

A Systematic Review of Literature on Theories Available on Procurement Compliance

Amarasuriya D.G.K.S.

Abstract— In order for any organisation to maintain their competitive edge and stance as an ethical company, compliance to Procurement Best Practices and managing the procuring cost since it means managing the revenue out flow of the company, will be crucial for any organisation. Hence ensuring that procuring activities, a key link in any Supply Chain, comply to the globally accepted standards will be important for a company to secure the advantageous edge they have over the others in the industry. Procurement Compliance (PC) as an academic field, is nurtured with many theories adopted from diverse disciplines. Main objective of the study was to map those theories available in PC literature and identify the gaps which could be used as avenues for future research. Systematic Reviewing of literature was the methodology leveraged in conducting the study, together with a content analysis. Review was done for 18 articles found in literature during the period 2000 to 2018. Usage of popular theories like Agency Theory, Transaction Cost Economics Theory, Stakeholder Management Theory, Resource Base View etc were identified to be commonly used in PC related studies with a lack of research conducted considering theories which are specific to the field of Supply Chain Management (SCM), the field from which PC emerges from. The call for more research on the quantification of the impact of factors associated with these theories on PC and at large, the firm's performance and conducting studies with theories springing out from SCM itself, rather than theories borrowed from other disciplines were identified as the recommendations of the study.

Index Terms— Procuring Activities, Compliance, Best Practices, Organisational Performance, Supply Chain

I. INTRODUCTION

Procurement is explained as the “Participation in the development of requirements and their specifications, managing value analysis activities, conducting supply market research, managing supplier negotiations, conducting traditional buying activities, administering purchase contracts, managing supplier quality, buying inbound transportation” (Donald Dobler, Purchasing and Materials Management Text and Cases). Compliance would mean the alignment to a set of pre-defined set of rules, an order, request or simply the accepted way of doing things. According to the International Compliance Association, there would be two forms of Business Compliance, as compliance with externally imposed controls and compliance with internal controls which are set to ensure compliance of organizational procedures with the externally imposed controls. Hence PC can be meant as alignment or adherence to the set of rules and regulations set for procurement by the organization or the relevant governing body. Inversion of PC would be Procurement Non-compliance (PNC) which is worth discussing when exploring the field of PC. Considering the definitions for PC, PNC hence would mean deviation and non-adherence to the

set rules and accepted best way of doing procuring activities. For PC to be achieved, several factors would come into action, in the form of internal and external factors.

Internal factors determining PC would spring out from within the organization, like awareness of procuring personnel on the procuring rules and regulations, efficiency of employees executing the procuring function, efficiency of the governing structure of the organization, effective training given for procuring personnel etc while external factors would consist of suppliers' awareness and adherence on the focal company's procurement policies, strength of the relationship between the supplier base and the focal company, supplier power, government policies, regulations and controls on procurement etc.

Being compliant on procurement practices would be vital for a company to maintain its competitive edge in terms of cost efficiency since PC will determine how procuring costs of a company will be, thereby affecting the revenue out flow of a company in the form of cost related to sourcing and other procuring activities. Also, being an ethical company in the eye of the various internal and stake holders associated with the company will be vital to maintain its public stance as a compliant organization, thereby reinforcing customer loyalty (Amarasuriya, Fernando and Ramanayake, 2018)

As an academic field, Procurement has been nurtured with theories adopted from different disciplines like Management, Economics, Sociology and Psychology (Flynn and Davis, 2014) Over the past few decades, many researches had been done related to Procurement but only a lesser no. of studies could be identified which have been conducted with relevance to PC.

As an attempt to map the theories used on addressing PC, this paper will initially introduce what PC is, and then the methodological approach leveraged to conduct the systematic literature review, finally discussing the theories used to conceptualize the field of PC and gaps existing in extant literature which can serve as avenues for future research.

