

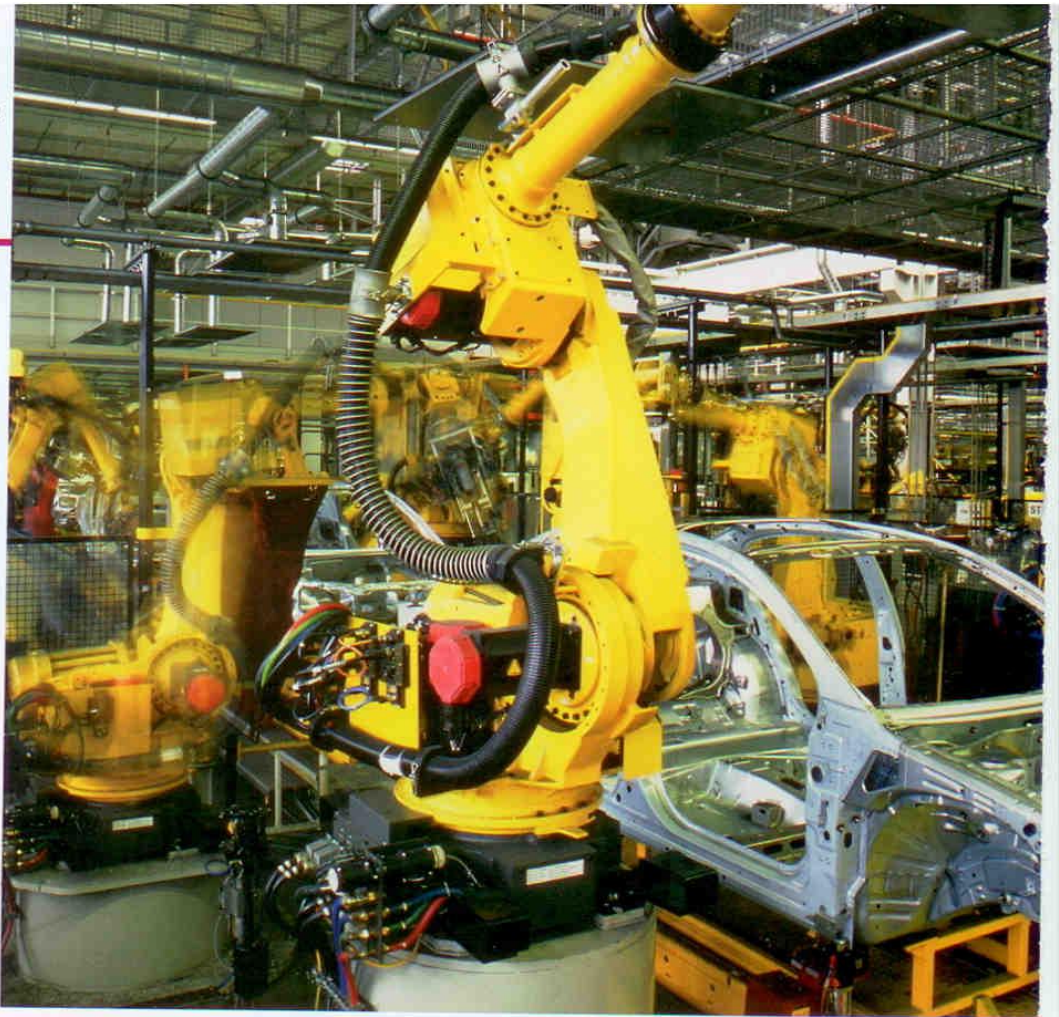
Productivity

Text Graham Hubbard

Photo Dreamstime

Key Points

- > In the wake of the GFC, procurement is being called on to make a more strategic contribution.
- > Australasian organisations perform at an 'average' level compared to global standards.
- > Procurement has significant potential to disproportionately influence productivity in organisations.



Procurement boosts productivity

*It is generally accepted that procurement can deliver cost savings and efficiency improvements, but can procurement actually boost productivity and add value to the economy? That's a question considered by **Graham Hubbard**.*



Graham Hubbard is a CIPSA foundation professor and former member of the Steering Committee. He was professor of Strategic Management in the School of Business at the University of Adelaide.

