Efficient purchasing in an organization; the importance of qualified purchasing personnel
(A case study of ABB, Västerås)

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Efficient purchasing in an organization: the importance of qualified purchasing personnel (A case-study of ABB, Västerås)

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Abstract

Title: Efficient purchasing in an organization: the importance of qualified purchasing personnel. (A case study of ABB, Västerås)

Course: EFO704: Master Thesis in Business Administration

Authors: Oskar Olsson, Sylvia C. Peters.

Supervisor: Sven-Åke Nyström.

Purpose: The purpose of this research is to learn and present how ABB (Västerås) perceives the role of the purchasing function, and the importance of involving qualified purchasing personnel in the purchasing process. By evaluating their:

- Level of participation in the overall corporate planning process,
- Relationship to suppliers and other internal units,
- Responsibilities toward the organization, for determining how they contribute to its efficiency

Method: This thesis is a case study on ABB (Västerås). We have used a qualitative method to conduct the research. We have also obtained primary data through face-to-face interviews and secondary data by an extensive literature search using peer-reviewed articles, textbooks, search engines, and the MDH database.

Conclusion: Subsequent to our findings, we are of the opinion that there is a positive perception concerning the role of purchasing function and purchasing personnel in ABB. We assert this is due to the recognition that purchasing, contributes significantly to the organization’s profit, helps in making savings and reducing costs compared to what was obtainable a few decades ago. We have also found that there is also a realization on the part of management that the skills and knowledge of the purchasing personnel in devising strategies, coordinating with other internal functions, and dealing with suppliers etc. are major factors responsible for the benefits that purchasing provides to ABB (Västerås).

We have observed through our findings that the efficiency of the purchasing function in ABB is rooted in its purchasing personnel. In our opinion purchasing personnel high involvement in the corporate planning process in ABB, cooperation with top management, and liaison with other functional units are what makes purchasing efficient in the organization.
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1. Introduction

In this section, we present the background to the research area and problem selected the problem specification, purpose and limitations of the research.

Purchasing like every profession requires qualified purchasing personnel in order to maximize its benefits. As a profession, it involves skills based on theoretical knowledge, which requires training and education, Lysons (1992:6). The knowledge and skills of purchasing personnel contribute most to the capability of the function in managing purchasing activities, Saunders (1997:19). Moreover, the skills of the purchasing personnel and capability of the function is what creates efficiency and gives the organization a competitive advantage, Hart (1995:988).

Purchasing skills have an indirect effect on purchasing performance, because the skills influence the status of the purchasing function and integration of suppliers: both of which have a direct impact on purchasing performance, Feisel et al (2003:11). The effect that professional purchasers have on the quality, cost, and productivity of their organizations is one of the factors that describe USA’s competitive position in the global market place. Several studies have over time proved that qualified purchasing personnel contribute at least as much to the success of their organization as other professionals in other functional departments, Dobler et al, (1996:3-5).

The more training and development the purchasing personnel in an organization have regarding managing total quality, the more successful they are at their job, and eventually the more successful the organization becomes, Carter et al (2000:52). There is a connection between the purchasing personnel’s skills and qualifications to the organization’s financial performance, supplier sensitivity, and strategic procurement, Carr et al (2000:40).

1.1 Background to the research area

Purchasing is central to any organization in either the manufacturing or the service industry and in the public or private sectors of any economy. It therefore has been long-considered one of the basic functions common to all organizations because no business can do without them Dobler D.W, Burt N (1996). Over the last few decades, the nature of this function has changed radically from just buying cheap to purchasing right, Lysons (1992:2-3, 19).
The purchasing function binds together all the organs or units within an organization namely; the manufacturing, operations, finance, marketing, stores etc. its suppliers and also its customers, Lysons (2003:15-16). However, none of these activities culminates into meaningful relationships that form strategic tools for competitiveness, without the recognition of the role of purchasing and the qualified purchasing personnel responsible for spending more than 60 percent of the organization’s cost of sales.

“Materials today are the lifeblood of industry.” Dobler D.W, Burt N (1996: 21). This means that, materials of the appropriate quality must be available at the right time, in the proper quantity, at the needed location and at an acceptable cost. Materials management depends on the purchasing department within any organization as one of the few sections that is actually involved in spending the company’s cash resources. Purchasing therefore has a unique opportunity of reducing cost of sales and thereby increasing profit, consequently benefiting the organization, Carter (1993:250-251).

However, for this to happen, the organization must employ and invest in professional or qualified purchasing personnel with the requisite skills to manage and implement the efficient purchasing process necessary for achieving these benefits. This is because purchasing will only advance in organizations that are willing and ready to invest in skilled people. People with the right vision to set appropriate supplier strategies and the ability to implement them both internally and with the supplier, Thompson (1996:8).

1.2 Purchasing function and efficiency

Purchasing efficiency is one of the most critical factors in determining the profitability of a business, yet it is typically one of the least understood and mismanaged in most organizations, Greenfield (1999:20). It is important to note that profitability with reference to purchasing carries a broader meaning than just financial gain; it includes other benefits and advantages that an organization enjoys from the outcome of such efficient performance, Lysons (1992:3).

Fiesel et al (2003:9-13) confirms what other authors (Giunipero 2006) etc. have proven, that purchasing skills affects an organization’s efficiency. They also noted that qualified purchasing personnel contribute with their skills to purchasing activities, which contributes to total organizational performance. However, whether from Porter’s (1998:77) value chain analysis or Hart’s (1995:988) resource-based theory etc. it is becoming increasingly clear that the purchasing function is critical to the efficiency and competitive positioning of an organization in the market.
Furthermore, the resource-based view presents a hypothetical framework of the importance of the purchasing skills to an organization’s efficiency. From a resource-based perspective, the capabilities existing within the purchasing function and, its centrality, renders it a strategic position in determining an organizations’ competitive advantage, Hart (1995:988-989). Purchasing personnel have firsthand access to knowledge of events in supplier markets, and technology that are critical to the business. In addition, when organizations’ have the skills and knowledge essential to engage in obtaining and processing information, they have an important means of competing with other organizations, Carr et al (2000: 41). Purchasing therefore, when efficiently managed can improve an organization’s performance and give it a competitive advantage over its rivals.

1.3 Research constructs

Regarding this research, the term efficient purchasing is characterized as [2.3]. The word purchasing [2.2] will be used interchangeably with procurement, buying, and supply management. This expansion in the meaning of purchasing is as, Dobler et al (1996), Saunders (1997) describes, due to the transition and evolving state of purchasing as a function over the last decades. To, its shift from an administrative and tactical point to a strategic one. The phrase “qualified purchasing personnel” would be interpreted to mean purchasing or procurement professional [1], in order to describe the qualification of the purchasing personnel that is essential to achieving purchasing efficiency in an organization.

1.4 Problem Discussion

The cost of materials purchased is responsible for averagely 53.2 percent of all organizational total cost and, thus requires a maximum rate of return for such huge investment, Dobler et al (1996:26, 30). The rate of return on cost of materials can be directly enhanced, or hindered respectively by the efficiency or inefficiency of the purchasing personnel of an organization, depending on their skills and abilities, and the perception of the function by the management hierarchy of the organization. Feisel et al (2003:12) in citing Carr & Smeltzer, Eltantawy etc. noted that purchasing function and skills does not only boost purchasing performance but affects the entire organization’s performance. The recognition that competition is no longer between the members of a value-chain but between various value-chains, challenges organizations to join forces with their suppliers based on mutual interest in order to form strategic alliances or build relationships necessary for staying in competition.
Qualified purchasing personnel are consequently required to assume difficult responsibilities of managing relationships with suppliers as the function demands, and also technical, expertise, communication, and team-skills in order to provide leadership concerning the various issues affecting the purchase, Dobler et al (1996: 14). Cooperation with suppliers is critical and essential to an organizations’ success. The relationship that an organization shares with its suppliers contributes immensely to its efficiency and effectiveness. Part of the task and responsibility of the purchasing personnel is to manage supplier relationships, the success of which is directly associated to the success of the organization, Pressey et al (2007:282). Since supply markets provide opportunities as well as threats, poor relationship management can put a company at risk, Baily et al (1998:137).

In today’s dynamic business environment with heated international competition, surge in out-sourcing activities, and technological advancements etc. the responsibilities of the purchasing personnel is greater than has ever been, and calls for greater proficiency from the purchasing personnel in order to tackle these challenges and improve performance, Feisel et al (2003:4), Giunipero et al (2000:4). Most organizations think the most important activity is making sure that materials come into the organization, and issue it to other departments. However, effective purchasing stretches beyond that to negotiating longer-term relationships, supplier development, and total cost reduction rather than merely the ordering and replenishment of routines, Baily et al (1998:7).

The ability to make quality decisions is a product of the skills and experience of the decision maker(s), Carr et al (2000:40). Great decisions lead to great outcomes and vice versa, therefore organizations that makes good decisions do so because of the caliber of personnel they hire or employ. The quality of decisions that the purchasing manager makes regarding their suppliers, the quality and quantity of materials to purchase, where and when to purchase, and at what cost etc determines and affects the quality of input the organization will have available for issue to its user departments, and consequently the end products for their consumers. The decisions made regarding purchasing affects other functional areas such as logistics, engineering, finance etc, and therefore calls for the internal collaboration between these units in order to boost communications and produce efficient results, Zenz (1994:10:11). The purchasing unit has ongoing relationships with all other units in the organization as well as with suppliers, because it cuts across all departmental lines to work with the personnel in those units in order to achieve organizational goals, Dobler et al (1996:30).
They further argued that, the purchasing function is more often than not better efficiently and effectively performed by a centralized unit made up of buying specialists who at times may work in conjunction with a more comprehensive cross-functional team of specialists from other departments. Where organizations make longer ranging plans, integrating the purchasing function into the strategic planning process is very essential to the profit of the company. This is because qualified purchasing personnel in an organization can enhance the activities of cross-functional teams, in cases such as product design, supplier qualifications and selection, quality maintenance etc, Dobler et al (1996:24,25). Specific purchasing skills are important to an organizations’ performance because the organizations’ competitiveness is contingent upon the mutual efforts of the organizations’ various personnel in the various functional areas, Carr et al (2000:41).

From a vantage point of the resource-based perspective of the firm which suggests that organizations derive their competitive advantage from those core activities or competencies within their companies. The purchasing function, personnel skills and abilities thus fall under those resources necessary for an organizations’ competitiveness. The resource-based perspective further suggests that the competitive advantage that an organization enjoys does not solely originate out of its final products or services. Rather from the expertise of their personnel, which cannot be duplicated or imitated and which depends on their capabilities in implementing organizational strategies and meeting outlined objectives, Hart (1995:988-989).

“It is not possible for an organization to benefit from the competitive advantage that a developed purchasing function can bring unless, they have staff with appropriate knowledge, skills, and competencies to put their ideas into practice”, Baily et al (1998:351). The core to a developed purchasing function lies within the personnel, because efficient purchasing involves more than just buying at the lowest cost. It requires professionalism to allow organizations to benefit from the function. In order for an organization to maintain its competitive advantage, the skills, and abilities of its personnel need to be developed regularly to combat future challenges, Carr et al (2000:41). Moreover, as the purchasing function is no exception, organizations that ignore the pursuance and formation of a developed purchasing function stand a risk of losing company profit and their competitive advantage.
1.5 Problem Statement
How do organizations perceive the role of the purchasing function and the importance of involving qualified purchasing personnel in the purchasing process?

1.6 Purpose
The purpose of this research is to learn and present how ABB (Västerås) perceives the role of the purchasing function, and the importance of involving qualified purchasing personnel in the purchasing process. By evaluating their:
- Level of participation in the overall corporate planning process,
- Relationship to suppliers and other internal units,
- Responsibilities toward the organization, for determining how they contribute to its efficiency

1.7 Benefit of research
From our results, this research may serve as a suggestion towards the importance of involving qualified purchasing personnel in the purchasing process, and developing the purchasing function in an organization. It may also be beneficial to any organization whose major functional activities include purchasing. Considering the amount of spend by such organizations, the result of this research may be relevant to their decision making process. The research could also inform organizations on how management’s perception of the purchasing function can affect efficiency.