II. IMPORTANCE OF THEORETICAL MAPPING

It has been observed that there are various inter-disciplinary theories applied when developing the field of procurement (Flynn and Davis, 2014) Despite the no. of procurement or PC related studies which have been conducted so far, a theoretical mapping on PC has not yet been leveraged. Hence there is a void in literature which should be reviewed and explored to integrate theory on PC. Being the first attempt of that kind, this paper will pave a way for future researchers looking to build theories and enrich the academic field of PC. Because for future researches on PC to be more comprehensive, integrated and theoretically grounded, it is

critical to have an insight as to what theories have been used to date, to conceptualise the field of PC.

III. METHODOLOGY

According to Meredith (1993) systematic literature reviews enable “integrating a number of different works on the same topic, summarizing the common elements, contrasting the differences, and extending the work in some fashion”. This paper is based on a systematic review of literature done on extant studies conducted in direct relation to PC. When comparing the years in which publications on PC were available and noticing the larger body of literature available after 2000, the review was done using the studies conducted from 2000 to 2018. Defining the thematic scope used for the review, search themes were drawn from procurement and PC. Articles which were published during the period of 2000 to 2018 related to PC which were published in the following journals were selected and reviewed systematically.

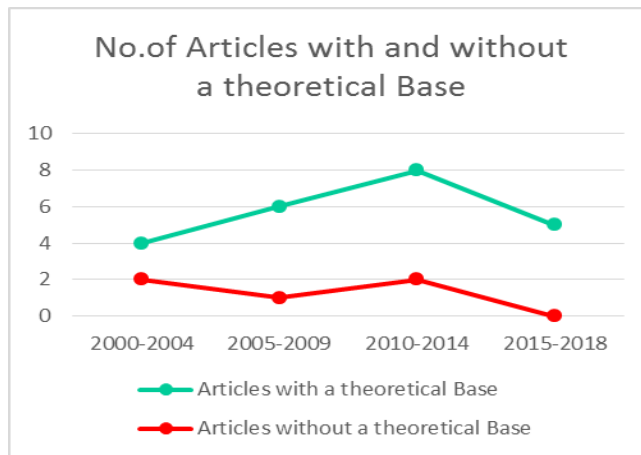
1. International Journal of Procurement Management
2. Journal of Public Procurement
3. Journal of Purchasing and Supply Management
4. Journal of Supply Chain Management
5. International Journal of Physical Distribution and Logistics Management
6. Journal of Economics and Behavioral Studies

Above journals are considered as high clarity peer reviewed journals hence selecting the articles from above journals will guarantee a certain level of lucidity (Burgess et al., 2006). A manual review of articles was first done regarding the articles directly relevant to PC that were published in the above journals. 23 articles were initially identified. Next the articles were reviewed electronically using key words given in Table 1.

Procurement Compliance	Procurement Policies
Theories on PC	Factors affecting PC
Literature on PC	Procuring Rules

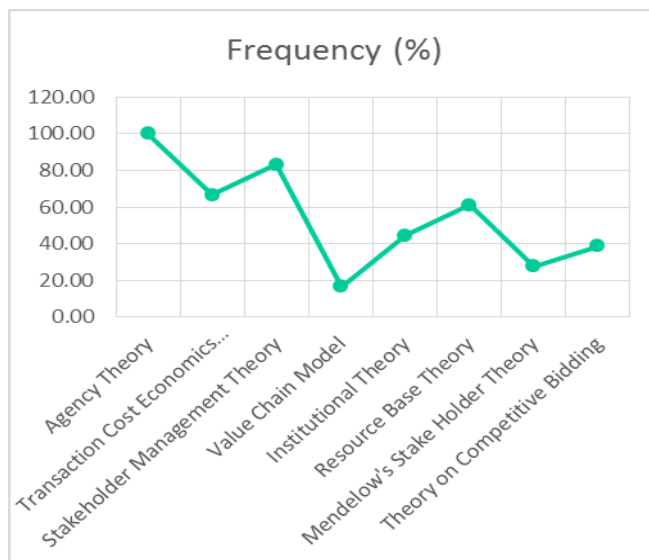
Table 1: Key Words

EBSCO Business Source Complete database was utilized to leverage the electronic review of literature according to above key words. End Note Software was used to store all articles selected. Data analysis was conducted via a content analysis. Out of the 23 articles selected, 5 could be eliminated due to the absence of a strong theoretical base connected to PC. Hence ultimately 18 articles were left for analysis. Each theory which was used to conduct the PC related studies laid out in the articles selected were carefully reviewed systematically and individually across all 18 papers. Results on the no. of articles found with a theoretical base, during the period considered for the systematic review of literature, 2000 to 2018, is given in Graph 1.