It is estimated there are approximately 50,000 people working in procurement in Australia and these professionals influence about 60% of their organisation's 'spend', according to an April 2010 *Procurement Professional* article by Guy Callender. Put simply, if procurement practices and processes in Australia were to improve by 2% to 4% a year, the result would be a boost in productivity of between \$15billion and \$30billion per annum.

So how do we recognise and measure productivity, how do we improve productivity and what benefits will it bring?

In practice, 'national' productivity is simply the sum of the productivity of all the organisations in the economy, while productivity growth rates measure the increase in outputs for a given level of inputs.

At the organisational level, the faster productivity grows, the more efficient the organisation is and the more benefits there are to distribute. At the national

level, the faster productivity grows, the higher the overall standard of living and the more competitive organisations and industries are in national and international arenas.

National productivity growth has been declining in Australia over recent years (see Figure 1) and, according to OECD calculations, Australia lags behind its international peers as well. It's becoming the primary macro-economic issue facing Australia and, increasingly, a political issue.

While the concept of productivity is easy to understand, the realities of measuring it, particularly at the national level, are complex.

For instance, in retail, productivity is measured in sales per square metre; in mining, it's tonnes per employee; and in consulting or professional services, it is measured in charge-out hours. In not-for-profit, service-based and government organisations, the concept is not particularly clear as the 'output' is difficult

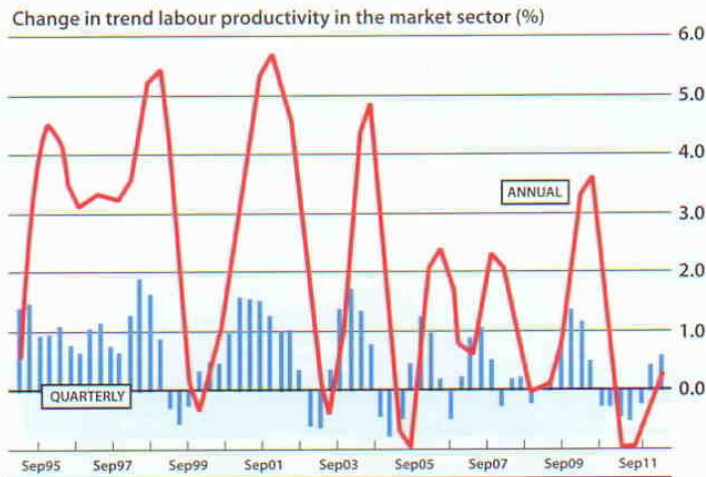


Figure 1: Recent productivity performance in Australia

to measure. Nevertheless, within each organisation, there will at least be some concept of how to measure productivity.

To determine a national productivity measure, sales in dollars are generally used as the 'output', while employees or employee hours are used as the 'input'. This produces a measure called labour productivity (sales/employee or sales/labour hour).

However, the efficiency or productivity of employees is influenced by capital investment, technology, management systems, organisational structures and cultures, motivation, reward systems in the organisation as well as macro-environmental factors such as government policies, regulations, market demand, and local and international competition. To reflect this, multifactor productivity, which measures the outputs per unit of labour and capital, can be calculated. There are other variations and calculations that clearly show measuring productivity beyond the organisation level is fraught with difficulty.

Given national growth can be up to 2-3% p.a., small changes in any of the above can have a disproportionate impact on the very small number at the end. In other words, measures of national productivity are likely to be highly sensitive and unreliable.

Having said that, productivity can be increased in four ways:

- > Making more output from a given input;
- > Making the same output from fewer inputs;

- > Selling outputs at higher prices (when quality is increased);
- > Buying (same quality) inputs at lower prices.

Each of these results in higher surpluses, which can translate to higher returns to shareholders, higher payments to employees, suppliers or governments, higher value to customers, or some combination of these.

