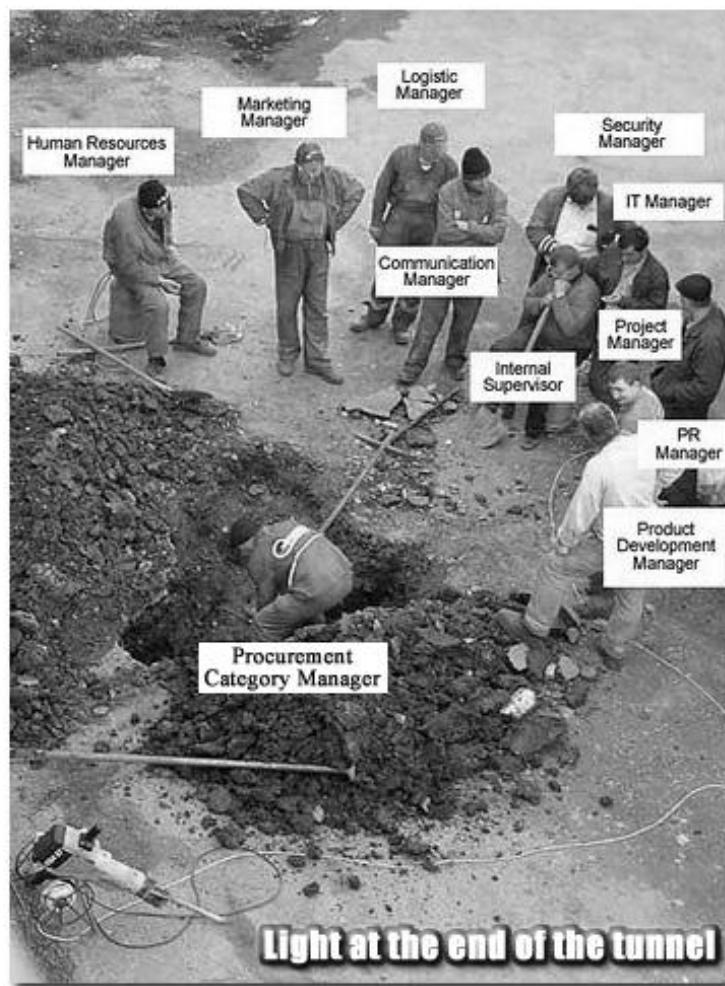# The improvement of contract management processes in the pursuit of higher contract compliance

Assessment at Sara Lee International

Boudewijn Vahrmeijer,
Utrecht, November 2007

Explanation of the picture on the front page:

A procurement category manager is digging a tunnel. He is executing this hard work all by himself, while colleagues of other functional expertises are observing from the sideline. The picture contains two metaphors that reflect the SLI situation.

On the one hand, indirect procurement category managers must watch out for focussing only on developing contracts and thereby neglecting the value of cooperation of colleagues of other functional expertises. This control is of vital importance for contract compliance. On the other hand, based on the SLI assessment executed within this research it is concluded that there is light at the other end of the tunnel. The current situation at SLI on contract compliance is not dramatic and by improving its contract management processes, SLI should be able to improve the contract compliance for indirect procurement.

The improvement of contract management processes in the pursuit of higher contract compliance

Assessment at Sara Lee International

Report of a graduation project conducted from April 2007 till November 2007.

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Preface

This thesis represents the result of the research I have executed within the last eight months at the Procurement Department of Sara Lee International (SLI). On the one hand it is developed to complete the final assignment of my study Industrial Management & Engineering at the University Twente. On the other hand it is developed to support SLI in getting a better understanding on complex practical issues such as contract compliance and the potential tools to improve performance. Because more people have contributed to this product, I would like to show some appreciation.

First of all I would like to show my gratitude to my two college supervisors. I want to thank my first supervisor Prof. Dr. J. Telgen from the University of Twente for most valuable guidance and input on setting out the structure and direction of the report. My second supervisor Dr. S. Angelov of the Eindhoven University of Technology I would like to thank for his willingness and enthusiasm to support a student from another University. His expertise on contract management and his thorough critical view have been of great value for this research.

Secondly, I would like to thank my company supervisor drs. Leon Cooijmans of Procurement Processes for offering me the opportunity to do an internship at Sara Lee International. Although it turned out to be hard to find a unique research subject between all the studies that had already been executed; when it came to the actual research everything went very smoothly under his experienced supervision.

Thirdly, the Sara Lee International employees should be credited for their cooperation. Over twenty employees have contributed to the research through interviews. Additionally, I also would like to thank my colleagues who enabled me to do my work and research in a friendly, entertaining but professional atmosphere.

Finally, I would like to show great appreciation to my girlfriend and family who did a great job in supporting me mentally, physically and financially during my internship. I have to admit that I enjoyed the good sleep and pleasant nutrition during my two months of lodging at my mothers 'hotel': like I was reviving my childhood.

Utrecht, 10th of November 2007
Boudewijn Vahrmeijer

Executive Summary

Introduction

Within the last decades a fast and popular way for multinationals to improve profit has been the execution of takeovers. The take-over strategy enabled SLI to successfully market many strong brands all over the world and to leverage her purchasing power. In order to distinguish and pursue these leveraging opportunities, SLI centralized her procurement department. The procurement department is taking her responsibility to leverage the purchasing power through the development of framework contracts.

Although perfect negotiated contracts with both low prices and high quality seem promising, pitfalls can apply. A contract can only be valuable if it is used by stakeholders in the company: the internal customers. If contracts are not used, the organization can suffer from higher prices and supply risk. The 'act' of using procurement contracts, 'within this report defined as contract compliance', is seen by SLI as an important key performance indicator (KPI) of the procurement processes.

Assignment

SLI is suffering from low contract compliance. It is not completely clear for SLI, to what extent the performance of its contract management relates to the issue. Additionally if a relation does apply, it is unknown which managerial- or technical tools should be applied to improve the contract management performance in order to realize higher contract compliance. This has resulted into the following research objective and -deliverable:

> *'To do recommendations for Sara Lee International Procurement to improve contract management in order to increase contract compliance in indirect product categories with unexpected low contract compliance.'*

To increase the feasibility of the research, scope limitation has been applied:

- Objective-level: Contract compliance covers the 'use of contracts'
- Business level: Sara Lee International
- Product level: Indirect product categories with unexpected low compliance
- Process level: Contract management processes
- Improvement level: Technological- and behavioral improvement concepts

Analysis

In order to lay the foundations for the research deliverable, both empirical and theoretical analysis is executed. Within the empirical analysis the current situation at SLI is analyzed on its purchasing practices, the state of contract compliance, the reasons for non-compliance and the performance of its contract management. Additionally theoretical analysis is executed to provide the theoretical foundations for the empirical analysis and to analyze improvement concepts for contract management. These theoretical foundations enabled this research to assess the performance at SLI, to draw conclusions and to do recommendations.

Contract compliance at SLI

The spend analysis showed that SLI's indirect procurement does not differentiate much from its direct procurement on financial impact. It does differentiate itself with an enormous supplier set that is growing. The actual contract compliance for both indirect and direct procurement groups is estimated to be less than 40%. The compliance rate is partially based on contracts that are assumed to exist. There is a chance that the loss of purchasing performance is even higher.

The relevance of high contract compliance varies for product categories. Some indirect product categories have significantly higher financial impact. Additionally, the analysis showed that the contract compliance per product category has been fluctuating enormously between 2006 and 2007. This can be understood by the capriciousness of data and large one-time investments.
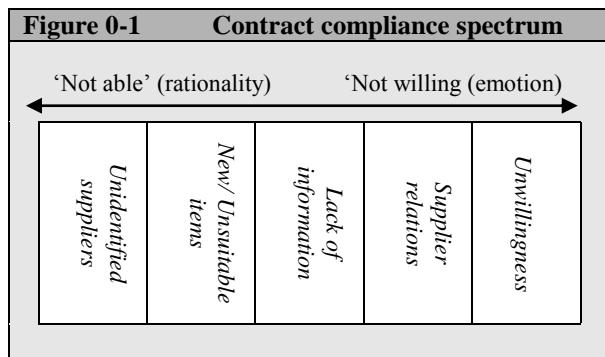
Reasons non-compliance

Many reasons can lay at the foundations for contract non-compliance. Theoretical analysis resulted into six main reasons for internal buyers not to use contracted suppliers. These reasons are ordered on the decisions motive, to be either rational or emotional:

- unidentified suppliers
- new items
- unsuitable items
- lack of information
- buyer-supplier relations
- buyer willingness

Procurement function's responsibility

From the theoretical research it is concluded that the procurement function should be held either fully or partially responsible for all reasons of non-compliance.

First of all, the main tasks of the procurement department are to reduce supply risk and purchasing costs. It is therefore her responsibility to 'identify and contract adequate suppliers', to cover 'new items' with contracts and to pursue quality contracts without 'unsuitable items'. These reasons are fact based, limiting the internal buyer 'to be able' to buy compliant.

Figure 0-1	Contract compliance spectrum

'Not able' (rationality)   'Not willing (emotion)'

Unidentified suppliers	New/Unsuitable items	Lack of information	Supplier relations	Unwillingness

Secondly, for the reason that information supply to all those that are involved is a cornerstone of procurement function, the function is also responsible for lack of information. In the contract compliance context, the lack of information lies between rationality and emotion. Non-compliance can be either caused by technical reasons that limit communication of contracted suppliers to the organization. However, it can also be caused by the unwillingness of internal buyers not to understand or -use the information.

Finally reasons for non-compliance that are closer to the internal buyer 'not to be willing' to buy compliant, are 'supplier-buyers relations' and of course the explicit 'unwillingness'. Who else than the procurement department could support and motivate internal buyers to quit current suppliers and setup new buyer-supplier relations? Additionally, who else than the procurement department can work on its respect and added value for purchasing processes to improve 'the willingness' to buy compliant?

Reasons for non-compliance at SLI

From the empirical analysis it is concluded that for SLI, the reason *'unidentified suppliers'* is the main reason for non-compliance. Contracting activities have only just been started in 2006 and for not all procurement spend, suppliers are yet identified and contracted. The second major reason for causing non-compliant purchases is mentioned to be *'lack of information'*. Till now no contract information has been distributed throughout the organization about either the contracted suppliers or their items. The reason *'unwillingness'* turned out to be the third most important reason for non-compliance. Extreme unwillingness to buy compliance does however not exist within SLI.

Table 0-1	Performance contract management processes on success criteria at SLI

	Success criterion	Score
(1)	Active contracts expiry dates	☆
(2)	Active contracts content visibility	☆
(3)	Spend data usability	☆☆
(4)	Knowledge on new/unusable items	☆☆
(5)	Cycle length of contr. process	☆☆
(6)	Contract inform. accessibility	☆☆☆
(7)	Contract inform. comprehensibility	☆☆
(8)	Contract inform. accuracy	☆☆☆
(9)	Contract inform. completeness	☆
(10)	Contract inform. currency	☆☆☆
(11)	Interest to contribute to contract compliance	☆☆
(12)	Attitude to contribute to contract compliance	☆☆

The remaining reasons, 'new-' or 'unusable items' and 'buyer-supplier relations', seem to have less impact on contract compliance at SLI.

One remarkable factor that affects the contract compliance at the analyzed product categories to be much lower is 'data pollution'. Data pollution can be caused by either supplier name duplication or mis-categorization. This factor does not have a causal relation with the internal buyer to buy non-compliant, but can impair the contract compliance rate to be much lower.

Performance contract management processes (CMP's)

Besides the assessment of reasons for non-compliance, the performance of SLI's contract management processes is assessed. Contract management processes can be interpreted as the combination of category management-, contract administration- and contracting processes. Since success criteria (s.c.) are the requirements for a process to fulfil its objectives, several success criterions are developed for contract management processes to pursuit the contract compliance objective. The s.c. form the theoretical framework displayed in Table 0-1. The total number of stars reflects the necessity and opportunity to improve at SLI.

At SLI the lowest performance is realized on s.c (1) and (2). Only 30% of the estimated contracts are in the procurement database, making it difficult for category owners to understand either item coverage of current contracts or expiry dates. Other low performance exists at s.c. (9). The presented contract information is minimized for maintenance reasons and not verified with all stakeholders within the business. It is therefore likely that the new tool for communication of contracted suppliers will not be used to its full extent, especially as it is an extra step within the purchasing process for internal customers.

Moderate performance is realized on s.c. (3). Spend data has an acceptable usability, but still suffers from issues on completeness and accurateness. Additionally, it is concluded that cooperation between procurement and internal stakeholders is insufficient and not systematic and that performance on s.c. (4) could be improved. The comprehensibility of contract information distributed towards the company could be an issue as the distribution platform is based on the English language only. The performance on s.c. (5) has been improving through sourcing technology. However, still time delays exist mainly because of the manual development of contracts and time-consuming activities of the legal-department. Finally, moderate performance is achieved on (11) and (12). The interest could be improved through efficient cooperation with clear incentives. The attitude could still be improved on professionalism; communication of advantages and better support to take away any fear for the unknown.

Good performance is realized on the s.c. (6) due to the distribution of contract information through the intranet platform, which is widely accessible. Because of multiple validation checks and continuous updating, this data can be regarded as accurate (8) and up to date (10).

How to improve compliance

Within the theoretical analysis on improvement concepts, several concepts such as stakeholder management, eContracting and eContract management were examined. This examination was followed up by the drawing of relations between the improvement concepts and the success criteria for the CMP's. This resulted into a theoretical framework which can be used as a tool to choose the right improvement concept for improvement of the right success criteria. For the development of the recommendations for the SLI practice, this framework has already shown his applicability.

Design

When is looked back on the research objective, several recommendations can be provided to SLI to improve her contract management processes towards the achievement of higher contract compliance. First of all, contract management processes can be regarded as: *one total service to the internal customer of which the performance is measured by the level of contract compliance.* Because internal customers still have the autonomy to choose whatever (indirect) material they would like to purchase, SLI procurement is advised to optimize its service to its internal customers to achieve the highest contract compliance.

Secondly, it is in the favor of SLI to improve the performance on the success criteria that are related to the most important reasons for contract non-compliance. The most important reasons for low contract compliance at SLI are: *'unidentified suppliers'*, *'lack of information'* and *'unwillingness of the internal customers'*. For these reasons, SLI would do good to improve the performance on the corresponding CMP success criteria with low performance. These criteria are presented within the first column of Table 0-2. For these criteria, improvement concepts are determined within this research. SLI is recommended to implement the improvement concepts presented in the second column of Table 0-2. It needs no explanation that these remedies are the key for SLI to improve the performance on the success criteria presented on the left in order to achieve a higher contract compliance in her indirect product categories.

Table 0-2 Performance contract management processes at SLI	
Recommended to focus on:	**Recommended remedy for improvement**
Active contracts expiry dates	▪ eContract management
Active contracts content visibility	▪ eContract management
Knowledge about uncovered, new or unusable items	▪ Participation & Involvement ▪ Facilitation & Support
Cycle length of contract develop.	▪ eContracting
Contract information completeness	▪ Participation & Involvement
Contract information comprehensibility	▪ Facilitation & Support
Interest to contribute to contract compliance	▪ Participation & Involvement ▪ Coercion & Reward
Attitude to contribute to contract compliance	▪ Communication & Education ▪ Participation & Involvement ▪ Facilitation & Support ▪ eContract management

Index

1   Research Assignment

Summary

- Currently, Sara Lee International is characterized by low contract compliance within indirect procurement enabling risks on i.e. supply continuation and high price rates.
- Many issues exist within contract collection, -development and –distribution processes.
- The little use of contracts is assumed to derive from the contract management processes.
- Improvements of contract management processes are to be approached from technological and behavioural perspective.

1.1. Introduction

This chapter contains the research framework. First the background of the research will be described to understand the reason for research. From the actual issues and objectives within the Sara Lee International context (further described as SLI), the research objective will be derived. In order to successfully realize this research objective, the research will be structured through scope limitation and a research model. This chapter closes with the report structure, which describes the allocation of chapters over the several steps of the research model.

1.2. Background of the research

To provide some background information on the current SLI situation:

1.2.1   History

Since the late 21'st century, SLI like many other multinationals noticed that savings in the purchasing domain have direct effect on the bottom line. Within SLI's strategy, this comprehension resulted in a stronger emphasis on improving and professionalizing the purchasing function. Large savings opportunities emerged from globalization and takeovers of many strong brands. Economies of scale could be realized by bundling purchasing volumes and sharing resources. By leveraging purchasing power through a coordinated centralized purchasing function, a first step was set in realizing benefits from SLI's expanded size.

For those unfamiliar with the 'act' of purchasing, this is defined by Van Weele [2002] as: *'Obtaining from external sources all goods, services, capabilities and knowledge which are necessary for running, maintaining and managing the companies primary and supporting activities at the most favourable conditions.'* Although many other definitions exist according to Telgen [2004], this definition gives a complete overview of the responsibilities of the purchasing function.

Within the last few years, special attention went out to the purchase of indirect materials and services. Within SLI these purchases are called Non Cost of Goods Sold (NonCogs), which are meant to support the primary process. In 2005, this special attention led to a significant enlargement of the team handling the purchasing of NonCogs. In that time, purchasing processes for NonCogs were still underdeveloped and especially in this area large savings opportunities existed. Additionally, latest technology improvements made the realization of these savings opportunities more accessible. Two projects were executed to benefit from these advancements: the EuRoPe and the APPLE project.

Within the EuRoPe project Sara Lee tried to create a single Entreprise Resource Planning system for all European operating companies (OpCo's). The implementation of an ERP system was a first step in creating synergy and strengthening the position of Sara Lee in the European marketplace. The APPLE project was based on the Achievement of Profit by Procurement

Leveraging E-commerce. New eProcurement applications were tested and successfully applied within the purchasing function. These applications were primarily meant for the sourcing phase for quick delivery of significant cost reductions.

Implementation of information technology for sourcing processes did not require rigid changes in business processes. On the contrary, the transactional processes are characterized by higher complexity; suitable information technology tools for this process are still to be found.

For the procurement department of SLI, the savings focus in the last few years has been primarily on the sourcing process, visualized (ref. Figure 1-1) as the first step in SLI's 'Procurement path to Purchasing excellence'.

Figure 1-1   Strategic Procurement Roadmap (SLI 2005)
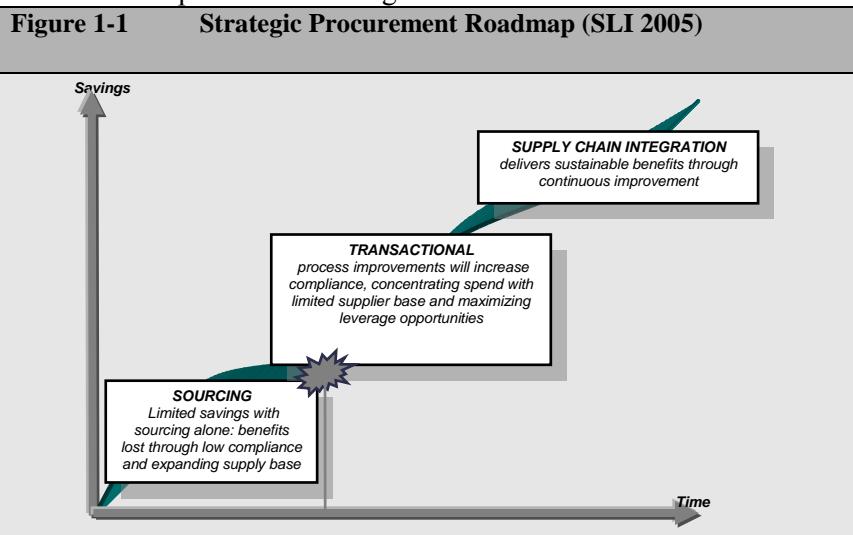
1.2.2   Today

Nowadays, SLI is changing the focus in her savings strategy from the sourcing- to the transactional processes. SLI realizes that in order to benefit from projected savings realized in the sourcing phase, consolidation must be done in the transactional phase. SLI is trying to improve processes to handle the expanding supply base and low use of contracts.

The supplier base of indirect procurement has grown to an amount of over 15000 suppliers. To control the supply base, SLI is currently executing supply base rationalization. Suppliers with low spend or double entries in information systems are under critical review. The same applies the review of all steps in the new vendor creation process. SLI is trying to improve this process to get control on the supply base expansion.

Currently the amount of spend that is covered by contracts is estimated for some product categories to be only 40%. SLI prefers to realize contract compliance without stringent control of organizational behaviour. Reasoning behind this preference can be found in purchasing literature. Van Weele [2002] argues that business performance has highest priority and a well balanced strategy for the purchasing function must be found, for both savings realization and optimal business support. Telgen [2004] notes that conflicts can arise if the purchasing function has a double role by either giving assistance or by controlling compliance as some kind of watchdog.

To get a grip on low compliance, SLI is currently executing several activities. On the one hand it is executing many sourcing activities as part of the indirect procurement strategy of FY07. On the other hand she is trying to both collect and promote existing procurement contracts to the organization through an intranet site called the Procurement Marketplace.

Issues still exist around these 'contract handling' activities. Not only the collection of contracts has shown great difficulty, also the realization of new contracts suffers from inefficiencies.

Additionally the information distribution towards the organization has been limited so far. New technology for contract handling is being tested and configured for use in 2007. It is however still unknown to what extent this solution is a remedy to the problems.

1.3. Research objective

The previous paragraph gave insight in the current situation of the procurement function of Sara Lee International. Contract compliance reflects the level of risk and loss of financial benefits and is therefore a good indicator of purchasing performance. Because a lot of purchases at SLI are not covered by contracts, the purchasing performance can be regarded to be low.

The Aberdeen Group concluded that poor contract management can impact the effectiveness of procurement in terms of increased maverick spending, unclear performance and poor compliance [Aberdeen Group 2006]. Additionally, software developer Emptoris [2007] argues that contract management software can reduce off-contract spending because of greater contract visibility. Therefore, solutions off-contracting spending could potentially be found in contract management processes.

This research focuses on the contract management 'process' and its improvement in order to realize higher contract compliance. Several issues have already been determined for the current 'contract handling' practices of SLI. Because technology is already being installed to improve these practices, additional research is possible to see to what extent technology can be a remedy for these problems. However, improvements will not have to come from 'technology' perspective only.

According to Cassidy et all. [2001] information technology is often overrated and should only be seen as *enabler* of process improvement. Therefore also the 'people' perspective will be assessed. It is unclear to what extent behavioural aspects of decentralized internal buyers relate to the issue. Lack of integration between a procurement department and the company can be very common for a purchasing function that has only been centralized. [Van Weele 2002]

1.3.1 Research objective

Taking the last sections as input for research the following research objective derives:

> ´To do recommendations for Sara Lee International Procurement to improve contract management in order to increase contract compliance in indirect product categories with unexpected low contract compliance.´

1.3.2 Clarification

To clarify the research objective:
- Contract compliance is defined at SLI as the percentage spend of total spend that can be allocated to contracted suppliers.[1]
- Product categories are to segment purchased goods and services with different characteristics to enable category specific expertise and allocate workload over category managers. [2]
- The adverb 'unexpected' enables the research to include categories with high contract compliance for which purchasing performance can also be questioned.
- Contract management covers all managerial activities that support the contracting processes in terms of initiation, execution, administration and improvement [Angelov 2004].

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[1] Interview Leon Cooijmans, 5-6-2007
[2] Interview Leon Cooijmans, 5-6-2007

1.4. Research Scope

The scope of this research will be limited in order to structure the research for a better pursuit of the research objective. This limitation visualised in Figure 1-2 is done on objective level, business level, product level, process level, and solution level.

Figure 1-2	Research scope limitation

There are several purchasing processes which can be analyzed for improving contract compliance. For instance budgeting- or control processes can be investigated [Kulp et all 2006], purchasing processes [Ogden 2006] or contract management processes. [Aberdeen Group 2006][Emptoris 2007].
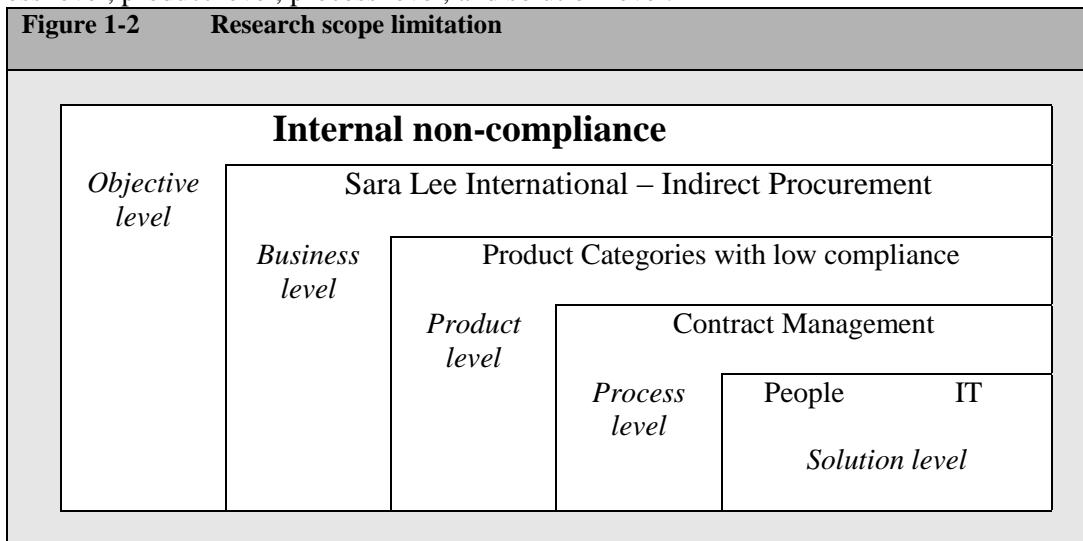
1.4.1 Objective level

In purchasing literature, the term contract compliance has several different interpretations. Within this report contract compliance is about the 'use' of contracts for which two types [Telgen 2004] will be analyzed: spend on commodity categories for which company-wide framework contracts exist but are not used and spend on packages for which framework contracts have not (yet) been concluded. The other interpretations of contract compliance are related to attributed responsibility to either supplier or buyer not keeping its agreements[Kulp ett all 2006]. These types of contract compliance are beyond the scope of the research objective.

1.4.2 Business level

Although compliance issues also exist for Sara Lee North America, the scope of this research will be Sara Lee International in the Netherlands. This is the place where the procurement department is located and where the researcher is installed. The procurement department is nowadays separated into teams for direct- and indirect procurement. Compliance to contracted suppliers for direct procurement is better under control because it is characterized by a smaller amount of suppliers and a higher process maturity. On the contrary, SLI's indirect procurement has only just got increased attention. It is characterized by many suppliers and much lower contract compliance. Research focus will therefore lie on the indirect procurement of goods and services.

1.4.3 Product level

Over fifty product categories exist within the indirect procurement function of SLI. Analysis of all these categories would conflict with this research limited time scope. Therefore to the focus will lie on large product categories for which the current compliance rate is regarded as unexpectedly low by the procurement process manager. The adverb 'unexpectedly' broadens the scope on product level to include product categories for which loss of purchasing performance is not understood by the procurement process manager.

