



A Short History of Procurement



CIPS Australia



Procurement is an old profession, yet it has attracted little attention from historians. Certainly not nearly as much as another profession with the same name and with which it is sometimes confused!

So where does one begin a short history of procurement? What are its origins? Is procurement aligned to the growth of trade, the emergence of large organisations, to the growth of trading blocs or to globalisation? As I soon discovered, and you will too if you read on, it also depends on which part of the overall procurement picture one starts from. It is, I must warn you, a puzzle that cannot be addressed adequately in this short review.

In an attempt to link the historical development of procurement to the evolution of procurement, let's presume that it first began with the emergence of trade perhaps 5000 years ago. There is little doubt that the need for some types of procurement policies and practises can be linked to the ensuing growth of organisations and their bureaucratic rules. These rules could also be linked to the need for standardised procedures and documents, the separation of owners and managers in private sector businesses and the requirement for transparency of public sector decisions and operations.

Due to the diversity of activities associated with procurement - defined as 'the science of buying and supply' for the purpose of this white paper - what follows could be called a 'disjointed history'. It is organised around several themes:

- incidents from the ancient history of China, Greece, Rome and the Middle East
- cameos from medieval Britain, France and Sweden
- the emergence of procurement during and after the Industrial Revolution
- reflections on procurement's astonishing tour de force during the late-twentieth century.

Throughout, I have tried to recognise some of the people and institutions who have shaped and nurtured the practices and traditions of procurement, as well as suggesting some surprising links between the procurement practices of times long gone to what we would call 'best practice' today. For example, the evolution of the contract under Greek, Roman and Anglo-Saxon Law shows a respect for trust, ethical behaviour, obligation, relationship management, not to forget terms and conditions. And we thought they were products of the twentieth century!

Procurement Developments in the Ancient World

There is strong evidence of active trade between China and what were then the city-states of the region we now call Greece nearly 3000 years ago, (according to the Chinese scholar Shen). As the centuries passed, the Silk Road from Asia to Europe provided an important transfer station for products and ideas from China and other Eastern cultures and the emerging societies in Europe. Most had quite sophisticated social networks and this trade was probably linked to the emergence of work specialisation in Greek societies as agriculture developed into cultivation and animal husbandry. Blainey (2004) suggests that possibly ten percent of the people in this region lived in villages and towns and performed non-agricultural tasks that were assisted by local as well as long distance trade and contracting.

Similarly, more self-sufficient societies also emerged around this time in Egypt and Mesopotamia where the growth of large cities, often of substantial construction, was associated with more sophisticated organisations and societies. As Roberts (1983: 73) notes:

Their brick technology was advanced enough by the end of the Sumerian period to make possible very large buildings with columns and terraces... The earliest surviving potters wheel was found at Ur... Soon, by 3000BC the wheel was being used for transport. Another invention of the Sumerians was glass, and specialized craftsmen were casting in bronze... This example of innovation... raises further questions: where did the raw materials come from? There is no metal in southern Mesopotamia... Clearly, a widespread network of contacts abroad is in the background, above all with the Levant and Syria, huge distances away, but also with Iran and Babrain, down the Persian Gulf. Before 2000BC Mesopotamia was obtaining goods - though possibly indirectly - from the Indus Valley [now the site of modern Pakistan]. Together with the evidence of documentation... it makes an impression of a dimly emerging international trading system already creating important patterns of interdependence.

Numbering systems, so essential for contracting, finance and risk assessment emerged and were eventually dominated by the decimal system in use to this day. While the machinery of trade and contracting in ancient civilisations is not well recorded, the picture changed with the emergence of Rome.

If we fast forward some 2000 years, we find that Livy, whose writings have long challenged students of Latin, recorded that following the success of the Roman armies in Spain in the summer of 215BC, the army ran short of food, clothing and pay (though probably not wine). The Roman Senate sought to relieve the position by sea, but found that the traders, who had the ships to do the job, also had some risk management policies in place. The limited number of suppliers who came forward not only negotiated over price but also exemption from military service, “while employed in that public business, [and] their shipments should be made at the state’s risk against attacks of the enemy or storms. On obtaining both their requests, they entered into the contracts, and the affairs of the state were conducted with private funds” (Livy, 15BC: 224).

