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Assessment of Procurement Function Significance in Value Chain Model

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Background: In the increasingly globalised world it is important to conduct business activities that produce a value-based good or service. In a largely globalised commercial environment, the products and services would be homogenous to a large extent. The effects of globalisation have caused substantial changes in the business and commerce operations. The conventional view to conduct business operations has undergone a paradigm change. Hence, it is essential that the fundamental principles that have been established with regards to the conduct of production and service are also revisited in order to assess the need to redefine certain elements of the established business principles.

Keywords: *procurement, supply chain management, value chain, porter's value chain, competitive advantage, sustainable procurement.*

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Assessment of Procurement Function Significance in Value Chain Model

Shihabeldin Elawad Abdelhadi

Abstract- ***Aim:*** The purpose of this article is to evaluate the role and contribution of procurement function in achieving firm's competitive advantage within the value chain model whilst also retaining the fundamental principles and philosophy of the Porter's value chain system.

Background: In the increasingly globalised world it is important to conduct business activities that produce a value-based good or service. In a largely globalised commercial environment, the products and services would be homogenous to a large extent. The effects of globalisation have caused substantial changes in the business and commerce operations. The conventional view to conduct business operations has undergone a paradigm change. Hence, it is essential that the fundamental principles that have been established with regards to the conduct of production and service are also revisited in order to assess the need to redefine certain elements of the established business principles.

Main findings: Whereas, the significance of procurement cannot be diminished, it is however not sufficient to regard it as being a central source of competitive advantage. It is essential that every aspect of the value chain is delivered appropriately in order to add value and create competitive advantage.

Conclusion: Procurement can then not be regarded as a primary value adding activity; not withstanding its necessity in support function for value addition. However, sustainable procurement can be regarded as a source of competitive advantage if it contributes directly in the creation of value.

Keywords: procurement, supply chain management, value chain, porter's value chain, competitive advantage, sustainable procurement.

I. Introduction

The aim of the study is to conduct literature review for the analysis of the procurement function in the Porter's value chain management and its position as a competitive advantage of an organisation. There are primarily two sources of competitive advantage for an organisation. One is the resource-based competitive advantage in which a unique resource which is not available to other competitors is in possession of the organisation. The other is the positioning competitive advantage in which the organisation places itself in such a position in the market due to its strategic manoeuvring, that it achieves an edge over its competitors. Hence, value chain management is strategic to an organisation which can be utilized as a source of positioning competitive advantage.

a) Background of the study

In the increasingly globalised world it is important to conduct business activities that produce a value-based good or service. The idea of globalisation is a largely accepted one and there have been several initiatives undertaken to achieve this aspect. The many free trade agreements and establishment of free trade zones and economic unions are the milestones to the complete advent of globalisation. In a largely globalised commercial environment, the products and services would be homogenous to a large extent. This is because globalisation would give rise to intense competitions between businesses. Hence, there is a likely possibility of the customers having complete information about the product they intend to buy and those products being largely similar [1].

In order to market the products in a manner that fulfils the demand criterion of consumers profitably, it is essential that value added products are being produced. In this context, the application of Porter's value chain management is highly strategic. In the many aspects of the value chain, procurement has gained significance in the present globalised scenario. Procurement can be utilised as a strategic aspect of the organisation and can also be developed as a source of competitive advantage over competitors. Therefore, it needs to be analysed whether procurement be placed as a support activity in the Porter's value chain, and how it can be the central source of an organization's competitive advantage [2].

b) Problem Statement

The problem with procurement as a support function of value chain management is that at many times it constitutes as a central competitive advantage of the organisation. Hence, if it is to constitute as a central source of the organisation's competitive advantage then it may not necessarily be placed with the support activities in the Porter's value chain management. In order to analyse this aspect, it is necessary to comprehend the entire value chain system so that it can be determined as to how value is created by applying the value system [3].

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A value chain management system is described as the collection of activities that a firm which operates in a given industry undertakes to add value to the product or service in the market. The many activities of the organisation include inbound logistics, operations, outbound logistics, marketing and sales, and services. These activities are regarded as the primary activities. In order to support these activities, there are other elements which would contribute to the efficient delivery of the primary activities and add value to the product or service. These are the firm infrastructure, human resources, technology development and procurement. These are known as the support or secondary activities in the value chain management [4].

c) Significance of the Study

The study is considered unique in the sense that procurement has generally been accepted as a support or secondary activity as a matter of principle in the value chain. The study has taken into perspective the shifts in the commercial and economic practices around the world, particularly the phenomenon of globalisation and its relative impact. It has been observed that the business practices have been redefined in the last half part of century. Therefore, the study seeks to analyse the possibility of redefining primary business philosophies for its compatibility with the latest and ever changing business practices. However, the study seeks to adopt an open-ended method regarding the existence of this possibility, as it would be over-ambitious to deduce that change in business practices is inevitable.