1.4.4 Process level

There are several purchasing processes which can be analyzed for improving contract compliance. For instance budgeting- or control processes can be investigated [Kulp et all 2006], purchasing processes [Ogden 2006] or contract management processes. [Aberdeen Group 2006][Emptoris 2007].

For two reasons it is decided to focus on the contract management processes. One the one hand installing budgeting methods processes and control processes can be still too rigid for a company in which a procurement department has only just been centralized [Van Weele et all 1998]. On the other hand budgeting processes depend on well integrated information systems in the transactional process which SLI is lacking. For contract management process however, these are currently getting installed, 'enabling' opportunities for improvement.

1.4.5   Solution level

The improvement of processes can be approached from several perspectives according to Robbins[2000]. Robbins states that changes in an organization can take place in four important aspects: the 'technology', 'structure', 'people' and 'process' aspect. In the SLI practice, solutions in the organizational structure are not preferred: the organizational structure has just been rigorously changed (which is very common for multinational companies made up of many divisions and subsidiaries [Rozemeijer et all 2005;Leenders et al. 2000]). Additionally, research on this topic has already been thoroughly executed and therefore the organizational structure will be regarded as a given fact within this research. To conclude, solutions will be approached from the process-, people- and technology perspectives.

1.5. Research Model

In order to pursuit the research objective, several steps will be executed. To structure execution of these steps, a research model is created in Figure 1-3. This model is based on research methodologies from Verschuren & Doorewaard 2004, and will be followed by a detailed description on all steps.

Figure 1-3:   Research model [Verschuren & Doorewaard 2004]
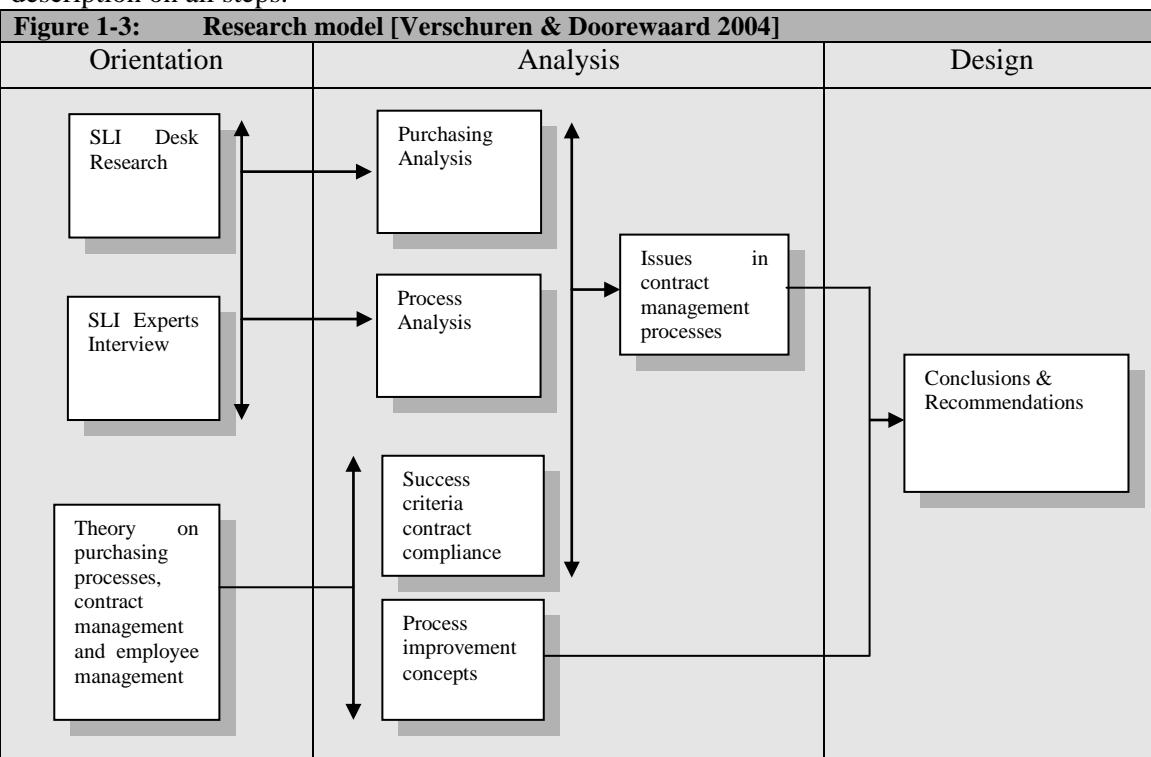
1.5.1   Orientation

The orientation phase is to describe the sources that provide the input for analysis. The practical orientation comprises interviews with experts and analysis of internal SLI documents and data from information systems. The theoretical orientation will be based on library and internet sources. Theory will comprise literature on procurement, processes, contract management and employee management. Some of the authors are briefly introduced within §1.6.3.

1.5.2   Empirical analysis

Empirical analysis consists of three types of analysis: desk research, spend analysis and interviews. Desk research and spend analysis are to characterize the purchasing context at SLI.

Problem analysis is executed to understand the current state of contract management processes and the nature of contract non-compliance at SLI.

First of all, desk research will be executed to analyze internal documents, manuals and policies to understand the research environment in terms of purchasing structure, strategy and processes. To be able to recognize improvement opportunities from technology perspective the availability of information technology and its functions will characterized. These information systems will consist of enterprise resource planning systems (SAP R/3), data-ware house systems (SAP BW), the intranet (Microsoft Sharepoint) and the new contracting tool for SAP.

Secondly, spend analysis will be executed to define how the non compliant spend is build up at SLI. It is important to understand to what degree it reflects a structural problem and to what degree parts of the organization can be held responsible

Thirdly, within the problem analysis the current state of SLI's contract management processes will be determined by interviewing five different types of SLI employees:

- *The procurement process manager*: to acquire understanding on the current maturity of contract management at SLI. The procurement process manager can point out to what extent contract management activities are supporting contracting processes, which stakeholders and responsibilities exist and which issues apply in the current situation. Aligned with this procurement processes expert several product categories characterized by low compliant spend will be chosen for further analysis.
- *The spend analyst*: to gain insight in current spend analysis practices and issues that exist in the retrieval of data, the quality of data and the use of data. This information is important to understand the current state on contract compliance reporting.
- *Multiple category owners*: to understand the current performance of contracting processes in product categories with low compliance from the perspective of the process owners.
- *Multiple internal customers/stakeholders*: to get insight in the nature of the non compliance issue and the degree of relevance of its causes. The interviews with internal stakeholders is large cornerstone of the research, as these decentralized buyers are directly related to occurring non compliant spend. Especially for the behavioural solution perspective, this part of the research is relevant.
- *The implementer of the S2C-tool (Frictionless/SAP)*: to conclude about the value of new contracting technology for increasing contract compliance, an implementer of the technology will be interviewed.

To structure, support and assess the empirical analysis also theoretical analysis will be executed.

1.5.3 Theoretical analysis

In the research objective a relation is assumed between contract compliance and contract management, based on statements of the Aberdeen Group and Emptoris (ref. §1.3.1). Both subjects an their relation will be further examined within the theoretical analysis.

First both purchasing subjects 'contract compliance' and 'contract management' will be elaborated upon definitions and characteristics. Secondly the degree of responsibility of the procurement department for contract compliance will be determined. This will be followed up by analysis on the relation between both subjects. By determining critical success factors for contract management processes that relate to causes for low contract compliance, the SLI situation can be assessed for improvement opportunities.

Finally, literature analysis will be executed to assess theoretical improvement concepts for the developed success factors for contract management processes. These improvement concepts will be the input for the design phase of this report to draw conclusions and to do recommendations.

1.5.4   Design

After the analysis phase, the design phase will executed. Within this phase conclusions will be drawn from the literature analysis and practical analysis about:

- The relevance of contract compliance
- The responsibility for contract compliance
- The relation between contract management and contract compliance
- The improvement concepts for contract management towards contract compliance
- The reasons for non-compliance at SLI
- The issues in contract management processes at SLI

The developed conclusions will be used for development of recommendations. These are to guide and motivate SLI towards improvement of her practices scoped by the research objective. If any suggestions for further theoretical research rise during this research, these will be added in the epilogue.

1.6. Research Methods

In the research model described in the previous paragraph, many types of data and information are to be gathered for analysis. This gathering process can be executed in several ways. Verschuren and Doorewaard [2004] distinguish several research methods. The following research methods are applied for data and information gathering within this research.

1.6.1   Desk research

Desk research comprises research on documentation material such as i.e. presentation materials, manuals and policies to understand SLI's strategies, projects and processes. Documentation on the new contracting tool in SAP SRM will be studied to understand its characteristics and capabilities. Spend-data gathering will be executed from SLI's business warehouse system (SAP BW) to understand the current status of the compliance issue.

1.6.2   Internal interviews

Internal interviews are face-to-face conversations with SLI-interviewees to extract specific knowledge that is required for the research. Within this research these interviews will be executed with the following SLI experts:

- the procurement process manager
- spend analyst
- category owners
- internal customers
- implementer S2C-tool

It is chosen to gather information through interviews and not through a survey. Although a survey would reach many more PO-creators, the quality of the results is questioned by SLI's procurement process manager[3]. The disadvantage is that information from fewer PO-creators lead to less balanced results. According to some of SLI's category owners, this would not have to be an issue as purchasing behaviour of internal customers can be generalized within SLI.

1.6.3   Literature study

To gain insight and understanding of theories on purchasing, process improvement, automation technologies and organizational behavior, literature study will be carried out. For these subjects, mainly the work of the following authors will be used:
-        Purchasing: Van Weele, Telgen, de Boer, Harink and Vos
-        Processes & systems: Goldratt, Cassidy and Guggenberger
-        Contract Management: Van Hijl and Knoester, Grefen and Angelov
-        Participative management: Kanter, Mitroff and Harrison, Geelen.

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[3] Interview Leon Cooijmans, 5-6-2007

1.7. Report structure

The allocation of chapters over the several steps of the research model described in the previous paragraph is as follows. The first two chapters reflect the introduction of the research. Chapter 1 comprises the assignment in which the structure of the research is discussed. Chapter 2 will provide insight into the background of the Sara Lee International environment.

Chapter 3 till chapter 7 will comprise the research analysis. First the nature of the contract problem at SLI will be discussed in chapter 3. Chapter 4 will describe the literature analysis on contract compliance. Contract compliance will then be related to contract management processes in chapter 5. Chapter 6 will describe technical and behavioural improvement concepts for improving contract management processes on the success criteria that are important for contract compliance. Finally, the analysis part of this research will finish with the actual empirical analysis at SLI in which the SLI practice is thoroughly assessed.

This report finishes with conclusions and recommendations. Chapter 7 will comprise the main conclusions that are to be drawn from the analysis. These conclusions will form the foundations for the recommendations to support SLI to improve her practices aligned with the research objective.

The composition of the report is presented in the following Figure 1-4.

Figure 1-4   Report structure
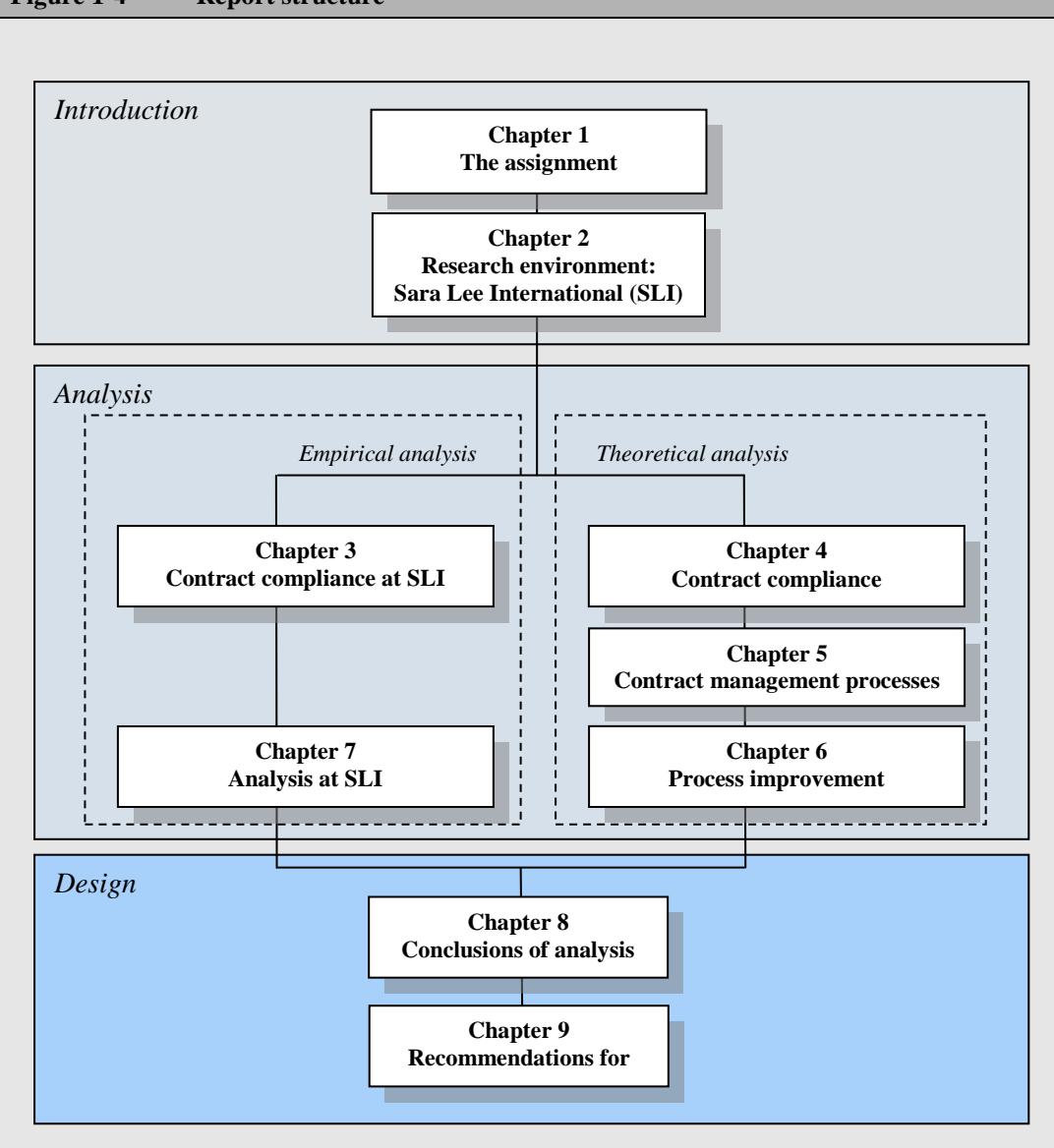
2   Project environment

Summary

- Sara Lee International (SLI) is a complete subsidiary of the Sara Lee Corporation and consists of three lines of business that are internationally (non-VS) focused.
- The procurement organization of SLI is structured on several levels. It is characterized by a centralized coordinating procurement group, a large amount of indirect product categories and different purchasing professions.
- The SLI procurement maturity is moving from a functional focus to a more cross-functional focus, reflected by much greater attention on the purchasing of indirect goods (NCoGS) and corresponding organizational adjustments.
- The procurement department is mainly savings targeted. These savings still have higher significance in sourcing- than in transactional processes.
- A large part of procurement process projects are related to achievement of higher contract compliance; KPI's are installed to enable transparency on this achievement.
- SLI main information systems are its ERP system with integrated business intelligence modules and her intranet.

2.1. Introduction

This chapter is to provide insight into the background of the Sara Lee International (SLI) environment where this research is being executed. First the parental company of SLI and the relation to her subsidiaries will be described. This will be followed up by a short introduction on major organizational changes in the past, to understand the current organizational mission, values and procurement strategy. The procurement structure will then be discussed in detail, followed up by assessment of the maturity of the purchasing function which relates to the current procurement objectives. The chapter finishes with a description of the current information system landscape to shape the technological capabilities.

2.2. Sara Lee Corporation (SLC)

The Sara Lee Corporation is a global manufacturer and marketer of high-quality, brand-name products for consumers. SLC is founded in the United States in 1939 by Nathan Cummings creating the Consolidated Foods Corporation. In 1956 the company bought a company known as 'Kitchens of Sara lee' and transformed this into a well known brand name. In 1978 Sara Lee bought Douwe Egberts which together with other acquisitions and autonomous growth, led to the Sara Lee Corporation (company name adopted in 1985) with a wide portfolio of brand marketed all over the world.
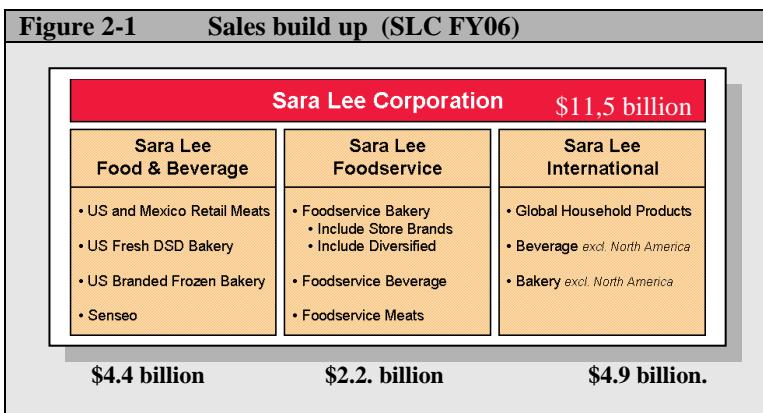
Today the headquarters is located in Downers Grove, Illinois. In Fiscal Year 2006 (FY06), the Sara Lee Corporation reported revenues of $11,5 billion and $410 million income after taxes. (ref. figure 2-1) Operational activities cover 58 countries in which 50.400 people are employed worldwide resulting

Figure 2-1   Sales build up (SLC FY06)

Sara Lee Corporation		$11,5 billion
Sara Lee Food & Beverage	**Sara Lee Foodservice**	**Sara Lee International**
• US and Mexico Retail Meats	• Foodservice Bakery • Include Store Brands • Include Diversified	• Global Household Products
• US Fresh DSD Bakery		• Beverage *excl. North America*
• US Branded Frozen Bakery	• Foodservice Beverage	• Bakery *excl. North America*
• Senseo	• Foodservice Meats	
$4.4 billion	**$2.2. billion**	**$4.9 billion.**

into a supply of consumer packed goods to 200 countries. Major competitors in the 'fast moving consumer goods' industry are Nestlé, Proctor & Gamble and Unilever. The organization focuses on products with growth potential in three lines of business:

1) Sara Lee Food & Beverage: the retail business that markets in three of the largest grocery categories in North America packed meats, fresh and frozen bakery and coffee.
2) Sara Lee Foodservices: the North America business focused on marketing meat, bakery and beverage products to the foodservice channel.
3) Sara Lee International (SLI): the global business focussed on marketing beverage and bakery products outside of North America as well as household and body care brands world wide.

2.3. Sara Lee International (SLI)

SLI employs 18.000 people and has $4.9 billion net sales. The head office responsible for coordination and management is located in Utrecht (the Netherlands). SLI is now a full subsidiary of Sara Lee Corporation and used to have a central board of directors. This board is recently removed (April 2007) resulting into direct reporting of departments to the Sara lee Corporation.

Sara Lee International is responsible for marketing coffee, tea, household and body care and bakery operations. The business is characterized by many Operating Companies (OpCo's) which are geographically dispersed (ref. Appendix A), with certain amount of responsibilities and autonomy. Within the Netherlands, 22 OpCo's are located in Joure, Nieuwegein, Amersfoort and Utrecht. Three lines of business can be distinguished:

1. Global Household & Bodycare products,
2. Beverage, Coffee and Tea, excluding N.A.
3. Bakery, excluding N.A.

Figure 2-2   Strong SLI brands

The H&BC business of Sara Lee International holds brands on several types of products: Body   care (Sanex, Zwitsal), Oral care (Prodent, Zendium) Air Care (Ambi-Pur), Shoe care (Kiwi) and Insecticides (Vapona, Good Knight). Market positions are well established over many parts of the world.

The coffee business is a global 32 billion EURO market in which coffee is consumed widely. Coffee is very sensitive to branding, which is acknowledged by SLI through strong branding skills, leading positions in many markets, servicing retail as well as 'Out of home'. SLI's Coffee and Tea business holds strong brands in the area of coffee, coffee systems, tea and sweeteners under the branded names (Douwe Egberts, Merrild, Marcilla, Pickwick, Hornimans, Sueños de oro and Natreen.).

The Bakery division manufactures and markets branded packaged baked goods in Europe and Australia. The company produces high quality and wholesome baked goods for everyday consumptions across three temperature zones: Fresh bread, frozen desserts and refrigerated dough and baked goods. The Bakery division has a powerful local and bakery brands around the world. Bimbo is leading packaged sliced bread in Spain; CroustiPâte is the leading refrigerated dough brand in France.

2.4. Transformation

Since the beginning of the new millennium sales revenue began to decrease for the SLC organization. Sara Lee had taken several steps to improve operations and profitability, but desired performance was not achieved. Three undesired trends were acknowledged:

▪ Sales, margin and competitive A&P spending under pressure
▪ Costs of doing business increasing

- No bottom line growth

In 2005 a transformation plan was introduced to transform the company into a *'new – more centralized- organizational structure, designed to focus our businesses around consumers, customers and geographic markets while dramatically improving operational efficiency…and freeing up funds to reinvest in future growth'*. Large savings opportunities emerged from globalization and takeovers of many strong brands. Economies of scale could be realized by bundling purchasing volumes and sharing resources.

The transformation followed the 'three pillars of change':
1. From a decentralized portfolio of business to an integrated operating company focused on Food, Beverage and H&BC.
2. From organized by business segments to organized by consumers and customers geographically; build functional excellence
3. From incremental improvement in growth and margin to achieve operational efficiency to fund growth.

Part of the transformation was the renewal of the mission of the company, presented in Figure 2-3:

Figure 2-3 Mission
'to simply delight you …… every day'

Figure 2-4   Key values
Act with **INTEGRITY** Use **IMAGINATION** Be **INCLUSIVE** Work as a **TEAM** Have **PASSION** to excel

As a result the company devoted herself to be the first choice of consumers and customers around the world by bringing together innovative ideas, continuous improvement and people making things happen. This devotion is characterized by the key values presented in Figure 2-4.

Also the procurement organization of SLI was affected by the transformation.

2.5. Procurement organization SLI

Generally speaking, the procurement structure of the procurement function of SLI consists of:
- a centralized department
- several procurement groups
- many product categories
- several procurement professions

2.5.1 Centralization

The procurement organization (ref.Appendix B) of Sara Lee International has undergone many changes in the last decade. One major change is the centralization of the purchasing function for which several benefits are found in procurement literature. According to van Weele [2002], two types of cost reductions can be realized through a coordinated purchasing function:
- purchasing expenditure reduction
- transactional costs reduction

Vizjak [1994] argues that cost reductions are a result of buying power concentration, information exchange and activity coordination. These align with the three potential savings synergies Arnold [1997] distinguishes: economies of scale, - information and processes. These benefits can be realized for both primary and secondary purchasing.

2.5.2 Procurement groups

The procurement groups of SLI are divided over primary and secondary purchasing. Primary purchasing relates to the buying of material resources for processes that directly relate to the final product, e.g. production and transformation processes. In practice these resources are Bill of Material (BOM) goods [Telgen 2004]; at SLI these are called Cost of Goods (CoGS). Secondary purchasing involves purchasing of all materials that indirectly relate to the final

product, usually referred to as Non Product Related (NPR) or Maintenance Repair and Operations (MRO) [Telgen 2004]. These materials are required by the supporting activities such as offices supplies or lease cars. Within SLI secondary purchasing is called Non Cost of Goods Sold (NCoGS) or Indirect procurement, which is part of the research scope.

Because of the diversified divisional structure of SLI several different procurement groups can be distinguished for the purchase of direct materials: directs, packaging, finished products, raw materials and technical procurement. For the purchase of indirect material one large team is installed, responsible for organization wide indirect purchases.

Next to these coordinating purchasing groups, SLI is also characterized by many operating companies. These OpCo's have a certain amount of autonomy and cover different products and brands but equal on their dependability on the services of the procurement department.

2.5.3 Product categories

Within SLI, over fifty product categories are defined. For every product category a specific buyer group or department is responsible for the procurement of corresponding products and services. These product categories have different characteristics on i.e.:

- Functional focus
- Strategy

Some product categories have a functional focus implying that the goods and services purchased are primarily meant for a specific function within the organization. One can think of product categories as 'advertising' to be related with the marketing function and 'legal services' with the 'legal department'. On the contrary, some categories have a more cross-functional focus such as 'lease-cars', 'courier services' and 'operating supplies'. These categories approach a broad audience throughout the whole organization.

Next to functional differentiation product categories can also differ on strategy. Kraljic was one of the first to notice that companies benefit of a diversified supplier strategy [Kraljic 1983][Van Weele 2002] and his portfolio matrix is one of the most used purchasing models since then [Caniëls et all. 2005]. Kraljic's idea was to minimize supply risk and maximize buying power by acceding the 20/80 rule e.g. that for 80 percent of purchasing value only 20 percent of suppliers is responsible. Monczka [2004] also acknowledges the effectiveness of portfolio management and the importance to differentiate goods and services on supply risk and financial impact. Therefore different purchasing strategies should apply for different ranges goods. This is one of the reasons to manage purchasing spend by product categories at SLI.

SLI follows the same approach to classify product categories. This classification is presented in the diagram listed in (ref. Appendix C), in which SLI product categories are allocated over the Kraljic matrix.

2.5.4 Purchasing professions

Within SLI several different kinds of purchasing employees can be distinguished: strategic buyers, local buyers and purchase order creators (PO-creators). The strategic buyers have a divisional wide focus and are responsible for setting out sourcing strategies, contracting and managing suppliers. Local buyers are mainly focussed on the execution of the sourcing activities and management of their product category.

Although not part of the research scope, it could be worth mentioning that professionalization of the purchasing function can lead to financial advantage. The Hackett study [2005] showed that world class organizations generate 133% greater return on their investment in procurement than average companies. Rozemeijer and Van Weele [2005] remark that in many companies the purchasing department still has a long way to go in terms of professionalization. This is according to Leenders et.al [2002] especially true in multinational companies made up of many divisions and subsidiaries.

The SLI situation aligns with these statements; many purchasing employees are already in the business for a long time and a small amount of new academics are kept within the function. However, internal training is made mandatory for some expertises. These 'refreshment' courses are often supplied by the NEVI[4].

Operational purchasing activities are executed by the PO-creators also called requisitioners. SLI is characterized by a large amount of 570 PO-creators, who are spread over many operating companies. One third of them are located in the Netherlands. (ref. Appendix D). The placement of orders can be executed by groups of frequent users as courier services, secretaries for office supplies and specialized functions earlier mentioned such as advertising or facility management.

