more sophisticated statistical analyses such as variance analysis, factor analysis, etc., to be performed on the data).<sup>6</sup>

Data for this study were collected by means of sending a self-administered, structured questionnaire<sup>7</sup> to 152 large companies quoted at the Amsterdam Stock Exchange (AEX). The companies were selected from the official AEX list. After closing the response period, we had received 46 (out of 152) completed questionnaires. This response rate of 30 percent was considered satisfactory, as it was close to the response rate obtained in comparable research (van Oijen 1997).

From Table I it becomes clear that especially firms from the industry and retail sectors have responded. The services and other sectors were represented only in a limited way. This could possibly be explained by the less

Table I

**SECTOR BACKGROUND OF THE RESPONDENTS**

	Sample	Frequency	Percentage
Industry	84	30	65.2
Retail	23	10	21.7
Services	30	4	8.7
Other	15	2	4.3
Total	152	46	100

(Note: **Services:** Financial Services, Engineering Services, Information Technology Services; **Industry:** Chemicals, Pharmaceuticals, Food and Beverages, Construction, Oil, Natural Gas and Petroleum, Manufacturing; **Retail:** Trading, Wholesale, Retail; **Other:** Transport, Publishing, Entertainment, Telecommunication)

<sup>6</sup> According to statisticians, we should treat the Likert scales as ordinal, unless we can prove otherwise. However, we adopt the "pragmatic" view often followed by (social) researchers, and treat the ordinal Likert scales as if they were interval (see also Diamantopoulos (1997)).

<sup>7</sup> Questionnaire is available upon request from the authors.

important role the purchasing function plays in those sectors.

Table II shows that most respondents fall in the category “purchasing manager.” Apart from non-response from the purchasing directors, this can be explained by the fact that only a limited number of companies have a corporate purchasing department with a corporate purchasing director. In some occasions, purchasing managers were working on a corporate level, but not as a purchasing director. The total number of non-respondents was 106 (70 percent). These companies have indicated, through letters, e-mails, and telephone calls, the following main reasons for not responding (in rank order):

1. Not willing to spend time due to other priorities (too busy with other things, e.g., reorganizations, mergers, takeovers).
2. Information requested was too confidential or too strategic, and could harm stock prices.

**MODEL ESTIMATION AND RESULTS**

In order to test the relationship between our constructs, the correlation between the seven construct variables was calculated. To develop these seven construct variables, we have followed the steps of a conventional scale development procedure. The typical approach for the assessment of reliability of a scale is by computing the Cronbach’s alpha coefficient (Cronbach 1951). Cronbach’s alpha indicates the homogeneity of a scale. In general, this alpha varies between 1 (perfectly homogeneous scale) and 0 (absolutely non-homogeneous scale). A condition for statistical analysis is an alpha between 0.60 and 0.90. Further, the item-total correlation should be at least 0.30 for each item. When a certain item or scale did not meet the two requirements, we eliminated the items with the lowest item-total correlation until we ended up with an alpha > 0.60.

**Table II**

JOB TITLE RESPONDENTS		
Job Title	Frequency	Valid Percent
Director Purchasing	11	24
Purchasing Manager	23	50
Purchaser	5	11
Other	7	15
<b>Total</b>	<b>46</b>	<b>100</b>

Using this approach, we had to remove 14 items from the original list of 97 items. This left 83 items in the seven different scales. These remaining items reflect the seven underlying construct variables, and showed sufficiently high Cronbach’s alphas. Next, we summed up the item scores of each scale and analyzed the correlation between the seven construct variables. In Table IV, the bivariate correlations (as computed by SPSS) between the seven dimensions are presented. As can be seen, several high and strongly significant correlations exist. We used a one-tailed correlation test. This is appropriate when directional hypotheses are specified, which implies considerable prior knowledge about the nature of the hypothesized phenomenon (Diamantopoulos 1997).