1.8 Scope of study
This research is restricted to the role of the purchasing function and the importance of involving qualified personnel in the purchasing process in an organization. It is further limited to the purchasing activities of the ABB group in Västerås.
1.9 Disposition of the thesis

1. Introduction
In this section, we present the background to the research area and problem selected the problem specification, purpose and limitations of the research.

2. Frame of reference
In this section, we develop theories for our research based on our literature review. The theories developed would serve as the frame of reference for the analysis. In addition, we present our research model to show the relationship between the theories used.

3. Method
In this section, we describe the steps of the research. The choice of the method used is also justified. We show the strategy of the research and the methods of data collection used. We outline the criticism to the method, illustrating the advantages and shortcomings. We also prove the tests of the validity, and reliability in order to justify the approach taken.

4. Empirical Data
In this section we give a brief history of the companies’ background. We also account for the empirical data collected through our interviews.

5. Analysis
In this section, we critically analyse the empirical data collected in relation to the frame of reference.

6. Conclusion
In this section, we present the conclusions and recommendations based on our analysis in order to answer the problem statement question and fulfill the purpose of the research.
2. Frame of reference

In this section, we develop theories for our research based on our literature review. The theories developed would serve as the frame of reference for the analysis. In addition, we present our research model to show the relationship between the theories used.

2.1 Research model

Our research model is adapted from the resource based theory or view of the firm. It posits that an organization’s internal environment, with reference to its resources and capabilities, is more significant to the determination of its market positioning. It takes the perception that valuable, non-imitable organizational resources and capabilities provide the key sources of sustainable competitive advantage. The view classifies an organization’s resources to include physical and financial assets as well as employees’ skills and organizational processes. While its capabilities as resulting from bundles of resources brought to bear on particular value-added tasks such as purchasing, Hart (1995:989).

Furthermore, it infers that the developed purchasing function and the qualified purchasing personnel are the combination needed to achieve both purchasing and organizational efficiency. The purchasing function and purchasing personnel are part of an organization’s capabilities and resources necessary for staying competitive in the market, Carr et al (2000:41). The purchasing function when aligned strategically with other functions establishes and maintains the organization’s competitive advantage, Hart (1995:988), Porter (1998:77).

(See diagram below):
2.2 Definition of Purchasing

Purchasing is the function responsible for obtaining by purchase, lease or other legal means, equipment, materials, supplies and services required by an undertaking for use in production, Lysons (1992:1). Purchasing is more than simply reducing costs; it is a value-adding activity, Baily et al (1998:23). By definition and following the recent trends in the purchasing profession, it becomes more evident that purchasing involves more than just buying. Purchasing has become a strategic activity.
The purchasing function binds together all the organs or units within an organization namely; the manufacturing, operations, finance, marketing, stores etc. and its suppliers and also its customers, Lysons (2003:15-16). However, none of these functions culminates into meaningful activities that form strategic tools for competitiveness, without the recognition of the importance of the personnel involved in all of such activities, of which purchasing is no exception.

Purchasing is central to any organization in either the manufacturing or the service industry and in the public or private sectors of any economy. It therefore has been long-considered one of the basic functions common to all organizations because no business can do without them, Dobler D.W, Burt N (1996). Over the last few decades, the nature of this function has changed radically from just buying cheap to purchasing right, Lysons (1992:2-3, 19). From being just a support function, it has developed into a profit centre that plays a strategic role in the achievement of organizational objectives.

Saunders (1997:1) insists that purchasing should no longer be treated as a second-class function; the future necessitates for integrated materials management: pulling together suppliers, production, and distribution.

2.2.1 Efficient purchasing

The definition of “Efficient” according to the Merriam-Webster’s online dictionary is “productive of desired effects” especially “productive without waste.” Efficient is also synonymous with the word effective. Efficient purchasing is one of the most critical factors in determining the profitability of a business, yet it is typically one of the least understood and mismanaged in most organizations, Greenfield (1999:20). Efficient purchasing is the ability of the purchasing function to achieve those organizational objectives expected of it, Baily et al (1998:394). Most organizations are now realizing the contribution of purchasing however, only recently has the importance of professional purchasing become widespread, Dobler et al (1996), Lysons (1992).

One of the arguments put forth by scholarly writers is that, for purchasing to become efficient, the organization’s purchasing function needs to conform to its strategy. When both of them are at odds, the result is irregularity in the way purchasing is managed causing inefficiency, Ellram et al, (1994:1). Considering that purchasing constitutes approximately 60 percent of an organization’s cost of sales, Laios et al, (2001:1) such irregularities become very costly, and unprofitable to the organization.
When the purchasing function and other operational functions are not properly integrated, the result may be disruptions in output, loss of income, and adverse effects on competitiveness, Laios et al, (2001:1). In recounting the benefits of efficient purchasing, Hackett, (1999:48) argued that, minimal measures taken by organizations to improve purchasing efficiency, can go a long way to reducing costs associated with purchasing. Efficient purchasing is concerned with the creation of long-term value and not just about short-term gains. In addition an efficient purchasing strategy improves the quality of the suppliers’ service as related to product, delivery, response times, customer service, and price, Thompson, (1996:2).

Most organizations pay more attention to what they sell than on what they purchase, or whom they purchase it from and how they purchase it. Spending more resources on marketing and sales compared to purchasing, Thompson (1996:8). The result however has been waste of time and money, Greenfield (1999:20). Lysons et al (1992:3-6) enumerated some of the benefits and contributions of efficient purchasing to an organization:

- Making certain that the cost of purchased goods and services are beneficial to the organization
- Improving the working capital of the organization
- Securing value for the money spent on purchases
- Promoting profitable purchasing opportunities through expansion of potential sources of supply
- Providing top management and internal units of the organization with professional advice
- Ensuring that terms and conditions of contracts to suppliers favor the organization
- Improving the administrative procedures of the purchasing function and
- Enhancing the reputation of the organization by adhering to high ethical standards

### 2.3 Purchasing responsibilities

The basic definition of the purchasing responsibility is to acquire materials of the right quality, in the right quantity, delivered to the right place, at the right time, and at the right price, Lysons (1992:10. However, considering the heightened rate of change in the social, political, and economic environment, greater responsibilities is required from the purchasing personnel, Giunipero et al (2000:4), Carr et al (2000:40), and Ferguson et al (1996:53). In view of the surge in outsourcing, off-shoring activities, and technological advancements, the responsibility of the purchasing personnel has come to include, among other things:
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global supplier development, cost management, and strategic purchasing etc as a competitive organizational tool, Feisel et al (2003:4), Giunipero et al (2000:4). Purchasing personnel also have to deal with internal challenges in the organization as the function develops. As pointed out by Moorhouse (2006:20) purchasing personnel must develop advanced internal selling, strategic influencing, change management, and stakeholder management skills in order to be active relationship leaders, capable of building and supervising cross-functional strategic teams.

2.3.1 Sourcing and Supplier sourcing
Sourcing according to Zenz (1990:161) “is a strategic philosophy of selecting vendors in a manner that makes them an integral part of the buying organization for the particular components they are to supply.” Furthermore, supplier sourcing is the process and procedures by which the buyer seeks to survey, evaluate suppliers, and determine policies relating to those who can most suitably meet the requirements of the organization, Lysons (1992:180). One of the basic and most important tasks of the purchasing personnel is to source for suppliers. Good suppliers are invaluable assets to an organization. They contribute directly to its success in various ways: Product development, Value analysis, Timely delivery, Quality, etc., Dobler et al (1996:241-246). The ability of the organization to satisfy its basic purchasing responsibilities is determined by the capability of its purchasing personnel to select and manage the right suppliers, Dobler et al (1996:211-214). Lysons (1992:180-182) identified three distinct purchasing situations:

- Straight rebuy: where purchasing of similar items is repeated from the same supplier
- Modified rebuy: where there is a re-modification or revised specification of the purchase
- New task: where no previous purchasing experience exists as regards the items in question.

The quantity of items needed by an organization, the degree of adaptation of the item etc influences how extensive the search process would be, due to the pressure of limited time between the design of a new product and the planned production date. The implication for the purchasing personnel is to be at alert. In addition to constantly review the market in straight, modified rebuy and in new task situations in order to avoid delay or cause disruption in the production process.
2.3.1.1 Types of supplier sourcing methods

Single sourcing
The concept of single sourcing has evolved with the growing popularity of just-in-time (JIT) purchasing. It involves the idea of reducing the number of suppliers with which an organization does business, and hence source from a sole supplier, Hui et al (2006:299). The advantages of this method includes communication and understanding between buyer and supplier, improved response to buyers need, reduced purchase prices resulting from resulting supplier costs and enhanced ability to implement just in time (JIT) system etc., Ramsay et al (2007:22).

Multiple sourcing
This refers to an organization having business relationship with a number of suppliers; each suppliers responding to the demands and specification of a particular quotation from the purchasing organization, Hui et al (2006:299-300). The existence of the second and other alternative suppliers would enable the buying organization to switch demand with minimal disruption. With the presence of several suppliers the purchaser therefore has the opportunity to receive lower prices and shipping cost, Court et al (1997:46-47).

Partnership sourcing
From McHugh et al (2000:12) definition, “partnership sourcing is a collaborative approach in which a buying organization and a small number of its suppliers work closely together, sharing the risk and the rewards of cooperative relationship that focuses on continuous improvement”. However, Court et al (1997:48) explained that the rationale behind the partnership sourcing is that, a long-term relationship with a single source provides opportunities for mutual development and improvement, thus benefiting both parties.

Competitive bidding
This is the sending of bids to 3 to 8 potential suppliers for private organizations and unlimited numbers for governmental organizations requesting the quotation of the price at which they (suppliers) will perform in accordance with the terms and conditions of the contract should they be the successful bidder, Dobler et al (1996:249).
2.3.2 Negotiation

Negotiation according to Lysons (1992:208) “Is any form of verbal communication in which the participant seeks to exploit relative competitive advantage and, needs to achieve explicit or implicit objectives within the overall purpose of seeking to resolve problems which are barriers to agreement.” Negotiation is a key skill of the purchasing profession; therefore, the ability to negotiate effectively is so fundamental, without it purchasing personnel in an organization cannot perform purchasing effectively. Negotiation is hence the finest opportunity for qualified purchasing personnel to improve organizational profits and obtain recognition.

Purchasing personnel especially in most organizations are regularly required to take part in negotiations with customers, vendors, suppliers, partners and internal units on a constant basis. According to Hokey et al (1993:48), “In the present era of globalization, sitting at the negotiation table with suppliers from other nations and cultures, are becoming almost routine for many U.S. purchasing professionals.” In the same line of argument, the authors continue to stress that, qualified purchasing personnel must adapt their negotiation models to include macro and global considerations such as business customs, language, and preference, legal and ethical concerns. In other to minimize the effects of these barriers, qualified purchasing personnel should develop innovative and flexible negotiation strategies that help them adapt to the changing international and local environment and respond effectively to their local and also international suppliers, (ibid).

2.3.3 New product development

Market globalization and the rapid advancement of technologies require that companies differentiate themselves with innovative products and services to create competitive advantage, Kruse (2004), Biemans et al (2002). In business and engineering, new product development is the term used to describe the complete process of bringing a new product or service to the market, Eppinger et al (2004:22). However, according to Kruse (2004:1) “new product development refers to all efforts focused on creating a new product, process, or service.” The author also in citing Handfield et al (1999) argued that, the effective integration of suppliers into the product value/supply chain would be a key factor for manufacturers in achieving the improvements necessary to remain competitive.
Since qualified purchasing personnel are usually a key liaison between the organization and its suppliers, an assessment of their role in the new product development process is worthwhile. Biemans et al. (2002:282) also, in citing Atuahene-Gima, (1995), Axelsson and Hakansson (1990) etc. stated three reasons why involvement of qualified purchasing personnel in new product development offers significant opportunities for improvement:

- Firstly, purchasing nowadays accounts for over 60 percent of most manufacturers’ cost of sales, compared to only 30 percent 60 years ago.
- Secondly, more than half of all quality problems and costs appear to be related to purchasing and purchasing management, and
- Thirdly, during the last two decades, purchasing has evolved into a strategic business function with a higher level of professionalism.

