



# Integrating skills profiling and purchasing portfolio management: An opportunity for building purchasing capability



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## ABSTRACT

**Kraljic's (1983)** purchasing portfolio approach holds that different types of purchases need different sourcing strategies, underpinned by distinct sets of resources and practices. The approach is widely deployed in business and extensively researched, and yet little research has been conducted on how knowledge and skills vary across a portfolio of purchases. This study extends the body of knowledge on purchasing portfolio management, and its application in the strategic development of purchasing in an organization, and on human resource management in the purchasing function. A novel approach to profiling purchasing skills is proposed, which is well suited to dynamic environments which require flexibility. In a survey, experienced purchasing personnel described a specific purchase and profiled the skills required for effective performance in purchasing that item. Purchases were categorized according to their importance to the organization (internally-oriented evaluation of cost and production factors) and to the supply market (externally-oriented evaluation of commercial risk and uncertainty). Through cluster analysis three key types of purchase situations were identified. The skills required for effective purchasing vary significantly across the three clusters (for 22 skills,  $p < 0.01$ ). Prior research shows that global organizations use the purchasing portfolio approach to develop sourcing strategies, but also aggregate analyses to inform the design of purchasing arrangements (local vs global) and to develop their improvement plans. Such organizations would also benefit from profiling skills by purchase type. We demonstrate how the survey can be adapted to provide a management tool for global firms seeking to improve procurement capability, flexibility and performance.

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## 1. Introduction

There is compelling evidence that efficient and effective supply chain management is a key success factor for corporations competing in the global marketplace (Lamming, 1993; Carter and Ellram, 2003; Cousins, 2005; Hartmann et al., 2012), and that the development of purchasing from a tactical to a strategic function can provide sustainable competitive advantage (Ellram and Carr, 1994; Carter and Narasimhan, 1996; Chen et al., 2004). Prior studies examine the relationships between purchasing skills and such variables as strategic purchasing (Carr et al., 2000), supplier integration and supply management performance (Eltantawy et al., 2009), organizational performance (Carr and Smeltzer, 2000; Cousins et al., 2006), and the position of purchasing within the organization (Tassabehji and Moorhouse, 2008).

Though it is not without its critics, the purchasing portfolio approach (Kraljic, 1983; Bensaou, 1999) is widely deployed in

organizations to improve purchasing performance (Gelderman and van Weele, 2003). It is used to categorize purchases according to a range of internal, product, profit and operational factors and external, supply market conditions – collectively termed ‘profit impact’ and ‘supply risk’ factors, respectively (Gelderman and Semeijn, 2006) with the aim of providing different sourcing strategy recommendations for distinctive situations.

Purchasing leaders also focus closely on skills and knowledge requirements and how these vary according to organizational context, where context can be described in terms of corporate strategy, purchasing maturity, organizational structure and business context (Rozemeijer et al., 2003). Globalization, outsourcing and e-commerce are key factors driving rapid and substantial change in the status of purchasing, purchasing job roles and organizational design (Zheng et al., 2007). Various studies point to the reducing importance of what can be regarded as more technical purchasing skills and the growing importance of more generic, ‘softer’ and more strategic skills (see Zheng et al. (2007) and Eltantawy et al. (2009) for reviews).

The central argument presented in this paper is that those responsible for developing and managing purchasing and supply in complex organizations should profile knowledge and skills

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according to 'purchase type', as defined using a purchasing portfolio approach, to inform organizational design and human resource development within the purchasing function. The case for this is developed from a review of relevant literature – both conceptual and empirical – and from an exploratory study of the relationships between skills and purchase situation. The paper helps to address two research gaps. First, previous studies have profiled skills in various ways, including by job role, by contrasting transactional versus relational purchasing, and by the maturity of the organization. Each approach has advantages, but they do not fit well in highly dynamic and complex settings, as typically applies in global firms. Second, despite the (admittedly brief) mention of the importance of improving purchasing skills in Kraljic's seminal article (Kraljic, 1983, p. 117), little research has been done from a purchasing portfolio perspective to understand better what purchasing skills and knowledge are needed for effective performance in which purchase situations.

Therefore our first aim was to investigate empirically the relative importance of purchasing skills for distinct purchase situations. Do skills requirements vary significantly according to profit impact and supply risk, and if so how? To achieve this it was necessary: (1) to categorize purchase types; (2) to identify a set of purchasing skills; (3) to develop a skill profile for each purchase type (4) to compare and contrast these profiles. The second, broader aim was to examine critically the profiling process itself and its relevance to practice, and to propose how it might be applied to support functional development.

