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Good Drove Change Management in an
Immature Procurement Environment: the Case
of ABS University

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How procurement strategy as an instrument for good drove change management in an immature procurement environment: the case of ABS University

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Summary

This paper presents the case of an academic institution which has grown over the last 2 decades to over \$500 million pa revenue. Expenditures are in the region of 45% of revenues. Most purchasing was carried out tactically, by user departments and functions.

Following a lengthy internal report, the university president agreed to support a procurement development program to increase the transparency and impact of procurement function, deliver organizational strategies related to core mission, achieve bottom line cost savings, and enhance the value delivered by procurement. Existing perceptions of the role of procurement were very archaic – senior administration associated budget authority with purchase authority.

The notion of procurement as a force for good was central to effecting change. First, every \$ spent by an organization has a multiplier effect across the upstream supply chain, which has been shown to generate up to 7 times the economic value of the purchase cost. Second, the choice of suppliers, for example focusing on expanding minority, small and local businesses as an increasing proportion of the supplier base targets not on MWBE policy but serves to enhance the anchor role played in local communities by the procurement organization. Third, extended supply chains present significant challenges to organizations in verification of practices and social impact far upstream – supply chains can contain exploited labor practices that are not only remote from the purchaser, but difficult to identify and audit. However, it is known that many supply chains in sectors such as automotive have unpalatable labor practices in higher upstream tier operations. Fourth, engaging employees in procurement policies that focus on not only providing goods and services, but enhancing the reputation and social good of their organization embodies greater feelings of wellbeing and engagement.

Keywords: Change Management; Procurement Strategy; Strategic alignment

Submission category: Academic working paper

The context

The organization is approaching a significant anniversary of its foundation and has grown significantly in the last 20 years with a current revenue of \$520 Million and total budgeted expenses of \$450 Million, with procurement spend more than \$250 Million pa. The campus is relatively small, covering 180 acres (.7km²) including residential halls, restaurants, sports and recreation facilities and academic school buildings. The student body is 8000 fte and 2600 employees. Given the scale and scope of activities, procurement is dominated by construction, MRO, travel, food supplies, IT services, and general educational supplies (technical, chemical, and general).

Procurement is decentralized, supported by a central Procurement Services department constituted by 5 employees within the Financial Services division. Additionally, Facilities Services and Auxiliary Services (accommodation, catering, and hospitality) have their own purchasing operations and do not tend to report into or involve central Procurement Services. Construction contracts and large capital contracts are retained by senior VP level executives, with contracts undergoing legal review but no procurement review. Procurement cards are issued to over 900 employees, primarily for travel but also used for a wide array of purchases. Many departments operated within the typical budgetary controls do educational establishments and consequently have argued that procurement responsibility and budgetary responsibility are synonymous.

This context is not dissimilar to many higher educational establishments – the National Association of Educational Procurement (NAEP) regularly reports on the challenges for HE procurement professionals of similar context and practices, underlining the challenges of transforming university procurement into a strategic asset for campuses.

Review of Procurement practice

In 2019 an internal report was submitted to the university's president highlighting challenges and core procurement issues related to lack of centralization, variability within several categories of expenditure and poor transparency of contracts across the campus, much of which had been previously identified through student projects as part of undergraduate and graduate procurement courses over preceding years. Additionally, the university had embarked upon a major cost reduction program, and it was apparent that no thought had been given to how effective procurement could contribute to such a drive. Fortunately, the president responded rapidly and positively to the report and commissioned a working group to undertake a detailed procurement review – it should be noted that external consultants had been hired 3 years previously.

The consultant's report had four key recommendations, the most significant of which was to develop and adopt a formal procurement strategy to address the expansion and responsibilities of the university's procurement department, the establishment of clear sourcing and contracting policies and procedures and most importantly identified several millions of dollars of potential cost reductions through world class procurement. However, the recommendations of the report had not been followed other than the appointment of a new procurement director, who was charged with driving procurement transformation but unfortunately had lacked any senior management support.

Consequently, an internal working party consisting of 14 individuals from across all units in the campus met biweekly for four months to discuss existing problems with procurement challenges with compliance and overall opportunities for improvement. At the end of this. A report and a detailed presentation were given to the president listing the series of recommendations all of which was supported by the president and procurement transformation was given the green light (this happened to coincide with COVID lock down and associated supply chain challenges).

