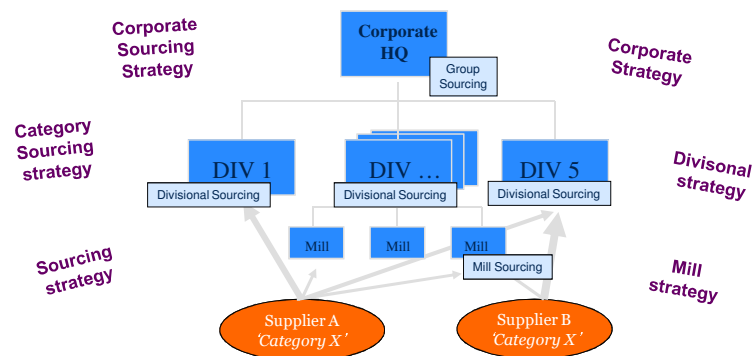


Category sourcing teams: drivers and successfactors

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The problem...



Category sourcing teams: drivers and successfactors

Our message...

Prediction:

- 'Procurement is dead...'
- 'Procurement is moving into the line...'
- 'Long live Procurement!...



Strategy:

'Effective management of organizational change and business alignment are challenges to CPO's...they should be concerned about managing business processes rather than purchasing.... this calls for a new profile of these executives'.

How sourcing teams perform in practice

Dealing with these increasingly complex business issues and interdependencies calls for a more **cross functional approach** towards 'procurement' and 'supply chain' issues....



This explains the **increasing popularity** of cross functional sourcing teams...This puts new demands on the procurement function in terms of *knowledge, skills, flexibility and communication*

Questions:

- How **successful** are these sourcing teams?
- What **problems** are related to these sourcing teams?
- What are underlying **success factors**?



These questions have been addressed in our PhD-research...

How sourcing teams perform in practice

Some observations from practice...

- After a promising start sourcing teams **lose momentum** after a few months...attendance is flawed, motivation is low...
- Having started a number of sourcing teams simultaneously, **some teams seem to perform better** than others...why?
- On their journey many teams suffer from **practical problems**...discussions arise around travel expenses, time to allocate to the team activities, combining team work with daily duties...
- In some cases sourcing teams need to **define their own scope** and objectives, leading to **low ambition and disappointing results**...
- Sourcing teams consisting of purchasing professionals seem to suffer from **insufficient mandate**... **resulting in low contract compliance**....
- Drawing contracts to a close, some members of the **tender board want to interfere** and review supplier selection...
- Top management considers sourcing team work as an activity that should be done on top of daily duties... **special rewards** are considered **not necessary**...

How sourcing teams perform in practice

Research Objectives

- To create a **better understanding** of sourcing team performance
- To **identify** the **success factors** that explain sourcing team effectiveness
- To create **better insight** in how these success factors influence team performance in a sourcing context
- To derive **managerial implications** for sourcing managers

Research Question

- What are the most **critical success factors** for effective sourcing teams?

How sourcing teams perform in practice

Large scale academic research sponsored by TUE, NEVI and Skanska



- Cross sectional survey study
 - The Netherlands
 - Scandinavia
- 12 multinational companies involved, 60 sourcing teams
- To test the effects of a range of success factors for different dimensions of sourcing team effectiveness
- Results discussed in roundtable meeting
- Follow-up workshops in companies