Whoever thought that outsourcing, public-private partnerships and risk management were new principles? Actually the Romans created some very interesting features for their contracts that we still observe in some way today. This extract from a book written by Sir Henry Sumner Maine (1861: 261) tells quite a story:

At the earlier dawn of jurisprudence, the term in use for a Contract was... nexum, and the parties to the contract were said to be nexi... The notion that persons under a contractual engagement are connected together by a strong bond or chain, continued to the last to influence the Roman jurisprudence of Contract; and flowing thence it has mixed itself with modern ideas.

But Maine was writing just on 150 years ago. One of the challenges created by the notion of a contract was that, even in Roman times, the issues of contract management and finalisation were a difficulty. Maine records that a sale of goods contract, where the money and the goods were swapped by the parties at the time of the deal, was readily accommodated. But what happened when the delivery of either the goods or the payment was delayed? Maine (1861: 267) says that in these circumstances “the nexum was artificially prolonged to give time to the debtor”. Thus the term nexum which had originally meant a conveyance (transfer) came to be a ‘contract’ but with some important essentials: agreement (a ‘pact’ or ‘convention’) plus an Obligation.

But wait, there is more to this. Roman contracts, according to Maine (1861:270), eventually came in four versions: “the Verbal, the Literal, the Real and the Consensual” each with its own formalities to be completed before the legal obligations were enforceable. By way of simple explanation, the Verbal was a form of spoken agreement, the Literal was a form of written agreement, the Real Contract created legal duties between the parties (enshrining the sense of obligation), while Consensual Contracts comprised four types:

- *Mandatum* - what we would call a ‘commission’ or ‘agency’
- *Societas* - what we would call a ‘partnership’
- *Emtio Venditio* - our word is a ‘sale’
- *Locatio Conductio* - our usage would see this as a ‘letting’ or ‘hiring’.

The way these rules translated into our system of contracting was very complex, but the evidence suggests that most of the contractual styles we observe today, and some of the legal difficulties courts have had to adjudicate over the years, existed in Roman times.

Medieval Procurement: Some Developments in Europe

Just as the Romans established trade relations with private suppliers, the monarchs of Europe would have also needed such undertakings. For example, after his conquest of the Anglo-Saxons in 1066, William the Conqueror ordered the creation of the Domesday Book to provide a systematised record of land ownership. This complex task enabled the wealth of the nobility to be measured and for a tax system to be created. This form of supplier measurement was doubtless resented at the time but it established a basis for orderly procurement of funds and services by the Crown.

A similar clever manipulation of the supply market was allegedly undertaken by Henry VIII when he insisted that the wine grapes of Britain (once so desired by the Romans a millennium or so earlier) be uprooted and the wine to be procured from France (at least this is one view). The supply market shifted from the green fields of Britain to the fertile soils of France. The wine crossed two national borders on its way to the tables of Britain and it attracted an excise. Excise was a tax that frustrated consumers and suppliers alike, but not the excise collectors themselves who ruthlessly managed this illicit supply chain. Stories about smugglers and other types of trade across borders have provided a rich history that covers the dark side of procurement.

In France, Marshall Vauban (1633-1707) was a military engineer and a remarkable designer and builder of fortifications for the French monarchy. Vauban's contribution emerged from his insistence on qualification of suppliers whose selection was thus not just left to price. The following comments were sent by Vauban (1685:1) to his Minister (obviously in an age when public servants were permitted to provide free and frank advice):

There remains several remnants of the works of the last years that are not finished and will never be finished, simply because, your Eminence, of the confusion caused by the frequent cuts which are made to these works. Breaking of contracts, failures to honour verbal agreements and new adjudications, only serve to attract those firms which do not know which way to turn, rogues and ignoramuses, and to make those with the knowledge and capability of directing firms, beat hasty retreats.