Graph 1 :Graph of no. of articles with and without a theoretical base, published during the period 2000 to 2018

The 18 articles which were reviewed to be with a theoretical base were then content analyzed via systematic literature reviewing to find out the theories used in the respective studies. The theories used and the frequency of them being applied in the PC related 18 articles is given in the Graph 2.



Graph 2: The graph of frequency of theories used in studies related to PC published during the period 2000 to 2018.

As it could be viewed from Graph 1, out of the total no. of papers published during a given year range, overall the no. of articles without a theoretical base has decreased when moving from 2000 to 2018.

As per Graph 2, it could be concluded that all 18 PC related articles made use of the Agency Theory in their respective studies and likewise a variety of theories which had been adopted from a range of disciplines had been leveraged in discussing the studies on PC.

IV. RESULTS

In this section of the paper, identified theoretical perspectives used in PC research so far will be presented. As per the Agency Theory by Jensen and Meckling (1998), Procuring personnel will be the agents of the owners of the company which is considered as the Principle. Agents would be acting in good interest of the Principle, and would carry out

designated activities as per the company rules and regulations, since the Principle has empowered the agents to act on behalf of it. Hence carrying out procuring activities as laid out by the company policies or complying to the standard way of doing things will be expected of the procuring employees according to the Principal-Agent relationship that exists between the procuring employees and the shareholders of the company. In the case of principal and agents not having the same access to the information, the asymmetry in available information could lead to agents or the procuring personnel exploiting the advantage of information being more accessible to them, hence not acting in the best interest of their principle. This will lead to PNC (Fama,2003)

According to the Transaction Cost Economics Theory (Coase,1937) a firm will incur transaction costs during the whole procurement process, from the start to the end. As per the definition given for Procurement by Dobler, procurement is vastly different from the traditional buying process, since it includes a range of activities including doing market research for suppliers, communicating and negotiating with suppliers, selecting the best supplier on a criteria which can be low cost, quality of goods, timely delivery etc, entering into contractual relationships with the selected supplier and monitoring supplier's post contract performance. As adopted by researchers into their PC related studies, Transaction Cost Economics Theory could be used to explain that in each of these steps in the procurement process, costs will be incurred in the form of market research cost, cost of entering into contracts, documentation cost, monitoring cost etc. Hence the degree to which the procuring employees of the organization, as well as the suppliers adhere to the organization policies and standards given out for the procurement process, will determine how strong the PC of that organization is. With a cost perspective, PC will help to lower the costs associated with the procurement process, incurring cost savings for the focal company (Gelderman, Ghijsen and Brugman,2006)

Stakeholder Management Theory (Cleland, 1995) adopted to PC studies suggest that effective and efficient management of different stakeholders of the company could ultimately result PC. According to the theory, a stakeholder would be any party which is having an interest or ownership in the focal company. Hence a stakeholder is an individual or a group having a direct or indirect impact from the company's performance. Whereas PC is concerned, out of a variety of impacted parties, major groups of stakeholders relevant would be the shareholders, procuring personnel and the suppliers.

For these stakeholders to be effectively managed, it would be advisable to identify the specific nature of the interest they have in the company, evaluate that interest and take organizational actions accordingly. Shareholders, being the owners of the company, would want to maximize the profits hence would be interested in having the procuring costs lowered. Effective management of all the transactional costs involved in the entire procuring procedure will involve adherence to organizational best practices which can be denoted as PC. Hence sourcing employees acting being compliant to the procuring rules and regulations will be acting in the best interest of the shareholders, which will be resulted from the effective management of stakeholders (Eyaa,2011)

When the suppliers are considered in the same manner, as a group of stakeholders, their interest would be to achieve the best pricing terms with the focal company. As a procuring personnel, not exploiting the buyer power and arriving at fair sourcing strategies with the supplier by being compliant with the organizational procuring policies will be considered as effective management of suppliers (Gelderman, Ghijsen and Brugman,2006)

Applying Porter's Value Chain Model (1985) to PC, value can be created in each link of the chain of organizational activities which Porter considers as Primary and Supporting. Procurement is a supporting activity which could be used to add value to the organization via sourcing at best prices in the market, leveraging best sourcing strategies. This could be achieved by adhering to the predefined rules and regulations on procurement set out by the focal company or the governing body concerned.