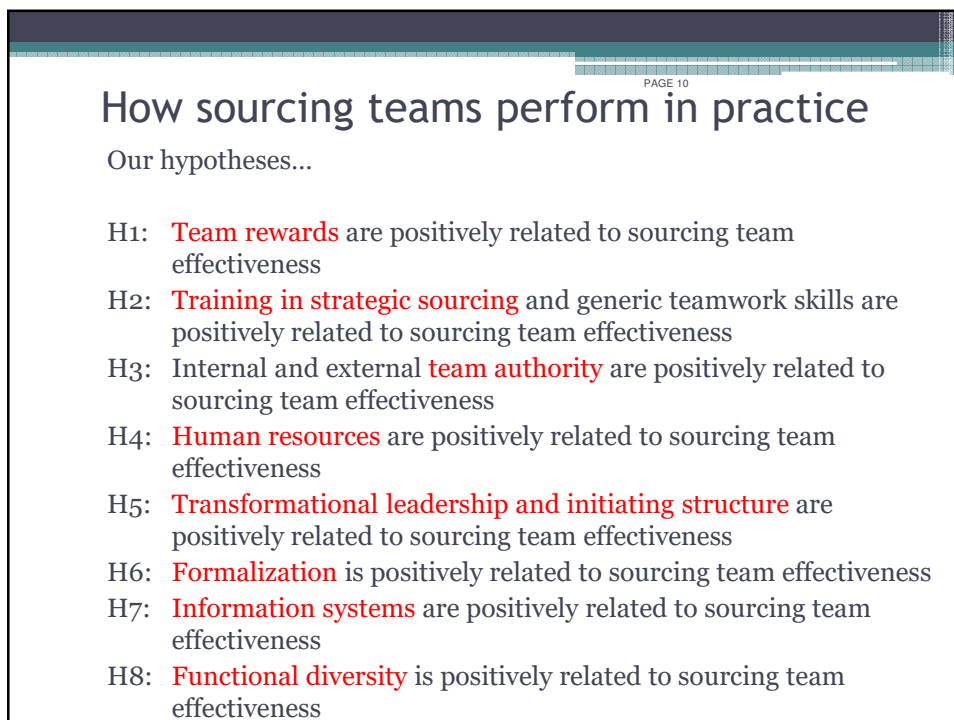
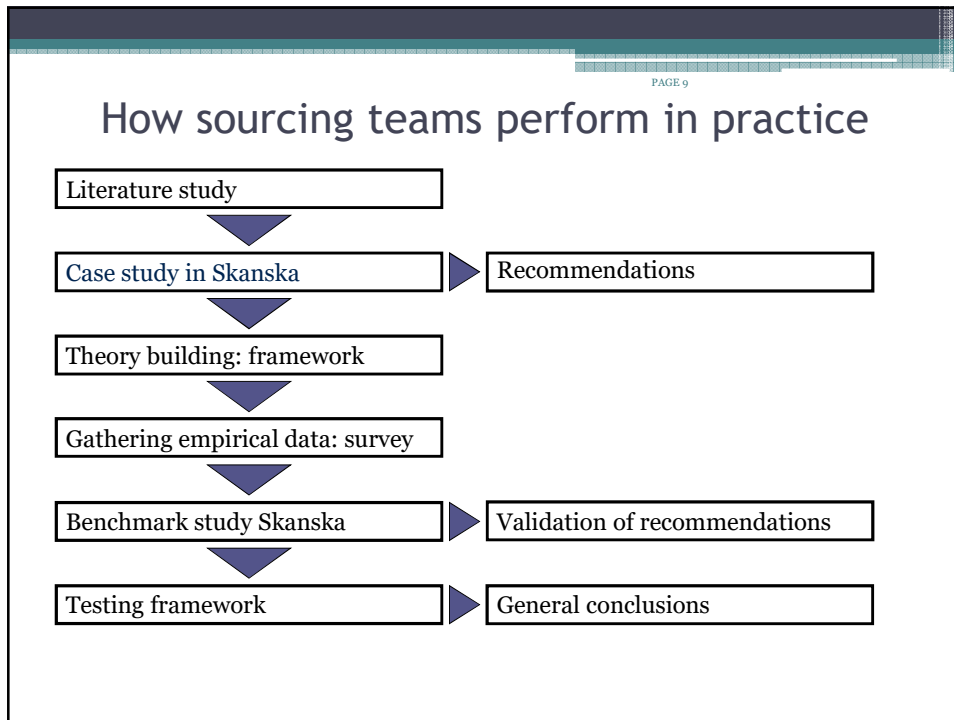
How sourcing teams perform in practice