The design and development of new products is one of the critical activities of an organization: the profitability and survival of the business depends on its success. The contributions of qualified purchasing personnel and the organizations’ suppliers are therefore required early in the process in order to influence cost quality and time to the market, preventing quality or other related problems, Dobler (1996:158).

### 2.3.4 Supplier development/relationships

Supplier development is any effort of a buying organization aimed at increasing performance and capabilities of the suppliers, Humphreys et al (2003:131). The authors further expressed that the recent push in buying organizations working cooperatively with suppliers comes on the heels of various organizations realizing the importance of supplier performance in the establishment and maintenance of their competitive advantage. The conventional strategy of maintaining adversarial relationships with suppliers through creating supplier competition does not only cost the organization financially, it also causes inefficiency, Ellram et al (1994:4). The authors continue to argue that these outmoded strategies cause uncertainty among the suppliers regarding demand and market conditions, and hurts the organization’s long-term strategy even though it benefits in the short-term.

In addition, earlier involvement of suppliers in the design process can aid the purchasing organization in various ways, materials specification, standardization, order sizes, process changes in supplier’s manufacturing, inventory etc., Dobler et al (1996:222).
All of which are capable to reducing costs and improving quality in the organization. Without any doubt, the management of supplier relationships is both exigent and essential to an organization’s business and competitiveness. New attitudes and skills from purchasing personnel are required to maximize its benefits and enjoy its continuity, Dobler et al (1996:440-441). Considering the role, that purchasing plays as a key liaison between the suppliers and the organization, Biemans et al (2002:282). This activity depends on them to manage the relationships formed consequently. In addition, while the result of such relationship management may be a win-win situation, it is in the best interest of the organization that it supports the suppliers operations, Dobler et al (1996:440). However, as Lysons (1992:199) pointed out, the purpose of supplier development is to extend the resources of larger organizations to smaller vendors who show willingness and capacity to meet the purchaser’s organizational requirements.

2.4 Corporate planning

Corporate planning in an organization involves drafting formal statements of the organization’s business objectives or goals, and the method to reach or achieve those goals. “Purchasing intelligence is of vital importance to the corporate planning effort,” Ferguson et al (1996:53) Purchasing is responsible for about 60 percent of most organizations’ cost of sales, Laios et al, (2001:1). Based on the percentage of resources that the purchasing consumes, coupled with its centrality in an organization, its involvement in the overall strategic planning process is vital to the success of the organization. Purchasing is a significant function, which needs to be part of the corporate planning process to guarantee that its concerns are reflected in the plan.” Saunders (1997:137). The basic managerial challenge is that the purchasing function has the ability to affect corporate profitability only when it is operating at a strategic level in the organization, Ellram et al (1994:1).

Where organizations make longer ranging plans, integrating the purchasing function into the strategic planning process is very essential to the profit of the company. This is because qualified purchasing personnel in an organization can enhance the activities of cross-functional teams, in cases such as product design, supplier qualifications and selection, quality maintenance etc, Dobler et al (1996:24,25). Purchasing positions as one of the functions in an organization that constantly engages with other external actors. It occupies an exclusive position for the monitoring of the organization’s external environment at both a micro and macro level. On the micro level however, purchasing provides input on specific issues regarding suppliers, materials, and potential supply problems, Ferguson et al (1996:53).
The role of the qualified purchasing personnel cannot be undermined, considering the part they play in acquiring specific supply market information externally and providing finance, material control, and quality assurance team feedback necessary for performing their duties in a timely effective manner, Dobler et al (1996:39). Their contribution to the overall corporate planning and strategy is very important to the success of the organization. Another case for purchasing involvement in corporate planning, is that an organization’s purchasing strategy is gaining recognition as a strategic tool equal in importance to the organization’s marketing, production, and finance strategies: and a proper combination of all four makes for a an organization’s strategic business plan, Dobler et al (1996:9).

Figure 2 : Elements of a strategic business plan (revised diagram: Adapted from Dobler et al 1996:9).

2.5 Status of the purchasing function

“Status may be defined as the position or standing of a person, group or function within an organization or, more commonly as the evaluation of that person, group or function on a scale of relative esteem”, Lysons (1992:8). In an organization where purchasing is treated as a second order function, its benefits would not be maximized, and its purchasing personnel would be underutilized. The basic role of organization is to provide a structure that aids the motivation of the workforce and synchronizes their efforts towards the attainment of organizational goals and objectives. An organizational structure can either enhance or restrain such accomplishment, Dobler et al (1996:135).
The status of purchasing in an organization’s hierarchy is significant, Lysons (1992:8) for the following reasons:

- Top managements’ view of the function affects the value the lower hierarchy of the organization attaches to it.
- The position of purchasing affects the status of the individuals or groups within the function.
- Motivation: performance can be negatively or positively affected based on how motivated the individual or group feels about the function.

2.5.1 Managements perception of the purchasing function

It is widely accepted that management’s view or perception of the personnel in an organization has a direct relationship to their performance. By perception we mean intuitive cognition or appreciation. The differences in the way both top management and purchasing personnel perceive the purchasing function and the purchasing personnel impacts on the importance of the function, and on the purchasing personnel.

In a study carried out by Ameer (1974:6) about the attitudes of general managers and purchasing managers to the function and the personnel, revealed that both top management and purchasing personnel had diverse views about the various issues concerning purchasing, and also diverse opinions about the importance of the personnel to the organization. This divergence in views could lead to inefficiency in purchasing. The location of the purchasing department within an organizational structure is solely determined by the management’s perception of the importance of the function, Dobler et al (1996:135). An erroneous perception will undermine the importance of purchasing and deny the organization the benefits it purchasing offers.

2.6 Organizational conflict and decision making

Organizational conflict occurs when there is a difference of opinion between individuals or groups within the same organization. These conflicts can be inter-functional: involving purchasing and other functions or intergroup: involving purchasing and other departments, Lysons (1992:33). The author further expressed that these conflicts usually lead to competition, role conflicts and often bring about disunity in achieving the organizations objectives. Over the last few decades purchasing personnel did not have the authority make organizational buying decisions, Feisel et al (2003:3). Thus could not influence the process, performance or the outcome of the activity. One of the reasons being that, management did not perceive the role of the function as strategic compared with the marketing or finance counterparts.
In a study carried out by Carter et al (2000:52), the results showed that purchasing personnel at successful Total quality management (TQM) organizations were more involved in key decision making activities that influence their jobs than their counterparts in less successful TQM organizations. The ability of the purchasing personnel to make decisions regarding purchases is strategic to an organization, because the purchased input has a direct effect on the quality of firm’s output.

When purchasing is not represented in the management hierarchy, the intelligence that the qualified purchasing personnel bring to the table remains untapped, Ferguson et al (1996:53). Purchasing is a strategic function and in most organization consumes more than half of every dollar spent, which requires that its personnel be involved in the decision making process to avoid unqualified people taking a gamble with organizations’ scarce resources. Studies also prove that majority of all quality problems and costs in an organization are associated with purchasing and purchasing management, Biemans et al (2002:282). A direct involvement of purchasing personnel in decision-making is therefore essential to solving those problems and managing costs.

2.7 Purchasing organization

Purchasing function is common to all organizations but purchasing department is an organizational unit within any organization, and its duties vary based on the nature, historical development, and management orientation, Lysons (1992:20). Purchasing organization may be centralized, decentralized, or mixed in any organization. Centralized purchasing occurs when the requirement of an organization for a particular item is combined and, orders placed by the largest user department on behalf of other departments, Lysons (1992:20-21). In a centralized organization, a centralized purchasing department is usually set up at the corporate level, with the chief purchasing officer reporting to the president, Dobler et al (1996:124). One of the benefits of centralized purchasing is that it enables an organization to use its bargaining power and resources maximally, because suppliers with a central purchasing department have the inducement of competing for the entire volume, Lysons (1992:21:23).

Decentralization of purchasing on the other hand exists when personnel from other functional areas of an organization independently decide on sources of supply or directly negotiate with suppliers for major purchases; Dobler et al (1996:45). The coordination of purchasing has an impact on profits, since the efficiency of purchasing affects, profitability in an organization.
The argument for decentralization follows that the managers of each factory in an organization have control over the operational expenditure, Lysons (1992:23). Lysons further pointed out that the degree of spread of activities in an organization is a key factor in the determination of the coordination option, since location of activities in single site tends to favor centralization and location of activities in various sites favors decentralization.

2.8 Summary of Literature
(For a more compact description, see Appendix 2). From the various sources of literature on purchasing cited in this research, there is a wide acceptance that the purchasing function is a strategic function in an organization, which needs to be integrated into the overall corporate strategy in order to realize its benefits, Lysons (1992), Dobler et al (1996) etc. Most of the literature in the articles relied upon various studies over various time-periods in evaluating the changing role of the purchasing function from a tactical to strategic function. Moreover, the evolutions of the purchasing function from a position of lower managerial hierarchy to that of higher managerial hierarchy over the last few decades has also been reviewed.

There is an agreement in most of the literature on the importance of the purchasing personnel to the competitiveness of an organization in dealing with suppliers, developing new products, participating in the corporate planning process etc, Feisel et al (2003), Giunipero et al (2000) etc. In all, there is a growing consensus that purchasing can affect an organization’s profit and increase efficiency by reducing cost and improving quality, all of which are dependent on the qualifications and skills of the purchasing personnel and the development of the purchasing function. (See also figure 1).
3. Method

In this section, we describe the steps of the research. The choice of the method used is also justified. We show the strategy of the research and the methods of data collection used. We outline the criticism to the method, illustrating the advantages and shortcomings. We also prove the tests of the validity, and reliability in order to justify the approach taken.

3.1 Research process

“Research is often thought of as a process, i.e. a set of activities unfolding over time. The main reason for considering it so is that research takes time and consideration. Insights may be gained gradually, and may also be modified and/or changed over time” (Ghauri & Grönhaug, 2002:25)

The authors of this thesis both attend the International Business Management program at Mälardalens University. In the course of our studies, we have become acquainted with a wide range of subjects in the field of business administration. One of many subjects that captured our interest is purchasing and supply management, and the role it plays in shaping an organizations position in the market. Following the above reason, we made a preliminary research in our area of interest; searched various books and articles concerning the subject. We selected a topic, narrowed our area of research, discussed the problem background, and chose a purpose for the research. We then constructed a frame of reference, and described the method used to conduct the research. Subsequently, we gathered the empirical data through interviews, with questions derived from the theoretical framework. We then analyzed the empirical data in relation to our theoretical framework, made a critical analysis and reached conclusions. Below is an illustration of the research process:
3.2 Research approach
There are two different research approaches, quantitative and qualitative. The quantitative research approach is often defined as the collection of numerical data in order to explain and analyze different phenomena’s using mathematically based methods, and particularly often by the use of statistics, Muijs (2004). One of the benefits with the quantitative approach is the possibilities of a very straightforward analysis. Qualitative research on the other hand does very seldom involve any kind of formal measurement; instead, this approach consists of analyzing interviews and observations (Bryman & Burgess, 1995). Qualitative studies are therefore very useful when you want to uncover and understand different phenomena’s. In addition, they are useful in situations where it is difficult to conduct any reasonable studies by quantitative methods. Qualitative research is often employed in social studies, where one attempts to understand human behavior and different functions.
This type of research is therefore very suitable for the studying of organizations, groups and individuals (Ghauri & Grönhaug, 2002). The table below can further illustrate the differences between these two methods:

<table>
<thead>
<tr>
<th>Qualitative methods</th>
<th>Quantitative methods</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Emphasis on understanding</td>
<td>• Emphasis on testing and verification</td>
</tr>
<tr>
<td>• Focus on understanding from respondent´s/informant´s point of view</td>
<td>• Focus on facts and/or reasons for social events</td>
</tr>
<tr>
<td>• Interpretation and rational approach</td>
<td>• Logical and critical approach</td>
</tr>
<tr>
<td>• Observations and measurements in natural settings</td>
<td>• Controlled measurement</td>
</tr>
<tr>
<td>• Subject ‘insider view’ and closeness to data</td>
<td>• Objective ‘outsider view’ distant from data</td>
</tr>
<tr>
<td>• Explorative orientation</td>
<td>• Hypothetical-deductive; focus on hypothesis testing</td>
</tr>
<tr>
<td>• Process oriented</td>
<td>• Result oriented</td>
</tr>
<tr>
<td>• Holistic perspective</td>
<td>• Particularistic and analytical</td>
</tr>
<tr>
<td>• Generalization by comparison of properties and contexts of individual organism</td>
<td>• Generalization by population membership</td>
</tr>
</tbody>
</table>

Figure 4 : Source: Based on Reinhardt and Cook (1979), (Ghauri & Grönhaug, 2002:86)

With respect to our problem statement and purpose, we chose to conduct this study out from the qualitative perspective. We also chose the deductive approach, which, means that we constructed the study, and analyzed it out from already existing literature. This is the opposite of an inductive approach where the researcher investigates an area of interest without any help of a theoretical framework, and from that builds theories around the result he/she obtains (Denscombe, 2000).
Furthermore, interviews where constructed with questions derived from our frame of reference. In order to increase the credibility of our study we designed the questions in a more general manner, instead of a more direct type of questions. This is in order to enable the respondent the liberty to consider the questions before answering, to avoid coercion towards a specific direction.

