

## Commodity team motivation and performance

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### Abstract

In this article, an in-depth single case study is presented in order to explore and discuss the functioning of commodity teams in a global sourcing context. Specifically, the study aimed at identifying factors that may influence team members' motivation to participate in activities that create opportunities for synergy and coordination of purchasing. In the teams studied, motivation appeared to be influenced to some degree by a number of factors, including rewards, leadership behaviours, goal setting, and the career goals of the commodity team members. In some cases, inconsistencies between these factors and the objectives of the commodity teams were associated with lower performance. The paper contributes theoretically by providing a rich description of how commodity teams function, and to practice by bringing attention to a number of managerial issues that should be considered when implementing commodity teams.

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### 1. Introduction

As competition becomes more intense, and companies are specialising in their supply chain, companies seek synergies especially in their overall global purchasing effort across business units (Rozemeijer et al., 2003). For any large multinational organisation, purchasing creates a central and continuing concern, as the organisation has to ensure that its various business units act so as to achieve corporate-wide synergies. The specialisation of worldwide strategic business units requires an advanced purchasing system to bind them together into an operational whole (Cray, 1984). The organisation needs to maintain an integrated purchasing system that emphasises the value of shared interest and helps leverage synergies, while granting each business unit the necessary flexibility to adapt to their particular environments. The potential for sourcing globally, reducing the supplier base, consolidating purchasing

volume, and bundling negotiation power are some of the benefits that are clearly prioritised in companies today.

However, leveraging synergies in global purchasing is not a straightforward task and encompasses far more than just centralising the purchasing function. One needs a balanced approach which takes into consideration the need for having problem-solving capabilities close to where problems occur, cost containment in each profit centre, and close relationships with suppliers (Gadde and Håkansson, 1994). In a small or single-site firm, purchasing power and knowledge is concentrated in proximity to production, sales, and product development activities. In a larger or more diversified company, obtaining advantages of a concentrated and cross-functional effort simultaneously is not physically possible. Trade-offs may be necessary regarding whether to have centralised purchasing activities for purposes of synergy within purchasing, or to decentralise activities for purposes of cross-functional synergies. A decentralised structure is generally attractive to conglomerates that have a business unit structure where each unit produces products that are unique or markedly different from those of other units. On the other hand, a

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centralised structure is preferable where several business units buy the same or similar goods, which are of strategic importance to them (Van Weele, 2005). In other words, organisational design is largely dependent on the potential product-related synergies. Most companies organise purchasing and sourcing activities in some centralisation/decentralisation hybrid. Furthermore, to increase opportunities for creating synergy within purchasing and sourcing, and to aid in coordination of the variety of activities involved, companies may choose to adopt what are referred to as commodity teams (e.g. Trent, 2004). Essentially, a commodity team is a centrally coordinated team that develops and implements company-wide strategies for a given commodity. The term commodity is used not to focus on low-value or low-risk items, but to indicate that there is some level of basic standard, market or material homogeneity to enable pooling and negotiation across business units. While Monczka and Trent (1998) concluded that the number of purchasing groups organised by commodity would continue to decrease gradually, Trent (2004) found that it was still amongst the most common ways of organising in medium–large firms.

Thus, the concept of commodity teams encompasses the same opportunities and challenges inherent to teams used in other contexts (e.g. new product development teams). However to date, there are no in-depth empirical studies found in the literature that describe the functioning of such commodity teams, the opportunities they provide nor the challenges they face. The overall objective of this paper is to begin to explore the concept and practice of commodity teams, with particular interest on identifying factors that may encourage or restrict opportunities for creating the synergy for which the commodity teams are designed.

In the following sections of the paper, a brief introduction to the concept of commodity teams is presented. Thereafter, the paper provides a review of the work team literature considered relevant to understanding the functioning of commodity teams.

## 2. Commodity teams

Daft (2004) argues that sourcing activities across product lines and business units of a diversified company are likely to be relatively independent. They are only interdependent due to the potential synergies, not due to any sequential or reciprocal dependencies. There is not necessarily any flow of work between units, and units are only interdependent due to a sense of corporate linkage and responsibility, where the success of each unit contributes to the success of the whole organisation (Daft, 2004). In spite of the very low degree of interdependence, there has been a tendency towards more and more coordination of purchasing activities (Van Weele, 2005). The degree of coordination tends to increase, but the frequency of pure centralisation is descending (Fearon and Leenders, 1995). Coordination and pursuit of synergies is taking place even between units where no corporate interdependence or sense of corporate

responsibility exists, as companies engage in buying consortia. This pursuit indicates that expected synergies are substantial, but also means that it is essential to ensure mutual benefit. Essig (2000) argued that parasite relationships or relationships where only one party benefits do not suffice in purchasing consortia. Within a company, imbalances may be tolerated due to the sense of corporate responsibility, but the situation is not far from that of a consortium, as business unit managers are primarily responsible for own financial results (Van Weele, 2005).

Trent (2004) reviewed organisational design features across a large number of the US companies, and revealed that a formal separation of strategic and tactical procurement, supply activities, personnel, positions, and structure was not common. In most companies, strategic and tactical activities appear not to be separated, but maintained in proximity with internal customers. This choice is logical in light of interdependencies in relation to product development and daily operations (Daft, 2004), but offers some challenges for the achievement of synergies across business units. To accommodate such challenges, many companies appear to make use of centrally coordinated commodity teams that develop and implement company-wide supply strategies (Faes et al., 2000; Fearon and Leenders, 1995).

Commodity teams provide one example of a coordination or pooling structure within a larger firm, typically multinational and consisting of a number of individual business units. Pooling structures are invisible in most organisation charts, as they build upon the existing hierarchy or line organisation, but join people together in, for example, teams and committees, or distribute responsibilities through lead buyer assignments. A centralised coordinator, on the other hand, is likely to appear on formal charts, and have people dedicated to tasks of coordination and corporate purchasing (Cavinato, 1992; Van Weele, 2005).

A commodity team generally consists of purchasing professionals alone, but joins actors across business units or operational units with the objective of improving the leverage of the company in order to reduce overall materials cost and/or to improve the service obtained from outside suppliers (Van Weele, 2005). Members of a commodity team are often assigned only part time, and are expected to support team assignments along with responsibilities within the local units, which they represent. However, other constellations are also possible. Fig. 1 shows teams segmented across two variables, namely time frame of the teams' assignment and the personal time commitment of each member. This figure relates to sourcing teams in general, and is therefore applicable also to the particular type of sourcing team referred to as a commodity team. Commodity teams generally have a continuous assignment pursued by part time members, but might also have dedicated full-time resources and might be able to draw on additional project resources for limited periods of time.

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