

The Purchasing Knowing Doing Gap and HRM Incentives

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Summary

Several authors have observed that the daily practice in purchasing often differs from what literature prescribes. We also learned that many practitioners do actually know very well what ideally should be done, but do not practice those ideals. This paper will focus on three things: (1) is it possible to actually measure this ‘gap’ between how purchasing is executed on a number of aspects and how this ideally should be done in the eyes of the stakeholders involved; (2) establish the perception gaps - of both the actual and ideal situations - between the purchasing manager and internal clients; (3) to which extent do HRM incentives play a role in this, since they are assumed to steer the behavior of both the Purchasing Managers and the Internal Clients. We therefore will include these two types of stakeholders and their respective perspectives of what actually happens, ideally should happen and their respective HRM incentives. We will demonstrate that the HRM incentives do play a significant and dominant role in the actual deviation from ‘ideal’ situations. Given the strong influence, these incentives are therefore suitable policy instruments to close the various gaps we found. Next to presenting a conceptual model, nine case studies provided the empirical data required to measure a range of aspects of the purchasing function. Managerial implications and research suggestions will conclude this paper.

Keywords: Gap analysis, Purchasing, Stakeholder position, HRM incentives, Perception,

1. Introduction

Previous research findings showed (Kamann and Bakker, 2004; Bakker and Kamann 2007), that Purchasing Managers not always practice what they preach. Although they may know how certain tools of analysis should be used, how certain strategies should be followed, they may in real life not do so. Given the rise in importance of the purchasing function in many organizations (Handfield, 1993, Gadde and Snehota, 2000; Baier, 2008; Feisel et al. 2011) and its demonstrated contribution to performance (Ellram, et al. 2002), it may be surprising that this gap between ‘knowing’ and ‘doing’ still exists. The knowing doing gap is not a specific purchasing problem and has been described from various perspectives, like for instance social exchange theory, resource based view, principle agent theory, transaction cost theory and contingency theory. Pfeffer and Sutton (1999) describe how companies in general experience the difficulty in translating knowledge into practice. (Van der Ven and Johnson 2006) state that the gap between theory and practice is typically framed as a knowledge transfer problem. Catherine Lombardo (2012) examined the ability of managers in general to apply management knowledge to real work place situations. She even indicated a percentage of managers (32%) who fail to apply knowledge. (Zeleny 2008) concluded that efficiency and effectiveness are not sufficient in general. They come with statements like ‘not only doing the things right but also doing the right things’. Also in human resource management, (Rynes, et al. 2002) and (Sanders et al. 2008) found a gap between research findings – literature – and practitioner ‘beliefs’. However, while it may not be a specific purchasing problem to put knowledge into practice, in a way purchasing is suffering for three reasons. The *first* reason is the *general* problem of putting theory into practice. The *second*

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one is that an increased importance of the purchasing function requires a different mind-set of the *entire* organization, not just of the purchasing managers. Cousins and Spekman (2003) remark in this context that “as companies attempt to shed old habits and begin to view procurement as a strategic resource from which competitive advantage can be gained, there is a great deal of corporate baggage that must be shed. More importantly, there is a new mindset that must be instilled both in procurement and across the firm.” (p.19). This relates to the *third* reason: the *image and role problem* many purchasing managers have: external a hero, internal anything but a hero. The role problem would mean, using the terminology of Bichon et. al (2010), that the Internal Arena where the Status of Purchasing has to be defended requires a Guru with company-wide respect, while other aspects of the Internal Arena have to be covered by the Material expert, a Communicator who makes sure that the Internal Customers and Purchasing are aligned in at least the perception of the Actual situation, but preferable also with the Ideal situation and the Purchasing Policy elements. So far, many Purchasing departments mainly focus on the External Arena, although we will see as a result of our case studies that the gap between Actual/Ideal between Supplier relations was larger with the Internal Clients than among the Purchasing Managers. Perhaps, this is because they are viewed as more powerful. But more effort in aligning these perceptions would be useful and feasible, in our opinion.

Drawing from behavioral theory, Kamann and Bakker (2004) answer the question posed by Pfeffer and Sutton (1999) why in the light of all the substantial resources devoted to improving their performance, do so few management practices actually change? They found that on the one hand, there is what the Purchasing Manager may *want* to do based on the experience and knowledge acquired when passing through successive networks of learning and conditioning. On the other hand, there is the *status* of the Purchasing Department and purchasing as a function in an organization – the so-called *Negotiated Social Order* (NSO) (Eden 1992) – that determines whether the ideas of the Purchasing Manager become company policy or not: the Socially Negotiated Order (SNO) or *Worldview* of how purchasing is carried out in the organization. In Marketing driven companies, it typically is the Marketing department that decides how that Worldview looks like. The same applies to R&D driven companies. On the other hand, in retail companies, purchasing usually has a higher status and because of that, the worldview of how purchasing should be done shows closer resemblance with the purchaser’s view of the ideal way. Of course, even if the Worldview completely corresponds with what the Purchasing Manager may want to do, that does not mean that the company practices are in line with the *frontier knowledge* in the field. In other words: *the way purchasing is done, is the outcome of a negotiation process between the various views, where the company status of the participants determines the outcome*. Based on a survey result, later modeling using LISREL estimated that SNO and NSO together might well determine up to 75% of the actual purchasing practices applied in a company, and the views and knowledge of the purchasing Manager only 25% (Kamann and Bakker, 2006). So in this paper we will focus more on the knowing and doing process rather than the purchasing knowledge of the purchasing manager.

