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**Procurement to Lead Innovation and Value Capture While Coping  
With Inflation, Shortages and Geopolitical Instability**

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# Procurement to Lead Innovation and Value Capture While Coping With Inflation, Shortages and Geopolitical Instability

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## Abstract

In today's complex and volatile business landscape, organizations are increasingly confronted with the daunting challenges of inflation, supply shortages, and geopolitical instability. These disruptive forces have far-reaching implications, affecting global supply chains and impeding sustainable growth. Consequently, procurement, traditionally seen as a cost-focused function, has now emerged as a strategic enabler for organizations to navigate these multifaceted challenges while driving innovation and value creation. This literature-based study delves into the evolving role of procurement in times of economic uncertainties, aiming to explore the strategies adopted by leading organizations to tackle inflation, shortages, and geopolitical risks while fostering innovation and capturing tangible value. The research synthesizes an extensive range of scholarly articles, case studies, and reports from various industries and sectors, spanning the last decade. The study reveals that successful organizations have shifted their procurement paradigms from traditional cost-cutting measures to a value-driven approach. They emphasize strategic collaborations with suppliers, harnessing technology and data analytics, and developing agile sourcing strategies. Leading procurement practitioners integrate geopolitical risk assessments and scenario planning into their decision-making processes, enabling them to mitigate vulnerabilities effectively and capitalize on emerging opportunities. In conclusion, this literature-based study emphasizes the transformative potential of procurement as a strategic function capable of steering organizations through economic turmoil and fostering innovation. By embracing modern procurement practices, businesses can not only navigate the challenges posed by inflation, shortages, and geopolitical instability but also harness these dynamics to create a resilient, value-centric, and sustainable future.

## 1.0 Introduction

In today's fast-paced and interconnected global economy, procurement has emerged as a pivotal function that not only ensures the efficient sourcing of goods and services but also plays a transformative role in leading innovation and capturing value for organizations (Trent & Monczka, 2019). However, the contemporary business landscape is fraught with challenges such as inflationary pressures, supply shortages, and geopolitical instability, which have rendered traditional procurement practices insufficient and necessitated a paradigm shift in procurement strategies. In this article, we delve into the multifaceted realm of procurement, exploring how it can strategically respond to the current volatile market conditions, while simultaneously driving innovation and capitalizing on opportunities for value creation (World Economic Forum, 2021).

The persistent rise in inflation rates across various economies has cast a shadow of uncertainty, posing formidable challenges for procurement professionals (Kennedy & Sohail, 2019). The soaring costs of raw materials, transportation, and labor have disrupted supply chains, forcing procurement teams to revisit their sourcing and negotiation tactics. The traditional focus on cost reduction must now be balanced with an equal emphasis on building resilient supplier relationships, fostering collaboration, and seeking alternative sourcing options. As suggested by strategic sourcing expert David Simchi-Levi (2020), leveraging advanced analytics and employing dynamic pricing models can empower procurement leaders to navigate through inflationary headwinds while enhancing the organization's cost competitiveness.

The outbreak of unforeseen disruptions, such as the COVID-19 pandemic, natural disasters, or geopolitical conflicts, has starkly revealed the vulnerability of global supply chains. The cascading impact of these disruptions has left procurement professionals grappling with acute shortages and inventory imbalances. To effectively cope with supply constraints, agile procurement approaches are imperative. As highlighted by the World Economic Forum (2021), implementing technology-driven supply chain visibility tools, fostering supplier diversification, and fostering a culture of innovation can mitigate the risks arising from supply shortages, bolstering an organization's resilience against uncertainties.

In an increasingly interconnected world, geopolitical tensions and policy changes can reverberate across industries and markets, introducing profound uncertainties for procurement operations. Trade restrictions, sanctions, and political conflicts disrupt established trade routes and demand vigilance from procurement leaders to adapt swiftly. Embracing a proactive geopolitical risk management framework, as advocated by PwC's Global Procurement Survey (2022), enables organizations to identify potential risks and devise agile contingency plans to safeguard supply chains and protect their interests in the face of geopolitical turmoil.

