

Maverick Buying: Is This Really An Issue For Companies?

Cornerstones to manage it

Coordinator:	Dr. Erik van Raaij Prof. Dr. Finn Wynstra
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Date:	19/03/2008
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Olivier Gabel	305076
Remco Klein	306019
Max Murashov	280310
Sasha Sova	298352

Preface

At the first lecture of the elective Strategic sourcing we became acquainted with the different Real-life cases. After discussing the different subject we handed in a top-3 and the case of Hoffmann B.V. about maverick buying was selected by our professor.

After our first meeting with Mr. Hoffmann we were very enthusiastic about the project and we wanted to create a good result. Directly after this first meeting we started to work on our project plan.

Besides working on the project plan we made a valid question list for the interviews we needed to conduct with both public and private organizations. Further we have sent requests and making appointments with organizations to conduct interviews.

During the project we focused on theory (articles) and practical (interviews) based information to create enough body to answer the research questions. The information gathering was also necessary to being able to formulate a general framework. The goal of this framework is to provide organizations with a tool to identify, measure, reduce or even prevent MB within companies.

We would like to take the opportunity to thank everyone who helped us during the project, because without these below stated persons it would not possible to come up with this end result. First of all, we would like to show are gratitude to G. Hoffmann for his proactive participation during the project (remarks, tips, information). Secondly, we would like to thank M. Westerhoud and P. Sidiropoulos of Hoffmann B.V. for giving us valuable insights in the field of MB. Thirdly, we would like to thank all the organizations we were willing to participate in conducting the interviews, namely MCRZ, Erasmus Medical Center, Erasmus University, UWV, Council of Rotterdam (Benefit), Damen Shipyards, Delta Lloyd, Stork, Univé Verzekeringen and Group 4 Securicor. Finally we would like to show our gratitude towards our professors E. van Raaij en Dr. F. Wynstra for their help, handing contacts for interviews and critical but useful remarks.

Olivier Gabel
Remco Klein
Max Murashov
Sasha Sova

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Introduction

Maverick buying (MB) can be defined as any company or employee purchase that does not meet a company's purchasing policy¹. This includes using off-contract methods of procurement and non-authorized purchases. Another definition is the conscious or unconscious buying of goods and services outside of established contracts and/or procedures.

Examples of MB can be the following:

- Ordering spare parts from a local distributor when a corporate contract with a national supplier is in place;
- Buying office supplies from the corner shop when an electronic ordering system with pre-negotiated catalogues is present;
- Dividing a large tender or order into smaller ones in order to avoid having to comply with certain rules or procedures.
- Making purchases at other suppliers than the contracted ones, making the invoice go through the contracted supplier so that the accounting department agrees;
- Making purchases at current suppliers or contracting other suppliers which offer personal benefits.

MB has been a worrying subject for many corporations. Recent research amongst companies with an annual turnover in excess of 6,2 billion euros suggested that on average the cost of non-compliance was 22 million a year. MB is often done at full retail prices and can account for as much as 30% to 45% of all indirect procurement spending (Troy, 2002). Around 84% of indirect materials are purchased simply by employees visiting their local outlet. Such buying can lead to significant costs for the companies, and even a modest reduction in MB can significantly cut procurement costs. For companies with turnover of over 1 billion euros this might result in a loss up to 10 million euros annually². Smaller companies are also presented with MB as the smaller the company, the less formal the processes are and the more often companies do not see purchasing as a core competence.

Surprisingly, a lack of research in this area of purchasing has been observed up until today (Karjalainen et al, 2008). Nevertheless, such a scope of research shows that despite the acuteness of the MB problem no effective prevention mechanism has been invented. Losses that companies carry every year due to MB present direct evidence. For example, in the Netherlands, Trade & Transport and Industry sectors in around 80% of product and service related procurement costs are under the responsibility of the procurement department. However, this does not always mean that in a present day most of the procurement transactions are controlled, supervised or performed by procurement departments. Over 50% "maverick buying" occurs in these organizations. In governmental organizations more than 50% of goods and services are purchased through "maverick buying" outside of the control of the procurement departments³.

This paper tries to identify the awareness levels of MB amongst purchasing managers and the measures currently taken by organizations (both public and private) in tackling and/or preventing MB. The result of this identification leads to a framework which helps purchasing managers to identify and prevent MB.