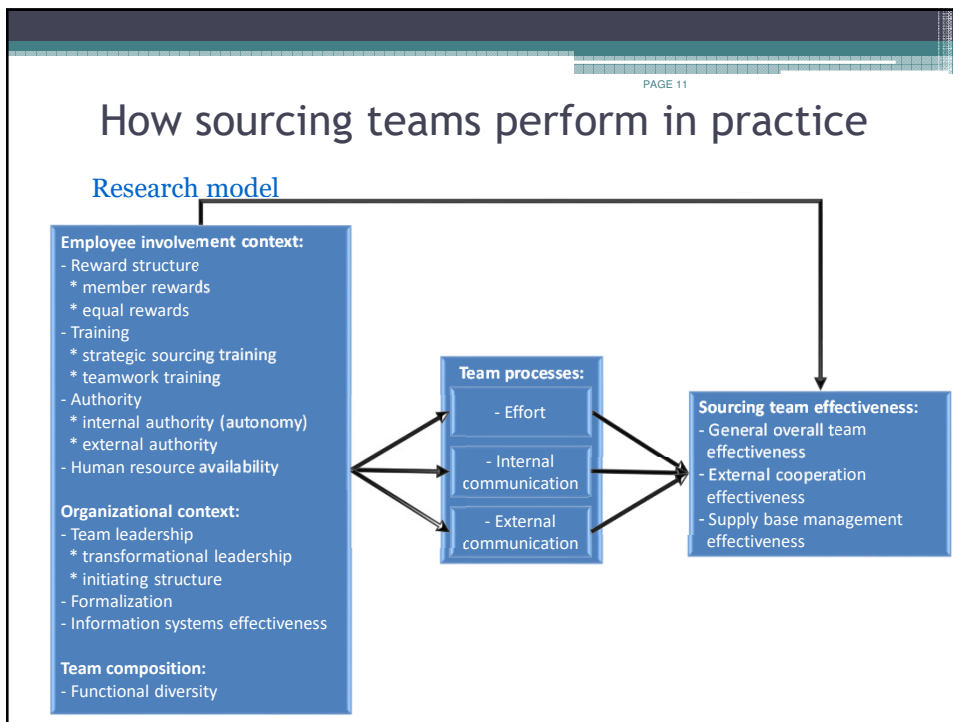
Sample

- Wide variety of industries
- 12 multinational corporations:

▫ Assa Abloy	– Philips Healthcare
▫ BAM	– Rabobank
▫ BASF	– Skanska
▫ Ericsson	– TeliaSonera
▫ NTS Mechatronics	– Volvo Aero
▫ Océ	– Wärtsilä
- Overall response rate: 70,2%
- 275 completed questionnaires, covering 60 teams







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How sourcing teams perform in practice

Company	Industry	Nr. of employees	Revenues 2007 (in EUR)	Country headquarters
Assa Abloy	Locks (door opening solutions)	32 000	3,5 billion	Sweden
BAM	Construction	30 000	8,5 billion	The Netherlands
BASF	Chemicals industry	95 000	58 billion	Germany
Ericsson	Telecommunications equipment	74 000	19,9 billion	Sweden
NTS Mechatronics	Mechatronic systems	200	46 million	The Netherlands
Océ	Office equipment	24 000	3,1 billion	The Netherlands
Philips Healthcare	Medical systems	33 000	6,5 billion	The Netherlands
Rabobank Group	Banking	60 000	11,5 billion	The Netherlands
Skanska	Construction	60 000	14,7 billion	Sweden
TeliaSonera	Telecommunications services	31 000	2,9 billion	Sweden
Volvo Aero	Aerospace	3 500	805 million	Sweden
Wärtsilä	Power solutions	17 000	3,8 billion	Finland

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How sourcing teams perform in practice

Company	Nr. of teams in sample	Nr. of employees contacted	Avg nr. of respondents contacted per team
Assa Abloy	7	49	7
BAM	16	23	1,44
BASF	3	22	7,33
Ericsson	4	73	18,3
NTS Mechatronics	2	13	6,5
Océ	2	10	5
Philips Healthcare	3	23	7,67
Rabobank Group	4	38	9,5
Skanska	14	91	6,5
TeliaSonera	4	20	5
Volvo Aero	3	20	6,67
Wärtsilä	2	10	5
Total	64	392	6,13