3.3 Research strategy
The chosen research strategy for this thesis is a case study. According to Yin (2003:13) a case study can be defined as an empirical inquiry that;
- Investigates a contemporary phenomenon within its real-life context, especially when
- The boundaries between phenomenon and context are not clearly evident

Yin (2003:39) also noted that case studies are one of five different ways of conducting research. However, case studies are especially suitable for research questions including the words, “how, why”. In addition, where it is an advantage to deal with a full variety of evidence such as documents, interviews, and observations since the investigator has little control over events. A case study could be conducted both with a qualitative approach as well as with a quantitative approach and, it can be applicable as either a single or multiple case studies. Nonetheless, it is preferred that the case study is deductive and not inductive, since the theoretical framework helps to guide the data collection (Yin, 2003). One weak point with case studies is that it is often hard to establish adequately operational set of measures, and that “subjective” judgments frequently influence the collection of data (Yin, 2003:39). Nonetheless, based on our problem statement, which asks the question of “how” we discovered that the best approach would be to make a case study of ABB (Västerås).

3.4 Literature search
When conducting our literature search we used Mälardalen University’s library databases, and search engines. The databases and search engines used are ABI/Information, e-brary, Goggle scholar, Emerald and ELIN@MÄLARDALEN. When conducting the search we used key words like “purchasing,” “buying professional”, “supply management,” etc. We also searched the internet for popular press articles published on the subject to get a wider read.
When conducting our literature review we tried to cover as much on the area as possible. The sources we have chosen to include in the frame of reference are books and academic peer-reviewed articles. We limited the search of literature to books and academic articles since they are the subject of academic peer-review before publication, a process, which increases the credibility of these sources.

3.6 Choice of company

We have chosen to conduct a case study of ABB. We choose ABB because they are a large industrial actor in the power and automation industry. The company maintains various production operations in its five different divisions in all the countries where it exists. Purchasing is therefore a major part of their organization. In addition, each country where they maintain operations depicts a microcosm of the ABB group. One of such operations is located in Västerås, which was also a factor when choosing the company, because of proximity to source of data in carrying out the research.

3.7 Data collection

We have used both primary and secondary data. We collected primary data through face-to-face interviews, and secondary data through articles, textbooks, journals, search engines, and MDH database. We have chosen to interview two of the Supply Managers from two of ABB’s five divisions. (See section 4.1). We choose ABB because it is an industrial buyer, involved in making purchases in large quantities and on a day to day basis. In addition, the kind of data obtained from the interviews would be relevant to answering the research question, making analysis, and drawing conclusions.

<table>
<thead>
<tr>
<th>Respondent</th>
<th>Organization</th>
<th>Job title</th>
<th>Interview length</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jonas Krouthen</td>
<td>ABB</td>
<td>Supply Manager process</td>
<td>75 min</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Automation</td>
<td></td>
</tr>
<tr>
<td>Claes Bengtsson</td>
<td>ABB</td>
<td>Supply Manager LBU LV Motors</td>
<td>65 min</td>
</tr>
</tbody>
</table>

The supply managers we chose to interview at ABB are two out of the five supply managers corresponding to two of the five divisions. Both of which, work closely with the various internal departments in ABB and with their suppliers.
The Process Automation Supply Manager deals with purchasing and strategy formulation in his division. Jonas Krouthen works together with other functional units in ABB to implement strategies needed for the organization. Krouthen has an extensive history in the company, first as a consultant in other parts of ABB’s local business units and then in the sales department within the company.

The Automation products manager Claes Bengtsson also doubles as the factory manager of the local business unit. Thus has a lot of information regarding their suppliers and the internal coordination of the purchasing activities in both the division and in the local business unit. He is not responsible for the day-to-day operational activities but, challenge and support the operational divisions. He also helps in setting strategies and reaching budget goals, so that each of the units can improve in both medium and long-term goals. The interviews were conducted in ABBs various offices, on different dates. The discussions were recorded and notes were taken in order to minimize confusion and the loss of facts. When presenting the empirical findings in chapter 4, we randomly assigned the names A & B the two respondents, this in order to maintain a certain level of anonymity as requested by them.

3.8 Data Analysis

In qualitative research, interpretation plays an important role, when it comes to arriving at an understanding Ghauri & Grönhaug, (2002). Two notable researchers also, in their book wrote about qualitative analysis as a non-mathematical process of interpretation of data in order for a researcher to discover concepts and relationship in raw data. Furthermore, organizing them and making conclusions into a theoretical explanatory scheme, Corbin & Strauss, (2008). Miles and Huberman (1994) describe two ways of analyzing the organized data:

- Within-case analysis: Is the only kind of analysis that a researcher can obtain for single case-study.
- Cross-case analysis: When there is more than one case, the researcher is able to make a cross-case analysis, in other words comparing one case to another.

In this research, we are going to apply the within-case analysis to our empirical data, which we obtained from the interviews. Since, we are convinced that within-case analysis can provide a clearer picture of our results to our readers.
3.9 Credibility of the thesis

It is important that a research is credible, in order for it to be of any value academically. This credibility comes from a high reliability and validity, Grönmo (2006).

During this process, it has been both authors goal to strive for a high reliability and validity, through ensuring that reliable academic sources were used in the construction of the frame of reference. We also ensured that the relevant personnel were interviewed in ABB in order to obtain reliable information regarding their operations. This is in order for the analysis and conclusions to be of academic value and, contribute to the field.

3.9.1 Reliability test

Reliability is a measure of the quality of the study. According to Yin (2006:37), “the objective is to be sure that if a later investigator followed the same procedures as described by an earlier investigator and conducted the same case study all over again, the later investigator should arrive at the same findings and conclusion.” Achieving a high reliability is more or less difficult in a qualitative study, than compared with a quantitative study, therefore making the validity aspect more important in a qualitative study, Grönmo (2006). Nonetheless, in order to maximize the reliability of our thesis we have thoroughly accounted for the method, interviews have been recorded, and our interview-questions can be found in the appendix for future research on the subject.

3.9.2 Validity test

Grönmo, (2006) defined validity as the legality of the collected data in relation to the problem specifications chosen to be studied. In other words, it is a way of measuring how we answered our problem statement, and to what extent we completed the purpose of the thesis. The concept of validity is especially important in a qualitative study, and the researchers should consider the validity when they construct their frame of reference and method. One should also keep in mind that there is a difference between reliability and validity. Subsequently, one does not always follow the other (Grönmo, 2006). In order to uphold the validity of this research, we designed our study out of the frame of reference presented in chapter two of this paper. We collected relevant data from the respondents pertaining to the subject, and applied a qualitative method using a case study. This approach, according to the various authors cited on this method chapter is suitable for answering our research question and fulfilling the purpose of the thesis.
3.10 Method critique

We have conducted face-to-face interviews while collecting data for the research. It is a good method because it allows the researcher ample ability to ask follow-up questions and get good discussions with the interviewee. When writing this thesis, we have attempted to follow an objective and systematic method. However, as it is with all research the subjective view of the researcher always influence the results. The researchers’ background and personal opinions influence not only the content of the thesis but also how it is interpreted. In other words, it is almost impossible to construct a fully objective thesis. However, with awareness of the subject, influences and a thoroughly constructed method the objectivity can be increased.

Another area of criticism can be that our research only includes one company. Initially, our strategy was to conduct interviews with both an industrial buying organization (ABB Västerås) and an institutional buying organization (City of Lindesberg). However, only one organization was able to grant us the interviews necessary for the research. This worked against our initial intent of conducting a multiple case study, in order to make a cross analysis and a subsequent comparison of the two organizations. According to Yin (2003:56) single case studies are vulnerable since you put “all your eggs in one basket”; also the analytical benefits from having two (or more) cases may be substantial. In addition, with an increased number of databases and a broader research, the quality of our frame of reference could probably be more extensive since, our frame of reference is not exhaustible on the subject.

Finally, our aim with this thesis is not to make generalizations based on our findings, but to contribute to knowledge already existing in the field.

3.11 Summary of the method

The research began with identifying a problem, selecting a topic of interest, and making preliminary inquiries from various sources. After a careful review of available literature on the subject from peer-reviewed articles and texts, the authors’ created a frame of reference based on the already existing literature obtained. They went ahead to select the organizations to investigate the problem and created questions for the interview as related to the research in order to obtain the necessary data needed for the analysis. We analyzed the data obtained in relation to the frame of reference provided in order to solve the research problem, arrive at a credible conclusion, and make recommendations.
This research was borne out of the recognition of the findings from previous studies as obtained from various peer-reviewed articles and textbooks by renowned authors, showing that in the last few decades there have been some slight changes in the perception of the purchasing function and purchasing personnel regarding the efficiency of purchasing in an organization. The model used was adapted from the resource perspective of the firm proposed by Hart (1995). In which he suggests that the combination of non-imitable capabilities and resources creates efficiency and gives an organization a competitive advantage. Arguing that, the natural resources of an organization plays a major role in determining its competitive advantage in the market.

In learning and presenting the perception of organizations regarding the importance of involving qualified purchasing personnel in purchasing activities, the authors went ahead to conduct interviews with various relevant personnel of the chosen companies. In order to obtain necessary information needed to critically analyze available data and arrive at the conclusions. We used a case study to try to evaluate the level of involvement of the purchasing personnel in the overall corporate planning process, in performing purchasing responsibilities, in contributing to efficiency, and in managing relationships between purchasing personnel, suppliers, and other units in the organization in order to answer the question of the problem statement of the research.
4. Empirical data

In this section we give a brief history of the companies’ background. We also account for the empirical data collected through our interviews. We would use A & B to indicate the different respondents (see section 3.7).

4.1 Company background: ABB

The ABB group was found in 1987. The group now operates in 100 countries and employs about 120 000 people. Their offices are located in 87 of the 100 countries in which they are active. This is in order to give global and local customers the support to develop and conduct their business successfully. ABB is a world leader in power and automation technologies, which enables utility and industry customers to improve performance while lowering environmental impact. The ABB head office is located in Zurich, Switzerland, nonetheless a large part of their operation are located in Västerås, Sweden. ABB’s operations are grouped into five different divisions. (Source: ABB homepage)

- Power products: Manufacturers key components to transmit and distribute electricity. The division incorporates ABB’s manufacturing network for transformers, switchgear, cables etc.

Figure 5 The ABB Group (Own diagram)
Mälardalen University

Efficient purchasing in an organization: the importance of qualified purchasing personnel (A case-study of ABB, Västerås)

- Power systems: Offers turnkey systems and services for power transmission and distribution grids, and for power plants.