The role of HRM Incentives as intermediate factor

Assumingly, the Worldview mentioned above is reflected in the HRM Incentives a company adopts to stimulate its organization participants to do what the Worldview regards as desirable and reduce doing what is considered to be less desirable. Or, differently formulated, reaching the most desirable outcomes in the most desirable ways. Many studies have been carried out to look at the relation between organization and the incentive system (Bau and Dowling 2007), the effectiveness of reward systems (Brown 2008), the “lack of evidence (..) between

the intended goals and actual effects of many HR policies” (Bevan, 2006, p. 12, quoted by Brown), the various types of incentive systems like the tournament or relative compensation systems (Backes-Gellner and Pull, 2013) with its weakness that it cannot deal with heterogeneous population of employees. This weakness certainly is relevant for systems that have to be effective both in steering the Purchasing manager and the Internal Customer. These authors combine tournament theory with the motivational process theory of the expectancy theory (Vroom, 1964, criticized by Graen, 1969 and Porter and Lawler, 1968 for its claimed simplicity and therefore further developed by Lawler III and Suttle, 1973; cf Pepper, et al. 2013). They argue that tournament incentives will be weakened in situations with heterogeneous contestants. It is not our purpose to discuss motivation theories in detail, since we in fact look at (1) the orientation and contents of the incentives vis-à-vis the Purchasing managers actions/outcomes and the Internal Customers actions/outcomes (2) the Gaps that may exist between the implicitly or explicitly promoted behavior/outcomes and the actual situation or situation considered to be Ideal by the respective stakeholders. Reason we will just restrict the discussion to the role and impact of HRM Incentive systems in relation to behavior and outcomes of the Purchasing Manager and his Internal Clients. HRM systems in this study are considered to be the distilled Worldview.

In the light of the above, this paper aims to (1) actually measure the above mentioned ‘gap’ between how purchasing is executed on a number of aspects and how this ideally should be done in the eyes of the stakeholders involved; (2) establish the perception gaps - of both the actual and ideal situations - between the purchasing manager and internal clients; (3) to statistically test to what extent HRM incentives do play a role.

We will continue with the description of our theoretical frame of reference we think we need to accommodate the various perspectives to this issue. Then we will present our conceptual model with a number of possible purchasing knowing doing gaps. After that, we will present some results of our examination of nine cases - for a number of aspects - whether these gaps take place indeed and whether we were able to measure them, and to what extent. Adding the statistical relation between HRM Incentives and the behaviour of Purchasing managers and Internal Clients. We will finish this paper with managerial implications and implications for future research.

2. Theoretical frame of reference for the occurrence of ‘gaps’

2.1 Variety of perspectives

The phenomenon ‘gap’ has been studied in a variety of scientific fields. Examples are studies on firm performance gaps, knowledge management gaps, strategy implementation gaps, buyer-seller perception gaps, customer satisfaction gaps etc. In fact the Principal-Agency theory also describes the gap between the expectations of the Principal and the actual behavior of the Agent. In Transaction Cost Economics, the assumed propensity of opportunism also could be seen as a factor causing a gap between the ex-ante desired outcome and the ex-post realized outcome. Out of all interesting descriptions we found in literature, we distilled our conceptual model (section 3), where our thinking included the following aspects.

2.2 Personality

Any individual – Purchasing Manager (*PM*) or any other actor involved – is driven by a Sense of Identification and Motivation (Kamann & Karasek, 2006), part of his Personality. These authors found a significant statistical relationship with Personal Background and Social Embeddedness and Relations indeed. The well accepted cause for the particular way this

individual PM behaves – his Personality - is a mixture of genetic factors (*'nature'*) and education, socialization and conditioning during one's life (*'nurture'*): a person's *Habitus* (Bourdieu, 1972). Bakker (2005) demonstrated that what the Purchasing Manager professionally perceives as the proper action to take is a result of the historical trajectory of networks he participated in. He has become part of the Practice of Purchasing (cf Bourdieu, 1977). Ford and Richardson (1994) in fact find the same when they look for variables influencing ethical beliefs and decision making, when they make a distinction between variables *unique* for the individual and *situational* variables like reference groups, rewards and sanctions, codes of conduct, organizational effects, industry and business concepts. We remark, that even the very choice for a particular profession or a network to participate in is likely to be determined by the accumulated state of the personality ex-ante. We may apply Roger Leenders' (1995) model of Selection and Contagion here: people select a network because the actors involved show favorable attributes, similar or preferred by the selecting person. Once part of that network the person involved will be conditioned by the views and norms of behavior of that group.

2.3 Validity gap

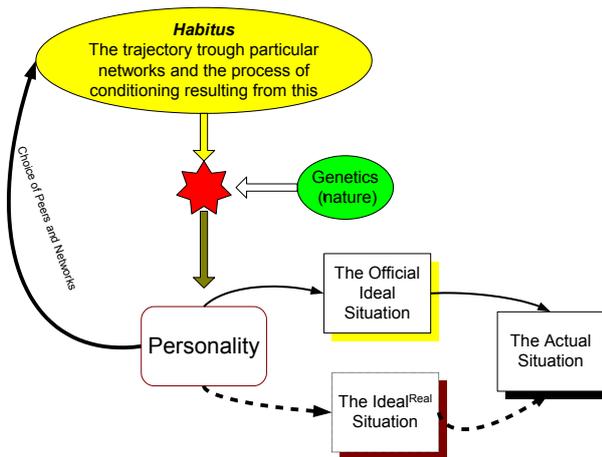
So, a Purchasing Manager has a certain 'personality' as an outcome, and a specific 'view' of the field. This means that he has a *personal* way to see the 'ideal' way of what *he* would like to do as a PM. Of course he may be well aware that his personal ideal does not correspond with the 'official' doctrine in purchasing. For instance, he may love to act as a real macho, squeezing the suppliers and use all the dirty tricks available, forgetting the official ethics. Of course, he will always claim he likes a cooperative attitude and claims to have his suppliers in high esteem. Here, we in fact come across the first gap, a *validity* gap. Do we really measure the 'ideal' perceived situation when we ask PMs about it, or is it their perception of what the *official* ideal situation should be. This has direct implications for the research methodology, for questions with more general concepts ('partnering', 'cooperative attitude' etcetera) are doomed to receive socially desirable answers and will lack in validity. This means that only in-depth interviews using rather detailed closed questions are worth considering, in an ideal situation even linked to direct observations of actual operations by the researcher involved. We opted for this approach to secure valid answers.