2.6. Procurement maturity

The purchasing function can undergo several phases on maturity according to van Weele et. all [1998]. At first organizations are trying to organize the purchasing function around the organization to eventually do the opposite through transforming the organization around the purchasing function. The focus is transferring from a functional focus to a more cross-functional focus.

2.6.1 Current SLI maturity: Purchasing coordination

According to the SLI's procurement process manager, SLI's maturity of her purchasing processes can be found at the end of the third phase (purchasing coordination) of the Purchasing Development Model (ref. Appendix E) of Van Weele et all [1998]. The function has just been centralized and is starting to get a better control on the performance of the previous phases.

By coordinating operational purchasing processes and gripping contract compliance, improvement of purchasing effectiveness and efficiency is expected. Internal integration is seen as highly desired, but primary focus is still lying on sourcing steps activities. This can be well understood acknowledging the statements of de Boer[1998] and Telgen [1994], that these purchasing steps have the highest influence on total costs and therefore purchasing effectiveness

2.6.2 Performance measurement

In other to measure purchasing performance, SLI strives for execution of five types of reporting:
- KPI reporting: Reporting on predefined Key Performances Indicators
- Control reporting: Reporting on efficiency of use of SAP
- Spend reporting: Reporting on purchases recorded in the ERP system
- Supplier Service Level reporting: Invoice correctness, delivery time, quantity
- Saving reporting: P(urchase order) P(rice) V(ariances)

The term 'strives' is used to explicitly emphasize the fact that due to either lack of resources or outstanding issues, parts of the reporting are not executed to the full extent.

2.6.3 KPI's

Contract compliance is one of the several key performance indicators (KPI's) SLI developed for the performance measurement:
- Non Compliant Spend: Invoiced spend at preferred suppliers vs. total invoiced spend
- Active vendors: Total number of vendors per Opco versus used number of vendors during a selected period.
- Invoice PO coverage: Invoices amount covered by Purchase Orders versus Total amount of Invoices
- Invoice Monitoring: Number of Invoices per predefined bandwidth (invoice amount)
- Newly created vendors: Number of vendors created in SAP for the first time (= 1st General Data Input) during a selected period

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[4] Dutch purchasing academy, http://www.nevi-opleiding.nl/

During the fiscal year 2007 FY07 (running from July to June), several threads impair the quality of KPI reporting. Reporting on OPCO level is only locally focussed and should be extended to country and European basis. Additionally, spend transparency on category level is low because of lacking possibility to drill main SAP categories (e.g. Direct or Indirect materials Marketing & Sales, Packaging). Finally, the definition of Preferred Suppliers is still in process and Material Group classification (input from Vendor Master) is stated in SLI documents not to be correct.

2.7. Procurement roadmap

To proceed in detail with the SLI procurement maturity: SLI follows a 'self developed' maturity model called the procurement roadmap. This roadmap has already been presented within §1.2.1 but is displayed in much greater detail in Appendix F. Many projects are defined within the procurement roadmap of which a large part has a strong relation to contract compliance. The focus in the procurement strategy lies at first on the sourcing activities, then on transactional process improvement and to finish with the focus on supply chain integration. Key value is that sourcing alone will not deliver sustainable benefits, implying the essence of well functioning transactional processes. To elaborate on corresponding projects and their relation to compliance:

- Sourcing phase (§2.7.1)
- Transactional phase (§2.7.2)
- Relation to compliance (§2.7.3)

2.7.1   Sourcing phase

Within the sourcing phase, sourcing activities are executed to cover spend with contracts. Suppliers rewarded with contracts after the sourcing phase are called '*preferred suppliers*' at SLI. These suppliers are recommended to buy from to benefit from a volume leveraging focused supply strategy (ref.§4.2.2).

At the start of FY07 it was decided for all categories to agree with stakeholders on preferred suppliers. Procurement will provide full services for preferred suppliers enabling users to have requisitions processed into purchase orders automatically. Purchases outside group of preferred suppliers is still routed via procurement, but will follow more strict requirements due to the additional information/ justification required.

Within FY07 European sourcing activities focus on Marketing & Sales, Legal Services, Travel, Mobile Telecoms, Facilities, MRO, Office Products & Services, Temporary Labor and Lease Cars with other local sourcing activities. Objective is to move from 20.000 indirect suppliers to a couple of thousand suppliers at the end of FY07. E-sourcing tools should be adopted to drive down costs based on standardized specifications for operational sub-categories.

2.7.2   Transactional phase

Within the transactional phases, process improvements should be implemented to increase contract compliance to realized contracts. Solutions are to found in preferred processes (e.g. hotel booking tools) to push requisitioners to preferred suppliers. Limitation of the total number of these PO-creators will improve ordering transparency and make it easier to train and control their purchasing behaviour. Budget holder involvement is acknowledged to contribute to the understanding, acceptance and use of preferred suppliers in the diversified functions.

The Procurement Marketplace is a tool to inform employees about the preferred suppliers and is therefore also a subject related to achieve higher contract compliance. Other methods are limitation of the approval of new vendors and supplier rationalization, to achieve, maintain and control an optimal supply base for optimal purchasing leverage.

2.7.3   Relation to compliance

When the several projects mentioned in the previous paragraph are structured to the contract management processes, the following diagram derives (Figure 2-5).

	Sourcing	Transactional
Category management	- Approval new vendors - Supplier base rationalization	- Preferred processes - Category specification - Budget holder involvement - PO approval procurement - Number of PO'creators - New vendor creation
Contracting	- Sourcing - Preferred suppliers	
Contract administration	- Preferred suppliers in Marketplace and SAP	- Content loading marketplace - Contract management

Figure 2-5   Activities at SLI with a relation to contract compliance

The diagram shows that many methods to realize contract compliance can be found in the category management area. However, as it was concluded in the previous chapter the relevance of the contract administration processes should not be neglected.

One of the enablers of pursuing procurement strategy is the implemented information and communication technology (ICT). Several ICT systems are installed and ready for use which will be elaborated upon within the next paragraph.

2.8. Procurement IT landscape analysis

SLI is characterized by many IT systems for either information distribution or data gathering. The systems that are commonly used company wide are the:
- Intranet: Microsoft Sharepoint
- ERP system: SAP R/3
- Buniness intelligence system: SAP BW

2.8.1 Intranet

InSite is Sara Lee's only worldwide company intranet portal based on Microsoft Sharepoint. It is used for the internal communication, sharing of information across employees, processes and businesses and for accessing various business tools. It has been designed to promote transparency, teamwork and centralization throughout Sara Lee.

On InSite employee can find news (both internal and external), the Company Directory with contact information for all employees, business intelligence information, teamwork tools, company policies, and many possibilities to create your personal version of InSite, with direct access to that information which is most useful for you. All Sara Lee employees with access to the Sara Lee network, a valid email account and Company Directory profile, can access InSite. Contractors or consultants may be granted access based on business need.

2.8.2 SAP R/3

The pumping heart of all information systems at SLI is the Enterprise Resource Planning system (ERP): SAP R/3. The first version of SAP's flagship enterprise software was a financial Accounting system named R/1. (The "R" was for "Realtime data processing").

SAP R/3 is arranged into distinct functional modules, covering the typical functions in place in an organization[5]. The most widely used modules are Financials and Controlling (FICO), Human Resources (HR), Materials Management (MM), Sales & Distribution (SD), and Production Planning (PP).

Figure 2-6   Modules SAP R/3

Many of these modules are used by SLI. I.e. the QM, SD and PP models are required for the manufacturing process (and direct materials). For the purchasing of indirect goods no link with inventory, logistics or planning is necessary and mainly the following modules are important:

- MM: Materials management: Supports the procurement and inventory functions occurring in day-to-day business operations such as purchasing, inventory management, reorder point processing, etc.
- PM: Equipment servicing and rebuilding: For affecting the production plans
- FI: Designed for automated management and external reporting of general ledger, accounts receivable, accounts payable and other sub-ledger accounts with a user defined chart of accounts.
- CO: Represents the company's flow of cost and revenue. It is a management instrument for organizational decisions. It is automatically updated as events occur.

Next the described core ERP software also a Business Intelligence (BW) module is installed.

2.8.3 SAP BW

SAP Business Information Warehouse (SAP BW) is the name of the Business Intelligence, analytical, reporting and Data Warehousing (DW) solution which is one of the major enterprise software applications produced by SAP AG. It was originally named SAP BIW, (Business Information Warehouse), but is now known as "SAP NetWeaver BI".[6]

SAP BW consists of components for data management, extensive data modelling capabilities, an embedded analytical engine, a suite of front-end analytical tools and operational tools used for importing the most current transactional data into the system. To go into detail on the layers of the extension and their functionalities:

- Extraction, Transformation and Load (ETL) layer – layer for data extraction, rule transformation and loading into SAP BW system.
- Data warehouse area – layer for storage of the information in various types of structures, including multidimensional structures which are called Information 'Cubes'.
- Reporting - layer for presentation of information in data warehouse area in a user-friendly manner to the user.
- Planning – layer for simulation and budget calculations.

Several types of data can be retrieved out of this information system; i.e. data about the total number of purchase orders can be gathered to determine process efficiency. Additionally, data about the total number of active suppliers can be helpful to understand the performance on supplier base rationalization (and volume leveraging). This matter is, next to the spend allocation over the preferred supplier base, relevant for the contract compliance issue.

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[5] http://en.wikipedia.org/wiki/SAP_R/3
[6] http://en.wikipedia.org/wiki/SAP_BW
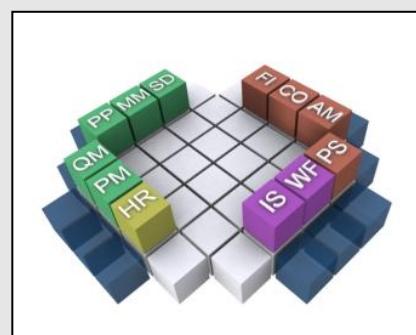
3 Contract compliance at Sara Lee International

Summary

- Indirect procurement does not differentiate from direct procurement on financial impact; it does differentiate itself with an enormous supplier set that is growing.
- Currently the actual contract compliance for both indirect and direct procurement groups is estimated to be less than 40%.
- The compliance rate is based on preferred supplier definition for which contracts are 'assumed' to exist; within the near future this will be changed into 'contracts that are active and in the contract database'.
- The current preferred supplier definition 'artificially' improves the current compliance rate, implying the loss of purchasing performance to be even higher.
- The relevance of high contract compliance varies for product categories, as some indirect product categories have significantly higher financial impact.
- Compliance between 2006 and 2007 fluctuates enormously, which can be understood with rigid changes in the preferred supplier sets.

3.1. Introduction

To support the empirical problem analysis executed in chapter seven, spend-data analysis is executed in advance. This chapter describes the analysis on procurement -and compliance figures over two fiscal years. First the overall procurement figures will be treated. This will be followed up by spend- and compliance analysis for indirect procurement in specific. The chapter finishes with analysis on compliance fluctuations to understand if improvements on purchasing performance are already evident.

3.2. Overall procurement summary

The overall procurement summary is to provide a brief overview of 'hard facts' about the overall purchasing performance at SLI. These hard facts shape the purchasing context for the analysis on product categories in the indirect procurement segment, which will be discussed within the next paragraphs.

3.2.1 Key figures

The following table shows the overall figures for the SLI procurement department. These figures reflect the total number suppliers and preferred suppliers, the total amount of spend and the contract compliance rate for both fiscal years 2006 and 2007, specified per procurement group:

Table 3-1 Key-figures Sara Lee International

Procurement *group*	*Direct*		Indirect	
Fiscal year	FY06	FY07	FY06	FY07
Total suppliers	1416	1205	10474	11562
Preferred suppliers	350	350	1403	1.399
Spend	539 million	1080 million	791 million	925 million
Contract compliance	**0,71**	**0,41**	**0,33**	**0,34**

3.2.2 Conclusions

From the overall procurement figures several conclusions can be drawn. First of all the figures show that spend is growing for both direct- and indirect procurement; in fact for direct procurement the total amount of spend has doubled. Telgen [2004] argues that this could be explained by the fact that in practice, purchases are executed continuously and are not always bound to one year. Secondly, indirect procurement spend does not differentiate much from direct spend. This implies that fractional savings in the indirect segment should not be neglected in the pursuit of improving the ROI of the organization.

Thirdly, supply base rationalization is showing results for direct procurement (-10%). However, the supplier set for indirect procurement is growing and therefore still astonishing. (10%) These figures are even higher (>17000) if other countries than the Netherlands, Belgium, France, Spain, Portugal, the UK and Germany are included. To conclude, the first steps of supplier base rationalization that should have been set according to the procurement strategy of FY07 (ref.§2.7.1) are not yet paying off.

Fourth, the total set of preferred suppliers did not change significantly (<1%). Although it would be interesting for the compliance issue to understand to what extent this composition is changed this is not executed within this research. It is however a given fact that still major effort is being made by category managers to change to composition of the several preferred supplier sets for the diverse product categories as part of their category management.

Finally, the contract compliance rate shows a significant decrease for direct procurement. At the beginning of FY06 the first preferred supplier set was determined. However, many contracts did not get it to the procurement department. The procurement process manager decided to remove these 'preferred' vendors from the compliance calculations to introduce an explicit emphasis onto the contract collection. This could also be executed for indirect procurement, for which also less than 40% of the contracts is received and installed in the contract administration.

3.3. Spend analysis indirect procurement

By performing a spend analysis much can be said about purchasing performance [Aberdeen Group 2004]. For a quick insight on purchasing performance, the in paragraph §6.3.3 mentioned KPIs could also be used. However, these KPI's are currently not automatically available within SLI. The indicators of purchasing performance are therefore manually extracted from the SAP/BW system. Figure 3-1 shows the spread of spend of the 25 largest product categories for both FY06 as FY07

Figure 3-1   Spend spread SLI over 25 largest indirect product categories FY06-FY07
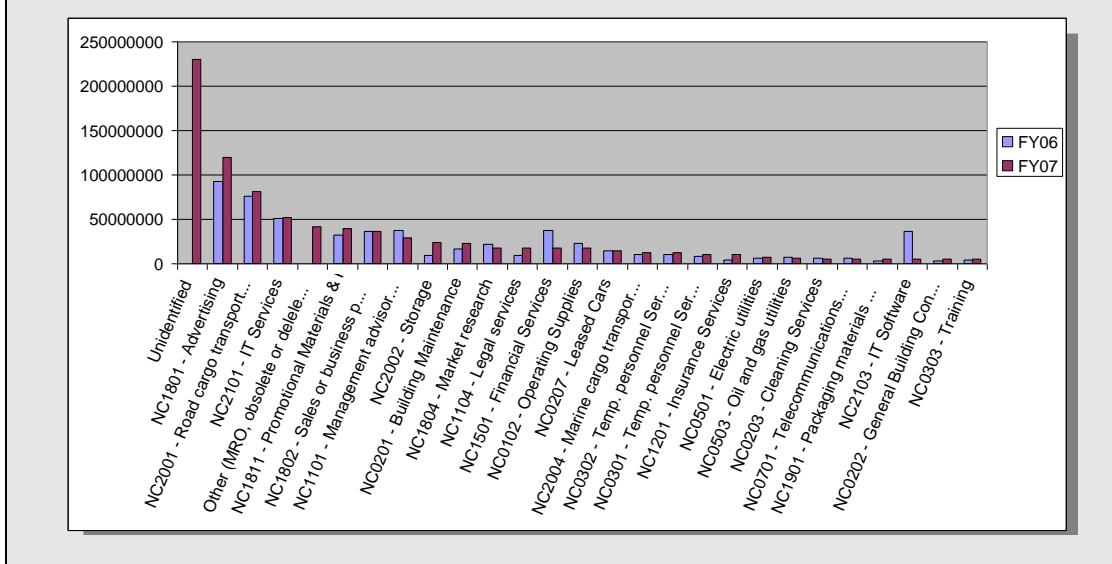
The diagram is limited to the 25 product categories with the largest spend; 39 smaller categories are left out to keep the diagram readable.

3.3.1 Conclusions

Several conclusions for the compliance subject can be drawn from the diagram. It shows that the largest spend can be attributed to the 'advertising'-category, 'road cargo'-category and 'IT services'-category covering one third of the total spend for indirect procurement. Especially in these categories a high compliance would be very beneficial to the organization.

Additionally in FY07 for the first time spend is allocated to a category 'unidentified'. This category now covers a significant amount of 20% of total spend and can be regarded as a reason for non-compliant spend through: 'unidentified suppliers'.

Finally, a relatively exceptional amount of spend in FY06 compared to FY07 was allocated to the both 'IT software'-category and 'financial services'-category. Deeper analysis on *'purchase order level'* showed high onetime investments. These expenditures do not occur yearly and pollute compliance reports by boosting or dropping the compliance rate in a category so that structural improvements diminish.

3.4. Compliance indirect procurement

The spend analysis executed in the previous paragraph showed great insight in at one hand the financial relevance of product categories and on the other hand the existence of unidentified spend. With compliance analysis only, this existence would not be indicated.

Within this paragraph the compliance rates will be reviewed. First the definition for contract compliance at SLI will be further explained.

3.4.1 Definition

Within SLI, the contract compliance figures are based on the preferred supplier definition SLI utilizes: '*Preferred suppliers are defined as suppliers for which either a contract, pricelist or stakeholder agreement is designated.*' This definition aligns with the definition of contract compliance used in the research objective, apart from the term 'preferred' for which the term 'contracted' is used.

The above definition of SLI will be used within this report to review contract compliance, simply for the reason that the information systems are configured in this way. For the quality of the contract compliance performance indicator, disadvantages have to be discussed for using:
- different types of agreements
- the timing of the 'designation'

3.4.2 Disadvantages SLI definition contract compliance

The different types of agreements mentioned in the definition of preferred supplier (and therefore contract compliance) are not yet explained. SLI defines a preferred supplier to be characterized by either one of the following agreements:
- Contracts: Large agreements based on a combination of clauses in which more aspects are specified than 'prices on item/service level' only.
- Prices lists: Agreements containing 'prices on item/service level' only
- Stakeholder agreement: Verbal agreements between SLI (employees) and suppliers without the existence of written proof such as paper or digital signed documents.

This disadvantage for the quality of the contract compliance indicator derives from the third agreement. A stakeholder agreement is (still) accepted to be a valid representation of a contract. No hard evidence is available about this 'advantageous' agreement. Without any written representation this agreement could be treated by suppliers as i.e. 'one time only' and diminish when the responsible SLI employee leaves the company.

The second disadvantage relates to the timing of the 'designation' of the existence of agreements two years ago. Since this designation, the total collection of contracts, prices lists and proofs of stakeholder agreements did not cover the preferred suppliers for almost one third now. Without the proof of contracts and negotiated benefits that are also still active, purchasing effectiveness could be doubted and the contract compliance rate assumed to be *artificially high*.

The procurement process manager desires contract compliance reporting of higher quality. Therefore a new definition for contract compliance that will soon be installed: 'contracts that are active and in the contract database'. The relation with 'preferred suppliers' will be removed, to prevent ambiguity. This is already partially executed for the direct segment, as it has already been argued in the last section of §3.2.2.

3.4.3   Compliance spread

Based on the spend analysis executed in paragraph §3.3 and the definition for preferred suppliers in §3.4.1, the compliance rate is calculated for all product categories (ref. Appendix G). The following diagram (Figure 3-2) shows the results for both FY06 and FY07, with the compliance rate on the vertical axis. The product categories are put onto the horizontal axis in exactly the same order as the diagram presented in the previous paragraph.

Figure 3-2   Compliance spread SLI over 25 largest indirect product categories FY06-FY07
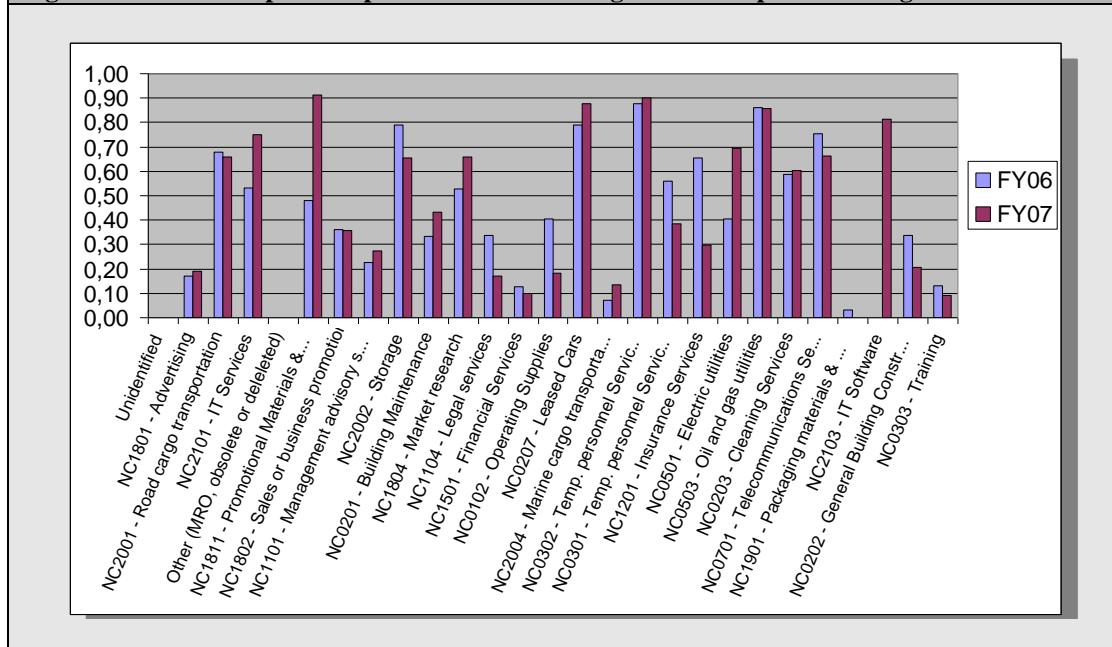
Although this diagram does not clearly show the difference between FY06 and FY07 (which is the subject of the next paragraph), it can be well used to show the degree of 'completion'. It is of course in favour of the organization to cover the diagram as much as necessary with bars that approach the top line of 1,00 which reflects the 100% of contract use.

Note: This type of data rendering/display of compliance against product categories aligns with the *Telgenbox* [Telgen 2004]. This model is also meant to clearly visualize compliance spread over categories, but more importantly to enable follow up by allocating budget corrections to OPCO's or functions responsible for low compliance. (ref. §6.2.2)

3.4.4   Conclusions

Two conclusions can be drawn from Figure 3-2. First of all it can be concluded that for most of the largest product categories, a low contract compliance applies. Secondly it can be concluded that the overall compliance is even lower than the diagram suggest. This conclusion is based on the ordering of the product categories on financial impact started from the left.

3.5. Compliance fluctuations

This paragraph describes the extent in which compliance rates have been improved in the last fiscal year.

3.5.1 Spread fluctuations between FY06 and FY07

The following diagram (Figure 3-3) shows the compliance rate fluctuations between FY06 and FY07. The diagram covers the same product categories on the horizontal axis that were already earlier used in the previous paragraphs. The vertical axis shows the relative improvement; i.e. a rate of 100% indicates a improvement 'contract use' that has doubled.

Figure 3-3   Compliance fluctuations between FY06-FY07
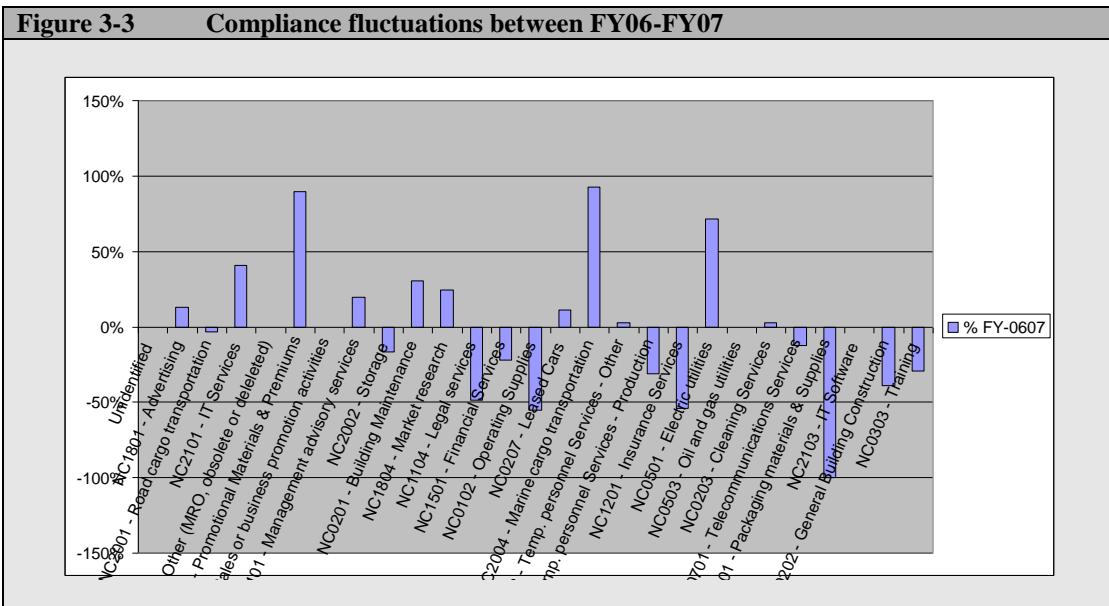
3.5.2 Conclusions

The diagram shows both significant increases and decreases on contract compliance. Some exceptional increases can be explained with large one time investments, for i.e. the IT services category as it has already been concluded in §3.3.1.

Other reasons for the fluctuations are preferred supplier sets that have extensively been changed in the last few years and the execution of category clean-ups. Through these clean-ups, dislocated vendors were transferred to other categories. Potential corresponding non-compliant spend is then automatically moved and returning in other product categories. This also resulted into the 'unidentified'-category mentioned earlier within this report.

Now the contract compliance status of SLI is determined, research will continue with analysis on the characteristics of contract compliance.

4   **Contract compliance theory**

Summary

▪ Contract compliance can be interpreted in many ways whereas 'the act of conforming to purchase from framework contracts only', is likely to have the largest financial relevance for the buying organization.
▪ Contract non-compliance can result into loss of savings between 10% and 20% of the purchase price.
▪ The six main reasons for non-compliance are unidentified suppliers, new items, unusable items, lack of information, buyer-supplier relations and buyer willingness.
▪ The purchasing function can be held either fully or partially responsible for all reasons of non-compliance.

4.1. Introduction

This chapter is to elaborate on the reasoning behind contract compliance and her relevance for an organization. To understand how low contract compliance can exist within an organization several potential reasons will be discussed. These reasons will then be related to the responsibility of the purchasing function and its processes to provoke further analysis for process improvement.