The next theory which had been used by researchers on PC was Institutional Theory. According to Scott (2004), organizations or institutions are composed of three pillars in the form of cultural cognitive, normative and regulatory. Cultural cognitive pillar is concerned with the shared understanding, the common beliefs and values of the institution while normative pillar is regarding the preferred way of doing things, or the right way the institutional activities should be leveraged. The third or the regulatory pillar discusses the enforced rules and regulations of the institution. Accordingly, adherence to PC would be an integration of all three pillars of the institution, since it is about confirming to the preferred way of doing things via obliging to the institutional rules and regulations, with a shared understanding on the organizational core values (Eyaa,2011)

According to the Resource Base View of a firm, an organization would be able to strike a competitive edge over the other firms due to its strength in the form of PC. An organization within which the procuring personnel are capable enough to fortify the company rules and regulations on sourcing, will be able to achieve cost advantages, powerful liaison with suppliers, as well as will stand out as an ethical organization over the other firms (Hawkins, 2014)

Mendelow (1991) came out with a Stakeholder Theory where he mapped the power of each stakeholder to influence an organization's activities against the interest they have in the organization. Accordingly, both suppliers and procuring personnel of the organization will belong to the "Keep Informed" category with Low Power over the organization and High Interest in the organizational activities. Hence with the aim of managing the Keep Informed category of stakeholders effectively and efficiently, as to get them aligned with the organizational procedures and way of doing things, what would be recommended will be to feed them with the right amount of information at the right time. Thus to ensure the compliance of procuring employees and suppliers with the focal company's best practices, it would be important to identify their need and feed them with correct information about the organizational activities, get the employees participated in decision making, provide the suppliers with details on focal company's pricing/buying strategies etc.

Previous research has identified that performing Competitive Bidding is a key determinant of PC since it allows execution of fair supplier selection procedures and helps the focal company to choose the best supplier in terms of a deciding factor like lowest price offered, quality, speed of delivery, sustainable operations etc. Execution of competitive bidding will ensure that the supplier selection happens impartially and transparently.

Hence the theoretical mapping conducted denote that Research field of PC is enriched with theories mostly imported from other disciplines like economics, management, sociology etc. It identifies an existing gap in the current literature in terms of adopting theories which root from supply chain management itself, which could be addressed by future researchers. Hence this paper identifies the need for theory building in supply chain management with respect to PC.

Future studies could concentrate on elaborating on theories like theory of collaborative advantage (Nielsen,1988), where the focal firm could yield benefits via maintaining collaborative partnerships with the supplier base. Theory of Strategic Purchasing (Spekman and Hill,1980) which explains that procurement should be considered as a strategic weapon to reinforce cooperative supplier relationships resulting in competitive advantage (Carr and Smeltzer,1999) could be leveraged to nurture future studies on PC. In order to view an enhancement and an enrichment of PC as an academic field, it will be vital that it gets nurtured from multidisciplinary theories and most importantly, theories in direct relationship to supply chain management since procurement is a fundamental unit of supply chain management (Gadde and Hakansson,1994)

CONCLUSION

The aim of this paper has been to map the theories which have been used so far during the studies done in the field of PC and to highlight the major theories used. Hence gaps in extant literature were identified which can be leveraged as future research avenues. PC as an academic field can be viewed as a field which needs theories to be adopted from the Supply Chain management field itself, without exporting them from other disciplines. Attention needs to be given in adopting a more integrated approach to conducting research, by incorporating both multidisciplinary theories and theories in direct relation to supply chain management, like theory of collaborative advantage, theory of strategic purchasing etc. As future research avenues, studies could be done on quantifying the impact of the discussed theories on PC and on adopting more supply chain management related theories.

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