2.4 What is 'Ideal', 'Real' and 'Actual'

Let us use $I_{(PM)}$ as the Officially Announced *Ideal* Way of Purchasing of the Purchasing Manager (PM), and $I^R_{(PM)}$ as the *Real* but not communicated way he would like to behave and organize. Suppose the PM gets his way in organizing Purchasing and running the function the way he would prefer. It would be the official 'Worldview' of the organization, while $I^R_{(PM)}$ would of course be the Daily Practice. The gap between I and I^R can be seen in this case as a kind of Strategic Drift; the Real Strategy deviates from the Original Expected Strategy because of stakeholder interests, in this case the $I^R_{(PM)}$. Figure I summarizes this.

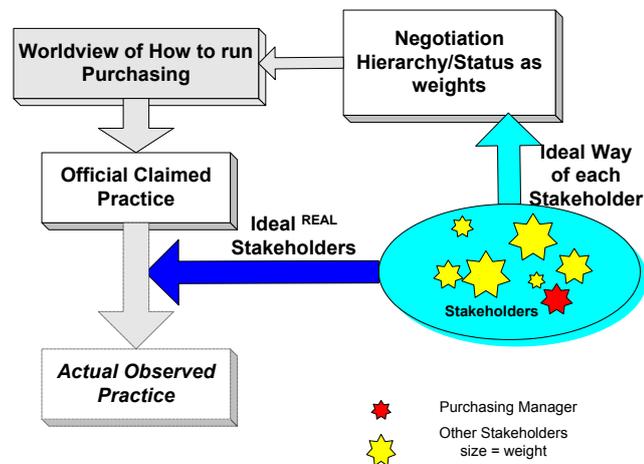
Let us further assume that what applies to the Purchasing Manager, also applies to the Marketing Director, the Finance Director and all other actors with some power in deciding on the Way to run Purchasing – the Worldview. Each of these actors has an Official Statement and a Hidden Agenda, like we showed for the PM. That means first of all, that all official credos and statements will enter the process of negotiation, resulting in the Official Worldview of the Company. This in turn has to be translated into a set of procedures, protocols, organizational measures and incentives to do the proper things, the Official Claimed Practice.

Figure 1: The Origins of a Purchasing Managers Personality and Practice



But, as we stated, these were the Official Ideals communicated. For two reasons, the *actual* practices will likely deviate from the official Worldview that resulted from the negotiation process. First of all, the outcome of the negotiation process rarely meets all demands of all the participants in that process. Hence, these actors – or those that were not even involved because of lack of status – will try to get their way, irrespective of the Official way. Secondly, the real ideal may deviate from the officially communicated ideal. Another reason to deviate from the outcome one even may have asked for oneself...

Figure 2: The origins Of the Worldview: Process and Drift in Outcome



Hence, the Real Observed Practice of the behavior of *all* participants in the Purchasing Function may – and likely will – deviate from the Worldview and/or Official Claimed Practice, depending on the perceived freedom and power or autonomy to act at free will according to the I^R of the actor involved. Figure 2 represents this process and outcome.

2.5 Methodological implication

The existence of a drift from Official Claimed Practice, representing the Official Ideal, towards the *Observed* Real Practice implies that the researcher has to validate the replies by respondents when asked about the Ideal situation and Real situation.

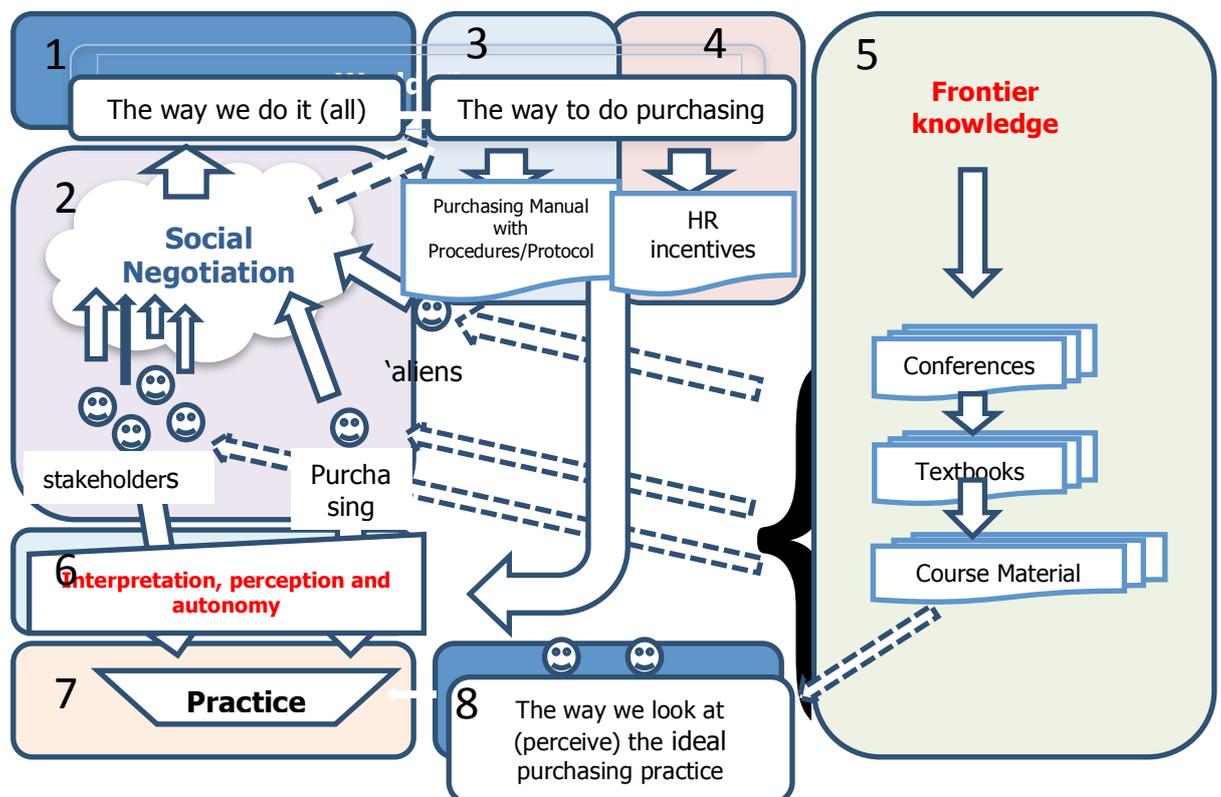
Disturbing fact is that a respondent may claim that the *Real* situation in his organization does not match the *Ideal* situation as he would like it, while in fact, he is quite