4.2. Definition

In order to better understand the term 'contract compliance' the English dictionary[7] is consulted:
com·pli·ance   –noun
      1. the act of conforming, acquiescing, or yielding.
      2. a tendency to yield readily to others, esp. in a weak and subservient way.
      3. conformity; accordance: in compliance with orders.
      4. cooperation or obedience: Compliance with the law is expected of all.

con·tract   –noun
      1. an agreement between two or more parties for the doing or not doing of something specified.
      2. an agreement enforceable by law.
      3. the written form of such an agreement.
      4. the division of law dealing with contracts.

Organizations apply both terms in different ways, i.e. for 'compliance' the Aberdeen Group [2006] distinguishes three types used for the procurement function: transactional compliance, process compliance and regulatory compliance. Additionally also different types of agreements can exist within several departments: agreements exist within the personnel-, sales- and the procurement department.

Procurement agreements are characterized by a buyer-supplier relation. Within this report the non-compliance issue is related to these kind of agreements. Based on the described definitions a *broad* definition for 'contract compliance' in the purchasing context could be like:
'the act of conforming to agreements between buyers and suppliers'.

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[7] http://dictionary.reference.com/browse/compliance

Based on this definition for contract compliance, several different types can be classified. For the reason that contracts apply to both the buyer and supplier a distinction can be made based on organizational perspective:
- Internal contract compliance
- External contract compliance

4.2.1   External contract compliance

External contract compliance can take up several forms related to product-, prices- or delivery aspects:
- Unavailability of a product or services
- Charging prices different from the contract prices
- Delivering a product that does not meet the contracted specification

In the case study of GlaxoSmithKline [Kulp et all 2006] external contract compliance is not seen as a major problem as internal compliance. Still, it could impair the effectiveness of the sourcing programs when e.g. higher prices are invoiced then negotiated in contracts. This type of contract compliance is beyond the scope of this research.

4.2.2   Internal contract compliance

When the broad definition for 'contract compliance' is used, internal contract compliance can be interpreted in two ways:
- The act of conforming to an agreement as in 'conforming to the rules in the agreement.'
- The act of conforming to agreements only as in 'purchasing from agreements only.'

The first interpretation of internal non-compliance is about conforming to the rules by the purchasing organization. These rules are for instance about 'payment terms' and 'minimum order quantities'. These agreements would not have to be a major risk for a buying organization, depending on the agreed penalty for non-compliance. Also this type of contract compliance is beyond the scope of this research.

The second interpretation aligns with Telgen's definition of contract compliance: *'the use of framework contracts for the entire company'* [Telgen 2004]. The research subject is about this second interpretation of contract compliance, which will be used as the definition for contract compliance throughout this report. The advantage of the 'use of contracts' is that is can be measured with spend analysis.

According to the Aberdeen Group [2001, it can be very important to use framework contracts and so to speak 'having a high contract compliance'. They concluded that 'employees purchasing outside corporate contracts typically pay 15% to 27% higher prices'. Contract compliance is therefore important to benefit from negotiated rates and to realize savings. These cost reductions are even more important from organizational Return On Investment (ROI) perspective. According to Schotanus [2005] procurement savings have compared to equal sales growth higher ROI.

Telgen acknowledges two types of non compliant spend:
  I.   *spend on commodity categories for which company-wide framework contracts exist but are not used*
  II. *spend on packages for which framework contracts have not (yet) been concluded.*

This first type of non compliance spend is often referred to as 'Maverick buying' [Vondrak 2000][Neef 2001]. Ellram and Billington [2005] go in more detail by defining this 'Maverick buying' as 'buying from an unapproved supplier or buying from an approved supplier, but the wrong specification.' To structure this second interpretation of contract compliance, based on terms, contract coverage and spend characteristics (e.g. item level and supplier level) the following table is created:

Figure 4-1	Internal contract compliance classification			
▪ The act of conforming to agreements only as in 'purchasing from agreements only.'				

	Spend			
Contract coverage	No	Yes		
Characteristic	Wrong supplier Wrong items	Wrong supplier Right/Wrong items	Right supplier Wrong items	Right supplier Right items
Classification		'Maverick buying'		Contract compliance
	No contract compliance			

The table clearly shows that if spend relates to negotiated items (that are incorporated in contracts) contract compliance occurs. All other spend relates to non-contract compliance as no explicit discounts for items are realized.

Although contract compliance seems beneficial on forehand, the analysis has not yet found answers on her relevance compared to other procurement activities over time. For this a purchasing maturity model is analysed within the next paragraph.

4.3. Contract compliance in the purchasing maturity model

Van Weeles [1998] integrated purchasing development model (ref. Appendix E) emphasizes that companies realize higher cumulative savings when they proceed through six phases on integrated purchasing development. This model reflects the relevance of process based on sequential priority and maturity. The six phases in this model are divided over two main focuses:
- A functional focus
- A cross functional focus.

The functional focus is largely about trying to get the company organized around the purchasing function. Within the cross functional focus lies more on getting the purchasing function organized around the internal customers.

4.3.1 Functional focus

At first there is the transactional phase in which the focus lies primarily on 'serving the factory'. This phase is characterized by standard order processing and initial purchases. The purchasing expenditure is not yet under control. The first phase is followed up by the commercial orientation phase.

Within the commercial orientation phase the focus lies on 'cost reduction' and supplier base management, whereas the purchasing function becomes more and more a specialist function. Specialist buyers are organized around different product groups characterized by hard negotiation with suppliers. Performance management is primarily on price, price variance and delivery performance. Cost savings are the prime indicator of overall effectiveness of purchasing. From there the organization can proceed to the final phase of the functional focus, the purchasing co-ordination phase.

Within the purchasing co-ordination phase companies should deal with 'savings through energy'. Led by a strong central purchasing department, uniform buying policies and systems should be implemented. Van Weele states that within this phase, for the first time some kind of strategy formulation exist, aimed at capturing the benefits from internal co-ordination and synergy. The purchasing department is still strongly product orientated however attention for cooperation with other business and communication improvement is growing.

4.3.2 Cross functional focus

Within the fourth phase of the integrated purchasing development model, the cross functional efforts are focused on total cost reduction instead of unit cost reduction. In this stage serious attention is for indirect procurement and processes are getting now more organized around

internal customers. The purchasing department is gaining organizational recognition and is involved in strategic issues like make or buys decisions.

This internal integration phase will be followed up by the external integration phase, in which outspoken outsource strategy is combined with extra cooperation with supply partners on product development and preproduction planning. Non production buying is fully supported or executed by the purchasing function through internally mature information and policy systems. Externally supplier- and supply chain oriented teams such as engineering and improvement teams will be formed.

The last phase comprises the 'total value for customer orientation' throughout the whole supply chain. Value chain strategies are made focused on development of the most efficient and effective value chain as possible.

4.3.3   Relevance compliance

Within the third phase of the purchasing maturity model, contract compliance is getting a relatively high financial importance (primarily for direct procurement). This is the phase where contracts are negotiated and benefits should be realized. The reason that direct procurement has first priority over indirect procurement is to be attributed to its characteristics. Procurement of direct goods is considered to have much more and easier to control spend compared to procurement of indirect goods. (ref. Table 4-1). [Weele 2002]

Table 4-1	Characteristics direct-and indirect goods [van Weele 2002]	
	Direct goods	Indirect goods
Assortment	*Limited – large*	*Very large*
Number of suppliers	*Limited – large*	*Very large*
Spend	*Considerable*	*Limited*
Number of orders	*High*	*Very high*
Average amount / order	*High*	*Limited*
Ability to control	*Depends*	*Difficult*
Decision making unit	*Engineering / production*	*Varying*

Attention for indirect procurement is growing in the fourth phase of the maturity model. Within this phase, the decentralized purchasing function is trying to wrap it self around its internal customers. Indirect procurement is gaining importance for its savings opportunities that were still untouched because of the complexity of the function.

4.3.4   Total contract compliance

Taking the previous sections into account, the priority of contract compliance can vary over the maturity of the purchasing function and the types of product purchased. For example, if direct spend is significantly larger than indirect spend, it can be understood that the achievement of contract compliance for this type has higher priority.

Immature organizations first have to focus on the realization of contracts before any 'use' could apply. Therefore a contract compliance of 100% would not have to be preferred at all times. This can be supported by statements in purchasing literature: sometimes non-compliant spend could be well justifiable. [Telgen 2004] Additionally, within a case study a consensus between different companies in diverse industries is concluded for the contract compliance to be effective at the maximum of 95%. [Ogden 2006]

4.4. Reasons for contract non-compliance

To understand how spend can exist outside of company wide frameworks the reasons for non-compliance will be discussed. Six reasons for non-compliance are determined. To keep clarity and consistency throughout this report these are ordered on the degree of rationality or emotion involved. This will be further clarified within §4.4.7:

1. Unidentified suppliers
2. New items
3. Unsuitable items
4. Lack of information
5. Relations with suppliers
6. Willingness of the internal buyer

The first five reasons derive from a case study executed by Kulp et all [2006]. These reasons are for the GlaxoSmithKline Company acknowledged to be most important for non-compliance. Within this content the 'lack of respect' of the purchasing department in the organization is not mentioned. According to Van Weele [1998] this factor should not be neglected as it affects the 'willingness' of internal buyers to cooperate. This reason will included for further analysis.

All reasons will be further explained with some examples.

4.4.1   Unidentified suppliers

Non-compliant spend at unidentified suppliers occurs in situations in which needs cannot be fulfilled with current contracted suppliers. These situations apply when suppliers are not 'yet' designated for purchases i.e. due to continuously changing business activities, - environments and continuous improvement:

- Work in progress for the procurement department: covering spend with contracts is a continuous process which can be hard with unreliable and inaccurate purchasing intelligence systems. [Harink 2002]
- Supplier performance: when prices or quality of product or ingredient prices have changed to an undesired state, forcing the procurement department to identify new suppliers. A few switch general criteria are to be taken into account according to Mudambi et all [1995]: transaction specific assets of the relationship, the quality of the buyer-supplier communication and the decision time horizon that buyer and suppliers have.
- Supplier bankruptcy: when suppliers are forced to terminate their activities because of liquidity problems, next to quickly recovering down payments (if existing) substitute suppliers have to be found [Jurinsky 2003]. This is good example of the supply risk reduction responsibility of the purchasing function van Weele [2002] distinguishes next to operational support, cost reduction and contribution to product & process development.

4.4.2   New items

Non-compliant spend due to new purchases relates to new items that are still not incorporated in contracts with current contracted suppliers. New item requirement can originate from the side of the supplier or buyer.

- Although old products do still satisfy indirect material needs, new materials can be acquired because of slight improvement expectations. [Kottler 1969]
- The marketing of new items and corresponding new items development at the buyer side can result into new material requirements. [van Weele 2002]

4.4.3   Unsuitable items

Contracts covering product items that do not satisfy the need because of unclear or unsuited specifications in the request for products (RFP) make up the second reason for non-compliant spend. The 'unsuited for use' aspect can relate to complexity or actuality:

- Complex specifications: complex specifications are difficult to communicate [Kulp et all 2006]. Telgen remarks that because of complexity and high contracting costs it can be chosen not to go into great detail with specifications. [Telgen 2004].
- Outdated specifications: Specifications are not fixed documents for which updates can be desired as experience with processing and product use is gained. [Lester et all 1992]

4.4.4 Lack of information

Lack of information accounts for the fourth reason of non-compliant spends. Information quality can take of many forms (ref. §5.5.3) for which information about drivers for contract compliance logically are the most important: the right suppliers and the right items. [Ellram et all 2005].

- Lack of information about the right suppliers: when there is either no, unusable or outdated information about the preferred suppliers.
- Lack of information about the right items: when there is either no, unusable or outdated information about the negotiated items at preferred suppliers.

4.4.5 Relations

Relations with suppliers can either be allocated to the supplier performance or personal commitment:

- Supplier performance: Relations that have grown throughout the years can result into mutual respect and trust, the cognitive level of the buyer true assessment of the supplier. [Graham 2005]
- Personal relation: Decreasing personal relations between internal customers and suppliers is a complex process especially with a purchasing function that is only just centralized [Van Weele 2002]

4.4.6 Unwillingness

Finally, the willingness of the internal buyers to buy at contracted suppliers should not be forgotten as potential reason for non-compliance. Within purchasing literature examples are found that relate to the unwillingness:

- Respect of the purchasing department: According to Ellram and Carr [1994], the procurement function is evolving from an 'obscure' tactical and operational buying function into a strategic business partner. Because of this historically passive [Fearon, 1989] role of the purchasing department in the business organization lack of respect could still exist.
- Purchasing experience: Robinson et all [1967] argued buyers experience to influence the course of the purchasing process and the steps to be taken resulting either into a straight re-buy, modified re-buy or new task situation.

4.4.7 Classification

To improve understanding of the relation between the elaborated reasons and non-compliance, they can be classified on (ref. figure):

- contract existence level [Telgen 2004]
- and item/supplier level [Ellram and Billington 2005]

Figure 4-2   Classification-matrix contract compliance
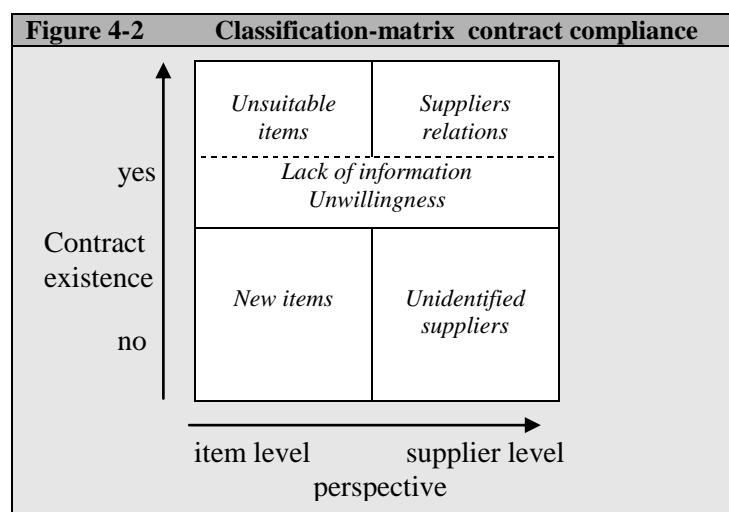
To elaborate on the classification:

- Contract existence: From contract existence perspective, still contracts *have to be concluded* for 'unidentified suppliers' and 'new items'. For reasons as 'unsuitable items', 'supplier relations', 'unwillingness' and 'lack of information', *contracts do already exist* but are not used.
- Item versus supplier level: From item perspective, non compliance can occur because of *items* are not 'yet' (new) in contracts or not 'suitable'. On supplier level, non compliance can occur because of the fact that *contracted suppliers* are either not 'existing' (unidentified), -'known' (lack of information) or –'accepted' (relations with suppliers / unwillingness).

The previous structuring of these reasons for non-compliance provokes further structuring by drawing a line between rational- or emotional decisional behaviour of the internal customer:
- Not to be able to buy compliant: rational
- Not to be willing to buy compliant: emotional

It can be argued that the reasons for non-compliance differ in the degree of relevance of either rational or emotional aspects. This can be well illustrated with the following contract compliance spectrum displayed in Figure 4-3   Contract compliance spectrum:

Figure 4-3	Contract compliance spectrum

'Not able' (rationality)	'Not willing (emotion)

| *Unidentified suppliers* | *New/ Unsuitable items* | *Lack of information* | *Supplier relations* | *Unwillingness* |

Some reasons are closer related to rational aspects. Non-compliance through unidentified suppliers is a hard fact and purely rational; there are no contracts for the internal customer to 'use'. For new items also no contracts exist but with respect to the choice for requiring a 'new' item, subjectivity could apply. An emotional aspect could be make the internal customer think to need a new item. This subjectivity could also apply for declaring an item not to be 'suitable'.

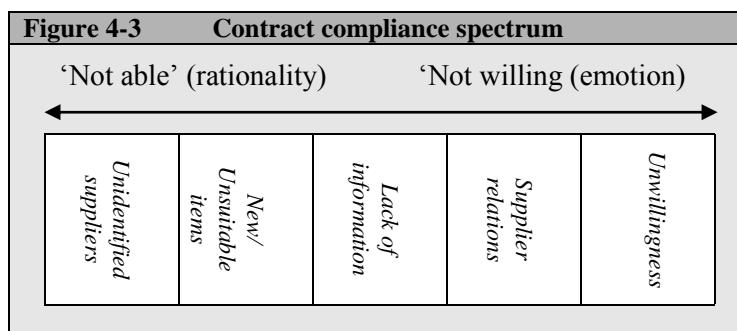Some other reasons are closer related to emotional aspects. The unwillingness reflects the emotional aspect best. Non-compliance through relations with suppliers does also point to the unwillingness; a relation that has grown over the years could result into emotional resistance towards breaking the relation. However, this reason does not primarily relate to emotion as also technical (infrastructure) aspects can be determinant for not changing suppliers.

Between rationality and emotion lies the final reason for non-compliance: lack of information. On the one hand the information supply depends on technical aspects for distribution and reciprocal communication. On the other hand emotional aspects are relevant as the effectiveness of information supply is strongly dependant on both the acceptance and understanding of the receiver.

4.5. Relation to purchasing function

Now the reasons for low contract compliance are set out, one topic still has to be discussed: the relation between the compliance issue and the purchasing department. This relation can be explained by either preparation and/or aftercare.

4.5.1 Preparation

Spend for which framework contracts have not yet been concluded is the responsibility of the Purchasing Department [Telgen 2004]. It is one of the responsibilities of the procurement department to cover purchases with supplier contracts to cover risk and pursuit cost reduction

[van Weele 2002]. Therefore it is the task of the procurement department to deal with two reasons for low contract compliance through:

- identifying suppliers
- covering new items

4.5.2 Aftercare

Telgen argues that for spend non-compliant to existing framework contracts, responsibility should mainly lie at the management of the organisation or department concerned. The procurement department can be hardly held responsible. [Telgen 2004] This statement can be supported by the risk of conflict with the supporting [Telgen 2004] and historically passive [Fearon, 1989] role of the purchasing department in the business organization.

Can it therefore be assumed that the purchasing function is free of responsibility for employees not using the existing contracts? If we look onto the reasons for non compliance this would indicate that the purchasing function is not responsible for:

- unsuitable items
- lack of information
- buyer-supplier relation decrease
- unwillingness

These assumptions must be rejected. For all four reasons of non-compliance some degree of responsibility can be allocated to the purchasing function. At first, Van Weele [2002] states that it is the responsibility of the purchasing function to realize high quality contracts. The higher the quality of the contract, the lower the risk on unsuitable items.

Secondly, Telgen states that the supply of information to all those are involved is a cornerstone of the purchasing function [Telgen 2004]. It can be well understood that without proper information supply, preferred suppliers and -purchasing processes are likely to be used by purchasing stakeholders throughout the organization.

Thirdly, Clark [1999] states that resistance can occur, if employees do not understand the reasons to change. Some kind of conviction is necessary to motivate internal buyers to use contracted suppliers and to re-evaluate known (and trusted) suppliers. Who else than the procurement experts of new contracts know the best reasons to change to new suppliers?

Finally, taking the examples in §4.4.6 into account who else than the purchasing department itself should work on their 'image' towards the rest of the company? The same applies for the other mentioned determinant for buyer willingness: who else than the purchasing department is responsible for affecting buyer's purchasing experience. The procurement department is the key to simplification of purchasing processes and purchasing support.

To conclude, the procurement department can in fact be held either fully or partially responsible for all reasons of non-compliance. The transformation of responsibility towards action on the contract compliance issue is explicitly stated by Checketts[2006]: *'to take ownership of the negotiated savings and ensure that these are fully realized.'*

4.5.3 Relation to purchasing process

Now the relation between contract compliance and the purchasing function is clarified, the relation to the right purchasing process must be drawn. This is based on the statement of van Weele [2002] who argues that purchasing processes are in place to support purchasing strategy [Weele 2002]. Van Weele [1998] acknowledges contract management and compliance both to be important for procurement organizations moving from the commercial orientation to the purchasing co-ordination phase. The AberdeenGroup [2006] do speak of a direct relation by arguing that 'Maverick spending' is increased through poor contract management. Within the next chapter analysis will proceed into further analysis on this relation.

5   Contract management theory

Summary

- Contract management processes can be interpreted as category management-, contract administration- and contracting processes.
- Processes are meant to develop a product, to complete a task or to render a service.
- The customer of a process determines the process effectiveness.
- All six reasons for contract non-compliance can be related to success criteria in contract management processes.

5.1. Introduction

Within the previous chapter conclusions were drawn about the responsibility for contract non-compliance, which is to be addressed to the procurement department. Additionally, a relation with contract management has been assumed which is not yet verified. This chapter is to assess this assumption by elaborating on the basics of contract management processes and its success criteria for contract compliance. First the interpretation of contract management in purchasing literature will be explained. This will be followed up by a detailed description of corresponding processes, their relation and the development of success criteria. These success criteria will then be related to the reasons for non-compliance with which this chapter finishes.

5.2. Definitions

To get a better understanding of contract management in the purchasing context it would be logical to look in the traditional model of purchasing. However, within this model of van Weele [2002] nothing is explicitly mentioned about contract management. The model clarifies the path to realize a 'contract' but not the essence of 'contract management'.

Therefore the analysis focussed on other work than that of one of constituters of purchasing theory as Van Weele. Review of work from Van Hijl [2001], Blommestein [2001], Knoester[2005] and Angelov[2005] resulted into three interpretations for contract management:
- category management process
- contract administration process
- contracting process

5.2.1   Category management

Harink[2002] gives a definition for contract management: 'To create and control an optimal supply base for a product range.' This definitions aligns with the term category management which, according of Monczka [2004] comprises the determination and allocation of optimal risk and cost reduction to a chosen set of suppliers.

Monczka sees category management as an important aspect of the first phase of the traditional purchasing model of van Weele. This specification phase should not only be about defining requirements. Blommestein[2001] emphasises 'contract management' to be the first phase of the tactical purchasing process in his model (ref. Figure 5-1).

Taking these similarities into account it can be understood that the interpretation of contract management in these examples can be seen as '*category management*'.

Figure 5-1   **Contract management as the first phase of the tactical purchasing process**
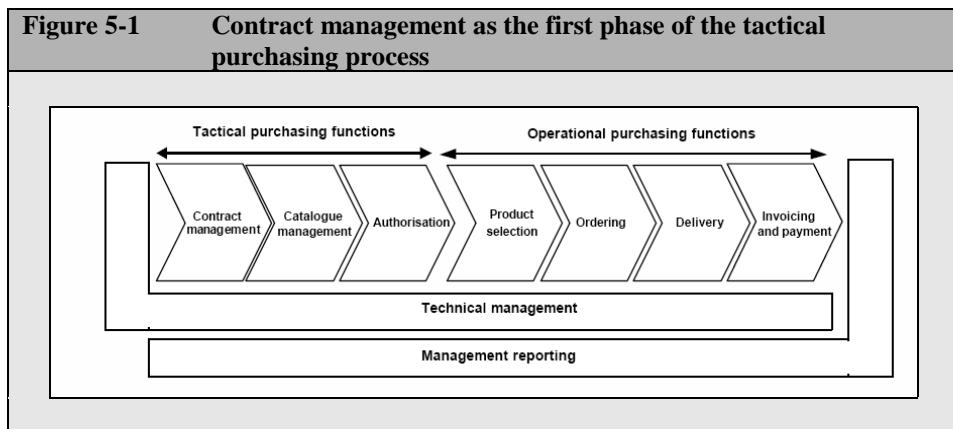
It should be denoted that the first interpretation of category management originates from the marketing function of Proctor and Gamble, who transformed their activities towards management by 'category' instead of management by 'brands' as one of the first. This approach aligned better with the context in which consumers come to their purchasing decisions. The definition for this type of category management according to Nielsen [1992] is: 'the process that regards different product categories as business units which are organized by the requirements of the internal customers.'

Through intensive information sharing between manufacturers and retailer, category management enables organizations to provide customers with the products they want, when they want them- at comparative prices. This approach enabled region specific customer supply and both advantages in as well as the marketing field as the logistics field. Although this type of category management is diverse and interesting for analysis, it will not be covered within this report.

5.2.2   Contract administration

Contract management as a form of contract administration is addressed by van Hijl [2001] and Knoester [2005]. Knoestter [2005] speaks of contract management as the management of the engagement administration of all term agreements by which means a contract is closed. According to van Hijl [2001] it is the contract management process to ensure that the right information is in the right place at the right time, to support the whole of the contracting process. Based on these interpretations it can be concluded that this type of contract management is different from category management.

Additionally connections to both the ordering- and category management process can argued. One connection is found by linking the distribution of contract information to those who require it for ordering. Another connection is found by linking the distribution of contract information to category managers to determine and assess an optimal supply base.

5.2.3   Contracting process

The contracting process can be seen as the third interpretation of contract management based on the contract management process model of Van Hijl (ref. Appendix H). The contracting process is the process to manage the realization of the contract.

The contracting process is connected to both the category management process and the contract administration process. Contracting processes are initiated by category management and are from there supported by the contract administration process. This administration process is necessary during the whole contracting process in order to assure quality, efficiency and effectiveness. [Van Hijl, 2001]

Angelov [2005] does also speak of a relation (ref.Figure 5-2) between the contracting process and contract (management) administration process which is to initiate and control the performance of the contracting phases.

Figure 5-2	**Contracting process initiation**	**Angelov [2005]**
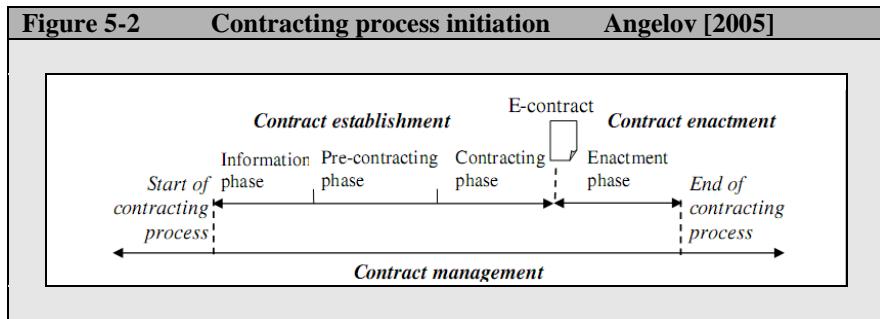
From the different interpretations for contract management, the ambiguity around the term can be well understood. They do have a relation with each other but are fundamentally different:
- Category management is about managing the initiation of contracting processes.
- Contract administration is about managing the administration of agreements (-information) to support the contracting process, the category management process and ordering processes.
- The contracting process is about managing the realization of agreements.

Before these relations between the three process will be further clarified with a process flow diagram(ref. §5.4.4), the analysis will first go into detail with the description of processes from a conceptual perspective.