The challenge(s)

The key challenges and process difficulties identified by the working group were like those encountered in many similar organizations. Typical of an organization with an immature, fragmented and decentralized history of buying the seven key challenges we identified were as follows:

- Decentralized Procure to Pay
- Multiple systems including paper and excel-based systems.
- High manual processing
- Duplication of processes

- Few transactions consume most time.
- Limited user engagement
- Limited supplier relationship

Additionally, there was no central repository for contracts (we found one product had 157 separate contracts or purchase orders – with highly varying prices).

Not surprisingly, it was very common to find employees, budget managers, supervisors and so forth would take it upon themselves to issue contracts to source with their preferred suppliers and then to “beg for forgiveness rather than ask for permission” if confronted. It is fair to say that maverick purchasing was the norm and presented real challenges when trying to take steps to enforce existing contracts and policies. Initially a series of meetings and workshops were held to remind (and train!) users on the procurement processes, but these had limited impact. Additionally, senior management had little understood of the strategic role that may be played by procurement. Given this context it was fortuitous that the university had a long reputation for teaching procurement and supply management, and so it was possible to engage undergraduate and graduate students in semester long projects to begin to develop effective strategies for topics such as sustainable procurement global footprint management water consumption and sustainable supply chain.

Engaging students in transformation

Project and experiential-based learning are regarded as powerful tools for students to develop competencies and professional skills (Kosnik, Tingle & Blanton, 2013), at the same time as delivering a significant contribution to the client's organization. For over a decade, students have been working on a wide range of projects under the *campus as a living learning laboratory* concept (Zen, 2017; Verhoef et al, 2020), most notably on issues associated with sustainability and social justice. Additionally, business students and engineering students were beginning to employ lean 6 Sigma project methodologies for process improvement with several campus-based projects related to maintenance operations.

With the arrival of the highly experienced procurement director, student projects in procurement courses became commonplace. Early projects focused on the university's engagement of local minority and diverse suppliers, the management of print and printing contracts across the campus, computer purchasing, water services and coffee purchasing, and a significant large scale sourcing project for the university's food supplies which included total life cycle impact analysis of alternative sources from beef and lamb. Each of these projects led to deliverables which included presentations to senior leadership, written reports and data analysis. Significantly, several of these projects demonstrated considerable benefits, the most significant of these being an analysis of computer procurement. The student-led computer procurement project coincided with the university's IT department embarking upon a new contract for employee's personal computers. The students conducted a total cost of ownership analysis, interviewed a cross section of employees on campus and consulted with peer and larger university procurement departments. Their proposal could deliver \$1 million of savings over five years. However, one week before the students' final presentation the IT department entered into a new 5-year leasing contract for employee computers, which had been a solution the students had analyzed and found to deliver much lower value to users and university alike than their own proposal! One positive consequence of this was to give far more credence to other student project recommendations. Subsequent projects have been adopted and implemented, including the provision of drinking water on campus which led to the removal of all water coolers, replaced with filtered water dispenses connected to each buildings water supply. Students also reviewed coffee procurement across campus and lobbied for the removal of K cup machines as an option, and in fact rewrote the university's policy on coffee provision in the workplace.

During COVID students conducted strategic projects recommending reorganization of the procurement department, adoption of E procurement platforms, and were instrumental in the development of a policy for minority supplier engagement and sourcing. The opportunities to align procurement to the institution's goals for social good were amplified during lockdown through the emergence of local collaborations between the city's largest procurement groups (Rutkowski, Eboch, Carr & Greer, 2022).

It is one of the characteristics of university campuses that student lead initiatives, student lobbying, and the student voice overall carries significant weight with many parts of senior administration. In fact, it seems at times as though the student voice is more powerful than that of supervisors or managers, so student LED projects had cultural as well as pedagogic benefits.

The mobilizing theme from the student body aligns with that of senior leadership – making the campus a force for social good and social change.