happy with the Real situation, since it reflects his I_{Ideal}^{Real} but, since he is aware that this is not according to the Gospel, he introduces the Ideal Situation. This *Stated* Ideal differs from the *Real* Ideal but the latter may be ‘politically incorrect’. Proper interview training, post interview validity checks and familiarity with the case being researched should eliminate this problem. We are aware that this would mean that large-scale surveys would certainly suffer from this problem in validity. In this paper, because of the additional checks built in the methodology, we feel confident that the *Stated* Ideal Situation coincides with the I_{Ideal}^{REAL} situation, hence $I \equiv I^R$ for all participants, where of course the $I_{(PM)}$ may very well differ from the $I_{(IC)}$ of the Internal Customer.

3. Conceptual model with more possible ‘Gaps’

So far, we discussed the cause for a drift between the Ideal Practices following the Worldview of the Company, and the Actual Observable Real Outcome. We will now add a few more gaps that may occur in the entire process, since we would like to cover all possible ‘gaps’ from different perspectives. Figure 3 represents a conceptual model of how *Frontier Knowledge* (position 5) spreads from conference papers and scientific articles to textbooks and course material and through courses and lectures becomes embodied in purchasing managers. Which is the way Purchasing Managers look at (perceive) the purchasing practice as it should be (position 8 in Figure 3). However, as shown in figure 2, in the process of social negotiation

Figure 3: Overview of Possible Gaps and their Origins



As we can see in figure 3, there are a number of ‘gaps’ to be observed. Out of that number, this paper will further focus on the following selected gaps: (1) Between what the Purchasing Managers perceive as *actual* and what they see as *ideal* (positions 7 and 8); where Ideal corresponds with $I_{(PM)}$ as discussed above and we assume $I_{(PM)} \equiv I^R_{(PM)}$. (2) Between what

Stakeholders – the Internal Customers - perceive as *actual* and what they see as *ideal* (positions 7 and 8); (3) Between what *Stakeholders* – the internal clients - perceive as the actual situation and what the *Purchasing managers* perceive as the actual situation (differences between perceived position 7) and finally (4) The correspondence between *HRM incentives* (position 4) and the *Actual Practices* (position 7).

With these four selected gaps we focus in this paper on three dimensions: (1) actual and ideal situations, (2) PM and IC perspectives and (3) the assumed impact of HRM incentives of the PMs and the Internal Customers on the purchasing knowing doing gap.

4. Methodology

Two questionnaires were used in a series of 9 cases with in-depth interviews: one for the 9 Purchasing Managers and one for the 19 Internal Clients – 2 to a single time 3 ICs per case. All PMs dealt with products in the strategic quadrant (Kraljic 1983). The selection of companies was based on the wish to include a wide range of companies and resulted in the following types of companies: a high tech company, a construction firm, a logistic service provider, an electronic components producer, an aircraft company, a flooring manufacturer, a producer of agricultural materials, a bank and a wholesaler in technical materials. Respondents – 9 purchasing managers and 19 internal clients – answered questions dealing with (a) the ranking of purchasing *criteria* – item price, item quality, other costs of organization, product/service flexibility, timeliness, process flexibility, service & support, risk, any other (as they perceived them to actually take place and as they would like to rank them); (b) the steps in the purchasing *process* they were involved in and thought they should be involved in; functional specification, technical specification; supplier selection, negotiating, contracting, ordering/delivery/expediting, registration/payment/allocation costs to budgets, contract management, supplier performance measurement/evaluation, early supplier involvement, supplier management in general; (c) the social status or *hierarchy* as perceived by purchasing managers and internal clients of the various departments; Sales/marketing, Production, Finance, Warehousing /logistics, R&D/New Product Development, Other; (d) 21 supplier *strategy* aspects and attitudes, perceived to be applied and/or desired to be applied; (e) internal customer *strategy* aspects and attitudes, perceived to be applied and/or desired to be applied and (f) the HRP *reward* system and the relation to purchasing objectives. The scores on Theory Gaps are based on external expert evaluation. The interviewers visited all companies; several telephone calls and visits after the first interviews served to validate answers and solve possible ambiguities.

Statistics, validity and reliability

We are very much aware of the relatively small size of our sample, limiting our freedom to use more advanced statistical methods. However, issues like reliability and validity were dealt with in ample feedback time and contents with the respondents, including external expert validations. We are aware of the limitations of using Likert scales de way we used them. While at the one hand, we like to be as strict as possible, as for instance Kuzon et.al. (1996) propose to do, on the other hand, we also – albeit reluctantly - agree with more ‘liberal’ view points as for instance presented by Knapp (1990) that in *some* circumstances, one can treat them as interval scales. In the light of Susan Jamieson’s (2004) treatment of this discussion, we decided to perform only some manipulations with our outcomes in line with this discussion, including a SPSS hierarchical cluster analysis and a regression analysis, testing some of the expected relationships. We used cluster analysis results only since they supported our ‘common sense’ and expert based observations about the existence of a number of

different ‘types’ of companies. For that reason, we decided on expert opinion grounds to fix the number of clusters at three and/or four rather than relying on statistical measures that might give us a false feeling of significance. The regression analysis was used to see whether relations we expected were statistically significant, but we are aware of the limited value of this analysis, given the sample size. The outcomes should be interpreted as hypotheses for further research rather than statements that are generally empirically true.

5. Results

5.1 Gaps, but differences between companies

As a general conclusion we may state that gaps were found on all aspects we looked at, but they significantly differed between companies. These differences were reflected in the result of a Hierarchical Cluster analysis of the way companies rank their purchasing criteria (Table 1). Company 1 is a separate cluster. As we will see later on, this company indeed is the only one that seems to follow the textbooks and has no gaps on a large number of aspects.

