Top management's role in service policy compliance
- Case study in corporate travel

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Abstract for a Working paper

Purchasing, which is increasingly known as supplier management, is seen as a strategic function to the organization's success. Service purchasing and indirect spend, however, is not always considered as a strategic, because it has no direct impact on the core business processes. Furthermore, indirect purchasing is often lacking top management's support. Despite this, managing indirect purchase is becoming a key responsibility in many organizations due to the cost saving opportunities that strategic approach provides. Yet, most of the academic research is conducted on direct purchasing, and mainly in manufacturing contexts. Thus, the focus of this study is on indirect service purchasing. Our exploratory case study in corporate travel purchasing in the public sector investigates ongoing purchasing processes as opposed to the initial purchasing and negotiation phases. The aim is to investigate how top management in buyer organization can enhance preferred supplier relationships. More precisely, because off-contract purchases harm supplier relationships, we are interested in top management's role in purchasing policy compliance. The question we seek answers to is how top management can enhance travel policy compliance and thus the use of the preferred service providers. This working paper presents the theoretical background of the study and the planned empirical research.

Keywords: Buyer-supplier relationships, indirect purchasing, business services, top management, corporate travel

INTRODUCTION

Traditionally, the role of purchasing has been considered as passive in business organizations. Later on, in the 1980's, purchasing was included in the corporate strategic planning process (Gadde and Håkansson, 1993). Present purchasing is an essential unit in strategic supply chain management, and it is increasingly important to the organization's success (Cousins, 2005). Strategic purchasing is proactive and has a long-term focus, which contributes to the firm's success and strategically managed supplier relationships (Gadde, Håkansson and Persson, 2010).

However, the view of strategic purchasing and supply management is not unanimously supported. Indirect purchasing (indirect spend) and specifically service purchasing is not always included in strategic purchasing function, because the lack of direct impact on the core business processes (Cuganesan and Lee, 2006; Cox, Chicksand, Ireland and Davies, 2005). Direct purchasing contributes directly to the organization's core business, and indirect purchasing usually serve the entire organization. According to the study of Cox et al. (2005b), organizations do not have fully developed approach to the internal management of indirect spend, although they would understand the need to develop the purchasing competence related to indirect spend. Despite its importance and challenging nature, empirical research in service purchasing is limited (Zheng et al., 2007).

Strategic purchasing requires well established and communicated purchasing policies in order to accomplish the preferred supplier contracts. Purchasing policy non-compliance is a real problem for many organizations (Karjalainen, Kemppainen and Raaij, 2009). Policy compliance is important, because off-contract purchases can harm supplier relationships, and cause problems for all the parties involved in buying, selling and using the services. The importance of top management's involvement in supply management has been recognized in supply chain literature, yet, in the context of indirect purchases, there is lack of research on top management's involvement (Cox et al., 2005).

The empirical study investigates corporate travel purchasing and supplier management in a public sector organization. Prior studies in corporate travel have investigated travel management as a profession (Gustafson, 2012), relationships between buyer, intermediary and service suppliers (Holma, 2013), travel policy control measures applied by the travel managers (Gustafson, 2013), and reasons for business travelers' maverick buying (Douglas and Lubbe, 2009b; a). These studies have found that the upper management's support is a prerequisite for a successful travel purchasing and travel policy compliance. However, no studies exist on *how* upper management can enhance travel policy compliance.

The theoretical foundations of the study are in service purchasing and supply network literature, and in travel management research. The gap we intend to fill is in the field of service purchasing and the top management's involvement in ongoing purchasing processes. The planned managerial contribution of the study relates to effective and efficient service purchasing and supplier management practices. For travel buyers the research will provide insights of how to develop supplier relationships and value creation by involving top management in travel policy compliance.

This working paper presents the theoretical background and the methodology of the study. The paper is structured in the following way. We will first discuss strategic purchasing and supplier management, and the importance of top management's involvement. Secondly, we are concentrating on service purchasing and indirect spend. The third section discusses purchasing policy and its compliance. In the fourth section, we address the empirical context of our study, corporate travel. Methodology and the plan for empirical research are presented consequently. The final section concludes the paper and presents the following steps of the research process.

Strategic purchasing

In the private sector, the recent trend has been towards centralized purchasing contracts and long-term supplier relationships (Gadde, Håkansson and Persson, 2010) with interactive joint learning (Payne, Storbacka and Frow, 2008; Ballantyne, 2004) and value co-creation processes (Svahn and Westerlund, 2009), where suppliers are important contributors in innovation and technical development (Svahn and Westerlund, 2009; Smals and Smits, 2012). The skills required from purchasing professionals have also changed considerably. The role of the purchasing has moved from clerical to strategic role (Cousins and Spekman, 2003; Bakker and Kamann, 2007), i.e. from focusing mainly on price, delivery and quality to expertise in managing long-term strategic and complex internal relationships, and relationships with external suppliers and other involved actors (Faes, Knight and Matthyssens, 2001).