1. Reasons and Causes for MB

Available research on MB suggests several reasons for the presence of such a phenomenon. These include personal desires and preferences for certain suppliers, new purchase situations

¹ <http://www.efficientpurchasing.com/?id=3180>

² http://books.google.com/books?id=BubMFdgJFrQC&pg=PA29&dq=maverick+buying&ei=oty9R_7gOJzUzATFuazbCA&sig=8jvSA_ckLRzG0dhc0s6P8iqUAlc

³ Career and Salary monitor Procurement 2007' InQuest, NEVI and Berenschot

etc. Furthermore, literature highlights several possible causes for MB such as powerlessness, frustration, and facilitation of work, boredom/fun, and injustice⁴. In addition, other literature proposes that the reason is rather pure and simple – it is all about money. Also, the underprivileged spend visibility in many companies which brings difficulties of tracking the system compliance..

2. Five types of MB

Karjalainen et al., 2008 argue that the reasons behind MB stem from lack of awareness, ability and motivation on the employee's part. Their article identifies five main types of MB. These are:

1. Unintentional MB – employees engage in off-contract buying without realizing it due to unfamiliarity with corporate procedures or lack of information provision with regard to negotiated contracts.
2. Forced MB – employees encounter barriers to contract compliance due to problems encountered in a new purchasing routine as a consequence of inadequate training.
3. Casual MB – although with no bad intentions, employees act in self-interest not realizing the total cost of ownership effect of contract non-compliance.
4. Well-intentioned MB – employees act on the basis of perceived superiority of own purchasing skills as opposed to the skills of those who have negotiated existing contracts (positive deviance).
5. Ill-intentioned MB – employees actively oppose the preferred or new process due to self-interest persuasion and resistance to change (negative deviance).

3. The Human Factor within MB

The abovementioned types of MB imply human factor to be the main source of each type's MB. The only difference between those types is human's intentions or circumstances which forced him to act in one of the abovementioned manners. Therefore, it is valid to say that the MB phenomenon is the direct consequence of the human factor (positive or negative sequence of intentional or unintentional human activity) and any policy directed at its elimination should account behavioral aspects of its employees. Nevertheless, the human factor is something practically almost impossible to control 100%. It broaches the sphere of mutual relation and psychology in corporations. It is not a favorable subject of discussion between employer and employee. As a matter of fact, many companies think it is unethical to bring the issue of MB to its employees due to trust which in most companies is perceived to be the base for the employer-employee relationship. Other businesses think it is unethical to pre-specify which actions are prohibited within the company and what are the consequences of system non-compliance⁵.

As a consequence, once employee is acquainted with the system of procurement rules and procedures within the organization, there is always space for manipulation of these guidelines.

The economics and ethics do not always mix very well. The most extreme and dangerous type of MB for the company is ill-intentioned MB, also in some cases could be referred to as fraud. Ramamoorti, 2007 points out the importance of fraud in risk management as it may lead to devastating financial consequences, including irreparable reputation damage. The Fraud Examiner's Manual, 2005 identifies a so-called "fraud triangle" with its three angles: opportunity, pressure/incentive and rationalization. It is important to notice that what often goes unrecognized is that all three elements of the fraud triangle are fundamentally behavioral constructs. Personal incentives and perceived pressure drive human behavior, and the need to rationalize wrong doing as being somehow defensible is very much psychologically rooted.

⁴ Karjalainen et al., 2008

⁵ Information derived with the assistance of Hoffmann's management.

4. Methodology

With the support of Hoffmann's company management, literature review and preliminary goals of the report, a set of questions has been identified for personal interviews with a sample of ten companies. Questions were divided in several sub-groups (Appendix 1). The questionnaire is assumed to cover all types (from well-intentioned to ill-intentioned) of MB within the interviewed organization.

Interviews were conducted amongst five public and five private organizations.

Public organizations:

- § Medisch Centrum Rijnmond-Zuid,
- § Erasmus University,
- § Erasmus Medical Center, and
- § UWV
- § Council of Rotterdam (Benefit)

Private organizations:

- § Damen Shipyards,
- § Univé Verzekeringen,
- § Delta Lloyd,
- § Stork,
- § Group 4 Securicor

The core activities of the abovementioned organizations are mainly service oriented; only two manufacturing companies were interviewed. The interviews were held with various low and high functions within the organization, from purchasers to Chief Procurement Officer. The length of the interview was approximately 1-1.5 hour.

Interviews are conducted in order to help to answer on the following set of questions:

- 1) How much do organizations currently know about the phenomenon of MB and the extent to which it exists in their organizations?
- 2) What do these organizations do in order to record the level of MB?
- 3) What information from which departments is needed in order to identify the level of MB?
- 4) What do these organizations do to reduce and/or prevent MB?

