Purchasing's Organizational Roles and Responsibilities

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Source: CAPS, 1995

This report is based on data collected in May 1995 from 276 U.S. and 31 Canadian organizations in 21 industry groups. Of the 307 organizations, 43 (14%) had 1994 sales of less than $500 million; 117 (39%) were in the $1.1-billion to $5-billion sales category (15%) in the $5.1-billion to $10-billion sales category; and 44 (14%) had sales of more than $1 billion.

This study updates the first research project ever undertaken by CAPS: Purchasing Organizational Relationships, published in 1988. This earlier research covered 297 U.S. organizations. A total of 118 U.S. organizations participated in both the 1988 and 1995 research, affording a unique opportunity to trace changes within these firms. Key findings from this 1995 research are:

1. The majority of organizations (65%) were organized on a centralized/decentralized basis, some purchasing is done at the corporate headquarters as well as at major operating divisions/plants. Twenty-three percent had a centralized function in which all or almost all purchasing was done on a division/plant basis. Service organizations tend more towards centralization (32%) than manufacturing organizations (20%), but only 3 percent of service organizations are decentralized versus 15 percent of manufacturing companies. Canadian companies tend to have more centralization (39%) than U.S. companies (21%). Companies under $500 million in sales tend to have more centralization (33%) than those over $10 billion (30%).

Within the organizations that participated in both the 1988 and 1995 studies, 60% retained the same purchasing organizational structure, but 40 percent changed. For firms with multiple business units 52 percent had a headquarters purchasing department plus business unit purchasing departments; 27 percent had a headquarters purchasing department plus people in the business units who released against contracts; 12 percent had a headquarters purchasing department only; and 9 percent had only business unit purchasing departments. In organizations composed of a single business unit, 63 percent had one purchasing department, 30 percent had a headquarters purchasing department plus other purchasing departments, and 7 percent had multiple purchasing departments but no headquarters purchasing department.

2. The purchasing function reports to the president in 16 percent of the organizations and to executive vice president in 15 percent. The most common reporting relationship is to a senior/group vice president (19%). Other reporting relationships are to a manufacturing/production/operations vice president (15%), financial vice president (10%), administrative vice president (9%), materials/logistics vice president (7%), and engineering vice president (1%). Eight percent report elsewhere in the organization. Compared to the 1988 report, the reporting line to a senior/group vice president was new and substantial at 19 percent. One surprising finding from the doubly researched group of firms was that 66 percent changed reporting line since 1988.

3. Functions reporting to purchasing include scrap/surplus disposal (63%); materials and purchase research (60%); inbound traffic (51%); stores/warehousing and inventory control (both 41%); material planning (40%); outbound traffic (39%); receiving (35%); other (27%); quality...
assurance (25%); and in-plant material movement (19%). All of these percentages represent significant increases over those reported in 1988.

4. Professional staffing levels averaged 89 people for all organizations, ranging from an average of 11 persons for companies in the smallest size range to 289 for the largest organizations. Support staff for all organizations averaged 58 people, ranging from an average of 6 for the smallest firms to 251 for the largest. Purchasing staff levels in 1995 compared to the 1988 study showed substantial decreases; the decline of the average of professional staff of 118 people to 89 people in 1995 indicates almost a 25 percent decrease. During the past 12 months, only 15 percent of the respondents increased the size of their purchasing staffs, averaging about a 10 percent increase. However, 41 percent downsized averaging about a 14 percent decrease. Expectations for the following 12 months appear to be almost in balance.

5. Purchasing’s current involvement in major corporate activities shows outsourcing as the only activity with a moderate involvement. Particularly low were government relations, internal countertrade/offset planning, marketing planning, and corporate merger/acquisitions/alliances.

6. Typical communication media between head-office purchasing and purchasers located elsewhere rated telephone as the highest (4.3), fax (4.0), and e-mail (3.7), well ahead of personal meetings (3.0), teleconferencing (3.0), and letters (2.8). Videoconferencing is slightly used currently.

7. A ranking of current role/responsibility/involvement of corporate headquarters purchasing selected activities shows the following six activities as most common:
   1. establishing policies and procedures (4.3);
   2. contracts for common requirements (4.1);
   3. purchases head office requirements (4.0);
   4. collects and provides purchasing information (4.0);
   5. participates in system-wide purchasing/supply personnel decisions/actions (3.9); and
   6. develops supply systems (3.9).

   All activities showed increased involvement expected in the future.

8. The popularity of teaming and participative approaches to supply management indicated the following ranking for the top four choices:
   1. cross-functional teams (3.6);
   2. commodity teams (purchasing personnel only) (3.1);
   3. purchasing councils (purchasing managers only) (2.9); and
   4. teams involving suppliers (2.9).

9. Data about the chief purchasing officer (CPO) showed:
   a. Title- Vice president (37%); Director (36%); Manager (21%) A very wide range of titles currently are in use. For the doubly researched companies, 59 percent changed title since 1988.
   b. Age - The average age was 50.
   c. Education - 95 percent held at least a bachelor’s degree; 39 percent held an advanced degree. The bachelor’s degrees were: Business (58%); Engineering (19%); Liberal (12%) and Other (11%). These percentages were almost identical to those of 1988. The most common graduate degree is an M.B.A. (70%) or Master’s in Management (12% percent had Ph.Ds.
   d. Years in Present Position - 6 years, the same as in 1988.
   e. Years with Present Employer - 18 years, the same as in 1988.
   f. Year of Functional Experience - Purchasing (16.3); Operations (4.6); Other (2.1); M: Engineering (0.9); Accounting (0.9); Marketing (0.8); Finance (0.7); and Traffic/Distribution/Logistics (0.3). These figures are somewhat different from those in 1988.
MIS showing the largest percentage increase.

10. The largest change expected by 2000 is in the area of integrated systems development (4 percent).