The tradition in public sector contracting has been, on the contrary, to implement arm's length relationships (Erridge and Greer, 2002). However, the characteristics of many public services, for example health services (Lian and Laing, 2004) and construction projects (Eriksson, 2008) would take advantage of relational purchasing. Thus, also in the public sector, there is the pressure for change to utilize private contractors' experiences of strategic purchasing and outsourcing practices (Karjalainen & Kemppainen 2008; Padovani & Young 2008; Knight et al. 2003).

Along with the recognized importance, the position of purchasing has raised. The status of purchasing can be viewed as how top management and other functions see the purchasing function (Lawson, Petersen, Cousins and Handfield, 2009), and specifically top management plays an important role in influencing the organizations attitude toward purchasing. High level of status occurs when the function has strong top management support, thus, obtaining top management's support and legitimacy is important (Bakker and Kamann, 2007; Gustafson, 2012). Top management can, for example, devote resources such as time, personnel and finances to improve the purchasing function (Lawson et al., 2009)

Service purchasing and indirect spend

The simplest division of a company's service purchasing is grouping them into direct and indirect purchasing. Service purchasing is generally part of the indirect purchasing. Service purchasing has not obtained adequate attention from top management. According to Van der Valk and Rozemeijer (2009:10), "*top management perceives services buying as less complex*

than materials buying, as a result of which they tend to assign new and inexperienced buyers to services buying". However, purchasing services is regarded as more complex and risky than purchasing materials. Furthermore, there is a great variety in the complexity of the services that organizations need to maintain their functionality (Smeltzer and Ogden, 2002), and traditional purchasing is not always well equipped to manage the challenges of buying business services where the performance impacts are far into the future. Depending on the type of purchased service, a different approach is required (Heikkilä, Vuori and Laine, 2013). Therefore, it is important to involve sourcing professionals in service purchases for improved management and control of the services spend (Amaral, Billington and Tsay, 2004).

Lately, due to the growing need of business services, the purchase of various services is gaining increasing interest among academic researchers (Baltacioglu et al., 2007; Li and Choi, 2009; Rossetti and Choi, 2008; van der Valk and van Iwaarden, 2011). One reason to have a closer look at the purchasing processes is the increasing need to outsource services, which requires a centralized purchasing function (Karjalainen, 2011; Li and Choi, 2009; Cox, Chicksand and Ireland, 2005).

Purchasing policy

Outsourcing and centralized purchasing, in turn, requires a documented purchasing policy (Degraeve, Labro and Roodhooft, 2004). Purchasing policies help to accomplish the established supplier contracts. Policy compliance is important, because off-contract purchases can harm supplier relationships, and cause problems for all the parties involved in buying, selling and using the services. For the buying organization, off-contract buying normally leads to loss of volume discounts, increase in indirect process costs, and increased costs in managing relationships with suppliers that are not included in the preferred suppliers. Furthermore, if the buyer does not meet the agreed volumes, the preferred supplier may lose interest in the buyer (Karjalainen, Kemppainen and Raaij, 2009). From the suppliers' perspective, policy non-compliance hinders the realization of the goals of the contract, and leads to loss in sales (Roy, 2003). Off-contract purchases may also cause risks if terms and conditions are not appropriately reviewed (Karjalainen, Kemppainen and Raaij, 2009). The risk of off-contract purchase is high in services that are delivered to the internal customers without the buyer's participation (Van der Valk and Van Iwaarden, 2011).

Purchasing policy non-compliance is a real problem for many organizations. Karjalainen, Kemppainen and van Raaij (2009) have conducted a study on maverick buying, i.e. the purchase outside the agreed contracts, where they categorize the underlying reasons into five groups: unintentional, forced, casual, well-intentioned and ill-intentioned maverick buying. Unintentional purchasing behavior denotes that the employees do not know that there is a frame agreement. In forced maverick buying behavior, the employees are aware of the preferred purchasing policies, but there are practical reasons that prevent complying with the policies. Casual buying behavior refers to employees' awareness of the preferred practices, but they continued behavior to do as they please. When the behavior is well-intentioned, the employees think that their behavior is for the company's best. In ill-intentioned behavior the employees actively oppose the new purchasing processes (Karjalainen, Kemppainen and Raaij, 2009).

Corporate travel

In our study, corporate travel purchases provide an example of indirect spend and centrally contracted services, where travel is booked without the buyer's involvement. Business services can further be divided into two broad and partly overlapping categories: industrial services and knowledge intensive business services. Corporate travel represents industrial services, and more precisely business consumption services. Business consumption services are used by individual employees, and they support the organization's core processes (Wynstra, Axelsson and Valk, 2006).