The aim of the questionnaire is to interview large organizations with a sufficient level of purchasing maturity. Firstly, it was expected that they had definite experience (best practices) with managing the level of MB. It is believed that purchasing is hardly defined as a strategic competence in smaller organizations. In addition, from the literature review it is clear that smaller organizations have more problems with MB due to decentralized purchasing.

The ultimate goal of the study is to develop an approach for companies in order to manage MB.

5. Interviews results

This chapter shows the results of ten interviews (5 public, 5 private) held by various organizations within the Netherlands. The core activities of the organizations are mainly service oriented; only two manufacturing companies were interviewed. In this chapter the term purchasing is mentioned for both private and public organizations. In practice this is called for public organizations procurement and the process is called tendering, but in this chapter these terms are combined in the word purchasing.

5.1 General

The interviews were held with various low and high functions within the organization, from purchasers to the Chief Procurement Officer. Two companies, one public one private, did not have purchasing manuals available, the reason for this is the low maturity of the purchasing department (one person with the knowledge, responsibility and no investments made). The other eight companies mentioned that the manuals are important for the purchasing process, it depends on the organizational activities and culture whether the procedures are followed strictly or are more supporting. Further the companies use other own developed methods/models beside the purchasing procedures; eight-step process, dashboard and contracts. The rules and procedures are available paper based or digital on the intranet.

The companies use audits (once every year), ICT systems/software (continuously), culture, social control (continuously) and legislations (self regulating effects of the environment) to check if purchases are done according the procedures. Checking the compliance of these procedures varies from no checks at all, random or frequent top-down checks or control by another department. The role of the purchasing department varies from and advisory/facilitator role to a more tactical/strategic role, this depends on the organizational structure, culture and purchasing maturity. In one of the interviewed companies a major change was going on from a decentralized to central-led purchasing organization. The reason for this was to increase the level of professionalism, clear overview of the total purchases and have better control over purchases.

5.2 Purchasing and placing orders

In general the companies answered that there are specific rules related to placing an order, regarding the amount of a purchase or who has a signature authority. Every function has a limit to which a person can sign a purchase. This signature is in most companies just another step in the process, managers do not check thoroughly whether the order is necessary and if the process is done correctly. Besides this, most of the companies use budgets for their departments. The companies use two persons for ordering an item and two signatures are necessary before the purchase can be approved (involving a higher manager or director). The departments with an own budget are responsible for the purchases they do, companies regulate these purchases by saying that for purchases with a certain amount the purchasing department should be involved, in an advisory role or a more strategic role. Companies use teams (multifunctional teams) to work on a certain order, the order is more controlled and knowledge is shared among certain functional areas. Within these teams it also becomes clear whether the order is necessary for the organization.

In general the companies look at whether the purchase is operational, tactical or strategic. The increasing strategic importance implies the involvement of the purchasing department and multiple employees (mostly managers) to sign the purchase. For operational, low amount, purchases the purchasing department is not involved, due to the high 'consultancy' costs of a purchaser (functionality).

5.3 Controlling purchasers

In general the companies use a functional separation, this means that it is not possible for one person to control the total purchase. Each employee has his own responsibility of a part of the purchasing process. For instance only contract management has contact with the supplier and not the internal client. Besides this, companies mentioned the 4-eyes-principle, multiple persons are necessary for a purchase (working in teams or two employees controlling a purchase). Organizations have their purchasing process specified in the rules and regulations, there is clear structure about the total purchasing process.

Five general methods/measurements were mentioned for assessing the activities of the purchasers. Firstly, ICT systems and software is one method that most companies use to check whether purchases are done correctly and if the purchaser's activities are executed according the procedures. Secondly, internal and external audits are done to examine if purchases are done correctly, this happens every one or two years. Thirdly, social control, the way organizations are structured and which culture is present represents if employees check each other continuously. An open and transparent culture helps the employees to see what every purchaser is active in and if it is done correctly. This creates an environment within the department where purchasers are not active in maverick buying do to the fact that everybody can follow all purchases. The fourth one is a physical check of the incoming goods or service. The fifth one is an event that occurs due to external parties, the public tendering process needs to be done transparent and open, if a supplier feels that he is discriminated at the end of this process they can accuse them. The first two methods are not done continuously but only every one or two years. The physical check is not done on a professional way within the interviewed companies; mostly they assume the goods are delivered correctly. The social control is a more integrated method within the purchasing department. The lawsuit is an external method which public organizations do not appreciate and purchasers are more reluctant when doing a purchase. Finally, most organizations stated that trust and integrity is an important aspect within the control of purchasers.