I would add that they delay and inflate considerably the cost of these works, which are the worst since these cuts and the cheapness sought are imaginary. For the contractor is ruined, and like a drowning man who clutches at anything, he clutches at anything he can as a contractor. He does not pay the merchants who supply the materials, pays badly his employees, cheats on those he can, has only the worst, and since he is cheaper than the others, uses the poorest materials, quibbles about everything and is always crying for mercy from this one and that one.

That is enough, your Eminence, to show you the folly of this way; leave it and in the name of God, go back to plain dealing; pay the price for the works and do not deny an honest salary to a constructor who fulfils his duties; that will always be the best deal you can find.

Again in France, Bernstein (1996:3) has reported on the birth of probability theory, so valuable for the assessment of risk, in the following way: *In 1654... the Chevalier de Méré, a French nobleman with a taste for both gambling and mathematics, challenged the famed French mathematician, Blaise Pascal to solve a puzzle. The question was how to divide the stakes of an unfinished game of chess between two players when one of them is ahead. The puzzle had confounded mathematicians since it was posed some two hundred years earlier by the monk Luca Paccioli [inventor of double entry bookkeeping]. ... Pascal turned for help to Pierre de Fermat, a lawyer who was also a brilliant mathematician. The outcome of their intellectual collaboration was intellectual dynamite... that led to the discovery of the theory of probability, the mathematical heart of the concept of risk. Their solution to Paccioli's puzzle meant that people could for the first time make decisions and forecast the future with the help of numbers.*

We can also see various examples of this in Europe. Gustavus Vasa, King of Sweden, provides us with a terminal example of sixteenth century buyer-supplier relations with his oft-quoted statement (Gadde & Hakansson, 1993:1): *By virtue of the grace invested in my royal office, I have decreed unto you to forge one thousand suits of armor and ten thousand arrowheads. You have failed to obey this command! At the peril of having your heads fall to the axe, to the amusement of the inhabitants of Stockholm, in the city square one holiday eve at my discretion, I once again command you to comply with my wishes.*

Britain has been a rich source of historical procurement artefacts, having made good use of some of the most important aspects of procurement including negotiation and bargaining, strategic alliances, competitive pricing and supplier management. For around 150 years, from the start of the sixteenth century, the commercial focus of a period called the Mercantilist era was centred upon the accumulation of gold, the development of shipping (to help develop the British Navy) and a firm focus on the rise of Britain as a nation-state. Economic development was based on a national commercial perspective, supported by parliament.

This became associated with colonial power in the hands of both government and the major corporations of the time such as the East India Company and the Hudson Bay Trading Company. These companies were given monopoly power by Parliament at the expense of individual traders. It is an interesting aside that the power of the East India Company grew so great that British governments of the late-eighteenth century struggled for economic authority over the Company. For example, there is evidence that the British Government had to gain the Company's approval to create a settlement in New South Wales. However, the Mercantilism economic approach, with its focus on the accumulation of wealth through international competitive advantage, gave way to the combined influences of the increasing power of the middle classes in the Parliament and new economic ideals such as those espoused by Adam Smith.

Without being able to foresee the emergence of the Industrial Revolution of the eighteenth century, at least in Britain, the political and economic framework of industrial development was sown in the name of establishing national economic supremacy. Trade was seen to be important and as parliamentary democracy emerged, merchants and other members of the lower classes were granted a voice in the House of Commons. Thus, at the start of the Industrial Revolution, Britain had strong domestic markets, the potential of export markets and Parliamentary support for commerce. Indeed, the spirit of commerce was a driving force. Further, the notion of the Contract had developed to the point that, as Maine (1861:268) would report, it contained elements of obligation, ethical behaviour as well as the foundations of a legal relationship:

...a signification by the promising party of his (sic) intention to do the acts or to observe the forebearances which he promises to do or to observe. Secondly, a signification by the promisee that he (sic) expects the promising party will fulfil the proffered promise.

Adam Smith documented the market-managed elements of procurement (1776: 406-7) and suggested that:

...manufacturers could not afford to retail their own goods as cheap as a vigilant and active shopkeeper, whose sole business was to buy them wholesale, and retail them again. The greater part of farmers could still less afford to retail their own corn, to supply the inhabitants of a town, at perhaps four or five hundred miles distance from the greater part of them as a vigilant and active corn merchant, whose sole business is to purchase the corn wholesale, to collect it into a great magazine, and to retail it again.