Apart from the first hypothesis (H1), all hypotheses are supported by the data from the survey. H1 is not fully supported by our data. Despite the fact that the case studies indicated a strong link between the business context and the corporate purchasing strategy, a direct link was not supported by the data from our survey. Based upon our survey, we conclude that the external pressures do not significantly affect the number and form of the measures taken to create corporate advantage. Still, they trigger changes in corporate strategy and structure, which in turn may stimulate companies to take measures to

**Table III**

OVERVIEW OF THE SCALE DEVELOPMENT PROCEDURE	
Construct Variable	Reliability Analysis
1. Business Context	The Cronbach’s alpha is too low (0.6056) to speak of a homogeneous scale, however sufficiently high for this 4-item scale.
2. Corporate Coherence	We removed six items from this 10-item scale, which resulted in a 4-item scale with an alpha of 0.6989.
3. Purchasing Maturity	We removed three items from this 12-item scale, which resulted in a 9-item scale with an alpha of 0.7716.
4. Purchasing Synergy Measures	This scale is made up of six different clusters of items. These six clusters contain 21 items in total. Without removing any item, this scale showed a very high alpha of 0.9204.
5. Level of Cooperation	This scale is made up of 24 items. Without removing any items, this scale showed a very high alpha of 0.9416.
6. Results of Cooperation	This scale is made of 10 items. We used only the first eight items for this construct variable (the last two are items of a different order). Without removing any items, this 8-item scale showed a high alpha of 0.8745.
7. Barriers for Implementation of Cooperation	This scale is made up of 16 items. We removed five items from this scale, which resulted in an alpha of 0.8420.

Table IV

OVERVIEW RESULTS ON THE SIX HYPOTHESES

Hypothesis	One-Tailed Correlation Tests	Hypothesis Supported by Data?
H1: The competitive pressure from the business context is positively associated with the degree of corporate purchasing synergy management.	The path was positive (+0.102) but not significant (path coefficient = 0.275).	No
H2: Corporate coherence is positively associated with the degree of corporate purchasing synergy management.	The path was positive (+0.618) and very significant (path coefficient = 0.000).	Yes
H3: The level of purchasing maturity is positively associated with the degree of corporate purchasing synergy management.	The path was positive (+0.567) and very significant (path coefficient = 0.000).	Yes
H4: Corporate purchasing synergy management is positively associated with the degree of synergetic cooperation in purchasing across business units.	The path was positive (+0.572) and very significant (path coefficient = 0.000).	Yes
H5: Synergetic cooperation in purchasing across business units is positively associated with purchasing performance.	The path was positive (+0.477) and significant (path coefficient = 0.003).	Yes
H6: The internal barriers are negatively associated with synergetic cooperation in purchasing across business units.	The path was negative (-0.472) and significant (path coefficient = 0.002).	Yes

create corporate advantage in purchasing. Nearly every textbook on corporate strategy identifies the business environment (e.g., competitive pressure, changes in industry structure and/or technology) as one of the major drivers of organizational change. However, this appears not to be entirely true for corporate purchasing synergy management. Here, *changes in the environment appear to play an indirect role*, namely via changes in corporate coherence and purchasing maturity. Further, the results indicate that purchasing maturity and corporate coherence in fact do have a relation with the measures taken to stimulate cooperation across business units. Also, the scores on the corporate purchasing synergy management correlate with the amount of cooperation across business units. This indicates that the measures we suggest do have an effect on synergetic purchasing behavior in the company. Finally, the data support the hypothesis that synergetic cooperation across business units indeed results in increased purchasing performance. Whether this increased performance has an effect on the financial results of the company was not investigated by our survey.