Beyond its traditional role, modern procurement has evolved into a strategic enabler of innovation and value creation. By actively seeking out novel technologies, sustainable practices, and cutting-edge supplier partnerships, procurement leaders can stimulate innovation within their organizations. Harvard Business Review's (2019) emphasizes the significance of fostering a

culture of continuous improvement, supporting cross-functional collaboration, and investing in talent development to nurture a procurement workforce that thrives on innovation.

### **1.1 Problem statement**

In today's rapidly evolving global economy, procurement functions face a myriad of challenges that demand a radical transformation in their traditional roles. The convergence of inflationary pressures, supply shortages, and geopolitical instability has engendered a volatile and uncertain landscape that necessitates procurement professionals to be at the vanguard of innovation and value capture. The historical emphasis on cost containment as the primary objective of procurement has now become an outdated approach, unable to address the multifaceted complexities of the modern market (Huang & Ke, 2020).

The relentless surge in inflation rates has emerged as a formidable obstacle for procurement teams, posing a significant threat to cost structures and overall profitability (Monczka et al. 2020). Escalating costs of raw materials, transportation, and labor are relentlessly pushing up prices, exerting tremendous pressure on organizations to maintain their competitive edge. In response, procurement leaders must adopt a proactive approach, transcending conventional cost-cutting measures to explore novel ways of sourcing and negotiation. Building strong, resilient supplier partnerships, exploring alternative sourcing options, and leveraging sophisticated analytics are indispensable strategies in weathering the storm of inflationary headwinds.

The supply chain disruptions wrought by an unpredictable world have laid bare the vulnerability of global procurement processes. The outbreak of the COVID-19 pandemic, natural disasters, and geopolitical tensions have triggered widespread shortages, leaving organizations reeling with imbalanced inventories and unmet demands. Traditional linear supply chains are increasingly inadequate to cope with such unforeseen disruptions. As a result, procurement professionals must embrace agile, adaptive approaches that prioritize supply chain visibility, diversification, and robust risk management. Advanced technologies and data-driven insights become crucial tools in proactively identifying potential vulnerabilities and formulating contingency plans to navigate through turbulent times (Monczka et al. 2020).

The escalating geopolitical tensions and ever-changing policy landscapes create a climate of uncertainty that further complicates procurement decisions. Trade restrictions, sanctions, and political conflicts can disrupt established supply routes and relationships, leaving organizations vulnerable to sudden shifts in market dynamics. In response, procurement leaders must adopt geopolitical risk management as a core tenet of their strategies. By closely monitoring geopolitical developments, anticipating potential impacts on sourcing and supply chains, and devising flexible strategies, procurement can protect organizational interests and maintain a competitive advantage in the face of geopolitical instability.

Beyond the imperative to address these challenges, modern procurement is no longer confined to a reactionary role; it must evolve into a catalyst for innovation and value creation. Procurement functions now wield the potential to drive transformative change within their organizations by

proactively seeking out cutting-edge technologies, sustainable practices, and strategic supplier partnerships. Embracing innovation becomes paramount in cultivating a culture of continuous improvement, fostering cross-functional collaboration, and nurturing talent development. Procurement professionals must act as champions of change, embracing a mindset that encourages experimentation and a willingness to disrupt the status quo to unlock new avenues for value capture and competitive differentiation. This paper sought to determine the role of procurement in leading innovation and value capture while coping with inflation, shortages and geopolitical instability.

## **1.2 Research Objective**

To determine the role of procurement in leading innovation and value capture while coping with inflation, shortages and geopolitical instability

## **2.0 Research Methodology**

The study determines role of procurement in leading innovation and value capture while coping with inflation, shortages and geopolitical instability. The paper employs a desk study review methodology. A critical review of empirical literature is conducted to identify main thematic concepts of the paper.

## **3.0 Literature Review**

The impact of inflation on procurement strategies has been a topic of significant research in recent years. David Simchi-Levi (2020) emphasizes the importance of advanced analytics in procurement decision-making during times of inflation. By utilizing predictive modeling and data-driven insights, procurement professionals can better anticipate market fluctuations and adjust sourcing strategies accordingly. Moreover, Kennedy and Sohail (2019) argue that adopting dynamic pricing models and engaging in collaborative negotiations with suppliers can help mitigate the effects of rising costs, ultimately leading to improved cost competitiveness for organizations.