The ICT systems and financial systems show the in and outflow of money within the companies. The interviewed organizations have a clear overview about the money flow. The flows of goods are not that visible, the companies assume that goods are delivered correctly and they only undertake action when an internal client reports a quality/quantity deficiency.

5.4 Organizational

All interviewed organizations are familiar with MB and mentioned that it is present within their organization and that it costs a lot of money. Further organizations acknowledge that investments are needed to prevent MB, but no real efforts are undertaken. All the interviewees gave a clear explanation of MB. The organizations mentioned that it is 'normal' that MB is done; the managers do not want to limit the working space of a purchaser and lower their creativity. Organizations partly allow it in a way so that a department can purchase without the involvement of the purchasing department; the organizations determined a threshold where employees can order goods without the interference of the purchasing department. These purchasers are less monitored and the organization has less control over these purchases. Looking at these orders one by one it concerns a low amount, but combined all these orders for the whole organization it becomes a large sum. An organization mentioned that it is not cost efficient to involve the purchasing department with every purchase, they should be involved were value can be added. Beside this the companies mentioned that it is not possible to purchase everything from a contract.

Another important point is the fact that employees in organizations see that higher management is active in MB. For example, higher managers allow a 'golfing body' and order while the purchasing department selected another supplier. 'Purchasing managers are thinking if a director can do MB I can do it also'.

The higher management sends the wrong signals throughout the organization. The influence of the CPO partly depends on the culture that exists within an organization (difference VS vs. Europe).

The interviewees know MB happens within the organization due to the result of audits, intranet, ICT systems, spend analysis, own developed excel sheet and comparing contracts with the amount of external works. Also they know because they see it with their own eyes. The companies agree on the fact that the human factor is important within MB. Humans are the one that encounter MB not the ICT systems. The human factor is important, because of ego, emotions, irrational behavior and signing a contract is seen as status symbol. It is not always easy to act uniformly towards employees (not wanting to lose a good employee).

The costs of MB cannot be identified clearly by all organizations; they all have an estimated percentage but do not have detailed figures about the cost of MB for the organization. One interviewee mentioned it is impossible to have a zero percentage of MB, due to first purchases where there is no contract available. Within one organization they solve this by adding a new department to the organization which deals with MB. If anyone within the organization has a purchase where there is not established a contract they have to go first to that department.

5.5 Measurement tools

A broad scope of tools to measure or prevent MB is present within organisations. First of all, digital systems like a financial (spend database), contract management or segmentation system is used to identify and measure the amount of MB within an organisation. ICT systems like Oracle and Basware are used to create visibility regarding MB and to reduce the amount of MB. Secondly, different departments like Financial, Compliance, Integrity, Internal Audit and Accountants service conduct checks whether or not MB is present and deal with existing problems regarding MB. Thirdly, external audits are performed once per year or two years. Fourthly, the four eyes principal or signing authorities related to certain thresholds are used to prevent MB. Fifthly, legislation, carcass contracts or the self-regulating effects of the environment are modes to counter the phenomenon of MB. Further, creating awareness within the organisation and among personnel. Also, example behaviour by directors and higher management. Finally, tools like the transparent portal, participation grade, screening of new personnel, monthly reports, social check, meetings, transparency, matching data within a digital system with the received invoices and the “marktplaats” principal are ways to visualize, measure and reduce the amount of MB within the organisation.

The degree of measuring and controlling of purchases is partly dependent on the importance of a particular purchase (core activities, amount of money involved). There are no registrations of MB within the organisation to help to prevent this from happening in the future. An organisation only occasionally conducts checks regarding the presence of MB. Most organisations have no measurement tools that are specifically used to prevent MB. The main reason for only sporadic checks or lack of specific measurement tools is the trust or integrity level that exists within organisations. Concerning ill-intentioned MB by employees different approaches are suggested. Namely, from discharge of the employee or a warning towards a more soft approach. An important aspect within this subject is that an organisation needs to act uniformly and make no exceptions. Further the Compliance or Integrity department is more actively involved in preventing or managing ill-intentioned MB.

5.6 Rules & procedures

Almost no company has rules and procedures present that are directly related to MB. There are general rules and procedures that clearly state what a purchaser can and can not do, but this is not directed towards MB. Further some organisations demand that there purchasers sign an ethical code (NEVI). Mainly purchasers within public organisations need to comply with the rules and legislation of European law.

Within most organisations fraud and risk management is not a returning agenda point within meetings. MB is an item that is mainly discussed in a more general nature and there are no real meetings entirely devoted to the subject. The phenomenon of MB is randomly discussed in contract management, bilateral and general department meetings. Risk management gets the most attention within organisations. The topics risk and fraud are often handled more detailed by the Compliance, Integrity department or by a risk manager.