Table 1: Cluster Result Hierarchical Clustering of 9 Cases using Purchasing Criteria

Cluster\Case	A	B	C	D	E	F	G	H	I
1	X								
2		X					X	X	
3			X	X	X	X			X

In case we would allow for 4 clusters, company I also would fall into a separate cluster. Hence, bearing in mind that there are clear differences between the companies, we will discuss the various Gaps in more detail.

5.2 Gaps in Perceived ‘Actual’ and ‘Ideal’: Purchasing Criteria

Table 2 gives an overview of the perceived actual ranking of *criteria* used in purchasing and the ideal ranking, by the Purchasing Manager and the Internal Customers. We observe quite high standard deviations, reflecting significant inter-company differences. Column 3 gives the ratio Ideal/Actual ranking for both PM and IC. In 4 cases, the IC’s Actual corresponds with his Ideal; for the PM, this happens in 2 cases. Based on the average scores, the differences between the PM and the IC are relatively small. For each company, these differences may be larger. Column 4 gives the gaps between the perceived Actual ranking - PM versus IC - and the gaps between the desired Ideal situations of them. There are gaps indeed, but not that dramatic.

Table 2: As Actual Perceived Ranking and Ideal Ranking of Purchasing Criteria

Criteria:	1: Ranking PM				2: Ranking IC				3: Ideal/Actual		4: PM versus IC	
	Actual PM		Ideal PM		Actual IC		Ideal IC		IC	PM	Ideals	Actuals
	Average	St Dev	Average	St Dev	Average	St Dev	Average	St Dev	*)	*)	**)	**)
Price	2,0	1,7	2,8	1,7	2,4	1,5	2,4	1,6	1,0	1,4	1,2	1,2
Quality	2,6	1,7	2,4	1,8	2,6	1,8	2,8	1,4	1,1	1,0	0,9	1,0
Timeliness	4,3	1,8	4,4	1,6	2,9	1,4	3,4	1,7	1,2	1,0	1,3	0,7
Risk	4,8	1,1	4,2	1,9	5,4	1,8	5,4	2,4	1,0	0,9	0,8	1,1
OCOO	5,4	2,5	4,8	2,4	5,9	2,1	6,0	2,0	1,0	0,9	0,8	1,1
Process flexibility	5,9	1,8	6,3	1,6	5,2	1,8	4,9	1,9	0,9	1,1	1,3	0,9
Product flexibility	6,3	1,9	5,7	2,5	4,6	2,3	4,1	2,6	0,9	0,9	1,4	0,7
Service & Support	6,4	1,8	7,4	1,0	6,1	1,8	5,9	1,7	1,0	1,2	1,3	0,9

*) score <1.0= would prefer higher ranking than actual
score = 1.0= actual ranking corresponds with ideal
score > 1.0= would prefer lower ranking than actual

**) score <1.0=PM perceives/desires ranking lower than IC does
score =1.0=PM perceives/desires ranking similar to IC
score >1.0=PM perceives/desires ranking higher than IC does

Surprisingly, 'Price' ranks quite high, which is for products in the strategic quadrant remarkable. One would expect other criteria to rank higher. We observe a gap here between textbook recommendations and what both the PMs and ICs find important. Unexpected is that while the PMs ideally would have 'Quality' as top and 'Price' next, the Internal Customers reversed this order. Given the standard deviations, this differs between companies, of course.

5.3 Gaps in Perceived 'Actual' and 'Ideal': Process Involvement

Table 3 gives an overview of the involvement of the Internal Customers and the Purchasing Manager in the *Purchasing Process*; both perceived as the Actual situation and the Ideal or desirable situation. The percentage indicates the extent the task is or should be executed by IC or PM respectively. The high standard deviations in the column 'Ideal PM' indicate quite some disagreement between the 9 PMs on their ideal involvement in the specific processes.

Table 3: Involvement Internal Customer and Purchasing Manager in Purchasing Activities

Activities in the Purchasing Function:	1: Involvement IC				2: Involvement PM				3: Total IC plus PM				Ideal/Actual	
	Actual IC		Ideal IC		Actual PM		Ideal PM		Actual		Ideal		IC	PM
	Average	St Dev	Average	St Dev	Average	St Dev	Average	St Dev	Average	St Dev	Average	St Dev		
Functional specification	61%	16%	63%	22%	9%	8%	52%	40%	69%	18%	115%	43%	1,0	5,9
Technical specification	51%	17%	56%	21%	15%	17%	66%	25%	67%	24%	122%	30%	1,1	4,5
Supplier selection	43%	17%	52%	18%	74%	18%	44%	45%	121%	22%	97%	57%	1,2	0,6
Negotiating	22%	13%	30%	18%	96%	5%	36%	45%	119%	10%	66%	61%	1,4	0,4
Contracting	18%	18%	23%	20%	96%	7%	61%	44%	114%	18%	84%	57%	1,3	0,6
Ordering/Delivery / Expediting	39%	26%	38%	28%	35%	39%	59%	42%	79%	38%	97%	68%	1,0	1,7
Registration/payment/budget allocation costs	46%	37%	46%	37%	14%	17%	58%	30%	64%	27%	104%	62%	1,0	4,3
Contract management	32%	20%	36%	27%	72%	33%	77%	36%	102%	28%	113%	47%	1,1	1,1
Supplier performance measurement/Evaluation	36%	23%	41%	29%	68%	32%	59%	46%	107%	41%	100%	65%	1,1	0,9
Early supplier involvement	42%	20%	50%	23%	33%	31%	57%	32%	76%	42%	107%	48%	1,2	1,7
Supplier management in general	35%	23%	43%	29%	54%	37%	0%	0%	89%	42%	43%	29%	1,2	0,0

The 'discontent' scores - between actual and ideal - are calculated in the last two columns, and represented in Figure 4. A score of 1 indicates that the ideal situation corresponds with the ideal, a score <1 indicates one would prefer to be less involved, a score >1 indicates that one would like to be more involved. Purchasing managers seem very discontent with their involvement in both functional and technical specification – where the managers do not really agree among themselves, actually. Unexpectedly, they also want to be more involved in the process of Registration, payment and allocation to budgets, which is surprising. Also surprising is that they want significantly less involvement in the negotiations and contracting stage.