Procurement priorities pre- and post-GFC

In the business world of 40 years ago, the role of professional procurement in Australia was a simple one: price reduction. It's easily said, but not so easily achieved in a service-based economy at the tip of the global supply chain. As time went on and in the lead-up to the GFC, procurement professionals got more involved in the corporate purchasing decision - both upstream and downstream. And in the wake of the GFC, procurement is being called on to make an even more strategic contribution, providing significant benefits including:

- > Bringing certainty to the cost base;
- > Securing supply lines and improving time-to-serve;
- > Ensuring responsible, sustainable supply solutions;
- > Aligning goals to strategy or policy;



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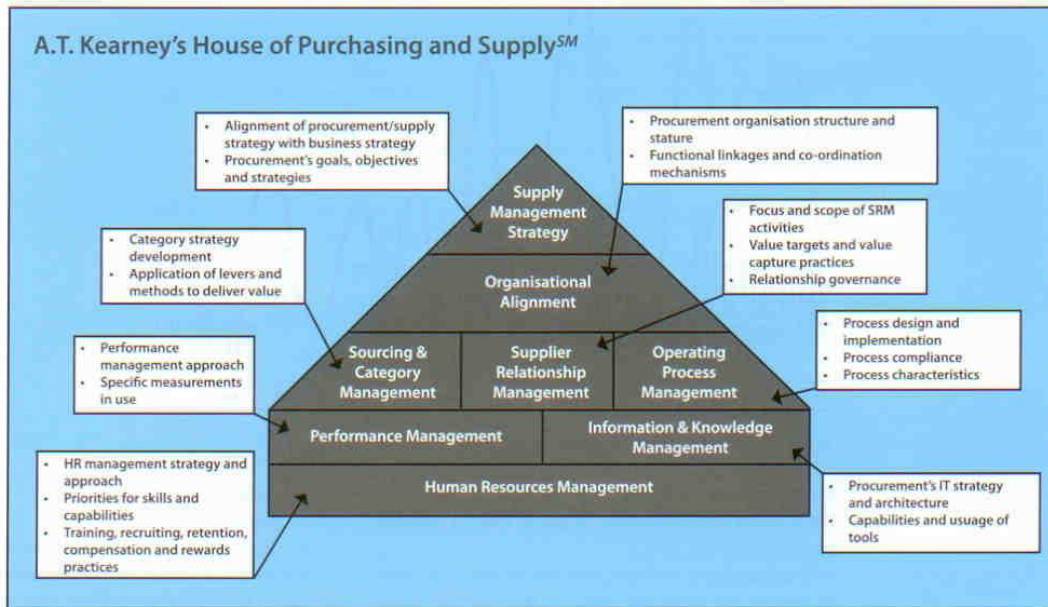


Figure 2: The framework developed by A.T. Kearney that outlines eight areas of activities where procurement professionals can create value.

- > Driving procurement beyond compliance;
 - > Protecting brand reputation (think Nike);
 - > Adding value commercially;
 - > Growing competitive advantage.
- Each of these benefits contributes directly to improving productivity. This is especially true in an outsourcing context, as a key driver for the outsourcing decision is often extra efficiency. Hence, procurement can play a disproportionate role in growing national productivity.
- > A larger proportion of government research grants focused on procurement activities to encourage and support new innovations;
 - > Recognition of the profession's skills shortage and skills gaps requiring prioritised skilled migrants in the annual immigration scheme;
 - > Assisting the profession to incorporate more sustainable and socially responsible procurement skill sets to enhance the long-term viability of economic development here.

Assessing excellence

In 2011, A.T. Kearney partnered with CIPS Australasia for the Australia and New Zealand sample of its global quadrennial survey of Assessment of Excellence in Procurement (AEP). Broadly speaking, the survey found firms in Australia and New Zealand achieved a performance rating of only 'average' compared with global organisation practices.

These results indicate that the actual productivity and net contribution of the Australian procurement profession can be greatly improved - just by achieving existing global best practice. Indeed, there is great scope for improved productivity even if the bottom-performing Australian firms performed at the level of the top performers. For instance, increased professional training in leading-edge procurement practices leads to better procurement and increases organisation productivity.

The national productivity debate demonstrates that productivity can also be improved by supportive government policies that could include:

- > Assisting in developing procurement training and education programmes at all levels – TAFE, degree and in-house organisational programmes;

Conclusion

Productivity is important at both the organisational level and the national level. Procurement as a profession has significant potential to disproportionately influence productivity in organisations through the wide scope of its activities and influence. According to a recent global benchmarking study, Australian procurement organisations are currently only performing at average levels. While procurement professionals have much work to do themselves to improve their performance, governments - by directly assisting the profession in a number of ways – could greatly assist this potential productivity improvement, thereby bringing significant economic benefit to the people of Australia.

As the fastest-growing profession in Australia, it appears key elements of business here have already recognised and experienced the benefits of professional procurement. It's time for government to invest more.