5.3. Processes from a conceptual perspective

By applying the basics of process theory, a process can be described from a conceptual perspective [Cassidy et all 2005]. Axellson and Wynstra [2002] use a similar approach for describing business services. For analyzing contract management and compliance, both approaches will be shortly reviewed:

5.3.1 Basic process

A process can be meant to produce a product, complete a task, render a service or achieve a defined business outcome for a customer. [Cassidy et all 2005] Generally speaking this can be defined as a sequence of activities or logically related tasks that have:
- Inputs(s): Information or material that is required to complete the activities necessary to produce the end result.
- Transformation: The tasks performed to transform- or add value from the input to the output.
- Outputs(s): The specified end result required by the customer òr another process.
- Suppliers: The person, department, or function that provides the input.
- Customer: The person, department, or function that receives the input.
- Controls: Measures and steps to ensure the process is functioning properly.
- Feedback: Provided input related to the efficiency and effectiveness of the process.
- Owner: The individual who owns the process and is responsible for the process efficiency and effectiveness from begin to end.

Different processes can exist taken into account that processes elements vary per process. For instance, an information process is completely different than a production process. Information is intangible compared to raw material and additionally the transforming technology is not comparable. Contract management processes are characterized primarily by information throughput. Information has to be transformed into- and extracted from contracts.

5.3.2 Business services

Axellson and Wynstra [2002] argue that four methods exist for defining the content of a service. All four methods emphasize different aspects of the service and the service provider. Different priority can be allocated to either one of the following aspects:
- the input: i.e. the resources that should be spent.

- the process/ throughput: i.e. how the goal or assignment should be fulfilled.
- the output: i.e. the expected results or function.
- the outcome: the value of the service, in monetary terms.

Axelsson et. all argue that different kinds of services are dominated by one of the four methods. For this research this could be confirmed, as it is the outcome (e.g. the compliance rate) to be the most relevant method for defining the performance of the contract management process.

5.3.3 Combined model

Both conceptual approaches discussed in the previous sections align quite well on elements and the acknowledgement that the customer determines the effectiveness of the process or service. The model of Axelsson et. all improves the model of Cassidy et. all, by explicitly including the outcome, reflecting the effectiveness of the process or service. Both models are blended together within Figure 5-3:

Figure 5-3   Process elements from a conceptual perspective
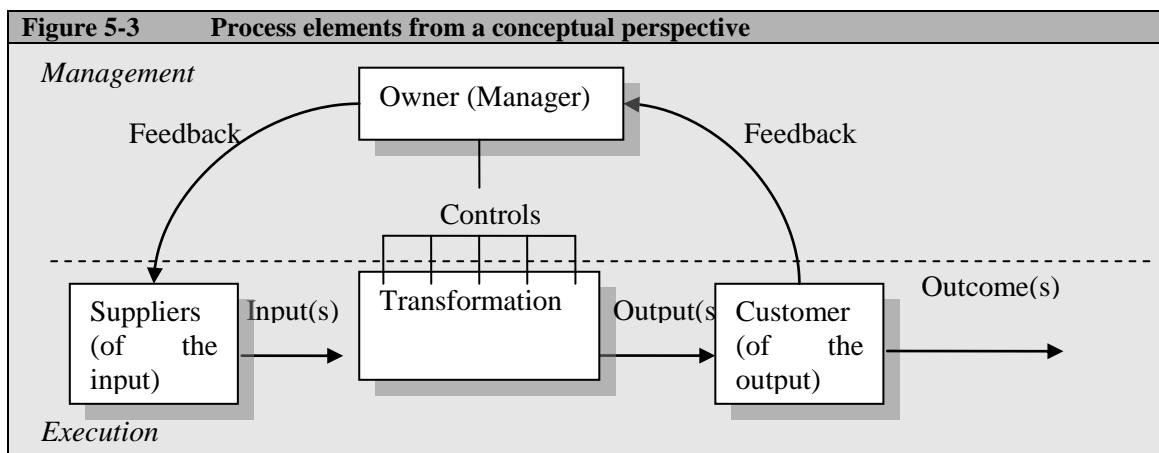
5.4. Contract management processes in detail

Now the basics of a process are set out, the characteristics of the contract management processes will be (shortly) reviewed. This will be divided over the three defined processes in §4.2.
- Category management process
- Contracting process
- Contract administration process

5.4.1 Category management process

Output
'To develop and control an optimal supply base for a product range'

Owner
Within the purchasing function many different types of product categories can be defined for handling a diverse range of goods and services. Depending on the size of the supplier base and the complexity of contracts, a specific amount of product category experts can be needed for category management.

Customer
The customer of the category management process is the owner of the contracting process (which usually is the category owner himself).

Transformation
In the category strategy development model of Monczka[2004], several essential tasks have to be executed within category management. For requirements definition, input from key stakeholders must be secured. According to Van Weele [2002], four types of requirements have

to be defined e.g. the functional, technical, logistics and maintenance requirements together resulting into a program of requirements.

Cross functional teams must be formed to determine criticality and future opportunities for the whole category. Monczka argues that identification of current strategy success or failure (e.g. the use of contracts) is essential for performance improvement. This requires at one hand analysis on current expenditure and the marketplace to identify leveraging opportunities and on the other hand contract visibility (e.g. expiry dates are important for timely initiation of contracting processes). The development of a communication plan is necessary to communicate the strategy and its characteristics to its stakeholders.

Finally, to understand progress and need for potential corrections, clear metrics (e.g. KPI reporting) and regular review with stakeholders is required. Stakeholder reviews enable problem indication and feedback, to result into strategy assessment and supplier communication.

Suppliers
If the category owner can not extract past spend information, the spend analyst can be approached. The contract manager is important for contract (information) retrieval and supply. The internal buyers are important factor for provision of information about future purchases and justification of past purchases.

5.4.2   Contracting process

Output
'To realize the best agreement'

Owner
This role is allocated to the purchasing category experts who are responsible for execution of the contracting processes to realize the best contracts.

Customers
Two types of customers are relevant for the contracting process: the contract controller and the contract administrator.

Transformation
Broadly speaking, the transformation phase of the contracting process is to process the program of requirements. These requirements are the input for supplier selection phase which consist of the search for suitable suppliers.

After screening against i.e. organizational policy the total number of potential suppliers is reduced. To the remaining selection of suppliers a request for information (RFI) will be send to get the necessary information. The incoming information will then be set against the program of requirements to result into a smaller selection of suppliers, who will then be approached with requests for quotation (RFQ).

Based on the incoming RFQ, a few suppliers are chosen for negotiations in order to result into a contract. This output must be transferred to the contract manager and those in the organization that are responsible to control the agreed supplier performance. [van Hijl 2001]

Suppliers
Several suppliers can be distinguished for providing the input of the contracting process. For the operational content of a contract, input is needed from the internal stakeholders. For the legal content input is needed from the legal department to minimize risks. External input of the supplier is important for operational and legal aspects of the contract relevant from the supplier perspective. [Van Weele 2002]

5.4.3   Contract administration process

Objective
'To ensure that the right information is at the right place at the right time'

Owner
The person responsible for document storage and retrieval is in practice commonly called the contract manager. In some cases a contract coordinator is evident that pursues central execution and process standardization (e.g. process manager). [van Hijl 2001]

Customer
The customers are the end-users of the contracts and those responsible for the contract (e.g. responsible category owners.)

Transformation
To ensure that the right information is at the right place in the right time, some activities have to be executed. Internal buyers need information from the contracts for the requisitioning process. [Checketts V. 2006] Therefore, relevant operational information must be taken out of new or updated contracts and be made easily accessible for these customers. Category owners need information from contracts to control supplier performance and to deal with contract expiry. Also, the actual documents should also be securely stored, to ensure legal compliance. [Van Hijl 2001]

Supplier
The owners of the contracting process.

5.4.4   Process scheme

Based on the analysis presented in the previous paragraphs, a process flow diagram is built (ref. Appendix I). The objective of the diagram is one the one hand to clarify the total contract management process in which the category management process is included. This process is namely missing the model of Van Hijl (ref. Appendix H). On the other hand it is targeted to clarify the relations between the different process elements. The model shows the interconnections between the category management process, the contracting process, the contract administration process and the ordering process.

To provide a short explanation on the model: the category management process is connected to the contract administration process for inputs such as item content and expiry dates. It is also connected to the ordering process through the ERP system, for the extraction of spend data. Besides information about the past, also information about future purchases is required from the internal buyer. With the use of these inputs multiple contracting processes can be initiated (assuming that for proper category management, more contracts are necessary). The developed contracts are then to be processed by contract administration into the contract database. Contract information should be distributed to those who need it and with respect to the compliance issue especially to the internal buyers to enable them to buy compliant.

5.5. Success criteria for processes in general

According to Rummler et. all [1995], an organization is only effective as its processes. Strong 'heroic' people can not compensate for weak processes. Next to this, automation technology applied for illogical processes can eventually result into waste of value and energy. The improvement of a process is therefore not always easy and straightforward, so that an approach from a conceptual perspective could be very valuable.

5.5.1   Definition

According to Hoyle [2005], process success criteria are the requirements for the process to fulfil its objectives. When the success criteria are determined for a process, it is possible to approach improvement opportunities in an effective way. When reasoning backwards from the developed

process model in §4.3.3, the starting point must be found in the element that reflects the value of the process best: 'the outcome'.

5.5.2 Customer

The outcome reflects the output delivered to be successfully used by the customer. Customers will choose a product based on their perceived value and then the satisfaction is the degree to which the actual use of a product matches the perceived value at the time of the purchase [Kotler 1969] Even if the output is exactly matches it's agreed functional qualification, still the customer decides the actual use of the output. Two main determinant factors for this willingness can be distinguished for the behaviour of a stakeholder. [Geelen D 2005]

- Attitude: the personal feeling about using the output
- Interest: the personal benefit of using the output

Additionally Mitroff [1983] provides a typology and qualification for stakeholders assumed possession to either one or more of the three following characteristics:

- Power: means to affect the organization
- Legitimacy: appropriateness to use power
- Urgency: degree of immediacy to use power

5.5.3 Output

The success criterion for the output is the degree in which either the product or information qualifies to its objectives. According to Gelle & Karhu [2003] the quality of information is to be defined as the freedom of defects such as inaccessibility, inaccuracy, out-of-date information, inconsistencies, incomplete- and incomprehensive information with possession of desired characteristics as timeliness, truthfulness, intelligibility and significance. Huh et all. [1990] conceptualize information quality as having four dimensions: accuracy, completeness, consistency and currency. This last dimension is one more than Davis and Olson [1986] identified.

To conclude, the following information success criteria can be distinguished for processes:

- Accessibility: whether information is accessible to relevant receivers
- Comprehensibility: whether information can be correctly interpreted
- Accuracy: whether information approaches reality, i.e. 'error free'
- Completeness: whether all relevant information is available
- Currency: whether information is up to date
- Consistency: whether information conflicts with other information

5.5.4 Transformation

To achieve output with desired quality a transformation of input is necessary. According to Cassidy et all [2001] the following criteria can be acknowledged for the transformation:

- Cycle length: time to finish a transformation cycle
- Efficiency (costs):   minimization of input
- Quality: optimization of output performance
- Flexibility: to cope with risks uncertainty

5.5.5 Input

For the transformation input is needed for the development of output. For information processes the following criteria can be acknowledged for the input:

- Time: time resources
- Knowledge: intangible information
- Information: tangible information

5.5.6 Supplier

For the supplier the same motivational criteria apply as for the customer:

- Attitude: the personal feeling about supplying the input
- Interest: the personal benefit of supplying the input

5.6. Success criteria for contract management processes

If success criteria are the requirements for a process to fulfill its *objectives* (ref.§5.5.1), these criteria are the key to approach improvement opportunities for contract management processes (CMP) in order to pursue the contract compliance *objective*. Within the previous chapter, six main reasons are already discussed that could potentially impair this contract compliance objective. Within the next six subparagraphs these reasons will be elaborated on relevant success criteria for contract management processes.

5.6.1 Unidentified suppliers

For the reason 'non-compliance through unidentified suppliers', several criteria are important. First of all, *'expiry dates'* of active contracts are relevant to prevent contracts to expire and enable new non-compliance through unidentified suppliers. Secondly the '*visibility'* of active contracts is important for effective category management: i.e. it is no use to develop a contract for items that are already covered by contracts. Thirdly the accurateness, completeness and currency of spend data is important: the '*usability'* of spend data. These usability of spend data is important to cover the right and complete spend. Fourthly as the category owner is likely to depend on knowledge of experts in the operations to *'cover the right items at the right suppliers'*, this success criterion is also important. Finally, when performance leakage is continuous, the time to build contracts is important: *'cycle length'*.

Table 5-1	CMP success criteria for 'unidentified suppliers'
CMP element	**Success criterion**
Input	Active contracts expiry dates
	Active contracts content visibility
	Spend data usability
	Knowledge about uncovered items
Transformation	Cycle length of contract development

5.6.2 New items

The requirement of 'new items' throughout the whole organization is hard to predict for the purchasing department. They are dependable on the communication of information of the internal buyer that the purchase of a new item(s) is planned. This implies the input criterion '*knowledge about future purchases'* and the willingness of that employee to share these inputs: '*attitude and interest'*. The time of the transformation of this knowledge into a contract, the '*cycle length'* could potentially be important if time is scarce and new items are required soon.

Table 5-2	CMP success criteria for 'new items'
CMP element	**Success criterion**
Input	Knowledge about future purchases
Transformation	Cycle length of contract development
Internal customer	Interest to contribute to contract compliance
	Attitude to contribute to contract compliance

5.6.3 Unsuitable items

For the reason 'non-compliance through unsuitable items' the same success criteria apply, apart from the '*knowledge'* criterion. This knowledge is not about the planning of new items but about the reporting of '*wrong items'*. Procurement is dependant on this knowledge because zero spend for items cannot be used as an indicator for unusable items.

Table 5-3	CMP success criteria for 'unusable items'
CMP element	**Success criterion**
Input	Knowledge about wrong items
Transformation	Cycle length of contract development
Internal customer	Interest to contribute to contract compliance
	Attitude to contribute to contract compliance

5.6.4   Lack of information

Success criteria within contract management processes that relate to the reason for non-compliance *'lack of information'* are about the distribution of contract information towards internal buyers. Without *'visibility'* in the current contracts it is very hard to communicate negotiated items. With respect to the distribution of information it is important that it is *'accessible'*. Additionally, the information must be *'comprehensible'*, e.g. non-English speaking employees could neglect information presented in English. The *'accuracy'* is also important; one letter difference could differentiate suppliers.

The *'completeness'* of contract information is necessary to support the internal customer with all information to satisfy their need. To illustrate this with an example, a contract summary without a vendor code could lead to misunderstanding in situations in which different companies have the same name.   The *'currency'* of information is not only very important for timely communication of new supplier sets; it is also of vital importance to show internal buyers that processes are under control and that information can be trusted., contributing to the use of information.

Table 5-4	CMP success criteria for 'lack of information'
CMP element	**Success criterion**
Input	Active contracts content visibility
Output	Contract information accessibility
	Contract information comprehensibility Contract information accuracy Contract information completeness Contract information currency

5.6.5   Relations with suppliers

A relation with a supplier that has grown throughout the years can result into mutual trust and respect. Trust and respect can affect the *'attitude'* of the internal buyer to keep using the trusted supplier that have already proven to supply quality.

Table 5-5	CMP success criteria for 'relations with suppliers'
CMP element	**Success criterion**
Internal customer	Interest to contribute to contract compliance
	Attitude to contribute to contract compliance

Additionally, one could also think of technological factors ('getting locked into suppliers technology' [van Raaij 2004]) that 'force' a relation between buyer and supplier. If technology is strongly interconnected, high costs could emerge with the dis- and reconnection of technology (and processes). For this example the success criterion *'interest'* of the internal customer will be used, because his interest is determinant for the setup of new buyer-supplier relations.

5.6.6 Willingness of the internal buyer

Next to relations with suppliers, lots of other reasons could result into the unwillingness of the internal buyer not to buy on-contract. The unwillingness could be based on either opinions or benefits for the internal buyer. For instance, the loss of experience, loss of decision flexibility or loss of functional budgets could be seen as important criteria that affect the 'interest' of the internal buyer.

On the other hand, the lack of respect for new purchasing departments [van Weele 2002] or bad procurement initiatives (such as an 'abruptly changed supply base'[Ogden 2006]) could affect the attitude of the internal buyer result into sabotaging purchasing initiatives.

Table 5-6	CMP success criteria for the 'willingness of internal buyers'
CMP element	**Success criterion**
Internal customer	Interest to contribute to contract compliance
	Attitude to contribute to contract compliance

5.7. Summary: theoretical framework

Within this paragraph, the allocated success criteria will be summarized to form a theoretical framework. Before presenting this theoretical framework, some research limitation has to be explained to improve understanding on neglected success criteria.

5.7.1 Research limitation

Although it is strived within this research to execute a thorough conceptual approach to improve contract management processes towards higher contract compliance, two choices have to be discussed that limit the research analysis. On the one hand it is chosen not to approach all three contract management processes separately on the mentioned success criteria in the previous paragraph. On the other hand it is chosen not to allocate all success criteria.

First, in paragraph §4.3 it was concluded that within this research especially the '*outcome*' of all three processes together is relevant for this research: contract compliance. Therefore these three processes will be regarded as one total service for the internal customer to make them able and willing to purchase compliant to corporate contracts.

Secondly, for the reason that every success criterion within a process can affect the end result in some kind of way, this research analysis would be too complex and the feasibility low. Therefore not all success criteria are related to the reasons for non-compliance in the previous paragraph. The limitation is based on either one of the following factors (of which some of the non-chosen success criteria are further explained):
- Theoretical relevance:
  - The 'efficiency' of the contract management process is focussed on input related performance instead of output related performance.
- Practical relevance:
  - The 'attitude' of both the category owner and contract administrator is relevant from conceptual perspective, but the practical relevance is to be questioned. Contract management is part of their responsibility and a positive attitude and high interest is likely to be expected.
  - The performance of spend success criteria such as accuracy, completeness and currency are dependable of the configuration one factor: the ERP system. Performance improvements have a high chance of overlap so that it is chosen not to treat the criteria separately but as combination: '*spend-data usability*'.
- Coverage by other criteria based on similarity, i.e.:
  - Knowledge of the internal customer about either current-, new- or unusable items are combined based on their similarity.

- o The cycle time of a contract management process covers the criterion 'flexibility': the less flexibility against uncertainty, the higher the cycle time.
- o 'The knowledge' of the internal customer covers the criterion 'quality' of the transformation. The more knowledge is put into the contract management process, the higher the quality of the transformation

5.7.2 Framework

The success criteria that are allocated to the reasons for non-compliance are summarized in Table 5-7. This table comprises the theoretical framework that will be used to assess theoretical improvement concepts and the SLI practice with the next chapters.

Table 5-7		Theoretical framework for performance assessment CMP's
CMP element	**#**	**Success criterion**
Input	(1)	Active contracts expiry dates
	(2)	Active contracts content visibility
	(3)	Spend data usability
	(4)	Knowledge on uncovered-, new- or unusable (u./n./u.) items
Transformation	(5)	Cycle length of contract development
Output	(6)	Contract information accessibility
	(7)	Contract information comprehensibility
	(8)	Contract information accuracy
	(9)	Contract information completeness
	(10)	Contract information currency
Internal buyers	(11)	Interest to contribute to contract compliance
	(12)	Attitude to contribute to contract compliance

6   Process improvement theory

Summary

- Different stakeholders exist within organizations having different stakes or risks with the achievement of the organization's objectives. Therefore different stakeholder management techniques should be applied.
- Six stakeholder management techniques exist to influence stakeholders of which many are already related to contract compliance in purchasing literature.
- The two applications that use the internet technology to improve contract management processes are called eContracting and eContract management.
- Most of the contract management success criteria can be improved with either stakeholder management, eContracting or eContract management.

6.1. Introduction

After the theoretical preparation executed in the previous chapters, this chapter is to describe the next step of the theoretical analysis by metaphorically building up the weapon arsenal for improving contract management processes. According to Robbins [2000], organizational changes take place is four aspects: structure, people, processes and technology. The research scope (§1.4) limits the analysis to approach process improvements from two perspectives:

- the 'people- process improvement perspective
- the 'technological' - process improvement perspective

Both perspectives will be first discussed in general followed up by an assessment of improvement concepts on the success criteria of contract management processes.

6.2. People

Behavioural process improvement relates to the people aspect within processes. The term stakeholder is often used within this context to differentiate between 'those having more or less stake' to a specific objective. Harrison and St John [1994] distinguish between stakeholder analysis and stakeholder management. They argue that in order to manage a stakeholder in an optimal way, one must understand the characteristics of this stakeholder. This requires a preceding phase in which the characteristics are determined by stakeholder analysis. When the characteristics are known, stakeholder management can come into place which is built on partnering mentality that involves activities such as communicating, negotiating, contracting, relation management and motivating.

6.2.1   Stakeholder analysis

Within the stakeholder analysis, the degree of 'stake' of the stakeholder has to be determined. Different views exist according to Mitchell [1997], acknowledging both broad and narrow definitions. A broad definition is given by Freeman[1984]: '*A stakeholder in an organisation is (by definition) any group or individual who can affect or is affected by the achievement of the organization's objectives.*'

Mitchell argues that the definition of Freeman is broad and based on the empirical reality that companies can indeed by vitally affected by, or the can vitally effect everyone. Narrow views are based on the practical reality of limited resources, limited time and attention and limited patience of managers for dealing with external constraints.

Clarkson acknowledges stakeholders as: '*either voluntary or non voluntary risk bearers, for whom the first bear risk in some form of invested capital and the second as result of a firm's activities.*' [Clarkson 1995]

Within the contract compliance context the internal buyers are the main stakeholders as they can affect the achievement of an organizational objective: 'contract compliance'. A simplified form of stakeholder analysis is executed within this research. This resulted into two success criteria to be further assessed with stakeholder management concepts: attitude and interest.

6.2.2   Stakeholder management

Stakeholder management is described by Mittrof [1983]: *'to deploy direct or indirect both internal and/or external stakeholders in such way that desired results are achieved, maintained and secured'*. Stakeholder management techniques can be aligned with 'resistance management techniques', as the 'use of contracted supplier' can be seen a change for which resistance can emerge. Six management techniques have been defined by Kotter and Schlesinger [1979]:

1. education and communication: resistance will be reduced if stakeholders are educated about the change and logic behind it beforehand.
2. participation and involvement: buy-in will be increased if the right stakeholders are involved.
3. facilitation and support: managerial or expert support can deal with uncertainty and problems during a change process
4. negotiation and agreement: to negotiate with people who have power to resist
5. manipulation and co-option: tactical management tricks to deceive stakeholders towards desired cooperation.
6. explicit and implicit coercion: forcing cooperation by e.g. penalties

6.2.3   Stakeholder management and contract compliance

Many of the stakeholder management techniques mentioned in the previous section are already related to contract compliance within purchasing literature:

1. *education*: Wynstra and Rozemeijer [2007] emphasize the essence of education of internal customers about the advantages of framework agreements and corresponding consequences. Communication of negotiated terms to all relevant stakeholders is related to the level of contract compliance. [Minahan 2004] Key stakeholders need to be informed and apprised of the volume leveraging initiatives such as supply base rationalization. [Ogden 2006]
2. *participation and involvement* of key stakeholders in the sourcing-process, 'early and often', is a major key to success; involvement of both functional and business unit leads are directly related to the level of contract compliance. [Minahan 2004] Involvement of true decision makers and gatekeepers should be involved, which would not have to be top-managers.[Ogden 2006]
3. *manipulation*: making use of external consultants with objective viewpoints to overcome difficulties and achieving buy-in. [Ogden 2006]
4. *coercion:* departments or business units can be held responsible for low contract compliance and be pursued to contribute to purchasing performance through budget corrections [Telgen 2004]

Although no examples have been found in literature for facilitation and negotiation, this would not imply that these management techniques would not have any impact. Facilitation is important for supporting internal buyers to use the right supplier, the right process and the right policy. Negotiation could be necessary when stakeholders have the power to fully resist or when the other 5 methods are not effective. On long term, negotiation about both items and suppliers could gradually result into a preferred supplier set that is desired by procurement and accepted by all stakeholders.

Within the next paragraph the analysis will proceed with elaborating on technology improvement concepts to complement the behavioural improvement concepts.

6.3. Technological process improvement

Since the rise of the Internet, acceptance and use of information- and internet technology in organization has been enormous according to Harink [2004]. The same applies for 'the use of

internet technology in the purchasing process', defined as e-Procurement [De Boer et al. 2001]. E-Procurement is seen as an important enabler of cost reductions through:

- efficiency: less paper work; more automation; higher standardization etc.
- effectiveness: better data gathering; higher quality of specifications; lower prices, lower risk improved competition etc.

6.3.1   e-Procurement

The definition of De Boer et al. for eProcurement is narrow in the way that it excludes communication technology as telephones and faxes. On the other hand, this definition is wide as it is also including internet technology such as internet, intranet and extranet applications.

Two main forms of e-Procurement are distinguished by Harink[2004]:
- e-informing: the use of internet technology for the purchasing control process
- e-transacting: the use of internet technology in the purchasing transaction process

E-informing relates to the receiving, if necessary editing and distribution of purchasing information with the use of internet technology. This information is either coming from- or meant for internal and external parties and can exist of: contracts, invoices, requirement plans and realized performance indicators.

E-transacting relates to the use of internet technology within phases of the purchasing process: specifying, selecting, contracting, ordering, monitoring and follow up and evaluation. For these phases applications can be acknowledged such as e-Sourcing, e-Tendering, e-Reverse auctioning, e-Ordering, web-based ERP and e-Invoicing.

A distinction can be made between eContract management and eContracting. eContract management is a form of e-informing. [Harink 2004] and is different from eContracting which is a form of e-transacting to support the contracting process.

6.3.2   eContract management

What is eContract management? Harink [2004] defines eContract management as the application of internet technology to:
1. support employees to buy from contracted suppliers
2. direct employees to the right purchasing process
3. support enactment of contracts
4. inform about contract expiry

Based on these purposes it can be concluded that eContract management is primarily meant for situation in which contract already exists. Kulp et all. [2006] speak about the organizations 'intranet' as a tool for eContract management, which is according to Wikipedia[8]: a private computer network that uses Internet protocols, network connectivity to securely share part of an organization's information or operations with its employees. Sometimes the term refers only to the most visible service, the internal website. The main advantages[9] of the Intranet are the widely accessible phone directories, manuals, information, email and online training.

6.3.3   Contracting

According to Grefen and Angelov [2002] two types of eContracting can be distinguished: shallow eContracting and deep eContracting. Both forms of eContracting are contracting in which either information technologies are used to support the contracting processes and contracts have digital representation.

Shallow eContracting differs from deep eContracting on the criterion that with the level of automation does not lead to process and/or organizational changes in a company. Shallow e-contracting can lead to minor improvement of the financial and cycle-time values with existing

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[8] http://en.wikipedia.org/wiki/Intranet
[9] http://wireless.ictp.trieste.it/school_2004/lectures/repici/repici_lecture1.pdf

and widely accepted information technology such as text editors and e-mail. Significant human involvement is however required.

