Avout

Purchasing Approvals — Functionality and Best Practice

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Overview

Best practices have been formulated to produce better results than alternate processes—results that translate to hard and soft dollar savings. This paper covers high-level best practices for approval processes and software setup in the Oracle Purchasing module that have been shown to improve business processes from a functional standpoint. I will cover three key approval areas where organizations can gain efficiencies:

1. Document Types

2. Direct and Indirect Purchases

3. Approval Setup

Document Types

The Oracle Purchasing module has many different types of documents, each of which may need to be controlled using approval authorizations. These include a Standard Purchase Order, Quotation, Request for Quote (RFQ), Blanked Purchase Agreement, Blanket Release, and Internal and Purchase Requisitions.

Let's focus on two groups of documents that are required in Oracle Purchasing—Requisitions and Purchase Orders. A requisition is the request to purchase that is given to the buyer that includes estimates and a suggested supplier. The Purchase Order is a legal contract that specifies what is being purchased from which supplier and how much it will cost. Requisitions flow into Purchase Orders. Should both be approved and, if so, why?

If we look at each of these document types, we start to realize that a request to purchase is really a purchase order without the final detail—so essentially if you approve the document at both stages you are approving the approval. In terms of productivity, we never want to do something twice. Concerning document types in Oracle, the best practice is to approve the document only once, at the requisition stage. Within the requisition approval, controls should be put in place, for example expense type limits, measurements based on project or task, and total expenditure allowed for a department.

> ### Purchasing Definitions
>
> 1. **Document Types:**
>   **Purchasing documents in Oracle**
>
> 2. **Direct and Indirect Purchases:**
>   **Inventory and expense related purchases**
>
> 3. **AME:**
>   **Approval Management Engine – HR module**
>
> 4. **Approval Hierarchy:**
>   **ORG structure to identify approvals**

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Direct and Indirect Purchases

Another area that is an important consideration when approving purchases is the type of item you are approving. Classifying the item as 'Direct' or 'Indirect' will drive different approval paths. Direct purchases are inventory, meaning anything that has asset value. Direct purchases are necessary to facilitate manufacturing and distribution operations. Indirect purchases are expenses. These are typically oriented toward departments. For Indirect purchases it may be important to break down the details, depending on type of industry, including:

- Project
- Task
- Cost center
- Type
- Recurring

The best practice says that Direct items should be auto-approved at the requisition level. The buyer is responsible for controlling inventory at a macro level and normally this measurement falls under another process. It may be necessary to set high approval limits for purchase orders, based on the experience of the buyer. Indirect requisitions require tight control and should include a full approval cycle that may include multiple approvers. The related purchase order will require some approval, but should be fairly minimal for both areas.

Approval Setup

These are the three major ways to set up approvals in the Oracle purchasing module. We start with basic setups for Employee/Supervisor and move up the complexity ladder to Approval Hierarchy and Approval Management Engine (AME).

For the Employee/Supervisor level, each employee has only one supervisor, and skipping levels is possible.

For Approval Hierarchy, an employee can have multiple approval structures. The setup can be changed based on organizational changes, but is restricted by the organizational approval structure.

The AME offers the most flexible configurations and allows for approvals on the fly and parallel approvals.

The setups in Oracle are one-time setups, so making sure business requirements are met is essential. Big spend departments have a lot to lose if this is not done correctly. It makes sense to focus

> ### Best Practices
> - *Don't approve a document twice*
> - *Put controls where they are needed*
> - *Direct requisitions should be auto-approved*
> - *Indirect requisitions require tight control*
> - *Use complex setups when needed*
> - *Make sure people care*

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on budget areas and have a formula to measure success. Don't be afraid to set up the most complicated approval that is justified to protect your budget. You may want to put in an umbrella measurement so that once a budget limit is hit, for instance, the requisition is rejected and goes back to the requisitioner to adjust.

As with any change in process, buy-in is critical. Executives are often too busy to respond in a timely fashion, so although the setup may be elaborate, delegating and automating the approval structure will reduce the risk of drag. Take the time to design the system to take advantage of automation.

Conclusion

Productivity has a direct relation to the bottom line of a business, so process orientation is important. The first two best practices listed here have to do with making sure the business process flows. The next two directives relate to what type of purchases we would like to consider approving and how they should be handled. The last two best practices balance complexity with practicality – If the system is burdensome, the team will not use it and it will fail.

About the Author

Ed McDonough has more than 19 years' experience implementing Oracle software projects across a variety of industries with particular focus concentrated on manufacturing and distribution. He has spearheaded new process re-engineering initiatives and project methodology designs that have resulted in increased project performance company-wide for several global manufacturing and distribution companies. Ed is a regular contributor to the Enterprise Resource Planning (ERP) software body of knowledge and Oracle applications community education and development, including authoring white papers, conducting training seminars, and speaking at software conferences across the nation.

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