**IMPLICATIONS FOR SUPPLY MANAGEMENT AND PRACTICE**

The results from the survey suggest that corporate purchasing initiatives should be congruent with the overall level of corporate coherence and the level of maturity of the purchasing function. Corporate coherence is related to the extent to which the different parts of the corporation operate and are managed as one entity. Major differences across business units in management style, vision, strategy, culture, and structure reflect a low corporate coherence. When major differences in culture

and structure exist across business units, the integration of the purchasing function will be a significant challenge. Purchasing maturity is related (among others) to the level of professionalism in the purchasing function as expressed in status of the function, role and organizational status of the purchasing department, availability of purchasing information systems, quality of the people involved in purchasing, and level of collaboration with suppliers. Our research suggests that when the purchasing function is highly mature, companies will use a different and more advanced approach to manage corporate purchasing synergy than in the situation where one is dealing with low purchasing maturity (see Figure 3). In cases where both purchasing maturity and corporate coherence are low, decentralized purchasing is most likely to be found. In such a situation, central coordination efforts will be hardly sustainable. In this situation, we expect little homogeneity in specifications across business units. However, there are opportunities to realize purchasing synergy through exchanging information on supply markets, suppliers, and prices, by using voluntary working groups. In cases where both constructs are high, a center-led structure has a good chance to succeed. In such a structure, cross-functional/cross-business teams conduct coordination activities with active support of the business units, while strongly managed by a corporate purchasing staff. If both parameters have a medium value, a hybrid structure with both central purchasing and voluntary purchasing coordination activities is most likely to be found. Federal (or local-led) purchasing consists of a small corporate purchasing staff supporting a number of autonomous decentral purchasing units in their voluntary efforts to exploit potential synergies. The central



purchasing model represents a situation in which most strategic commodities are contracted from a corporate purchasing department. The latter appears to be feasible only in organizations where purchasing at the operating company level is hardly developed and corporate coherence is high.

In our view, top managers do not add value by choosing a certain approach to create corporate advantage in purchasing as such. They add value by creating a fit between the approach used to create corporate advantage in purchasing, and the level of corporate coherence and purchasing maturity. In practice, this is not very often the case. Our research revealed a number of initiatives that were aimed not at creating long-term corporate advantage, but at short-term cost reductions. In many of those cases, external consultants were hired to drive corporate purchasing cost reduction initiatives. Often, however, after the consultants had left, the companies gradually returned to their former and less cooperative ways of working, not using the momentum to establish formal organizational mechanisms, or other measures, to create sustainable corporate advantage in purchasing. In our view, this is related to the fact that the approach used by the consultants was not congruent with the level of corporate coherence and purchasing maturity of these companies.

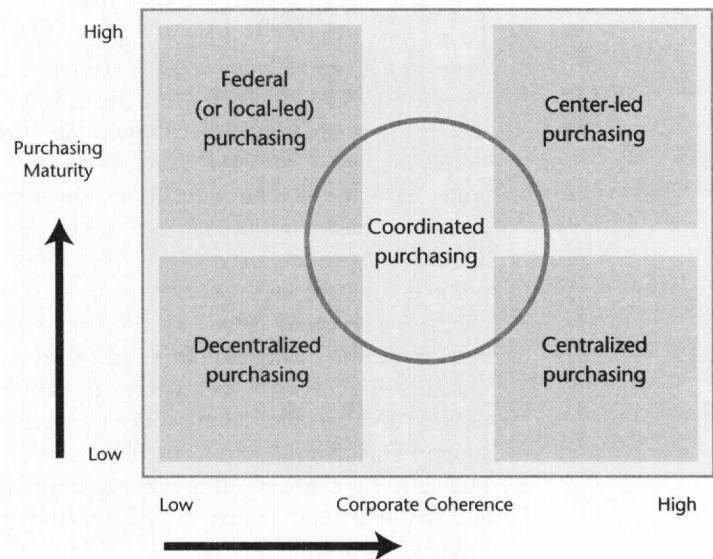
Though the results provide us with several interesting insights, they also raise questions for further research. First, our study measures the perceptions of the respondents, in our case purchasing managers. This reflects our choice to operationalize the constructs in terms of managerial perceptions. However, these perceptions of the environment may deviate from the real environment. This poses the potential danger of biased answers. In order to get a clear picture of the real situation, we should also investigate the perceptions of the CEO, business unit management, and business unit purchasing managers. A second point of concern is that the corporations in our survey are all based in the Netherlands. This limits the generalization of our findings. However, the firms participating in our case studies were internationally operating companies, active in many countries. Based on the data from these cases, we do not expect that firms based outside the Netherlands show significantly different behavior regarding the topic of study. It could, however, still be interesting to conduct similar research in other countries to measure the influence of cultural issues. Finally, although we think that the items in our measurement instrument (questionnaire) are covering, to a large extent, the content of the seven constructs, it still would be worthwhile to develop additional items to secure the reliability of the measures.

