

The importance of sustainable purchasing management essay

[Business](#), [Management](#)



[Type the document subtitle] | AnithaNeo Reconia Sys - 2011[Type the document title]Using the case study, relevant B203 A course materials, and E-library sources, discuss the importance of sustainable purchasing and supply for organizations in gaining competitive advantage. In your essay, make sure to discuss: The concept of procurement. The benefits that effective purchasing and supply brings to a business. The importance of a good purchaser and supplier relationshipThe concept of competitive advantageHow the selection of a reliable supplier is such an important issue in creating advantage. Support your answers with examples.

Answers:

Introduction:

Purchasing and supply also known as procurement may appear to be a hidden function in many organizations. In fact, procurement is a highly strategic role, whether the organization is manufacturing or service-orientated, in the public or private sector for profit or not. Procurement is complex. It covers the full supply chain from contracts (negotiating), procurement (purchasing) and logistics (storage/distribution). All businesses need inputs in order to be able to operate. These might be physical inputs, such as raw materials, like engine components for a car manufacturer. They may also be service-based, such as specialist engineering consultancy when trailing new technology or distribution services for a high street retailer. It is vital that inputs not only meet the required and reliability standards, but also those they are competitively priced. Opito 17 Diagram 1Supply chain management is a set of approaches utilized to efficiently integrate suppliers,

manufactures, warehouses and stores, so that merchandise is produced and distributed at the right quantities, to the right locations and at the right time, in order to minimize system wide costs while satisfying service level requirements. For the oil and gas industry with its high levels of risk, the Chartered Institute of Purchasing & Supply (CIPS) is providing training to improve the efficiency and effectiveness of purchasing and supply. OPITO, the focal point for skills, learning and development in the oil and gas industry, undertook a labour market survey of the industry which identified a sector wide skills shortage. Oil & Gas UK then undertook a supply chain specialist for the oil and gas industry.

The importance of sustainable purchasing and supply for organizations in gaining competitive advantage:

The responsibility of an organization, the impact of its decisions and activities on society and the environment, resulting in transparent and ethical behavior which: Contributes to sustainable development, health and well-being of society. Takes into account the expectations of stakeholders; Upholds the law in force and is in line with the international standards of behavior; It integrated into the organization as a whole and implemented in its relationships. All types of organizations, whether businesses, non-governmental organizations or public institutions, operate within a chain in order to fulfill their mission. All products and services are purchased for the provision of other products or services. Sustainable management of the value chain implies that the organizations use their purchasing power and their influence in their dealings with suppliers and clients in order to induce positive changes, the ultimate goal being to improve social

and environmental performances of an entire chain of products and contributors. A sustainable procurement policy is generally part of a broader approach to social responsibility. The choice of developing ecological products, for example, will induce a behavioral change in the purchasing department. The establishment of a sustainable procurement policy can also be the starting point for the development of a Corporate Social Responsibility (CSR) strategy on all company activities. Therewith, ISO 26000 recommends organizations to question the environmental and societal impacts of their activities and decisions in seven dimensions: First it is obvious that the future of the Sourcing and Procurement is a real move from a "cost-saving oriented" approach to a real contribution to the corporate value creation. In particular, through an incremental or a disruptive innovation process, but also as a competitive advantage. Sustainable Procurement can be part of this change when aligned with company strategies. This objective is more profitable than the current prevailing risk management approach.

The concept of procurement.

Procurement or commonly known as supply chain in the oil and gas industry, for quite some time was not taken seriously by players in an industry where technical advancement and time were the core values aiming only for fast exploration and high production of oil and gas. It was initially considered a "soft issue" in the industry until players beginning to realize that 80% of all operating expenses were spent on the supply chain system. They also noticed that they can either make or break the project if careful attention and precautions on the procurement or supply chain system were not taken

seriously especially when the business environment was demanding while exploration and production were challenging and pushing them to their limit. Example: The most recent example is BP oil spill which costs the company huge amount that it has to sell assets in many countries including Vietnam, Venezuela, Indonesia, Egypt, Canada and USA to finance the cleaning up the oil spill in Gulf of Mexico (Reuter, 2010).

The benefits that effective purchasing and supply brings to a business.

The oil and gas industry is divided into the 'upstream' and 'downstream' operations. Upstream involves exploring for oil and gas and extracting it safely. The downstream part of the industry is concerned with refining, distribution and sales. The oil and gas industry has very long supply chains. Many companies may be involved in supplying the materials, components and services at different stages and across the various processes involved in extracting, refining and distributing oil and gas. Procurement becomes even more important in this type of global operation. A company such as BP sources services and supplies from many different countries. These include mechanical and electrical parts, professional services such as project management or legal expertise for drawing up contracts. Example: To help improve safety and quality of supply, BP is introducing safety performance indicators into contracts of suppliers involved in high risk activities. Suppliers who do not meet these standards may be removed from contracts. As part of this safety focus, BP is also planning to reduce use of agency staff in procurement roles and boost its in house expertise in supply chain management.

The importance of a good purchaser and supplier relationship

The importance of emotions on interpersonal relationships and show with several case studies how interpersonal emotions of boundary spanning personal influence the development of buyer-supplier relationships. The key role of boundary spanners in collaboration efforts is supported, who emphasize the importance of analyzing interpersonal aspects of collaboration in their work on joint product article focuses on the role of positive and negative emotions in salesperson-customer interactions in business-to-business relationships. Example: Toyota has developed relationships with suppliers to stimulate knowledge sharing and to improve organizational performance. IBM established the Partnership World program and offers various benefits to members of the program. Also other companies, such as Microsoft and Boeing have established special programs for their key suppliers. The critically of developing supplier relationships is also emphasized by CAPS Research (Carter et al. 2007), who stress that well developed supplier relationships are important assets to firms.

The concept of competitive advantage

Risk management has been regarded as primarily threat avoidance or consequence mitigation. The concept of risk still carries an overwhelmingly negative connotation and hazards and perils for the upstream oil and gas industry still fall primarily into the following areas: Running afoul of regulatory or legal requirements Fear of catastrophic consequences Non-compliance with internal company standards or board-level directives Upsetting of public and shareholders relations Example: The

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production of heavy oil in Venezuela and deep offshore operations in the North Sea and the South Atlantic. National companies may also be less concerned with short-term economic costs.

How the selection of a reliable supplier is such an important issue in creating advantage.

Reliability is a crucial factor in supply, both of quality and timing. If supplies are of poor quality, delivered late or cost more than was agreed, this will affect productivity and profitability. If production is delayed or faulty products need to be scrapped, this can reduce profits. Poor quality inputs could also affect the safety of the process a major consideration in the oil and gas industry. Example: The linkage between domestic and international aspects of energy policy: the issue of increasing domestic oil production must balance the environmental consequences of increased production against the benefit of demonstrating resolve to other countries.

CONCLUSIONS:

Well managed procurement ensures that supplies of the required quality are available at the right time, place and cost. Supply chain managers help to:

- Reduce costs and improve profitability bulk buying can provide economics of scale.
- Reduce waste by selecting inputs that generate less waste and also lower costs.
- Manage demand (just-in-time supply)
- Improve cash flow by securing favorable prices and payment terms
- Improve efficiency by making sure supplies hit deadlines.
- Improve the competitiveness of the business by seeking out innovative products and services to add value.

In the oil and gas industry, where safety is a central concern, effective management of

purchasing and supply is a vital role. Its procurement managers need to have good people skills, sound common sense, commercial and business skills and the ability to communicate appropriately at all levels.