The unprecedented disruptions caused by the COVID-19 pandemic highlighted the criticality of supply chain resilience and agility. According to the World Economic Forum (2021), investing in supply chain visibility tools and technologies is essential to mitigate risks arising from supply shortages. By gaining real-time visibility into supplier networks, organizations can identify potential bottlenecks and proactively respond to emerging challenges. Additionally, Huang and Ke (2020) suggest that building stronger supplier relationships and diversifying the supplier base can bolster an organization's ability to weather supply disruptions and ensure continuity of operations.

The literature on procurement and geopolitical risks underscores the significance of proactive risk management strategies. The PwC Global Procurement Survey (2022) emphasizes the need for organizations to monitor geopolitical developments and assess potential impacts on supply chains. Implementing scenario planning and conducting regular risk assessments can help procurement leaders devise agile contingency plans to mitigate the effects of geopolitical instability. Furthermore, Barratt and Oke (2019) argue that establishing strong relationships with suppliers

across different regions and countries can help organizations navigate geopolitical uncertainties, as suppliers may provide valuable insights and support during times of crisis.

The evolving role of procurement as an enabler of innovation has been the focus of several studies. The Harvard Business Review's research on procurement transformation (2019) highlights the importance of fostering a culture of continuous improvement within procurement teams. By encouraging experimentation and promoting a mindset of innovation, procurement professionals can identify new opportunities for value creation and process optimization. Additionally, Monczka et al. (2020) propose that cross-functional collaboration is vital to driving innovation in procurement. Collaborating with other business units and leveraging their expertise can lead to the development of groundbreaking sourcing strategies and the discovery of innovative suppliers.

The work of O'Meara and Singh (2018) emphasizes the importance of strategic procurement practices in mitigating the impact of inflation on supply chains. Their study reveals that fostering long-term relationships with suppliers and employing dynamic pricing models can provide procurement leaders with greater flexibility in managing volatile input costs. Additionally, as discussed by Simchi-Levi (2020), leveraging advanced analytics and data-driven forecasting can enable procurement professionals to anticipate inflationary trends and develop agile sourcing strategies, thus enhancing cost competitiveness in uncertain market conditions.

Research by Wu and Pagell (2021) underscores the significance of adopting a proactive approach to supplier diversification and developing resilient supply chains. Their study demonstrates that organizations with a wide range of suppliers and strategic partnerships are better equipped to cope with supply shortages and maintain continuity during disruptions. The use of advanced supply chain visibility tools, as proposed by Stevenson and Spring (2019), enables procurement professionals to identify potential bottlenecks and vulnerabilities in their supply networks, facilitating rapid response to emerging shortages.

In the context of geopolitical risks, the research by Verma and Alwert (2020) highlights the importance of implementing robust risk management frameworks. Procurement leaders can draw on this work to develop strategies for identifying and assessing geopolitical risks associated with specific suppliers and regions, allowing for proactive mitigation measures. Additionally, PwC's Global Procurement Survey (2022) emphasizes the role of cross-functional collaboration, whereby procurement teams collaborate with legal, compliance, and risk management departments to comprehensively address geopolitical challenges.

As procurement transcends its traditional role, studies by Trent and Monczka (2019) indicate that procurement's strategic transformation is contingent upon a strong culture of innovation. Organizations that foster an environment of continuous improvement and experimentation empower their procurement teams to explore novel technologies and sustainable practices. This, in turn, drives value creation and enhances the organization's overall competitive advantage. Furthermore, the research by Ellis and Adams (2021) demonstrates that investing in talent

development and upskilling initiatives contributes to building a procurement workforce capable of embracing innovative approaches and driving transformation within the organization.