How Procurement can be a force for good

Aligning procurement improvement with the strategic goals and mission of an organization is important (Leal Filho, Skouloudis, Brandli, Salvia, Avila, & Rayman-Bacchus. 2019; Harland, EBig, Lynch, & Patrucco 2021). The university's mission states, "The University is committed to advancing academic excellence, expanding liberal and professional knowledge, creating a diverse and inclusive community and preparing leaders who are dedicated to ethical conduct and compassionate service". Significantly, the strategic plan published by the university several years ago explicitly identified cost savings as a core goal for the campus, targeting a \$25 Million reduction in costs by the year 2024, and significant effort was invested in achieving this goal. Naturally, with procurement accounting for some \$250 Million per annum, achieving such cost reduction presented a major opportunity for procurement to raise its profile and deliver both bottom line and total cost savings. More significantly, it opened the door for a conversation about the value-added contribution from procurement. In addition to the financial target, the university published strategic plan with five goals, three of which are directly served by the procurement strategy:

- Strengthening Diversity, Inclusion and Social Justice; This incorporates sourcing strategies to increase the use of diverse, underrepresented businesses owned and operated by women, tribal communities, veterans, veteran disabled, black, Hispanic and other ethnic communities as well as concern for labor practices across our supply chains.
- Improving Structural and Operational Effectiveness; Emphasizes value for money, cost reduction, environmentally responsible procurement, and resourcing.
- Amplifying Local & Global Engagement and Reputation

The key initiatives adopted in the procurement transformation started with integration of an e-procurement platform with financial and workplace systems. It is known that the transformations led by e-procurement can have a major catalytic impact on transformation of broader procurement processes and policy compliance (Singer et al, 2009), and this is certainly the intent and benefit of adopting e-procurement as one of the first transformations with procurement (Croom, 2005; Croom & Johnston, 2003; Quesada et al, 2010). Additionally, the establishment of an e-procurement platform and internal marketplace allows the university to define suppliers according to strategic objectives (Walker & Brammer, 2012). For example, significant attention is being paid to small and minority local businesses, and these have been populated in the E procurement marketplace, and users are directed to such suppliers wherever viable.

Alongside the adoption of e-procurement, the procurement department itself has expanded through the recruitment of additional buyers, appointment of category managers, and dedicated supply managers focusing on sourcing and procurement policy development. Regular meetings are held across the campus with all budget managers to ensure engagement in procurement transformation, briefings are given every quarter to senior leadership, and a number of student interns are employed to assist in internal marketing and promotion of procurement transformations.

As a university, a significant category of procurement is related to community and welfare activities associated with the local area, and the recognition of social good procurement was one well-established on campus (Furneaux & Barraket, 2014), and many local organizations and groups benefit from university resources to support their community and activities. However, by exploring the multiplier effects of procurement a shift in mindset relating to social good was found to be very powerful lever for transformation; far more than focusing on cost savings and economic benefits alone, an issue often discussed in the context of public procurement in recent years (McNeill, 2020; Bernal, San-Jose & Retolaza, 2019; Lynch, Harland & Walker, 2019; Choi, 2010). Increasingly, attention to ESG goals

Reflection

This case example of a local university has presented some of the toughest challenge in terms of senior leadership compliance with procurement involvement in strategic expenditure policies. The immediate impact of aligning key procurement decisions with local and social impact has been to raise awareness of the potential for major improvements. Challenges remain in terms of major contracting, particularly large IT/Media/Communications and construction contracting. It continues to be difficult to involve procurement early enough in the purchasing cycle, but these two levers will be the focal mechanism for driving change.

The work is still on-going, and it would be naïve to assume further challenges are not ahead, but one key reflection has been that we cannot assume the world is ready for procurement! Obdurate leader who are convinced, *we get the best deals* are not new or unique to this case.

From the progress achieved to date, confronting barriers to strategic procurement controls certainly illustrate the roles played by 4 key factors:

- existing power structures in organizational leadership (Greer, Klasa & Van Ginneken, 2020; Cox, 2001).
- the degree of maturity of procurement (Paulraj, Chen & Flynn, 2006; Burt, 1999).
- concerns for localized control versus centralized control (Dimitri, Dini & Piga, 2006) and
- the leverage through e-procurement implementation (Croom & Brandon-Jones, 2007).

Maturity of procurement practice and impact has been presented as an evolutionary process, and certainly the case presented here illustrates both the nature of evolution and the role that can be played by 2 key procurement assets – social good and e-procurement. One could argue that the lowest resistance to changes towards world class procurement emphasize the forces on both a psychological and an operational level, where appealing to the core values of an organization's leadership and its employees can be ideally supported by major process improvement through e-procurement.

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