## CONCLUSIONS AND SUGGESTIONS

Corporations in the Netherlands show, on average, moderate synergetic cooperation between business units

Figure 3

### CORPORATE PURCHASING ORGANIZATIONAL APPROACHES



on contracts and functional resources, and even less on exchanging and sharing information and knowledge. Given the fact that in most cases respondents indicate that the benefits of this synergetic cooperation (i.e., cost savings, value creation, and productivity increases) outweighed the cost of the measures, it may be worthwhile to increase the level of cooperation. However, analyzing the results of our survey, we come to the conclusion that the foundation underlying current purchasing synergy initiatives in the average corporation is very weak. There are several reasons for this. First, the initiatives taken are not integrated in the main lines of the business through formal organizational mechanisms and information and communication infrastructure. They are mainly the result of (voluntary) informal personal networking. This will increase the chances that the current purchasing synergy initiatives will not be succeeded by new initiatives. Second, general management is only involved in a limited way in the purchasing synergy initiatives. Consequently, there is almost no formal management control in place to monitor these initiatives. In order to capture the potential that in many cases is still present, the following suggestions may be helpful:

- *Align purchasing synergy initiatives with corporate and business line strategies.* Creating corporate advantage in purchasing is a business issue, residing under the responsibility of the CEO. It often starts with a CEO setting out a corporate strategy and specifying the business issues to be worked upon for the near future, challenging purchasing executives to contribute to them. This implies that a CPO should focus his or her attention on corporate initiatives that originate from the business and should be well prepared to support them. "Selling" corporate purchasing



initiatives to business unit managers will, as we see it, not have a significant effect as long as these managers do not perceive these initiatives as helpful in realizing their own objectives.

- *Do not focus exclusively on negotiating corporate contracts for common commodities and services.* Despite potential gains, these initiatives will usually meet resistance at the business unit level, simply because of the effect these spend categories have on the bottomline of the business unit. Since business unit managers are profit- and loss-responsible, they will be very careful not to become too dependent on others for their purchasing decisions. A CPO who does not walk away from this challenge and persists in trying to achieve purchasing synergy through harmonization and standardization, while seeking active support and commitment from his or her colleagues in the business units, will gain respect and credibility and, hence, will pave the way for future success.
- *Involve business management and local purchasing management early in the process.* Soft issues play a major role in realizing purchasing synergy. A CPO should be very careful with starting initiatives that take away purchasing responsibility from the business units. Implementing a corporate purchasing strategy requires changes in corporate behavior. Therefore, we recommend early involvement of business unit management and purchasing managers in the development of this kind of initiative. In most cases, corporate purchasing initiatives should be led and managed by these executives.
- *Plan and monitor benefits and savings that have been obtained.* When a CPO is not able to provide detailed insight into the deliverables and achievements of the activities that he or she supervises and facilitates, he or she will gradually suffer from lack of credibility. Therefore, a uniform, formal reporting procedure should be in place, provided (preferably) by the corporate controller.

The position taken in this article is that corporations should choose among alternative corporate purchasing approaches based on how well they meet their specific situation, rather than on how fashionable they are. The insights presented can be used as guidelines in deciding what is effective and what is not.

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