The aspect of supply chain and procurement has also gained central importance and is regarded as a strategic aspect of business operations. Most businesses have employed variety of strategies in order to exploit the different means of procurement and supply chain, and in most cases this element has also emerged as a source of competitive advantage in business operations. Therefore, the study has benefitted from a variety of cases to establish whether the aspect of supply chain and procurement can be regarded as primary activities.

d) Study Aims and Objectives

The world has undergone an overhaul in terms of its trading and commercial activities over the last fifty years. It was once considered that mass production is an essential strategy to gain market share. However, this idea has declined over the period of time and the focus has now shifted to value of the product. The businesses now tend to optimize the quality of the product in the production methods. The quality of the product is the competitive advantage in contemporaneous business world that provides the benefit of competitive advantage.

The purpose of this article is to evaluate the position of procurement and value chain as a support function in the value chain management whilst also retaining the fundamental principles and philosophy of the Porter's value chain system.

- To study the significance of procurement and supply chain in the recent developments in order to place it as a support function.
- To analyse whether sustainable procurement can create competitive advantage for an organisation by its direct contribution in the value chain system.

e) Research Question

- In the perspective of its strategic significance, is it appropriate to include procurement function as one of the support activity in the Porter's generic model of value chain management?
- Is it possible to achieve competitive advantage for an organisation by direct inclusion of sustainable procurement in value creation?

II. Literature Review

In this section literature regarding the value chain management and procurement would be analysed. Additionally, it would also be analysed whether the competitive advantage can be achieved if the organization contributed directly in the value creation.

a) Value chain system

A value chain management system is a cluster of different activities that are undertaken for adding value to the product or service. The activities in the value chain system are categorised into primary and support activities. The primary activities consist of the inbound logistics, operations, outbound logistics, marketing and sales, and services. However, these are the executional activities prior to launching of a product or service. These activities are supported by procurement, technology development, human resources and firm infrastructure. These are called the secondary activities. It is essential that for value addition, both activities need to be delivered in a combined manner. It is a combination of support and primary activities that adds value to the product or service.

A value system consists of suppliers that provide the essential inputs to the organisation along with the value chain. The firm creates the product or service which is then passed through value chains of distributors till the customers. The chain which is initiated from the supplier to all the way to the customer is what is described as the value chain. It is essential that every aspect of the value chain is delivered appropriately in order to add value and create competitive advantage.

b) Literature relevant to procurement and value chain system

Ndanga, Quagraini, Ngugi, and Amadiva [5] conducted a study on the assessment of value chain

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system in the fisheries activities of Kenya. The article has described at great length about the impact of the application of Porter's value chain system and how the fishing industry can benefit from it. It mentions how the supply was strategic in adding value to the fisheries products till its ultimate supply to the customer. The study observed that the supply chain and more specifically procurement of fisheries need to be made further effective to create value. In essence, the procurement element can be utilized to contribute in creating value to the supply chain.

Cheng, Cantor, Grimm, and Dresner [6] also conducted review of how supply chain has gained the central and strategic importance in the United States manufacturing industries. The most pertinent instance of this is that of the Silicon Valley. The strategic aspect of its humungous economies of scale is the supply chain and procurement aspect. It is essentially a facility where the suppliers are located at close proximity, the central aspect of value chain system stands achieved. The primary activities of the firms are well supported by the secondary activities which is evident from the economies of scale it achieves. In a closer assessment, it can be observed that it is in fact the procurement that allows the achievement of the entire elements of the value chain. The case is not different for the other United States manufacturing industries that procurement has a central position in the achievement of economies of scale, which is translated in the form of competitive advantage.

Beheshti, Oghazi, Mostaghel, and Hultman [7] also conducted a similar study based on the analysis of Swedish manufacturing industries. The value chain management is important to the success of the industries. However, the study observed that procurement is effective as a supporting function to the primary activities of the firms. This is essentially because of the fact that procurement is considered as a fundamental or raw form of product. The primary activities consist of those elements that are conducted for the final delivery of the product. Thus, where supply is considered strategic, it is not necessary that procurement would then perform a primary role in the value addition of product or service.

Bharati and Chaudhury [8] also conducted literature reviews to analyze the significance of supply chain and value addition in the value chain system. The study investigated that competitive advantage can be achieved for a firm if the aspect of procurement has direct contribution in the system of value addition. Additionally, the study also outlined the role of technology as a strategic factor in adding value to the products and achieving competitive advantage. However, the study did not obtain significant evidence to conclude that procurement could be considered as a primary function. The study observed that the outsourcing function is an evidence of how it is not necessary that procurement would obtain competitive advantage in the event of its direct contribution in the value chain.

Lengnick-Hall, Lengnick-Hall, and Rigsbee [9] assessed variety of literatures to analyze the significance of sustainable procurement as a source of competitive advantage by its direct contribution. The study observed that the contribution of sustainable procurement is necessary to create competitive advantage; however, this aspect alone is not sufficient. It is essential that the entire support functions contribute directly for the creation of competitive advantage.