Deep e-contracting focuses on the entire set of e-contracting values, involving broad spectrum of information technologies. The high level of automation of the contract establishment process allows contracts to be established in a very short time, which provides new opportunities in highly dynamic markets. Deep eContracting can be applied for the following reasons:

- contracting speed: just-in-time contracting (τ-contracting)
- contracting cost: micro-contracting (μ-contracting)
- contracting quality: precision contracting (π-contracting)
- enactment connection: enactment contracting (ε-contracting)

Just-in-time contracting (τ-contracting) is establishing a business relation at the latest possible moment in a business process to be able to react to temporal market dynamics.

Micro-contracting (μ-contracting) is the form of contracting in which many small contractual business relations are established to support a high level of selectivity and specialization in business collaboration. E-contracting is required to meet cost requirements with respect to establishing contracts.

Precision contracting (π-contracting) is establishing contracts in which a large number of parameters is to be agreed upon. E-contracting is required for quality (or effectiveness in a more general sense) reasons in contract establishment, for example error reduction.

Enactment contracting (ε-contracting) is establishing contracts such that they can be directly enacted by automated systems. Contract contents are to be automatically interpreted, so electronic contracts are required. As this contracting form addresses the enactment connection dimension, we call this paradigm.

From the different types of e-Contracting it can be concluded that just-in-time-, micro- and precision contracting are meant for situations in which contract do not yet exist. For this reason it can be concluded these types distinguish e-Contracting from e-Contract management. However similarity is evident with the enactment contracting concept. This concept aligns with one objective of eContract management (ref.§6.3.2): to support the enactment of contracts. Because of this confusing similarity in terminology, it is chosen within this research to neglect enactment contracting to be part of eContracting, but to be part of eContract management.

6.3.4 eProcurement and contract compliance

Some of the eProcurement concepts presented within the previous paragraphs have been related to contract management process and contract compliance. First of all the Aberdeen Group[2005] estimates the *automation* of contract management to improve compliance with 55%. Secondly Patel [2006] argues poor compliance to derive from the inability to communicate negotiated agreements to key stakeholders and *insufficient technology infrastructures* to store and retrieve contracts and monitor and ensure compliance. This inability relates to the lack of eContract management. Finally, Goldman Sachs[10] has estimated that contracting cycles can possibly accelerate with 50% with *eContracting*. This is also argued by Avery [2005]: 'accelerate cycle times from sourcing through contract.'

The next paragraph will now go into detail on the assessment of both the discussed eProcurement- and stakeholder management concepts on contract management processes.

6.4. Assessment success criteria on improvement concepts

For the assessment of the behavioural and technological concepts on the compliance success criteria, the order presented in the theoretical framework of §5.7.2 is followed:

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[10] http://www.upsidesoft.com/Upside+Software/PDF/BP_ROI.pdf

6.4.1 Active contracts expiry dates

The success criterion 'active contract expiry dates' is covered by the eContract management concept as it is designated to 'inform about contract expiry'.

6.4.2 Active contracts content visibility

Because, the eContract management concept is about 'informing about expiry' and 'supporting enactment' and therefore covering two contract *'content'* related functionalities, it can also be assumed that this concept provides a functionality to improve content visibility.

6.4.3 Spend data usability

None of the analysed improvement concepts are related to spend data. It can be remarked that in practice[11] contract management modules exist that are able to generate i.e. compliance reports. However, these modules are also dependant on the quality of spend data coming from the ERP system and likely not the remedy to improve this quality. The quality of spend data is mainly related to the configuration of the ERP system and the performance of the responsible IT function.

6.4.4 Knowledge about uncovered-, new- or wrong items

To extract knowledge about uncovered-, new- or wrong items from internal customers, two stakeholder management concepts seem appropriate: participation and facilitation. If the procurement department installs a support function, then knowledge about wrong items can be extracted. Additionally through participation of internal buyers into the contract management process, knowledge can be extracted about uncovered and -new items.

6.4.5 Cycle length

Just in time-contracting enables organizations to reduce the length of contracting cycles. For instance, pre-developed templates fasten contract creation; electronic negotiation reduces time consuming face to face negotiations and electronic contract approval bypasses bottlenecks.

6.4.6 Contract information accessibility

The contract information criteria accessibility is related to the concept of eContract management, to support employees to buy from contract suppliers and to support enactment.

6.4.7 Contract information comprehensibility & completeness

The comprehensibility and level of completeness of contract information can similar to knowledge about purchases or wrong items, be tackled through stakeholder communication and participation.

6.4.8 Contract information accuracy & currency

The accuracy and currency of contract information are influenced by the setup of the process itself. These should be tackled by standardizing and optimizing the process (and in the first place not through improvement concepts as either 'technology' or 'people').

6.4.9 Interest

The interest of the stakeholder can be improved by offering the stakeholder some kind of benefit (ref. §5.5.2) such as choice or reward. By giving the stakeholder power to influence tactical purchasing decisions, the participation- and negotiation concepts are evident. Secondly in case of rewarding the stakeholder for cooperation, the coercion concept applies. The concepts for being educated or supported seem less relevant as these are more targeted to compliance success than to the interest of the stakeholder. Manipulation is only in the benefit of the procurement function and not in the interest of the stakeholder.

With respect to the technological improvement concept; if the eContracting supports the inclusion of organizational stakeholders to participate in the contracting process, this improvement concept could be of interest of the stakeholder.

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[11] http://www.ariba.com/solutions/procurement_enterprise.cfm

6.4.10 Attitude

When the improvement concepts are related to the feeling of an internal buyer, also other stakeholder management concepts apply. Communication and education can affect the attitude of the stakeholder by taking away the fear for the unknown. Participation can enable the stakeholder to feel involved by having the opportunity to contribute to goal achievement.

Facilitation and support is important to keep the minds of stakeholders in line with the contract compliance objective, especially when problems arise and people have the tendency to fall back into old behaviour. Extensive facilitation by procurement will show the stakeholders the relevance of contract compliance and that also procurement is willing to sacrifice resources for the objective.

Positive manipulation, through the use of consultants for promotion and conviction of the use of preferred suppliers, could compensate a lack of respect towards the procurement department. Manipulation in the terms of 'deceiving' is not preferred as contract compliance is also required on long term. Negotiation and coercion could also affect the feelings of the internal buyers but are closer related to the interest factor.

The eContract management concept could be used for the distribution of contract information, to direct the internal customer to the right supplier. It can also be used for the provision of extra information to affect the attitude: i.e. by explaining the advantages of using contracted suppliers.

6.5. Summary of the assessment

Within the previous sub-paragraphs, the success criteria have been related to the different improvement concepts. These relations are visualized in Table 6-1. The main conclusion that can be drawn is that for most of the success criteria, one or more improvement concepts can be applied. For the improvement of success criteria (3), (8) and (10) no relation is found with the analyzed improvement concepts. This has been explained within paragraph §6.4.

Table 6-1	Assessment improvement concepts on success criteria CMP's							
	Behavioral				**Technological**			
Success criterion	Communication& Education	Participation& Involvement	Facilitation &Support	Negotiation	Manipulation & Co-option	Coercion& Reward	eContracting	eContract management
(1) Active cont. expiry dates								✔
(2) Active cont. content visibility								✔
(3) Spend data usability								
(4) Knowledge on (u./n./u.) items		✔	✔					
(5) Cycle length of contract devel.							✔	
(6) Contract info.accessibility								✔
(7) Contract info. comprehensibil.			✔					
(8) Contract info.accuracy								
(9) Contract info.completeness		✔						
(10) Contract info.currency								
(11) Interest to contribute to c.c.		✔		✔		✔	✔	
(12) Attitude to contribute to c.c.	✔	✔	✔		✔			✔

7   Analysis in Sara Lee International

Summary

- The low contract compliance in the analyzed indirect product categories is mainly to be attributed to 'unidentified suppliers', 'lack of information' and 'unwillingness'.
- A new factor derived from the empirical analysis: data pollution. This factor causes contract compliance rates to be unreliable and risks the effectiveness of category management.
- Within contract management processes, the least performance is found at the success criteria 'visibility on expiry dates & content of current contracts' and the 'completeness of information supply' towards the organization.
- Other performance issues occur at success criteria such as the 'usability' of spend data, 'cycle length of the contracting process', the 'interest' and 'attitude' of internal buyers and the 'comprehensibility' of information supply towards the organization.

7.1. Introduction

In chapter three it was concluded that for many of SLI's product categories of indirect procurement a low compliance rate applies. This conclusion is a confirmation of the research problem (ref. §1.2.2). This chapter is to further investigate the SLI practice on the low compliance using the theoretical concepts that are elaborated upon in chapter four and five. This investigation is comprises on the one hand an analysis of the reasons for non-compliance for several chosen product categories. On the other hand it comprises the testing of the contract management processes on the success criteria listed in the developed theoretical framework (ref. §5.7.2). The chapter starts with describing the limitation of the analysis and the research approach. This limitation was already clarified but not yet explained in full detail.

7.2. Research approach

The research scope described in §1.4 limits the research to only investigate a few indirect product categories and few corresponding stakeholders.

7.2.1   Few indirect categories

Based on the FY06 spend- and compliance analysis described in the chapter three, several categories of the indirect procurement function are chosen by the procurement process manager for analysis on the contract compliance issue. The criterion for this choice was based on the compliance figure to be 'low or unexpectedly low'.

This criterion was either based on assumptions that compliance should be higher because of the product category to be: a long time under procurement; to have a preferred purchasing process or significant outsourcing. These criteria are not recorded for the chosen categories because these are based upon assumptions. The focus categories for analysis will be:

- Advertising category
- Promotional items category
- Leased cars category
- Hotels, lodging and meeting facilities category
- Cleaning services category
- Postal and courier services category
- Legal services category
- Temporary production personnel category
- Operating supplies category

7.2.2   Few stakeholders

The execution of the qualitative analysis comprised interviews with two stakeholders for all of the above mentioned product categories. These stakeholders are experts in the:

- Purchasing control: 'category owners'
- Purchasing transactions: 'internal customers'

Supported with a recent spend analysis roll-out of FY07, the interviewees are interviewed on the reasons for low compliance and the success criteria for contract management processes. It must be denoted that these stakeholders could describe the SLI situation from a singular perspective, which could lead to less (organizational-wide) balanced results. To illustrate this statement with an example: the reasons 'willingness' and 'lack of information' could for instance not apply for participating and known stakeholders based on the analysis in §6.4.

The next paragraph will now describe the results of the qualitative analysis on the reasons on non-compliance.

7.3.   Reasons non-compliance

Through evaluation of the spend reports for the several product categories with the stakeholders, the different reasons for non-compliance were assessed. The following table shows the results of this evaluation. The figures represent the ranking of the reason for a category, by which the increase of the figure represents the decrease of the relevance (e.g. a '1' defines that reason to be the most important). Sometimes more reasons are mentioned so that the different compositions of rankings can apply.

If no ranking is included for a reason for non-compliant spend this means that it has been mentioned not to be relevant by the two interviewees.

The table shows one extra reason for low compliance. This reason is not mentioned within the theoretical analysis and derived from the empirical analysis. Although it is not an important causal factor causing non-compliance, it is an important factor influences the rate of contract compliance. This will further explained within paragraph §7.3.7.

Table 7-1	Assessment reasons for contract non-compliance at SLI								
Reason Low compliance \ **Product category**	Advertising	Promotional items	Leased cars	Hotels, lodging & meeting facilities	Cleaning services	Postal and courier services	Legal services	Temporary prod. personnel	Operating supplies
1 Unidentified suppliers	1	3	1	1	1	1	2	2	2
2 New items	3	2							
3 Unusable items	5			2			3		
4 Lack of information			2			2			3
5 Relations with suppliers	6			3		3			
6 Unwillingness	4					4			
7 Data pollution/quality	2	1	3		2		1	1	1

Based on the results presented in the above diagram it can be concluded that the analyzed categories differentiate on the relevance of the reasons for non-compliance. This result has

several consequences for the solution field, straightforwardly implying that one solution would not solve all of the problems.

The results will now be described in detail in the next paragraphs. The same order of reasons for non-compliance as presented in the diagram above will be followed.

7.3.1   Unidentified suppliers

The most important reason for non-compliance in the focus categories is declared by category owners to be that suppliers are not yet designated for contracting activities. This can be well understood from the fact that sourcing activities have just been started in FY07. Two exceptions are the 'operating supplies' and 'cleaning services'-categories which did not receive major attention yet: category owners for this category are only installed to validate the creation of new suppliers.

Since the execution of sourcing activities, several contracts were concluded.   Therefore better contract compliance results are to be expected in FY08. These contracts differ in financial relevance. Within some categories few contracts are negotiated to cover significant amount of spend. Examples of these categories are the 'advertising category', the 'postal services category', 'temporary personnel category' and 'leased cars'-category. Within some other categories more suppliers were contracted to cover spend such as the 'promotional items', 'hotels' and 'legal services category.'

7.3.2   New items

'New items' as a reason for non-compliance is mentioned in the Adverting category and Promotional items category. From the item- or service characteristics of the categories, this could be well understood. Creativity and innovation are important cornerstones of Marketing to attract as many end-customers as possible. Within SLI, new items are sometimes acquired for marketing purposes from non-preferred suppliers.

A stakeholder in the marketing field argued the need for a contract and procurement integration to depend on criteria as financial impact and the added value of procurement. This added value should comprise either the reduction of costs or -workload.

Another stakeholder in the marketing field argued that an increasing amount of new promotional items could be covered with their preferred suppliers list they are currently maintaining. This can be supported by the compliance analysis §3.4.3 in which the contract compliance is showing over 90% in FY07. However the lack of time because of i.e. global lead-times could be an important motive not to use or develop contracts to improve contract compliance.

7.3.3   Unusable items

Unusable hotels occur in situations in which preferred hotels are fully booked or when designated preferred hotels cannot fulfil a need because of geographical distance. One can understand that in case of supplier visits or conferences far away, current preferred hotels could not satisfy because of its unusable location.

A stakeholder in the UK argued the lack of capacity of a supplier to be a reason for non-compliance. In that case his goods of services are not usable for the simple fact that these are not available.

Another example for unusable items is mentioned to be in the legal category. Currently several old suppliers are used because of specific 'business case'-related knowledge which cannot be supplied by current preferred suppliers. When preferred suppliers keep on changing in the future, this reason for non-compliant spend could still exist.

7.3.4   Lack of information

Lack of information is mentioned to lead to non-compliant purchases in leased car category, postal services and operating supplies. For the lease car category, some employees still do not

know that car-repairs should always be invoiced on the contracted lease-car company. Because of the lack of knowledge, still invoices come into SLI's workflow which additionally also result into costly problem solving activities as 'validating' and 'returning credit bills' by expensive experts in the business.

For the Postal and Courier service category a new large supplier is contracted which affects the whole Dutch organization. The category managers states that the distribution of information throughout the whole organization is the second largest reason for non-compliance for this category, next to the existence of unidentified suppliers for other countries then the Netherlands. A bottleneck in the information workflow (at higher management level) caused many troubles when the uninformed employees used the services of the old suppliers. The old supplier was blocked in the system so that invoices were neglected for payment, automatically resulting in services stopped to be delivered. This rigid method disrupted relations with suppliers in severe way, but is argued to be a well working solution that is already improving the contract compliance figure for that category.

The operating supplies category is also suffering from lack of information towards the internal stakeholders. It is unclear for many employees what the 'operating supplies'-category stands for and which suppliers are preferred. The Procurement Marketplace has not been available in FY07, so current preferred suppliers are not yet communicated. If results cannot be found on the Marketplace, there is a big chance that relevant stakeholders will buy non-compliant because of lack of information.

7.3.5 Relations with suppliers

In the advertising-, hotel -, postal service – and legal services, relations with old suppliers are mentioned to be minor reasons not to use preferred suppliers. For some purchases within these categories, personally known suppliers have been used for past experience. It is explicitly stated by a stakeholder in the marketing field, that personal preferred supplier set has higher priority than a preferred supplier of the procurement department.

Within the postal services a stakeholder explained the chance on using old suppliers if the new supplier does not meet their expectations. This statement can be well understood according to a in the sourcing process participating procurement category manager. She argued that disagreement between stakeholders on several levels in the Facility Management function for a new supplier already emerged in the sourcing phase. In the previous paragraph a rigid solution is mentioned to get control on this behaviour. Tension exists within the operating field; it therefore unknown how the purchasing operations in this category will develop in the future.

Within the hotel category it can be understood that when employee's book locally and last minute by telephone, they choose hotels that they're familiar with. According to the category manager, this importance of this reason is negligible. The reason that is more important is when designated hotels are unusable in case of full bookings or distance.

7.3.6 Unwillingness

The unwillingness did not come up as an important reason within the first interviews. Only few examples of unwillingness were mentioned. Within the advertising category, influence of the procurement department is mainly seen by a stakeholder to be time consuming or quality reducing. Time is seen as scarce within the functional activities and procurement interruption is seen as an extra link in the chain. On the other hand cost reductions are seen as having a large impact on the quality of the advertising or promotion activities.

Secondly, a stakeholder in the temporary personnel argued in general that some people are suffering from some kind of 'IT tiredness'. This could result into unwillingness to adopt new electronic purchasing tools and a low threshold to quit using these tools if drawbacks (e.g. errors) apply. Within the postal services category, 'unwillingness to comply' is mentioned to be

a reason for non-compliant spend, due to different opinions between stakeholders within the company.

The assumption that because of SLI's new procurement structure, the 'unwillingness to comply' should have greater significance within the organization, led to new interviews. After all, it could be well understood that interviewees are likely not to give an honest answer by arguing that they are in fact sabotaging the organization. Therefore new stakeholders located in Spain, the UK, The Hague and Joure were approached. The approach led to much more examples of explicit unwillingness not to comply.

Within Spain four reasons are mentioned. The most important reason was mentioned to be indifference. People often confirm to be willing to cooperate but when it comes to the action they simply choose their own way of doing things, keeping in mind that excuses can be easily made up. Another important reason is the fear for change. The fear of change was related to the requirement to learn new suppliers and new purchasing processes. Another reason was the feeling about global suppliers not to be capable of supplying local factories. Finally a reason was mentioned to be lack of trust within the procurement department as intermediary. People in the operations can think they have the most experience and knowledge and therefore the right to choose custom suppliers.

Within the UK, similar reasons were mentioned: the fear for change, resistance to learn new- and leave old practices. Another major issue was mentioned that people has the tendency to be lazy and feel that they are already working on their maximum. Extra work that has to be executed such as for instance 'visiting the MarketPlace' is seen as superfluous waste of time and energy. Also the factor of having more expertise than procurement is mentioned, 'to be well capable' of doing purchasing without procurements advise. What is also argued is the argument that it is easier to punish procurement if something goes wrong, than to complement them if something goes right. It is stated that procurement would do good of promoting good practices towards the company. Finally, unwillingness to work with suppliers due to bad experiences is mentioned to be an important reason not to work with suppliers. These bad experiences could have been adopted in earlier jobs and would not have to be adopted during their SLI period.

The main conclusions that are to be drawn from the interviews with stakeholders in the Netherlands (the Hague & Joure) are that good communication between procurement and internal buyers is important, next to buy-in of functional management. All parties should agree on the chosen preferred suppliers and by agreeing on forehand on preferred suppliers, chances on low compliance will diminish. Two examples of keys to success are mentioned. Firstly, internal buyers that agree on preferred suppliers on forehand are likely to cooperate. Secondly, issues between internal buyers and suppliers can be solved quickly after personal introduction by procurement.

From the interviews it could be concluded that *strong unwillingness* to resist cooperation does not really exist at SLI. But there are many examples that could affect the decision of the internal buyer not to use contracted suppliers.

7.3.7 Data pollution/quality

Remarkably, data pollution is responsible for the second largest portion of non-compliant spend. This reason does not have a causal relation with non-compliant purchases, but has high impact on the compliance figures: i.e. for the 'promotional items category' the largest supplier did not have a preferred supplier status, although it was exactly the same supplier as the second vendor in the list (only the name had a different composition).

The same example is found in the advertising category, with the difference that mother and daughter companies were not yet recognized to be the same. For the Netherlands, the compliance would improve double from 0,39 to 0,78 through data cleaning only.

Within the 'legal services' category, e.g. the half of the total category spend is completely unknown, even after verification with several legal and procurement experts. Analysis of spend data on purchase order level showed that that spend was related to only a small amount of purchase orders (occurring outside of the Netherlands).

For many of the other categories the same kind of data pollution examples could be given. These will not contribute to further foundation of the conclusion that could be drawn already: the current contract compliance figures can not be trusted. Within several of the categories the contract compliance can raise with more than 20%.

This raise looks beneficial, but is does not result into improvement of the performance of the organization. Opportunities for improvement could however emerge when improved transparency leads to a more effective category management. Therefore it is important to have 'cleaned' categories, which is stressed by all category owners. Remarkably enough this is also declared not to be time-consuming. This is confirmed by the author of the report: walking through spend-print outs with functional experts could be executed quickly with great support and high quality results.

The category 'operating supplies' must be elaborated upon. This category has not yet been picked up by procurement, but still has a category manager designated to some extent. This category is interesting on the data pollution aspect. Because of the ambiguity of the name[12] it could be well understood that many new vendors are put within this category many. Most of the indirect goods can be interpreted as 'operating supplies': supply needed to continue operations. Therefore unique and clear category descriptions are of great importance.

7.4. Performance contract management processes

Now the reasons for non-compliance are determined, the analysis will proceed one step deeper focusing on the performance of the contract management processes. The theoretical framework developed in paragraph §4.8 is assessed. The results are displayed in the following diagram:

Legenda:

⭐ = low performance on CMP success criterion

⭐⭐ =medium performance on CMP success criterion

⭐⭐⭐ =high performance on CMP success criterion

Table 7-2 Performance contract management processes at SLI

#	Success criterion	Score
(1)	Active contracts expiry dates	⭐
(2)	Active contracts content visibility	⭐
(3)	Spend data usability	⭐⭐
(4)	Knowledge on (u/n./u.)- items	⭐⭐
(5)	Cycle length of contract development	⭐⭐
(6)	Contract inform. accessibility	⭐⭐⭐
(7)	Contract inform. comprehensibility	⭐⭐
(8)	Contract inform. accuracy	⭐⭐⭐
(9)	Contract inform. completeness	⭐
(10)	Contract inform. currency	⭐⭐⭐
(11)	Interest to contribute to contr. compl.	⭐⭐
(12)	Attitude to contribute to contr. compl.	⭐⭐

A low performance score indicates that many issues are acknowledged that have to be solved. A medium performance indicates that first improvements are already implemented by SLI. A high performance indicates that further improvements aren't really a necessity.

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[12] Operating supplies: electricity articles, electricity, pipe, fitting, sanitary, heating, sewerage, paint applicators and accessories, tools and machines, industrial cleaning products, chemicals, signposting.

7.4.1 Active contracts expiry dates

Within FY06 the indirect procurement group executed a stock-taking to determine the contract existence throughout all functions and divisions within SLI. Based on this research it was concluded that many procurement agreements existed within the organization that were not under control of the procurement function. Currently, only 35% of these agreements have been collected since. According the procurement process manager, this undesired result was to be attributed to the bad performance on stock-taking and the contract collection process.

Because of the ineffective contract collection and no registration of contract meta-data, the indirect procurement is currently characterized by low contract availability. Therefore for many agreements the expiry dates are unknown so risks do not only emerge on price level but also on supply level.

7.4.2 Active contracts content visibility

The stocktaking of contract suffered from unclear agreement typology and incomplete information input such as stakeholders. Without the names of the stakeholders it turned out to be hard to collect agreements that were assumed to exist. This problem is aggravated at one hand the continuously changing organization structure and on the other hand because of little knowledge and information handover by leaving employees.

Because of the little knowledge handover and limited contract availability, the content visibility is very low. It is impossible to recommend (and present) the negotiated product ranges of many preferred suppliers to decentralized stakeholders. Additionally, it is impossible for category owners to either understand or turn similarity between contracts into volume leveraging benefits.

Therefore, if a supplier is designated a preferred supplier status because of the existence of contract and assumed negotiated benefits, this could clearly be a misinterpretation. I.e. a contract could cover a onetime service without coverage of any items at all. Purchasing of these 'potentially costly' items is currently seen as beneficial under the umbrella of assumed benefits at preferred 'contracted' suppliers. Although not presented, a similar example could illustrate the loss of performance in case of expired agreements.

7.4.3 Spend data usability

The procurement spend analyst pointed to several important undesired quality characteristics SLI data is likely to have on accurateness, completeness and currency. First of all the accurateness of data is to be questioned for preferred supplier status. The uploading procedure of the preferred supplier set is very time consuming and unreliable. For this reason, the compliance reporting has to be executed manually by integrating data extractions and –lists. Additionally, queries (formula's) to extract data from SAP/BW systems show inconsistencies. This can be explained with the example that data extraction with exactly the same parameters gives different results. The reason is assumed to derive from changes within queries under responsibility of the IT-department.

Secondly, because of different data sets not all data is included in the spend analysis. For instance, the Bakery division of Spain is using a different SAP system with different vendor id's which makes automatic reporting difficult. Therefore, this division and also that of Hungary and Asia have been left out in the SLI quantitative data analysis.

Finally it can be concluded that the currency of spend data is high. As it has been elaborated upon within §2.8.3, the BW tool is able to import the most current transactional data into the system.

7.4.4 Knowledge about planned purchases or wrong items

The performance on the extraction of knowledge from experts in the business can be questioned for several reasons. The lack of integration of stakeholders for improvement of procurement efficiency and effectiveness has been a major conclusion within the procurement meeting with

all procurement experts. The author of this report participated in this meeting. The input of knowledge is of great importance for the quality of contracts and little has been done in the past to optimal benefit from expertise in the business.

Secondly, within the advertising category participation of stakeholders showed difficulty. This was attributed to the huge amount of stakeholders in the marketing field without clear transparency on organizational structures. Additionally, procurement was seen as having a either limited marketing knowledge or –feeling and different functional targets so that participation is sometimes avoided. A marketing stakeholder also argued that since the leave of a in their terms 'suited and understanding' procurement category owner, communication with procurement reduced to zero.

Finally it has been remarked by a stakeholder that procurement department had the tendency in the past to neglect knowledge of experts in the operational business. This could not only lead to a negative attitude of stakeholders towards the organization, but also to contracted benefits that are compensated by unforeseen costs. This is also argued by Ogden [2006], who argues competitive prices to be compensated on non-negotiated parts.

On the contrary also examples of good performance are also mentioned by internal buyers. A good fruitful cooperation with a stakeholder in the leased cars categories has resulted into good contracts, clear policies and a satisfied stakeholder. Additionally, a stakeholder in the legal department argued the cooperation with an external agency (with market expertise for quotation) and procurement to be successful with beneficial results.