Selection	Response rate
Company	
Assa Abloy	67,3%
BAM	47,8%
BASF	78,3%
Ericsson	76,7%
NTS Mechatronics	61,5%
Océ	90,0%
Philips Healthcare	50,0%
Rabobank	68,4%
Skanska	69,2%
TeliaSonera	80,0%
Volvo Aero	65,0%
Wärtsilä	70,0%
Function	
Overall members	69,9%
Overall leaders	73,1%
Overall managers	68,8%
Total	
Total overall	70,2%

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How sourcing teams perform in practice

Example

<i>Employee involvement context</i>	
Member rewards ($\alpha = 0,75$)	<ol style="list-style-type: none"> All team members are rewarded for their work on the team. There are no team members on our team that are not rewarded/recognized for their work on the team.
Strategic sourcing training ($\alpha = 0,81$)	<ol style="list-style-type: none"> The company provides adequate technical (spend analyses, supplier market analyses, logistics analyses, negotiations, etc.) training for my team. The company provides adequate strategic sourcing training for my team.
Internal authority ($\alpha = 0,66$)	<ol style="list-style-type: none"> My team can select different ways to do the team's work. My team determines as a team how things are done in the team.
Human resources ($\alpha = 0,57$)	<ol style="list-style-type: none"> Team members have sufficient time available for working for the team. A sufficient number of team members are assigned to the team to get the team tasks done.
Tested models include the process factors effort, internal- and external communication, and all three effectiveness dimensions, table 4.10. Member rewards are excluded from this CFA because of cross-loadings with equal rewards.	
CFA fit indices	χ^2 : 595,63 df: 323 GFI: 0,87 AGFI: 0,83 RMSEA: 0,055 NFI: 0,94

How sourcing teams perform in practice

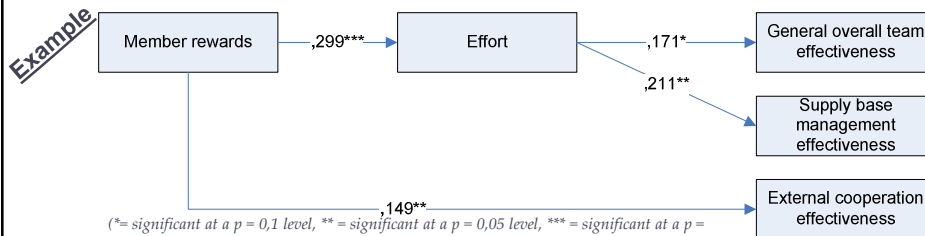
Example

	Member rewards	Equal rewards	Strategic sourcing training	Teamwork training	Internal authority	External authority	Human resources	Transformational leadership	Initiating structure	Formalization	Information systems	Functional diversity
Member rewards	1	-.405(**)	.306(*)	.490(**)	0.129	0.060	.259(*)	0.041	-0.024	0.049	.361(**)	0.124
Equal rewards	-.656(**)	1	-.397(**)	-.477(**)	0.004	-0.203	0.013	-.276(*)	-0.168	-.300(*)	-0.124	-.0224
Strategic sourcing training	.349(**)	-.390(**)	1	.793(**)	0.116	-0.183	0.099	.392(**)	.413(**)	.615(**)	.332(*)	-.0218
Teamwork training	.334(**)	-.421(**)	.701(**)	1	0.160	-0.069	.264(*)	.321(*)	.302(*)	.478(**)	.465(**)	-.0122
Internal authority	.191(**)	-.098	.130(*)	0.098	1	0.018	.365(**)	.343(**)	0.110	0.094	.262(*)	0.040
External authority	0.058	-.134(*)	-.102	-0.077	.135(*)	1	0.100	0.199	0.122	-0.218	-0.049	0.291
Human resources	.273(**)	-.285(**)	.166(*)	.225(**)	.185(**)	.159(*)	1	0.158	-0.068	0.060	0.247	.435(**)
Transformational leadership	.331(**)	-.336(**)	.387(**)	.245(**)	.406(**)	0.114	0.130	1	.628(**)	.349(**)	0.082	0.055
Initiating structure	0.134	-.166(*)	.357(**)	.238(**)	.270(**)	.192(**)	.174(*)	.610(**)	1	.376(**)	0.040	-.339(*)
Formalization	.329(**)	-.423(**)	.543(**)	.430(**)	.243(**)	0.119	.298(**)	.375(**)	.391(**)	1	0.101	0.059
Information systems	.362(**)	-.366(**)	.430(**)	.456(**)	.247(**)	0.017	.246(**)	.248(**)	.248(**)	.459(**)	1	0.125
Functional diversity	.354(*)	-.450(**)	-.080	0.112	0.196	0.260	.467(**)		0.206	.432(**)	1	
Effort	.374(**)	-.323(**)	.237(**)	.248(**)	.315(**)	.208(**)	.464(**)	.357(**)	.354(**)	.361(**)	.293(**)	.507(**)
Internal communication	0.106	-.217(*)	.167(*)	.199(*)	.372(**)	.205(**)	0.104	.321(**)	.354(**)	.268(**)	0.070	-0.007
External communication	0.101	-.196(*)	.159(*)	.167(*)	.330(**)	.176(*)	.232(**)	.310(**)	.354(**)	.400(**)	.219(**)	.494(**)
GOTE	.201(**)	-.155(*)	.365(**)	.327(**)	.481(**)	.166(*)	.250(**)	.508(**)	.482(**)	.434(**)	.268(**)	0.137
GOTE management rating												
SBME	.289(**)	-.320(**)	.263(**)	.259(**)	.493(**)	.211(**)	.392(**)	.456(**)	.389(**)	.403(**)	.342(**)	.433(**)
SBME management rating												
ECE	.244(**)	-.230(**)	.274(**)	.288(**)	.505(**)	.187(**)	.270(**)	.390(**)	.347(**)	.403(**)	.241(**)	.336(*)
ECE management rating												

