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Corporate myths: Sourcing and vendor management in Asia Pacific

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By Patrick Thng

Sourcing and vendor management need the urgent attention of senior management. The current uptick in poor and corrupt sourcing practices and weak governance provide a compelling reason.

The recent high profile cases of corruption and mismanagement involving procurement in the public sector in Singapore are a wakeup call for senior management. Although steps were taken to ensure that these mishaps, whether intentional or not, would not recur, the cases highlight the perils, reputation and perception risks that organisations face whenever they pay insufficient attention to this critical function. Damage to the morale of staff is another.

Why would such a basic organisational function prove so difficult? Three key elements are involved.

Firstly, the complexity of procurement and managing vendors. Here the management of many organisations are not aware of the complexities and pitfalls of setting up such a function, often relegating this role to anyone with basic common sense, or perhaps to the CFO who controls the purse strings.

Secondly, luck or smartness. Leading and managing sourcing and vendor management is both an art and a science. Often luck plays a role, as matching an organisation's procurement demands with market availability is not an exact management science, unless you are talking about procuring paper clips.

Thirdly, values and integrity. The professional integrity and judgement calls of the Chief Procurement Officer (CPO) and his staff are not as simple as one might assume.

Complexity

A myth exists that managing sourcing and vendors is easy and that there is no need to place the best leader or manager into these functions. Yet this is far from the truth. Leading and managing these functions is not easy given their relatively new entry into the established management sciences such as accounting and marketing. The complexity of this function is further borne out by a report from a global consultancy that they received an average of more than 380 calls per month from their client on procurement enquiries and more than 80 monthly calls relating to vendor management.

Sourcing and vendor management are distinct disciplines, although with some degree of overlap. Sourcing or procurement involves the 'hunting' element where you must know your organisation's directions, tactical and long term needs; the market players and products; and finally the dynamics of the market.

Vendor management on the other hand is often assumed to be identical or similar to sourcing. But it involves substantial management of relationships both within the organisation as well as with the supply providers.

The two functions are not only distinct in the way they operate, but also require different skills and competencies from those of the leadership and management teams. But having said that, the two functions must also know how to tango when needed in order to achieve the synergies required for operational effectiveness.

Once the two functions are seen as distinct yet complementary, there remain several challenging and problematic elements.

As a relatively new discipline, it requires professionals with multiple competencies such as negotiations, financial knowledge, people engagement, domain knowledge and analytical skills. When senior management do not understand how the two functions work, they often relegate the leadership to the 'bean counters', erroneously assuming that it is all about removing costs from their organisations. This is a short term outlook with long term dysfunctional consequences, especially from a quality and sustainability perspective.

Increasingly organisations not only procure products - which by themselves can be quite complex, but also services. Services being intangible are often managed via service level agreements (SLAs), which require specialised skills and the concomitant management of service providers, making it even more challenging and new to most organisations.

At the same time, balancing corporate social objectives and sourcing objectives can also be very challenging.

A CPO in the public sector will be faced with a nightmare when trying to balance the outsourcing objectives of cleaning services (cheaper, faster and better) against national objectives such as raising basic salaries for lower income groups. The question here will be how, and where, does one draw the line?

Luck or smartness?

A well-respected former finance minister in Asia - and, a trained economist, once said to the chairman of a major Asian bank 'It is better to be born lucky than to be born smart!' Now you may say what has this got to do with procurement and managing vendors? To this I would say, plenty.

A second myth is that procurement and vendor management are common sense tasks and that once we can organise ourselves intelligently, we should be able to excel in these functions. But luck does play a significant part in these functions too. It may not be politically correct to admit that luck plays a role in sourcing for

products and services, but the reality is that markets are dynamic. There will always be new innovative products along with new, existing, and merged players, especially in the IT space where companies like Microsoft and Oracle are constantly acquiring several application-related players; and new safety regulations introduced as a result of building collapses, which in turn mean further regulations preventing companies from dealing with such suppliers.

However, smartness or intelligence does play a role in mitigating the 'hit and miss' aspect of luck. The need to seek out market intelligence regarding suppliers, formalise internal policies relating to best practices for procurement and vendor management, and hire and set up a joint Procurement and Vendor Management function equipped with proper policies, tools, and people. These are the basic building blocks. Other intelligence gathering roles include strong networking skills with industry players, and the need to seek the experience of Board members following transformational sourcing deals such as multimillion dollar outsourcing programmes. Yet many organisations lack these basics.