5.7 Supplier agreements

Within most organisations there are specific rules regarding the purchase of goods and services from suppliers, but also some degree of freedom exists concerning choosing a supplier. There are several manners to direct purchasers to the recommended supplier. With contracts (carcass), exclusivity arrangements and pinpointing of preferred suppliers. Further the degree of freedom for purchasers to select a supplier is dependent on whether a certain threshold is crossed and the importance of the purchase (operational, tactical, and strategic). To control whether or not purchasers comply with the arrangements made with suppliers there are several methods. Namely the matching principal (arrangement vs. contract management system or system vs. invoices), legality (law), accountancy and the self-regulating effect of the environment.

When an organisation changes to another supplier the undertaken actions differ. Some organisations regular or always screen new suppliers, other firms only randomly screen and again other companies do not screen at all. If necessary after screening these suppliers are banned from the tendering process.

5.8 Screening process

Three of the ten investigated organisations do not perform any kind of screening, instead of conducting a screening process a company can require that a new employee signs an own made behaviour protocol. So the majority of investigated companies use a certain screening process when hiring new employees. The depth of the screening process differs between companies. The content of the screening process can be about past behaviour, debts, criminal past of employee or family, provide evidence of good behaviour and C.V. compliance.

No organisation screens employees who already work some time within the company.

6. Conclusions and final discussion

All interviewed organizations showed fully recognizable understanding of MB phenomenon in its various forms, its consequence on well-being of organization and the necessity to manage it. All interviewees were open in their answers with regard to MB which showed that MB is not a secret within organization. Negative association with MB was not discovered in most of the organizations. Nevertheless, almost every company showed clear distinction between ill-intention MB and other types of MB.

Surprisingly, while most of the companies realise the seriousness of the MB problem, the majority does not consider this problem to be solved at the strategic level. Almost all companies award purchasing with strategic focus, however, the problem of MB in this focus is resolved only in oblique manner by top management resulting in continuity of lack of the importance given to the topic in daily operations. Simple classification of interviewed companies would result in 80% being a non-issue states (MB is not a considerable issue within the company) where only a 20% are cash-cows (MB is given an importance within the company).

Although all companies represent more or less the same market value category (capital turnover), obvious essential difference between the levels of procurement professionalism is evident from the beginning. Preliminary assumption with regard to different levels of effectiveness of MB management present in private companies compare to public organizations did not ratify. Examples of complete absence of attitude towards the problem of MB include both public and private companies. To be more precise, one of the public companies with the amount of over 30 million euros spent on procurement and over 6000 suppliers showed inadequate position with regard to purchasing maturity in general and MB management in particular. There was only one person with a real purchasing background for the whole department who hardly had any real influence on the situation with overall purchases. On the other side, other public organizations were intensively working on effective MB reduction, investing money in this level of corporate policy. At the same time both sectors invest money in its purchasing departments and examine the problem of MB with the highest degree of gravity.

Nevertheless, there are some clear differences with regard to public and private sector. It can be said that the market environment imprints its existence on companies' practices. All the public entities were diagnosed with historical presence of bureaucracy peculiar to this business sector as well as limited flexibility of purchasing department due to its duty of service on the basis of European Tendering Law. Companies confess that higher levels of bureaucracy in public sector result in negative effectiveness with regard to actions taken against MB prevention due to complexity of decision-making process at top-management level. Further within public organisations the ethics play an even more important role (need to be objective, transparent and non-discriminating). Also private companies attach more value to the screening process of new employees compared to public companies (evidence of good behaviour, criminal past and conflicting relationships). Other reasons include mostly decentralized structure of public companies where audits meet resistance to receive required information from purchasing departments.

The problem of the human factor was acknowledged by both private and public companies. However, compared with profit oriented private sector, bureaucratic nodes of the public sector constitute a rather favourable ground for such a negative appearance. If in private sector the problem of human factor mostly does not exceed the ground of operational level (production, logistics) and limits itself to small theft and fraud in the lowest levels of organization⁶, in public sector the problem at times developed at organizational level. For instance, a few public companies admitted the presence of ill-intentional MB. One of the

⁶ Information is based on the interview with 5 private companies.
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public companies noticed that for a long period of time it was in a relationship with the supplier, who serviced its needs for higher prices compared with the common market. The motivation of the purchasing department of the organization in contracting this supplier was rather simple: "He is a great guy". One other public company detected internal power amongst some of its employees, who permit its purchasing departments to work with the suppliers they think is necessary, therefore neglecting the master contracts. This was striking to witness, because public organizations should comply with the European law and encounter self-regulating effects of the environment (upset suppliers).