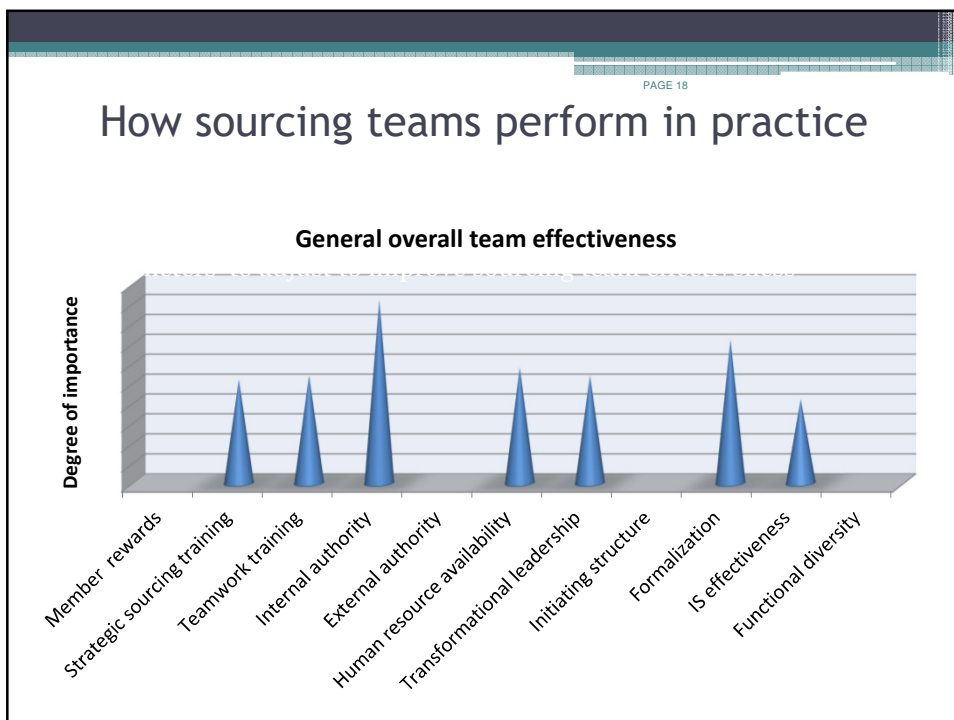
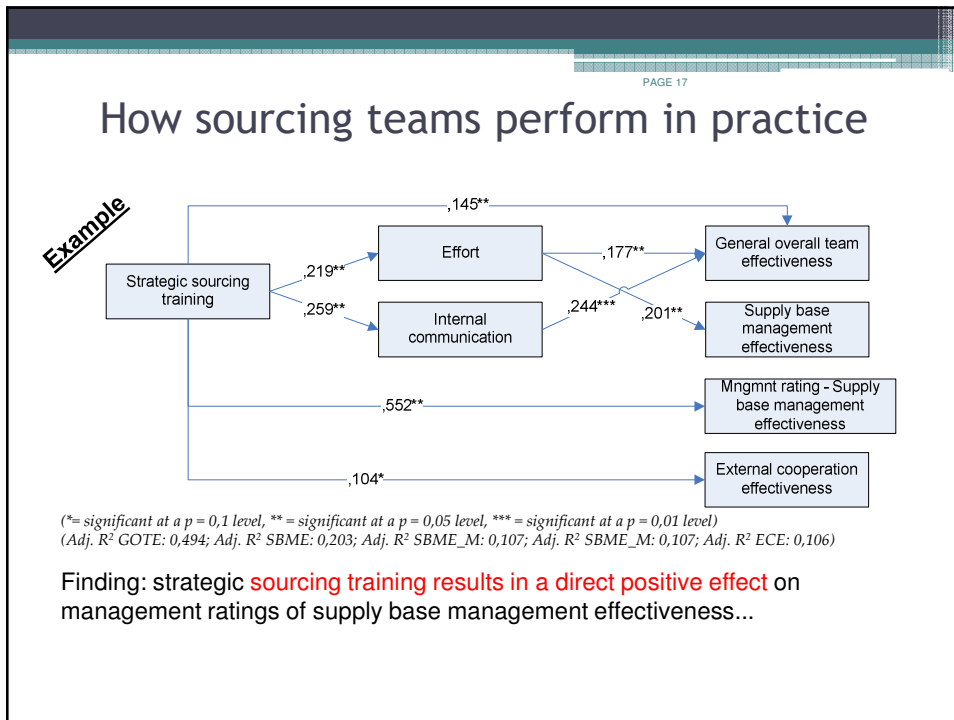
How sourcing teams perform in practice