Figure 4: Discontent IC and PM with present involvement in Purchasing Activities (processes)



The Internal Customers seem to be less discontent with the actual situation. One explanation for this might be that the power balance in the Negotiation process is in favor of the Internal Customers so they got what they wanted.

5.4 In Conclusion: gaps were found

Hence, we did find and measured differences between the way the 9 PMs perceived the actual situation and the way the 19 Internal Clients perceived the same reality. Smallest and least gaps only applied to the Purchasing Ordering Process. Here, PMs and ICs agreed completely. But more and larger gaps were found on all other ‘aspects of the purchasing process’, the ‘purchasing criteria’ actually used, and ‘evaluation’. There, the perceived actual ‘reality’ showed the largest deviation between PM and IC.

Remarkable finding was that while the ICs stated that they were familiar with the Purchasing Policy, they failed to reproduce any elements of this policy. When asked for the role of the IC in the development of the purchasing policy, differences shown were large. Not only between the opinion of the PM and IC, but also between the Ideal from a theoretical perspective as can be derived from literature. We also observed differences in scoring between ICs of the same company.

5.5 Effects of HR Incentives

When analyzing the average scores of all 9 cases, we found that Human Resources Incentives seem to stimulate the *Purchasing Manager* to behave according to the Actual situation - in the eyes of the Purchasing Manager - for (a) Internal Customer activities, (b) Internal Client relations and (c) Supplier relations. For the other elements, HR incentives seem either absent or ineffective. The former case would be open for improvement and the latter case seems a waste of money.

The HR Incentives for the *Internal Customer* stimulated the actual rank position of Price and Quality. They also were in line with the position of the IC in the purchasing processes, especially regarding functional and technical specification. Given the degree of discontent of the Purchasing Managers with these two aspects, apparently the ICs and the HRM are in congruence with the assumed Worldview of the company, while the PMs prefer a different way to run these aspects. For all other elements, HR incentives for IC were either absent or ineffective. Again, the former case would be open for improvement and the latter case seems a waste of money.

Comparison of the HR Incentives applicable to the Purchasing Manager with those for the Internal Client showed us that these two groups are rewarded in a similar way only for a limited set of purchasing aspects, and then apparently are not always in line with what the PMs prefers.

Table 4: Relation between 8 Actual/Ideal types of Supplier Relationships and between Incentives

	A	B	C	D	E	F	G	H	I	AVG
R(actual/ideal)=	0,45	0,36	0,29	-0,07	0,61	0,81	0,07	0,00	1,00	0,69
R(actual/incentives)=	-0,58	0,11	0,88	0,29	0,62	0,34	0,68	-0,22	0,22	0,63
R(ideal/incentives)=	0,26	0,63	0,07	-0,49	0,73	0,57	0,10	0,67	0,22	0,59

Yellow marked coefficients significant at 95%

While the figure for the average of all 9 cases points at a relatively small gap between actual and ideal ($r=0.69$) and between both actual/ideal and incentives (0.59-0.63), a closer look at the 9 cases reveals quite some differences. While 3 cases show a rather small gap - is a high correlation – between how Purchasing managers value 8 aspects of Actual Supplier relations

with the Ideal way they would like to do this – Cases E, F and I – the scores of the other cases are quite disturbing, in this respect. The Incentives taken case by case also reveal significant differences. Three cases show small gaps – C, E and G – while others show large gaps or even show negative correlations. Company E shows the best overall results, while apparently the PMs in companies B and H would like to implement supplier relationship in line with the incentives, but for some reason this does not happen. Company F shows a rather small Actual/Ideal gap but still a gap between ideal and incentives.

We also analyzed the specific contents or aspects of supplier relations, by looking at the way the 9 PMs valued the 8 aspects. Table 5 presents the results. We see three aspects being promoted by Incentives – Ideally – of which two apparently also are part of the current practice. Other incentives have no relation with what PMs ideally would like to do or even have a negative relation.

Table 5: Relation between actual/ideal importance of supplier relations; relation with incentives

	R(actual/ideal)	R(ideal/incentives)
Sharing information with suppliers	0,30	0,31
Asking suppliers to share information with your plant	0,80	0,68
Sharing knowledge with suppliers	0,25	-0,59
Asking suppliers to share knowledge	-0,19	0,12
Involving the suppliers in your plant's decision making	0,69	0,52
Asking suppliers to involve you in their decision making	0,48	0,17
Making investments to support a smooth product flow with suppliers	0,05	0,20
Asking suppliers to make investments to support a smooth product flow with suppliers	-0,16	0,54

Table 6 shows the relations between how the PM value (a) three other aspects of supplier relations and (b) three aspects of relations with Internal Customers; both Actual and Ideal including the relationship with Incentives.

Table 6: Aspects of Supplier relations and Internal Relations and Incentives.

<i>Aspects of Supplier Relations</i>	actual/ideal	actual/incent	ideal/incent
govern relationship with suppliers by contract	0,33	0,08	0,34
charge suppliers for the costs of deviations	0,14	-0,72	-0,25
change the contract whenever business changes	0,23	-0,83	-0,25
<i>Aspects of relations with Internal Customers</i>	actual/ideal	actual/incent	ideal/incent
govern relationship with internal customers SLA's	0,57	0,64	0,78
charge internal customers for the costs of the purchasing process	0,80	0,53	0,63
frequently update the SLA with internal customers	0,61	0,71	0,75

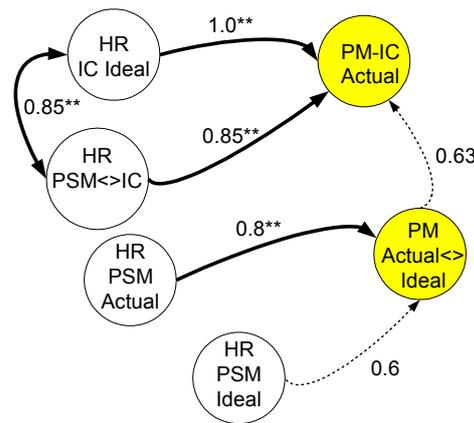
We see small gaps in aspects of Internal Customer relations, but very large gaps with even negative correlations for the three aspects of Supplier Relations analyzed.