Furthermore, there were instances where some employees purchased department needed goods from their own companies. To add, it is no more a secret that employees try to evade the European Tendering Law by simply breaking a large order into smaller parts, therefore avoiding the necessity of tendering while choosing preferred suppliers by their own. Unfortunately, the problem of human factor for public companies is serious and there is a range of reasons why it can not be solved effectively. Within both public and private organizations it is mentioned that it is not possible to buy everything from the contract (due to functionality) and do not want to diminish the level of creativity of their personnel, therefore MB exists in the organizations and they allow it.

Based on the results, some major points are highlighted in the following lines:

- § Human relations play a major role in public organizations and it is impossible to blame people without strong evidence of fraud. Such charges may collide with strong opposition from other employees. Situations where one employee backs the other are common.
- § Budget system has some favourable conditions for ill-intentional MB. For instance, purchasing departments in one of the public companies have their own annual budget. Whatever is left of this budget at the end of the year is not automatically transferred to a New Year budget. As a consequence, departments become the victims of a rush burnout of budget leftovers, not emphasizing the importance of what is bought with the so called leftovers.
- § The interviews resulted in a total of five approaches/measurement tools to prevent or measure MB within the interviewed organizations: (1) ICT systems (Oracle and Basware), (2) Checks done by internal departments, (3) External audits, (4) Four eyes principle and (5) Legislations.
- § The degree of measuring and controlling of purchases is partly dependent on the importance of a particular purchase (core activities, amount of money involved).
- § There are no registrations of MB within the organisation to help to prevent this from happening in the future.
- § Within most organisations fraud and risk management is not a returning agenda point within meetings. MB is an item that is mainly discussed in a more general nature and there are no real meetings entirely devoted to the subject.
- § Almost no company has rules and procedures present that are directly related to MB. There are general rules and procedures that clearly state what a purchaser can and can not do, but this is not directed towards MB.
- § None of the companies screen personnel who are working within the organisation for some time.

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- § The costs of MB cannot be identified clearly by all organizations; they all have an estimated percentage, but do not have detailed figures about the cost of MB within their organization.
 - § Within most organisations there are specific rules regarding the purchase of goods and services from suppliers, but also some degree of freedom exists concerning choosing a supplier. The degree of freedom for purchasers to select a supplier is dependent on whether a certain threshold is crossed and the importance of the purchase (operational, tactical, and strategic).
 - § An important point is the fact that employees in organizations see that higher management is active in MB.
 - § Managers put a lot of trust in their employees; the professionalism of checks done on the activities of the purchasers is low.
 - § Culture place an important role regarding MB, if an open and transparent culture is present purchasers think twice before being active in the field of MB.
 - § Public companies are more unrestricted to the community due to their public nature. For that reason, there is an easy access to those public companies for people with mercenary intentions. Several public companies admit that there are still cases of theft by outsiders.
 - § No matter how ordinary this might sound, people deliberately act contrary to the established rules for certain reasons. In simple words it is called a human nature and the complexity of human relations. For instance one company had a general contract for office supplies with a particular supplier. This applies that all organizational departments ordering office supplies should solely contact that particular supplier. Conversely, it periodically happens that employees acquire computers or furniture from other suppliers motivating their actions by arguing that the purchase they made is more comfortable in terms of exploitation. As a principle, even with an evident presence of rules violation, the company did not impose further investigation and punishment in order to avoid the conflict with their employees and secure the corporate spirit. It becomes obvious that the factor of personal relationship plays a certain role in every organization.

The interviews showed that there is only one method of internal MB control and other consequences of human factor – reducing the altitude of decision-making on lower levels of hierarchy of purchasing departments to maximum. This primarily refers to the decisions of tactical and strategic nature. These organizational units may take the responsibility of the operational activities and even they should be controlled by top management. For instance, some companies use transparent portals where employees/departments are allowed to purchase office supplies, computers, book hotels for business trips etc. only through this portal where offered products/ services from suppliers and suppliers themselves are determined only by top-management. As an alternative, E-procurement may be the efficient method of MB reduction. It brings suppliers and customers together in a more efficient and effective way. However, despite its expensiveness in terms of installation and maintenance, not all products/services may be purchased using this method. Furthermore, people do not change over a day; therefore the success of e-procurement is dependent directly upon the professionalism and the consciousness of the employees with regard to understanding why the company needs to fight against MB. It is possible to argument with this kind of purchasing politics which eliminates manoeuvre flexibility. Nevertheless, this trade-off lies within the competitiveness of the company based on its strategic and tactical objectives.