For the survey, variables on four dimensions were deployed to describe purchasing situations (product characteristics, product cost and value, supply market and attributes of the current, main supplier), and a set of 33 purchasing skills was compiled. Using the exploratory technique of cluster analysis (Aldenderfer and Blashfield, 1984), three distinct types of purchase types were identified: strategic ( $n=27$ ), tactical ( $n=32$ ) and routine ( $n=13$ ). The skill profiles for each cluster show important variation (for 22 skills,  $p < 0.01$ ). The detailed results are reported below.

The review of literature on purchasing people's skills and knowledge (referred to hereafter as 'skills', for brevity) and their management reveals a focus on higher level skills needed among staff working in an increasingly strategic function. Little consideration is paid to skills needed for local and/or more operational purchasing. Further, though articles on skills examine their impact on performance and on intermediary factors such as function status and supplier integration (Eltantawy et al., 2009), they offer little in terms of insights on the organizational design implications of their results. On the other hand, purchasing portfolio management literature addresses the technique's use in strategic (i.e. mature) purchasing functions in complex organizations. Though the implications for organizational design are discussed (Trautmann et al., 2009b) and for personnel are recognized (Quintens et al., 2006), we found no literature which explores the relationships in any detail. In the purchasing literature, at least, if not in practice, there is a missing link: skills profiling is not connected to portfolio management, despite the prevalence of both in research and practice. This points to a key gap, and an opportunity to develop knowledge and techniques to support the design and development of complex, dynamic purchasing organizations. Here we explain how the approach used in the survey may be adapted and used by managers and for further research.

The paper is organized as follows. The next section is a two part literature review focusing on skills, considering first skills profiling from a technical HRM perspective and then skills research on purchasing and supply. Section 3 is in two parts reviewing literature on the purchasing portfolio approach, and the organization of global sourcing, focusing particularly on applying the portfolio approach to the design and management of global purchasing. The methodology for the exploratory survey is set

out in Section 4, followed by the results. In Section 6 results are discussed in the context of academic research, and in terms of implications for practice. Finally, conclusions are presented.

## 2. Literature review on skills profiling

### 2.1. Competence and skill profiling

Traditional job analysis (Brannick et al., 2007) sought to define the prerequisite technical skills and knowledge necessary for successful execution of the role, including 'soft' skills such as team-working or effective communication. More recently, competency profiling (Campion et al., 2011) is also commonly carried out during the job analysis process. Although the two terms are often used interchangeably, a competence is different from a skill in that 'competence' refers to the behaviorally-demonstrated use of technical skills and knowledge, and competence profiling is intended to focus on competences distinctly associated with superior performance (Bartram, 2005). Competency analysis is important for a range of HRM activities, including "creating and updating job descriptions; recruiting and selecting employees; designing and evaluating training and career education; developing incentive and reward systems; creating succession plans" (Gayeski et al., 2007).

In practice, the HRM task of role profiling includes both skill and competence elements, analyzing and describing the specific or technical knowledge or skills necessary to execute the tasks required, as well as the innate or acquired abilities and other individual characteristics critical to overall performance (Dierdorff and Morgeson, 2007). For the purpose of this work, we focus on the specific technical, and industry, knowledge and skills necessary for efficacy in purchasing roles, rather than more generic, behavioral competencies.

Job skills analysis and competency profiling both involve the use of similar techniques, and are therefore subject to many of the same limitations and criticisms. These are important considerations if the outcomes of the process are to be both valid and legally defensible as part of an organization's HRM practice (Dierdorff and Morgeson, 2007). The process of identifying the knowledge, skills, attributes and other characteristics that differentiate superior performance typically involves current job-holders or their line managers, working with HR experts, and possibly informed by external research. The process is time-consuming and resource intensive. The outcome may be highly subjective (Sanchez and Levine, 2009; Dierdorff and Morgeson, 2009). The capacity and ability of functional specialists to contribute to this process may be limited (Dierdorff and Wilson, 2003; Jones et al., 2001). The viability or the validity, or both, of the process can be a significant problem. Furthermore, the process focuses on past and present HR requirements, rather than future needs. Traditional methods 'describe and measure the status quo' (Hayton and McEvoy, 2006) rather than defining the critical requirements for future performance, to align with the business context and strategic objectives of the organization (Campion et al., 2011), and supporting the development of the function to become more strategic (e.g. Long and Ismail, 2012).

In summary, job analysis and competence and skill profiling are problematic because: most profiling techniques are highly resource intensive; they are typically retrospective rather than future focused; skills frameworks can be regarded as highly subjective and thus gain little buy-in from key stakeholders; they fail to convincingly link skills with performance. By their very nature, profiling and applying skills frameworks risks the reduction of diversity and creativity. All these challenges are exacerbated for large, complex organizations operating globally, and facing high levels of diversity and uncertainty, and rapid change.

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