5.6 HRM Incentives as driving force for PM behavior: a regression analysis

The case of the ranking of purchasing criteria was used to test whether HRM Incentives in fact drive the behavior. The assumption was that the larger the Gap between the HRM Incentive and the Ideal situation would be, the larger the gap would be between the Actual situation and the Ideal situation, as perceived by the Purchasing Manager.

Based on a Spearman correlation matrix, the model was created (Figure 5).

Figure 5: Relation between Gap HRM Incentives and Gaps between PM and IC



** significant at 0.02

dotted lines : in this sample not significant

The model explains how the perception between the PM and the IC about which purchasing criteria *actually* are used, is determined by the HRM incentives for the ideal of the IC, plus the Gap between the HRM incentives of the PM and the IC. The model also shows how the Gap between what the PM perceives as Ideal and Actual is determined by the HRM Incentives applicable to the PM. In other words: when we take the HRM contents as a reflection of the World View, we indeed find here a very strong influence of this World View through the HRM Incentives.

Table 7: Regression analysis explaining the Gap between PM and IC Actual on Purchasing Criteria

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlations			Collinearity Statistics	
		B	Std. Error	Beta			Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	-.354	1,288		-.275	,792					
	HR gap PSM actual	1,063	,340	,788	3,130	,020	,788	,788	,788	1,000	1,000
2	(Constant)	-2,358	1,158		-2,036	,097					
	HR gap PSM actual	,953	,240	,706	3,977	,011	,788	,872	,695	,971	1,030
	HR gap PSM - IC	,874	,321	,483	2,724	,042	,603	,773	,476	,971	1,030

a. Dependent Variable: Gap PSM actual - ideal

Excluded Variables^b

Model		Beta In	t	Sig.	Partial Correlation	Collinearity Statistics		
						Tolerance	VIF	Minimum Tolerance
1	Gap purchasing theory	,236 ^a	,924	,398	,382	,999	1,001	,999
	HR gap PSM ideal	-,150 ^a	-,328	,756	-,145	,358	2,792	,358
	HR gap IC actual	,305 ^a	1,263	,262	,492	,986	1,014	,986
	HR gap IC ideal	,510 ^a	2,318	,068	,720	,756	1,323	,756
	HR gap PSM - IC	,483 ^a	2,724	,042	,773	,971	1,030	,971
	Gap PSM - IC actual	,510 ^a	2,318	,068	,720	,756	1,323	,756
	Gap PSM - IC ideal	,220 ^a	,834	,442	,350	,955	1,047	,955
2	Gap purchasing theory	,278 ^b	2,000	,116	,707	,992	1,008	,964
	HR gap PSM ideal	-,045 ^b	-,138	,897	-,069	,352	2,841	,343
	HR gap IC actual	,028 ^b	,115	,914	,057	,633	1,580	,623
	HR gap IC ideal	,086 ^b	,167	,875	,083	,142	7,065	,142
	Gap PSM - IC actual	,086 ^b	,167	,875	,083	,142	7,065	,142
	Gap PSM - IC ideal	,073 ^b	,351	,743	,173	,858	1,165	,858

a. Predictors in the Model: (Constant), HR gap PSM actual

b. Predictors in the Model: (Constant), HR gap PSM actual, HR gap PSM - IC

c. Dependent Variable: Gap PSM actual - ideal

The results of a stepwise regression analysis are given in Table 7. It clearly shows the high impact of the HRM Incentives. As stated before, we are very much aware of the restricted value of these results, given our sample size and the fact we used Likert scales. Table 7 also shows that the variable used for ‘Gap between Theory and Practice’ did not contribute significantly, albeit showing high partial correlation and bordering to significance. A larger sample size may shed some light on the role of this factor.

5.7 Status and Theory: four selected cases

While we could have stopped at the conclusion that the Worldview as reflected in the HRM Incentives are the main determinants of the various Gaps, we continued to look for more aspects that could play a role in the relationship between Gaps, Status and *Implemented Theory* – the gap between Theory and Actual Practices or Worldview, based on our conceptual model.

We analyzed four cases in more depth and selected those cases, which showed the strongest resemblance in processes and structure. Our hypothesis was that *if* the perceived Actual situation of the PM equals the perceived Actual of the IC, *if* the Stated Ideal of the PM equals the Stated Ideal of the IC, *if* the HRM Incentives are aligned or structure both PM and IC in a desirable direction, *if* the Status of Purchasing is at least equal to the status of the ICs, *than*, we should find that the Worldview of the company corresponds with ‘theory’. We tested this hypothesis for the Purchasing Criteria, where table 8 gives the results.

Table 8: Correspondence between Gaps, Status and match with Theory

<i>Dimension Purchasing Operations: Purchasing Criteria</i>					
Nr.	Description	Case A	Case C	Case F	Case I
1	Perception Actual PM≡IC	0	0	0	--
2	Stated Ideal PM ≡ IC	++	++	++	--
3	Incentives PM ≡ IC ; do structure	++	++	++	++
4	Status Purchasing > ICs	++	++	++	+
5	Purchasing theory well implemented	++	--	--	++

-- means strongly disagrees 0 means reasonable agreement ++ strongly agrees

Table 8 shows that in two cases indeed, theory is very well implemented – in respect to the Purchasing Criteria – but in the other two cases, it is not at all, *even while all the preconditions are fulfilled*. Note that the two well scoring cases came out as two separate clusters in table 2. The fact that for one of the first two cases, preconditions are *not* fulfilled and yet the Gap between Practice and Theory is very small, does not falsify our hypothesis. The other two cases however, *do*. They support our model of Figure 6, but in spite of that the rankings of the Purchasing Managers do not meet the ‘professional criteria’. They harmoniously err and do that consistent in terms of agreement between PM and IC, with properly aligned HRM incentives, it seems. Apparently, their World View deviated from the textbook views but was perfectly transmitted through the HRM Incentives. The immediate question of course is “how come”? Is it the personal influence of the PM where his Ideal^{Real} deviates from the *stated* Ideal? Lack of knowledge with the PM when negotiating the Worldview?