- Automation products: Serves customers with energy efficient and reliable products to improve customer’s productivity, including drivers, motors and generators, low voltage products etc.

- Process automation: Provides customers with integrated solutions for control, plant optimization, and industry-specific application knowledge.

- Robotics: Supplier of industrial robots- also providing robot software, peripheral equipment, modular manufacturing cells and service for tasks such as welding, assembly, painting etc.

4.2 The purchasing department in ABB

According to the respondents A and B, almost every ABB factory has two departments working with purchasing issues. Each has a strategic purchasing department and an operational department, responsible for making contracts and sending and receiving orders respectively. Sometimes both departments work together when issues escalate beyond the management of the operational department. A factory supply manager heads the purchasing department in every ABB factory.

4.3 Management Perception of the purchasing function in ABB

According to respondent B, in contrast to the 70’s, ABB has really changed its attitude to purchasing, regarding both the personnel and the function itself. Adding that, in the last ten years the organization has come to a realization that, purchasing is very important to the profitability of the company. Following that, the reason for the organization’s existence is to make profit, using efficient techniques. Moreover respondent A, also included that over the last decade the management has began to notice that professional purchasing is necessary to generating profit in the organization.

He further cited an example of the effect of managements’ changed attitude towards purchasing which is the creation of a strategic sourcing department. Both respondents affirmed the recognition of the purchasing department at the managerial level in all divisions, and in the local business units. In addition, that the sourcing department coordinates and communicates strategies which are equally important as those from other functional departments. Respondent A reiterated that the department improves and increases the benefits reaped from purchasing in spite of the costs associated with maintaining it.
Both respondents confirmed that purchasing has since been upgraded to the same level of importance as sales and engineering unlike it was previously. Respondent A claims that the management in ABB has come to perceive that purchasing can help reduce costs through cost-savings programs, professional budgeting, good purchasing, and negotiation strategies. That ABB through the efforts of cross-functional teams, consisting of strategic purchasing management teams and other functional units are able to realize the above benefits. Both A and B responded that these benefits realized has helped change the perception of purchasing and its personnel in the organization.

Respondent B stated that ABB benchmarks itself with the auto industry in both its procurement and production areas. In addition, that ABB takes a cue from the auto industry, which it considers very competent. Following that the auto industry implement proven purchasing methods that are more efficient and profitable when applied in an organization. He also compared auto industry techniques to the traditional Swedish heavy industry. As for the Swedish heavy industry, he said is not yet awake and open to such proven purchasing methods as it still practices big batch, mass production in its factories. Furthermore, both respondents acknowledged that the changes in philosophy and perception by management occurred when the demands to improve profitability became very strong in ABB, which forced them to begin considering alternative philosophies.

4.3 Remuneration of purchasing personnel
According the respondent A, the recognition of the importance of purchasing in ABB is also complimentary to the remuneration of its personnel. The salaries of purchasing personnel unlike previously, have become comparable to its counterpart in marketing, sales, and project management. In addition, he emphasized that it has become comparable to its engineering counterpart who previously had more influence and higher remuneration in ABB.

4.4 Purchasing as a cost centre
Respondents A and B stated that purchasing as well as every department in ABB is allocated the resources they need to function effectively. They both said the purchasing department need to show how it has made savings, reduced costs, and increased profitability in the organization. Furthermore, that every employee is treated as a “profit centre.” Following that, the goal of every employee is to increase the organization’s profit irrespective of his or her job classification. Nevertheless, respondent A stated that there is no distinction for purchasing or other functions; all departments including purchasing are cost centers.
4.5 Acquisitions of Materials in ABB

When asked about the process of acquisition of materials, and who made decisions regarding purchases, both respondent A and B replied that; purchasing decisions are reached in a cross-functional manner. They stressed that all the stakeholders (departments/units) were involved and consulted in the decision-making process, when high-risk/high-cost or when new strategy decisions are weigh up in the organization. Moreover, both highlighted that all this consultations had to happen before the purchasing personnel could go ahead with making the actual purchase. In addition, respondent A mentioned that purchasing is involved early in the design process to avoid quality problems and reduce the number of rejects.

More so, both respondents A and B said that ABB has an internal control unit called SOX, which divides the purchasing responsibility between the various business units. In cases involving very large purchases of materials needed in every business unit, the respondents claimed that SOX unites all concerned business units to bring in more volume in order for the organization to have a good bargaining position when negotiating. According to respondent B, SOX rules regulate the acquisition of materials. Therefore, even if the engineers have a demand or a need for a service, the units that have that need cannot purchase the service/product. They can only recommend a supplier but it is the purchasing personnel’s duty to execute the purchase.

4.6 Sourcing

According to respondent A, in ABB they consider the price and quality of materials when sourcing. Moreover, that they do not just rely on the cheapest source which could get them a bad supply and poor quality. He said that ABB uses every kind of sourcing technique, depending on the repetition times needed for the product or material. For example, if they need a single product from a supplier that may likely not be usable for more than once, they consider competitive bidding. On the other hand, if the specific product is usable for more than one time, then they consider producing it in their own factories. However, if they are not capable of making the products, they consider multiple sourcing or a partnership. Both respondents A and B stressed ABB’s lesson from history of relying on single sourcing, a process which did not profit them. The history they acknowledged is why ABB has moved away from a typical single source relationship towards a more arms-length type of relationship where there is competition.
When asked about the process involved in sourcing respondent (A) mentioned that most of ABB’s sourcing process begins with sending out orders, getting order acknowledgments from suppliers etc. Their strategy he said is to create a very competitive situation for their suppliers. Through creating market situations so that the suppliers can improve by themselves all the time. He further compared it to ABB’s old strategy of having a lean supply base deeply integrated with its suppliers. This strategy according to respondent (A) failed partly because ABB did not dedicate the resources needed in order to develop such relationships and consequently could not meet their purchasing objectives.

### 4.7 Supplier sourcing

According to respondent B, ABB has an approval process for suppliers based on the project classification. He referred to it as a tool called supplier qualification questionnaire (SQQ). Which is an excel sheet with numerous questions. He described it as being more than a questionnaire, as an auditing and approval tool. Adding that, they employ (SQQ) for first time approval of potential suppliers or, rejection or first time screening to make decisions about potential suppliers.

He also said the (SQQ) was used periodically to audit potential suppliers and that the audit frequency (time between audits) depends on how important the supplier is, or the project category involved. Respondent B mentioned the practical steps involved in supplier sourcing. According to him, it begins with visiting the supplier, going through the administrative processes, looking at how the potential suppliers deal with social policy issues, safety and environmental issues, their production capacity, and skill level in general. Afterwards, the purchasing personnel estimates how good the supplier is and make points or weight to arrive at a score. They disqualify potential suppliers if they were below a certain number. If they are slightly above the number they would be approved but with comments. If also they are well above the number, then it is okay to put them in the list of suppliers. He also stressed that typically after the approval in the first stage of the auditing, one representative from the strategic and quality insurance department visits the factories of the potential suppliers to make an inspection. This process he referred to as the administrative approval process. The final audit is to test the products thoroughly by testing a prototype. He said they scrutinize the prototype in details depending on what material it is in either their factory or the suppliers.
4.8 Negotiation

According to respondent B, the role of the strategic supply management is very important to the organization’s profits. The use of commodity teams result in brainstorming activities necessary to reaching goals that are aimed at reducing costs and improving profits. He emphasized that because ABB is a global organization and enormous in size, during negotiations the use of volumes gives it a better bargaining position during negotiations. He stated that the global supply managers in all of the five divisions of ABB worldwide meet as global commodity team to strategize on how best to implement their purchasing strategies. In addition, how to translate those strategies into benefits for the overall organization. Respondents B also added that in ABB they believe that by having a strategic sourcing department that negotiates and constantly looks for the best deal makes them have a better purchase-cost development. Compared to what they would have had if they did not have the strategic purchasing department. By setting five people in each division, who work with strategic sourcing issues, by paying salaries to them, both respondents claimed increases ABB’s profit level more than it would, if it did not have the department.

4.9 New Product Development

According to respondent B the involvement of the purchasing personnel earlier in the design process, enables ABB to save cost and reduce cost of purchases. He affirmed that, purchasing personnel in both operational and strategic purchasing department consults with every user department in ABB before making purchases. The above process he said was consistent with the organization’s strategy of buying standardized components, and assembling them in their factory. He also pointed out that this makes the task of the purchasing personnel very important in selecting the best source and purchasing the right components, which they deliver either in the buffer stock or in the production line.

4.10 Corporate planning

Both respondents A and B had it that purchasing is represented at the corporate level in the executive committee, which is the managing directors’ management team. In addition, respondent B said in the management team, there is a supply manager who represents the interest of the purchasing department among other managers. Both respondent A and B stress that it has not always been like that. He compared it to 10-20 years ago, when supply management was considered as non-critical and only needed to buy things so that, ABB could continue production.
However, now they regard it differently. According to respondent, (A) purchasing is a profit contributor; it is a key element in generating profit. He also added that, nowadays it is not a question of working around purchasing; it is a question of working with purchasing. As respondent (A) noted, purchasing is no longer restricted to PowerPoint drawings, but is now natural and integrated in the organization.

4.11 Purchasing Organization

According to the respondent B, ABB has moved from a highly centralized purchasing organization, which it was 20 years ago to a decentralized one. Its purchasing organization has moved from having almost no transparency, (where it was impossible to see if the factories were giving a good result) to a more transparent one. He emphasized that the lack of transparency and possibility to monitor the different divisions led the ABB president to split the organization to the structure that it is today, a number of many small and medium sized units.

Both respondents also added that ABB has a centralized strategic supply management and a decentralized purchasing department in the local business units. They mentioned that at the division level purchasing organization is centralized and decentralized at the local business unit level (LBU). The (LBU)’s have their own responsibilities; and are responsible for their own results. According to respondent (A), they are like small companies accountable for their business results. Both respondents further stated that the strategic supply management department has no responsibility for the (LBU)’s; they only give recommendations about what to purchase and from where or whom.

Both respondents acknowledged that in ABB, purchasing personnel work very much in commodity teams. Moreover, according to respondent A, this is because as a big organization ABB’s great challenge and opportunity is to go together when they see a benefit. To join other units and divisions to combine volumes and become stronger, in order to be at a better bargaining position. He further referred to it as commodity teamwork where they gather in commodity teams if they are going to buy or make a contract. He added that building synergies and having strong positions are extremely important.

Both respondents affirmed that, for some production materials ABB uses commodity teams but for non-production materials like stationeries, transportations etc. it has centralized departments in the ABB headquarters of the corresponding countries.
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Respondent (A) asserted that in Finland, Sweden, Spain, and Italy where ABB uses a similar product component, the countries purchase such component jointly. They work very close together with the same suppliers, the same contracts with decentralized commodity teams. They select one representative at each meeting to negotiate on behalf of all the countries involved.

4.12 Purchasing strategy

According to the respondent B, ABB has a solid and effective purchasing strategy in place; and that as a global organization they utilize both multiple sourcing & multi-continentals sourcing. Respondent A attributed the reason behind such strategies to promoting competition among their suppliers so that they can become more efficient in their supplies and in cost reduction. However, he further added that not only to create competition but also to mitigate and reduce risk in the supply chain. If one factory burns to the ground, ABB can have another supplier. Alternatively, if China decides to stop selling Steel goods to Europe, ABB can have other East European sources or supply chain.

In addition to what respondent A had mentioned, Respondent B accorded the change to the lessons learnt from auto-industry. Comparing how all the lean tools and the different elements of the lean philosophy are being adapted in such industries. Nonetheless, how ABB has gradually intensified in this approach in the last five years. In addition, he said that ABB has really started to understand and implement the demand driven production system of planning production instead of just pushing out products to the market.