III. Methodology

The main purpose of the literature review was to determine whether procurement could be considered a primary function in the value chain system. This part would define literature review and its importance for being relevant for the study.

a) Literature Review

The literature review is described as a systematic approach for identification and retrieval of the bibliographic material for the management of autonomous studies. The objective for the study was to identify information that can be considered useful for application and defining the future strategic operations. In order to investigate the subject on procurement and value chain system, five peer-reviewed studies have been selected which sheds light on this issue and contains vital information in this aspect. This can be regarded as secondary research on the matter as this would not be first-hand information or input from the field. However, the intellectual input of experts and established studies forms the foundation of effective study and the primary research. The input of these studies have been significant in the contribution of the research paper.

b) Searching Approach

In order to evaluate the significance of procurement in value chain and its contribution in creating value for the firm, it was important to conduct inclusive review of most of the studies. In this regard, the databases that were accessed were the ProQuest, EBSCOHOST and Harvard Business Review. The keywords that were applied for this purpose included procurement, value chain management, procurement competitive advantage. The bibliographic references for the articles and studies were also explored from the mentioned databases.

IV. Discussion and Analysis

The aspect of supply chain and procurement has also gained central importance and is regarded as a strategic aspect of business operations. Most businesses have employed variety of strategies in order

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to exploit the different means of procurement and supply chain, and in most cases this element has also emerged as a source of competitive advantage in business operations [10].

In order to market the products in a manner that fulfils the demand criterion of consumers profitably, it is essential that value added products are being produced. In this context, the application of Porter's value chain management is highly strategic. In the many aspects of the value chain, procurement has gained significance in the present globalised scenario. Procurement can be utilised as a strategic aspect of the organisation and can also be developed as a source of competitive advantage over competitors. Therefore, it needs to be analysed whether procurement be placed as a support activity in the Porter's value chain, and how it can be the central source of an organization's competitive advantage. Furthermore, it is also important to analyse how the procurement function can contribute directly into the value chain and create value. It is also important to consider the global trends of outsourcing and how this is also utilized as a source of competitive advantage with regards to procurement.

The Ndanga, Quagraini, Ngugi, and Amadiva [5] assessed that fish industry in Kenya and the method in which the value was added to their products. This is a pertinent instance of how the aspect of procurement and supply was employed as a strategic tool from the Porter's value chain system. However, the study did not elaborate in how the application of procurement can be described as a source of competitive advantage for Kenya's fisheries industries. Cheng, Cantor, Grimm, and Dresner, [6] also conducted review of how supply chain has gained the central and strategic importance in the United States manufacturing industries. The case is not different for the other United States manufacturing industries that procurement has a central position in the achievement of economies of scale, which is translated in the form of competitive advantage. However, the study did not mention how procurement can be regarded as a primary activity as value is added on the products that are not finished. Procurement is an activity that involves extraction process particularly in the case of manufacturing industries. The Lengnick-Hall, Lengnick-Hall and Rigsbee [9] study also stressed upon the significance of sustainable procurement and its utilization as a source of competitive advantage. However, the study observed that it is of micro-strategic importance and that in order to achieve macro-strategic significance, it is essential that all the functions of support activities contribute for adding value to the product or service.

The Bharati and Chaudhury [8] study also delved in length about the supply chain and its strategic significance in adding value to the product. The exclusive contribution of procurement in the value chain has been discussed and how it can create a source of competitive advantage for the business. The study, however, lacked the elaboration of whether this can be regarded as a positioning or resource-based competitive advantage. It is possible that procurement can be regarded as resource-based competitive advantage. In this case, it cannot be taken as a generic principle that procurement serves the primary function in value chain. The Beheshti, Oghazi, Mostaghel and Hultman [7] analysed the role of procurement as a supporting activity in spite of its strategic significance in adding value to the product. The study concluded this from the analysis of the Swedish manufacturing industries. The study explains that the procurement function is primarily the extraction of raw inputs and therefore, does not contribute in the final execution of the product. However, this process is important in supporting the execution process; thus, it cannot be constituted as a primary activity in the value chain system.

V. Conclusion

Value chain has gained much significance in the contemporary commercial and business environment of the globe. Hence, the supply chain has formed strategic importance in the conduct of business operations. In this regard, it is essential to question that in the contemporaneous context, is it necessary to include procurement as part of the support function of the supply chain particularly when the later has gained strategic importance. Whereas, the significance of procurement cannot be diminished, it is however not sufficient to regard it as being a central source of competitive advantage. This would not be compatible with the holistic perspective. Furthermore, the purpose of value chain system is to add value to the product or service. Hence, procurement is a process that is undertaken to provide raw materials to the primary activities which then add value to the product for its final delivery to the customer. Thus, procurement can then not be regarded as a primary value adding activity; not withstanding its necessity in support function for value addition. However, sustainable procurement can be regarded as a source of competitive advantage if it contributes directly in the creation of value.

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