Despite this rich history, in the twentieth century, status was a problem for purchasing practitioners. As long ago as 1915, Twyford (p. 11) noted that while organisations ignored the importance of purchasing at their peril, there was also “too great a tendency to belittle purchasing and treat it in a negligent and offhand manner”. However, the issue of status is gradually diminishing as an issue as enhancements to the function, activities and responsibilities of procurement professionals take hold. Business policy has also changed, particularly in relation to outsourcing; a poorly explored process which is widely practised in public and private sectors.

The Rise and Rise of Procurement

Until the technological developments of the past 20 years, conventional ideology regarded procurement as the practice-based administrative process of buying the goods and services required to satisfy the functional needs of managers. Rules, regulations, procedures and protocols were typical of the process. Procurement staff stood as financial and operating sentinels between the managers and their material requirements, centralising the supply task and creating management control over expenditure. Procurement was both a powerful and sometimes hated position with its virtual monopoly over acquisition.

Some researchers suggest that the modern evolution of procurement is characterised by the principal business and government requirements of the time. For example, Monczka, Trent and Handfield (2002) suggest that the evolution of procurement can be traced through a number of stages: emergence around the mid-nineteenth century (in their view), through a period of recognition before World War II, rapid increase in sophistication in procurement during that War, followed by a period of quiet gestation. However, in the last 35 years, the profession has moved into a period of major reform in materials management and faced the challenges of globalisation, technological change and the emergence of supply chain management.

An aside about Defence procurement is worth recording here. As Weidenbaum (1998) reports, defence “procures products that are not yet designed or for which production experience is lacking and at prices for which there is little precedent.” But that is not the entire story: defence procurement often generates extraordinary levels of contract variation.

During World War II, the Douglas Aircraft Company (Douglas) was contracted by the US military to produce the A-26, a twin-engined light-bomber. This aircraft represented a significant advance in aircraft design and technology for the period and its development and construction was painful for all parties, not the least US General Henry ‘Hap’ Arnold who is reported to have made the following observations (O’Leary, 2002:41):

‘We cannot have more A-26s although we have plenty of fuselages, but not enough wings. We could have more wings if we had more spars, but we cannot build more spars due to difficult output of machinery. We might be able to build more wings if we were able to get more machinery, but whether we will be able to get more machinery I was unable to determine, and nobody could give me the answer. One thing is certain: I want the A-26 for use in this war and not for the next war. If something drastic is not done, we cannot hope to replace the B-25s, B-26s and A-20s with the A-26.’ Although the [A26] Invader looked pretty much the same throughout its production life, the aircraft was beset by hundreds of changes; as many as 35 a day....



Those who have experienced the problems associated with product development and delivery problems, would readily identify with Arnold! And to conclude this history, it is time to jump forward to the last 30 years of this story.

By the late 1980s, the demands on procurement processes were shifting and, with it, traditional ideology and methods began to change. Procurement began to be mentioned in terms of a new concept called the supply chain (Oliver & Webber, 1982); and the importance of procurement was also recognised by Michael Porter's notion of the value chain (Porter, 1990). These changes were almost imperceptible until the capacity of computer technology became linked with the revolution in procurement processes. But don't forget these terms were not very new; the notion of the chain, for example, goes back to the Romans!

Then quite suddenly, a routine clerical process operated by "unglamorous individuals" (Stewart, 1994) and designed to control the purchasing policies adopted by an organisation began to be seen as having different potential. As part of the supply chain, procurement practitioners began to be viewed as initiators within the procurement process. Coupled with developing concepts such as total quality management, customer service, supplier performance management and just-in-time inventory management, imaginative supply managers saw the opportunity to begin to manage their supply chains through the procurement process. So, rather than assuming their segmented role of days gone by, procurement practitioners began to view the entire extended enterprise and to, therefore, strategise with other key business functions to meet organisational objectives and to add value to the acquisition process.