4.13 Purchasing personnel training and development

According to both respondents, ABB has programs on many levels for people selected to be managers or people who want to be managers. They stated that there are steps to take, starting from very basic training in skills that an employee has to have, to a more general management, psychology, and organizational skills. In addition, respondent A said that the continuously lectures are offered to purchasing personnel pertaining to their jobs. This is in order to improve their efficiency in carrying out their duties. Moreover, that such training and development programs are available at many levels and departments in ABB. Respondent B said that the supply managers educate themselves regularly by attending courses at different universities. Where they take lectures in logistics and supply management strategies etc. In order to keep themselves updated about the latest ideas in sourcing, risk management, low cost and resourcing.
4.14 The objectives of purchasing in ABB
According the respondent B, the basic objective of purchasing in ABB is:

- To reduce the total cost of purchase materials through:
  - Reduce the price for purchase materials
  - Reduce all logistic costs associated with the purchase material
  - Increase the on time delivery of purchased materials
  - Reduce cost of capital for related to purchasing. For example reduce stock sizes, reduces space for stocks, increase the credit time for invoices from suppliers.
  - Reduce the lead-time of purchased materials
  - Increase the quality level of purchased materials
  - To have a high degree of contract coverage which means having a high percentage of their purchases to be done under contracts, which he described as a kind of a quality measurement, order, structure, and validity.

He said that the purchasing managers set targets such as the budget level in both percentage and money terms, and discusses percentages or negotiates them with higher managers in ABB. Both respondents mentioned that in Zurich where ABB’s general head office is, there is a global supply manager who has the same role as the supply managers have for the division, but he has it for the whole ABB therefore his job is to push and make sure that all the tasks are being done correctly overall.

4.15 Skills in purchasing
According to respondent B, a young graduate working very hard and applying theoretical and analytical skills, can reach the same good negotiation results as an uneducated but experienced person doing the same job. In ABB, he said they want highly skilled people who understand the theory because they believe that in the long term they are more effective than people who rely on their personality and charisma. He also stressed that to achieve lasting results, or a contract that is excellent and lasts for many years without being broken after 2 months, a purchaser has to be more than just a good speaker with a convincing personality is. He claimed the purchaser has to make a solid business case, and to do that he needs theoretical skills. Both respondents claimed that theoretical knowledge as well as good preparations is very important when negotiating and making strategic decisions at both the divisional and business unit levels and with suppliers respectively.
4.16 Recruitment criteria
According to respondent A, experience is one thing. However, business behavior is much more important. A person has to be a good businessperson to have a position in supply management. He pointed out that people seeking employment as purchasing personnel in ABB usually need to possess a degree in science or economics. Due to in ABB they want to have mix of people who have economic, technical, and legal backgrounds. Both respondents claimed that to be able to perform a job well in the strategic sourcing department: the aspirant should be able to deal with global issues, be a global businessperson, understand the dynamics of economics, and understand how the economical and financial systems work. He/she need to possess basic technical knowledge, have interest in physics so that he/she can understand how the products that he is buying works and what his own factory is producing. In addition, respondent (B) said they would have to enjoy solving problems and leading projects.

Respondent (A) compared purchasing to sales, which he concluded was smaller in scope, since the personnel has one product that they sell to many different customers. However, with purchasing he said the personnel have to work with many products from many countries, buy products that have different level of value from simple to complex. In addition, he said purchasing personnel would be involved in the setup of the structure of the company because they would be involved in making the make or buy decisions. A situation he described as, involving making decisions on how the company should look like, what it should do and not do. In addition, with the cost cutting projects the purchasing personnel has to involve the whole organization through cross-functional meetings. The purchasing personnel has to become an expert in his/her own factory or else he/she cannot make decisions concerning to make or to purchase.

4.17 Organizational conflict
Respondents A and B confirmed a historical conflict between engineers and purchasing personnel and how the engineers have been very influential in the past decades. However, both concluded that now in ABB it is not the engineers to decide on how, where or from who to buy. They both mentioned that in reality engineers do not have anything to say regarding the approval process, they only specify the requirements of the products, in the sense that they write the specification or they make the drawing. They both added that ABB has changed quite a lot because in n most ABB business units, the power level of the engineers compared to the sales or supply personnel has gradually become equal.
The respondents recalled that previously the engineers could pretty much decide what they wanted and the purchasing personnel had to buy and the production people had to build it, the engineers where the most influential. However, respondent (A) said that ABB has realized that it can make a much higher profit, and reduce costs through its purchasing function.

4.18 Cost of purchases
According to respondents A and B, the cost of purchases accounts for a substantial part of the total costs in ABB. However, they would not specify the actual percentage but gauged it to be more than 45 percent.

4.19 Purchasing and other internal units
According to respondent B, purchasing has a working relationship with other functional departments. Even though, conflicts arise from time to time, purchasing department consults and meets regularly with other units to arrive at what is best for the entire organization. Respondent (B) pointed out that in ABB, every functional department has a connection to the purchasing department and thus works closely with it in achieving their budgetary goals and objectives. In addition, he mentioned that in ABB there exist commodity teams made up of personnel from different departments, working together in a cross-functional manner to develop and implement various types of budgets contingent to making profits in the organization.

4.20 Other challenges of the purchasing personnel
According to respondent (A), putting aside other responsibilities of the purchasing personnel in ABB, one of the challenges purchasing personnel is faced with concerns dealing with foreign suppliers. Some of ABB’s largest suppliers come from China and some from India and many cultural issues are involved. He said purchasing personnel are required to go the specific country, because they cannot make deals or purchase products by phone or by e-mail. Very often, they need to confront the suppliers, from whom they make purchases. He also specified that especially in India and China losing face is something very serious. Respondent B expressed how good business and behavioral skills are required from the purchasing personnel, in order to make this to work, since a lot of money and resources are at stake in each purchasing deal. Respondent A also mentioned that in order to harvest the synergy effects that ABB can achieve from being a large organization, supply managers have to work together but in different teams, business unit teams, division teams etc.
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They need to find people in the organization that they can cooperate, who can help increase their profit, which is the main task or one of the main tasks of the supply managers in the ocean of ABB business units. Moreover, he said purchasing personnel in ABB need to organize meetings with other internal units and ensure that there is enough cooperation to make progress with devised strategies. So that projects are not stalled by infighting or production disrupted leading to loss in ABB.

4.21 Organizational structure

According to respondent B, ABB has more than a 100 000 employees worldwide, thousands individual business units, factories, presidents, purchase managers, and teams managers etc. This he said makes it a very complex organization. He claimed that purchasing personnel are divided in different groups depending on the product division. Respondent A also listed the different levels involved: the group level, which is topmost level, the divisional level with five divisions, with each division consisting of a number of business units, and each business unit consisting of a number of factories. He further added that the factory manager (the local business unit manager) reports to both the global and local business unit manager, who in turn reports to both the global and local division manager, who reports to the president of ABB in each country as well as globally. However, the head of all purchasing activities is the corporate development strategy officer (CDSO), who reports to the board of directors (see figure below).
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Figure 6 ABB organizational structure (Own diagram)
5 Analysis

In this section, we critically analyse the empirical data collected in relation to the frame of reference.

5.1 Purchasing

Purchasing is the function responsible for obtaining by purchase, lease or other legal means, equipment, materials, supplies and services required by an undertaking for use in production, Lysons (1992:1). From our findings the purchasing function is responsible for the acquisition of all the materials needed by the five divisions, ten units and various factories of the organization around the globe.

The decisions made regarding purchasing affect other functional areas such as logistics, engineering, finance etc, and therefore calls for the internal collaboration between these units in order to boost communications and produce effective results, Zenz (1994:10:11). From our findings, purchasing fully consults with other functional units when high-risk/high-cost decisions or new strategies are considered. Such as may be necessary to reduce cost and improve quality in the organization. These consultations are made before the purchasing personnel can go ahead to make the actual purchase. Furthermore, purchasing is involved early in the design process to avoid quality problems and reduce the number of defects.

As Lysons (2003:15-16) pointed out, the purchasing function binds together all the organs or units within an organization namely; the manufacturing, operations, finance, marketing, stores etc. and its suppliers and also its customers. From our findings every functional department has a connection to the purchasing department and thus works closely with it in achieving their budgetary goals and objectives. Dobler et al (1996:30) also put forward that, the purchasing unit has ongoing relationships with all other units in the organization as well as with suppliers. This is because it cuts across all departmental lines to work with the personnel in those units in order to achieve organizational goals.

Carter (1993:250-251) stated that purchasing has a unique opportunity of reducing cost of sales and thereby increasing profit thus benefiting the organization, and Baily et al (1998:23) argues that purchasing involves more than just buying; it has become a strategic activity.
From our findings, the purchasing personnel liaise with all other functional departments to ensure that costs are reduced and organizational profits increased. Through its involvement in the early stage of the design process, purchasing the right materials, and cooperating with the quality insurance control units to maximize overall productivity.

5.2 Efficient purchasing

Greenfield (1999:20) pointed out that efficient purchasing is one of the most critical factors in determining the profitability of a business, yet it is typically one of the least understood and mismanaged in most organizations and Baily et al, (1998:394) describes efficient purchasing as the ability of the purchasing function to achieve those organizational objectives expected of it. From our findings, purchasing managers in ABB set targets like the budget level in both percentage and monetary terms, and discuss percentages or negotiate them with higher managers in order to accomplish the basic objectives of purchasing. ABB’s purchasing strategy is aligned with the corporate strategy to avoid personnel from pursuing conflicting objectives. The basic objective of purchasing in ABB is to reduce the total cost of purchase materials through:

- Reducing the price for purchase materials
- Reducing all logistic costs associated with the purchase material
- Increasing the on time delivery of purchased materials
- Reducing cost of capital for related to purchasing, i.e. reducing stock sizes, reduces space for stocks, increase the credit time for invoices from suppliers.
- Reduce the lead-time of purchased materials
- Increase the quality level of purchased materials
- To have a high degree of contract coverage which means having a high percentage of their purchases to be done under contracts, which he described as a kind of a quality measurement, order, structure, and validity.

These objectives align with the overall objective of the organization, which from our findings is to make profits using efficient techniques.

One of the arguments put forth by scholarly writers is that, for purchasing to become efficient, the organization’s purchasing function needs to conform to its strategy. When both plans are at odds, the result is irregularity in the way purchasing is managed, Ellram et al, (1994:1). Considering that purchasing constitutes approximately 60 percent of an organization’s cost of sales, Laios et al, (2001:1) such irregularities become very costly, and unprofitable to the organization.
From our findings, in Zurich where ABB’s general head office is, a global supply manager has the same role as the supply managers have for the division but for the whole ABB. His job is to push and make sure that purchasing tasks are executed efficiently all over ABB and in line with the organizational objectives. Therefore, at both the local and divisional levels the supply managers endeavor to achieve regularity in their purchasing.

Most organizations pay more attention to what they sell than on what they buy, whom they buy it from and how they buy it. Spending more resources on marketing and sales compared to purchasing, Thompson (1996:8). The result however has been waste of time and money, Greenfield (1999:20). From our findings, the global supply managers in the five divisions of ABB worldwide meet as global commodity teams. They strategize on how to best implement the organization’s purchasing strategies, in line with corporate objectives so that they are translated into benefits for the overall organization. Furthermore, we found that part of the new strategy in ABB is to focus on their internal units. By monitoring what they buy so that they can have more control over the quality of their output. In addition, ensure that their purchasing strategy conforms to the organization’s decision to purchase standardized products from suppliers and assemble them in their own factories. According to our findings the above strategy is both cost-efficient and productive for ABB. This also conforms to Hackett (1999:48) in arguing that, minimal measures taken by organizations to improve purchasing efficiency, can go a long way to reducing costs associated with purchasing.

When the purchasing function and other operational functions are not properly integrated, the result may be disruptions in output, loss of income, and adverse effects on competitiveness, Laios et al, (2001:1). According to the respondents, purchasing works with all the functional departments in ABB very early in the design stage from when a need is recognized. They do so to ensure that right orders are made, components of the right quality and quantity are purchased, and they arrive at the right time and in the right place in order to increase operational efficiency. Moreover, there exists a close collaboration between the purchasing unit and all other functional units in ABB. To ensure that ABB’s general objectives are attained together through all the units as a single profit centre instead of individual profit centers. Although, Purchasing unit is not required to make a separate turnover, they need to show how they have made savings, reduced costs, and increased profitability in the organization. In comparing some of the features that make for efficient purchasing in an organization as expressed by Lysons et al (1992:3-6) to the data obtained from our findings:
In ABB the purchasing personnel ensures that the cost of purchased goods and are valuable to the organization through negotiation for price reductions, buying in volumes to obtain quantity discounts.