Industry reports reveal a strong connection between spending on business travel and corporate performance in terms of sales, customer retention, partnerships, innovation and human capital (WTTC, 2011). Travel purchases are generally valued to be the second or the third largest controllable cost in organizations. Yet, few academic studies have been conducted on corporate travel related questions.

Corporate travel is conducted due to work-related tasks, and usually purchased in a centralized way, and the employer collectively decides on the details of the travel and chooses the preferred suppliers (Bell and Morey, 1997; Mason, K.J. and Gray, 1999). Business travel markets with many suppliers and different pricing practises challenge procurement routines and controls (Gustafson, 2013). Furthermore, corporate travel purchase and management involves significant administrative efforts and requires on-going interactions at several organizational levels. As end users of the services are not involved in the purchasing process, it is important for the corporate buyer to translate and communicate the users' demands on ongoing basis, and to monitor the supplier performance (Wynstra, Axelsson and Valk, 2006).

Corporate buyers manage travel purchases through the development of an effective travel policy (Douglas and Lubbe, 2009a). A travel policy should encourage compliances among travellers by setting tangible and rational guidelines, explaining the motives behind them, giving guidelines for making travel arrangements, creating parameters for business travel related costs, and describing the consequences for non-compliance (Douglas and Lubbe, 2009a; Mason, 2002). Travel policies also increasingly address safety and security issues. When using the preferred travel suppliers and staying within policy guidelines, the travellers can be easily contacted in an emergency situation (Douglas and Lubbe, 2009a). The trend in the majority of the companies is towards stricter travel policies, which means that business travellers cannot make independent decisions regarding their business trips (Mason, 2002). Generally, organizations seek to reduce travel costs by decreasing the cost per trip, not by reducing the number of trips (Aguilera, 2008). Reducing the number of trips may have negative impact on an organization's ability to serve, sell or to maintain contacts with their partners and customers (Douglas and Lubbe, 2009a).

The buyer is responsible for creating a clear and understandable policy and ensuring senior management's commitment. Both academic research (Douglas and Lubbe, 2009a; Gustafson, 2013, 2012; Holma, 2012, 2013) and industry reports (CarlsonWagonlit, 2005; NBTA, 2008) emphasise the importance of top management's support in corporate travel purchase and policy

compliance. In many companies, top management has realized that considerable benefits can be reached by applying stronger management disciplines. The role of the travel manager has been redefined and expanded (Rose, 2008), and the corporate travel purchasing has obtained higher status. In academic research, two categories of factors leading to travel policy compliance have been found to be important: corporate related factors and personal related factors. Corporate related factors include issues of corporate culture and ethics, and to the rules and regulations communicated in the travel policy. Personal related factors include issues of personal ethics (Douglas and Lubbe, 2009a). Top managers may have formal managerial role when approving travel policy, and in acting upon policy violations. Managers, as regular travellers, may also have an informal role by showing an example by their own behaviour (Gustafson, 2013). However, other ways of how top management could enhance policy compliance and commitment to the preferred suppliers have not been discussed in academic studies.

Methodology

The current study is both exploratory and descriptive in nature. Service supply networks and relationships are described as complex (Giannakis, 2011) and corporate travel specifically is a multifaceted phenomenon with a variety of service offerings and a complex network of organizations involved in service development and delivery (Andersson-Cederholm and Gyimóthy, 2010; Gustafson, 2013). Therefore, in the initial phase of the study, we will use case study method and in-depth interviews with senior management and corporate travel purchasing professionals to gather the data.

Theory development will be based on abductive research, and characterized by systematic combining, where the theoretical and empirical fieldwork and case analysis advance simultaneously (Dubois and Gadde, 2002). Case studies of a network of relationships give a rich description of the relationships, and help to understand the process by which specific relationships develop over time (Dubois and Gadde, 2002). Case research can lead to new and creative perceptions and development of new theory. Furthermore, case research can have high validity also for practitioners (Coughlan and Coghlan, 2002).

In the analysis, we will use different types of triangulation: data triangulation (primary data from interviews, and secondary data involving company documents and industry reports), method triangulation (direct observation, recordings, and interviews) and theoretical triangulation (among purchasing management, and supply relationship literature). Furthermore, we will apply investigator triangulation where several researchers interpreted the data.

Conclusions and further research

This paper has presented the theoretical background of our study on top management's involvement in supplier relationship development during ongoing purchasing processes, more specifically on the involvement of top management in the purchasing policy compliance in the empirical context of corporate travel purchasing. We intend to find out if, and how top management could enhance policy compliance and the use of preferred suppliers. The first phase of the empirical research will be conducted in June 2014, and preliminary results will be reported in the final paper.

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