It is too simplistic to assert that luck or smartness is a better proposition. Realistically, both luck and intelligence do play roles that complement one another. To assume that an effective procurement and vendor management organisation is based on intelligence alone is quite misleading, but is politically palatable.

Values and integrity

A third myth is the expectation that procurement professionals will exhibit and exercise full integrity and that this is no different from expectations of other staff in other parts of the organisation. Again, this is wrong because this is one profession that is frequently bombarded with tough ethical situations. It's an area where ethics and morals come into play and can be murky and perilous for we are dealing with human beings who are placed in positions of substantial influence that run the gamut from the junior procurement officer to the CEO. Let me illustrate with a real life encounter. The CPO of a leading financial institution was pressured by the CEO to switch to another service provider on the grounds that the preferred service provider has been 'great and helpful' to both the CEO and the chairman of the organisation. The selection process proceeded based on an objective set of criteria. The CPO then faced a dilemma when the CEO's preferred supplier was not selected after being shortlisted prior to the CEO's call. What should the CPO do in such a situation? Ultimately, the CPO did stand his ground, but slid from favour with the CEO.

Vendors do play a part in this conundrum. Yes, the bigger and established players do have policies designed to thwart deliberate attempts to corruptly influence decision makers. Yet despite this, many such cases have found their way into the public space.

Coupled with the recent reports of alleged corruption cases in the public sector, the experiences illustrate the many conflicts and challenges faced by most sourcing and vendor management professionals in the course of their daily activities. One simple solution would be to hire professionals with proven integrity – but this is easier said than done.

Many procurement professionals need to balance the need to network while partnering with vendors, especially those they consider strategic versus the need to keep them at arm's length in order to be perceived as independent. For example, should the CPO attend a cocktail event for the Formula One organised by a partner vendor to build and strengthen the working relationship?

On the one hand, there is indeed some merit in attending such functions. Subtle clues can be glimpsed about the supplier's organisation, their staff and their corporate and personal values can be glimpsed from the social interaction. These can often come in handy during service level disputes or negotiations. In fact, a CPO once shared that a Christmas function provided him with the ammunition to negotiate a win-win billing dispute that had been brewing over many months.

Equally, one can argue that attendance at such events can also provide vendors with an unfair advantage. Corporate policies, such as gift acceptance limits, are useful and symbolically send signals to staff that professional independence and objectivity are core corporate values.

But ultimately, it is a judgement call that staff have to make and no amount of corporate policies can pinpoint precisely the 'do's and don'ts' other than to emphasise outright wrong-doing.

In the case of sourcing and vendor management, functions are indeed complex to manage and require both luck and intelligence. However, they are also often dependent on the impeccable integrity, good judgement and values of the staff.

A practical roadmap is needed

It is not all doom and gloom for procurement and vendor management personnel, despite the three challenges that I mentioned earlier. Nevertheless, some practical steps need to be put in place to strengthen the function and mitigate the risks and a practical road map is thus a priority.

The roadmap is a formalised strategy that defines the organisational mission, goals and objectives of how the organisation strategically sources as well as manages vendors. Vendors are often classified as either strategic and transformational, or tactical and transaction-oriented. Outcomes will be different in each case.

One obvious but often forgotten strategy is to educate and train staff. Without proper and on-going training to build up sourcing and vendor management competencies, the function will not be in effective. In addition to training in the fundamentals to develop policies, processes and people skills, the more progressive organisations have also documented internal case studies where their people can learn and share 'war stories' about their experiences.

They will also need to address basics such as whether or not there is a framework in place to enable the organisation to set up a Sourcing and Vendor Management Office, tap into compensation incentives for staff; introduce formalised strategic and tactical strategies aligned to the business directions of the organisation, and whether or not success metrics and KPIs are in place.

The hiring process should also not be underestimated. It will indicate whether or not a team of integrity and sound values has been hired. It will also need to be followed up by a sound staff rotation programme to prevent the development of a cosy relationship between suppliers and staff.

Lastly, the innovative use of procurement technologies particularly with analytics can mitigate the transparency and spiralling cost risks of any organisations. These technologies can often help the organisation seek out the best deals, for example in e-bidding open market exercises and help spot unhealthy cost trends.

These then are the core elements of a sound, practical roadmap for Procurement and Vendor Management professionals. While procurement and sourcing functions are complex to manage and require both luck and intelligence, the impeccable integrity, good judgement and values of the staff cannot be underestimated.

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