Developing Procurement as a Profession

Efforts to establish procurement as a profession were supported by the development of a number of professional bodies, beginning in the US in 1915 with the formation of the National Association of Purchasing Agents later to become the National Association of Purchasing Management (NAPM) and, more recently, the Institute for Supply Management (ISM). In Canada, an independent body was formed which traces its beginnings to 1919 and became known as the Purchasing Management Association of Canada (PMAC). Public sector procurement professionals in North America were later represented by a specialist institution, the National Institute of Governmental Purchasers (NIGP), which was founded in 1944 (Woods & Marien, 2001).

Europe is the home of the umbrella organisation for purchasing and materials management institutions around the world. The International Federation of Purchasing and Materials Management (IFPMM) was formed in 1974 through the amalgamation of the European Federation of Purchasing and the International Federation of Purchasing and there are a significant number of procurement-focused professional bodies in Europe and Scandinavia.

Typical of the European institutions is the Chartered Institute of Purchasing and Supply (CIPS) of the United Kingdom. CIPS, which is currently celebrating its 75th Anniversary, was granted a Royal Charter in 1992, a form of recognition that was highly significant for the profession of procurement. CIPS has a strong national and international focus and offers a range of membership levels, reflecting the experience and educational attainments of its diverse membership. Its highest levels, Member of CIPS (MCIPS) and Fellow of CIPS (FCIPS), enjoy global recognition and are widely sought after.

In Australia, the Institutes of Purchasing and Supply Management (IPSM) were formed as state-based institutions in the 1950s, long after the function was professionally recognised in North America. The Australian Institute of Purchasing and Materials Management (AIPMM) became a national body as recently as 1993 when the state-based bodies agreed to amalgamate and form a national organisation. At the end of 2004, AIPMM wound up its operations and at the start of the following year CIPS established a wholly-owned subsidiary in Australia – the Chartered Institute of Purchasing and Supply Australia (CIPSA).

CIPSA has established its credentials well in Australia and in 2007, extended its membership advantages to members of the profession in New Zealand. The structural mix of local communities and centralised control, a feature of CIPS in the UK, has emerged locally. Universities and other educational providers have become involved in meeting the formal needs of the professional and, with CIPSA, support a range of professional development pathways.

In the Asia-Pacific region, a number of institutions were formed to enable procurement and supply chain professionals to gain the benefits of professional membership and recognition. There are representatives throughout the Asian region, with professional bodies in China, Hong Kong SAR, India, Japan, Korea, Malaysia, Philippines, Singapore, Sri Lanka and Thailand, all affiliated with the IFPMM and offering a range of membership services to procurement and supply chain professionals. Practitioners in Singapore have two organisations representing their interests: the



Singapore Institute of Purchasing and Materials Management (SIPMM), which was founded in 1972; and the Singapore Institute of Materials Management (SIMM), formed in 1980.

The proliferation of professional bodies is both a strength and a weakness of the entire procurement and supply chain movement. The existence of many organisations reveals the underlying motivation of procurement practitioners to promote their new profession at local, national, regional and global levels. This is offset by the uncertainty that exists about the different branches of the profession in the areas of procurement, materials management, logistics and supply chain management. This uncertainty is not apparent from the objectives of the IFPMM, which defines the professional field of procurement as: “taken to embrace purchasing, materials management, logistics, supply chain management and strategic sourcing” (IFPMM, 2007: 1).

Perspectives on the Future of Procurement

Often seen in the past as a pedestrian ill-developed function of government and business organisations, procurement practitioners are increasingly responsible for supervising the basis on which large amounts of expenditure is undertaken. Some aspects of supply management, such as outsourcing, more sophisticated contracts management, the use of e-commerce and partnering strategic alliances, have received growing academic attention as awareness of the financial and operating impact of the profession has developed.

The emerging versions of procurement will demand a strategic focus, a customer service focus, a capacity to interpret financial, political, legal, operational and other supply chain risks, and the capacity on the part of practitioners to operate as a senior executive. The purchase requisition of yesterday has not entirely disappeared but in the organisations that have harnessed a version of e-commerce or e-business, electronic ordering will free the procurement professional to focus on the strategic issues and work to solve the existing and future challenges for procurement.

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