7.4.5 Cycle length

The cycle length of total contracting process has been improving since the first implementation of eProcurement. Significant time has already been saved within the sourcing activities as RFIs, RFQs and RFPs. However, automation in the contract development, -conclusion and enactment has not yet been available. According to several category managers several inefficiencies existed in the contracting processes:

The development of contracts is executed by 'shallow' contracting. Every contract has to be built up from scratch with standard document development office software which could take up many hours of development and editing. Secondly, developed contracts can end up in piles and are forgotten to be transferred to the next stakeholder in the contracting process which can sometimes delay the process two weeks. Thirdly, the validation of contracts by the legal department can sometimes taking up a whole month delay and is seen as the largest bottleneck. Finally the signing of contract could be a problem because of unclear organizational SLI structures and responsibilities which are continuously changing and far from transparent.

7.4.6 Contract information accessibility

A few years ago, the procurement function decided to develop the Procurement Marketplace (PM). This intranet-based tool was to inform stakeholders within the SLI organization about the preferred suppliers that were designated. This tool has been installed by the author of this report as part of his internship.

The accessibility of the PM is high as it is hosted on the company's intranet. It can therefore be accessed throughout the whole organization. However due to high information traffic on the diverse networks of which the intranet is composed, the accessibility of the PM could sometimes be limited. It is not unusual that the site is temporarily not accessible.

7.4.7 Contract information comprehensibility

The comprehensibility of distributed contract information is limited to the English language. Although English is the main language at higher (controlling) levels of the organization, it does not suffice organization-wide. From training-sessions of Dutch PO-creators it is concluded that many SLI-employees have difficulty with understanding of an English representation. From email conversations with the Spanish SLI divisions it can also be concluded that Spanish

stakeholders would have much difficulty without a Spanish version of the tool. The comprehensibility can also be questioned for searching suppliers by category; procurement would do good to provide detailed and clear category descriptions in more languages. Currently, these are not yet in place.

7.4.8 Contract information accuracy

The accuracy of the information presented in the PM is high. Contract information derives directly from the actual contracts and is checked by category owners as part of their responsibility. Errors that do apply are mainly because of human interaction, whereas the contract administration process is not yet automated.

7.4.9 Contract information completeness

The part of contract information that is chosen to be presented to the company is based on two criteria: alignment with the SLNA and minimal maintenance for the procurement processes department. It is not primarily based on the requirements of the stakeholders. During the installation of the PM many category owners complained about the limited amount of contract information presented. It is decided to include more supplier details such as keywords for search, contact names and –details if it can be presented for enough preferred suppliers.

The same applies for the request of Spain for including the attribution of preferred suppliers to specific factories. Therefore the completeness is currently still to be questioned, especially for the fact that only 1% of keywords for the search functionality have been supplied for companies. The completeness can also be questioned for the internal marketing. Less has been done to improve the PM on this matter, which could be very important for understanding, acceptance and use of the tool. Besides, as several stakeholders are not yet familiar with procurement experts the tool could be perfectly used to promote procurement throughout the organization.

7.4.10 Contract information currency

The currency of the contract information presented on the PM is high. A directly link with the main spend data-file[13] which is most up to date, is established. In theory, the PM could be daily updated. However, because of synchronization issues with the search-engine of the intranet platform (which is relevant for searching by keywords), it is decided to execute updates on weekly basis.

7.4.11 Interest

The interest of the internal buyer at SLI for cooperating with procurement to improve contract compliance depends on several aspects. First of all, the interest of the internal customer can be affected by a time-consuming cooperation. The internal customers are willing to contribute to the improvement of contract compliance, but acknowledge time to be a scarce resource. The use of the PM is also strongly related to this fact. Internal customers argue that they do not prefer an extra step in the purchasing process if it is time consuming. The procurement department is advised to optimize the usability of the PM.

Secondly, the interest of internal customers to contribute to contract compliance, depends on the financial advantages that come with the use contracted suppliers. They will be more interested in cooperation if they are rewarded on the savings they realize. However, some people argued to be afraid of budget corrections if too much money is saved.

Finally, the interest of internal customers to cooperate depends on the supply characteristics of the contracted suppliers. It is argued by a stakeholder outside in Spain that people are sceptical about the quality and completeness of the supply of contracted supplier with a global scope. If these characteristics do not meet their requirements, it could be in their interest to return to local suppliers.

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[13] 'the Masterfile'

7.4.12 Attitude

About the attitude of internal customers towards the contract compliance objective, several things can be said at SLI. First of all it is not the respect of the procurement function to be determinant for contract compliance buy-in. It is especially the good experience with past cooperation to be of great importance. Determinants for good cooperation with the procurement function are 'the little time to be required'; 'professionalism'; sufficient 'operational knowledge' of the category owner and the 'completion of initiatives'. Within the interviews both good and bad experiences with cooperation with the procurement function are mentioned.

Also the buy-in of functional management is mentioned to be important. Within the legal services category a stakeholder argued supplier base rationalization to be already on the 'menu' and for that reason, contract compliance was already pursued.

Thirdly, the interviewed stakeholders consider purchasing flexibility not to be an important factor for contract non-compliance. They prefer need satisfaction above purchasing flexibility. It is therefore important that the preferred supplier set is sufficient for the needs of the internal buyers.

Fourthly, the fear for the unknown is mentioned to an aspect affecting the attitude of the internal customer. Some internal customers fear the learning of new purchasing- and IT skills. Others fear the use of unknown suppliers to supply their need.

Finally, it must be remarked that stubbornness is not uncommon within SLI practice. People easily promise to cooperate and when it comes to it, they fail to comply but seem well able to make up excuses. It s the risk of decentralize the autonomy to make purchase decisions.

7.5. Relation between contract non-compliance and performance CMP's at SLI

Within paragraph §7.3 the reasons for contract non-compliance were assessed in the SLI practice. Within the previous paragraph this SLI practice has further been investigated on the performance on the success criteria of contract management processes. Within chapter 5 the relation between both subjects has been extensively treated. This relation still has to be clarified for the SLI situation.

In order to clarify the relation between the success criteria and reasons for non-compliance, the diagram presented in Figure 7-1 is developed. Some explanation is necessary for proper understanding of the diagram. To explain the structure: on the horizontal axe, the success criteria of contract management processes are displayed in combination with the score of the assessed performance at SLI (ref. §7.4). On the vertical axe the reasons for non-compliance are presented, together with their assessed priority in the SLI practice (ref. §7.3).

When the *performances* on the success criteria are allocated to the reasons for non-compliance, based on their relation defined in §5.6, several fields in the diagram are filled with these performances (through stars). For the three most important reasons for contract non-compliance, red boxes are drawn around success criteria for which improvements are required.

Figure 7-1   Relation between contract compliance and CMP's performance at SLI

Success criterion	Reasons non-compliance	Unidentified suppliers	Unused items	New items	Lack of information	Supplier relations	Unwillingness
Priority	**Perform.**	**1**	**4**	**5**	**2**	**6**	**3**
(1) Active contracts expiry dates	★	★					
(2) Active contracts content visibility	★	★			★		
(3) Spend data usability	★★	★★					
(4) Knowledge on (u./n./u)-items	★★	★★	★★	★★			
(5) Cycle length of contract development	★★	★★	★★	★★			
(6) Contract inform. accessibility	★★★				★★★		
(7) Contract inform. comprehensibility	★★				★★		
(8) Contract inform. accuracy	★★★				★★★		
(9) Contract inform. completeness	★				★		
(10) Contract inform. currency	★★★				★★★		
(11) Interest to contribute to c.c.	★★		★★	★★		★★	★★
(12) Attitude to contribute to c.c.	★★		★★	★★		★★	★★

7.6. Process improvement concept: SLI's S2C-tool

Within this research for SLI, one technological improvement concept is further assessed. This concept comprises the 'Source to contracting'-tool, S2C-tool in short. This tool is developed for integration with the sourcing module of Frictionless. Frictionless has been bought by SAP[14] in 2006 to set a first step toward supplier relationship management (SRM). The analysis on this tool presented in the following subparagraphs is based on an interview with an implementation expert and is structured as follows:

- Characterization
- Advantages
- Limitations

7.6.1   Characterization

The main objective of the S2C tool is to provide consistency and transparency in contracts by executing all steps in the contracting cycle are executed in the same way. The contracting phases that are covered are:

- the draft contract development
- negotiation with the supplier
- potential modification verification of the legal department;
- renegotiation on legal aspects to result in to a final digital text document
- printing and signing.
- uploading into the system as a digital and signed document.

Contracts come into the system through the execution of the described phases, however the tool is also capable of importing contracts that are not made by the tool (which has to executed manually). Contract visibility and search on clauses is primarily based on meta-data. Meta data consists of general data about supplier contact names; email addresses and termination dates.

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[14] http://www.infoworld.com/article/06/05/17/78411_HNsapondemand_1.html

7.6.2 Advantages

It is concluded that the most important advantages of the S2C tool are the standardization of the contracting process and knowledge storage and retrieval. For the success criteria of contract management processes, this implies improvement of:

- Active contracts expiry dates
- Active contract content visibility
- Contracting cycle length

The S2C tool is capable of notifying expiry dates to responsible category owners through automated meta-data extraction and distribution so that contract can be timely renewed or terminated. Additionally, contracts are stored within one system so that contract visibility is improved and can be well transferred in case of i.e. changing category managers.

On the other hand, the contracting tool shortens the contracting cycle significantly. Contracts are pre-defined through templates for different product categories and extra contract elements can be put in according ones wishes. The legal department isn't required for execution of time-consuming checks on standard elements, saving many week in contract development.

7.6.3 Limitation

The tool has a limitation as it is not connected to the ERP-system. Compliance monitoring is therefore not yet available. This will be available in the SRM tool, which is to be expected for use for indirect procurement within 2009/2010. This tool will contain catalog ordering and shopping car possibilities so that contract compliance can be directed to a major extent. The S2C tool is however connected to the Frictionless eSourcing tool in a way that the contracting tool follows up the phases of RFI, RFP, RFQ and/or auction.

8 Deriving conclusions

Summary

- Contract compliance or 'the use of procurement contracts' is important for procurement organizations striving for purchasing effectiveness.
- SLI has a low contract compliance for indirect procurement; it is however far from realistic as data is polluted and the preferred supplier definition to be optimistic.
- SLI suffers from significant purchasing performance leakage, mainly because of 'unidentified suppliers', 'lack of information' and 'unwillingness'.
- The most important issues in contract management processes are low 'visibility on current contracts' and incomplete 'supply of information' towards internal buyers about preferred suppliers and contract details.
- Issues that are less dramatic, but for which still improvement opportunities exist are the 'accuracy' and 'completeness' of spend data, 'cycle length of the contracting process', the 'interest' and 'attitude' of internal buyers and the 'comprehensibility' of information supply towards the organization.

8.1. Introduction

This chapter is to reflect on the results from theory and practice to draw conclusions. These conclusions are the basis for the recommendations (ref. chapter 9). The conclusions for Sara Lee International will be discussed in the following order:
- The composition of contract compliance at SLI
- The relevance of contract compliance
- The responsibility for contract compliance
- The relation between contract management and contract compliance
- The improvement concepts for contract management towards contract compliance
- The reasons for non-compliance at SLI
- The issues in contract management processes at SLI

8.2. Contract compliance at Sara Lee International

Three main conclusions are drawn for SLI's contract compliance. Contract compliance is:
1. capricious and varying between fiscal years
2. low for significant spend within the indirect group
3. mainly caused by unidentified suppliers, data pollution and lack of information

8.2.1 Contract compliance rate is capricious

Contract compliance rates can be capricious because:
- spend can significantly differentiate per fiscal year
- significant one time investments can occur
- many suppliers are miscategorized (including the (non)-compliant spend)
- the definition used for contract compliance

At first it can be concluded that the amount of spend significantly differentiates between fiscal years FY06 and FY07. This can be understood from the fact that purchases are executed continuously and would not have to be bound to one fiscal year. Non compliant spend could easily occur in one year and not in the year thereafter.

Secondly when significant one-time investments occur, the compliance rate can fluctuate enormously. A good example is that of a large investment within the IT-software category which led to an increase of the contract compliance of 300%.

Thirdly category clean-ups influence the compliance rate. When dislocated vendors are transferred to other categories, corresponding non-compliant spend will then automatically be moved resulting into both compliance increase and decrease in different product categories.

Fourthly, it is straightforward but important to conclude that the definition of contract compliance has high impact on the compliance rate. The compliance rate for direct procurement showed a significant decrease after changing the criterion 'assumed' contracts to 'stored' contracts. For indirect procurement the compliance definition is still *too optimistic*.

8.2.2   Contract compliance indirect procurement

The level of contract compliance at indirect procurement is:
  ▪ Just as important as the level of contract compliance at direct: both are characterized by same amount of total spend
  ▪ Lower than 35%; two third is leaking to more than 15000 non-contracted suppliers
  ▪ Highly dependant on the three largest product categories

First of all the yearly spend of indirect procurement is comparable to that of direct procurement. Therefore the fractional savings in the indirect segment should not be underestimated, despite the conclusion that indirect goods are often characterized by less spend compared to direct goods (ref. §4.3.3).

Secondly, currently a contract compliance performance of only 35% is the reality for indirect procurement. This group has not been showing any improvements on supplier base rationalization, which should have been realized according to the procurement strategy of FY07. Although the correlation to an increase of the total spend does provide some understanding, the increase of 10 % and the impressive total of 17000 suppliers is still to undesired when a volume leveraging strategy in pursued. These figures are even higher if other countries than Western Europe are included.

Thirdly, the largest spend can be attributed to the 'advertising'-category, 'road cargo'-category and 'IT services'-category covering one third of the total spend for indirect procurement. Especially in these categories a high compliance would be very beneficial to the organization.

8.3. Relevance contract compliance

Contracts are the results of the contracting efforts of the procurement department. These contracts have high relevance in business terms as these do not only legally reflect the procurement benefits but also the operational obligations. The term contract compliance is often referred to either one of both aspects (ref. §4.2). Within this research the term is *not* related to obligation, but to the conformation to achieve procurement benefits: *'using procurement contracts'*.

The use of contract compliance is relevant for organizations striving to leverage their purchasing power. This example of economy of scale can have high savings potential for organizations 'such as SLI' which are characterized by a dispersed operational structure that resulted from take-overs. Examples from literature state that buying off-contract ('Maverick buying') could result into payment of 20% to 30% higher prices for some products or services.

8.4. Organizational control on contract compliance

To understand to what extent the procurement function can be held responsible for contract compliance, the research looked upon the responsibility towards reasons for non-compliance.

8.4.1   Reasons non-compliance

The analysis (ref. §4.4) on the causes of non compliance led to the following set of reasons.
  ▪ New items
  ▪ Unsuitable items

- Unidentified suppliers
- Lack of information
- Relations with suppliers
- Unwillingness

8.4.2 Responsibility allocation to purchasing function

When these reasons are related to the responsibility of the purchasing function it can be concluded that *the purchasing function can be held either fully or partially responsible for all reasons of non-compliance*. To elaborate on this fundaments of this conclusion (ref. §4.5): deriving from the fact that the main tasks for the procurement department are to reduce supply risk and purchasing costs it is her responsibility to cover 'new items', pursue 'quality contracts' (without unsuitable items) and to 'search adequate suppliers'.

Additionally, information supply to all those that are involved is a cornerstone of the purchasing function. The 'lack of information' is therefore a result of a procurement department lacking her responsibility for information supply. This information supply is also seen to be of great importance to overcome resistance to change. Employees in general tend to resist to change; it is therefore important to provide the right information to motivate them to change to new contracted 'preferred' suppliers.

Finally, the unwillingness to purchase at contracted suppliers could be an important aspect resist to this change. The unwillingness could i.e. relate to purchasing experience or respect for the procurement department. Who else than the procurement department itself could be responsible for improving the purchasing experience and respect? To quote Checketts [2006]:
'Procurement must take ownership of the negotiated savings and ensure that these are fully realized'.

8.5. Contract management processes and contract compliance

Purchasing processes exist to pursue purchasing strategy (ref. §4.5.3). Since savings realization and therefore contract compliance is one of the purchasing objectives, purchasing processes must be in place to achieve the compliance objective. Within purchasing literature, purchasing processes, budgeting processes and contract management processes are related to contract compliance. Within this research it is chosen to focus on contract management processes (CMP's).

8.5.1 Contract management processes

Several different interpretations exist for contract management (ref. §5.4):
- Category management: targeted to optimally cover a category with contracts
- Contracting: targeted to realize the best agreement
- Contract administration: targeted to ensure that right information gets to the right people in the right time

8.5.2 Process concepts

Success criteria are the requirements for a process to fulfill its objectives. When transposed on this research, success criteria are the requirements for CMP's to achieve contract compliance. To determine success criteria, one must understand the elements of a process. From a review of a conceptual process model it is concluded (ref. §5.3.1) that a process is characterized by several process elements: the supplier-, input-, transformation-, output- and the customer-element.

Another model (ref. §5.3.2) comprises the same process elements, but is from fundamental perspective different as it is meant to specify the requirements for business services. This model explicitly reflects the 'outcome' to be important to measure the effectiveness of a business service. This outcome can be compared with the measurable key performance indicator for CMP's: contract compliance. From this perspective, contract management processes can be regarded as: *one total service to the internal customer of which the performance is measured by the level of contract compliance.*

8.5.3   Contract management process success criteria

The analysis on the relation between CMP's and contract compliance resulted into a large set of success criteria (§5.6) covering all reasons for non-compliance. These derive from the basic process elements and are marked italic.

For the *input* of CMP's both the 'content visibility' and 'expiry' of current contracts are designated as success criteria, next to the 'knowledge' of internal customers. Expiry dates of current contracts are relevant to prevent contract expiry and emerging non-compliant spend. Item content of current contracts is relevant to understand the need for (better) contracts and to communicate negotiated product/service item ranges. Knowledge of internal customers is necessary for the CMP's to understand items that are not yet covered by contracts; to predict new purchases and to understand unusable items.

An important success criterion for the *transformation* of the CMP's is the 'cycle length'. As purchases are required to fulfill needs to continue operations, it is important to have contracts ready as the need sets in. For purchases that are continuously executed it is important to minimize the cycle length without loss of contract quality.

For the *output* of CMP's, criteria that relate to contract information are important such as 'accessibility', 'comprehensibility', 'accuracy', 'completeness' and 'currency'. These criteria are relevant to prevent internal buyers neglecting the information.

Finally, success criteria are related to the end user of the CMP's, who eventually determines the effectiveness and success of the contracts: *the internal customer*. The degree of having positive benefit (interest) or -feeling (attitude) are chosen to be determinant for contract compliance.

8.6. Process improvements

Organizational improvements can take place in four important aspects: processes, technology, people and structure. The organization structure aspect of SLI is too dynamic and has just been rigorously changed. The research therefore focuses on the other three aspects. The contract management process comprises the process aspect.

8.6.1   People

People within an organization can be regarded as stakeholders. A stakeholder in an organisation is (by definition) any group or individual who can affect or is affected by the achievement of the organization's objectives. Within the contract compliance context the internal buyers are the main stakeholders as they can affect the achievement of an organizational objective: 'contract compliance'. Stakeholder management meant 'to deploy direct or indirect both internal and/ore external stakeholders in such way that desired results are achieved, maintained and secured'.

Several stakeholder management techniques are distinguished for which many, some form of application is found in purchasing literature (ref. §6.2.3) to improve contract compliance:
- *communication and education*: communication of negotiated terms to all relevant stakeholders and education of internal customers about the consequences and advantages of these framework agreements.
- *participation:* involvement of key stakeholders and true decision makers in the sourcing-process, 'early and often'.
- *support*: facilitation to support internal buyers to use the right supplier, the right process and the right policy.
- *negotiation*: negotiation of preferred suppliers to gradually achieve contract compliance.
- *manipulation*: making use of external consultants with objective viewpoints to overcome difficulties and achieving buy-in to accept preferred suppliers.
- *coercion:* pursue departments or business units to contribute to purchasing performance through budget corrections.

8.6.2 Technology

Within the last decade, internet technology has been widely implemented in businesses to improve purchasing processes (eProcurement). These improvements are mainly targeted to enable integration, automation and information in order to improve efficiency and effectiveness. Many different steps in the purchasing process have been improved through i.e. eSourcing, eTendering and eReverse-auctions.

Two forms of eProcurement are distinguished which have both their application for CMP's:
- Purchasing control processes (E-informing): eContract management
- Purchasing transaction processes (E-transacting): eContracting

eContract management is to support employees to buy from contracted suppliers, to direct employees to right purchasing processes, to support enactment of contract and to inform about contract expiry. eContracting is meant to support employees with the contracting process e.g. contract development, negotiation and conclusion.

8.6.3 Relation to success criteria

The results of the theoeritcal assessment (ref. §6.4) of the improvement concepts on the defined success criteria are displayed in Table 6-1. It is concluded that for most of the CMP-success criteria, the performance could either be improved through stakeholder management, eContracting or eContract management.

| Table 8-1 | Assessment improvement concepts on success criteria CMP's (ref. Table 6-1) | | | | | | | |

Success criterion	Behavioral						Technological	
	Communication& Education	Participation& Involvement	Facilitation &Support	Negotiation	Manipulation& Co-option	Coercion& Reward	eContracting	eContract management
Active cont. expiry dates								✓
Active cont. content visibility								✓
Spend data usability								
Knowledge on (u./n./u.) items		✓	✓					
Cycle length of contract dev.							✓	
Contract info. accessibility								✓
Contract info. comprehensibil.			✓					
Contract info.accuracy								
Contract info.completeness		✓						
Contract info.currency								
Interest to contribute to c.c.		✓		✓		✓	✓	
Attitude to contribute to c.c.	✓	✓	✓		✓			✓

8.7. Main reasons contract non-compliance at SLI

The evaluation of spend reports with both category managers and stakeholders in the company, resulted into a ranking of reasons for non-compliance. The conclusions that can be drawn from this are that:
1. Three reasons are most important
2. Three reasons are less important

3. Data pollution can significantly impair the quality of contract compliance rates

The following three reasons are the most important reasons for non-compliance in the analyzed product categories:

- Unidentified suppliers: Purchased goods for which still no supplier is designated (or contracted) is seen as the most important reason. This can be well understood from the fact that sourcing activities have just been started in FY07 for many of the focus categories. These activities resulted into several contracts so that better contract compliance results are to be expected in FY08.
- Lack of information: Although this reason is hard to be quantify (compared to the previous two), it is mentioned by most of the stakeholders to be an important reason for non-compliance. The lack of information is determined on several levels. Many negotiated products, services and several purchasing policies are unknown. Also the preferred supplier set has not yet been communicated to the internal buyers.
- Unwillingness: The unwillingness to cooperate is mentioned to be bad experiences with cooperation with procurement; lacking knowledge of procurement; fear for learning new purchasing skills, fear for using new suppliers and overruling of functional management.

The other three reasons for non-compliance are mentioned to be of less importance.

- Unusable items: Unusable items are mentioned to apply for i.e. preferred hotels that are out of range or fully booked.
- Relations with suppliers: Relations with suppliers are mentioned within the legal category, to keep doing business with old suppliers that have important experience and knowledge about operations in the past that are still required for current operations.
- New items: New items to be a reason for non-compliance, is mentioned for the advertising category and promotional items category. This reason decreases in relevance for non-compliance as current preferred suppliers are better able to cover new items.

Finally, the data pollution is responsible for the second largest portion of non-compliant spend. This reason does not have a causal relation with non-compliant purchases, but has high impact on the compliance figures. Examples are found about significant non-compliant spend deriving from preferred suppliers listed under different names. Additionally, many suppliers were miscategorized. Raises of the contract compliance rate through category cleanup look beneficial, but do not directly result in to improvement on saving performance. The improved transparency can however contribute to more effective category management as the risk for overlooking miscategorized suppliers is declined.

8.8. Contract management processes at Sara Lee International

To understand how the reasons for non-compliance could derive from SLI's contract management processes, the determined success criteria are assessed. The performance is divided over the level of performance e.g. low, average and high performance.

8.8.1 Results

Table 8-2 contains the performance of SLI for every success criterion. The more stars a criterion contains, the higher the performance and the lower the improvement necessity:

8.8.2 Low performance: ⭐

It is concluded that the lowest performance exists for the success criteria:

- active contracts expiry dates and -content visibility
- contract information completeness.

Currently only 35% of a total amount of contracts is under procurement control (ref. §7.4.1). This does not only leave another 65% of contracts in the risk of expiry (1), but it also impairs the category management effectiveness as category owners are not aware of contract content (2) that could be valuable for negotiations.

The low availability of contracts also impairs the completeness of the contract information (9) so that stakeholders within the organization have to guess about the content of the other 65% of the preferred suppliers. However, the completeness (9) of this information is also questioned as the information is based on minimum maintenance of procurement processes and not on the requirements of the operations. (ref. §7.4.9).

Table 8-2 Performance contract management processes at SLI (ref. Table 7-2)

#	Success criterion	Score
(1)	Active contracts expiry dates	★
(2)	Active contracts content visibility	★
(3)	Spend data usability	★★
(4)	Knowledge on (u./n./u)-items	★★
(5)	Cycle length of contract development	★★
(6)	Contract inform. accessibility	★★★
(7)	Contract inform. comprehensibility	★★
(8)	Contract inform. accuracy	★★★
(9)	Contract inform. completeness	★
(10)	Contract inform. currency	★★★
(11)	Interest to contribute to contract comp.	★★
(12)	Attitude to contribute to contract comp.	★★

8.8.3 Average performance: ★★

The performance of most of the success criteria is moderate implying that improvement opportunities exist but that performance is not dramatic. Moderate performance is evident for:

- spend data usability
- knowledge extraction from internal stakeholders
- cycle length of the contracting process
- contract information comprehensibility
- interest and attitude of internal stakeholders.

The usability of the ERP spend data is acceptable because of data pollution (ref. §7.3.7), inaccurate preferred supplier allocation (ref. §7.4.3) and inconsistencies in BW queries (ref. §7.4.3). Major improvement opportunities exist for the data pollution issue. The spend data on the other hand is still incomplete as departments in countries as Hungary, Spain are not yet included in BW reports, as these have (still) different ERP-SAP systems.

It is concluded (ref. §7.4.4) that too little knowledge is extracted from internal buyers for improvement of current- and development of new contracts. This conclusion derives in the first place from a procurement meeting with all procurement employees involved. In the second place it is confirmed by a multiple operational experts that procurement has had the tendency to push contracts and cost savings through the organization. The neglect of operational expertise can result in significant operational unforeseen costs. On the contrary also examples of good cooperation are mentioned, which cause the success criterion to achieve an average performance.

Currently, still issues exist with the length of the contract management process. (ref. §7.4.5) Three issues will be highlighted. First of all it is not uncommon that category managers wait for spend data coming from procurement processes (and loose months), before they continue with category management. Secondly, the contracting process suffers from time loss due to the manual preparation of contracts, delays at the legal department and issues with contract signing (conclusion). Finally, the contract administration processes have been bottleneck for the simple fact that these did not yet exist until the first half of FY08.