It is interesting to notice that while listing one or other of the enumerated examples of MB or fraud, the company representatives described them in terms of “it is there and it is impossible to escape” rather from a negative point of view. In a fact, many companies do not consider MB as a strategic focus and it is allowed until a certain threshold as it believed to have a more functional appearance. The companies do not place MB within the corporate strategy; there is no clear understanding about MB throughout the organization. For instance, one public company had over tens of different ordering contracts of the same technology enclosed by different departments with the same supplier. Naturally, every contract has different product specifications, price and amount ordered. At the end it is the company who loses money from lost discounts. The comment of the company was that it is a typical situation for many companies working in this business sphere.

It is important to notice that this kind of problems is not left unnoticed in general as the suggested framework is based rather on an effective and result-generating MB management. On the other hand, considering the fact that this kind of problems was found in well-known companies, it is fair to bring to a close attention the fact that these problems might present in other companies, which were not included in our research.

To conclude the discussion, it is crucial to reiterate the fact that even though all interviewed companies confessed in their knowledge of MB in their organizations and recognized that MB leads to major business drawbacks; most of them do not give enough attention to MB. The problem of MB is not viewed by top management as a separate issue. This brings the feeling that companies follow the ostrich politics⁷. Companies have to understand that the key to success of solving MB problem lies within the acceptance of the problem as an issue requiring immediate actions taken by all levels of management, starting from the top. As a matter of fact, the only difficulty of solving the problem is to give the right diagnoses of the problem and set an impulse directed at changing the mindset employees whose purchasing actions result in negative outcomes for the company. Otherwise, never-ending scenario will include companies, who are intensively investing money in different kinds of tools hoping to cut down the costs and become as lean as possible, while not realising the obvious problem, whose resolution may considerably reduce costs, increase profits and strengthen the company as a whole.

⁷ <http://blogs.law.harvard.edu/ben/2003/07/31/ostrich-politics/>
Maverick Buying

7. Maverick Buying Empirical Framework

As mentioned before, the development of purchasing departments differs substantially. It directly depends on the maturity level of the purchasing department, which is determined by the role of the purchasing department in the organization. Companies with purchasing departments informed upon their strategic meaning to the organization were actively preventing/reducing the level of MB with advanced technologies as the costs of problems were acknowledged. On the contrary, there were companies with millions of euros in annual turnovers where the purchasing department consisted of 1-3 persons who followed own intentions rather than a constructive purchasing scheme. These companies accepted the fact that the problem of MB was present in their organization, but everyone ignored it. Although results of 10 interviewed companies reveal that MB is present in all, the difference between these companies is that some could control it to a certain (desirable) level; others could only wonder how much they lose on lost discounts and lack of consciousness of their employees.

By means of thorough analysis based on best practices of controlling the MB phenomenon amongst interviewed sample, a specific framework for managers to reduce (control) MB in their organization was assembled. Based on the interviews analysis we came to realize that reduction of MB is mainly depends on improving the method of purchasing control systems. The concept of our framework was based on clear distinction, selection, control, encouraging/punishing and analysis of MB prevention. Roughly speaking, in order to successfully solve the MB problem it is vital to resolve a broader scope of issues than only directly related to MB. This is constructive and effective tool with a pre-stage and three straightforward stages each involving specific actions to take by the organization. These stages are:

1. Strategic fundament
2. Supply Base Selection
3. Participation & Compliance management
4. Audits & Spend Analysis

7.1 Pre-face: Strategic Fundament

Success of the company is mainly dependent on how effectively the company can create a stable and favourable fundament for framework application. Three mutually supplemental factors necessary for the strategic fundament are:

§ Corporate strategy

MB should be one issue incorporated in the corporate strategy; top management should send the right message to all purchasers. They should emphasize on the benefits like the costs that could be saved with regard to MB. Not all purchases can be done according a contract therefore organizations should have a procedure what to do when there is no contract. This is necessary to control the MB that is left.

§ Culture

The culture is an important aspect to prevent MB, an open and transparent culture can identify MB more easily. If all activities of a purchaser are open for all purchasers they will be more reluctant to act on MB.

§ ICT Systems

An ITS systems should be present at the organizations to have a clear overview of the in-and outflow of money. Beside this organizations should have physical checks of incoming and outgoing goods, the organizations knows exactly what comes in and goes out. Beside this ITS

systems can detect MB and report it to the right manager. One interviewed company went to an organization which had *Basware* and this system could measure the amount of MB and prevent MB. The organization could present a percentage of how much MB is lowered.

