TOPIC SIX: MEASURING PURCHASING AND SUPPLY PERFORMANCE

Performance measurement is a determination of what a program accomplishes and whether desired results are being achieved.

Performance measurement is the process of determining how successful organizations / individuals have been in attaining their objectives

Performance measurement is the ongoing monitoring and reporting of program accomplishments, particularly progress towards pre-established goals.

Performance measurement is like a speedometer, compass or mirror of a vehicle portraying information about past, current and expected positions of the organization

Significance of performance measurement

- ✓ It will lead to continuous improvement
- ✓ It helps to account for the resources used
- ✓ It helps to forecast the future progress
- ✓ It helps to utilize the opportunities and cope with the trend
- ✓ It helps to identify the possible risk and ways to encounter them
- ✓ It helps to recognize and reward employee’s effort
- ✓ To improve efficiency and enhance service delivery
- ✓ It is a tool of management

Some difficulties in measuring purchasing performance

- ✓ Lack of definition concepts such as purchasing performance, efficiency and effectiveness are often not clearly defined or are used interchangeably.

- ✓ Lack of formal objectives and performance standards: The problem is as a result of purchasing practitioners being unaware of such standards or unwilling to apply them.

- ✓ Problems of accurate measurements: Basically purchasing is not an isolated function; purchasing performance is the result of many activities which, due to their intangible character are difficult to evaluate. In general, direct input-output relationships are difficult to identify; this seriously limits the possibility of measuring and evaluating purchasing activities in an accurate and comprehensive way.

- ✓ Differences in the scope of organizational purchasing function: Purchasing is not a homogeneous activity and with such factors as status, responsibilities, organization, policies and procedures, it differs widely from one enterprise to another and those differences preclude the development of uniform measurement systems, so they also detract from the attention given to purchasing performance evaluation.

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Measurement of purchasing performance is however important for all organizations as:

- ✓ If an activity cannot be measured, it cannot be effectively managed, nor can continuous and sustainable improvements be made.
- ✓ Measurement is critical for maintaining the competitive edge of companies in an increasing crowded global market place.

Performance measurements in purchasing and supply

Organization should take into consideration on some of the key performance indicators (KPI's) or some of the metrics that will inform whether the purchasing function is performing to the set standards.

- ✓ Reduced lead time
- ✓ Improved quality standards
- ✓ Meeting specification of the user department
- ✓ Purchasing at the right price
- ✓ Compliance with the organizational policy
- ✓ The level of inventory turnover
- ✓ The level of stock out experienced in the organization etc.

Factors to consider in measuring purchasing and supply performance

- ✓ Lead time
- ✓ Financial resources i.e. resources should be adequate
- ✓ The framework in the organization either in public or private i.e. they use different policies
- ✓ The competency of staff
- ✓ The level of technology

Methods used in measuring purchasing and supply performance

- ✓ Benchmarking
- ✓ Management by objective (MBO)
- ✓ Budgets
- ✓ Cost saving measures
- ✓ Accounting or profitability measures

Benchmarking

Benchmarking is defined as the process of measuring products, services, and processes against those of organizations known to be leaders in one or more aspects of their operations.

Benchmarking is simply the process of measuring the performance of one's company against the best in the same or another industry.

Benchmarking is basically learning from others. It is using the knowledge and the experience of others to improve the organization.

It is analyzing the performance and noting the strengths and weaknesses of the organization and assessing what must be done to improve.

Benchmarking is used by management or strategic management in an organization to evaluate or assess various aspects of their processes in relation to best practice.

Reasons for Benchmarking

There are several reasons that benchmarking is becoming more commonly used in industry;

- ✓ Benchmarking is a more efficient way to make improvements.
- ✓ Managers can eliminate trial and error process improvements
- ✓ Benchmarking speeds up organization's ability to make improvements.
- ✓ Compare business practices with those of world class organizations
- ✓ Challenge current practices and processes
- ✓ Create improved goals and practices for the organization
- ✓ Change the perspective of executives and managers.

Objectives of Benchmarking

- ✓ Becoming competitive
- ✓ Improving industry best practices
- ✓ Defining customer requirement
- ✓ Establishing effective goals and objectives
- ✓ Developing the measures of productivity

Advantages of Benchmarking

- ✓ It helps improve process effectiveness
- ✓ Helps in cost reduction
- ✓ It provides focus in planning operations
- ✓ The sharing of information may create opportunities for innovations
- ✓ It assesses the firms existing position and provides a basis for establishing standards of performance
- ✓ Cross comparison are more likely to expose different ways of doing things
- ✓ It provides evidence for additional resources
- ✓ Provides an avenue for change in clinical practices.

- ✓ Improved Quality: Benchmarking helps organizations to continuously improve the quality of their products & services. Organizations observe the current standard, and then try to surpass that.
- ✓ Better performance: Benchmarking helps organizations overcome complacency. They continuously strive to improve their performance standards in order to stay relevant in the market.
- ✓ Leveraging strength areas: Benchmarking can also throw light on the areas where the organization is doing much better than what is observed in the market. Having this information can help organization to improve.
- ✓ It provides the basis for training personnel to improve performance
- ✓ Cultural change: It helps people to understand that there are other organizations who know and do job better than their own organization.

Disadvantages of Benchmarking

- ✓ Benchmarking is the danger of complacency and arrogance. Many organizations tend to relax after excelling beyond competitors' standards. The realization of having become the industry leader soon leads to arrogance, when considerable scope for further improvements remains.
- ✓ It implies there is only one best way of doing business
- ✓ It depends on the accuracy of the information about the competitor company
- ✓ It may be difficult to decide which activities to benchmark
- ✓ It encourages the mentality of catching up rather than being innovative
- ✓ Lack of strategic relevancy
- ✓ The benchmark may be yesterday's solution to tomorrow's problem.

Management by objectives

Management by objectives (MBO) is the establishment of a management information system to compare actual performance and achievements to the defined objectives.

It can also be defined as a strategic management model that aims to improve the performance of an organization by clearly defining objectives that are agreed to by both management and employees.

Practitioners claim that the major benefits of MBO are that it improves employee motivation and commitment and allows for better communication between management and employees. However, a cited weakness of MBO is that it unduly emphasizes the setting of goals to attain objectives, rather than working on a systematic plan to do so.

Budgets.

It is achieved through administration and control as this can be accomplished using an annual administrative budget for the purchasing function. The most common method is to start with the current budget and adjust it up or down depending on the business forecast, the projected workload and economic conditions.

Cost savings measures

Measures of cost savings include both cost reduction and cost avoidance. Cost reduction occurs when the unit cost is lower than the old unit cost on a stock keeping unit basis. Cost avoidance occurs when the new unit price is lower than the average quoted price.