- Improve working capital through reduction in lead-times and, increase the speed of on time deliveries by suppliers.
- Secure value for the money spent on purchases by collaborating with the engineers and other functional departments to reduce costs and modify components used for production.
- Promote cost-effective purchasing opportunities through the expansion of possible supply sources and, evaluate the performance of already existing suppliers and potential suppliers.
- Provide top management and other internal units of ABB with professional advice regarding suppliers and, make recommendations concerning buying policy.
- Ensure that terms and conditions of contracts to suppliers favor ABB
- Improve the administrative procedures of the purchasing function by determining purchasing objectives and devising strategies to attaining them, training and developing purchasing personnel to
- Enhance the reputation of ABB by adhering to high ethical standards when dealing with suppliers.

5.3 Responsibilities of purchasing personnel

The basic definition of the purchasing responsibility is to acquire materials of the right quality, in the right quantity, from the right source, and delivered to the right place, at the right time, at the right price, Lysons (1992:10). According to the respondents, excluding the basic responsibilities of the purchasing personnel in ABB, one of the other challenges facing them concerns dealing with foreign suppliers. Hokey et al (1993:48) argued that in other to minimize the effects of business customs, language, preference, legal and ethical barriers, qualified purchasing personnel should develop innovative and flexible negotiation strategies. This helps them adapt to the changing international and local environment and respond effectively to their local and international suppliers.

Some of ABB’s largest suppliers come from China and India and therefore many cultural, legal and economic issues are involved. For example, the purchasing personnel need to be present, because they cannot make deals or purchase products by phone or e-mail, and very often, they need to meet the people from whom they make purchases. Therefore, very much emphasis is made on good behavioral and business skills as important requirements needed to maneuver in such situations.
This is also in line with what Giunipero et al (2000:4), Carr et al (2000:40), and Ferguson et al (1996:53) suggests that, with the heightened rate of change in the social, political, and economic environment greater responsibilities is required from the purchasing personnel.

In addition, we found that purchasing personnel in ABB need to organize meetings with other internal units and ensure that there is enough cooperation to make progress with devised strategies. So that, projects are not stalled by infighting or production disrupted leading to losses. As pointed out by Moorhouse (2006:20) purchasing personnel must develop advanced internal selling, strategic influencing, change management, and stakeholder management skills. In order to be active relationship leaders who are capable of building and supervising cross-functional strategic teams. Purchasing personnel need to possess managerial skills and abilities in order to provide leadership necessary for implementing strategies and decisions that would yield profit and minimize cost of the organization.

5.4 Supplier sourcing
Sourcing according to Zenz (1990:161) “is a strategic philosophy of selecting vendors in a manner that makes them an integral part of the buying organization for the particular components they are to supply.” Supplier sourcing is the process and procedures by which the buyer seeks to survey, evaluate suppliers, and determine polices relating to those who can most suitably meet the requirements of the organization. From our findings, the approval process for potential suppliers to ABB is based on the project classification. By use of a tool called supplier qualification questionnaire (SQQ) (see section 4.7) potential suppliers pass through the first stage of the process. When they succeed, they proceed to the practical steps involved.

As Dobler et al (1996:211-214) points out that the ability of the organization to satisfy its basic purchasing responsibilities is determined by the capability of its purchasing personnel to select and manage the right suppliers. Purchasing personnel from ABB visit the potential supplier, go through the administrative processes in their office. They look at how the potential suppliers deal with social policy, safety and environmental issues, their production and financial capacity, and their skill level in general. They then try to estimate how good the supplier is and make points or weight to arrive at a score.
If the potential suppliers are below some number they would be disqualified, if slightly above they would be approved but with comments. If they are well above, then it is okay to put them in the list of suppliers. The final stage involves two representatives from the strategic and quality insurance department going to the factories of the potential suppliers to make inspections before awarding contracts to them. The purchasing personnel in ABB play a huge role in the sourcing and selection of suppliers.

5.4.1 Sourcing

Lysons (1992:180-182) identified three distinct purchasing situations, straight rebuy, modified rebuy and new task and its implication for purchasing personnel. According to the respondents, they use different methods of sourcing, depending on the repetition times needed for the product. If a product is required for only one time in production, the purchasing personnel use competitive bidding. On the other hand, if they have more than “one time” use of the supplies, then they consider the option of producing in their own factories. They also use multiple sourcing or a partnership depending on the project classification. In addition, all three purchasing situations exist for the different product categories in ABB. The purchasing personnel cooperate with other functional units in sharing information necessary for improving purchases and, avoiding interruption of the production process of any kind.

Despite the fact that, Hui et al (2006:299) draws attention to the view that the concept of single sourcing has evolved with the growing popularity of Just-in-time (JIT) purchasing, and holds many benefits. ABB however, has moved away from single sourcing for a couple of years now. In most of its factories it has shifted from a typical single source relationship, which was a deeply integrated relationship in general. They are now moving towards a more arms-length type of relationship with more competition for the suppliers. The organization took this decision in the recent past, learning from its former dealings of relying on single sources which did not profit them. Their suppliers became lazy in many ways, not only in the cost development area but, in the ability and willingness to deliver on time. Nevertheless, ABB also shares the blame, because they too failed in part. They did not put all the needed resources necessary to develop such relationships.

ABB’s strategy is to create a very competitive situation for its suppliers; they try to create a competitive environment, so the suppliers improve by themselves, lowering costs, delivering on time etc.
5.5 Negotiation

Negotiation is hence the finest opportunity for qualified purchasing personnel to improve organizational profits and obtain recognition, Lysons (1992:208). According to the respondents, the role of the strategic purchasing department is very important to ABB’s profits. The use of commodity teams result in brainstorming activities necessary to reaching goals that are aimed at reducing costs and improving profits. Negotiation is a key skill of the purchasing profession therefore, the ability to negotiate effectively is so fundamental that without it, purchasing personnel in an organization cannot perform purchasing activity effectively, Lysons (1992:208). From our findings, ABB is a global organization and enormous in size during negotiations, the demand for volume of items gives them a better bargaining position when negotiating internationally or for the whole organization.

The commodity teams they put together therefore make the utmost difference in the outcome of the negotiations. Hokey et al (1993:48) outlines that in order to minimize the effects of business customs, language, preference, legal and ethical barriers qualified purchasing personnel should develop innovative and flexible negotiation strategies. This helps them adapt to the changing international and local environment and respond effectively to their local and international suppliers. The authors in the same line of argument continue to stress that, qualified purchasing personnel must adapt their negotiation models to include macro and global considerations, such as business customs, language, and preference, legal and ethical concerns. In ABB the composition of the commodity teams accommodates all ABB units worldwide, in order to have the right representation in any given country where they intend to make purchases. However, one member is appointed to head the negotiations at different times, and for different purchases.

5.6 New product Development

Kruse (2004:1) described new product development as all efforts focused on creating a new product, process, or service in an organization, and Eppinger et al (2004:22) defined it as the complete process of bringing a new product or service to the market.
According to our findings, there are various processes involved before the development of new products; this includes early consultations with internal departments by the purchasing personnel, and strategic meetings with various commodity teams. The purpose of which is to arrive at better decisions regarding quality, reducing number of rejects, reducing costs, creating innovative products that are suitable for customers, buying standardized components and assembling them in the factory as part of the organization’s strategy. This practice in ABB identifies with the description given by Kruse (2004) and Eppinger (2004) regarding new product development.

Purchasing personnel also have to ensure that the right specifications are been made. By working very closely with the internal units of the organization, so that components of the right quality are purchased and used to create the differentiated and innovative products that the respondents claim gives ABB a competitive advantage. This also conforms to Dobler et al (1996:158), in describing how new product developments help organizations achieve competitive advantage. ABB is increasingly using more competitive sourcing techniques instead of partnerships or single sources, which according to Kruse (2004:1) enables manufacturers in achieving competitive advantage because of effective integration of suppliers. They operate and achieve improvements necessary for its competitive advantage, a practice they believe allows for more flexibility and better product quality.

5.7 Supplier Development/Relationship
Supplier development is any effort of a buying organization aimed at increasing performance and capabilities of the suppliers, Humphreys et al (2003:131). In addition, Dobler et al (1996:222), points out that earlier involvement of suppliers in the design process can aid the purchasing organization in various ways: materials specification, standardization, order sizes, and process changes in supplier’s manufacturing etc. According to our findings, in ABB they believe that the best way to increase supplier performance and capabilities is to create competition through market pressure rather than relying on their own efforts. About involving suppliers early in the process, our findings also revealed that, ABB has decided to return to one of their key strengths which lie in their engineers and on other internal units. In order to work more closely with them and less farther away from deeply integrated relationships with suppliers, when achieving their objectives as an organization.

However, according to our findings, such integration with suppliers using single sourcing and partnerships is now a technique that is gradually fading away. Contrary to reaping the benefits of efficiency and reduced costs from integrating with its suppliers, ABB’s profits started dwindling and suppliers became lazy and less innovative in both product development and cost reductions.

Ellram et al (1994:4) also suggested that, the conventional strategy of maintaining adversarial relationships with suppliers through creating supplier competition does not only cost the organization financially, it also causes inefficiency. They argue in ABB that using competitive measures and creating market situations allows suppliers to become more efficient and innovative. This increases ABB’s profit because prices are strained down by market forces, and quality is improved since no single supplier can merely sit back and assume they have the volumes needed by the organization due to lack of competition. However, as Lysons (1992:199) pointed out, the purpose of supplier development is to extend the resources of larger organizations to smaller vendors who show willingness and capacity to meet the purchaser’s organizational requirements. According to our findings, the organization having applied various techniques of having long-term and close relationships with suppliers have decided to change strategy because, over longer periods suppliers become indolent and fail to live up to expected goals.

5.8 Corporate planning
Purchasing is a significant function, which needs to be part of the corporate planning process to guarantee that its concerns are reflected in the plan, Saunders (1997:137). According to the respondents, purchasing is very strategic for the organization, because the cost of materials accounts for a substantial part of the total costs in ABB. “Purchasing intelligence is of vital importance to the corporate planning effort,” Ferguson et al (1996:53). In ABB, purchasing is nowadays considered critical compared to ten to twenty years ago, when it was treated mainly as a back-yard function. The organization now has a department referred to as strategic purchasing department responsible for advising, and giving recommendations about what to purchase and from where etc. regarding purchasing in all its factories around the globe. This is in order to enhance and improve the efficient functioning of purchasing operations. In addition, purchasing is represented at the corporate level in the executive committee, which is the managing directors’ management team.
Where organizations make longer ranging plans, integrating the purchasing function into the strategic planning process is very essential to the profit of the company. Following that qualified purchasing personnel in an organization can enhance the activities of cross-functional teams, in cases such as product design, supplier qualifications and selection, quality maintenance etc, Dobler et al (1996:24,25). As obtained from our findings, part of the corporate plan is observed in the association of the purchasing personnel with personnel from other functional units and product division to create groups known as commodity teams, supply management team etc. In order to enhance product design, improve quality, reduce cost and make negotiations where necessary.

Dobler et al (1996:9) noted that, another case for purchasing involvement in corporate planning, is that an organization’s purchasing strategy is gaining recognition as a strategic tool equal in importance to the organization’s marketing, production, and finance strategies. In addition, a proper combination of all four makes for an organization’s strategic business plan. In ABB purchasing is a profit contributor; it is a key element in generating profit. Unlike previously, it is no longer, as if the organization is working around purchasing, it is working with purchasing. In addition, that its significance is no longer restricted to PowerPoint drawings, but it is now natural and integrated in the organization.