The concept of supplier-enabled innovation gains prominence in the works of Krause et al. (2022). Their research argues that involving suppliers in the innovation process can lead to breakthrough advancements and novel solutions. By forging strong partnerships and engaging in joint innovation initiatives, organizations can tap into suppliers' expertise and technological capabilities, thereby fostering a symbiotic relationship that drives mutual value creation.

The challenge of supply shortages has emerged as a focal point in the wake of global disruptions. Scholars such as John Gattorna (2018) advocate for a holistic supply chain design that prioritizes flexibility and responsiveness. He suggests that by implementing agile procurement practices and leveraging real-time data, organizations can identify potential bottlenecks in their supply chains and proactively address shortages, thereby minimizing operational disruptions. In a study conducted by Simone Peinkofer et al. (2020), the concept of demand-driven procurement is explored as a means to combat supply shortages. By aligning procurement decisions with real-time demand signals and adopting a customer-centric approach, organizations can better anticipate market needs and enhance their ability to capture value during scarcity periods.

As the geopolitical landscape becomes increasingly volatile, the need for proactive risk management within procurement becomes evident. Helen Peck and Joe Sanderson (2019) assert that geopolitical risks require a comprehensive assessment of supplier dependencies and alternative sourcing strategies. Their research emphasizes the significance of diversifying the supplier base and establishing redundancy plans to mitigate disruptions arising from geopolitical instability. In an exploration of technology's role in managing geopolitical risks, Muddassar Ahmed (2020) proposes that AI-powered risk assessment tools can provide real-time insights into geopolitical events, enabling procurement professionals to make informed decisions and quickly respond to changing geopolitical dynamics.

The evolving role of procurement as an innovation driver is a subject that has gained substantial attention in recent years. Sammons (2019) discusses the concept of "procurement innovation ecosystem," wherein procurement teams collaborate with internal stakeholders, suppliers, and external partners to foster a culture of innovation. This ecosystem approach encourages knowledge sharing, idea generation, and joint problem-solving, ultimately leading to the creation of unique value propositions for the organization.

Moreover, research by Battistella et al. (2021) delves into the importance of sustainability-driven innovation in procurement. By aligning sourcing decisions with environmental and social values, organizations can not only respond to changing consumer preferences but also enhance their brand reputation and resilience in the face of market uncertainties.

#### **4.0 Discussions of findings**

The comprehensive literature review conducted for this article sheds light on the critical role of procurement in navigating the challenges posed by inflation, shortages, and geopolitical instability

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while leading innovation and value capture. The findings reveal that traditional procurement practices are no longer sufficient to cope with the complexities of the modern business landscape. To excel in this dynamic environment, procurement professionals must adopt a transformative approach that leverages technology, builds resilient supplier relationships, and fosters a culture of innovation.

Inflationary pressures present a significant concern for procurement, as rising costs of raw materials, transportation, and labor can significantly impact an organization's bottom line. The literature suggests that strategic supplier collaborations are pivotal in mitigating the effects of inflation. Establishing long-term partnerships and negotiating favorable terms can provide procurement teams with stability amidst market fluctuations. Additionally, the integration of advanced analytics and AI-driven predictive models allows procurement leaders to make data-informed decisions, anticipate inflationary trends, and optimize sourcing strategies to achieve cost competitiveness.

The challenge of supply shortages has come to the forefront in recent times due to global disruptions like the COVID-19 pandemic and natural disasters. The literature review indicates that an agile procurement approach is vital to effectively tackle supply shortages. This involves a demand-driven procurement strategy, leveraging real-time data to align procurement decisions with market demands. By adopting such an approach, organizations can respond swiftly to shortages, prevent inventory imbalances, and ensure seamless supply chain operations.

Geopolitical instability introduces additional complexities in procurement operations, requiring a proactive risk management approach. The literature findings highlight the importance of diversifying the supplier base and creating redundancy plans to address disruptions arising from geopolitical events. Technology, particularly AI-powered risk assessment tools, can play a crucial role in providing real-time insights into geopolitical risks, enabling procurement teams to devise responsive strategies that safeguard the organization's interests.