Data analysis

- Detailed analyses of the relationships between all success factors, team processes and specific dimensions of sourcing team effectiveness



Finding: member rewards have a particular positive effect on external cooperation effectiveness, beyond increased effort alone...





How sourcing teams perform in practice

Results from this academic study..

- **Team processes explain 50%** of the variance in sourcing team performance...
- **Team management** best practices **not well applied**...
- CPO's must enable effective team processes, amongst others by providing **training and selecting only the best team leaders**...



How sourcing teams perform in practice

Results from this academic study..

- Effective **collaboration** between sourcing teams and other departments and functions crucial for success...
- **Cross-functional collaboration** improves team performance, but managers perceive it to be too troublesome...
- Functional integration and external cooperation **do not occur automatically**, CPO's must manage people and processes to achieve this...
- Team effectiveness depends heavily on the extent to which CPO's have adopted **a team management perspective**...
- After a clear **briefing**, including performance requirements and a definition of the work processes, sourcing teams should be provided with **sufficient autonomy** i.e. a 'license to act'...

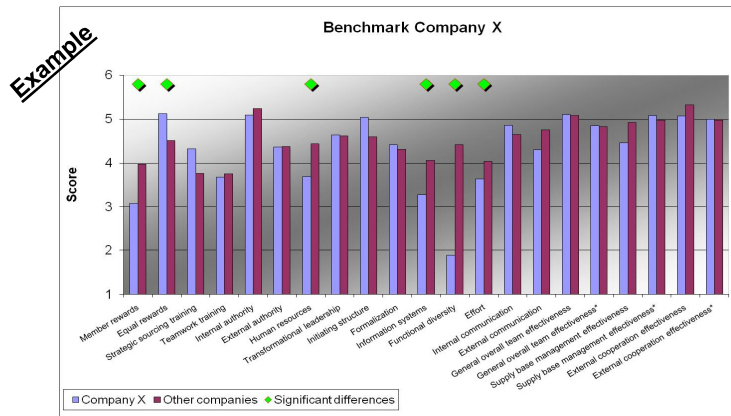
How sourcing teams perform in practice

Conclusions

- Cross functional sourcing teams are an increasingly popular vehicle across MNCs to generate category savings...
- Their functioning in practice seems not without problems...
- Many teams suffer, after a promising start, from a lack of momentum...
 - Which is often due to a lack of preparation, mandate, resources, teamwork quality, integration, embeddedness and recognition...
- Highly diverse cross functional teams require much more training and investment than traditional lead buyer teams... if these investments are made, their results will be better!
- CPO's need to keep a sharp eye on signals that predict a weakening team performance...