First of all, this result may arise from the specific aspect studies – the purchasing criteria. But, these criteria are rather clearly described in textbooks, so they would not be very ambiguous. In looking for an answer, we made an overview of some aspects of these four cases, presented in Table 9. What we observed is that Cases A and I – ‘good ones’ – only have *one* thing in common in this table, something that the others lack: *an organic organization with participative decision-making*. Whether this is a cause or an effect in

implementing theory correctly, is a good question. Perhaps, it is an organizational environment that attracts managers with a certain *personality* (cf. section 2.2) that thrives well and at the same time is ambitious to do well. Both companies do have a reputation of being front-runner in their segment and their profession, actually. However, these are speculations, but we will use these observations for future research.

Table 9: Characteristics Four Cases

Aspect	Scales	Case A	Case C	Case F	Case I
Reporting line PM		Exec. Board	Exec. Board	Exec. Board	Exec. Board
Degree of centralization P-department	Low <> high	High	Medium	High	High
Degree of formalization of P-function	Low <> high	High	Average	High	Average
Specialization of staff in P-department	Low <> high	High	Low	High	Medium
Nature of the task		Research + ramp up	Repetitive	Repetitive	Repetitive
Relation individual contribution / organizational goals	Clear/direct - Unclear/indirect	Clear/direct	Unclear/indirect	Clear/direct	Clear/direct
Hierarchical control	Low <> Strong	Strong	Average	Strong	Average
Communication	Horizontal <> vertical	Vertical	Vertical	Vertical	Vertical
Decision making	Organic/participative-Mechanistic/authoritarian	Particip.	Author.	Author.	Particip.
Degree of outsourcing	Low <> high	High	Low	Low	Low
Training/education p-staff	Low <> high	High	Medium	Medium	Medium
Degree of standardization P-process	Low <> high	High	Medium	Average	Medium

6. Conclusions and recommendations

6.1 Conclusions

As we stated in our introduction, we set out to (1) actually measure the ‘gap’ between how purchasing is executed on a number of aspects and how this ideally should be done in the eyes of the stakeholders involved; (2) establish the perception gaps - of both the actual and ideal situations - between the purchasing manager and internal clients; (3) statistically test to what extent HRM incentives do play a role. While presenting a conceptual model with a larger number of potential gaps to occur, during the process, we reduced our original conceptual model to focus on the role of HRM Incentives as major driving force, reflecting the World View of the company.

Gaps were found indeed, in almost all aspects analyzed, which is positive from a measurement perspective. Of course, we are aware of the small number of cases (9 Purchasing Managers and 19 Internal Customers in 9 companies). That means that we have to be careful in generalizing our findings.

Not only did we find gaps between the *ideal* and *actual* situation in purchasing practice, but also between the *purchasing manager’s* and *internal client’s* perception of what actually happened. Noteworthy is that when reporting the results to the Purchasing Managers, many of them were rather surprised to hear the Internal Customer’s views.

The relation between HRM Incentives and the Purchasing Managers views on the ideal and actual practice was significant and high. When we take the HRM Incentives as a distilled product of the Worldview, we in fact may conclude that indeed, the Worldview plays a dominant role in determining the Purchasing Manager’s ideals and actions.

Rather disappointing was that even *if* the perceived Actual situation of the PM equals the perceived Actual situation of the IC, *if* the Stated Ideal of the PM equals the Stated Ideal of the IC, *if* all the HRM Incentives are aligned or structure both PM and IC in a desirable direction, *if* the Status of Purchasing is at least equal to the status of the ICs, *than*, still, we do *not* find that *then*, the Worldview of the company corresponds with '*theory*'. This certainly is worthwhile to look into in more detail.

6.2 Managerial recommendations

Increasing the Status of Purchasing is not something easy for the Purchasing Department to implement. Nor is it easy to change the Worldview', as this is a rather latent or implicit concept. It would require quite some 'Guru' to do so (Bichon et. al.; 2010). But, since we found that the HRM incentives rather seem to reflect the Worldview in more explicit terms, they would be an easier instrument to change the ideals of both the Purchasing managers and the Internal Clients. However, following our conceptual model, changing the HRM Incentives is likely to take place in a battle between various stakeholders, where the Negotiated Social Order or simply 'status' is likely to determine the outcome.

All results have been discussed with the respondents. For practitioners, this project increased their awareness that for many topics, there is a purchasing theory, and that while one might like to deviate from that theory, this always have an argued reason to do so. Next valuable point was the awareness that Internal Customers find different things important and have different perceptions of what is 'actual' and 'ideal'. Respondents also became aware, that among Internal Customers opinions might significantly differ.

Finally, the presence and influence of HRM Incentives for the Purchasing Managers and the Internal Customers in respect to Purchasing issues was something new, respondents actually were not aware of before.

In terms of solutions, we therefore would recommend a better dialogue between Purchasing Managers and Internal Customers, using existing handbooks on account management and internal customer relations. In practice, we see predominantly a one-way communication or at best, a rather limited dialogue. A second recommendation would deal with the HRM incentives in areas such as purchasing goals, processes and activities, affecting various functional areas. This seems a rather uncovered area although within the HR discipline sufficient experience and theories are present to proceed through at least the first stage of increasing the awareness of the relevance of this aspect. Asking the right questions at the right moments, making comments on HR mis-alignment and the potential consequences for purchasing effectiveness and efficiency.

6.3 Future research

Our future research will try to close the gap why companies apparently do not implement theories, while all the assumed preconditions that would favor this are fulfilled. We also have to test with the other aspects we have data on, whether indeed having *an organic* organization with participative decision-making is of discriminating importance. Finally, since we found that the role of Theory is bordering to significance in determining the views of the Purchasing Manager but still is lacking significance compared to the HRM Incentives, we would like to increase the sample size and test this aspect again, even only on a single aspect of the ones we analyzed this time to make it feasible.

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Questionnaire:

The complete Questionnaire is available from the authors on request