The comprehensibility is questioned for the contract information. Both the presentation of this information and its distribution platform 'The Procurement Marketplace', is presented in one language only. This issue has been confirmed by stakeholders in the Netherlands and Spain. The interest of the internal customer varies between stakeholders. The advantages of lower prices are perceived positively but only if the departmental budget is not corrected and only if the contracted suppliers can satisfy their needs. Disadvantages are mentioned to be time-consuming extra tasks that come with cooperation towards contract compliance and

The attitude on cooperation with the procurement department to pursue contract compliance is positive, but several examples are mentioned that negatively affect the attitude: bad experiences with cooperation with procurement; lacking operational expertise of the procurement neglecting expertise and fear for either learning new practices or using new suppliers.

8.8.4 Good performance: ⭐⭐⭐

On the following success criteria SLI scores a good performance:
- the contract information accessibility
- the contract information accuracy
- the contract information currency.

The accessibility of the contract information is good as the Procurement MarketPlace is hosted on the company's intranet. The accuracy is high as data is validated by multiple stakeholders. The currency of contract information is high for the reason that either the most recent information is published or no information.

8.9. Relation between contract non-compliance and performance CMP's at SLI

For the SLI case, the reasons for non-compliance are ranked and set against the performance of the CMP's success criteria. This led to the overview presented in Figure 8-1. The red boxes mark the focus area's for SLI to improve performance. Currently the success criteria for which improvement are required, are: (1), (2), (3),(4),(5), (7), (9), (11) and (12).

Figure 8-1 Relation between contract compliance and contract management performance at SLI (ref Figure 7-1

Reasons non-compliance / Success criterion	Perform.	Unidentified suppliers	Unused items	New items	Lack of information	Supplier relations	Unwillingness
Priority		1	4	5	2	6	3
(1) Active contracts expiry dates	⭐	⭐					
(2) Active contracts content visibility	⭐	⭐			⭐		
(3) Spend data usability	⭐⭐	⭐⭐					
(4) Knowledge on (u./n./u)-items	⭐⭐	⭐⭐	⭐⭐	⭐⭐			
(5) Cycle length of contract development	⭐⭐	⭐⭐	⭐⭐	⭐⭐			
(6) Contract inform. accessibility	⭐⭐⭐				⭐⭐⭐		
(7) Contract inform. comprehensibility	⭐⭐				⭐⭐		
(8) Contract inform. accuracy	⭐⭐⭐				⭐⭐⭐		
(9) Contract inform. completeness	⭐				⭐		
(10) Contract inform. currency	⭐⭐⭐				⭐⭐⭐		
(11) Interest to contribute to c.c.	⭐⭐		⭐⭐	⭐⭐		⭐⭐	⭐⭐
(12) Attitude to contribute to c.c.	⭐⭐		⭐⭐	⭐⭐		⭐⭐	⭐⭐

9   Recommendations

This final paragraph is to provide a set of recommendations for SLI to improve her practices scoped by the research objective: *́To do recommendations for Sara Lee International Procurement to improve contract management in order to increase contract compliance in indirect product categories with unexpected low contract compliance.́*

At forehand a recommendation will be given for SLI in general. This recommendation comprises a fundamental view on the contract management process. This will be followed up by a set of theoretical recommendations. This chapter closes with a set of practical recommendations that better fit into the SLI practice by structuring the recommendations into category management, contracting and contract administration.

9.1. One total service to the internal customer

Within this report (ref. §8.5.2) it has been concluded that in the contract compliance context, the contract management processes can be regarded as: *'one total service to the internal customer of which the performance is measured by the level of contract compliance'*. From this perspective, SLI would benefit from acknowledging the quality of this service to be of great importance for achievement of high contract compliance. Eventually the internal customers determine the effectiveness of the contract management processes. The internal buyers are the key to 'good contracts' and 'good use of these contracts', which are the fundaments of procurements added value and contract compliance.

9.2. Recommendations for SLI from theoretical perspective

Based on the SLI analysis, 'key attention success criteria' are determined for the CMP's (ref. §8.9). These 'key attention success criteria' are based on:
- on the most important reasons for non-compliance (ref. §8.7)
- on the CMP success criteria with low or moderate performance (ref. §8.8)
- their assumed relation within the literature analysis (ref. §5.6)

These success criteria are displayed in the first column of Table 9-1. SLI is advised to focus on these success criteria. The tools that SLI can use, derive from the allocation of the appropriate improvement concepts over these success criteria (ref. §8.6.3). The improvement concepts that are allocated and acknowledged to be appropriate for SLI are listed in the second column of

Table 9-1 Recommendations for SLI

Recommended to focus on:	Recommended remedy for improvement
Active contracts expiry dates	▪ eContract management
Active contracts content visibility	▪ eContract management
Spend data usability	▪ N/A
Knowledge about (u./n./u.) items	▪ Participation & Involvement ▪ Facilitation & Support
Cycle length of contract development	▪ eContracting
Contract information completeness	▪ Participation & Involvement
Contract information comprehensibility	▪ Facilitation & Support
Interest to contribute to contract compliance	▪ Participation & Involvement ▪ Coercion & Reward
Attitude to contribute to contract compliance	▪ Communication & Education ▪ Participation & Involvement ▪ Facilitation & Support ▪ eContract management

Table 9-1. Two exceptions have to be explained. The first exception is that for 'spend data

usability' no suitable improvement concept is found within the scope of this research. The second exception comprises the missing improvement concepts: 'manipulation' and 'negotiation'. Because no hard evidence is found about strong unwillingness of internal buyers not to cooperate, these two measures are not included as a recommendation.

9.3. Recommendations for category management at SLI

The recommendations for category management experts are:
- To determine, analyze and control relevant stakeholders
- To allocate responsibility for contract compliance to category owners
- To focus primarily on contracting activities
- To execute category cleanings

9.3.1 Determine, analyze and control relevant stakeholders

What: Internal buyers that are responsible for purchasing decisions should be determined, analyzed and managed in a professional repeatable matter. This is to improve their interest and attitude towards cooperation (ref. §8.8.3) for development, improvement and use of contracts. Although no strong unwillingness exist, still many examples are found that could lead to unwillingness at SLI (ref. §7.3.6).

How: Category owners can practice stakeholder management techniques such as education, participation, facilitation, negotiation, manipulation and coercion (ref. §8.6.1) to maximize the willingness of the internal buyers to cooperate. Relevant information and best practices should be recorded as the organizational structure has shown inconstancy and new employees often have to reinvent the wheel. (§8.8.3) Two best practices that are already aggregated within this report to expel resistance are: 1) internal buyers that agree on preferred suppliers on forehand are likely to cooperate; 2) If problems occur between internal buyers and suppliers, this can (in most cases) easily be solved through personal introduction.

9.3.2 Allocate responsibility contract compliance to category owners

What: Category owners should be held responsible for contract compliance of their category as it is their task to maintain their category, to minimize both costs and risks, to communicate with stakeholders and to be the procurement experts on their operational expertise.

How: The category owners should be regarded as: 'the experts of the reasons for non-compliance'. They should be able to estimate the reasons for non-compliance their self and know the right remedies for the right issues. It also implies that category owners should be able to execute their own spend reporting. From compliance figures alone, little can be concluded.

9.3.3 Focus primarily on contracting activities

What: Although straightforward, SLI should continue in FY08 with sourcing and contracting activities to tackle the largest reason for non-compliance, 'unidentified suppliers'. Much purchasing performance is leaking away to non-contracted suppliers (ref. §8.7).

How: Conclusions within this research would suggest that in the pursuit for contract compliance the suppliers with high spend should be contracted first. Also other important aspects such as supply risk should be taken into account. (ref. §8.4.2) Therefore it is recommended to develop and follow category strategies and category plans so that the contract compliance pursuit is better prepared, more effective and -justifiable. For category strategy and plan development, theory of Monczka can be applied (ref. §5.4.1).

9.3.4   Execute category cleanings

What: Category cleaning must be executed to minimize risks. Within this research it has not been uncommon for several categories to consist for more than 30% (spend) of dislocated vendors (ref. §7.3.7). Although cleaning does not have direct relation to contract compliance, it could have indirect relation through ineffective category management.

How: It is concluded (ref. §7.3.7) that category cleaning does take very little time from experts (compared to interns) so that the resource requirements are outweighed by the risks. Experts can be either previous category owners or stakeholders in the business. Within this research, these experts were highly cooperative and useful for walking through spend reports.

9.4. Recommendations for contracting at SLI

The recommendations for contracting experts are:
- Use the contracting tool (S2C-tool)

9.4.1   Use the contracting tool

What: When a contracting process is executed, the contracting tool must be used. The important benefit for contract compliance is that the tool speeds up the contracting process significantly and improves standardization (ref. §7.6.2).

How: Although it has not been discussed within this report on how to use the tool, it can be suggested to follow the existing S2C-policies and S2C-manuals to minimize risk on errors and maximize harmonization and consistency between contracts.

9.5. Recommendations for contract administration at SLI

The recommendations for the contract administration process experts are:
- To define, evaluate and publish information requirements per product category
- To finish the Procurement Marketplace initiative
- To develop and execute a contract collection strategy

9.5.1   Define, evaluate and publish information requirements per category

What: As stakeholders differ, also the information requirements differ. Stakeholders can i.e. differ on factory level but also on country level, which set chronologically operational requirements and language requirements. The presented information must align with the requirements of the stakeholder or desired outcome could be at stake (ref. §8.8.2).

How: Before implementing communication tools 'such as the Procurement MarketPlace', the audience must be approached for determination of success factors. These factors would not have to be prescriptive, but do have to be taken into account. When issues (either technical or maintenance) prevent requirements to be fulfilled, it can at least be explained that some requirements can not be realized.

9.5.2   Finish the Procurement Marketplace initiative

What: The Procurement Marketplace (PM) to inform organizational stakeholders about contract information, must be improved, filled and finished. Procurement has been accused in general not to finish initiatives (ref. §8.8.3), which impairs her trust and respect. Although a requisitioning module for SAP that could take over some of its functionality is planned for implementation, this can take up several years to FY10 (ref. §7.6.3). After that time the PM could be still useful, i.e. to proudly promote new contracts, to present and explain changes in preferred supplier sets and to promote the procurement function to the organization.

How: Currently the PM must be still be improved on completeness (ref. §8.8.2). For the tool to be effective, internal marketing aspects should be implemented to catch and motivate users. Also the 'user friendliness' must be optimized as the PM is another new tool to be used. Resistance can derive from IT-tiredness and the PM to be one extra step in the purchasing process (ref §7.3.6). The author of this report programmed a search-function within the PM to make it easier usable. This tool can only have value if key words are implemented by category owners. This kind of filling is also important for contract details, which have yet only been completed for one third of the preferred suppliers (ref. §8.8.2) Without these contract details, a risk exist that user regard the PM to be incomplete and unusable. This could result in little use and perhaps little respect for the procurement department. The PM is after all her business card towards the company.

9.5.3   Develop and execute a contract collection strategy

What: Since contract collection showed bad performance in the last years (ref §8.8.2), the contract manager should develop and execute a contract collection strategy.

How: A collection strategy could follow a similar approach as a category management strategy by collecting first those agreements, characterized by large spend or risks.

Epilogue

The epilogue is included within this report, to reflect on the perceived value of the report for SLI and science. By discussing its relevance and limitations, future research will be provoked for both practice and theory.

Relevance for Sara Lee International and further research

The research presented in this report contributed to an improved understanding of the contract compliance issue by relating it to contract management. Because of contract compliance to be a very important performance indicator for procurement effectiveness, this improved understanding has great value for procurement functions trying to improve their performance.

Three examples of added value of this research for SLI can be enumerated. First of all, this research provides SLI a tool to understand how a reason for contract non-compliance can emerge from bad performances of its contract management processes (CMP's). The second example of added value is that when the reasons for non-compliance are prioritized and the success criteria of CMP's are assessed, SLI has a tool to understand where to focus on improvement. Finally, when the focus for improvement on a CMP-success criterion has been determined, SLI has a tool to understand which improvement concepts are appropriate for improving the performance on this success criterion.

Although it is strived to assess the SLI situation to the full extent, some limitations had to be done in order to make this report feasible. The research could on the one hand been extended by assessing more success criteria for contract management processes. On the other hand, the research could have been extended with analysis on more product categories and more SLI stakeholders to improve the quality and the completeness of the results.

Future research at SLI could be executed for gaps that exist within this report, because of its limitations. Future research could also comprise further assessment of CMP success criteria in the SLI practice and the actual assessment of corresponding improvement concepts on effectiveness.

Relevance for science

What is concluded from the literature analysis is that several fundamental elements, 'useful for subject of this research', are missing within literature. First of all, a complete overview on the total contract management process is not available; additionally the terminology of contract management is vague. Secondly, relations between contract compliance and contract management are mentioned but not yet assessed. Finally no frameworks, tools or methodologies to approach improvements for contract compliance, have yet been developed.

The research executed within this report contributed to these gaps in literature. First of all this research clarified on the one hand the terminology of contract management and on the other hand the right composition of the total contract management process. Secondly, this research contributed to the clarification of the connection between contract compliance and contract management. Thirdly, by relating several improvement concepts to the success criteria of contract management processes, this research has resulted into a useful decision support system (DSS). This DSS can be used by a procurement function to find the right remedy for the right reason of non-compliance. Finally to conclude, the empirical analysis executed within the research has shown the applicability of this DSS in practice.

Future scientific research could focus on further development of the DSS. Additionally, also organizational factors could be related to the subject. These have been neglected within this research.

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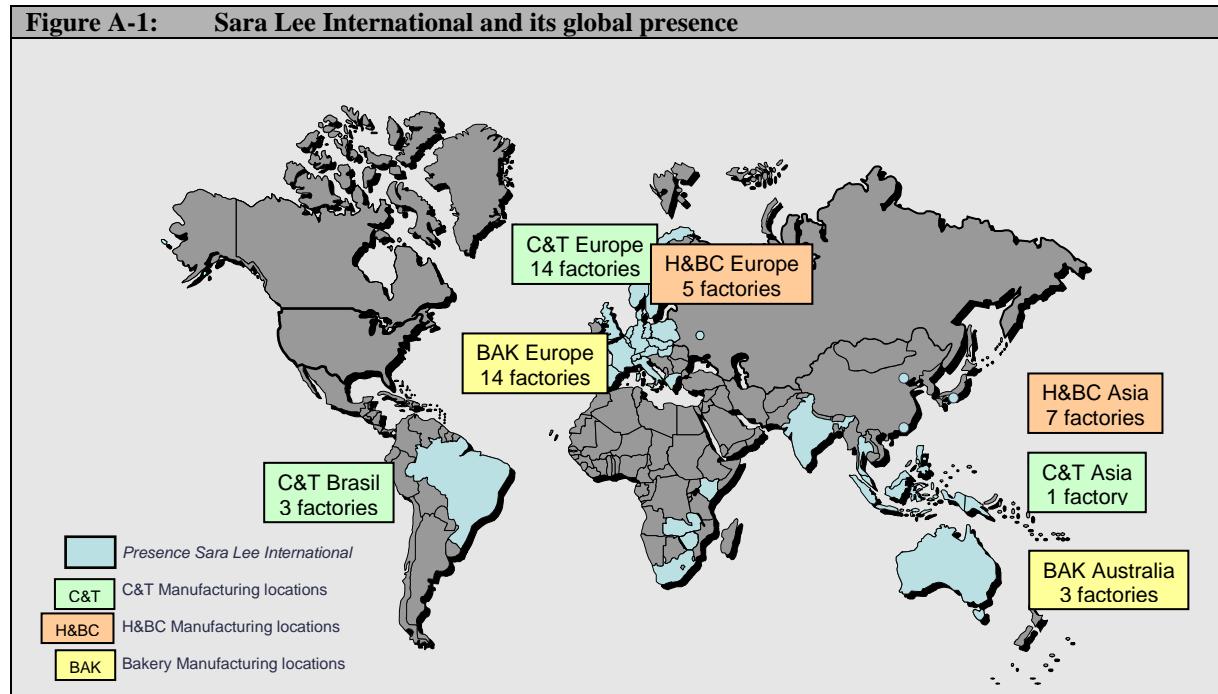
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Appendix

Appendix A. SLI Geographic presence

Figure A-1: Sara Lee International and its global presence

C&T Europe
14 factories

H&BC Europe
5 factories

BAK Europe
14 factories

H&BC Asia
7 factories

C&T Asia
1 factory

C&T Brasil
3 factories

BAK Australia
3 factories

Presence Sara Lee International
C&T C&T Manufacturing locations
H&BC H&BC Manufacturing locations
BAK Bakery Manufacturing locations

Figure A-2: Sara Lee International and its operating companies

- **SLI in total has ~ 212 operating companies globally**

- **OpCo's can be factories, separate business units, or marketing & sales units**

- **"Big Six" countries**

  - Netherlands, Spain, United Kingdom, France, Belgium, Germany

  - "Big Six" because these countries represent ~70% of the total SLI spend

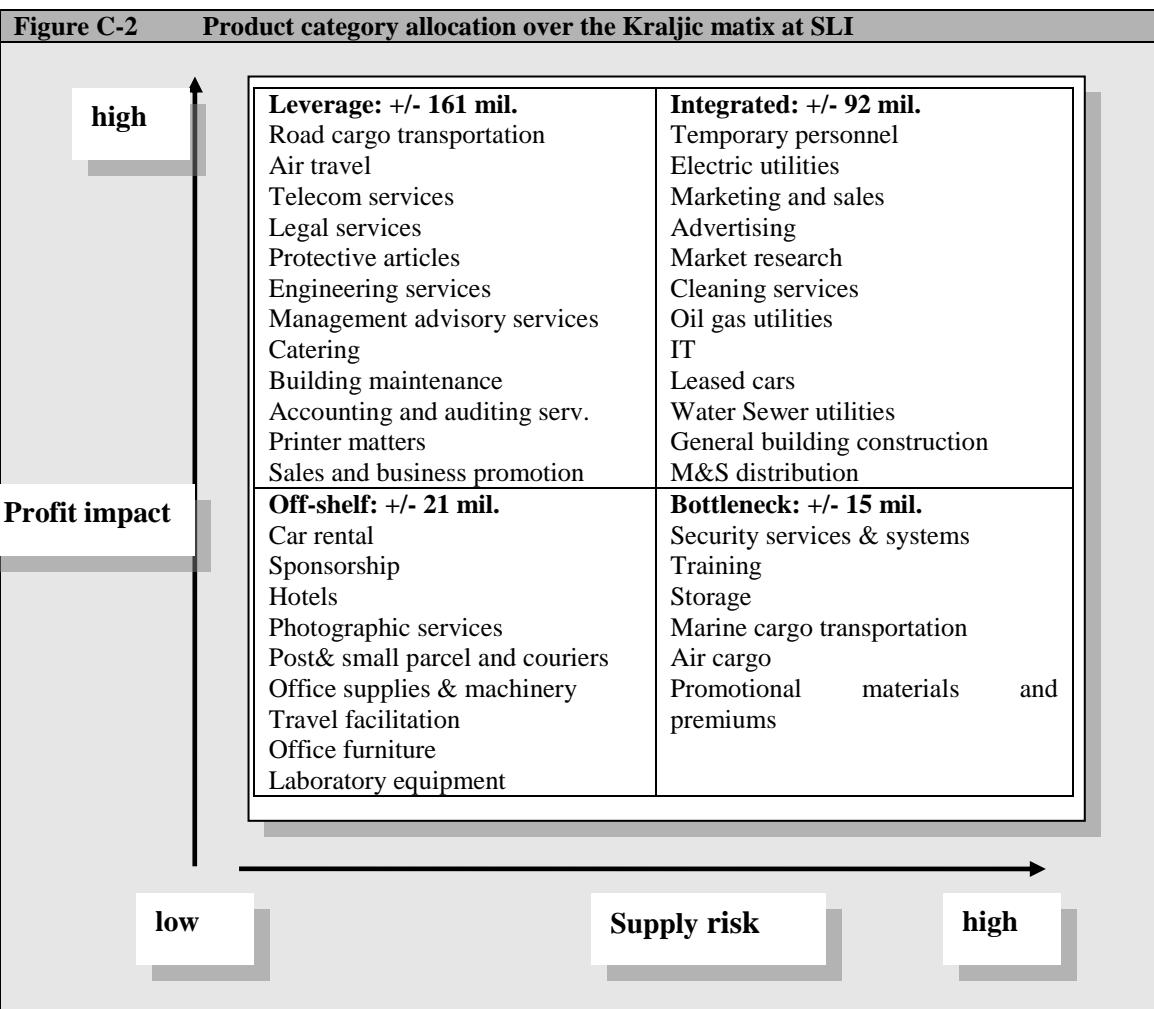| Country name	Total
Netherlands	95
Spain	26
United Kingdom	19
France	17
Germany	15
Belgium	13
Poland	5
Philippines	4
Denmark	2
Italy	2
Luxembourg	2
Australia	1
Austria	1
China	1
Czechia	1
Greece	1
Hungary	1
Japan	1
New Zealand	1
Portugal	1
Russia	1
South Africa	1
Switzerland	1
Grand Total	212

Appendix C.   Portfolio management at SLI

To explain the Kraljic matrix (ref. figure C-1), routine products are characterized by low supply risk and low impact on profit, which can be related to office supplies, car rentals and couriers etc. However, with bottleneck products the supplier has a better negotiation position because of either limited market availability (e.g. personnel recruitment) or market entrance barriers (e.g. telecommunication). For this quadrant it is important for the purchasing organization not to be exploited by the supplier.

With leverage products the opposite strategy accounts. Because of the high value and low supplier risk, the purchaser has a strong negotiation position from which benefits can be realized. Examples of leveraged products are for instance leased cars, printed matters, cleaning services and road cargo. Strategic products are characterized by both high impact on financial result and supply risk. For this reason these products have a high priority for the purchasing function and usually require long-term relationships with the supplier.

Figure C-1 Kraljic-matrix and product classification

	Impact on profit ↑	Leverage products	Strategic products
		Routine products	Bottleneck products

Supply risk

The Kraljic matrix presented in figure C-2 comprises the product category allocation over profit impact and supply risk at Sara Lee International.

Figure C-2   Product category allocation over the Kraljic matix at SLI

high	**Leverage: +/- 161 mil.**	**Integrated: +/- 92 mil.**
	Road cargo transportation	Temporary personnel
	Air travel	Electric utilities
	Telecom services	Marketing and sales
	Legal services	Advertising
	Protective articles	Market research
	Engineering services	Cleaning services
	Management advisory services	Oil gas utilities
	Catering	IT
	Building maintenance	Leased cars
	Accounting and auditing serv.	Water Sewer utilities
	Printer matters	General building construction
	Sales and business promotion	M&S distribution

Profit impact

	Off-shelf: +/- 21 mil.	**Bottleneck: +/- 15 mil.**
	Car rental	Security services & systems
	Sponsorship	Training
	Hotels	Storage
	Photographic services	Marine cargo transportation
	Post& small parcel and couriers	Air cargo
	Office supplies & machinery	Promotional materials and premiums
	Travel facilitation	
	Office furniture	
	Laboratory equipment	

low   Supply risk   high

Appendix D.   Indirect PO creators Sara Lee International

Figure D-1	People: Indirect PO-creators Sara Lee International
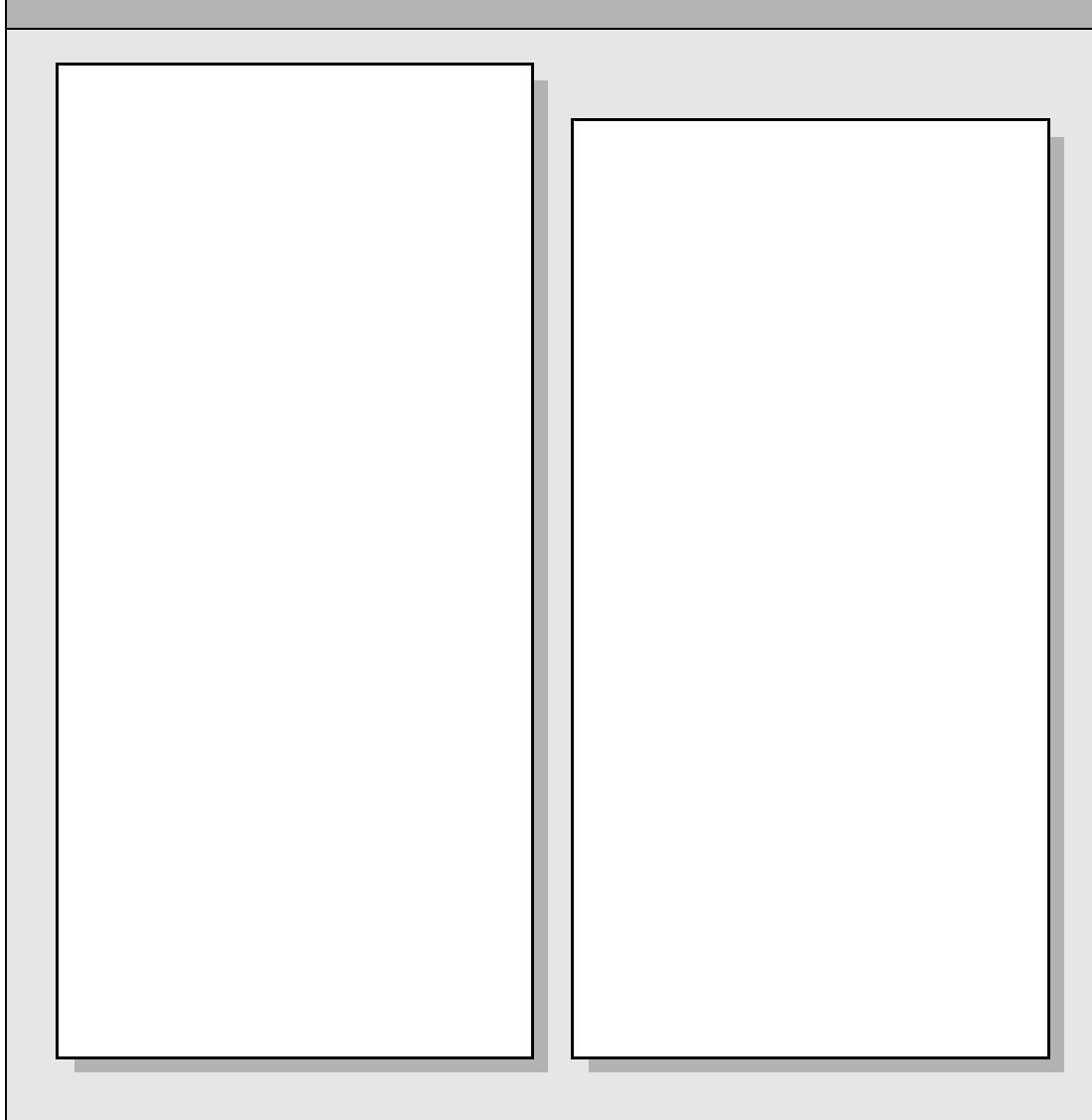
Appendix I. The total contract management process

Figure I-1: **The contract management process: a combination of category management, contracting and contract administration**

Note from the author: the black spots within the diagram result from PDF conversion.