Sourcing team performance assessment tool

Sourcing team performance assessment tool Benchmark study



Sourcing team performance assessment tool Benchmark study

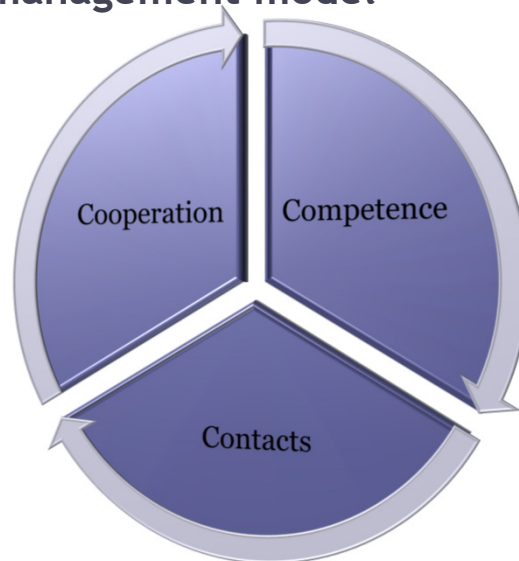
Example

- High scores:
 - Equal rewards
 - Strategic sourcing training
 - Initiating structure by team leader
- Low scores:
 - Member rewards*
 - Human resources*
 - Effort*
 - Functional diversity*
 - External communication
 - External cooperation effectiveness
 - Information systems*
 - Supply base management effectiveness

Success factors for sourcing teams



3C team management model



3C team management model

Composition

- Achieving advanced sourcing targets requires cross-functional structures
- Team viability is undermined when team members and managers disagree about optimal composition
- Not the best purchasers, but the best leaders must be selected as heads of sourcing teams
- Managing sourcing teams puts high demands on team leaders, they need a range of skills
- Team members must be selected for their knowledge, skills, contacts and influence

3C team management model

Collaboration

- A clear briefing and clear procedures are vital in case of rather straightforward goals
- Empowerment (a 'license to act') is critical; guard against undue interferences
- Cross-business and cross-functional involvement requires adequate reward structures
- Training... not only in strategic sourcing, but also in teamwork
- Mind the paradox! Teams that need effective team management receive it the least...

3C team management model

Contacts

- Early identification of key stakeholders (even if you don't need them, yet...)
- Ensure that the upstream network is knowledgeable
- Involve upstream network members with influence
- Make sure that there is goal congruence
- Develop distinct stakeholder management strategies for upstream and downstream networks
- Assess follow-up activities beyond the team boundaries

3C team management model

Time

- Identify and connect to stakeholders in early stages to develop a high level of embeddedness
- Guard against an inward orientation by teams when they operate under time pressure

What should be done to overcome these problems?

Suggestions

- Review governance structure:
 - Composition of Procurement Board: Business managers in the lead..
 - Strong Corporate Procurement Coordinator...
 - Clearly defined mandate for the teams...
- Review targets, resources and reward structure:
 - Challenging targets
 - Team training and instructions
 - Category sourcing a subject on management agenda
- Simple, category sourcing methodology
- Team work: assess team leadership and processes

The new procurement paradigm

The new procurement paradigm

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Implications for managers

- The results show that the organizational design should provide an infrastructure that enables sourcing teams to actually perform...
- Rather than managing purchasing, CPO's need to manage the teams which they are dependent on...
- And the infrastructure that sourcing teams need to perform...
- This infrastructure should enhance cross functional collaboration and integration with the line...
- Rather than being a procurement specialist, CPO's must increasingly become experts in people- and teamwork management...
- This is the only way to increase the added-value of procurement to companies' operations!



Thank you for your attention!

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