7.2 1. Supply base selection

Supplier selection is the first stage of the framework. In order to set the base for correct purchasing with minimal MB involved, managers are advised to perform the following steps with regard to companies supply base.

- § **Analysis of needs:** detailed analysis of products/services required for company to accomplish its strategic objectives. It is vital to follow this phase with great carefulness as it depends on how proper the company can make demands towards its future supplier.
- § **Supplier selection:** exploration of suppliers which are able to fulfil company's demands. Requirements for exploration include: supplier market analysis, supplier screening, reference meeting etc.
- § **Master contracting:** enclosing of general contract with selected suppliers which results in company purchasing only from these suppliers. It is company's objective to decide upon required participation rate based on the analysis results derived from the previous two steps. For example, required participation rate of 80% would mean that purchasing managers are required to purchase at least 80% of the goods from the master contracted supplier. This, however, does not mean that the other 20% of procurement are left unnoticed. Managers should present solid motivations with regard to non-compliance from master contract. The terms of organizations purchasing based on master contracting should be thoroughly explained to purchasing managers to avoid misunderstanding or misuse.

It is very important to notice that if preliminary actions leading to the enclosure of the master contract are performed poorly, this may lead to risk involved in supplier-relationship as the supplier might not be able to comply with the demands discussed earlier by the company. Consequently, purchasing managers will be forced to act outside of the master contract. This might be the prerequisite to MB.

7.3 2. Participation & Compliance management

- § **Introduction of participation grade measurement:** with the help of participation grade index, the company can always check the percentage of purchasing compliance specific to master contracts.

$$\text{Real participation grade} = \frac{\text{Total purchases from all suppliers}}{\text{Purchases from suppliers with master contract}}$$

Participation norms identification is the priority of top management of procurement, who should identify these norms based on strategic, tactical and operational objectives of the company.

- § **Participation grade control:** it is necessary to adjust a clear control of master contract compliance. This can be achieved through up-to-date ICT, which secure the transparency of procurement process as well as signal the instances of non-compliance with the specified norms of purchasing. Every instance should be examined and the department responsible for non-compliance with the master contract should present

solid motivations such as supplier did not have required item in stock or purchased product has a better characteristics necessary for achievement of required objective etc. For more flexibility as certain limit amount may be set by top management under which the purchasing will be unchecked. For this reason it recommended to introduce a contract manager – a person responsible for this kind of control specifics.

§ **Motivation of participation:** companies must develop a motivation system and bonus awards arrangement for its purchasing departments with regard to compliance with the master contracts. For example a bonus system applied to participation grade would definitely motivate the employees to comply with master contract. In equivalent terms, penalties may be introduced for a low participation grade in case motivations are not approved by top management. As an alternative, the company may prohibit the physical payment of non-master contract supplier bills.

§ **Supplier management:** the effort of increasing the participation grade should be performed internally as well as with company's suppliers. Suppliers should be presented with extra claims and demands in case the analysis of reasoning behind non-compliance in certain situations faced by the company in order to avoid such situations in the future. Mutual planned meetings can be arranged by both sides in order to recognize the methods with regard to increase of effectiveness of collaboration in particular the participation grade.

7.4 3. Audit & Spend analysis

§ **Audits and spend analysis:** both measures should be performed on a regular basis preferably once per quartile. Based on the results the supplier collaboration grade, effectiveness of control to participation grade, lost discounts etc. Consequently, changes are applied to Participation & Compliance management specifications such as supplier specification, changes in master contract, new supplier selection etc. Due to increased level on audits companies can act faster on issues that occur from these audits. These issues are solved right away and not once a year.

8. Limitations and suggestions for future research

The main limitation of the exploration is that it is based on a limited amount of qualitative based research (ten interviews); these interviews were done in a time-phase of 4 weeks. The time period for executing and interpreting the results is done within a short period of time, no test-interviews were held to examine the interview questions. No quantitative data was used for this research; the conclusion was drawn according to the interpretation of the interview results by the researchers.

The firms which were interviewed were mainly service oriented; it could be that manufacturing companies have a different perspective on MB and the extent of MB within their organisation. The conclusion of this research could be different when more manufacturing firms were interviewed. This point could be used for future research, a research question could be to which extent is MB done in service oriented and manufacturing oriented companies.

Most of the interviewed companies were large organisations; it could be useful to do the same research on small and medium sized (SMC) companies. Due to the high level of professionalism it could be that the large companies have a larger advantage compared to the SMC. Also it could be that the large organisations use different tools or measurements to detect and prevent MB.

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