Figure 7 ABB elements of strategic business plan (10-20 years ago), (b) ABB elements of strategic business plan ABB,
5.9 Status of the purchasing function

“Status may be defined as the position or standing of a person, group or function within an organization or, more commonly as the evaluation of that person, group or function on a scale of relative esteem”, Lysons (1992:8). The status of purchasing in ABB is a recognized one. As gathered from our findings, the function has upgraded to the level of its engineering, marketing and finance counterparts. This is because of its profit contributing capacity.

The role of purchasing personnel has transcended from just buying for use by production to being involved in the setup of the structure of the company. Furthermore, in deciding on make or buy decisions, in making decisions on how the company should look like, what it should do and not do in order to maintain ABB’s competitive advantage. This is also in accordance to Dobler et al (1996:135), that the basic role of organization is to provide a structure that aids the motivation of the workforce and synchronizes their efforts towards the attainment of organizational goals and objectives, they go on to argue that an organizational structure can either enhance or restrain such accomplishment.

In the management hierarchy of ABB, purchasing managers are part of the topmost level known as the executive committee. This is due to the recognition of the significance of purchasing to the entire organization. The recognition of the role of purchasing in ABB has been complemented by the upgrade in the remuneration of its personnel, contrary to prior practice. As we gathered from our findings, the salaries of purchasing personnel unlike previously have become comparable to their counterparts in the marketing, sales and project management departments. In addition, it has become comparable with the engineering counterparts who previously had more influence and higher remuneration.

5.10 Management view of the purchasing function

The location of the Purchasing department within an organizational structure is determined solely by the management’s perception of the importance of the function, Dobler et al (1996:135). In contrast, to when purchasing was merely a buying department in ABB and just about any personnel could fill in for the job. From our findings, the qualification for an applicant in the purchasing department is usually a degree in science or economics, or both because in ABB they want to have mix of people who have economic, technical or legal background.
They pointed out that to be able to perform a job well in the strategic sourcing department: the aspirant should be able to deal with global issues, be a global businessperson, and understand the general dynamics of economics. This higher requirement in the area of purchasing is due to a change in management perception regarding the function and the location of purchasing in the overall organization.

As part of the correction of the erroneous perception of the function by top management because of the importance of purchasing, there exists a strategic purchasing department, which is recognized at the managerial level in all divisions, and local business units. The duty of which is to make and communicate strategies that are as equally important as there are in other functional departments. This is in order to improve and increase the benefits reaped from purchasing. The role of which top management considers very necessary in spite of the huge resources it costs to pay the personnel therein. Moreover, this change in perception as gathered from our findings is not merely for organizing sake. However, more as a result of the contribution of purchasing in cost-savings programs, professional budgeting, good purchasing and negotiation strategies realized through the efforts of cross-functional teams, consisting of strategic purchasing management teams and other functional units.

In addition, management has come to reckon that, with the cost cutting projects the purchasing personnel also has to involve the whole organization through right cross functioning; a role that requires requisite skill. In comparison to the results of the study carried out by Ameer (1974:6) about the attitudes of General Managers and Purchasing managers to purchasing function and personnel. The results revealed that, both top management and purchasing personnel had diverse views about the various issues concerning purchasing, and diverse opinions about the importance of the personnel to the organization. According to our findings, both top management and purchasing personnel recognize the strategic significance of purchasing function to the overall organization and hold the similar views.

5.11 Organizational conflict and decision making

When purchasing personnel do not have the authority to make organizational buying decisions, they would be unable to influence the process, performance or the outcome of the activity, Feisel et al (2003:3).
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This is also related to whether or not its interests are represented at the top level, as Ferguson et al (1996:53) describes that when purchasing is not represented in the management hierarchy, the intelligence that the qualified purchasing personnel brings to the table remains untapped. The ability of purchasing personnel to influence process, performance, and outcome pivots around purchasing position in the management hierarchy. In ABB, purchasing personnel are involved early in the design process. As gathered from our findings, purchasing personnel are involved from the time of identification of a need in any of the user departments, to the time the order arrives at the production line or buffer stock. Lysons (1992:33) pointed out that organizational conflict occurs when there is a difference of opinion between individuals or groups within the same organization, which could lead to disunity among the personnel, functions, or groups in an organization.

In the last decade in ABB, role conflicts existed between the engineers, technicians and the purchasing personnel regarding purchases, who to purchase from and how best to purchase materials. With each unit claiming to be in the best position to handle purchases. Currently, purchasing works closely with the engineers, technicians and other functional units. In most cases cross-functional teams are formed to make decisions regarding how best to go about purchasing in ABB. However, the purchasing personnel now have a major influence in purchasing related activities compared to when the engineers were in charge of the process, performance, and outcome of the activity. The engineers and technicians can only make specifications and recommend a supplier, but it is ultimately the purchasing personnel that executes purchases.

According to Biemans et al (2002:282), studies prove that majority of all quality problems and costs in an organization are associated with purchasing and purchasing management. However, in making organizational buying decisions, purchasing personnel in ABB do not work in isolation. They involve other functional units early in the design process and work in a cross-functional manner in order to achieve the best results in terms of cost, quality, and reducing number of defects.

According to respondents, there is a link between the success of purchasing personnel and their ability to influence the process, performance, and outcome of the purchasing function. This is comparable to the results of a study carried out by Carter et al (2000:52). The results of which, showed that purchasing personnel at successful total quality management (TQM) were more involved in key decision-making activities that influence their jobs than their counterparts in less successful TQM organizations.
5.12 Purchasing organization

Purchasing organization may be centralized, decentralized, or mixed in any organization, Lysons (1992). Decentralized purchasing occurs when personnel from other functional areas of an organization independently decide on sources of supply or directly negotiate with suppliers for major purchases; Dobler et al (1996:45). From our findings, purchasing is centralized at the divisional levels and, decentralized at the local business unit levels (LBU). This is in order to enable more transparency into the activities in the various factories and improve efficiency. The (LBU)’s have their responsibilities; and are responsible for their own results. They are like small companies, and are responsible for their business results. They have a profit and loss responsibility including purchasing, so what they exactly buy in volume is their responsibility.

Centralized purchasing occurs when the requirement of an organization for a particular item is combined and, orders placed by the largest user department on behalf of other departments, Lysons (1992:20-21). In ABB, the purchasing is coordinated in both centralized and decentralized manner.

The personnel work very much in commodity teams, because as a big organization, ABB’s great challenge and opportunity is to come together when they see a benefit, to join other units and divisions to pull volumes and become stronger. This is in order to get a strong bargaining position. The purchasing personnel gather in commodity teams if they are going to buy or make a huge contract, because building synergies and creating strong positions are extremely important during negotiations. This practice is supported by Lysons (1992:21:23) argument that one of the benefits of centralized purchasing coordination is that it enables an organization to use its bargaining power and resources maximally. This is because suppliers with a central purchasing department have the inducement of competing for the entire volume. However, for some materials, for non-production materials like stationeries, transportations etc, ABB has centralized departments, which usually sit in the headquarters in each country.

Lysons (1992:23) pointed out that the degree of spread of activities in an organization is a key factor in the determination of the coordination option, since location of activities in single site tends to favor centralization and location of activities in various sites favors decentralization. For example, in seven of ABB factories worldwide, 2 in India, 1 in China, Finland, Sweden, Spain, and Italy they buy the same products and work very close together with the same suppliers.
They have the same contracts with decentralized commodity teams, and they select one representative at each meeting to negotiate on all the organization's behalf. As pointed out by Lysons (1992:23), the coordination of purchasing has an impact on profits, since the efficiency of purchasing affects profitability in an organization. In ABB, apart from purchase of non-production materials, the type of coordination process used is most of the time determined by the volume of materials needed, whether or not they are required in the whole divisions and, level of cost involved. A function we obtained from our findings requires qualified purchasing personnel to handle because of the degree of resources that are usually involved.
6. Conclusions

In this section, we present the conclusions and recommendations based on our analysis in order to answer the problem statement question and fulfill the purpose of the research.

This research highlights that purchasing is an integral part of ABB. The findings show that ABB personnel liaise with other internal functions to ensure reduction of costs and increased profitability through their involvement in the early stage of the design process. Moreover, it reveals that purchasing intelligence is integrated into the overall corporate planning process of ABB. Furthermore, the study demonstrates contrary to the frame of reference that, the purchasers in ABB do not have an integrated relationship with the organization’s suppliers.

Subsequent to our findings, we are of the opinion that there is a positive perception concerning the role of purchasing function and purchasing personnel in ABB. We assert this is due to the recognition that purchasing, contributes significantly to the organization’s profit, helps in making savings and reducing costs compared to what was obtainable a few decades ago. We have also found that there is a realization on the part of management that the skills and knowledge of the purchasing personnel in devising strategies, coordinating with other internal functions, and dealing with suppliers etc. are major factors responsible for the benefits that purchasing provides to ABB (Västerås).

Furthermore, we have learnt through our findings that efficiency of the purchasing function in ABB is rooted in its purchasing personnel. In our opinion the purchasing personnel’s involvement in the corporate planning process in ABB, cooperation with top management, and liaison with other functional units are what makes purchasing efficient in the organization. (See figure below)
6.1 Recommendations
Consequent upon our findings based on this research, the following are our recommendations for ABB (Västerås). These are suggestion toward more efficient purchasing that is very dependent on the quality of purchasing personnel and a more developed purchasing function.
6.1.1 Supplier development and Sustainability

The organization may consider additional resources aimed at helping suppliers upgrade to a business model built on sustainability and longer-term cooperation. As most literature suggests the future, lies with integration with suppliers in order to build a supply chain that can withstand competition in the 21st century. It is a recognized fact that competition is no longer between the members of a value-chain but between various value-chains. It would be beneficial for ABB to join forces with their suppliers based on mutual interest in order to form strategic alliances necessary for staying in competition. They would probably gain more by doing do, than only focusing on their internal strengths.

6.1.2 Qualified purchasing personnel

There is a need to employ more employees with requisite purchasing skill and knowledge in both the operational and strategic purchasing departments in ABB, in order to boost the purchasing function and further improve efficiency. Purchasing consumes a significant amount of the total cost in ABB, and an investment in qualified personnel will constitute a profit rather than a loss in the long-term.
7. Suggestions for further Research

In this section we discuss suggestions for further research; these are suggestions which have emerged during this process, and we think would contribute to the research area.

In the course of this research, several interesting areas have emerged from the authors’ point of view that needs further research in order to ascertain the importance of qualified purchasing personnel in enhancing purchasing efficiency in various organizations. Since different organizations fall into different category of buyers, and ABB for one falls under the industrial buyer category, making further research comparing institutional and industrial buyers would be necessary. This would increase knowledge about, whether or not qualified purchasing personnel are as important to making purchasing efficient as it is in ABB.

Another area for further research is on including the suppliers’ point of view instead of relying only on the purchasing organization’s account. In order, to understand how the relationship between purchasers and their suppliers and the strategic alliances formed contributes to efficiency and market positioning of the buying organization.
8. References


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Appendix
Appendix 1: The interview questions

General questions:
- What is your job description, what is your position in the company?

Purchasing Process questions:
- How do you handle acquisition of materials in ABB?
- Can the engineers influence materials acquisition process?
- How do you source for suppliers?
- What role does negotiation play?
- How does purchasing contribute to new product development?
- Is purchasing strategy integrated in the overall corporate strategy?
- Is purchasing involved in the corporate planning process?
- How is the purchasing function coordinated?
- What is the objective of the purchasing function, what goals do you hope to achieve?
- What kind of relationship exists between the purchasing department, suppliers and other units within ABB?
- What percentage of ABB’s cost of sales is attributable to purchasing approximately?

Purchasing Personnel related questions:
- What is the overall task of the purchasing personnel?
- Is there a constant provision for in-service training to upgrade the purchasing personnel?
- How does the skill of the purchasing personnel affect the purchasing process?
- What criteria’s are required when recruiting purchasing personnel?
- How staffed is the purchasing department?
- Are ABB’s purchasing personnel well remunerated when compared to their Finance and Marketing counterparts?

Other management Perception related questions:
- What is the management perception of the purchasing function?
- Is the purchasing department treated as an independent unit in the organization? (Is a profit or cost centre)?
- What is the status of the purchasing function?


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### Appendix 2: Summary of literature

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