Beyond its traditional role, procurement is increasingly recognized as a strategic enabler of innovation and value creation. The literature reveals that fostering a culture of continuous improvement and cross-functional collaboration is essential for procurement to drive innovation. By embracing an ecosystem approach, procurement can engage with internal stakeholders, suppliers, and external partners to facilitate knowledge sharing and generate innovative ideas that lead to the development of unique value propositions.

Sustainability-driven innovation emerges as a critical theme in procurement's transformation journey. The literature indicates that aligning sourcing decisions with environmental and social values is not only crucial for meeting changing consumer preferences but also for enhancing an organization's brand reputation and resilience in volatile markets.

In conclusion, the literature findings emphasize that procurement's role extends far beyond cost management and sourcing. To thrive in times of inflation, shortages, and geopolitical instability, procurement must embrace innovation, technology, and collaboration. The adoption of advanced



analytics, agile practices, and sustainability-driven strategies empowers procurement to lead the charge in innovation and value capture, positioning organizations for sustained success in an ever-changing global marketplace. By leveraging the insights provided by the literature, procurement professionals can confidently navigate uncertainties, capitalize on opportunities, and transform challenges into competitive advantages.

## 5.0 Conclusion and recommendations

In conclusion, the article has explored the transformative role of procurement in times of inflation, shortages, and geopolitical instability. It is evident from the extensive literature review that traditional procurement practices are no longer sufficient to address the complexities of the modern business landscape. Instead, procurement professionals must embrace innovative strategies and technologies to not only mitigate risks but also lead innovation and value capture within their organizations. The challenges posed by inflationary pressures demand a proactive and collaborative approach. Building strong and strategic supplier relationships can provide stability and flexibility in pricing and supply continuity. Additionally, the integration of advanced analytics and AI-driven predictive models empowers procurement leaders to make data-driven decisions and optimize sourcing strategies, effectively countering inflation's adverse effects. In the face of supply shortages, an agile procurement approach becomes imperative. By adopting demand-driven procurement strategies and leveraging real-time data, organizations can swiftly respond to market fluctuations and ensure uninterrupted supply chain operations. Proactive risk management, including supplier diversification and redundancy plans, can mitigate the impact of geopolitical instability on sourcing and logistics. Moreover, the literature highlights that procurement's role extends beyond traditional responsibilities. To truly excel, procurement must foster a culture of innovation and cross-functional collaboration. By engaging in an ecosystem approach that involves internal stakeholders, suppliers, and external partners, procurement can become a catalyst for generating innovative ideas and unique value propositions.

Based on the literature findings, the following recommendations are proposed for procurement professionals to lead innovation and value capture while effectively coping with inflation, shortages, and geopolitical instability:

- i. **Embrace Technology:** Procurement teams should invest in advanced analytics, AI-powered tools, and supply chain visibility solutions. These technologies provide critical insights for informed decision-making, supply chain optimization, and risk management in dynamic market conditions.
- ii. **Build Strategic Supplier Relationships:** Develop long-term partnerships with key suppliers, focusing on collaboration, trust, and mutual growth. These relationships can provide stability, cost advantages, and agility in sourcing, enabling procurement to navigate inflationary pressures effectively.
- iii. **Adopt Agile Procurement Practices:** Implement demand-driven procurement strategies to align sourcing decisions with real-time market demands. Agile practices empower

- organizations to respond promptly to supply shortages and capitalize on emerging opportunities.
- iv. Proactive Geopolitical Risk Management: Conduct thorough assessments of supplier dependencies and geopolitical risks. Develop contingency plans to address disruptions and diversify the supplier base to enhance resilience against geopolitical instability.
  - v. Foster Innovation Culture: Encourage a culture of continuous improvement and cross-functional collaboration within the procurement function. Engage with internal and external stakeholders to co-create innovative solutions and drive value for the organization.
  - vi. Align Procurement with Sustainability Goals: Integrate sustainability considerations into sourcing decisions to meet evolving consumer preferences and enhance brand reputation. Procurement's commitment to sustainability-driven innovation can create a competitive edge in the market.
  - vii. Continuous Skill Development: Invest in talent development and training programs to equip procurement professionals with the necessary skills and knowledge to adapt to changing market dynamics and emerging technologies.

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